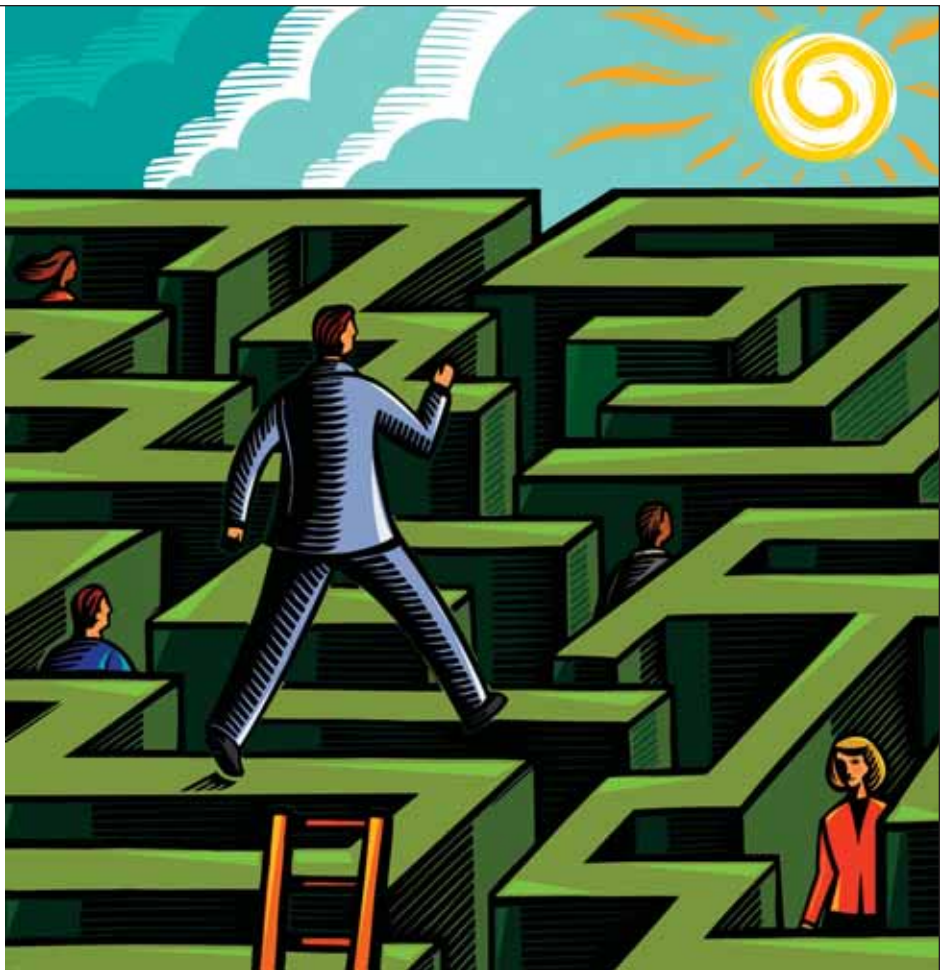


IT'S NOT  
THE STRATEGY  
THAT COUNTS



# IT'S THE EXECUTION THAT MATTERS

By David Mears

**There is no shortage of great corporate strategies. What's lacking is management-driven discipline to *execute* them at the point of customer interface.**

**Every day, corporate executives announce strategies** designed to improve their companies' profitability—and ultimately their stock prices. These initiatives are most often focused on revenue growth and margin optimization, and take a number of forms, including:

- ▶ Price increases
- ▶ Margin improvement and discount reduction programs
- ▶ Launches of new, often premium-priced products and services
- ▶ Introduction of new multi-step sales processes
- ▶ Plans for transitioning customers to new, more profitable contracting models
- ▶ Initiatives to speed up sales “cycle time” from first contact to close of business

And yet in company after company, these investments in creating customer value don't translate into desired results. Expectations are not met, and the markets punish poor performance with lower equity values.

The lesson? That *launching* new strategy is not the same as *executing* it successfully.

