THINK
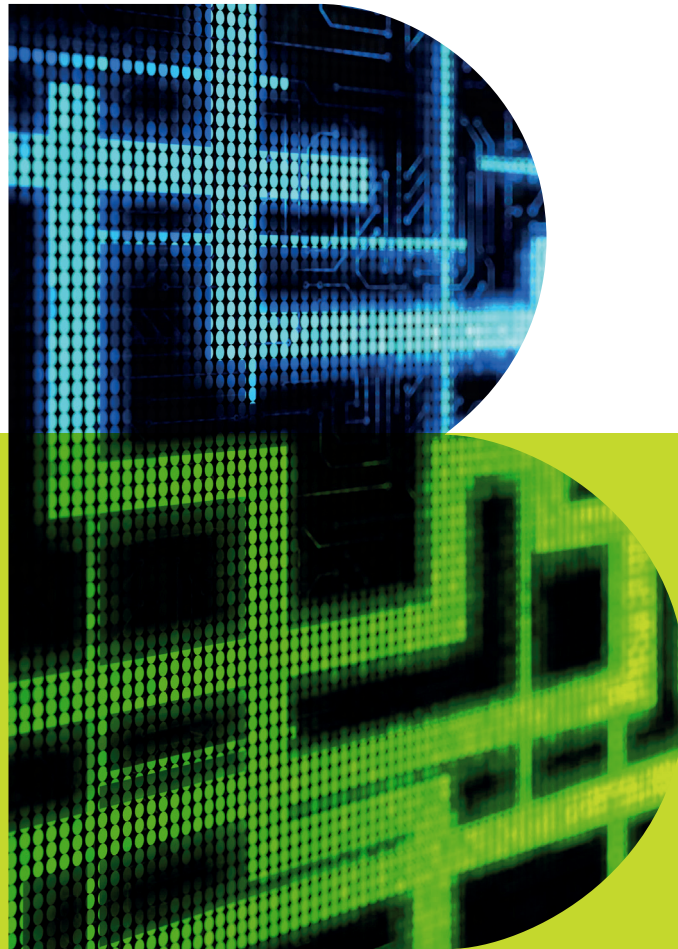# ACT

November 2015

The digital future of B2B sales

How capital goods firms must adapt to their customers' changing demands

Google

Roland Berger

THE BIG

3

60%

of the sales managers we surveyed believe that digitizing the sales organization will be critical to the success of their business.

Page 4

57%

of the B2B purchase process has already been completed before the decision-maker contacts a sales rep for the first time.

Page 6

33%

of the B2B providers examined in our study do not give their customers the option of placing orders online.

Page 8

Digitization is rapidly changing B2B business, but sales is still doing what it has always done. <u>Companies are squandering precious potential.</u>

The digital transformation of capital goods and software (in B2B business) is in full swing. Industry 4.0 is on everyone's lips. What they are talking about is the digital transformation as it relates particularly to products and production processes. New technologies from the virtual realm are being hooked up to traditional production systems in the physical world. Mechanical and plant engineering firms, automotive suppliers and providers of industrial software solutions alike are among those applying themselves to the digitization of value chains. New applications such as predictive maintenance (where machines foresee the need for maintenance before it happens) exploit the benefits of connectivity and help make the entire production process more effective.

Yet the hype surrounding Industry 4.0 should not obscure the fact that the process of digitizing B2B business is still in its early days. In particular, the interface to customers is still being neglected. In many cases, the benefits of product-based innovations never even reach customers, because the corresponding marketing and sales processes have not yet been defined for them. Roland Berger and Google Deutschland recently conducted a survey of 2,745 sales managers at B2B companies to investigate how much progress digitization initiatives have made in sales so far. The responses suggest that some B2B providers underestimate the strategic importance of sales – or are unable to effectively implement the transformation process in their companies. **→ A**

The study primarily examines players in the product and systems business. Most of them are medium-sized companies or autonomous units of larger corporations that post sales of between several million euros and a few billion euros in disciplines such as mechanical engineering, components, process engineering and industrial software. These companies generally sell large volumes of similar products, targeting a wide and, in some cases, anonymous circle of customers. Digitization could yield tangible benefits in their

A

DREAM AND REALITY
B2B providers have recognized the importance of digitization, but remain reluctant to change: The findings of a collaborative Roland Berger/Google study

60%

of respondents believe that digitization will in future be critical to business success in their industry.

