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Revenue growth from existing customer base

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Growth strategies typically focus on diversification and expansion into new areas. Reddal also has talked about the importance of venturing into new areas. This article describes how to run a growth program for existing customers as a systematic process – from identifying the growth accounts and their potential, to managing and following up the sales execution.

Growth strategies typically focus on diversification and expansion into new areas. However, many companies have also significant untapped potential with the current core accounts that can be realized with lower effort and in shorter time than building up a new business. Combining these two types of growth initiatives is required to capture full revenue potential. This article describes how to run a growth program for existing customers as a systematic process – from identifying the growth accounts and their potential, to managing and following up the sales execution.

The existing customer base provides significant potential for value creation

Koller, Dobbs and Huyett* compare the value creation potential of different growth types and find that selling more to existing customers is one of the best ways to increase value, as the company can leverage its existing resources to generate additional revenue at little additional cost. Gaining the additional revenues often requires the company to rethink and sharpen its offering for existing customers, which can be useful in attracting new customers as well. In a stagnant market, additional revenues from the existing customer base must come from the market share of competitors. This constitutes a drawback as competitors are likely to initiate retaliation actions to reconquer their lost sales. Price changes are an alternative measure to induce an immediate growth boost. However, price changes are more likely to cause retaliation actions from competitors and typically cannot be repeated. Other growth types come at a high cost (such as acquisitions) or require time and resources (such as product or market innovation).

Companies with continuous customer relationships and identified core accounts have the highest potential to grow revenues in their existing customer base. Recurring and frequent transactions can create superior customer understanding, which allows the company to adapt its offering to the customers' needs and develop customer lock-in. In contrast, project-based businesses and many B2C markets have lower potential if they do not have a clear customer base that can be leveraged in the growth program.

Cross-functional setup and ambitious targets set the foundation for a growth program

We observe that many companies develop routines in their operational sales that limit their ability to capture the full potential with their customers. Cross-selling and upselling products or selling additional services is constrained as account managers do not recognize the potential or are restricted by obstacles outside of their area of influence. A systematic revenue growth program allows capturing the potential: setting clear and ambitious targets pushes the sales personnel to rethink their focus areas and identify new opportunities. The increased management attention and expectations activate the sales organization to develop new routines and ways of working.

A revenue growth program is an enabler in removing obstacles to capture the full potential with existing customers. Removing obstacles often requires a cross-functional effort throughout the organization. This could entail the development of a single point of contact for core customers, creation and improvement of service offerings and enhancing delivery performance. Top level management attention to decision making and involvement of operations in implementation are essential in removing the obstacles.

The production and supply chain organizations have important knowledge that typically does not flow to sales automatically. For instance, understanding of the sweet spots in production at which the company has free capacity and a cost advantage is essential for sales to pursue the right opportunities. Operations can benefit from their involvement by developing a better understanding of customer needs which is essential for creating future competitive advantages.

The growth program can be planned efficiently if a systematic process is used

A systematic process is important in the planning phase. The basic steps are categorization of customers according to their growth potential, target setting on a detailed level and consolidation into an ambitious but achievable growth plan. A core team is formed to lead through the process and should include at least the head of sales and a project manager role. The early commitment of the core team is essential to drive the program forward and to build credibility.

During the formation of the work streams, it is a proven approach to follow the segmentation in the sales organization and to appoint the sales directors as leaders of each work stream.

Sales directors can involve account managers depending on the potential identified for their customers. In addition, the work streams should include representatives from operations to ensure that cross-functional cooperation is initiated early on. The involvement of all key stakeholders at an early stage in the planning process is required to create commitment to the program. The planning is supervised by a steering group which ideally includes top managers from sales, production and supply chain management. Their role is to ensure that the task is clearly defined, and that all areas find the right balance between ambitious and realistic targets. The planning phase is finalized with a formal approval of the plans, ideally by the Board of Directors. The formal approval by a high level of authority creates commitment and an urgency to deliver on the promises. The approval constitutes a clear milestone for documenting the targets and kicking off the execution phase.

The categorization of customers should be based on predefined criteria such as size, share of wallet, customer relationship and strategic fit of product portfolio. The assessment of these criteria pushes the account managers to identify the accounts with actual growth potential, rather than continuing to farm all existing accounts with equal efforts. The outcome of customer categorization is the identification of a limited number of customers on which efforts in the growth program should be focused.

The second step entails identification of growth targets for high potential customers and development of action plans. The focus on accounts with high potential ensures that enough effort and resources are available. Some key accounts with limited growth potential can be included selectively to ensure the strong position in existing business. However, it is not sufficient to set targets on the account level. Targets need to be set on product or product group level to encourage the sales person to think about where the new sales opportunities are and what is needed to capture them.

The consolidation creates the big picture across the plans and ensures that the targets are ambitious and realistic in all areas. It is important to take into consideration all effects, and potential sales erosion should be assessed to ensure that the new sales create growth and do not just replace existing business that phases out.

