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In the past, product leadership and superior cost efficiency were clear paths to success. But the rules have changed and the new generation of competitive advantages are about superior commercial execution: ultra-fast decision-making based on automated analytics; growth driven by micro-segmentation and highly customised offerings; and innovative services delivered by an ecosystem of connected assets and platforms.

In this environment companies must invest in their commercial capabilities to stay competitive. But many leaders are overwhelmed by the pace of change and the multitude of options.

Deloitte’s Commercial Excellence 4.0 framework helps clients to structure an approach and make strategic choices, focusing on what truly matters to their customers.
1. Executive summary

Until now, companies could rely on two traditional competitive positions: product leadership or cost leadership. Superior product attributes, based on steady innovation, provided differentiated value propositions which permitted higher margins.

Cost leadership, on the other hand, was achieved by systematically streamlining all major business processes and implementing ‘lean’ methods across functions and geographies.

Today these strategies, although still important as a base discipline, are no longer sufficient to drive growth and profits. It has become more difficult to win in the market on product innovation alone because commoditisation now happens very rapidly and any advantage lasts only for the short term. Equally, the efficiency levels achieved by many firms are now considerably higher and further cost cuts would jeopardise the ability to grow.

Where can companies invest to develop the next generation of competitive advantage? Our experience shows that the best returns can be realised from superior commercial execution in combination with smart applications of digital technology. Leading companies have already started investing heavily in such capabilities across their profit model, networks and customer engagement. But how can companies decide which capabilities to build and which technologies to invest in?

Deloitte developed the Commercial Excellence 4.0 framework to provide a pragmatic toolkit. By following the framework, companies are guided through a cascade of choices. They choose in particular between one of three commercial excellence archetypes. These are ‘winning formulas’ which we have observed in use among our most successful clients.

We believe that a successful commercial transformation is a well-prepared journey. To kick-start this journey, we designed a 100 day action plan for leaders, naming four objectives to be reached.
2. A new reality

There is evidence to suggest that strategies based purely on product leadership or cost leadership are increasingly struggling to drive growth and profits. In this section, we look at why this has happened and how companies can seek to develop competitive advantages elsewhere.

**Why are traditional competitive strategies not working any more?**

- **High levels of operational efficiency attained:**
  Many companies have focused heavily on cost optimisation via Operational Excellence (OpEx) to create a competitive advantage. The scope to cut cost further is limited though – doing so might jeopardise the ability to grow. After four decades of learning and implementations, 85 percent of companies now have a permanent OpEx team. Other data highlight how widespread this knowledge is: there are 3+ million professionals with a six sigma black belt certificate, which is the highest internationally accepted professional certificate in the field.

- **Disruption of traditional value chains:**
  New competitors are flooding many established markets, taking advantage of digital business models, globalisation and deregulation.

- **Accelerated commoditisation:**
  Many industries are experiencing an accelerated pace of product commoditisation. As patents run out, competitors quickly move in with ‘good enough’ versions of the original product. One example is the chemicals industry where commoditisation has rapidly driven down prices.

- **Difficulty of monetising product innovation:**
  A look at the performance of large cap biopharma companies between 2010 and 2018 illustrates the difficulty reaching previously-realised rates of return (see Figure 1). The average investment to take an asset to launch almost doubled while forecast average sales roughly halved.

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1. **Evolving the product launch paradigm**, Deloitte 2018
2. **The chemical multiverse 4.0**, Deloitte 2017
3. **Digital disruption – Short fuse, big bang?**, Deloitte 2012
4. 1000 respondents across industries and geographies, BTOES survey 2018
5. Research based on LinkedIn profiles with certification, Deloitte 2019
Where do companies invest to develop the next generation of competitive advantages?

Executives are increasingly looking to their commercial and digital leaders and giving them the task of developing differentiating capabilities. Data collection and data management are emerging as the long-term enablers of success. The ability to connect internal and external information seamlessly will enable organisations to reach another level of performance.