"Diversity in sales is on the rise. Without a good web shop, we don't stand a chance."

Quote from a manufacturer
of pneumatic components

"Our key accounts don't want to order online. Having a personal relationship with their sales contact is important to them."

Quote from an electronics and
automation supplier

sales activities, but does not yet do so. They haven't quite come to terms with the new digital era, it seems: What used to be their hardware-centric products have very quickly evolved into integrated solutions that are stuffed full of software. Product and system specialists still tend to see things much more from the technological and product side than from a sales perspective. While many do operate online channels, even these often don't slot neatly into the wider sales organization. Many respondents see digitization as a decisive factor for sales in the long term. It gives firms the chance to establish new contacts with customer companies, share their knowledge and experience of products, and gather information about purchasing and decision-making behavior. The scramble to reap all these benefits has already begun. Failure to change can do lasting damage to a firm's competitive position, because the market environment, customers' requirements and products themselves are continuing to evolve at a dizzying pace.

MARKETS: NEW PLAYERS PUTTING TRADITIONAL COMPANIES UNDER PRESSURE
The demands of the competitive environment are in flux: New digital players – mostly from a B2C background – are keen to grab a slice of the B2B sales cake for themselves. Drawing on their customer handling experience, they operate with distinctive business models: as online-only distributors (such as Alibaba) or as aggregators (such as German supplier search platform "Wer liefert was?").

CUSTOMERS: DECISION-MAKERS PLACING MORE EXACTING DEMANDS
The generation known as "millennials" are the new decision-makers at customer companies. In the USA, fully 46% of those individuals who influence B2B purchasing are under the age of 35. The figure in Germany is slightly lower. Their information, communication and relational behavior differs significantly to that of the previous generation. They would rather gather information by "googling" than personally contacting a sales team or leafing through catalogs. They communicate on the move using Skype, WhatsApp and Google Hangout. They are always on and expect to receive answers at any time. They use Facebook, XING and LinkedIn to build networks and foster relationships. Their experience of shopping for

consumer goods (via the likes of Amazon and Zalando) means that they already expect purchasing to be very convenient. And this attitude also affects their professional decision-making behavior. When an order is up for grabs, questions such as "How easy is it to do business with the company?", "Will I have to wait months for my product?" and "How accessible is the company?" are every bit as important as detailed product specifications.

PRODUCTS: THE SHIFT TOWARD DIGITAL TECHNOLOGIES WAITS FOR NO ONE

In the digital universe, it is no longer enough just to develop good products. More and more product functions are now realized not by hardware itself, but by the software inside it. And although this software is "embedded", it is increasingly platform-independent. To a certain extent, the specific requirements that apply to software sales are thus now being added to those placed on B2B sales of physical products. What is more, disruptive and/or improved technologies are penetrating the market ever faster: Compare, for example, the adoption time for telephones with that of Facebook. Sales organizations therefore have to be able to respond very flexibly.

How much potential does the digitization of sales really have? Most B2B firms have so far devoted only a fraction of their marketing and sales budgets to digital channels. Precisely for this reason, the marginal utility of each investment remains very high. Every euro spent on extra advertising via digital channels is a euro well spent. We calculate that even just using Google AdWords, for example, can deliver a return on investment of 300% – rising to as much as 1,000% depending on the industry. Other investments in digitization likewise very quickly yield significant benefits. For instance, arming the sales force with tablets that access both the product portfolio and customer data can increase the total value of a firm's sales by 69% in just six months.

To stay in the game in the digital business and leverage this potential, providers of capital goods and industrial software need to find ways to sensibly integrate digital channels in their individual sales systems.

FOUR GUIDING PRINCIPLES ...

