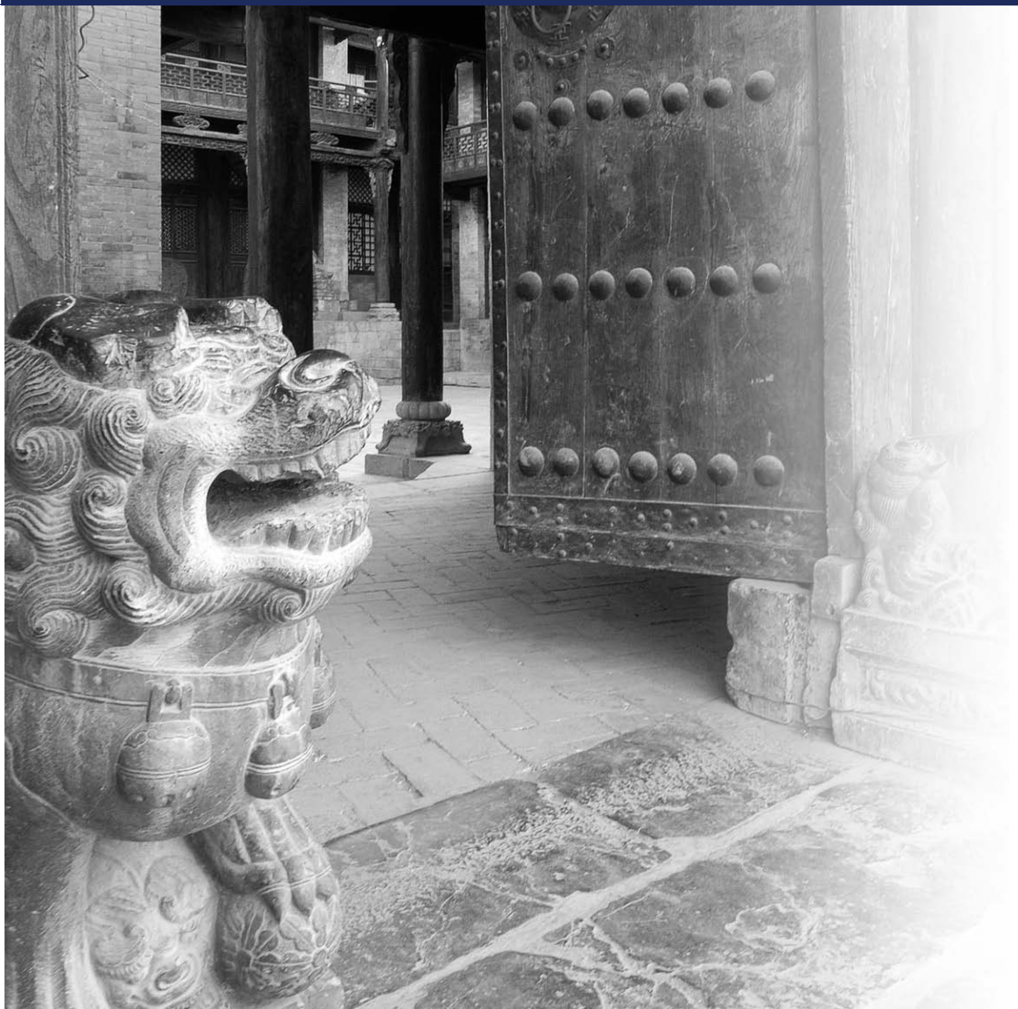
InterChina Insight

Top-Line Tactics for 2015

7 measures to guarantee short-term results this year

By **Simon Zhang** and **Franc Kaiser** | January, 2015



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Board members across the globe are worried about the next call with their China-based colleagues. China's economic growth has slowed to its weakest in 24 years, and the January HSBC purchasing managers' index (PMI) pointed at a further contraction for the second consecutive month. In this weaker economy, manufacturers have cut prices for six months in a row to sell products and compensate for sales, but with lower margins and profits.

