

Commercial excellence: Your path to growth

The journey to outperforming your peers begins with a clear-eyed view of what matters most.

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Competition is accelerating. Many attackers are now using superior execution rather than better offerings to outperform incumbents and drive growth.¹

To combat this pressure, incumbents and attackers alike should build and sustain best-in-class commercial capabilities to gain significant competitive advantages. In many cases, that entails adopting best practices from other industries.

The rewards can be substantial. Based on our assessment of more than 200 commercial capabilities at 200 clients,² we found that businesses that were top performers³—those with superior commercial capabilities—consistently deliver

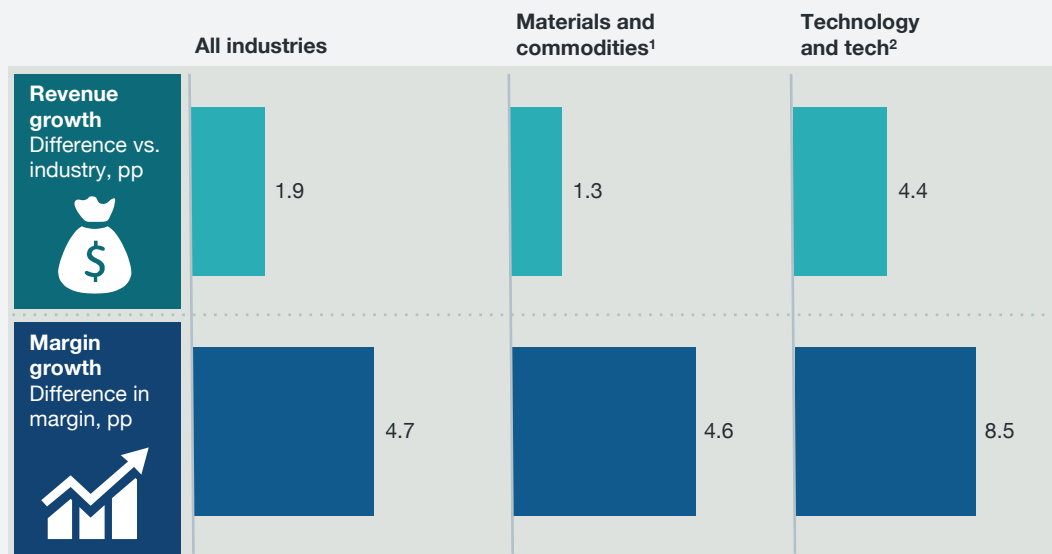
revenue growth about 1.9 points higher and earnings growth about 4.7 points higher than peers in the same sector (Exhibit 1).

Comparing yourself against the best

Performer leaders across sectors have one thing in common: they continuously assess their commercial capabilities not just against competitors but against global best practices to find areas where significant improvements are possible. More mature industries, such as chemicals, mining, and agriculture, constrained by production capacity and competing heavily on price, tend to focus more on operational rather than commercial excellence. Leaders have

Exhibit 1 Companies with superior commercial capabilities outperform their peers in margin and revenue growth

Impact of one additional point on commercial-capabilities-assessment tool (CCAT) score



¹Chemicals, metals and mining, paper and packaging

²Telecommunications, Computer and Electronics, Travel and Logistics, Medical Products

SOURCE: McKinsey & Company Commercial Capability Assessment Tool, Team analysis

taken a page from software and IT companies, for example, which have no production constraints and therefore tend to focus more on building advanced commercial capabilities to accelerate growth and shareholder value.

While there is no single recipe for success, our research shows that in each industry, top-quartile performers share above-average strength in similar capabilities (Exhibit 2). So, while the path to success may vary by company and sector, a path does in fact exist.

Investing wisely in commercial capabilities can be difficult because what drives value tends to change over time; capabilities that provide competitive

advantages today will become industry standards tomorrow. Our research shows (Exhibit 3) that the gap between the top and bottom quartiles tends to narrow. This means commercial excellence is a journey, not a destination: it requires continuous self-assessment and improvement, including agile adoption of new best practices as they emerge.