... help businesses set about digitizing sales the right way:

1

Speed is of the essence:

Set up lighthouse projects if you don't want to get left behind.

2

Digitization is a job for top management:

Establish clearly defined spheres of responsibility at board level.

3

Digital sales demands a new mindset:

It's time to switch from a sales push to a customer pull perspective.

4

Specialist knowledge makes the transition easier:

Recruit your implementation partner now.

<u>Sales must rethink its strategy</u> in order to tap the potential of digitization. The customer decides where the journey is headed.

Digital visibility is the key to success. Strategically, there is no alternative: Sales processes must go digital, as the majority of the respondent managers confirmed to us. **→ B**

Our study also addressed the question of how companies tackle this challenge. Many see digitization as a chance to upgrade a traditional process with new technologies, or to add an extra channel to existing ones. Yet the changes run much deeper, because the traditional model is rooted in "push" logic: Sales has always been the source from which information flowed – in the form of direct acquisition, the dissemination of marketing materials, meetings with potential customers, sales presentations and the arrangement of meetings with higher management. But the new model rests on "pull" logic: It is now the customer who starts the ball rolling. Customers decide when and where the sales organization has a part to play and in what way they wish to interact with it. Accordingly, information must be made available as a central resource.

Studies show that 90% of B2B buyers search for keywords on the internet, while 70% watch online videos to gather information ahead of a purchase. Fully **57%** of the purchase process has already been completed before a sales representative is contacted for the first time. It follows that, while customers are still just looking for information, you will probably never make it onto the short list of suppliers.

The good news is that digitization can pave a much more direct path to customers than is possible with traditional sales structures. Alongside their own website, suppliers can suddenly tap an entire universe of new digital channels, including social network communities and platforms for the discussion of specialized topics. In these digital forums, product experts can talk to users directly about preferred properties, technical specifications and suitable services. They can even compare notes on offers from different competitors. Firms that make professional use of these channels can gain direct access to the people who use technologies in

customer companies, gaining an early foothold as knowledgeable points of contact. Whereas businesses used to have maybe five contacts at technical procurement departments, today's digital channels can ideally let them reach hundreds of engineers who work with similar technologies and products. Trust and customer loyalty can thus blossom and grow at a very early stage; and even the more formal purchase process later on is more efficient once all this groundwork has been done.

Sales also benefits from a series of new devices and applications that allow customers' preferences to be identified much more accurately – using tracking technologies and algorithms, for instance. These tools show the exact channels via which potential customers arrive at a company's website, the form in which they prefer to consume information and what contact channels they use (e-mail links, search engines, social network referrals). Companies can also find out how much time visitors spend looking at which pages and products, and whether and what they buy. All these insights can then be used to generate customer-specific recommendations along the lines of "Customers who bought x and y also need z".

Centralized information and connected data open up ways to translate this knowledge into sales. Assuming an optimally integrated system is in place, apps and mobile devices let sales staff access the entire product portfolio from the front line, in the middle of a sales pitch. They can configure offers interactively, even factoring in relevant customer data. The price of an offering tailored to a specific customer can be compared with that of other providers in real time. Information about availability and delivery times too can be presented in the course of a pitch.

B

NEW TOOLS FOR SALES FORCES
How mobile devices can support sales pitches and boost performance

Sales staff at a telecoms equipment provider were each given an iPad fitted with a sales pitch app on which they could configure products while talking to customers. Tangible successes – in terms of both the number and value of the sales made – were evident within six months of first-time use.
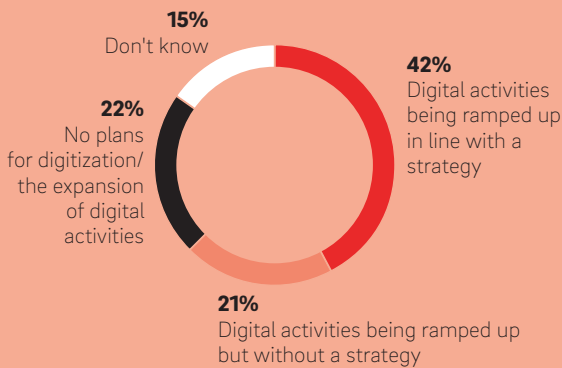
The deal closure rate per contact increases by
5-10%

