Management for Professionals

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Sales Excellence

Systematic Sales Management

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Systematic Sales Management

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ISSN 2192-8096 ISSN 2192-810X (electronic)
ISBN 978-3-642-29168-5 ISBN 978-3-642-29169-2 (eBook)
DOI 10.1007/978-3-642-29169-2
Springer Heidelberg New York Dordrecht London

Library of Congress Control Number: 2012945912

Printed on acid-free paper

Springer is part of Springer Science+Business Media (www.springer.com)

Foreword

This book is intended for sales managers. There is no doubt that in most sectors, sales is facing major changes and that many companies have an enormous need to professionalize in this area. While systematic productivity management has been a mainstay in the internal divisions of companies for years, we still find that there is a "go-getter" culture in the sales divisions of many companies: Improvisation and intuition are emphasized, while systematic analysis and decision-making are, at best, accepted as irksome duties. To avoid any misunderstanding at this point, let us stress that sales success undoubtedly requires a high level of intuition. However, it is becoming more and more apparent that intuition alone can no longer yield the desired results. It must be enhanced by systematic management.

The need to professionalize market development is also encouraged and accelerated by the concept of shareholder value, to which many companies have committed themselves. This concept puts the interests of a company's shareholders at the forefront. Company divisions are scrutinized much more closely than before with respect to how much they contribute to increasing shareholder value. In many companies, this will lead to a shift in the evaluation criteria for sales: In the future, many companies will focus less on achieving short-term sales revenue targets. What becomes crucial are questions related to the establishment of market positions, customer structures and customer relationships that increase value in the long term. The issue concerning the productivity of resource deployment in sales will be a much more central topic than in the past.

This book provides a guide for systematic sales management. The Sales Excellence (Sales Ex) approach presented in this book is designed to help sales managers to correctly adjust the major levers for long-term sales success. It has already been applied in many companies across various sectors. The very positive feedback we have received on the German edition of this book shows its high practical relevance and encouraged us to make the Sales Ex approach accessible to a larger readership.

The Sales Ex approach is integrative: We are convinced that preoccupation with isolated solutions in sales cannot ultimately succeed. It is for this reason that we are introducing an approach that covers all essential facets of professional sales management: First, it comprises elements related to the *sales strategy*, such as the choice of sales channels, the management of a multi-channel system, cooperation with sales intermediaries, fundamental decisions with regard to price policy as well as the formulation of an e-commerce strategy. Secondly, it examines *management aspects*, such as the design and structure of the sales organization, systematic sales planning, design of the sales culture as well as personnel management in sales. A third key aspect is *information management* in sales, where tools for analyzing the customer structure, customer profitability and customer retention are presented. A fourth area of the approach examines the different facets of *customer relationship management*, which range from personal success factors concerning customer contact and the design of an Internet presence up to complaint management and key account management.

An important point: The Sales Ex approach is not a sales training book. The reader will search in vain here for sales techniques, presentation techniques or negotiation techniques for the individual salesperson. Our focus in this approach is on sales *management* – not on selling.

The Sales Ex approach comprises tools that can be used in sales management. It also conveys concepts to the reader, and by that we are referring to approaches to handling problems, suggestions and new perspectives. Checklists represent another essential component of the Sales Ex approach. Companies can use these checklists to assess themselves or have themselves assessed with regard to the different dimensions of sales professionalism.

The Sales Ex approach rests on two pillars: First, we have conducted scientific research in the area of sales over a number of years. The approach therefore has a sound scientific and academic foundation. Second, over the past few years, we have enjoyed intensive cooperation with numerous companies from a wide variety of sectors and have used either parts or the entire scope of the Sales Ex approach during this collaboration, which has enabled us to fine-tune it extensively. On this basis, it can be described as being both field-tested and practice-oriented. The important point here is that the Sales Ex approach has proven itself in a wide range of sectors: It has been applied, for example, in the mechanical engineering, financial services, chemicals/pharmaceuticals and building materials sectors.

There remains the pleasant duty of thanking those who have made a significant contribution to the creation of this book. First, we would like to express our gratitude to the countless company managers with whom we have collaborated over the past few years. To thank them all personally here would go beyond the scope of a foreword and also violate the confidentiality we assured them. Nevertheless, at this point we would like to emphasize that the cooperations were always characterized by a constructive spirit, mutual respect and a willingness to learn from each other. Had it not been for this practical work, which spanned many years, the Sales Ex approach would not have arisen in its present form.

In addition, we would like to thank all the colleagues from the academic sphere who constructively supported us in elaborating and refining many concepts in this book. Furthermore, we would like to extend our thanks to the colleagues from Homburg & Partner, whose project experiences in the application and implementation of the Sales Ex approach were incorporated at numerous places. Lastly, our thanks go to doctoral student Josef Vollmayr and B.A. candidate Norma Buehling for their valuable and active support in the revision of this book.

Mannheim, August 2011

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Part I

Introduction

1 The Drive for Systematic Sales Management: The Sales Excellence Approach as a Roadmap

What trends and developments are in store for the sales sector in the years and decades to come? A wide range of concepts, including customer relationship management, systems selling and key account management, are striving to answer this fundamental question. The lively discussion of such concepts – only some of which are new – demonstrates the mounting pressure for change in the sales sector and the quest for answers to today's challenges.

Our response to these challenges is the Sales Excellence approach ("Sales Ex" approach), which we will briefly describe in this introductory section. The reader will be given a foretaste of the potential applications of the approach. However, we will first examine the current basic conditions in sales and the problem areas with which it is confronted.

1.1 Sales: "Fighting on Two Fronts"

The principal driving forces in sales can be ascribed to the elementary objectives set by companies. Of course, differently sized companies pursue different objectives in different sectors and markets. Ultimately, however, there are two objectives that dominate in all market-oriented companies: *increasing productivity* and *increasing customer orientation*. These two objectives define the key lines of attack in sales and will therefore be discussed in detail in the following passage.

With regard to cost disadvantages as compared to their international competitors, businesses have globally been making considerable efforts to *boost productivity*, with a certain amount of success. This applies to both the manufacturing industry as well as the service sector. However, if we address the question concerning which company divisions have demonstrated the most productivity growth, an interesting picture emerges: In most companies, the highest productivity growth is found in the internal production of goods and provision of services (i.e. in production, or in the operations division of service companies) and in administration ("overhead"). While considerable progress has been made here,

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_1, © Springer-Verlag Berlin Heidelberg 2012

many companies have not yet even started implementing systematic productivity management in the area of market development.

There are a variety of reasons why companies neglect doing this, one being a high degree of uncertainty with regard to the potential negative effects of measures to increase productivity in sales. This is particularly the case if such measures lead to re-allocating resources or to a cutback of the resources currently being utilized. In many companies, fear of declining sales and lost contribution margins – often exacerbated by sales managers – thwarts any attempts to boost productivity. The fact that intelligently deploying resources lets you realize more output with less input is well known and has been successfully implemented in the internal departments of numerous companies. However, many managers have no intention of applying a similar strategy in the sales sector. In principle, a methodical problem is at the core here: In many companies, modern and efficient productivity management methods in the sales sector are virtually unheard of – or at a minimum, the staff does not have sufficient experience in working with such tools. The result is a tendency to prefer not to "tinker" with sales.

Another main reason for neglecting productivity management in sales is the "go-getter culture" that can be observed in the sales divisions of many companies: Improvisation and intuition are emphasized, while systematic management is, at best, accepted as an irksome duty. The "heroes" in this culture are the "out-and-out salespersons", who instinctively do what is right. Numerous success stories surround these heroes – frequently bearing the stamp of their own creation. There is, however, no word of the many failures of the "gut instinct approach".

Lest there be any misunderstanding, intuition and improvisation are undoubtedly important for sales success. Sales activities are, in part, no doubt more difficult to plan and to systematize than, say, production. Market developments, customer behavioral patterns and competitor promotions can only be foreseen to a limited extent, which often makes improvisation indispensable. Nevertheless, the consequence should not be almost total abandonment of systematic sales management and, in particular, systematic productivity management in sales. Rather, what is required are approaches that are highly systematic, while, at the same time, leaving sufficient room for flexibility and intuition.

The increasing importance of systematic productivity management in sales is obvious: Companies in high-wage countries, in particular, will also require advances in productivity in the future if they want to remain internationally competitive. It will not be possible to realize the necessary improvements in production and administration perpetually, since their potential for increasing productivity will eventually be exhausted at some point.

Of interest here is the result of an empirical study conducted a few years ago in the industrial goods sector (see Homburg et al. 1996a). One of the questions the study investigated concerned which company divisions are viewed as having significant potential for increasing productivity.

As Fig. 1.1 illustrates, the sales and marketing divisions rank in first place here, some distance ahead of production. It is also interesting to differentiate the replies according to the respondent's position in the company. Figure 1.1 shows that sales

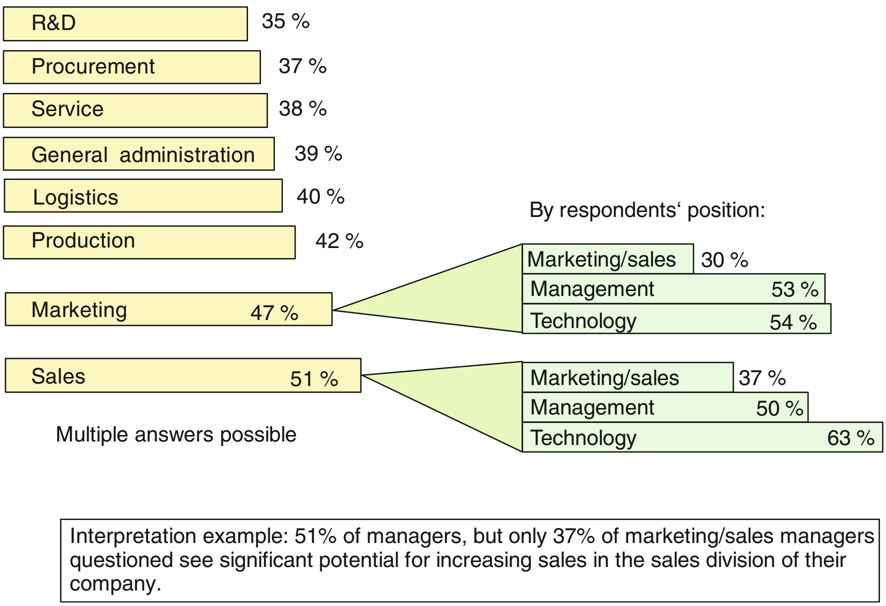

Fig. 1.1 Potential for increasing productivity in different functional areas (see Homburg et al. 1996a)

and marketing division managers assess the potential for increasing productivity in their divisions as being much lower than the other respondents. Awareness of the obligation to increase productivity in sales is therefore still inadequate – the “go-getters” send their regards.

We now come to the second objective: *Customer orientation*. Nowadays, it is one of the principles of economic life. Virtually every company that operates according to guiding principles cites the customer and his needs as the central driving force behind company operations. At this point, however, we do not wish to discuss how customer orientation is implemented in a company (see the detailed study by Homburg and Werner 1998). Rather, we would like to point out one particular aspect of customer orientation which, in our estimation, receives far too little attention: the dynamic character of customer satisfaction.

The customer orientation of a company should lead to customer satisfaction and, ultimately, to increased profitability. Customer satisfaction – the main link between customer orientation and profitability – is, however, a highly dynamic phenomenon. To understand this, the reader needs to fully understand how customer satisfaction arises. Customer satisfaction results from a process of comparison: The customer has an expectation of a company’s performance, which can stem from a wide variety of sources (e.g. previous experience, competing offers, third-party information, etc.). The customer then compares what he receives with what he expected to receive. The result of this comparison process is his satisfaction rating.

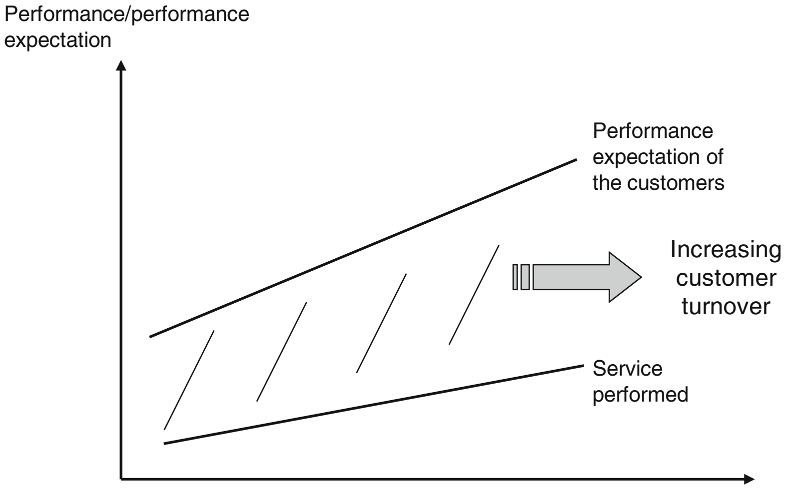

Fig. 1.2 The customer satisfaction trap

The dynamic character of customer satisfaction stems from the fact that the performance expectation does not remain constant over time, but increases continually. Often, there is a real inflation of customer expectations noticeable. What enthused customers only a few years ago is often already taken for granted today. This can give rise to an interesting phenomenon, which we call the "*customer satisfaction trap*" (see Fig. 1.2). If the rise in a company's performance level is slower than the rise in customer expectation level, the result is an ever-widening gap between performance expectation and performance perception. This inevitably lowers customer satisfaction, which, at least in the medium term, leads to higher customer churn. What is truly paradoxical about this phenomenon is that customer satisfaction and customer loyalty recede even though the company's performance level increases over time. What is hence, first and foremost, crucial is not that a company improves, but whether it improves *quickly enough*.

This problem area will notably affect the sales sector over the next few years. The modern view is, of course, that customer orientation is a task for the company as a whole. However, since it serves as an interface to the customer, the sales sector will continue to have a key role in this connection.

If we summarize what has been said so far, the sales sector finds itself in a difficult situation: On one hand, productivity pressure on the sales sector is increasingly mounting, while, on the other hand, customer expectation levels are continually rising. If a company wants to avoid getting ensnared in the "customer satisfaction trap", it needs to keep pace in terms of improving performance levels. This pressure to perform will have a particular impact on the sales sector. Basically, it will be forced to "*fight on two fronts*":

Both performance level and productivity need to increase at the same time.

This constellation ("doing more with less") presents many companies with completely new sales challenges. Traditional management approaches alone will not offer sufficient aid in successfully coping with this situation. Rather, a sustained more systematic sales management is required. The approach introduced in this book is designed to provide companies with that very support.

1.2 Are You Familiar with These Problems?

"Can the Sales Ex approach be useful for my company and me?" is a question that the reader may be asking himself at this point. Although the Sales Ex approach has been applied with demonstrable success in numerous companies operating in a wide variety of sectors (see Sect. 1.4), we cannot, of course, give an across-the-board "yes" to this question for every single company. Ultimately, it will be up to the reader himself to provide an answer. To support this process, we will be describing, in the following section, some typical shortcomings that we have been able to observe in the sales divisions of many companies. This description will give an idea of the problems that can be resolved with the Sales Excellence approach. If the reader recognizes at least some of these problems, he would be well advised to consider the Sales Ex approach.

Numerous problems occur in many companies within the scope of *market development*. Some companies, for example fail to concentrate on the customers or market segments with real potential. Instead, market development in many companies follows the "principle of giving everybody an equal share": Distinct types of attractive customers are not differentiated, with each receiving the same (and, unfortunately, often the same poor) service. There is hardly any (pro)active management of the customer structure. In addition, many companies are devoid of any targeted customer retention management and business relationships with important customers are not managed systematically. A third shortcoming in market development is the utter chaos surrounding the terms and conditions system for customers: An endless array of discounts and bonuses frequently makes pricing unclear to customers. In our experience, only some of these discounts and bonuses are really necessary. Ultimately, a lot of money is wasted in this way. A fourth and final problem area in market development involves cooperation with sales intermediaries (retailers, importers, etc.). The distribution of tasks and responsibilities is often not clearly defined, with conflicts being the order of the day. Conflicts particularly arise with so-called multi-channel systems, which consist of several parallel sales channels (e.g. direct and indirect sales or indirect sales via different routes). In many companies, the separation between the sales channels can hardly be called smooth.

The second problem area for many companies concerns the behavior and conduct of *sales representatives*. A significant problem lies in the fact that, despite assertions to the contrary, the product-oriented, rather than customer-oriented, perspective still prevails in many companies' sales forces. The representatives are focused on presenting the advantages of their products over competing products. The starting point in many sales talks are the company's offered services, instead of the customer's needs. This problem entails another: Many companies have now disassociated themselves from the classical marketing of individual products. They want to be system providers, often offering bundled products and services. Salespeople that are purely product-oriented cannot successfully implement a strategy of this kind.

Furthermore, on a surprisingly frequent number of occasions, we have observed a lack of commitment towards the company from sales force. This fact has to be viewed extremely critically, since a sales representative's commitment is considered to be an important prerequisite of his or her performance (see Jaramillo et al. 2005). The sales representatives do not indicate in sales talks that they support their company, let alone that they are proud to be working for it. Rather, it is frequently the case that sales force and customer form a kind of "unholy alliance". By dint of cynical statements about his own company, the field sales representative "joins forces" with the customer against the company's head office. Such alliances are fatal in the long run: How can a customer have respect for a company if his direct contact person in the company does not even show such respect?

The result of the problems described above is that the field sales force is frequently extremely price-oriented: It aims to cover up its own shortcomings through aggressive price behavior in the market. This also reflects a certain lack of ideas in sales. Instead of employing innovative tools in customer development, many sales representatives resort to well-tried price reductions. The customers can use this to their own advantage by systematically leaking incorrect information about competitor prices. Basically, every company's prices are higher than those of its competitors – according to the customers.

The two previous problem areas relate to the company's presence in the market. Such weak points are usually rooted in company-internal problems. *Internal processes* play an important part here. In many companies, interface problems between departments make sales activities more difficult. Departmental egoism results in massive information deficits, duplicate work, and uncoordinated behavior and actions. The result: The overall impression given by many companies is a lack of customer orientation, despite a possibly customer-oriented sales force. Another problem in the context of internal processes is that the sales force is overloaded with administrative activities and is ultimately prevented from fulfilling its actual task – customer care.

Another sales-related problem area in many companies involves the *information systems*. In many cases, effective and efficient sales activities are not supported by adequate information systems. Deficiencies in customer-related information are particularly common. According to our observations, information systems containing reliable potential data (i.e. information about the customer's requirements) continue to be the exception. Often, quantitative customer assessments concentrate on the sales volume achieved. Such evaluations frequently boil down to the classic, sales-based ABC analyses. The weakness of such evaluations is obvious: A customer with a low sales volume is classified as a C customer. The fact that it can also be an attractive customer with high requirements which are mainly covered by competitors is completely overlooked. It is also rare for companies to be familiar with the profitability of individual customers or individual customer groups. At best, customer contribution margins are encountered with a certain regularity. However, Homburg and Daum (1997) provide numerous examples to illustrate that contribution margins are a problematic criterion for assessing profitability. Only when overheads have been assigned to the individual customers (customer groups) on the basis of the costs-by-cause principle, a sufficiently well-founded statement can be made concerning which customers (or customer groups) could be attributed with earning or losing money. A cost analysis of this type is, however, generally not carried out. Most cost accounting systems traditionally have a pronounced product orientation: While the most detailed profitability analyses can be made for products, this is rarely possible for customers (and customer groups). Such information systems result in market development "flying blind", in some sense. Decisions about resource allocation are made on instinct, which virtually rules out increasing productivity in a targeted manner.

A final problematic aspect has to do with *incentive systems*. In essence, this concerns the way in which the success of sales divisions and individual sales representatives is measured and rewarded. In many companies, the incentive systems are merely quantity-based, a typical example being incentive and bonus schemes for field sales representatives that are based exclusively on sales volumes. The effects of such "one-dimensional" incentive systems can be devastating, since they do not meet today's requirements in sales. Their contribution to productivity-oriented sales activities is particularly questionable.

Can the Sales Ex approach help you or your company? We raised this question at the beginning of this section and have already pointed out that it is not possible to answer it with an across-the-board "yes". The reader should, however, ask himself at this point whether at least some of the problems described here apply to his own sales division. If this is indeed the case, familiarizing himself with the Sales Ex approach is strongly recommended.

1.3 An Overview of the Sales Excellence Approach

In this section, we will examine some of the main aspects of the Sales Ex approach. We will first discuss the principles underlying the approach, and then subsequently explain how the approach can benefit the user. Lastly, we will provide an overview of its contents.

The Sales Ex approach is a method for optimizing sales activity in companies. It has been developed over the course of work spanning several years and is underpinned by experiences in numerous companies in a wide variety of sectors as well as by scientific findings in the field of sales management. When developing this approach, we started by asking what principles and methods are involved in professional sales management. Five *principles* form the cornerstone of the Sales Ex approach:

Integrative view: The Sales Ex approach lays claim to including all the main facets of sales activities. We want to provide managers with an extensive set of tools for optimizing the sales sector. In many companies, we have observed numerous "isolated activities" in connection with sales optimization. Such fragmented activities, however, cannot yield the desired results in the long term.

Scientific foundation: The most recent scientific findings in the field of sales management were incorporated into the development of the Sales Ex approach.

Relevance and up-to-dateness: The Sales Ex approach is not only based on the most recent scientific findings, but also takes into account current trends, providing answers to pressing problems and questions related to sales.

Practical orientation: The Sales Ex approach is based on a broad range of experiences in a variety of sectors, which we have included at many junctures, since the focus of the book is on the benefit for practice.

Cross-sector orientation: The Sales Ex approach is not aligned to the specific characteristics of individual sectors and can thus be used in all sectors and sales structures, with certain aspects possibly being more relevant to some sectors than to others. In principle, however, the concept has a cross-sector orientation.

What *benefit* can be derived from using the Sales Ex approach? Three key components should be mentioned in this respect:

- Tools,
- Concepts and
- Checklists.

The first benefit component lies in the provision of a large number of concrete *tools*. Examples here include tools for analyzing the customer structure (e.g. the customer portfolio) or employee management tools. These tools can be used directly in the company.

The Sales Ex approach, however, does not stop at the introduction of tools: It also presents *concepts* (e.g. for designing key account management or complaint management systems). The reader will learn new approaches to solving a wide range of problems. The concepts provide suggestions and new perspectives. They are more fundamental in nature than tools. As a rule, however, they have to be adapted and adjusted to the individual company requirements.

Checklists represent the third benefit component of the Sales Ex approach. Each subject area will conclude with a detailed checklist. We will discuss the use of these checklists in more detail in the following section, merely pointing out here that they can be used in self-assessments made by the sales division or in assessments by external experts. Relevant comparisons can also be of interest here, for example, assessments made by employees and by management. Another option is the use of internal benchmarking to compare several sales divisions within a company.

In terms of *content*, the Sales Ex approach encompasses four areas:

- Sales strategy,
- Sales management,
- Information management and
- Customer relationship management.

Each of these areas deals with tools and concepts that characterize the manifestations of professional sales management. Each area concludes with a checklist.

The *sales strategy* area sets the basic course for market development, which, for example, focuses on determining which sales channels are used for which markets. An important question in this context is how the cooperation with sales partners, e.g. retailers, is designed and structured. Fundamental statements about the allocation of sales resources must also be made within the sales strategy. For example, a professional sales strategy must provide information about how a company with a field sales force should focus the time budget of that field sales force.

The *sales management* area is concerned with four subject areas: organization, planning/controlling, personnel management and sales culture. Professional sales activities must be integrated into an efficient organizational structure. We will examine both structural organization and process organization. Examples include customer-oriented structuring of organizational forms as well as interface management methods for optimizing processes. Sales planning and controlling are vital for guaranteeing the efficiency and effectiveness of sales activities. Accordingly, we will introduce various sales monitoring tools. The personnel management area focuses on two main aspects: personnel management systems and management behavior. Personnel management systems deal with employee-related activities such as hiring, further development and promotions. Management behavior, on the other hand, focuses on how individual managers handle their staff. Another crucial influencing factor on the success of sales activities is the sales culture. This refers to the "unwritten rules" in sales which influence the way in which sales representatives behave and think. Deficiencies in the sales culture impede a professional and customer-oriented market presence. Department-centered egoism and sales representatives who have already resigned their positions mentally are examples of a non-functioning organizational culture.

The *information management* area is primarily concerned with the issue of whether the information required for professional sales activities exists in the company. The focus here is, of course, on customer-related information. Information about customer potential, customer profitability as well as customer satisfaction and retention are essential prerequisites for systematic customer care. Moreover, the focus is on information about the market, the competition and the internal processes (such as order processing), as well as integrating all this information into a customer relationship management system.

The fourth dimension, *customer relationship management*, deals with the question of the extent to which a company systematically manages the various customer interfaces and business relationships with customers. We will first discuss the qualifications that a sales representative should have, and then introduce various tools for relationship management and customer retention management. Examples here include the company's Internet presence, value-added services, complaint management, key account management and relationship modeling. Figure 1.3 illustrates the four Sales Ex dimensions.

As we have already explained, comprehensive checklists are assigned to each of these dimensions. If a company is assessed as part of a detailed Sales Ex analysis, one option is to represent the results in a *Sales Ex profile*. This profile provides the company with an overview of its fundamental strengths and weaknesses in the sales

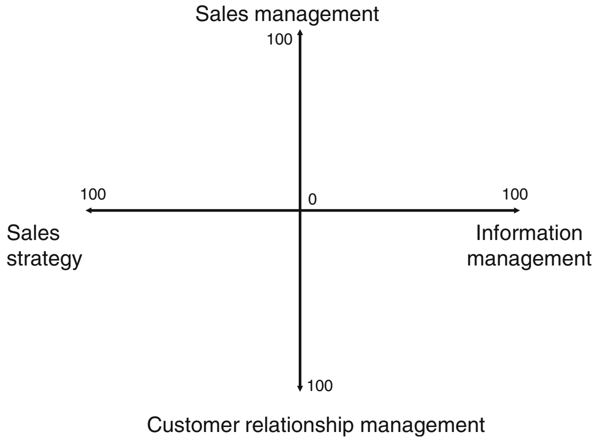

Fig. 1.3 The four Sales Ex dimensions

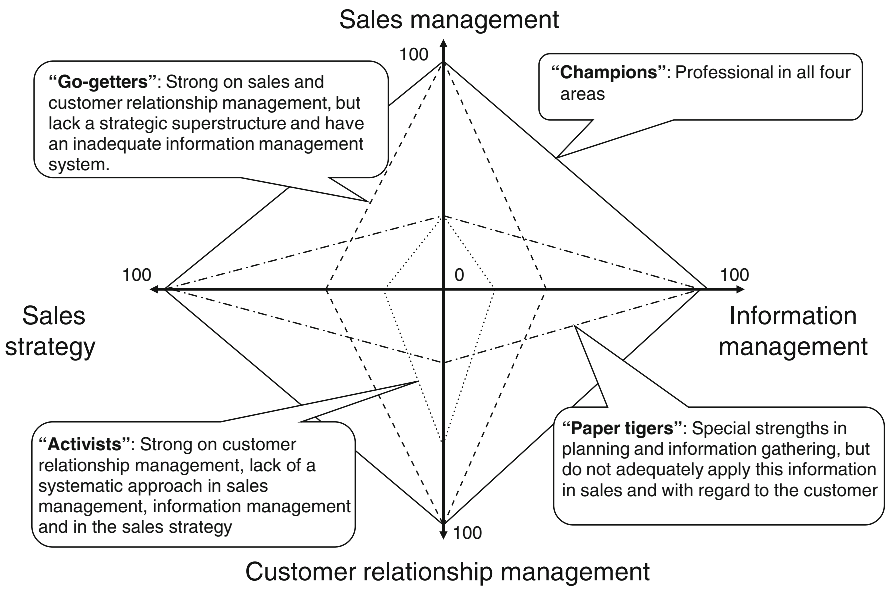

Fig. 1.4 Typical Sales Ex profiles

area. The Sales Ex profile arises from averaging the individual checklist criteria belonging to the particular dimension, which gives the company a points score of 0–100 for each dimension, with 100 being the "best possible" rating (for details, see Sect. 1.4).

The Sales Ex approach has already been applied in a wide range of companies. Our experience has been that a few typical profiles tend to prevail. Figure 1.4 shows four typical profiles.

The "*activists*" should be mentioned first here. Their strength lies solely in customer relationship management. Customer contact is handled professionally, at least within the bounds of possibilities. Problematic here is the lack of a strategic sales superstructure. In these companies, clear-cut answers are frequently not given to fundamental strategic sales questions. Accordingly, everyday decisions are often not based on guidelines, which usually results in a considerable amount of counter-productive and inconsistent activities. To make matters worse, information management is inadequate. Owing to a lack of information, many decisions are made on a gut instinct. These companies also have major shortcomings in the area of sales management.

We call the second typical profile "*paper tigers*". These companies have a clear sales strategy and comprehensive sales information. Sustained market success is, however, denied to these companies due to deficits in sales and customer relationship management. There is usually a huge discrepancy between written statements and the reality of the day-to-day business.

We refer to the third typical Sales Ex profile as *"go-getters"*. These companies are strong on both sales management and customer relationship management, but they neither have a strategic basis nor is their information management particularly efficient.

Finally, there are the "*champions*", whose professionalism means that they are confident in all four areas. These four constellations are, of course, ideal-typical to some extent. Hybrid forms are frequently seen in practice.

At this point, it is important to point out that the Sales Ex profile is aggregated and therefore cannot provide too detailed operational procedures or instructions for action. However, this profile is very useful for determining where there is, *in principle,* potential for optimization in the sales area. The concrete starting points for action are then derived from the underlying detailed checklist analysis.

The structure of this book is based on the four dimensions. We will begin with the sales strategy in Part II. Part III then examines the area of sales management. Part IV is devoted to information management, while Part V deals with customer relationship management.

1.4 The Sales Excellence Approach in Use

The breadth of content and the modular structure of the Sales Ex approach make it versatile in use. Users of the approach should therefore first consider some of the main questions relating to its application (see Fig. 1.5).

The first question is *what* to evaluate when using the Sales Ex approach. In principle, both sales organizations in the user's own company and in external companies can be evaluated. Within his own company, the user can, for example, analyze the sales organization of various business units, various regional units or even the central sales unit. An evaluation of the sales organization of external companies may, for example, relate to retailers, competitors or potential takeover

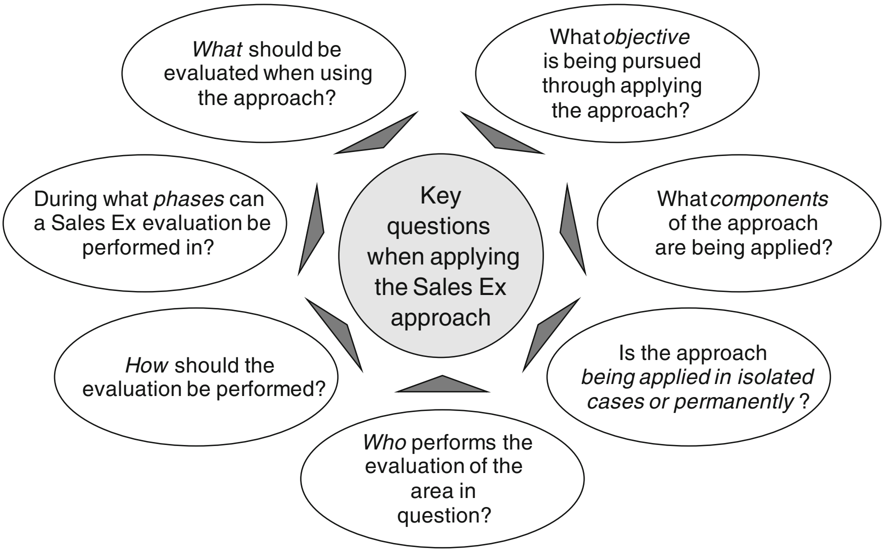

Fig. 1.5 Main questions when using the Sales Ex approach

candidates. Benchmarking with companies (possibly from other sectors) that have a particularly professional approach to sales can also be very promising.

Applying the Sales Ex approach within a company can achieve various *objectives*. The overarching objective is generally to evaluate and increase sales professionalism by using a "code of practice for systematization". Fulfilling various subgoals can contri-bute to meeting this overarching objective:

- Fundamental encouragement of dialog or exchange of experiences between managers of different sales divisions,
- Concrete identification and use of best practices in the company through benchmarking, with subsequent best practice transfer between different sales divisions (cooperative benchmarking),
- Encouragement of internal competition through internal benchmarking of different sales divisions (competitive benchmarking), and
- Raising awareness of the existing weak points in the company as well as creating acceptance for planned professionalization initiatives (e.g. restructuring, qualification initiatives, improvement of information systems).

A further question relates to the scope of the application. The approach is designed so that all contentual *components* (i.e. all four dimensions) can be applied. However, it is also possible to evaluate a sales division using only selected components, e.g. information management. Furthermore, a decision must be made whether to use the Sales Ex analysis at clearly defined, *regular* intervals or only *in isolated cases*. In principle, regular (e.g. annual) application is recommended. However, there are situations in which an unscheduled review of all or some dimensions is required, for example, if customers refer to acute shortcomings in relationship management.

Basically, there are three alternative answers to the question of *who* should conduct the Sales Ex analysis:

- Pure self-assessment by members of the company,
- Self-assessment with the aid of external moderators or “sparring partners”, and
- External assessment by outside experts (e.g. management consultants).

Naturally, these options can also be combined, for example, by conducting a parallel self-assessment and external assessment and then comparing the results. Which particular alternative is chosen mainly depends on the pursued objective: If, for instance, the objective is to initiate change processes in sales or to encourage dialog between sales divisions, self-assessment definitely makes sense. In this case, it should, however, be made clear to the participants that the result of the assessment will not involve any positive or negative consequences. If this is not communicated, the assessment may be too positive (“kidding oneself” phenomenon). If, however, internal competition is involved (competitive benchmarking), external assessment by an outside, neutral entity is essential.

Clearly defining, prior to a Sales Excellence analysis, *how* the assessment is to be carried out can exclude some potential problem areas in advance. One potential problem (the risk of “kidding oneself”) stems from the fact that checklists are used during the evaluation to assess the sales division in question. The assessment should not be conducted haphazardly, but rather be substantiated by corresponding documentary evidence (e.g. internal memorandums, minuted decisions and resolutions, market analyses, project documentation, organizational charts, process descriptions, screenshots or sales plans) (see Fig. 1.6). With this, the assessors have the obligation to proof their results.

The assessment is carried out by assigning points scores for fulfilling excellence criteria on a scale from 0 (“Not true at all”) to 100 (“Very true”) (see Fig. 1.6). The reader may well be wondering how we define how many points to assign for a certain level of fulfillment of a criterion. Although room for subjective interpretation can hardly be avoided here, at least rough guidelines can be provided for an assessment that is as fair as possible (see Table 1.1). At the core is the question: how systematic is the approach in meeting the criterion in the sales division being assessed, i.e.

- Whether an approach for fulfilling the criterion has been defined (and ideally documented) and
- Whether activities that serve to fulfill the criterion take place regularly.

The overall score for a dimension (e.g. information management) results from calculating the (weighted) average of the individual scores for the criteria in question. The weighting can be expedient, since certain criteria are more relevant to success for some companies than others. However, the weighting of a criterion strongly depends on the particular conditions in the sector or company. Thus, across-the-board recommendations cannot be made.

At this point, the reader may well be wondering what Excellence score a company needs to achieve in a dimension to be classified as “excellent”. We are aware that in practice few companies in practice will achieve the full points score (100) in all four dimensions. Section 1.5 will also explain that “perfect Sales Excellence” in all

The company ...	Very true (100)	True to a large extent (75)	Some-what true (50)	Some what false (25)	Not true at all (0)	Rating based on… (Documentary evidence for the assessment)
... works, across the enterprise, with a uniform segmentation approach.	☐	☑	☐	☐	☐	*See attached document "Cor-porate Marketing Strategy 2005".*
... prices product-related services separately.	☐	☑	☐	☐	☐	*See attached price list "Our Service Portfolio".*
... takes clearly defined job specifications into account during the employee selection process.	☐	☐	☐	☑	☐	*See attached sample job specification; see Dr. Krause, HRM Dept. 1. for further information.*
... knows the share of customer for the key customers.	☑	☐	☐	☐	☐	*See Sales Information System Handbook; see Meier, VT Controlling Dept., for further information*
... systematically analyzes the cross-selling potential for customers with high potential.	☐	☐	☑	☐	☐	*See attached list for key accounts; see Dr. Jensen, Key Account Manager, for further information*

Fig. 1.6 Example checklist with documentary evidence for the assessment

Table 1.1 Example guidelines for assigning points scores in a Sales Ex assessment

Points score	Background/notes on fulfilling the criterion
0	No identifiable indications of a systematic approach to fulfilling the criterion
25	Initial indications of a systematic approach to implementing the basic idea behind the criterion are identifiable
	Existence of serious problems hindering further progress towards implementing this basic idea
50	Established, systematic approach to implementing the basic idea behind the criterion is identifiable
	Currently very little development of this approach in some sub areas
	No serious problems hindering further progress towards fulfilling the criterion
75	Established, systematic approach to fulfilling the criterion is identifiable
	However, approach still not yet fully developed in all sub areas
	Hardly any serious problems hindering further progress towards fulfilling this criterion
	Approach fully developed in all relevant sub areas
100	Established, systematic approach to fulfilling the criterion is identifiable

Duration	Phase	Participants	Activities
approx. 1 – 1.5 days	Preparatory workshop	• Top management • Any external specialists	• Familiarization with the Sales Ex approach • Provisional self-assessment to identify the main problem areas and the departments
approx. 2 – 3 hours	Kick-off meeting	• Top management • Unit manager/dept. manager	• Designation of the project manager • Specification of the subgroup of people involved • Preparation of the assessment • Distribution of tasks (Who prepares which set of topics?)
approx. 14 days	Preparatory phase (local)	• Unit manager/ dept. manager • Project manager • Any external specialists	• Preparation of the assessments • Compilation of the documents • Initial discussion with the project manager • Initial discussion with external specialists, if applicable
approx. 1 – 1.5 days	Assessment workshop	• Unit manager/ dept. manager • Project manager • Any external specialists	• Decision about evaluations (based on the proposals and documents prepared) • Identification of improvement measures (action plan, incl. deadlines, responsibilities) • Identification of follow-up projects (project outline, incl. objective, milestones, responsibilities, budget, etc.)
at least ½ year	Implementation and control	• Unit manager/ dept. manager • Project manager	• Implementation of the improvement measures • Implementation of the follow-up projects • Measurement of/check on the success of optimization • Holding a follow-up workshop

Fig. 1.7 Recommended workflow in a Sales Excellence self-assessment project

dimensions cannot always be the objective. Ultimately, ensuring Excellence requires investment, and the targeted Excellence level can also have a tendency to increase the investment requirement. In this respect, the full points score (100) does not generally seem to be suitable as a yardstick of Sales Excellence.

Once the assessment has been conducted, the Sales Ex profile is drawn up. This profile provides an initial impression of the strengths and weaknesses of the sales division being assessed (see the examples in Fig. 1.4). For this purpose, the overall scores that were calculated for each of the four dimensions are mapped in a coordinate system. The individual scores are then interconnected.

The final question with regard to applying the Sales Ex approach relates to the *phases* in which a project for assessing sales professionalism can be carried out. Our experience shows that a multi-step approach in which brief workshops and longer (local) processing phases complement each other is advisable.

Figure 1.7 illustrates this procedure using the example of a self-assessment project conducted in a sales division.

Sales professionalization initiatives are often prompted by sales managers. However, since other divisions in the company are also affected by Sales Excellence (e.g. information management or human resource management), it is also advisable to familiarize other top management members with the Sales Ex approach in a preparatory workshop. In the course of this workshop, a provisional self-assessment is used to identify the main problem areas in sales and the divisions that need to be subjected to an in-depth assessment. The purpose of the subsequent kick-off meeting with the respective department managers is to organize the project (e.g. designate and specify the project management and persons involved) and define the persons responsible for preparing specific sets of topics (e.g. professionalism of the information management system) for the actual assessment. For this local preparation and for the collection of relevant documents, the managers are granted a longer period of time (generally about 14 days), during which the project management and any external experts are available to answer any queries. In an evaluation workshop, the project team reviews and adopts the respective evaluations and derives measures for increasing sales professionalism. If there is a major need for improvement, more extensive follow-up projects may need to be specified. The final implementation and control phase ensures that the adopted improvement initiatives do not "fizzle out".

The Sales Ex approach has now been applied in companies from a wide variety of sectors with different key contents. Table 1.2 shows a selection.

1.5 Is Sales Excellence Worthwhile?

The previous explanations have demonstrated that an initiative for professionalization such as the Sales Excellence approach represents an investment for safeguarding competitiveness. Like any investment, this approach must also face up to the $64000 question of whether the associated costs are justified *("Is Sales Excellence worth it?")*. Moreover, Section 1.4 asked which Sales Excellence level should be striven for from a cost-benefit point of view *("How good is good enough?")*. To answer these two questions, this section presents the results of a cross-sector empirical study, which analyzed more than 260 companies with respect to their sales professionalism (see Homburg et al. 2002).

To answer the *first question* about the economic benefit of Sales Excellence, we will examine the connection between the degree of sales professionalism (understood as a Sales Excellence mean value across all dimensions) and company success. To this end, the companies analyzed were divided into three categories based on their sales professionalism: companies with low, medium and high Sales Excellence. Low Sales Excellence equates to values up to 50, medium to values between 50 and 75, and high to values above 75. Company success was captured using three measurements of success (see Fig. 1.8):

- Return on sales,
- Market success and
- Flexibility of the companies questioned.

Variance analysis was then used to examine whether the three categories of professionalism differ significantly in terms of the three cited measurements of success. Even a superficial inspection of the results in Fig. 1.8 clearly shows that *Sales Excellence is worth it!*

Table 1.2 Examples of application of the Sales Ex approach

Sector	Assessment object	Background to the application	Key content	Consequences of the application
Mechanical engineering	Regional sales organizations	Internal benchmarking	All four dimensions	Identification and group-wide implementation of best practices
Financial services	Exceptionally successful sales unit of an insurance service provider	External benchmarking	Information management, customer relationship management	Introduction of a CRM system, training measures for the sales representatives
Pharmaceutical/ medical engineering	Sales controlling of a cooperation partner outside the sector	Improvement of the company's field sales force productivity	Information management (customer information)	Use of customer portfolio as a sales controlling tool
Chemical industry	Regional sales	Broad professionalization initiative	All four dimensions	Creation of multi-channel sales, comprehensive cultural change process, redesign of key account management
Automotive supplier	Existing dealers	Investigation of the long-term attractiveness of the dealers as sales partners	Sales strategy, information management, customer relationship management	Adjustment of the existing dealer structure, creation of an e-commerce sales channel
Telecommunication services	Potential takeover candidate	Possibility of integrating external sales organization	All four dimensions	Dissolution of the external sales organization after the takeover
Software	Central sales	Customer complaints about lack of coordination of the sales activities	Sales management (organization, planning, monitoring, controlling), customer relationship management (key account management)	Reengineering of the planning and control process, restructuring of key account management
Consumer goods	Retail-related sales teams	Assurance of a consistent market presence	All four dimensions	Implementation of a new sales information system
Pharmaceuticals	National field sales force organization	Improvement in sales competitiveness	All four dimensions	Development and implementation of a new sales strategy; increase in customer orientation in the operational and organizational structure

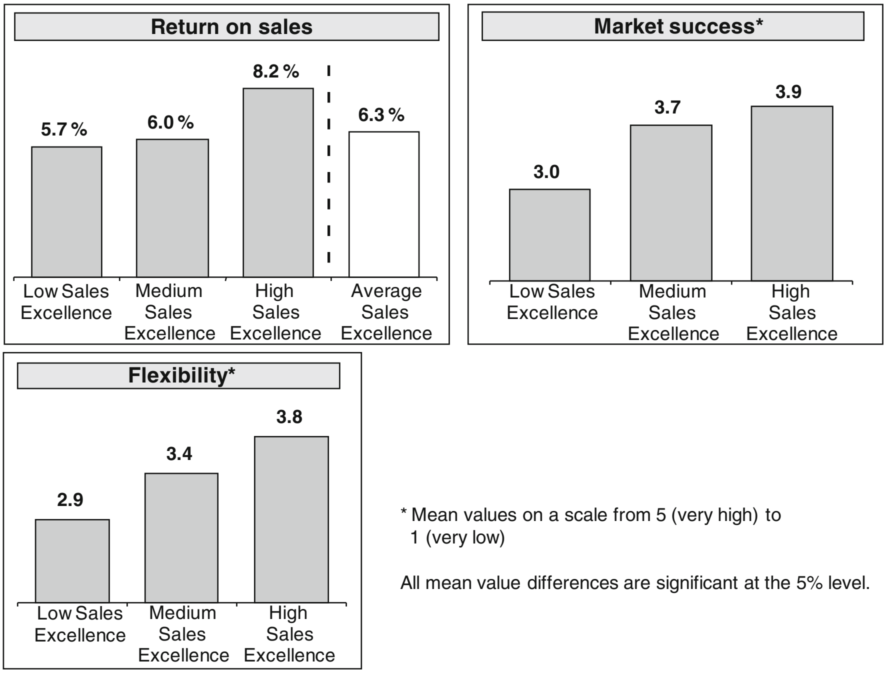

Fig. 1.8 Correlations between Sales Excellence level and various measurements of company success (see Homburg et al. 2002)

Companies boasting high Sales Excellence scores are more successful than companies with low or medium Sales Excellence scores. This statement applies to all three measurements of success across sectors.

An analysis of these correlations differentiated by Sales Excellence dimensions comes to a similar result: All four dimensions (sales strategy, sales management, information management and customer relationship management) correlate positively with the three measurements of success.

The *second question* relates to the Sales Excellence level that is feasible from a cost-benefit point of view. In essence, it concerns whether companies should always strive for the highest degree of professionalism (i.e. the Excellence score 100) in each of the Excellence dimensions, or whether there is an Excellence level above which additional investment for increasing professionalism does not produce any noticeable additional benefit. To answer this question, we analyzed the correlation between market success and professionalism in the individual Sales Ex dimensions (see Fig. 1.9).

Caution is advised, however, when interpreting the results displayed in Fig. 1.9. In particular, it is not possible to answer the question "How good is good enough?" with an absolute Excellence score valid across all sectors. Nevertheless, a clear tendency is recognizable: Companies evidently do not need to boast *perfect Sales Excellence in all dimensions* to be successful.

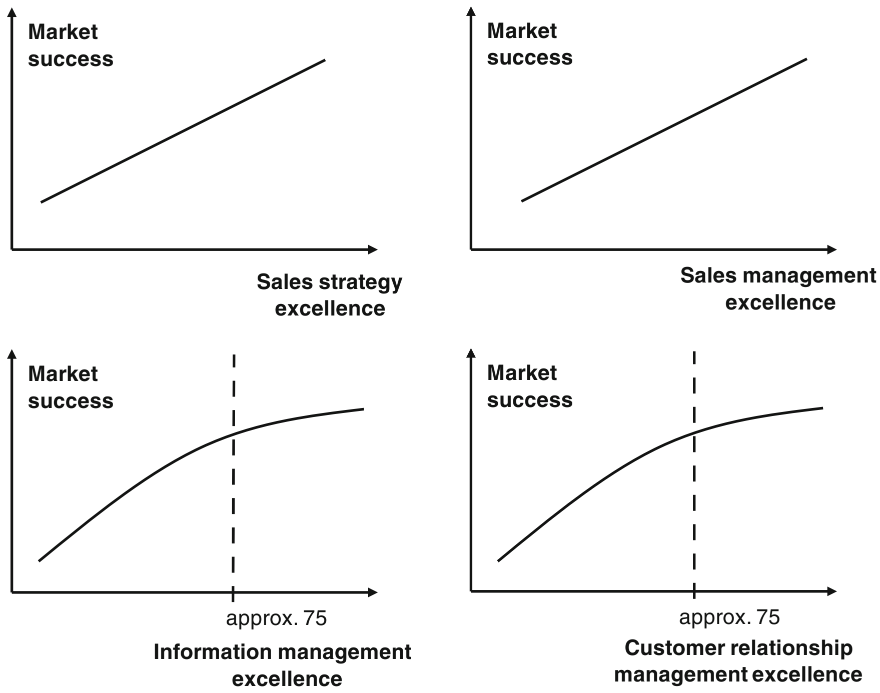

Fig. 1.9 Correlations between the four Sales Excellence dimensions and market success (see Homburg et al. 2002)

We were able to identify two dimensions in which further investment in professionalization did not necessarily seem to be justified above a certain Excellence level: information management and customer relationship management. The results show that a kind of saturation effect can be identified in these dimensions; in other words, above a certain Sales Excellence level, market success can be increased only slightly by additional professionalization in these areas (see Fig. 1.9). In view of the frequently enormous investment required to realize further improvements at a high level of professionalism, it can be surmised that these two dimensions have a kind of cost-benefit optimum.

The fact that expensive perfectionism in these areas contributes very little to company success can also be corroborated by observations from practice: In the *information management* area in particular, costs are spiraling out of control in many companies. Often, companies attempt to create an all-inclusive, technically brilliant IT solution, instead of limiting themselves to a solution that meets their needs and is based on a well-founded concept. Especially in recent years, consultants and software suppliers alike have triggered a full-blown "investment wave" with respect to new IT and customer relationship management systems (see Chap. 16). The extent to which the (standard) solutions implemented in this process really help the company stand out from the competition is questionable. The grandiose promises of a successful impact are, at least, a long time coming.

The same can be said about *customer relationship management*. In the context of the "customer retention euphoria" of the last few years, for example, a wide range of customer retention tools have been introduced in many companies, examples being the immense investment made by many companies in bonus programs, call centers or customer clubs (see Chap. 19). What is often problematic here is that the individual tools are not integrated into a coherent overall concept and their actual success is rarely ever subjected to a detailed examination. What is more, even the most sophisticated bonus program is hardly able to provide long-term differentiation from the competition in view of the "loyalty race" that can be observed in some quarters. "Overinvestment" with regard to product-related services is also a widespread phenomenon. Customers are often offered more and more new services. However, it is not always clear whether they really contribute to customer retention. Moreover, it is far too often the case that such services are given away instead of being systematically marketed.

To avoid any misunderstandings at this point, the empirical findings do not indicate that investment in the professionalization of information and customer retention management always needs to be written off. On the contrary: Sales Excellence in these areas also contributes, in principle, to a company's success, especially since many companies can be surmised to have a relatively low level of professionalism in some departments. The conclusion remains, however, that perfectionistic "over-engineering" is to be avoided, particularly in information and customer relationship management.

Part II

Sales Strategy: Setting the Fundamental Course

Professional sales activities must be based on a clear sales strategy (on the concept of strategy, see, inter alia, Welge and Al-Laham 2007; Becker 2009; Homburg et al. 2009). It sets the course for day-to-day business and reduces the risk of actions being carried out too often based on a "gut instinct". Six basic requirements for a sales strategy need to be emphasized here:

- The sales strategy "must exist". This may seem obvious, but we have observed many companies with explicitly formulated marketing and product strategies, yet without a clear plan for their sales management. This is particularly evident when staff and management, when asked about sales strategy, simply shrug their shoulders or give contradictory statements and cannot answer questions related to the competitive sales advantage that their own company enjoys.
- The sales strategy must be based on market conditions. If sales activities previously focused mostly on products, they are now focused sharply on customers. Identifying and satisfying customer needs is the basic requirement for market success. The sales strategy must express this with perfect clarity.
- The sales strategy must be dynamic. Markets are changing more and more quickly – in large part because of the Internet and other forms of technological developments. It is, therefore, scarcely possible anymore to define a sales strategy for a period of 10 years or more. Rather, it needs to be revised almost continuously.
- The sales strategy must provide guidance for all sales-related tools. This ensures an uniform appreciation among the employees and a consistent market presence.
- The sales strategy must be *lived*. In many companies, day-to-day activities are completely disconnected from the sales strategy. Often, the strategy is committed to in writing and then filed away. Managers are rarely able to reproduce its main content off-the-cuff. However, if there is a failure to breathe life into the sales strategy, the sales activities can hardly be aligned. Acting in an unsystematic, uncoordinated manner and presenting an inconsistent picture to the customer is then inevitable and potentially devastating.
- The sales strategy must be communicated. To promote acceptance of the strategy in the Sales group, it should clearly carry the signature of Sales. In many sectors, the influence (and the language) of marketing dominates the sales

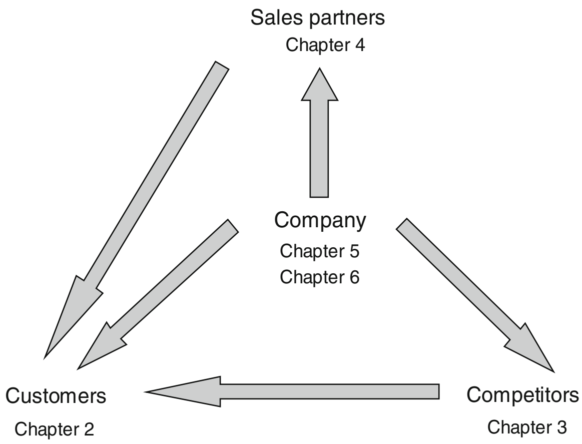

Fig. 1 The reference points of the sales strategy

strategy to a large extent. In addition, care should be taken to ensure that the sales strategy is communicated clearly and relates sufficiently, in terms of format and language, to the operational sales business.

Figure 1 shows the different reference points of the sales strategy, distinguishing customers, competitors, sales partners and the company in question.

Chapter 2 analyzes the customers and how they are taken into account in the sales strategy. Starting from a definition of who the customers are, we will discuss ways of creating customer benefits. We will then turn to customer segmentation and point out the significance of customer retention in terms of the sales policy.

Chapter 3 deals with competitors as another reference point for the sales strategy. We will present the potential competitive advantages that a company can establish through sales management. Chapter 4 discusses strategic sales decisions with regard to sales channels and sales partners.

Chapter 5 addresses the necessary sales-related decisions associated with pricing policies. Such decisions usually have a strategic quality and are therefore treated as a sub-area of the sales strategy.

Chapter 6 presents a framework of figures for sales targets and internal sales resources. The sales strategy must define what quantifiable targets should be set as well as what resources should be allocated and how those resources should be applied.

Each chapter poses pivotal questions that a sales strategy needs to answer. Companies can use this set of questions to formulate, update or supplement their sales strategy. The figure below provides an example of what the result of this process – a sales strategy – can look like (Fig. 2).

A sales strategy of an office furniture manufacturer

1. Our customers are specialist wholesalers, specialty stores for office supplies and large corporate customers.
2. Our customers expect furniture that satisfies the highest ergonomic and qualitative demands, at an acceptable price.
3. We want our customers to be able to sit comfortably and healthily on our chairs and to be able to work well on and with our other furniture.
4. We differentiate our customers based on their benefits expectations and attune our market development to this. We have identified three main segments: the price-conscious, the quality-conscious and the health-conscious.
5. We particularly want the quality-conscious and health-conscious customers to actively commit to us. We have a number of customer retention programs for this.
6. We want to set ourselves apart from our competitors, in particular, by fulfilling even individual customer requests flexibly.
7. We sell directly to major customers. All other customers are looked after by our sales partners.
8. Our sales partners are responsible for advising customers and for closing sales. Our wholesalers also undertake logistical tasks such as warehousing and transporting the products to the customers.
9. Our sales partners must fulfill the following criteria: have a good reputation for quality and service, a well-rounded product range in office supplies, and the proper professional and social skills to work with our end users.
10. In the value-added chain, we undertake the functions of after-sales care and customer service, advertising and gathering market information. Our sales partners store our products, perform the sales function and deliver to the end user.
11. We strive for a close business relationship with our sales partners and attach importance to the opinion of our sales partners in market-related matters.
12. To look after our (potential) customers, we use highly qualified and motivated staff from our field sales force, a call center and our web pages. In addition, each employee who comes into contact with customers acts as a sales representative.
13. Our customers see us as being positioned in the high-price and high-quality segment. Our prices are based on customer benefits.
14. We differentiate the prices for our products according to the quantities that individual customers or sales partners purchase from us. Discounts and bonuses depend on the quantities purchased, the efficiency of the logistical cooperation and the support for our marketing promotions.
15. We offer our customers comprehensive services with respect to office planning, assembly and financing at a fair price.

Fig. 2 Sales strategy using the example of an office furniture manufacturer

2 Customers: The Focus of the Sales Strategy

Certainly, any effective sales strategy needs to be customer-focused. This chapter analyzes the pivotal questions that a sales strategy needs to address in terms of customers, such as:

> Q 1: Who are the company's customers?
> Q 2: What are the basic needs of these customers?
> Q 3: What basic customer benefits does the company provide?
> Q 4: To what extent does the company segment its customers (a market development perspective)?
> Q 5: What criteria is the market segmentation based on?
> Q 6: To what extent does the company prioritize its existing customers and potential new customers (an economic perspective)?
> Q 7: How is market development differentiated between the individual segmentsand priority groups?
> Q 8: To what extent is customer retention actively pursued?
> Q 9: Which customers are the focus of customer retention efforts?
> Q 10: What tools/resources are used for customer retention?

2.1 Customer Definition and Customer Benefits: The Basis of Market Development

A sales strategy starts by defining the customer and answering the seemingly simple question (Q 1): *Who are the customers?* This question may seem trivial at first glance, however, it is the subject of long and controversial discussions in many companies. Essentially, four groups of potential customers can be identified for a company:

- *Users:* These are the end customers (corporate or private customers) that utilize a product or service to fulfill their own needs.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_2,

- *Processors:* They integrate the purchased products into their own products or services. Examples include original equipment manufacturers (OEMs).
- *Retailers:* They sell the products in an unaltered state, possibly enriched by services.
- *Advisors:* They advise users or processors on their choice of products. Examples include management consultants, planning consultants or engineering consultants.

Answering the question *Who are our customers?* can be extremely complex, particularly in the business-to-business sector. Our observations show that many companies answer this question too narrowly, for example by only regarding the next downstream sales level (e.g., retailers or processors) as customers. A company that does not include the customers of the immediate customers in its considerations is throwing away an opportunity to influence buying decisions in that area or to gather information.

Closely connected to identification of the customers is the question of: *What are the basic needs of the customers?* (Q 2). Although the needs of the customers may be very different in detail, common basic needs can always be identified. In principle, every customer need offers an opportunity for creating customer benefits – customer benefits results from the satisfaction of needs. The sales strategy must therefore formulate a clearly defined *benefit promise* (Q 3).

To influence the purchase decision in their favor, companies have two basic options: They can either focus on aggressive pricing or can emphasize the benefits of the product or service. Interestingly, empirical studies show that customer benefits have a much larger impact on preference formation than does the price. The frequently heard statement that "our customers buy purely based on price" is, in our experience, an indication that companies do not concentrate enough on highlighting customer benefits.

To better understand this issue, two dimensions need to be distinguished: core benefits and additional benefits. *Core benefits* refer to a customer's minimum product or service requirements. The purchaser of an automobile assumes, for example, that the automobile that is about to be acquired is fully functional. The benefit elements that go beyond the core benefits are called *supplemental benefits*. In the case of purchasing an automobile, this includes things like high-quality advice, warranties extending beyond the statutory regulations, equipment features such as a navigation system and, of course, the "fun of driving" as well as the automobile image.

"Dimensions of Excellence": Creating Supplemental Benefits in the Scotch Whisky Industry

The Scottish distillery business faces a unique challenge. Over the years, the industry carefully crafted a branding message for whisky that was, simply put, "older is better". The outcome, often considered a victory for the industry, was that consumers were educated that any worthwhile scotch needed to spend a decade or two in oak barrels before it could possibly be

(continued)

palatable to the discerning drinker. While high quality and "appropriately aged" single malt scotch is enjoying a resurgence in popularity today, the industry's production pipeline is paying the price for a drastic downturn in demand (and production) in the 1980s and 1990s, when consumer tastes swung dramatically to beer, wine, and other spirits.

To manage this shortage of supply, clever competitors are nurturing several supplemental benefits for this long-standing product, allowing them to sell shorter-lived stock at comparable or even premium prices. Glenmorangie is suggesting flavor variations, offering whiskies "finished" for 2 years in Sherry and Madeira casks after a mere decade in American Oak, and fetching prices comparable to much older stock. Moët Hennessy has probably been the most creative by developing a "hipness" for less-ripened scotch. Faced with a large store of younger than ideal product, the company began labeling its 6 year-old vintage as "Very Young", the 8-year as "Still Young", and 9 year-old product as "Almost There". These counterintuitive offerings became a cult hit, selling at $350–$400 per bottle, much more costly than the company's 10 year-old vintage (see Kiley 2008).

More and more companies are attempting to use additional benefit as a differentiating factor. Here are a few examples: A truck manufacturer offers his customers an analysis of the logistical processes in order to reveal savings potential, even manages the customer's entire fleet, if requested. A mechanical engineering company undertakes the marketing of used machines for his customers. A manufacturer of packaging materials also develops the packaging design for his customers. Numerous companies are now offering service packages under the concept of "facility management".

The "onion chart" in Fig. 2.1 below provides an overview of the broad range of possibilities for generating benefit/value for the customer. The tools that can be used to enrich the benefit of the "naked product" range from "hard" value-added services (see also Sect. 19.3) to "soft" services, such as commercial services, brands and personal relationships.

In general, there are different approaches to creating additional benefit (see Homburg and Beutin 2000):

- *Economic benefits* arise, for example, if the customer is helped in saving money, time or effort. Saving effort results in convenience, an increasingly important issue for private customers. For corporate customers, economic benefits can also be created by enhancing the customer's competitiveness (e.g., through shorter delivery times or higher product quality).
- *Security benefits* correspond to the basic need for hedging against unforeseen problems. Examples include availability guarantees for production equipment or even special equipment features in the automotive sector.
- *Social benefits* arise if the product contributes to improving the customer's image or standing. Private customers, for example, associate a high level of

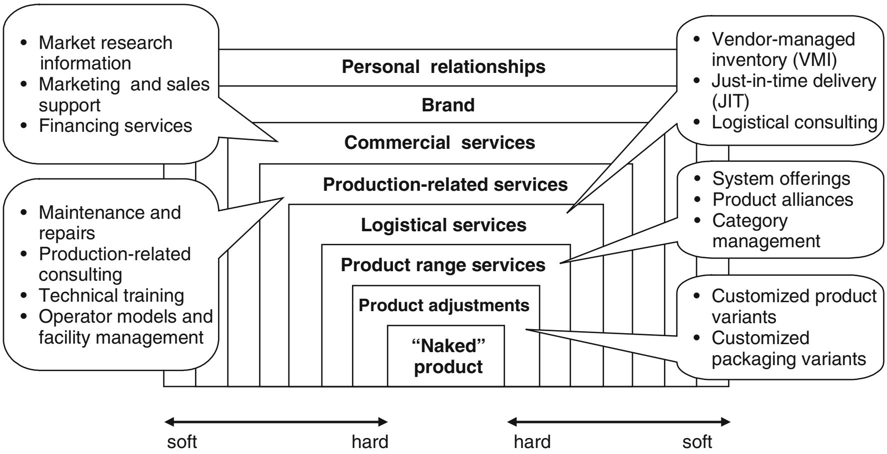

Fig. 2.1 The "benefit onion chart" (see Homburg and Jensen 2004)

prestige with certain brands. However, these associations can also be important for corporate customers. For example, many manufacturers of wood- and metal-working machinery find it improves their image if their machines are powered by well-recognized Baldor motors.

- *Emotional benefits* arise if a product arouses pleasant feelings such as enjoyment when it is used. A customer's awareness of making an environmentally-friendly purchase can also produce emotional benefits. Finally, emotional benefits can also result from the sheer variety of products offered. Even in a corporate setting, a seller must be aware of the emotional benefits that may result from product adoption and use.

In our research, we have noticed repeatedly that economic benefits are insufficiently communicated to the corporate customer. One way in which a company can highlight the economic benefits of its own products or services is to use *benefits analysis*, which presents the advantages of a company's product relative to an alternative with factors (e.g., total cost, unit costs) that are relevant to a customer. We will discuss this approach in more detail in Chap. 17.

It is also crucially important that when dealing with customers, employees gear their line of argument to the customer benefits (benefit selling), instead of concentrating on performance features (character selling). This aspect will also be considered in Chap. 17.

2.2 Customer Prioritization and Segmentation: Farewell to the "Standard Customer"

Customers are different – no company can escape this realization. How a company deals with the diversity of its customers is another essential aspect of the sales strategy. Our observations reveal that many companies do not fully embrace this heterogeneity. Vague understandings of customer segments, contradictory segmentation approaches in different company divisions, and unnecessarily high market development costs are frequently the consequences of this lack of understanding.

In principle, a systematic examination of customer differences can be undertaken from two perspectives:

- From a *market development perspective*, the focus is on adapting the company's service offering as closely as possible to the different expectations, requests and preferences of different customers (or customer groups). In this context, *segmentation* serves to divide a heterogeneous overall market into homogeneous submarkets (segments) on the basis of customer attributes that are relevant for market development (see Freter 1983; Krafft and Albers 2000, 2003; Freter and Obermeier 2007).
- From an *economic perspective,* the company needs to define how much should be done for which customers (or customer groups) within the scope of market development. In this context, *prioritization* serves to divide customers into different groups according to their economic attractiveness.

The first perspective initially raises the question concerning *the extent to which the company systematically segments its customers* (Q 4). Whenever a segmentation decision is to be made in a company, there is always a wide range of potential segmentation approaches. The question, therefore, is what makes a "good segmentation". A distinction is made here between the requirements placed on segmentation criteria and those placed on segments. *Segmentation criteria* must be relevant to behavior, i.e., the criterion must relate to aspects of buying behavior. In addition, a criterion must be measurable.

The requirements placed on *segments* include accessibility. A supplier must be able to address the segments directly to convey different messages to the segments, for example. Cost-effectiveness is a further requirement. Segmentation costs and benefits must be in reasonable proportion. This means in particular that the segments being analyzed must not be too small. The "segment-of-one marketing" approach proves to be economically nonviable in most cases. Finally, the segment structure should remain stable over a relatively long period.

In this context, the sales strategy must clearly express the *criteria on which the segmentation is based* (Q 5). Different segmentation criteria can be used, in part, for corporate and private customers (see Fig. 2.2).

Many companies are currently still using segmentation approaches that are essentially based on demographic or socioeconomic criteria. While these criteria have the advantage that they are usually relatively easy to measure, it is often the case that they do not correlate very strongly with the actual buying behavior of the customers. For example, income was long used as a segmentation criterion in the retail trade. This segmentation criterion had a strong correlation with store choice: Customers with high incomes shopped in stores with high price levels, while customers with low incomes frequented discount stores. Today, this classical segmentation variable no longer applies: The term "hybrid customer" has been coined to refer to those customers who, for example, spend large sums of money in expensive restaurants, only to buy champagne from a warehouse club. The observation that classical segmentation variables are increasingly losing their

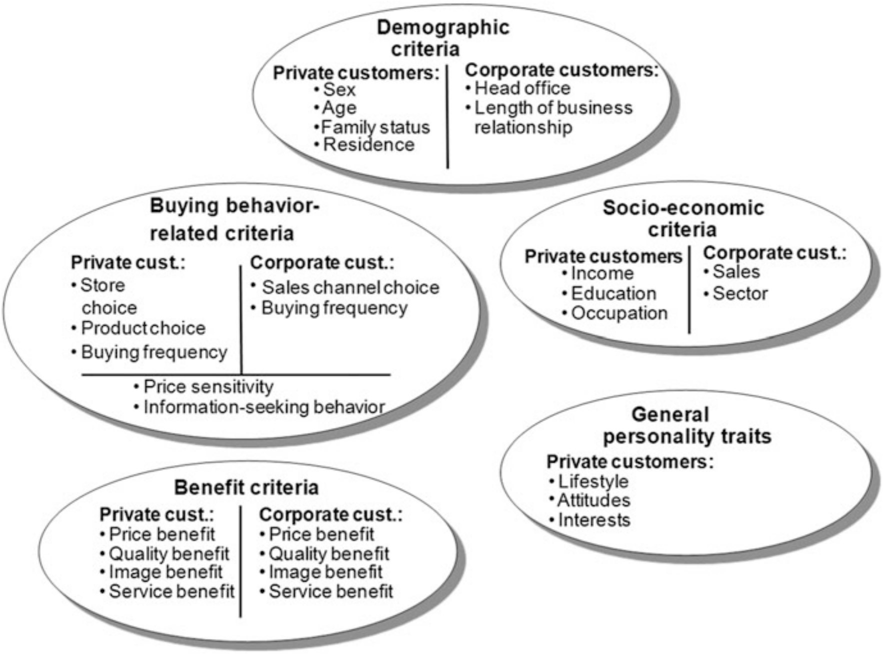

Fig. 2.2 Overview of customer segmentation criteria

behavioral relevance can be made in many sectors (see Walsh and Hennig-Thurau 2001). Segmentation that is not relevant to actual behaviors has very little value in the long term.

"Dimensions of Excellence": The Whole Foods Segmentation Approach

Upscale food retailer Whole Foods has a sophisticated understanding of their sophisticated and complex customers. Whole Foods' primary customer segment has demographic characteristics (relatively high income and education), behavioral characteristics (enjoying the discovery of new items while food shopping), and very specific benefits sought (healthier food options, environmental responsibility). The company uses in-store signage as an essential tool for solidifying their brand in the minds of these multi-faceted and demanding consumers. On a recent trip, consumers examining the rainbow chard were met with a large sign posing (and answering) the question: "Why Buy Organic?". Next to a bin of expensive and unusual Russian banana fingerling potatoes is a sign that simply reads: "How cute are these?". At the meat counter, where customers often have a significant wait for their order to be prepared, is a blackboard with a hand-written essay on the virtues of dry-aged beef. One of the keys to Whole Foods' success has been their ability to understand and satisfy, through the product itself and the in-store experience, a complex and unique customer group (see Berfield 2009).

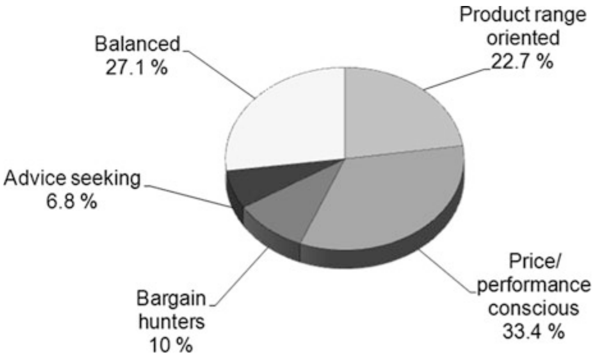

Fig. 2.3 Benefit segments using the example of a clothing store

Benefits segmentation, is now being used successfully in both the private and corporate customer sectors (see Mühlbacher and Botschen 1990). This approach groups together customers who are similar in terms of the benefits they are seeking through a purchase.

Let us illustrate this approach by means of an example: Through a survey, a clothing store initially identified five benefits customers might seek: product range, service, ambience, guidance from staff and price (see König 2001). It analyzed the importance that individual customers attached to these different determining factors. The results then provided the basis for identifying the five customer segments shown in Fig. 2.3.

This type of customer benefit-based segmentation approach is initially more laborious than classical segmentation methods. A detailed customer survey and analysis is usually required. The major advantage of this procedure, however, is that the segments that are formed in this way differ greatly in terms of actual behavior, making them very receptive to targeted marketing offerings.

To be able to address the segments more effectively, once such a benefit segmentation has been completed, an attempt is usually made to use demographic and socio-economic criteria to describe the segments in more detail. The segmentation shown in Fig. 2.3 revealed, for example, that customers from the product range oriented segment were most often executives or self-employed, also shop in boutiques and tend to have higher household incomes. In contrast, members of the price-conscious segment tended to hold blue collar positions, had lower incomes and rarely shopped in upscale boutiques.

The previous discussion should have made it clear that segmentation is primarily about laying the foundations for an effective market development. The aim is to align market development as accurately as possible with the buying behavior of different customer segments.

Customer prioritization (Q 6), on the other hand, is more closely bound to the guiding principle of efficiency. It allows statements to be made about which customers (or customer groups) should be given preferential treatment according

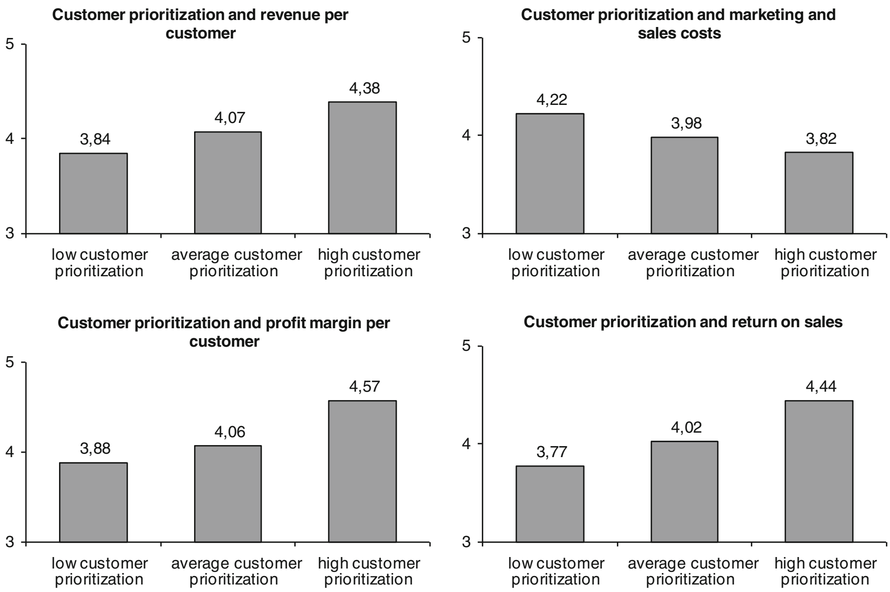

Fig. 2.4 Performance implications of customer prioritization (see Homburg and Droll 2008)

to their economic attractiveness. The aim is to focus scarce resources on those customers who are worth this investment – thus avoiding customer equality as a principle of market development (see Sect. 1.2). When considering the high costs of new customer acquisition this is of great importance, as new customers have an above-average churn rate and since the investments made in them often cannot be amortized (see Homburg and Fargel 2006a).

An empirical study of Homburg and Droll (2008) shows that customer prioritization is a key lever for improving a company's profitability. Accordingly, companies with a strong customer prioritization achieve higher revenue and earnings increases and reduce abandoned investments in sales (see Fig. 2.4). Although most companies are well aware of the need to prioritize customers, they often fail in implementing it into their sales activities. Thus, 86% of the companies state to pursue a strategy of customer prioritization, whereas only 38% of these companies actually implement appropriate measures. This suggests that most of the companies lack the knowledge of the various tools available (e.g. customer portfolio or customer-based profitability analysis). We will discuss the most important instruments in the Sects. 12.2 and 12.3.

