REVENUE GROWTH IN A DIGITIZED WORLD

A CHIEF EXECUTIVE GROUP/ALEXANDER GROUP RESEARCH REPORT

Chief Executive Group

CORPORATE BOARD MEMBER | Chief Executive | Chief Executive NETWORK

Alexander group

Technology-driven innovation and the next generations are transforming the way corporations evolve their go-to-customer models and the solutions they deliver. As industries grow increasingly saturated with newcomers and traditional sales models get disrupted, modern organizations must face the challenge of adapting their growth strategies to this new reality in order to survive.

The lines between physical and digital worlds are blurring, and it is now more important than ever for companies to not only know their customers, but to also be quick to react to changes in buyer behaviors.

For that, companies need to reexamine their sales strategies from the ground up, starting with customer identification and the redefining of personas.

Amid this change, in June 2019, Chief Executive Group and Alexander Group surveyed nearly 400 CEOs and business leaders on their future growth strategy and their readiness to adapt to the new marketplace. This report presents our findings.

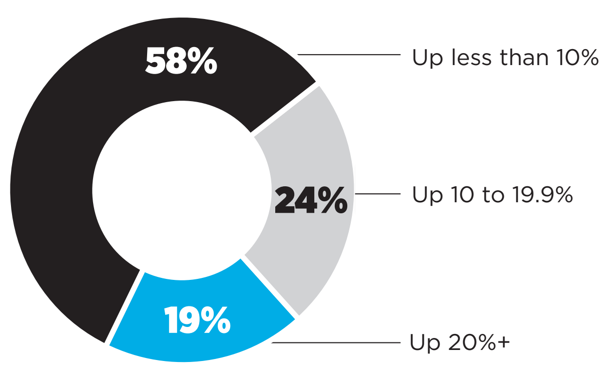
Chief Executive's June reading of CEO Confidence Index—America's largest monthly survey of CEOs—shows that despite concerns over a potential economic slowdown and the typical volatility that accompanies an upcoming Presidential election, 7 out of 10 CEOs anticipate their company's revenues to increase over the coming year, and 63% of those say they expect that increase to come from e-commerce exclusively.

E-commerce businesses have been growing at an accelerated pace for the past couple of decades. And while this growth is expected to slow over the coming years, this digitization has altered the landscape and created a new buyer journey. With a seemingly unlimited number of resources at their fingertips 24/7/365, today's clients are seeking a much deeper level of engagement on the part of companies as they navigate through their decision-making process. From social channels to online reviews, modern buyers expect to find answers to their questions rapidly. This ease of access to information from sources outside of the organization forces companies into a non-stop pursuit to ensure a positive and robust presence everywhere a potential sale may be made, whether this leads to a hard close or to a simple nudge down the purchase path.

A recent Alexander Group whitepaper entitled *Digitizing the Revenue Growth Model* discusses how this new marketplace, if poorly exploited, creates the additional risk of leaving doors open for competitors to swoop in. This is one of the many reasons why it is critical for companies to embark on the digitalization journey by first gaining a sound understanding of how their customers behave—and how they are evolving amid these channels.

Forecasted Increase in E-Commerce Revenue

As a % of CEOs expecting revenue increases over the coming year



* Percentages may not add up due to rounding.

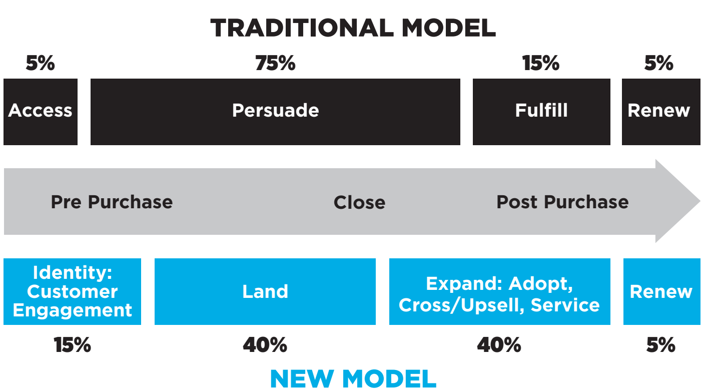
To adapt to an ever-evolving and rapidly changing reality, companies must regularly challenge their existing strategy and seek ways to further optimize it. This can only be achieved if companies commit sufficient resources to the process. Half of the CEOs in our survey said they expect to increase their capital expenditures and headcount over the coming year. And when asked where those investments will be made across the customer journey, most CEOs revealed a fairly balanced strategy, allocating investments across the purchase path:

