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Quote for Today

Discovery consists of looking at the same thing as everyone else and thinking something different.

Albert Szent-Gyorgyi

Cambashi Product Observatory: Vendor Revenues in Technical Applications Worldwide, 2009 Summary

by Nick Ballard

Cambashi's index of tracked companies forms the top-level of the vendor-driven Cambashi Product Observatory revenue model for worldwide technical applications. We have been tracking these companies, taking into account mergers and acquisitions, since the 1990's. Together they represent over 2/3rds of worldwide revenues for technical applications, a useful barometer on the performance of the whole market.

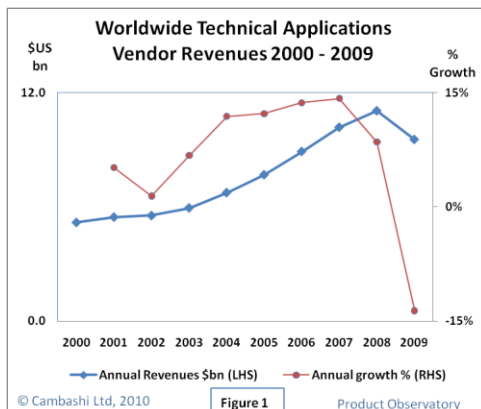
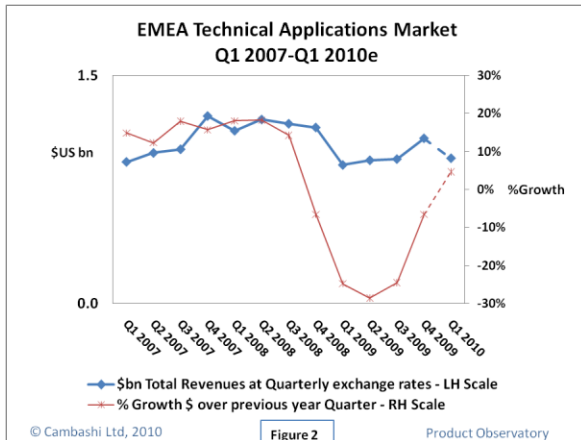


Figure 1 shows the market for the last 10 years; it amply illustrates the precipitous decline seen in 2009, as worldwide credit markets collapsed, and also the unprecedented eight previous years of high growth.

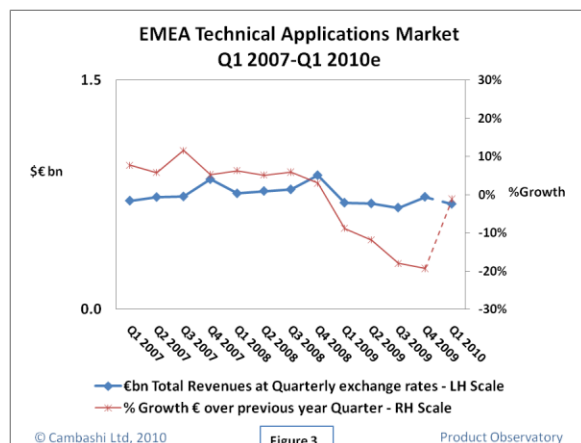
We do not simply track companies by their annual revenues; we use a quarterly revenue model to adjust our annual totals. This allows us to respond quickly to rapid changes in the market and base our short-term forecasts on quarterly performance. Our projections for 2009 were for a fall of 16% in vendor \$USD revenues; once the actual figures were in, a fall of nearly 14% for 2009 was recorded (Figure1).



Not all geographies performed in the same way and we show how, in Figure 2, EMEA performed in the last 3 years in \$USD terms. It illustrates that from the middle of 2008, \$USD revenues from EMEA started to fall and growth in the mid-teen range stalled. Rather than the usual Q4 budget-flush, revenues in the final quarter of 2008 actually fell, and continued to fall, until the second half of 2009. Recovery has slowly followed and we tentatively show a positive trend in Q1_2010 back to growth over the previous year's quarterly result.

Of course, if you are a multinational company, or based in EMEA, a view in \$USD is useful, but revenues and costs are generally defined in €EUR. Whilst Figure 2 shows a dramatic decline in \$USD revenue in EMEA of nearly 30% in mid-2009, when measured in €EUR the fall was closer to 20% and only reached this level 6 months after reaching its lowest point in \$USD terms; see Figure 3.

The apparent difference in growth rates is due to exchange-rate differences during that time; in a nine month period from Q2_2008 to the end of Q1_2009, the \$USD fell against the €EUR by over 16%.



From the start of the second quarter of 2009, we saw a reversal of this trend, with the \$USD appreciating against the €EUR by over 8% in the latter half of 2009. Fluctuations continue to make predictions difficult, with growth in absolute €EUR terms often wiped-out by an adverse currency headwind when translated to \$USD or vice-versa.

The late breaking news is: Q1_2010 shows a fall in the value of the \$USD against the €EUR of around 6%. This indeed reduces our estimate for Q1_2010 over Q1_2009, shown in Figure 2, from a growth of around 5% in \$USD to essentially a flat/slightly negative performance for this quarter in €EUR terms in Figure 3.

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Reflections on Recession

by Bob Brown

Opinion is moving towards the view that the worst of the recession is now behind us. The vendors that we have seen and spoken with recently appear to be busy and cautiously optimistic about improving market conditions. So, this is a good time to reflect upon how the last few years have changed things.