In our experience, 1-2 months is enough time to go through these three basic steps and develop the plan even for a large company with multiple business areas and production units. Tight deadlines help to prioritize tasks and to build up speed. Regular check-ups on a weekly or bi-weekly basis should be used to support and resolve issues. A tight time schedule creates momentum already in the development phase which is essential to create a sense of urgency and to get into the action mode. This is in particular true for sales persons: We have seen that once they get excited about a topic, they want to get things going and create results as soon as possible. In conclusion, the purpose of the planning phase should be to set clear and ambitious targets and to build up momentum rather than to develop a perfect plan that gets changed during implementation in any case.

An important factor in the process is to get the buy-in from sales persons and for the entire organization to engage in the planning and to commit to the targets during the execution. It is therefore important not to impose one-size-fits-all tools on them. Tools and processes should be developed in cooperation with the end users. For instance, spreadsheet templates for categorizing customers and consolidating targets should be easy to use.

Successful execution requires continuous follow-up and strong ownership throughout the organization

The ownership of targets and responsibility to execute should always remain with the sales persons. They should be free to use the approach that works best for them. The role of the core team is to enable the execution by removing obstacles. Educating account managers on how to do sales is detrimental to their motivation and typically does not improve sales performance. A good way to keep up the speed and create buy-in throughout the wider organization is to have kick-off sessions at all relevant sites. The kick-off sessions are essential to inform all stakeholders about the targets and the contribution expected from their side.

A regular follow-up is needed to keep the program high on the agenda and to enable fast responses when corrective actions are needed. The tracking of sales performance should answer three questions:

- Are we on track to achieve the target when we consider sales erosion?
- When do we need to close the deal in order to make the target?
- What are the hot cases in the pipeline and what does it take to close them?

The tracking uncovers operational issues that represent obstacles to closing new deals and delivering on them. The obstacles are raised to the program steering group as part of the regular reporting. It is important that the steering group shows a swift reaction to resolve the obstacle. The steering group is able to take decisions that go beyond the area of influence of an account manager and therefore can enable the program to reach the set targets. In addition, resolving operational issues is important because it builds confidence and commitment within the organization: the program goes beyond reporting and proves its impact in facilitating sales.

A typical operational issue is quality or delivery performance lagging behind customer expectations. Improving performance in current sales can be a major milestone for getting new sales. And superior performance gives a competitive edge towards competitors when negotiating the next deal. The sales organization often possesses information on potential improvement areas that is not available to operations. In order to prioritize the right improvement actions, sales should highlight the specific improvement areas and the potential impact, like new sales potential or revenue at risk. The responsible persons in operations then propose to the steering group mitigating actions to resolve the obstacle with appropriate time and effort. In some cases, the mitigation actions can be ad hoc and temporary solutions like stocking up inventories until operations can deliver reliably. In other cases, structural changes are required such as the creation of a single point of contact for dedicated accounts.

The job is not done after closing the new deals, as the ultimate goal is to increase actual sales. Obstacles also occur after closing the deal. For instance, the new sales are likely to be concentrated on a relatively small number of products for which the company has a competitive edge. As the new sales come into production, they can create bottlenecks and shortages when capacity has not been planned sufficiently. The sales organization has superior information on the type of potential new sales. Sharing their knowledge allows operations to take actions like creating additional capacity in a timely and coordinated manner. The program follow-up should facilitate such knowledge sharing, for instance by building a consolidated view on the newly closed deals and open opportunities across the entire company.

As highlighted above, the sales organization has a lot of information that is crucial for the success of the program. Typically, a great deal of this information does not flow automatically to the rest of the organization. The revenue growth program should strive to enhance communication between sales and operations. Also, communication from operations to sales is important. For instance, an operations responsible should have a good understanding of the products and services that the company can produce and offer at competitive prices. Sharing the insights on strengths in production allows sales to focus its efforts on the right areas and close the most value-adding deals. Insights from operations are also important in supporting production units with a poor track record in new sales as the sales organization can boost its efforts to bring in new deals.

Involvement of operations throughout the execution is also important to optimize customer satisfaction with the running production. While disruptions occur in any production process, a proactive approach from operations helps to mitigate the impact. In one case, a production unit had outsourced one processing step to a sub-contractor who went bankrupt on short notice. In a quick response, a significant share of the workload could be re-allocated to another production unit in close proximity. The action limited adverse impact on customer delivery and was later on approved by the steering group. More importantly, the production unit was very active in communicating the disruption to the customers through close cooperation with sales. In view of the early warning and transparency on ongoing mitigation actions, most customers were able to avoid disruptions in their own processes.

Besides the cross-functional effort from sales and operations, a granular approach in setting the targets and maintaining the momentum from short planning to execution are key success factors for the revenue growth program. As the program focuses on capturing the potential with existing customers, a separate process is needed to build up new customer relationships and feed them into the pipeline.

Sources
*Tim Koller, Richard Dobbs and Bill Huyett, Value: The Four Cornerstones of Corporate Finance, John Wiley and Sons, p.140–143 (2010)