



# Unlocking sales-force potential in the semiconductor industry

**Many semiconductor companies are struggling to find growth, and yet significant potential is sitting right in front of them, overlooked. A rigorous rethinking of sales and marketing processes can uncover hidden opportunities and convert them into real revenue.**

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Even as semiconductors increasingly saturate so many aspects of modern life, industry growth rates have been decelerating. In such an atmosphere, can a company afford to overlook part of its market or fail to ponder how well it serves its existing markets? Certainly not. As noted elsewhere in this issue, the compound annual growth rate of the semiconductor industry is slowing, to the point where it is beginning to mirror GDP growth rates. The industry's annual growth rate was 7 percent in the 2000s, and it is expected to average 5 to 6 percent in the current decade. That's significantly slower than the 13 percent annual growth rate the industry enjoyed in the 1990s. As a result, semiconductor

companies need to squeeze every last drop of juice from the fruit.

Even a relatively simple metric like cost of sales as a percent of revenue shows that leading semiconductor players' sales organizations vary significantly in their effectiveness in generating revenues (Exhibit 1).

With these benchmarks as the foundation, we isolated the factors that hold semiconductor players' sales performance back and identified what they can do to unlock the full potential of their sales teams.



**Assessing sales effectiveness for semiconductor companies**

To isolate the issues that hold back many semiconductor players, we analyzed the sector, using both industry information and sanitized results from client work. We were able to identify five questions that will help companies understand their strengths and highlight any weaknesses in the effectiveness of their marketing and sales teams.

**What forms the foundation of your company's sales strategy?**

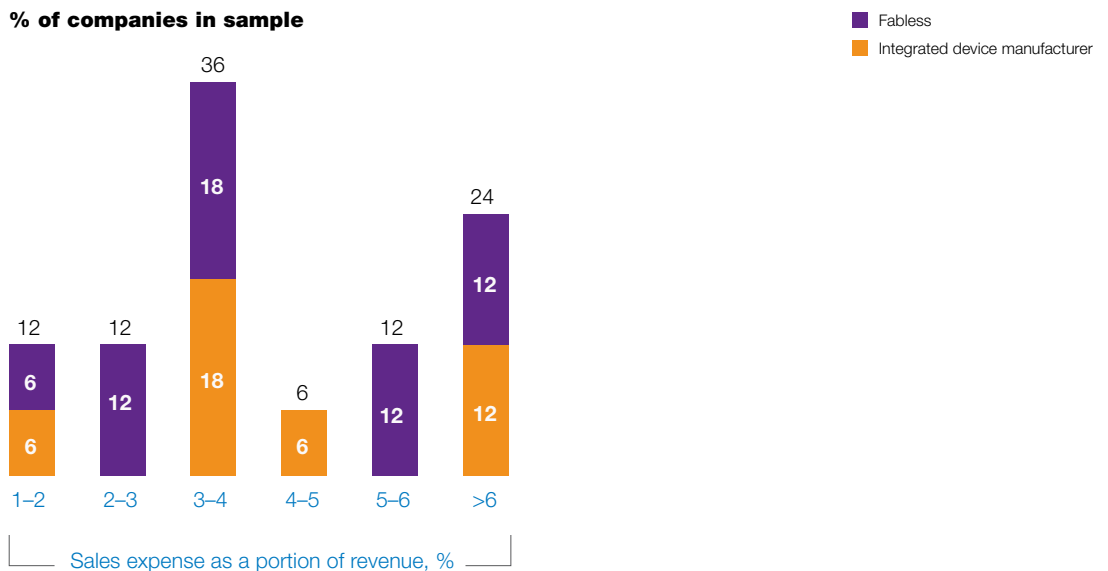
In our experience, the majority of semiconductor companies frame their sales strategy around the supplier-addressable market (SAM)—the subset of the total addressable market that is left once they back out of the sectors they can't sell into due to lack of qualifications. A formal

analysis of one client's account data showed that it had SAM of 55 percent of the total addressable market, yet after subtracting the opportunities it didn't pursue and the loss rate with regard to sales in the competitive marketplace, this company closed less than 7 percent of all potential sales—a sobering picture (Exhibit 2).