Customer segmentation and customer prioritization do not always reach different conclusions. If, for example, a company opts for a segmentation approach based on socioeconomic criteria such as household income (private customers) or sales (corporate customers), the result of the segmentation can be very similar to that of the prioritization. In many cases, however, prioritization can be combined with segmentation for an even more precise targeting strategy and to reveal significant differences in the economic attractiveness of customers within the same segment. For example, customers within the same benefits-sought segment may utilize

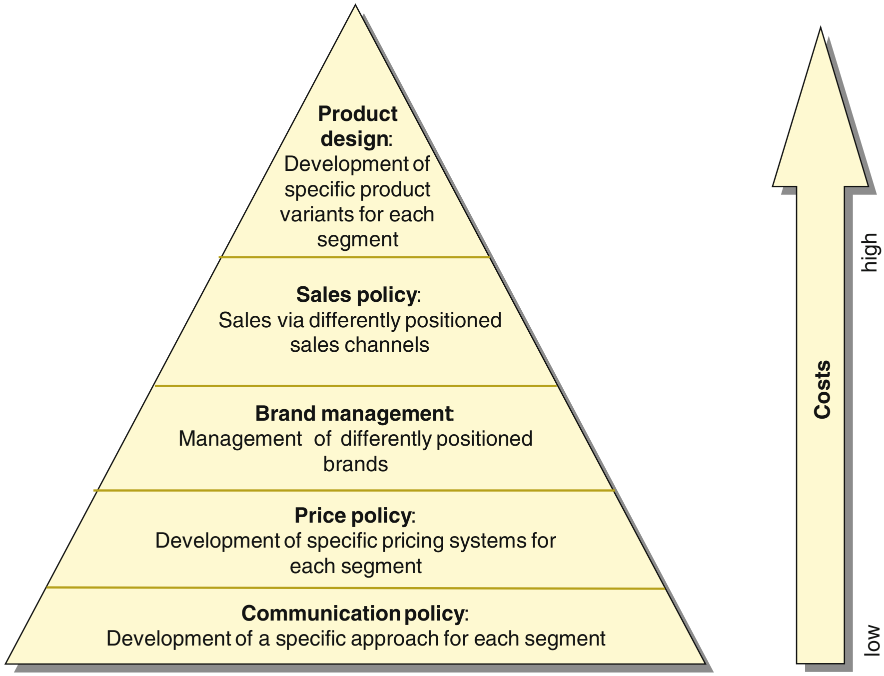

Fig. 2.5 Approaches to differentiating market development

different sales channels (e.g., call centers vs. personal customer care), giving rise to varying customer care and support costs. We propose combining segmentation with a regular process of customer prioritization because, due to its strategic implications for market development, it often has a longer ranging value. To summarize, the following conditions make customer prioritization particularly attractive:

- Market development resources (including staff capacities) are limited. Not all customers can receive excellent care.
- Customers differ in their expectations regarding the quality of customer care, and those customers with high expectations are also prepared to reward more superior care accordingly.
- Customer groups with different priorities can be distinguished from one another. The different groups can therefore be addressed in a differentiated manner.

This raises the question of *how market development is differentiated between the individual segments and priority groups* (Q 7).

Market development is a multi-faceted effort, going well beyond construction of the core product or service to include a range of ancillary but critical factors (see Fig. 2.5). The extent to which market development parameters are tailored to individual segments can be complicated, requiring a deep understanding of the consistency of customer requirements across these market development factors. Moreover, efficiency criteria are of pivotal importance in making these decisions:

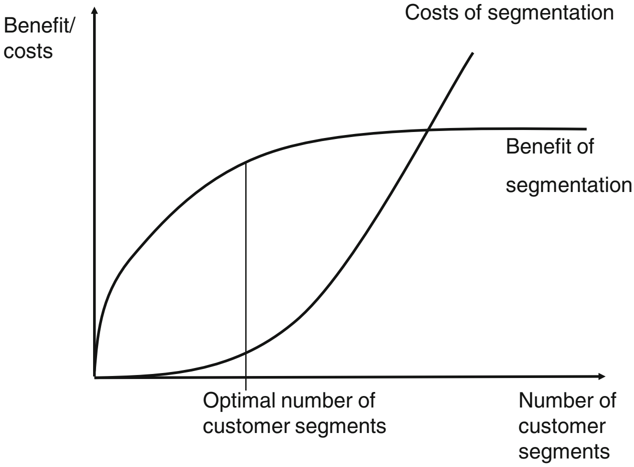

Fig. 2.6 The optimal number of customer segments

For example, segment-specific communication activities are still relatively cost-efficient, while segment-specific product variants are usually much more cost-intensive (see Fig. 2.5).

These views pose the question of how companies can use segmentation approaches in cases where individual customers cannot be systematically assigned to identified segments. This is the case, for example, with the segmentation shown in Fig. 2.3: After all, not every customer can be questioned upon entering the shop and assigned to a segment. In this situation, the suppliers must enable the customers to assign themselves, i.e., they must provide segment-specific service offers and inform their customers about themselves. The clothing store could, for example, set up special areas in the store (communicating this through effective advertising) in which bargain hunters and value shoppers can find limited but heavily discounted items – however, without being offered intensive advice while shopping. Product range-oriented and advice-intensive customers would be able to find a good selection of high-quality brand-name apparel in other areas of the store, with specially qualified staff assisting them in looking for clothing and trying it on.

A general problem risk in customer segmentation is the risk of "oversegmentation", or the pursuit of customer segments that are so fine-grained as to be economically non-viable. Thus, identifying the optimal number of segments for effective and profitable market management is a fundamental business challenge. The more valid segments that are identified and pursued, the greater the potential overall customer satisfaction with the firm's offerings. On the other hand, increasingly fragmented segmentation also involves costs. First, there are the costs for segment-specific customer care concepts, product variants, etc. Secondly, there is an increase in the company's internal coordination costs (for example, managing segment-specific prices). Precisely these internal costs of segmentation are frequently overlooked. The theoretically optimal number of customer segments is where the difference between benefits and costs of the segmentation is greatest (see Fig. 2.6).

Naturally, it is not possible to exactly calculate the optimal number of segments in a specific case. What is important, however, is that segmentation decisions should take benefit aspects as well as cost aspects into account.

2.3 Customer Retention: Key to Enduring Success

It is now generally acknowledged that customer retention has a significant impact on a company's success. The savvy company recognizes that there are two aspects to this success:

- *Relationship success:* Committed customers trust the supplier and are loyal to that company. Errors are tolerated to a certain extent. Moreover, committed customers communicate more openly with the supplier, thus becoming an important source of information to enhance future competitiveness.
- *Economic success:* Customer retention most directly influences sales volume. However, retention also has other potential economic benefits such as more intensive product use, a reduction in alternative procurement sources, cross-buying (see Schäfer 2002), as well as positive word of mouth or the creation of so-called "honey bee" customers (see Pepper and Rogers 2008). Committed customers also have a greater willingness to pay and lower price sensitivity (see Homburg et al. 2001). In the course of a stable business relationship, cost reductions also arise due to the reduced time and effort involved in handling longstanding customers (see Homburg and Daum 1997).

The example shown in Fig. 2.7 is designed to illustrate the effects of customer retention on economic success: We have captured the customer-related sales costs of a financial service provider and mapped them in relation to sales with the customers. If this value is viewed against the length of the business relationship, an interesting trend is revealed: In this case, business relations had developed so well after 4 years that the relative customer-related sales costs dropped considerably. This effect, which we have been able to observe in numerous studies in a wide variety of sectors, usually results from a combination of the phenomena described above – increase in sales, on one hand, and reduction of time and effort, on the other (see Reinartz and Kumar 2000; Reinartz and Krafft 2001).

Customer retention is a topic of strategic importance which must not be left to chance. In the context of the sales strategy, the question of the *extent to which customer retention is actively pursued* (Q 8) must be addressed.

"Turning Points": The Challenges of Maintaining Customer Service in a Down Economy

The economic downturn in 2009 had negatively affected almost every significant company around the globe. In these situations, companies often turn to cost-cutting measures such as customer service staff layoffs, reduced operating hours, and staff training reductions that can negatively impact the

(continued)

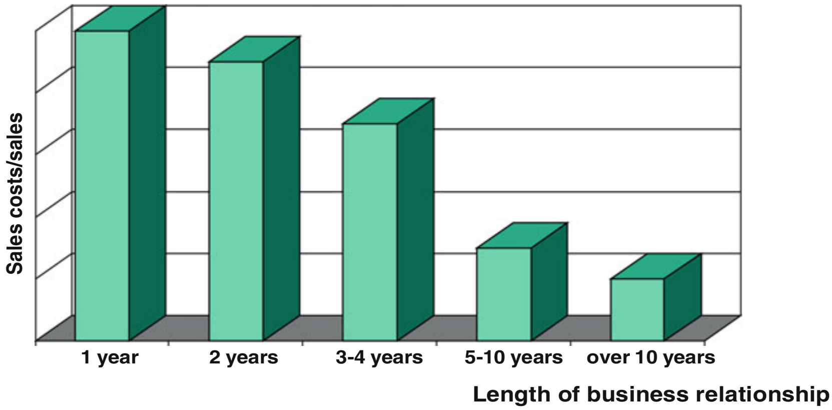

Fig. 2.7 Relative sales costs depending on the length of the business relationship, using the example of a financial service provider

customer experience at a time when the customer should be valued and courted more than ever. For example:

- Hertz has reduced "instant return" hours at some airports, angering many of their most profitable business customers, and
- Talbots has tightened its rules on merchandise returns.

However, some savvy companies like USAA Insurance and Marriott hotels turned staff reductions into a positive factor, by cross-training remaining employees to cover multiple positions, creating a more flexible and knowledgeable work force. Other companies focused on concepts like "tiering", routing elite customers to better and faster service experiences. For example, Zappos, the online shoe retailer, created a new VIP service for its most loyal customers which provides free overnight shipping and earlier access to sales and new merchandise. This came at the expense of service reductions to non-VIP patrons (see McGregor et al. 2009). These challenges pose some interesting questions for the company trying to excel in challenging times, such as:

- How can concepts like segmentation and prioritization be applied to this dilemma?
- While "VIP" programs may help the retention of elite customers, can the "class system" they create cause other problems for the company, such as the alienation of non-VIPs?
- At what point is pampering a valuable customer just not economically viable?
- Can cuts that must be made be limited to "back office" functions, maintaining the quality of the customer interface?

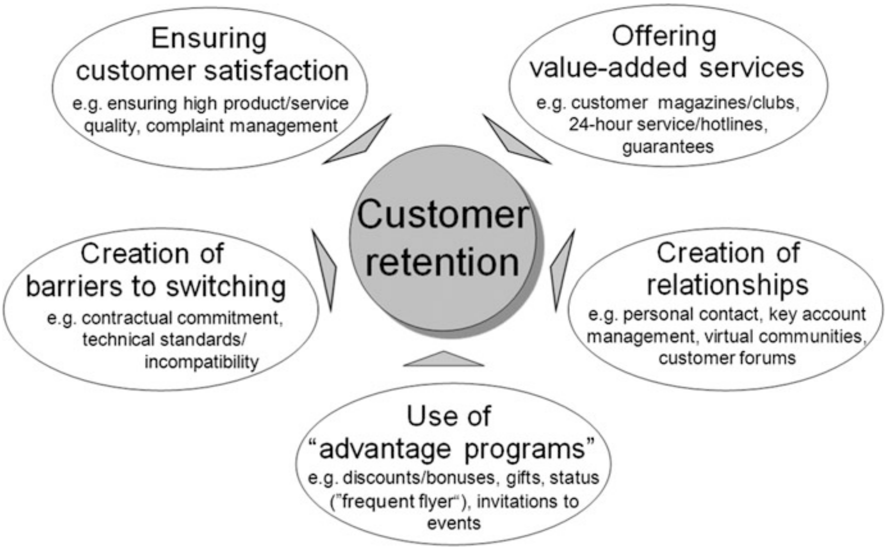

Fig. 2.8 Main approaches to creating customer retention

A focus on retention is not only about ensuring high customer satisfaction. While customer satisfaction is a necessary prerequisite for customer retention, it is not a guarantee. On the contrary: In many sectors, it is the case that even satisfied customers show little loyalty to a supplier (see Homburg and Giering 2001). Against this background, active customer retention management needs to go beyond merely ensuring customer satisfaction (see Homburg and Bruhn 2008).

Customer retention, however, is not free. It frequently requires massive investments which cannot pay off for all customers. This poses the question *which customers* the customer retention management system should target (Q 9). Customer retention measures need to be focused (see Chap. 19). Their use, therefore, depends on the results of the customer prioritization process.

Finally, the sales strategy must also provide information about *the resources and tools* that should be deployed towards customer retention (Q 10). Customer retention tools can generally be subdivided into:

- Tools for creating or safeguarding customer satisfaction,
- Value-added service tools,
- Tools for establishing, reinforcing or consolidating (personal) relationships,
- Tools for creating economic or social advantages for loyal customers, and
- Tools for creating barriers to switching.

Figure 2.8 shows a selection of customer retention tools. Chapter 19 explores these issues in more depth.

3 Competitive Advantages: Quicker, Higher, Farther. . .

In addition to customers, competitors constitute a second main reference group for the sales strategy. A deep understanding of competitors is essential in order to develop sales activities that create long-term separation and advantage over the competition. An excellent sales strategy must ultimately give a clear answer to the following question:

> Q 11: What sales-related competitive advantage is a company striving for?

The logic behind the concept of the strategic competitive advantage is simple: To survive in an increasingly tough environment, a company must be better than its competitors in some way or other. The analogy with the animal kingdom is obvious: an animal species will only survive if it can run faster, climb better, camouflage itself better than other species or if it is physically superior to them in some other way.

Against this background, every company must clearly define the strategic competitive advantage on which its long-term survival is to be based. This competitive advantage must satisfy different *requirements*:

- It must be long-term, i.e. it must not be possible for competitors to imitate it in the short term.
- It must be perceived by the customer.
- It must be important to the customer, such as offering performance features that are unique and appreciated by the buyer.

When deciding on the competitive advantage to be pursued, a company basically has two options (see Porter 1999):

- Cost leadership or
- Service leadership.

Cost leadership involves having an underlying cost structure that allows a company to deliver comparable products or services cheaper than the competition.

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DOI 10.1007/978-3-642-29169-2_3, © Springer-Verlag Berlin Heidelberg 2012

The cost leadership strategy is hardly viable today, particularly for companies in high-wage countries. There is almost always a competitor that can produce even lower prices and, by definition, only one competitor in each sector can ever pursue this strategy effectively. There are various differentiation options for companies that, due to their cost structure or general strategy, want to go a different route. For example, a company pursuing a *service leadership* strategy develops service offerings that are perceived by customers to be unique and superior in certain aspects when compared with those of competitors.

"Dimensions of Excellence": Pursuing Both Service and Cost Leadership at Amazon.com

Conventional wisdom suggests that firms face a fundamental strategic fork in the road over whether to pursue a low cost – low price approach to business or a differentiated, high service approach. At Amazon.com, founder Jeff Bezos is refusing to make that choice. While founded on principles of efficiency – no bricks & mortar retail overhead, centralized distribution, minimal advertising – the company recently earned the #1 position on Business Week's annual customer service rankings. Their high service marks are achieved with generous return policies and tight controls on the retailers with which they partner. Beyond that, one of their more interesting programs is one Amazon calls the "Milk Run". Designed to quickly fulfill high demand items like the latest Tickle-me Elmo, Amazon doesn't wait for suppliers to deliver sought after goods but instead sends its own trucks straight to supplier facilities to pick up merchandise. This reduces the number of late or incomplete orders.

In perhaps their most drastic example of service innovation, Amazon recently refocused on its original customer, the avid reader, and developed a proprietary electronic book, newspaper, and magazine reader (the "Kindle") though they had no experience in product design or development. This device not only locks these readers into Amazon.com for their literature purchases but offers them most best-selling books for only $9.99, a dramatic discount from the traditional book purchase price. Plus, customers can purchase and download a full book in less than 60 s from virtually anywhere, without a computer connection or even a WiFi network required. Analysts estimate Kindle sales could reach $1.2 billion by 2010 (see McMillian 2009). The Kindle represents a microcosm of Amazon's overall strategy – combining efficiency with high service and unique customer benefits.

In this context, the question for the sales division is how it can contribute to differentiating the company from competitors. Many sales managers underestimate their own importance here. According to our observations, many companies see competitive advantages almost exclusively in terms of products. However, the sales effort often plays a pivotal role in asserting a competitive edge on the market. And now that it has become more difficult to differentiate products and services in many sectors, sales is becoming even more important as a strategic tool. More and more frequently, the route to differentiation from competitors is via sales.

What differentiation options can be influenced by sales? The possibilities include:

- Flexibility,
- Speed,
- Quality of customer care,
- Individuality of services,
- Problem-solving ability,
- Image, and
- Information.

Flexibility as a competitive advantage means that even individual customer requests can be fulfilled quickly and without extreme effort. The creation of this type of competitive advantage is ultimately attributed to particular resources in the company. For example, to ensure flexibility, structures and processes that facilitate a fluid coordination between different organizational units (e.g., between sales and production) need to be established in the company. Moreover, it must be possible to easily adapt the production of goods and services to changing customer requirements.

Speed includes both the swift adaptation to changes in the general market conditions and rapid response to customer inquiries. It also represents a competitive advantage if the customer depends on or demands the quick availability of products. Speed can be achieved in different ways, such as when the company has systems that can be used to promptly collect and evaluate information about changes in the company environment. Another form, logistical speed, can be achieved through a local proximity to the customer .

The *quality of customer care* results, in particular, from the quantity of available sales representatives as well as their skill and customer orientation. Effective sales representatives base their sales activities on comprehensive information about the market, competitors and customers. They are able to tune in to the specific problems of their customers and harness existing customer potential across all products by utilizing cross-selling methods (see Schäfer 2002). Strong representatives are also able to identify the needs of the customers and take them into account in their sales behavior (see Chap. 17). The quality of customer care is, of course, particularly important in direct personal sales; examples of customer care quality include the accessibility and reliability of sales representatives. However, the same also applies to selling via other media, e.g., the telephone.

Companies can also delineate themselves from their competitors through the *individuality of their services*. One of the prerequisites for this is a close customer contact, which forms the basis for knowing the individual requirements of the customer. It also requires product development and production methods that facilitate economic production according to individual customer requests (e.g., CAD – computer-aided design and CIM – computer-integrated manufacturing).

A company's *problem-solving ability* enables it to be a point of contact for customers even when they have complex problems. Employees who have contact with the customers must have a feel for the problems that are currently preoccupying their customers and the options available to resolve them. Furthermore, the company needs to have a sufficiently broad service spectrum and/or cooperation partners that can provide the components required for solving the problem.

While the *image* of a company or its products is recognized as a competitive advantage in many cases, the contribution that the sales function makes to the development of the image is frequently underestimated. Sales, as the main link between supplier and customer, strongly influences the way in which customers perceive a company. Sales representatives must be aware of their function as "on-site public relations managers". Sales representatives also play a huge role in reinforcing the company's brand identity during customer interactions. Particularly in the business-to-business sector, sales and service representatives are the key "bearers" of strong industrial goods brands (see Homburg and Richter 2003). Moreover, offering product-related value-added services can be a tool for creating a positive image. Finally, choosing excellent sales partners has a decisive impact on the way in which end customers assess the company and its products.

Information is at the root of every successful sales strategy. A company that has better and more up-to-date information about the customer, his or her needs, as well as the relevant decision processes and criteria has a crucial competitive edge. This assumes the selling company engages in the systematic collection, maintenance and processing/use of relevant information (see Schäfer 2002; Homburg and Fargel 2006b).

As a rule, a sales strategy will not be based on one single competitive advantage, but rather on a carefully compiled bundle of advantages. However, care needs to be taken to ensure that the targeted competitive advantages mutually support each other. Focusing is also recommended: A single competitive advantage must be the focus of the sales strategy, with the others offering protection and support.

4 Sales Channels and Sales Partners: Designing the Route to the Customer

The decision regarding the *sales channels and sales partners* is one of the key decisions that a company has to make in respect to its sales strategy. On the one hand, such decisions have a long-term character; they cannot be revised at short notice. On the other hand, they create the framework conditions for market access and market coverage. In fact, sales channels and sales partners have a major impact on the way in which a company is perceived in the market. For example, the conduct and presence of a sales partner has a decisive influence on customer perception of the positioning of a brand.

In many companies, the structure of the sales channels has "evolved historically". These companies cling to the sales structures that were created in the past, even though the essential framework conditions have changed, requiring adjustment of the sales channels. Against this background, a sales strategy must provide clear answers to the following questions:

Q 12: Does a company sell its products directly or indirectly?
Q 13: Does a company use only one or several sales channels?
Q 14: If a multi-channel system is used, how are the different sales channels delineated from one another?
Q 15: If a company uses indirect sales, what criteria are used to select the sales partners?
Q 16: If a company uses indirect sales, how are functions distributed between the company and sales partner(s)?
Q 17: If a company uses indirect sales, to what extent is a partnership approach pursued in the collaboration with the sales partners?
Q 18: If a company uses indirect sales, how intensively are push or pull activities undertaken?

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Table 4.1 Advantages and disadvantages of direct and indirect sales

Criterion	Direct sales	Indirect sales
Possibility of customer retention	+	–
Access to market information	+	–
Decision-making latitude and market development flexibility	+	–
Independence from retailers	+	–
Ubiquitous market presence	–	+
Efficiency gains through bundling of requirements	–	+
Avoidance of high capital commitment	–	+
Marketing effectiveness due to the creation of a product range	–	+

A distinction is made between direct and indirect sales channels. In direct sales, a company fulfills the sales functions without outside support – i.e. company-external – sales partners. In indirect sales, it avails itself of external sales partners. The main difference between direct and indirect sales is in the legal *and* economic independence of the sales partners. Economic independence means that the sales partner also sells other manufacturers' products. If, for example, a company founds a legally autonomous sales company that is only allowed to sell the products of the parent company, the sales company has legal, but not economic independence. This is then a direct sales channel.

With regard to the question of whether *a company sells directly or indirectly* (Q 12), Table 4.1 presents the advantages and disadvantages of the two alternatives. The main advantage of direct sales lies, of course, in the direct customer contact and the associated customer retention possibilities. The main advantage of indirect sales, on the other hand, is frequently ubiquitous market presence at a reasonable cost.

Unfortunately, there is no panacea for choosing the "right" sales channel. Ultimately, companies must weigh up the aspects listed in Table 4.1 when making such a decision in a concrete situation (see Krafft 1996). Market characteristics must first be taken into consideration in this assessment. For example, the aspect of "access to market information" is more important in very dynamic markets than it is in static markets. Product characteristics also play a role: The more individualized the products are, the less effect the efficiency advantages have in indirect sales. Finally, characteristics of the end customers, such as their service requirements, but also their degree of concentration must be taken into account (see Homburg and Schneider 2000b).

Another pivotal question is *whether to use one or more sales channels*, i.e. whether to create a *one-channel* or a *multi-channel system* (Q 13). In multi-channel systems, a supplier uses different sales channels to sell products (see Schögel 1997, 2001; Wirtz 2002). Many suppliers combine directly competing sales channels. For example, insurance companies use independent brokers or offer direct insurance via telephone or the Internet, in addition to their own field sales force. Some industrial goods companies use their own field sales force, independent sales representatives, call centers or the Internet. Figure 4.1 shows a multi-channel system using the

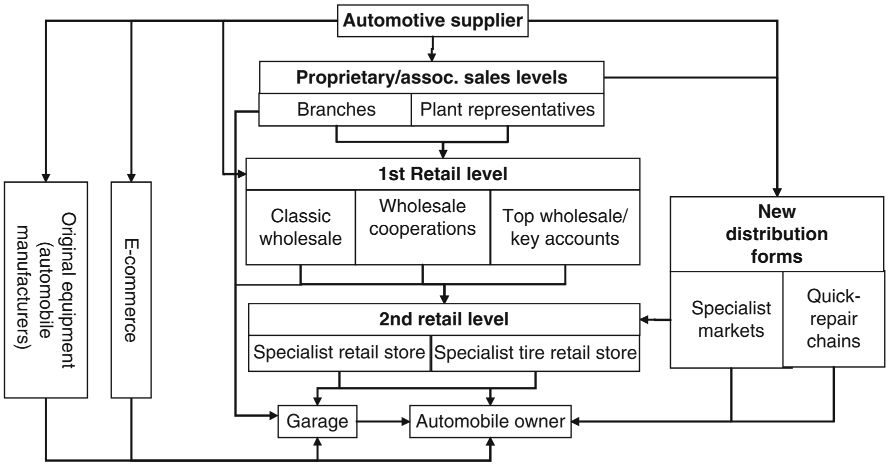

Fig. 4.1 Multi-channel system using the example of an automotive supplier

example of an automotive supplier that sells to automotive manufacturers (original equipment) both indirectly, e.g. via various retail levels and garages, and directly, e.g. via its own branches or e-commerce.

Basically, six different forms of multi-channel systems can be distinguished if the differentiation criteria are based on the number of direct and indirect sales channels that are being used (see Fig. 4.2 and Scholl 2003).

In the early eighties, suppliers in some sectors (e.g. furniture manufacturers) added a direct channel (for example, in the form of catalog sales) in order to reduce their dependence on intermediaries. If multiple sales was dominated by type 1 in those early years, the wide variety of basic forms has increased significantly, in part due to the Internet (see Tomczak et al. 1999). In “multiple direct sales” (type 2), a manufacturer uses several direct channels (e.g. network of branch offices, telephone sales, and Internet). This combination was often seen with financial service providers in the early nineties. The opposite of this is multiple indirect sales (type 4). With this type, a large number of various retailers are combined – a design that dominates in the consumer goods and tobacco industry (some cigarette manufacturers use up to six sales channels: vending machines, food retailers, tobacco stores, kiosks, restaurants and gas stations). Types 3, 5 and 6 describe the multi-channel combinations with the greatest complexity. Former coffee roasters now sell their diverse services via their own stores, catalogs, the Internet and a variety of retailers.

Multi-channel sales has its problems, of course. They arise, in particular, if companies create additional sales channels without first giving it adequate thought. For example, many companies today frantically initiate e-commerce activities, without investigating the importance of these measures in terms of sales strategy. Accordingly, there is often a lack of systematic management of the new channels: Critical mass in the additional sales channels is rarely achieved, and high fixed costs

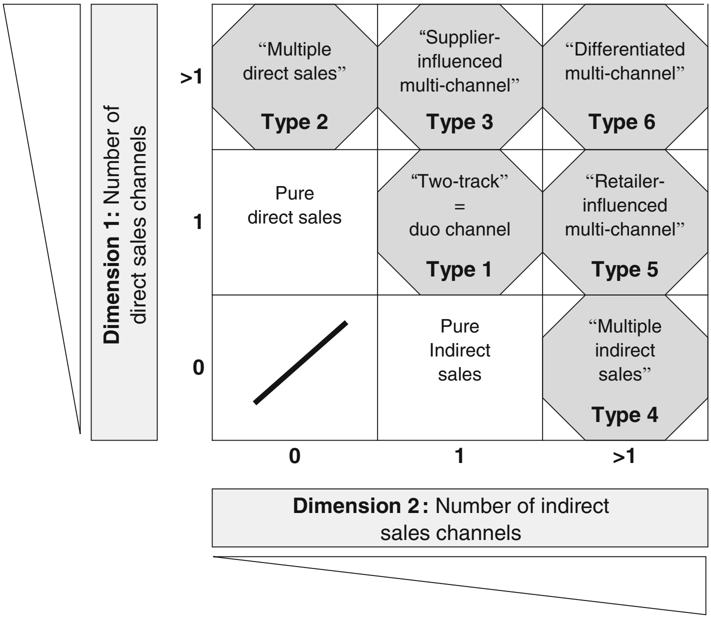

Fig. 4.2 Basic forms of multi-channel systems

are pitted against low sales volumes. Furthermore, the channels are frequently not coordinated properly, with the additional complexity not being taken into account. Among customers, multi-channel sales can lead to confusion e.g. when special offers are only available through particular sales channels (see Homburg and Krämer 2009).

On the other hand, a multi-channel system offers numerous advantages. A well-managed multi-channel system enables ubiquitous and efficient market development. At the same time, the dependence on individual sales partners can be reduced.

The systematic establishment of a multi-channel system is carried out in several steps, which we will briefly describe in the following (see Fig. 4.3).

The first step is to analyze the existing *sales situation*. The core issue is the extent to which a multi-channel system can increase sales success. Usage of additional sales channels can improve market development. First, there is the increase in market coverage due to developing additional markets/customer segments. Moreover, there is the possibility of serving current customers better. Furthermore, functions that are already being performed can be fulfilled more cost-effectively by new sales channels. An example would be transferring information functions from the field sales force to electronic channels. Finally, there are strategic reasons for using additional sales channels. For example, in some sectors, companies use electronic sales channels to reduce their dependence on powerful trade partners (see Albers and Peters 1997; Bauer 2000b). Figure 4.4 contains a

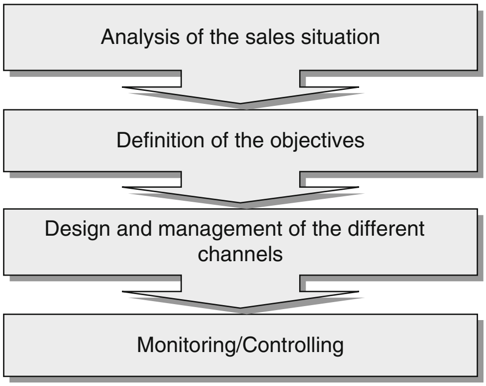

Fig. 4.3 Steps for implementing and managing a multi- channel system

	Very true	True to a large extent	Some-what true	Some-what false	Not true at all	No assess-ment possi-ble
Improving market coverage						
The company can develop new markets by using additional sales channels (e.g. internationalization).	❑	❑	❑	❑	❑	❑
The company can develop new customer segments by using additional sales channels.	❑	❑	❑	❑	❑	❑
Improving customer orientation						
The company can satisfy customer requirements better by using additional sales channels (e.g. accessibility, product availability, etc.).	❑	❑	❑	❑	❑	❑
Additional sales channels open up new customer retention tools for the company.	❑	❑	❑	❑	❑	❑
Increasing cost efficiency						
Additional sales channels enable the company to fulfill tasks more cost-effectively than before.	❑	❑	❑	❑	❑	❑
Improving the strategic position						
The company reduces its dependence on existing sales channels by using new channels.	❑	❑	❑	❑	❑	❑
The company will not have to face serious conflicts if it uses several sales channels.	❑	❑	❑	❑	❑	❑
Innovative sales channels threaten the company's sales situation.	❑	❑	❑	❑	❑	❑

Supports using additional sales channels (Very true, True to a large extent)

Supports retaining the existing system (Some-what false, Not true at all)

Fig. 4.4 Checklist for determining the necessity of using additional sales channels

Table 4.2 Coverage matrix using the example of a manufacturer of photocopiers

	Market segments				
Sales channels	Authorities/ public institutions	Major companies	Copy shops	Small and medium-sized companies	Other customers
Field sales force	Sales, consultation, maintenance, possibly repair				
In-house sales force/call center	Sales, consultancy, support for minor technical problems				
Internet			Sales, information		
Wholesale			Warehousing, sales, consultation, possibly repair		
Specialist retailer					Warehousing, sales, consultation, maintenance, possibly repair

checklist that can be used to analyze the necessity of using additional sales channels.

The second step is to define the *objectives* of introducing additional sales channels. To do this, companies can, in principle, refer to the effectiveness or efficiency criteria listed in Fig. 4.4. For example, many airline companies set up Internet sales to reduce their dependence on cost-intensive sales via travel agents. Moreover, the new sales channel is used to offer additional products and services such as travel accessories.

The third step is to make decisions about the *design and management* of the different channels, which involves answering the following questions:

- What (additional) sales channels are to be used?
- What are the (additional) sales channels to be used for?
- How can the sales channels be coordinated?

The answer to the first question is provided by the results of the analysis phase and the defined objectives. We will discuss the concrete selection of sales partners in our discussion about indirect sales.

The second question requires a decision as to which channels should assume which functions for which market segments. The result of this decision can be presented in what is known as a "coverage matrix". One dimension of this matrix describes the different market segments, the other the different sales channels. Table 4.2 shows one coverage matrix using the example of a manufacturer of photocopiers. Such considerations may require differentiation by product.

The third question requires defining *how to monitor, control and coordinate the different channels* in order to ensure a smooth sales process and avoid conflicts

(Q 14). One of the main causes of conflict is that the sales channels in the multi-channel system are often competing with one another (see Schögel and Tomczak 1995). Manufacturers of automotive spare parts may, for example, be up against a major new buying group: large, centrally managed specialist store and quick-repair chains that are gaining an increasing share of the market. If a manufacturer now deals with these chains directly, he will strengthen the competitors of his until now most important sales intermediaries – wholesalers, specialist retailers and independent garages. This will inevitably lead to corresponding conflicts with the traditional sales intermediaries. The example illustrates how important professional *conflict management* is in multi-channel systems. The main criteria for this include

- Clear distribution of tasks and functions between the individual sales channels (see the coverage matrix in Table 4.2),
- Open communication of the objectives, tasks and functions of the individual sales channels,
- Taking the interests of the sales channels into account when making decisions,
- Sales channel-specific pricing (e.g. different price levels/discount and bonus types for the sales channels), and
- Sales channel-specific brand management (i.e. using different brands for different sales channels).

An essential prerequisite for managing multi-channel systems is that the supplier company has the relevant information from different sales channels. This is particularly important if a customer comes into contact with several sales channels. For example, a field sales representative needs to be informed about call center contacts made by customers he is in charge of. *Customer relationship management* software can provide the information technology prerequisites (see Chap. 16).

The fourth step involves regular *monitoring and controlling* of the multi-channel system. The following aspects are here at the forefront:

- Are the sales channels adhering to the strategy?
- Are the sales channels fulfilling the sales expectations?
- Are the sales channels meeting the quality standards when performing their function(s)?
- Are the incentive and coordination mechanisms having an effect?
- What costs and revenues are being generated in the individual sales channels?

In our opinion, the last question has been neglected by many suppliers who have set up additional sales channels in recent years. In more than just a few cases, the efficiency of the multi-channel system could be increased by further expansion of newer channels, provided this expansion was systematically driven forward. Since, however, the information needed to compare the efficiency between different channels is not always collected, a systematic improvement in efficiency is not made in many companies.

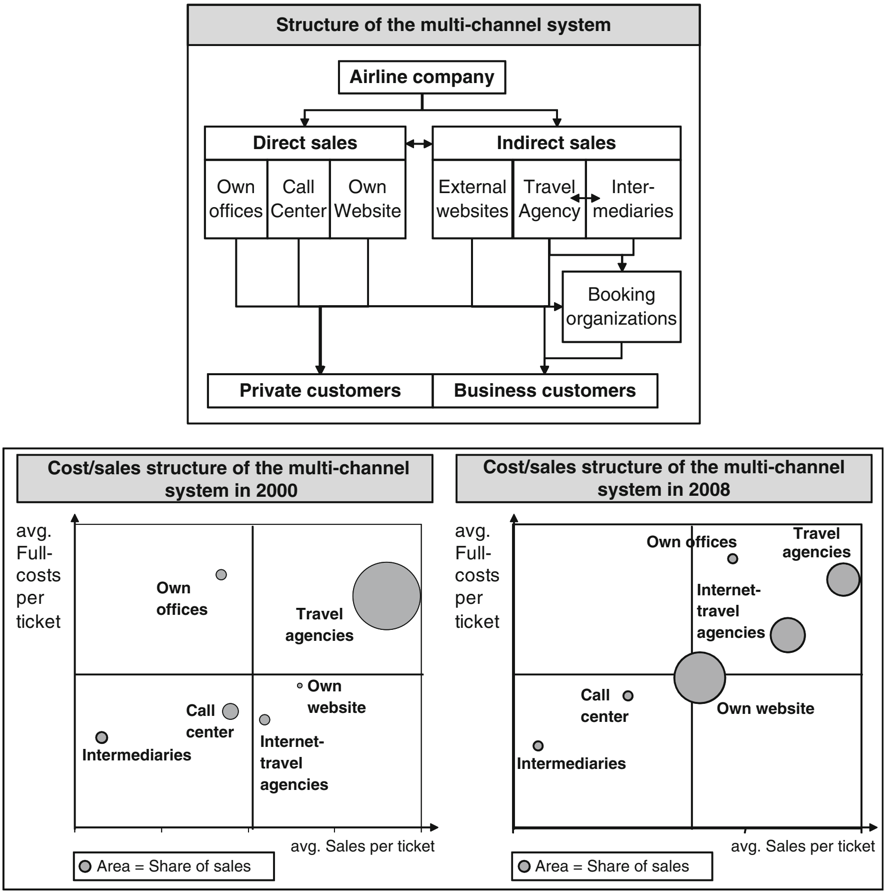

Fig. 4.5 Cost/revenue structure of an airline company's multi-channel system

Figure 4.5 illustrates this using the example of an American airline company whose multi-channel system comprises its own sales offices in major cities and airports, a call center, its own website as well as external websites (online travel agencies), independent travel agencies and various intermediaries (tour operators, consolidators). As part of a project for designing a multi-channel controlling system, channel-specific sales and costs were first recorded and then apportioned to the sales volume of the particular channels.

For historical reasons, independent travel agencies still claimed the largest share of sales (indicated by the size of the circle in Fig. 4.5) and caused high costs (especially for commissions). Channels that were added in recent years (call centers, websites) had a relatively insignificant impact on sales, but were more attractive from the airline company's point of view due to their lower costs. Moreover, it transpired that the costs of sales via the airline's own offices were relatively high because of their limited utilization. The consequence was that an

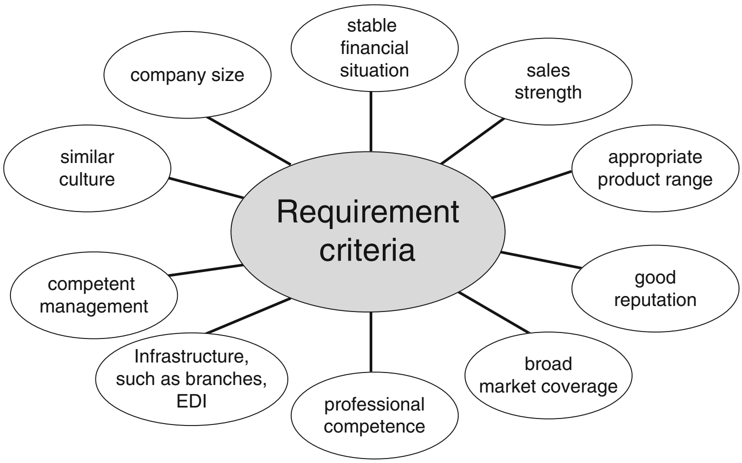

Fig. 4.6 Possible criteria for selecting sales partners

action plan was drawn up, both to tap into the potential for reducing costs and to significantly strengthen the role of direct and online sales (e.g. through special rates and bonus miles for Internet bookings).

These measures as well as the customers' changing internet behavior enabled the airline to switch a significant share of sales to more cost-efficient sales channels. Especially the airline's own website that has become the channel with the highest sales in the meantime, led to a significant reduction of the sales costs. Sales over call centers did not gain acceptance in the market. Despite the high costs per ticket, the airline decided to maintain selected own offices for image reasons.

So far, we have discussed the general advantages and disadvantages of direct and indirect sales as well as the opportunities and problems created by multi-channel systems. In the following, we will examine the design of indirect sales more closely. Four key questions need to be answered here:

- What are the criteria for selecting sales partners (Q 15)?
- How are functions divided between manufacturer and sales partner (Q 16)?
- To what extent is a partnership approach followed (Q 17)?
- How intensively are push or pull activities undertaken (Q 18)?

The importance of *selecting sales partners* is comparable to that of selecting new employees (Q 15). Both groups make an essential contribution to company success. Furthermore, the market presence of the sales partners has a decisive influence on the way in which customers perceive a manufacturer, which makes it all the more surprising that many companies do not have a clear job specification for the sales partners. Figure 4.6 contains possible criteria for developing a job specification.

The "similar business philosophy/culture" criterion comprises the notion that suppliers and sales intermediaries should share similar views about matters such as customer orientation, innovation orientation, personnel management and so on.

- Our sales partners must be able to store adequate quantities of our products and meet their financial obligations to us and all other business partners.
- Our sales partners must have a well-integrated sales organization in order to sell our products in the regions we require.
- Our sales partners must have sufficient storage capacity.
- Our sales partners must be willing to participate actively in our sales activities, continuously motivate their representatives and sell our products aggressively.
- Our sales partners must be aware of their responsibility to us, but also to our end customers.
- Our sales partners must have a track record of stability in their product range and a good reputation in their market.
- Our sales partners must be willing to actively invest in sales support.

Fig. 4.7 Job specification for sales partners using the example of a manufacturer of office communication systems

In an empirical study in the mechanical engineering sector, Homburg et al. (2003) found that the more similarities manufacturers and retailers have with respect to such criteria, the better they collaborate. In addition, they showed that similarity had an indirect influence on the effectiveness of the business relationship.

Figure 4.7 shows an example of a sales intermediary job specification for a manufacturer of office communication systems.

Closely connected to the selection of sales partners is the question of whether a supplier wants to distribute exclusively, intensively or selectively. In the case of *exclusive distribution,* the supplier grants selected sales partners (usually for a particular region) an exclusive distribution right. In return, the sales partners are obliged not to distribute any competitor products. The advantages of this distribution form are obvious: exclusive marketing efforts, high motivation and qualification on the part of the sales partners, and the supplier has firm control of the market development (e.g. pricing, sales promotion, service). However, the supplier's market coverage and its own room for maneuver, for example, in establishing new sales channels (direct sales via e-commerce) are more restricted with this distribution form than with alternative forms. Problems also arise if sales partners encroach upon the sales areas of other exclusive partners as a result of geographical expansion efforts.

The opposite of exclusive distribution is *intensive distribution*. With this form, only minimal requirements are placed on sales partners. The supplier wants to guarantee the comprehensive presence of his products in the market ("ubiquity") and to provide customers with as much "convenience" as possible when buying. The advantage of ubiquity is, however, offset by the disadvantage of very limited control over the way in which the supplier's products are marketed. The fit between strategy and image of supplier and sales partner can also only be ensured to a limited extent. Moreover, this distribution form carries high conflict potential, since

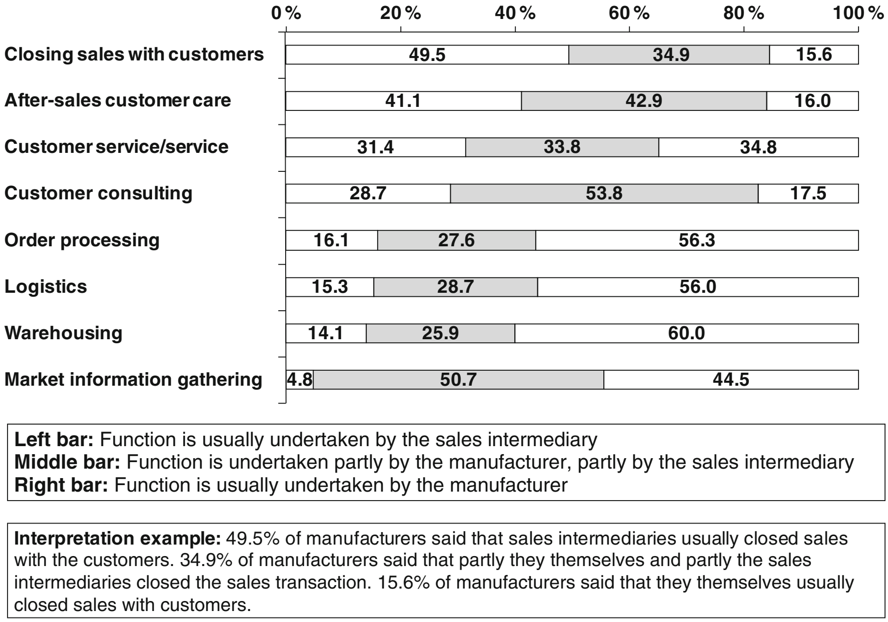

Fig. 4.8 Distribution of functions between sales intermediaries and manufacturers in the mechanical engineering sector (see Homburg and Schneider 2000a)

the various sales partners may be direct competitors. In many cases, this can entail commensurately high coordination costs for the supplier.

Selective distribution takes a kind of middle position between the two previously mentioned alternatives. In this case, sales partners need to meet a clearly defined job specification. Close business relationships are established with selected sales partners, which enables the supplier to have relatively good control over marketing along with appropriate market coverage.

The second basic decision-making area when designing an indirect sales channel concerns the *division of functions between supplier and sales partner* (Q 16). This defines the extent to which supplier and sales partner undertake individual functions along the value-added chain. Figure 4.8 lists the relevant functions.

One of the reasons why a clearly defined division of functions is of major importance is because it has a significant impact on the appropriate retail margin. Ideally, the margin of the sales partners should be based on the functions they undertake. There is a simple logic behind this: Functions that the sales partners can perform more economically than the supplier should be transferred to the sales partners. The cost savings that the supplier makes should then be included in determining the margin of the sales partner.

Conversations that we have had with companies in numerous sectors have confirmed repeatedly that the systematic distribution of functions is largely neglected in practice. In many cases, the retailers' margin bears no relation to the

Manufacturer interests	⇔	Retailer interests
Retail lists all new products	⇔	Preferential listing of "fast-selling products"
Dominance of the manufacturer brand image	⇔	Dominance of the retail brand image
Distribution of the entire product range	⇔	Target group-oriented product range design
Continuity of sales volumes	⇔	Flexibility of order quantities
Production-optimal level of order quantities	⇔	Shelf-filling level of order quantities
Minimum order quantities	⇔	Flexible reordering option
Price problems at the expense of the retail margin	⇔	Price problems at the expense of the purchase prices
Avoidance of returned goods	⇔	Right of return for stock goods
Retail assumes sales risks	⇔	Manufacturer assumes sales risks
Preferential shelf placement of its own products	⇔	Product placement based on product range
Co-design of market presence at the PoS	⇔	Independent design of market presence at the PoS
Especially in industrial goods markets		
High retail service competence	⇔	Manufacturer is responsible for service
Respect for sales territory boundaries	⇔	Non-existence of sales territory boundaries
Joint strategic market planning	⇔	Planning autonomy

Fig. 4.9 Typical clashes of interest between manufacturer and retailer (According to Winkelmann 2008a, p. 316)

functions that they undertake for the supplier. Figure 4.8 illustrates this problem area: In a study in the mechanical engineering sector, we determined the distribution of functions between manufacturer and sales partner. The picture is clear: After the deal has been made, many tasks fall upon the manufacturers. For example, 60 % of those questioned said that warehousing was usually undertaken by the manufacturer.

The subject of distribution of functions has at the moment a particular relevancy in the consumer goods industry. Sales managers from this sector are observing with concern that retailers are increasingly attempting to assume the manufacturers' logistics function. The fact that retailers are setting up more and more central warehouses is merely an indication of this.

As a result, manufacturers fear that the retail industry will make even more grievous demands with respect to terms and conditions than was previously the case. Yet even if transferring certain logistics activities may be economically efficient, the mistrust of the participants often stands in the way of finding a fair solution to this distribution conflict.

Finally, the sales strategy must define the basis of the cooperation between manufacturer and sales partner. The core issue is the extent to which *the manufacturer cooperates with his sales partners and strives for a partnership relation* (Q 17). A cursory glance at actual practice reveals that business relationships are in many cases still dominated by conflicts resulting from differences of interest (see Homburg and Schneider 2000a). Figure 4.9 shows selected divergent manufacturer and retailer interests that are frequently the cause of conflicts.

Frequently occurring areas of conflict therefore include

- The retailer's margin,
- The supplier's parallel direct sales,
- The retailer's price policy,
- The retailer's sales support for the supplier's products as compared to the support for products of competitors,
- The supplier's support for the retailer's service activities, and
- The retailer's dissemination of market information.

Although conflicts in a business relationship can never be completely avoided, they should be minimized as far as possible (see Ahlert 1996; Specht and Fritz 2005). A promising strategy is the partnership model, which focuses on cooperation between suppliers and sales partners. Cooperation refers to reciprocal support for and coordination of activities in a business relationship in order to achieve common objectives. The following areas of cooperation between suppliers and sales partners are, for example, conceivable:

- *Products:* Sales partners are included in the product development process and can bring in their experience and their knowledge about market developments and customer requirements. From the supplier's perspective, the aim is to gain the sales partner's commitment to the new products right at the beginning.
- *Product range:* Sales partners are involved in decisions about the composition of the product range. They can put forth their own requirements, while also acting as an advising capacity with regard to customer requirements.
- *Process optimization:* Supplier and sales partners attempt to design processes, e.g. those related to order processing or distribution logistics, more efficiently by utilizing improved interface management or enterprise resource planning (ERP) systems.
- *Design of vertical marketing:* Supplier and sales partners jointly coordinate market-oriented company activities across all sales levels. Examples of this type of cooperation can be found in the consumer goods sector. In the scope of category management, retailers and suppliers synchronize their market development activities with one another (e.g. in sales promotion).

In principle, two dimensions can be used to describe the forms of cooperation: the communication between supplier and sales partner, and the sales partner's integration into (participation in) the supplier's decision-making process. Depending on how well-defined the two dimensions are, four basic cooperation strategies can be distinguished (see Fig. 4.10).

The *transaction relationship* is characterized by the sales partners being involved only minimally in decisions and communication rarely going beyond the level of what is absolutely necessary. The relationship primarily involves the exchange of a service and a service in return. Transaction relationships frequently exist with less important sales partners, who, apart from selling the supplier's

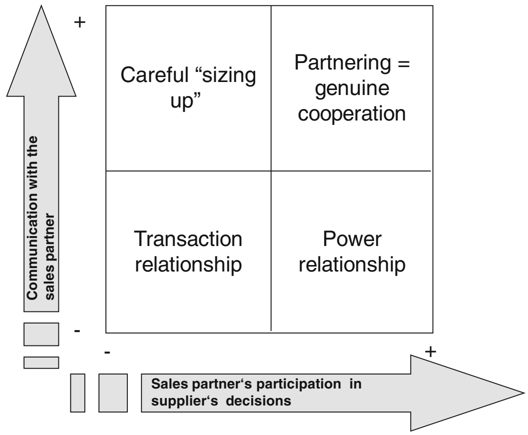

Fig. 4.10 The cooperation matrix

products, offer the company very little additional benefit (such as market or customer know-how).

In a *power relationship,* the sales partners participate in the supplier's decisions, but there is precious little communication. Typically, there are one-sided power relationships then exist. An extremely powerful retailer can actively intervene in the supplier's decision-making processes.

Careful "sizing up" is a preliminary stage on the way to genuine cooperation. Although there is an intensive exchange of information, the supplier does not let the sales partner participate in its company's own decisions.

Genuine cooperation or *partnering* is characterized by high communicative intensity and the sales partners' intensive participation in decisions. The partners attempt to maximize the benefit of the sales relationship for both sides. Joint strategic decisions are also made. In extreme cases, both sides, for example, disclose their cost structures in order to jointly decide on prices and terms and conditions. It goes without saying that there needs to be a significant amount of mutual trust here. Manufacturers derive considerable benefit from this type of cooperation. For example, their sales partners' commitment to the business relationship increases demonstrably, thus reducing the risk of opportunism (see Schneider 2001; Homburg et al. 2003). Launching new products is also much more successful under these general conditions.

Intensive cooperation with sales partners can bring considerable benefit to the supplier, but does not result in "marriage-like" conditions. Suppliers must beware of becoming too dependent on their sales partners. It is therefore a risky procedure to focus market development activities too strongly on the next immediate level in the sales channel. Supplier activities geared to the next sales level are called *push activities*. Examples include terms and conditions systems for retailers that set strong incentives for sales success and retail-based sales promotion measures. In contrast, *pull activities* begin at downstream sales levels. The aim of a pull strategy is, for example, to stimulate demand with the end customers, who will then request the supplier's products from the retailers. This gives rise to a demand pull, which "pulls the products through the sales channel". Many companies start advertising campaigns for a new product even though it is not yet on the market. Ideally, the demand will force the retailers to include the product in their product range.

A fundamental question in the context of the sales strategy relates to *the extent to which a supplier undertakes push or pull activities* (Q 18). Intensive use of a pull strategy – e.g. by establishing strong brands – appears to be particularly appropriate if a manufacturer is confronted by powerful sales intermediaries, who, without the pull effect, would exercise great pressure in respect of terms and conditions. Pure push or pull strategies are very rare in practice. The challenge lies in finding the right balance for simultaneously using both of these market development forms.

5 Price Policy: The Price Is Right...

Sales strategy and price policy are closely related. If, for example, a low price strategy is to be used to penetrate the market, sales partners that support this strategy need to be found. Pricing also affects the product or company image, which is very important to sales activities. An excellent sales strategy must provide answers to the following questions with regard to price policy:

Q 19: What price positioning is the company striving for?
Q 20: In the case of indirect sales, to what extent does a company influence the price positioning of the sales intermediaries towards their customers?
Q 21: How much weight does a supplier give to costs, competitor prices or customer benefit when determining pricing ?
Q 22: To what extent is price discrimination carried out?
Q 23: What are the criteria for price discrimination?
Q 24: Are services priced separately?
Q 25: What are the criteria for granting discounts and bonuses?
Q 26: To what extent are time-limited price promotions carried out?
Q 27: How complex does a company design its pricing system?
Q 28: To what extent does the company take part in bid invitations listed by customers on the Internet (reversed auctions)?
Q 29: To what extent does the company strive for international price harmonization?

The chapter concludes with an excursus on the success factors of companies that are "pricing professionals", which manage to increase prices and sales simultaneously, even in a tough market environment.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_5, © Springer-Verlag Berlin Heidelberg 2012

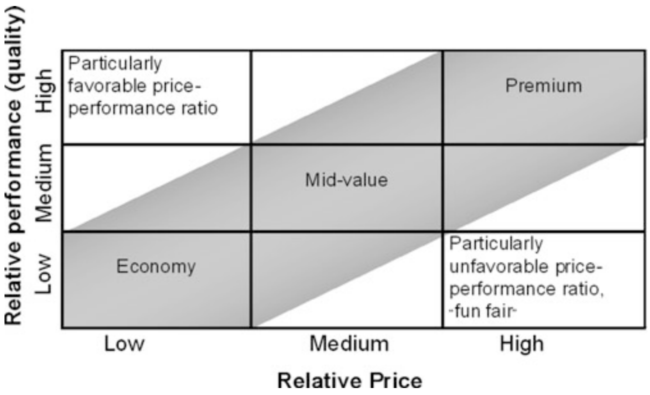

Fig. 5.1 Alternative strategies in price positioning (see Simon and Fassnacht 2008)

5.1 Price Positioning: The Fundamental Line of Attack

Within the scope of price positioning, a supplier must define the price-performance ratio (Q 19). The shaded area in Fig. 5.1 indicates consistent positioning, with relative price and relative performance (relative to the competition, in each case) being approximately equivalent to one another. Price positionings that are in this band are frequently encountered in practice (see Simon and Fassnacht 2008). The most frequent are

- The premium strategy,
- The mid-value strategy, and
- The economy strategy,

In certain situations (e.g. when a company enters the market or expands its existing market share), however, companies frequently choose positioning that combines a low relative price with a medium or high relative performance. For example, Japanese automotive manufacturers offered a particularly favorable price-performance ratio when entering the German market. Companies also frequently market different brands with different price positioning.

The decision about price positioning also largely determines the choice of a sales partner: A manufacturer with a premium strategy will hardly want to sell via a discount store.

Following this decision, the sales strategy raises the question of *the extent to which a manufacturer wants to influence the price positioning and thus ultimately the pricing of its retailers towards their customers* (Q 20). Asserting a particular image can, for example, speak for intensive exertion of influence.

However, statutory regulations often make it difficult to exert such influence. What the manufacturer can do, however, is distribute price lists to end customers in an effort to communicate a certain price positioning. A leading manufacturer of garden accessories follows a different approach: He describes the reasons for his own pricing to his retailers and explains what advantages both sides derive from a particular price policy in relation to the end customer (e.g. the cost recovery of services or warehousing).

5.2 Costs, Competition, Customer Benefit: The Bases of Pricing

The step that follows the decision about the basic price positioning asks *what the bases of pricing are and how strongly pricing is based on them* (Q 21). There are three basic methods in this connection:

- Cost-based pricing,
- Competitive-based pricing, and
- Value-based pricing.

In *cost-based pricing,* the production of goods and services forms the basis of pricing. The price is set so that a commensurate profit is achieved if all the costs are carefully apportioned. The advantage of this method is, firstly, that it is easy to apply. Secondly, in many companies, the required cost information is available with the appropriate degree of accuracy. However, this method contains a basic error in reasoning: To be able to determine the full costs of a product, you need to know the sales volume for that product (due to calculation of the pro rata fixed costs). This depends in turn, however, on the price. To derive the price from the costs is, basically, to engage in circular reasoning. Another pivotal weakness in this approach is that market aspects are not taken into account. The supplier's costs basically do not interest the market. This neglect of market aspects can result in a failure to exploit the customer's existing willingness to pay, which may be significantly above the price derived from the cost price.

Competitor price levels are the main orientation point in *competitive-based pricing*. In extreme cases, companies go so far as to regard price as established by the competition. While pricing needs, of course, to be based on competitor prices to some extent, there are clear risks involved in relying too heavily on the prices of competitors: First, companies run the risk of slipping automatically into price wars. Secondly, such an approach promotes thought mechanisms within the company that push service differentiation from competitors into the background. Statements like "Our products are commodities and are sold essentially through the price" are indicative of this type of misguided development.

In *value-based pricing,* the value or the benefit of the service for the customer determines the price, i.e. pricing is primarily based on the customer's willingness to pay. Value-based pricing can lead to higher prices than cost-based pricing. For example, for a service package offered to a particular customer, a supplier of facility management services determined a cost price of 280,000 euros per annum. If cost-based pricing were used, a price in the range of, say, 300,000 euros would be offered. Further analyses, however, enabled the service provider to discover that the potential customer had previously been performing the relevant services in-house, which involved costs of approximately 500,000 euros due to poor

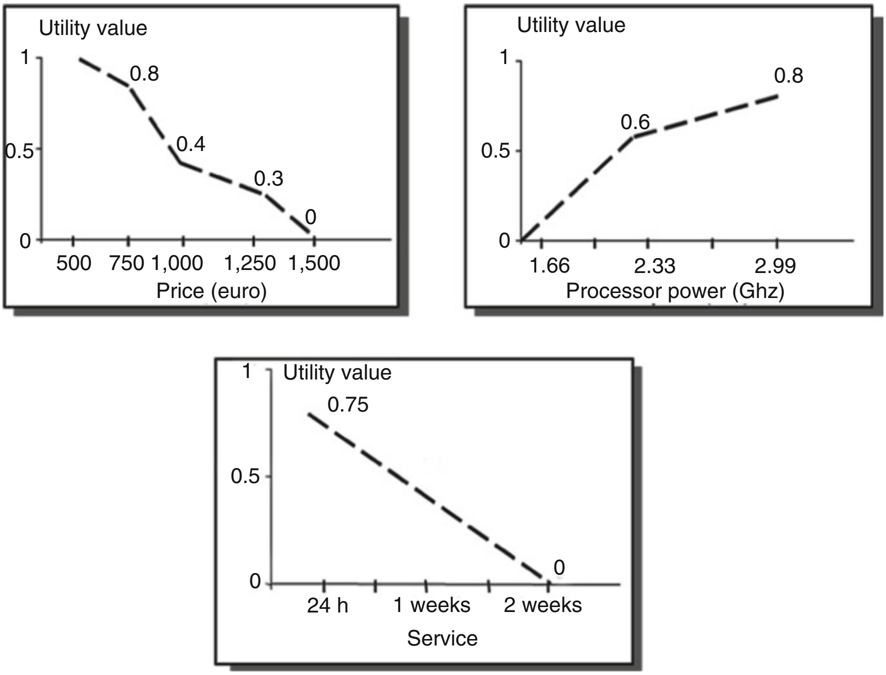

Fig. 5.2 Utility value charts using the example of a laptop

efficiency. Against this background, value-based pricing can obtain a much higher price than 300,000 euros.

In the example above, it was easy for the supplier to determine the monetary value of the service. However, this is frequently not the case in retail transactions. Moreover, it is often not the value of the entire service, but rather individual service characteristics that are at issue. A method that can be useful here is *conjoint analysis*.

This is a method for breaking down the benefit that a customer associates with a service into individual service characteristics. A service is therefore described by means of a limited number of relevant attributes and corresponding characteristic values. Conjoint analysis uses customer surveys and a multivariate statistical method to supply the part-worth utilities for all characteristic values (for details, see Homburg et al. 2009).

Figure 5.2 shows the result of such a conjoint analysis using the example of a laptop. One of the questions that potential purchasers were asked was how they assess different combinations of price, computer processor power and repair time. Conjoint analysis was then used to derive so-called utility value charts from the assessments. Such charts express the part-worths (utility value) that customers attach to the individual values of the characteristics.

It is possible to see from the utility value charts that, for example, customers associate a price increase from 750 euros to 1,000 euros with a considerable reduction in benefit. From a customer perspective, the price of 750 euros thus seems to represent a "price threshold", i.e. a price of more than 750 euros leads to a significant decrease in the market acceptance of the laptop.

Additional information can be obtained with regard to the customer's willingness to pay for certain design aspects. For example, customers assessed an increase in processor power from 2.33 to 2.99 GHz as a benefit gain of 0.2 (= 0.8 − 0.6). However, such a technical improvement in the appliance would result in a price increase from 750 euros to 1,000 euros. The benefit gain of 0.2 due to the increased processor power is therefore offset by a reduction in benefit, due to the price increase, of 0.4 (= 0.8 − 0.4). It can be surmised that customers will not be willing to pay accordingly for such a technical improvement to the laptop.

It is not possible to make a universal recommendation concerning which of the approaches should be used for pricing. Ultimately, none of the approaches can be applied in an unadulterated form. The price will always stem from a mixture of the results of the three approaches: cost-based pricing, competitive-based pricing and value-based pricing. However, we have frequently observed that value-based pricing, in particular, is given insufficient weighting. Many companies still do not know the real value of their services to the customer. As a result, existing willingness to pay is not exploited, and large sums of money are wasted.

5.3 Price Discrimination: Each to His Own?

The *decision about the extent of price discrimination* (Q 22) is possibly the area of pricing that companies have the most difficulties with (see Homburg et al. 2004). Price discrimination refers to (virtually) identical services being marketed to different customers at different prices. To a certain extent, every company uses price discrimination more or less consciously. Price discrimination is based on the fact that different customers (and customer groups) usually vary in their willingness to pay for a service. The greater the discrimination is, the better these differences in willingness to pay can be leveraged. It is now well known that intelligent price discrimination can bring about a sustained increase in the profitability of companies. However, this economic advantage of price discrimination is also offset by considerable risks: First of all, there is the risk of the demand shifting from high-price to low-price segments. What is decisive in this context is how well the segments can be delineated from one another. Secondly, communication between customers of different price segments may cause considerable customer annoyance. A third problem, which should not be underestimated, is the complexity involved in a differentiated price system.

Every company must weigh up these advantages and disadvantages for itself. In any case, the question of the extent of price discrimination is strategic in nature and must not remain unanswered in a sales strategy that is worthy of this name (see also Homburg et al. 2004). That there is a broad spectrum of possible answers to this question is demonstrated by the fact that, sometimes, the entire range between the two extreme points occurs within one and the same sector. For example, there are hotels that use price discrimination to a high degree and those that guarantee their customers standard prices.

In addition to the basic decision about the extent of price discrimination, *the criteria to be used for making the discrimination* need to be defined (Q 23). Essentially, companies can choose between the following options:

- *Discrimination according to customer characteristics* (e.g. age, profession, customer loyalty, customer status, economic significance of the customer),
- *Discrimination according to region* (e.g. price differences between countries),
- *Discrimination according to product and service attributes* (e.g. quality, service, composition and design),
- *Discrimination according to sales channel* (e.g. price discounts for purchases over the Internet),
- *Discrimination according to time* (e.g. peak load pricing), and
- *Discrimination according to purchase quantity* (e.g. quantity discounts).

A special type of price discrimination is *price bundling*, which can be applied in the case of multiple products. Every company that provides different, possibly complementary services must decide whether to offer them each at separate prices or to bundle them at a special bundle price. Usually, but not necessarily, the bundle price is lower than the sum of the individual prices. If only the bundle alone is offered, this is referred to as pure price bundling. If, however, it is also possible to buy the individual products separately, we speak of mixed price bundling (see Simon and Fassnacht 2008). The aim of price bundling is to exhaust the willingness of different customers to pay for different products (Herrmann et al. 1999). An example should clarify this (see Fig. 5.3).

A supplier sells two products (A and B) at a price of 20 and 30 euros, respectively, for which the two customers (1 and 2) each have a different willingness to pay. Because of these differences, only customer 2 purchases product A, and customer 2 product B. Therefore, the initial situation (sale of individual products) results in an achieved sale of 50 euros. If the supplier were to use price bundling to sell a package containing product A and B at a bundled price of, e.g., 45 euros, he would be able to increase his sale to 90 euros through better exhaustion of the cumulated willingness to pay for the two products.

Price bundling is practiced in many sectors. Examples include the hardware and software sector and the mobile phone sector. In particular, companies that want to make their mark as system suppliers face the question concerning to what extent price bundling should be used to market different system components.

Furthermore, our observations reveal that more and more suppliers are using price bundling to counter the increasing price pressure from buyers. The distinguishing feature of intelligent pricing here can be that the customer is presented with attractive bundled offers instead of simple discounts for individual products. This may be an expedient approach if a supplier is forced into price concessions by the buying power of individual customers, but does not want open price concessions to dilute the price perception of certain products.

Production companies that are increasingly enriching their offering with *services* are also faced with the question regarding the extent to which price

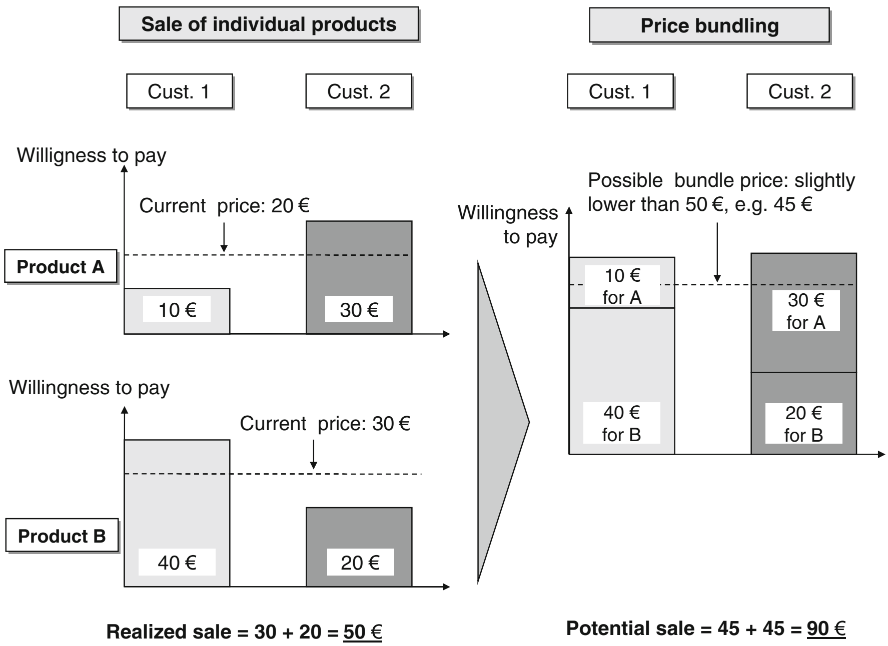

Fig. 5.3 Example to illustrate price bundling

bundling should be used. Such services can be product-centric (e.g. technical maintenance) or person-centric (e.g. training). The sales strategy must therefore define *how to price* (Q 24) these services. There are two basic options here:

- *Separate pricing:* Services are regarded as independent products and priced separately.
- *Price bundling:* Services are offered as bundles together with products.

What is surprising is the current low level of professionalism in many companies with regard to pricing for additional services. For example, a study in the chemical industry showed that very few suppliers use advanced methods such as conjoint analysis when pricing services (see Fig. 5.4). Most companies still regularly use mere competitor comparisons to set prices for their services.

Our observations also showed that, particularly in the industrial goods sector, services are frequently offered free of charge. The motto: "We sell machines, not services" often prevails. The profit potential of cross-selling services is frequently underestimated (see Homburg and Schäfer 2002; Schäfer 2002). It is not unusual for companies to lack the necessary creativity to position services to the customers as a significant added value. And even if customers are not charged for such services, stating their usual price on the invoice will at least provide an impressive illustration of the value of these "presents".

Deciding to price services is but *one* measure for releasing "service to the customer" from its shadowy existence. We will examine the topic of "value-added services" in more detail in Chap. 19.

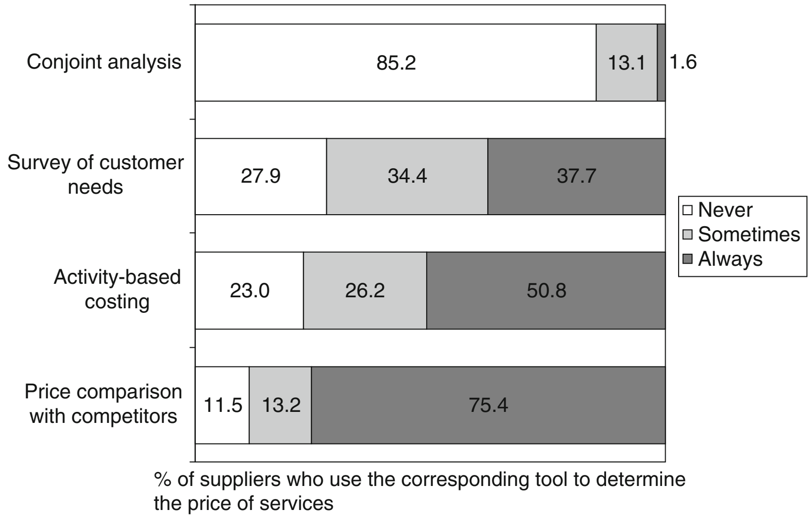

Fig. 5.4 Use of pricing methods for services in the chemical industry (see Homburg and Partner)

5.4 Discount and Terms and Conditions Policy: The Curse of the Price Waterfall

Closely connected to price discrimination is the issue of granting discounts and bonuses. Our observations in this context reveal that, in many companies, price discipline can only be described as poor. Several reasons can be stated for this:

- Often, the issue of *price/discount sovereignty* is not sufficiently defined. Many functional units make – frequently uncoordinated – decisions that have an impact on the achieved net price (e.g. Sales by granting discounts, Customer Service by accepting complaints, Logistics by defining delivery freights, or Accounting by setting payment terms). In particular, local sales units (field sales force, regional sales companies, etc.) often work quite autonomously with regard to pricing. It is, however, very rare that there is a central body that has the final decision-making power or a right of veto in respect to price/discount decisions made by other divisions.
- Furthermore, very few companies define *processes and measurement procedures* for continuously monitoring the company's net price realization as well as price-relevant market developments. Rather, price and discount decisions are too often based on inadequate information – the gut instinct that "we are much more expensive than our competitors" prevails.
- Finally, the *incentive systems* used often undermine price discipline. Salespersons whose performance is measured purely on the basis of achieved sales are all too easily tempted to use high discounts to fulfill their targets.

As a result, discounts and bonuses are frequently granted on an arbitrary basis and without a strategic orientation: "Our sales staff regards prices as just an irksome

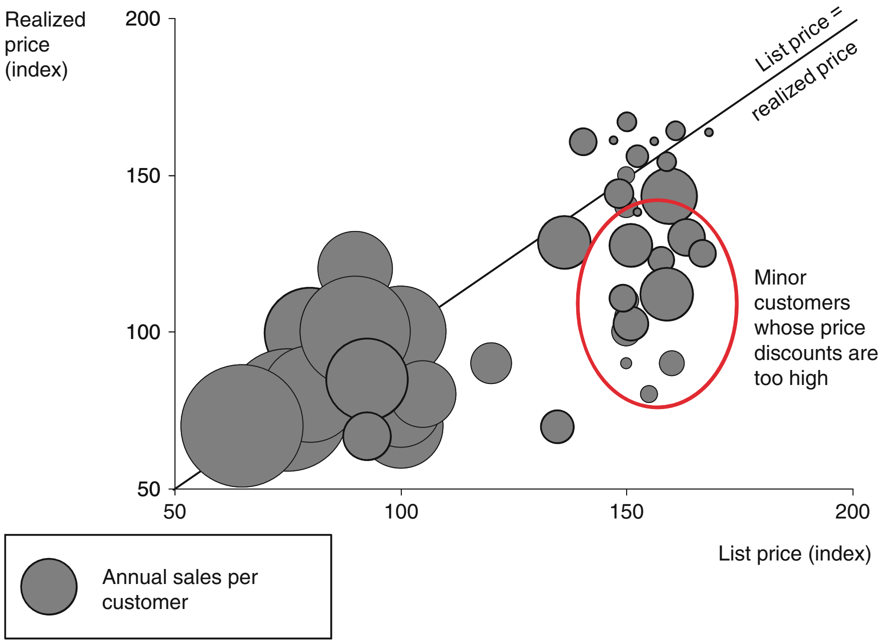

Fig. 5.5 Comparison of given prices and list prices using the example of an industrial goods manufacturer

constraint, while discounts are a panacea." Many sales managers can be heard to uttering this, or similar complaints.

However, the consequences of granting discounts and bonuses unsystematically can be devastating in the long term. A lack of price transparency and price discipline sometimes results in there being only a limited correlation between the level of discounts and the attractiveness of the customers: Minor, less attractive customers may be over-provided for, while price discounts granted to key customers are too small. In the case of one industrial goods manufacturer, for example, we observed that the prices given to many minor customers deviated more widely from the list prices than the prices for attractive key customers (see Fig. 5.5).

Since, in our experience, not all price discounts are necessary, unmanageable and over time evolved discount and bonus structures containing unclear criteria for assigning terms and conditions cost the supplier a good deal of money. Grandfathering customers frequently plays a role here.

Such problems culminate in the phenomenon of the *price waterfall*. The example of a manufacturer of technical consumer goods shown in Fig. 5.6 has a certain over-complexity, especially since the criteria for granting the individual discounts and bonuses were not clearly defined. For example, there was no definition of when a customer is "loyal enough" to receive a loyalty bonus. However, this example is by no means extreme. Some time ago, we came across a company that granted no fewer than 117 different discounts and bonuses.