## THE NEED FOR MANAGEMENT DISCIPLINE

Why is it so hard to succeed? After all, the strategies are usually sound—often the work of high-priced management consultants or high-powered internal teams. The financial and marketing analyses are compelling. The PowerPoint® presentations and marketing materials are stunning. The sales meetings are motivational. The sales team's account plans are complete.

The fact of the matter is this: in most companies large investments are made in crafting strategy, but very little attention is given to executing strategy at the point where revenue and margin is optimized: at the point of customer interface. In addition, not nearly enough is done to embed a management-driven discipline for *executing* the strategy profitably on a customer-by-customer basis.

### THE CHALLENGE: CLOSING THE "EXECUTION GAP"



### THE "MAGIC" OF STRATEGY EXECUTION

Magicians often trick us by diverting our attention. They get us to look at their *left* hand; then, while our attention is focused there, they slip that hidden card from their shirtsleeve into their *right* hand.

Executives and sales managers trick themselves in a similar way when they set out to implement new strategy at the customer interface.

They focus on communicating the new corporate direction. If they are launching a new product, they make sure their sales teams can articulate the new product's technical specifications, features, and benefits. If they are launching a new sales process, they train the sales team on every step of that process. If they are implementing a price increase, they arm their sales teams with information justifying the change.

All of this is important, of course. But it also diverts attention from the place the “magic” occurs in the strategy execution process: the myriad of *agreements* made throughout the sales process that determine whether the sales plan will get executed at all.

## BUILDING AGREEMENTS AT EVERY STAGE

In today's tough buying environment, having the right information in the hands of your sales team is not enough. Being persuasive is not enough. Knowing who to call on is not enough. Having complete account plans is not enough. Knowing the features and benefits of your solution is not enough.

The key to success is *building agreements* at every stage in the sales cycle to ensure that major sales are closed as quickly as possible at the highest levels of profitability possible.

When most sales professionals and their managers think of agreements, they have a clear picture in their mind: the final contract that closes the business. This shouldn't be a surprise. After all, that's the agreement they're measured and paid on.

But here's the reality: the size, quality, and profitability of the final contract is almost always determined earlier in the sales process, through the myriad of earlier agreements that steer the sales process towards large and profitable contracts.

If a company hopes to attain revenue growth and margin optimization goals, its sales force *must* execute these agreements in a systematic and well-planned way and not wait until final contract discussions to begin protecting profitability.

Sales professionals craft many agreements every day, with their customers and other members of their sales team. Each of these agreements affects the ultimate size and profitability of their deals.

## EXAMPLES OF PIVOTAL AGREEMENTS THAT DRIVE STRATEGY EXECUTION

COMPANY/INDUSTRY	GOAL/STRATEGY	PIVOTAL AGREEMENT
International telecommunications company	Improve gross margin by 11% by reducing average discount by 1%.	Can we get the purchasing manager to agree to defer price discussions early in the sales cycle so we can fully explore <i>all</i> the ways we can add value?
Global shipping organization	Increase average relationship size by 20% by selling logistics solutions rather than just package shipping.	Will the customer give us access to key people during the “needs exploration” stage so we can build their support and sponsorship for our solution?
Software company that sells to government agencies	Increase sales growth rate by 5%.	Can we influence the specifications of buyer requests, and avoid costly sales processes that result in losing business to “wired” competitors?
Chemical division of global petrochemicals company	Recover \$450 million in lost profitability by minimizing post-sale “margin leakage.”	Can the sales team achieve profitable outcomes when faced with margin-eroding post-sale negotiations?

However, in any company's sales cycle there are a critical few agreements that "make or break" the size and profitability of sales. Crafting these *Pivotal Agreements* effectively and consistently almost always determines whether your corporate strategy is executed successfully at the point of customer interface (see chart).

## **"AGREEMENTS 101": CREATE VALUE BY EXCHANGING VALUE**

Every company's *Pivotal Agreements* are different. But in all cases the phenomenon is the same: when the sales teams handle these *Pivotal Agreements* successfully, they dramatically increase the odds of winning larger and more profitable deals, and executing your corporate strategy successfully. If these agreements are handled poorly, close rates, revenue volume, and margins will erode.