By focusing on SAM, semiconductor companies are overlooking improvements in sales effectiveness that could materially increase that market share. For example, the corners of the market that this company declined to pursue amount to 45 percent of total addressable market. Another complication: semiconductor companies classify accounts as key accounts or focus accounts based purely on the supplier-addressable spend. As a result, they align

Exhibit 1

**Wide variability in cost of sales across semiconductor companies.**

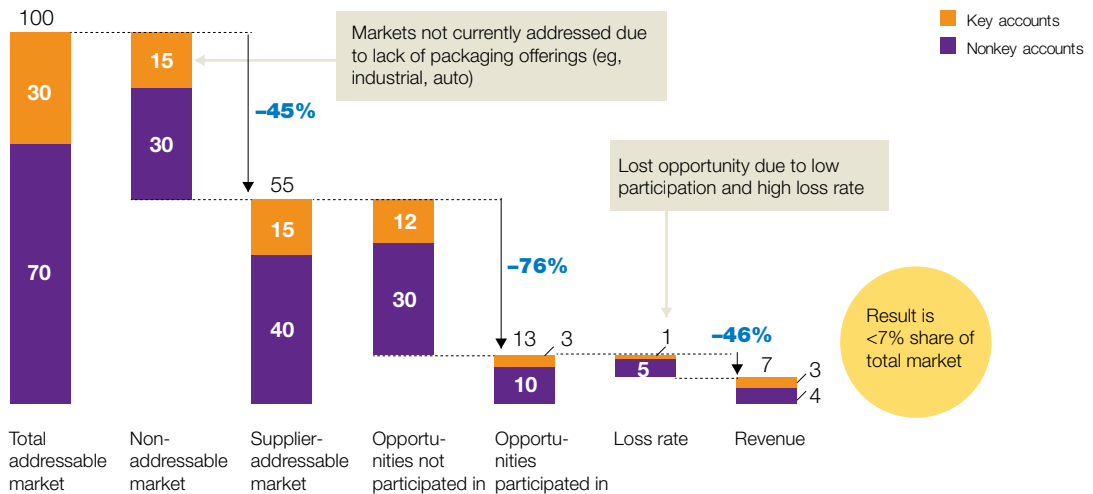


## Exhibit 2

## Semiconductor players often miss out on a large portion of their addressable market by not identifying and participating in relevant opportunities.

### Sales pipeline

Revenue indexed to total addressable market, %



Source: McKinsey sales and marketing semiconductor database

resources to increase calls and contacts with the key accounts and then the focus accounts, overlooking opportunities that lay beyond the current customer list. This leads to our second question.

#### How efficient is the sales teams' coverage of both existing and prospective customers?

A common stumbling block for semiconductor players involves overinvesting their sales resources in "farming" current customers rather than "hunting" new design wins that will find a place in upcoming customer sockets. An analysis of sales-force time usage at one client showed that that there was three to five times the focus on existing customers as compared with new customers (Exhibit 3). Taking a deeper look, we also observed that, even with existing

customers, the internal sales force has about 20 percent fewer touch points than external reps—primarily because too much time was invested in internal processes.

#### Does the sales force have the right solution-selling skills to be effective?

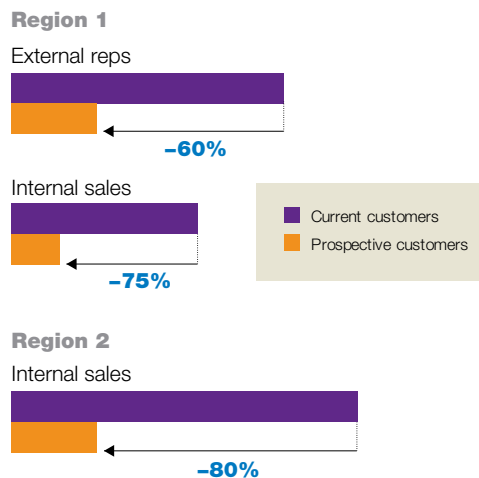
While sales is regarded more as an art than a science, during our work with sales teams in the semiconductor sector, we have tried to identify what separates a good salesperson from an average one. We have found four qualities that separate the two categories:

