

MarketingProf^s.com

BENCHMARK REPORT

Sales & Marketing Alignment

A MarketingProfs Benchmark Report

April 2005

by **Hugh Macfarlane of MathMarketing**

marketing know-how from **professionals + professors**

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MARKETINGPROFS BENCHMARK REPORT

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April, 2005

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1. Introduction

Businesses that report success in their efforts to align Sales and Marketing are producing staggering improvements in their ability to earn and keep business customers.

- What are businesses doing to better align Sales and Marketing?
- What are they measuring, and what do those measures tell us?
- What are they *not* doing (that other businesses are)?
- How is the ability of businesses to earn and keep new customers affected by alignment?

In January 2005, MathMarketing and MarketingProfs obtained the views of Marketing professionals from around the world about the alignment between Sales and Marketing.

With 1390 detailed responses from businesses headquartered in 84 countries, we have a solid base of considered opinion. Along the way, we obtained clear and sometimes revealing insights into this issue, and numerous Sales and Marketing benchmarks for more general use.

32% of businesses see the alignment between Sales and Marketing as a 'top three' priority for the year ahead. This report has been prepared to shed light on why, and what these businesses are doing about it.

2. Executive Summary

32% of those surveyed see the alignment between Sales and Marketing as a “top 3” priority for the year ahead

Large sales forces and a strong services representation

Unchecked opinions, but the broadest possible sample

2.1 Who’s Opinion?

Sales and Marketing alignment has been on the agenda for some time, but to what effect? Almost 1400 Marketing professionals from 84 countries recently shared their experiences with MathMarketing and MarketingProfs.

This report has been prepared to shed light on this challenge. Just over 50% of the respondents are marketers, 22% have both Sales and Marketing reporting to them, 9% are in Sales, 7% in research or strategy and 6% are consultants.

Some of our respondents are fresh (23% have worked for 15 years or fewer), and some are seasoned (39% have worked for 25 years or more). While 61% are from businesses headquartered in the US, businesses based in a total of 84 countries have their opinions represented.

They come from a range of industries, with almost half (46%) coming from those industries which traditionally have large sales forces (technology, manufacturing, financial services, media and healthcare). 72% of the total revenue pool represented by these businesses comes from B2B (their customers are businesses rather than consumers), and 40% of the total revenue generated is derived from services.

We chose to use a survey rather than in-depth interviews. By electing to get a wide and untested opinion from many, rather than one validated with a few, we made some trade-offs. Readers should understand that the data collected is the opinion of the participants.

Where possible, the data has been validated against the experience of staff with many years’ experience aligning Sales and Marketing. But we have allowed the data to tell its own story, and invite you to use it to inform and influence your own strategy, rather than to accept the findings as ‘prescribed’ changes.

2. Executive Summary

2.2 Why Are Businesses Chasing Alignment?

Alignment is more than a noble cause; those businesses which report the greatest success in aligning Sales and Marketing are:

- 1. Growing 5.4% faster year-on-year than their competition.**
“All boats float on a rising tide”, but how high? Because some industries are growing faster than others, even the laggards often do well. But those businesses that report the greatest alignment are not just growing; they’re growing 5.4% faster than their competitors in the same industry.
- 2. 38% better at closing proposals than non-aligned businesses.**
Those reporting the greatest alignment between Sales and Marketing are closing an average of 54% of proposals offered, against 39% for those who are struggling with alignment.
- 3. Churning 36% fewer of their customers to competitors each year.**
Every year, businesses lose existing customers to their competitors. Churn is more common in some industries than in others, but is an issue for all businesses. At 7%, businesses which have had greater success in aligning their Sales and Marketing have the lowest churn, while their laggard counterparts are losing 11% of their existing customers each year.

These are no small improvements. With all the efforts to grow by earning and retaining more customers, there are no easy answers. But the improvements these businesses have found through alignment are significant, clear, and worthy of consideration.

2. Executive Summary

2.3 What Are “Aligned” Businesses Doing More (and less) Of?

With 60 detailed questions and 1390 responses, the pool of data collected is significant. The analysis possibilities from this data are enormous, but we have identified in this report those that revealed the greatest insight.

We found that businesses reporting the greatest alignment between Sales and Marketing were commonly doing a number of things differently from their less-aligned counterparts.

#1 - Measure Sales on how effectively they use leads from Marketing

Aligned businesses report that they are *not* focused on measuring Sales on the percent of proposals converted to sales, but on how effectively they progress leads. Specifically, they are measuring the percent of leads from Marketing that are converted to meetings, and what percent of those meetings resulted in a proposal.

#2 - Measure Marketing on how good those leads are

Sales often complains about the quality of leads from Marketing. Aligned businesses though, measure the percent of their leads that are converted by Sales to meetings to ensure the leads are properly warmed. Even though they don't measure Sales on the percent of proposals that are closed as won, they do measure Marketing on this statistic. This focus ensures Marketing hands to Sales only those leads that are most capable of being closed. The most-aligned businesses are also likely to measure Marketing on the percent of revenue generated from inbound leads, and the percent of revenue that comes from new business more overall.