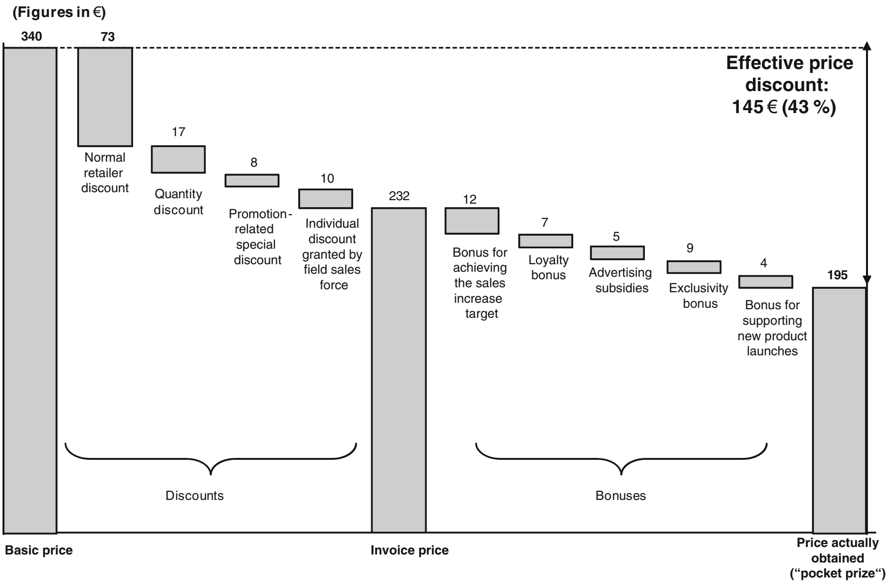

Fig. 5.6 Price waterfall using the example of a manufacturer of technical consumer goods (see Homburg and Daum 1997, p. 186)

The sales strategy must define *criteria for granting discounts and bonuses*, thereby providing the basis for an effective terms and conditions system (Q 25). This process needs to take into account various principles, as it is the case with any form of price discrimination (see Steffenhagen 1995). These principles include the following (see Homburg and Daum 1997):

- *Customer segmentation/prioritization:* Certain criteria must be used to determine selective customer groups that are granted different discounts and bonuses (see Chap. 2).
- *Service orientation:* Each discount and bonus must be linked to a corresponding service in return. For example, a warehousing discount should only be granted if the retailer also performs the warehousing task to the agreed extent. This, of course, requires that the desired service in return is defined and that it is regularly measured and reviewed.
- *Restriction of complexity:* The number of discounts and bonuses must be limited. It is scarcely possible to manage more than ten different discount and bonus types.
- *Transparency:* Information about the terms and conditions system must be accessible to both the customer and the company's own employees. Customers should have their respective degree of goal attainment/bonus level communicated to them during the year. Lack of knowledge often leads customers to be distrustful, and company employees to apply the system inconsistently.
- *Application consequence:* Naturally, the system can only "live" if it is applied consistently. This becomes problematic if a customer no longer performs a

Table 5.1 Terms and conditions system using the example of a manufacturer of doors and window frames

Criterion	Top retailers	Focus retailers	Other retailers
Average sales over the past 3 years	Over 2.5m euros	1m to 2.5m euros	Less than 1m euros
Warehousing	All product lines	Standard and superior product lines	Standard product line
Discount/bonus type	**Top retailers**	**Specialist retailers**	**Other retailers**
Basic retailer discount	25–30%	20–25%	15–20%
Quantity discount	Above100,000 euros: 3%		–
	Above 250,000 euros: 5%		
Logistics discount	For purchasing a full truck load 4%		
Early bird discount	For advance order (at least 72 h before delivery) 2%		
Discount authority for the field sales force	5–7%	3%	1%
Exclusivity bonus	3%	2%	–
Advertising subsidy	Up to 60% of the costs	Up to 30% of the costs	Up to 10% of the costs
Bonus for a sales increase (based on an increase compared to the previous year)	For a min.	20%	Increase compared to PY 7%
	For a min.	10%	Increase compared to PY 6%
	For a min.	5%	Increase compared to PY 5%

particular service for which he has received a discount for a long time. The discount needs to be canceled in this case.

- *Discretionary latitude:* In day-to-day business, it is often necessary to go beyond the standard terms and conditions defined in the system. If the system does not provide an appropriate leeway for such situations, it will be regularly breached and no longer taken seriously. The terms and conditions system must therefore allow for a certain discretionary latitude.

After reading these principles, many a reader will argue that they cannot be implemented in practice, e.g. due to retailer power. Of course, we can also see the problem with implementation. However, this cannot be an argument for rejecting all systematicity in the terms and conditions system. In our experience, a company can improve its own position in the long term, even in relation to influential retailers, if a systematic terms and conditions system is used.

Table 5.1 presents an efficient terms and conditions system using the example of a manufacturer of doors and window frames: The manufacturer sells 90% of his products via specialist stores. The “average sales in the past 3 years” and “warehousing” criteria were used to segment the retailers. To reach the top retailer segment, all criteria need to be fulfilled. Subsequently, the discount types and values were defined.

5.5 Price Promotions: Caution, Trap Ahead!

When determining the sales strategy, a decision about *implementing time-limited price promotions (special prices)* must also be made (Q 26). Particularly – but not only – in the consumer goods sector, manufacturers offer their distributors promotional discounts for a certain period of time. The retail trade also repeatedly uses price promotions with selected products. Well-known examples of price promotions are the summer and winter clearance sales.

There are various reasons for price promotions, the main ones being:

- *New customer acquisition,*
- *New product launch,*
- *Stock clearance* and
- *To offset seasonal fluctuations.*

When the sales strategy is formulated, the advantages and disadvantages of price promotions need to be weighed up carefully. Obviously, the *advantage* of price promotions is that they directly increase sales. Our experience shows that the attractiveness of this short-term advantage frequently obstructs a view of the long-term *disadvantages*:

- *Panic buying:* Customers stock up on the product in question during the price promotion. When the normal prices apply again, sales fall below the level prior to the price promotion, since customers use their own stock. These sales fluctuations can, for example, have a considerable cost impact in logistics.
- *Cannibalization effects:* If suppliers have several substitutable products, price promotions can give rise to cannibalization effects. The customer no longer buys the usual product at the normal price, but a substitute at the special offer price instead.
- *High planning and implementation costs:* The planning and implementation of the price promotion often ties up considerable resources (e.g. employee capacities and financial resources for sales promotion materials).
- *Negative effects on the customer’s reference prices:* The lower prices can also cause the customer’s reference prices to change. The customer gets used to the lower prices and reacts with a lack of understanding when the regular prices are reinstated after the price promotion.

It is our experience that, if they are weighed up carefully, the disadvantages of price promotions frequently outweigh the advantages. Since, however, they are difficult to quantify, they are often ignored. Companies rush headlong into repeated special price rounds, thus destroying the long-term price level in the market. The German retail trade provides an unhappy example of this. Against this background, it is important for the sales strategy to contain a clear statement with regard to the implementation of price promotions, which should be really restrictive.

5.6 Price Complexity: Overwhelming the Customer

Different methods of price discrimination, discounts, bonuses, and price promotions such as giving a percentage off the marked price or even store credit often leads to complex prices that are not composed out of a single number anymore, but rather out of different components. Hence, the customers have to carry out intensive research in order to form an objective judgment about the overall price of a product or service.

One study by Homburg and Krämer (2009) showed that the customers are often overwhelmed in calculating complex prices and herewith form an opinion about the given offer. The result is a misinterpretation or distorted judgment about the price itself and its fairness. Generally, straightforward prices are seen as cheaper and fairer than complex ones. The customers are consequently more willing to pay for straightforward prices; in other words, they are willing to pay extra for simplicity. The companies therefore have to ask themselves *how complex they want their prices to be* (Q 27). Many companies have already adopted this concept in their business strategy:

- *Telecommunications/mobile communications:* Since the first mobile discounters appeared in 2005 in the telecommunication and mobile communication sector until now, there is a noticeable trend from complex, usage-based rates towards more straightforward flat rates or rather more simplistic pricing. Several companies are using the complexity in this sector in order to explicitly advertise with their simplicity and transparency. Slogans include: "because simplicity is simple" or "calculate quickly and save sensationally! The Ten-sation 10 cent/min. to all cellphone providers". Since 2009 one provider wants to turn the market upside down with his extremely simplified rate system that even includes a "price airbag". There is no basic charge and the price per minute or per text message is 13 cents. This is not cheaper than some discounters but by setting a limit it is guaranteed that there won't be any bad surprises. Experts suspect that this change in the pricing policy will change the entire sector just like the introductions of flat rates changed the industry several years ago.
- *Banking:* In the banking sector, an increasing comparability of financial services through the internet, new providers because of the internationalization of the banking sector, and an aggressive pricing of the telephone and internet based commercial banks lead to a higher cost consciousness. By now, some banks are trying to differentiate themselves from the generally complex price system, especially seen with consumer credits and checking account offers, through all-inclusive deals (for example, free savings accounts and account management, a refund of hidden commissions as well as all transaction fees that result out of stock consultations and asset management for a monthly fee).
- *Energy supplier:* Since the cost of energy is divided into a basic flat rate and a charge per kWh, it is almost impossible for the end user to understand the energy pricing. This also makes comparisons in rates or with the offers of other providers very difficult. The consumer advice center has already for some time been warning customers about the unclear pricing of energy suppliers. By now,

some providers are using the overwhelmed position of the consumer to their advantage by offering an explicitly simple and transparent pricing.

- *Flight industry:* After the appearance of the low-cost-airlines, the division of the total price into different components such as taxes and other fees lead to a higher price complexity in this sector. According to the EU enforcement of November 2008, additional costs such as taxes and fees have to be listed in the final price. By now, some premium airlines are, contrary to the trend of splitting up the price, successfully marketing all-inclusive offers such as “99 euros for a round-trip”.
- *Retail:* In retail, the complex pricing results due to the amount of pricing elements (final and basic price, discounts, as well as visual and semantic elements of design) and an abundance of different pricing campaigns (special offers, secondary displays, customer cards, and discount coupons) (vgl. Brandes et al. 2004). Because of this, many discounters and electronic retailers prefer a constantly low price rather the use of different promotions and discounts.

There are some factors, which influence the complexity of the price, the company can’t control directly, such as the customer’s knowledge and experience or his pressure of time. However, there are two elements that the company can influence significantly. They are:

- *The size of the pricing system and*
- *The design of the numbers and ways to calculate.*

The *size of the pricing system*, which refers to the composition of several components that form the final price, is the most important aspect in reducing the complexity of the price. In this context, companies can, for example, define the number of pricing elements, the amount of additional information given to the customer, and the number of options that he can choose from. Table 5.2 shows the different possibilities of reducing the price complexity by comparing simplistic and complex pricing.

In the studies of Homburg and Krämer (2009) was also found that, additionally to the size of the pricing system, *the design of the numbers and ways to calculate* play a significant role on the perceived complexity of prices. Companies should present their prices in a way so that it is easy for the customer to calculate the final price. The simultaneous use of even and odd numbers, a surcharge in terms of percentage, and store credits should with regards to price complexity be avoided.

5.7 Competitive Bidding and Internet Auctions

Competitive bidding is particularly common in the business-to-business sector. It involves a supplier making a price decision within the scope of a bid invitation. Typically, a customer specifies his requirement down to the last detail, and thus it is ultimately the price that decides which supplier is selected. Such situations are extremely widespread with regard to public-sector purchasing decisions. Even private-sector companies often follow this route for standard products or services. The supplier faces the issue of the optimum bid price. Two aspects must generally be taken into consideration in this connection: the probability of being awarded the

Table 5.2 Factors to reduce price complexity by decreasing the size of the pricing system (Homburg and Krämer 2009)

Number of pricing elements						
Simplistic pricing		**Complex pricing**				
Transaction fee is independent from the volume of the investment	19.50 €	Transaction fee is independent from the volume of the investment				11.70 €
		Fee when processed in one of the branches				3.90 €
		Fee for a limit order				1.56 €
		Fee determined by exchange center				2.34 €
Amount of additional information						
Simplistic pricing		**Complex pricing**				
Air fare incl. all taxes and fees	98 €	Air fare incl. all taxes and fees[1]				98 €
		[1]This consists of the air fare including all taxes, fee, and other costs. It takes into account the jet fuel tax and the security surcharge, but also all fees from the airports of departure and arrival				
		The processing charge of 6€, payable at booking, is included in the price of the ticket				
		The price includes a seat reservation. Seats are allocated according to the "first-come, first-served"-principal. There is no guarantee for any seats before check-in				
		The maximum weight for bags free of charge is 20 kg per checked bag. One single item cannot exceed a weight of 30 kg. The overweight fee is 8€ per kg, payable at check-in				
		The maximum weight for carry-on items is 5 kg (measurements: 45 × 35 × 20 cm). Only one carry-on item is allowed				
		The booking fee of 3€ as well as any special fees are included in the price				
Number of options						
Simplistic pricing		**Complex pricing**				
Best talk rate		Best talk rate				
Monthly flat rate	15.00 €	Monthly flat rate	Option 1	2	3	4
			5.00 €	10.00 €	20.00 €	30.00 €
Calls		Calls				
To TELE BEST customers (€/min)	0.05 €	To TELE BEST customer (€/min)	0.10 €	0.10 €	0.05 €	0.00 €
To landlines (€/min)	0.10 €	To landelines (€/min)	0.10 €	0.15 €	0.05 €	0.00 €
To all other providers (€/min)	0.10 €	To all other providers (€/min)	0.10 €	0.05 €	0.00 €	0.00 €

Table 5.3 Competitive bidding using the example of a bid invitation for the construction of a preschool

Possible bid price (in euros)	Costs (in euros)	Estimated probability of being awarded the contract (in %)	Profit if contract awarded (in euros)	Anticipated profit (in euros)
800,000	900,000	100	−100,000	−100,000
900,000	900,000	90	0	0
1,000,000	900,000	60	100,000	60,000
1,100,000	900,000	20	200,000	40,000
1,200,000	900,000	5	300,000	15,000
1,250,000	900,000	0	350,000	0

contract and the profit to be gained in this case. In terms of the highest probability of being awarded the contract, the supplier is advised to bid a low price. On the other hand, the higher the price, the higher the profit obtained if the contract is awarded. In the following, we will describe a quantitative method for weighing up these two aspects.

The supplier uses different prices to calculate the respective probability of acceptance as well as the profit to be gained in this case. The bid price that maximizes the expected profit is then determined.

We will illustrate this procedure using the example of a building contractor who wants to participate in the bid invitation for the construction of a new preschool. The starting point of the considerations is an estimation of the costs of the construction work, which total approximately 900,000 euros. A price range from 800,000 euros to 1,250,000 euros is therefore considered. The company's sales manager estimates the probability of being awarded the contract based on price, taking into account his past dealings with municipal government (see Table 5.3). For example, he assumes that, at a price of 900,000 euros, there is a 90% probability of being awarded the contract, while, at a price of 1,100,000 euros, there is only a 20% probability. On this basis, the expected profit is calculated for each possible bid price. With a price of 1,000,000 euros, for example, this expected value results in $0.6 \times 100{,}000 + 0.4 \times 0 = 60{,}000$. The optimum bid price is where the expected profit is maximized, i.e. at 1,000,000 euros.

Recently, more and more customers have been making the effort to present bid invitations over the Internet. Commercial suppliers of Internet services, who undertake bid invitations for particular, clearly defined services and who determine the most cost-efficient supplier of this service, on behalf of a client, are already in existence. The term "*reversed auctions*" is also used in this context.

The sales strategy needs to include a decision on *whether a company should participate in such bid invitations on the Internet* (Q 28). It is certainly correct that certain contracts can only be won via such mechanisms. On the other hand, it should be kept in mind that a company's participation in such bid invitations is tantamount to confessing that it is unable to differentiate itself from its competitors – not even because of superior services or processes. This confession appears to mark out the route to the next-generation price wars. The possibility of fully utilizing existing overcapacities in the short-term by means of contracts won in this way should not cause companies to lose sight of the devastating long-term price consequences.

Auctions must be distinguished from “reversed auctions” (see Reichwald et al. 2000; Skiera 1998). Here, a supplier offers a service and attempts to obtain the maximum price. The actual price is therefore determined by the competition of the various price bids made by the bidders (customers). Auctions are a millenia-old mechanism for exchanging goods, but were of only secondary importance until the penetration of the Internet in modern economies. This is mainly due to the fact that the negotiating phase has been associated with high transaction costs up to now. For example, all participants in an auction had to be gathered in one location. The Internet solves this problem by bringing auctioneer and bidder together in a virtual marketplace.

Most Internet auction houses use the format of the “English auction”. In this auction form, the supplier, or the auctioneer commissioned, first names a minimum price. The bidders can increase this through bidding until a bid is made that no one wishes to raise. The highest bidder wins the lot. On the Internet, auctions usually run over several days and are concluded when no new bid is received over a certain period of time or a pre-defined bid period expires.

In the context of Internet auctions, suppliers must, in principle, decide how actively they want to offer their products. Certainly, active use of this tool can be of interest in individual cases, e.g. when auctioning used machines, surplus goods, goods that are not suitable for storage (e.g. travel contingents), discontinued models or individualized products whose commissioner has “backed out”.

However, in our experience, a company should definitely restrict active auctioning of its own services. First of all, a supplier thereby gives up his price sovereignty, at least in part. Secondly, there are a number of ways in which Internet auctions can be misused. Table 5.4 lists the most frequent problems and provides potential solutions.

5.8 Price Harmonization: The Battle Against Reimports

The problem of reimports has significantly gained in importance in recent years (see Belz and Mühlmeyer 2000). One or two fundamental changes are responsible for this phenomenon. The first is the *abolition of trade restrictions*. The exchange of goods across national borders is being facilitated by the creation of free trade zones.

Secondly, *the Internet has led to* an increase in *market transparency*. Customers can use the Internet to obtain global information, compare prices and meet their requirements. The customer can, for example, use intelligent “software agents” on the Internet to determine, with little cost and effort, the best market and the best time for purchasing a certain product.

With regard to the European market, a third aspect is relevant: simplifying international price comparisons by means of a *common currency* (see Bauer 2000a).

All these developments mean that the problem of reimports is becoming more and more significant in many sectors. In this context, the problems of the German

Table 5.4 Problems and solutions in internet auctions

Problem	Explanation	Solution
Bid shilling	The product supplier acts as a bidder; this successively raises the price	Check the identity of the bidders
Bid shielding	Arrangement between two bidders A and B, with A submitting a very high bid and B a very low one, which deters other bidders; A withdraws shortly before the end of the auction and B is awarded the lot	Exclude withdrawal possibility; guarantee participant anonymity; use short auction periods to prevent arrangements
Sniping	Bidder comes in shortly before the end of the auction with a marginally higher bid, thereby attempting to place the definitive last bid	Extend the auction period if bids are received shortly before the envisaged end; introduce a minimum difference for a new bid
One-sided refusal of performance	For example, failure to pay or refusal to deliver the merchandise	Auction house offers additional guarantees and services such as handling payments

automotive manufacturers have aroused particular attention. The pharmaceutical industry is now also encountering substantial problems with reimports. For example, there is a noticeable trend for German tourists abroad to stock up with large quantities of headache tablets.

To deal with reimports, a company can use three basic strategies:

- *Tolerance:* No counteraction is taken against the reimports. This strategy is used, in particular, if the damage caused by the reimports is insignificant.
- *Prevention by instruction:* A supplier instructs his domestic sales partners not to sell reimports, or instructs his foreign sales partners to sell only to customers from the respective country. An instruction of this kind is, however, highly problematic in a legal regard.
- *Prevention using marketing/sales tools:* This strategy can be very promising. With this approach, a multi-step process is used to prevent reimports (see Fig. 5.7).

The first step is to make country-specific price differences transparent. This refers to both the selling prices of the manufacturer and the sales prices of possible sales intermediaries in the individual countries.

The second step is to check whether it will also be possible to maintain price differences in the future. Various developments that affect arbitrage options/costs must be included in the assessment of this possibility. This also includes developments in the politico-legal sphere (e.g. removal of trade barriers, deregulation efforts), in the macroeconomic sphere (e.g. convergence of living standards, reduction in logistics costs) and even in the technological sphere (e.g. price transparency due to the Internet). If these considerations show that price differences can be maintained in the long term, there is no need for the company to act in the short term. Otherwise, there are two options: either, the company intensifies the

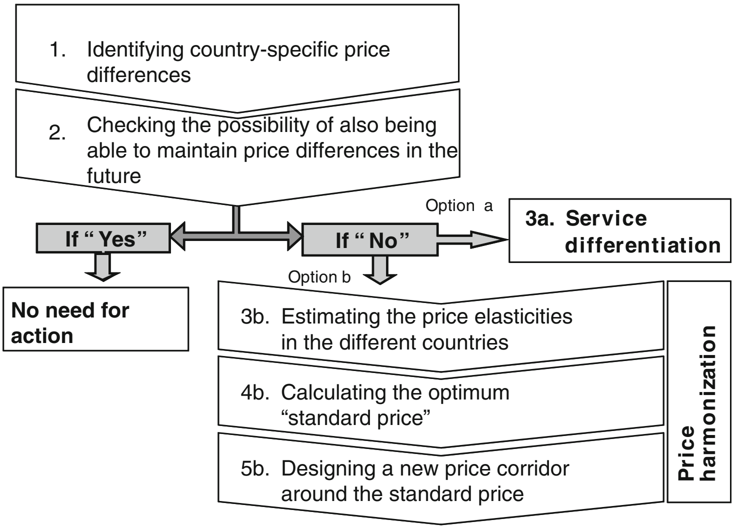

Fig. 5.7 Process of preventing reimports by using marketing/sales tools

cross-national service differentiation (option a in Fig. 5.7), or it reduces the level of cross-national price discrimination (option b in Fig. 5.7).

The cross-national service differentiation can be intensified, in particular, by means of *product modification*. For example, country-specific differences with respect to product core, brand name, brand positioning, packaging design or product-related services can impede reimports.

The disadvantage of intensive service differentiation lies in the high costs involved. If a company wants to avoid these costs and standardize its offering to a large extent, it needs to address the question concerning *the extent to which cross-national prices should be harmonized* (Q 29).

The country-specific price elasticities must first be estimated here in order to determine what impact price changes have on the sales volumes in a respective country. Price elasticity measures the effect that price changes of a product have on the sales volume. It is expressed by the ratio of the relative change in sales to the relative change in price. An elasticity of -2 indicates, for example, that a 1% increase in price involves a two-percent decrease in sales volume.

The next step is to calculate the *optimum standard price*. This requires an initial listing of the country-specific prices, costs and sales volumes. For each country, price elasticity is then used to calculate the sales volume anticipated for each price. Finally, the price that maximizes the cross-national overall profit is determined, taking into account the country-specific contribution margins and sales volumes.

This standard price is, however, more likely to be a theoretical value. In reality, the country-specific prices will be located in a price corridor around the standard price. Figure 5.8 illustrates the advantages of such a price corridor using the example of a German mechanical engineering company.

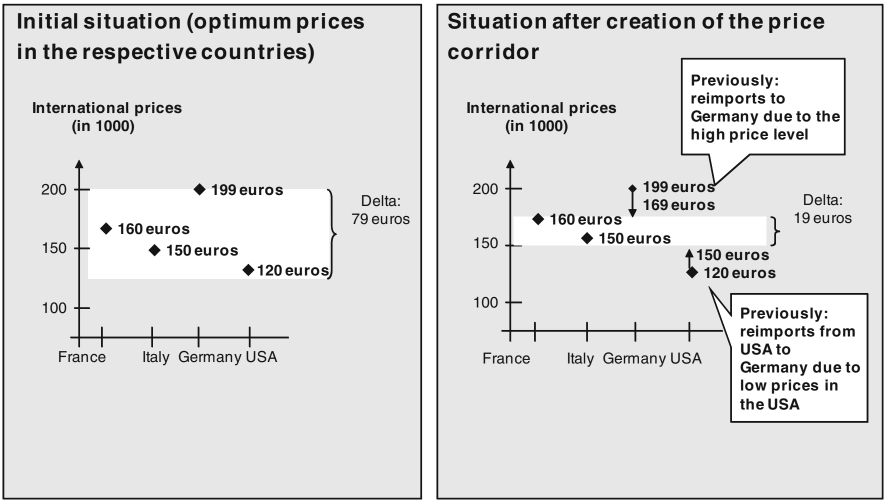

Fig. 5.8 Situation before and after the development of a price corridor using the example of a German mechanical engineering company

In the initial situation, the major difference of 79,000 euros between the sales prices in the USA and those in Germany encouraged reimports to Germany. The introduction of a price corridor brought the national prices more closely in line with one another. For example, the price in the USA was raised from 120,000 euros to 150,000 euros, the price in Germany lowered from 199,000 euros to 169,000 euros. This reduced the maximum price difference to 19,000 euros. Due to this narrow margin, reimports were no longer worthwhile. In spite of individual price reductions, it was possible to increase the overall global profit.

5.9 Excursus: What Pricing Pros Do Better

Even in intensely competitive markets threatened by margin erosion, there are companies that manage to increase prices and sales simultaneously. Homburg et al. refer to such companies as "*pricing pros*" (see Homburg et al. 2005b). Pricing pros do not, however, have a "magic formula": Success in pricing cannot be achieved by pressing two or three magic levers, but rather is the product of many correct management decisions.

Homburg et al. (2005b) were able to identify *three basic common aspects* in pricing pros across all sectors:

First, pricing pros distinguish themselves by *professionally analyzing* their price management. This enables them to identify and eliminate their price-related weaknesses. A typical weak spot in many companies' pricing, for example, lies in the unmanageable array of bonuses and discounts. Pricing pros work with simple bonus and discount systems. However, pricing pros do not limit themselves to external price implementation, but instead examine all the important decision-making areas within price management. This can concern very different areas, such as the price strategy, terms and conditions systems, sales culture and controlling, as well as the incentive systems.

Secondly, pricing pros are extremely *systematic* in implementing their price management. Not only do pricing pros scrutinize contracts that they lost, they also follow up systematically on the price potential “given away” in contracts that they won. Bonuses and discounts that evolved over time are rigorously eliminated. And if pricing pros do grant their customers bonuses and discounts, they are linked systematically to customer reciprocities. Such reciprocities may include the purchase of large order quantities, electronic order placement, or early payment. These provide a direct benefit for the supplier, e.g. in the form of cost savings that (partly) offset the price discount.

Thirdly, pricing pros have strong *price discipline*. They establish a “culture of price defense” in sales. Sales representatives prefer to lose an order rather than make far-reaching exceptions to the price system. This is in clear contrast to the classical “culture of volume defense” that exists in many sales departments, according to the motto: no order is lost due to price. However, this also requires the management to back the sales department in not going along with any price in the market. To encourage this, sales representatives in pricing professional companies are remunerated, with above-average frequency, on the basis of margins and not only sales. Pricing pros keep their price discipline in relation to customers by enumerating the “total benefit of ownership” that their products offer. In doing so, they quantify not only the pure product benefit, but also all cost and revenue advantages from a customer perspective. They are therefore able to provide good reasons for price differences.

Pricing success is therefore the result of professional price management that is characterized by a high degree of analysis, systematicity and discipline (for a detailed description of the elements of systematic price management, see Homburg et al. 2004).

6 A Framework of Figures for the Sales Strategy: Targets and Resources

The aspects of the sales strategy that we have covered in the previous chapters relate to the "how" of market development. A further essential aspect of a sales strategy relates to embedding these qualitative considerations with regard to the sales strategy in a quantitative framework of figures.

A strategic sales framework of figures of this type is medium-term in nature, normally spanning a period of 3–5 years. The importance of this tool is particularly due to the fact that it defines a reference framework for annual planning (see Chap. 8).

In terms of content, this framework of figures relates to sales-related targets and the resources needed to achieve those targets. The targets focus on market shares, sales volumes and price levels. They therefore involve the following questions:

Q 30: What sales-related targets (market shares, sales volumes, price levels) are being striven for in the medium-term?
Q 31: What resources (on what scale) should be earmarked to achieve the targets?
Q 32: What strategic sales tasks should the resources be used for?

Table 6.1 provides a simplified example of this type of framework of figures, related to a period of 3 years. It is advisable to update this framework by a further year on a rolling annual basis.

When *planning strategic sales targets* (Q 30), it is important to break them down into market segments. This mechanism is better equipped than an extremely aggregated target definition to force sales managers to analyze how realistic the targets are. If there is very strong customer concentration, it may even be advisable to define such targets for individual key customers (see Chap. 20).

There is no strategic sales-related *planning of price levels* in most companies. We consider this to be extremely problematic, for several reasons:

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DOI 10.1007/978-3-642-29169-2_6, © Springer-Verlag Berlin Heidelberg 2012

Table 6.1 Framework of figures for a sales plan using the example of a PC manufacturer

Customer segments	Plan values	Year 1	Year 2	Year 3
A	Market share	30%	35%	37%
	Sales volume (in units)	300,000	348,000	360,000
	Price level (compared with the base year)	1.02	0.99	1.00
	Number of sales representatives	100	110	112
	Number of service representatives	25	28	28
B	Market share	10%	11%	15%
	Sales volume (in units)	120,000	125,000	160,000
	Price level	1.02	1.00	1.00
	Number of sales representatives	30	60	68
	Number of service representatives	8	10	15
C	Market share	5%	3%	–
	Sales volume (in units)	50,000	40,000	–
	Price level	1.02	1.04	–
	Number of sales representatives	15	10	–
	Number of service representatives	5	3	–
Total	Sales volume (in units)	470,000	493,000	520,000
	Number of sales representatives	145	180	180
	Number of service representatives	38	41	43

- The statement about basic price positioning (Q 19) made in the sales strategy needs to be operationalized, since it is otherwise too intangible.
- If a company plans to increase its market share, there must be a clear statement on how this is to be done. One way, of course, is to secure it through an aggressive price policy, i.e. "to buy market shares". Despite all the problems that this can involve (e.g. price wars), it can sometimes be expedient. What is important, however, is that companies make an explicit commitment to it in their sales strategy. If this is not the case (if, for example, price developments are not even a component of the sales strategy), a frequent problem is that the sales representatives on-site induce "creeping" price erosion in order to meet the market share targets.
- Finally, the framework of figures for the sales strategy should be subject to a financial assessment. This is only possible if price levels are also planned.

Prices can be taken into account in the sales strategy figures, in the form of index time series, price distance values (relative to the competition) or average prices (averaging across several products). We recommend, in principle, nominal planning of price development (based on premises about future inflation rates). In nominal planning, the planned-actual comparison is much more straightforward than in real planning.

In many companies, the problem is that the targets defined in the sales strategy do not match the resource allocation. Strategic targets and resource allocation are frequently decoupled. Against this background, it is vital that the sales strategy figures also contain *resource-related statements* (Q 31). For example, the extent to which sales capacities must be supplemented in order to achieve sales increase targets has to be planned. What is particularly important in this context is the temporal coupling of target and resource planning. It is often necessary to make the required resources available before the targets have been achieved, which gives rise to short-term profit losses. Such effects must be taken into account in planning.

With regard to question 31, two basic groups of resources can be distinguished: human resources and material resources. The term *human resources* describes the number and quality of employees allocated for fulfilling the various sales tasks. *Material resources* comprise the entire infrastructure required for achieving the sales targets. This includes sales offices, information and communication systems, as well as the technical equipment in the service department.

Of course, the figures need to be supplemented with qualitative aspects. Often resources exist in sufficient quantity, but do not meet the qualitative requirements. For example, in many companies field sales representatives are the main resource for implementing the sales strategy. However, many representatives still have considerable shortcoming, e.g. in terms of the ability to sell solutions to problems instead of "naked products", or in terms of the ability to use new sales tools such as customer portfolio analysis or computer-aided selling (CAS) (see Chaps. 12 and 16, respectively).

Once a decision has been made about the type of *sales resources* required, the company must define *what they are to be used for* (Q 32). If such specifications are not recorded in the sales strategy, existing resources tend to define their tasks for themselves. Existing resources always find some job to do. The sales strategy must therefore, in principle, define

- What target groups, and
- What purpose

the resources are to be used for. In this context, it is of pivotal importance that the sales strategy make statements about what weighting should be used with regard to which resources are to be deployed for new customer acquisition or customer retention. According to our observations, statements about the strategic priority of customer retention were revealed to be pure lip service in many companies, as soon as a critical examination of the resource allocation was made.

With regard to the development of existing customers, suppliers using indirect sales must, for example, define how their field sales representatives are to be used for developing various sales intermediaries (push strategy) or for stimulating end customer demand (pull strategy). We will illustrate this using the example of an internationally active component manufacturer (see Fig. 6.1).

Although 100% of sales are handled via retail, only 20% of field sales resources are used for this. Fifty percent of field sales resources are utilized for developing planners, 30% for influencing the opinion of plant manufacturers (with regard to planning the deployment of the field sales force, also see Albers 2002a, 2002b; Kuhlmann 2001). Tetra Pak, a manufacturer of packaging materials and machines, deploys its field sales force not only for its direct customers (e.g. dairies), but also for the customers of the direct customers – retail.

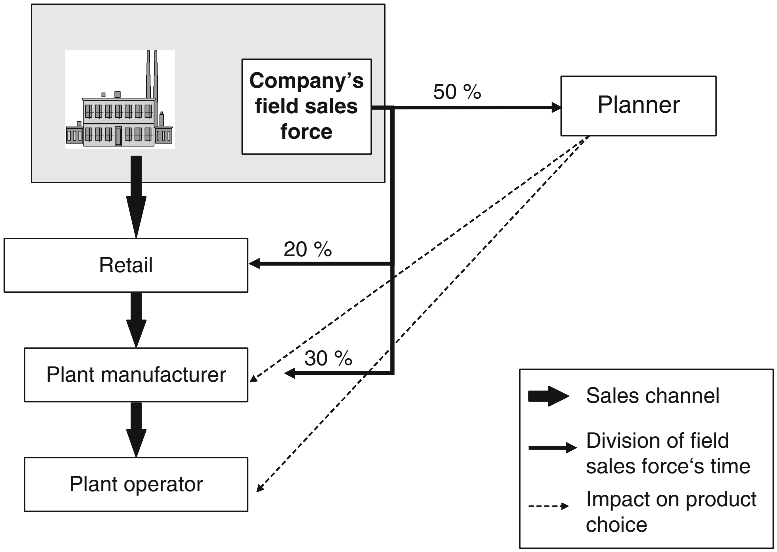

Fig. 6.1 Deployment of field sales resources using the example of a component manufacturer

6.1 Checklist for Part II: Sales Strategy: Setting the Fundamental Course

The company ... (Criterion no.)	Very true (100)	True to a large extent (75)	Some-what true (50)	Some-what false (25)	Not true at all (0)	Criterion is irrelevant (100)	Rating based on… (Documentary evidence for the assessment)
2. Customers – The Focus of the Sales Strategy							
... has precisely defined which groups are to be regarded as customers in the sales channel and develops them. (I-1)	❑	❑	❑	❑	❑	❑	
... has a precise understanding of the fundamental needs of its customers. (I-2)	❑	❑	❑	❑	❑	❑	
... has clearly defined the benefit that it wants to provide for its customers. (I-3)	❑	❑	❑	❑	❑	❑	
... works with a customer segmentation that is tangible and clearly delineated. (I-4)	❑	❑	❑	❑	❑	❑	
... works with a customer segmentation that allows the identification of clear differences in the behavior between the segments. (I-5)	❑	❑	❑	❑	❑	❑	
... works with a uniform segmentation approach across the entire enterprise. (I-6)	❑	❑	❑	❑	❑	❑	
... gears its market development individually to the needs of the different segments. (I-7)	❑	❑	❑	❑	❑	❑	
... has clearly defined which customers are committed to the company. (I-8)	❑	❑	❑	❑	❑	❑	
... has clearly defined what tools/resources to use for retaining which customers. (I-9)	❑	❑	❑	❑	❑	❑	
... undertakes customer retention management on the basis of clear profitability analyses. (I-10)	❑	❑	❑	❑	❑	❑	
3. Competitive Advantages – Faster, Higher, Further ...							
... has clearly defined and communicated what sales-oriented competitive advantage it is striving for. (I-11)	❑	❑	❑	❑	❑	❑	
... consistently aligns all sales activity to achieving the defined competitive advantage. (I-12)	❑	❑	❑	❑	❑	❑	

4. Sales Channels and Sales Partners - Designing the Route to the Customer							
... has clearly defined, on the basis of current/future framework conditions, the extent to which direct and/or indirect sales should be used. (I-13)	❑	❑	❑	❑	❑	❑	
... has analyzed the extent to which the use of additional sales channels can increase sales success (e.g. by increasing market coverage, developing new customer groups). (I-14)	❑	❑	❑	❑	❑	❑	
... has clearly defined the objectives that can be pursued by using additional sales channels and systematically pursues attainment of those objectives. (I-15)	❑	❑	❑	❑	❑	❑	
... has a clear and functioning concept that can be used to limit conflicts between channels if several sales channels are used. (I-16)	❑	❑	❑	❑	❑	❑	
... has clearly defined which sales channel fulfills which functions and for which customer groups, and systematically checks to ensure that the functions are fulfilled. (I-17)	❑	❑	❑	❑	❑	❑	
… cooperates, in the case of indirect sales, with sales partners that meet a sophisticated job specification (e.g. similar business philosophy, good reputation, extensive market coverage). (I-18)	❑	❑	❑	❑	❑	❑	
… has clearly defined, in the case of indirect sales, which functions in the value-added chain a sales partner has to undertake, and makes sure that the division of tasks and functions is adhered to. (I-19)	❑	❑	❑	❑	❑	❑	
... pursues, in the case of indirect sales, partnership relationships with its sales intermediaries. (I-20)	❑	❑	❑	❑	❑	❑	
... gives sufficiently strong prioritization to pull activities as compared to push activities, in the case of indirect sales. (I-21)	❑	❑	❑	❑	❑	❑	
5. Price Policy - The Price is Right…							
... has clearly defined the price positioning that it is striving for (premium, mid-value, economy) and consistently gears its sales activity to it. (I-22)	❑	❑	❑	❑	❑	❑	
... ensures that pricing in day-to-day business is consistent with the aimed at price positioning. (I-23)	❑	❑	❑	❑	❑	❑	

... ensures, in the case of indirect sales, that the price positioning of the sales intermediaries is consistent with its own. (I-24)	❑	❑	❑	❑	❑	❑	
... takes sufficient account, during pricing, of the customer benefit and the customer's willingness to pay. (I-25)	❑	❑	❑	❑	❑	❑	
... utilizes existing price discrimination possibilities (e.g. between customer segments, with respect to time). (I-26)	❑	❑	❑	❑	❑	❑	
... has clearly defined the criteria for undertaking price discrimination. (I-27)	❑	❑	❑	❑	❑	❑	
... prices product-related services separately and does not give them away for free. (I-28)	❑	❑	❑	❑	❑	❑	
... only grants discounts and bonuses for clearly defined services in return. (I-29)	❑	❑	❑	❑	❑	❑	
... limits itself to a small number of discount and bonus types. (I-30)	❑	❑	❑	❑	❑	❑	
... uses time-limited price promotions (special prices) very restrictively. (I-31)	❑	❑	❑	❑	❑	❑	
... ensures that participation in bid invitations (on the Internet) does not lead to focusing on the price as the only competitive tool. (I-32)	❑	❑	❑	❑	❑	❑	
... either uses country-specific service differentiation or cross-national price harmonization in the fight against reimports. (I-33)	❑	❑	❑	❑	❑	❑	
6. A Framework of Figures for the Sales Strategy – Targets and Resources							
... has quantified, in the sales strategy, what sales volumes it wants to achieve in the long term and in which segments. (I-34)	❑	❑	❑	❑	❑	❑	
... has quantified, in the sales strategy, what market shares it wants to achieve in the long term and in which segments. (I-35)	❑	❑	❑	❑	❑	❑	
... has quantified, in the sales strategy, which price levels (compared to the base year) are to be maintained in which segments. (I-36)	❑	❑	❑	❑	❑	❑	
... consistently gears its sales activities to implementing the quantified targets. (I-37)	❑	❑	❑	❑	❑	❑	

... has clearly defined what sales resources (human and material) to earmark and in what quality and quantity. (I-38)	❑	❑	❑	❑	❑	❑	
... ensures that surplus sales resources are not earmarked in any sales division. (I-39)	❑	❑	❑	❑	❑	❑	
... has clearly defined what target groups and purposes the existing sales resources (e.g. call center, in-house and field sales force) are to be used for . (I-40)	❑	❑	❑	❑	❑	❑	
... has clearly defined the weighting to be used with regard to which resources are to be deployed for new customer acquisition vs. customer retention. (I-41)	❑	❑	❑	❑	❑	❑	

Part III

Sales Management: Designing Structures and Processes, Managing People and Living the Culture

Whatever happens in a company's sales department – whether well-conceived sales strategies see the light of day or are "buried away in a drawer", whether sales representatives champion the company's interests or work "strictly by the book", whether different sales divisions work with or against one another – all depends on sales management. We have witnessed time and again that even the best strategies fall flat if there are persistent shortcomings in the managerial area. Viewed against this background, sales management is an independent dimension within the Sales Ex approach. This section will address the following four main topic areas:

- Designing the sales organization (Chap. 7),
- Planning and controlling sales activities (Chap. 8),
- Personnel management in sales (Chap. 9) and
- Designing the sales culture (Chap. 10).

We have noticed shortcomings in these areas in many companies. Numerous sales organizations suffer, for example, from a paralyzing bureaucracy that thwarts the implementation of a flexible, market-oriented sales strategy. Furthermore, the planning and controlling systems in many companies are not aligned with the market. In some smaller companies there is no market development planning whatsoever. In larger companies, on the other hand, the purest form of "planning technocracy" often prevails: Planning is not market and sales-oriented, but primarily manifests itself in aimless "number crunching", which results in "graveyards of numbers" that have no relevance for day-to-day sales activities.

It is also often the case that too little attention is paid to personnel management. Recruitment of personnel is sometimes unsystematic and there is little focus on further development. Finally, sales activities are impeded by cultural problems in many companies: The relevant information is not passed on to other divisions, other departments are not regarded as internal customers. Departmental and divisional egoism commits large amounts of resources to unnecessary trench warfare. In the following chapters, we will be discussing ways of overcoming these deficits in sales management.

Sales Organization: Successfully Designing Structures and Processes

7

Organizational decisions about structures or processes in a company provide a backdrop for employee actions. They encourage particular kinds of behavior and hinder others. Many companies overlook the fact that structural decisions also impact employee attitudes and mindsets.

Every sales organization can, in principle, be organized according to products, regions, sales channels or customers (see Frese 2005; Kieser and Walgenbach 2007). Sales organizations are not usually structured according to one single criterion. Rather, several structuring criteria are frequently used with different weighting. The first section of this chapter examines the advantages and disadvantages of these structuring approaches.

We will then turn our attention to another problem area: interface management. Even today, frictional losses between different sales divisions or even between sales and other functional areas still seriously impair sales productivity. Conversely, when analyzing companies that have convinced us with their professionalism in sales, we have observed that the "sand in the wheels" caused by interfaces seems to have less of an impact here than in other companies.

Another factor impairing many companies' sales productivity is excessive bureaucracy. We will therefore also examine this problem area and corresponding solutions.

The final section of this chapter deals with a special issue related to the interface between company and market: It concerns the question of how easy it is for customers to speak to and approach the company. For companies that pride themselves on customer orientation, this is a matter of course. However, things are frequently different in practice, as we all know from painful experiences we have had when contacting companies as customers – whether to obtain information or to make a complaint. We will thus look into the question of how contact points for customers are organized.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_7, © Springer-Verlag Berlin Heidelberg 2012

7.1 The Fundamental Sales Orientation: Products, Regions, Sales Channels or Customers?

A sales organization can, in principle, be structured according to products, regions, sales channels or customers (see Köhler 1993). The primary structuring criterion for combining sales functions in a *product-oriented* structure is the company's products or services. If structuring is *region-oriented*, areas of responsibility are divided according to continents, countries, regions within a country, etc. A *customer-oriented sales organization* is based on a company-specific differentiation of various customer groups. Examples here include the distinction between corporate and private customers, categorization of customers according to sectors, which is widespread in the corporate customer area, or even structuring of customers according to their importance to the company (with regard to this issue, see also the discussion on customer segmentation in Chap. 2 and on the customer portfolio in Chap. 12). If structuring is organized by *sales channels,* the channels via which customers are addressed are used to delineate sales divisions. An example of this is the distinction between the field sales, in-house sales (e.g. telephone sales) or e-commerce organizational units.

Figures 7.1 and 7.2 show basic examples of these organizational forms. Of course, they do not usually occur in their purest form. In virtually all companies, the sales organization is a mixture of these criteria. Figure 7.3 shows two "hybrid" forms that are widely used in practice. In the first case, the sales organization is initially structured by region, before being further structured according to customers. In the second case, the sales organization is first structured by customer, before being structured according to products at a second level.

The question to be answered in the context of the sales organization is therefore not "Which of the four criteria is used to structure sales?", but rather "To what extent are the individual criteria taken into account in sales structuring?". Thus, the decision involved here is not a decision about selection, but rather a decision about priority. Such decisions result, for example, in one structuring criterion being applied at a higher level than another (see Fig. 7.3).

The question concerning the weighting of the basic structuring criteria leads directly to the question about the *advantages and disadvantages of the organizational forms*. We will explain this briefly in the following (see Table 7.1).

The main advantage of *product-oriented sales organization* is obvious: The sales representatives have a high degree of product-related know-how. They are product specialists, who can sell even complex products and product innovations relatively easily. Sales representatives that are active in such structures often require relatively little technical support from the head office and can resolve even more difficult technical questions for the customer. Another advantage of a product-oriented sales organization can be that coordination with other product-oriented company units is more straightforward than with other forms of sales organization. This advantage comes into play, for example, if the company's business units are defined in a product-oriented manner. With this type of organization, the

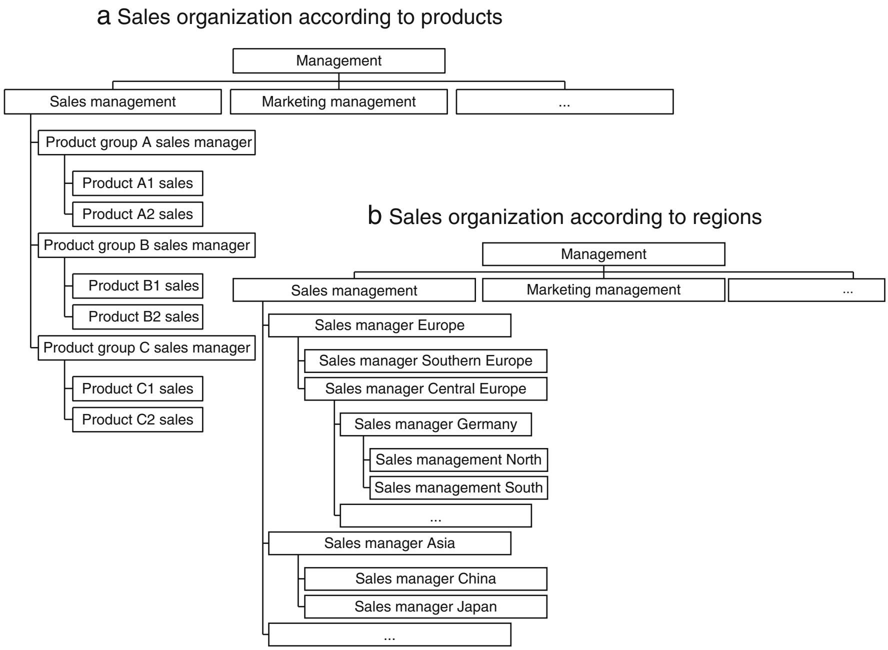

Fig. 7.1 Sales organization according to products or regions

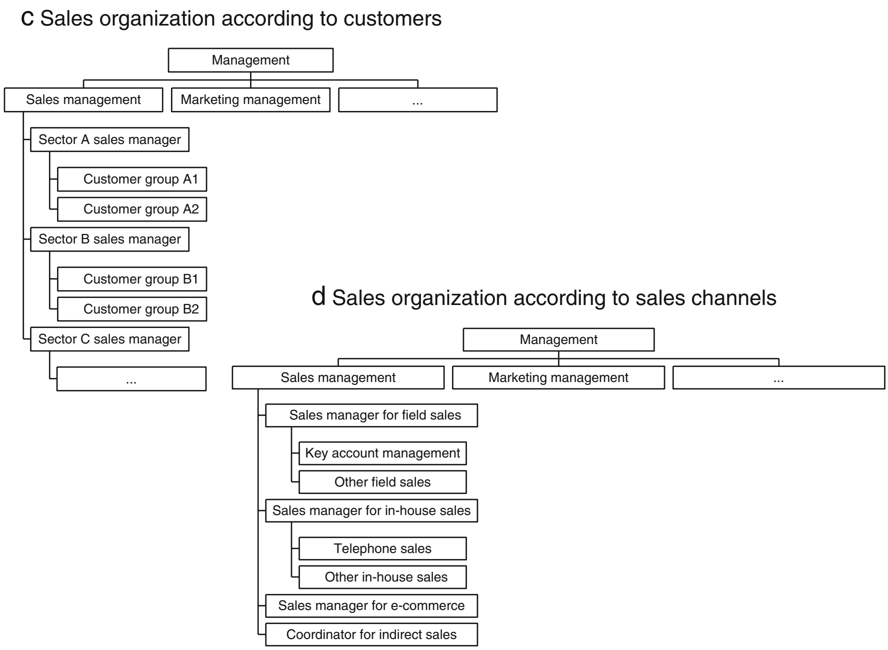

Fig. 7.2 Sales organization according to sales channels or customers

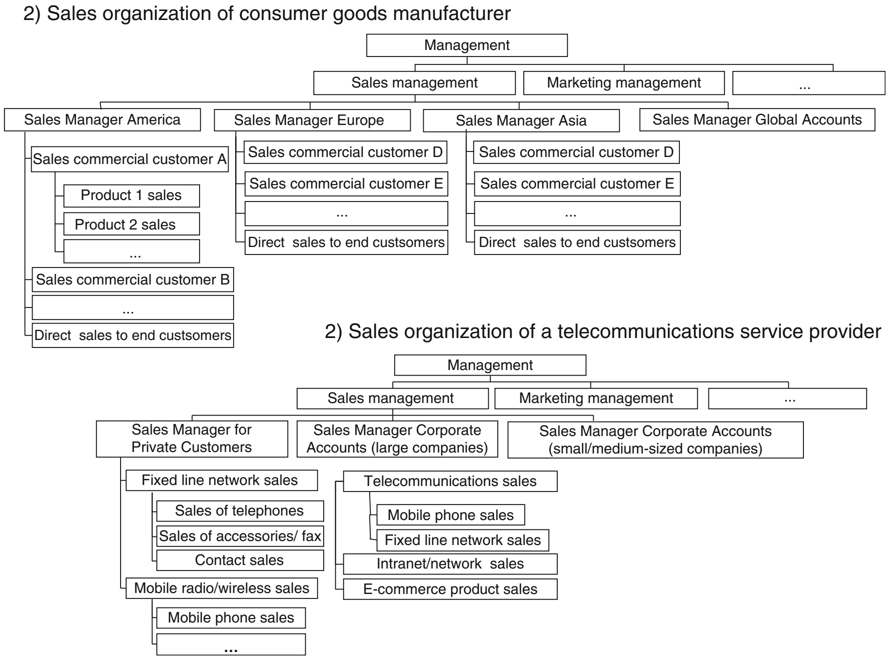

Fig. 7.3 Examples of sales organizations with several structuring criteria

Table 7.1 Overview of the advantages and disadvantages of the organizational forms

Differentiation according to . . .	Advantages	Disadvantages
. . . **products**	High degree of product-specific know-how	Lack of customer orientation
	Easier coordination with other product-oriented company units	Poor utilization of cross-selling potential
		Diffuse behavior presented to the customer
. . . **regions**	Consideration of conditions specific to the regional market	Inertia due to “regional principality”
	“Physical proximity” to the customer	Problematic coordination between the regions
		More difficult to develop international customers
. . . **sales channels**	Sales channel specific knowledge	Lack of overall view of the customer contact
		Less product-specific knowledge
		Less customer-specific knowledge
. . . **customers**	Holistic view of the customer	Less product-specific knowledge
	Closer customer relationships	Necessary adaptation of the information and controlling systems
	Support for cross-selling	

cooperation with product management in the business units is typically more straightforward than with other sales organization forms.

These advantages of product-oriented sales organization are, however, offset by serious disadvantages. First, there is the lack of customer orientation: representatives who are primarily responsible for marketing particular product groups tend to think in terms of products and often focus too strongly on a product's sales figures.

They frequently neglect to give extensive consideration to customer needs, only inadequately scrutinizing the product's applications with regard to the customer requirements. The company thereby loses considerable cross-selling potential in many cases. Our observations reveal that *cross-selling* – referring to the offer of additional products and services associated with the product already being marketed – is one of the most neglected sales tools (see Homburg and Schäfer 2000). The results of one cross-sector empirical study showed that, on average, suppliers only utilize about 30 % of their cross-selling potential (see Homburg and Schäfer 2001; Schäfer 2002). A key reason for this low cross-selling success rate can be attributed to the product orientation of the sales organization.

The problems that beset the product-oriented sales organization become especially clear if the customer purchases different product groups from the company. The consequence of product-oriented sales organization is then that several sales representatives are responsible for the same customer. The customer has different contact persons, depending on which product group is involved. The risk of presenting a diffuse and uncoordinated appearance to the customer is obvious. To be perfectly clear here, there are situations in which such constellations are unavoidable, for example in companies that have a very broad and heterogeneous product range. However, our observations have frequently shown that such organizational forms have evolved historically, without a need for them today when it comes to the product range.

The main advantage of the *region-oriented sales organization* is also evident: There are often considerable differences between different regions with regard to the purchasing behavior of customers, the competitive situation and the general market environment. Regionally oriented sales organizations ensure that these special characteristics and conditions are taken into account within the scope of the market development. Moreover, they can guarantee "physical customer proximity", which will remain a pivotal factor despite the rapid increase in the importance of new communication media.

The main disadvantage of region-oriented sales organizations lies in their strong dose of inertia and in their autonomy: Responsibility and decision-making authority for individual regions are usually located, to a considerable extent, in the region itself. This gives rise to the "regional principality" that is very clearly seen in many companies. Powerful regional managers or "regional bosses" systematically create counterweights to the company's head office. Specific regional market characteristics are frequently overemphasized in order to secure the regional organization's own position. Very scant market information from the regions is passed on to the head office. Many a promising market development concept has foundered on the power of these regional rulers, simply because it was initiated by the head office.

A further problem in this context is the lack of willingness to learn: There is hardly any mention of concepts that have proven their worth in particular regions. It is even rarer for such best practices to be transferred to other regions. Such learning deficiencies are subtly embedded in the thought structures of sales organizations with a strong regional orientation: If a regional manager copies concepts from other regions, he implies that perhaps his own region is not so different, after all, from the rest, thereby questioning his own regional managership to some extent.

The price sovereignty of many regional "princes" also causes problems. The Internet and the euro are creating ever-increasing price transparency across national borders (see Sect. 5.7). While in the past, price decisions could largely be made without the need for coordination in different countries, this will be less and less the case in the future. Central coordination will therefore become indispensable.

Working with sales organizations that have a strong regional orientation is also becoming more and more difficult with regard to the cooperation with internationally active customers. Nowadays, many major companies insist on internationally consistent conditions from their suppliers, which sometimes even results in the demand for a standard "global price". Examples of such developments include the automotive sector and the increasingly international retail trade. In such situations, consistent key account management across national borders becomes a vital factor (see Chap. 20). Many companies can only implement such international key account management by curtailing the power of the regional princes (see Homburg et al. 2000c).

The main advantage of the *sales channel-oriented sales organization* lies, of course, in the sales channel specific know-how of the representatives responsible for a certain sales channel. Particularly with regard to the development of new sales channels such as the Internet or call centers, such specialization may be practical. One of the risks inherent in this organizational form is, however, that customer contact is effectively fragmented. This organizational form does not allow for a holistic view of customer contact across different sales channels (see the discussion on customer relationship management in Chap. 16). In addition, representatives specializing in e-commerce, for example, may lack both product and customer know-how.

Sales organizations that are primarily geared to products, regions or even sales channels are scarcely able to meet increased customer expectations these days. We have already noted this in connection with the "customer satisfaction trap" in Chap. 1. In particular, the demand for qualified, customized and comprehensive consultancy services is becoming more and more intensive in many sectors. A company wishing to convince customers in this regard must have an accurate understanding of their environment, objectives and problems.

This is best supported by the *customer-oriented sales organization*, which thoroughly examines the customers' situations and needs. Thinking in terms of customer requirements rather than products is most apparentin this organizational form (see Homburg et al. 2000c; Köhler 2001). Sales representatives become, so to speak, "customer specialists". A greater degree of customer satisfaction with more individual care is the logical consequence (see Homburg and Bucerius 2006). However, the advantages of this organizational form not only become more apparent in higher customer satisfaction levels, but in many cases are also directly reflected in sales efficiency: For example, the cross-selling success achieved with such organizational forms generally results in a significant growth in customer profitability (see Homburg and Schäfer 2000).

A potential disadvantage of the customer-oriented sales organization can be found in the fact that the sales representatives have a lower degree of product knowledge. This disadvantage cannot be completely dismissed. In our estimation, however, the advantages of the "customer specialists" outweigh this. Furthermore, this potential disadvantage can also be counterbalanced by means of supplementary structures. For example, some banks provide wealthy private customers with a care concept that offers them a main contact person who is the customer specialist and who works together with other product specialists in the support team. If the customer has a detailed question about a product that exceeds the customer specialist's competence, the latter will refer to the product specialist – even in the customer's presence.

At this juncture, another point should be mentioned: We have become acquainted with customer-oriented organizational structures, in numerous companies, which did not function well because they were not supported by corresponding systems. For example, customer-oriented organizational structures need to be supported by customer-oriented information and controlling systems. If cost accounting is purely product-oriented, it is very difficult to assess the performance of sales units as defined from a customer orientation perspective. We will discuss this aspect in Chap. 12.

A special characteristic of a customer-oriented sales organization is the use of "specialist sales" – organizational units specialized in the acquisition of new customers or the retention of existing customers. Such models are frequently called "hunter/farmer models" (see Blattberg and Deighton 1996). While the recruitment of prospective customers and actual new customer acquisition is carried out by specialist "hunters", subsequent customer care/retention is performed by other departments/staff (the "farmers"). An acquired customer is therefore "transferred" to the farmer. An organization of this type has a range of advantages and disadvantages: The advantages include better utilization of the individual strengths of the sales representatives. This especially applies to the demanding task of acquiring new customers. In addition, this organizational form also guarantees that neither of these two basic sales targets is neglected. However, the above-mentioned "transfer" of the customer is not without its problems (for further details, see Homburg and Fargel 2006a).

Each of the organizational forms that we have described has specific advantages and disadvantages. An across-the-board recommendation in favor of one organizational form is, therefore, not possible. General statements about "good" and "bad" organizational structures are always problematic. Organizational decisions always largely depend on the special characteristics of the company. However, based on our observations and studies, we can definitely state that the customer-oriented sales organization form is given too little priority in many companies. For historical reasons, a product or region-oriented structure frequently prevails. Given that customers are becoming more and more demanding, it is safe to assume that a stronger customer orientation in the sales organization in many companies and sectors will be an inevitable development.

7.2 The Interface Curse

Every company has a large number of interfaces. To some extent, of course, they cannot be avoided. They only become a curse if internal competence disputes, rivalry, and information deficits between the departments and divisions get so out of hand that the company's ability to act is significantly impaired. Costly coordination processes and laborious decision-making processes are the consequence.

Sales, in particular, is a very interface-intensive functional area. Figure 7.4 shows the most important interfaces. A distinction needs to be made between interfaces within sales, and interfaces between sales and other functional areas. Interfaces within sales exist in various forms. The three most important manifestations are interfaces between

- The head office and regional sales
- Sales divisions that are responsible for different products, and
- Sales divisions that use different customer contact channels.

Specifically, the last-named *interfaces between sales divisions that use different contact channels* are of major relevance: The interface between field sales and in-house sales must be mentioned first here. The field sales force uses personal customer contact, while the in-house sales staff relies on media such as telephone or fax. Recently, many companies have established call centers, some of which perform sophisticated consulting services (see Chap. 18).

In addition, various companies have sales departments specifically set up to deal with the subject of e-commerce (Chap. 18). A problem area that occurs particularly often at the interface between field sales and in-house sales concerns the question of price sovereignty. In many companies that use in-house sales staff and call centers in order to push active telephone sales, the field sales force still claims exclusive price sovereignty. This often requires enormous coordination if telephone salespeople always have to consult the responsible field sales advisor during price negotiations with a customer (for more on the cooperation between field and in-house sales forces, see Sect. 7.4).

Sales also has various *interfaces with other functional areas* (see Fig. 7.4). Many readers will invariably be thinking here about interfaces to departments such as production, controlling and product development/application technology. One sales interface whose importance is frequently underestimated is that with the *marketing division*. Our observations reveal that there are major problems between marketing and sales in many companies (see Homburg et al. 2005a). This observation may be surprising at first glance. In fact, marketing and sales, owing to the closeness of

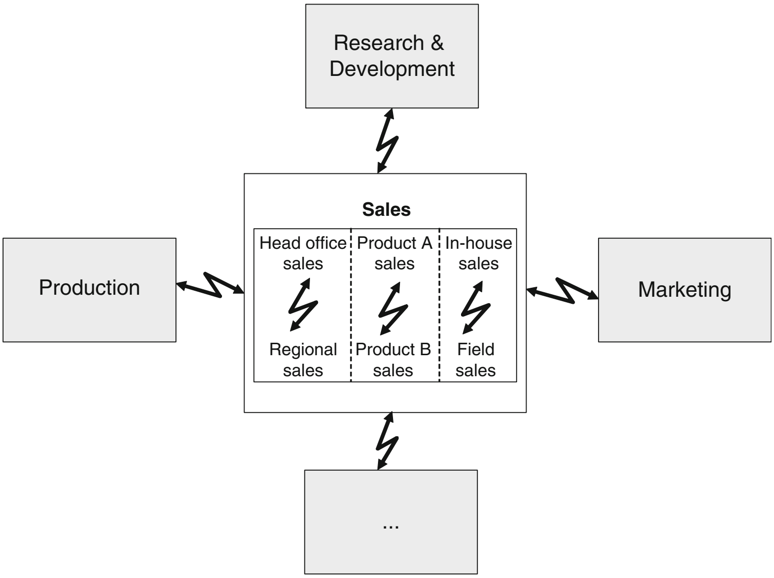

Fig. 7.4 The interface problem in sales

their tasks, ought to "speak the same language" and "pull together". Unfortunately, the opposite is frequently the case. Massive information deficits, entrenched fronts and, at worst, reciprocal arrogance are anything but exceptions. Many marketing managers perceive sales to be a purely executive organ, which at best needs to be informed. Sales managers often refer to their company's marketing staff as theoreticians remote from the market, who interfere in their work, rather than supporting it. In our opinion, the root of the problem is the fact that many companies have both a marketing culture and a sales culture. The marketing culture has more of an analytical and conceptual orientation, while the sales culture is very much action-oriented. In simplified terms, they could be referred to as the "thinkers" and the "doers".

Our studies confirm that companies which succeed in getting a grip on the interfaces between sales and marketing are more successful in the market and enjoy above-average profitability. These companies are better able to ensure uniform market development and react quickly to important changes in the market (see Homburg et al. 2005a).

If interface problems are not remedied, there are serious consequences: The laborious coordination and decision-making processes frequently tie up the capacities of many employees to an extreme degree. For example, one sales representative of a consumer goods company told us about planning a cross-brand sales promotion campaign for which he had to obtain the prior approval of all 14 marketing managers involved. This process alone cost the representative 3 weeks, during which he had to convince the brand managers and incorporate their "suggestions for improvement". Many managers are often unaware of the expenses associated with such processes. However, it is not only within the company that interface problems have an adverse effect: The consequence for the customer is often incomprehensible delays in responding to his inquiries or processing his orders. In the worst case, annoyance at such delays can result in the customer's complete defection.

To limit such negative consequences, systematic interface management is required. Before examining special interface management tools, it makes sense for us to first consider how interface problems arise in a company.

Interface problems are no doubt due, in part, to task specialization in the company. Of course, specialization in itself does not necessarily lead to serious interface problems. Intensive interface problems particularly occur if there is

- Excessively strong specialization,
- High interdepartmental dependence with regard to task fulfillment,
- Inadequate information exchange between the departments,
- Strongly divergent departmental objectives or interests,
- Great spatial distance between the departments, and
- Great cultural distance between the departments.

This poses the question of what tools to use to counter excessive specialization and limit or lower the coordination costs (see Bauer and Huber 1997). Four main types of tools can be distinguished here:

- Structure-related tools,
- Process-related tools,
- Personnel management related tools, and
- Culture-related tools.

In principle, these tools have two effects: First, they reduce the excessive coordination requirements. Secondly, they help to manage the unavoidable coordination requirements by means of justifiable resources. Figure 7.5 presents the most important tools, some of which will be briefly explained in the following.

Of course, *structure-related tools* generally allow *departments to be combined*. In addition, information exchange between the departments can be increased by setting up *coordination committees*. These committees inform employees about current projects that are being implemented in other departments or what is planned for the near future. Potential interfaces can therefore already be identified in advance and the cooperation can be planned. *Reducing spatial distance* is a tool that is underestimated by many managers. Spatial proximity provides very strong encouragement for informal coordination processes. Many problems encountered in day-to-day business can be resolved by an informal chat in the corridor.

Another *structure-related tool* that has recently been gaining in importance is the *formation of cross-function teams* (see Bühner and Tuschke 1999). Team building can be prudent if increased customer demands can only be met by cross-departmental cooperation. In the business-to-business sector, cooperation with customers nowadays often extends beyond sales. Many suppliers also work closely with their customers in other areas such as logistics or market research. Teams are often indispensable in successfully implementing such cooperations. The increasing complexity of the services offered, however, also makes teamwork more and

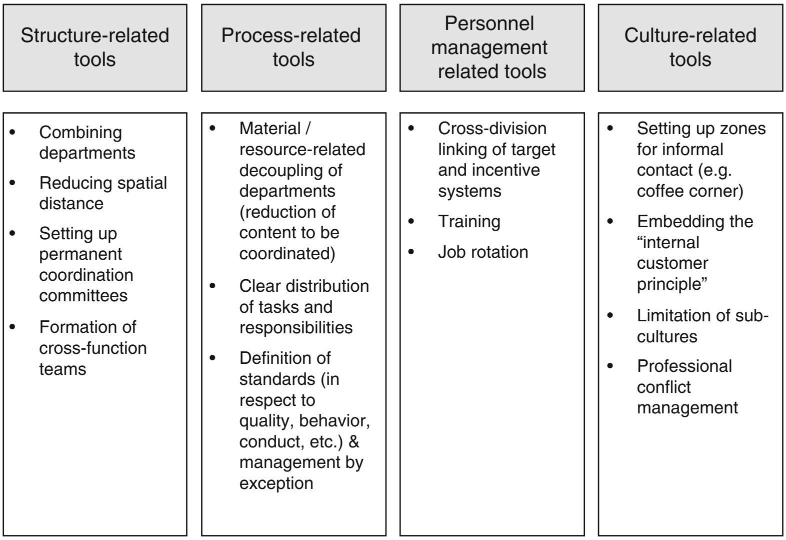

Fig. 7.5 Overview of the interface management tools

more necessary. In the financial services sector, customer advisors often depend on product experts if they want to offer their customers more complex service packages – in the sense of cross-selling.

Teams can be built for different purposes. In many companies today, cross-function teams are already being deployed in new product development, with staff from, for example, R&D, controlling, marketing or sales, or even customers being included. These teams are built for a particular project and are dissolved again at the end of the project. In sales, teams that work together on a long-term basis have been set up more and more frequently in recent times (see Homburg et al. 2000c). In addition to sales representatives, a sales team of this kind includes, e.g., employees from the marketing/product management, logistics or IT divisions. Figure 7.6 depicts a consumer goods manufacturer's "multifunctional sales team", which was formed for the purpose of developing retail customers.

If a company decides to use such teams, certain *success factors* need to be kept in mind.

1. *Team size:* The size of a team has a major impact on team effectiveness and efficiency. If a team is too small, it will not be able to cope with the allocated tasks, while teams that are too big have to be contend with high internal coordination costs and effort. Teams that are too big can also encounter the "freeloading" phenomenon if individual members are less committed and hope that their tasks will be performed by other members.
2. *Heterogeneity of the team members:* In principle, team members with different backgrounds have more opportunities to learn from one another. Excessive heterogeneity can, however, result in comprehension problems or a lack of familiarity that impedes collaboration.

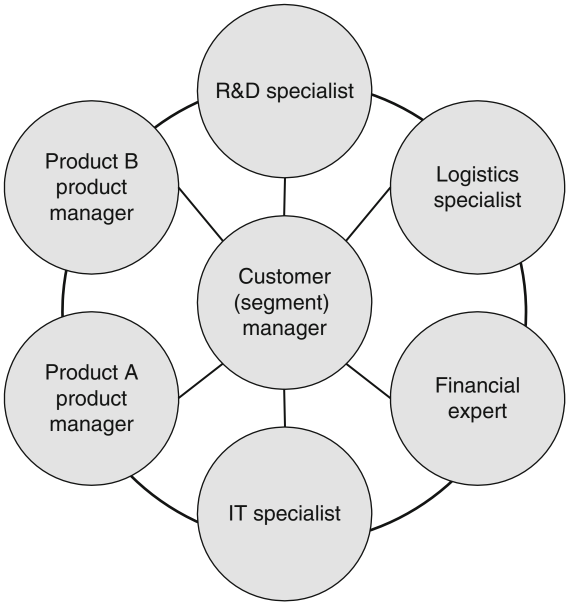

Fig. 7.6 Cross-function sales team using the example of a consumer goods manufacturer

3. *Team spirit:* In general, if there is a strong cohesion within the team, the motivation of the team members is preserved even under severe pressure. The team leader's difficult task is to make sure that the team enjoys a trusting and relaxed atmosphere while being simultaneously focused on performance. In addition, the team culture should be imbued with a uniform understanding of basic norms such as fairness, honesty, and performance orientation.
4. *Clarity of goals and roles:* The goals of the teamwork must be sufficiently specific and clear to each team member. Furthermore, the roles within the team must be clearly delineated. Particularly when dealing with customers, the team leader's leadership role or the IT specialist's expert role, for example, should never be questioned by other team members.
5. *Sufficient resource provision:* The team needs access to the necessary resources, such as meeting rooms, technical equipment, funding and even time. If these resources are too scarce, political maneuvering or competition between the team members or between the team and other company units may distract from the team performance.
6. *Performance assessment and incentive systems:* We have observed time and again that companies, while wanting to encourage a team ethic, do not wish to reward it. For example, it is problematic if an employee invests a major part of his working time in a team that is not led by his functional superior. Frequently a situation then arises in which the functional superior bases his performance assessment mainly on the performance produced in line operations and does not take sufficient account of the team performance. A promising model is to

compensate members based on team performance, the advantage being that cooperative rather than competitive behavior is encouraged in the team. However, this is offset by the possibility of some of the members "freeloading".

In spite of the great benefit that teams bring, we would like to warn against blind activism with regard to team building. Working groups are often created where in fact none is necessary and one employee could solve the task faster and better alone. For many companies, constantly building new teams is a mechanism for postponing unpleasant tasks and shifting responsibility ("We have a working group for that!"). What is important is that team building should be oriented on defined deadlines and results. Teamwork should not be interpreted as "Great, somebody else will do it for me".

Process-related tools allow certain *standards to be defined*, which need to be exceeded for a coordination requirement to arise. An example of this would be if telephone salespeople conducting sales negotiations find themselves confronted by the customer demanding a price reduction, which they cannot grant without approval by the product management or the responsible customer support representative in the field sales force. If the price discount remains below this standard, coordination is not necessary.

Job rotation, in particular, should be emphasized within the scope of *personnel management-related tools*. By working in external departments, employees and managers gain insight into the structures, processes and mindsets prevalent there. For example, we consider it highly problematic for someone to assume a higher-level sales responsibility in a company without ever having worked in marketing – and vice versa. Some companies refute this concept by pointing out that the costs of familiarizing the staff with their respective new areas are extraordinarily high. This objection cannot be completely dismissed. However, experience shows that the long-term benefit of broad-based work experience is much more important than the short-term training costs. "Vertical career ladders" are one of the main causes for interface problems.

In the context of *culture-related tools*, the *internal customer principle* deserves a special mention. There are often internal customer-supplier relationships between the different company divisions. The sales department, for example, depends on information or evaluations from the marketing department. Customer orientation can also be applied to these internal service interdependencies. Regarding this, the following guiding questions can be helpful:

- Who are my internal customers?
- What are their needs?
- How can I meet these needs?

Implementation of this principle can be fostered by means of internal customer satisfaction ratings. We will discuss the measurement of customer satisfaction in Sect. 12.4.

7.3 The Braking Function of Bureaucracy

No doubt, most readers have already made their acquaintance with the braking function of bureaucracy. Who has not been annoyed by the "office bureaucrats" when, for example, filing a tax return or requesting a building permit? Companies, however, also have their share of bureaucracy.

A corporate customer advisor in a bank was able to give us an impressive account of this when describing the procedure for processing a loan inquiry in his bank. After compiling and evaluating the necessary information about the corporate customer's creditworthiness and company performance, he forwarded the loan request with a myriad of forms to the responsible credit advisor. An initially positive signal from the latter was followed by repeated requests for additional information, which the employee had to obtain from the customer. This process dragged on for an additional 10 days. In the end, due to internal security regulations, the responsible loan advisor had to check back with a second loan advisor before approving the loan. Checking back cost another 2 days, causing the customer to become exasperated and, in the end, to withdraw his application. In this process, not only did the institution lose the high-volume loan transaction: The customer terminated the business relationship completely and switched to a competitor.

This is only one example for the fact that exaggeratedly bureaucratic organizations can no longer meet current customer requirements concerning flexibility, speed and customer proximity. Bureaucracy can occur in various forms, but in essence, it has four dimensions:

- Specialization,
- Hierarchy depth,
- Administrative intensity, and
- Documentation intensity.

The problems associated with exaggerated specialization have already been discussed in Sect. 7.2. *Hierarchy depth* refers to the number of hierarchy levels in a company's organizational structure. Deep hierarchies usually result in costly and time-consuming coordination and decision-making processes in the company. High *administrative intensity* exists if numerous detailed rules for fulfilling tasks have been defined. Such rules can relate to standardized procedures, "going through the official channels", signatory authorities, etc. *Documentation intensity* refers to the extent to which the written form prevails in the company. For example, in many large companies, even very minor information is forwarded in writing. In such situations, information that does not exist in writing frequently does not even elicit a response.

Exaggerated bureaucracy influences the way employees and managers think and act, as well as the processes in the company. The consequences of bureaucracy in these areas, in turn, have an adverse effect on company success. Figure 7.7 illustrates these correlations.

