“Not More Research – Sales Rules!”

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By Michele Levine, Chief Executive
Roy Morgan Research

“We all have a tendency to use research as a drunkard uses a lamp post – more for support than for enlightenment.”

David Ogilvy

Forty minutes is a long time for a 20 year veteran of the research industry to talk about “No more research”. So I decided to share with you my new thought – Sales Rules!

Why is the Microsoft suite more successful than Linux – the free, some would argue, superior software platform? They sold more.

Why did Enron end in despair? There were many reasons, but fundamentally they didn’t sell enough. They were too clever by half with their creative accounting, but at the end of the day they didn’t bring in the sales.

When companies are valued – what’s the first thing that’s looked at? Sales. Sure there’s the IP register, the quality of management, the health of the organisation. But try getting value for a company with no sales…

I guess I’m preaching to the converted here today. I assume you wouldn’t be here if you didn’t think sales are crucial. But I believe I have two thoughts that might help elevate ‘sales’ and ‘selling’ to its rightful place in the hearts and minds of the most senior management and the Board.

The first is an argument that revolves around the Value equation of Innovation. There is nothing like a good equation to get people’s attention. And Boards and Senior Management value innovation – it is intelligent, intellectual and generally a smart thing to be talking about. They value technology for the same reason.
My thesis is that Value is a function of Technology and Innovation powered by Entrepreneurship: 

\[ V = \Sigma (T + I)^E \]

and that the E for entrepreneurship is about sales. It’s about going out and getting the business.

The second thought is that information matters – that corporate intelligence and customer information matters a lot – and that sales and those charged with getting sales, the touch point with the customer, are the natural creators and caretakers of this valuable information – and ultimately its most important users.

So first why is the Microsoft suite more successful than Linux and Bill Gates one of the wealthiest and powerful men in the world?

The answer is NOT about size. Today Microsoft is so large that its challenges are about managing perceptions of market dominance and monopolistic power. It’s hard to recall when there wasn’t Microsoft, but it was only about twenty-five years ago that Bill Gates began with the first computer programs for the emerging computerised populace. The answer is more about value-driven innovation.

Many have articulated their protocols for good innovation and good innovative practices relating to education, taxation, philanthropy, innovation communities, innovation policy, intellectual property, etc. And many have sought to measure and benchmark the performance of organisations, countries and individuals. These have included such metrics as:

- Venture capital as a % of GDP;
- Public sector R&D;
- $s (or percentage of organization revenue) spent on R&D;
- Number of Patents applied for, especially US Patents;
- Scientific and technical articles per capita;
- Investment in new equipment as a % of GDP (or revenue);
- Number of knowledge workers, researchers or people involved in scientific pursuits;
- Labour force % with tertiary education;
- Take-up of new technology (eg number of Internet users).

What do we notice? These metrics, essentially R&D expenditure measures and ‘input’ measures, are tapping into interesting intellectual constructs – but none will guarantee value creation or real world success. None have captured the elusive ‘Value’ equation associated with innovation.

Thought leaders in this field of innovation have sought to understand and explain such related phenomena as innovation, creativity, knowledge, learning and problem solving, in an applied sense within the broader context of the real world. Each provides valuable insight into this elusive Value equation, and together they demonstrate that the traditional ‘input’ metrics with their heavy focus on R&D expenditure are inadequate and, if we are looking to the future, potentially very misleading.
Professor Keith Smith, of the European Commission Joint Research Centre points out that innovation is not just about ‘new ideas’ but rather is about ‘economic implementation’ of new ideas.

Dr Brendan Nelson, Australian Minister for Education, Science and Training, talks about the increasingly multi-disciplinary nature of research and specifically about entrepreneurship - about the need for a culture that promotes discovery, creativity and entrepreneurship.

Michael Dell, Chairman and CEO of Dell Inc. in explaining the successful Dell business model and strategic vision focused on the market and end user.