#3 - Do not measure Sales on closure rates

No one has to tell Sales to close opportunities, and it seems the most-aligned businesses are less likely to measure Sales on closure percentages than their less-aligned counterparts. They are also the least likely of all businesses surveyed to measure Sales or Marketing on revenue against budget. It seems that to achieve alignment, focus on inputs (progressing buyers) is more important than outputs (revenue).

#4 - Use whitepaper marketing and PR to generate leads

Businesses that report the least alignment generate 15% of their total revenue from Marketing leads, with the balance coming from the efforts of the Sales force alone. However, at 24%, businesses with the greatest alignment enjoy more than 50% greater contribution from Marketing.

2. Executive Summary

#5 – Qualify leads well before passing to Sales

Marketing in aligned businesses is most likely to use PR and whitepapers as key tactics in their demand generation efforts, and are least likely to use cold calling, direct mail, 3rd party email lists, or trade shows.

Aligned businesses are more likely to qualify leads fully than those that are less-aligned. To qualify leads, they are monitoring behavior (clicks, seminar attendance, whitepaper downloads, etc.), and using automated email dialogue and outbound telemarketing.

#6 - Process is more important than structure or remuneration

The most-aligned businesses are improving the alignment between Sales and Marketing through creating a common language, using an end-to-end process common to Sales and Marketing, and rotating staff between the Sales and Marketing departments. Structure and remuneration are more commonly used by those with the least-aligned businesses.

#7 - Use small teams to plan, and review often

Aligned businesses are more likely to build towards a single plan for Sales and Marketing, and they are keeping their planning teams small. Aligned businesses have an average of four people developing plans which are refreshed every three to six months (4.7 months average) whereas those that are least-aligned average 10 participants and an annual plan (11.7 months).

3. We Recommend

The research showed clearly that there are some changes required for even the best-run businesses, if they are to better align Sales and Marketing. The recommendations below are drawn from the research, and from MathMarketing's experience with Sales and Marketing in over 170 projects over the last seven years.

1. Create an end to end framework common to Marketing and Sales. Avoid the temptation to make this single framework two halves joined - it must be a single, integrated framework.
2. Spend no less than 40% of your Marketing budget on Demand Generation, and no more than 25% on Environmental Marketing (branding and positioning – conditioning the market).
3. Keep your planning teams small, and have them plan and review often. Four proved popular with the aligned businesses in the study, but a planning team of six does not seem unreasonable. After each quarter, review how effectively you've completed the plan's objectives, and change tactics only if the planning team is not achieving the progression they were tasked with. Changing tactics too often causes disruption, making it difficult to attain an internal rhythm within the company, or with your market.
4. To the fullest extent practical for your business, use Marketing rather than Sales to initiate new opportunities with prospects and customers. Sales people are great at progressing opportunities, but are less efficient at doing this in large volumes than a well-run Marketing function.
5. Select Marketing tactics that progress buyers along their journey, rather than those that simply position your firm or your brand. Whitepaper marketing, seminars, and PR are all effective tactics for this purpose, and use your in-house email list to send regular provocative articles that create interest, rather than to pitch products.
6. Use Marketing to qualify leads before passing them to Sales. Sales visits are perhaps your most expensive tactic, and should be used where this will have the most impact. Qualifying leads by telemarketing, email dialogue and other tactics allows you to observe and qualify their interest before passing just the best leads to Sales.

3. We Recommend

7. Use Marketing to nurture leads that have stalled, or leaked from your funnel. Sales people are quite protective of opportunities once they have progressed a certain way. But once an opportunity has stalled, involve Marketing in nurturing until the prospect is more ready. Then hand the lead back to Sales.
8. Measure Sales and Marketing separately, but on factors that align their interests. Measuring both on conversion of leads to appointments is a great start. Measuring Sales on how many of those appointments earn a proposal, and Marketing on how many of those proposals close will seem counter-intuitive, but really aligns their interests and creates strong revenue-generating behavior.

4. Measurement In Aligned Businesses

Those businesses which have embraced Six Sigma -- a disciplined, data-driven approach and methodology for eliminating defects in any process -- have learned to base their decisions about continuous improvement on strong measurement data. In a world where opinions are cheap and plentiful, and facts are scarce, we see value in this approach.

For this reason, we are highlighting Measurement before Planning in this report. So, the outline of this report is:

- Measurement
- Planning
- then Executing (earning new customers, and keeping them)

The businesses which have achieved the greatest alignment are measuring their effectiveness very differently from others. The diagram below shows a simplified funnel, where a percent of the leads result in appointments. Of these appointments, some result in proposals, and of these proposals, some result in sales.



We asked survey respondents to tell us what they measure as prospects move through the funnel. We learned what the businesses that are identified as most-aligned are measuring is both counter intuitive and inspired.

Marketing is being measured on whether leads are Sales-ready, and whether they are revenue-ready

These businesses are holding Marketing accountable for the percent of leads that convert to appointments, because this is seen as a good indicator of how well the leads have been warmed up. But they are also measuring Marketing on the percent of proposals offered that become sales, which appears to be outside of Marketing's control.