- **Opportunity identification.** In our recent work with a client, we noticed that even within the supplier-addressable market, the sales team was participating in fewer than one in four new

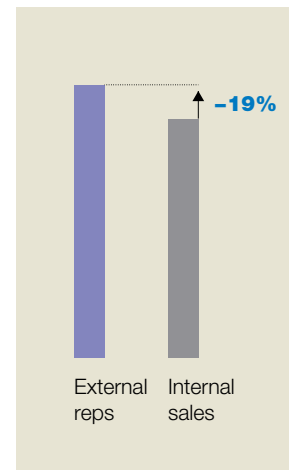
## Exhibit 3

## Semiconductor players often overinvest in ‘farming’ current customers instead of ‘hunting’ for new ones—even with current customers, their external reps outperform internal sales.

### Number of customers covered per salesperson



### Average touch points with the current customers during a normal week



opportunities. Sales leaders need to keep an eye open for gaps in this category, as they are not easily evident based on internal, self-reported SAM numbers.

- Understanding of customer needs.** Our extensive survey of semiconductor sales forces reveals a gap in understanding customer needs. While most sales teams are well versed in their own company’s products, they struggle to articulate the needs of the customer. As one regional sales manager put it, “[We need to] alter [our] approach from a product-centric to a segment- or customer-centric approach. Different customer segments need different intellectual property, different product features, and the like.”
- Ability to communicate a unique value proposition.** A universal theme in our work with semiconductor sales teams is the inability to communicate the company’s or indeed the product’s unique value proposition to the customer. The lack of a methodical approach to identifying and then communicating a product’s unique attributes—and the dollar value of those attributes—to the customers is a key roadblock to unlocking true sales effectiveness.
- Multilevel selling.** Strong sales teams usually cultivate a web of relationships with their customers, going beyond procurement managers to R&D, engineering, and business unit managers. Having such deep access to customers is a key success factor when it comes to knowing



where the next opportunity for a design win will arise. It also helps sales teams define the attributes of the product that will truly add value for the customer.

#### Is the sales process efficient enough to enable your sales team to be effective?

A common obstacle to sales effectiveness in the semiconductor sector is non-customer-facing activities that eat up the sales force's time. Examples include time spent preparing materials for internal meetings, time devoted to working with the product group to review new products, and gathering and entering information into demand-forecasting systems. According to our semiconductor-industry benchmarks, the average player's sales force spends only 26 percent of its time on customer-facing sales tasks, such as planning account strategy, planning sales calls, and traveling to meet with customers. Slightly more time, 28 percent, is devoted to internal tasks related to sales, such as campaign planning. Eighteen percent of the sales force's time is devoted to service and support activities. The remaining 28 percent of its time is eaten up by purely internal activities (for example, team meetings, management duties, and training sessions).

A lack of proper sales tools and marketing materials also drags down sales effectiveness. During client interviews, one field application engineer told us, "The field needs to be provided with quality updated competitive information, updated product guides, collateral, road maps,

and clear messaging to sell more effectively." Others noted the lack of streamlined reports in their SAP system and the lack of a centralized product database. Without these resources, the sales force constantly has to reinvent the wheel, running up the tally of non-customer-facing time.

#### How are sales teams managed and provided incentives?

Semiconductor sales teams are usually managed and provided incentives with an eye on quarterly and full-year sales targets. While the use of a single metric is simple—and ensures a tight focus on driving the top line—in our experience, it also has two critical downsides. First, a short-term focus on revenue results in decisions that favor quick progress over the types of longer-term investments that can significantly improve the revenue trajectory of the company, and second, a sole focus on revenue may not translate into appropriate levels of profitability. Unless the sales team feels it needs to protect certain profit margins, this focus on selling at any cost can quickly erode sales effectiveness.

Given the crucial importance of the marketing and sales functions in semiconductor companies, it is surprising that so many companies let these shortfalls bedevil the sales process. But it does not have to be this way. Over the course of our benchmarking effort, we found a number of high-performing semiconductor companies, and from our analysis of this group, we were able to synthesize a road map for any player looking to elevate its sales performance.