The speculated "new normal" economy has formally arrived, creating a challenging year ahead for most international companies active in China. With sales expectations running lower than in previous years, it may be beneficial for many companies to introduce measures that can produce short-term results. The goal is not to change the overall China strategy, but to take measures that will save the at-risk top-line and make the 2015 growth and profit targets more easily attainable.

Many companies and clients know *what* needs to be done to balance an ailing sales performance, but realizing the successes of these changes will draw well into 2016. The two most popular options - localizing products and acquiring a local competitor - may very well be the right steps forward, but their impact won't be felt for another 12 months, optimistically. To avoid the sting of a weak 2015 performance, the question that lingers in most China GMs' heads is *how* to rapidly boost sales and protect profits while continuing to follow their company's current China strategy.

We consider a number of possible measures that could bring short-term results to the top-line, which can be found summarized in the figure on page 6. We believe these measures are relevant to the specifics of the Chinese market across various sectors, as well as to the current situation in 2015.

Customers (and competitors) in China

Previously, the China customer universe was more diverse and larger than those in other markets, but recent consolidation has made large customers larger and removed smaller accounts from the landscape. Vendors in various sectors, however, still face an array of customer types (foreign-invested vs. local, private vs. state-owned, groups vs. stand-alone accounts, large vs. small, etc.), and it has proven nearly impossible to treat everybody the same. Previously attempted customer segmenting was often not refined enough because the growth over the last decade opened up new (potential) customers en masse, and the local sales force then focused on the easiest and most lush accounts.

Over this period of change, we have observed many disconnects between the (often biased and / or patchy) customer intelligence that sales forces fed company leadership and how the leadership should have segmented and prioritized customers. In a reforming and reshaping economy, customer pyramids and structures change rapidly. Yesterday's key players are not today's, and many private accounts' annual output and potential (e.g. in automotive, machinery, general manufacturing) are often underestimated or simply neglected.

As these market developments take form, a new vanguard of dynamic Chinese competitors (many privately-owned players, some listed on local exchanges) are aggressively scooping up market share and cornering foreign players who are then forced to stay premium in order to be profitable. In some sectors, companies only benchmark their MNC peers in China, missing the point that Chinese competitors and their respective channels (which could be, in the case of FMCG, traditional channels instead of modern retail) present the real strategic challenge. We have also observed that many Chinese competitors are more lax and flexible with payment terms as their end-game is normally market share – in some cases, local companies will shift all risk to

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their dealers and let the dealer's inventories pile up. Although foreign players and local players still address different customer segments, the offerings are overlapping more and more, and 2015 may be the first year where head-to-head competition becomes a reality.

With many customers finding it difficult to access loans and capital, financing has now become much more important. The slowing economy is separating the real customers (those who are paying and will generate future revenue streams) from those who are not.

In general, foreign companies active in China need to understand that, though there are many "potential" customers, a large portion cannot and will not be reached. Even selling "good-enough" products in China is challenging as local players are quickly catching up and rolling up the customer pyramid from the bottom.

The solution: Better, deeper, and smarter customer segmentation exercises based on recent customer surveys and reliable customer information, which is then followed by a clear definition of which customers the company should do business with. This approach can have a considerable and fast impact on the top-line (*see Idea 1: Create a two-class customer society*).

In other cases, sales forces, which in Q1 may be relatively quiet, can systematically screen the market for sizeable and previously overlooked accounts (*see Idea 2: Remove blind spots from your sales force*). In one example, a European machinery company calculated China's annual total car production output for a certain automotive component and compared the result with the accumulated output of its customers to find several sizeable local producers that were overlooked, neglected, or simply never visited. A detailed meeting plan was put together, specific offerings were defined, and after several rounds of approaches and meetings over a 3 month period, new orders were placed by the previously untapped producers.

Product portfolios in China

Led by FMCG categories, China is asking for greater novelty in its products and more launches per year compared to other markets in order to maintain sales momentum with "new" brands and products (which are effectively only minor sub-lines or slightly modified offers). This is also true for B2B, where companies have to fuel their sales force with novelties every other quarter in order to keep the momentum. As such, many international players' China portfolios have bloated and extended manifold over the recent years. Chinese competitors, on the other hand, have shown great proclivity for quickly cutting their losses if they feel that a product's (margin) potential has disappeared and they are facing a red ocean market - their customers do not mind as they have plenty of other vendors to choose from.

