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Why is Japan sales productivity so low?

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Preface

For the last 50 years, Japan has consistently ranked last among G7 countries in terms of labor productivity, and corporate sales activities are no exception. This paper focuses on sales to corporate customers, providing detailed comparisons of sales productivity against global competitors in individual sectors to identify the challenges and problems unique to Japanese companies and provide recommendations on approaches that companies can take to improve productivity. The objective of sales efficiency reform is not to reduce the number of sales staff, but to achieve significant improvement in the skills and save resources toward new customer development and to grow the company. In addition to recent work-style reforms, the COVID-19 pandemic has promoted telecommuting and a decline in face-to-face sales. These trends are bound to bring significant changes in sales activities, and this paper identifies seven key points for effectively improving productivity.

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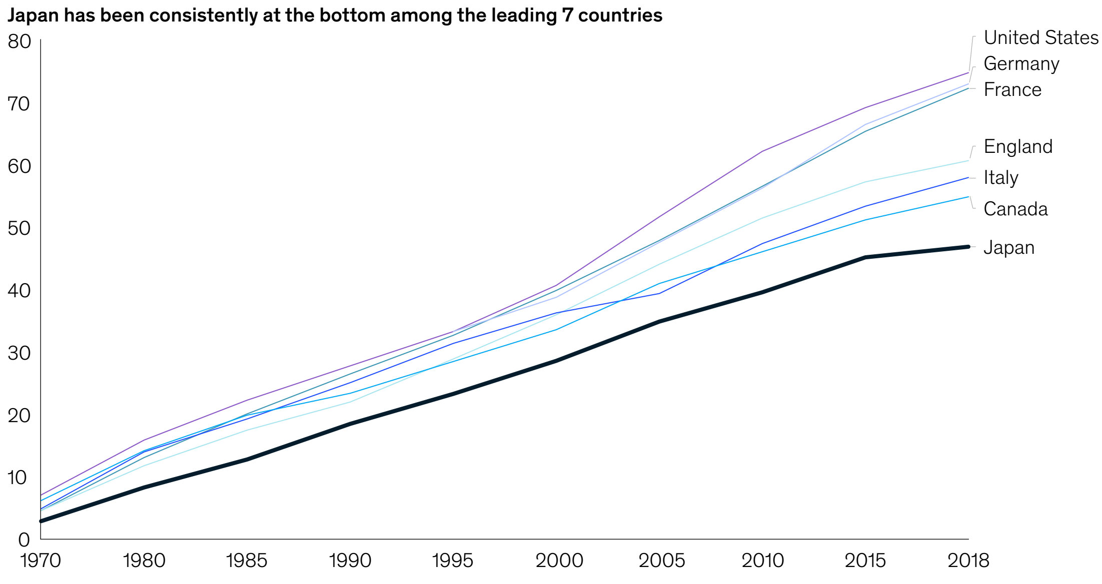
1. Sales ROI: A metric for comparing sales efficiency

The Japan Productivity Center's "International Comparisons of Labor Productivity Levels," which is based on a survey by the OECD, puts Japan's labor productivity per hour (added value per working hour) at 46.8 dollars (4,744 yen when translated to purchasing power parity) in 2018. That is barely over 60% of the US labor productivity per hour (74.7 dollars or 7,571 yen) and ranks Japan 21st out of 36 OECD members. Data for the leading seven countries is available since 1970, and Japan has been consistently at the bottom of the table for the entire period. Low labor productivity is a national challenge for Japan (Exhibit 1: International Comparisons of Labor Productivity Levels, as measured by the OECD). This paper addresses sales to corporate customers, an area that is no exception to the trend. Compared with global competitors in the same sector, Japanese productivity trends lower.

Exhibit 1

International Comparisons of Labor Productivity Levels, as measured by the OECD

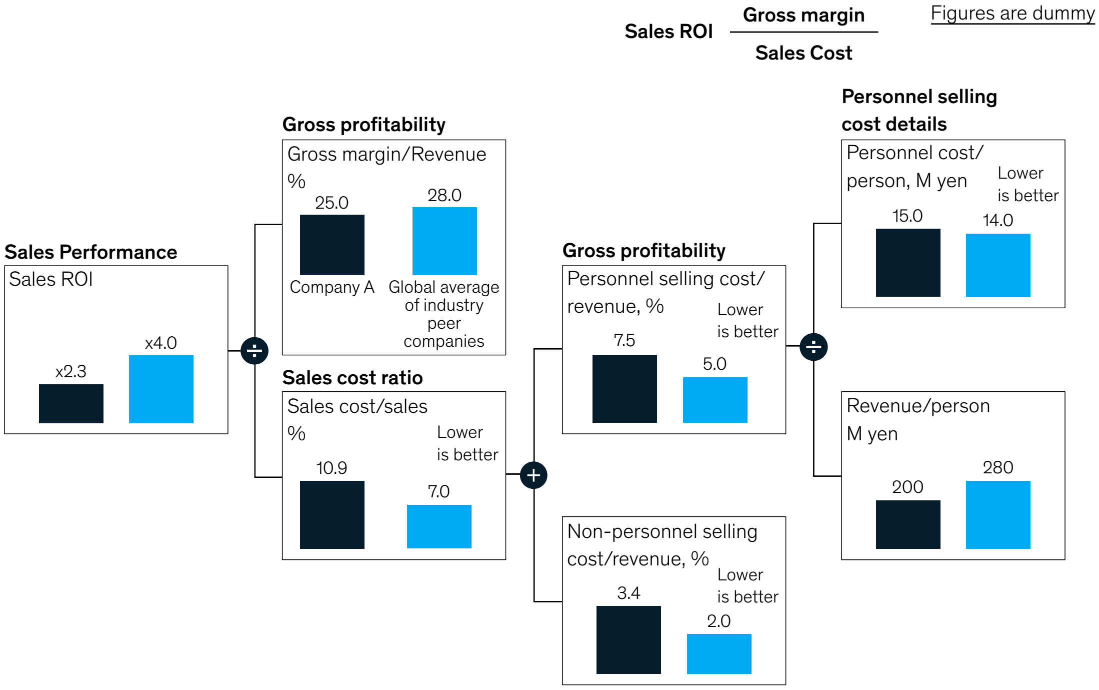


Source: OECD National Accounts Database

Sales ROI is a metric for measuring sales productivity. In this metric, the cost of sales activities, such as sales personnel cost and travel expenses, are considered the investment, while the gross profit (or gross margin on revenues) is considered the return, and the return is measured as a multiple of the investment. The concept is similar to the return on investment (ROI) used in financial investment. By considering selling expenses to be the investment and gross profits (marginal profit) to be the return, performance can be assessed in terms of the size of the return on a given amount of investment (Exhibit 2: Sales ROI).

Exhibit 2

By splitting Sales ROI into detail items and comparing with benchmark companies average, we can identify the issues in the sales efficiency (example)



Sales Navigator

The reason for using gross profit rather than revenues as the return is because the value of corporate sales to a company lies not in selling large volumes at cheap prices, but in communicating to customers the value of the company's products and services so that a certain pricing level can be maintained, thereby bringing as much profit as possible to the company.