Recessions provide everyone – customers and vendors alike - with the opportunity to do things that may have needed doing for some time. For example, to take a long hard look at the basic assumptions that underpin the business plan, or to review strategy, or revisit business priorities or re-assess the management structure of the organisation. For those with deep pockets, they also provide an opportunity to pick up new assets at bargain basement prices. Conversely the need for cash may drive the disposal of underperforming or borderline business units.

Recessions tend to drive lasting changes to industry structure, business priorities and buying behaviour that are a key part of reshaping the markets in which we operate – just look at the changes to the automotive industry over the last 24 months. The structural changes to the automotive industry are obvious, but the implications for vendors may take some time to evaluate. Some of the changes brought about by this recession are less obvious and more subtle, but nonetheless fundamental. A lot of these changes will only begin to be apparent now – as growth begins to return to the market and companies make the attempt to resume “normal operations.” Now is the time to make sure the company’s mechanisms for sensing change in the market place are in perfect working order – whether that means anecdotal feedback from sales people, competitive analysis or reviewing the results of the most recent lead generation campaign.

Making sure the company’s market intelligence function is working may be glaringly obvious but it may still prove difficult to execute. Most participants in the market have taken the obvious steps to try to ensure survival – namely the imposition of tight, even draconian, control of costs and the reduction of headcount based on active workforce reduction programmes or, more passively, relying on natural wastage and hiring freezes. While “cash has been king” all expenditures have come under close scrutiny and focus has shifted to near term opportunities. As a result, a lot of stuff just hasn’t happened in recent months – travel freezes, reduced marketing and training budgets, fewer events and, in all probability, less sales development work. In this environment, even minor purchases have required approval from more people and sign-off at higher levels of management.

Given the immediate problem, this is the correct response. Unfortunately, one aspect of many of these changes is that the company’s marketing “sensory equipment” and “analysis capability” may have been compromised – either because resources are no longer available or because tasks have been de-prioritised. At the very least, the levels of churn in both customers and vendors will mean that many long-standing connections will have been broken. We recognise symptoms of these sorts of problems in our recent conversations with vendors – the work load is picking up very quickly but the requisitions to hire new people have not been released.

Most markets have been changed in both gross and subtle ways, highlighting a structural problem. Some of the rules have changed – but we don’t necessarily know which ones or how they have changed – or are changing. There are clearly going to be new opportunities and new threats – as well as newly exposed weaknesses and potentially unexploited strengths. At this time, the “rules of thumb” market models or key performance indicators (KPIs) on which many of us have relied for the daily running of the business should be treated as suspect because the assumptions on which they were built, perhaps over many years, may no longer apply. Reliance on an out-dated view of the industry we serve and the markets in which we operate will lead to bad decisions. While we may know this to be true, experience makes it quite clear that most of us continue to work with the models and tools with which we are most familiar – even when they are no longer able to explain the observational data. That is when they should be discarded. Sadly, it is much more usual to attempt to flex the model so that the observational data fits, which means building new assumptions into the model that cannot be verified. This is always a recipe for disaster.

The reality is that the competitive landscape has almost certainly changed as well. The fortunes of our competitors will need to be re-assessed in light of changed circumstances in the market. As always, the companies who are quickest to recognise and respond to a new environment and altered customer

priorities will be the companies with the best chance to take advantage of the opportunities that change brings.

In your haste to get the business back on a strong growth trajectory, don't make the mistake of thinking you can just pick up again where you left off a few months ago . . . it usually doesn't work that way.

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Book Review: Customer Centric Selling by Michael T. Bosworth and John R. Holland

by Mike Evans

McGraw-Hill, 2004. ISBN 0-07-142545-4

This book was developed out of Bosworth's 1993 seminal book, *Solution Selling*.

The book begins with a series of chapters that look at the sales experience from the point of view of the buyers of a "business-to-business" transaction expecting business benefits. The next section describes the sales process required for Customer Centric selling and the effect on marketing, and introduces the concept of Sales-Ready messaging. A subsequent set of chapters detail how Customer Centric selling would work in each step of the sales process. Finally, there are short chapters dealing with assessing sales representative performance, indirect selling, and implementing changes in the sales process to achieve Customer Centric selling.

The ideas in this book are by no means unique. Customer Centric Selling supports the concept that selling a product or service in business-to-business transactions is all about helping the prospective customer build an investment business case. This approach contrasts with books that argue that a good sales representative who follows their advice can build a relationship with a C-level executive, who will then buy a product from them without any reasoned business case.

The key message of this book is that sales situations are won by helping customers see how the product or service being offered will be used to meet their business goals. The recommended sales process leads all of the stakeholders to contribute to that objective.

The book is well written, with the intended audience clearly defined. It seeks to change the behaviour of the average sales person who is selling to mainstream buyers rather than "natural" star sales people. In a way, it complements Geoffrey Moore's *Crossing the Chasm* theory as pioneer buyers work out for themselves the application of the offer. Their sales representatives need to be consultants on the technology, not the business usage.

My only criticism of this book is that it does not sufficiently address the issue of indirect sales.

Nonetheless, even for those familiar with the concept of solution selling, I recommend reading this book to refresh your memory and remember to think of the prospect's objectives before your own.

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