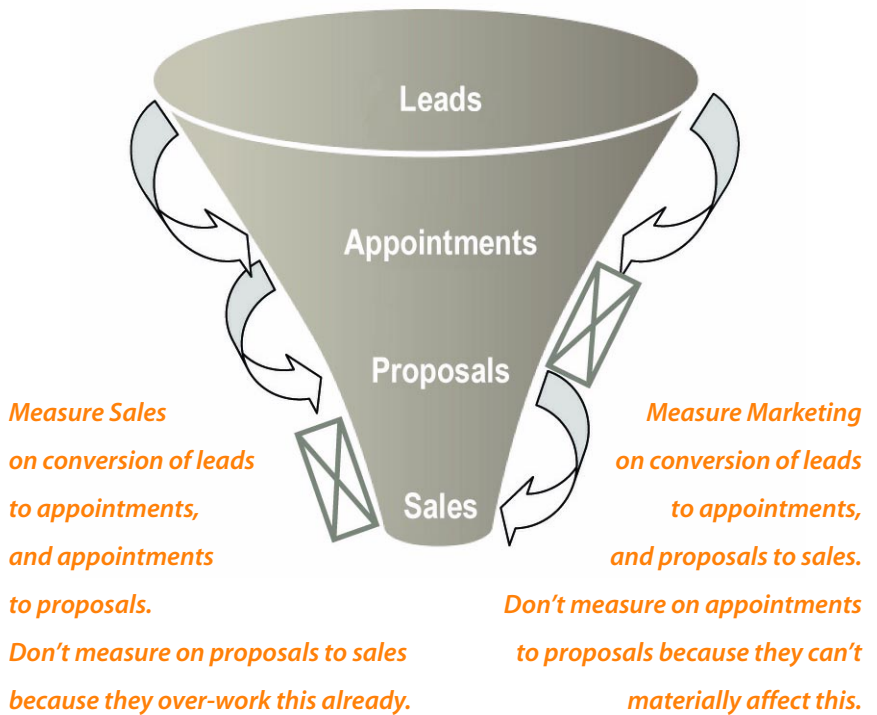
4. Measurement In Aligned Businesses

Aligned businesses outperform their counterparts by ensuring the top of the funnel is full of qualified leads

But Marketing *can* influence closure rates in two key ways:

- By selecting the target well, Marketing can ensure that leads are from businesses most likely to convert. Also,
- Marketing can ensure that its lead generation activities shape buyers' priorities and perceptions to help Sales position their offering to advantage.

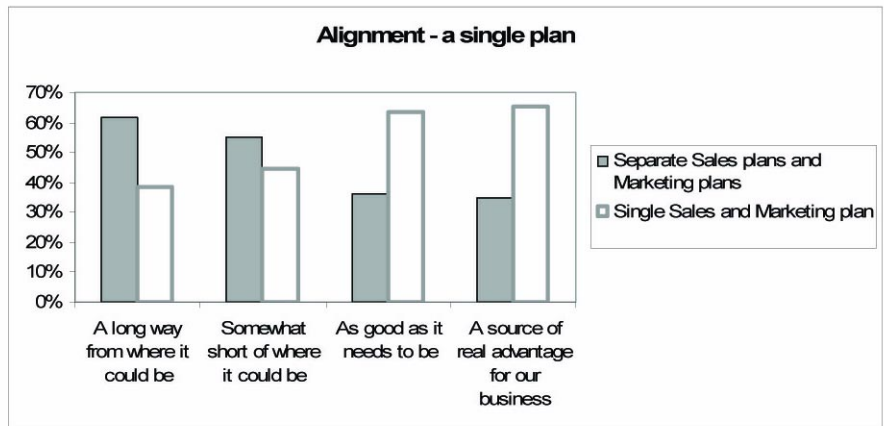
The most-aligned businesses are *not* as likely to measure Sales on closure rates as those that are less-aligned. This might seem counter-intuitive, but a focus on closure 'clogs' the bottom of the funnel. Sales people don't need to be motivated to close deals – they already know the importance of closing! By measuring Sales on the percent of leads that convert to appointments, businesses ensure all leads are followed up. And by measuring the percent of appointments that lead to proposals, they also ensure the value proposition is offered often. A business prospect can't buy if there's no offer on the table, so these businesses are keen to ensure their Sales people convert many of their first meetings to proposals. The measurement priorities for aligned business therefore look something like this:



5. Planning In Aligned Businesses

So, if alignment has been proven across 1390 people in businesses based in 84 countries to accelerate growth, improve closure rates and reduce churn, what does alignment look like and how do we get there?

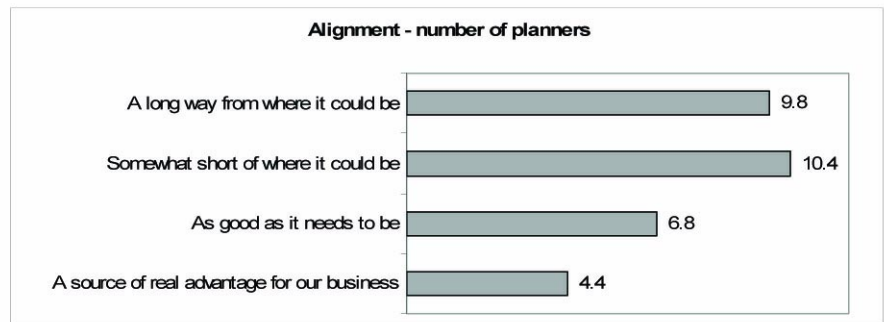
5.1 A Single (Integrated) Plan



Those businesses which report the greatest degree of alignment are almost twice as likely to be operating from a single plan for Sales and Marketing, than separate plans.