Average sales ROI ratios can vary widely, ranging from 1.5:1 to 10:1, depending on the industry and method of selling. In McKinsey's experience, the global average for corporate sales is 2:1 to 4:1, indicating gross profits two or four times greater than sales costs. As examined in greater detail below, Japanese companies' sales ROIs are lower than those of their international competitors in the same industry. Of course, sales ROI is just one business metric, and there are cases where sales efficiency is kept strategically low. A low sales ROI is not a problem if that is the desired outcome is achieved. For example, a company may decide to expand to a new market and its focus may be on developing new customers. This could cause sales costs to jump in comparison with actual revenues, resulting in a lower sales ROI. Indeed, the sales ROI is likely to be smaller when prices and gross profits are intentionally kept down in an effort to build a large business. On the other hand, there may be room for improvement in the case of companies that unintentionally lag behind their global competitors in terms of sales efficiency.

Sales ROIs vary widely from sector to sector. For example, even at the global level, the heavy electrical machinery and materials industries tend to be less efficient, with sales ROIs on the low side. Meanwhile, the semiconductor, electrical equipment and machinery sectors have made significant advances in digital sales, boosting their efficiency and giving them comparatively higher sales ROIs. For industries with corporate sales, McKinsey has accumulated benchmark data covering more than 3,500 companies using a variety of sales methods in a range of industry sectors in countries around the world. This study uses some of that data to break down and compare factors contributing to sales ROI in different sectors and analyze the reasons for low corporate sales productivity in Japanese companies.

2. Sector-level comparisons of sales ROI and detailed analysis

Examining the factors for low sales ROI identifies two primary cases: gross margins below the industry average, and sales expenses higher than the industry average. The reasons for low gross margins often have little to do with sales. They are typically the result of products with low competitive advantage, circumstances that prevent higher pricing, and prices on par with competitors but poor cost competitiveness so that sales do not translate into gross profits. The main way to translate sales into higher gross margins is pricing reform. This could involve negotiating price rises, improving option purchase rates, and reorienting portfolios toward higher-profit customers to improve gross margins (Exhibit 3: Analysis of factors contributing to sales ROI).

Exhibit 3

Analysis of factors contributing to sales ROI

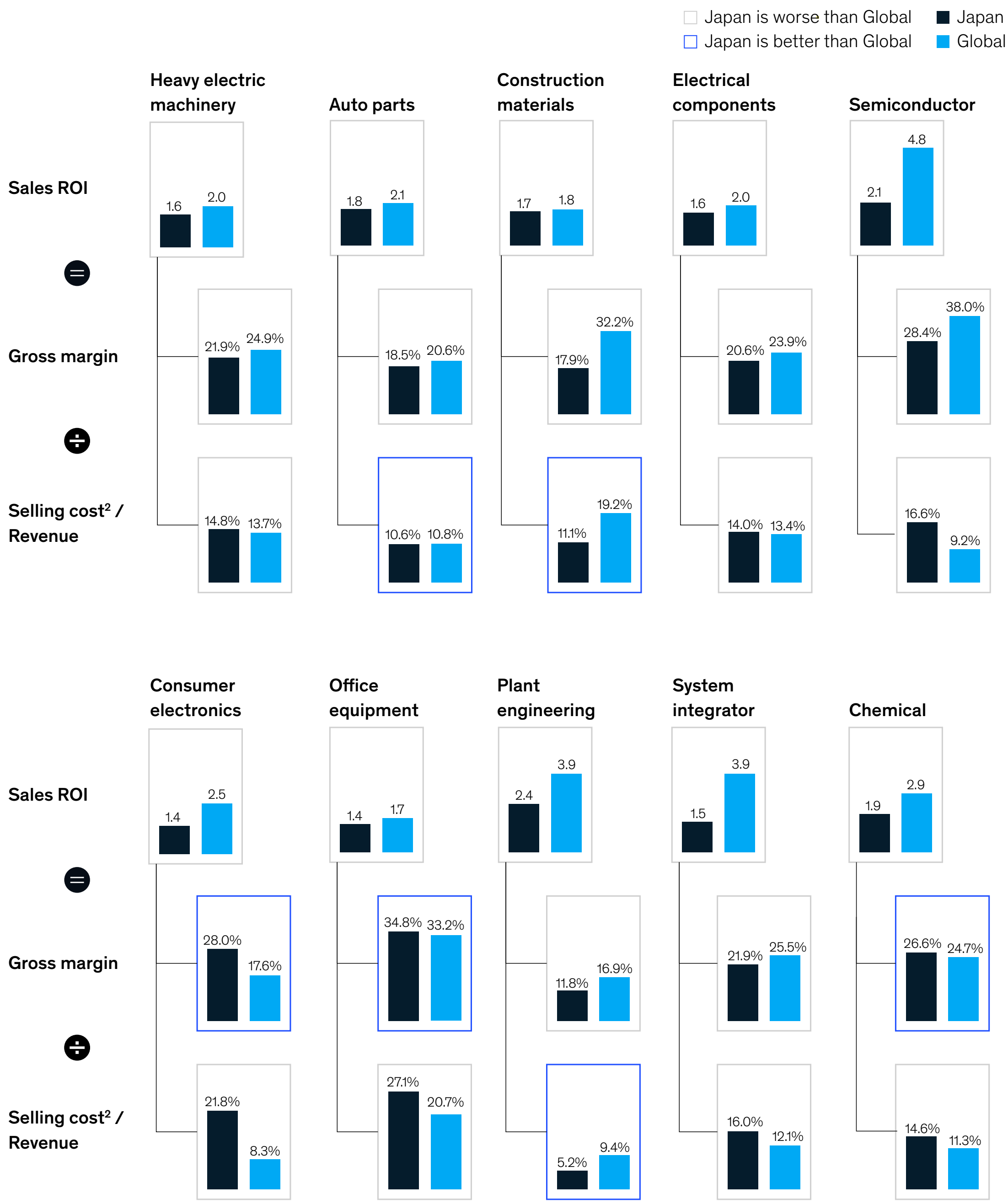
Sales ROI tree comparing channels		Key actions for improvements	
Gross profit / Revenue		Pricing reformation	Negotiating price rises Improving option purchase rates Reorienting portfolios toward higher-profit customers
Selling cost / Revenue	Personnel selling cost / Sales employee	Pricing reformation	Revising the management positions and hierarchy levels Changing the design of bonuses and other incentives
	Revenue / Sales employee	Pricing reformation	Defining roles and responsibilities clearly Assigning a dedicated team for sales support Reducing the number of internal meetings and documents
	Non-personnel selling cost / Revenue	Cost reduction of business activities	Negotiating price with external vendors Digitalizing sales to reduce the work involved in sales to customers and agencies

Source: McKinsey

Again, free services – for example, frequent, recurring deliveries at the customer's request or direct deliveries to the end user that increase logistics costs and impact gross margins – are a common feature of Japanese corporate sales. There is room for significant improvement in these areas if sales teams take the lead in negotiating with customers. The breakdown of sales ROI by sector (Exhibit 4: Global comparisons of sales ROI by sector) indicates that, while there are differences among sectors, Japanese companies' gross margins are weaker than benchmarks to varying extents and there is potential for sales-side improvements.

