

THE
LEAKY FUNNEL

EARN MORE CUSTOMERS
BY ALIGNING SALES & MARKETING
TO THE WAY BUSINESSES BUY



HUGH**MACFARLANE**

EARN MORE CUSTOMERS...

"A curiously entertaining read. The Leaky Funnel strikes at the heart of the single most important issue in any sales business - managing the 'funnel'. This unique approach provides a real solution to improving sales and marketing effectiveness that can be implemented in even the best-run businesses."

John Ruthven. Regional Managing Director, Computer Associates

BY ALIGNING SALES AND MARKETING

"At last something different. This is a realistic picture of how sales and marketing get negotiated inside an organisation. The leaky funnel is a great metaphor for B2B marketing in a mature market."

Grahame Dowling. Professor of Marketing, Australian Graduate School of Management

"You'll recognize your associates and cohorts on every page as they work through a truly useful, highly relevant, easy to implement approach to bringing sales and marketing together - get it before your competitor does."

Don Schultz. Professor Emeritus-in-Service, Northwestern University, USA

"... developing a sales and marketing team from the ground up, the process described just made sense. Moving to implementation within our own business was a 'no brainer'!"

Craig McKell. General Manager Business Development, TCNZ Australia

"Within the framework he provides, Macfarlane shows the way to engage the sales and marketing teams in the process of growth. Getting those two groups to work in concert rather than in conflict is a welcome recipe for many CEOs."

Michael Ward. formerly VP of Corporate Relations, OzEmail and CEO, ECOS Corporation

...TO THE WAY BUSINESSES BUY

*"Reading *The Leaky Funnel* from cover to cover rewards the reader with a step-by-step understanding of what is required to change a company so it can adopt to the modern customer focused world. The heroes of this story are the directors who chose a CEO from the customer base and gave her the time to understand the problems and bring the staff with her in devising the solutions."*

Robert Gottliebsen. National Business Commentator, The Australian

THE LEAKY FUNNEL

HardBits had a strong reputation as an innovator in the supply of the plastic beads used by manufacturers for the production of a range of plastic products. This innovation had earned HardBits the right to command a premium, but this was changing as the beads became a commodity. Faced with the inevitable price pressure of a commodity market, HardBits' CEO Frank McInroth set out to gain Board support to purchase a small supplier with a premium product in the belief this would have a knock-on affect on their overall price positioning.

He not only lost his argument with the Board, but also his job. Frank's replacement Sue Hunt was hired, not for her leadership of technology, sales or operations, but because she knew how to be a customer.

The Leaky Funnel is the story of Sue's journey as she leads her team to uncover and then remove the roadblocks that prevent HardBits from earning new customers.

The metaphor of the funnel has been used by sales management for many years, yet the idea of a funnel that leaks is a twist - if an obvious one. Likewise, *The Leaky Funnel* draws on both established practice and genuine departure.

The Leaky Funnel is an extremely accessible story, which uses this story of discovery to reveal an innovative approach to planning, managing and benchmarking the Sales and Marketing functions as a co-ordinated resource. The false starts, dead ends, and genuine discovery are dealt with in an easy narrative style. Through Sue's clear-headed leadership, the reader is introduced to this innovative planning framework and the many useful management principles that support it.

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Be a customer



Sue's was an unusual path. Conventional wisdom had it that there were three legitimate paths to becoming CEO of a company that manufactures and markets complex products:

- In the early development phases, the ideal leader brought technology leadership;
- In the growth phases, a strong sales or marketing leader was needed to accelerate growth;
- As the market matured, operational efficiencies became key and the leader was often drawn from law or accounting to bring a tight focus on costs and risk.

Sue Hunt wasn't hired as CEO for any of these reasons.

Sure, she had run successful businesses in previous roles and knew her way around the industry, but this wasn't it either. The Board had decided that their products were good enough, but that was all. In a mature market, customers now viewed the offerings from HardBits and all the other leading vendors as much the same. Despite being founded on leading technology, the market no longer valued this, and HardBits was going to need something other than technology to return it to profitability.

Sue was hired because she knew how to be a customer.

HardBits

Frank McInroth, Sue's predecessor at HardBits, was a strong leader, with a background in Sales. He knew what the customers wanted, and worked hard to make sure his company had the ability to meet their needs. He expected a premium for their product, and pushed his staff hard to earn it. As one of a number of providers of the plastic beads used by manufacturers as raw material to be melted and moulded into plastic for a range of goods, HardBits was finding it increasingly difficult to command a premium.

Frank's strategy was to buy a small company with innovative technology that could add to HardBits' range of products. He felt that this leadership in one small - but key - product would allow them to position as a premium provider for their whole range. He

had in mind a small job-run manufacturer that was in trouble and could be picked up 'for a song.'

If Frank was mildly frustrated that more customers were not buying his products, traditionally known for their innovation and quality, then he was speechless at the thought that his Board would not help him to change that. Frank hatched a plan.