- 73% in the awareness phase (new customer identification and pre-sales engagement)
- 72% in the assessment stage (sales pursuit and closing)
- 62% in the adoption phase (post-sale use and customer success/results)
- 47% in e-commerce and digital sales channels

These findings corroborate a trend we've observed in recent years, where companies taking the next evolution in buyer journey alignment are shifting their headcount investments away from the traditional selling "persuasion" role to an even split of investment in pre- and post-sales role (e.g., lead generation, customer success and sales engineering). Customer-facing roles are becoming increasingly specialized. No longer does a single role lead the entire process; rather, focused pre- and post-sales roles have been shown to help increase seller productivity by taking on non-core selling tasks.

Traditional Model vs. New Model

Legend: X% = % of Total Headcount Costs



*Source: Alexander Group

The model depicted above illustrates how, when addressing the basic elements of client engagement from pre-purchase (assessing and simulating interest) to closing (persuading) to the realization of value, companies are achieving a better balance across the entire (now non-linear) path.

In a manufacturing study conducted by Alexander Group, 98% of surveyed executives said employing a more customer-oriented sales strategy was a top priority at their organization. And those who had successfully reoriented themselves realized an 8% higher growth rate compared to their product-centric peers.

It isn't surprising, then, that half (48%) of the CEOs in our June 2019 study said building and executing segment-specific strategies is the most important factor in their growth, followed by enhancing customer relationships—ahead of launching new products.

3 Most Important Growth Factors

IMPLEMENTING A CONTINUOUS REVENUE STREAM AS A GROWTH STRATEGY

Continuous revenue stream is gaining tremendous ground as a successful pricing model in this new era. As the name implies, a continuous revenue stream—or recurring revenue model—generates revenue throughout the customer's entire lifetime. This aaS (as-a-Service) model, whereby a company sells a product as a service, provides significant advantages, including predictability of future revenue and the strengthening of the customer relationship. While several industries have long relied on recurring revenue models to ensure their growth and market share retention, digitization is now compelling many others to consider making the switch.

This evolution comes in response to not only how customers want to buy (consumption vs. big fixed cost), but also what investors want to see. Companies, public and private, are driving toward recurring revenue to drive valuation, as investors place a premium on recurring revenue streams. The model increases stickiness, predictability and the network effect of certain products.

In our survey of 384 CEOs, the importance of the recurring revenue model as a strategy today was ranked 6.8 out of 10, on our 1-10-scale. Considering the prominence of subscription-based revenue in certain industries, it comes as no surprise that advertising, marketing, PR, media and entertainment, as well as telecommunications and IT CEOs attribute greater value than the average CEO to the model, at 8.6/10 and 7.9/10, respectively. Nevertheless, our survey demonstrates how the model is rapidly gaining momentum across industries, with CEOs of all but two sectors expecting it to become a more prevalent part of their strategy within only two years.

