ENHANCING THE GLOBAL SALES SYSTEM

At first glance, machinery and industrial equipment manufacturers appear to have already grown past the issue of globalization with regard to sales and service functions. Over the past few decades, many companies in the industry have built up and continuously expanded international subsidiary sales networks. But presence alone does not equate to efficiency or effectiveness, and there may yet be significant room for improvement in global sales operations. For one thing, foreign sales require not only better qualifications, but also more decision competencies. In addition, it must be well integrated into strategic sales management, as strong sales is a key asset in global competition. Today, European manufacturers still have a substantial head start over upcoming companies from emerging countries. If they want it to stay this way, they must continuously invest in their global sales systems, and they must be open to pursuing new paths.
In light of increasing competition from emerging markets, the importance of sales and service as a success factor for European machinery and industrial equipment manufacturers cannot be overstated. Companies from emerging countries are likely to have significant deficits in these areas. It will be more difficult for them and take them more time to catch up in this field than, for example, in the areas of product technology and product quality.

The reason for this is the multitude of soft factors that play a role in sales. This is best demonstrated by Chinese companies. Today, as a rule, they are only successful outside of their domestic market given certain prerequisites, e.g., where they only need project-related infrastructure, such as when equipping large construction projects in Africa – or where, for simple products such as solar panels, an “independent” distributor and integrator landscape already exists in mature countries.

In fact, the sales organizations of European machinery and industrial equipment manufacturers have managed to carve out distinct competitive advantages in the past 50 years. They include cultural adaptability, proximity to the customer, responsiveness, speed and competence in solving their customers’ problems. This is particularly true in combination with their international after-sales presence, which is sophisticated as well.

Companies must attach top priority to maintaining and increasing this head start. If they exploit it in the right way, they also can keep their edge in the highly competitive mid-range segment – and even compensate for (slight) product cost disadvantages.

Sales is faced with three critical challenges in this regard:

- Professionalization and building up of competencies
- Further developing sales channel management, including key account management
- Limiting complexity and sales costs
PROFESSIONALIZATION AND BUILDING UP OF COMPETENCIES

Although many European machinery and industrial equipment manufacturers have long-established global sales networks, sales resources are still largely European. According to a survey conducted by Oliver Wyman, 65 percent of all sales and marketing staff are based in Europe (Exhibit 1). In addition, there is often a relatively large gap in capabilities between headquarters and international subsidiaries. This is all the more true the farther away and “younger” foreign locations are. This qualification gap pertains both to product know-how and sales competence. The reasons for the gap are obvious: Local employees have often received a less sophisticated formal education when they start their work in sales; they don’t have the same informal proximity to technical functions (as would be the case at headquarters); and they may be neglected when it comes to new training measures within the company.

Furthermore, international subsidiaries are often insufficiently integrated into strategic and tactical sales management. Although topics such as the implementation of customer segment-specific sales strategies, potential-based customer prioritization and sales management, customer relationship management, or value-based pricing are state-of-the-art among leading machinery and industrial equipment manufacturers today, this is largely only true at headquarters. In foreign subsidiaries, these concepts are often not sufficiently implemented.

EXHIBIT 1: NUMBER OF SALES/MARKETING STAFF BY GEOGRAPHY
IN PERCENT

Source: Oliver Wyman survey of leading machinery and industrial equipment manufacturers
The willingness to make higher, more systematic and sustainable investments in the global sales network is a major prerequisite for meeting this challenge. More intense training, more active, on-the-job assistance by experienced sales staff or stronger support for local sales by local product specialists have top priority on the to-do list. In addition, it might be helpful in some segments to integrate more know-how into sales support systems, such as smart product configurators.

This insight has to grow: In a world where sales is exposed to increasingly complex conditions and where, on average, three quarters of revenues are generated abroad – increasingly in emerging countries – it is critical to realize that both quality and success of foreign sales must not be left to chance (Exhibit 2).

EXHIBIT 2: REGIONAL REVENUE SPLIT

<table>
<thead>
<tr>
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<th>IN PERCENT</th>
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<tbody>
<tr>
<td></td>
<td>Germany</td>
</tr>
<tr>
<td>2008 As-is</td>
<td>25</td>
</tr>
<tr>
<td>2013 As-is</td>
<td>21</td>
</tr>
<tr>
<td>2018 Forecast</td>
<td>15</td>
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</tbody>
</table>

Source: Oliver Wyman survey of leading machinery and industrial equipment manufacturers
FURTHER DEVELOPING SALES CHANNEL MANAGEMENT

In many areas of the machinery and industrial equipment manufacturing industry, personal direct sales are the traditional primary sales channel. Home country sales structures often serve as a model for foreign subsidiaries. A country's specific circumstances, such as distributors as a sales channel in China or other high-growth regions, are often discounted, which is a distinct drawback. Leveraging local structures not only ensures close alignment with market needs, but can make it easier to quickly build up a broad sales presence in new markets.