Exhibit 4

Global comparison of sales ROI by sector[1]



1. 5-year average (2015-19), global top 30-50 companies, and Japanese top 15-25 companies
2. In this analysis, the selling cost means Selling General & Admin Expenses

Source: S&P Capital global

Meanwhile, on the global benchmark, sales expense to sales ratios average 11.6%, while the average for Japanese companies is significantly higher at 15%. Sales expense to sales ratios can be further broken down into payroll cost per salesperson, revenue per salesperson (per capita revenue), and sales expenses, and Japanese companies underperform in all these areas albeit with some differences among sectors.

First, the per capita revenue is quite different from one sector to another, but the average value for Japanese companies is substantially lower than the global average in most sectors. This is one of the most challenging metrics for Japanese companies, and pointing it out often produces an emotional reaction: "Our salespeople are busy from morning to night, and their workloads border on excessive, so why is per capita revenue so low?

Do you expect them to work even harder?" There are, in fact, three major reasons why per capita revenue is low at Japanese companies.

The first is that individual salespeople do not have clearly defined roles and, therefore, have fewer customers and projects. Corporate sales in Japan tends to be handled by teams, and detailed roles within teams are not defined, making it common for the entire team to be involved in all aspects of customer service and support. This arithmetic results in fewer customers and lower per capita revenues than global competitors. Clearly defining roles and delegating authority to younger members is also important in terms of talent development.

The second reason for low per capita revenue is that the role of sales extends to deep involvement in customer service and support after the order is booked, a practice that sets Japan apart. At most companies elsewhere in the world, the role of sales goes only as far as booking orders; once the order is booked, the customer service department or a specialized team takes over customer response and support, including the task of dealing with complaints. By contrast, Japan's "Customer Is King" attitude has created a pervasive corporate culture in which the sales team serves as the face of the company and is responsible for keeping the customer happy at every level, acting as the prime mover in creating detailed documentation of customer requests and responding to complaints. Yet, it is possible to increase the efficiency of sales staff so that they are able to serve a larger numbers of customers without abandoning this culture. For example, assigning a dedicated team to after-booking support would improve service quality and, in most cases, provide greater value and satisfaction to customers.

The third reason for low per capita revenue in Japanese companies is that they have consistently higher internal workloads than global competitors for things that are not directly related to sales. These include attending internal meetings and preparing materials for them. Following the recent work-style reforms, many companies have made progress on initiatives to reduce the number of internal meetings, but in most cases, the preparation of materials continues as before. This is unlikely to change unless top management takes the initiative to slash the number of pages allowed in documents, restricts the time spent on their creation, and is willing to make decisions with limited information.

In most sector in Japan, sales expense to sales ratio is higher than the global average. Japanese companies have made considerable progress in reducing the cost of business activities by cutting travel, transportation, and entertainment expenses. There are, however, certain types of sales expenses, particularly those that involve outside suppliers and vendors or multiple internal businesses, that remain high and are difficult to cut. Some examples include price negotiations with external vendors in outsourcing relationships, the costs of international locations that are shared by multiple businesses, and costs associated with agencies and dealerships (rebates, commissions etc.). Some sectors have been slow to adopt digital sales, which also keeps sales expenses high. In mass-production sectors such as semiconductors and electrical equipment and machinery, competitors in Europe, North America, and China have gone a long way towards digitalization and, in most cases, significantly reduced the work involved in sales to customers and agencies. Japan has been much slower to adopt digitalization in sales, in part because it is not something that companies can do on their own but it also needs customers to do, and this creates an efficiency gap.

Some industries also have higher payroll costs per salesperson compared with the global average. This could be related not just to how base salaries are set, but also to the age structure of the salesforce, the number of management positions and hierarchy levels, and the design of bonuses and other incentives. The common practice in Japan is for wages to be set by seniority, and in many cases, the age structure keeps payroll costs high. Thanks to hiring during the bubble years, some companies may have a large number of high-paid older employees and fewer young employees, resulting in higher overall payroll costs than their international competitors. A deliberate strategy to improve the quality of sales personnel by increasing payroll costs would be valid, but the question of whether wages are unintentionally higher than competitors needs to be explored, and in doing so, problems may be uncovered.

Competing on price becomes much more difficult when the sales efficiency is low, i.e., when sales, general and administrative expense ratios are high. If Japanese companies want to prevail over global competitors, expand their market shares, and grow in China and other emerging markets in Asia and Africa, they need to achieve levels of efficiency on par with those competitors.

3. Seven fundamental issues hurting the sales efficiency of Japanese companies

Up to this point, we have used factual data to make comparisons with global competitors and describe how far behind Japanese companies are on sales productivity. This leads us to the question of why Japanese companies are so inefficient compared to their global competitors. We have identified seven fundamental issues, including some already described above.

Issue 1: Lack of clearly defined responsibilities owing to a preference for harmony and coordination within the organization

— Japanese work styles and corporate culture put harmony and coordination within the organization above individualism. This has to do with the Japanese character trait of prioritizing profit for the organization and group as a whole and solidarity and collaboration within the team over profits booked by individual salespeople. This not only earns profits for the company, but also builds excellent organizational capabilities, particularly relating to crisis response. On the other hand, this emphasis on organization-level collaboration has in many cases resulted in a lack of explicitly defined roles and responsibilities for individual units and functions.

— Clients may be pleased to hear that an entire team has been assigned to the task that a single salesperson would be responsible for at an international competitor, but the reality is that the work of one person is being performed by several. In many cases, multiple units may be assigned to a task, meaning that more time must be spent in coordination. This leads to a decline in sales efficiency.

— For example, in negotiations with major domestic customers, most Japanese companies bring a "cast of thousands." A large delegation comprising employees from multiple units at different levels of the hierarchy visits the customer to respond on the spot to the customer's requirements and questions. Many in the delegation never say a word and their presence is probably meaningless, but they are in attendance anyway. Japanese companies can have twice or three times as many people as their global competitors involved in negotiations.

— When preparing customer-facing materials, there is an emphasis on "lining things up" and "reconciling views" among several units, which often requires multiple internal meetings and discussions. Operational efficiency can be improved by modularizing work and assigning clear responsibilities for individual modules.

— Similarly, there are cases in which there is no clear separation of roles between parent companies and subsidiaries. Many large companies split off into group companies and subsidiaries for the purpose of dividing up managerial responsibilities and wage levels, but this also drives down efficiency because both the parent company and subsidiary emphasize their own operations and have their own hierarchical structures that increase indirect functions.

Issue 2: Inefficiencies resulting from the "Customer is King" philosophy

— While teams are a common feature of sales, many Japanese companies leave their functioning to the discretion of each team or its manager, which puts teams at the mercy of the skills and preferences of specific individuals. Since sales are often dependent on the wishes of the customer, allowing discretion is not problematic in itself, but the lack of clearly defined standards for sales processes is a problem in that it can result in the sales organization becoming a black-box.

