

Discussions on digital: Moving B2B companies into the digital world

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Digital has changed how B2B leaders meet customer demands, but not in all the expected ways.

As digital continues to disrupt every aspect of commerce, B2B organizations face challenges and opportunities when they come to terms with this new reality. In our latest Discussion on Digital podcast, Dianne Esber, a partner at McKinsey's San Francisco office focused on driving digital growth, explores this topic with Robert Chatwani, CMO of Atlassian, and Larissa Pommeraud, global general manager of emerging business for Art.com. They are joined by Dianne's colleague Brian Gregg, a senior partner who leads retail marketing for McKinsey in the Americas. An edited transcript of their conversation follows.

The impact of digital on B2B enterprises

Dianne Esber: When it comes to B2B companies, what are some of the biggest areas of impact where you can actually see digital as the driver versus more traditional face-to-face interactions?

Robert Chatwani: We don't even have a sales force, so we rely really heavily on solutions partners and channel partners to fill the role of the face-to-face conduit to customers, particularly large enterprise customers. Some 85 percent of Fortune 500 companies use our products, and in most of those cases, the decisions about buying software are made within the company, as opposed to a sale made by the CIO.

Part of that is driven by the price point of our software, since it's relatively accessible and often doesn't require a procurement team to actually be involved. We see opportunity less around the traditional sales force driving our growth and more in investing heavily in technology, data-driven personalization, and effectively making our marketing more efficient.

In instances where it's not a full-blown enterprise-wide implementation that needs the involvement of the CEO and the CIO, I believe increasingly decisions about buying software are being made in the depths of the organization. In those instances, I believe a low-touch, high-efficiency business model is actually going to be a driver for the next generation of growth for a lot of database companies. For a lot of those companies, sales and marketing as a percentage of revenue ranges from 40 to 60 percent. That's remarkable.

Larissa Pommeraud: Art.com has grown up as a purely B2C online buyer, and is really good and getting even better at online marketing. But we do not have a sales force to speak of. I have to decide whether to build one and follow the traditional model in the art and design industry. They have a really old-school, rep-based model, so I would need to create regions and territories and have people going door to door with sample kits, and I just find it hard to believe that's the best way forward in this day and age.

The next generation of marketing: Harnessing humans and machines

Brian Gregg: The ultimate leading edge right now is when you combine science with human curation. I think of Stitch Fix, which has 200-plus data scientists being thrown at what sort of combination should show up in your inbox based on what you did last time. But in the end, a set of merchants is also curating that based on what's happening in the trends. The combination of those two feels like a generation ahead of just letting machines do their work.

Robert Chatwani: It's funny, because I have an example of this trend that a friend of mine shared with me today. She works here in San Francisco for Macy's and was very specifically targeted with a promotion from LinkedIn to do a complete makeover on her LinkedIn profile, so perhaps they detected something. The offer was an event at a J. Crew store to learn how to dress for an interview, combined with a stylist to act as your personal shopper. It also includes a makeup session where they'll take your headshot for your LinkedIn profile.

They're also offering three months of free LinkedIn premium access if you attend the event, which was invitation-only. She was very specifically targeted based on demographics, but it's interesting because it's a data-driven campaign that requires human interaction offline. I would have to agree that this combination of machine and human coming together in that convergence is a remarkably powerful mix that I think will absolutely define great marketing.

Can B2B companies adopt B2C capabilities?

Dianne Esber: We almost take for granted a lot of the capabilities we see in B2C companies, such as customer-centricity, market insight, etc. And sometimes when you talk to B2B companies they say, “We’re different. We’re different industries, and we’re a different selling environment.” So what’s the reality here?

Larissa Pommeraud: Everything just moves faster in the B2C world. B2B businesses are going to need to pick up the pace just to compete as more B2C companies like Art.com move into that world. It’s fascinating because Art.com B2C customers will say, “You’re not fast enough. Amazon is the benchmark. You know, I want delivery in one day or two days.” Whereas the B2B clients will tell me, “Wow, you guys are amazingly fast. That’s why we use you, because you can turn things around like when I have a fire drill.” And so it’s just such a different competitive set when old-school, physical B2B shops are taking weeks or even months to deliver on a project.

Brian Gregg: My other observation on how the DNA of B2C businesses has started to affect B2B players is what you can call customer-centricity. Obsession with the customer is paramount at Amazon, where you can’t listen to CEO Jeff Bezos for more than 30 seconds without him saying the customer matters. And so in a world where you might be selling to a CIO, or you’re selling to a group of procurement officers, or—fill in the blank—how do you keep them center?

Robert Chatwani: As I hear you speak, I would almost argue that making an IT or a software decision or a B2B purchase decision can be just as emotional, and in some cases more emotional, than making the decision about buying something as a consumer.

The decision makers for B2B software are in many ways, depending on the magnitude and the scope of what they’re buying, actually making a career bet when they decide to purchase software. If it’s something in the millions of dollars, you can absolutely guarantee that there’ll be multiple decision makers. But it is a career bet. They’re staking their reputation on getting behind a decision that says, “This is what I choose as a decision maker to bring into my organization, that dozens, hundreds, thousands of people will use.”

Larissa Pommeraud: I think that’s exactly right. But I also would love to pick up on something else you talked about, which is multi-stakeholder decision making, because for me, that’s one of the more different things about B2B versus B2C. And yet

each of the stakeholders involved does have to connect with you emotionally and/or functionally, which means the value proposition has to be a little more robust.