Standard pitches take up
10 min
less of customers' time

Sales per employee are up by
41%

The total value of sales jumps
69%

Source: Roland Berger

C

FINDINGS OF OUR STUDY: HIGH ON EXPECTATIONS, LOW ON IMPLEMENTATION

What does digitization mean in a sales context? To answer this question, Roland Berger and Google Deutschland conducted an online survey of 2,745 sales managers at capital goods firms in Germany. The respondents work for companies in a broad spread of industries, with electrical engineering, automotive, mechanical engineering, metal production and metalworking featuring strongly.
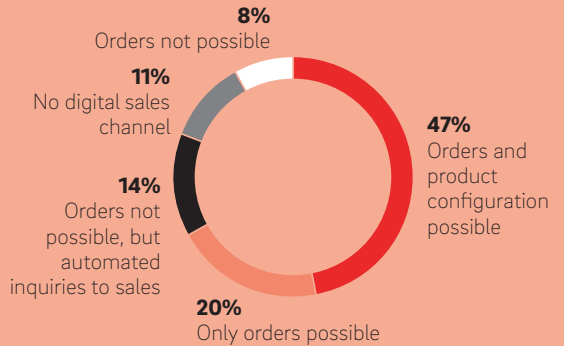
STRATEGY NOT YET THE RULE
How extensively is your company driving the digitization of sales?

15%
Don't know

22%
No plans for digitization/ the expansion of digital activities

42%
Digital activities being ramped up in line with a strategy

21%
Digital activities being ramped up but without a strategy

UNTAPPED POTENTIAL
What does your company's digital sales channel look like right now?

8%
Orders not possible

11%
No digital sales channel

14%
Orders not possible, but automated inquiries to sales

47%
Orders and product configuration possible

20%
Only orders possible

A NEW FOCUS FOR THE CAPITAL GOODS BUSINESS
Please assess the truth of this statement: The next generation of buyers will place new demands on digital sales. [Scale from 1-5]

1 Absolutely true	**32%**
2 Largely true	**34%**
3 Partially true	**25%**
4 Largely false	**6%**
5 Absolutely false	**3%**

A QUESTION OF SIZE

35%

of companies with
sales volumes under

EUR 100 million

have no digital sales channels.
At larger companies, the figure is

22%

At **47%**

of companies with
sales volumes under

EUR 100 million

digitization is not a strategic goal.
Only

39%

of larger companies say the same

HUGE MARGINAL UTILITY

Machine tool
companies can realize a
10-fold
return on their investment in

Google AdWords.

The comparable return in the business
productivity software segment is
3-fold[1]

*"We are currently setting up an online shop
where we will only sell standard individual parts.
The rest of the portfolio is too complex."*

Quote from a manufacturer of fastening technology

1 Average sample calculation based on one year in Germany

Source: Google/Roland Berger

How distant a vision is this new digital reality for today's providers of capital goods and industrial software? Our study indicates that, at most companies, vast potential still remains untapped. To change that, it is essential to target the pivotal points in the organization. When accompanying digitization projects at B2B companies, we have again and again encountered the same three critical issues: The customer's perspective must show the way forward, channels must become permeable, and the greater complexity that digitization entails must be carefully managed in the sales system. → **D**

1. LET CUSTOMERS SHOW THE WAY

The design, functionality, connectivity and user-friendliness of a B2B company's website is the visible, outward expression of its digital capabilities. Yet not even half of the companies we surveyed have online channels that provide ordering functions in which customers can configure their own products. → **C** Many product and system providers use online channels principally to showcase their company, displaying their press work and/or their image brochure on this platform.