In summary, these thought leaders tell us that successful innovation is about goals and economic implementation, and is increasingly multi-disciplinary, multi-industry and market/user focused.

Each of these themes resonate - they make sense. It is about value. It goes beyond Technology and Innovation and embraces Entrepreneurship. In the elusive value equation $V = \sum (T + I)^E$ Technology and Innovation are powered exponentially by Entrepreneurship – to the point that without Entrepreneurship it is all academic. And entrepreneurship is about new businesses; capturing the opportunities, getting the price and the prizes. It is about sales.

The relatively traditional paradigm of Innovation (and the ‘input’ metrics discussed earlier) may have been relevant in the past, but recent trends in a number of spheres have relegated such metrics and the underlying paradigm to at best indicative ‘proxies’ for value, and at worst, something resembling quaint obsolescence.

So let's look briefly at some of the trends that have changed the paradigm of Innovation and its consequent Value.

Globalisation means that efficient supply is increasingly taking precedence over geographic proximity; global alignments are increasingly impacting on all industries. This means that there are larger markets for those with desirable goods and services to access. However, as Andrew Michelmore, formerly CEO WMC Resources (now BHPB), says “Today the environment for investment, as well as for markets, is ruthlessly competitive, completely unprotected and totally unsentimental”.

Technology has increased the speed and precision with which we do almost everything - from the building a car or a highway to the speed with which new technology itself can be created. Technology, especially related to communications, has also increased both the complexity of information and the speed with which it can be transferred and processed.

These trends have made their way onto the households and lives of average citizens. They are not futuristic musings. The trends reported are specifically related to Australian data. However they are relevant for most countries and are occurring faster in some and slower in others.
Changes in Media, Communications and Technology

The last 10 years have seen dramatic change in media – predominantly focused on Internet take-up. In technology broadly we see the impact of mobile phones, Internet and broadband, and an indication of fall-off of fixed line telephony.

Plotting policy actions against these trends, we see some impact – eg, Telstra (Australia’s original and largest Telecommunications Company) introduced peak and off-peak charges which appeared to hold up fixed line telephony – but it was short-lived. The trend continued down.
Broadband price reductions in mid-2004 appeared to increase Broadband penetration. But it was on its way anyway.

Increased comfort with the technology is obvious – with substantially more Australians now agreeing:

“Computers and technology give me more control over my life.”
“I feel comfortable giving my credit card details over the Internet.”

But those innovations that haven’t ‘hit the spot’ seem to be waning, such as ‘on-line grocery shopping’. After an initial peaking of interest in 2002, interest is now easing off.
In travel – holiday bookings online now outstrip travel agent bookings. This is a major shift and has enormous implications for the industry. The other big shifts for the travel and tourism industry relate to security concerns associated with increased terrorist activity; and the shift in consumer spending to technology communications and housing mortgages.

Domestic tourism is keeping pace with the population growth, but as a proportion of household expenditure tourism hasn’t done as well as other industries. The drive for more communications and technology has driven spending in such areas as the Internet (up 236% in the last five years), and mobile phones (up 183% in the last 5 years).

**Essentially what all of these trends tell us is that technology, and particularly communications based technology, is putting people in charge, and people are seeking more and more of it.**

Much has been written about how technology and communications have empowered the “consumer”- putting choice at their fingertips, allowing price comparisons to be made on-line from home, and enabling consumers to do their own research about any product or service or company and generally to become more and more savvy as a consumer.

Less has been written or discussed about how technology is empowering the “user” to become an inventor, creator, integrator or innovator. Essentially today, almost anyone with an idea can innovate and develop, test and perfect the idea. And increasingly people are doing just that, and sharing their ideas and developments with others in knowledge communities and innovation communities.

Today with Internet technology anyone – even a school child - can conduct a survey.

Anyone can innovate! Few can build the business, get the sales.
Every other country that benchmarks itself against the traditional ‘input’ metrics with their heavy focus on R&D spending must feel the same way.

Back to the bigger picture – Australia’s future.