— The “Customer is King” philosophy of many Japanese companies makes it very easy to justify various inefficiencies on the grounds of respecting the customer’s wishes. At companies that emphasize adherence to the company’s sales process, there is usually little tolerance at monthly sales meetings for sudden changes in project feasibility or progress, but Japanese companies tend to be more accepting of the customer taking control and, therefore, less likely to employ efficient processes and workstyles.

— The same philosophy has also resulted in extremely complex, time-consuming, and painstaking work as companies try to faithfully meet the requirements of domestic customers by creating detailed cost statements and extraordinarily detailed specifications in customers’ preferred formats. In extreme cases, invoice formats are customized to each customer. Sales organizations in Japanese companies have traditionally spent considerable time and effort trying to satisfy what can only be termed excessive customer requirements.

— At most Japanese companies, the only sales performance metrics are revenues and, in some cases, gross profits. Efficiency is not a metric, and as a result, organizations do not move in the direction of negotiating with customers to reduce unnecessary work and improve sales efficiency. Even when there are clear internal standards for how far to go in meeting customer requirements, the sales process itself can be a black-box, making it impossible to identify actual workloads and robbing the company of improvement opportunities.

— Another distinguishing characteristic of Japanese companies, as mentioned earlier, is the tendency for the sales team to be deeply involved with customer service and support tasks after orders are booked. In companies elsewhere in the world, the role of Sales only goes as far as booking orders; after the order is booked, the customer service department or a specialized team takes over customer response and support, including the task of dealing with complaints. By contrast, Japan’s “Customer Is King” attitude has created a pervasive corporate culture in which the sales team serves as the face of the company and is responsible for keeping the customer happy at every level, acting as the prime mover in creating detailed documentation of customer requests and responding to complaints.

Issue 3: Insufficient allocation of resources to new growth areas due to fixed business relationships with existing customers

— The “Customer is King” philosophy is not unique to Japanese companies and does not need to be rejected outright. What is important, however, is to rethink the customer portfolio taking into account which customers are truly worthy of being considered valued customers. Around the world, companies that put the customer first do not consider customers that bring risks and disadvantages to be valued customers. Indeed, such customers are replaced as quickly as possible. Conversely, customers who test out new products, bring profit to the company, and help train employees are truly valued and treated generously.

— In Japan, it is often difficult to revise customer portfolios objectively in cases where there are long-standing business relationships with the customer, or when former employees of the company have been reemployed by the customer. In the case of the zaibatsu, there is a feeling of solidarity or group membership even when there are no capital ties. Decisions to curtail transactions can be difficult even in cases where the customer demands low prices and excessive sales resources, thereby cutting into profits or even generating operating losses. In McKinsey‘s experience with sales transformation at Japanese companies, low gross margins are almost always owing of the difficulty of resolving loss-producing business relationships, not because of lower prices compared with global competitors.

— As domestic markets shrink, it is increasingly obvious that conservative approaches to sales that depend entirely on existing business relationships are untenable. Global competition is intensifying, with a large number of new entrants in emerging markets and growth industries such as automation and IoT. Companies need to be decisive in reallocating limited sales resources to new growth areas even at the risk of contracting existing business relationships or they stand to lose growth opportunities.

Issue 4: Front-office staff spending surprising amounts of time on things other than direct customer service and support

— Japanese companies almost universally spend more time than their global competitors on non-sales internal work, typically internal meetings and preparing materials for them.

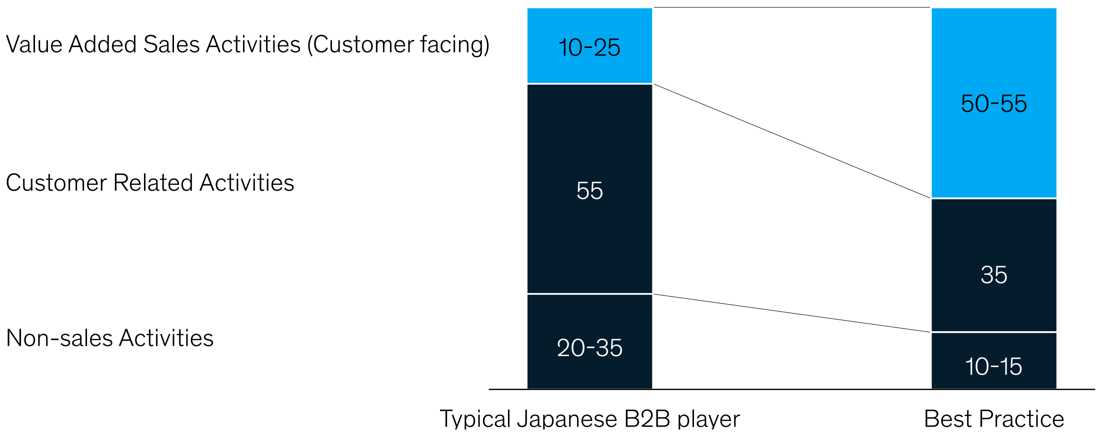
McKinsey conducted a survey of sales units at multiple Japanese companies and found that approximately 20-40% of their working hours were spent on internal processes: attending internal meetings, writing daily, weekly, and monthly sales reports, drafting circulars for deal approvals, and other internal documents. There is an international company which takes advanced initiatives to limit internal work to around 10% of total hours (Exhibit 5: Front-office staff's time analysis survey comparison to best practice).

Exhibit 5

Front-office staff's time analysis survey comparison to best practice

Example of Time analysis for sales people

% out of total working hours



Source: McKinsey

— Most companies have reduced the number of internal meetings as part of work-style reforms, as already noted, and a growing number have also eliminated daily and weekly reports in favor of CRM systems. Paradoxically, this has not reduced documentation in most cases but increased it, if anything. Where a verbal report used to be sufficient, sales staff are now required to file reports or enter data into the system, which in most cases means going back to the office. While CRM systems have been installed, as we will see below, there are issues with how they are designed. Many require needlessly detailed data entry, yet sometimes do not contain the information actually needed to make internal decisions. At some companies, workloads have increased because of the need for creating other documents alongside CRM data entry.

— Another issue in the creation of customer service and support proposals and customer business and industry analysis reports is that sales staff tend to rely on their own personal skills and internal networks to assemble templates for reference documents and proposals. This may result in wasteful overlaps and the need for coordination.

Issue 5: Excessive customization of IT systems and reluctance to digitalize

— High IT system maintenance costs are one of the reasons Japanese companies have higher sales expense to sales ratios than their global counterparts. Rather than adapting the workflows to the systems, which would increase sales efficiency, Japanese companies spend more man-hours customizing systems to existing workflows, resulting in extremely high IT system customization rates. Even packaged products are customized to the traditional workflow. A large number of proprietary “legacy systems” still remain in service and, in many cases, large amounts of money are spent maintaining and repairing these systems.

— These days, cloud-based digital tools that improve efficiency are readily available, but these tools either go unused in Japanese companies because they do not work with legacy systems (no efficiency gains), or are required to be used alongside legacy systems, resulting in new inefficiencies. In other words, companies are not just spending large amounts to maintain their legacy systems, they are also unable to enjoy the efficiency gains that come from new digital tools.