In many cases, the cost of a portfolio is related to the investment in sales & distribution to cover a diverse and (geographically) large market, and many companies have built up self-run sales capabilities, which are normally weaker or less efficient than what other players already have in place.

While many companies have slowed down or entirely stopped the expansion of their local sales forces, their array of products needs to be disarmed, too, and sales force efficiency has become the prime directive.

The solution: Cut out long-tails now by optimizing the product portfolio and finding new (channel) partners that can carry the products more efficiently than in-house sales forces (*see Idea 4: Optimize your product portfolio*). Recently, a chemicals and consumer goods company adjusted its China portfolio by cutting its long-tail through multiple

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steps. First, it removed all SKUs that had little to no sales in 2013/14 and offered no further strategic potential. Second, the company interviewed key accounts regarding the relevance of two of its key products, which helped to remove unnecessary products without losing the accounts in the process. The entire exercise resulted in a slightly higher sales performance and a 10% higher margin across the company's China operations.

Channel partners in China

In previous years, companies with conservative decision-making cultures did not dare to change a winning team so long as the distributor was performing. Dealers and distributors, despite all their insufficiencies when compared to peers in other markets, were kept onboard. Some distributors have worn brand relationships thin by under-investing in product promotion and achieving poor sales rates per salesperson (at the distributor level). However, market requirements have started to change customers' expectations of distributors. In the past, distributors could be box movers and hardware suppliers to customers, but now they are tasked with educational, technical, and financial services. Not all distributors can or will live up to such sophisticated expectations.

As such, it makes sense to consider switching to a distributor(s) with more competitive capabilities. In some sectors, e.g. medical devices, SOEs have emerged with modern management and offer themselves as interesting channel partners with wide reaches and advanced services.

The solution: Critically assess channel partners regarding current and future customer requirements and consider adding or switching dealers. Emphasize the requirements for service-related sales when recruiting such channel partners (*see Idea 6: Find more (and better) commercial partners).* One company, a US machinery maker, was facing such a problem when they found themselves highly dependent on dealers to drive their top-line. The company screened several provinces, including territories where it already had dealers, and developed a long-list of over 100 potential dealer candidates. Finally, the company replaced three old underperforming dealers in pre-existing territories while also adding on newly qualified dealers in others. This revisiting and expansion boosted their top-line performance by nearly 20%.

Once the right dealers are secured, companies should provide increased support to them – especially financial support that strengthens the distributors' working capital (*see Idea 3: Deploy "service pilots"*). One case in point is an industrial equipment maker that proactively searched for distributors with 'advanced' service capabilities. The company found several dozen candidates that helped open up new business fields by not just selling new equipment, but also billable services to customers. The company further enforced this development by designating pilot 'service accounts' that received the best possible services and enabled the company to fine-tune its offering and business model. Once the company was comfortable with its pilot model, it rolled the concept out to other distributors in other territories.

Another example is a US medical device company that started rolling out a distributor financing scheme through a partnership with an online peer-to-peer financial services company in order to improve the ailing working capital situation of its distributors (hospitals do not pay their bills for 6 – 12 months or more). The support of the financing company helped all parties push for sales and lock in the company's products in bundled deals.

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Sales forces in China

In the past, sales growth came by itself. As such, sales forces latched on to easy and large accounts, did not look pro-actively for new accounts, and neglected companies that were more difficult to win business from. In each foreign company in China there exist many 'stranded' sales people who hold on to mindsets that worked well in the last decade, but who now struggle to sell and typically rely on discounts to reach volume.

The solution: Provide intensive training to salespeople with the aim of securing margins, improving salesmanship, and finally, eliminating the discount mindset (*see Idea 7: Train your sales force*).