Unfortunately, when it comes to crafting optimal agreements, most sales teams under-perform. Ask executives about this and you'll hear a consistent message, that their people:

- ▶ Focus on price too quickly, and don't sell value;
- ▶ Fail to understand underlying customer needs, and don't create value by addressing them;
- ▶ Make unnecessary concessions during the sales process, give away too much too quickly, and end up "leaving money on the table" in their deals.

What's the key to improving the success of your sales team? Get them to trade value (rather than give it away). Here are a few examples:

- ▶ If the customer wants a lower price, the sales person might ask for a higher volume commitment in return.
- ▶ If the customer wants a no-charge prototype to test the seller's solution, the sales person might ask for a commitment to cover the costs of the prototype when and if they adopt the product.
- ▶ If the customer wants expedited delivery, the sales person might ask for the shipment to include additional high-margin product.

The bottom line: once a company has identified the *Pivotal Agreements* that drive profitable execution of its strategy, it must arm its sales team with the strategy execution discipline, skills, tools, and information it needs to exchange rather than surrender value in every one of them.

## **THEY CALL YOU AN "EXECUTIVE" FOR A REASON: YOUR JOB IS TO EXECUTE**

Times have changed. With the proliferation of management consultants, the number and quality of corporate strategic initiatives has grown. Paradoxically, strategies have become commodities. And good strategy is now the "table stakes" to play the game of business.

Corporate leaders are called "executives" rather than "strategists" for a reason. Their job, now more than ever, is to execute strategy, not just develop or communicate it. As one savvy CEO once said, "In business today, it's execute...or be executed."

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# Your company has a strategy. Can your team execute it?



Executives know that success of their go-to-market strategies is critical to improving shareholder value...and that failure can quickly cause problems with investors and analysts.

Consider the facts:

- An Ernst & Young study called Measures that Matter<sup>SM</sup> demonstrated that more than 35% of the valuations and "buy" decisions made by institutional portfolio managers are based on non-financial factors, and that the most important of these was the ability of management to execute strategy. This factor rated higher than market share, innovation, management experience, and even the quality of the strategy itself.
- According to Bain & Company, all companies must grow to survive, but fewer than 1 in 5 corporate growth strategies are implemented successfully.
- Robert Kaplan and David Norton, the authors of The Balanced Scorecard, report that 90% of corporate strategies fail.

The message is clear. Most corporations have well-formulated strategies. The winners are those that focus on successful execution.

# About BayGroup International

**BayGroup International** partners with corporate executives to improve shareholder value by:

- Ensuring that key business initiatives demonstrate significant ROI;
- Helping implement corporate strategies successfully; and
- Building skills across the organization for creating profitable agreements, both internally and externally.

BayGroup International implements strategic projects that include research, highly tailored performance improvement development, and the tracking of results. Our work in client organizations is supported and reinforced through executive leadership communication campaigns, management coaching, and internet-delivered performance support tools. Using our proven behavior change approach has helped clients achieve desired business results, and improve the ability of key employees to build better agreements with:

- Customers, especially when competitive sales pressure threatens profits.
- Suppliers and other outside parties, whose increasing costs can erode the bottom line.
- Internal team members and between individuals, where failure to handle tough, contentious issues can threaten quality, customer service, restructuring, and other strategic initiatives.
- Strategic partners, where poor agreements can threaten the success of mergers and acquisitions, as well as other mission-critical alliances (in areas such as distribution, research and development, and marketing).

By partnering with BayGroup International, clients achieve significant improvements in human performance and millions of dollars in bottom-line results.

Since its founding in 1980, BayGroup International has built a select client list of major global corporations, focusing on the technology, telecommunications, pharmaceuticals, transportation, consumer products, and financial services industries. Our consultants have worked in North and South America, Asia, Europe, and the Middle East. We serve our clients from offices in major cities around the world.

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