MARCH 2015

Building marketing and sales capabilities to beat the market

Bart Delmulle, Brett Grehan, and Vikas Sagar

Consistent growth is difficult; consistent outperformance rarer still. Yet many companies still fail to develop their marketing and sales capabilities to drive performance.

The lean-manufacturing revolution profoundly altered the business world as companies reinvented how they built things to be more efficient and productive. We believe it's time that companies apply that same level of scrutiny and commitment to marketing and sales. Our research is increasingly clear: companies with better marketing and sales capabilities grow faster. At a time when growth is not only more important but arguably more elusive than ever, companies must tap the potential of marketing and sales to deliver better results.

To help leaders understand marketing and sales performance, we recently conducted a detailed benchmarking study involving 15,000 employees at more than 140 leading B2B and B2B2C global businesses. Our findings were clear: revenue growth at companies with more advanced marketing and sales capabilities tended to be 30 percent greater than the average company within their sector (exhibit). That means in an industry growing at 4 percent annually, a company in the top quartile of marketing and sales capabilities typically grows by around 5.3 percent.[1]

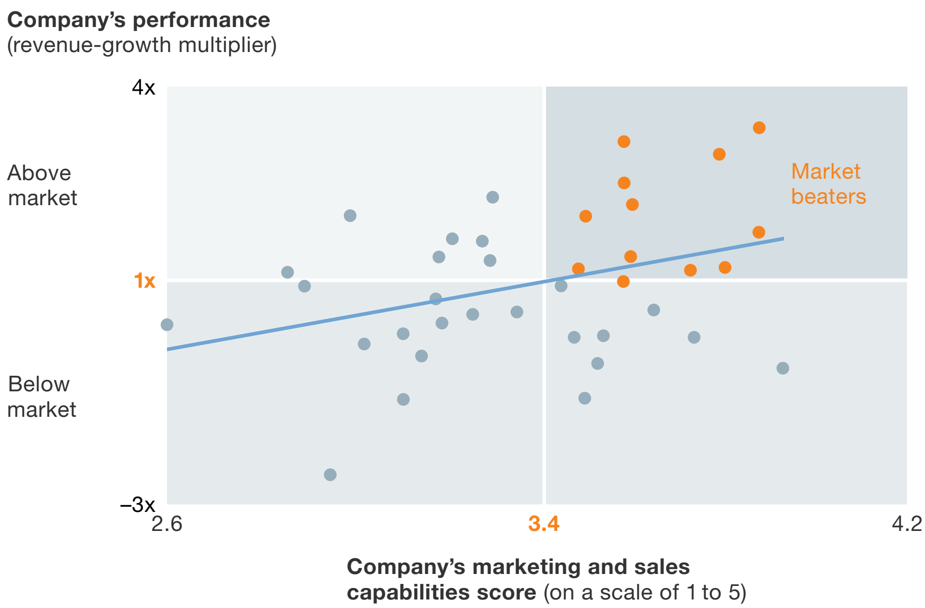
Seven hallmarks of superior marketing and sales capabilities

Many senior executives still argue that the return on investment (ROI) from marketing and sales is just too difficult to assess, especially when compared with revenue-generating line businesses. So, instead of taking a systematic and deliberate approach to investing in their institutional marketing and sales capabilities, many companies choose to focus on tactical efforts that provide quick, visible results. That's a mistake. Sustainable competitive advantage flows to companies with the best marketing and sales capabilities, and our research and deep industry experience has identified these seven hallmarks of leading companies:

- Viewing marketing and sales as an investment, not an expense. Our research shows that, if done well, investing to build a carefully chosen group of marketing and sales capabilities can yield a massive return—as much as five or ten times that of an investment in hard assets such as factory equipment. However, companies rarely calculate the ROI of building marketing and sales capabilities. Too often, leadership looks at marketing and sales as an expense rather than an investment in top-line growth.

[1] Our analysis is based on McKinsey's Commercial Capability Assessment Tool (CCAT), which benchmarks institutional marketing and sales capabilities.

Exhibit Companies that invest in marketing and sales capabilities drive above-market growth.



Source: McKinsey analysis

It is possible to measure the ROI of building marketing and sales capabilities; in fact, it's necessary to measure ROI to be effective. The best-performing companies focus on building capabilities that are directly linked to specific growth and margin opportunities by instilling ROI discipline. For example, a building-materials business found there was enormous value available (about two percentage points of margin) from improving capabilities in transactional pricing, sales, and local tactical marketing. Historically, the company had found it hard to fund the investment required to build those capabilities, given that it was a large expense without a return in the same year. But when executives calculated the internal rate of return of a serious and sustained performance-linked investment to build those capabilities (such as new account-planning tools, pricing software, value selling, sales-manager training, and targeted hiring), they found it was four times greater than building another manufacturing plant.