**Journey to best-in-class sales performance**

In our research, we found that high-performing semiconductor companies invest in each of the five distinct areas discussed earlier to ensure that sales excellence becomes a reality. To make this investment pay off, they rely on five key success factors.

**Establish a focused sales strategy**

The first essential element involves setting revenue and gross-margin targets for each customer. This will allow proper prioritization

and, ultimately, segmentation of customers into three categories: high priority, maintain, and lower focus. As for key accounts, they should be prioritized based on current and potential share-of-market expectations for the various divisions of the customer organization. The goal is to apply the same segmentation to divisions within top customers and to double down on those with the largest product spending and largest revenues. Divisions that have already been solidly penetrated would fall into the maintain category. Laggards fall into the lower-focus category and are only covered lightly (Exhibit 4).

Exhibit 4

**The focus for key accounts should be refined based on current and potential share expectations.**

ILLUSTRATIVE EXAMPLE OF GO-TO-MARKET PLAN



Customer lens by division

Customer	Division 1	Division 2	Division 3	Division 4
Product A spend	\$15 million	\$8 million	\$10 million	\$1 million
Product B spend	\$5 million	\$25 million	\$3 million	\$1 million
Product A SOM <sup>1</sup> (%)	5%   10% 	10%   20% 	60%   60% 	1%   2% 
Product B SOM <sup>1</sup> (%)	2%   6% 	2%   7% 	10%   11% 	NA   NA 

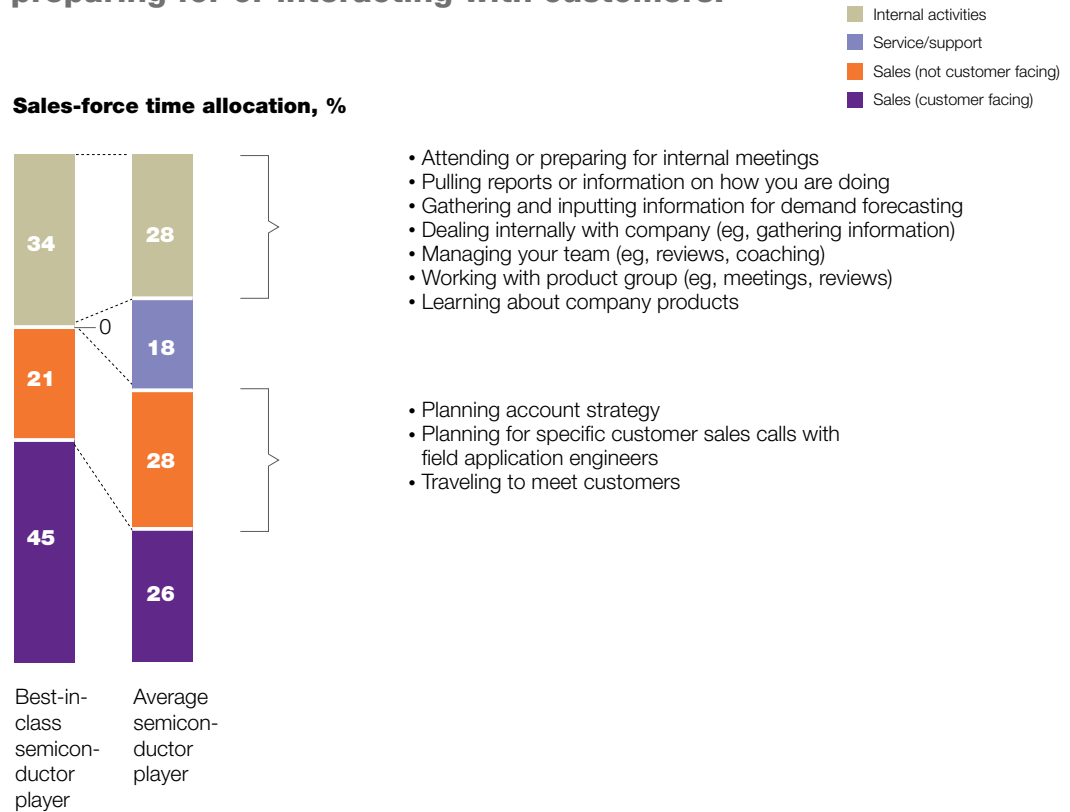
Need to close loop with product marketing and engineering to drive design wins

- Largest product spend; small market share
- Will benefit from putting more resources into securing design wins, as products have long life cycles
- Largest division by revenues
- New design wins are largely in a space of relative weakness for the company with regard to technology and time to market
- Good account penetration, achieved through design wins on key platforms
- Need to maintain account
- Has not been a focus due to small total addressable market

<sup>1</sup>Share of market.