Bureaucracy gives rise to frustration and demotivation on the part of *employees*, because it is scarcely possible to show initiative or work independently. Ultimately, creativity also suffers under bureaucracy. Another problem can be seen in

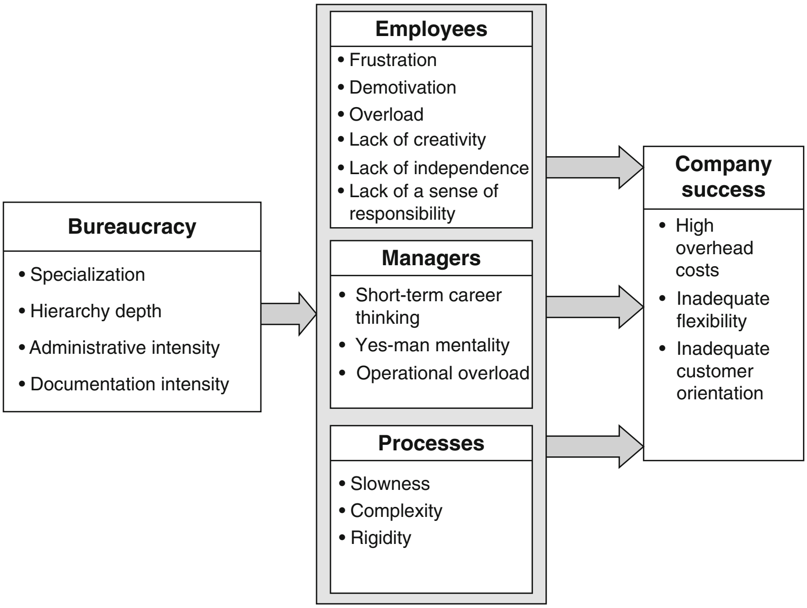

Fig. 7.7 Effects of bureaucracy

overloading individual employees who, for example, are no longer able to attend to their real day-to-day duties because of all the documentation tasks. Lastly, bureaucracy also causes many employees to have a lower sense of responsibility: The employee himself is not to blame if a customer backs out after having to wait several weeks for an offer: the bureaucratic processes are at fault.

Bureaucracy frequently gives rise to short-term career thinking on the part of *managers*. The predominant aim is to advance up the hierarchy as quickly as possible. The yes-man mentality takes over in order to be able to "climb" the career ladder as quickly as possible. Unconventional thinkers and new ideas hardly stand a chance. Moreover, bureaucracy also creates an operational overload for managers. Frequently, managers in very bureaucratic companies are snowed under with detailed decisions and formalities to such an extent that hardly any time remains for the really important tasks.

Bureaucracy ultimately also affects all of the *processes* in a company. Slowness, complexity and rigidity characterize the processes in bureaucratic organizations. The unpleasant result is that company success is put at risk due to high overhead costs, lack of adaptability to changes in the competitive environment, and a lack of customer proximity.

In view of this fatal impact, the question arises of how excess bureaucracy can be prevented (see Fig. 7.8). In this context, it should first be pointed out that the approaches we have already discussed to some extent in connection with specialization (see Sect. 7.2) can also be used to limit bureaucracy. One example is

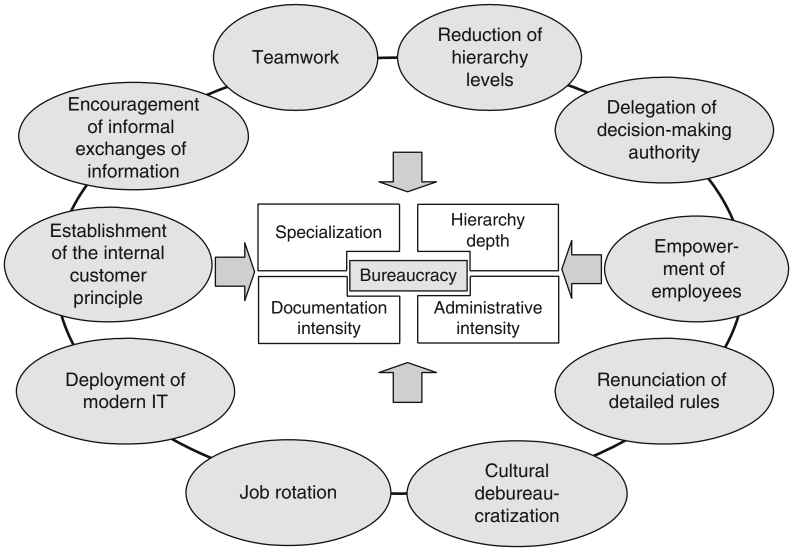

Fig. 7.8 Approaches to reducing bureaucracy

teamwork. We will therefore only discuss selected approaches in more detail at this point.

The *reduction of hierarchy levels*, the *delegation of decision-making authority* and the e*mpowerment of employees* are tightly interwoven approaches. A reduction in hierarchy levels generally means that the individual manager's span of control widens, which means, for example, that a sales manager has to coordinate and control the activities of all the regional field sales representatives if the regional sales management level is removed. Such reduction in the hierarchy intensity is only sustainable, however, if some decision-making authority is delegated to the field sales representatives. Such delegation has positive effects for both managers and employees. Managers can use their time for tasks that only they can perform. Employees can expand their area of responsibility to include interesting and responsible tasks, which ultimately acts as a motivating factor for employees.

Empowerment means transferring limited decision-making authority to employees who are in direct contact with customers (see Ahearne et al. 2005). The aim is to ensure that employees are able to respond quickly and non-bureaucratically to problems such as complaints. Many hotels have allowed their reception staff to provide a limited amount of credit memos for unsatisfied customers (e.g. for a free overnight stay). Empowerment can be a very effective tool in combating bureaucratic phenomena when dealing with customers. However, its successful application is bound to a number of prerequisites.

What is crucially important is that the use of empowerment should be integrated into a culture of trust within the company (see Sallee and Flaherty 2003). Experience shows that it is not enough to simply vest additional decision-making authority in employees who are in contact with customers. The employees also need to feel that management trusts them to use this decision-making authority appropriately.

Deployment of modern information technologies can make a significant contribution to reducing bureaucracy. New communication media such as e-mail and intranet shorten internal communication channels. Workflow management systems help make internal work processes transparent. First, the ideal-typical process flow of different work processes can be documented and viewed in the system. Secondly, the status quo of a procedure in process can be reproduced at any time in the system, which may eliminate the need for complicated reporting procedures to superiors or other staff members at the end of a work step.

Ultimately, however, no measures for reducing bureaucracy will bear fruit if bureaucracy is deeply embedded in the *corporate culture*. In many companies, regardless of official rules and regulations, there is a deep-rooted "mental bureaucracy" ("I better ask the boss on this one", "It would be better to give me this information in writing", etc.). We will discuss ways of impacting such cultural shortcomings in Chap. 10.

7.4 Contact Points for Customers: Uncomplicated, Reliable and Quick

A customer probably cannot experience anything more negative with regard to a supplier than not being able to find a competent contact person in a problem situation. Searching for such a contact person often amounts to a real odyssey. In terms of designing central customer contact points in the company, there are a few principles that need to be taken into account:

- Define clear contact points for your customers. If you have a manageable number of customers, you can assign a personal advisor to each one. Above a certain number of customers, you should set up service numbers, e.g. for receiving central repair orders or for a technical hotline.
- Inform the customer of his *contact person* or the *service number*, e.g. via mailings or by means of a visible stamp on the packaging or in the operating instructions. Very few customers read the "small print".
- Make sure that these customer contact points are also really *accessible*. Long waiting times or answering machines only serve to increase customer annoyance.
- Staff the contact points with employees who are sufficiently qualified in technical matters and trained in communicative behavior. Answering the phone with "Good morning, company XY, my name is Peter Meier, how can I help you?" is undoubtedly more pleasant than "Company XY, Meier".

Interestingly, problems with customer contact points do not only occur in the business-to-business sector, where a large number of customers are attended to, but also in the corporate customer sector. Customers who mainly work together with a field sales representative often complain about his lack of accessibility. Customers in such situations sometimes turn to the in-house sales staff. If, however, the cooperation between field sales and in-house sales is poorly coordinated, the in-house sales staff may not feel responsible, may not be familiar with the customer, may not have access to the customer data, or might not be professionally qualified.

A *tandem concept* can offer a remedy for such problems. An example may clarify this: An insurance company has its (independent) insurance brokers looked after by what are known as “broker advisors”. Each broker advisor forms a “tandem” with a member of the in-house staff. If the broker advisor cannot be reached, the call is automatically forwarded to the appropriate in-house staff member, who is informed about the activities of the field sales force. The technical prerequisite for this is a completely decentralized access to a customer database. We will provide a separate discussion of the informational prerequisites for such concepts in Chaps. 12 and 16.

A possible weakness of the tandem concept is that a customer is again left without a contact person if both members of the tandem are absent at the same time (e.g. due to sickness, vacation or further education/training). Some companies therefore deliberately use *in-house sales staff pools* instead of tandems. In these pools, every employee is responsible for every customer. Ideally, the absence of a staff member thus does not result in diminished support quality. In addition, waiting times for customers who are calling in or for field sales staff can be reduced during rush periods, since an inquiry can be answered by any in-house staff member. Advocates of the pool concept argue that the possibility to speak to different employees minimizes the negative consequences caused by personal differences between the customer and a particular employee. Countering this, however, is the argument that a pool with several contact persons may also hinder a close personal relationship between a customer and an in-house staff member. Which concept should be used in any one case strongly depends on the special conditions in the company (e.g. number of customers to be supported, task distribution between the field and in-house sales force). Accordingly, across-the-board recommendations unfortunately cannot be made.

Planning and Controlling: The Middle Ground Between "Flying Blind" and "Graveyards of Numbers"

8

The first part of this book focused on the demand for a well-conceived sales strategy which defines the target customers, the strategic line of attack for developing them and the competitive advantage to be striven for. A sales strategy, however, must not only exist on paper, but also has to be implemented. A pivotal aspect in this respect is *operational sales planning*, which is conducted in many companies in an annual cycle and frequently focuses on sales planning. Closely connected to the operational planning process is *operational sales controlling*, which is usually carried out at shorter intervals (e.g. on a quarterly basis).

In many companies, there is either no sales planning whatsoever, or it is only rudimentary. This can particularly be seen in small and medium-sized companies. The assertion that very small companies do not need such planning may be supportable to a certain extent. However, our observations show that even those companies which have reached a size that makes working with sales plans sensible or necessary fail to undertake sales planning. This omission is frequently rooted in historical reasons: We managed without planning in the past. Many sales managers feel very much at home in such constellations, since they rely more on intuition than systematic planning.

If a company's sales activities are, however, not planned and controlled at all or if the planning and controlling is only rudimentary, the result may be that the company "flies blind" through the market. It is virtually impossible to identify and remedy undesirable developments at an early stage in such cases (on the relevance of planning to success, see, e.g., Jenner 2001; Homburg and Schenkel 2005). In our collaboration with companies, we frequently observed that sales plans particularly neglected customer-related elements – i.e., information about market shares, prices and cost budgets per customer segment – as compared to product-related aspects.

On the other hand, it is certainly not uncommon to encounter companies in which unbelievable "planning bureaucracy" prevails. Such companies plan with great detail and at enormous cost. The results – sometimes gigantic "graveyards of numbers" – have little impact on actual sales activities. In many cases, we have also observed that the exorbitant time and effort spent on planning purposes is in striking contrast to the contentual quality of the planning (e.g. realism of the market-related

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_8, © Springer-Verlag Berlin Heidelberg 2012

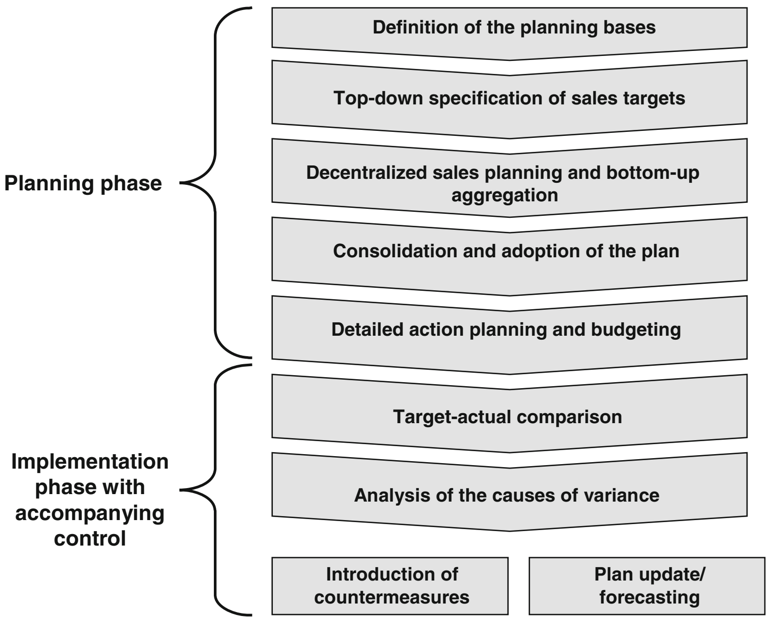

Fig. 8.1 Diagram of a planning and controlling process

planning premises). Some companies tie themselves up for weeks – even months – with these planning activities. A customer of a major high-tech manufacturer told us that he had to wait weeks for an appointment with his contact person because "planning for next year" was under way – in February of the current year. Therefore, one of the main challenges lies in finding the middle ground between too much and too little planning.

Planning and controlling activities should be carried out systematically and continuously (see Köhler 1993). The process described in the following, which covers both central and decentralized activities (see Fig. 8.1) is suitable for this.

The first step is to define the *planning bases*. For example, it is necessary to define the market-related premises on which the planning is to be based. This includes, e.g., estimates about the expected overall economic development (e.g. economic growth, income trends, etc.), legal developments (e.g. conditions in respect of the environment or the protection of minors) or trends in the relevant sales market (e.g. market growth or market stagnation) (see Chap. 14). In addition to the market-related premises, company-related premises (e.g. with regard to available capacities) also have to be addressed.

The second step usually involves *defining the sales targets* using a *top-down approach*. In most cases, these tend to be aggregated statements and information about market shares, sales volumes, sales revenue, customer satisfaction and, ultimately, profitability targets. In this context, it is important to pay appropriate attention to the mid-term figures from the sales strategy (see Chap. 6). This is basically a trivial fact, although our observations reveal that many companies fail to coordinate strategic sales planning and operational annual planning. Coordination needs to be twofold: The strategic figures have to be taken into account during the annual planning, and the annual planning has to result in the strategic figures being updated.

The third step, which usually involves the greatest time and effort, is to carry out *decentralized sales planning*. As a rule, this task is performed by the decentralized sales organizations (countries, regions, divisions, etc.). In this planning phase, far more detailed statements about the objectives and targets (e.g. about the share of the individual products in the overall sales) are made than it is the case with top-down planning. Measures (e.g. sales promotion campaigns) and resources (e.g. personnel and materials) required for achieving the targets are also defined at this point.

It would appear advisable here to derive operational sales targets from previously quantified market/customer potentials instead of applying simple rules of thumb such as "status quo plus x%". Potential-oriented sales planning has the following advantages (see Winkelmann 2008b):

- The potentials analysis needed to quantify the targets and objectives requires participants to systematically examine the framework conditions expected for the sales sector, thus enforcing a more consistent approach to sales planning.
- Potential-oriented planning facilitates the early detection of previously untapped or new market potentials (e.g. shifts in requirements or new product applications).
- During economically weak periods, potential-oriented planning often maps the real situation better than simple growth targets do. The same applies if a decentralized unit has already largely exhausted its market or customer potential. In this case, simple growth targets would often entail price discounts in order to generate additional sales.
- If decentralized sales units plan on the basis of market/customer potentials instead of sales increases, the motivation for "poaching" at the territory boundaries generally diminishes.

The results of the decentralized planning (sub-plans) are then *aggregated on a bottom-up basis,* so that they can be compared with top-down planning (counter flow principle of planning). Since this comparison typically detects discrepancies, a *consolidation phase* is needed before the plan can be adopted. In practice, many mistakes are made during this phase. For example, it can frequently be observed that if a strictly hierarchical top-down mechanism is used, the figures proposed by the decentralized units are "adjusted" upwards without involving the relevant managers in the process. This creates a problem in that the responsible managers in the decentralized sales units no longer support the plans. We therefore strongly recommend that companies allow for enough time in the consolidation phase for potential clarification loops. Extreme time pressure during this phase ("We need to submit our figures to the supervisory board the week after next") can have a detrimental effect on the quality of the resultant plan.

Even the best planning is relatively worthless if it is implemented without a systematic controlling system, since that is only way to enable the early detection of undesirable developments and ensure proper responses. Systematic sales controlling is thus a permanent process, whose most important steps are described in Fig. 8.1.

First, there has to be a systematic *target-actual comparison* of the targets, measures, and resources. This should not be limited to an aggregated analysis. For example, an actual-target comparison in the form of "Country A 30% over budget, Country B 30% under budget – it will all even out in the end" is not conducive to meeting the targets. Instead, the target-actual comparison has to be broken down into detailed planning objects. Cross-compensation can only be accepted here if there are actual reciprocal effects (e.g. a shift of resources from one segment to another).

The next step comprises a *causal analysis* of the identified *variances* from the target status. On one hand, there may be *company-external causes*, such as changes in customer buying patterns, unforeseeable actions taken by competitors (e.g. new product launches) or mistakes made by external sales partners. On the other hand, variations can also be caused by *planning deficits*. Unrealistic planning premises as well as inconsistencies (e.g. between targets and required resources) are the most common examples of this. A third category of causes comprises problems in *other company divisions* (e.g. loss of orders due to a lengthy shutdown of important production equipment). Lastly, *errors in sales management* can give rise to actual-target variances, examples being improper selection of the employees, insufficient personnel development or misallocated resources.

What is important in this connection is that the variance analysis should be systematic and sound. Our observations show that sales managers in many companies use external causes ("The market just developed differently") as a pretext.

Indications for identifying the concrete causes of variances can be gleaned from an analysis of *sales indicators*. Seen in isolation, the information content of many indicators is small, but suitable comparisons (e.g. with other units in the company or with other companies) invest them with explanatory power. Sales indicators can principally be divided into three categories: economic indicators, customer-related indicators and acquisition-related indicators (see Fig. 8.2). In this connection, it is important that a company restrict itself to a relatively small number of meaningful indicators within the scope of the ongoing controlling process. Permanent monitoring of an unfathomable "jumble of figures" not only ties up resources unnecessarily, but can also distract from the clarity of the information to be derived. We have come across some companies that compress their indicator system for the ongoing sales controlling down to only four to eight indicators (see also Weber and Schäffer 2000b). Which indicators should be used in individual cases, however, strongly depends on the particular context – across-the-board recommendations cannot be given.

The analysis of the causes of variance can, in principle, give rise to two possible consequences that, in practice, typically occur in parallel. First, *countermeasures* for reducing target-actual variances can be introduced. These measures may refer, on one hand, to ways of influencing the behavior of the people/companies involved in the entire sales process. Examples include special sales promotion campaigns,

Economic indicators	Customer-related indicators	Acquisition-related indicators
(Potential) sales revenue/CM in relation to ... • Products/product groups • Customers/customer groups • Other sales segments • Employees • Sales entities/sales channels • Customer visits/sales calls • Orders/order size categories and • Realized sales prices (deviation from the list price) • Warehouse stocks	Number of ... • Customers (new vs. regular customers) • Lost customers • Regained customers • Complaints and • Customer satisfaction (general, per segment) • Customer retention (general, per segment)	Number of ... • Inquiries • Customer visits/sales calls • Visits to website • Orders (receipt/ stock) • Inquiries per order • Customer visits/sales calls per order • Quotes per order (hit rate) • Quotes per sales segment and • Dwell time on the website • Average order amount

Fig. 8.2 Indicators for analyzing the causes of variance

special measures geared towards sales intermediaries, and employee-oriented measures (e.g. personnel development measures as well as the "carrot and stick" approach). On the other hand, the measures may be concerned with adjusting the framework conditions of the sales system, which relate, e.g., to short-term increases in available capacities.

The second consequence consists of *updating the planning data* as part of regular *forecasting*. The data is updated if it is obvious that there is no guarantee that the plan can be fully achieved even with corresponding countermeasures.

From our perspective, the topic of cost control in sales is likely to gain importance. Many companies still have some homework to do here. Only systematic control of all sales activities can provide a way out of the situation of "fighting on two fronts" (see Sect. 1.1).

To conclude, we will once again list what we consider to be the main requirements for sales planning and controlling:

- The content of the sales planning must be derived from the targets and objectives specified in the sales strategy and be consistent with them.
- Strategic and operational sales plans must be consistent with one another.
- The content of the sales planning should contain a balanced mix of "hard" target figures (e.g. sales revenues or sales volumes) and "weak" target figures (e.g. customer satisfaction or customer retention).

- Sales planning should be based on both products and market segments. In extreme cases, it may even be expedient to plan at the level of the individual customer.
- Incentives need to be set to ensure that planning is as realistic as possible: Extreme plan shortfalls should be avoided just as much as extreme plan overruns. Inappropriate performance incentives (e.g. “bonus for the sales unit that exceeds the planned targets to the greatest degree”) may result in the initial planning being too conservative, so that the planned targets can be surpassed by as much as possible later on. Capacity bottlenecks are pre-programmed in these cases.
- When planning according to the counter flow principle, sufficient care should be taken during the phase of consolidating top-down and bottom-up plans. Existing differences between central and decentralized ideas must not be simply “ironed over”.
- Sales targets and measures for achieving them must be broken down into periods of time. For example, annual plans should be specified at least at the quarterly level – not, however, by simply dividing the annual plan figures by four, but by also taking into account seasonal aspects.
- In the context of sales controlling, variances must be carefully analyzed. Prematurely justifying plan variances by external causes may be convenient, but it prevents necessary improvement measures from being introduced.
- It must be ensured that the sales plan is binding for the individual sales managers.
- Sales planning must be carried out with appropriate time and effort. It is important to strike a balance between the relevancy and the accuracy of the information used in planning. While the middle ground between “flying blind” and “graveyards of numbers” is not easy to find, it does exist.
- Power games should be avoided at all costs in sales planning!
- Marketing *and* sales departments should have an appropriate influence.

9 Personnel Management: The Poor Cousin of Sales

In our experience, the subject of personnel management in sales has been very much neglected in many companies up to now. This is particularly surprising, since sales representatives are often the main link between supplier and customers and, as such, are repeatedly confronted by the challenge of reconciling conflicts of interest between supplier and customers (see Anderson and Onyemah 2006). Furthermore, it is more difficult for the management to keep checking on the activities and behavior of sales representatives in their dealings with customers. Systematic personnel management and, in particular, a fully developed controlling system are, in fact, therefore indispensable to sales. For many managers, however, the focus is on day-to-day business and the short-term sales targets. The fact that the subject of personnel management has been neglected is all the more astounding when you consider that managers can use professional personnel management to further develop employee skills, thereby significantly improving their performance and hence sales success. For example, one study showed that up to 50 % of the differences in the sales success of bank branches are attributed to the branch office manager's leadership behavior (see Steyrer and Geyer 1998).

The problems in personnel management are manifold (see Scholz 2000): managers unfamiliar with the factors that influence employee performance, unprofessional personnel recruitment mechanisms, high personnel turnover, serious shortcomings in the leadership style of managers, a lack of systematic deployment of management tools (e.g. target agreements or performance-based compensation systems) – all of these are phenomena that are surprisingly common in the sales divisions of many companies even today.

These problems are even more grievous in that the requirements *placed on sales employees* are increasing and will continue to do so even more in the future. The individual sales representative is also feeling the full force of the dilemma of "fighting on two fronts" ("doing more with less") (see Chap. 1): More and more demanding customers who require and expect comprehensive consulting and problem-solving expertise, more complex service bundles as well as the constantly mounting pressure to improve productivity are the main driving forces behind this.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_9,

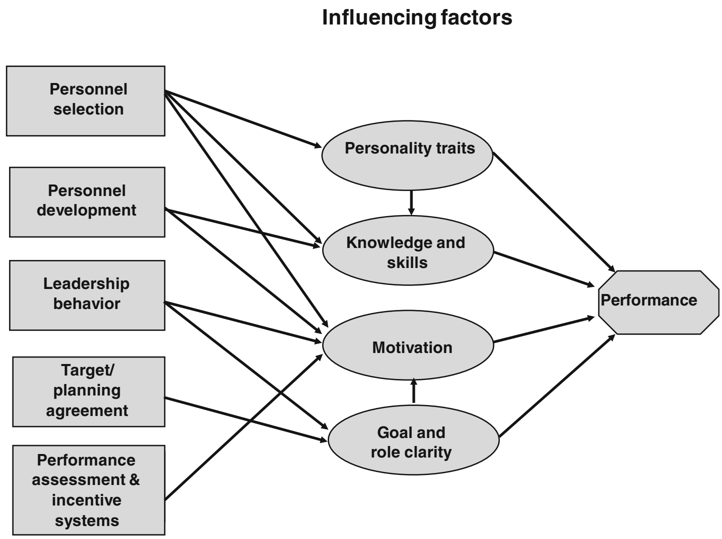

Fig. 9.1 Management tools and influencing factors related to performance

Against this background, professionalization of personnel management in the sales divisions of many companies is urgently required. The relevant aspects and tools will be discussed in the following sections.

9.1 Understanding What Performance Depends On

To optimally utilize an employee's performance potential, a manager must be familiar with the factors that influence an employee's performance. In essence, there are five influencing factors:

- Personality traits (e.g. empathy, optimism),
- Social competence (e.g. communication/perceptual skills),
- Professional competence (e.g. product and customer related know-how),
- Motivation, and
- Goal and role clarity (the employee's knowledge of the defined objectives and targets and the expectations placed upon him).

We will discuss the first three aspects in more detail in Chap. 17. These five factors can be deliberately influenced by certain management tools (see Fig. 9.1). These include *personnel recruitment*, *personnel development, leadership style, objective planning and agreements* as well as *performance assessment* and *incentive systems*. In the following, we will closely examine each of these tools and their impact on the factors that influence performance.

9.2 Personnel Recruitment: Professionalism from the Start

Personnel recruitment has a positive effect on the performance of employees in several respects. It can be used to make sure that only employees with the desired personality traits and relevant social and professional competence join the company. In addition, it can also ensure that suitably motivated employees are selected.

A wrong decision in the appointment of personnel is associated with high follow-up costs in sales. Examples here include lost orders or even lost customers due to insufficiently qualified employees as well as high costs arising from the personnel development needed to close qualification gaps. Finally, unprofessional personnel recruitment also results in considerable expenses due to a high employee turnover.

In this section, we will therefore explain how professional personnel recruitment functions. This process generally contains three phases:

1. Devising the job specifications,
2. Approaching and gaining the interest of potential employees, and
3. Selecting future employees.

Job specifications describe the characteristics and skills that an employee needs for a particular sales position, independent of the current or future incumbents. When *devising a job specification*, the following questions first need to be answered as part of a *task analysis*:

- What are the core tasks of the position to be filled?
- What responsibility does this position carry?
- What other tasks might possibly arise?
- Who must the incumbent communicate with in order to fulfill his/her tasks?
- What special strains and stresses does the position involve (e.g. excessive traveling)?
- What natural opportunities for advancement can this position provide?

This task analysis is then used to *derive* professional and personal *requirements* that must be documented in the job specification. Job specifications need to be devised with actual application in mind. While many companies fill whole files with them, due to their volume and complexity, such specifications are not taken into account when selecting employees. Job specifications must also consider the customer's expectations of a sales representative. The results of one empirical study showed that there was, in part, a major difference between the customers' view and that of managers with respect to the requirements put on sales representatives (see Lancioni and Oliva 1995). Compared with customers, managers typically overestimate the importance of analytical skills and sales experience, while underestimating the importance of attributes such as empathy and the ability to communicate (i.e. the "soft skills").

The next step is to approach and *interest potential candidates*. First, their expectations of an employer or a task must be determined. Nowadays, if young professionals or career switchers are asked what they expect from their future employer, they frequently mention personal responsibility, variety of work as well as the opportunity for further developments and advancements.

Once the expectations are clear, the attractive features of the position to be filled have to be specified. The attractiveness of a sales position can be enhanced, for example, by a stay with foreign sales companies or by assigning responsibility for a certain sales volume or a customer group early on. In addition, a sales employee's opportunities for advancement also need to be defined by demonstrating career paths.

The next step is for the company to use these attractive features to position itself as an interesting employer in the highly competitive market for qualified employees (see Bauer et al. 2000). To do this, it must have a clear *communication concept*, i.e. it must have a systematic plan with regard to the media and the content it wants to use to address the relevant target group. Many companies, however, still pursue the "shotgun approach". For example, many companies place job or image advertisements somewhat haphazardly in newspapers, instead of proceeding in a targeted manner. A promising route that only a few companies are currently professionally using is to personally address potential employees via university contact persons. Cooperation with selected partners at universities (e.g. marketing chairs or student organizations) enables the company to approach highly qualified young professionals with an interest in sales, which helps reduce the coverage waste associated with the traditional personal approach.

Different tools are available for *selecting personnel* (see Cron et al. 2005). Table 9.1 presents some classic tools, such as personnel questionnaires and interviews.

In principle, it is a good idea to deploy a combination of various tools, since different tools enable different facets of an applicant to be analyzed. Furthermore, the tools must be used in a situation-specific manner. Then, there is always the question of the cost-benefit ratio of the tools to be used. For example, it does not make much sense to have former interns who have already proven themselves pass through an expensive assessment center again.

An applicant should also be allowed to speak to several selected employees. This has advantages for both the applicant and the company: The applicant gets to know different personalities and opinions, thereby obtaining a better impression of his potential employer. The company can base its selection decision on the different impressions of the applicant, thus reducing subjectivity. Finally, the development potential of the applicant must already be appraised during the job interview, which allows further personnel development measures to be planned at a very early stage.

9.3 Personnel Development: Standing Still Means Going Backwards

Personnel development – the second management tool we will be examining – affects employee performance by influencing their social competence, professional competence and motivation (see Fig. 9.1). Personnel development measures can be used to bring out and train employee skills, which ultimately serves to increase the company's productivity. A person who, for example, has a mastery of sales

Table 9.1 Overview of personnel selection tools

Tool	Assumptions	Advantages	Disadvantages
Personnel questionnaire (asking the "hard facts", previous career history and future plans)	Previous behavior as an indicator of future behavior in the daily work routine	Satisfactory significance and relevance	Superficiality of the questions
		Can be designed on an individual basis	
		Possible basis for subsequent interviews	
Interview/job interview (free or structured discussions between the applicant and one or several representative(s) of the company)		Acquisition of specific information about the applicant, his personality/character and his professional knowledge	Significance and relevance depends on the structuring of the interview and the interviewer's experience
		Opportunity to get to know each other	Strong situational influence
		Interactivity	Stronger weighting of negative information
			Interviewer bias
Situational interview (simulation of potential work situations, e.g. using business situation games/role plays)	Behavior in the "artificial" situation as an indicator of subsequent behavior in real situations	Motivating effect for the applicant	High costs and time involved in preparing and designing the simulations
		Direct reference to work habits and on-the-job behavior	
References (obtaining information from previous employers)	Previous behavior as an indicator of future behavior in the daily work routine	Relatively low cost and effort	Significance and relevance depends on the objectivity of the contact person
		Rapid acquisition of the information	Problematic if there have been major changes in the scope of duties
Formal tests (e.g. personality or aptitude tests)	Different values for the tested characteristics for different applicants	Objectivity: protection against subjective prejudices	No analysis of the whole personality/entire range of knowledge
		Possibility of statistical evaluation	Possibly little reference to actual behavior in the work situation
	Relationship between value of the tested characteristics and fulfillment of the job requirements	Standardization	Potential invasion of privacy
			Some limitation to the applicability of the tests

(continued)

Table 9.1 (continued)

Tool	Assumptions	Advantages	Disadvantages
Assessment center (combination of formal tests and (situational) interviews)	Overall picture of the applicant can only be gained by using several tools	More realistic	High financial cost
		Higher degree of objectivity	Time-consuming
		Observation of actual behavior	Significance and relevance depends on the experience of the observer(s)
		Consideration of dynamics and interaction	

techniques, negotiation management or time management will be more productive than someone who has significant shortcomings in these areas. Employees frequently perceive further education/training measures as an opportunity, a reward, or as a sign of being valued by the superior or the company. Such recognition, in turn, has a motivating effect.

However, personnel development is not only an investment in the employees, but also in the company's future. Personnel must be able to keep pace with the changes in the markets, the competition, technologies and their own company. A keyword that is frequently being used these days in this connection is "lifelong learning". A company and its employees must continually face up to market demands and enrich their knowledge. The following aspects should be kept in mind:

- Personnel development serves to communicate the sales targets and makes the sales representatives appreciate the resultant tasks.
- Particularly with regard to the field sales force, personnel development increases the bond to the head office and fosters employee commitment to the company.
- Personnel development ensures a relevant level of training, thereby guaranteeing a particular quality standard.

Numerous companies have recognized these advantages and are investing in personnel development. We recently encountered an example of personnel development for new sales representatives: A chemical company initially puts a new sales representative through a 6-month training program. He spends the first 6 weeks in a special training center, in which he not only learns everything about the company's sales, products and marketing, but also gets a feel for the corporate philosophy and culture. Field sales and training then alternate in a 6-week cycle. During the entire process, the new employee has a mentor at his side, assisting him with any questions. After 6 months, the employee is assigned a sales territory. The success of this program is regularly monitored in four steps (see also Leach and Liu 2003). The employee's satisfaction is assessed in the first step. In the second step, tests are given to evaluate the employee's newly acquired knowledge. The third step examines how effectively the employee applies his knowledge on the job. The fourth and final step comprises determining the contribution made to company success.

Even if companies have long recognized the importance of further education/training measures and are accordingly making high investments in this area, the fact remains that there is still potential for improvement with regard to systematic and

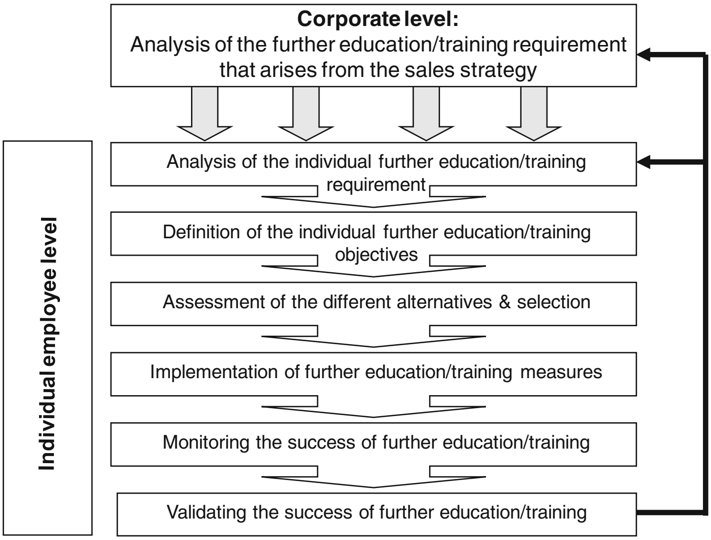

Fig. 9.2 Further education/training as a process

requirements-based planning, implementation, control and monitoring of further education/training measures. In the following, we will therefore present some recommended actions with respect to systematic personnel development.

As shown in Fig. 9.2, personnel development is processual in character. Two analysis levels need to be distinguished here: the corporate level and the employee's individual level. The first step is to determine, at the corporate level, the further education/training requirement that arises from the sales strategy (see Part II).

The following steps at the individual employee level are based on the results of the analysis of the strategic further education/training requirements. The individual *further education/training requirement is analyzed* first here. For this purpose, the employee's current qualification (actual status) must be evaluated. An analysis of the employee's future tasks is then used to derive the required qualification. The following questions may be helpful when determining the qualification requirement:

- To what extent does the employee meet the job specifications for the position that he has filled?
- What do customers expect of our sales representatives?
- In which areas do the competitors' sales employees perform better?
- Why do the competitors' sales personnel perform better?
- What further education/training does the competitor with the "best" sales offer?

In our experience, the qualification requirement related to product knowledge or selling technique tends to be minor, particularly for long-serving sales representatives. Training with regard to product or sales techniques is basic sales training and is encouraged accordingly. According to surveys, product training and sales rhetoric training is most common (see Zahn 1997). There is, however, often a

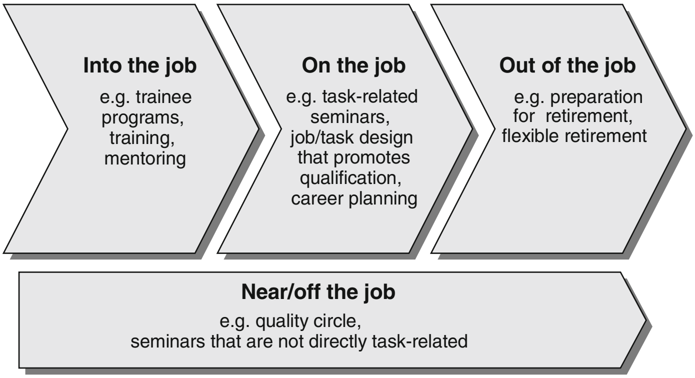

Fig. 9.3 Possible personnel development measures

further need for education/training with respect to the skills involved in marketing complex solutions. In the corporate customer sector, for example, this requires solid business knowledge as well as knowledge about the customer's business system or cost structure. There is also considerable room for improvement in many companies when it comes to social competence in their sales divisions.

The next step, the *individual further education/training objectives are defined*. The company and the employee need to meet together annually, ideally as part of the target agreement, to jointly define the training that the employee should attend and the results he should achieve. In our opinion, there is little point here in letting employees pick out different types of training completely freely from a "wish list".

Once the individual further education/training objectives have been defined, the alternative measures for achieving these objectives need to be *assessed* and *selected*. Training can, of course, be structured very differently. As depicted in Fig. 9.3, a primary distinction is made between *into the job*, *on the job, near/off the job* and *out of the job* measures.

Two further decisions that need to be made in this context involve identifying who should conduct the further education/training and how much time to spend on the individual measures. Further education/training can be conducted, for example, by internal employees or by external trainers. Training that lasts a few hours or for several months is equally possible.

To validate the success of the training, a final step comprises *monitoring* the extent to which solutions have been found to remedy the respective shortcomings of the participants. There are different ways of monitoring the success of the further education/training measures:

- Measuring the employee's satisfaction with the further education/training,
- Performing tests to validate the knowledge/skills learnt,
- Comparing the employee's performance before and after the further education/training, and
- Comparing the employee's sales success before and after the further education/training.

What is important here is that the factors that will be used later to assess the success of the personnel development measures should be defined in advance. Finally, it should be emphasized that there is very rarely any point to one-time further education/training. Rather, the effectiveness and success of the training also needs to be validated and supplemented in the long term with continuous further education/training measures. The concept of the "learning organization" is very relevant here. Employees have to be motivated to continually improve their knowledge, i.e. they need to "learn to learn".

9.4 Leadership Styles: Patriarchs, Despots and "Correct" Managers

The leadership style of superiors has a decisive influence on employee motivation as well as on goal and role clarity. In many companies, it can be observed that a problematic leadership style in sales causes considerable productivity problems. What makes for a "good leadership style"? Many managers with personnel responsibilities are seeking an answer to this question, of course. To get closer to an answer, we will first characterize leadership styles using two main dimensions: employee orientation and performance orientation (see Homburg and Stock 2000, p. 100 et seq.; Homburg and Stock 2002).

- *Employee orientation* defines an open interpersonal relationship between superiors and employees. The cooperation is characterized by mutual respect and trust. Moreover, the employees are involved in decision-making processes and can bring in their own ideas.
- *Performance orientation* is evidenced by a leadership style that is strongly geared towards performance targets. The employees are assigned demanding, but also realistic targets. There are regular checks to monitor whether the targets have been achieved.

Depending on whether there is high or low manifestation of the dimensions, four fundamental leadership styles can be distinguished (see Fig. 9.4): the bureaucratic, the authoritarian, the patriarchal-solicitous and the cooperative leadership style.

The *bureaucratic* leadership style is characterized by a low degree of performance and employee orientation. Following rules is often more important than achieving performance objectives and open communication with employees. Superiors tend to be distant in their dealings with employees and attach little importance to interpersonal relationships. Exchanges between superiors and employees are mostly formalized, e.g. in the form of instructions. The bureaucratic leadership style is particularly common with public authorities and agencies, but is also present in some large companies.

The *authoritarian* leadership style is characterized by a high degree of performance orientation and a low degree of employee orientation. Objectives and targets tend to be dictated rather than agreed upon. The employee's concerns or suggestions are of little interest. In particular, great value is attached to utilizing the employee's manpower. Even today, this leadership style is still common in very many companies.

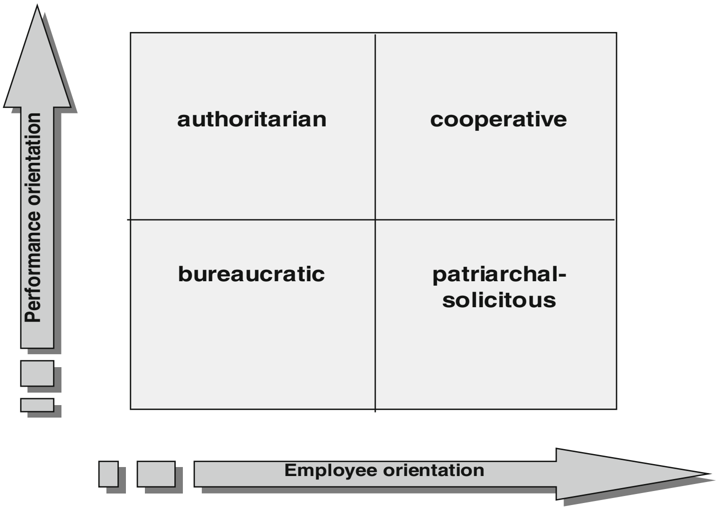

Fig. 9.4 Four fundamental leadership styles (see Homburg and Stock 2000, p. 101)

The *patriarchal-solicitous* leadership style is characterized by a low degree of performance orientation and a high degree of employee orientation. The personal wellbeing of the employees is more important than meeting performance objectives. Criticism of employees is often avoided to circumvent potential conflicts. This kind of leadership style is particularly found in family-owned companies with a dominant entrepreneurial personality.

The *cooperative* leadership style is characterized by a high degree of performance orientation in conjunction with a high degree of employee orientation. The superior tries to establish a good relationship with the employees, attaching great importance to their welfare. Demanding, but achievable targets and objectives are jointly agreed upon with the employees. The employees are actively involved in decisions and change processes.

Some readers will now be asking which leadership style is optimal. This question cannot be answered at this general level. Different situations require different leadership styles (see Ingram et al. 2005). For example, corporate restructuring frequently calls for an authoritarian leadership style. Furthermore, it should be kept in mind that whether or not a leadership style is successful also depends on the employee. An authoritarian leadership style is also frequently needed for employees who display very little motivation and initiative. However, today we know that the cooperative leadership style produces the best long-term results in numerous respects.

However, particularly in sales, a third dimension of leadership behavior – *customer orientation* – is of major importance. A sales manager can be performance-oriented and employee-oriented to a high degree, but still focus largely on company-internal aspects. This type of leadership style does not especially foster customer orientation on the part of the employees. Customer orientation must begin

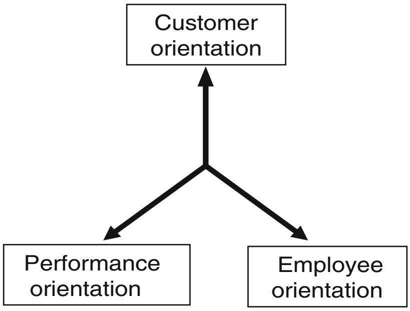

Fig. 9.5 Three dimensions of leadership style (see Homburg and Stock 2000, p. 107)

with the superior. A customer-oriented superior exemplifies customer orientation to his employees through his own behavior, and is thus a role model (see Stock-Homburg 2012). Moreover, a customer-centric superior attaches great value to continuously improving customer-oriented processes. This is also reflected in the objectives and targets assigned to the employees. Against this background, customer orientation represents the third principal dimension of leadership behavior (see Fig. 9.5).

In our experience, many superiors claim that their leadership style is performance-oriented, employee-oriented and customer-oriented. Often, however, this is a significant misjudgment resulting from the desire to manage in a "modern" and "proper" manner. What is relevant, however, is not the leadership style that a manager believes he is practicing, but, ultimately, how the employees perceive the leadership style. Determining this requires systematic assessment of the leadership style. Figure 9.6 shows a corresponding assessment tool based on the three cited dimensions.

This tool can, for example, be used to perform a systematic assessment of a manager's leadership style on the basis of an employee survey. In our experience, typical profiles emerge again and again (see Fig. 9.7).

The "kicker", for example, who only has high scores in performance orientation, is quite common in sales divisions. The "professional manager", for example, boasts high ratings in all three dimensions. For a detailed presentation of this assessment tool, please refer to Homburg and Stock (2000, p. 100 et seq.).

Such an assessment inevitably poses the question of how to reduce any deficits with respect to the three principal dimensions. There are different approaches and tools that can be used for actively working towards improving performance, employee, and/or customer orientation. Table 9.2 shows examples of some of the options.

9.5 Target Agreements: The Balanced Scorecard in Sales

Whereas we analyzed a manager's *leadership style* in the previous section, we are now going to focus on one of the main *tools of personnel management*, namely operational controlling of employees by means of target agreements. It is frequently

The superior…	Very true (100)	True to a large extent (75)	Some-what true (50)	Some what false (25)	Not true at all (0)	No assess-ment possi-ble
Performance orientation						
... actively and regularly communicates the company objectives to his employees.	❑	❑	❑	❑	❑	❑
... sets clear targets and objectives for himself and his employees.	❑	❑	❑	❑	❑	❑
... regularly assesses the degree to which his employees have achieved their targets/objectives.	❑	❑	❑	❑	❑	❑
... focuses on the most important tasks.	❑	❑	❑	❑	❑	❑
... does not measure the value of his performances in terms of time and effort, but according to the results.	❑	❑	❑	❑	❑	❑
... delegates tasks to his employees in an appropriate way.	❑	❑	❑	❑	❑	❑
... does not postpone urgent decisions.	❑	❑	❑	❑	❑	❑
... encourages employees to realize special achievements.	❑	❑	❑	❑	❑	❑
... rewards good performance by his employees (e.g. by assigning attractive tasks to them).	❑	❑	❑	❑	❑	❑
... criticizes poor performance by his employees.	❑	❑	❑	❑	❑	❑
Employee orientation						
... appreciates his employees on a personal level.	❑	❑	❑	❑	❑	❑
... shows consideration for his employees' concerns.	❑	❑	❑	❑	❑	❑
... attaches importance to good interpersonal relationships with his employees.	❑	❑	❑	❑	❑	❑
... pays attention to the wellbeing of his employees.	❑	❑	❑	❑	❑	❑
... backs his employees even in difficult situations.	❑	❑	❑	❑	❑	❑
... encourages his employees' ideas and initiatives.	❑	❑	❑	❑	❑	❑
... makes it easy for his employees to speak freely and unreservedly to him.	❑	❑	❑	❑	❑	❑
... encourages teamwork.	❑	❑	❑	❑	❑	❑
... involves employees in decisions that are relevant to them.	❑	❑	❑	❑	❑	❑
Customer orientation						
... exemplifies customer orientation.	❑	❑	❑	❑	❑	❑
... does not perceive customer orientation as an end in itself.	❑	❑	❑	❑	❑	❑
... aligns employee targets and objectives to customer orientation.	❑	❑	❑	❑	❑	❑
... recognizes customer-oriented behavior on the part of employees.	❑	❑	❑	❑	❑	❑
... criticizes employee behavior that is not customer-oriented.	❑	❑	❑	❑	❑	❑
... particularly encourages customer-oriented employees.	❑	❑	❑	❑	❑	❑
... frequently speaks to his employees about the importance that customers have to them personally.	❑	❑	❑	❑	❑	❑
... frequently speaks to his employees about the importance that customers have to the company.	❑	❑	❑	❑	❑	❑
... works at improving customer-related processes in his sphere of responsibility.	❑	❑	❑	❑	❑	❑

Fig. 9.6 Checklist for assessing the leadership style (see Homburg and Stock 2000, p. 104 et seq.)

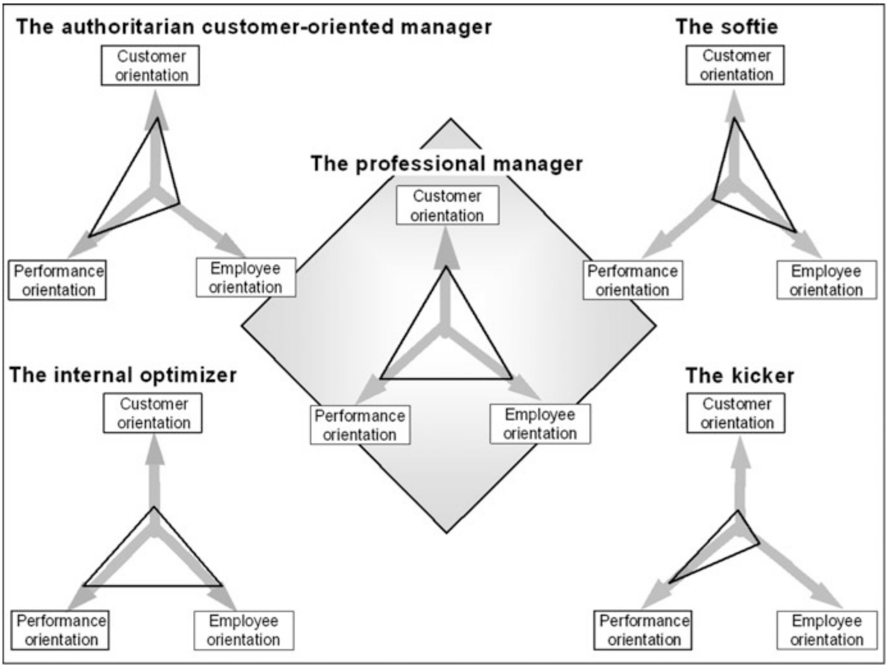

Fig. 9.7 Typical leadership style profiles (see Homburg and Stock 2000, p. 108)

used in connection with the *balanced scorecard* tool (see, inter alia, Kaplan and Norton 1997; Weber and Schäffer 1998, 2000a; Günther and Grüning 2001). If individual employee goals and targets are set in a proper and balanced manner, the company's objectives can be better achieved. This section will present key success factors for working successfully with target agreements. The following general recommendations can be given for using target agreements:

- Easy targets are tackled with much less commitment than "exciting" targets. Unrealistic targets, on the other hand, have a demotivating effect.
- *Target acceptance:* Make sure that the employees support the agreed upon targets. This means that they should understand and accept the importance of the target as well as accept the level being aimed at. In cases of doubt, it is advisable to agree upon a somewhat less ambitious target, which the employee will then fully back.
- *Precision of target determination:* Formulate targets precisely. A target such as "Customer Smith's sales revenue should increase by 5 %" clearly illustrates the requirements placed on the employee and is more effective than a target that reads "I will do my best to increase customer Smith's sales revenue".
- *Framework conditions:* Do not leave your employee all on his own with the targets. Also check to see whether the framework conditions allow the target to be achieved, and adapt them as needed.

Table 9.2 Approaches and tools for reducing shortcomings in leadership style

Deficits in performance orientation can be reduced by ...	Deficits in employee orientation can be reduced by ...	Deficits in customer orientation can be reduced by ...
... delegating tasks and responsibilities to the employees	... adopting the employee perspective in order to better understand his attitudes and his behavior	... providing possibilities for customer contact
... using performance-based compensation systems	... having discussions with employees about their general satisfaction with the company and about personal prospects in the company	... entrenching customer orientation in your own targets/objectives and in those of the employees
... formulating performance objectives	... activating an informal exchange of information with the employees	... using a customer-oriented compensation system

- *Monitoring and feedback:* Regularly monitor the degree of target achievement (during the year as well) and give timely feedback. Intervene promptly if there are difficulties in meeting the targets.
- *Reward the achievement of targets:* Make sure that achieving the targets is worthwhile for the employee (see Sect. 9.6). Possible incentives are not only tangible, but also intangible in nature (e.g. praise, recognition).

As these recommendations demonstrate, the emphasis is not only on the quality of the target agreements themselves. They must also be embedded in a systematic process, as shown in Fig. 9.8. During the target-setting meeting, consideration must be given to whether the resources (e.g. material and personnel) required for achieving the targets are available. If the resources are insufficient, the necessary measures for providing the resources and achieving the targets must be initiated. At certain intervals, the status of the target achievement has to be monitored and a variance analysis has to be conducted. The variance analysis focuses on whether the targets have been met or whether they are likely to be achieved in the defined period, and what reasons there are for possibly failing to meet them. This forms the basis for updating the target agreement and agreeing on the targets for the coming period.

Now that we have primarily discussed the formal aspects of designing target agreements, we will now take a closer look at the *contents of target agreements* in sales. In principle, targets can relate to both the results of the activities and the behavior of the individual sales representative (see Fig. 9.9). *Results targets* can, in turn, be subdivided into economic result criteria such as sales revenue or sales volumes and soft result criteria such as customer satisfaction or customer retention.

An effective target agreement should satisfy two basic requirements: First, *behavioral targets* should be taken into account along with targets linked to specific results. *Behavioral targets* primarily refer to measures whose positive effects on the company are not immediately tangible or are long-term in nature. Behavioral

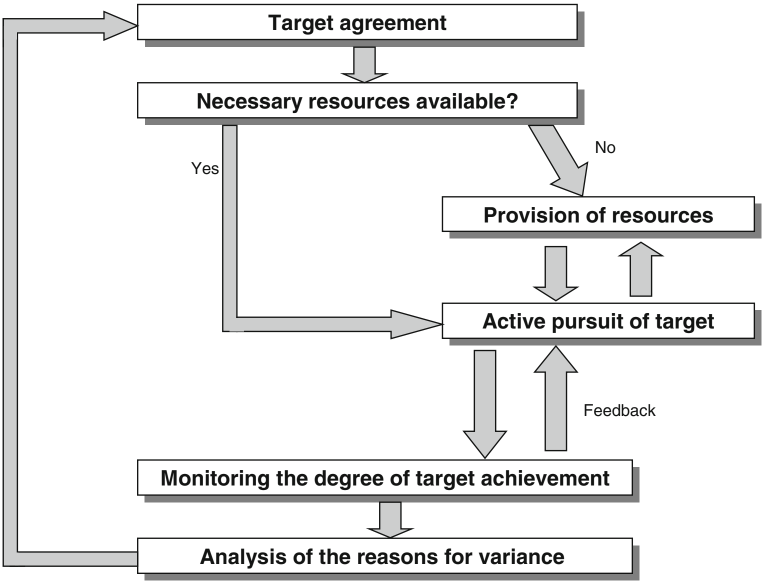

Fig. 9.8 Control of personnel through target agreements

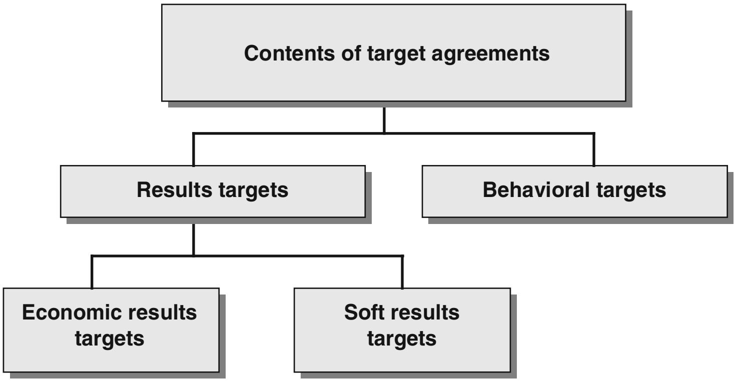

Fig. 9.9 Overview of contents of target agreements

targets should, for example, motivate managers to send their employees to training courses on a regular basis or to maintain an open information policy with regard to employees in their own departments, as well as to those in other departments. Such behavioral targets therefore counter any short-term orientation.

However, behavioral targets can also relate to the operational working behavior of employees (e.g. how they allocate their personal time budget to customers). Although the past few years have seen a considerable reduction in the use of such targets in the wake of increasing work and job flexibility, they can be extremely

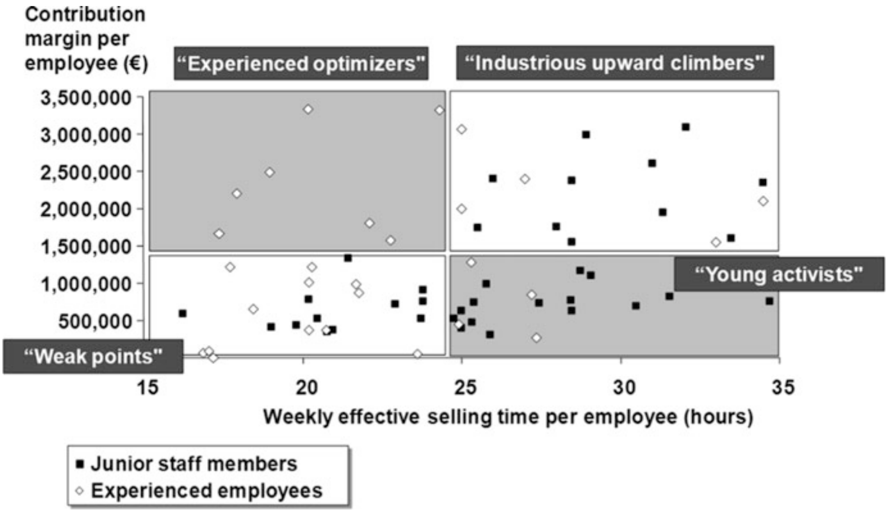

Fig. 9.10 Comparison of contribution margin generated and weekly selling time per employee, using the example of an energy supplier

useful in individual cases – e.g. to speed up implementation of a strategic realignment in sales or to direct still inexperienced junior staff members.

A little while ago, we discovered, courtesy of an energy supplier, just how helpful specifying such behavioral targets can be – particularly when taking into account the pressure sales is confronted with in order to increase productivity. The company had previously worked without time-related guidelines in its corporate customer division. Each customer advisor planned and allocated his time budget himself, which meant, among other things, that a group of young junior staff members (see the "young activists" in Fig. 9.10), in particular, worked relatively inefficiently. Despite high effective selling times, the "young activists" generated very small contribution margins – hardly more than those customer advisors, who, due to their limited work commitment and success, were generally regarded as "weak points".

Further analyses revealed that this was primarily due to the distribution of their working time: Compared with employees who generated high contribution margins (see the "experienced optimizers" or the "industrious upward climbers"), the "young activists" invested too much time in B and C customers with weak potential, but too little time in A customers. In addition, their high effective selling time hindered the systematic preparation of discussions, which resulted in low acquisition and cross-selling rates. As a result of the analysis, the target agreements for inexperienced employees were revised and supplemented to include rough guidelines for allocating their time budgets.

Furthermore, in addition to behavioral targets and economic results targets, effective target agreements should also incorporate *soft results targets*. These can be, for example, customer satisfaction, which is an important leading indicator for many economic criteria. At this point, some readers may argue that the subjective nature of customer satisfaction data makes it too problematic to include it in compensation mechanisms.

The following can be said in reply: Economic criteria are accepted in virtually all companies as the basis for compensation systems – they are "objective". Upon scrutiny, however, it can be seen that the mechanisms for determining these criteria contain many subjective elements. For example, when calculating the returns/margins of decentralized sales units, central costs are apportioned, internal transfer prices used, imputed costs taken into account, etc. These mechanisms are by no means objective; many of the calculation processes could also be carried out differently. The difference between these supposedly objective values and values such as customer satisfaction is mainly that the company has rules and procedures, accepted and (sometimes) understood, for determining the economic success. Companies also need to apply this approach to the soft factors: Systematic and transparent mechanisms for quantifying these values need to be developed (for more on the systematic measurement of customer satisfaction, see Sect. 12.4).

Traditionally, target agreements in sales tend to be aligned with sales revenue or geared towards economic criteria (see Zahn 1997). The reasons for taking a *sales-oriented* stance are obvious: Sales revenues are calculated in every company and are easy to understand numerically. Furthermore, pursuing sales revenue targets requires little leadership and assessment initiative on the part of management. Unfortunately, many companies overlook the serious disadvantages of focusing on sales volume as a target:

- Sales targets lead to a *short-term orientation*: Only those customers or products that currently generate strong sales revenues are focused on, while customers who have a strong potential, but are still weak in terms of sales revenues are neglected. Little consideration may also be shown for the "real" needs of the customer. The emphasis is primarily on "squeezing" existing products "into the market". The search for new sales markets for existing products or the creation of new products is neglected. Hardly any time is invested in getting customers interested in new products and exploiting cross-selling potential.
- If there are *sales revenue losses*, the employees come *under pressure*. Supposedly easy solutions which, however, prove themselves wrong in the long term, such as higher price discounts and sales to customers who do not actually need the service, are the result.

A frequent problem in many sales organizations is, moreover, that employees are not motivated enough to pursue the difficult task of acquiring new customers. It is much more pleasant for the employee to go to his familiar existing customers, whom he knows and from whom he can gauge where and what can be "had" and when. The fact that such behavior is not sanctioned is frequently due to the lack of specified targets that are differentiated according to existing customers and new customers. New customer acquisition and existing customer targets should therefore be explicitly and compulsorily defined as target values (using a weighting that makes sense for the company) (see Homburg and Fargel 2006a).

All in all, focusing on a few targets with a primarily economic orientation thus seems to be problematic. Accordingly, professional companies attempt to find a balance of targets, whose fulfillment both facilitates implementation of the sales strategy and contributes to the long-term development of the company (value). A promising concept in this connection is the *balanced scorecard*, which "balances out" a limited number of targets (approx. 12–20) from four dimensions. These are

- The economic dimension,
- The customer-related dimension,
- The internal process dimension, and
- The learning and development dimension.

The *economic dimension* constitutes the individual employee's direct contribution to increasing company value. It defines the economic contribution expected of an employee (e.g. sales revenue or contribution margin). The *customer-related dimension* reflects an employee's targets in terms of caring for "his" customer and market segments (e.g. customer satisfaction).

The task of the *internal process dimension* is to set targets for behavior which, ultimately, serve to fulfill the economic and customer-related targets. Targets that relate to following the internal customer principle (see Chap. 7) are included here. However, quality standards for customer-related processes (e.g. order processing time, processing customer complaints) are also a component of this dimension.

Targets from the *learning and development dimension* focus on activities related to long-term employee and company development. The qualification and motivation of employees, as well as the maintenance and expansion of the information systems, are key points in this dimension.

Each dimension thus integrates various sub-targets that are included in the employee's target agreement. The degree to which the individual employee has achieved his targets is assessed quantitatively within the balanced scorecard. In principle, all four dimensions are important to a company. However, the importance of the dimensions can be prioritized differently on a case-by-case basis. Figure 9.11 provides an illustrative example of creating a balanced scorecard (for further experiences in applying the balanced scorecard method, see, e.g., Speckbacher and Bischof 2000; Kauffmann 2002; Welge and Lattwein 2002).

Now that we have discussed the design and content of target agreements, the question arises as to how a company can entrench the pursuit and achievement of targets in the incentive systems. In the following section, we will therefore discuss the design of incentive systems in sales.

9.6 Incentive Systems: What Gets Rewarded, Gets Done!

It is a truism that companies should motivate employees to achieve their targets by offering relevant incentives. It is therefore alarming that many companies neglect this aspect in their daily battle for sales revenues and market shares. Sales representatives are rewarded purely on the basis of volume or sales (see Homburg

Customer-related dimension

Sub-targets	Measures	Target achievement
Customer satisfaction index for the key accounts: 82	Creation of a key account management program	45 %
Acquisition of five new customers	Trade show visits, mailshots, customer visits	80 %
...	...	...

Economic dimension

Sub-targets	Measures	Target achievement
Sales revenue in current year: 70m euros	Sales increase in respect of existing customers, acquisition of new customers	60 %
Contribution margin in current year: 30m euros	see above and cost reduction in logistics	55 %
...	...	...

Sales strategy

Internal process dimension

Sub-targets	Measures	Target achievement
Reduce order processing time by 20%	Restructuring of order processing	10 %
Process complaints in three days	Introduction of IT-based complaint management	100 %
...	...	...

Sub-targets	Measures	Target achievement
Create a knowledge management system	Essential contribution within the project team	75 %
All employees have a command of CRM module	All employees attend seminars and complete them successfully	33 %
...	...	...

Learning and development dimension

Fig. 9.11 Balanced scorecard using the example of a former sales manager of a pharmaceuticals company

and Jensen 1998), with very few incentives being set, especially for achieving "soft" success values.

Performance-based incentives can basically be *monetary* and *non-monetary*. Monetary incentives can be modeled, in particular, in compensation systems (see Krafft 1995; Albers et al. 2003). Non-monetary incentives include an extensive range of further education/training opportunities, assignment of interesting projects, access to networks or interesting career opportunities (see Hassmann 2003). In the following, we will concentrate on performance-based compensation systems. There are, in principle, five phases to designing a performance-based compensation system (see Fig. 9.12):

The first step is to define the *assessment criteria*. We have already mentioned in Sect. 9.5 that, when defining assessment criteria, the aim should be a balanced mix of different targets.

The second step is to *define the assessment basis*. It is necessary to define a basis that can be used to measure changes in the selected assessment criteria. This may be, e.g., a percentage increase in the contribution margin or an increase in customer satisfaction.

The third step is to *define the payment sum*. For this, a payout plan can be designed which, for example, provides for a certain amount of remuneration

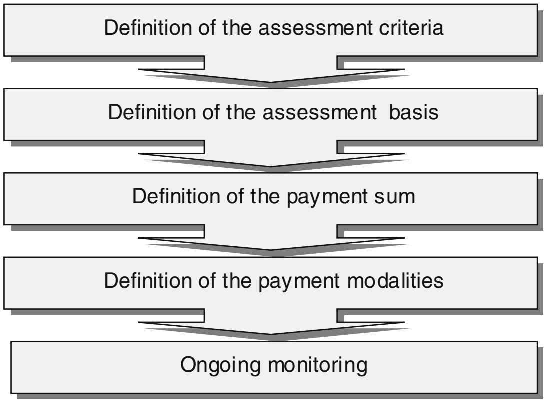

Fig. 9.12 Steps in designing a performance-based compensation system

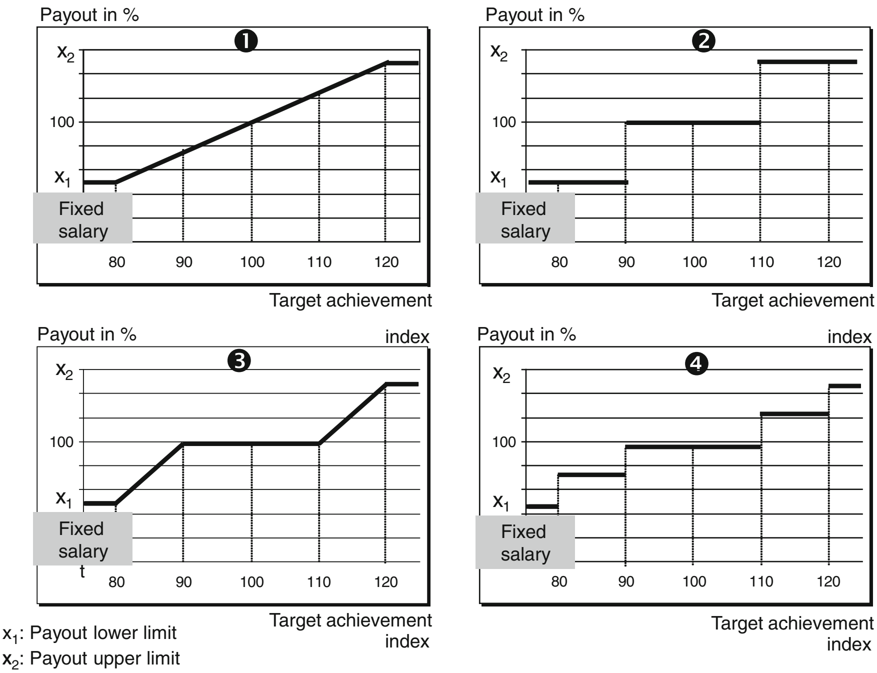

Fig. 9.13 Possible payout functions within the scope of a performance-based compensation systems (According to Homburg and Jensen 1998; Jensen 2008)

depending on the degree to which targets have been achieved. Various options are available here (see Fig. 9.13).

In model 1, the payout percentage grows as the target achievement index increases. This is referred to as a simple linear model (see Jensen 2008). Model

2 is a simple step model. In this model, the payout remains constant across an interval of degrees of target achievement and, above a certain degree, “jumps” up a step. Model 3 is a linear model with a tolerance range. It is a combination of model 1 and model 2. Ranges with continually increasing payout rates are combined with stagnating ranges. Model 4 is referred to as a differentiated step model. In contrast to model 2, the intervals in which the payout rate is constant are smaller.

Linear model 1 has the advantage of being very “fair”: Even very small changes in the degree of target achievement directly entail changes in the payout. However, this supposed advantage can quickly prove to be a disadvantage in practice, since the system is very “sensitive” in actual application. The simple step model (model 2), on the other hand, is quite static. It is disadvantageous in that it is not very motivating in the sub-ranges. For example, an employee who anticipates a degree of target achievement amounting to a little more than 90 in October of the year has no real incentive to make intensive efforts in the remaining period. In view of this, the differentiated step model (model 4) represents an expedient compromise.

The fourth step defines the *modalities of payment*. This particularly involves the frequency and method of payment. The final step is to *monitor and revise* the compensation system, i.e. to adapt it to changing market conditions.

To conclude, we will discuss different *success factors* that should be taken into account when designing performance-based compensation systems (see also Albers et al. 2003):

- *Transparency:* Employees must be familiar with the compensation system and understand it.
- *Differentiation:* The different tasks, areas of responsibility and positions of the employees must be taken into account when designing compensation systems.
- *Flexibility:* A company is not a static entity, but rather changes as a result of various external and internal influences. The compensation system must therefore be flexible enough to be able to adapt it changes in environmental conditions.
- *Motivation:* The structure of the compensation system has to ensure the desired employee behavior. Remuneration must also be attractive enough to acquire, retain and develop capable employees.
- *Cost-effectiveness:* Compensation systems do not serve to redistribute revenue in favor of the employees, but instead involve a very clear and expected level of performance. The “increase” in compensation can only be equivalent to the “increase” in performance.
- *Limitation of compensatory effects:* If several criteria are used as the assessment basis for remuneration, the possibility of compensating a non-achievement of one target, to any extent, by the achievement/over-fulfillment of another must be avoided (e.g. offsetting a decrease in customer satisfaction by an increase in sales revenue).
- *Vertical consistency:* The criteria used to determine a manager’s performance-related compensation must be consistent with the criteria for this manager’s employees. The incentive system must therefore be consistent across all hierarchy levels.

- *Horizontal consistency:* The incentive systems in different sales divisions should be consistent both with respect to their target content and their payout sums. The compensation system must be designed to give the same opportunity to every employee who is in a comparable position and has comparable tasks and responsibilities. If an employee in a sales division earns significantly less than his colleagues in other sales divisions, despite identical performance, the result is bound to be demotivation and envy.
- *Long-term orientation:* In many companies, incentive systems have a short-term orientation. The consequence is that many employees are interested in short-term excellent results in order to enable them to climb one career step higher. For this reason, structural changes that would be necessary and profitable in the long term, but which involve a short term drop in productivity or sales revenue, are often not introduced.
- *Gradual procedure when introducing "soft" targets as the assessment basis:* Some soft targets (e.g. customer satisfaction) have never been measured in many companies. If they are to serve as the assessment basis for performance-based compensation, the employees must gradually become accustomed to them.

10 Culture in Sales: The Power of Unwritten Laws

Time and again, we have observed that processes of change in companies fail because the management puts too much concentration on the "hard" factors (e.g. organizational structures, management systems) and neglects "soft" aspects such as corporate culture. However, it is known today that the corporate culture has a stronger influence on the employees' thinking and behavior than many hard factors (for more on the impact of corporate culture on sales, see, e.g., Dubinsky et al. 2003; Langerak 2001; Siguaw et al. 1994). While these influencing mechanisms are subtle and elusive, they are extremely persistent.

The sales divisions of many companies have serious cultural shortcomings. The failure on the part of individual departments to exchange information, excessive "informality" characterized by decisions being based on a "gut feeling", and dominance of product-oriented thinking are but a few of the typical problem areas. Against this background, a concept such as the Sales Ex approach, which aims for comprehensive professionalism in sales, cannot exclude the cultural aspect.

Many managers do not systematically engage with the culture, because they perceive it to be a phenomenon that is intangible and, as such, cannot be actively managed. Nowadays, however, there are approaches for systematically measuring and describing corporate culture. We will present one such tool for the sales sector in Sect. 10.1. It allows sales culture to be measured, thus making it accessible to management. Section 10.2 shows how such a measurement can be used to bring about changes in culture.

10.1 Making Sales Culture Tangible

Culture as a success factor has increasingly become a focus of attention over the past few decades (see Peters and Waterman 1982; Pflesser 1999; Homburg and Pflesser 2000). There are several ways in which a healthy culture can have a positive impact:

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_10,

- Culture establishes identity and supports a "feeling of community" among employees.
- Culture conveys the sense of entrepreneurial behavior: It motivates employees and legitimizes their actions in relation to outsiders.
- Culture creates consensus by providing a common understanding of fundamental values and norms.
- Culture provides an orientation framework for actions and simplifies the (informal) coordination of activities in the company.

But what exactly does a "healthy" sales culture mean and how can it be measured? Making a culture tangible presupposes an understanding of its various facets. The various facets of sales culture include the following:

- Customer orientation,
- Systematics,
- Openness in exchanging information within sales,
- Openness in exchanging information with other functional areas,
- Cross-departmental co-operation,
- Promotion of customer contacts,
- Trust and personal responsibility, and
- Commitment to the company.

Although many companies have made *customer orientation* their credo in recent years, such statements are often little more than lip-service. In a truly customer-oriented sales culture, the customer is at the center of the activities (see Ridnour et al. 2001). Customer needs, rather than what is technically feasible, are the starting point for sales activities. It is not the technical superiority of the products, but their suitability for satisfying customer needs that is seen as a guarantor of high sales figures. Customer orientation in sales also means, however, not making a sale at any price. In cases of doubt, sales divisions will forego a transaction rather than "force" customers to buy products that do not take account of their needs. Customer orientation also manifests itself by sales becoming actively involved in development of new products, acting as the customer's spokesperson. The effectiveness of a customer-oriented culture is now undisputed. For example, Schäfer (2002) was able to empirically demonstrate that a customer-centric culture has a positive influence on the customer-oriented design of information and incentive systems as well as on the customer-oriented behavior of employees. This, in turn, has a positive effect on sales success.

A lack of *systematics* in the sales culture is often expressed in an exaggerated informality in day-to-day sales activities. Varyingly attractive customers are looked after according to the "principle of giving everybody an equal share", investments are made in customers according to instinct and decisions are rarely corroborated with analyses. By contrast, a systematic sales culture is characterized by a well-considered and structured decision-making process. The sales representative does not just rely on intuition, but also draws on existing information (including information about customers or competitors), performs profitability analyses to assess alternative actions, and takes the long-term effects of decisions into account as well. Systematic problem-solving behavior manifests itself in an ability to tackle not only the symptoms of identified problems, but also their underlying causes. If, for example, a company's share of the market drops, this might be caused, at first glance, by an inflated price. In companies with a systematic culture, this problem would be subject to a more differentiated investigation: the company would examine both general market trends and the tendency of the customers to switch suppliers, as well as the reasons for it. To avoid any misunderstanding at this point, let us note that intuition will always remain a basis for decision-making in sales activities. What is, however, important is to strike a balance between intuition and systematics.