5.2 Number Involved in Forming Plans

It seems smaller planning groups are more efficient.

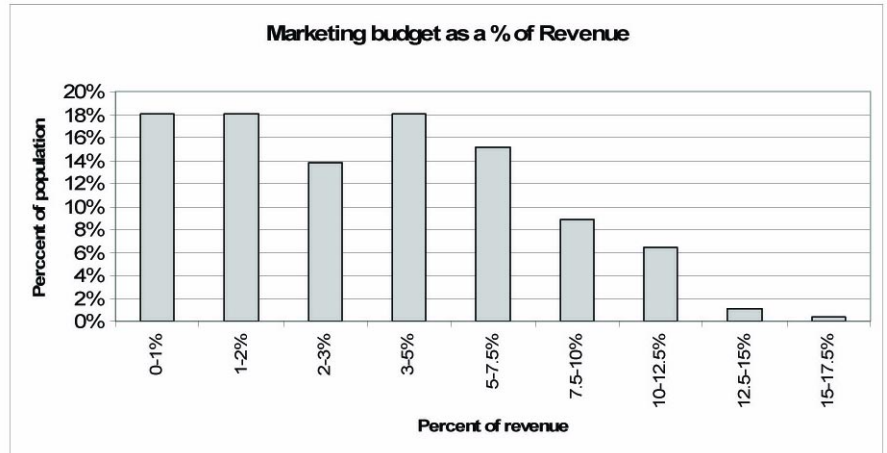


Aligned businesses have the smallest number of staff allocated to planning, and they are planning often. Their plans are refreshed the most often at 4.7 months (more than twice per year on average) compared to once per year for non-aligned businesses.

6. Earning More Customers

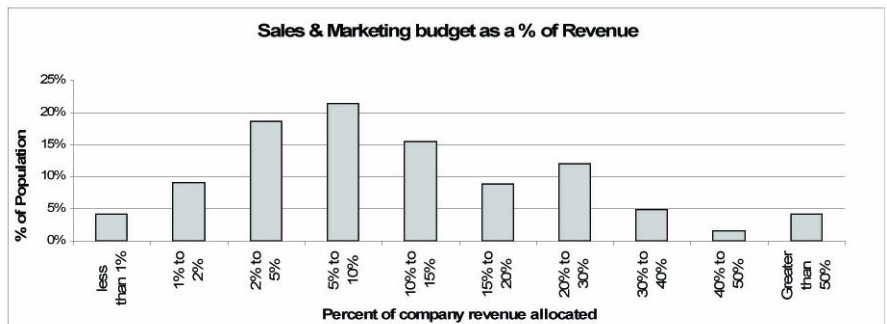
6.1 Generating Leads

6.2 Marketing Budget



The average Marketing budget is 3.9%, but the spread is too significant for this figure to be helpful. The budget allocated to the combined Sales & Marketing function (see below) shows a stronger pattern.