— Many Japanese companies have introduced other CRM systems in recent years, and in many of these cases, CRM has increased the internal workload for sales divisions. In fact, it often ends up doubling the workload because the new tools are only used for sales reports and price quotations for large projects; for other projects and non-price reports, companies use their legacy systems or Excel. CRM is designed to extract data and automate the production of meeting documents or to be used directly in sales meetings, but in some cases, this has been turned upside down and CRM data is exported to Excel, where many hours are spent creating reports.

— IT systems were not designed to be used remotely, and in many cases this has become a factor contributing to lower efficiency. During the current Covid-19 pandemic, employees have been unable to connect to systems from home because, unlike in other countries, digital signatures are not used. Seals, rather than signatures, have traditionally been used in Japan, and e-seals have not made inroads into corporate culture, raising impediments to remote sales work.

Issue 6: Relative evaluations creating negative incentives to sales expense reduction at companies averse to benchmarks

— Many companies, not just in Japan, take the “aggregate restrictions” approach when they need to cut costs – they give units a flat, across-the-board reduction target from current levels for all costs on selected titles of accounts. At first glance, this appears to be fair. However, units that have done well in cutting costs in the past are given the same targets as other units, creating a lose-lose situation. There is, as a result, a negative incentive for units to restrain their spending, which often means that companies are unable to obtain the full savings impact.

— Excessive across-the-board reduction targets for units that have already cut spending to the bone have further negative impacts because they force these units to cut the costs that could be the engines of future growth. While goal-setting is unquestionably important, imposing across-the-board cost-cutting targets without understanding the situations and circumstances of individual units may also reduce competitiveness of the organization as a whole.

— A more desirable approach, one that prevents this, is to use industry benchmarks, setting an overall target as the absolute value that should be achievable in the industry and working from there to determine target values for each individual unit. However, some management teams reject benchmarks entirely, arguing that Japan is a special case that cannot be compared with other countries or, in the case of domestic competitors, that the situation is completely different for the rival company and cannot be compared with one’s own situation.

Issue 7: Inadequate governance of subsidiaries and international locations further delaying cost cuts

— It is not unusual for strict cost-cutting governance from the head office to be ineffective for subsidiaries, international locations, and other remote entities. While it is the entity’s management team that is responsible for its operations, this can sometimes be used as an excuse to insulate the entity from head office influence. Organizations with little control over the presidents of their subsidiaries and international locations are reduced to issuing cost saving “requests,” and when there are language hurdles in international operations, the international entities tend to be shunted to the end of the line in rolling out companywide initiatives, so the impacts often go unharvested.

4. Solutions for greater sales efficiency at Japanese companies

All of these issues are deep-rooted, having their origins in Japanese culture and history. Yet, there are solutions that can increase the efficiency of sales. Industries exposed to global competition in particular must be prepared to benchmark themselves against their international competitors and learn from excellent cases if they are to boost their efficiency and prevail in cost competition.

On the other hand, a common pitfall involves companies turning to superficial initiatives to increase their sales efficiency without addressing the real issues and ending up undermining sales and losing revenues as well as talented staff. This is one of the main reasons why many companies are unable to tackle the problem of sales efficiency.

We have identified four major categories of approach that can be used to identify and address these issues.

Approach 1: Rigorous visualization and reform of the sales process

In Chapter 3, we described the redundant work that results from a lack of clearly defined roles and responsibilities (Issue 1) and the inefficiencies that arise from excessive adherence to the "Customer is King" philosophy (Issue 2). The first step to preventing these problems is to take complete stock of the situation on the ground. A detailed understanding of the specific kinds of inefficiencies taking place enables managers to identify the issues the company is facing. From that point, the general flow is to define standard sales processes, monitor progress to enable easier tracking and status management of individual processes, and install and enhance IT and digital tools to facilitate the above.

(1-1) Using time analysis to quantitatively measure the sales activities of sales staff

A time visualization survey will identify how many hours sales staff (front-office staff, support staff, technical sales staff) spend on which activities and enable managers to check whether different staff members use their time differently, whether the right amount of time is used for the right operations, and so on. This will clarify ideal sales workstyles and highlight the gaps between units that are well governed and those that are not, which makes it possible to prioritize improvement activities so that time is used more efficiently. The key here is for managers to predict which tasks may involve the greatest inefficiencies and design surveys to visualize how much time is spent on those tasks. For instance, if the problem seems to be too many internal meetings, the survey should include questions related to internal meetings; if the problem seems to be too many units attending the meetings, the survey should include questions to identify the number of units. In identifying and examining these problems, it is important to rethink the company's sales processes from a neutral, third-party perspective wherever possible. The issues identified in Chapter 3 may be of some use in this.

(1-2) Clearly defining standard sales processes, skills, and roles

The survey can be used to discuss and identify operations for which multiple units are responsible and redefine responsibilities in a way that eliminates overlaps wherever possible. Developing a process diagram of current operations helps identify wasteful activities so that new approaches to work can be defined. Defining standard sales processes for the organization and making the roles of individual units and positions explicit enables managers to define the skill sets required for those units and positions.

Once the company has defined and implemented a standard set of sales processes, it is in a better position to respond effectively to excessive demands from customers because it understands what it should be doing and where the boundaries are. Defining the required skills also enables managers to determine educational and training guidelines for the organization in a way that improves sales capacity. They can then go on to incorporate the required skills into evaluation systems, create "skill maps" covering all the skills that employees need to acquire, ensure that salespeople adhere to processes, and make fixed-point observations of skills training so that there is a standard sales process for the organization as a whole.

Finally, it is crucial that these reforms be implemented consistently and thoroughly by setting up and holding sales meetings in accordance with the newly standardized sales process, and incorporating these process into internal CRM and sales systems.

In defining sales processes, it is crucial that managers delve deeply into the fundamental issues. In addition to superficial solutions such as reducing the number of meetings or the time spent in CRM data entry, it is important to address the more fundamental questions of why so much time is spent on such activities or why it is so difficult to make reductions. Current inefficiencies are usually the result of approaches that are hallmarks of Japan's corporate culture and the strengths of the company. Sales processes designed superficially without understanding the company's strengths or the reasons why change is difficult will never be fully adopted at the ground level, and attempts to force them are likely to fail.

(1-3) Developing common templates for productivity improvement and individual expense reports at subsidiaries and international locations

The visualization and reform of sales processes is also necessary at subsidiaries and international locations. With domestic markets in contraction, most sectors are under pressure to increase their international sales ratios, and it is essential that head office-led improvement programs be swiftly rolled out to the group as a whole. This includes locations that are not directly governed by the head office. The approach described above should be used as a template for encouraging the reduction of sales expenses and improvements in sales productivity.

In McKinsey's experience, these approaches are usually able to cut the time required for sales and operations-related work by 20-40%, freeing up time and resources that can be reallocated to new customer and market development and other activities that grow the company. Some companies may be able to cut sales staff workloads by around 50%. However, at the risk of repetition, these impacts are unlikely to be achieved merely through surface-level reforms. Both management and employees must be prepared for major transformations if there are to be substantial efficiency gains. They must understand where the true issues lie and rigorously enforce sales processes that address them, defining the skills required, and building the skills of the sales teams. If management is not prepared to improve skills and activities on the ground, and attempts only to eliminate superficially identified redundancies, there will be an immediate drop in revenues and departure of talent as results begin to crumble.