O*penness in the exchange of information within sales* includes the proactive forwarding of information to sales divisions that are responsible for other products, regions, customer segments or sales channels. In such cultures, information is seen in terms of "goods that have to be delivered". Every employee who has information at his disposal is obliged to ask himself who else this information could be relevant to and forward it accordingly. In particular, exchanging information about customer needs that cannot be met by one sales division often allows considerable profit potential to be exploited, e.g. through cross-selling. Open exchange of information also means best practice sharing between the sales divisions. If, for example, new tools or procedures for solving familiar problems are developed in one sales division, they can be distributed proactively throughout sales – even if it is merely the case of a simple Excel spreadsheet for calculating customer profitability. Nor does communication necessarily always have to follow through the "official" channels. Informal contacts between colleagues also play an important role – especially in resolving operational problems.

In our experience, *openness in exchanging information between the sales division and other functional areas* (marketing, production/operations, product development, etc.) is more problematic than communication within the sales division itself. Sales representatives often perceive the "marketing people" or the "controllers" as if they were speaking another language and thinking differently. Moreover, many sales representatives do not realize why other functional areas need sales information. Ultimately, the prevailing attitude is "Information about my customers does not concern others". Such convictions are fatal. At a time when customer proximity is already virtually indispensable for company success, comprehensive information about trends in the market or customer needs, in particular, must be passed on to the relevant functional areas that are "remote from the market". In return, of course, other functions must supply sales, as an internal customer, with information.

In open cultures, the various departments "pull together" in order to find comprehensive solutions to customer problems. Not only is there exchange of information, but also joint collaboration on projects. Nowadays, *cross-departmental cooperation* is essential, since customers are making increasingly higher demands, and in many cases, solutions are becoming more and more complex. Furthermore, cross-functional cooperation also helps reduce interface problems and cultural differences between departments (see Sect. 7.2). We recently witnessed the introduction of a customer relationship management system in a company from the automotive industry (see Chap. 16). The project participants came from a wide variety of functional areas, e.g. sales, logistics, IT, controlling and marketing. Undoubtedly the most important side-effect of the joint project was that the participants learned a lot about the tasks and information requirements of the other functional areas. Consequently, the result of the project was not only a new CRM system, but also a new form of "dealing with one another".

As part of the cooperation process, sales division should *encourage* "customer-distant" departments to have *customer contact*. For example, sales has to make a case for colleagues from marketing or product development getting to know and understand "their" customers. Customer forums, focus groups and trade shows should also be attended regularly by staff from internal departments and divisions. Our observations reveal, however, that in many companies, sales systematically impedes or prevents customer contact with internal divisions. Such behavior is short-sighted in that it prevents staff from other functional areas from developing a deeper understanding of the problems and requirements in sales.

A sales culture characterized by *trust and personal responsibility* is one in which the individual acts independently. Responsibility is not "delegated upwards" to superiors. An exaggerated no-risk mentality and risk aversion do not come into play. Rather, employees have a certain entrepreneurial freedom, can (and should) make decisions themselves, and are not forced to document each and every one of their actions. Moreover cultures based on trust support error tolerance and the joy of experimenting. Employees are not restricted in their creativity and can independently initiate improvements.

Commitment to the company exists if sales employees feel connected to the company and outwardly convey that commitment to third parties. Particularly in the field sales forces at many companies, however, there is a lack of such commitment. In discussions with customers, field sales representatives do not demonstrate that they are convinced of their company and its services. Rather, it is often the case that the field sales force and customer form an "unholy alliance". By dint of cynical statements about his own company, the field sales representative becomes the customer's "ally" against the company's head office. Cultures characterized by a high level of commitment, on the other hand, have a pronounced team spirit and a positive "feeling of community".

How can the above-mentioned facets of an effective sales culture be assessed? The best option is to measure the employees' perception of the cultural aspects. Figure 10.1 contains a set of criteria for this purpose.

The results of the cultural assessment can then be presented in the form of a "cultural profile". Figure 10.2 contains such a profile, which we determined for a transport service provider.

Such profiles are versatile. For example, cultural profiles based on the sales representatives' perceptions of the sales culture ("self-assessment") can be compared with profiles based on the perceptions of other departments or areas ("external assessment"). A comparison of the managers' assessment of the sales culture with the sales representatives' assessment can also prove interesting. Such comparisons do much to raise awareness of the existing need for change. Finally,

	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	No assessment possible
Customer orientation						
In sales, the customer is at the center of thought and actions.	❑	❑	❑	❑	❑	❑
Sales activities are firmly based on customer needs.	❑	❑	❑	❑	❑	❑
Sales is intensively involved in product development.	❑	❑	❑	❑	❑	❑
Systematics						
Important decisions in sales are only made on the basis of systematic analyses.	❑	❑	❑	❑	❑	❑
Sales takes into account both short-term and long-term consequences when making decisions.	❑	❑	❑	❑	❑	❑
Finding solutions to problems means not only correcting the visible symptoms, but also the underlying causes.	❑	❑	❑	❑	❑	❑
Openness in the exchange of information within sales						
sales proactively forwards relevant information to other sales divisions.	❑	❑	❑	❑	❑	❑
Best practices are exchanged between the sales divisions.	❑	❑	❑	❑	❑	❑
There is a good deal of informal contact between staff from different sales divisions.	❑	❑	❑	❑	❑	❑
Openness in the exchange of information between sales and other functional areas						
Sales proactively forwards information about market trends or customer needs to other functional areas.	❑	❑	❑	❑	❑	❑
Sales provides quick and high-quality responses to queries from other functional areas.	❑	❑	❑	❑	❑	❑
Other functional areas proactively inform sales.	❑	❑	❑	❑	❑	❑
Other functional areas provide quick and high-quality responses to queries from sales.	❑	❑	❑	❑	❑	❑

Fig. 10.1 (continued)

it is necessary to analyze changes in the cultural profile after implementing measures to remedy cultural shortcomings. We will present a process for effecting cultural change in the following section.

10.2 Managing and Changing Culture

How can an effective sales culture be attained? Systematic assessment of the existing sales culture should be the starting point for a corresponding change process. The criteria listed in Fig. 10.1 can be used to conduct the assessment, the outcome of which is a cultural profile (see Fig. 10.2).

Cross-departmental cooperation						
Sales cooperates intensively and constructively with marketing, as required.	❑	❑	❑	❑	❑	❑
Sales cooperates intensively and constructively with product developers/application engineers, as required.	❑	❑	❑	❑	❑	❑
Sales cooperates intensively and constructively with departments involved in the internal creation of services (production/operations/logistics), as required.	❑	❑	❑	❑	❑	❑
Sales cooperatesi ntensively and constructively with controlling, as required.	❑	❑	❑	❑	❑	❑
Sales deploys cross-function teams for customer support.	❑	❑	❑	❑	❑	❑
Sales utilizes the competence of different functional areas in order to develop suitable solutions for customers.	❑	❑	❑	❑	❑	❑
Encouragement of customer contact						
Sales representatives in the in-house sales staff also have regular personal contact with customers.	❑	❑	❑	❑	❑	❑
Sales encourages staff from internal divisions (e.g. product development, production etc.) to have contact with customers.	❑	❑	❑	❑	❑	❑
Trust and personal responsibility						
Sales managers teach their staff to act on their own initiative and with personal responsibility.	❑	❑	❑	❑	❑	❑
Sales does not allocate much working time to administrative tasks.	❑	❑	❑	❑	❑	❑
The sales representatives are prepared to take responsibility.	❑	❑	❑	❑	❑	❑
There is very little hierarchical thinking in sales.	❑	❑	❑	❑	❑	❑
Commitment to the company						
The sales representatives also show their loyalty to the company in the presence ofcustomers.	❑	❑	❑	❑	❑	❑
Our sales representatives identify with the company's objectives.	❑	❑	❑	❑	❑	❑
Our sales representatives feel a strong bondto the company.	❑	❑	❑	❑	❑	❑

Fig. 10.1 Example criteria for assessing the sales culture

In connection with the subsequent changes to the culture, it should be noted that the tools for influencing culture can hook into different "levers", since a culture consists of a variety of components, including values, norms and artifacts (see Pflesser 1999; Homburg and Pflesser 2000), which ultimately influence employee behavior:

- *Values* represent a company's basic objectives. They refer to general aspects to which the company "attaches value". They are typically defined in the form of guiding principles. Examples of values include innovation, economic success or customer orientation.
- *Norms* are explicit or implicit rules about desirable behavior in the company. They are more concrete than values and have a stronger reference to conduct and behavior. For example, a specific norm for realizing the general "customer orientation" value might specify that customer inquiries be answered promptly. Such norms are influenced to a great extent by leadership styles and leadership tools.

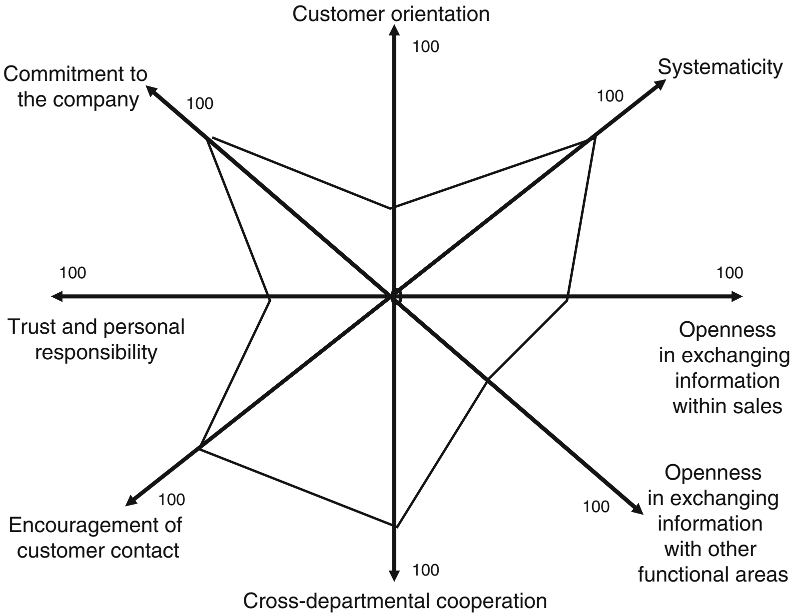

Fig. 10.2 Cultural profile using the example of a transport service provider

- While *artifacts* are directly perceptible, they are difficult to grasp and interpret. Artifacts include anecdotes, language or rituals. All companies have a certain number of anecdotes that convey particular values or norms. An example from Bosch can illustrate this: It is said of Robert Bosch that – at least as long as the company did not exceed a certain size – he would personally welcome every new employee at his workplace, having made sure in advance to place a paper clip on the floor there. Bosch is then said to have picked up the paper clip in the presence of the employee and shown it to him. When Bosch asked what he had just done, every new employee is said to have naturally answered that he had just picked up a paper clip. Bosch's reply to this is said to have been: "No, I have picked up money". Regardless of the truth of this anecdote, it can be stated that one of the company's pivotal values, namely thrift, is being communicated here. This illustrates how visible artifacts (e.g. anecdotes) effectively make values tangible to the employees.

In the following, we will provide an overview of the tools that can be used to bring about cultural changes. In principle, there are tools for changing self-perception, for motivation and communication, and for training and promoting active cooperation (see Table 10.1). Tools for changing self-perception serve to embed the new cultural orientation. Tools for motivation and communication are designed to ensure employee acceptance and support. The tools for promoting training and active cooperation are used to prepare the employees for the new requirements.

For example, guiding principles and visions serve to clarify new values. The use of artifacts to change self-perception requires the conscious influence of, e.g., rituals or language. An empirical study by Homburg and Pflesser (1999) came to

Table 10.1 Tools for changing culture

Self-perception	Communication/ motivation	Training/active cooperation
Guiding principles	Posters	Seminars
Visions	Brochures	Workshops
Rules of conduct	Company magazines	One-on-one discussions
Conscious design of artifacts (anecdotes, rituals, language, architecture)	Leadership styles	
	Management tools	
	Events	

the conclusion that there is a systematic neglect of artifact management. Observations in companies confirm this result: Artifacts have usually evolved historically and are often not deliberately managed. In many companies, they are not taken seriously, but, if anything, noted with a smirk. They are frequently "quirks" in the company that employees have got used to, learned to live with.

The systematic, goal-oriented design of artifacts is referred to as *symbolic management*. In essence, it focuses on using simple, interpretable circumstances and situations to illustrate (abstract) values and norms and breathe life into them. In principle, symbolic management can be carried out at two levels. First, the concept can be applied at the level of the individual manager. An individual manager can, for example, consciously scrutinize his own language. During meetings, he can also influence the wording and phrasing of the employees. Moreover, managers chat with their staff now and again. Using such occasions to ask what stories are being told about the company and what values and norms are thereby implicitly communicated is a worthwhile exercise. Secondly, symbolic management can be carried out at the level of the company as a whole or at the individual division/department level. Supporting internal communication architecturally by means of an open and friendly office space layout would be an example of this.

Management tools can be used to communicate new standards and motivate new behavior. Compensation systems or target agreements that contain customer satisfaction as a target can give rise to the interpretation that customer-oriented behavior is desired and rewarded. Accompanying training and the active cooperation of salaried employees ultimately take into account all three components (values, norms, artifacts).

Changing the sales culture is, of course, a lengthy process. In the past, it has often been observed that many attempts to transform bureaucratic organizations into dynamic, customer-oriented companies ground to a halt at some point or were completely abandoned. This was rarely due to a lack of vision, but rather to inadequate implementation. Old structures were not sufficiently destabilized, employees not integrated enough or inadequately rewarded for their cooperation. To conclude, we will therefore cite the *success factors* for changing the sales culture:

- *Integration into a company-wide overall concept:* Cultural change processes in sales must be embedded in the overall culture. Isolated solutions tend to be counterproductive, since they do not have an integrating effect, but create new rifts instead.

- *Support by top management:* Managers represent a focal point for employee interest and thus serve as role models. Only if they personify and live the "new" culture will it be adopted by the rank and file. The concept of *change agents* is also conceivable. These are managers (possibly also employees) who are used for disseminating the desired "mindset". First, such change agents have an advisory and support function. Secondly, they provide methodological knowledge and experiences from other change projects; thirdly, they act as process managers and, fourthly, they monitor the implementation of the ideas and concepts. For example, a sales manager who has worked previously for a consumer goods manufacturer could act as a change agent in a mechanical engineering company.
- *Shock:* Large-scale changes can only be achieved in fossilized structures if the status quo is destroyed in one swoop.
- *Long-term orientation:* Cultural change processes need time. In this case, short-term successes do not count; what is more important is "staying power".
- *Open information policy:* The entire process must be accompanied by an open information policy. This is the only way to ensure that employees engage with the topic and avoid rumors and fear.
- *Involvement of all concerned:* If possible, the whole company should be involved in the development of the target culture. A culture cannot be imposed, it must be accepted. According to our estimates, around 20 % of employees welcome a cultural change, 50 % are neutral, and 30 % openly opposed. In fact, the opponents are not the main problem, since a dialog can be opened with them. However, it must be made clear to them from the beginning that they will either have to endorse the change or leave the company in the long term. The neutrals are the most dangerous. Although, they officially declare their support for the cultural change, they act in accordance with the old structures. It is therefore the neutrals that particularly need to be actively involved in the change process.
- *Adjustment of personnel recruitment processes:* If a company seeks to change its culture, it also needs to reassess its personnel selection processes. New structures require new profiles. Unconventional thinkers and newcomers have shown on more than one occasion that it was only through them that cultural changes became a success.
- *Clarity and simplicity of communication:* The top management must communicate the essence of the desired cultural change again and again, using simple words.
- *Communication of initial successes:* Initial successes must be consistently disseminated by top management, even if they are isolated in nature. In this case, it is a good idea to start with "quick wins" – i.e. to begin change processes with measures that are particularly visible to customers and employees and which have rapid impact.
- *Management by fact:* The process of cultural change must be based on a systematic assessment of the culture. Only what can be measured can also be managed. Thus, a change towards more customer orientation should also include a systematic measurement of customer satisfaction (see Sect. 12.4).

10.3 Checklist for Part III: Sales Management: Designing Structures and Processes, Managing People and Living the Culture

The company ... (Criterion no.)	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Criterion is irreleva nt	Rating-based on… (Documentary evidence for the assessment)
7. Sales Organization – Successfully Designing Structures and Processes							
... has carefully weighed the advantages and disadvantages of different organizational structures (e.g. according to products or regions) when designing sales structures. (II-1)	❑	❑	❑	❑	❑	❑	
... has sufficiently accounted for customer-related aspects when designing the organizational structure in sales. (II-2)	❑	❑	❑	❑	❑	❑	
... deploys sufficient structure-related tools for reducing sales-relevant interface problems (e.g. reduction of the spatial distance between departments, coordination committees, cross-function teams). (II-3)	❑	❑	❑	❑	❑	❑	
... deploys sufficient process-related tools for reducing sales-relevant interface problems (e.g. clear allocation of tasks and responsibilities, definition of cooperation standards). (II-4)	❑	❑	❑	❑	❑	❑	
... deploys sufficient personnel management-related tools for reducing sales-relevant interface problems (e.g. job rotation, training courses). (II-5)	❑	❑	❑	❑	❑	❑	
... deploys sufficient culture-related tools for reducing sales-relevant interface problems (e.g. setting up zones for informal contacts, embedding the "internal customer principle"). (II-6)	❑	❑	❑	❑	❑	❑	
... formulates precise targets for teams in which sales representatives are involved. (II-7)	❑	❑	❑	❑	❑	❑	
... takes the success of the teamwork into account when assessing the performance of sales representatives. (II-8)	❑	❑	❑	❑	❑	❑	

... limits the extent of bureaucracy in sales (e.g. by appropriate delegation of responsibilities, avoidance of overregulation). (II-9)	❑	❑	❑	❑	❑	❑	
... has defined clear contact points for customers if they have questions or problems. (II-10)	❑	❑	❑	❑	❑	❑	
... has communicated the contact points for questions/problems to the customers. (II-11)	❑	❑	❑	❑	❑	❑	
... ensures that the contact points are accessible to customers. (II-12)	❑	❑	❑	❑	❑	❑	
... deploys competent employees at the contact points. (II-13)	❑	❑	❑	❑	❑	❑	
8. Planning and Controlling – The Middle Ground between "Flying Blind" and "Graveyards of Numbers"							
... derives the content of sales planning from the sales strategy. (II-14)	❑	❑	❑	❑	❑	❑	
... includes, in sales planning, a balanced mix of "hard" targets (e.g. sales revenue) and "soft" targets (e.g. customer satisfaction). (II-15)	❑	❑	❑	❑	❑	❑	
... bases sales planning on both products and customer/customer segments. (II-16)	❑	❑	❑	❑	❑	❑	
... sanctions unrealistic sales - planning. (II-17)	❑	❑	❑	❑	❑	❑	
... plans according to the counter flow principle (i.e. combines top-down planning with bottom-up planning). (II-18)	❑	❑	❑	❑	❑	❑	
... carefully consolidates the results from the top-down and bottom-up planning. (II-19)	❑	❑	❑	❑	❑	❑	
... also breaks down sales plans into periods of less than a year. (II-20)	❑	❑	❑	❑	❑	❑	
... also considers seasonal effects when planning for periods less than a year. (II-21)	❑	❑	❑	❑	❑	❑	
... carefully analyzes plan variances. (II-22)	❑	❑	❑	❑	❑	❑	

... does not accept plan variances being hastily justified by external causes. (II-23)	❑	❑	❑	❑	❑	❑	
... plans with appropriate time and effort. (II-24)	❑	❑	❑	❑	❑	❑	
... concentrates on a small number of meaningful key indicators during the planning process. (II-25)	❑	❑	❑	❑	❑	❑	
... regularly adapts the planning content to changes in framework conditions. (II-26)	❑	❑	❑	❑	❑	❑	
9. Personnel Management – The Poor Cousin of Sales							
... takes into account clear job specifications when selecting personnel. (II-27)	❑	❑	❑	❑	❑	❑	
... uses a thorough task analysis as a basis for defining the job specifications for sales positions. (II-28)	❑	❑	❑	❑	❑	❑	
... uses professional personnel marketing to recruit excellent sales representatives. (II-29)	❑	❑	❑	❑	❑	❑	
... systematically supports the personnel selection by using various tools (e.g. personal interviews, formal tests). (II-30)	❑	❑	❑	❑	❑	❑	
... derives the staff training/further education requirement from the sales strategy. (II-31)	❑	❑	❑	❑	❑	❑	
... analyzes the further education/training requirement of each individual sales representative. (II-32)	❑	❑	❑	❑	❑	❑	
... defines clear targets for personnel development measures (e.g. seminars). (II-33)	❑	❑	❑	❑	❑	❑	
... regularly monitors the success of personnel development measures. (II-34)	❑	❑	❑	❑	❑	❑	
... employs sales managers with a performance-oriented leadership style. (II-35)	❑	❑	❑	❑	❑	❑	
... employs sales managers with an employee-oriented leadership style. (II-36)	❑	❑	❑	❑	❑	❑	
... employs sales managers with a customer-oriented leadership style. (II-37)	❑	❑	❑	❑	❑	❑	

... uses target agreements for sales managers and sales employees within the scope of personnel controlling. (II-38)	❑	❑	❑	❑	❑	❑	
... works with precise, challenging and realistic targets within the scope of the target agreement in sales. (II-39)	❑	❑	❑	❑	❑	❑	
... ensures that the content of the target agreements is understood and accepted. (II-40)	❑	❑	❑	❑	❑	❑	
... also assesses the target achievement of the individual managers and employees throughout the year. (II-41)	❑	❑	❑	❑	❑	❑	
... uses performance-based compensation systems for sales managers and sales employees. (II-42)	❑	❑	❑	❑	❑	❑	
... ensures that the assessment criteria for the performance-based compensation systems are consistent with the company's long-term objectives. (II-43)	❑	❑	❑	❑	❑	❑	
... bases the performance-based compensation in sales on a balanced mix of "hard" targets (e.g. sales revenue) and "soft" targets (e.g. customer satisfaction). (II-44)	❑	❑	❑	❑	❑	❑	
... bases performance-based compensation in sales on both economic targets and targets related to customers, internal processes and learning and development processes in the company. (II-45)	❑	❑	❑	❑	❑	❑	
... bases performance-based compensation in sales on both results targets and behavioral targets. (II-46)	❑	❑	❑	❑	❑	❑	
... limits compensatory effects in the compensation systems (e.g. offsetting a drop in customer satisfaction by an increase in sales revenues). (II-47)	❑	❑	❑	❑	❑	❑	
10. Culture in Sales – The Power of Unwritten Laws							
... has a sales culture that places customers at the center of thought and action. (II-48)	❑	❑	❑	❑	❑	❑	

Part IV

Information Management as the Key to Professionalism in Sales

In Part III, we discussed various aspects of sales management, and examined the structuring of the sales organization, the planning and control of sales activities, personnel management and the design of the sales culture. This part focuses on the information required for effective sales management. Systematic information management promotes professionalism of sales activities in a number of ways:

- Information management can correctly channel the differentiation of market development, which is indispensable in many sectors. As a prerequisite for this, information systems need to contain detailed information about the needs and behavioral patterns of the various customers (or customer segments).
- Information management can significantly aid in coping with the ever-increasing pressure to boost productivity. The prerequisite here is that the information systems provide data about the profitability of individual market development areas (e.g. about the profitability of individual customers (or customer segments) or sales activities).
- Information management can facilitate the timely adjustment of sales activities to changes in market conditions. For this, the information systems have to promptly identify and highlight changes in the market.

Several empirical studies have been able to demonstrate the positive influence that systematic information management has on sales and company success (see Schäfer 2002; Homburg and Fargel 2006a). In practice, however, there are still considerable shortcomings with respect to market-related information. For example, many companies do not have meaningful information about which customers they earn/lose money on. Furthermore, customer structure analyses are often geared exclusively to the sales revenue (e.g. the sales revenue-oriented ABC analysis) currently achieved with the customers. Very few companies systematically assess their customer structure in terms of potential. There are two main reasons for these and other shortcomings: First, the information systems in many companies have evolved historically and are not tailored to the current needs of the decision-makers. Obsolete systems can often only provide answers to questions that are no longer being asked.

Second, many companies have undergone a virtual explosion of blind activism in this respect. For example, many sales managers think they need to introduce a *customer relationship management (CRM) system* as soon as possible, without being clear about the exact possibilities of application or prerequisites. One study, for example, revealed that at least 31% of companies questioned are planning to introduce a CRM system in the next few years (see Wilde et al. 2000). However, when such systems are introduced, the technical aspects of implementation often dominate the discussion, which then quickly assumes a technocratic dimension. The information requirements of the decision-makers are pushed into the background, with perfectionism at the forefront instead of pragmatism. An information system that is inadequately conceived in terms of content cannot, however, be made successful by a perfect IT implementation. In this part, we will therefore be focusing on contentual aspects of information management in sales.

Chapter 11 deals with basic aspects of designing an information system. In addition to fundamental requirements, the particular emphasis is on the process from development up to the introduction of a sales information system. Chapters 12, 13, 14, and 15 concentrate on content-related matters. Here, we describe what information a sales information system should contain and what tools can be used to acquire and use that information. There are separate chapters devoted to information about customers, competitors, the market, and internal sales processes. Chapter 16 examines integrated information systems for supporting sales activities, which are frequently discussed in conjunction with the terms computer-aided selling (CAS) and customer relationship management (CRM) systems.

11 Basis for Understanding Information Systems

This chapter discusses three pivotal aspects of information systems. In Sect. 11.1, we will first describe the basic requirements placed on information systems. We will then explain the process of developing a sales information system. The last section of this chapter deals with the problem concerning company-internal acceptance of information systems, which is of particular relevance in practice.

11.1 Requirements on an Information System

The aim of information management is to provide the sales representatives and managers with the information they require in a manner that is as concise, easy and clear as possible. Ultimately, this should enable them to improve the quality of their decisions. If this is to happen, a sales information system needs to fulfill the following requirements, in particular:

- User orientation,
- Ability for integration,
- Cost-effectiveness, and
- Security.

While the *cost-effectiveness* and *security* of information systems are often at the forefront in many companies, user orientation and integration are frequently neglected, which is why we will pay particular attention to these points in the following.

User orientation depends on various factors, as illustrated in Fig. 11.1, some of which we will now briefly explain.

The requirements-based *consolidation of the information flow* presupposes a restrictive selection of the information to be provided. For example, in our experience, many companies utilize only a fraction of the extensive transaction data, which they collect by means of customer cards, among other things. The sometimes time-consuming acquisition and preparation of data is ultimately a waste of resources if it is not consolidated and used in a purposeful manner.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_11,

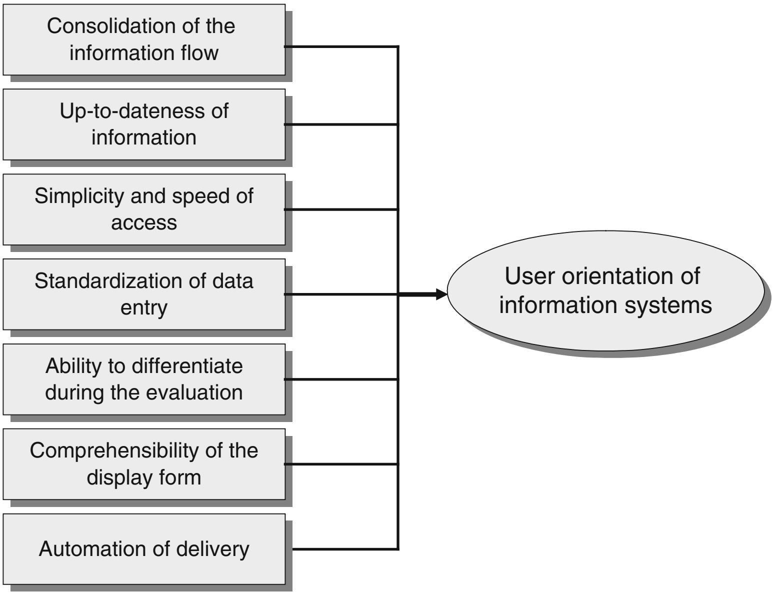

Fig. 11.1 Influencing factors in the user orientation of an information system

The data maintenance needed to ensure *the up-to-dateness of information* is, unfortunately, regarded as "irksome". For example, many field sales representatives are reluctant to provide the head office with relevant customer information in the form of sales call reports. In many companies, even the basic customer data (e.g. address, contact person) is not updated.

Standardization in terms of acquiring data is also frequently inadequate. Particularly when preparing sales call reports, the creativity of the field sales representatives often knows no bounds, which means that the informational content of the reports varies considerably and it is often scarcely possible to consolidate the information they contain.

The second basic requirement on an information system is the *ability to integrate the information system*: Each functional department, e.g. sales, logistics, personnel management, purchasing, requires special information. Sales, however, also needs to access information from controlling or logistics if, for example, customer profitability is to be analyzed. For this reason, an integrated data warehouse is frequently used nowadays, which lets all the departments retrieve the information that is relevant to them (see Hansen 1998; Hippner and Wilde 2005; Wilde 2001; Chap. 16).

11.2 Six Steps on the Way to a User-Oriented Information System

If a company's existing information systems have fundamental shortcomings, there are two possible courses of action. First, an information system may need to be completely rebuilt (for more information on designing information systems, see,

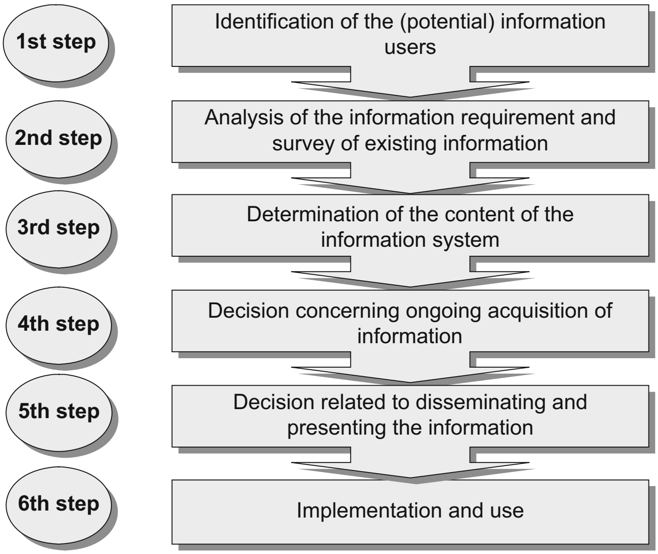

Fig. 11.2 Six steps in developing and introducing an information system

e.g., Scheer 2001; Hippner 2004). Second, modifying the existing systems may be the best option. In both cases, certain steps for *developing* and *introducing* information systems need to be taken. Six steps can be identified here, which we will describe in the following (see Fig. 11.2).

The *first step* is to identify the users of the information system. These also include employees and departments that have no previous experience in working with an information system.

Once the potential information users have been identified, the *second step* is to analyze their information requirements and the quality of the existing information (see also Raman et al. 2006). Information requirements refer to the quantity, type and quality of information needed to fulfill the task. Different users have different requirements with regard to information consolidation. For example, a member of the board will want to analyze the sales revenue figures in less detail than a regional sales manager. Within the scope of analyzing and surveying the information requirements, the following questions generally need to be answered:

- What specific information do the various users need?
- For what purposes/why is this information required?
- What information is already available and in what department?
- What deficits does this existing information have and why?
- What interface/information exchange relationships are there?

In principle, there are various *techniques* for analyzing information requirements, some of which are known from market research:

- Analysis of existing information carriers (e.g. documents),
- Surveying (potential) information users,

- Brainstorming by the project team,
- Work reports prepared and submitted by the requisitioners,
- Analysis of the requisitioners' tasks, and
- Observation of the requisitioners.

One single method usually is not sufficient for a comprehensive requirements analysis. Rather, the sensible approach is to combine the various methods to suit the task. In accordance with the information requirements, different access rights should also be subsequently defined, to ensure that all involved employees – not only the managers – have access to that part of the information system that is relevant to them.

The task of the *third step* is to determine what *content* the information system should ultimately cover. Since this step is highly relevant, we will examine it separately in the following chapters, which discuss, for example, important information about

- The customers (see Chap. 12),
- The competitors (see Chap. 13),
- The market (see Chap. 14), and
- The internal processes (see Chap. 15)

that should be available in the system. The *fourth step* is to decide on the *permanent form of information acquisition*. The initial question here concerns when primary and secondary data should be used. Primary data is collected for a concrete purpose, such as the analysis of customer satisfaction. Secondary data already exists, i.e., it has already been collected for this or another purpose.

Furthermore, it must be decided whether the information should be collected by the individual company itself or whether it needs to be obtained by external sources. If, for example, information about a foreign market that has not yet been developed is to be acquired, the use of secondary data supplied by third parties, such as country reports issued by the chambers of industry and commerce or the offerings of Internet service providers, is recommended. If a decision has to be made about withdrawing from a market, a company can also use internal secondary data, such as sales statistics from recent years.

With regard to information acquisition, the *Internet* provides new options. Three principal approaches can be identified here:

- Acquisition of customer-related information (market research),
- Competitive intelligence, and
- Acquisition of information about the effectiveness of a company's own website.

Many companies are now carrying out systematic market research via the Internet (see Bauer and Wölfer 2001). For example, contests, free orders or similar incentives are being used to motivate customers to take part in online surveys about their interests or needs, either on the supplier's website or via information brokers.

In addition, companies can use the Internet to track their competitors' activities. First, the general web presence of the competitors can be analyzed, including (strategic) statements, information and implications. Secondly, even some of the transaction volumes and prices of competitor products can be observed on Internet marketplaces (see Sect. 5.6).

Finally, companies can use an analysis of certain indicators, such as the number of visitors to the homepage per day or the number of completed transactions on the Internet to monitor the success of their own Internet activities.

In principle, the following questions need to be answered when making a decision about the type of information acquisition:

- What scope of information needs to be acquired?
- What information needs to be acquired and at what intervals?
- What personnel and material resources are required for the information acquisition?
- What is the cost-benefit ratio of company-internal acquisition as compared with third-party acquisition?

The *fifth step* is to decide on the *dissemination and presentation of the information*. This step focuses, for example, on which forms of graphic representation should be used for what information. In this connection, we should note that studies from perceptual psychology find that images fare better than purely textual or numerical information in terms of attention and memory. In addition, clarification is needed with regard to which user groups require preconfigured standard reports. Such standard reports particularly lend themselves to be used by managers, since they regularly require certain information in a compressed form.

The *sixth step* involves *implementation and use* of the system. One of the main success factors associated with successful use of the system is overcoming acceptance barriers among employees (see, e.g., Landry et al. 2005; Johnson and Bharadwaj 2005; Speier and Venkatesh 2002). We will address this problem in the following.

11.3 Overcoming Acceptance Barriers

Many employees feel constrained or controlled by information systems. The additional time and effort entailed in maintaining the information is also a frequent cause of rejection. These problems should be tackled at a very early stage (see also Helmke et al. 2009). Our experiences show that there are three main criteria here (see Fig. 11.3): information and communication, training, and motivation.

Information and communication measures should be introduced in the very early phases of the project. Even as the system is being designed, selected employees who will subsequently be working with it should be integrated into the project team. Another measure is to survey additional employees within the scope of the information requirements analysis. Once the system has been introduced, employees must be enabled to exchange experiences – e.g. in regular discussion groups. This will encourage both mutual support in the use of the system and the identification of “teething troubles”.

Training measures can be used to instruct employees in manually using the system. Furthermore, employees also need to be trained in effectively using the sales information system in their daily activities (see also Jelinek et al. 2006).

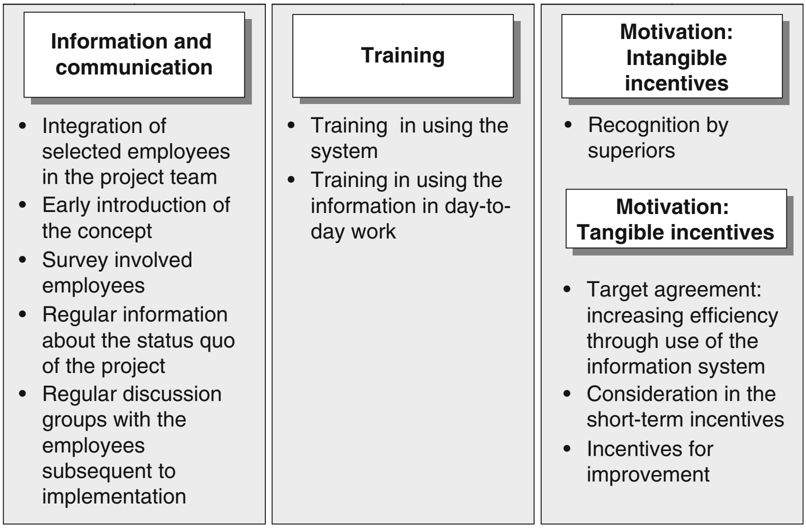

Fig. 11.3 Criteria for overcoming acceptance barriers with regard to new information systems

Motivational measures can be divided into the provision of intangible and tangible incentives: *Intangible incentives* include, e.g., recognition by superiors. In the case of *tangible incentives*, use of the system can be stimulated by means of efficiency increase targets defined in the target agreement (see Chap. 9). Furthermore, bonuses for suggesting ways to improve the system could, for example, be offered.

The Customer: The Unknown Factor? 12

Customer information constitutes the core of a sales information system. It is therefore our intention in this chapter to systematically show what customer information is essential for a company to have. After classifying the fundamental types of customer-related information (Sect. 12.1), we will discuss what information needs to be available, in particular with regard to

- Customer structure (Sect. 12.2),
- Customer profitability (Sect. 12.3), and
- Customer satisfaction/customer retention (Sect. 12.4)

While the discussions in these sections apply equally to corporate and end customers, Sect. 12.5 introduces a special guideline for analyzing the purchasing behavior of corporate customers. However, even in Sects. 12.2, 12.3, and 12.4, we do not limit ourselves to presenting the required information, but will also demonstrate modern analytical tools. The customer portfolio in Sect. 12.2 is one such example. It is our conviction that not only should information about active customers be used here, but also that information about potential or lost customers can be of value to a company. After all, systematic customer relationship management, in principle, offers the opportunity to regain lost customers and develop them profitably (see Chap. 21 as well as Homburg and Schäfer 1999). An essential prerequisite for this, however, is the availability of information, which we will describe in the following.

12.1 Customer Information that You Cannot Do Without

In principle, all sorts of information about customers can be collected, making it easy to very quickly lose sight of what is essential. Structuring information according to the following categories can serve to guide the company through the "customer information jungle":

- Basic data (Who are our customers?),
- Potential data (What do our customers need?),

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_12,

Who are our customers? Basic descriptive customer data	**What do our customers need?** Potential data about customer needs	**What do we do for our customers?** Action data about customer development	**How successful are we/our competitors?** Response data
• Demographic data • Socioeconomic data • Psychographic data • Segment affiliation • ...	• Needs • Demand for previously purchased products • Temporal distribution of the demand • Best contact times • Cross-selling potential • Attainable price level • Service requirements • Other customer expectations • ...	• Type of development activities • Intensity of the development • Frequency of the development • Development times • Costs of the development activities • ...	• Sales revenue from the customer • Customer contribution margin • Customer lifetime value • Our share of customer • Customer satisfaction • Customer retention • Our image as perceived by the customer • Cross-selling success • Price sensitivity • Advertising elasticity • ...

Fig. 12.1 Overview of principal customer information

- Action data (What do we do for our customers?), and
- Response data (How successful are we/our competitors with our customers?).

Figure 12.1 provides a summarized overview of the customer information in these categories. Much of this data can be analyzed both at the individual customer level and at the customer segment level.

Basic data can be used to answer the question “Who are our customers?”. It is product-independent and usually stable in the long-term. Basic demographic data for private customers would include, for example, sex, name, address, bank account details, age, and marital status. For corporate customers, data might include sector, contact person, number of employees, creditworthiness and legal form. Socioeconomic data (e.g. income, sales revenue and education) and psychographic customer data are also components in the group of basic data. Psychographic customer data refers to general personality traits such as lifestyle, attitudes and interests as well as to product-specific benefit criteria for the customer, such as price benefit, quality benefit or image benefit (see Chap. 2).

Potential data is both product-related and time-related. It provides information about the customer-specific demand volume and relates to the question “What do our customers need?”. It can be used to determine what overall demand a customer will have for what product and at what time. Potential data also provides important input for the customer portfolio, which we will discuss in Sect. 12.2.

In this context, we would like to emphasize the value of information about the cross-product sales potential of customers – referred to as *cross-selling potential*, which is increasingly gaining in importance (see Homburg and Schäfer 2000;

Table 12.1 Extract from the network matrix of a financial service provider

	Additional product				
Starter product	Credit card	Building savings contract	Mortgage	Equity fund	Household insurance
Checking account	0.6	0.3	0.1	0.4	0.1
Credit card		0.5	0.3	0.5	0.2
Building savings contract	0.3		0.7	0.5	0.2
Mortgage	0.1	0.3		0.1	0.8
Equity fund	0.3	0.4	0.2		0.3

Schäfer 2002). The question here concerns what products a customer could purchase from the company in addition to those already purchased.

There are different methods for determining cross-selling potential. Two simple methods are the customer survey and employee estimation. Many companies (e.g. from the mail order sector) use basic data, consumer-geographical segmentations and product use profiles to develop extensive scoring models for assessing cross-selling potential (see Homburg and Schäfer 2001). Frequently, the compound effects between a supplier's products are also analyzed (for more details, see Schäfer 2002). The idea here is that there is a purchasing alliance between different products: If a customer purchases product A, there is a probability that he will purchase additional products B, C or D. Shopping cart or data mining analyses can be used to estimate this probability (see Hippner and Wilde 2001). The financial services sector uses network matrices to analyze the probabilities of additional insurance policies being taken out, based on previous product use. These matrices contain statements about the probability that a user of a particular starter product will use an additional product (see Table 12.1). The following example shows that offering household insurance to a mortgage holder could be worthwhile.

Action data records the supplier's customer-specific development measures. It answers the question "What do we do for our customers?". The data includes type, intensity, frequency, time, and pro rata costs of the actions. Examples include mailings, catalog consignments, bid preparation, field sales calls or telephone calls. Action data forms the basis for a systematic review of the success of the customer development.

Response data provides information about customer responses to the development actions undertaken by the company itself as well as by other companies. In addition, response data also furnishes information about the economic assessment of individual actions or customer relationships. It therefore answers the question "How successful are we/our competitors with customers?". What is important here is to identify both economic success factors (such as sales revenue, customer contribution margin or orders received) and non-economic success factors (such as customer satisfaction, customer retention, customer familiarity with products). Response data can be used to answer the following questions:

- What profit contribution do our customers generate, how valuable are they to us?
- To what extent have we exhausted the potential of the customers?

- How satisfied are customers with us?
- How committed are the customers to us?
- How do customers respond to actions by us/our competitors?

A company can tap into the enormous potential of professional information systems if it has this information from all categories available in an integrated form. An example from the financial services sector serves to illustrate this: A dissatisfied customer calls her bank's complaint management hotline, triggering several processes in the bank. The customer is identified via her telephone number, which is stored in the system (basic data). The fact that the customer belongs to the segment of young "upward climbers" with a high (but not yet realized) sales revenue potential (potential data) is also stored in the system. Complex *data mining algorithms* analyze the customer's previous product use (response data), compare it with other usage patterns and suggest a total of six products for cross-selling offers. Four of them are rated as being suitable for telephone sales, while the other two require a consultation talk (action data). Owing to the customer's high potential, she is put directly through to a qualified employee in the call center, who resolves her complaint with commensurate generosity according to the system's suggestion, noting in the system that she will be contacted again in a few days time to be made additional offers.

12.2 The Customer Structure: Guidepost for the Deployment of Resources

In view of the mounting pressure to increase productivity that is facing market development in many companies today (see Chap. 1), focused market development is becoming more and more important. Even more intensively than before, companies must examine the issue of what resources to deploy for which customers. Focused market development means bidding farewell to market development according to the "principle of giving everybody an equal share", which continues to be practiced in many companies.

This section discusses tools for analyzing the customer structure, which provides information about resource allocation and the focusing of the market development. The following tools are particularly suitable for this:

- The scoring model,
- The ABC analysis, and
- The customer portfolio.

The *scoring model* is a relatively simple tool that is primarily suited for assessing the attractiveness of customers. Generally, the aim of scoring models is to identify the customers with the greatest purchasing probability and attractiveness. The *RFM* model was developed for US mail order companies a long time ago. To determine the attractiveness of customers, three criteria were taken into account: *R*ecency of purchase, *F*requency of purchase and the *M*onetary value of purchase. High values for these criteria indicate that a customer is extremely attractive. Over time, these criteria have been refined and supplemented.

Table 12.2 Scoring model using the example of a mobile phone supplier

Parameter	Scale (pts = points)					
Call time per month	>40 h:	20–40 h:	15–20 h:	10–15 h:	5–10 h:	<5 h:
	+40 pts	+25 pts	+15 pts	+5 pts	−5 pts	−15 pts
Primary call time	Peak:			Off-peak:		
	+20 pts			−5 pts		
Percentage of international calls	>60%:		30–60%:	15–30%:		<15%:
	+15 pts		+10 pts	+5 pts		−5 pts
Type of contract	Standard contract:			Pre-paid card:		
	+15 pts			+5 pts		
Length of business relationship	>4 years:		2–4 years:	1–2 years:		<1 year:
	+15 pts		+10 pts	+5 pts		0 pts
Utilization of supplier's services (e.g. connection by operator)	>10 per month:		2–10 per month:	1–2 per month:		0
	+15 pts		+10 pts	+5 pts		−10 pts
Support intensity (hotline calls)	0		1–2 per month:	2–5 per month:		>5 per month:
	+5 pts		0 pts	−5 pts		−15 pts
Payment history	Always punctual: +10 pts		Not always punctual, but punctual in more than 50% of cases: −10 pts	Punctual in less than 50% of cases: −20 pts		Never punctual: −100 pts

Nowadays, scoring models are used in many sectors. Table 12.2 shows a scoring model using the example of a mobile phone supplier. This company uses the scoring model to determine the attractiveness of mobile phone users.

The information required to calculate the score is available in a customer database containing data about all of the mobile phone supplier's customers. Depending on the value of the parameter, the customers are given points or have points deducted. For example, one customer makes telephone calls totaling approximately 16 h per month. His calls are primarily made during the day, i.e. during peak time, and are exclusively to domestic users. The customer has had a standard contract with the company for 3 years. He never uses services such as connection by the operator and never calls the hotline. Unfortunately, the customer does not always pay on time, but only around once every three times. This information produces a score of 30.

The scores determined for each customer do not yet reveal very much about the company's customer structure. For this, customers need to be divided into groups according to their scores. In our example, customers with a score of higher than 80 belong to the group of top customers, who need to be attended to accordingly. Customers with a scoring value of 25 points or less, on the other hand, are classified as less attractive and no longer actively developed.

At this point, scoring models bear a close resemblance to the *ABC analysis*, which many readers will, of course, know in connection with the classification of

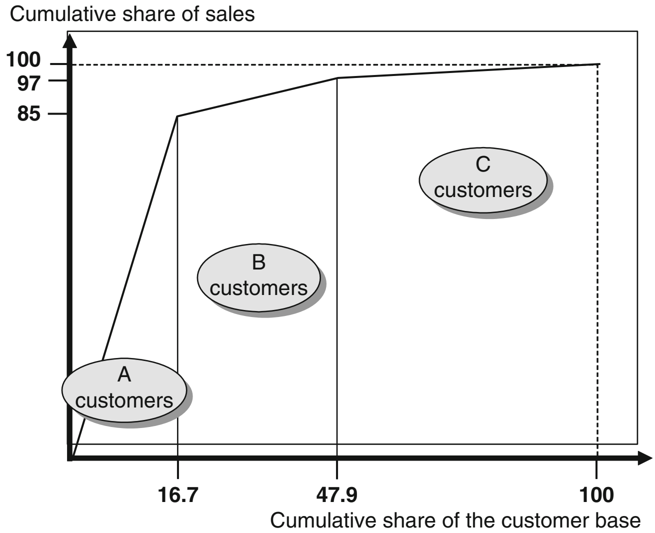

Fig. 12.2 ABC analysis using the example of a manufacturer of medical-technical equipment

products. The ABC analysis classifies customers into A, B or C customers based on sales revenue, contribution margin, sales revenue potential and support costs.

Let us illustrate the ABC analysis procedure using the example of a manufacturer of medical-technical equipment. This company's customers are the medical wholesale trade, the medical supplies retail trade, drugstores, and physicians. The company has a total of 4,800 customers. Around 85% of the sales revenue is attributed to the 800 most profitable customers, who represent 16.7% of the customers and are referred to as A customers. The 1,500 customers that follow in the sales revenue ranking – the B customers (31.2%) – account for approx. 12% of the sales revenue. The remaining 52.1% generate 3% of the sales revenue and are referred to as C customers. Figure 12.2 provides a graphical illustration of the result in our example.

The figures provided in this example are by no means untypical of an ABC analysis. It is very common for 80:20 structures to be identified, i.e. 20% of a company's customers provide 80% of their sales revenue.

Both the scoring model and the ABC analysis provide initial benchmarks for customer-related resource allocation. Companies are generally concerned with focusing cost-intensive forms of support, such as field sales calls, on selected customer groups and finding cost-effective forms of development (e.g. call center support) for less attractive customers (e.g. the C customers).

The approaches that we have discussed so far are relatively simple tools for analyzing customer structure. They are widely used in practice in both the private customer and corporate customer sectors. However, their application is not wholly unproblematic. For example, the sales revenue related ABC analysis (see Fig. 12.2) ignores the potential of customers. A C customer may therefore be a customer that has little need for a supplier's services, or a customer who has a large demand that is mainly covered by competitors. Combining such different customers into one category can obviously lead to incorrect decisions. Although scoring models can also take potential data into account, in addition to the current business volume, a good deal of information is lost through consolidation in one single indicator.

The *customer portfolio* represents a further development of these simple tools, addressing the above-mentioned points of criticisms. The customer portfolio is formed by means of the two dimensions of customer attractiveness and supplier position. The focus is, therefore, on assessing customers with regard to two key questions:

- How attractive is the customer, in principle, to the supplier?
- How strong is the supplier's position with the customer?

In practice, the two dimensions are usually composed of different criteria. When assessing *customer attractiveness,* it is important to completely divorce it from the supplier's position with the customer and the sales revenue/contribution margin/profit generated with this customer. The focus is on the *potential* business relationship – not on the actual one. The criteria for assessing customer attractiveness include

- The customer's annual demand (i.e. the sales volume/revenue volume that can, in principle, be achieved with the customer),
- The estimated growth of the relevant demand,
- The price level that can be attained with the customer,
- The customer's strategic importance (e.g. future potential, customer's image or function as an opinion leader), and
- The options for collaborating with the customer (e.g. cooperation in logistics or product development).

The *supplier position* usually results from the supplier's relative share of customer. A kind of "customer-related market share" is therefore calculated. This indicator can be enhanced to include qualitative criteria such as the quality of the business relationship.

The customer portfolio is drawn up in several steps:

1. Determine the criteria for the customer attractiveness and supplier position dimensions.
2. Operationalize the criteria (i.e. determine measurement scales).
3. Weight the criteria.
4. Assess the customers with respect to the criteria.
5. Draw up the customer portfolio.
6. Draw up the sub-portfolio (e.g. per sales region/representative).
7. Derive development strategies.

The *first step* is to select the criteria for the customer attractiveness and supplier position dimensions. Frequently, several criteria can be used for each dimension. However, companies should be selective and limit themselves to between three and no more than five criteria, since compensation effects occur between the individual criteria as their number increases, i.e. positive ratings for one criterion and negative ratings for another cancel each other out. The model therefore loses some of its

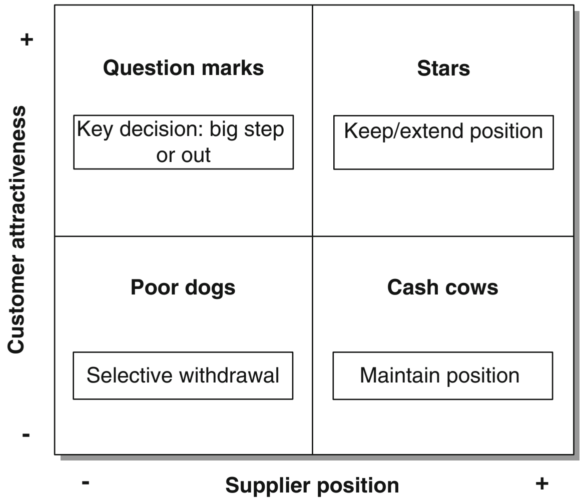

Fig. 12.3 The customer portfolio

significance, and the required time and effort increases in parallel with the number of criteria.

The *second step* is to operationalize the selected criteria, i.e. measurement scales must be developed. For example, the quotient of the scope of services that the company in question provides for the customer and the customer's annual relevant demand is used to measure the supplier's share of customer. The relative share of customer results from the quotient of the company's own share of customer and the strongest competitor's share of customer.

If several criteria are used for each dimension, the *third step* is to consider how to weight the different criteria. For example, it is conceivable that, to determine the supplier position, the share of customer be weighted with a factor of 0.6 and the quality of the business relationship with a factor of 0.4.

Once the assessment regarding the customer attractiveness and supplier position has been carried out, the *fifth step* is to draw up the customer portfolio, i.e. the customers in question are divided into the four following categories, according to their assessment:

- Stars,
- Question marks,
- Cash cows, and
- Poor dogs (see Fig. 12.3).

This typology can be used to make statements not only about sales, service and marketing activities, but also about customer retention measures with respect to the individual customer categories. Basically, the recommendation of this model is to limit the deployment of resources for cash cows and poor dogs. This advice is especially important for cash cows: Practice shows that field sales representatives frequently attend to these particular customers more intensively than it would be necessary from the importance of the business relationship. The reason for this overweighting in market development is obvious: This customer category frequently houses the “good old friends”, with competitors appearing very infrequently due to limited attractiveness – it is “simply nice” there.

Question marks necessitate a key strategic decision. Simply put, the fundamental decision boils down to: big step or out? The supplier therefore needs to ask himself whether he is willing and able to bring about a sustainable improvement of his position with these customers so as to turn them into stars. If not, he should accept his weak position and considerably reduce the resources allocated to them. This could even mean ending the business relationship.

The reader may well be wondering at this point why this hard decision needs to be made and why it is not possible to persist with the “top left” position. The reason is that these customers are usually very demanding due to their high attractiveness. They expect special service, special conditions, etc. from the supplier, which means that developing them is costly and time-consuming. Such investment can only pay off if the supplier has a strong position with the customers. Numerous applications of the customer portfolio in a wide variety of sectors have taught us that question marks are not usually profitable for the supplier. This is the logical consequence of the constellation that we have described: A good deal of effort is expounded in return for just a small “piece of the cake”.

However, based on our practical experience, we recommend that suppliers link their decision in favor of a big step strategy to clearly quantified targets and milestones. There is namely the risk of the big step attempt becoming a “never-ending story” – and there is probably nothing more expensive in market development than permanently and unsuccessfully chasing after question marks. If a supplier therefore determines that he is falling short of the defined milestones by orders of magnitude, he should seriously ask himself whether the second alternative (“out”) is the more reasonable decision.

The customer portfolio depicted in Fig. 12.3 is best suited for existing customers. For example, in the case of potential new customers, a “supplier position” cannot be referred to. For the prioritization that is especially required in the context of (usually resource-intensive) new customer acquisition, it is advisable to use a variant of the customer portfolio: the prospect portfolio (see Homburg and Fargel 2006a; Stahl and Matzler 2001). The vertical axis of this portfolio maps the anticipated attractiveness of the prospect (the potential new customer). This is very similar to the attractiveness of existing customers and can also consist of quantitative and qualitative factors. In contrast to classical customer portfolios, however, the horizontal axis contains the *probability of acquisition*, which results from combining a customer perspective and a company perspective: The former identifies the requirements that a customer has in respect of the suppliers’ products and sales. If the prospect is currently a customer of the competition, the type and strength of that business relationship and his current customer satisfaction are of additional importance. The company perspective, on the other hand, describes the company’s available resources and level of competence. The focus here is on the extent to which the company is able to meet the prospect’s needs and to remove him, if necessary, from an existing supplier relationship. The assessment of the probability of acquisition therefore also includes reviewing the following questions (see Homburg and Fargel 2006):

- "What does the prospect want?"
- "What is (the strength of) his current commitment?", and
- "What can I offer him?"

Table 12.3 once again presents the fundamental lines of attack and possible customer development measures for the individual categories and discusses potential risks that the different customer types hold for a company.

Let us take the example of a national newspaper to illustrate how a customer portfolio is drawn up, together with the resource allocation measures that can be derived from it: The annual advertising sales revenue of this newspaper, with 2,500 advertising customers, is approximately 50 million euros. The customer portfolio can be used to classify the advertising customers and derive individualized development strategies.

The first step is to define the criteria. To measure customer attractiveness, the annual advertising volume, the potential growth of the advertising volume, the price level and the reference potential are determined. For the supplier position, only the share of orders is used as a criterion.

The next step is to operationalize the criteria, i.e. to determine the measurement scales. For example, the scale for the criterion "potential growth of advertising volume" is as follows:

6 = more than 20% growth in advertising volume
5 = 15–20% growth in advertising volume
4 = 10–15% growth in advertising volume
3 = 5–10% growth in advertising volume
2 = 0–5% growth in advertising volume
1 = stagnating advertising volume
0 = drop in advertising volume

All the criteria are scaled in a similar way on a scale from 0 to 6. The next step is then to weight the criteria. This produces the following weighting for the criteria that were used to measure customer attractiveness:

Annual advertising volume: 45%
Potential growth in advertising volume: 30%
Price level: 15%
Reference potential: 10%

All of the newspaper's advertising customers are assessed with regard to the above-mentioned criteria. These assessments can be used to calculate each customer's position in the customer portfolio. The positioning of all the customers results in the distribution by frequency of the customers as well the sales revenue distribution across the four categories (see Fig. 12.4).

Figure 12.4 clearly shows that the cash cow category accounts for both the most customers and for the highest sales revenue percentage. Also noticeable is that there is significantly better penetration of customers with low attractiveness than with high attractiveness: While nearly three out of four customers in the bottom section

Table 12.3 Overview of customer development for the four customer types

	Stars	Question marks	Cash cows	Poor dogs
Position in the customer portfolio	High customer attractiveness, strong supplier position	High customer attractiveness, weak supplier position	Low customer attractiveness, strong supplier position	Low customer attractiveness, weak supplier position
Basic statement on the deployment of resources	Intensive deployment of resources	*Big step:* very intensive deployment of resources	Limited deployment of resources	Very limited deployment of resources
		Out: significantly reduced deployment of resources		
Aim of customer development	Maintain/extend the strong position	Sustainable improvement of position or withdrawal	Maintain the position	Selective withdrawal
Measures	Corporate customer sector:	Corporate customer sector:	Corporate customer sector:	Corporate customer sector:
	e.g., individualized customer care concepts, value-added services, cooperation, joint product development, inclusion in customer advisory council	*Big step:* e.g., joint strategy development for the customer, creation of new personal contact persons, provision of special customized service packages	e.g., careful reduction of support intensity, supplementary use of cost-effective support concepts	Support using low deployment of resources, e.g. via intermediaries or the Internet
		Out: significant reduction in support intensity, possible termination of the business relationship		
	Private customer sector:	Private customer sector:	Private customer sector:	Private customer sector:
	e.g., exclusive customer clubs and customer cards, individual support, exclusive invitations	*Big step:* e.g., invitations to special events, change of customer advisor, incentives	e.g., careful reduction of support intensity, supplementary use of cost-effective customer care concepts (e.g. call center), customer magazine	Support using low deployment of resources, e.g. via intermediaries or the Internet
		Out: significant reduction in support intensity, possible termination of the business relationship		
Risk	Being enticed away by competitors	Long-term unsuccessful and cost-intensive chasing	Excessive commitment of resources	Long-term losses due to uneconomic development

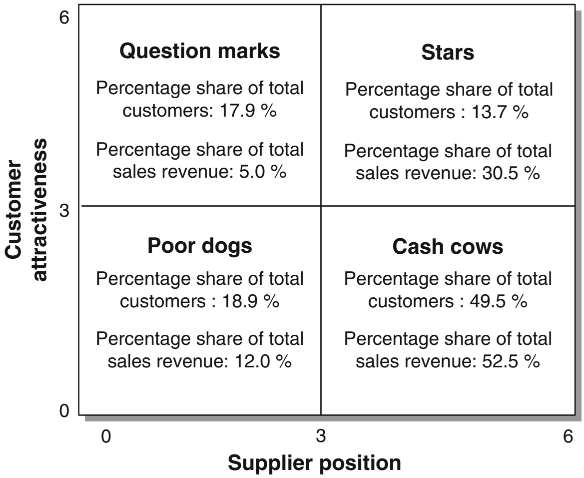

Fig. 12.4 Portfolio structure of a national daily newspaper in the advertising customer business

of the matrix (low attractiveness) are positioned to the right of the dividing line (strong supplier position), this is the case with only less than half of the customers in the upper section of the matrix (high attractiveness). This observation suggests the conclusion that the market development is focusing too strongly on fairly unattractive customers (in particular, cash cows) and is not adequately leveraging the interesting potential of question marks. If this imbalance is corrected accordingly, significantly more sales revenue can be achieved with the same deployment of resources for market development.

The next step is to draw up sub-portfolios for the customers of the individual sales representatives. Figure 12.5 provides an example. This sales representative boasts a very favorable customer structure. In particular, he has managed to tap into the potential of the most attractive customers, as can be seen from the positive ratio between the number of stars and the number of question marks. However, it also needs to be pointed out that further growth potential in this customer base is limited.

The last step is to devise development strategies for each of the four customer groups. Table 12.4 presents some examples of measures used within the scope of these development strategies.

One fundamental question that frequently arises with regard to practical work with the customer portfolio is whether a portfolio structure is "good" or "healthy" in terms of sales revenue (see Fig. 12.4). In general, this question is not very easy to answer. However, our experience enables us to cite the following benchmark data as guidelines for healthy sales revenue distribution across the individual categories:

- Stars: 40–60%
- Question marks: 10–20%
- Cash cows: 20–40%
- Poor dogs: ≤10%

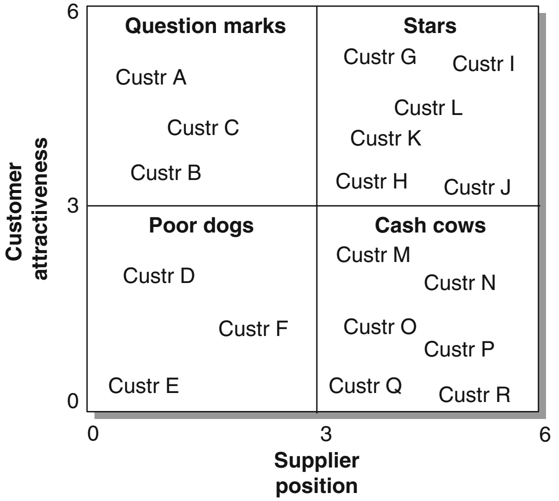

Fig. 12.5 Sub-portfolio using the example of a sales representative of a national daily newspaper

Table 12.4 Portfolio-oriented customer support measures using the example of a national newspaper

Stars	Question marks	Cash cows	Poor dogs
Regular support in line with individual needs	Regular visits from a specialized advertising customer consultant	Reduction in support costs through parallel use of new media	Substantial reduction in support intensity
Support by highly qualified personnel (e.g. by a key account manager)	Development of a special support program and step-by-step deployment of the individual elements (e.g. presentation of the newspaper, free Internet presence for 4 weeks, market research)	Standardization of advertising formats	Telephone support or Internet support only
Provision of additional services (e.g. joint market research studies)	Withdrawal if no significant improvement in sales revenue after 6 months		Standardization of advertising formats

Applying the customer portfolio in practice also reveals that typical problematic sales structures occur repeatedly. The most important of these are presented in Fig. 12.6.

At this point, some readers will argue that reducing support – as the portfolio concept suggests, for example, for the poor dogs – or even deliberately abandoning a customer is harmful to business. However, this argument does not hold. Of course, a company may experience a certain short-term drop in sales revenue as a result of the measures taken for the poor dogs. However, reducing support for less attractive customers will free up resources for supporting the really attractive customers.

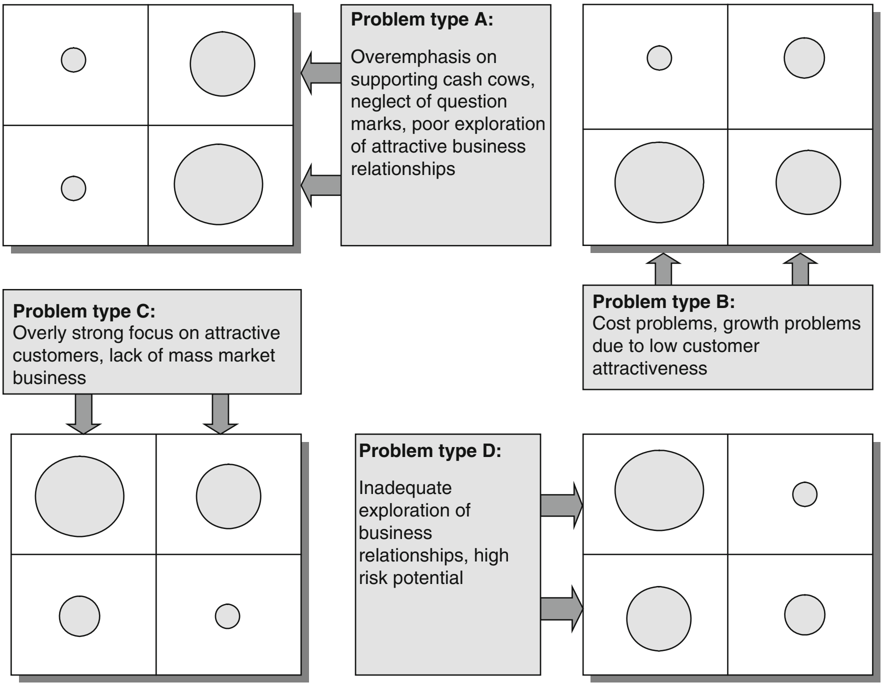

Fig. 12.6 Problematic sales distributions in the customer portfolio

Experience shows that such a focusing of resources on attractive customers pays off in the medium-term. Targeted customer portfolio management can achieve a *20–30% increase in productivity* (e.g. with respect to field sales activities) (see Homburg and Daum 1997, p. 64 et seq.). This applies, for example, to indicators related to field sales such as "sales revenue per field sales representative" or "contribution margin per field sales representative".

The customer portfolio is particularly well-suited to companies that have a clear customer base, as is frequently found in the corporate customer sector. In this case, individual customers are typically positioned in the portfolio. Since the number of customers is usually much larger in the private customer sector, it is scarcely possible to assess and classify individual customers. In addition, the company is not directly familiar with many of its customers. Nevertheless, the customer portfolio is still useful here, providing it is not applied at the individual customer level, but at the customer segment level. In certain cases, however, the customer portfolio analysis can also be conducted for individual private customers if the relevant information is available. This is usually the case with companies that have direct contact to the private customers. Such companies include, for example, financial service providers, telecommunications providers or car dealerships.

Indicators are also used in conjunction with the customer portfolio in order to complete the customer structure analysis. A distinction is made between economic indicators related to customer structure, customer satisfaction and customer retention, and indicators concerning the deployment of resources. Figure 12.7 provides

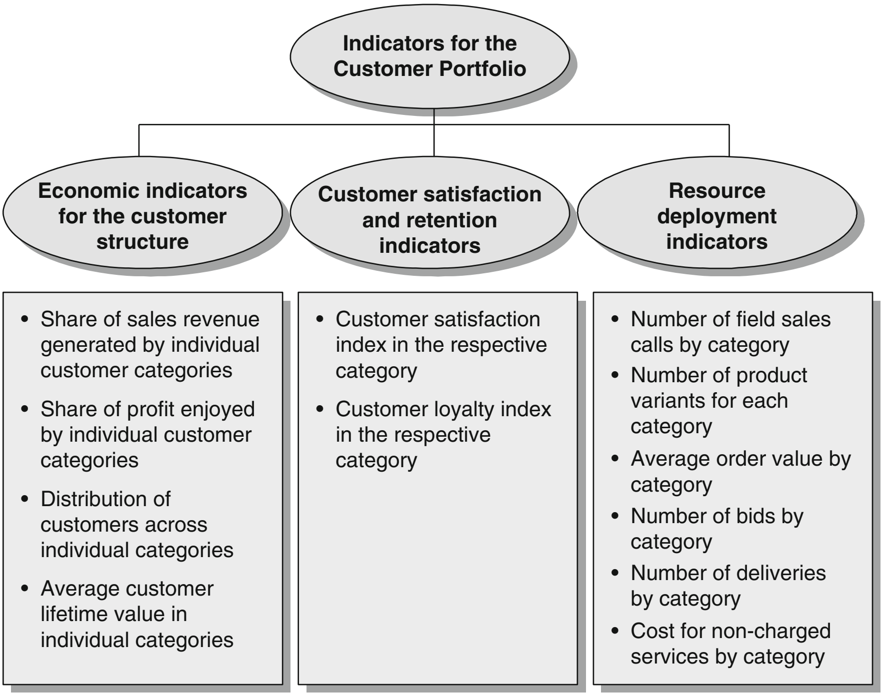

Fig. 12.7 Indicators for the customer portfolio (According to Homburg and Werner 1998, p. 134)

an overview of these indicators. The indicators in the second category are of particular interest here. High values for the stars and cash cows are desirable, while lower values can be tolerated for the poor dogs. Question marks need to be subjected to a differentiated analysis. High values are particularly desirable for those customers that are to be developed into stars.

This concludes our discussion of the most important tools for analyzing customer structure. They support companies along the path from the "principle of giving everybody an equal share" to focused market development. However, both the ABC analysis and the customer portfolio have a major drawback: They only implicitly take customer development costs into account, and thus say nothing about customer profitability. Even scoring models only consider costs in terms of a deduction of points and not the actual monetary aspects. The following section discusses tools for analyzing customer profitability.

12.3 Customer Profitability: Which Customers Do Companies Earn Money On?

One of the fundamental aspects concerning customer information is the question of which customers a company earns or loses money on. An answer can be provided by

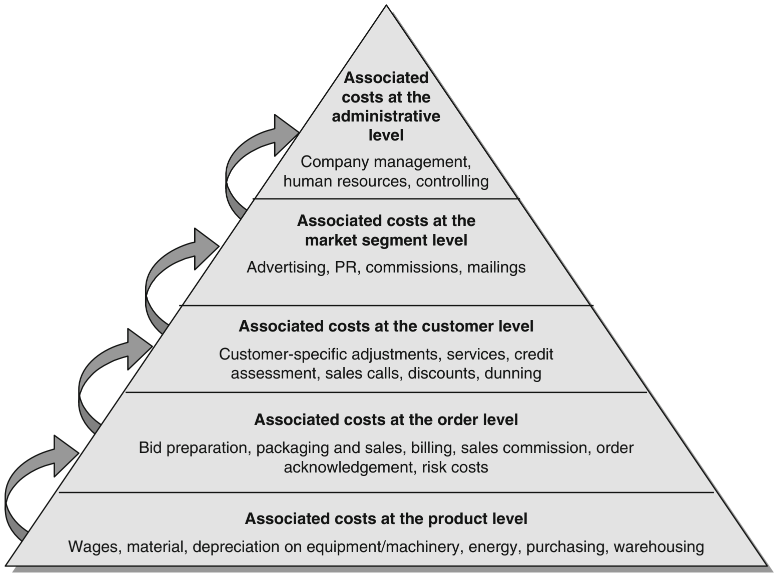

Fig. 12.8 Hierarchy of relevant costs (According to Knöbel 1995)

- Customer-related profitability analysis, and
- Customer lifetime value (CLV).

We will be introducing these two tools in this section. They represent an essential supplement to the customer structure analysis described in the previous section.

A prerequisite for a customer-related profitability analysis is to identify customer-specific costs, which is precisely where the first difficulty lies. Many companies prefer to emphasize the product-related perspective when determining costs, focusing on the question “Which products do we earn money on?” and not on “Which customers do we earn money with?”. In addition, the product-oriented analysis frequently uses a lump sum estimate of the costs incurred outside the production area to calculate a product’s full costs. For example, an additional charge of X% is estimated for sales costs. Average values have to be used in this case, which may result in a significant miscalculation of the actual costs related to an individual customer.

Sales controlling based on profitability criteria is hardly feasible without meaningful information about the profitability of customers. In economic terms, it is tantamount to pursuing a kind of “flying blind” approach to market development. Customer-related profitability information is also required for assessing the effectiveness of the key account managers (see Chap. 20).

A first step in the right direction is to structure customer-related costs. A hierarchical arrangement, as displayed in Fig. 12.8, can prove useful here.

Once costs have been assigned to products, they are then successively assigned to orders and then to customers. This allows the company to conduct a profitability

Table 12.5 Customer-related profitability analysis using the example of an industrial goods company (See Homburg and Daum 1997, p. 89)

Customer	A	B	C	D	Other	Total
Gross revenues based on list prices/ customer-specific revenue reductions	**1,150 (100%)**	**600 (100%)**	**1,940 (100%)**	**340 (100%)**	**600 (100%)**	**4,630 (100%)**
	550 (48%)	250 (42%)	1,040 (54%)	140 (41%)	250 (42%)	2,230 (48%)
= **Net revenues**/variable costs	**600 (100%)**	**350 (100%)**	**900 (100%)**	**200 (100%)**	**350 (100%)**	**2,400 (100%)**
	276 (46%)	140 (40%)	405 (45%)	100 (50%)	173 (49%)	1,094 (46%)
= **CM I**/fixed costs of production (product-specific and customer-specific)	**324 (54%)**	**210 (60%)**	**495 (55%)**	**100 (50%)**	**177 (51%)**	**1,306 (54%)**
	66 (11%)	122 (35%)	90 (10%)	34 (17%)	57 (17%)	369 (15%)
= **CM II**/sales costs (customer-specific)	**258 (43%)**	**88 (25%)**	**405 (45%)**	**66 (33%)**	**120 (34%)**	**937 (39%)**
	78 (13%)	88 (25%)	153 (17%)	36 (18%)	60 (17%)	415 (17%)
= **CM III**/costs not assigned to specific customers (administration and R&D)	**180 (30%)**	**0**	**252 (28%)**	**30 (15%)**	**60 (17%)**	**522 (22%)**
						456
= **Result**						**66**

analysis on all levels. Of course, there is a certain amount of expense and effort involved in processing the information here. If a pragmatic approach is taken, however, the costs can be contained and, in our experience, are more than compensated for by the customer profitability information that is acquired. In this context, we should also point out that it may make sense not to perform customer-related profitability analyses on an ongoing basis, but only in selected cases. Moreover, while much of the information required already exists (e.g. customer-specific discounts, advertising cost subsidies), it has not been used to analyze customer profitability up to now. It is not our intention to delve into methodological aspects of *customer-related profitability analysis* in detail at this point. Instead, we refer the reader to the discussions on activity-based costing in Homburg and Daum (1997, p. 87 et seq.), Coenenberg (2009) or Reckenfelderbäumer and Welling (2001).