Many Australians fear Australia has been left behind, lost the opportunity. Some fear Australia is simply not large enough to have the muscle, the $s or the people to have a viable leadership position in the global innovation game.

This must not be so, and the clue lies in an understanding of the ‘value equation of innovation’ $V = \Sigma (T + I)^E$. It takes Technology and Innovation and Entrepreneurship. And the real clue is in recognising that entrepreneurship has an exponential effect – without it there is no value.

Today, with change in abundance – especially in the area of supply, demand, distribution and services - more than ever before Australia and any other small ‘clever’ country, must create and develop its own market. Australia can no longer rely on overseas customers, or intermediaries to create and drive demand for its products and services. They have their own priorities and problems. And we would argue they are no better placed than Australians to deal with uncertain, changing times; or to capture ‘a fair share’ of the elusive Value.

So why is Microsoft more successful than Linux? Those who argue for metrics might count the patents application and knowledge workers and $s spent on R&D. There is no doubt Microsoft would beat Linux on each of these metrics. But that’s not the real reason – Microsoft was built on Entrepreneurship. Good Technology and Innovation powered by Entrepreneurship – they went out and got the market!

So what about information? What about corporate intelligence and customer information?

Frederick F. Reichheld, in the March-April, 1997 Harvard Business Review made the point:

On average, the CEOs of U.S. corporations lose half their customers every five years. This fact shocks most people. It shocks the CEOs themselves, most of whom have little insight into the causes of the customer exodus, let alone the cures…”

Did they NOT have the information? Do they NOT worry about the customers and sales?

There is no dearth of information - there is more information than ever before, and it’s being generated at an increasing rate – and much of it is customer based corporate intelligence. At Roy Morgan Research we begin with the premise that the goal of corporate intelligence is to contribute to making the organisation more competitive and more profitable

Our view is that regardless of how information has been used historically within industry, well-focused organisations are increasingly now taking a very strategic and practical approach.

From an organisational point of view customer or corporate intelligence must relate to the business direction of the organisation, and the degrees of freedom the organisation has to follow that direction. The focus must be clearly on the uses to which the intelligence will be put - decisions which will be made based on the data. What kind of decisions?
“How do we identify and target those segments with the most profit potential?”

“What are the most appropriate products and services for our target customers?”

“How do we make sure our people understand the expectations of our target customers, and through effective work processes satisfy them better than our competitors?”

“How do we communicate effectively with our target customer?”

It is also essential to understand the environment of **competitors** and **substitutes**.

So where does the customer information and corporate intelligence fit? This is at the heart of the question.

Historically and up until now, for the most part, good customer measures have been directed at the needs of ‘management’ (essentially middle management who are expected to implement the findings) and at the needs of ‘customers’ (after all that is what it is all about).

There are many casualties of such well-conceived customer measures - by casualties we mean either companies who, despite increased performance according to their customer satisfaction measures, have lost customers; companies who have had their measurement instruments ‘removed’; or companies which no longer operate today.

It is our firm belief that the traditional measurement of customer satisfaction is too limited for today’s environment - and definitely for tomorrow’s.

Many of the issues raised in customer surveys can only be addressed at the most senior level within an organisation. For instance, an organisation with relatively isolated vertical structures as profit centres, may not be capable of providing the integrated customer service which will lock their customer in.

**How will our well-tuned financial organisations of the near future use consumer information?**

We know companies such as GE Capital, Visa, Amex, Microsoft and increasingly the private equity firms are looking at research data with the big picture in mind.

They are looking not only at their current product and service offering, but at various linkages to other services their customers are using, which they could possibly offer, or bundle, so as to own more of their customers’ minds, hearts and wallets.

Imagine the situation of Telstra approaching Roy Morgan Research and offering to fund our total telephone bill for, say, 5%. Our annual telephone bill is $1+ million, we wouldn’t need an overdraft at 8%. Imagine the situation where the NAB offered Roy Morgan Research access to their telecommunication network (marginally costed).