Solution: The most important starting point for change is the understanding that the structure and content of information presented in digital form should model what is known as the customer journey. Businesses must carefully think through every possible customer touchpoint, from initial attempts to find information to regular maintenance schedules. How do I address my customers in the information-gathering phase? How can contacts in the digital world be converted to leads? What new customer retention options are conceivable? The answers to these questions affect the structure of the corporate website, for example. Rather than depicting the company's org chart, pride of place should be given to the needs of potential customer groups. One possibility is a structure that provides the information needed at different stages in the selling process (information gathering, new customer, service requirements, etc.). Another could reflect different customer use scenarios (e.g. assembly halls, laboratories or power plants). Content must be accessible from any medium, whether it be a PC, tablet or smartphone. Additionally, search engine optimization should intelligently use keywords and tags to make sure that search engines actually find the information.

Our respondents assume that the new generation of decision-makers will transform the business. → **C** Already, providers of consumer goods are demonstrating where the B2B road could lead. Moreover, market players who have the advantage of B2C experience are waiting in the wings. One of them is Amazon Business, which has mapped its successful consumer business model virtually "as is" onto B2B. Local B2B suppliers (of tools, office supplies, sanitary products, hydraulic equipment, laboratory equipment, power transmission, etc.) only work with small to moderate sales volumes, so setting up their own logistical structures is not viable for them. Instead, they take advantage of Amazon's established shop, logistics and community structures, within which potential customers easily find them. This service could transform Amazon into a new meta-provider that sets the standards for digitization across the entire B2B business arena. If the enterprise achieves critical mass, it will be very difficult for non-integrated providers to offer comparable ease of use, portfolios and availability. Scale effects have also made Amazon highly competitive, with warehousing and logistics, web hosting and operations having already been optimized. The upshot could be that other providers in certain segments see their prices coming under severe pressure in the future.

2. MAKE CHANNELS PERMEABLE

Up to now, sales channels have tended to be organized separately, making it difficult to switch from one to another. In the digital world, that will no longer get the job done. To take just one example: Packages and terms offered online frequently differ from those offered by key account managers, for any of a number of reasons. Transitions from one channel to another often fail because each one has its own IT infrastructure that has evolved over time and is not compatible with the structures of the other channels. If everyone who contacts a customer has their own, isolated CRM system, then customer data is often not updated and passed on systematically. On the other hand, redundancy too hinders interchannel permeability: Sales staff may, for example, refer to different price lists from the ones shown to customers on the company's website.

Solution: Managing sales channels is like conducting an orchestra. Each instrument must be played perfectly, while transitions from one to another must be smooth and harmonious. Customers expect to be able

D
....

THE THREE C's

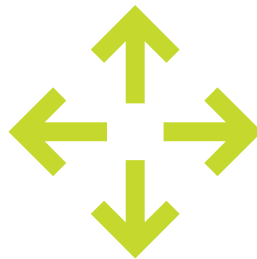## The key areas to address in a connected digital sales system

Digitization raises questions that affect every aspect of the sales system. If you start making changes, you must keep a close eye on what each one means for the whole system.

Digital sales system

Develop the customer base	Orchestrate the channels	Manage the complexity
Sales pitch	Channel mix	IT backbone
Leads	Configuration	Organizational structure
Retention	Permeability	Skills

Source: Roland Berger

to access facts about products and services at any time and via all channels. They also expect to be able to talk to knowledgeable, professional partners, as well as to both order and return products. In the course of their journey, customers should be able to switch seamlessly between the channels they deem to be relevant. This being the case, a suitable set-up is critical to the success of the business: What mix of digital and analog channels makes sense in the first place? And what stumbling blocks can arise at the interfaces?

> ## "Up to now, sales digitization has always been seen as a project. [...] But it has to be seen as part of the strategy."
>
> Quote from a manufacturer
> of sealing technology

3. REDUCE COMPLEXITY

The core problem is managing the various channels in such a way that the customer's transition from one to another works seamlessly, giving the customer the feeling of receiving optimal service from a single source even across multiple channels. The same, of course, goes for domestic and international customers, although it is becoming increasingly complex to manage international sales organizations in particular: When a B2B enterprise works with local sales companies outside its domestic market, it may find that these partners' businesses are cannibalized by digital channels. A central online shop operated by the parent company, for example, will effectively compete with the activities of local sales teams that work for their own account. Additional management issues also arise in cases where dealers run their own online shops and defend their freedom to set their own terms and conditions. Any resultant differences would then be revealed to customers when aggregators provide direct comparisons (in much the same way as travel portals do with package tours).