## Exhibit 5

## Best-in-class sales performers spend about two-thirds of their time preparing for or interacting with customers.



### Develop an efficient coverage model for both existing and prospective customers

Next, semiconductor sales resources should be mapped to coverage needs, with an eye toward maximizing efficiency. By that we mean ensuring that the sales team ends up spending the bulk of its time in front of customers. In addition, within that time, the sales agents are balancing farming existing customers with hunting for prospective customers. Based on the best-in-class benchmarks from leading semiconductor players, we expect that about two-thirds of the time should be spent in customer-facing or preparatory activities ahead of sales calls (Exhibit 5).

These changes require organizational support, such as building up customer-service teams, clarifying the roles and responsibilities of the field team (including field application engineers and other technical staff), and establishing efficient processes and stringent performance-management systems. The latter two enablers will be discussed in detail below.

### Develop effective solution-selling skills

The third success factor covers targeted training programs aimed at remediating any areas in the current sales approach that are weak. We recommend conducting a quick survey of customers, asking them to rate performance

across a number of key dimensions (for example, understanding of customer needs, negotiation skills, and coordination among sales, business units, and field application engineers) on a scale from zero to five. Next, ask the customers to rate the importance of each of those factors in driving direct sales. The results can be fed into a two-by-two matrix that will highlight the skills that are both important to the customer and lacking in the organization at present. These

are the skills that need to be addressed promptly with formal training programs.

As noted above, in our experience, sales teams across the industry need to do a better job of understanding customers' needs and articulating value propositions to the customer. Structured negotiation exercises and formal sales playbooks have been employed to bridge this gap in certain semiconductor companies.

Semiconductor sales resources should be mapped to coverage needs...ensuring that the sales team ends up spending the bulk of its time in front of customers.





**Develop efficient sales processes**

Fourth, we recommend that companies run a detailed activity analysis of sales staff to determine precisely how it is spending its time. Depending on the allocations that come in, it is possible to make process adjustments, such as automating certain reports, that lighten the administrative burden on sales agents. Other issues will require organizational realignment, such as transferring certain activities from sales staff to a call center or to the customer-service team. By bulking up these other teams and sending entire categories of requests their way, the sales force will have a significant time dividend that it can put toward sales

activities. With these types of changes in place, the entire sales process will become much more disciplined, and this will, in turn, benefit the entire organization (Exhibit 6).

**Establish rigorous performance management**

The final element of a best-practice sales approach involves a reworked performance-management system that will not only track sales revenue but will also track key business metrics throughout the sales pipeline, from the sizing of the total addressable market to the assessment of the revenue quality of each segment—and indeed each key account. These carefully chosen metrics will inform the choice of which segments

Exhibit 6

**A detailed activity analysis drives process and organizational fixes that increase the customer-facing time for the sales force.**