In fact, to perform at the highest level, most companies need to do more than constantly improve their commercial capabilities; they must also shift their focus and double down on new capabilities that drive differentiation. For example, top-quartile energy and materials companies used to differentiate themselves by overperforming in three areas: price and contract management,

Exhibit 2 The most valuable commercial capabilities vary by industry

Difference between top- and bottom-quartile commercial-capability scores (percentage points)

	Chemicals	Computers & electronics	Industrial equipment & components	Metals & mining
Strategic marketing	18.8	9.3	15.8	5.9
Go-to-Market model design	10.0	8.5	13.3	6.6
Channel partner management	11.2	24.6	5.4	4.6
Sales & account management	12.1	1.5	10.3	9.2
Innovation & product management	18.9	6.2	8.6	8.2
Marketing enablement of sales	15.0	12.9	14.1	11.5
Price & contract management	13.9	8.6	9.5	3.8
Commercial support	13.8	12.1	14.9	8.1

SOURCE: McKinsey & Company Commercial Capability Assessment Tool, Team analysis

Exhibit 3 The gap between top and bottom quartiles has narrowed

Difference between top- and bottom-quartile commercial-capability scores (percentage points)

	2012-13	2016-17	Difference
Strategic marketing	25.6	18.0	-7.6
Go-to-Market model design	23.4	20.5	-2.9
Channel partner management	19.4	22.1	2.7
Sales & account management	24.2	17.1	-7.2
Innovation & product management	25.4	17.1	-8.3
Marketing enablement of sales	24.3	22.2	-2.1
Price & contract management	21.8	18.6	-3.2
Commercial support	24.6	17.9	-6.7
Overall Score	24.5	20.1	-4.4

SOURCE: McKinsey & Company Commercial Capability Assessment Tool, Team analysis

marketing enablement of sales, and channel-partner management. But our latest research shows that those companies should now focus on new capabilities, such as sales and account management and commercial support (Exhibit 4).

Trust the data

One of the biggest challenges in large, distributed, and field-oriented organizations is the absence of a structured fact base to measure commercial capabilities and compare them with best practices. Senior executives may have keen intuition—they may know, for example, that the company’s commercial capabilities should be stronger—but they may not know exactly what to do, such as how to find the pockets of best practice internally or

how to scale them rapidly without disrupting the organization.

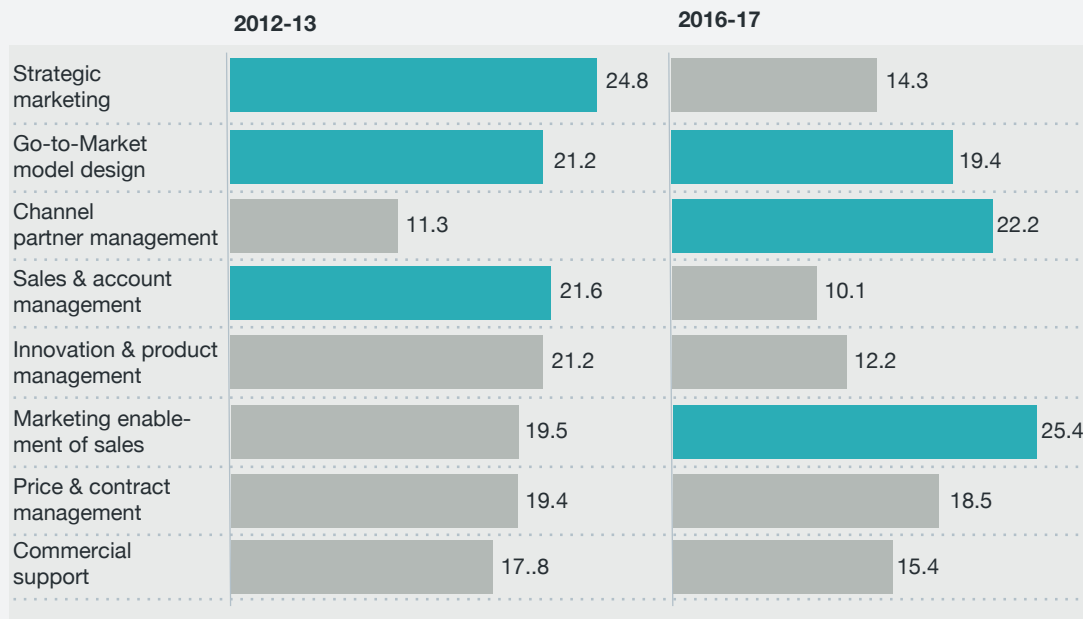
We find that companies tend to improve their performance faster by relying more on facts and analytics than on anecdotes and intuition. Tools and databases can help them gather and process deep qualitative and quantitative data with minimal organizational disruption.