A customer-related profitability analysis is usually carried out in the form of tiered contribution margin accounting (see Rese 2001; Tomczak and Rudolf-Sipötz 2001). This is presented in Table 12.5 using the example of an industrial goods company, with a detailed analysis of four customers A, B, C and D. As the upper section of the table illustrates, the company is working with a price list on which high discounts are granted. The customer-related profitability analysis starts with the customer-specific net revenues. The next step is to deduct the variable costs of the services purchased by the customers. This produces the classic customer-related contribution margin, referred to as contribution margin I (CM I). The fixed costs of sales and production, allocated according to the costs-by-cause principle, are then deducted. This gives rise to contribution margin III (CM III). This value indicates how much remains from the development of a particular customer to cover the company's general fixed costs (i.e. not to be attributed to a particular customer), after deducting all costs that can be rationally allocated to the customer. It is obvious that this CM III is the decisive factor in assessing customer-related profitability.

The figures in the example illustrate two fundamentally important aspects: First, using CM I to assess customer profitability – a frequent phenomenon in practice – can lead to utterly incorrect estimates: Customer B has the highest percentage CM I of all customers, but, taking into account all customer-specific costs results in the lowest CM III for this customer. CM I is thus not a meaningful assessment factor for customer profitability. The main problem is that this parameter does not consider customer-specific costs.

The example also illustrates a second aspect: Many companies, wanting of better information about customer profitability, gear themselves to the price level achieved with individual customers ("high price = profitable customer"). This can also lead to glaringly incorrect estimates (see Table 12.5). In percentage terms, customer C receives the highest discounts, bonuses and incentives, but still boasts a very high CM III. By contrast, unprofitable customer B receives relatively low discounts, bonuses and incentives. A simple contribution margin analysis and orientation on price level thus tend to mislead rather than achieve their objective. There is no alternative, in the long run, to systematic customer profitability analysis.

Customer-related profitability analysis is a static method for assessing current customer profitability. Many situations, however, also raise the question of a customer's expected *future profitability*. For example, if a customer is currently unprofitable for the supplier, but has considerable growth potential, this question is almost inevitable. Providing an answer to this question is also important when it comes to deciding how to proceed in the future with a question mark (see the customer portfolio in Sect. 12.2). The key issue here is whether to invest in the business relationship (big step) or not (out). The *customer lifetime value (CLV)* can be used to make a medium- to long-term economic assessment of investments in business relationships.

Conceptually, the CLV is not new (see Gierl and Kurbel 1997; Bruhn et al. 2000). It corresponds to the *net present value method*. What is new here is applying this method to business relationships with customers (customer segments), rather than to traditional investment objects such as equipment or buildings. When calculating the CLV, the anticipated investment in the business relationship is deducted periodically from the anticipated revenues generated by the business relationship. Since future revenue surpluses are of less value than current ones, the result is discounted with a interest rate. The results are added across all periods, producing the CLV:

$$\mathrm{CLV} = \sum_{t=0}^{t=n} \frac{e_t - a_t}{(1+i)^t} = e_0 - a_0 + \frac{e_1 - a_1}{(1+i)^1} + \frac{e_2 - a_2}{(1+i)^2} + \ldots + \frac{e_n - a_n}{(1+i)^n}$$

Table 12.6 Calculation of a CLV using the example of a chemicals company

	First year (t = 0)	Second year (t = 1)	Third year (t = 2)	Fourth year (t = 3)	Fifth year (t = 4)	Total
Gross sales revenue	1,000,000	950,000	900,000	850,000	800,000	**4,500,000**
Accompanying revenues	8,000	8,000	8,000	8,000	8,000	**40,000**
Manufacturing costs	850,000	650,000	630,000	560,000	520,000	**3,210,000**
Sales costs	75,000	76,000	73,000	66,000	59,000	**349,000**
Sales support costs (application technology, logistics)	180,000	185,000	190,000	196,000	225,000	**976,000**
Annual surplus revenue	−97,000	47,000	15,000	36,000	4,000	**5,000**
Surplus revenue, discounted (10%)	−97,000	42,727	12,397	27,047	2,732	**CLV = −12,097**

e_t: (anticipated) revenues from the business relationship in period t
a_t: (anticipated) investment in the business relationship in period t
i: interest rate for discounting on a uniform reference period
t: period (t = 0, 1, 2, . . ., n)
n: duration of the analysis horizon

We will now illustrate this with an example: A chemicals company needs to decide whether to accept a 5-year master agreement with a customer. This agreement contains a guaranteed annual sales revenue of 1 million euros for the first year; the following years each envisage a price reduction of 50,000 euros. Parallel to this, a service level agreement will provide an annual sales revenue of 8,000 euros. To assess the advantages of the master agreement, the company now estimates the manufacturing, sales and sales support costs that will incur. Table 12.6 shows the calculation of the CLV for this customer. The interest rate is 10%. The example shows that, despite the positive cumulated revenue surplus, a negative CLV is the result.

It is also possible, in principle, to calculate the CLV for private customers, and in some sectors, it is quite common. For example, an average customer value of 17,500 euros was calculated for a frozen food delivery service, and an automotive manufacturer assumes an average CLV of 85,000 euros (see Schulz 1995).

However, due to the large number of customers in the private customer sector, performing the calculation for an entire customer segment or a customer group is often more expedient. Let us illustrate this procedure with an example from the mobile phone sector (see Table 12.7). Within the scope of a market study, a supplier has identified a group of (potential) customers: the “wealthy young chatterboxes”. This group includes 5,000 customers with an average monthly sales revenue of 100 euros. This sales revenue can be expected to increase by 10% every 6 months. In this dynamic market, it makes sense to calculate the CLV primarily for the term of a contract, i.e. for 2 years. It can also be assumed that the sales costs and sales support

Table 12.7 Calculation of a CLV using the example of a mobile phone supplier

	First half-year (t = 0)	Second half-year (t = 1)	Third half-year (t = 2)	Fourth-year (t = 3)	Total
Gross sales revenue	3,000,000	3,300,000	3,630,000	3,993,000	**13,923,000**
Service provision costs	2,200,000	1,800,000	1,800,000	1,800,000	**7,600,000**
Sales and customer support costs	1,000,000	800,000	760,000	850,000	**3,410,000**
Sales support costs (mailings, customer magazines)	90,000	80,000	76,000	100,000	**346,000**
Annual surplus revenue	−290,000	620,000	994,000	1,243,000	**2,567,000**
Surplus revenue, discounted (10%)	−290,000	563,636	821,488	933,884	**CLV = 2,029,008**

costs will initially go down upon conclusion of the contract, only to rise again in the fourth quarter, since it will then be necessary to persuade the customers to renew their contract. As Table 12.7 shows, a positive CLV is yielded here.

For the sales division, the CLV provides important information for initiating, controlling and monitoring business relationships. Calculation of the customer lifetime value is especially useful

- When assessing major customers with a view to creating a long-term business relationship,
- When presenting a case during negotiations with customers,
- When reviewing the cost-effectiveness of projects and plans, such as customer development strategies, and
- When reviewing the cost-effectiveness of future cooperation (particularly with regard to question marks, see Sect. 12.2).

Of course, a negative CLV does not automatically mean the business relationship should be terminated. Rather, the company needs to check whether sales revenue increases and/or cost reductions can bring about a business relationship with a satisfactory assessment. Even if this is not the case, there may be strategic reasons for continuing a business relationship.

Practical application of this concept, of course, raises the question of data acquisition. Certainly, estimating future revenues and costs related to business relationships is by no means a straightforward task. However, we have noticed that many sales managers tend to have an attitude problem here: Any calculations about investments - including those in the production area – is essentially based on estimates. If a production manager wants to buy new equipment, the case he makes is expected to be stringent enough to withstand an investment calculation. The same stringency must also be required of sales managers in the future. Merely incanting the mantra of the necessity of "investing in a strategic customer" is certainly not in line with the prerequisites and objectives of Sales Excellence. If sales managers adopt these objectives for themselves, it will be possible to acquire the data for a

CLV analysis. If necessary, allowances can be made for the uncertainty of future developments by working with positive and negative scenarios.

Another problem concerning the CLV relates to defining the horizon of analysis. Choosing a long horizon of analysis generally tends to result in a positive assessment of the customer relationship. If unrealistically long analysis periods are chosen, a "positive gloss" can be put on virtually every business relationship and every investment. Short analysis horizons, on the other hand, result in a negative assessment of the business relationship. In extreme cases, very short-term analyses can be used to "destroy" every business relationship and every investment. Against this background, the decision regarding the analysis horizon needs to be weighed carefully.

In the corporate customer sector, it does not usually make much sense to take the actual length of the business relationship as a point of orientation, since business relationships often exist over a period of several decades. In this case, periods that are manageable from a current perspective should serve as reference points. The standard practice is to use analysis periods of no longer than 3–5 years. For long-term specific investments and correspondingly long-term contracts, this period can also be extended.

In the private customer sector, defining the analysis horizon is more complex – apart, perhaps, from health insurance funds and life insurance (which interpret the term "lifetime" literally). The analysis period has to be determined on a case-by-case basis, taking into account the following factors:

- Typical length of product use and purchase cycles,
- Typical contract terms, and
- The probability that customers switch suppliers.

When conducting such analyses, suppliers should bear in mind that these factors can also be significantly affected by marketing and sales activities.

Knowledge of customer profitability alone is not, however, sufficient for professional customer management. In addition, companies also need to collect systematic information about the satisfaction and commitment of their customers. As this aspect is extremely important, we will discuss it in more detail in the next section.

12.4 Customer Satisfaction and Customer Retention: How Stable Are Business Relationships?

In recent years, much has been said and written about the buzzwords "customer satisfaction" and "customer retention". Nevertheless, there is still a great deal of uncertainty about what these terms really refer to.

Customer satisfaction is the result of a complex, psychological process of comparison (see Homburg and Stock-Homburg 2008): After using a product or service, a customer compares the perceived performance (actual performance) with his expectations (target performance). If the target performance is achieved or surpassed, the customer is satisfied. If it is not achieved, the customer is dissatisfied. Customer satisfaction is therefore always subjective. *Customer retention,* according to modern understanding, (see Homburg et al. 2000a) goes beyond mere repurchasing, and also comprises recommendations made to third parties, as well as cross-buying, i.e. the purchase of additional products from the same provider. Customer satisfaction is a necessary, but not sufficient condition for customer retention, i.e. without customer satisfaction there can be no lasting customer retention in this broadest sense. On the other hand, customer retention does not automatically follow from customer satisfaction, either (see Diller 1995; Herrmann and Johnson 1999). Experience shows that even satisfied customers change suppliers, e.g. because they are seeking variety.

It is obvious that effective customer relationship management, as described in Part IV of this book, presupposes well-founded information about customer satisfaction and retention. It is therefore our intention in this section to explain the prerequisites for professionally measuring customer satisfaction and customer retention (for overviews of the respective measurement methods, see Stauss 1999; Beutin 2008).

In order to effectively manage customer satisfaction, the measurement process needs to meet a number of basic requirements. It should be

- Systematic,
- Regular,
- Comprehensive in terms of content,
- Differentiated according to market segments (e.g. regions, customer groups or sales channels),
- Differentiated, in the corporate customer sector, according to respondents (e.g. purchasers, technical planners or quality assurance specialists), and
- Should culminate in systematic improvement processes in the company.

The requirement for *systematic* measurement covers both design and implementation. The design aspect focuses on defining the target group, deciding on the type and scope of the sample, and the form of the survey.

When *specifying the target group*, a decision needs to be made with regard to which customer groups to survey. Along with product users, these can be retailers, further processors or other advisory institutions. After making this fundamental decision, the target group can be narrowed down even further. For example, there can be a focus on customers with a certain economic importance or a regional emphasis. In the corporate customer sector, the company contact persons to be surveyed also need to be defined (e.g. purchaser or product user).

When *specifying the sample,* both the extent of the survey and the mechanism for selecting respondents are defined. Determining the sample size includes making a decision about whether there should be a full or partial survey. This decision depends, in principle, on the number of customers. For a company under construction with very few customers, a full survey is frequently the only sensible route, while, for companies with a large number of customers, a full survey is usually not economically feasible.

An important decision in this connection concerns the *sample size*. Several parameters need to be taken into account here. First, the extent to which customer satisfaction results are to be subsequently differentiated (e.g. according to customer segments or regions) is crucially important. A rule of thumb is that differentiation requires at least 30 answers of customers for each category, since the risk of basing decisions on random effects is otherwise too great. If a response rate of 20% is assumed, at least 150 customers per differentiation category need to be represented in the sample. This therefore allows a determination of a minimum sample size (for a more in-depth discussion, see Homburg and Werner 1998, p. 73 et seq.). Secondly, the desired accuracy of the results plays an important part. It increases as the sample size increases. If, for example, a company wishes to include the customer satisfaction results in remuneration systems (see Sect. 9.6), the required level of accuracy necessitates selecting a large sample size.

The respondents can either be selected randomly or by design. However, with deliberate selection, care must be taken to ensure that the selection does not have an a priori sugarcoating effect on the results of the analysis.

In general, three *forms of surveys* can be distinguished:

- Written surveys (by postal mail or via the Internet),
- Telephone surveys and
- Face-to-face surveys.

It is not possible to give a general recommendation on which method is most suitable. The decision depends on the situation and the aim of the analysis. For example, it is not practical to conduct a telephone survey with decision-makers who are difficult to reach. If the interview duration is lengthy (e.g. due to complex questions) and the target group is manageable, face-to-face interviews often prove to be the best method. For a detailed discussion on selecting the survey form, see Homburg and Werner (1998, p. 74 et seq.). We have often been asked how useful the Internet can be as a customer survey tool. Practice shows that while the Internet offers the opportunity to substantially lower the costs of a written survey, there is usually an even more considerable drop in quality (see Beutin 2008). The flood of e-mails to which virtually every Internet user is exposed generally results in extremely low response rates.

In this context, there is also the question of who should conduct the survey: the company itself or an external service provider? The – at first glance – lower costs may seem to support the single-handed approach. However, if company employees acquire the data, the results may be distorted, particularly in the case of contact-intensive survey forms (i.e. in person or over the telephone): Customers generally answer less critically if the person interviewing them works for the company under review. Attempts at justification on the part of the interviewers during the survey also contribute to distortion of the results. Therefore, the involvement of an external service provider during telephone or personal surveys is usually indispensable. In addition, our experience shows that companies rarely possess the methodological knowledge required for analyzing the data acquired. Meaningful customer satisfaction analyses cannot be limited to mean values, but rather require the use of sophisticated statistical methods – yet another reason for collaborating with external partners.

Another quality characteristic is the *regular measurement* of customer satisfaction. Regular measurements of satisfaction allow corresponding countermeasures to be taken if a decline in satisfaction is promptly identified, thus preventing an impending customer churn. Regularity is also required in order to be able to assess the success of improvement measures. It is not possible to give a general statement as to the intervals at which such measurements should be carried out. In the private customer sector, it is often possible to have short survey intervals due to the large number of customers. In the corporate customer sector, many companies have had positive experiences with annual survey intervals.

The requirement for a *comprehensive* measurement of customer satisfaction includes four aspects:

- The consideration of all relevant service components,
- The explicit question regarding overall satisfaction,
- The incorporation of supplementary open-ended questions, as well as
- The explicit querying of the various facets of customer retention.

The first aspect refers to the fact that, in principle, all the company's *service components* must be taken into account in the measurement of customer satisfaction. As a rule, all aspects with which the customer can be satisfied or dissatisfied should be covered. This means that not only the service core (the product), but also the accompanying services, the customer-related processes as well as all interactions with the customer need to be included. Technically oriented companies, in particular, frequently neglect the "soft" factors when measuring customer satisfaction.

These service components are then assigned individual service criteria, which form the basis for the concrete customer satisfaction questions. Table 12.8 illustrates this type of structuring using the example of a transport service provider.

To determine these service components, in-depth interviews have to be conducted with customers about the expectations they have of the company and their perception of the company's performance. Our experience shows that many companies pay too little attention to this qualitative aspect. However, if important service components are not identified in this phase, a subsequent customer satisfaction measurement process will not cover all the relevant factors that influence overall satisfaction. In addition, such interviews also provide numerous indicators for assigning individual service criteria to the service components.

Careful recording of the relevant service criteria is therefore important, since extreme differences between the individual satisfaction assessments are often found in practice. Figure 12.9 illustrates this using the example of a manufacturer of varnishes and paints.

The second content-related requirement concerns the *explicit question regarding overall satisfaction*. The thereby determined customer satisfaction index (CSI) provides the top management with aggregated customer satisfaction information and can be used for benchmarking purposes. For methodological reasons, we advise against calculating this overall measurement by averaging across the individual service criteria.

The *incorporation of supplementary open-ended questions* is important, because in this way more detailed information beyond quantitative customer satisfaction assessments can frequently be acquired. An effective customer satisfaction measurement process should therefore always contain a healthy mix of closed questions

Table 12.8 Service components and service criteria in a customer satisfaction measurement process, using the example of a transport service provider

Service criteria	Weight (%)	Service components	Weight (%)	Overall satisfaction
Option to book desired seat	17	Booking process	13.8	Customer satisfaction index (CSI)
Accessibility of the reservation office	20			
Options for rebooking	22			
Professional competence	21			
Friendliness	20			
Greeting when boarding	14	Employees	19.7	
General appearance/manner of employees	17			
Professional competence of the service team	23			
Appearance/manner of the service team	24			
Responsiveness to special requests	22			
Cleanliness of toilets	29	Cleanliness	14.7	
Cleanliness of the interior	38			
Exterior cleanliness of the means of transport	33			
Temperature on board	23	Travel environment	18.4	
Background noise on board	36			
Functionality of the seat	41			
Quality, including snacks and drinks	21	Culinary offers	17.8	
Range of complementary snacks and drinks	20			
Quality of additional snacks and drinks	12			
Range of additional snacks and drinks	17			
Price-performance ratio of the additional offerings	13			
Bar	17			
Transportation to and from			2.8	
Price-performance ratio			12.8	

that the customer can answer by checking off a box and open-ended questions to which the customer provides his own answers.

The *explicit querying of the various facets of customer retention* is necessary because customer satisfaction and customer retention do not always go hand in hand. Of course, a survey cannot precisely identify the future behavior of the customer. The workaround in practice is to determine the customer's behavioral intentions (e.g. with regard to repurchasing or cross-buying). While these do not

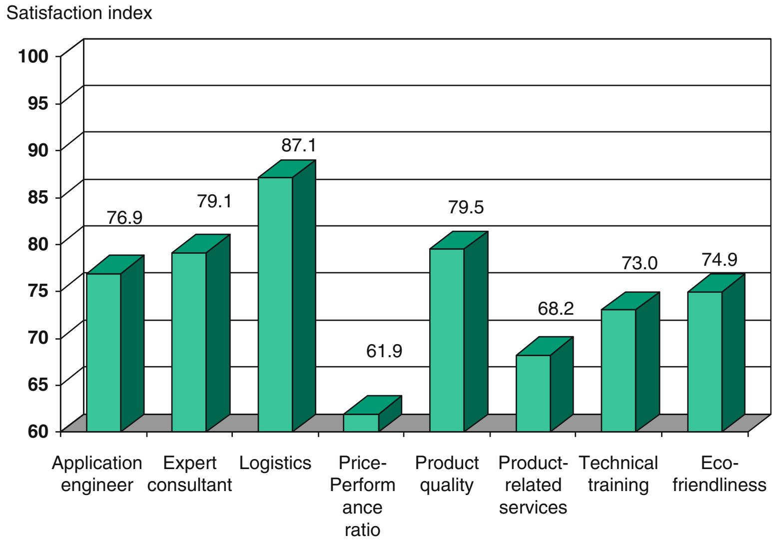

Fig. 12.9 Customer satisfaction with individual service components, using the example of a manufacturer of varnishes and paints

provide a guarantee of future customer behavior, they do offer a very good indicator of how things stand with customer retention.

A further quality requirement related to measuring customer satisfaction is *differentiation according to market segments* (e.g. regions, customer groups or sales channels), which enables shortcomings to be identified precisely and responsibilities to be assigned appropriately. In the corporate customer sector, it is also advisable to *differentiate according to respondents* (e.g. purchasers, technical planners or quality assurance specialists). Considerable differences in the satisfaction values are commonly observed here in practice. It is also frequently necessary to gear the customer satisfaction criteria to the individual group of people.

The last requirement concerning satisfaction assessments (*initiating improvement processes*), strictly speaking, refers less to the measurement itself than to the use of the results of the analysis. Even the best measurement of satisfaction is of little use if it disappears into the drawers of the market research department. After completing the customer satisfaction measurement, the focus, on one hand, is on a systematic process for remedying identified deficits (for details, see Homburg and Werner 1998, p. 100 et seq.; Beutin 2008, p. 118 et seq.). On the other hand, it is advisable to include the satisfaction data in information systems and possibly also in remuneration systems (see Sect. 9.6).

Practice frequently shows that, following completion of a satisfaction study, various improvement measures are activated without any clear prioritization. Activism of this kind usually runs itself into the ground within a short period of time. Effective management of customer satisfaction requires setting priorities, which in turn requires knowledge of the importance of individual service

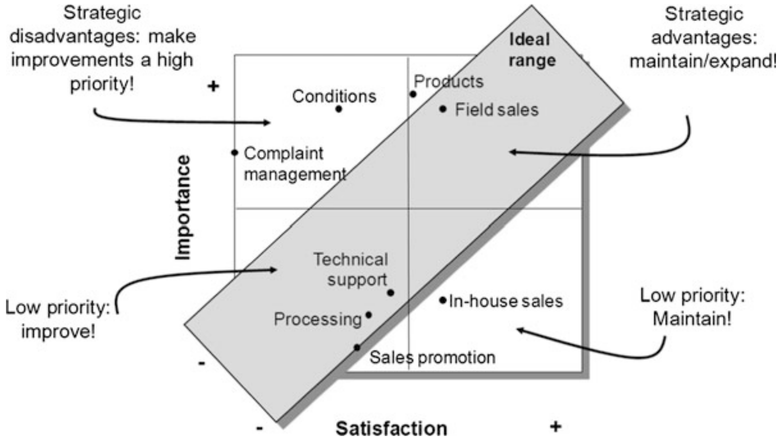

Fig. 12.10 Customer satisfaction profile using the example of a manufacturer of building materials

components. Asking direct questions about these important aspects is problematic for a variety of reasons. We therefore recommend determining them indirectly by means of the strength of the correlation between satisfaction with individual service components and overall satisfaction (for a detailed discussion, see Homburg and Werner 1998, p. 89 et seq.; Beutin 2008, p. 115 et seq.).

If the satisfaction with the individual service components is compared with their importance, the *customer satisfaction profile* can be drawn up (see Fig. 12.10). A profile of this sort allows priorities to be set for increasing customer satisfaction. The profile is based on the underlying awareness that economic criteria do not allow outstanding satisfaction values to be achieved for all important service components. The highest satisfaction values should therefore be realized for particularly important service components. On the other hand, somewhat lower customer satisfaction can be tolerated for less important service components. In terms of its structure, the customer satisfaction profile should therefore run from the top right to the bottom left, which is indicated by the ideal range. There is a massive need for action in the case of the strategic disadvantages located at the top left of the profile. Here, the customers are dissatisfied with important service components.

In our example, complaint management has particularly negative results. The bottom right of the profile shows the service components with which the customers are satisfied, but which they do not find particularly important. Only those resources needed to retain the status quo should be invested here. In the case, a company should also examine whether it is making an investment that is not rewarded by the market.

Another graphic tool for processing the results of a customer satisfaction study is the customer satisfaction/customer retention profile. Let us illustrate its interpretation using the example of the above-mentioned manufacturer of building materials (see Fig. 12.11).

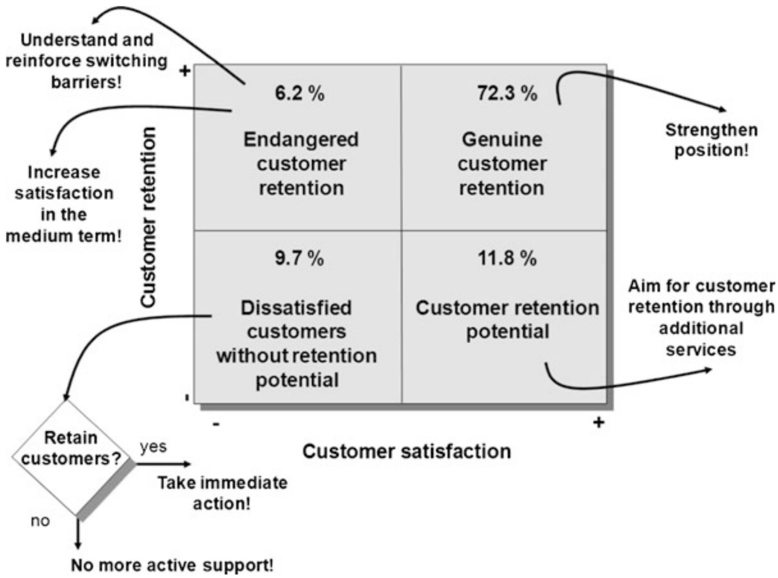

Fig. 12.11 Customer satisfaction/customer retention profile using the example of a manufacturer of building materials

In this example, at least 72.3% of the surveyed customers show genuine customer retention potential. In our experience, more than 70% of customers should ideally be located in this area of the profile. Although 11.8% of customers are satisfied, they show very limited customer retention potential. This is where effective customer management can come in to play (see Chap. 19) if the company is very interested in retaining these customers. Although 6.2% of the surveyed customers are committed to the manufacturer (e.g. because the required product is only available from this manufacturer), they tend to be dissatisfied.

Two approaches are conceivable in a case like this: First, barriers to stop these customers from switching suppliers need to be identified and reinforced. However, this approach should be applied with the utmost care, since barriers for switching may become obsolete in the long term. Secondly, for this reason, the satisfaction of these customers must be increased in the medium term. The dissatisfied and uncommitted customers, at least 9.7% of the customers in our example, are a particularly difficult case. The company must ask itself the fundamental question of whether to retain them. If the answer is yes, immediate action needs to be taken in order to increase customer satisfaction and retention potential.

This analysis of the percentages in the profile is, of course, still very superficial. Therefore, when applying this tool in practice, a company has to analyze which customers (customer groups) are featured in the individual areas of the profile and how strongly they are represented, before any decision is made.

12.5 Analyzing the Purchasing Behavior of Corporate Customers

The concepts and tools for customer analysis that we have presented so far are equally suited to sales to end customers and corporate customers. However, corporate customer markets are characterized by the customer purchasing and decision-making processes that are much more protracted and complex than those in end customer markets. In the corporate customer sector, it is therefore extremely important for the supplier to understand the structures and processes of the customer's purchasing decision. Against this background, the following section will introduce an approach that is explicitly geared towards analyzing the purchasing behavior of corporate customers.

In contrast to end customer markets, several people usually participate in purchasing decisions in corporate customer markets. This is referred to as a "buying center" (see Homburg et al. 2009). A buying center of this kind is the conceptual combination of the people or groups involved in a particular organizational purchasing decision. A buying center is an informal group, i.e. it is not usually an independent department in the company's organizational structure.

The members of the buying center take on different roles, with one person being able to take on several roles simultaneously and several people being able to perform the same role. Generally, there are five roles in the buying center:

- User: The product to be purchased will be used in the user's area. In many cases, it is the user who provides the initiative for acquiring the product.
- Purchaser: The purchaser has the formal authority for preparing purchase contracts in accordance with commercial and legal criteria as well as for selecting the supplier.
- Influencer: Influencers are usually experts that have special information at their disposal in their capacity as opinion leaders. They frequently define specifications and compile information.
- Information selector: The task of the information selector is to pre-structure and to reduce alternatives. This role is frequently undertaken by the decision-makers' assistants.
- Decision-maker: The decision-makers have decision-making powers due to their position. They ultimately make the purchasing decision.

Sales success greatly depends on whether the decision-making structures and the expectations of the various parties in the buying center are understood and taken into account accordingly. Sales-oriented customer development activities often focus too strongly on the purchaser. We have therefore designed a *set of questions regarding the customer/buying center analysis,* which is presented below. The following key questions are not only suitable for large formal buying centers; the vast majority of them can also be used for straightforward purchasing structures (e.g. with two to three decision-makers/influencers) Table 12.9. This set of key questions consists of eight question fields concerning...

1. The formalization of the buying center
2. The buying center's purchasing criteria

Table 12.9 Key questions for analyzing the purchasing behavior of corporate customers

1. Key questions concerning the formalization of the buying center
Does a formal buying center exist in the customer organization?
How formalized are the purchasing processes in the buying center?
Is authorization from a central authority required to reach the particular contact person?
2. Key questions concerning the buying center's purchasing criteria
Are there systematic checklists for assessing the suppliers?
How important is the product and service quality to the customer?
How important is the price? Are there relevant threshold values?
How many comparative offers were obtained?
3. Key questions concerning the composition of the buying center
Which individuals comprise the buying center?
Are there people/entities outside the organization that need to be taken into account in the buying center?
4. Key questions concerning the roles of the members of the buying center
Who plays what role in the buying center?
Who is the main decision-maker in the purchasing process?
Who makes the (commercial) purchasing decision? Who has formal budget sovereignty?
Who makes the specialist (e.g. technical) decision?
Who is the main influencer in the buying center?
To what extent is there a "pre-selector" who narrows down the alternatives to be considered in advance?
Who is the actual user of the service to be purchased?
In which phase of the purchasing process do the identified participants appear?
To what extent do their roles change in the course of the decision-making process?
5. Key questions concerning the informal organizational chart and the power structures of the buying center
What is the balance of power in the buying center?
Are there particular people that have a dominant say in purchasing (owing to their hierarchical position or their specialist/technical influence)?
How are the different people linked to one another?
What are the exact reporting lines? Who reports to whom?
Which people have a particularly central position?
Which people have very few links or none at all?
6. Key questions concerning the individual people in the buying center
What professional background do the individual people have?
What are the individual goals and needs of these persons?
What personal benefit does this person derive from a decision in favor of our company?
How detailed does the information need to be for this person to come to a decision? What kind of detailed information does this person require?
To what extent does this person have a more holistic analysis perspective and predominantly require highly aggregated information in order to come to a decision?
Does this person tend to be more open to technical or business/commercial arguments?
What is this person's career background? Are we dealing with a businessperson, a scientist or a technician?
Is this person open only to business topics or also to private ones?

(continued)

Table 12.9 (continued)

What activities, topics and initiatives does this person react positively/negatively to?
7. Key questions concerning how the supplier is perceived
How do those involved perceive us?
How are our abilities perceived?
How sympathetic are they to us (to me as a person and to my company)?
Who, due to his hierarchical position, acts as our "promoter"?
Who, due to his hierarchical position, acts as a "brakesman" with regard to our company?
Who, due to his professional expertise, acts as our "promoter"?
Who, due to his professional expertise, acts as a "brakesman" with regard to our company?
What impression do the participants in the buying center have of our competitors?
8. Key questions concerning the generation of benefit for the individual persons
What emotional benefit do we offer the individual persons?
How do we help the individual persons look good in their own company?

3. The composition of the buying center
4. The roles of the members of the buying center
5. The informal organizational chart and power structures of the buying center
6. The individual people in the buying center
7. How the individuals perceive the supplier
8. The generation of benefit for the individual persons

13 Competitor Information: Know Your Opponent

Only a company that knows its competitors can hold its own ground against them. The effects of misjudging the competition can be disastrous in sales. The results of an empirical study found that around 44 % of companies surveyed fail to carry out a systematic comparison with their competitors in sales (see Zahn 1997). Although companies frequently have certain competitive information available, it is not systematically pooled, processed and used.

A professional *competitor information system* should be able to provide answers to the following questions (see Fig. 13.1):

- Who are our competitors?
- Where do our competitors stand in the market?
- What resources do our competitors have, i.e. how powerful are they?
- Where do our competitors want to get to?
- What are they doing to get there?

The information that provides a basic description of competitor companies ("Who are our competitors?") includes their organizational and ownership structure as well as their interdependencies and affiliations with other companies. An answer to the question "Where do our competitors stand in the market?" is supplied by data such as market share, degree of distribution or image. The strength competitor can, for example, be described in terms of the quantity and quality of resources in different areas. This also serves as another indicator of the extent to which a competitor can pose a threat. The question "Where do our competitors want to get to?" mainly concerns information about the targets, budgets and schedules of the competitors. Lastly, data about the competitors' market development needs to be collected, which relates to various aspects of the sales management and also how the customer relationship management is set up.

In terms of *obtaining competitor information*, there are, in principle, no limits to a company's creativity, although general legal conditions need to be taken into account, of course. In most cases, competitor information can be acquired from a wide variety of sources, the most important of which are presented in Fig. 13.2.

The information that companies disseminate about themselves, e.g. through press releases, job advertisements, advertising, informational events, trade shows,

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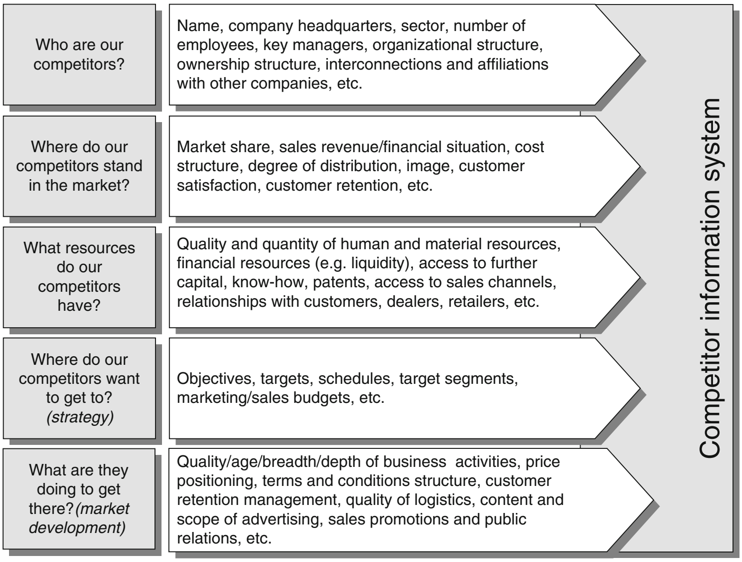

Fig. 13.1 Overview of competitor information

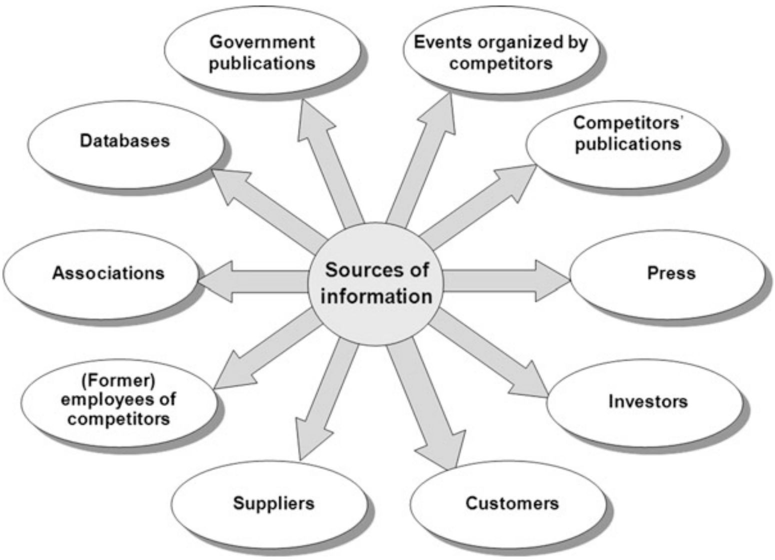

Fig. 13.2 Overview of key sources of competitor information

plant tours, patent registrations, employee magazines, websites or even through statements made by (sales) employees, can be acquired relatively easily. In many cases, however, certain information about competitors can also be obtained in a professionally packaged form from commercial suppliers such as market research institutions, consulting firms or investment banks.

Table 13.1 Extract from a competitor profile of a manufacturer of construction equipment

Criterion	Information	Other remarks	Source of information
Who is our competitor?			
Name	Construct-automate		
Company headquarters	Luxemburg		
Sector	Manufacture of construction equipment		
. . .	. . .	. . .	. . .
Where does our competitor stand in the market?			
Sales revenue	2000: 130 million euros worldwide, five million euros in Europe	Strong sales concentration on three key customers (see Appendix A)	Annual report, statements from customer B and intermediary A
Change in sales revenue compared with PY	−7 %	Attributed to launch of our Excavator X-10 product	Market research study for Construction 2000
Market share	Worldwide: 13 %		
	Europe: 23 %		
Financial/ profit situation	Return on sales approx. 4 %	Varies considerably according to product and customer group (see Appendix A)	Statements of former employees, estimates by our field sales force
. . .	. . .	. . .	. . .
What resources does our competitor have?			
Financial resources (liquidity)	Critical	Rumors about releasing provisions to "sugarcoat" the last annual balance sheet	Annual report, statements made by a credit agency
Branches/ locations	Worldwide: 5	Rumors about possibly dissolving the foreign subsidiaries in North America	Competitor's foreign customer Z
	Europe: 3		
Employees (worldwide)	Marketing: 20		
	Sales: approx. 35 (of which 18 belong to the field sales force)		
	Service: 10		
Employees (Europe)	Marketing: 10	A relatively large number of employees at an advanced age in the field sales force, new generation expected, with attendant "training difficulties"	Statements form customers
	Sales: approx. 20 (of which 10 belong to the field sales force)		
	Service: 5		

(continued)

Table 13.1 (continued)

Criterion	Information	Other remarks	Source of information
Where does our competitor want to get to?			
Long-term objectives	Become no.10 in the world in terms of sales revenue	Unrealistic in view of the current financial/profit situation (see above)	Statements made by the managing director in a talk given at the ABC Building and Construction Trade Show
...	...	...	...
What is it doing to get there?			
Range of products	A total of five types of construction machines, each with three variants (For illustrations, see Appendix B)	Product range partly outdated, Dig-Deep and Tom-Cat types, in particular, no longer meet customer requirements	Competitors' catalogs, statements from customers within the scope of the focus group held on 12/20/2000
	Maintenance and repair for the corresponding products		
Price positioning	"Economy" throughout, around 10 % below the prices for similar products from our product range	According to statements made by the competitor's assistant sales manager, no great variations in positioning are to be expected	Article in the magazine "Construction" 11/00
Customer retention management	Not systematic, the focus is on personal relationships	Considerations about creating a customer advisory council were rejected	Statements made by customer C and former employees
Sales strategy	Creation of an additional field sales team to acquire new customers	Enticing experienced sales representatives away from other companies	Our field sales force
...	...	...	...

If a *competitor information system* is to be *effective and successful*, a number of *prerequisites* need to be met, some of which are similar to the requirements that we have already discussed in connection with measuring customer satisfaction. For example, competitor information needs to be collected systematically, regularly, and in a differentiated manner (e.g. according to products or regions). Information that is received locally must be collected, e.g., by the field sales force, call center employees or even customer service managers and forwarded to a central department. The task of this central unit is to collect the information, aggregate it and make it available again in a compressed form to the parties involved. Many companies create competitor profiles, which are stored in the sales information systems. Table 13.1 contains extracts from one such profile, using the example of a competitor of a manufacturer of construction equipment.

While competitor information relates to the individual competitors, a company should also collect information about the general situation and changes in the market. We will discuss this aspect in the following chapter.

The Market: Identify Trends at an Early Stage 14

Market data is important to sales in a variety of situations. One of the essential aspects here is the timely identification of *changes and trends* in the market, which is relevant to both the development of a sales strategy and the operational sales planning. In this connection, information related to changes in the following five areas needs to be collected and evaluated:

- The company's own position in the market under review,
- Competitor behavior in the market under review,
- Customer behavior,
- General market characteristics, and
- Other environmental factors.

Figure 14.1 provides an overview of relevant information in these five areas. Information about the *company's own position* in the market refers, for example, to the company's market share, degree of familiarity, and image. In this connection, it should be noted that market share is not only calculated in absolute terms, but also in relative terms, i.e. in relation to the largest competitor. Furthermore, companies also need to have information about the market share per product (product group) and per market segment. The degree of familiarity and the image should not only be determined among existing customers, but among non-customers as well.

Information about the entry of new competitors, the exit of old competitors, the risk posed by substitutes and the weakening of sector boundaries can be used to characterize *competitor behavior* in the market under review. Information about the entry of new competitors can facilitate prompt identification of the risk of a company's customers being lured away by another supplier and a commensurate response (for an empirical study on defense strategies against new competitors, see Kuester et al. 2001). The exit of old competitors, on the other hand, provides an opportunity to recruit their customers.

In many markets, the risk posed by substitutes must not be underestimated. For example, a manufacturer of wine bottles also needs to keep an eye on the market for beverage cartons, since some producers are already bottling table wine in beverage cartons. A company needs to identify such potential problems as early as possible and respond with corresponding sales activities.

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DOI 10.1007/978-3-642-29169-2_14,

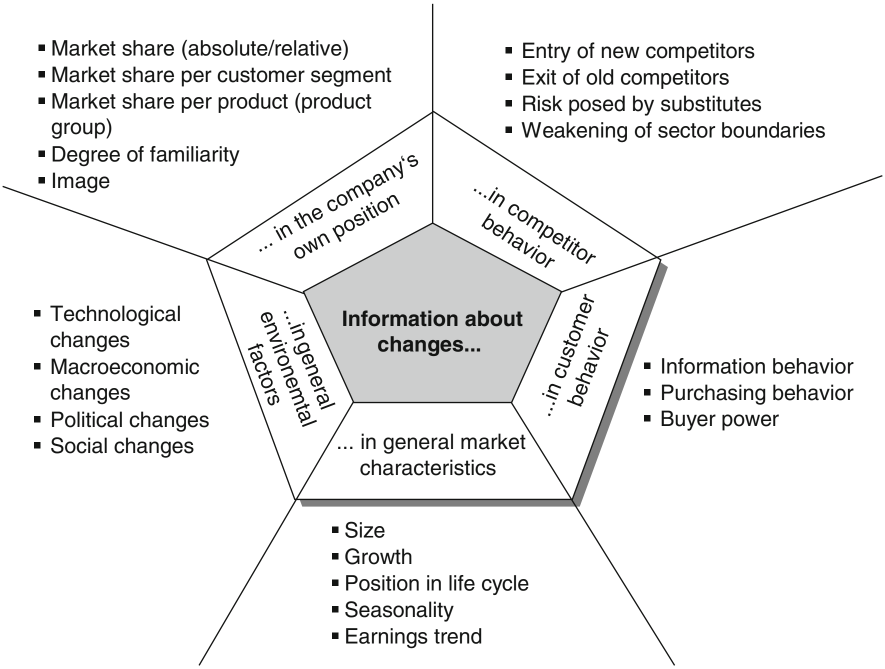

Fig. 14.1 Overview of market information

Indications related to the weakening of sector boundaries also constitute important information for sales. Such developments can be seen in many places nowadays. Examples include developments in the telecommunications and information technology sectors. The increasing conflation of telecommunications and information technologies is giving rise to the formation of completely new competition landscapes. Erstwhile classic telecommunications service providers are now offering extensive information/communication solutions or even e-commerce solutions, ranging, in part, from the provision of technical foundations ("enabling") up to the applications themselves, one of the results being that they are now entering into the competition with established IT service providers.

Information about *changes in customer behavior* helps sales adjust its development and support strategies to the new requirements. Changes in the information-seeking behavior of customers have a particularly large impact on sales activities, which can currently be seen in connection with the Internet. For example, many companies find themselves forced to secure their presence in the Internet, since more and more customers are using this medium as a source of information.

Changes in purchasing behavior also provide very valuable information for sales, which must react by changing its sales channels accordingly. With regard to the Internet, this again means that the company needs to secure its presence on its own website, in product catalogs, or in virtual stores (see Chap. 19).

Lastly, information about buyer power and concentration processes on the part of the customers also plays an important role. This is a problem currently facing consumer goods manufacturers that sell primarily via retail. Such information is relevant to identifying potential sales channels and/or new sales partners.

General market characteristics include information about the size, growth, position in life cycle, seasonality and earnings trend of the suppliers in the market. This information should not only be available for the overall market, but also for regional market segments. In this respect, we have frequently observed that companies define their markets too narrowly. However, the *relevant* market must always be analyzed. This refers to customers and their needs, regardless of the products used to satisfy these needs. For example, it would be short-sighted of an express company to analyze only the market volume for truck transportation, thus neglecting rail, air and water transportation in the process.

Along with size, the growth of the market is also a key general market characteristic. Not only the current growth, but also the future, forecast growth is of interest here. Vital information about future competitors and the time of entry into the market can be derived from such growth data.

Information about possible seasonality is used to improve planning. It aids the company in taking countermeasures, e.g., in the form of sales promotions or capacity adjustments, in the corresponding time periods.

Data about the earnings trend in the market being analyzed also facilitates planning and a better understanding of the competitors' (re)actions. Economic indicators are also closely linked to the earnings trend. Both types of information are essential for a professional market assessment. Crucial information about the future of the market can be derived from them, and decisions about the necessary investments/divestments made. Very recently, we analyzed the structure of the sales regions of a manufacturer of sanitary facilities. An essential aspect here was an analysis of the economic development of the individual markets. It transpired that information deficits in sales had clearly led to an incorrect distribution of resources. Growing markets with positive economic data were inadequately attended to, while stagnating, but traditional sales regions were forced to contend with oversupply and correspondingly high costs in the face of low sales revenues.

Environmental changes are revealed in technological, macroeconomic, political and social changes. Although companies cannot influence such changes, they can use them as early indicators of developments for which they should be prepared.

Much of the market information we have mentioned is qualitative. It is obtained by means of intensive observation of the market and analysis of trend reports, but also through dialog. It is not only the directly affected market participants that make interesting dialog partners in this connection, but also economic research institutes, representatives of other sectors, politicians, etc. The quantitative economic data is obtained either from forecasts made by economic institutes or through relevant sector-related trend studies conducted by market research institutes.

15 Information About Internal Processes: Sand in the Wheels?

The previous chapters were concerned with information about company-external circumstances and conditions. We now intend to analyze the company itself or, rather, the flow of the sales process in a company. To ensure the efficiency and effectiveness of its sales process, a company must collect and analyze a range of indicators and qualitative information for each phase in the process. Table 15.1 provides an overview of the most important phases in the sales process – from customer acquisition up to continued support. It also shows an example of the information that can be used to analyze the prerequisites, the quality of the process flow, and the results of each phase.

Indicators and information about *the prerequisites of the sales process* supply information about the extent to which the process phase in question can run effectively and efficiently. Such indicators frequently relate to the quantity and quality of human, material and financial resources.

Process-related indicators and information are particularly geared towards the speed, accuracy and flexibility of the corresponding process phase. *Result-related indicators and information* aid in evaluating the results of a process phase.

We will not be explaining each process phase in detail here, but merely examining a number of selected examples. When analyzing the *customer acquisition phase*, the main focus is on the quantity and quality of material and human resources (e.g. employee skills) as prerequisites on the supplier side. In addition, in terms of the customers, the supplier must make sure that he has meaningful information about potential customers at his disposal (see Homburg and Fargel 2006a).

In respect of the *customer acquisition process*, there should be a qualification according to interest, i.e. the "really interested customers" should be filtered out for costly and time-consuming acquisition activities. Our experience shows that too many resources are used on inquiries that are not, in fact, serious. Many companies, for example, respond to an inquiry by making an immediate field sales call.

An American manufacturer of alarm systems has devised a method for reducing such coverage waste. Each inquiry is addressed with a standardized telephone conversation. During the telephone call, the interested party is informed about the company's

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DOI 10.1007/978-3-642-29169-2_15,

Table 15.1 Indicators and information for analyzing the sales process

	Prerequisites	Process	Result
Customer acquisition	Quantity/quality of material/human/financial resources	Quality of the assessment of inquiries, time period between initial contact and sales call/follow-up activity	Number of new customers per acquisition activity, acquisition costs per new customer
Bid preparation	Breadth/depth of the product range, price range in bid preparation	Duration, flexibility, accuracy of bid preparation	Hit rate (orders per bid), bid preparation costs
Order processing	Quantity/quality of material/human resources, degree of automation in order processing	Duration/flexibility/ accuracy of order processing	Number of orders processed per period, processing costs per order, average order amount
Service provision/ delivery	Storage capacities and warehouse stock, product availability, quality of the tangible environment for service providers	Delivery time, duration of service provision, flexibility in dealing with change requests	Delivery reliability, delivery quality, complaint rate
Continued support	Quality/quantity of resources for customer retention, quality and quantity of the service personnel	Accessibility, response time for inquiries/ complaints, time period between initial purchase and cross-selling activity	Customer satisfaction, time period between complaint and resolution, cross-selling success

product range. Customers that express an interest in a second telephone call and request a brochure are then selected. This follow-up call again provides information about products, but additional questions are also asked about the informational material. More detailed questions are designed to provide an estimation of the potential customer's preferred product category and inclination to purchase. The aim of the call is to arrange a consultation talk with the customer. Experience shows that such a procedure can achieve a significant increase in efficiency in the customer acquisition process.

An analysis of the *order processing phase* and, in particular, the *results* of this phase shows that the processing costs per order are too often neglected here. For example, the time that it takes for a clerk to enter an order completely in the IT system (including all queries to the sales representative, production etc.) is rarely calculated. In some cases, the administrative expense for an order can be so high in relation to the order volume that the order processing costs are greater than the volume. Companies should therefore determine the ratio of order volume to order costs and, if possible, reject unprofitable small orders.

In the manufacturing sector, the *service provision/delivery* phase particularly covers logistics services, while in the service sector, it primarily comprises the actual provision of services to the customer. With respect to the *prerequisites*, service companies need to have information about how they meet certain quality standards regarding the tangible environment (e.g. cleanliness of buildings or employee clothing). Companies in the manufacturing sector need to ensure that the delivery requirements are met, e.g. by having products available in the warehouse.

To be able to map the *delivery or service provision process,* average delivery times or the duration of the service provision (e.g. duration of a consultancy project up to fulfillment of the project objectives) need to be tracked. The *resultant parameters* include delivery reliability and delivery quality. The delivery quality includes, for example, the completeness of the delivery.

The sales process concludes with *continued support* and after-sales service, which cover the entire gamut of activities after the actual sale. Indicators and information about the *prerequisites* for effective after-sales service might, for example, relate to the quality and quantity of the service personnel. The continued support *process* provides, e.g., an opportunity to analyze the accessibility of employees or the average response time to inquiries or complaints. Lastly, customer satisfaction, the number of complaints resolved, or cross-selling success could be used to summarize the *quality of the outcome* of the after-sales service.

We have provided only a few examples of the kind of information that can be used to track the effectiveness and efficiency of the sales process. Of course, the information system used for identifying and processing these quality characteristics has to be designed on a company-specific basis and may extend far beyond what we have discussed here.

16 CRM and CAS: Signposts in the Information Jungle

Up to now, our discussion in this part has focused on different facets of sales information, first and foremost providing an answer to the question of what information is required and how it can be acquired. We have demonstrated that sales success stands and falls with the quality and quantity of the information. Successful sales activities, however, also depend ultimately on whether the wide variety of information about, for example, customers, competitors or the market is integrated and used systematically.

Recently, this issue has been the topic of intensive discussion, particularly in connection with the catchword *customer relationship management* (CRM) (see Hippner et al. 2001; Link 2001). IT companies are using large-scale advertisement campaigns promising increases in customer satisfaction and loyalty, increase in employee productivity, an increase in returns on sales and, lastly, an increase in stock prices. Customer relationship management is frequently seen as just a question of the right software.

We would warn against this one-sided view. Of course, it is indisputable that modern IT systems can be a significant aid in the CRM process. As the previous chapters showed, many companies do not have the information required for effective relationship management. This includes information about customer structure or profitability.

It is also without question, however, that IT solutions can only unfold their power if the general conditions are suitable (see Köhler 2001). Studies in the USA show that at least about 60 % of all CRM projects fail (see Wilde et al. 2000). Similar surveys for Germany show that many companies are only moderately satisfied with the benefits offered by their CRM systems (see Schröder et al. 2002).

To avoid this, effective relationship management must be based on a clear concept. For example, a company needs to have clearly defined which customer segments are to be developed with which tools and with what priority (see Sieben 2003, p. 306 et seq.). The development and implementation of a complaint management system also involves a high conceptual input (see Sect. 19.4). No software can relieve the manager of this.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_16,

This chapter will provide an outline of the foundations of an information system for CRM, which systematically integrates the information about customers, competitors, the market and the individual company that we discussed in Part IV. Chapters 18, 19, 20, and 21 discuss the design and structure of customer relationship management and the tools and activities to be subsumed under it.

The IT foundations of CRM systems can best be illustrated by analyzing the main *task areas* of these systems (see, for example, Hippner and Wilde 2005; Alt et al. 2005). They include

- Communicative CRM,
- Operational CRM, and
- Analytical CRM.

Communicative CRM refers to the coordination of all customer communication channels (e.g. Internet, direct mail, telephone, WAP or personal contacts). Accordingly, CRM systems comprise different software applications, which enable all system users at the interface to the customer (e.g. employees in field sales, call center or the service area) to carry out a coordinated and effective customer contact process. These include what are called "workflow systems", which document the status of customer-related business processes and allow them to be processed on a cross-department basis. Another example is provided by "computer telephony integration systems" (CTI systems), which identify the calling customer via his telephone number and automatically forward him to the responsible customer representative (called "skill-based routing") or enable customers surfing on the Internet to request a callback from their customer service representative, at the click of a mouse.

Operational CRM refers to the support of marketing, sales and service-related activities that go beyond mere communication with the customer. Software solutions for "marketing, sales and service automation", for example, facilitate the planning and processing of direct marketing campaigns, the preparation and evaluation of sales calls by the field sales force, and the complaint management process (see Sect. 19.4). Sales automation systems are frequently discussed in conjunction with the term "computer-aided selling" (CAS). We will discuss them in more detail later.

Lastly, *analytical CRM* is used for the systematic recording, storage and evaluation of all customer, competitor and market data (see Chaps. 12, 13, 14, 15). At its core is an integrated database, the "data warehouse", which integrates customer data from various sources (for instance, enterprise resource planning (ERP) systems such SAP R\3, CTI systems or external data sources) into a standard software environment and makes it available for subsequent analyses. In addition, CRM systems generally contain software modules which support the system user in analyzing the data stored in the warehouse (e.g. OLAP or data mining applications; see Hettich et al. 2001).

Most of the IT systems that are being offered today as CRM products have their roots in the software solutions from the sales support sector, which are known as *computer-aided selling systems* (CAS systems) (see Schulze 2002). CAS systems are integrated information systems designed to support sales representatives in each phase of the sales process, using different software modules (see Fig. 16.1) and a

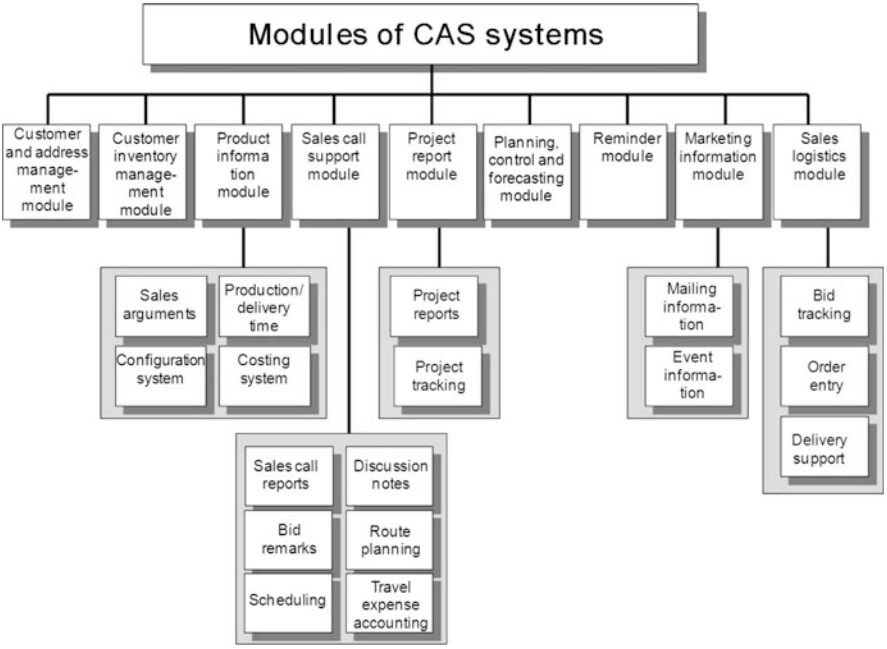

Fig. 16.1 Overview of a selection of CAS system components (According to Kieliszek 1994)

networked hardware architecture (e.g. central server, data warehouse, decentralized laptops or WAP-enabled cell phones). By being networked to other data sources in the company (e.g. data warehouse or ERP system), CAS systems allow sales representatives to access a wide variety of information relevant to their work (e.g. product or logistics data) at any time. However, CAS systems, in turn, also feed customer-related information (e.g. sales call reports, orders) into other operational information systems (see Link 2003).

The different software modules of CAS systems (see Fig. 16.1) are used, among other things, to prepare for customer contact, support the sales talk, prepare the bid or follow up on customer contact (see Fig. 16.2). The sales process phases shown in Fig. 16.2 do not necessarily need to be carried out successively; they can also run concurrently.

Preparation for customer contact essentially utilizes existing customer information. Such information is used, for example, for customer analysis, customer selection or target planning. The starting point for a *customer analysis* might be the customer portfolio that we introduced in Chap. 12. Furthermore, a CAS system lets the sales representative retrieve additional information about the customer's purchasing history, duration of product use, delivery periods, etc. *Customer selection* is used to select the customers to be contacted by the sales representative in the upcoming period. For example, a software supplier will remind selected customers of the pending market launch of updates for software used by these customers.

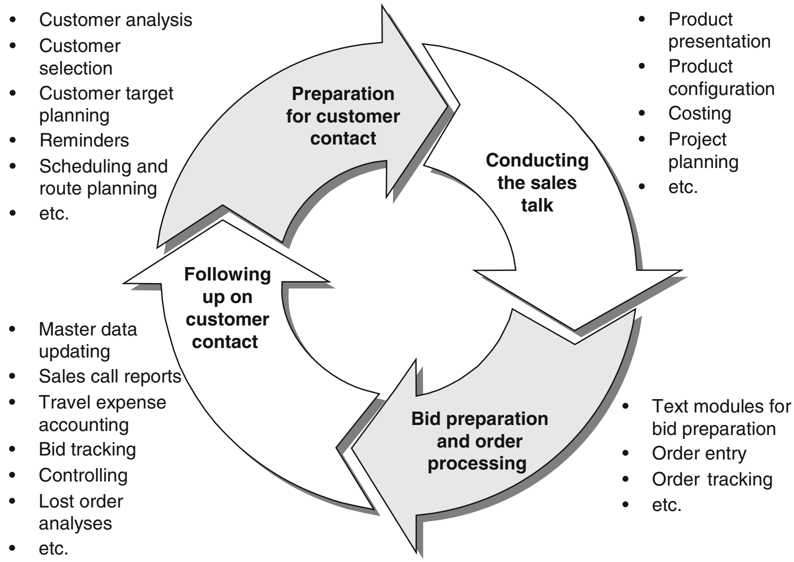

Fig. 16.2 Approaches to using CAS systems in the sales process

Finally, the *customer targets* need to be *planned*. Such targets can, for example, relate to the conclusion of a master agreement for the coming period, the achievement of a certain cross-selling rate, or to particular sales revenue levels. *Reminder modules* remind sales representatives that replacement times (e.g. for production machines that have been written off) are approaching for certain customers, so that they can be encouraged to make a replacement purchase in good time. CAS systems, however, also provide support in *scheduling and route planning*, which is especially useful for the field sales force (see Widmier et al. 2002). For example, insurance companies use these modules to coordinate the sales calls made by their representatives.

To conduct the sales talk, information about the supplier's options with regard to quality, quantity, price and scheduling is required. Modules such as electronic product catalogs, configuration and costing systems or project planning modules therefore need to be available. Electronic product catalogs for *product presentation* contain the digital versions of brochures, price lists, drawings, etc. The advantage over conventional paper presentation is that electronic catalogs let the user rapidly search for certain products or product characteristics that can be used to precisely specify customer requests more quickly. Imagine a customer, for example, who would like to purchase a particular vehicle. The desired product properties such as color, type, price or engine performance are entered in the system, which then lists possible vehicles and provides a realistic graphical representation of them.

If a product consists of different individual components, *configuration systems* can be used during the sales talk to compile and estimate the cost of an individualized offer, since all the product components, combination possibilities and prices are stored in the configurator. Configuration systems are used, in particular, in the corporate customer sector (e.g. in systems business), but are also being increasingly deployed in the private customer sector. For instance, customers interested in a prefabricated house can design their future dream house on the computer, together with a sales advisor. Standardized components are available to design the floor plan and the layout of the rooms. *Costing systems* are used to estimate the cost of an individual offer and are frequently integrated into configuration systems. In our prefabricated house example, a costing system can calculate the price for the dream house on the basis of the configuration. *Project planning modules* can be used to plan product availability, delivery times and the assembly at the customer's premises. Detailed project planning can supply a crucial sales argument, especially in the case of time-critical or complex projects such as those in the investment business.

Bid preparation, order entry and *order processing* can be considerably reduced by partially standardized text modules and predefined document formats (for more on bid preparation, see also Albers and Krafft 2000). This is not only beneficial to the customer, it also makes the supplier's internal process flow more efficient. *Order tracking* modules are particularly useful if the customer, after having concluded a contract, wants to know the status of the order. Courier services, for example, offer customers the option of checking the current whereabouts of their shipments at any time.

Following up on the customer contact frequently involves transferring new or updated information about the customer or orders to the head office, partially automated creation of sales call reports, and travel expense accounting (see also Zikmund et al. 2003). However, corresponding modules can also support the subsequent tracking of offers submitted or performance reviews based on an analysis of customer-related sales revenues or contribution margins. Finally, there are also modules which document, as part of a "lost order analysis", why a submitted offer or bid did not result in an order.

There is no doubt that mature CAS systems can increase the profitability of market development. Ideally, for individualized customer development, information is available at the "push of a button". Time-consuming consultations with the head office to clarify availability or delivery times are dispensed with. Processes can be carried out more efficiently, making cost reductions possible. Lastly, a CAS system can make it easier to convince the customer, not only because it offers a realistic presentation of individualized products, but particularly because it enables the sales representative to be accordingly well-informed.

16.1 Checklist for Part IV: Information Management as the Key to Professionalism in Sales

The company ... (criterion no.)	Very true (100)	True to a large extent (75)	Some What true (50)	Some what false (25)	Not true at all (0)	Criterion is irrelevant	Rating based on… (Documentary evidence for the assessment)
11. Basis for Understanding Informations							
... has an integrated information system which contains the sales-relevant information. (III-1)	❑	❑	❑	❑	❑	❑	
... has a sales information system whose content is always up to date. (III-2)	❑	❑	❑	❑	❑	❑	
... has a sales information system that makes information available as required, instead of flooding the users with information. (III-3)	❑	❑	❑	❑	❑	❑	
... has a sales information system that can be accessed easily and quickly at any time. (III-4)	❑	❑	❑	❑	❑	❑	
... regularly adapts the sales information system to the requirements of (potential) users. (III-5)	❑	❑	❑	❑	❑	❑	
... has systematically ensured that the sales information system is accepted by the employees. (III-6)	❑	❑	❑	❑	❑	❑	
... systematically trains the relevant employees to use the sales information system. (III-7)	❑	❑	❑	❑	❑	❑	
... uses incentive systems to motivate employees to use and maintain the sales information system. (III-8)	❑	❑	❑	❑	❑	❑	
12. The Customer – The Unknown Factor?							
... has extensive and up-to-date basic data about its customers (e.g. addresses, names, segment affiliation). (III-9)	❑	❑	❑	❑	❑	❑	
... has meaningful information about the sales revenue potential of its customers. (III-10)	❑	❑	❑	❑	❑	❑	
... systematically analyzes the cross-selling potential if customers have high sales revenue potential. (III-11)	❑	❑	❑	❑	❑	❑	
... regularly and systematically analyzes customer needs and expectations. (III-12)	❑	❑	❑	❑	❑	❑	

... regularly records and analyzes the costs involved in developing individual customers (customer segments). (III-13)	❑	❑	❑	❑	❑	❑	
... knows the share of customer for key customers. (III-14)	❑	❑	❑	❑	❑	❑	
... regularly uses the customer portfolio to analyze its customer structure. (III-15)	❑	❑	❑	❑	❑	❑	
... consistently bases its deployment of sales resources on the positioning of different customers (customer segments) in the customer portfolio. (III-16)	❑	❑	❑	❑	❑	❑	
... regularly carries out contribution margin accounting for customer segments and important individual customers. (III-17)	❑	❑	❑	❑	❑	❑	
... regularly carries out tiered contribution margin accounting with customer (segment)-specific allocation of fixed costs for customer segments and important individual customers. (III-18)	❑	❑	❑	❑	❑	❑	
... uses customer lifetime value to estimate the long-term profitability of important customers (customer segments). (III-19)	❑	❑	❑	❑	❑	❑	
... regularly measures customer satisfaction. (III-20)	❑	❑	❑	❑	❑	❑	
... also takes customer retention into account when measuring customer satisfaction. (III-21)	❑	❑	❑	❑	❑	❑	
... measures both the overall satisfaction of the customers and their satisfaction with the company's individual service components(e.g. service, complaint management, product quality). (III-22)	❑	❑	❑	❑	❑	❑	
... systematically defines the target group when measuring customer satisfaction. (III-23)	❑	❑	❑	❑	❑	❑	
... ensures that there is a sufficient sample size when measuring customer satisfaction. (III-24)	❑	❑	❑	❑	❑	❑	
... conducts a differentiated evaluation of customer satisfaction (e.g. according to regionsor customer groups). (III-25)	❑	❑	❑	❑	❑	❑	
... systematically includes the results of customer satisfaction measurements in internal improvement processes. (III-26)	❑	❑	❑	❑	❑	❑	
13. Competitor Information – Know Your Opponent							
... has clearly identified its (potential) competitors. (III-27)	❑	❑	❑	❑	❑	❑	
... has extensive basic information about its competitors (e.g. ownership and organizational structure, key managers) and regularly and systematically updates it. (III-28)	❑	❑	❑	❑	❑	❑	

... has extensive information about the market positions of it competitors(e.g.market share, financial/profitsituation, customer satisfaction) and regularly and systematically updates it. (III-29)	❑	❑	❑	❑	❑	❑	
... has extensive information about its competitors' resources (e.g. quality and quantity of sales/service employees, financial resources) and regularly and systematically updates it. (III-30)	❑	❑	❑	❑	❑	❑	
... has extensive information about its competitors' strategies (e.g. targets, schedules, target segments) and regularly and systematically updates it. (III-31)	❑	❑	❑	❑	❑	❑	
... has extensive information about the market development of its competitors (e.g. businessactivities, service and product range, price positioning, sales promotions) and regularly and systematically updates it. (III-32)	❑	❑	❑	❑	❑	❑	
... hasa unit/person responsible for competitor information, who collects existing information, systematically processes it and makes it available to all relevant company divisions (e.g. in the form of competitor profiles). (III-33)	❑	❑	❑	❑	❑	❑	
14. The Market – Identify Trends at an Early Stage							
... has extensive information about changes in its own position in the market (e.g. market share, degree of familiarity, im age) and regularly and systematically updates it. (III-34)	❑	❑	❑	❑	❑	❑	
... has extensive information about changes in competitor behavior (e.g. entry of new competitors, exit of old competitors) and regularly and systematically updates it. (III-35)	❑	❑	❑	❑	❑	❑	
... has extensive information about changes in customer behavior (e.g. information and purchasing behavior) and regularly and systematically updates it. (III-36)	❑	❑	❑	❑	❑	❑	
... has extensive information about (anticipated) changes in general market characteristics (e.g.market growth) and regularly and systematically updates it. (III-37)	❑	❑	❑	❑	❑	❑	
... has extensive information about changes with respect to miscellaneous environmental factors (e.g.technological, social, macroeconomic changes) and regularly and systematically updates it. (III-38)	❑	❑	❑	❑	❑	❑	

15. Information about Internal Processes – Sand in the Wheels?							
... regularly and systematically analyzes the quality of customer acquisition activities (e.g. number of acquired customers per acquisition activity, costs of the acquisition activities) and derives improvement measures from this analysis. (III-39)	❑	❑	❑	❑	❑	❑	
... regularly and systematically analyzes the quality of bid preparation (e.g.duration, accuracy, costs, bid preparation hit list) and derives improvement measures from this analysis. (III-40)	❑	❑	❑	❑	❑	❑	
... regularly and systematically analyzes the quality of order processing (e.g. duration, accuracy, costs of order processing) and derives improvement measures from this analysis. (III-41)	❑	❑	❑	❑	❑	❑	
... regularly and systematically analyzes the quality of the services rendered and the delivery (e.g. delivery reliability, delivery quality) and derives improvement measures from this analysis. (III-42)	❑	❑	❑	❑	❑	❑	
... regularly and systematically analyzes the quality of the after-sales support (e.g. accessibility of service employees, cross-sellingsuccess) and derives improvement measures from this analysis. (III-43)	❑	❑	❑	❑	❑	❑	
16. CRM and CAS – Signposts in the Information Jungle **Jungle**							
... uses a computer-aided selling system/customerrelationship management system to professionalize the sales process. (III-44)	❑	❑	❑	❑	❑	❑	
... has a computer-aided selling system that supports the preparation for customer contact (e.g. through customer analysis, customer target planning, scheduling and route planning). (III-45)	❑	❑	❑	❑	❑	❑	
... has a computer-aided selling system that supports the sales talk (e.g. through product presentation as well ascosting and configuration modules). (III-46)	❑	❑	❑	❑	❑	❑	
... has a computer-aided selling system that supports bid preparation and order processing (e.g. through text modules, order tracking). (III-47)	❑	❑	❑	❑	❑	❑	
... has a computer-aided selling system that supports follow-up actions after the customer contact (e.g. through sales callreports, analyses). (III-48)	❑	❑	❑	❑	❑	❑	

Part V

Customer Relationship Management: Staying on the Ball!

Part II of this book was concerned with the fundamental decisions made within the scope of the sales strategy. Part III discussed the dimensions of excellent sales management, with "management" referring particularly to company-internal issues such as sales organization or personnel management. Part IV dealt with the design of the information systems that are required in sales.

Part V will examine management of the customer relationship. In contrast to Part II, we will discuss tools that facilitate implementation of the sales strategy and constitute the tools of the trade for the sales representatives. Differing from Part III, we will take a company-external perspective here: We will not be analyzing the management of framework conditions in the company, but rather market-oriented activities and tools that are part of the day-to-day business of many sales representatives.

Current discussions on customer relationship management (CRM) rely heavily on IT and are being fueled by IT suppliers. In this environment, companies frequently ignore the fact that effective customer relationship management is not primarily a question of information technology (see Chap. 16). Having the right concepts for customer relationship management is much more important (for overviews, see Homburg and Bruhn 2008). This part focuses on these conceptual aspects of customer relationship management, many of which tend to be "classic in nature": A considerable share of customer relationship management is undertaken by sales representatives in their everyday contact with customers. The personality traits and skills of these sales representatives are crucial to customer relationship management. Traditional tools such as key account management are also components of customer relationship management. All of this demonstrates that many activities which have long been the cornerstone of market development can be subsumed under the term "customer relationship management". There is no need for a new IT-based slogan.

Chapter 17 focuses, first of all, on the "best sales representative". We will describe his personality traits, skills and knowledge.

Chapter 18 deals with media that can be used to manage customer relationships, initially discussing a "relationship management classic" – trade shows. We then examine call centers as a more recent medium, finally turning to the Internet as the "latest" customer channel.

Chapter 19 addresses customer retention management. We will first discuss the content and foundations of this much-discussed term. Following that, we will be describing selected customer retention management tools, including customer magazines, customer cards, customer coupons, customer clubs and virtual communities, as well as value-added services and complaint management.

Many companies in the corporate customer sector concentrate a large part of sales on a manageable number of customers. In such situations, key account management becomes the decisive tool in customer relationship management. Owing to the particular relevance of this tool, we will examine it separately in Chap. 20.

The success of customer relationship management stands and falls with the right timing of actions. There are always times in a business relationship at which making contact with the customer is particularly important in order to stabilize and cultivate the business relationship. This may be the case, for example, if a business relationship generates extraordinarily high or low sales revenues. To be able to identify such extraordinary situations, a "model of a typical business relationship" needs to be developed. We will discuss this "relationship modeling" in Chap. 21.

The Salesperson Personality: Of Know-It-Alls, Socializers and Allrounders 17

The last few years have witnessed an increasing similarity between service offers in many sectors. While there often used to be considerable differences in product quality, products nowadays are often virtually interchangeable in terms of the level of quality and performance. Today, it is people that make the difference between suppliers. Their skills and abilities, their knowledge and their behavior often determine sales success (see Bänsch 2006). We are not only referring to sales personnel in the narrow sense (e.g. fields sales representatives), but, to a certain extent, also to the behavior of any employee that comes into contact with customers.

The sales literature is full of vociferous works that claim they can transform the reader into a successful sales representative within a very short period of time. These books discuss things such as presentation techniques, conducting a sales conversation, negotiation techniques, etc. They therefore impart, taking a "one size fits all" approach, sales techniques that "work". The fact that these techniques suit different salesperson personalities differently is often completely ignored. Of course, no one automatically becomes a "mega salesperson" (alternatively: guerilla salesperson, power salesperson, sales ace, top seller, and so on) simply by reading a book. Enduring sales success has less to do with special sales techniques, but rather essentially depends on three aspects:

- Personality traits (Sect. 17.1),
- Social competence (Sect. 17.2), and
- Professional competence (Sect. 17.3).

If the corresponding prerequisites are met in these areas, applying the "correct" sales techniques is ultimately trivial: If there are serious shortcomings in these areas, they can at best be covered up in the short term by teaching the sales techniques. Our observations show that there is a blatant misallocation of resources in many companies: Costly sales training teaches this technique or another, while the fundamentally relevant questions regarding sales representatives are often criminally neglected. What is therefore of primary importance is whether a company has the right people at the sales front; what techniques they use is less important.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_17, © Springer-Verlag Berlin Heidelberg 2012

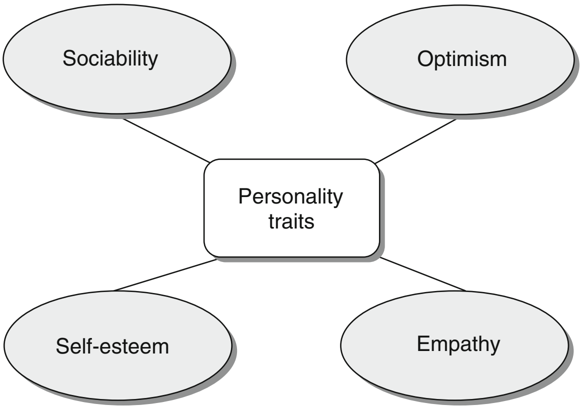

Fig. 17.1 Overview of the important personality traits of sales representatives

17.1 Personality Traits: Liking Yourself and Others

Personality traits are relatively constant properties which, in sales, have a particular impact on behavior during customer contact. The effect that personality traits have on sales success has been frequently studied and confirmed in the sales literature (see Churchill et al. 1985; Tebbe 2000). Nowadays, the assumption is that the four personality traits of sociability, optimism, empathy and self-esteem are vital (see Fig. 17.1 and Homburg and Stock 2000). We intend to look at them in more detail in the following.

