

Innovation, Marketing, Sales and Company Valuation

Companies That Invest in Marketing and Sales Capabilities See 30% Higher Revenue Growth



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Companies with better marketing and sales capabilities grow faster than their peers. Revenue growth at companies with more advanced marketing and sales capabilities tends to be 30 percent greater than the average company within their sector.

That means in an industry growing at 4.0 percent annually, a company in the top quartile of marketing and sales capabilities typically grows by around 5.2 percent.

In today's competitive marketplace, growth is not only more important, but more elusive than ever, and companies must tap the full potential of marketing and sales to deliver better results.

This paper addresses marketing best practices that companies can adopt to drive top line growth, including:

- Delineating between strategic marketing and communications.
- Viewing marketing as an investment.
- Understanding capability strengths and weaknesses.
- Investing in high impact, institutional business and marketing capabilities.
- Creating an operating model that embraces change.
- Thinking strategically about marketing, technology, scaling and innovation.

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Delineating Between Strategic Marketing and Communications

When a major corporation that sells products directly to consumers puts together a marketing campaign to roll out a new product, the marketing department wades through megabytes of consumer behavior and competitive material and spends a lot of time strategizing about how to sell potato crisps or toothpaste. The marketing function manages product development and testing before launch, determines pricing, devises distribution strategies and advertises the product.

That's strategic marketing, in the big classic sense.

What's good for corporations is not good, however, for professional service firms, such as engineering, research firms, investment bankers, lawyers and accountants. And yes, they may have hired a "business development" officer, or a "marketing director," but they aren't really marketing. Their job is to apply marketing principles unique to services firms and to *communicate*.

That said, those services firms wishing to innovate and bring new product offerings to market advantage themselves by looking at marketing as a strategic function, just like major product corporations do. For companies of all types and sizes, the concept of integrated marketing communications where both strategic marketing and communications functions work seamlessly together, is best practice.

Best Practices

Sustainable competitive advantage flows to companies with the best marketing and sales capabilities. Investing to build a carefully chosen group of marketing and sales capabilities can yield a massive return—as much as five or ten times that of an investment in hard assets such as factory equipment. Several practices can give a company a sustainable competitive advantage:

1. Regard marketing as a strategic partner for growth.

Companies rarely calculate the return on investment (ROI) of building marketing and sales capabilities. Too often, leadership looks at marketing and sales as an expense rather than an investment in top-line growth. View marketing and sales as an investment, not an expense.

2. **Know strengths and weaknesses.** Companies that view marketing as a strategic function leverage their talent to deeply understand both their business capabilities and marketing and sales capabilities, and also how they compare against their best-performing peers. From here, companies can reveal what capabilities are resident and needed—and take action to shore up deficiencies.
3. **Don't bite off more than you can chew.** Changing how an organization works is not a short-term endeavor. Building capabilities requires focused attention. Keeping the scope narrow helps minimize the likelihood of failing or losing momentum. Celebrate the small victories.
4. **Sequence the development of capabilities with the company's stage of development.** It is important for a business to understand where it is in its marketing maturity. A successful investment in marketing and sales will not only require choosing the right capabilities, but requires developing them in the right sequence.
5. **Think institutional, not individual skills.** Businesses in early stages of development often rely on key rainmakers and rock stars to make things happen. These individuals often have their own way of doing things. In order to achieve sustainable scale, companies need to codify best practices and build capabilities over time.
6. **Build a culture and operating model to keep it humming.** In the end, building marketing and sales capabilities alone isn't enough. Without the right operating model to support change, even the most advanced capabilities will wither. Culture, in particular, should not be underrated. Top-performing companies actively build a culture that's customer-focused, managed for the long term, creative, confident, flexible, and fast moving.
7. **Set high impact priorities.** It's a mistake to invest in capabilities without thinking through which are likely to have the most impact or are most important to beat the competition. Target the capabilities that matter the most.