Every quarter, Frank and his Sales Director were in the habit of hosting a Customer Advisory Panel, which had become known as the 'CAP meeting.' Or, as some of Frank's staff had come to call it, the 'CAP in hand' meeting due to the frequency with which Frank found himself addressing some aspect of customer dissatisfaction.

Frank invited two of HardBits' Non-executive Directors to sit in on the upcoming CAP meeting. His aim was to gain support for his submission to the Board that they needed to invest in acquiring a small manufacturer. His argument was that the commoditisation of the plastic business meant an inevitable decline in prices and margins unless they created new products able to command a premium. This view had not enjoyed much support at the last Board meeting.

DHM was a medium sized toy manufacturer, and heavy user of plastics from HardBits. Knowing that the Manufacturing Director of DHM was generally friendly towards HardBits, Frank had asked him to give HardBits a friendly blast about being "just one of the pack" at the upcoming CAP meeting. Maybe even play it up a bit and threaten to "shop their business around."

CAP in hand

The usual suspects rolled into the meeting. Frank and his Sales Director had been careful about who they should invite to play an ongoing role in the CAP meetings to ensure it proved useful as a feedback and testing forum. Although one or another of the regular participants was occasionally unavailable, the meeting usually included the Manufacturing Directors from three large manufacturers (one of which was DHM), one small company known for its

innovation, one old fashioned manufacturer considered something of a laggard, and one trouble maker.

The mix worked for them, and Frank knew that with DHM primed to give them a friendly blast, the two Directors would get the picture that change was needed.

The two Non-executive Directors Frank had invited to the meeting were different as individuals, but had a healthy respect for each other. Justin Armitage had a passion for leadership, and liked to see a company take a stance – even a wrong one. Jenny Guilford had been Sales Director for HardBits before retiring to their Board, and that of two other companies. The CEO, Frank, had identified Jenny as a natural ally on the Board. Given Justin's disposition towards strong leadership, Frank felt that Jenny and Justin were ideal candidates to invite to the meeting to hear about the product issues 'straight from the horse's mouth.'

But Frank didn't count on Sue.

As CEO of DHM, Sue Hunt knew that her technology partnerships were critical to her success. She had strong views about relationships, and decided that HardBits' quarterly CAP meeting was a good opportunity to air them. Sue stood in for her Manufacturing Director at late notice, and neglected to tell Frank in advance.

As a toy manufacturer, DHM had made significant use of HardBits' plastics over a number of years, and Sue had proved to be a handful as a customer. It wasn't that she had unreasonable expectations, but that poor salesmanship from the succession of sales execs HardBits had thrown at her annoyed Sue to distraction.

"You guys don't seem to get it. Plastic is plastic these days. It's how it gets used that makes it different. You have had four reps on my account in the last three years, and not one of them has even pretended to understand how my business works, let alone how your products can help me win in my market. Plastix are all over me with engineers and consultants, and if we hadn't had a bad run with them a year ago, I'd have switched already."

Frank made an attempt to reinterpret Sue's words into a case for differentiated product, but Sue would have none of it. She had

a bee in her bonnet about poor salesmanship, and made very clear that her issue had nothing to do with product.

“Take packaging. We shifted to metric containers for our raw materials four years ago, but you guys still use imperial. I have told each of the four reps you have assigned to me that I have to double-handle the beads to get them out of your containers and into ours. This simple issue adds a full day to our inventory cycle, yet you’ve done nothing about it. None of your reps have ever seen our inventory process, let alone tried to find a way to streamline it.” Frank looked up as if to regain control, but Sue was just getting started.

“Your invoicing is inflexible. We receive goods from you many times a month, so we have agreed to pay 60 days from statement. Every time you send out a new rep, I tell him I want statements issued on the last day of the month. But every month, I get statements on the 15th. This means we have to do a manual cheque run every month just for HardBits.

“I don’t need you to change your plastic beads, just the way you deal with me. Yet every time I get a new rep out here, they want to talk about new plastics and how great your technology is. I DON’T CARE! And I bet your new customers don’t care either.”

The two Non-executive Directors turned to each other and grimaced. HardBits’ efforts to gain significant new customers were hardly the stuff of legends.

The CAP meeting was not Frank’s finest hour.

A change, but no holiday

The inner-city restaurant Sue found herself in a fortnight later was not one she’d been in before, but knew its reputation as a place where serious business was discussed. It’s the décor was not going to win any design prizes, but Sue guessed that many had taken advantage of its maze-like layout for discrete conversations.

She turned her attention to her hosts. “I’m delighted to see you again, but am not sure why we’re here.” Sue swirled the wine in

her glass as she formed her words, before settling on "I think I said my bit at the CAP meeting."

"Sue, we want to make a change, and we need your help. We recognise the need for our engagement with customers to improve, and we'd like to ask you to help us." Sue's hosts were the two Non-executive Directors who she had met at the CAP meeting a fortnight earlier - Justin Armitage and Jenny Guilford. Jenny looked up to see what reaction her statement would get from Sue.