Reform activities have more to offer than efficiency gains and cost savings. By helping younger sales staff acquire the skills they need early on, they enable highly motivated and dynamic members of the sales team to go on to acquire new customers and contribute to the company's growth. This creates a virtuous cycle that significantly raises the value of the sales team itself.

Approach 2: Gathering and sharing expertise and insights

(2-1) Enhancing professional sales support systems

In most Japanese companies, "sales support" mainly comprises sales administration and assistance. It does not go beyond order processing, payment, and expense processing, ERP system input and output, and other clerical work on behalf of sales staff. In many cases, the work is entrusted to temp staff because it involves only simple administrative functions. Frontline sales efficiency will not improve if sales staff are required to manage and oversee the administrative work performed on their behalf and at times cover it themselves. When Sales is asked to cut costs, the administrative temp staff are the first to go, with front-office staff taking over their work and, in an extremely large number of cases, ending up with less time to devote to the sales activities they should be performing.

McKinsey's research indicates that gross profit per salesperson is maximized when half of the staff in the sales department is dedicated to sales support. This might come as a surprise to companies that only assign non-essential administrative work to sales support staff, because in the excellent companies sales support staff are not simply clerks, but professionals with skills that front-office staff do not have.

One foreign company has a team devoted exclusively to bidding and tenders to support of front-office staff. This is a dedicated team that is able to use past projects and competitor benchmarks to set prices, assess risks, evaluate contractual terms, and assist front-office staff in creating the required circulars. Bidding-related functions require expertise in legal affairs and risk, and repetition both increases speed and reduces mistakes, making it more efficient for a dedicated staff to perform these functions than for front-office staff to do them in their free time. The quality of work improves as well.

Other companies have teams with expertise in drafting proposals. Many Japanese companies take it as an article of faith that proposals must be written by front-office staff using customer information only they are privy to, but better proposals can be written more quickly by professional staff who do not just understand the technology and the customer's industry, but have excellent presentation skills as well. As digitalization progresses, video proposals and demos provided on the cloud have become increasingly common, and it is useful to have support from staff with expertise in these areas.

Japanese companies have a strong craftsman-like approach to work, which can be seen in the traditional job-rotation system under which people experience all of the functions in the company and are only considered to be fully qualified once they understand the whole. This is indeed an excellent system for nurturing employees who understand the bigger picture, but unlike in the past, today's world requires higher levels of specialization. As job hopping becomes more common, companies can no longer afford to take a long-term view of employee education. They will find it difficult to continue functioning effectively if they expect all their sales staff to be able to provide end-to-end services instead of assigning dedicated roles and functions to different staff members.

Indeed, frontline sales can be far more effective when professional skills are consolidated into a sales support team that goes beyond simple clerical work to bring high levels of expertise to core operations like drafting proposals, creating demos, studying industries and customers, and managing internal procedures. One company that adopted this approach managed to increase the time available to sales staff for selling products by 15%, improve closing rates by 5%, and reduce the cycle time for internal sales procedures by 20%.

(2-2) Treating knowledge and expertise as common assets

Many companies hold on to the idea that employees require a wide range of experiences before they are able to stand on their own. Such companies believe that sales skills are the product of carefully laid foundations and hard work and are often averse to the suggestion that people with relatively little sales experience can acquire expertise without going through the pain. Indeed, they consider it unfair. However, in today's world where more people change jobs and companies experience high turnover rates, the craftsman-like approach to training is not guaranteed to produce stable sales performance over the long run. A better approach is to view the knowledge held by salespeople as a company asset, introduce effective mechanisms for sharing that knowledge, and eliminate dependence on personal networks so that the organization as a whole is more efficient and effective.

As an example, the proposals and internal documents created by sales staff can be archived and search functions can be designed to allow other staff members to easily access them when needed, thereby eliminating the need to constantly reinvent the wheel every time a proposal is written. It is likewise desirable to treat the content of industry and customer studies and the methodologies they employ as common assets. It is clearly inefficient for individual teams to study industries and customers from their own

View the knowledge held by salespeople as a company asset.

personal perspectives, and the data obtained from customer opinion surveys is unlikely to be very useful in developing strategy when varying and inconsistent methods are used to obtain it. Creating survey templates and archiving survey content will increase the efficiency of the studies that the organization performs.

To prevent it from becoming an empty exercise, the approach to treating insights and expertise as common assets must be carefully adapted. In a corporate culture where personal internal networks and expertise can make or break careers ("I know someone who worked on a similar deal and probably has information that I can use"), employees may be unenthusiastic about sharing their expertise or contributing their documents to an archive. The key is to gradually shift to a culture that values sharing by, for example, holding sessions for people to share knowledge and techniques, and rewarding excellence.

Approach 3: Commitment from the management and infrastructure to facilitate decision-making

One of the most common reasons for efficiency losses at the ground level, not limited to sales, is the inability of management to commit. In other words, management is not prepared to make decisions or to undertake a focused investment of resources required to implement those decisions. When management is unwilling to sever ties with unprofitable customers or customers who require excessive handling, the workload for employees continues to increase. Even when timing price increases, management is often unwilling to risk the loss of customers and therefore instructs employees to "maintain both revenues and profits." With management unprepared to make decisions based on limited information, employees continue to gather more and more detailed information, but to no avail. There are any number of cases where the management's unwillingness to make decisions has impaired efficiency at the ground level.

(3-1) Fact-based selection and prioritization of customers

The commitment to select profitable customers who can contribute to a high sales ROI requires a decision by management, not ground-level staff. Of course, large customers are important for covering fixed costs, and there is no need to sever ties with such customers right away even if the profit margins are low, so long as contribution margin is not in the red. However, some large customers are worth phasing out in favor of others even if there are short-term negatives involved. The decision to do so needs to be based on a general evaluation of the customer's future potential, current margin, impact on other customers, demands on sales resources, and flexibility. Front-office staff cannot make decisions that impact the business to that degree, and management teams that avoid making decisions in the name of delegating work are unlikely to make any progress in selecting customers. It is crucial that the management team itself make fact-based decisions without being held back by sunk costs and past relationships.