Examples of commercial capability investments:

- **Customer intimacy:** Companies are merging dispersed information to create a single source of truth, or 360° customer view. The goal is to get a holistic picture of the customer experience and consumption across layers of channel partners (closed loop) and across communication platforms (single brand experience). Marketing budgets are shifting towards customer experience teams\(^6\).

- **Advanced customer analytics:** Companies are investing in data infrastructure, architecture and analytics tools. The objective is to provide accurate and real-time data analysis to enable fast and cross-functional decision-making.

- **Human-to-human (H2H) marketing:** The difference between B2B and B2C has become blurred as customers expect B2C service levels in B2B settings. More than 50 per cent of professional buyers are now under 35 years old and are accustomed to convenient online shopping\(^7\). The general benchmark for customer experience has been lifted by the likes of Netflix (trust-enabling offer design) and Amazon (seamless customer service).

Which new commercial capabilities? And which technologies?

The pace of change and the wealth of options overwhelms many companies. This is evident, given the different directions in which we see our customers moving and the different approaches they take to building new commercial capabilities.

As Deloitte’s recent innovation study showed, companies invest and innovate on multiple commercial fronts in parallel: 85\% change their profit model, 78\% build cooperation networks, 76\% alter customer engagement. Equally, they invest in or will soon invest in different technologies: 95\% data analytics, 85\% internet of things, 85\% artificial intelligence (compare Figure 2).

As a consequence, we find that many companies are confused about which direction their commercial transformation should take and who is in the lead.

Figure 2: Primary areas of innovation and investment\(^8\)

<table>
<thead>
<tr>
<th>By topic</th>
<th>Profit model (How money is earned)</th>
<th>Network (Cooperation to create value)</th>
<th>Customer engagement (Forecasting customer interaction)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current investing</td>
<td>85%</td>
<td>78%</td>
<td>76%</td>
</tr>
<tr>
<td>Not investing</td>
<td>15%</td>
<td>22%</td>
<td>24%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By technology</th>
<th>Data analytics</th>
<th>Internet of things</th>
<th>Artificial intelligence</th>
</tr>
</thead>
<tbody>
<tr>
<td>We invested in the past two</td>
<td>69%</td>
<td>53%</td>
<td>43%</td>
</tr>
<tr>
<td>years</td>
<td></td>
<td>26%</td>
<td>32%</td>
</tr>
<tr>
<td>We plan to invest in the next</td>
<td></td>
<td></td>
<td>42%</td>
</tr>
<tr>
<td>two years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not investing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^6\) The CMO bar rises with more pressure for growth, Forrester 2018
\(^7\) Online survey of nearly 3000 German sales managers, Deloitte 2018
\(^8\) Deloitte Innovation Survey, Deloitte 2018
3. Strategic choices to take

Deloitte developed the Commercial Excellence 4.0 framework to provide companies with a pragmatic toolkit. We put the emphasis on strategy (strategic choice cascade) and data (Industry 4.0 concept).

The five guiding principles are:
1. Establish the direct link between corporate strategy and commercial excellence via a cascade of choices
2. Choose one of three commercial excellence archetypes to ensure the entire organisation is aligned and focused
3. Communicate commercial transformation objectives consistently and compellingly
4. Design and operationalise digital and analytics solutions to enable a data-driven culture
5. Create accountability for improvements via the business case, defined leading KPIs, and continuous measurement and rewarding of success

The framework consists of eight layers with corresponding questions (see Figure 3).