Marketing Choices

Companies can choose from eight marketing capabilities, which are currently driving the success of business marketing efforts today. Choice requires saying “no” to those capabilities that aren't likely to drive the most impact. A good rule of thumb is to pick five capabilities.

Marketing and
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1. **Digital marketing**, including online, mobile and social.
2. **Marketing effectiveness**, such as metrics, testing, dashboards.
3. **Innovation**, including engaging new customers in new ways, developing new channels and partnerships.
4. **Integrated multi-media campaigns** with multiple media sources across multiple channels.
5. **Customer Relationship Management (CRM)**, including managing data and customer retention and growth.
6. **Portfolio management**, such as managing performance across a set of products or offerings.
7. **Customer insights**, including surveys, panels and ethnography to gauge satisfaction, ways to attract and deepen relationships and develop new products and services.
8. **Owned digital assets**, such as websites and communities to engage customers.

Social media is one area in which businesses are challenged to figure out what investments will yield the best results. For business-to-business marketers, LinkedIn is the most effective social media platform, followed by Twitter and YouTube. Companies should first direct their social media resources to these properties. Interestingly, the same social media usage patterns hold true for nonprofit organizations and foundations.

Among business-to-business marketers focused on communications, nearly nine out of ten have a content marketing strategy, yet only four in ten rate it as effective. Keeping up with content production and hiring marketing professionals are management's biggest challenges.

Looking at the effectiveness of tactics, in-person events and interactive visual content such as webinars, webcasts and videos are the most effective, though many differences in tactics are marginal. Blogs, white papers, case studies and e-newsletters are nearly as effective and can be less expensive. Finally, marketing effectiveness is superior at firms with a documented strategy.

Company Capabilities Development

Marketing now extends throughout the firm, tapping virtually every function. And while the titles, roles, and responsibilities of marketing leaders vary widely among companies and industries, the challenges they face – and what they must do to succeed – are deeply similar. Leading companies view marketing as a strategic function and leverage their talent to deeply understand not only their marketing and sales capabilities but also their business capabilities and how they compare against their best-performing peers, pursuing:

- Related businesses, or capabilities adjacencies, to complement existing product and service offerings.
- New geographic markets.
- M&A strategies that use capabilities as the basis for inorganic growth for superior financial results.
- People, processes and technologies, which are the capabilities to develop more so than hard assets.

Many senior executives still argue that the ROI from marketing and sales is just too difficult to assess, especially when compared with revenue-generating line businesses. So, instead of taking a systematic and deliberate approach to investing in their institutional marketing and sales capabilities, many companies choose to focus on tactical efforts that provide quick, visible results. That's a mistake. Instead, companies should select the right path and keep doing the right things long enough to join the ranks of their highest performing peers.

The Chief Marketing Technologist

In 2012, the research and consulting firm Gartner predicted that by 2017, a company's chief marketing officer would be spending more on technology than its chief information officer. That oft-quoted claim seems more credible every day.

A new type of executive is emerging at the center of this shift – the chief marketing technologist (CMT). CMTs are part strategist, part creative director, part technology leader, and part teacher. The job: aligning marketing technology with business goals, serving as a liaison to IT, and evaluating and choosing technology providers. About half are charged with helping craft new digital business models as well.

Achieving Scale

To expand revenues, companies must also be well positioned to scale. Early on, companies often operate with a goal of putting food on the table, yet the path to growth requires developing scalable business and sales processes, and a new mindset.