Solution: Many medium-sized companies that operate systems and product business must first cultivate an awareness of what it means for sales to shift from push to pull. Managers' roles change and traditional skills give way to new ones. Two scenarios illustrate the point: When data about the product and service portfolio become available to customers on other channels too, sales managers have to pay more attention to excellent analysis and advice regarding this or that customer's specific problem. If the customer journey is the measure of all things, the jurisdiction of the marketing and sales function(s) – i.e. the organizational structure – will need to be redefined. Digitization always means centralization. The new sales environment needs one IT backbone and one customer relationship management system to which everyone has access. Incentive systems for employees must likewise be designed in a way that makes it attractive for them to collaborate across channels.

The three aspects described above – customers, channels and a new level of complexity – are the "three C's" of digital sales. We have visually summarized them overleaf. What becomes clear is that, while each aspect merits attention in isolation, so too does interaction between all three. Adding an online channel will always have implications for the work of your sales partners, for example. Similarly, if you centralize your CRM information, you will also have to think about how exactly you want to address customers.

Planning digitized sales from a theoretical perspective wastes too much time. Businesses need <u>fast, visible lighthouse projects.</u>

Things move fast in the digital world, and many fear being left behind. But why? We mentioned at the beginning that, unlike in the past, customers these days shift their preferences at the drop of a hat. And this behavior ultimately has repercussions for B2B business too. Would-be customers used to communicate by phone. Today they do it by mail, and tomorrow even this may be reduced to just news feeds. At the same time, new hardware hits the market at ever shorter intervals, so companies must be ever watchful of acceptance and market penetration if they want to slot the right devices into their system – above all to provide mobile access to information. Even the demands placed on software and data processing are changing: from proprietary to open source, from CRM grids to big data analysis, from locally installed to cloud-based solutions that can be accessed from anywhere.

IS YOUR COMPANY AGILE ENOUGH?

The bigger the gap to the front-runners, the more difficult it is to find a convenient place to start from – wit-

ness many of the quotes reproduced in our study. The barriers to entry appear daunting, and respondents shy away from the cost of large-scale transformation. They are unsure how to go about it and are afraid of getting it wrong. It is wise to heed these concerns: In our experience, traditional planning approaches are not the method of choice in contexts that are highly volatile. Companies need a fast method of implementation to keep pace with the speed of digital change. Above all, the method has to lower the psychological barriers to getting started at all. To make sure visible successes are achieved as quickly as possible, we advise against backing huge master plans. The better option is to target independent, high-visibility initiatives that can be realized quickly – lighthouse projects, as they are often known.

The success of implementation depends largely on whether the right initiatives are selected. An assessment model makes it easier to choose correctly **→ E** This then dovetails with a "learn to iterate" process: Ideally, you learn something from every project that you can then immediately contribute – in the form of experience – to

better the implementation of the next project. Even failure can yield valuable insights and experience that ultimately strengthen the company's digital skills.

DO YOU HAVE THE RIGHT INFRASTRUCTURE, TOOLS AND PEOPLE?