- Knowing what needs to be fixed. It is virtually impossible to fix something if you don't know what's wrong with it. Yet while most businesses rigorously measure and track key performance indicators, few apply the same approach to capabilities—and if they do, they typically look at individual rather than true institutional capabilities such as tools, methodologies, core processes, and systems. Companies should not only know their marketing and sales capabilities but also how they compare against their best-performing peers.

Acquiring this knowledge requires undertaking a diagnostic that reveals capability strengths and weaknesses—and does so with sufficient granularity and analytical rigor to allow action to be taken. When a global chemical company benchmarked the specific capabilities of its marketing, sales, and pricing functions, it found that while one business unit was strong at delivering value, its strategic marketing capabilities needed improvement to drive growth. Just as important, the company rolled out a shorter version of the diagnostic on an annual basis to gauge ongoing performance and to spot emerging trends.

- Targeting the capabilities that matter the most. Companies tend to invest in capabilities without thinking through which are likely to have the most impact or are most important to beat the competition. This is generally the result of a faulty understanding of existing capabilities and/or decisions driven by personalities rather than a set of facts everyone agrees on.

  While there are as many as 40 clusters of marketing and sales capabilities, top-performing companies tend to focus on improving only about 6 that are important to the company's individual goal. One leading consumer-electronics player, for example, identified the most important capability gaps it needed to close: product launches, in-store execution, tactical marketing-spend optimization, and managing sales growth at granularity. For product launches, it retooled its approach and trained the key marketers involved (for example, about 45 product-launch champions in Europe, the Middle East, and Africa). Focusing on improving these capabilities enabled it to gain up to ten percentage points in market share in targeted product categories.

- Not trying to do too much. Building capabilities requires focused attention. For example, we know one manufacturing company that found, when working to upgrade its commercial capabilities, that any unit that built out three capabilities at once failed. However, if units stuck to two capabilities at a time, they succeeded. Not trying to do too much, too soon ensured they met their goal of improving margins by three percentage points. Another reason for keeping the scope narrow is that changing how an organization works is a prolonged endeavor. The likelihood of failing or losing momentum only increases when companies do too much at once.

- Tailoring the approach to the company's stage of development. A successful investment in marketing and sales isn't just about choosing the right capabilities; it's about choosing to develop them in the right sequence. Our research suggests that where you are on the business-performance curve should inform your decisions about which capabilities to develop:

Stage 1: Low growth and profitability relative to market. Investment should focus on foundational capabilities that give businesses the tools to grow, such as transactional pricing, performance management, and customer-portfolio management. Without this foundation, companies will not be able to make it to the next stage.

Stage 2: Low growth but high profits. To promote growth, companies should focus on building capabilities in branding, strategic marketing, customer life-cycle management, and customer service.

Stage 3: High growth and high profitability. To become a market leader, businesses need to invest in higher-factor skills such as channel performance and integration as well as alternative go-to-market approaches such as inside sales or e-commerce.

- Thinking institutional capabilities, not just individual skills. Different elements of a business often have their own perspective on the relative importance of a given capability. That can be problematic: individuals leave, but companies need to sustain capabilities over time. The only way to implement true institutional capabilities is to encourage a broad, inclusive discussion that creates a clear view of which capabilities are necessary across the entire company and how to prioritize them. In effect, companies must create a common and accepted frame of reference. For example, one company regularly surveys 2,000 of its marketing and sales people about their sense of the need to build a particular capability. While this feedback provides valuable insights, it also helps to create a single working vocabulary about capabilities.

- Having an operating model to keep it all running. In the end, building marketing and sales capabilities alone isn't enough. Without the right operating model to support change, even the most advanced capabilities will wither. An operating model needs to be specific and measurable, including elements such as clear annual performance-improvement goals; scheduled and formal reviews throughout the year by segment, key account, and other categories; individual and business-unit performance reviews; incentives aligned with institutional goals; and leadership role modeling to shape the culture.

Culture, in particular, should not be underrated. Top-performing companies actively build a culture that's customer-focused, managed for the long term, creative, confident, flexible, and fast moving. One consumer-electronics company, for example, revitalized its sales in Europe by focusing on a program to deliberately build a growth culture. It reorganized teams so they spent more time with customers, became more focused on execution, and enforced stronger accountability both for teams and individuals. In addition, executives worked to become more agile through faster decision making, creating cross-functional teams around specific initiatives and using technology to collaborate virtually.

Questions to get started

While transforming marketing and sales capabilities to drive growth is not easy, many companies have difficulty simply knowing where to start. In our experience, CEOs and senior executives should ask the following three questions to get the process moving in a fruitful direction:

- How good are our marketing and sales capabilities today compared with best practice?
- How much value is at stake in radically improving our marketing and sales performance?
- What's the ROI on our current capability investments?

Starting with these questions will help ensure that your company focuses on building capabilities that improve the business's financial performance and help it beat the market.

The authors wish to thank Tomas Keisers for his contributions to this article.

Bart Delmulle is a principal in McKinsey's Antwerp office, **Brett Grehan** is a director in the Sydney office, and **Vikas Sagar** is a director in the Johannesburg office.