The test may be to consider how your own organisation would respond to this situation if you were Roy Morgan Research’s current bank.

- **Would your system have a mechanism to catch it?**
• How would it be coded or classified?

• Would it be recognised as a serious early warning signal for your organisation and an opportunity? Is there a mechanism to ensure the information got to the people who would act?

For many organisations a decrease in business probably wouldn’t attract a great deal of concern. Our bank only ever calls me when the overdraft is over the limit - not when it goes down.

It is highly likely that an event like this would not be easily classified - after all there may not have been any dissatisfaction recorded; there almost certainly would not be any point of the service cycle which could be identified as the root cause. It is highly likely that an event like this could be passed over. There is little middle management or anyone in the service delivery could do, perhaps there would even be a sigh of relief.

Customer Surveys and corporate intelligence if they continue to be focussed on the needs of middle management and down, focussed on products and services used today, by existing customers, will continue to be less than effective - and we believe grow increasingly irrelevant.

Customer Surveys and Corporate Intelligence to be effective must be absolutely single-minded about contributing to the organisation being more profitable. To do this, they must be viewed through entrepreneurial eyes – with the sale in mind.

Capture the customer - ensure your measurement is capable of looking at the total customer across the entire organisation and related entities and competitor/substitute organisation.

Don’t be afraid to segment - identify your most profitable customers (or potential profit)
- identify your “at risk today” customers
- identify your “contributors to churn”
- consider “values” (Roy Morgan Values Segments *)

The right segmentation may be critical when it comes to prioritising actions and associated resource allocation.

Review critically - Don’t let your organisation be a statistic like the US CEOs who lose half their customers every five years without knowing, without knowing why or what to do about it. All they do is move on! Ensure your measurement is in place to identify and learn from defectors. It may be a simple service problem, or it may be the dawning of a mega-competitor. Your defectors can be a vital early warning sign.

Integrate the customer measures and link them to business measures that resonate with those looking at the bottom line of the business. There is a good argument that says customers’ actions speak louder than their words.

* Developed in conjunction with Colin Benjamin of The Horizons Network.
Include or relate to such measures as:
  − new customers
  − growth in $ per customer (or decline)
  − number of transactions in different areas
  − use of new services/continuation of old services
  − % of customers’ business (in relevant area)

Who is most likely to ‘get’ this thinking? Those focussed on sales.

Much of this information will be available from your own in-house information systems (although perhaps it hasn’t been asked for before - so it might be hard to get, and require programming).

The aim of the Customer Survey is to add value to these numbers, to put the people back into the statistics, to help explain why, which customers, and then help you do something about it.

**Communicate - Customers are everyone’s business.** Communication up is as important if not more important than dissemination down through the organisation.

- **Marketing** - many of your target customers are already existing customers of some part of your business.

- **Board** - Acquisitions are more and more being seen as strategic acquisitions of customer bases;
  - Decisions as to which business an organisation is in, need to be informed of the potential of the customer base. Will being in a particular business increase $ profit per customer? Will *not* being in a particular business enable a competitor or substitute to gain some of your customers?

- **Operation/R&D/Re-engineering** - prioritising and allocation of resources needs to be informed by knowledge of customers, and the choices they have before them and the choices they will likely make.

If customer measures are able to be related to the business measures mentioned earlier, then the strategic thinkers and drivers in the organisation will get it – be able to make the right decision. The customer measurement doesn’t have to be large or expensive. It must be smart and focussed on the organisation’s competitive edge now and into the future.

Finally in case any of us here still doubt that Sales Rules, let me share with you my first meeting with Stan Gold of the Disney Company in California in the late 90s. I was on a friendly visit to Disney with the view to gaining introductions to the US market. Stan Gold upon meeting me barked: “What are you selling?”

I explained I wasn’t selling anything.

He asked: “What are you buying?”

I explained I wasn’t buying. He looked at me non-plussed and said, “Well why are you here?” Isn’t that the point?