(3-2) Changing the culture of excessive precision in reporting

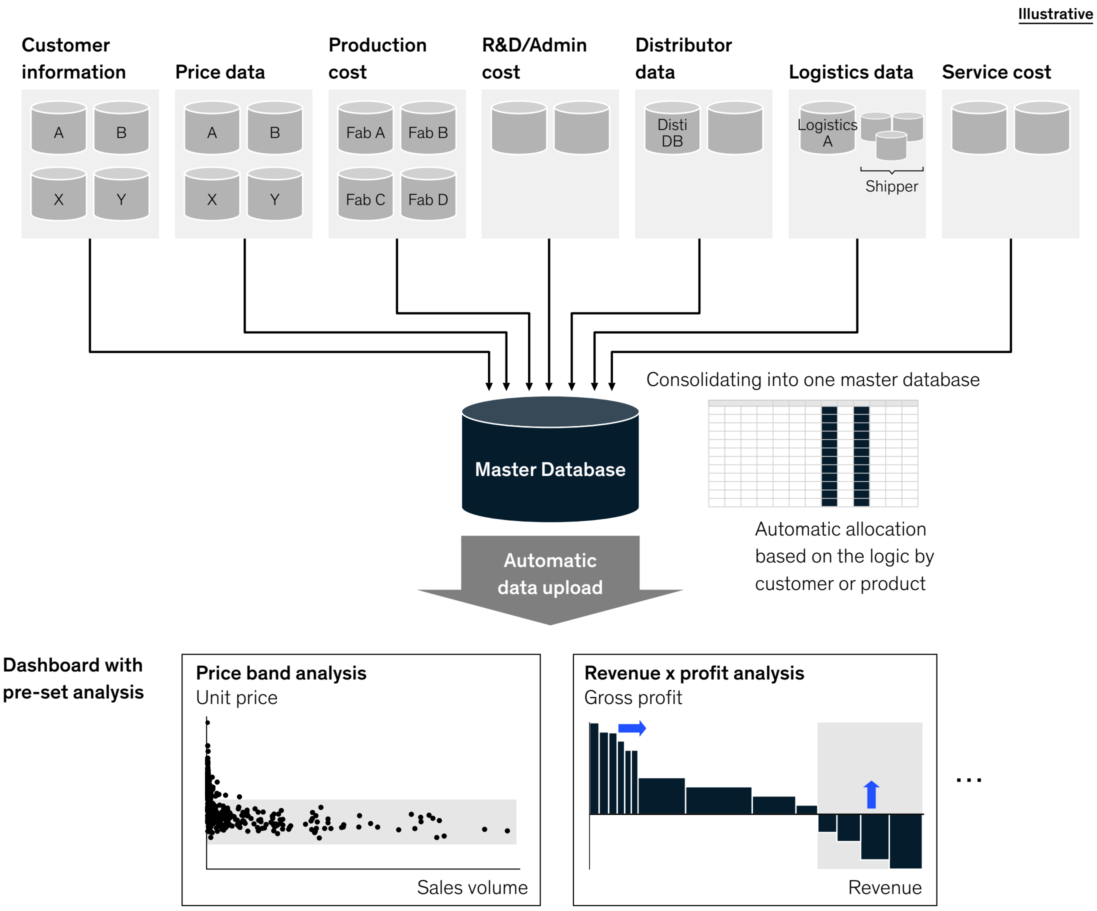
While it is important for management teams to make decisions based on facts, employee work efficiency will suffer if excessive amounts of precise information are demanded before any decisions are made. Japanese companies, particularly in manufacturing, are extremely adept at building high-precision products, and they tend to bring the same sensibility to reporting documents, where extraordinary levels of detail and precision are expected. This often results in ground-level staff spending large amounts of time ensuring the consistency of figures and gathering detailed customer information at levels that do not impact decision-making. While it is important for big figures that directly impact business decisions to be accurate, the trade-off between efficiency and accuracy must be taken into account for less important figures. The management team would do better to talk to front office staff to gain a general understanding of the situation before making decisions.

(3-3) Developing dashboards for KPI data required by management in decision-making (E.g., breakdowns of margins by customer)

Building a database is another way to enable management teams to obtain the facts required for decision-making without excessive dependence on ground-level staff. There needs to be a workflow that manages individual customer margins by linking them to customer-specific revenues and expenses, and uses BI tools to present this information in tabulated form in a dashboard so that it is always available for management decision-making. Companies should invest in adapting their systems so that this information is automatically available from CRM, ERP, and other tools and documents created without ground-level staff having to retrieve it (Exhibit 6: Illustrative data workflow to dashboard).

Exhibit 6

Illustrative data workflow to dashboard



Source: McKinsey

(3-4) Using benchmark data to inspire employees and set targets

Internal and external benchmarks are useful when management teams want to discuss the pros and cons of efficiency improvement efforts with their employees and encourage those efforts to be made. The sales time use surveys discussed above can be combined with internal and external benchmark data to encourage employees to voluntarily make improvements that reduce sales expenses. Of course, there is no such thing as a perfect benchmark, given that circumstances differ even among units within the same company, but consistent monitoring of internal and external data makes it possible to set improvement targets. Employees can brainstorm efficiency improvement ideas based on information on how competitors use sales resources and costs.

Once targets have been set and employees have begun to work toward them, forcing competitor benchmarks to be met is guaranteed to backfire. Benchmarks should be used only as reference values as circumstances differ from company to company and not everything is applicable to all companies.

The vast majority of ideas described in Approaches 1 and 2 – visualization, major changes in sales processes, and collection and consolidation of expertise – ultimately require decisions and commitment from the management team. The decision-making process, however, need not be a management prerogative. Benchmarks against global competitors can be used to raise questions with employees and encourage an ongoing dialogue, and ideas for improvement from ground-level staff ought to be taken seriously. It is unadvisable, however, for the management team to demand excessive information from their ground-level staff or to leave decisions up to them. Decisions must be made swiftly based on consultations among themselves by the management team. A series of moderate improvements will lead to better ideas for improving sales efficiency, establishing a virtuous cycle in the process.

Approach 4: Digitalization of sales to improve efficiency

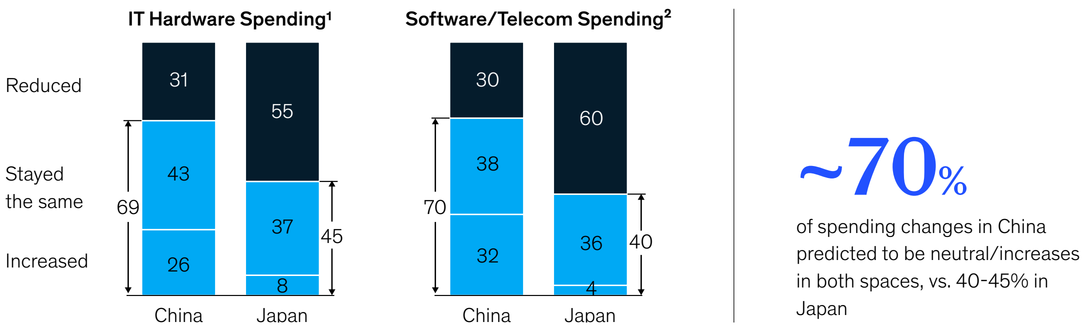
The COVID-19 pandemic has forced all organizations, including Japanese sales organizations, to rethink how they work. There are fewer opportunities for face-to-face sales and a greater use of Zoom and other video conferencing tools even for client meetings. Video conferencing has also become the norm for internal meetings, reducing the need for employees to be physically present in the office. At most companies, emails and telephone calls are being used to a much greater extent for discussions with sales staff working from home. Around the world, many companies have improved sales efficiency by viewing these changes as opportunities and making substantial progress in the digitalization of sales and marketing.