Sociability means, on the one hand, the ability to communicate with other people (superiors, colleagues and also customers), exchange experiences or knowledge with them, and maintain a relationship with them. On the other hand, this personality trait is characterized by a tendency to regard contact with other people as pleasant and seek out such contact. Some readers will be of the opinion that this is a fundamental prerequisite for sales activity. Everyday experience with sales personnel, however, contradicts this assumption. In the retail trade, for example, it is not uncommon for buyers to have the impression that they are disturbing sales representatives just as they are in the middle of sharing their most recent holiday experiences or having a coffee break.

Optimism is an important personality trait that keeps the sales representative from doubting success and his abilities, even in difficult sales situations. An optimistic sales representative would, for example, continue to believe in sales success even in the face of a large number of objections from a customer. Optimism, however, also helps sales representatives process negative experiences with customers more quickly and go unreservedly into the next sales talk. Optimistic sales representatives also approach new customers without fear. Moreover, they promote new products with more commitment than less optimistic colleagues. They also bring in their own ideas on solving customer problems, without worrying about being rejected by the customer.

Table 17.1 Examples of arguments used in character selling and benefit selling

Character selling	Benefit selling
This printer prints 10 pages a minute.	This printer can save you a lot of time. It prints your presentations almost twice as quickly as your old printer.
This desk chair is ergonomically designed.	This desk chair is very comfortable. Your back pain in the evening is a thing of the past.
The car has ABS and side airbags as standard features.	The car offers a high level of safety for you and your family.
This machine produces 1,000 packages an hour.	This machine will enable you to cut your production times by 20 %.
Our hotel rooms are equipped with a fax and an Internet connection.	Our hotel provides everything for your business needs.

At this point, we should mention that when referring to optimism, we do not mean the euphoric optimism which, in extreme cases, culminates in unrealistic expectations and an overestimation of one's own abilities. Such an exaggerated form of optimism is typical of those sales representatives and managers that, with Christmas just around the corner, are still convinced that they can make up the 20 % budget underrun by the end of the year. What we have in mind is a healthy, realistic optimism.

The effects of optimism – understood in this sense – have been investigated in numerous long-term and large-scale empirical studies (see, e.g., Schulman 1999). The results show that skills, abilities and motivation by themselves are not enough to ensure success in sales. An optimistic attitude is a key to sales success.

Empathy is undoubtedly one of the personality traits most intensively scrutinized in the sales literature (see, e.g., Aggarwal et al. 2005). It refers to a person's ability to put himself in the position of others, to view situations from the perspective of others, and, lastly, to understand other people's problems and needs. Empathetic sales representatives consider the customer's perspective when deciding what actions to take. For example, they listen better to the customer and base their sales arguments on customer benefit and not on performance features. This is also referred to as *benefit selling*. Table 17.1 illustrates the benefit-oriented approach by comparing it with "character selling", which concentrates more on performance features.

Empathy ultimately facilitates the entire sales process (see Comer and Drollinger 1999). Moreover, empirical studies have demonstrated a positive correlation between empathy and sales success (see, for example, Pilling and Eroglu 1994; McBane 1995).

Self-esteem is a personality trait that has a major influence on a sales representative's manner and persuasiveness. People with self-esteem are aware of their own capabilities and rely on their skills (see Bandura and Locke 2003; Wang and Netemeyer 2002). Only a sales representative who is convinced of his own abilities can be convincing to the customer and radiate competence. Empirical studies have provided clear evidence of this correlation (see Badovick et al. 1992).

The sales representative ...	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Crite-rion is irrele-vant
Sociability						
... regards customer contact as pleasant.	❑	❑	❑	❑	❑	❑
... approaches customers independently.	❑	❑	❑	❑	❑	❑
... relishes working in close contact with customers.	❑	❑	❑	❑	❑	❑
... feels comfortable when interacting with customers.	❑	❑	❑	❑	❑	❑
Optimism						
... does not lose heart even in difficult situations.	❑	❑	❑	❑	❑	❑
... quickly processes negative experiences with customers.	❑	❑	❑	❑	❑	❑
... approaches new customers without fear.	❑	❑	❑	❑	❑	❑
... also commits himself to new products, even though he has little experience with them.	❑	❑	❑	❑	❑	❑
... introduces his own ideas and suggestions into the sales talk.	❑	❑	❑	❑	❑	❑
Empathy						
... bases his sales pitch on the benefit that the product provides to the customer.	❑	❑	❑	❑	❑	❑
... can put himself in the customer's shoes.	❑	❑	❑	❑	❑	❑
... is familiar with the purchasing process from a customer perspective.	❑	❑	❑	❑	❑	❑
... can adopt the customer's perspective.	❑	❑	❑	❑	❑	❑
Self-esteem						
... is convinced of his abilities as a salesperson.	❑	❑	❑	❑	❑	❑
... radiates competence.	❑	❑	❑	❑	❑	❑
... feels capable of advising customers appropriately.	❑	❑	❑	❑	❑	❑
... is sure that he can meet the customers' requirements.	❑	❑	❑	❑	❑	❑

Fig. 17.2 Selected criteria for assessing personality traits (According to Homburg and Stock 2000, p. 32)

Furthermore, self-esteem (like optimism) helps the sales representative process negative experiences and make a clean start during his next customer contact.

Figure 17.2 provides a checklist of selected criteria for assessing personality traits. A *personality profile* can be used to provide a graphical representation of this assessment. Figure 17.3 shows the profile of a personality type that is very common in field sales: This type is characterized by a good deal of optimism and sociability, high self-esteem, but only limited empathy.

17.2 Social Competence: Professionalism in Interaction

Social competence is one of the undisputed success factors for sales representatives, which, in the opinion of most sales managers, is likely to gain in importance in the future (see Zahn 1997). Social competence affects the sales process and sales success in several ways (see, for example, Hennig-Thurau and Thurau 1999):

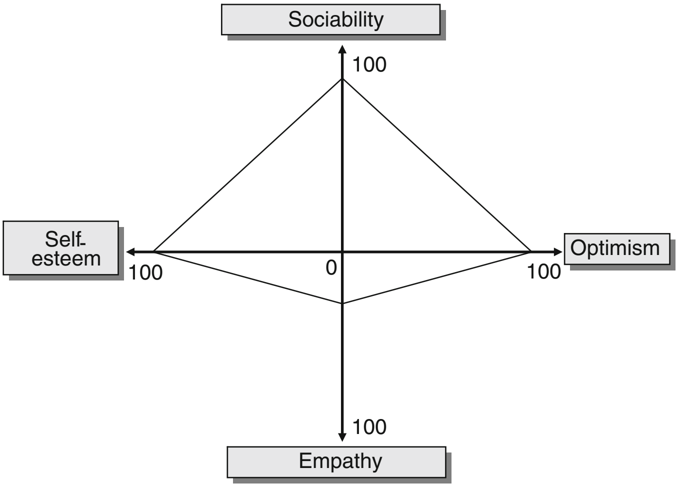

Fig. 17.3 Assessment of the personality traits of a regional sales manager for an industrial goods company

- From a customer perspective, the perceived quality of the sales process increases if the sales representative is perceived as being socially competent. In addition, higher social competence and the resultant quality of the relationship are decisive purchasing factors when virtually identical competitor products are offered.
- The customer's perception of the sales representative's social conduct can overshadow or influence his perception of the product. If there are problems in the social interaction, the customer may also develop a negative attitude to the product.
- Sales representatives with a high degree of social competence are usually more successful at acquiring information about the customer. Customers tell an open, friendly sales representative more than they tell a withdrawn, unfriendly sales representative.
- A sales representative's social behavior affects the performance of the entire sales team. The more socially competent the individual team members are, the greater will be the performance.

Social competence is a very elusive concept. It essentially refers to a person's ability to make interactions with others comfortable and enjoyable. In our view, social competence has four facets (see Fig. 17.4), which we will discuss in the following.

The central component of social competence is no doubt c*ommunicative and perceptual skills*, which include both verbal and non-verbal communication (see Fig. 17.5).

During *verbal communication*, the sales representative needs to make sure that the construction of sentences and choice of words are kept as simple as possible so as to keep the customer's attention. The brevity of sentences is closely related to this. A lengthy monologue by the sales representative often results in the customer

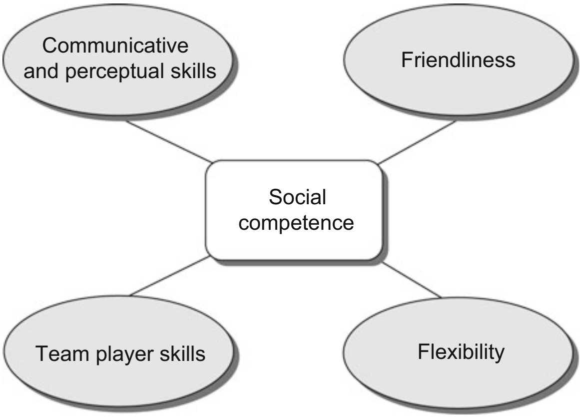

Fig. 17.4 Overview of important aspects of social competence

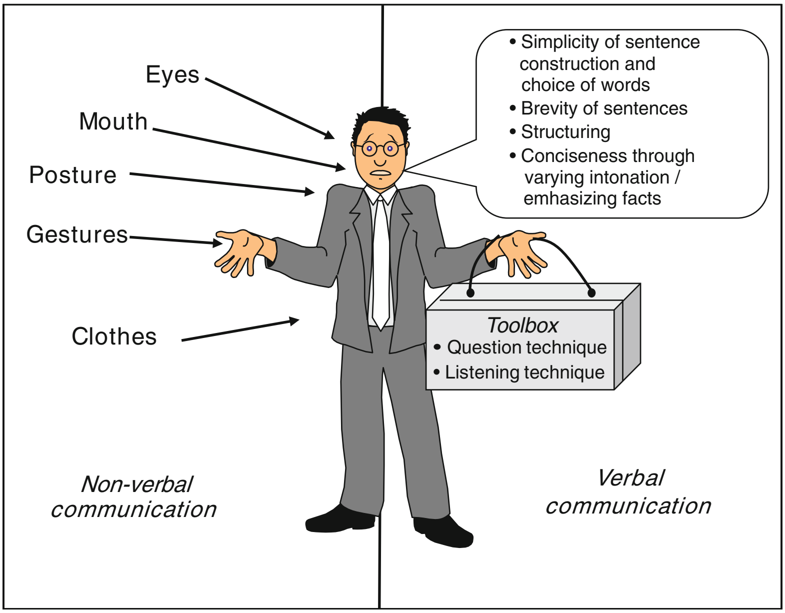

Fig. 17.5 Aspects of verbal and non-verbal communication

getting bored, losing the train of thoughts or letting his thoughts wander. Simplicity and brevity must also be expressed in the structure and form of the explanations and descriptions. A sales representative can underline and emphasize facts by varying the volume, speed of delivery (tempo) and intonation.

Two main techniques of verbal communication are asking questions and listening. The targeted use of *questions*, in particular, distinguishes successful sales representatives ("To ask questions is to lead the discussion"). Questions have various functions for a sales representative. Examples here include

- Revealing the personality types of customers,
- Revealing needs,
- Identifying interests,
- Obtaining approval,
- Clarifying misunderstandings, and
- Signaling competence.

Depending on the objective, there can be up to ten different types of questions. The spectrum ranges from open-ended questions to simple informational questions and guiding questions, up to provocative questions (for more details, see Homburg and Stock 2000, p. 153).

The ability to listen is also a trait of successful sales representatives (see, e.g., Castleberry et al. 1999; Ramsey and Sohi 1997). What is important here is that a purely passive form of listening should not be practiced. Successful sales representatives are proficient in a form of listening that is characterized both by being more attentive and by giving the dialog partner specific signals. This is referred to as *active listening*. Simple tools include summarizing the statements made by the dialog partner in the sales representative's own words, "acoustic nodding", and asking more detailed questions in order to discover motives, opinions and attitudes.

The second component is *non-verbal communication* (see Fig. 17.5). The means of non-verbal communication include clothing and, especially, *body language* (see, e.g., Nerdinger 2001). For example, the length and frequency of direct eye contact convey something about self-assurance, inner peace and interest in the conversation partner. A continually roving gaze can signal nervousness, lack of concentration and uncertainty. On the other hand, holding a gaze for too long can have a threatening effect. Permanently crossed arms, for example, indicate a defensive attitude, "crossed" legs uncertainty, hands in trouser pockets during a presentation signify inappropriate casualness. An open, relaxed arm and leg posture, however, radiates self-assurance and competence.

In this context, professional sales representatives stand out due to two abilities: First, they are able to appropriately supplement their verbal explanations with body language or at least to avoid conflicts between what they say and their body language. Second, they perceive the signals emitted by the customer's body language and interpret them.

Flexibility is, alongside *friendliness*, a central facet of social competence (see Fig. 17.4). The fact that sales representatives are able to adjust to different personality types is of particular relevance here. In principle, customer personality types can be classified using two dimensions:

- Assertiveness and
- Emotionality.

Assertiveness refers to the quest for control and exercise of power. *Emotionality* describes the willingness to show emotions and enter into relationships (see Merril and Reid 1981). These dimensions can be used to identify four personality

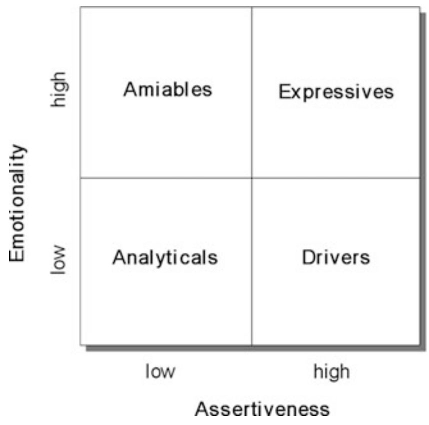

Fig. 17.6 Personality types for classifying customers

types (Fig. 17.6; for other buyer typologies, see, e.g., Bänsch 2006; Belz 1999; Winkelmann 2008b):

- Drivers,
- Analyticals,
- Expressives, and
- Amiables.

For each type, "handling principles" can be derived, which can assist the sales representative in developing his sales strategy.

Drivers show a high degree of assertiveness and low emotionality. They have a very dominant manner and are ambitious, active and independent. They frequently take the initiative and do not shy away from confrontation. They usually make their decisions very quickly. Offers are mainly assessed on the associated benefit. It is therefore advisable to focus on profitability and benefit factors when presenting a sales pitch. Sales representatives should make sure that their argumentation is clear, objective and to the point, and that their manner is formal when interacting with this personality type. Small talk is simply a waste of time for many "drivers". Sales representatives should also take care not to pressure this personality type.

Analyticals are characterized by both a low degree of assertiveness and low emotionality. They are detail and fact oriented. Problems are solved systematically. Their actions tend to be slow, well-considered and less aggressive. A sales representative can convince this personality type best by conveying data and facts. Written offers with as much information as possible make it easier for "analyticals" to make decisions. The sales representative's case should be based on the quality and reliability of the product or the price-performance ratio. Comparisons with competitor products are also effective. Sales strategies that put pressure on the customer also fail in the case of this personality type, since his decision-making process is very protracted.

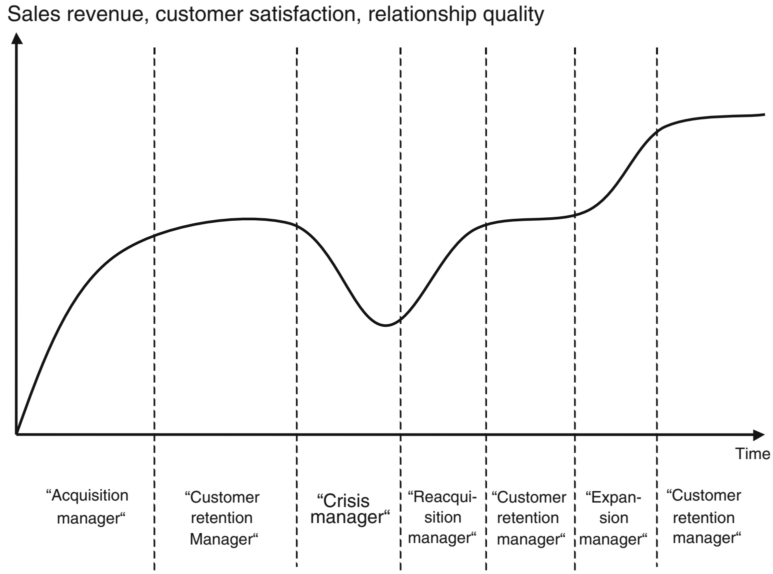

Fig. 17.7 The sales representative’s roles in the progression of a business relationship

Expressives are both assertive and emotional. They are friendly, relaxed and prefer informal modes of interaction. Products are also assessed in terms of status and image, and a liking for the sales representative plays a significant role in the decision-making process. The best way to appeal to “expressives” is to use creative sales presentations. Simply listing technical details would tend to bore them. Describing the experience of reference customers can support the process. “Gentle pressure” at the end of the sales talk may well help to complete the sale successfully.

Amiables have low assertiveness, but high emotionality. They avoid conflict and appreciate good personal relations with the sales representative. “Amiables” tend to be sensitive and, on the whole, risk-averse. The sales representative must be careful in his attempts to induce them into making a decision. However, if several people are involved in the purchasing decision, it may also make sense to approach another decision-maker. Sales strategies that put pressure on the customer are often successful with “amiables”, provided the sales representative can assure them that the purchasing decision does not involve any risk. The sales argument should therefore appeal to personal sensitivities, emotions and feelings.

Flexibility is also important for sales representatives in another sense: The modern view is that a sales representative needs to perceive himself not only as a sales representative, but also as a manager of a business relationship. A business relationship with a customer goes through different phases – there are highs and lows. What is essential is that a sales representative should have an awareness of these phases, understand what role he needs to play in which phase and be flexible enough to satisfy the different roles/customer requirements in the individual phases.

Figure 17.7 shows the possible progression of a business relationship. A list of the *relationship manager’s* potential roles is also noted here. They range from

The sales representative ...	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Crite-rion is irrele-vant
Communicative ability and perceptual skills						
... ensures simplicity, brevity and conciseness in the sales talk.	❑	❑	❑	❑	❑	❑
... expresses himself in a way that is understandable to the customer, even when dealing with complex matters.	❑	❑	❑	❑	❑	❑
... systematically deploys different question techniques in the sales talk.	❑	❑	❑	❑	❑	❑
... uses the active listening method in the sales talk.	❑	❑	❑	❑	❑	❑
... makes sure that his body language is consistent with his verbal statements.	❑	❑	❑	❑	❑	❑
... perceives the customer's body language signals.	❑	❑	❑	❑	❑	❑
Friendliness						
... lets customers finish speaking.	❑	❑	❑	❑	❑	❑
... creates a pleasant atmosphere during the sales talk.	❑	❑	❑	❑	❑	❑
... frequently addresses the customer by his name.	❑	❑	❑	❑	❑	❑
... is also friendly to customers if they are impolite or unfriendly.	❑	❑	❑	❑	❑	❑
Flexibility						
... can adjust well to changes.	❑	❑	❑	❑	❑	❑
... can adjust well to different customer types.	❑	❑	❑	❑	❑	❑
... adapts his behavior towards customers to the current quality of the business relationship.	❑	❑	❑	❑	❑	❑
... adapts his behavior to the dialog situation.	❑	❑	❑	❑	❑	❑
... perceives it as his task to find customized solutions for the customer.	❑	❑	❑	❑	❑	❑
Team player skills						
... is open to criticism	❑	❑	❑	❑	❑	❑
... is committed to the group.	❑	❑	❑	❑	❑	❑
... can integrate into a group.	❑	❑	❑	❑	❑	❑
... appreciates being able to develop ideas within a group.	❑	❑	❑	❑	❑	❑

Fig. 17.8 Selected criteria for assessing the social competence of sales representatives

"acquisition manager" and "customer retention manager" up to "crisis and reacquisition manager". These various roles call for fundamentally different behavior when dealing with the customer, requiring a high degree of flexibility on the part of the sales representative.

Team player skills – the final aspect of social competence – are becoming more important, particularly due to the increasing significance of team selling. This aspect is concerned with the sales representative's openness to criticism as well as the ability to integrate into a group.

Figure 17.8 lists selected criteria for assessing the four facets of social competence. This set of criteria can also be used to create a profile. Figure 17.9 presents

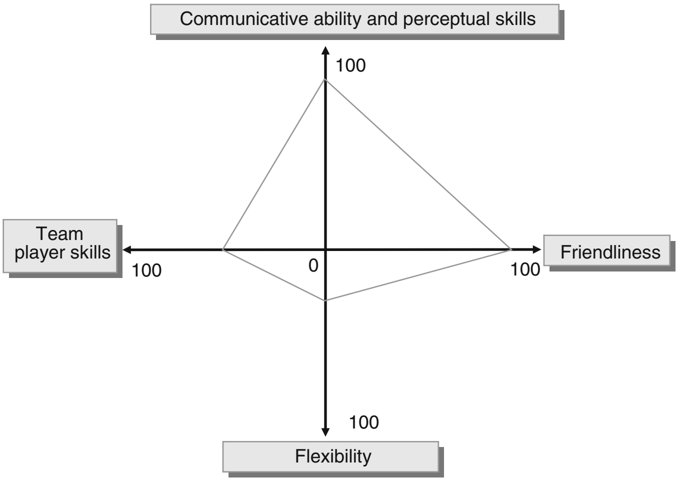

Fig. 17.9 Assessment of the social competence of a chemical company's field sales representative

one such profile for a field sales representative in a chemicals company. This representative is characterized by high values for communicative ability and perceptual skills as well as for friendliness. He is a "communication pro", who, however, mainly uses standardized procedures (cf. the low rating for flexibility) and therefore does not cope well in new situations. In addition, he shows strong traits of the lone warrior – team player skills are limited.

17.3 Professional Competence: The Sales Representative's Store of Knowledge

Professional competence provides, as it were, the indispensable basis of sales success. Professional competence refers to the knowledge and abilities that the sales representative has acquired through systematic training measures or in the course of his profession. We will primarily distinguish between six facets of professional competence (see Fig. 17.10), which are briefly presented in the following.

Effective *self-organization* is the basic facet of professional competence. This involves the sales representative clearly setting targets and priorities for his own work, effective scheduling and route planning and efficient organization of his own workplace (filing, follow-ups, etc.). A particularly critical aspect here recently is handling the "e-mail flood". If used properly, e-mails can, of course, be very helpful. However, our observations show that many people let themselves be distracted by incoming e-mails, with their self-organization being virtually "shot to pieces".

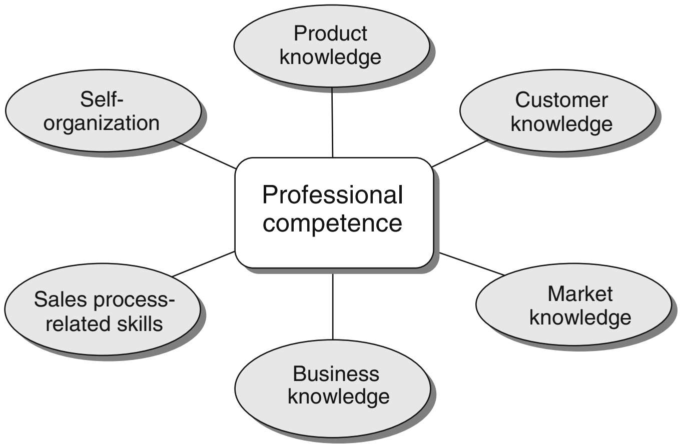

Fig. 17.10 Overview of important aspects of the professional competence of sales representatives

Product knowledge is another basic component. Sales representatives need to be familiar with the features of their own products, but also those of competitors' products. Our observations show that this area is relatively unproblematic for most sales representatives.

In contrast, our observations in the corporate customer sector show repeatedly that many sales representatives do not have very detailed *customer knowledge*. This finding is due to the fact that many companies have a strong product orientation. Sales representatives with extensive customer knowledge are familiar with the customer's value-added process and know how the customer uses the product in question and what role it plays for the customer (see Schäfer 2002). Furthermore, a sales representative should know which markets the customer is active in as well as what his strategies and targets are. In short, the sales representative needs to know the customer's environment and situation and, consequently, his needs and requirements.

Market knowledge primarily refers to the sales representative being able to realistically assess his own company's market position. In addition, he must be aware of and understand market trends and changes, which includes changes in competitor strategies as well as changes in general conditions on the technological, economic and legal fronts.

Business knowledge, on the one hand, means that sales representatives understand the cost structures and cost influencing factors in their own company. What is particularly important is that they should be able to gauge the impact that their own actions have on costs. We have witnessed sales representatives in many companies regularly making supposedly "minor concessions" to customers without good cause, which then entail devastating costs in internal processing or production.

On the other hand, sales representatives should be able to assess the cost-effectiveness of their service offers for a customer. This involves an analysis of

Table 17.2 Benefit analysis using the example of a production machine

	Machine A	Machine B
Personnel requirements	1	1
Space requirements (sqm)	75	60
Energy requirements (kW/h)	70	50
Consumables (€/h)	20	12
Production hours p.a.	2,500	2,800
Amount invested (euro)	**1,500,000**	**2,250,000**
Depreciation period (years)	10	10
Depreciation p.a.	150,000	225,000
Personnel costs p.a. (35 €/h)	87,500	98,000
Consumables p.a.	50,000	33,600
Rent/heating costs p.a. (160 €/qm)	12,000	9,600
Energy costs p.a. (0.25 €/kWh)	43,750	35,000
Imputed maintenance	150,000	115,000
Imputed overheads	350,000	340,000
Production costs p.a.	**693,250**	**631,200**
Total costs p.a.	**843,250**	**856,200**
Hourly rate	**337**	**306**
Output quantity (PC/h)	1,400	1,700
Revenue per piece	0.30	0.30
Earned revenue p.a.	**1,050,000**	**1,428,000**
Net profit contribution margin p.a.	**206,750**	**571,800**
Net profit contribution margin per month	17,229	47,650
Payback period (months)	**87**	**47**

the total costs of purchasing, using and disposing of the product ("total cost of ownership"). It is not uncommon for such analyses to prove that the solution with the slightly higher purchase price is more cost-effective overall. Sales representatives that have a command of such lines of argument can often considerably reduce price pressure. Table 17.2 provides an example of this type of analysis.

The example in Table 17.2 shows that the machine with the higher investment volume ultimately results in lower hourly rates, obtains a higher annual profit contribution margin overall, and that the initial investment will pay for itself more quickly.

Sales process related skills represent a final and very key component of the professional competence of a sales representative. These include the skills required to initiate, structure and successfully complete the sales process.

In the context of initiating the sales process, sales representatives must be able to assess their dialog partners within a very short space of time, identify and dispel the customer's reservations and uncertainties, and quickly gain the potential customer's trust (see Winkelmann 2008b).

Sales process related skills also include the representative's ability to notice and use customer "clues" within a short space of time. Such clues may be current problems, competitor weaknesses, or even important contact persons for making initial contact in the case of potential customers. In the corporate customer sector, in particular, representatives must also be able to identify and utilize the relevant decision-making processes and decision-making criteria of the potential customers as well as the people involved in the decision-making process (see Sect. 12.5 and Sieben 2003a).

The main goal of sales is to close a sale. To do that, the representative must be able to use a range of relevant *negotiating tactics*. Two key negotiating principles are

- The commonality principle focusing the dialog on common interests, such as obtaining a high customer benefit, and avoiding a focus on areas of conflicting interest, such as prices and terms and conditions (see Lewicki et al. 1994; Sebenius 2001)
- The quid pro quo principle (the sales representative only makes concessions if the customer offers something in return, see Sidow 2007).

During customer contacts in which closing the sale is the objective, an effective use of sales techniques is also important: First, these include presentation techniques such as benefit selling, which we have already introduced. Secondly, they concern rhetorical methods such as the targeted use of questions and techniques for handling objections (see Bänsch 2006; Winkelmann 2008b). A third type of sales technique consists in closing/completion techniques (see Homburg et al. 2009; Weis 2003).

However, representatives must not only be able to close a deal: they also need the desire to make one. Nowadays, many companies preach the primacy of customer orientation. It is therefore important for us to stress that there can also be an excess of customer orientation in sales behavior. This is a phenomenon that frequently applies to both customer retention and customer acquisition. It is more a case of "snuggling up" to the customer than selling to him. The representative may then soon find that a competitor has beaten him to the deal. The focus of the sale and hence a subsequent closing of the deal must always be taken into account in any customer orientation. Therefore, it is important to strike the right *balance between the focus on closing the deal and the focus on the customer* (see Homburg and Fargel 2006).

We also include *adaptive selling* in sales process related skills (see Weitz et al. 1986; Spiro and Weitz 1990). While the above-mentioned sales process skills are more related to the individual process phases, adaptive selling is a skill used across all process phases. Adaptive selling refers to an appropriate change in the sales representative's behavior during an interaction or between interactions with customers. The customer knowledge described above is, of course, a prerequisite for using adaptive selling. The positive effect that adaptive selling has on sales performance is undisputed today, and has been corroborated in several empirical studies. For example, one study found that "adaptiveness" explains 31 % of differences in the sales success of sales representatives (see Boorom et al. 1998). Let us now pinpoint the individual elements involved in applying adaptive selling (see also Nerdinger 2001):

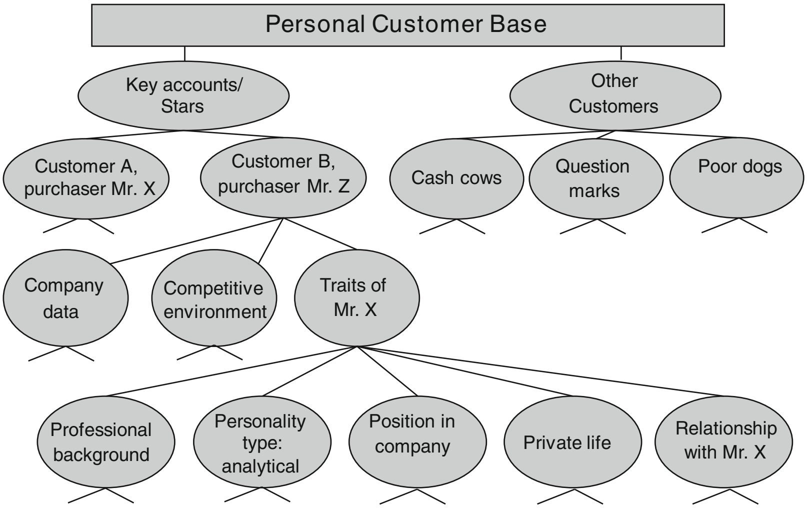

Fig. 17.11 The hierarchical organization of the knowledge structure, using the example of knowledge about customers

- *Categorization of previous sales experiences:* Sales representatives must evaluate and categorize their knowledge of sales situations (characterized by (a) facts about customers and products, and (b) actions/processes). Furthermore, conceptual keywords that already hint at solution strategies need to be created for each category. For example, one category might be "Efforts to persuade customers with analytical personality types" (see Fig. 17.6). This would provide a conceptual specification of experiences with relevant customers as well as successful solution strategies.
- *Hierarchical organization of knowledge structure:* Sales representatives have to structure their knowledge in the form of conceptual hierarchies. To this end, categories for general information should form the uppermost hierarchy, with substructures for specialized knowledge created below it. Figure 17.11 provides an example of a hierarchical organization of the knowledge structure of a sales representative. At the top level, the "Personal Customer Base" category contains the representative's entire sphere of knowledge about the customers he has been in charge of. Below this, the sales representative creates other categories, orienting himself initially on "his customer structure". In these subcategories, he "stores" the relevant knowledge about individual companies, including even the purchasers employed there and his relationships with them.
- *Aggregation of process knowledge:* In general, a distinction needs to be made here between learned and experienced knowledge. Learned knowledge is more theoretical-conceptual in nature. For example, a sales representative needs to know which steps to take from the initial contact up to the sale of a product. Experienced knowledge (i.e. experience with customers and situations) is used to adapt sales behavior to the current general conditions. A prerequisite for this is usually many years of sales experience.

The sales representative ...	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Crite-rion is irrele-vant
Self-organization						
... sets clear targets and priorities for his own work.	❑	❑	❑	❑	❑	❑
... uses effective scheduling and route plan-ning.	❑	❑	❑	❑	❑	❑
... has organized his workplace well (filing, follow-ups, etc.).	❑	❑	❑	❑	❑	❑
... handles e-mails efficiently and effectively.	❑	❑	❑	❑	❑	❑
Product knowledge						
... has an overview of the company's product range.	❑	❑	❑	❑	❑	❑
... is familiar with the features and perfor-mance of the individual products .	❑	❑	❑	❑	❑	❑
... is able to utilize individual products to create comprehensive solutions to customer problems.	❑	❑	❑	❑	❑	❑
... is also familiar with competitor products.	❑	❑	❑	❑	❑	❑
Customer knowledge						
... knows what the customer uses the product for and how he uses it.	❑	❑	❑	❑	❑	❑
... is familiar with the customer's value -added process and understands the importance that his company's products have in this process.	❑	❑	❑	❑	❑	❑
... knows the customer's imp ortant decision-makers and their criteria.	❑	❑	❑	❑	❑	❑
... knows the markets in which the customer is active.	❑	❑	❑	❑	❑	❑
... knows the customer's strategies and targets.	❑	❑	❑	❑	❑	❑

Fig. 17.12 (continued)

- *Information gathering about the current situation and comparison with stored categories:* A sales representative must use his acquired knowledge in a sales situation by relating the current situation to previously experienced situations, making a comparison, and possibly using or modifying strategies that succeeded in persuading customers in the past.

Adaptive selling is a skill that can be used more and more effectively as professional experience and the correspondingly accumulated store of knowledge increases. However, the representative needs to have a certain level of social competence (in particular, flexibility) and certain personality traits. For example, the prerequisites for adaptive selling include the ability to identify structures, think in images and understand logical consequences. In summary, we must acknowledge that adaptive selling is by no means a straightforward concept. If it is used correctly, however, it can significantly boost sales success. We have come across sales representatives in many companies who have an unbelievable wealth of experience

The sales representative ...	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Crite-rion is irrele-vant
Market knowledge						
... has a realistic picture of his own company's market position.	❑	❑	❑	❑	❑	❑
... is well informed about competitor activities.	❑	❑	❑	❑	❑	❑
... has an overview of market-relevant trends and changes (e.g. economic, technological and legal).	❑	❑	❑	❑	❑	❑
... also keeps a careful eye on potential markets.	❑	❑	❑	❑	❑	❑
Business knowledge						
... knows the company's internal cost structures.	❑	❑	❑	❑	❑	❑
... can estimate the cost impact of his actions.	❑	❑	❑	❑	❑	❑
... understands his customer's cost structures.	❑	❑	❑	❑	❑	❑
... is able to assess the cost-effectiveness of service offers for the customer (e.g. through cost-benefit analyses).	❑	❑	❑	❑	❑	❑
Sales process related skills						
... can assess his dialog partners within a very short period of time and identify and dispel their reservations and uncertainties.	❑	❑	❑	❑	❑	❑
... is able to identify and use customer "clues".	❑	❑	❑	❑	❑	❑
... has a command of negotiating tactics and sales techniques (presentation techniques, rhetorical methods and closing techniques).	❑	❑	❑	❑	❑	❑
... creates conceptual categories for sales situations he has experienced.	❑	❑	❑	❑	❑	❑
... can organize his knowledge (e.g. about customers) in logical hierarchies.	❑	❑	❑	❑	❑	❑
... systematically gathers information about previous sales situations.	❑	❑	❑	❑	❑	❑
... utilizes his experience by comparing the current sales situation with past sales situations.	❑	❑	❑	❑	❑	❑

Fig. 17.12 Selected criteria for assessing the professional competence of sales representatives

that they basically cannot utilize because it is not structured appropriately. This problem is the starting point for adaptive selling.

Figure 17.12 provides a checklist of selected criteria for assessing the professional competence of sales representatives. This set of criteria can also be used to create a profile. Figure 17.13 provides a sample profile of a sales representative for IT solutions in the corporate customer sector. The profile indicates serious shortcomings: The representative only earns high scores in product knowledge, although there is evidence of some customer and market knowledge. He has very low scores for the three remaining aspects. In view of the negative assessment of his self-organization skills, he could be referred to as a "chaotic product specialist".

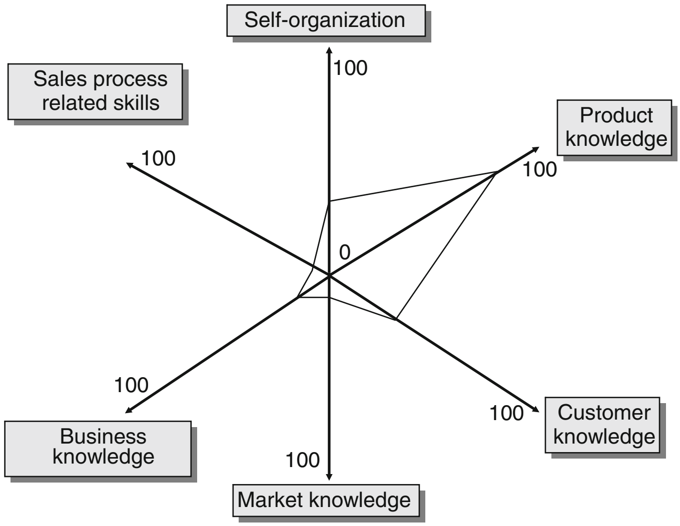

Fig. 17.13 Assessment of the professional competence of a sales representative for IT solutions

17.4 Systematically Developing Sales Representatives

The previous three sections discussed personality traits, social competence and professional competence. For each of the three areas, we presented an evaluation tool that sales managers can use, for example, to systematically assess their employees. Following this, it is advisable to combine the three dimensions. Experience shows that personality traits and social competence typically go hand in hand. Assessments of these two dimensions are usually very close. This is rooted in the fact that personality traits are essential prerequisites for social competence. We have thus linked these two dimensions in our summary analysis, giving rise to the matrix presented in Fig. 17.14. This matrix can be used to classify sales representatives into four groups, depending on of the degree to which they exhibit social and professional competence.

Allrounders fulfill (virtually) all requirements associated with an excellent sales representative. They are strong both professionally and interpersonally. *Sales duffers* are employees who have neither the required social competence nor the corresponding professional competence.

Know-it-alls are characterized by high professional competence and a low degree of social competence. While these employees may be able to deal with even difficult tasks independently, their ability to be deployed in team structures is limited. *Socializers* are employees with high social competence, but very little professional competence. In spite of their professional shortcomings, such employees may well be useful, since they ensure, for example, a pleasant working atmosphere and a positive team spirit.

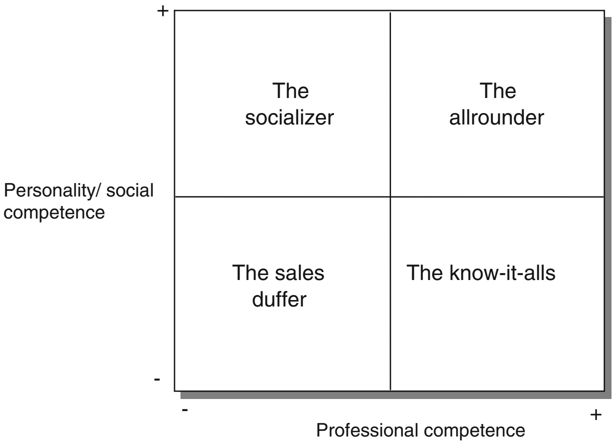

Fig. 17.14 Four basic salesperson types

Table 17.3 Suitability of development measures for influencing personality traits, social and professional competence

Development measures	Personality traits	Social competence	Professional competence
Job rotation	+	++	+++
Seminars/courses		+	++
Group discussions	++	++	
Symposia/conferences			+++
Mentoring/coaching	+++	+++	+
Business simulation games/case studies		+	++
Project/team work	+	+++	++
Role plays	++	++	
Behavior training	+	+++	
Workshops	+	++	+

+ suitable to certain degree, ++ well-suited, +++ very well-suited

This raises the question of the extent to which deficits in personality, social competence or professional competence can be remedied. It is, in principle, easiest to influence professional competence. Personality traits, on the other hand, are the hardest to influence. The most effective approach is coaching (e.g. by superiors), which, however, requires a long-term changing process. The interested reader should refer to Homburg and Stock (2000, p. 70 et seq.).

Table 17.3 provides an overview of selected development measures, showing which of the three areas they are particularly suited to. In many cases, a combination of development measures is needed to bring about a change in personality traits, social or professional competence. The systematic application of these tools has already been described in Sect. 9.3.

Rounding Out Relationship Management: Trade Shows, Call Centers, Internet

18

Relationship management means interaction between customer and company. In many companies – particularly in the business-to-business sector – the personal contact between the customer and sales employee is the focal point of this interaction (see Backhaus 2007; Smith et al. 2004). Often – in the business-to-business sector as well – direct personal contact is too cost-intensive or cannot be established quickly enough. Most companies therefore use additional forms of interaction which either accompany personal contact or – in the business-to-consumer sector – possibly replace it altogether. The professional management of these interaction media is an essential facet of customer relationship management. This chapter first discusses the trade show as "the classic relationship management concept". We will then examine call centers as a more recent medium of customer contact, before finally addressing the Internet as the "latest" form of interaction with customers.

18.1 Trade Shows: Meeting the Customer

Companies from both the manufacturing and service sector spend enormous sums of money every year on trade shows: German companies invest roughly 3.5 billion € annually in trade shows. Industrial goods manufacturers use up to two-thirds of their marketing budget on them (see Bruhn 2008). In view of these figures, it is surprising that many exhibitors neglect to carry out systematic trade show planning: Companies often participate in trade shows for historical reasons ("We always go there") or because the agencies advise them to do so. Trade show objectives and targets are not clearly defined, budgets get out of hand, and market research is hardly ever used to conduct a systematic review of performance and success.

Against this background, this section is concerned with the systematic planning, monitoring and review of a company's trade show participation. Figure 18.1 presents a relevant process. The basis for planning a trade show appearance encompasses fundamental decisions with regard to

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_18,

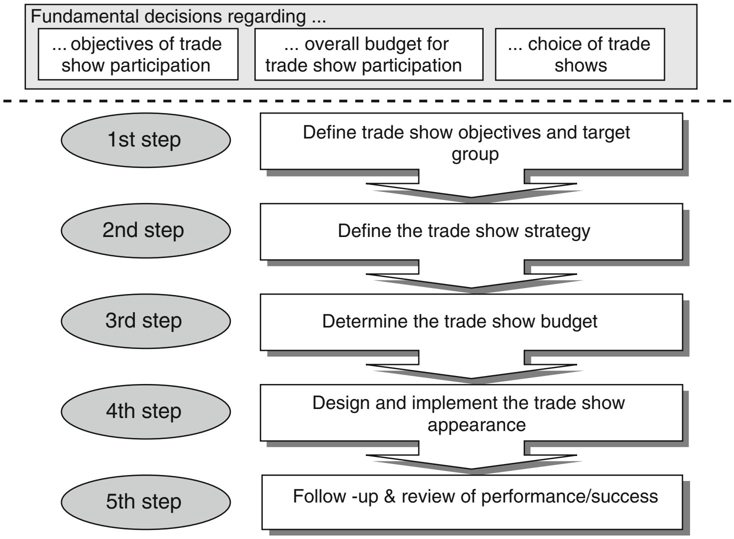

Fig. 18.1 Process for systematic planning and implementation of trade shows

- What basic objectives are being pursued,
- What overall budget is allocated to trade shows, and
- Which trade shows the company participates in, and with what priority.

With regard to the individual trade show, the first step is to *define the trade show objectives*. Objectives can be (see Fig. 18.2):

- Customer-related,
- Market-related, and/or
- Competitor-related.

To subsequently review the performance and success of the trade show, the relevant target values must also be quantified. For example, targets can be set with respect to the number of new customers to be acquired or the number of contracts to be concluded with existing customers.

A *visitor structure analysis* is suitable for planning the objectives and the target group. Market research institutes use strictly defined criteria to regularly conduct such analyses at exhibition centers. The results provide information, for example, about the visitors' regional origins, economic sectors, professional status, frequency of trade show attendance or length of stay. Visitor structure analyses, however, do not supply information about the decision-making and information-seeking behavior of the trade show visitors. Such information is provided by *behavioral analyses*. They can be used to classify different visitor types (see Bruhn 2009):

- For the *intensive trade show user*, the trade show has major significance as a source of information. He stays at the trade show for several days, usually has intentions of investing and is very likely to conclude contracts at the trade show or shortly afterwards.

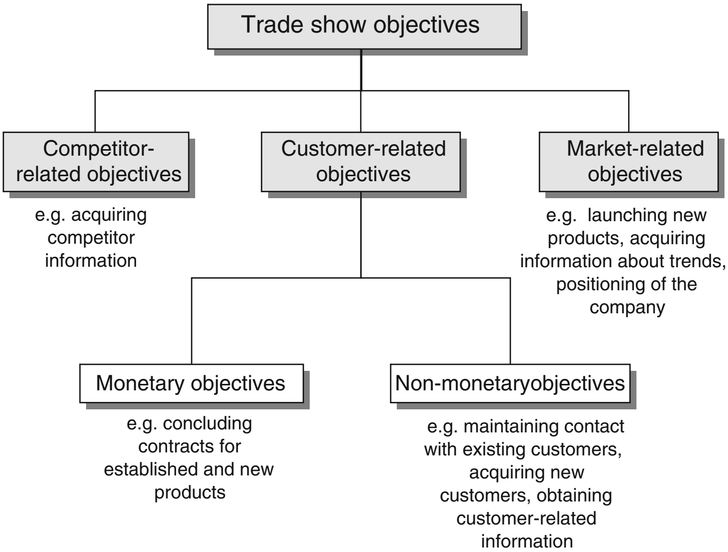

Fig. 18.2 Overview of categories of trade show objectives

- The *selective trade show user* is on the verge of making an investment decision. Unlike the intensive trade show user, however, he is already well informed and has already made a preselection. He thus visits exhibitors only selectively and stays at the trade show for a shorter time.
- The *trade show stroller* uses the trade show to observe the market. He has no concrete investment intentions. He hardly makes any preparations for his visit and rarely comes into contact with exhibitors, preferring to use the exhibited informational material instead.
- The *innovation-oriented trade show user* purposefully searches for technological innovations. This type selectively seeks out innovative companies and speaks to the exhibitors. However, he is usually only looking for information and does not have any short-term purchase intentions.

Information about visitor structure and visitor behavior is required in order to define the *trade show strategy,* which needs to be decided in the second step. A meaningful trade show strategy needs to provide answers to the following questions:

- What should primarily be presented at the trade show (individual services or the entire company)?
- What message/image should be conveyed at the trade show?
- How should the booth be designed (size, composition, impression)?
- What personnel are required (qualification and quantity)?
- What particular actions should be performed during the trade show?

The third step is to determine the *budget for the trade show* based on this strategy. The fourth step is to decide how to *design and implement trade show appearance*. Decisions in this connection relate to the following aspects:

- Position of booth (open-air or in the hall, position in the hall),
- Booth design (color and material, layout),
- Selection of demonstration objects,
- Selection of personnel (company employees, assistants such as trade show hostesses), and
- Communication of the trade show participation (e.g. through invitations, complimentary tickets, flyers, posters, as well as advertising in the trade show catalog, trade journals or on the Internet).

The fifth step is to *follow up on the trade show* and *review the success and performance*. The follow-up focuses on evaluating and pursuing trade show contacts. In the context of the performance/success review, a target-actual comparison must be used to determine whether the trade show objectives have been achieved and a cost-benefit analysis has to be conducted. A distinction is made here between

- Contact-related indicators (e.g. number of brochures handed out, number of talks held, number of new contacts, trade show costs per qualified contact) and
- Purchase-related indicators (e.g. number of contracts concluded at or after the trade show, trade show-induced sales revenue in relation to costs).

18.2 Call Center: The Hotline

The term "call center" is one of the buzzwords to take hold in recent years. Some readers are no doubt wondering whether this is not just a modern expression for the classic telephone switchboard. In fact, there is a lot more to the term. Call centers are organizational units whose task is to manage a service-oriented telephone dialog with (potential) customers, which is ultimately geared to goals such as new customer acquisition and customer retention (see Denger and Wirtz 1999).

The difference between a call center and a telephone switchboard lies predominantly in the service level. The switchboard offers a relatively low level of service. Its primary task is to connect callers to the desired dialog partner or to provide basic, brief information. In contrast, call centers are characterized by a medium to high service level. Their scope of tasks is much broader. They are, for example, actively integrated into customer care. We will discuss these tasks in more detail below.

A key characteristic for classifying call centers is the origin of the call. In this connection, a distinction is made between inbound and outbound call centers. *Inbound* call centers are designed to only receive and process incoming calls, while *outbound* call centers contact existing or potential customers themselves. Of course, hybrid forms also exist.

Four decision areas need to be taken into account when planning and implementing call centers (see Fig. 18.3). We will explain them briefly in the following passage.

The first decision to be made concerns the *tasks of the call center*, which can range from simple data entry up to comprehensive customer service (see Fig. 18.3).

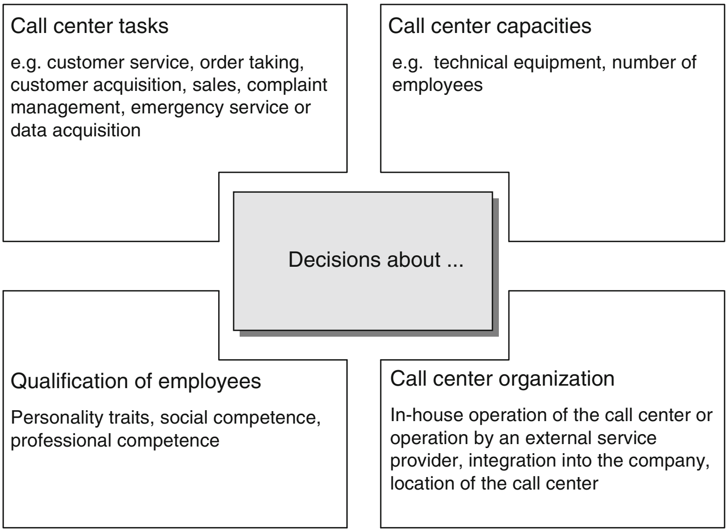

Fig. 18.3 Decision areas when planning and implementing call centers

In many cases, call centers perform a single, selected task. This is referred to as an isolated call center solution, since the call center is used for only one purpose and is not involved in other activities. This is to be distinguished from the integrated call center solution. This type of call center has interfaces to all operational subareas and represents one of the main ways of connecting the company to the market. In addition to these two extreme forms, there are a number of in-between solutions, which are most common.

Closely connected to the question of the tasks to be undertaken is the question of *capacities*. Prior to implementation, analyses need to be made with regard to the call volume that the call center must expect or how many calls it needs to make itself. This determines, in particular, decisions about the technical equipment and personnel deployment. Initial indicators are provided by analyzing the volume of calls received by the telephone switchboard and by certain employees, e.g. by the in-house sales force.

The third question concerns the *qualification* of the call center's individual employees. This again depends on the tasks that the call center is to undertake. Essentially, the personality traits and the social and professional competence already discussed in Chap. 17 can again be mentioned here.

Lastly, a decision needs to be made with respect to the *organization* of the call center. Three key questions have to be answered here:

- Should the call center be operated in-house or by an external service provider?
- How is the call center integrated into the company?
- Where is call center located?

The answer to the first question depends on the call center's tasks, the required capacities and the qualifications of the employees. Experience shows that it is not economically feasible for a company to establish its own call center if the call volume is not well above 400 calls a day (see Wiencke and Koke 1999). There are five possibilities for "outsourcing" the call center:

- *Complete outsourcing:* The complete call center is transferred to an external service provider. This particularly makes sense if there is a small volume of calls and the call center processes are poorly integrated into the company. What is problematic here is ensuring the information flow between the company and the external call center.
- *Capacity-based outsourcing:* Calls are forwarded to an external service provider if the company's own call center is overloaded.
- *Task-oriented outsourcing:* Certain tasks are not performed by the company's own call center, but by an external service provider. This reduces the company's own workload and allows tasks such as data entry when setting up a customer database or time-limited projects to be outsourced. These are tasks that require little specialized knowledge or which hardly have any interfaces with other company divisions or departments.
- *Time-dependent outsourcing:* Companies avail themselves of external service providers to cover the off-peak times, e.g. for a 24-h service. In many cases, the call volume is not large enough for companies to justify a 24-h service in their own call center.
- *Front office outsourcing:* All calls are initially answered by external service providers. Only if there are complicated questions, the caller is put through to the company's own call center.

The second question arises irrespective of whether the call center is operated in-house or by an external service provider. In both cases, companies need to determine who is responsible for ensuring the smooth flow of the processes in the call center and for coordinating call center activities with the activities of other media used for customer contact. In most cases, responsibility will lie within sales, marketing or service.

The third organizational decision concerns the *choice of location*, with the main decision resting between the home country and abroad. Favorable conditions with respect to labor laws and economic incentives have produced a boom in the establishment of call centers in Ireland over the past few years. With regard to the selection factors, the telecommunications infrastructure and tariffs, the workforces (language and culture), the legislation (labor law, data protection, consumer protection), the power of the trade unions, and the economic incentives need to be analyzed (see Cohen 1998).

In conclusion, we wish to point out that the rapid development in e-commerce is also confronting the call center with new challenges. It is not uncommon for a customer to be hesitant about placing an order over the Internet because he has doubts about the product and would like to have a personal dialog with the supplier. Thanks to the "Call-me button", this is no longer a problem. Entering a telephone number and clicking a mouse ensure that the customer is called back by the call center within a very short period of time and can address his problems.

18.3 The Internet in Relationship Management: Options and Success Factors

In Part II, we repeatedly pointed out the importance that the Internet and e-commerce have for the sales strategy. In this section, we intend to discuss the Internet as a relationship management tool. To this end, we will first describe some of the special features of this relatively new medium. Following that, we will provide an overview of the basic options that companies have in terms of an Internet presence. Lastly, we provide some general advice on designing a professional website.

18.3.1 Special Features of the Internet

Various media can be used to manage relationships. Personal talks with customers are frequently among the most effective, but also the most expensive, options. Companies can also use call centers, TV, radio or print media to maintain contact with customers. In comparison with these "classic" forms of contact, the Internet boasts special features (see Ainscough and Luckett 1996). These include

- Interactivity,
- Multifunctionality,
- Individuality and selectivity,
- Temporal and spatial independence, as well as
- Up-to-dateness.

Interactivity means that all participants can have a direct and active influence on the communication process. Interactivity increases customer attentiveness and involvement. Print media, for example, can only perform an informational function. Products or information are merely presented, with no possibility of interaction. At best, the personal consultations or the telephone call between customer and sales representative surpasses the "Web" in the degree of interactivity.

Another special feature of the Internet is its *multifunctionality*; five possible functions can be distinguished here:

- The informational function,
- The communication/interaction function,
- The transaction function,
- The logistics function, and
- The customer retention function.

In addition to the generally familiar informational and interaction functions, the Internet can, for example, also fulfill a transaction function. This is the case if products can be ordered and paid for online. The logistics function is fulfilled if digitizable products (e.g. software, CDs, books) are delivered online. Finally, the customer retention function should be mentioned. Offering value-added services over the Internet or creating virtual communities, which we will discuss in detail in the next chapter, can tie customers to a company. Entertainment offerings over the Internet can also be used for customer retention.

The medium's *individuality and selectivity* let the user cover his information requirements as he desires, i.e. he has a high degree of freedom of choice. He can filter out uninteresting information and concentrate on what is essential for him. For example, the user of an Internet news service can define his areas of interest so that he is only informed about news items that concern him. If, for example, a company has a broad information basis from a customer's previous transactions, this basis can be used to make individualized offers to the customer.

In respect to *temporal and spatial* independence, the Internet is always accessible. There are no closing times as in brick-and-mortar retail stores. The customer can seek out information or go shopping whenever he wants. The global availability of the Internet also provides spatial independence.

In addition, the Internet is distinguished by the potential *up-to-dateness of the information*. Conventional media are generally only updated after a certain time, due to the cost and effort involved (for, e.g., reprinting company brochures or catalogs). Information on the Internet, however, can be updated relatively cost-effectively and quickly.

An Internet presence provides various options for using these special features. We will discuss a number of possibilities for designing a website in the following section.

18.3.2 A Company's Internet Presence: Basic Options

In connection with the Internet, many companies can often be heard saying: "We have to get onto the Net!". How exactly this should happen and what activities are to be performed is unclear in many cases. This section provides a brief introduction to the different types of websites that may be relevant with regard to a company's Internet presence (see Fig. 18.4).

Commercial websites can initially be differentiated according to whether they function only to "forward" the web user ("traffic control sites") or whether, from the operator's perspective, the goal is to get the user to stay on them ("destination sites"). One type of *traffic control site*, the search engine, is only meant to assist the web user in navigating the Internet universe (see Hoffman et al. 1995). Nowadays, search engines such as *Google*, *Yahoo!* or *AltaVista* are familiar to every user. The aim of a second type of traffic control site, called an "incentive site", is to drive the user to another commercial page. Companies that, for example, want to sell products over the Internet use such incentive sites to drive traffic to their website and "draw" users that are "surfing by" to their offers.

Destination sites can be subdivided into pages that focus on the informational function and pages in which the transaction or sales function is dominant. Pages with a primary information and communication function include both pure "presence pages" (e.g. the basic company homepage that may also contain a product catalog) and the "virtual community" pages (see Sect. 19.2). Finally, the pages of the various information providers, such as online newspapers or online databases

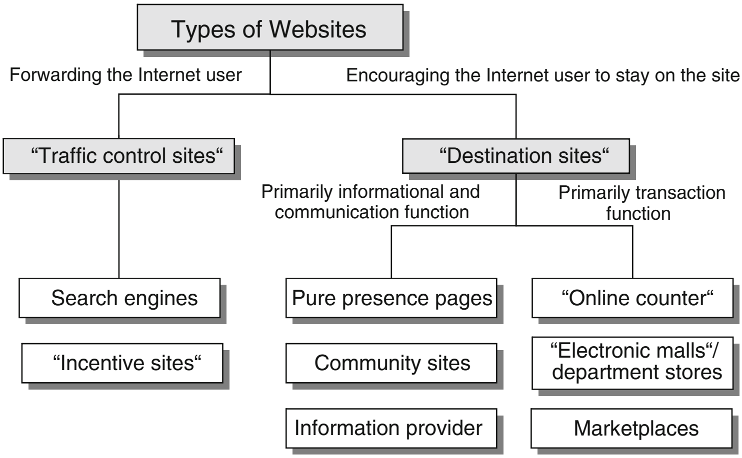

Fig. 18.4 Overview of types of web page

(e.g. the ABI Inform bibliographic database) – whether subject to fee or not – also fall into this category.

In the case of destination sites that have a transaction function, let us examine the "online store counter" first. Here, a company offers its own products for sale over the Internet. An order can be placed and payment made online. A logistics service provider may need to be brought in to make the delivery.

Electronic malls are virtual shopping centers in which several companies offer their services for sale at a common Internet address, using a standard user interface and standard transaction mechanisms (see Esch et al. 1998). They are frequently designed like real department stores, with different departments and products from various manufacturers. For the customer, the advantage of the virtual department store is that the relevant offers can be found at one central location. The manufacturer can reach more customers than he can with an isolated online store counter. Electronic malls also makes it possible for several networked manufacturers to circumvent the current brick-and-mortar retail store model: The task of bundling product ranges across several manufacturers and the consultancy function traditionally undertaken by retail stores (see Lingenfelder 1996) are now performed within the scope of the electronic mall. One problematic aspect here, however, concerns the fulfillment of the logistics function. Coordinating an electronic mall of this type also becomes tricky whenever direct competitors are involved.

Lastly, there are the electronic marketplaces. They provide a meeting place where a large number of suppliers and customers can negotiate prices and perform transactions, under the coordination of an independent broker (see Kaplan and Sawhney 2000). The Internet auction house *ebay.com* is one example. The business-to-business sector now also has such auction houses, which are typically industry-specific (e.g. *chemconnect.com* in the chemicals industry).

The terms “electronic mall” and “electronic marketplaces” are often used synonymously. However, there are differences in two respects: Electronic malls are frequently geared more towards private customers. In addition, electronic malls do not only focus on the transaction function. Beyond merely offering a product, they allow users to exchange opinions, obtain additional information about products or simply be “entertained”.

In most cases, it is advisable for a company to use different types of sites for its own Internet presence. For example, a supplier of telecommunications hardware might use incentive sites to attract a sufficiently large number of visitors to its company homepage (presence page) or to his virtual community page for cell phone users. At the same time, the supplier uses an online store counter and various electronic malls to sell to the private customer sector. In the corporate customer sector, the same supplier will offer its products on electronic marketplaces.

18.3.3 Advice on Designing an Internet Presence

To identify possible factors that provide for a successful Internet presence, a company must first analyze which factors hinder or promote customer acceptance of its own website (see Bauer 1998). *Acceptance barriers* which directly affect the use of Internet offers include the following (see Bauer et al. 1999; Esch et al. 1998; Lohse and Spiller 1999):

- A lack of trust in the security of the transaction systems,
- The user’s fear of disclosing personal data,
- Uncertainty with respect to after-sales service (e.g. warranties),
- The lack of opportunity to touch and try out products,
- Concern that the sites are difficult to use,
- An aversion to long access times for the webpages,
- Possible doubts as to the up-to-dateness and reliability of the information provided, and
- Doubts about the entertainment and experience benefit of the web pages.

A number of success factors (see Fig. 18.5 for an overview) can now be derived from this list of potential barriers of acceptance.

Design-oriented success factors relate to the layout and design of the webpages and, in particular, to navigation. The navigation system is the key to interaction between the user and the website. The system should ensure that users can find their way around the various webpages easily and quickly. It should not demand too much of the unpracticed user and should draw on familiar metaphors (e.g. placing goods in a shopping cart when selecting products). The use of some graphical elements can also redress the poor experience benefit provided by the website. On the other hand, the site should not be excessively overloaded with graphical gimmicks, since otherwise, it can become unmanageable and lengthen access times. Lastly, special offers should be highlighted as “eye-catchers” to encourage the user to stay on the page.

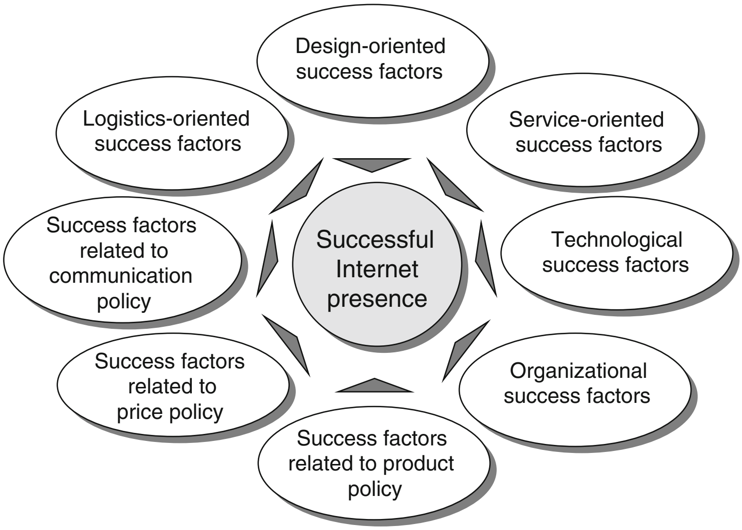

Fig. 18.5 Overview of factors relevant to a successful internet presence

Service-oriented success factors may be initially aimed at minimizing the costs of using the Internet site. Suppliers can assume the shipping costs for online orders. On the other hand, transaction costs can be reduced for customers by enabling repeat buyers to enjoy easier, personalized access by storing certain data. To counter the fear of disclosing personal data, the telephone should be used to record sensitive data (e.g. personal data or credit card numbers). Furthermore, intelligent software agents can make price comparisons for the customer or act as advising services. In addition, various design options can offer the customer an emotional added value. Chat cafes or virtual communities (see Sect. 19.2) let the customer make contact with other customers and exchange opinions.

With regard to the *technological success factors*, payment systems are of particular interest. Especially on the Internet, these systems must have certain security features. First and foremost, payment systems must guarantee

- Confidentiality (i.e. transactions cannot be tracked by unauthorized persons),
- Integrity (i.e. the information sent must match the information received),
- Authenticity (i.e. the origin of the information received must be assured), and
- Reliability (i.e. it must be possible to unequivocally prove that information has been received/sent).

Organizational success factors ensure that interaction with the customer is possible round the clock. In the case of e-mail or telephone inquiries, the customer expects corresponding accessibility and a rapid response to his questions. This requires the establishment of, e.g., network-like organizational structures for call centers or e-mail service centers.

Success factors relating to product policy are, for example, concerned with the brands being offered. Since the Internet does not allow products to be touched or tried out, it may be wise to use established brands to gain the customers' trust. If this is not possible for strategic reasons, a corresponding quality image needs to be created quickly for the Internet brands. In this case, it may be helpful to use established safety standards or a certification. Also important here is using the Internet to individualize services. A manufacturer of greeting cards, for example, offers its customers the option of designing and ordering cards in accordance with their requirements. Computer retailers are offering similar configuration options. In some electronic malls, users can register and then regularly receive information about special offers or new products that match their interests.

Success factors relating to price policy center on the price image of the Internet. Chapter 5 has already discussed the increased price transparency offered by the Internet. Furthermore, customers frequently expect to purchase goods over the Internet at prices lower than those offered by brick-and-mortar retail stores. From the supplier's perspective, a markdown in price can be wholly justified due to the savings in transaction costs.

Success factors relating to communication policy are aimed at supporting the Internet presence with advertising resources. Not only should classic advertising media such as print or TV make reference to the company's Internet address: The Internet itself also offers companies a wide range of options for publicizing their own website. Companies should, for example, register themselves on search engines or other directories and ensure that there are as many links as possible from other webpages to their own.

Logistics-oriented success factors relate to the delivery of goods ordered over the Internet. Established companies that become active on the Web generally have fewer problems with this aspect than "Internet start-ups". A critical factor for these companies is to deliver goods on time throughout the world. Global logistics partnering is generally a prerequisite for being able to quickly deliver the merchandise that has been ordered "quickly".

18.3.4 Management of Customer Recommendations on the Internet

The Internet institutionalized the processing and passing on of one's own consuming and purchasing experiences to friends, acquaintances, and colleges. Entire business models such as online book stores are nowadays based on this principal. The significant relevance of the internet for customer recommendations can be explained on the basis of three aspects.

- Opinions remain on the internet for a greater period of time and spread much quicker. The effect of multiplication of positive as well as negative customer recommendations is therefore far more powerful than it is in the real world.
- Individuals often come to offline decisions based on online recommendations or information (see i.e. Godes and Mayzlin 2004).
- On the Internet, information can be obtained and passed on uninterrupted by limitations set by time, place, or individuals, and is accessible for everyone at all times.

Accordingly, some studies demonstrated a significant influence of online customer recommendations on an individual's reaction towards a product (see i.e. Sénécal and Nantel 2004; Peng et al. 2009). Personalized customer recommendations are, in this case, especially effective, whereas the type of website on which the recommendation is presented only plays a minor role.

Because of the particular relevance of online customer recommendations, it is advisable for some sectors to institutionalize professional online management of recommendations. Through professional management of recommendations companies are able to:

- Influence the opinions of customers that have already been publicized on the web,
- Analyze the interactive behavior between customers,
- Obtain new insights on communication strategies and product strategies,
- Utilize leaders of opinion online as multipliers for the acquisition of new customers.

There are several tools for a company to exhaust the potential of online recommendation management:

- The establishment of a company-run forum for discussions which enables better control over the recommendations and opinions of customers,
- The employment of a virtual recommendation system to analyze and influence preexisting structures of consumption,
- The usage of the Internet in order to disperse specific advertisement messages (viral marketing) and
- The reduction of the amount of online complaints through an active handling of negative recommendations.

The use of so called "intelligent agents" represents one trend in the management of virtual customer recommendations. They are software programs that are able to execute predetermined and repetitive tasks independently according to specified parameters. Thus, large amounts of complex data can be combined and searched, and virtual recommendations can be generated. It herewith becomes possible to deal with a large amount of data and identify relevant forums and postings.

Customer Retention Management: Making the Customer a "Fan" 19

Customer retention management is an essential facet of customer relationship management. It refers to the *targeted* use of tools to bind *selected* customers to the company in the long term. Chapter 2 already pointed out the strategic necessity of customer retention management. Chapter 12 discussed how to acquire information about customer satisfaction and customer retention. The first section of this chapter will discuss some of the foundations of customer retention and customer retention management. The following sections will then provide a closer examination of selected tools of customer retention management which are particularly important for sales. These include

- Customer cards, customer coupons, customer clubs, customer magazines and virtual communities,
- Value-added services (product-related services), and
- Complaint management.

An integrated approach to customer retention management for important corporate customers is key account management, which deploys a wide variety of customer retention tools. Owing to its particular relevance in sales, we will provide a separate discussion of this approach in Chap. 20.

19.1 Customer Retention: The Foundations

There are various grounds and reasons for loyalty to a supplier. We have already indicated some of them in Sect. 2.3. A basic prerequisite for customer retention is that the customer's *satisfaction* with the supplier's services. There cannot be long-term customer retention without customer satisfaction (even if there are other conditions for retention exist).

Secondly, customer retention is fostered if customers perceive a clear *added value or additional benefit* in the supplier's products and services as compared to alternative offers. If, for example, a supplier offers his customers more benefit than his competitors through innovative value-added services, the customers will remain loyal to that supplier.

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DOI 10.1007/978-3-642-29169-2_19,

Thirdly, customer retention also emerges from the *(personal) relationships* between customer and supplier or his employees or even brands. If, for example, customers develop a particularly close relationship with certain employees over the course of time, they are more likely to make repeated and additional purchases and recommend the supplier to third parties.

Of course, customer retention is also the result of *economic advantages* that customers obtain through loyalty to a supplier (e.g. discounts or incentives when repurchasing). However, this reason for customer retention should always be based on other grounds: If a customer has no other reason than economic advantages for remaining loyal to a supplier, he will switch as soon as a competitor offers him greater incentives.

In addition to the reasons already listed, *barriers to switching* can also keep a customer loyal (see Bliemel and Eggert 1998). Such barriers result, for example, from contracts that the customer has concluded with the supplier. The customer cannot legally separate from the supplier before the contract has expired or been fulfilled. However, barriers also exist if a change of supplier would cause technical or compatibility problems, e.g. when changing the operating system of a PC.

Suppliers can and must systematically manage the retention of their customers. The following issues need to be addressed here (see Homburg and Bruhn 2008):

- *Reference object of the customer retention:* What object (e.g. products, brands, manufacturers or intermediaries) should the customer be bound to?
- *Customer retention target group:* What is the priority for increasing customer retention in the different customer segments?
- *Type of customer retention:* How should the customer be retained (which reason for retention is to be used)?
- *Definition of the customer retention tools:* Which tools are to be used to retain the customer?
- *Intensity and timing of customer retention:* At what time and with what intensity should customer retention measures be undertaken?
- *Cooperation strategy of customer retention:* With which partners (e.g. intermediaries or service providers) should the customer retention measures be undertaken?

Effective customer retention management must be based on three principles:

- Differentiation,
- Focusing, and
- Economic orientation.

The principle of *differentiation* is based on the results of segmentation and customer structure analysis. Differentiation means that different customer retention tools are used for different customer groups, taking into account the special requirements of the particular customer group. The intensity of customer retention usually varies between the individual customer groups.

The principle of *focusing* refers to the situation that companies base their customer retention measures on the customer’s value to the company and thus might only implement customer retention measures for customers with high potential. A-customers, for example, might enjoy a customer club, while B-customers "only" receive a customer magazine. Lastly, the principle of *economic orientation* underlines the necessity of critically analyzing customer retention measures with respect to the cost-benefit ratio.

19.2 Customer Magazines, Cards, Coupons, Clubs and Virtual Communities: The (Neo-) Classicists of Customer Retention

The tools that we will be introducing in this section are frequently deployed by companies as part of customer retention programs, therefore pursuing several lines of attack for increasing customer retention: First, they are intended to ensure that the customer is permanently informed and interacts with the supplier, i.e. they are used to keep the customer in regular contact with the supplier. Second, they are intended to increase the customer's identification with the supplier and its products and, third, they are intended to motivate the customer to buy repeatedly from the supplier.

Customer magazines have been used for decades to inform customers and are still widely used. It is estimated that in Germany alone, the added editions of customer magazines number into the billions. They introduce new products or services, provide information about the product environment or give tips on effectively using a product. However, customer magazines can also encourage interaction between customer and supplier if they contain response elements such as hotline numbers, e-mail addresses or reply cards (see Müller 2003).

In our opinion, however, a tinge of skepticism is advisable when it comes to customer magazines. Our observations show that, while these magazines are read by the company's employees, they are often dismissed as "junk mail" by customers, thereby ending up in the garbage can. The benefit of magazines should be analyzed critically, particularly in view of the sometimes immense costs that usually stretch into the billions. We noticed that, for one company, only about 10 % of the total costs of the customer magazine resulted from content-based editorial activities. Printing and production accounted for 20 % and postage for 70 % of the costs. For suppliers with a wide customer base (e.g. in the private customer sector), this sometimes implies enormous sums which are literally thrown out of the window if customers do not read the magazines they are sent. We therefore recommend the use of systematic market research to monitor the acceptance of customer magazines at regular intervals.

The first *customer cards* emerged in the 1950s. The boom, however, did not start until the beginning of the 1990s. While about 650,000 customer cards were in use in Germany in 1996, this figure had already increased to five million by 1999 (see Hantscho 1999) and to more than 100 million by 2004 (see Müller and Leuteritz 2004). Airline companies, department store chains, car rental companies and the like make massive use of this tool for customer retention. Customer cards can comprise different services. They can be primarily divided into the following:

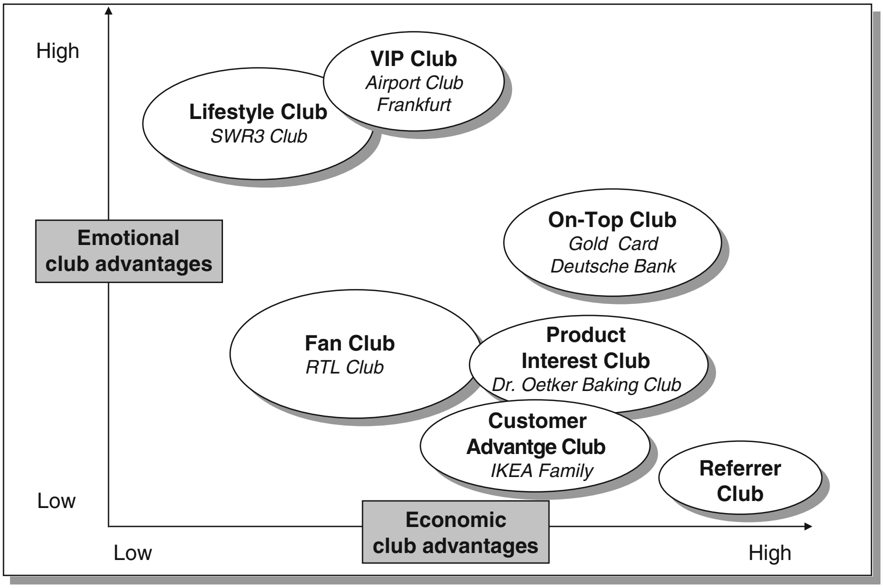


Fig. 19.1 Classification of customer clubs based on emotional and economic club advantages (According to Diller 1997)

- Discount and bonus services,
- Payment services, and
- Identification/club services.