6.3 Budget Allocated to Sales & Marketing (Percent of Revenue)

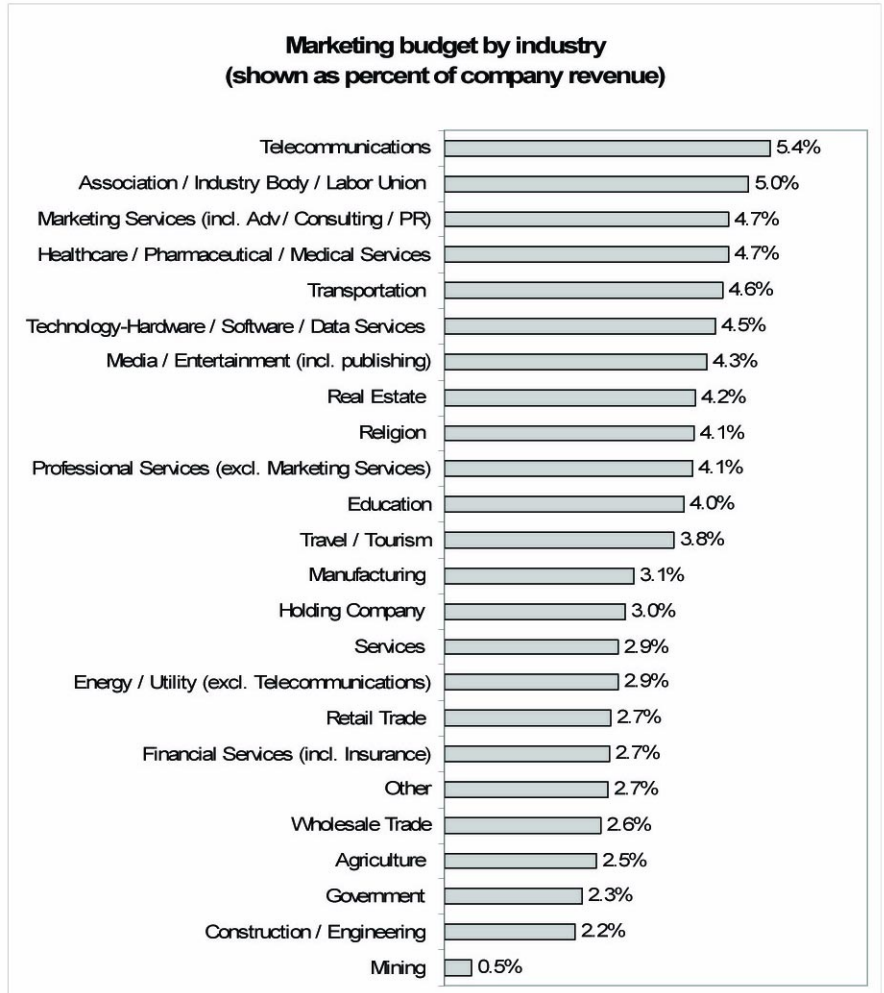


Over half the businesses surveyed spend between 2 and 15% of their revenue on Sales and Marketing.

6. Earning More Customers

6.4 Marketing Budget by Industry

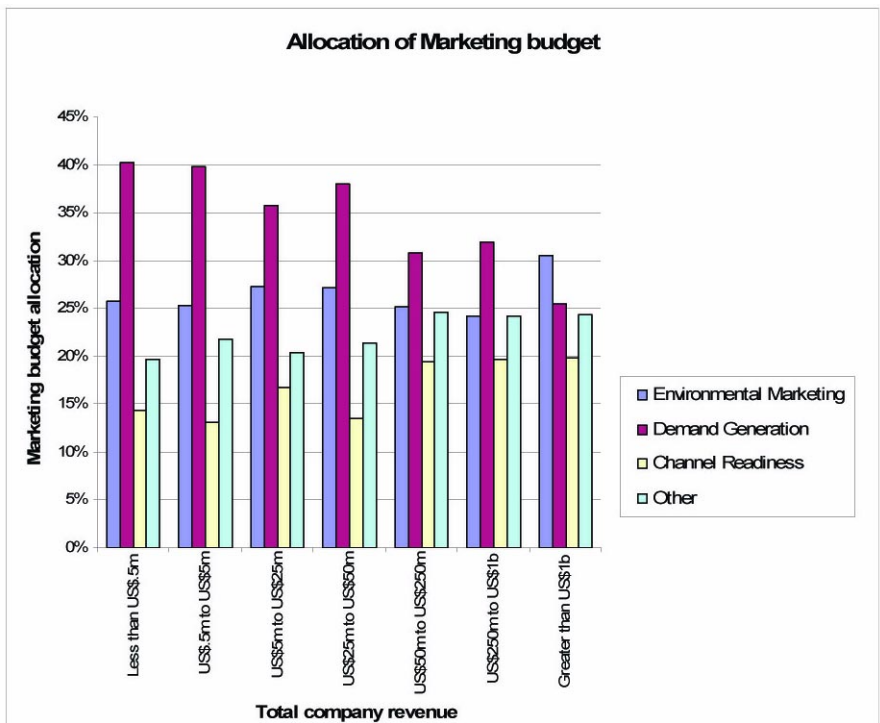
The Marketing budget (without Sales) viewed by industry reveals a stronger contrast.



6. Earning More Customers

6.5 Marketing Budget Allocated to Demand Generation

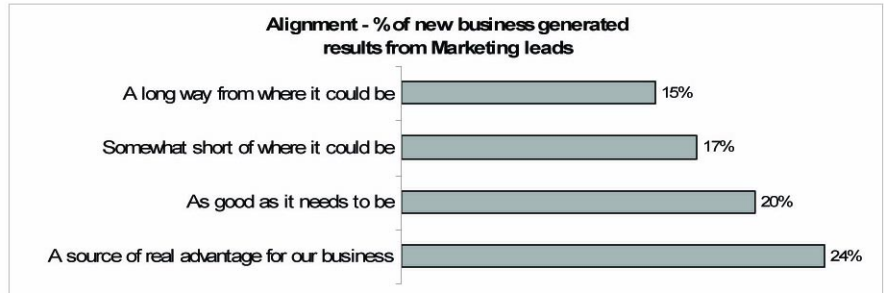
In the following graph, it can be seen that the largest firms allocate Marketing's budget almost evenly between Environmental Marketing (branding & positioning), Demand Generation, Channel Readiness (acquiring and training the channel including inside and field sales), and 'Other' which includes creating, pricing and packaging of new offers.



Demand Generation features more prominently in firms with revenues up to \$1b, but is overtaken by Environmental Marketing in the largest firms.