How to avoid big stumbling blocks

Armed with a deep and up-to-date fact base, senior leaders can prioritize commercial-excellence capabilities from an ROI perspective and look beyond departmental priorities. They can also then rally the organization to build and sustain

Exhibit 4 Capabilities that drive commercial excellence tend to change

Difference between top- and bottom-quartile commercial-capability scores (percentage points)



SOURCE: McKinsey & Company Commercial Capability Assessment Tool, Team analysis

those capabilities to drive sustainable revenue and earnings growth.

Benchmarking against best practices and identifying capability gaps will not be enough to achieve commercial excellence. Transformations tend to stumble when the strategy isn't clear or the implementation isn't properly supported. Key questions, for example, include how the company will drive commercial impact and organize the commercial agenda for success.

Some commercial transformations fall short when companies try to implement a standard one-size-fits-all approach without taking into account mind-sets or behaviors. Others fail to reach scale because the organization doesn't track the impact

of improved capabilities or their direct link to performance.

While the route to success varies by company, a sound plan usually has five characteristics:

- 1. A discovery process that helps commercial leadership across functions align on a framework and language.** Leaders should reach a common understanding of current capabilities and global best practices, and an objective, holistic view of improvement opportunities.
- 2. Clearly linking each commercial capability with specific outputs and results.** Managers know how each capability will help, where it will

perform best, and what economic impact they can expect from it.

3. The prioritized capabilities are perfectly aligned with long-term strategy. Managers understand how each capability will help to achieve the vision.

4. Business leaders and influencers remain highly engaged to drive adoption to reach critical mass. An executive sponsor of the transformation sets the tone and maintains momentum, in part by enlisting support from other leaders.

5. Capability improvements can be tracked and quantified. Senior leaders should know how much of the expected impact has been captured and where they are in the transformation journey.

Organizations that make the shift from insights to action and ultimately to sustained impact incorporate commercial capability development into their standard management processes, including annual operations plans, long-range planning, and talent reviews. The most effective companies not only take specific action to build capabilities, such as assessing current capabilities, setting aspirations, assigning owners, and launching initiatives; they combine these actions with accurate and timely performance management. They may measure impact on key-account management capabilities, for example, in terms of account growth, profitability, customer satisfaction, and churn at a granular level. In organizations that fail to track and reward progress consistently, some managers may come to see commercial excellence as the “flavor of the month” rather than a new way of working and thinking.

Once a company has a structured way of thinking about commercial excellence—what matters most in the industry and how the firm is performing against

best practices—it can replace habits and biases with facts, dig deeper into the true sources of competitive advantage, and make targeted investments in the new capabilities that will help drive profitable growth in a changing marketplace.

These investments often include new tools, training, and talent that complement each other; it’s a world of “and” rather than “or.” Improving pricing and reducing leakage can quickly generate at least some of the funds required to invest in longer-term improvements. Improvement models vary: some companies create a central commercial-excellence team, while others give line leaders capability-building responsibilities.

Commercial excellence is one of the most powerful levers for consistently delivering superior shareholder returns. We have found that a fact-driven view of what matters most can align leaders’ decision making and inspire everyone in the organization to pull in the same direction: toward more profitable growth. ■

¹ According to an analysis by McKinsey Growth Magnifier team, only 27 percent of companies rely on creation of new products alone, whereas the rest combine new-product creation with superior execution.

² This Commercial Capabilities Assessment Tool, one of the sales solutions built on the Periscope by McKinsey platform, assesses more than 200 marketing and sales practices against industry and global benchmarks.

³ Kabir Ahuja, Liz Hilton Segel, and Jesko Perrey, “The roots of organic growth,” *McKinsey Quarterly*, August 2017.

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