1. **Strategic.** In order to scale and expand revenues, a company needs to narrow target markets, becoming less opportunistic and more strategic, making fewer but bigger, bolder bets and attracting work it is uniquely positioned to fulfill.
2. **Products.** Companies grow by creating products that can be scaled. So, while early on in its development cycle a business may take on project work, a different business model and product suite targeted to its chosen markets is required to diversify the customer base and achieve scale.
3. **Partnership.** To grow, companies need partners to enhance reach and build brand equity. So while early on, companies may stay close to customers and own channels, supply chain and product development, as it matures, a business must rely on partners for non-core activities.
4. **Processes.** Mature companies need to have processes designed to scale, particularly in strategic planning, sales and client management, product development, and recruitment and talent development. Processes need constant innovation, reducing bottlenecks and other inefficiencies.
5. **Brand.** Early stage companies rely on referral business and relationships. Yet to reach new customers, price optimally, and scale, focusing on brand builds broader awareness and reach.

Innovation Models

Companies fall broadly under a handful of innovation categories. A company's approach to innovation in the growth stage of its business life cycle affects how much and for how long it will capture the value it creates.

1. **Market makers.** These firms create value by anticipating unarticulated, or latent needs. Customers frequently experience an "I didn't know I was missing it; now I can't live without it" reaction to their products.

2. **First movers.** These firms create new categories or innovate in existing categories to such an extent that, in effect, they become a new category. These firms have a culture of courage that supports expansion and enables the creation and capture of value.
3. **Fast followers.** These companies view significant investment in innovation as a drain on the bottom line. Once they achieve early success, they will take the edge off their interest in innovation for a while.
4. **Niche companies.** These firms choose a small piece of a general market, where specialized knowledge matters as much as capability. They are focused, carving out a specialized niche in which they can apply their unique expertise.
5. **Frequent companies.** These companies are often found in highly competitive industries like apparel or food service. New offerings are mandatory and must be created quickly to stay ahead of the competition. These businesses constantly field initiatives to win new customers and hold the attention of existing ones.

Management teams can choose the best model or mix of models for their businesses and then execute – organizing, and allocating resources accordingly.

Social Capital

A company's marketing challenges extend to its social responsibility. Companies that integrate social issues and other sustainability factors, such as environmental issues, in their strategies and operations can favorably build their brand perceptions and equity.

For example, on the agenda of virtually every CEO today is enterprise-wide data privacy and security. Marketing and sales plays a critical key role in the mandated protection of customer and other sensitive data. Data should be protected no matter where it resides – in databases or laptops – and marketing can help position products and communications to help customers and other stakeholders feel comfortable with the firm's data privacy and security practices.

Ethical marketing and advertising practices are among the top social considerations with potential to impact a firm's financial performance. Management attention to these factors is critical in fields such as pharmaceuticals and medical supplies and equipment.

Management teams can learn more about the social factors relevant to their industries through the Sustainability Accounting Standards Board (www.SASB.org), which has materiality maps for 88 industries and 10 sectors.

Sources:

The material in this whitepaper relies on the experience of Quist advisers and other research.

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3. "The Rise of the Chief Marketing Technologist," Harvard Business Review, July 2014.
4. "B2B Marketer Content Marketing Survey," Content Marketing Institute, October 23, 2014.
5. "The Ultimate Marketing Machine," Harvard Business Review, July 2014.



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Quist's Management Insights™ tool poses questions for management teams to assess direct and indirect valuation drivers to help organizations determine where they can improve and create financial value.

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Conclusion

Business owners and CEOs looking to drive greater valuations for their companies can look to developing marketing and sales capabilities for top line growth. Research demonstrates that revenue growth at companies with more advanced marketing and sales capabilities tended to be 30 percent greater than the average company within their sectors.

About

At Quist, we work with business owners across the full lifecycle of their businesses, from start-up stage through growth to eventual exit.

- Quist Insights™ gives business owners and trusted advisers visibility into company, strategic and market insights to improve management decision-making and business valuation. Our Management Insights™ tool is designed to engage your leadership team, board members and investors in a more robust value creation and risk management process.
- Quist's core valuation services advises management teams on the front end of a transaction by identifying key financial metrics and value drivers of a business, and in understanding market valuations.
- Quist also advises on the back end of transactions by assisting eventual acquirers with financial reporting requirements.

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