Figure 3: Commercial Excellence 4.0 layers and cascade of questions

<table>
<thead>
<tr>
<th>Cascade of questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
</tr>
<tr>
<td>Purpose &amp; Vision</td>
</tr>
<tr>
<td>• What will be our contribution to society?</td>
</tr>
<tr>
<td>• What will we have achieved, by when?</td>
</tr>
<tr>
<td>Strategy</td>
</tr>
<tr>
<td>• What is our growth ambition, in which markets?</td>
</tr>
<tr>
<td>• What differentiates us? What gives us 'the right to win'?</td>
</tr>
<tr>
<td>Commercial Excellence Archetype</td>
</tr>
<tr>
<td>• Which archetype of commercial excellence is best suited to help us achieve our strategy?</td>
</tr>
<tr>
<td>Efficiency &amp; effectiveness, Customer centricity, or Service innovation</td>
</tr>
<tr>
<td>Key target outcome</td>
</tr>
<tr>
<td>• What is the single most important target of the commercial transformation?</td>
</tr>
<tr>
<td>Value drivers &amp; related KPIs</td>
</tr>
<tr>
<td>• Which levers will we improve to reach the target?</td>
</tr>
<tr>
<td>• How will we measure and communicate success?</td>
</tr>
<tr>
<td>Central Digital &amp; Analytics enablers</td>
</tr>
<tr>
<td>• Which digital &amp; analytics enablers will be central to our solution?</td>
</tr>
<tr>
<td>Performance management system, Closed-loop customer insights system, or Business ecosystem</td>
</tr>
<tr>
<td>Critical capabilities</td>
</tr>
<tr>
<td>• Which 3-5 most important capabilities must we build or improve?</td>
</tr>
<tr>
<td>Business case &amp; financial benefits</td>
</tr>
<tr>
<td>• What is the business case which forms the basis of the transformation’s sponsorship?</td>
</tr>
<tr>
<td>• Which financial benefits can we expect?</td>
</tr>
</tbody>
</table>
A critical decision point is the selection of one of three commercial excellence archetypes. Archetypes are the ‘winning formulas’ of commercial capability-building based on Deloitte’s experience with leading clients. These types of transformations were successful because of their relentless focus on a well-defined set of objectives and enabling capabilities. We believe companies should choose one archetype at a time to guide the organisation as a whole. This does not prohibit simultaneous innovation in other areas, but focuses the entire business on shared overall transformation goals.

Below we describe each of the archetypes and share the full framework (see Figure 4).

**Archetype A: Efficiency & effectiveness**

When it comes to commercial decision-making, many companies do not follow a data-driven approach: they continue to rely on ‘art’ and ‘intuition’ rather than ‘science’. In contrast, companies that follow this archetype are set up to drive efficiency and effectiveness through the rigorous use of data. Efficiency comes from reaching decisions with less effort: fast preparation of insights, avoidance of reworking, seamless cross-functional coordination, etc. Effectiveness, on the other hand, comes from avoiding under- or over-serving customers: in other words, accurate execution of the customer engagement strategy.

The main objective is to improve profitability. Typically, the most impactful value drivers are campaigns, sales productivity, pricing effectiveness, and forecasting accuracy. The central enabler is a performance management system: technology platforms and analytics tools which allow new ways of fast, data-driven decision-making across the organisation. Critical enabling capabilities are typically the go-to-market (GTM) strategy, the sales organisation (including incentives), customer relationship management (CRM), and the underlying data architecture. On average the benefits amount to a 3-8 per cent EBIT margin improvement.

Examples include prescriptive algorithms that help define customer payment strategies, dynamic sales force deployment strategies that optimise customer coverage, and integrated business planning to reduce write-offs and missed sales opportunities.

**Archetype B: Customer centricity**

Leading companies of this archetype use personalised and dynamic customer segmentation. They put in place dedicated cross-functional insights teams who are responsible for orchestrating customer data and defining the value propositions. They meet or exceed customer expectations at every interaction, thereby improving customer loyalty and building close relationships.

The objective here is to maximise growth in the selected customer segments. The drivers of improvement are up- or cross-selling, customer loyalty, omni-channel management, and offer personalisation. Internally and externally connected technology platforms allow a deep understanding of the needs and attitudes of the buyer, centrally available in a closed-loop customer insights system. Critical capabilities are 360° customer view, data privacy management (incl. GDPR), artificial intelligence, and (rapid) offer development.

Companies that focus on customer centricity have seen growth premiums of 5-15 percentage points.

**Archetype C: Service innovation**

In this archetype, companies use their superior understanding of customer needs and product applications to create value beyond the current offering. Service innovation transforms the business model by building a network of strategic partnerships and orchestrating a dynamic ecosystem of offers. Companies can achieve superior competitive positions as they lock in customers (raising switching costs) and build effective barriers to entry.