The first step is to develop a vision or rough blueprint of the outcome of transformation, and to stake out the key areas that require attention. This is a very reliable way to identify exactly the right lighthouse projects. A decision-maker at top management level should shoulder responsibility for sensitizing the organization to the topic and pressing ahead with sales transformation. Cooperation with strategic partners who can contribute experience from the B2C environment, for example, can be useful to plug any gaps in a company's in-house skill sets. These partners could include new kinds of special service suppliers such as internet firms and start-ups. Another possibility could be to assemble a group of staff in an innovation-driven, digital environment in order to stimulate fresh ideas and encourage dialog with different types of company that have other ways of thinking (in digital hubs, for example).
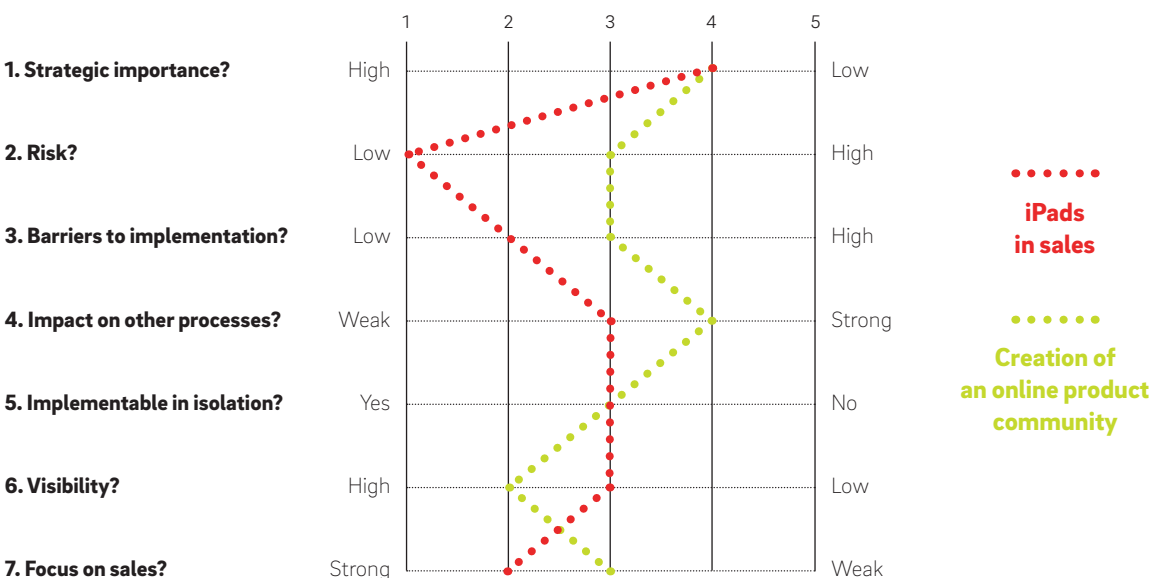
Digitizing sales lays the foundation for future competitive advantages in the B2B business. Looking ahead, purchase decisions will be shaped by digitization – whether your company adjusts accordingly or not. Customers who cannot find important material in the information-gathering phase may opt for a different provider, and you will never even know about it. Many product and system providers are still very far from realizing fully digitized sales. Which is precisely why obstacles must be removed and implementation initiated without delay. ◆

E

SPOTTING PROMISING LIGHTHOUSE PROJECTS
A few questions make it easier to evaluate potential candidates

The further left a project appears, the more suitable it is as a lighthouse project. Companies benefit from projects that are strategically important, whose risks are low, that tie up little capital, that are easy to implement and that have little impact on other processes. Implementation should not necessitate additional structures, and the projects should be clearly visible within the enterprise.

	1	2	3	4	5	
1. Strategic importance?	High					Low
2. Risk?	Low					High
3. Barriers to implementation?	Low					High
4. Impact on other processes?	Weak					Strong
5. Implementable in isolation?	Yes					No
6. Visibility?	High					Low
7. Focus on sales?	Strong					Weak

●●●●●●
iPads in sales

●●●●●●
Creation of an online product community

Source: Roland Berger

ABOUT US

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners.

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FURTHER READING

AUTOMOTIVE INSIGHTS
Digital drive: The future of automotive

Evolution or revolution? We examine where data-driven change is impacting on the business of automotive OEMs and suppliers – in automated driving and multi-channel retail, for example.

CAN EUROPEAN START-UPS CRACK THE CODE?
How to realize the old continent's digital vision

Digital start-ups in Europe are better than many people think. Aware of this, Roland Berger decided to take a closer look at this effervescent ecosystem and what the future has in store for it.

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