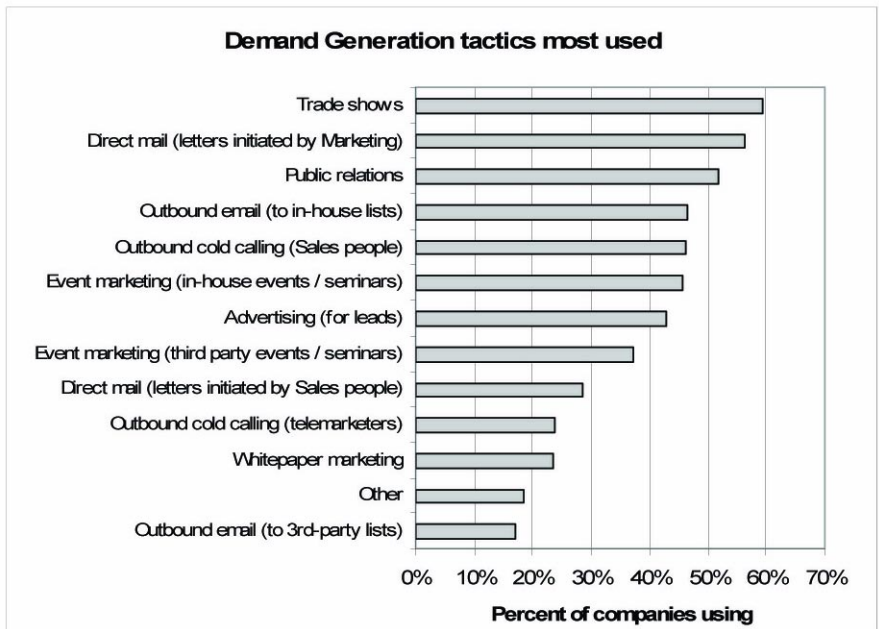
6. Earning More Customers

6.6 Percentage of New Business from Marketing Leads



Aligned businesses generate 24% of their business from Marketing leads, and non-aligned businesses place more of the burden on Sales, with only 15% of revenue coming from Marketing leads.

6.7 Demand Generation Tactics



Trade shows and Direct mail are popular, and there were no consistent differences in the application of these tactics between businesses of different size. That is, smaller businesses proved likely to use the same mix of tactics as larger firms. Marketers might conclude from the above that trade shows are an efficient way to generate new leads because they are used most often.

6. Earning More Customers

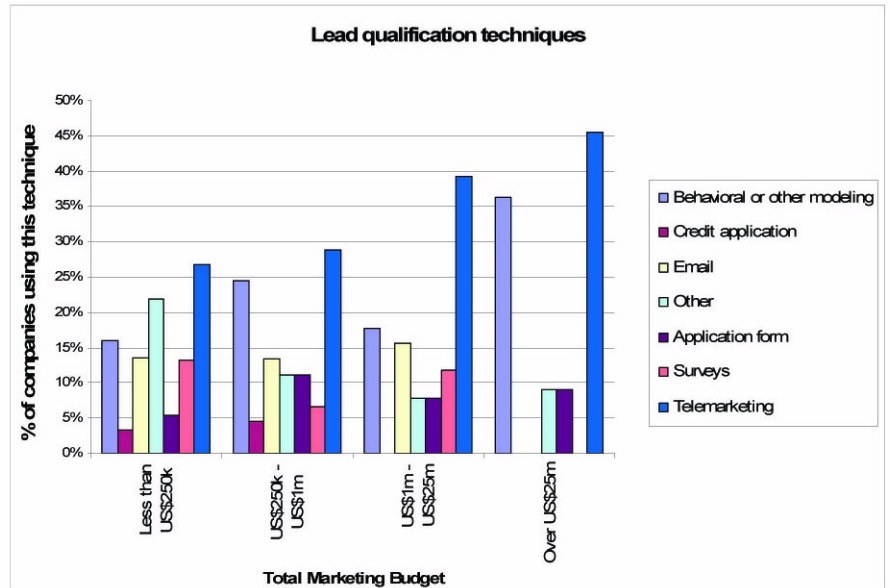
Aligned businesses though, are more likely to use whitepaper marketing and PR, and less likely than their less-aligned counterparts to use: outbound cold calling (by Sales people), direct mail (letters initiated by Marketing), outbound email (to 3rd-party lists) or trade shows.

6.8 Nurturing and Recycling

When a prospect is stalled, or has leaked from the funnel, Marketing can play a significant role for the organization. Sales resources are expensive and highly effective; they should therefore be assigned to where they can have the greatest effect. By temporarily handing leaked prospects to Marketing, they can very cost effectively be nurtured. Techniques used include email marketing and tele-nurturing (senior person contacts by phone to ensure timing priorities haven't changed and to solicit for further needs). This has the effect of freeing Sales to chase the warmer leads and significantly aids conversion effectiveness.

6.9 Qualifying Leads

6.10 Techniques Used



Telemarketing is the most popular lead qualification technique, followed by behavioral modeling. Email and surveys are also popular, except for the largest of firms.