The target is to improve enterprise value, using the principles of venture capital firms. Drivers are brand value, time to market, co-creation, and data monetisation. Commercial leaders must spur entrepreneurialism, and agility & design thinking. Other critical enablers are data & analytics and partnering. Successful companies see their valuation move into a higher P/E bracket, typically 2-3x the value of pure product manufacturers.

Examples include data monetisation in pharma enabling performance-based pricing and software companies’ platform-based software development and distribution approach, e.g. Apple’s App Store.

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1 Financial benefits based on Deloitte project experience and literature research
Figure 4: Deloitte Commercial Excellence 4.0 Framework

**Strategy**

- **Commercial Excellence Archetype**
- **Key target outcome**
- **Value drivers & related KPIs**
- **Central Digital & Analytics Enablers**
- **Critical capabilities**
- **Business case & financial benefits**

**Execution**

**Efficiency & effectiveness**

- **Profitability**
  - Campaign effectiveness
  - Pricing effectiveness
  - Forecasting accuracy

- **Performance management system**
  - GTM strategy
  - Sales organisation
  - CRM tool
  - Enterprise architecture

**Business case & financial benefits**

- **EBIT margin increase:** 3-8 p.p.
<table>
<thead>
<tr>
<th>Revenue growth</th>
<th>Service innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue growth</strong></td>
<td><strong>Enterprise value</strong></td>
</tr>
<tr>
<td>Up-/cross-selling</td>
<td>Customer loyalty</td>
</tr>
<tr>
<td>Omni-channel management</td>
<td>Offer personalisation</td>
</tr>
<tr>
<td>Closed-loop customer insights system</td>
<td></td>
</tr>
<tr>
<td>360° customer view</td>
<td>Data privacy incl. GDPR</td>
</tr>
<tr>
<td>Artificial intelligence</td>
<td>Offer development</td>
</tr>
<tr>
<td><strong>Revenue growth increase:</strong></td>
<td><strong>Platform-driven business ecosystem</strong></td>
</tr>
<tr>
<td>5-15 p.p.</td>
<td>Enterpreneurialism</td>
</tr>
<tr>
<td></td>
<td>Data &amp; analytics</td>
</tr>
<tr>
<td></td>
<td>Partnering</td>
</tr>
<tr>
<td><strong>Price to earnings ratio:</strong></td>
<td></td>
</tr>
<tr>
<td>2-3 x</td>
<td></td>
</tr>
</tbody>
</table>
4. Action plan for first 100 days

Building new commercial capabilities is not easy: a Deloitte study found that 68 per cent of transformation programmes do not finish on time or on budget. To kick-start the transformation to a data-driven commercial organisation in a successful way, leaders should consider our 100-day action plan, which focuses on four steps.

**Ownership**

Decide who in the executive team will own the commercial transformation. Companies regularly struggle to decide: CMO, CDO, or the markets? Our view is that the owner should be part of the executive team. Consider an Executive Transition Lab to prepare the leader for the task.

**Focus**

Our view is that companies should only invest in capabilities which build competitive advantage according to strategy. Consider the services of Monitor Deloitte strategy consulting to learn from the ‘winning formulas’ we have observed across our client base and to structure your approach.

**Outside-in perspective**

Gain outside-in perspectives by exposing yourself to leading industries and geographies. Consider meeting innovation leaders during a customised Learning Journey organised by Deloitte’s Center for the Edge. Software companies, for example, offer great learning opportunities as they generally have the most advanced commercial capabilities; China is an ideal learning ground to explore fast-paced, mobile-first offers.

**Engagement**

Engage your company’s leaders by jointly defining the value drivers and a high-level business case, and agreeing on how success will be measured. Deloitte’s analytics institute can provide the tools to measure the KPIs in an automated way.

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10 Reinvent for value – Stories of transformational journeys, Deloitte 2018
Notes
Notes
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