Discount and bonus services let the card holder enjoy favorable purchasing conditions. Payment services allow the card holder to pay for purchases using the customer card – rather than using cash or a credit card. Some suppliers, in cooperation with financial service providers, even issue "their own credit cards" to customers.

One customer retention tool that can be used in combination with customer cards and magazines is *couponing*. Coupons are particularly widespread in the retail trade, and are used to acquire new customers by offering time-limited purchasing advantages and to increase the cross-selling rate with existing customers. There are various coupon types with regard to design and distribution. Examples of different distribution forms include direct mail coupons, print media coupons and Internet coupons. With respect to the design of the purchasing advantage, classic coupons for discounts on individual products need to be differentiated from BOGOF coupons ("*B*uy *O*ne, *G*et *O*ne *F*ree"), which are particularly widespread in the USA (for an overview, see, e.g., Bauer et al. 2002; Kreutzer 2003).

Customer cards, however, can also identify a card holder as a member of a customer club. *Customer clubs* integrate different, but coordinated service-related, price-related, communication-related and sales-related customer retention measures. The customer benefits from both economic and emotional club advantages. Figure 19.1 uses these two dimensions to classify various customer clubs.

The SWR3 club, for example, primarily offers its members emotional benefits, since club members become part of a community of “like-minded people”. The economic advantages tend to be limited.

In addition, there are both open and closed clubs. Open clubs are freely accessible to all interested parties. Closed clubs require an economic quid pro quo from their members, such as a membership fee or the commitment to make regular purchases of a certain number of products. The more detailed these access restrictions are, the more accurately the target group to be retained can be addressed. If a company decides to create a customer club, it must be able to answer to several pivotal questions:

- What is the customer club’s target group?
- Which services should be offered to the club members?
- Who should provide ongoing support for the customer club?
- How should the success of the customer club be measured?

To answer the first question, a supplier can draw on the results of the customer structure analysis (see Sect. 12.2). C-customers or poor dogs will not usually be the *target group* of a customer club.

The customer club can offer its members a variety of *services*. Along with the economic club advantages provided by special club discounts or additional services, members are, for example, also informed earlier than “normal customers” about upcoming special offers. Club members also receive exclusive background information about the company and its services. Their feedback can be obtained in the context of customer forums. In general, the services offered by the customer club should

- Be congruent with the club character,
- Be based on the needs and background of the target group,
- Be communicable and accessible,
- Be perceived rationally and emotionally by the customer as an increase in benefit,
- Offer a balanced mix of constant basic services and varying additional services,
- Be realizable in organizational/legal terms and financially sustainable in the long term,
- Seem competent, credible, high-quality, and
- Stand out against the competition.

The club can, in principle, be *managed* by the company’s own employees or external service providers. If the club is to be managed by the company, a decision needs to be made about which resources should be made available. A sufficient number of qualified employees, a sophisticated customer information system (see Chap. 12) and possibly a call center as contact point for the club members may be required.

To *measure success*, a simple, but significant system of indicators should be devised (see Chap. 8), which are, for example, measured in relation to non-members. Possible indicators might include

- The customer satisfaction of club members,
- The purchase intensity or repurchasing rate,

- The leveraging of cross-selling potential,
- The length of time since the last purchase,
- The share of customer,
- The churn/defection rate, or
- The average length of the customer relationship.

In connection with the Internet, a frequent topic of discussion has recently been *virtual communities* – a community of customers similar to the concept of the customer clubs (see Hagel and Armstrong 1997; Albers et al. 1999; Bauer et al. 2001). Virtual communities are groups of people with common interests and needs, who meet on the Internet and exchange opinions and experiences (e.g. *www.tripod.com* as a meeting place for "generation Xers" or *www.fool.com* as a meeting place for finance and stock enthusiasts). A considerable, coordinated level of demand often underlies a community, which is related to the fact that members exchange opinions about quality and prices of products relevant to the community. In extreme cases, professionally organized communities can even play different suppliers against one another and negotiate favorable conditions for their members.

Innovative suppliers can exploit the idea of the virtual community for their own ends by creating a community around their company and their services. In addition to customer retention, the community can generate numerous other benefits: First, the company can acquire a wide range of information about the mindsets and behavioral patterns of its customers as "free market research". Second, the supplier can carry out "free quality management" and identify weaknesses in its services at an early stage by systematically evaluating the community discussions about the company's products and competitor products. Finally, the supplier can stimulate the community members to further recommend the products/services and can generate enormous multiplier effects via the medium of the Internet.

When creating and maintaining a community, a supplier needs to tread a fine line: First of all, to ensure acceptance by the community, it is critical for the supplier to keep its company and products in the background. After all, the central idea of the community is for members to exchange opinions freely, not just to offer products for sale. However, the community needs to be systematically planned and managed. The exchange of opinions should not go completely unchecked, since it would then not be possible to either acquire information or generate recommendation effects. Moreover, no supplier wants to see its company disparaged in his own "Internet backyard". However, systematicity of this kind cannot be achieved without deploying a certain amount of resources. Teams composed of marketing and sales employees are indispensable to the creation of a community. Some companies are now even deploying "community managers", whose task is to develop virtual communities in the interests of the supplier.

How customer retention tools – whether they are customer magazines, cards, coupons, clubs or communities – are to be specifically developed depends, of course, on the particular conditions of each company. However, a number of general rules for success can be stated: All tools must be coordinated with each other and with the company's marketing and sales strategy. Furthermore, the tools should not be an end in themselves, but rather actually encourage the customer to behave in the desired way – whether it be a repurchase, a recommendation, or the exchange of information with the company. This requires regular cost-benefit analyses or performance reviews of the deployed tools, in order, for example, to prevent customer retention programs or tools from being used merely by customers who are already loyal and to ensure that the desired changes in customer behavior and greater economic success actually materialize.

In addition, the success of the customer retention tools also stands and falls with the attractiveness of the service offer. Continuous analysis of market and customer trends and the timely adaptation of the services to relevant changes are vital. The services must be clearly delineated from the "standard" services that competitors also provide and must appeal to customers directly. In particular, excessive emphasis on discount, bonus or incentive services does not provide any lasting competitive advantage, since competitors can easily imitate this type of customer retention and the commitment generated among customers tends to be to the discount rather than to the company.

19.3 Value-Added Services: The Ace up the Sleeve

For years, many sectors have been witnessing an increasing similarity between the functional quality of products. Nowadays, technological leads can only be achieved and maintained in the long term through enormous R&D investments. The resultant interchangeability of products is bound to put customer retention at risk.

Additional services represent a promising approach to stabilizing and increasing customer retention in such an environment. Such value-added services come in various forms. We will distinguish between the following:

- Information/consultancy services,
- Logistical services,
- Technical services,
- Customization services,
- Financing services, and
- Convenience services.

Which services are provided in the individual categories largely depends on the sector and whether the customers are private or corporate customers.

The provision of services contributes in a number of ways to customer retention (see Fig. 19.2). First of all, services increase the customer's benefit. This is particularly the case with those services that are connected to the product and thereby turn a "naked" product into a problem solution for the customer (see 1 in Fig. 19.2). This effect is reinforced by the fact that services are frequently rendered with the involvement of the customer or at the customer's premises. Examples include the performance of technical services at an industrial customer's production plant. This enables the supplier to obtain much deeper insight into the customer's needs and the environment in which the product is used (e.g. an industrial goods company's production processes).

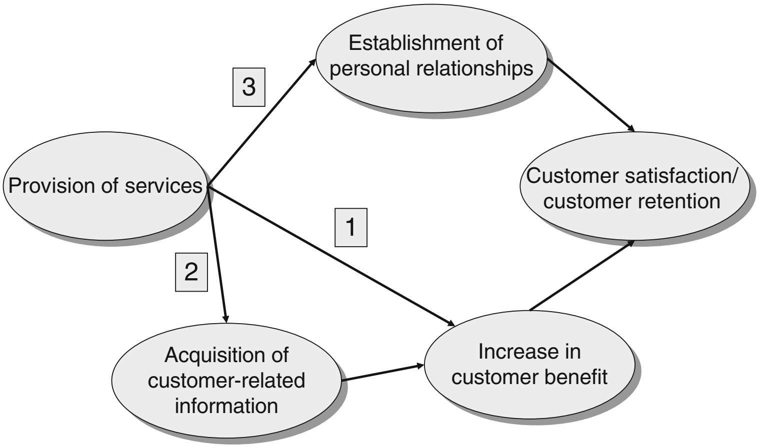


Fig. 19.2 Using services to promote customer retention

The acquired customer-specific information can in turn be used to increase customer benefit, e.g. by individualizing the service offering (see number 2 in Fig. 19.2). A third effect should not be underestimated: Services are rendered by people. In the course of providing the service, personal contacts and relationships are therefore created and become an essential pillar of customer retention (see number 3 in Fig. 19.2). The potential successful impact of services is not only limited to customer retention, however: Given commensurately professional management, services enable the realization of high profits.

Nevertheless, it can be observed that, in particular, companies whose marketing typically focuses on products have major problems handling services (see Simon 1993; Belz et al. 1997; Homburg and Garbe 1996). A rampantly proliferating range of services that can become a dangerous cost trap, the ubiquitous donation of services according to the "principle of giving everybody an equal share", the neglectful treatment of the service area despite assertions to the contrary in the strategy documents, failure to embed services in the corporate culture, and deficits in quality management for services – these are all problems that are regularly encountered. Figure 19.3 provides an overview of the problem areas that can arise if traditional product-oriented companies offer services on a large scale.

Based on an empirical study involving more than 270 companies, Homburg et al. (2000b) have devised the following 12 rules for professional service management in typically product-oriented companies:

- Define your service portfolio systematically!

Stand firm against the "gentle pressure" exerted by the market and the competition and avoid an unchecked spread of the services offered. Always weigh the costs and benefits of new services carefully against one another. Proceed here just as systematically as with decisions regarding the product assortment. A small number of professionally marketed services are more effective than an extensive, but half-hearted conglomeration. Within the company, clearly communicate which services are components of the service range and which are not.

Fig. 19.3 Overview of service-related management problems

- Market your services actively!

  Do not let the services lead a shadowy existence alongside the product, but make sure that you communicate your services effectively to your customers! In particular, this includes providing a description of the services in catalogs and brochures that can compare with the presentation of products. Only when you actively put your services to the marketplace, will they become a truly effective tool for differentiation from competitors.
- Educate your customers!

  Direct billing of services continues to be difficult, since "free" services are standard in many sectors. Start "educating" your customers! Customers need to learn that creating services costs money in the same way it does to manufacture products. Speed up this learning effect by means of targeted information: Inform your customers about the cost of the services in catalogs, brochures or price lists. Proceed in the same way with the benefit that your customers will derive from the services. Quantify this benefit as accurately as possible.

  And even if you cannot bill all services yet, you should still let your customers know what you are giving them as a present.
- Provide the services selectively!

  Depending on the needs of the customers and the type of services offered, the services may be extremely important or of no significance to the customers. Do not therefore distribute the services "indiscriminately", since, in so doing, you will always "delight" a large number of customers who are not prepared to reward this. Instead, analyze your customers' needs and then gear your service program to the service-sensitive customer segments.
- Make sure that you have an active service culture!

  The transition from product supplier to problem solver for customers is a process that the employees involved must help to support. It is not sufficient to just document the service orientation in the mission statement of the company.

Emphasize the importance of this cultural change again and again, and support it by exemplifying a service orientation in your own conduct. Make it clear to the company as a whole that services are not a "perquisite", but make the product truly marketable. The employees need to identify with the goal of being service-oriented. Only then will service orientation be internalized and also become perceptible to customers through the behavior of employees.

- Send your best people to the service division!

In the service division, your employees frequently have direct contact with customers. The quality of the personnel is crucial for success here. Accordingly, ensure that you have an influx of talent in the service division. If a company takes services really seriously, it cannot send the "minor league" to the starting blocks here.

- Empower your employees to act in a service-oriented manner and reward it!

As far as customer satisfaction is concerned, the social competence of the employees is frequently just as important as, or even more important than, their professional competence. Encourage social competence through regular training. Systematically review employee performance and commensurately reward top performance in the area of service provision. Create incentive systems that encourage service-oriented behavior.

- Use suitable quality control tools!

The technical quality of products can be thoroughly inspected prior to shipment. The same thoroughness is not possible with services. Only customers who have used a service can tell you how good the service actually was. Customer satisfaction is the only relevant yardstick for quality here. Therefore, measure customer satisfaction on a regular basis and link it to the incentive systems in the service division.

- Collect and use service-oriented market information!

In practice, there is often as little systematic identification of the service requirements of customers as there is observation of the competitor's service-oriented activities. As a result, many companies do not have the information basis to plan service activities appropriately. Be proactive here. Observe the relevant market developments regularly and systematically. This will enable you to identify problems and opportunities at an early stage and respond adequately.

- Monitor the business and economic success of the services!

Many companies are not able to properly quantify the success of the services they provide. This concerns both financial figures (e.g. sales revenues and costs) and non-financial factors (e.g. process-related indicators such as response times). Collect these values systematically and use them to monitor the success of your service offering. This is the only way to prevent the costs related to the provision of services from spiraling out of control.

- Create organizational structures that ensure clear-cut responsibilities and allow as a much independence, profit responsibility and decision-making powers as possible!

Services cannot be stored. They need to be created when customers require them. The prerequisites for this are speed of response and flexibility, which can only be achieved if the responsibilities for creating the services have been clearly defined. Therefore competence disputes between the departments should be avoided. While it is not absolutely necessary to combine the primary service activities organizationally as a profit center, this has the advantage that the organizational structure can be used to internally and externally demonstrate the company's strong commitment to providing services.

- Avoid a one-sided orientation on the cash flow generated by services!

Monitor the sales revenues and costs arising from the services. However, always keep an eye on the positive effects that providing services have on customer retention. These effects on the business relationship are much more important for the company results than the profit obtained directly through the services.

19.4 Complaints: Irksome Moaning, Disturbance of the Peace or Opportunity?

Many companies today still regard complaints as burdensome moaning rather than as an opportunity. Employees see complaints as a personal attack against themselves. At best, resolving complaints is perceived as a "necessary compensation". This perception is far too short-sighted. Nowadays, it is known that effective and rapid handling of a complaint can even raise customer retention above the level it was at before the complaint (see Fig. 19.4). Complaint management is, therefore, not only compensation, but can make an active contribution to customer retention (see Stauss and Seidel 2007; Hansen and Jeschke 2000; Stauss 2000; Günter 2008; Smith and Bolton 2002).

As Fig. 19.5 illustrates, a large number of decisions need, however, to be made on the path to professional complaint management (see also Homburg and Fürst 2003a). We will discuss them in detail below.

The starting point when designing complaint management is the *definition of what a complaint is*. However trivial this aspect may seem at first glance, it is frequently problematic in practice. Inconsistent understanding of what a complaint is hinders effective complaint management.

We therefore strongly recommend developing a standard definition of a complaint in the company. It is important here that the definition is not overly restrictive, so that certain expressions of dissatisfaction are, from the outset, not even declared to be complaints. For example, companies should also perceive expressions of dissatisfaction made by potential customers or intermediaries as complaints, should not limit themselves to certain forms of complaint submission (e.g. in writing), need to recognize implicit complaints such as invoice deductions as well, should not restrict the complaint to certain objects (e.g. products) and also have to refrain from the popular distinction between "justified" and "unjustified" complaints.

The next decision concerns the *organizational embedding* of complaint management. The following facets need to be taken into account here:

- Determining the specifics related to complaint receipt and processing,
- Assigning responsibility for managing complaints, and
- Determining the complaint coordination and monitoring process.

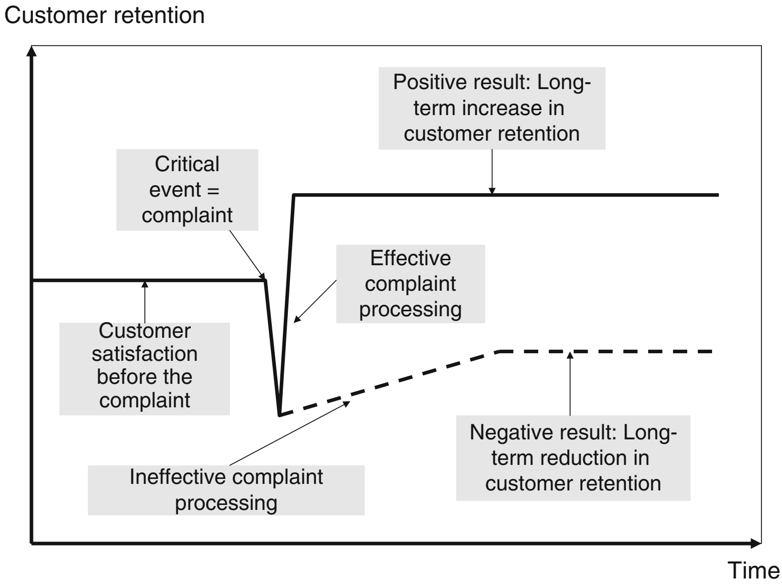


Fig. 19.4 Complaint management as the key to customer retention

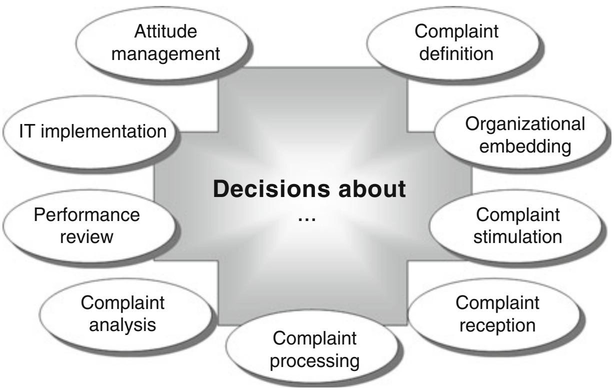


Fig. 19.5 Decision areas when designing a complaint management system

The fundamental decision with regard to the organizational design of complaint acceptance and processing concerns the centralization/decentralization of these functions (see Hansen et al. 1995). With a centralized solution, complaints are generally received through one central unit, e.g. through a complaint hotline. In certain sectors (e.g. in the consumer goods sector), this unit can already resolve the majority of the complaints. If the complaint management system is completely decentralized, all employees are ultimately responsible for receiving and processing complaints. In addition, there are various hybrid forms, in which complaints are

Table 19.1 Advantages and examples of centralization and decentralization of responsibilities for complaint management (see Homburg and Fürst 2003)

	Centralization of responsibilities	Decentralization of responsibilities
Advantages	Facilitates straightforward and consistent complaint processing	Tends to be easier for customers to report complaints
	Promotes employee specialization	Faster receipt and processing of complaints from a customer perspective
	Less risk of complaints being suppressed, distorted or selected	Customer-specific and problem-oriented complaint resolution possible
	Complaint contacts are easier to monitor	Relieves management
	Requires less coordination, information and training time and expense	
Examples	Existence of a department in the company that receives and processes all complaints reported to the company	Customer contact employees responsible for receiving and processing complaints within certain limits
	One employee has responsibility for the regular and systematic analysis of incoming complaints	Deployment of cross-division/ cross-site project teams whose task is to identify causes and devise solutions

received centrally, but processed decentrally. Such hybrid forms are widespread in practice.

The main advantages of centralization are that it ensures uniform processing and allows the option to deploy specialized personnel for complaint processing. The disadvantage is that complaint management is detached from the pertinent departments (e.g. product divisions, regional sales offices). The decision for or against centralization usually depends on various influencing factors, such as the complexity of the product/service range and the number of complaints. Table 19.1 compares the advantages of the centralization and decentralization alternatives.

When assigning responsibility for managing complaints, our experience has shown that following the concept of “complaint ownership” has proven to be useful. According to this principle, the person who receives the complaint is responsible for processing and resolving it. It is still perfectly possible for the complaint to be forwarded to a competent unit for processing. Even in this case, however, the complaint owner still remains responsible for processing the complaint. This avoids the risk of complaints merely being passed from one unit to another, with no one feeling responsible for providing a resolution.

Determining the complaint coordination and monitoring process is particularly important for decentralized approaches. A “complaint coordinator” must bear responsibility for the entire complaint management in the company. He is responsible for a smooth process flow, has to be available as a contact person for questions

Channels for complaints made in person	Channels for written complaints	Channels for complaints over the telephone
• Employees with complaint management function at the point of sale (PoS) or in the service center • Face-to-face interviews about customer satisfaction/ complaint satisfaction • Every personal contact between employees and customers	• Contact address for complaint letters • Opinion cards and boxes at the PoS • Complaint forms (e.g. enclosed with the product or customer magazines) • E-mail address for complaints • Fax hotline for complaints • Online complaint page • Company‘s own newsgroups on the Internet • Written surveys on customer satisfaction/ complaint satisfaction	• Telephone hotline for complaints • Telephone surveys on customer satisfaction/complaint satisfaction • Every telephone call between employees and customers

Fig. 19.6 Selected channels for complaint stimulation

from the people involved, monitor the prompt and appropriate processing of the complaints and, if necessary, intervene in the processes. It is advisable to assign this task to a line manager in a corresponding hierarchical position or an employee supported by top management. It is disconcerting is to see complaint coordinators who wander through the company like “itinerant preachers”, without being able to change anything.

Another decision in the context of design concerns *complaint stimulation*. This is not about “educating” the customers “to gripe”. However, many companies have to contend with the fact that only a small percentage of dissatisfied customers actually complain to the company. For airline companies, the percentage of non-complainers among dissatisfied customers is, for example, 69%; for car rental companies, it is 82%, and in the consumer goods industry 86% (see Adamson 1993). The aim of complaint stimulation is to induce as many *dissatisfied* customers as possible to complain to the company and thus prevent other responses (complaints to third parties, customer churn, etc.) (see Bruhn 1982).

Of utmost importance in complaint stimulation is that customers should be able to submit their complaints as easily as possible. Examples of complaint channels include hotlines and service numbers, enclosing complaint forms in product packaging (ideally with the name of a contact person), and the Internet (see Fig. 19.6). In each case, the customer should know who to contact if he has a complaint.

Table 19.2 Examples of negative and positive behavior when receiving complaints

Situation	Negative behavior	Positive behavior
A customer complains that the PC that he has just purchased does not work	An attempt is made to blame the customer ("You didn't read the instruction manual thoroughly")	The customer and employee work together to jointly identify the problem/error
A customer complains about an invoice amount being too high	Other departments are blamed ("That's not my fault, the error happened during order processing")	The complaint is accepted and rapid processing assured ("Thank you very much for your complaint, I will look into it right away")
A customer complains over the telephone	The customer is referred on/put off ("I can't help you any further. Please send me the compliant in writing.")	The complaint is accepted and a resolution promised, together with the request to submit any additional documents
	The customer is fobbed off ("The colleague in charge is not answering. Call back another time.")	

Actively communicating the complaint channels is therefore a decisive factor in effective complaint management. Complaint stimulation can and should also be a component of personal discussions/telephone calls or written surveys.

Lastly, when designing the complaint management system, decisions also need to be made about the *complaint receipt* process. This involves

- Formulating codes of conduct,
- Defining the information to be collected, and
- Specifying how the information should be collected.

Many companies behave incorrectly when receiving complaints. Table 19.2 presents a number of selected situations with negative and positive examples of conduct.

To encourage positive behavior, *codes of conduct* for receiving complaints are indispensable. Some basic recommendations can be made with regard to employee conduct when receiving a complaint:

- Show understanding of the customer's annoyance and interest in his situation!
- Listen actively!
- Be friendly and stop the discussion from escalating!
- Avoid attaching blame to the customer!
- Avoid shifting responsibility to other people/departments in the company!
- Make binding and precise statements about the next steps in the procedure!

The second decision concerns defining the information that needs to be recorded when receiving complaints. This includes information about

- Keys for identifying the complaint (e.g. customer number),
- The complainant (name, address, type (e.g. end customer or retailer)),
- The time and the medium of the complaint,

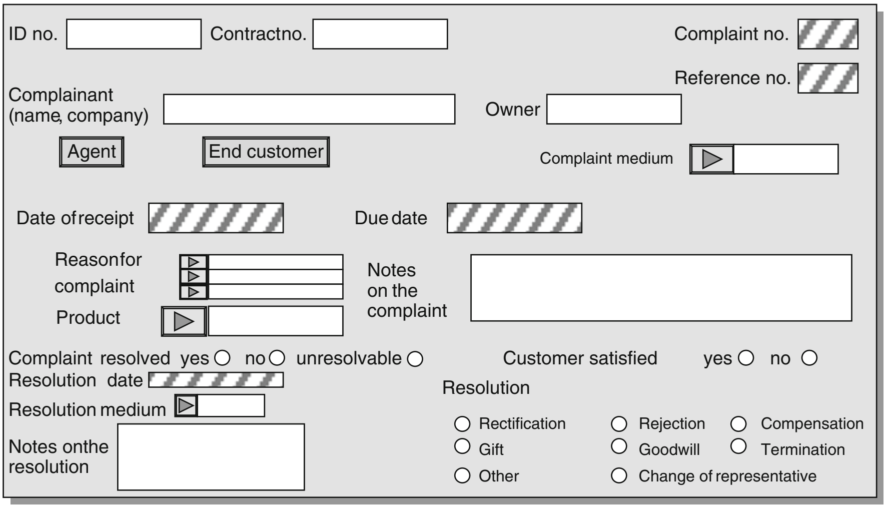


Fig. 19.7 Input screen for a complaint management system, using the example of an insurance policy

- The reason for the complaint,
- Promises/assurances made to the customer,
- The complaint owner (name, department),
- The intended resolution time, and
- The intended and, if applicable, the implemented resolution (resolution date, resolution medium, type of resolution, additional notes with respect to the resolution).

There are now a number of standard programs for *data collection* in complaint management, which can also be adapted to individual needs. Of course, a company can also develop and program its own solutions. Figure 19.7 shows a simple example of an input screen.

The fifth decision area concerns *complaint processing*. With regard to complaint processing, principles related to the temporal and qualitative processing of complaints, in particular, need to be defined.

Periods of between two and five working days between complaint receipt and resolution are usually defined. These periods are frequently unrealistic, particularly if the complaints are complex. Intermediate replies, in which receipt of the complaint is confirmed and speedy processing promised, represent one solution. If the defined deadlines have expired, a reminder and escalation system needs to be considered. This can be designed so that the system sends the complaint owner a reminder if there is an overrun of 1 day, and automatically sends his superior a message if there is a further overrun of 1 day.

High-quality processing is, of course, absolutely essential if an increase in customer retention, as initially described, is to be achieved. Quality here refers to several aspects:

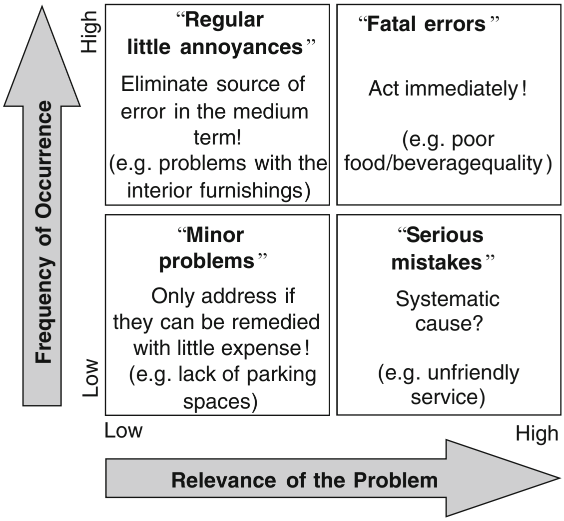


Fig. 19.8 Classifying reasons for complaint with the aid of the frequency-relevance analysis, using the example of a restaurant (see Homburg and Fürst 2003)

- Removal of the causes (and not the symptoms) that led to the complaint,
- Appropriate conduct towards the customer,
- If applicable, explanation of the cause of the problem, and
- If applicable, appropriate customer compensation.

The decision areas presented up to now relate to dealing with dissatisfied customers. The two decision areas of "complaint analysis" and "performance review" have more of an internal perspective, i.e. they are aimed at actively using the information generated during complaint management.

Companies can use *complaint analysis* to identify systematic problems in the service provision process and in customer interaction, and eliminate them in the long term. However, many companies hardly ever utilize this rich source of information. Often, simple frequency analyses (e.g. frequency of complaints according to product (groups)) or cross-tabulations (of, say, reasons for complaints and complainants) provide interesting findings.

A further form of complaint analysis is the *frequency-relevance analysis*. This method classifies reasons for complaint based on the frequency with which they occur and the degree of customer annoyance (relevance) that they cause. Figure 19.8 illustrates this using a restaurant chain (see Homburg and Fürst 2003b).

Frequently occurring reasons for complaint indicate systematic problems in the company. The problem underlying the complaints therefore cannot be coincidental in nature. Rather, there must be fundamental deficits in, e.g., customer-related processes or products that annoy customers repeatedly. Such deficits – particularly if they have high relevance – must be immediately remedied.

Problems that rarely occur may be due to coincidences or concatenations of unfortunate events. They are not usually based on a systematic problem that could

Table 19.3 Example aspects of the performance review in complaint management

Contents of the performance review	Example aspects
Quality of complaint management	Satisfaction of the customers, e.g. with the complaint receipt process and the complaint resolution
	Complaint articulation (articulation rate = proportion of complaining customers in relation to the number of dissatisfied customers)
	Correctness in addressing the customer complaints
	Correctness in forwarding customer complaints
	Completeness of the information collected
	Duration of complaint processing/wait times for complaints
	Percentage of immediately resolved complaints ("first time mended")
	Development of the customer relationship following the complaint resolution
Complaint management costs	Costs of personnel related to complaint management
	Administrative costs related to complaint management
	Communication costs arising within the scope of complaint stimulation and complaint processing (e.g. telephone, postage)
	Compensation costs
	Warranty costs
Benefits of complaint management	Changes in customer attitude, e.g. customer satisfaction, active recommendation
	Revenue increases, e.g. through repurchases, cross-selling and references

be eliminated in order to avoid future complaints. In light of this fact, companies can at best try to be prepared for rare "catastrophes" in the future and, in the event of damage, react as quickly and straightforwardly as possible to the customers' complaints.

The *performance review* – the seventh decision area in designing complaint management – aims at determining relevant data with respect to the efficiency and effectiveness of the complaint management system in itself. The performance review should not only be used to assess the costs and benefit, but also the quality of individual subprocesses in complaint management. Table 19.3 lists example aspects.

The *IT implementation* element is connected with the previous design-related decisions. Complaint management needs to be integrated into the company's information systems. On one hand, the complaint management process generates large amounts of information and, on the other hand, the employees/program must be able to access information held by other subsystems, such as the address management module. When designing the complaint management system, it is therefore advisable to involve employees from the IT department at an early stage. In principle, all of the requirements for information systems mentioned in Chap. 11 (user friendliness, etc.) also apply to complaint management systems. In addition, IT implementation focuses, for example, on whether certain complaint management rules are automatically applied by the system (e.g. automatic reminder and escalation system).

With respect to the IT implementation, we have often encountered two barriers: First, some companies resile from the IT implementation of complaint management concepts, since they are concerned about high costs that only create benefits in the medium term. Second, the IT implementation takes time – time that companies with acute complaint management problems, in particular, do not have. A possible remedy for such problems is rapid implementation – prior to the IT implementation – of a "complaint management starter package", which guarantees initial help in the short term. For example, customers can be informed, in the short term, about ways of submitting complaints even without an IT framework. Employees can be informed about the importance of complaint management at a very early stage and equipped with initial complaint management tools (e.g. checklist-type complaint forms for manual entry of complaints or letter templates for interim replies to customers).

Smooth implementation and application of a complaint management system does not therefore happen overnight. Rather, it is the result of an employee learning process. Many employees do not see complaints as an opportunity, but as a personal criticism or even a personal attack. Complaint management is then seen primarily as a monitoring tool used by management. Moreover, many company cultures do not tolerate errors. In such cultures, employees tend to cover up or deny mistakes that they or others have committed. Therefore, systematic work on employee attitudes, *attitude management*, is a central component of complaint management. This, of course, raises the basic question of whether it is even possible to influence and change people's attitudes at all. Nowadays, it is known that this is possible in principle, but that such processes are costly and laborious (see Homburg and Stock 2000). Constructive employee attitudes towards complaints can mainly be encouraged by four mechanisms:

- Motivating employees (e.g. through tangible/intangible recognition of special performance or achievements in complaint handling, motivation workshops),
- Leadership behavior (e.g. ongoing and visible commitment to complaint handling on the part of management),
- Enabling employees to process negative experiences in customer contact constructively (e.g. through systematic management of personal reserves, supported by the superior), as well as
- Developing particular personality traits (e.g. empathy, sociability, etc.).

The systematically influencing the attitudes of employees is based on complex and long-term processes. More than superficial behavior training is involved: Attitudes are more deeply entrenched in the personality than behavioral patterns. However, this means, on the other hand, that once changes in attitude have been realized, they are more lasting than trained behavioral changes. The techniques we have addressed are presented in detail in Homburg and Stock (2000, Chap. 3).

This chapter examined classic customer retention tools that are also found in the private customer sector. We will now turn our attention to key account management – an approach that is particularly widespread in the corporate customer sector.

Key Account Management: The Close Cooperation with Important Customers

20

Key account management (KAM) was originally developed in the industrial goods sector and is used today across all sectors and in virtually all major companies. In KAM, employees are assigned to a company's most important customers (the key accounts). The task of these key account managers is to devise special cross-regional and cross-product range strategies for developing their customers. The results of an empirical study which was conducted in nearly 400 companies in a wide variety of sectors in Germany and the USA (see Jensen 2004) show how important professional KAM is. A comparison of companies with effective or less effective KAM revealed significant differences in returns on sales (average return on sales of 7.1% vs. 5.4% in Germany and 10.7% vs. 9.8% in the USA).

KAM can best be characterized by answering five central questions (see Fig. 20.1, Homburg and Jensen 2004).

A company must first define *which customers* KAM should be set up for. There are various criteria for selecting the key accounts (see Fig. 20.2).

A company can, for example, automatically grant key account status to those customers that largely meet the criteria in the left-hand section of Fig. 20.2 ("pro-active criteria"). The customer portfolio, for example, can provide criteria for identifying these customers (see Chap. 12). If a customer is particularly important to a company due to his current sales revenue with that company (economic importance) or due to his cross-selling potential (economic potential), key account status and the associated "preferential treatment" may make perfect sense.

If an important customer demands this status or if there are problems in developing this customer without KAM ("reactive criteria"), a company is sometimes forced to classify the customer as a key account. Developing the customer without KAM may, for example, become problematic if the customer is very complex (e.g. with many company locations or lines of business) or if he has centralized purchasing. In these cases, a manager – the key account manager – is generally needed to coordinate the various activities in relation to the key account.

Frequently, three potential target groups for key account management can be identified: The first group contains the "really big" customers, who are critical for the supplier's success due to their sales revenue volume or potential. The second

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_20, © Springer-Verlag Berlin Heidelberg 2012

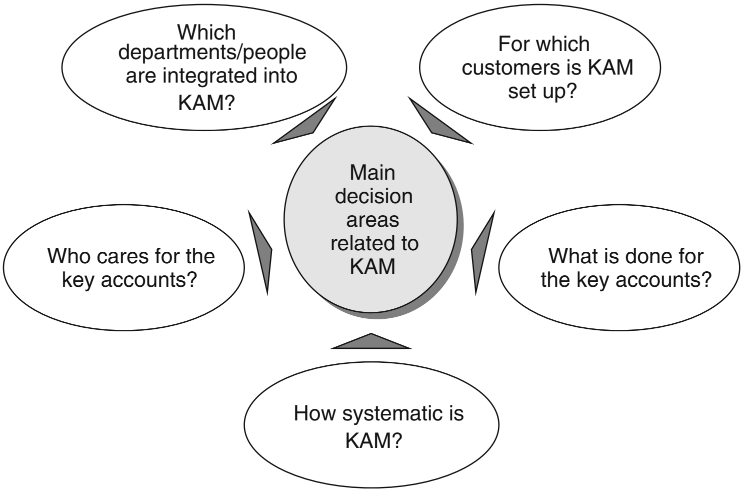


Fig. 20.1 Decision areas in key account management

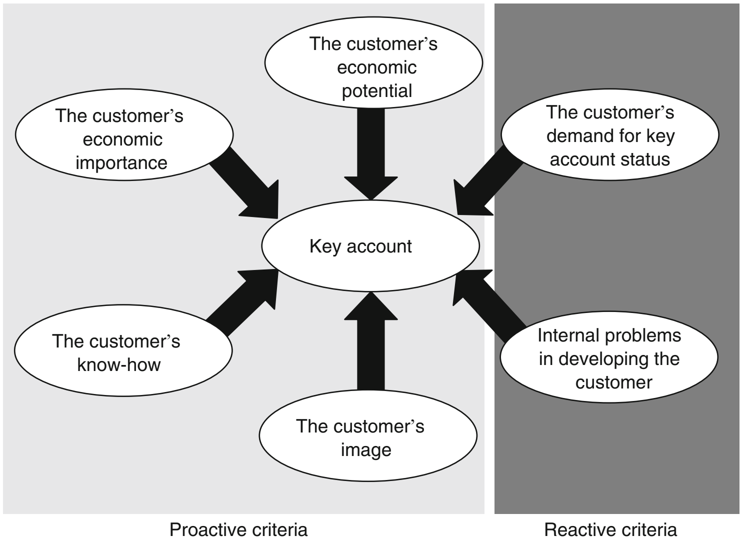


Fig. 20.2 Criteria for selecting key accounts

group comprises customers who are smaller in terms of sales revenues, but strategically important. Such customers can play a special role due to their innovation potential (know-how) or their function as reference customers (image). Lastly, a third group is also conceivable: the customers of the customers. A packaging manufacturer does not only have key accounts among the beverage manufacturers – his direct customers – but also in the retail trade, even though he does not sell directly to retail. Certain retailers, however, have the power to influence the manufacturer's packaging design. Which customers are accorded key account status depends, of course, on the individual case. Nevertheless, a general guideline is that these customers should represent an especially critical success factor for the company – either from an economic or a strategic standpoint.

To answer the question of *what* is done for key accounts, let us turn our attention to the *activities within the scope of KAM*. In principle, a company can configure any market development component especially for key accounts. In addition, there are a number of internal measures that arise in the context of KAM, including the following fields of activity:

- Information-related activities,
- Logistical activities,
- Price-related activities,
- Service-related activities,
- Product-related activities,
- Joint market development activities, and
- Internal measures.

Information-related activities involve, in particular, exchanging information with the customer. KAM implies constant contact with the customer – formally in the course of official projects, but also informally, e.g. through invitations to trade shows or other events. An intensive exchange of information enables a company to determine the customer's current and future needs or acquire valuable information about its own potential for improvement. However, information-related activities also include the coordination of production plans and adaptation of IT systems.

Logistical activities aim at optimizing the entire process, from production and ordering of goods up to delivery, in tandem with the key account. In the context of *price-related activities*, fundamental decisions about the price strategy for key accounts need to be made and existing terms and conditions systems or financing offerings adapted for key accounts. One of the main tasks of key account management is to negotiate and implement prices – e.g. in annual discussions.

Within the scope of *service-related activities*, additional services are designed for key accounts, consisting of, for example, extensive operator services or marketing-related consultancy services (e.g. general market research, placement and product range proposals for retailers).

Product-related activities primarily comprise adapting products to customer requests with regard to design, packaging or application technology. However, joint development of new products is also a key task here.

One empirical study found that there is a greater focus on price-related activities in KAM than in the development of average customers (see Jensen 2004). Such price-related activities dominate KAM in the consumer goods sector and in the IT/electronics sector, in particular. In the chemicals and pharmaceuticals sector, on the other hand, product-related activities play a prominent role in KAM. Interesting in this connection is the question of who triggers the activities in KAM: The supplier generally initiates activities in the service area or those connected to the

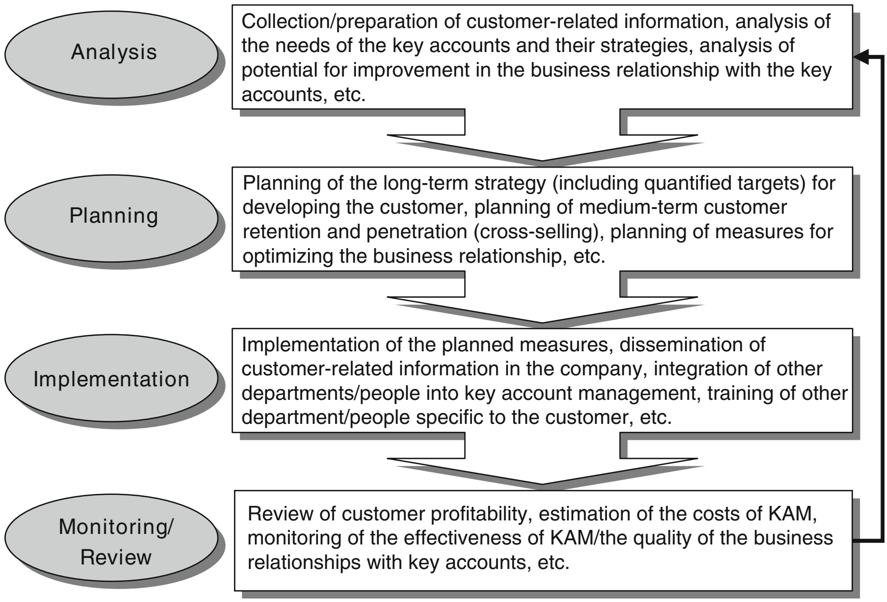


Fig. 20.3 Key account management as a process

exchange of information, while customers tend to instigate activities related to price and logistics.

Activities relating to *joint market development* are geared to the customers of the key account. For example, joint advertising or sales promotion measures can be implemented.

Internal measures may include training employees with respect to cooperation with a special key account. They may also take the form of collecting and analyzing special key account-related information (e.g. customer-related profitability analysis). In his study, Jensen (2001a) was able to demonstrate that a key account manager, on average, only spends half of his time on customer contact, using the other half for such internal coordination measures.

Internal measures are closely connected to the question of *how systematically* something is done for key accounts. Systematic KAM involves several steps in a continuous process (see Fig. 20.3). Our observations in many companies show that KAM ties up considerable resources, without being correspondingly systematized. In particular, systematic performance reviews are often not conducted. Of course, key account managers need a high degree of intuition to perform their tasks. However, we can only speak of excellent sales management if intuition in KAM is also supported by corresponding systematicity.

The basis for *analyzing the key account* is comprehensive information, e.g., about the key account's needs, cross-selling potential, market development or general optimization potentials in the business relationship. One of the tasks of KAM is to collect this information, evaluate it and document the results.

The next step is to include these results in the *planning* of customer-related activities (see Diller and Götz 1993). Our observations reveal that many companies have considerable shortcomings precisely in this area. Often, key accounts are "simply there" and attended to in some form or another. However, it is completely unclear how far the company would like to take the development of these customers in the long term. Excellent key account management, on the other hand, pinpoints the long-term (quantified) objectives, targets and development directions of the business relationship. The measures to be used for developing the customer also have to be defined in the planning. These may, for example, include special sales promotion campaigns, joint market research or rationalization measures in logistics.

The next step is used to *implement* the planned measures. In addition to interaction with the key account, the tasks of key account management include disseminating customer-related information in the company, training employees with respect to the customer and integrating other departments (e.g. logistics or the IT department) into the project work.

Implementation of the planned measures is followed by *monitoring* and *review*. Our experience shows that many companies have considerable weaknesses in this area. While some companies at least regularly monitor satisfaction, sales revenue or contribution margin trends for their key accounts, very few analyze the profitability of KAM as such. Companies frequently focus exclusively on customer-specific discounts and incentives. The costs of the additionally rendered services, the complexity costs of key account specific product variants or the amount of time spent on key account support are rarely measured. Without such detailed cost-benefit analyses, however, a company quickly runs the risk of "sugarcoating" KAM, "because that's the way the customer wants it."

The question of support for key accounts *(who does it?)* is initially aimed at the qualifications and skills of the key account manager. Key accounts are not managed decentrally by the "normal" field sales force, but rather centrally by key account managers, who coordinate all the activities relating to the key account and who have the relevant expertise. Key account managers are generally employees with many years of sales experience, who are characterized by a high degree of professional and relationship competence as well as confidence in dealing with managers. Simply appointing "good salespeople" as key account managers can be problematic. Successful key account managers have experience in various functional areas and an above-average ability to think analytically and strategically. In many smaller companies, KAM is even undertaken by top management itself.

Nowadays, it is almost impossible for an individual key account manager to meet the high demands of customers without the support of experts from other departments. Therefore, *multifunctional sales teams*, in which employees from different functional areas (e.g. sales, controlling, logistics or IT) jointly devise solutions for the key accounts, are becoming more and more common (see Chap. 7). Leading such teams poses a multifaceted challenge for the key account manager: First, he must assemble a team that possesses the necessary expertise, corresponding motivation and *esprit de corps*. Moreover, the key account manager must grant the

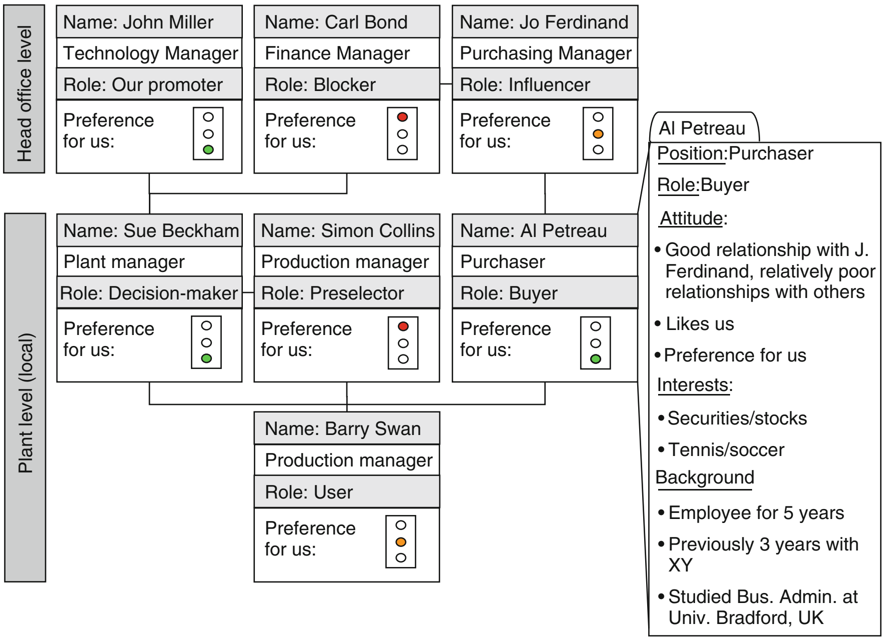


Fig. 20.4 Example of a buying center organizational chart (Source: Prof. Homburg and Partners)

team members a sufficient degree of freedom, while simultaneously underpinning his claim to leadership (particularly in customer contact). Finally, it is crucial for the key account manager to ensure that there is "extensive organizational dovetailing" between his team and the customers, i.e. he should encourage various contacts between team members and customer employees, since the existence of personal relationships within functional areas (e.g. between logistics experts in the team and customer controllers) or across functional areas (e.g. between IT experts in the team and customer controllers) can significantly stabilize the overall relationship between supplier and customer.

The first prerequisite for such "extensive dovetailing" is that all individuals involved in the customer's decision-making process (the "buying center", see also Sect. 12.1) and their roles are systematically identified, recorded and characterized.

Figure 20.4 contains an example of a buying center organizational chart, which can make it easier for members of the sales team to establish contact with customer employees. In addition to the main structure of the buying center, this kind of organizational chart can also contain more detailed information about individual employees, such as their attitudes towards the supplier, personal interests or their previous professional background.

Another tool that helps the key account manager encourage contact between the team and customer employees is the *KAM contact matrix* (see Fig. 20.5).

It facilitates the systematic analysis of the relationships between the members of the sales team and customer employees by recording the communicating persons,

Customer contact person			Contact channel	Our contact person		Total number of personal contacts p.a. (actual / target)	Primary contact topics
Name	Function	Influence rating		Name	Function		
Dr. Bohm	Management	10		Dr. Brandt	Key account manager	40 / 60	Terms and conditions, new products, quality issues ...
Mr. Meier	Purchasing	9		Mr. Albers	Market research	2 / 12	Market launch ...
Mr. Frank	Controlling	5		Mr. Ebers	Product manage-ment	5 / 12	Market launch, product profitability...
Ms. Volker	Logistics	4		Ms. Dötsch	Logistics	24 / 8	Logistics problems...
Ms. Hecht	IT	3		Mr. Bär	IT	20 / 2	EDI project...

Fig. 20.5 Example of a KAM contact matrix

the contact channels, the number of contacts per team member as well as the topics discussed during the times of contact. The analysis based on it allows conclusions to be drawn about, e.g., optimization potential in the team's communicative behavior or unresolved operational problems.

Now that we have explained the essential decision areas of KAM, we should present the key rules for success. These are based on practical experience as well as on scientific studies (see Jensen 2001a; Workman et al. 2000; Homburg and Jensen 2004):

- Undertake KAM proactively, instead of always just "panting after" the demands of your major customers! Proactivity refers both to the selection of the key accounts and to initiating measures in the cooperation.
- Make sure that KAM is carried out systematically (from analysis of the key accounts and clear definition of targets up to the performance review), but do not over-formalize it!
- Use key account managers who have experience in other functional areas (e.g. marketing, controlling, logistics, and technology)! Not every good salesperson makes a good key account manager.
- Use key account managers with strong personalities who demonstrate persistence and assertiveness in the company! A high degree of social competence is also a central prerequisite for ensuring the success of key account managers.
- Use key account managers with extensive professional competence (e.g. business knowledge or technical knowledge)!
- Make sure that the key account managers in the company can access the resources required to fulfill the task! This is particularly important with regard to divisions over which the key account manager does not have direct line authority (e.g. regional sales units, logistics, product management, service).

- Ensure that the remuneration system for key account managers is strongly performance-based! Performance here must be defined using customer-related success factors (e.g. customer profitability).
- Work towards a distinctive team spirit among the employees responsible for attending to key accounts! You can encourage this, for example, by selecting team players, organizing team events and providing team incentives.
- Make sure that key account managers are integrated into customer-related processes that are upstream and downstream of purchasing. If 80 % of the key account manager's customer contact relates to the purchaser, he has a problem.
- Ensure that the key account managers have the support of top management and that top management itself is appropriately involved in KAM activities!

Very intensive forms of key account management can entail extensive process integration between supplier and customer. In the industrial goods sector, for example, this is referred to as *just-in-time cooperation* (JIT). In the consumer goods sector, the co-operation between retail and manufacturer has become known under the term *efficient consumer response* (ECR).

ECR is a strategic cooperation initiative between the retailer and manufacturer that serves to optimize the entire value-added chain from the manufacturer to the customer (see von der Heydt 1999). It is based on a trusting cooperation and the exchange of information. The goal is to eliminate interface problems between manufacturer and retailer. Ultimately, the intention is to increase customer satisfaction by fulfilling customer requirements better, faster and more cost-effectively. ECR consists of two areas of cooperation:

- Cooperation in logistics (supply chain management) and
- Cooperation in marketing (category management).

The cooperation in *logistics* (supply chain management) aims to optimize the flow of physical goods from the manufacturer to the end customer and to simplify the administrative processes associated with order and purchase order processing (see Arnold and Warzog 2001; Pfohl 2000). Efficient administration, for example, should prevent multiple entries of data by exchanging it electronically (e.g. via EDI). Efficient warehouse replenishment, for example, lets manufacturers manage the warehouse inventories of their intermediaries (vendor-managed inventory).

Cooperative marketing (category management) coordinates the product range selection, sales promotion, as well as the product development and product launch. Efficient sales promotion comprises, for example, joint store-specific planning of sales promotion campaigns or joint evaluation of the results of such campaigns (see also Zentes and Swoboda 2001). Supply chain management thus primarily aims at reducing delivery and storage costs, while category management strives to increase sales revenues. Figure 20.6 provides a further summary of the different areas of cooperation.

With the push principle that has prevailed up to now in the consumer goods sector, products were "pushed" by the manufacturer's sales organization into the sales channel. Within the scope of ECR, the "pull of customer behavior" (pull principle) is supposed to control the entire value-added chain up to the manufacturer's production. To this end, scanner cash registers are used in retail to enter up-to-the-minute

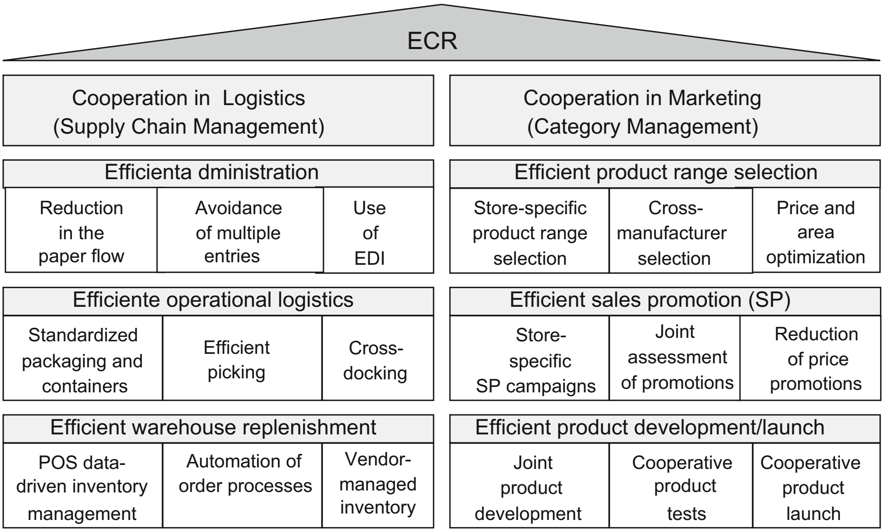


Fig. 20.6 Overview of the areas of co-operation within ECR

sales data, which is then passed on to the manufacturer, who can use it to control his production and delivery. Both manufacturers and retailers thus obtain valuable information – e.g. for compiling product ranges.

An empirical study found that the main goal of ECR lies in the utilization of savings potentials (see Homburg et al. 1996b). The stronger orientation towards customer needs, on the other hand, is of less significance. The distribution of savings between the manufacturer and retailer is also seen as the area with the greatest conflict potential. If the study's findings are followed, the success of ECR cooperation stands and falls with the openness in the exchange of information, the trust between the partners, the quality of the information technology, the cultural change in the cooperation and the cross-functional cooperation. A glance at company practice shows that many manufacturers and retailers in the consumer goods sector are, however, still a long way away from this.

21 Relationship Modeling: The Business Relationship Firmly Under Control

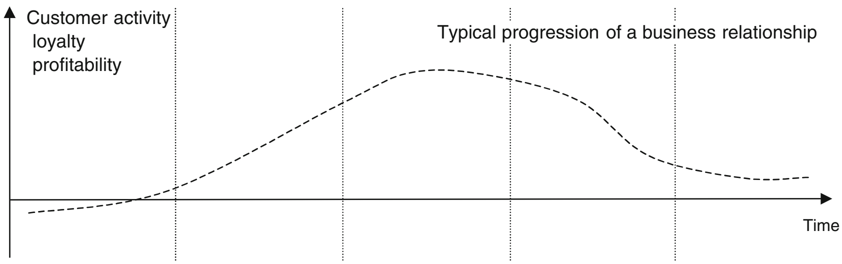
In Chap. 17, we pointed out that business relationships – not unlike products – frequently undergo a kind of "life cycle" (see Dwyer et al. 1987). A customer's activity level and profitability typically increase upon commencement of the business relationship, reach a maximum during the business relationship, and frequently drop off again towards the end of the business relationship. Accordingly, customer development objectives and measures can vary depending on the phases (see Fig. 21.1).

Figure 21.1 illustrates the typical progression of a business relationship. Of course, actual progressions for individual customers differ from this pattern; often, however, companies can identify certain patterns, at least at the customer segment level. A supplier of life insurance policies, for example, expects insurance brokers that he has acquired – his direct customers – to sell the first insurance policies to private end customers about 3 months after their acquisition. If these sales do not materialize, it represents a negative deviation from the "normal" business relationship development.

Unfortunately, most suppliers are not aware of either the typical progressions for their customer segments or the actual ones. Rather, there is generally a high degree of uncertainty about why customers behave in a certain way at a certain time. The customer's behavior is a "black box". Companies can then only react – if at all – to negative deviations from the pattern, such as drops in sales revenue due to the customer's slow defection, when it is too late (for more information about customer reacquisition, see Homburg and Schäfer 1999; Sieben 2002; Stauss 2008).

If, on the other hand, a company is able to use market research or existing customer data to model the expected progression of a business relationship, planning reliability thereby increases, e.g. in capacity planning in production or sales, liquidity planning, or when prioritizing acquisition of new customers over the maintenance of existing ones. In addition, knowledge about the progression of the business relationship can be used to derive potential *contact points* between the company and customer. At these contact points, the supplier can or must intervene in the progression of the business relationship, in order, for example, to kickstart, stabilize or extend the relationship.

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2_21,



Prior to the business relationship	Start of the business relationship	During the business relationship	At the end of the business relationship	After the business relationship
Objective of customer development				
Selection/Acquisition	Establishment	Retention	Safeguarding	Reacquisiton
Measures				
• Information and communication • Targeted, personalized approach	• Information • Confirmation of purchase decisions • Cross-selling	• Customer retention management • Cross-selling	• Creation/ safeguarding of exit barriers • Reactivation of customers	• Reacquisition management • Conveying appreciation

Fig. 21.1 Typical progression of a business relationship (According to Homburg and Sieben 2000; Sieben 2003)

There are many indicators of the existence of such contact points. In principle, a differentiation can be made between

- Indicators of the "normal" progression of a business relationship and
- Indicators of unusual developments in a business relationship.

Indicators of the "normal" progression of a business relationship are generally known by the supplier beforehand. Examples include the first delivery, the customer's use of services, or the expiration of the contract. Many cell phone companies, e.g., have defined a contact point, about 2 months before the regular expiration of the contract, at which the customer should be inspired to renew his relationship with the supplier. The goal of contacting the customer before the contract expires is to prevent the customer from going to search for competitor offerings.

Indicators of unusual developments ("warning signals") point to deviations from the usual progression of the business relationship. If, for example, the expected sales revenues fail to materialize after commencement of the business relationship or if the customer's apparent needs change (e.g. due to company mergers or the marriage of private customers), the supplier needs to take action to stabilize or restructure the business relationship. Table 21.1 provides a compilation of indicators of normal and unusual developments in business relationships.

These indicators can be used in different ways. If a *proactive* approach is being taken with regard to the customer, identified contact points in the business

Table 21.1 Indicators of normal and unusual developments in business relationships

	Phase				
Causes	Prior to the business relationship	Upon commencement of the business relationship	During the business relationship	At the end of the business relationship	After the business relationship
Indicators of normal developments	Customer inquiry	Sales pitch	Customer birthday/anniversary	Expiration of contract	Receipt of termination
	Initial contact	Contract conclusion	Anniversary of the business relationship	Time of repurchase	
		Receipt of the first delivery	Customer inquiries in respect of additional products		
			Use of services (maintenance, training, etc.)		
			Satisfaction analysis		
Indicators of unusual developments		Absence of expected transactions/sales revenues	Elimination/creation of a need/demand due to changes in the customer's situation	Complaints	Results from analyzing cases of terminations
				Change in the demand fulfillment (e.g. buying from competitor)	
		Exceeding the expected sales revenues	Launch of new products	Business relationship starts "fizzling out"	Resumption of the business relationship
			Personnel changes at corporate customers	Early termination	

relationship will be used systematically to counter potential destabilization of the relationship at an early stage and to further tap into existing potential. Many cell phone companies, for example, deliberately use telephone calls after the start of a contract or before the expiration of a contract, since, apart from the invoice, there are very few formalized contact points in the business relationship. These personal contacts, for example, can also be a hook for a cross-selling discussion.

The *reactive* approach is aimed at reducing the impact of unforeseeable deviations from the actual progression of the business relationship to the ideal-typical one. If complaints from a customer are accumulating and there is a simultaneous drop in sales revenue, the supplier urgently needs to take action to restore the normal relationship status. If, on the other hand, a customer far exceeds the sales

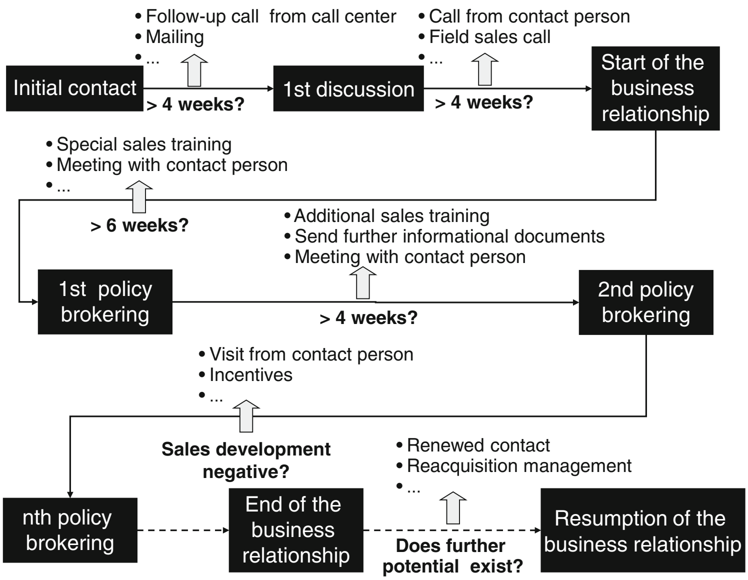


Fig. 21.2 Modeling a business relationship using the example of an insurance company

revenues expected for his segment and his relationship phase, he should be assigned to another segment and developed accordingly.

We can only point out some of the possible contact points in business relationships. There are (hardly) any limits to the imagination of companies when using these options. What is ultimately crucial, however, is not that many contacts should be made with the customer over the entire course of the relationship, but that they should be targeted. It is not about inundating the customer with "declarations of love", but about approaching him at the right time with the right information and offers.

To conclude, let us present the concept of relationship modeling in simplified form, using the example of an insurance company which has modeled the typical business relationship with its independent insurance brokers (see Fig. 21.2). The company first identified the individual contact points in these relationships. For example, an initial discussion about the possibilities of cooperation generally takes place after there has been an initial contact between company and brokers. If a business relationship is established, the first policies can be expected to be brokered after a little while.

Figure 21.2 illustrates this typical progression from the initial contact to the end of the business relationship or its resumption. For the temporal sequence of these contact points, lengths of time that were considered to be "normal" were estimated based on experience. In the event that these lengths of time were exceeded, measures designed to restore the "normal" progression of the business relationship were devised (e.g. special sales training or personal meetings between the agent and the customer representative from the company). Furthermore, based on consideration of the broker's potential, a typical sales progression was calculated, with which the actual sales progressions are regularly compared. In the event of negative sales developments, countermeasures were likewise identified.

21.1 Checklist for Part V: Customer Relationship Management: Staying on the Ball!

The company ... (Criterion no..)	Very true (100)	True to a large extent (75)	Some what true (50)	Some what false (25)	Not true at all (0)	Criteri on is irrelev ant	Rating-based on… (Docu-mentary evi-dence for the assess-ment)
17. The Sales Personality – Of Know-it-Alls, Socializers and Allrounders							
... employs sales representatives who enjoy contact with customers. (IV-1)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who always approach their tasks with a healthy dose of optimism. (IV-2)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who have a high degree of empathy (i.e. can put themselves in the customer's situa-tion, take the customer's perspective, etc.). (IV-3)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who have a healthy self-esteem (i.e. radiate competence, are convinced of their abil-ities, etc.). (IV-4)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who are competent in verbal communication (i.e. express themselves simply and precise-ly and can ask well-directed questions, etc.). (IV-5)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who actively listen to the customer. (IV-6)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who have a command of non-verbal com-munication (i.e. can consciously use body language and perceive signals in the dialog partner's body language, etc.). (IV-7)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who are always friendly to the customers. (IV-8)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who are flexible (i.e. can attune themselves and their sales behavior to different custom-er types and situations). (IV-9)	❑	❑	❑	❑	❑	❑	
... employs sale representatives who are team players (i.e. can fit in to teams, enjoy teamwork, etc.). (IV-10)	❑	❑	❑	❑	❑	❑	
... employs sales representatives who can organize themselves well (time man-agement, setting priorities, filing sys-tems, etc.). (IV-11)	❑	❑	❑	❑	❑	❑	

... employs sale representatives who have extensive product knowledge (both their own and competitor products). (IV-12)	❑	❑	❑	❑	❑	❑	
... employs sale representatives who know their customers very well and understand them (i.e. their needs, value-added processes, product use). (IV-13)	❑	❑	❑	❑	❑	❑	
... employs sale representatives who have extensive market knowledge (i.e. about their own company's position or market trends). (IV-14)	❑	❑	❑	❑	❑	❑	
... employs sale representatives who have solid business knowledge (i.e. can assess the cost impact of decisions, know their own company's cost structures, etc.). (IV-15)	❑	❑	❑	❑	❑	❑	
... employs sale representatives who can organize the sales process successfully and can adjust to any customer, based on their extensive experiences. (IV-16)	❑	❑	❑	❑	❑	❑	
18. Rounding Off Relationship Management – Trade Shows, Call Centers, Internet							
... plans trade shows systematically (i.e. selection of the trade shows,determination of the overallbudget for trade shows,etc.). (IV-17)	❑	❑	❑	❑	❑	❑	
... formulates precise, quantified targets for every trade show. (IV-18)	❑	❑	❑	❑	❑	❑	
... monitors achievement of the trade show targets. (IV-19)	❑	❑	❑	❑	❑	❑	
... has clearly defined the tasks of a call center. (IV-20)	❑	❑	❑	❑	❑	❑	
... has made the resources required to fulfill the tasks available to the call center (e.g. technical equipment, number of employees). (IV-21)	❑	❑	❑	❑	❑	❑	
... only deploys suitably qualified employees in the call center. (IV-22)	❑	❑	❑	❑	❑	❑	
... has thoroughly considered all aspects before deciding whether the call center should be operated internally or by an external service provider. (IV-23)	❑	❑	❑	❑	❑	❑	
... has clearly defined who in the company is responsible for the smooth flow of the call center-supported activities. (IV-24)	❑	❑	❑	❑	❑	❑	
... has precisely defined what functions the Internet presence should primarily lfill (e.g. information, transaction or customer retention function). (IV-25)	❑	❑	❑	❑	❑	❑	

... has precisely defined what types of web sites it wants to be present on (e.g. community sites, electronic malls, search engines). (IV-26)	❑	❑	❑	❑	❑	❑	
... only appears on professionally designed and user-friendly web pages. (IV-27)	❑	❑	❑	❑	❑	❑	
... ensures the smooth flow of the necessary logistics processes for transactions over the Internet. (IV-28)	❑	❑	❑	❑	❑	❑	
19. Customer Retention Management - Making the Customer a "Fan"							
... bases its deployment of customer retention tools (e.g. customer clubs, cards, magazines) on the value that the customers have for the company (focusing, instead of the principle of giving everybody an equal share). (IV-29)	❑	❑	❑	❑	❑	❑	
... regularly and systematically monitors the success (effectiveness and efficiency) of deploying customer retention tools (e.g. customer clubs, cards, magazines). (IV-30)	❑	❑	❑	❑	❑	❑	
... has systematically defined which value-added services to offer to which customers. (IV-31)	❑	❑	❑	❑	❑	❑	
... actively markets its product-related services. (IV-32)	❑	❑	❑	❑	❑	❑	
... informs its customers of the monetary benefit and costs of services and actively pursues the sale (as opposed to the “donation”) of services. (IV-33)	❑	❑	❑	❑	❑	❑	
... has a culture in which service orientation plays a major role. (IV-34)	❑	❑	❑	❑	❑	❑	
... deploys highly qualified employees in the service division. (IV-35)	❑	❑	❑	❑	❑	❑	
... rewards service orientation by means of incentive systems. (IV-36)	❑	❑	❑	❑	❑	❑	
... regularly monitors the profitability of services. (IV-37)	❑	❑	❑	❑	❑	❑	
... uses suitable quality measurement and management tools in the service division. (IV-38)	❑	❑	❑	❑	❑	❑	
... has clearly defined the responsibility for providing services in the company. (IV-39)	❑	❑	❑	❑	❑	❑	
... works with a company-wide, standard, non-restrictive definition of what a complaintis. (IV-40)	❑	❑	❑	❑	❑	❑	

... has clearly defined how to receive and process complaints in the company. (IV-41)	❑	❑	❑	❑	❑	❑	
... has clearly defined who is responsible for resolving a complaint. (IV-42)	❑	❑	❑	❑	❑	❑	
... ensures that employees have a constructive attitude towards dealing with complaints. (IV-43)	❑	❑	❑	❑	❑	❑	
20. Key Account Management – The Close Cooperation with Important Customers							
... carries out proactive KAM (e.g. selection of key accounts and initiation of cooperation measures). (IV-44)	❑	❑	❑	❑	❑	❑	
... runs the KAM program systematically (i.e. analysis of the key accounts, definition of targets, performance review). (IV-45)	❑	❑	❑	❑	❑	❑	
... deploys key account managers who have experience in other functional areas (e.g. marketing, logistics, technology). (IV-46)	❑	❑	❑	❑	❑	❑	
... deploys key account managers who have strong personalities and a high degree of social competence. (IV-47)	❑	❑	❑	❑	❑	❑	
... deploys key account managers with extensive professional competence (not only sales knowledge). (IV-48)	❑	❑	❑	❑	❑	❑	
... provides key account managers with access to the resources requiredto fulfill their tasks. (IV-49)	❑	❑	❑	❑	❑	❑	
... makes extensive use of performance-based compensation systems for key account managers. (IV-50)	❑	❑	❑	❑	❑	❑	
... ensures that the key account managers have the support of top management. (IV-51)	❑	❑	❑	❑	❑	❑	
21. Relationship Modeling – The Business Relationship Firmly Under Control							
... has analyzed and documented the typical development of a business relationship with a customer. (IV-52)	❑	❑	❑	❑	❑	❑	
... continually monitors the business relationships with respect todeviations from the typical progression. (IV-53)	❑	❑	❑	❑	❑	❑	
... has defined what measures should be used to respond to deviations from the typical progression. (IV-54)	❑	❑	❑	❑	❑	❑	

Epilogue

As the reader set out to read this book, he may well have asked himself the following questions: “What is the current level of excellence in our company’s sales division? And how are we doing compared to other companies?”. Some readers, when faced with the numerous problematic areas we have outlined in the book, may argue that actual practice “simply can’t be as bad as all that”.

While our wish would be, of course, for every company to have as high a level of sales professionalism as possible, our experiences in many practical projects have been on the sobering side. However, in order not to have to rely on our “gut feeling” or individual case studies for our judgments, we conducted a cross-sector empirical study in mid-2001. In this study, more than 260 high-ranking managers with sales responsibilities (sales managers and/or boards of directors/managing directors) critically examined their companies with respect to their sales professionalism (see Homburg et al. 2002). Table E.1 summarizes the results of over 260 Sales Excellence self-assessments.

Although the figures quoted in Table E.1 should be interpreted with caution since they concern subjective self-assessments, they allow a number of general tendencies to be derived. It is generally clear that the managers surveyed have a very skeptical view of their company’s sales professionalism.

An analysis of sales professionalism at the *cross-sector level* reveals that, on average, no Excellence scores of significantly above 70 are achieved in any Sales Ex dimension. Considering the importance that Sales Excellence has on company success (see Sect. 1.5), enormous potential is arguably still being left unexploited here. The scores in the information management (58.4) and customer relationship management (57.1) dimensions are particularly low. While Sect. 1.5 pointed out that, above a certain Excellence level, additional increases in professionalism in these dimensions can only make a slight improvement to company success, the Excellence scores of below 60 provide food for thought.

An analysis *differentiated by sector* indicates, first of all, that the performance of the IT/telecommunications sector, in particular, is above average in all dimensions, while financial service providers (i.e. banks and insurance agencies) and mechanical engineering companies tend to assess themselves as weak in virtually all dimensions. For example, financial service providers have the lowest Excellence score in sales strategy. This is understandable if you analyze the segmentation approaches which are rarely behavior-oriented, the sometimes only rudimentary

C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2, © Springer-Verlag Berlin Heidelberg 2012

Table E.1 Summary of the results of over 260 Sales Excellence self-assessments (Average Excellence scores)

Dimension	Sector: Financial services	IT/Telecom munications	Mechanical engineering	Chemicals industry	Auto motive	Consumer goods	Overall
Sales strategy	65.0	70.4	67.2	68.7	66.6	69.1	67.5
Sales management	65.4	71.8	70.0	72.6	70.7	70.3	69.7
Information management	59.0	59.1	57.2	61.0	58.2	59.2	58.4
Customer relationship management	57.7	62.9	55.2	60.4	52.6	57.2	57.1
Overall Sales Ex score	61.8	66.0	62.4	65.7	62.0	63.9	63.2

customer retention concepts or the relatively unproductive price strategies in retail banking. Financial service providers also have the lowest score in sales management. In view of our numerous discussions with managers from this area, who kept pointing to shortcomings in structural and process organization, personnel management, and sales culture, we can fully understand why this should be the case. The assessments in the information management dimension are critical throughout. It may something come as a surprise to find that the chemicals industry is “a nose ahead” here. We attribute this result to the fact that the business relationships between chemicals companies and their customers are often long-standing and close. The intensive exchange of information that is part of such relationships generally lets suppliers gain a fairly accurate picture of the respective customers, competitors and developments in the market. In contrast, the fact that the IT/telecommunications sector should have the leading position in the area of customer relationship management is relatively unsurprising. After all, it is particularly suppliers from this area that have long been using tools such as call centers, the Internet, complaint management or relationship modeling for customer retention.

Successful sales management has to be systematic – this is one of the core messages of the book. Nevertheless, the findings presented here illustrate how little systematicity many companies have in practice. This book provides a guide to systematic professionalization of sales activities. In view of the range of the topics addressed –from sales channels, e-commerce, performance assessment systems, corporate cultures, customer information systems up to key account management – some readers may well wonder where to begin. Faced by such breadth, some may even be overwhelmed.

We recommend a healthy dose of pragmatism in this connection: Practice shows that the Sales Ex approach is not applied in its full scope in many cases. It is perfectly sensible for a company to first turn its attention to those facets that are presumed to have the most serious deficits. An “analytical overkill” should be avoided at all costs. The adage “It’s better to have an 80% solution in the hand than two 100% solutions in the bush” strikes the core of this philosophy.

Pragmatism is also an important principle when it comes to applying this approach. The Sales Ex approach should supplement the intuition that exists in many companies' sales divisions, but not replace it. It is our hope that the approach, if used in this sense, will help many companies and managers professionalize their sales activities and thus make them future-proof.

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C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2, © Springer-Verlag Berlin Heidelberg 2012

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C. Homburg et al., *Sales Excellence*, Management for Professionals,
DOI 10.1007/978-3-642-29169-2, © Springer-Verlag Berlin Heidelberg 2012