Importance of recurring services as a strategy, on a 1-10 scale

	Today	By 2021	+/- %
Retail/Trade	4.9	5.8	18%
Health Care	5.8	6.5	12%
Consumer Manufacturing	5.9	6.6	12%
Industrial Manufacturing	6.5	7.1	9%
Wholesale/Distribution	7.0	7.5	7%
IT/Telecommunications	7.9	8.4	6%
Professional Services	7.1	7.5	6%
Financial Services	7.0	7.1	1%
Adv./Marketing/PR/Media/Ent.	8.6	8.6	0%
Construction/Eng./Mining	6.0	5.9	-2%
Transportation	7.7	7.2	-6%

We've also observed that while many companies recognize the need for this recurring revenue model, most still struggle to implement it. Establishing the right pricing strategy to maintain or grow margins in this complex operating expense vs. capital expenditure model remains one of the main challenges, as well as the fact that this model challenges the skills and capabilities of current teams.These challenges may explain organizations' level of readiness in adopting the model, which CEOs in our survey ranked at 6.4 out of 10 today but expected to reach 7.2/10 by 2021.

To enhance their readiness and improve their chances of success, companies contemplating a transition to a recurring service as a strategy model must address five key areas, including:

1. Testing your strategy

Successful organizations take the time to understand their clients' needs and business model and how those evolve through time. Sit down with your top clients to fully grasp the value you contribute—or *could* contribute—to their success and visit with your first-line sales managers to gain a better understanding of how they interpret your strategy. The link between your customers' and managers' points of view will help you determine whether or not your sales team has continuity in the message and can deliver differentiated value.

2. Appraising current value propositions

Scorecard your top value propositions with your marketing and product leaders to identify gaps in both product and delivery. Consider the following:

- Do our value propositions offer differentiation to the competition?
- Is there a compelling message to persuade a buyer to act?
- Are our value propositions quantifiable, and can we show a measurable difference?
- Are our value propositions simple enough for sellers and marketers to deliver in one breath?

3. Inspecting both pipelines

All organizations have two interconnected pipelines: an opportunity pipeline and a product development pipeline. Executives need to review their opportunity pipeline regularly to ensure rigor in its measurability and believability. After all, this is the source of quarterly growth. As well, a robust product development pipeline ensures sufficient new ideas on the horizon that connect value to actual buyers. Connecting both pipelines drives a message that everyone should focus on organic growth, while winning today.

4. Evaluating your front-line talent

Front-line sales managers have one of the most important jobs in the organization. Successful companies recognize that these leaders are the connection between the company's strategies and execution in the field.

It is impossible to successfully set a new growth-oriented vision with mediocre sales managers. Conducting a fair and thorough assessment of your front-line sales managers is critical to success, but so is having the discipline to remove those who either cannot continuously improve or have the capability to put the new strategy into action.

5. Fixing the parts that are broken

Sales incentive compensation is one of the most powerful alignment tools in the compensation kit, but it also carries significant risk if not used properly. If your compensation plan contains broken elements (e.g., artificial pay caps or inappropriate metrics), you can use incentives to investigate the weak links. However, use caution. Sales incentive design is complex and easy to over-engineer, so make sure you've first developed a strategy that aligns future sales compensation to the behaviors you want to reward.

Chief Executive Group, the leading community for business leaders worldwide, publishes Chief Executive magazine (since 1977), ChiefExecutive.net, Corporate Board Member magazine and BoardMember.com, as well as conferences and roundtables that enable CEOs to discuss key subjects and share their experiences with their peers. The Group also runs the Chief Executive Network, the leading CEO membership organization arranged by industry, and facilitates the annual "CEO of the Year," a prestigious honor bestowed upon an outstanding corporate leader, nominated and selected by a group of peers. Learn more at ChiefExecutive.net and BoardMember.com.

The Alexander Group (www.alexandergroup.com) provides revenue growth consulting services to the world's leading sales and marketing organizations, serving Global 2000 companies. Founded in 1985, Alexander Group combines deep experience, a proven methodology and data-driven insights to help revenue leaders anticipate change, align their go-to-market resources with company goals and make better informed decisions with one goal in mind—to grow revenue. The Alexander Group has offices in Atlanta, Chicago, San Francisco, Scottsdale, Stamford and London. Learn more at AlexanderGroup.com.