"It's your problem, not mine Jenny, respectfully. Don't you think?"

"We'd like to make it your problem, Sue." Justin, the other director, wasn't one for beating around the bush. "We'd like you to lead HardBits through its greatest challenge."

Frank, the incumbent CEO, lost his argument with the Board. Three months later and several dinner meetings between Sue and the HardBits Board, he also lost his job. Sue replaced Frank with a clear mandate from the Board: *in a maturing market, make us win through superior customer skills.*

Sue had taken some convincing that HardBits' Board really understood what they were asking for. They liked the idea of being customer-centric, but she wondered if they were really ready. On more than one occasion during the discussions Sue had also wondered whether she herself was ready.

The Chairman of HardBits, Lars Ingvorson liked his market, but was not happy with his place in it. In the final meeting before Sue's appointment, he laid out the challenge. "Let's be clear Sue, plastics manufacturing is not going to change. There is no technology advantage we can create or buy. Our customers though, are innovating all the time, well some are anyway. We will win by being more fully-embedded in our customers' businesses." He paused, more for effect than for breath.

"I want you to make us the best at understanding the customer. Not just what they want, but also how they want."

"And by translating that understanding," chimed in Jenny, a fellow Director. "We are not a university. We have to learn how to

create, *then use* this understanding to our advantage. Being nice to our customers is going to help, but it's not enough. We need to learn how to understand our customers better, and then to leverage this understanding as a means of gaining new customers – many new customers.”

Author's note

This is the short story of Sue's journey as she uncovers and then removes the roadblocks which prevent HardBits from earning new customers. In the process, Sue discovers an approach to earning customers that turns traditional approaches to Sales and Marketing on their head.

HardBits, Sue, her colleagues and all the characters and companies in this story are wholly fictional. Each character has been created to communicate one of the dimensions of a process that aligns the interests of all the key contributors for a business that is trying to improve its ability to earn new business. Traditionally either Marketing or Sales takes responsibility for market planning, but we have found it to be more effective to bring Sales, Marketing, CEO, Finance and the product leaders (Manufacturing in the example of HardBits) together. To do this requires a framework that each can relate to.

I chose to use fiction, and therefore a story and a dialogue, to make what might otherwise be a dry argument more interesting. In doing so, I acknowledge a number of risks, including that of appearing to trivialise the subject and the extent to which this represents a genuine breakthrough in the way businesses plan their approach to sales and marketing. I trust that the resulting story allows you to recognise parallels between HardBits and your own business, and to take away the key messages, but also to enjoy the process.

Sue's journey is broken into five discrete stages, each representing a manageable block of reading. You may wish to divide your reading into the following:

1. *A beginning of sorts*, and *Hearing voices* together describe Sue's attempt to fix a problem that she doesn't quite understand, and then her attempt to understand the problem.
2. *Four anchors* is somewhat shorter, but is worth reading on its own as it defines the problems faced by many organisations as they seek to grow by attracting new clients.

3. In *Mosaic*, Sue and her colleagues uncover the answers, even though they don't quite line the pieces up in the right order.
4. *The road and the rubber* puts these answers to the test and in doing so shapes them more fully. The execution of the plan delivers measured results, and brings Sue's first journey to a close.
5. *Come Monday* is something of an epilogue and together with the copy of HardBits' plan can be included in this final block of reading.

Along the way you will meet some of Sue's team and three Non-executive Board members. I have appended a basic organisational chart to which you can refer to keep their roles clear.

Much of what Sue and her team discovers is initiated by discussions, misunderstandings or incomplete interpretation from some excellent management books one or another of them has read. Sue's booklist is also appended to this story, including a brief description of the key message Sue and her team take from each of the books.

Now, finally, what this book is not: Sue's journey, and that of her team, is a voyage of discovery. What I hope you take from this book is dissatisfaction with the status quo of how Sales and Marketing is planned, measured, and managed in your organisation, and some insights about a framework for changing this. *The Leaky Funnel* will not give you a recipe of prescriptive tactics, but a way to select your own.

For:

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- crisp reviews of books we have found to be useful on the subject of sales and marketing effectiveness, and
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About the author

Hugh Macfarlane has learned from and provided advice to some extraordinary individuals over the last 20 years. They have been investors, Boards, CEOs, Directors of Sales or Marketing, and other senior managers of global and local corporations leading in their fields of computer hardware and software, telecommunications, healthcare and financial services. Their businesses market products and services with sales cycles ranging from short and highly transactional, to long, complex and strategic.

The central argument of *The Leaky Funnel*, that a new framework is needed for planning and managing the aggregate Sales and Marketing force, is based on many years of experience serving these leaders. The new framework proposed in the book has now been well proven by many leading global and local businesses as a means of accelerating the effectiveness of their endeavours to earn more customers.