In addition, the machinery and industrial equipment industry is witnessing a polarization of business types, and sales must respond to this trend with better differentiation of channels and approaches. On the one hand are simpler, less valuable machines that need limited explanation, and are subject to high cost pressure. Personal direct sales no longer pay off, so it is important to find more cost-efficient sales channels here, such as dealers or the Internet. On the other hand are complex solutions with high order values, where diverse products and services are bundled for individual customers. Here, sales must include more consulting expertise and requires much higher commercial qualifications than for traditional product sales. When establishing or expanding global sales structures, it is possible to leave out the phase in which excessive focus is placed on product-oriented direct sales and, instead, concentrate strongly on future-oriented sales channels right from the start.

International key account management is also reaching a turning point as key customers in many of the machinery and industrial equipment manufacturers’ customer industries become bigger and more important, and their activities and buying processes become increasingly global. At first, key account management was designed to serve as a coordinating function for regionally structured sales organizations, but step-by-step it is becoming more of a leading function. As a result, it will more or less become an independent sales channel, which draws on and utilizes the regional sales structures in line with the customers’ needs. The importance attached to the leading dimension of key account management depends on the scope of the key account’s global activities. This varies enormously – even among customers in the same industry. Consequently, it will not be possible to find a standard solution for all customers. Rather, it is important to clearly define and coordinate the roles and responsibilities of those involved in key account management and in regional sales units in each individual instance.
LIMITING COMPLEXITY AND SALES COSTS

As international subsidiaries grow and business becomes more complex, sales has to fulfill additional requirements. Consequently, there is an increasing risk of cost expansion and of deteriorating transparency and manageability. And in fact, Oliver Wyman has found that the sales cost ratio of European machinery and industrial equipment manufacturers rose by an average of ten percent between 2008 and 2013, and by more than 20 percent for one quarter of the companies surveyed (Exhibit 3).

Developing process and structure “blueprints” for sales subsidiaries is one proven method for managing complexity. These include definitions of idealized target staff levels and target cost pools. Blueprints must be differentiated by size and type of subsidiary, and adapted to a country’s specific requirements. Thanks to these blueprints, subsidiaries don’t need to reinvent the wheel, and best-practice sharing and benchmarking within the company are facilitated. Standardized reporting that continuously provides transparency on global sales activities is equally important. Companies must avoid overburdening their international sales subsidiaries with excessively high requirements and building up functions (and costs) that cannot be financed by local revenues. Consequently, it might make sense to establish a function in just one country of a particular region and then provide the respective service to other countries of that region by way of “shared services.”

EXHIBIT 3: CHANGE IN SALES COST RATIO; 2008 VERSUS 2013

<table>
<thead>
<tr>
<th>CHANGE IN PERCENT</th>
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<tbody>
<tr>
<td>30</td>
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<tr>
<td>20</td>
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<tr>
<td>10</td>
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<tr>
<td>0</td>
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<tr>
<td>-1</td>
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</tbody>
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1st quartile  Median  3rd quartile

Source: Oliver Wyman analysis of 49 European mechanical and plant engineering companies
CONCLUSIONS

It is important to rigorously address the challenges described above. Machinery and industrial equipment manufacturers that manage to successfully meet the challenges outlined above can move their global sales systems to a new level of quality and skill, helping them maintain their competitive edge. This requires a systematic approach, sustainability, and the necessary resources. It is important, however, to look out on two fronts:

First – change is needed at headquarters and not only in the subsidiaries. Often, the perspective of central sales functions, such as strategic marketing, is still strongly focused on Europe and not on the whole world. In addition, headquarters must be prepared to empower the foreign organizations so that they can master greater tasks.

And second – despite all conceptual considerations in designing the sales system, it is important not to lose sight of the ultimate goal: to enable sales staff to sell more and better, all over the world.
ABOUT OLIVER WYMAN

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Globalization has opened up huge opportunities for the plant and mechanical engineering sector. But few companies have managed to transition fully from a home country-focused export business model to that of a global player. As the importance of emerging markets continues to increase, this transformation remains a key strategic challenge.

Oliver Wyman’s Manufacturing Team has worked with a wide range of manufacturers to help them develop their global presence. To highlight key strategies, trends, and implications, Oliver Wyman is publishing a series of articles over the course of the year focused on major functional areas and their role in globalizing manufacturing companies, including purchasing, engineering/R&D, manufacturing, sales & service, and the organization as a whole.