Furthermore, as a historical legacy, numerous companies have not one but several companies in China as the result of joint ventures, previous acquisitions, and other organic evolutions, resulting in a patchwork of several entities. Each of these entities has their own set of resources (sales teams, channel partners, show rooms, production sites, sometimes even product lines) in different places across China. Previous growth covered the inefficiencies and lack of synergy in the past, but now these situations are luxuries very few can still afford. Companies need to prioritize resource efficiency and effectiveness.

The solution: Consolidate sales-related resources as much as possible and set higher KPIs for sales forces (*see Idea 5: Benchmark your sales & distribution efficiency*). In a similar scenario, one MNC food company benchmarked its channel efficiency and promotion practices not against other MNCs in China, but against a local market leader. Once the key success factors were pin-pointed, the company 'cloned' the best practices for its own sake (including flexible compensation schemes, and aggressive promotions for influencers) and piloted them in one province. The result was the winning of significant market share for the test pilot province.

Why now?

There is hardly a company in China that does not feel the pressures of the 'new normal' economy, which dynamic players are quickly moving in on. Conservative players may want to wait it out – if they can afford it – but we believe the horizontal competition level in all sectors is heating up while the vertical value chain is being strained by inventory costs and sales deficiencies. In this 'new normal,' there is limited time to get the basics right and introduce measures that help guarantee the success of the overall China strategy this year. Such measures are doable with local resources and can be initiated quickly – quickly enough to have an impact in 2015. We believe that most companies should not ask themselves "why now," but "why haven't we started this already?"

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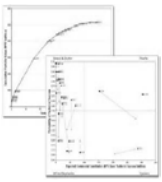
Summary of Top-Line Tactics: 7 Measures to Guarantee Short-Term Results This Year

	The idea	Action items	Impact	
	Idea 1: **Create a two class customer society**	• Apply a smart segmentation and prioritization to customers. • Select a certain % of customers as VIP accounts to whom you offer leasing and financing options to stimulate sales at controlled levels of risk. • The other customers (non-VIP) will be subject to rigorous payment terms (even COD) to control receivables and improve working capital.	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●●● ●● ●●● ●●●
	Idea 2: **Remove blind spots from your sales force**	• Find out which customers you have never visited but have sales potential. • Measure total market size, compare with your "visible" sales. • Force your sales force to present 3 potential customers that have been previously 'victims of excuses'. Interview those accounts to understand their sales potential. Define your offering to address their needs • Arrange meetings in the next 2 months.	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●●● ● ●● ●●●
	Idea 3: **Deploy "service pilots"**	• Make "XX% of sales and profits via a separate services business unit" a clear goal for 2015. • Carve out a couple of customers and / or distribution partners from your business-as-usual approach, and use them as designated pilots for working out a profitable services business. • Fine-tune the overall offering, service fees, and engagement models via the pilot companies. Write a best-practice report that enables other dealers in China to adopt a winning way going forward.	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●● ●●● ● ●●●
	Idea 4: **Optimize your product portfolio**	• Cut out the long-tails now by defining products with long-term potential and current profitability. • If the costs are related to sales and distribution rather than to your production, find partners to market those products for you.	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●●● ●● ●● ●●●
	Idea 5: **Benchmark your sales & distribution efficiency**	• Figure out how efficient your sales team and distributors are. • Compare your channel efficiency within the sector to optimize your channels or and consolidate your sales entities across China. • Consider consolidating resources (e.g. services teams, showrooms) in one location to reduce idle capacities.	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●● ● ●●● ●●
	Idea 6: **Find more (and better) commercial partners**	• Add more dealers to your current network. • In many cases, it is now time to start a more territorial competition by increasing the pressure on dealers. • Create strategic alliances with large dealers and distributors (i.e. SOEs).	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●●● ●● ●●● ●●●
	Idea 7: **Train your sales force**	• Mandate sales training courses for all sales people. • Focus on selling value (how to raise / maintain prices). • Focus on sales compliance (ethical, transparent). • Focus on sales process (intelligence, CRM). • Tap the sales knowledge of other sectors (e.g. if you sell pharmaceuticals, invite a FMCG sales trainer).	Sales top-line Customer loyalty & satisfaction Sales efficiency Risk diversification	●● ●●● ●●● ●

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