Most companies in China and other parts of Asia accelerated their investments in IT hardware and software when the pandemic began. According to the McKinsey B2B Decision Maker Pulse Survey conducted in April last year, Covid-19 has increased the IT hardware and software budgets of nearly 30% of Chinese companies, with only 40% reporting no change in their budgets. By contrast, under 10% of Japanese companies reported an increase in their digitalization budgets, while more than half reported budget cuts. Japanese companies are restraining spending in order to mitigate risk, but simultaneously appear to be cutting investments in digital technology (Exhibit 7: National-level comparisons of appetite for digitalization investment).

Exhibit 7

National-level comparisons of appetite for digitalization investment

How has the coronavirus situation affected your company's budget during COVID-19 (next two weeks)?
% of spending changes



1. IT hardware includes high tech and telecom equipment, etc.
2. Software and telecom/software services include purchases of IT software including software as a service, cloud services, etc.

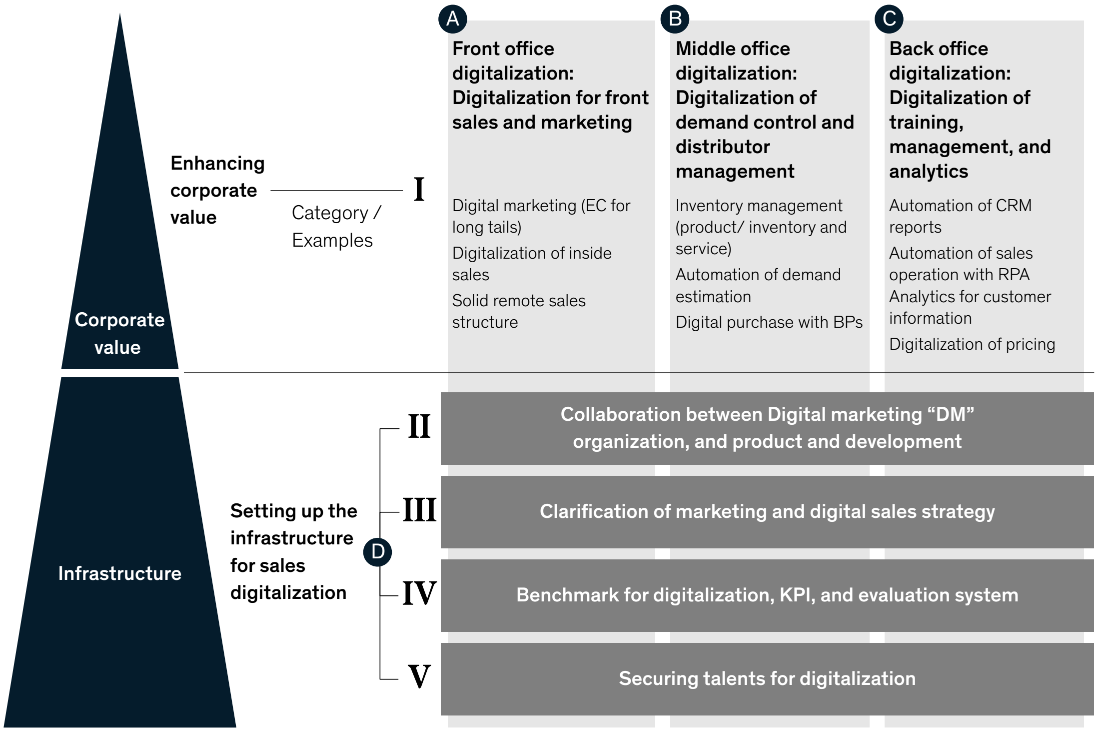
Source: McKinsey B2B Decision Maker Pulse Survey, April 7, 2020 (n = 400 for China, n = 200 for Japan)

Decisions must be made swiftly based on consultations among themselves by the management team.

There are three aspects of the digitalization of sales that should be considered (Exhibit 8: Factors in the digitalization of sales).

Exhibit 8

Factors in the digitalization of sales



Source: McKinsey

(4-1) Front office digitalization

This refers to the digitalization of customer interactions by, for example, using video conferencing to conduct remote sales and introducing online tools that automatically create estimates based on the customer's choice of products and options. Reducing transit time and automating the estimating, ordering, and invoicing processes can significantly reduce the workloads of sales organizations and the time they spend on activities other than customer service and support. This transformation is gradually taking place in industries like semiconductors and electrical equipment and machinery where both buyers and sellers are used to digital tools.

Even in Japan, many companies have begun to digitalize back-office operations.

(4-2) Middle office digitalization
Middle office changes may not be as ostentatious as front office digitalization, but the most effective way to improve sales efficiency is to digitalize middle office operations. By this we mean using digital technology to connect the company's systems with those of distributers, agencies, and other partners, and to manage orders, book new orders, manage inventories, and for shipping and other tasks. Digitalization in these areas can easily accomplish the vast majority of routine tasks that sales staff currently perform and can produce vast efficiency gains despite requiring some time for agencies and partner companies to learn new functions.

(4-3) Back office digitalization
Even in Japan, many companies have begun to digitalize back-office operations, using RPA to automate operations, and CRM and voice recognition to automate data entry. Digitalizing back-office operations also involve linking CRM information to published information about client companies. This would allow big data analysis of, say, the kinds of sales activities that are most effective for different types of companies, and produce efficiency gains.

The digitalization of sales requires heavy investment in digital tools. Moreover, it is not enough simply to install these tools. For the tools to generate the promised efficiency, sales processes must be improved and sales staff must be trained in the necessary skills. Without this, the exercise is futile and could end in failure with no improvement in efficiency at all, just as the introduction of many other IT tools have in the past. Further, in advanced industries like electrical equipment and machinery, IT, and semiconductor industries, global competitors in China, Europe, and North America have begun to invest in digitalization. In those industries, management teams must be prepared for company-wide digitalization if they want to prevail in global competition.

5. Conclusion

This paper compares Japanese companies with their global competitors in different industries in terms of the efficiency of corporate sales. It does a deep dive on the reasons for low efficiency in Japanese companies and presents approaches that can be taken to improve the situation. Some inefficiencies stem from the very aspects of Japanese corporate culture that are also its strengths. Such inefficiencies will be difficult to address through superficial workload reduction efforts. Nevertheless, there is potential for true improvement in the working styles of Japanese sales organizations and for true productivity gains in their productivity so long as management teams are willing to learn from the best practices of their global competitors, do a deep dive into the fundamental causes of inefficiencies at their companies, develop bottom-up ideas, and make the decision to move forward. If Japanese companies are to prevail against their global competitors in the emerging markets of Africa and Asia, including China, expand their shares, and continue to grow, it is crucial that they achieve efficiency at least on par with their competitors. We hope that this paper will be useful as a reference for organizations as they work toward more efficient sales.

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Yukari leads our work in B2B sales and marketing in Asia–Pacific and Japan. She serves manufacturing clients in industrial machinery, device and component manufacturing, high tech, semiconductor, chemicals, and materials industries with a focus on growth strategy and sales transformation. She specializes in B2B sales and marketing and brings deep expertise in sales organization transformation, new business development, solution sales transformation, pricing transformation, and sales efficiency improvement to her clients

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