6. Earning More Customers

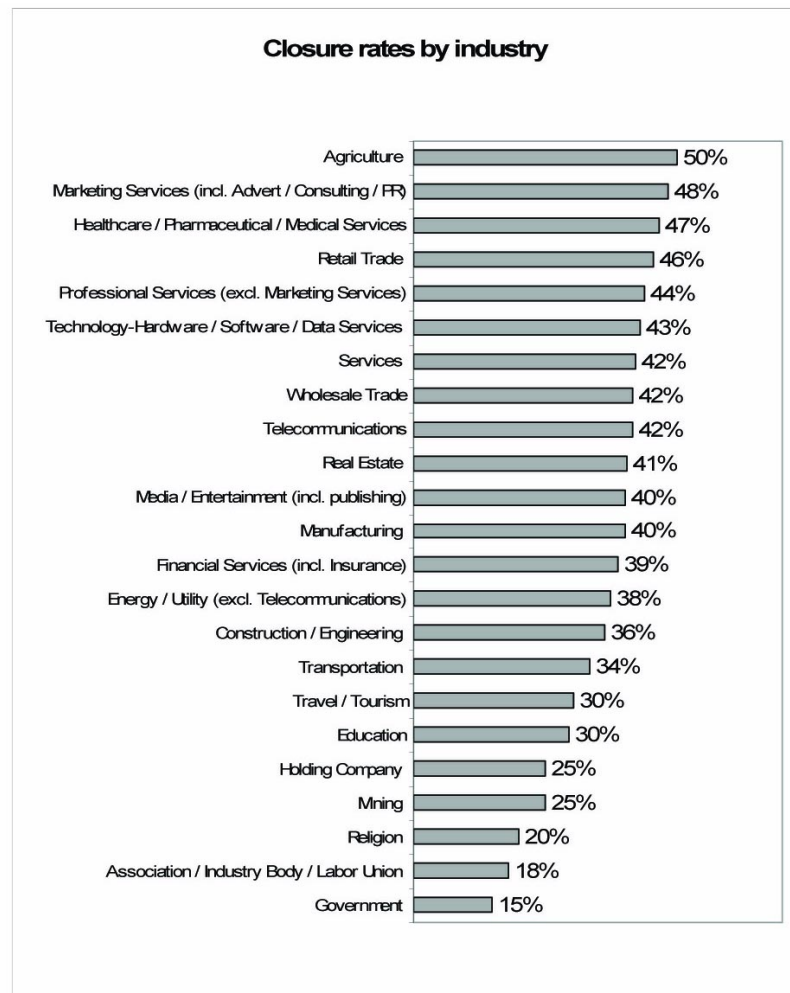
Businesses that are most-aligned follow this trend, and are the least likely to use credit applications or other forms.

A staggering 53% of businesses reported they don't qualify leads at all presently, with only the largest of firms (Marketing budget over US\$25m) showing any reduction in this rate (but still high at 39%).

6.11 Closing Opportunities

Closure rates can cover many stages in the funnel. For this survey, we asked respondents to look just at the percentage of proposals that successfully closed. This has been termed 'closure rates' for the purposes of this survey. In this section, we explore which businesses are most effective at conversion, and why.

6.12 Closure Rates by Industry



6. Earning More Customers

The closure rate varies by more than three to one between the best and worst performers.

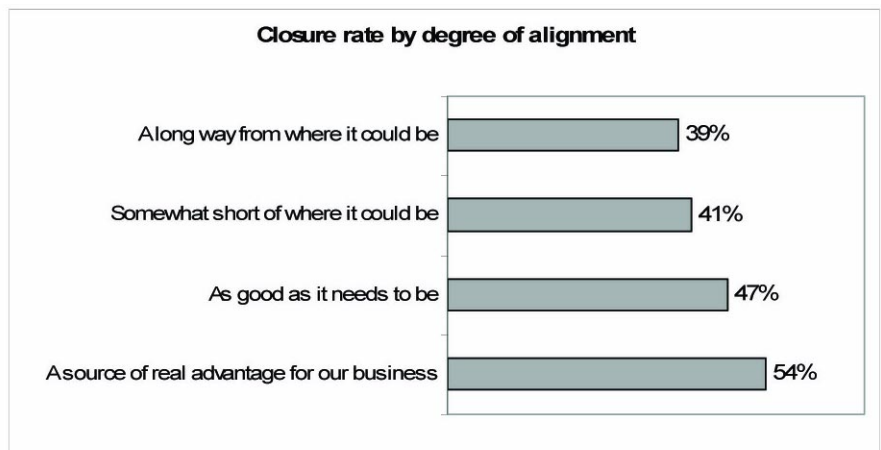
Our experience is that the normal range for healthy competition is 25% - 33%. The above therefore looks somewhat optimistic. This 'normal' range of 25% - 33% though is for acquisition, whereas the above figures include retention. When conversion rates reported in the survey are assessed for acquisition only, the conversion rate is 24%, supporting our anecdotal evidence.

6.13 Additional Closure Benchmarks

We also found:

- Closure rates were higher (47%) for strategic deals than for spontaneous purchases (34%); it seems the more important the decision, the more attention it gets.
- Businesses with a heavy reliance on new business (30-50% of their total revenues) close more proposals (49%) than those with a lesser reliance (40% closure rates).
- Businesses targeting prospects who purchase frequently (more than 20 times per year) enjoy 46% closure rates, while those targeting prospects who purchase once per year or less average only 40%.