For example, when I'm mining our data, there's always a purchasing and finance person involved. There's also the designer or marketing person, who is thinking about something totally different, like the brand and the artistic element. And then there's the executive, the senior decision maker. They all kind of need something different. But we can know and appeal to all of them with our tools and data.

How B2B players can exploit digital to unlock value

Dianne Esber: We have some research that shows some industries, like the chemicals industry—of all places—could unlock \$200 billion worth of value if they enhance their digital experience. But part of the reason they haven't been able to capture this is that it's really hard, and it requires change both in terms of talent and working culture. So what's the most effective way in evolving B2B companies to become more digitally driven?

Larissa Pommeraud: The fastest way I can think of to make an evolution like that is just to bring in talent that's done it a lot before—some new DNA. The risk of doing that is there's always the possibility of tissue rejection. But if you're really very committed to making the change or at least trying, bringing in somebody who's done it before and can lead that change, I think, would be very interesting and very helpful.

Robert Chatwani: Some of the most attractive candidates to me are those who follow the career path of discovery and curiosity and are able to mix competencies from different verticals, different industries. So, for example, one individual we're speaking to right now comes from a really, really strong communications and agency background and has worked for about a year in cloud security. She made that leap because she realized she's in Silicon Valley.

She has this incredible design and communications background, but she really wants to jump into technology. Through the combination of these two things, she has this remarkable competency of being able to take very, very complex cloud-security concepts and communicate them really easily to end users. And she's fallen in love with this merger of these two disciplines.

The future of the digital B2B sales force

Dianne Esber: So how does a salesperson evolve in a digital B2B world? Are we looking for different skill sets? How do we think about this?

Robert Chatwani: Well, I don't think you have to look far to see that challenge actually happening today. I'll use the example of Cisco, which is a company that's moving really rapidly from a very hardware-driven business to a software and solutions sales business.

However, you had tens of thousands of salespeople who have historically been incentivized, wired, and motivated to sell hardware. If you speak to Karen Walker, their CMO, she's driving a remarkable transformation at that company today. But it can't go fast enough. The challenge is taking a very effective sales organization with nothing but a phenomenal record at customer-centric sales and making this shift to selling services and software at a recurring-revenue model, which is very different than the traditional hardware sales model.

I think whether it's a large company like Cisco, or even a midsize one, disrupting your own model is probably one of the most effective ways to make this leap. It comes with a lot of complexity and perhaps pain. But figuring out how to balance delivering the present and creating the future at the same time is not a real choice for most companies. They have to do both.

Larissa Pommeraud: I'm probably oversimplifying, but it seems to me that the migration will be from more outside sales to more inside sales, from more phone to maybe more video chats, etc. Some of the media will change from more manual to more automated, AI kind of stuff. So you've got more tooling that's enabling faster responses. I think there will be sort of a migration, and hopefully the sales job just gets easier, more scalable. You need fewer, more technologically enabled people to do their jobs more effectively.

Robert Chatwani: There will be always be sales competencies in companies. I think what you'll see is the model becoming more agile and more flexible. And how can that happen? So that's one trend. But this shift toward a more gig-based or freelance economy—I haven't yet seen it make its way into the sales organizations, but it's starting to emerge.

There's a remarkable company called SwarmSales based here in Silicon Valley which attracts freelance sales individuals and matches them with early-stage companies. SwarmSales says, "Hey, you're an individual who's worked in a particular industry or for a particular company for many years. It's not your knowledge of that company and its products that matters, but the relationships that you've built over years or over decades."

That's valuable to a lot of different companies. If I'm a B2B company and I want to expand my sales force or expand my reach, why not tap into that kind of capability?

What B2Cs learn from B2Bs

Dianne Esber: We've talked a lot about what B2B companies can learn from B2C. What about the reverse?

Robert Chatwani: Defining a value proposition and mapping it to industries, to verticals, to functions within companies, and really getting sharp on the relevance of your product offering to that customer, is critical. I think a lot of B2B companies do that particularly well.

Monetization is absolutely another one, especially in a software as a service-driven business model with recurring revenue. What's magical about that is the recurring revenue model and how predictable it can become, particularly if you manage well for churn.

Larissa Pommeraud: I think on the monetization front a lot of B2C companies get overly focused on the demand generation, on the consumer. And there's actually a lot of value to be had in other parts of the value chain that sometimes they don't think about.

So, you know, B2C to can easily turn into B2B by just looking toward the supply side and thinking of services there. Or the wholesale intermediary that you may ignore and consider a competitor could actually become a customer.

The other point is that there's a lot of science behind the sales process in B2B. Again, whether it's digital or not, you have to think about winning pitches and why you're going to win and how you're going to differentiate from competition in a very tactical way that's very specific to a customer segment.

The lesson of Amazon

Brian Gregg: I'm just wondering what the two of you think of as you look at Amazon just being almost the ultimate B2B and B2C company. They've taken things that they dump in the B2C universe and monetized them in the B2B space. And then they've taken the B2B cash and invested it back in the B2C. I mean, there is an amazing phenomenon happening up in Seattle that I think has still not played out.

Larissa Pommeraud: Amazon's definitely a B2B player now. They have a really effective sales engine. You know, they called me to sell me on their B2B product as I was trying to get into their B2B marketplace. I think we've seen that with Staples as well. But you know, the scale that B2C has provided can create scale in B2B without that much effort. I think we do have to watch out for B2C players moving into B2B.

Robert Chatwani: Well, what's remarkable about their business also is that they're taking capabilities and competencies they've built in their core business and turning them into products that they can then sell to businesses. I think these offshoots and extensions of the horizons of growth that they're able to evolve into, a lot of it really comes from leveraging the capabilities they built to serve themselves. □

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