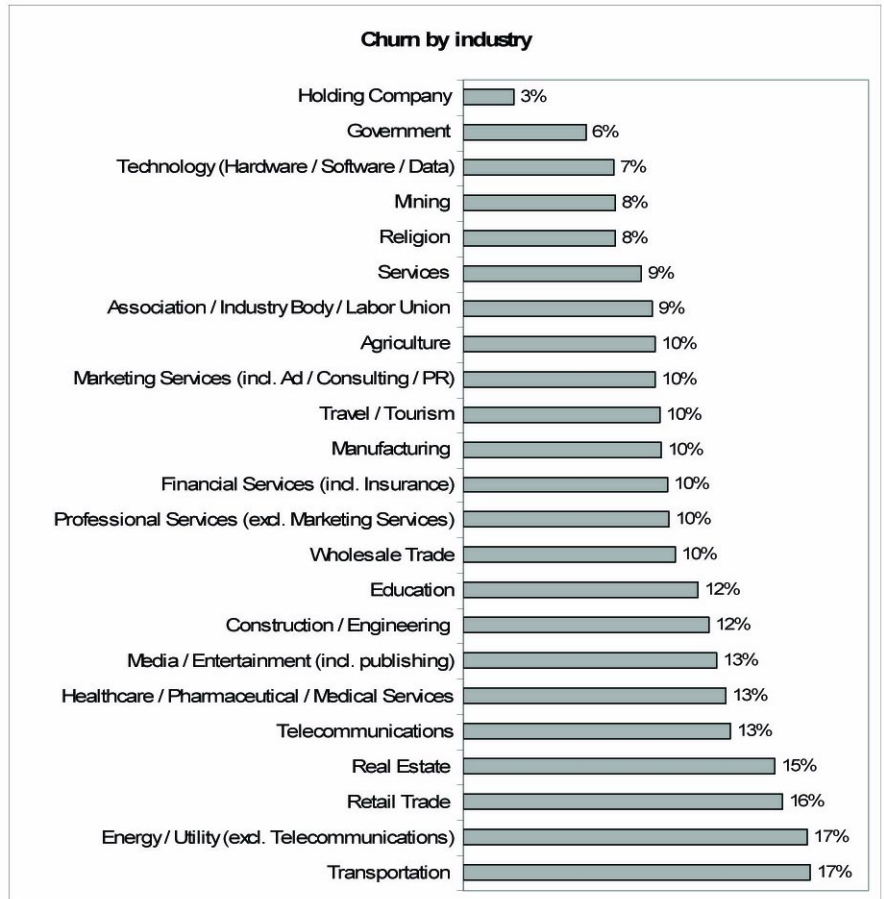
6.14 Closure Is Most Affected by Alignment



Of all the factors which might explain why some businesses are more effective at converting opportunities than others, the one that provides the least-ambiguous link is alignment. Those businesses which are least-aligned are least effective at closing proposals, and those who are most-aligned are most effective.

7. Keeping Customers

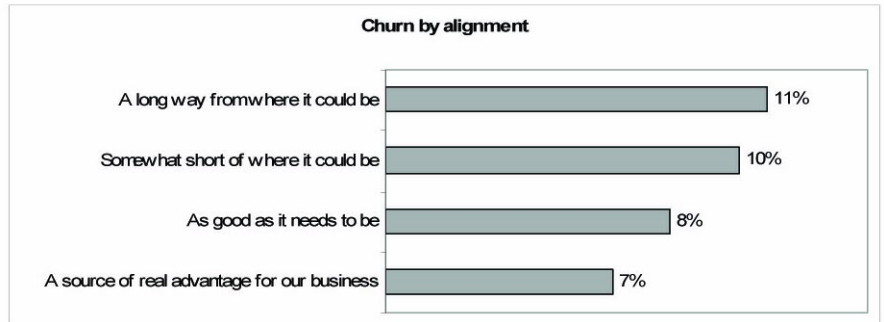
7.1 Churn by Industry



In industries like mining and technology, high switching costs limit the extent to which customers leave for a competitor. Others like Telecommunications and Pharmaceuticals have regulations which enforce easy switching between vendors.

7. Keeping Customers

7.2 Churn by Degree of Alignment



Churn is highest among businesses which are poorly aligned, and lowest among those who have aligned Sales and Marketing fully.

8. About Us

MarketingProfs.com

MarketingProfs.com is an online publishing company providing post-MBA marketing know-how to over 150,000 marketing professionals. Drawing on the cutting edge marketing expertise of over 300 analysts, marketing professionals, and professors, we help marketers -- from the very largest companies in the world to small start-ups -- stay current and effective in the entire range of online and offline marketing areas. MarketingProfs.com is supported by advertising and Premium members who receive access to in-depth articles and online seminars.

See www.marketingprofs.com for more.



MathMarketing is a Sales and Marketing effectiveness company that helps businesses to earn more customers by aligning Sales and Marketing to the way businesses buy.

This is achieved through a range of tailored and packaged offerings including: Funnel Camps™ – planning boot camps to bring Sales and Marketing together to deliver blisteringly-clear, highly-actionable plans for growth; Funnel Coaches – consultants in funnel effectiveness; Funnel Metrics™ – measuring Sales and Marketing effectiveness within industry sectors; Funnel Guy™ – Sales and Marketing event speakers; and “The Leaky Funnel” – a business novel packed with key arguments for a major change in the way businesses organize and manage their combined Sales and Marketing resources.

See www.mathmarketing.com for more.

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