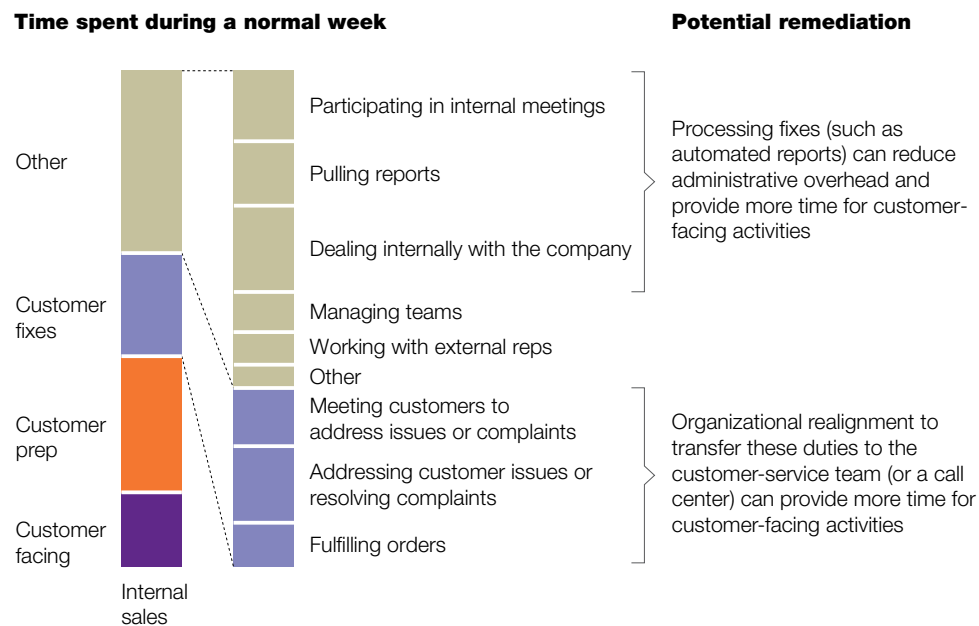
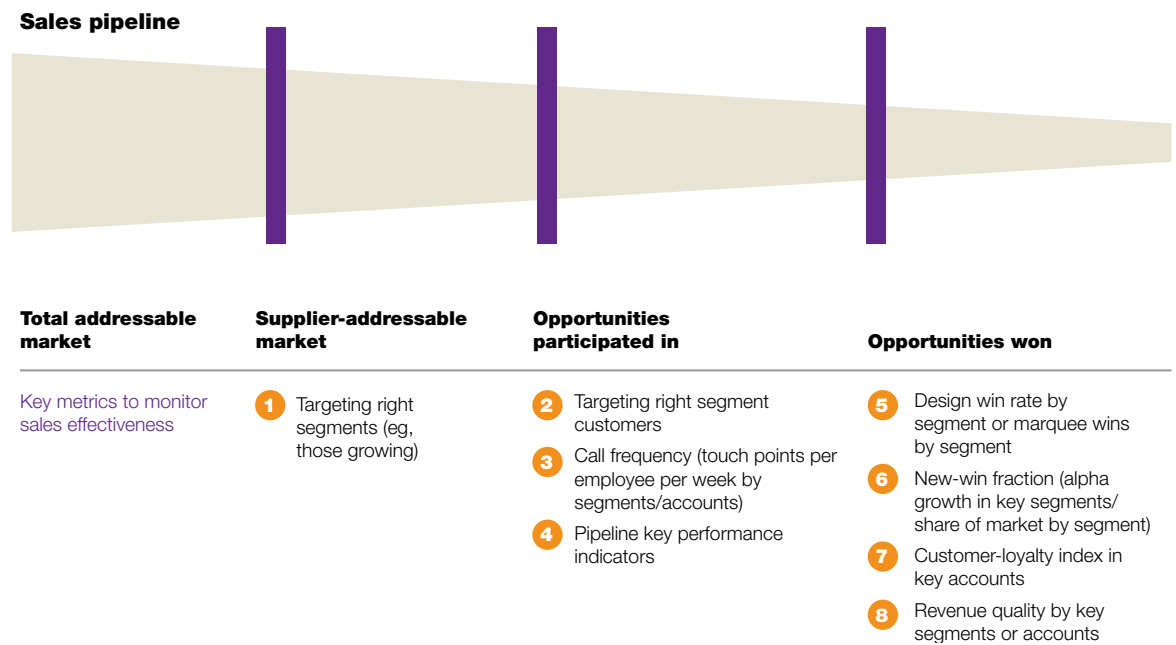


Exhibit 7

**Key metrics help track progress across the sales pipeline.**



to pursue, as well as the tactical approach to employ. These metrics should drive the cadence and targeting of all sales activities, providing a data-driven basis for all major business decisions (Exhibit 7).



These ideas offer a glimpse of the tactics and vision that make up a larger sales-transformation program. However, many of the elements discussed above can be put in place within a

few weeks. In a product cycle or two, the company will have profited significantly from the transformation, which will have freed up critical resources and aligned them against the largest accounts in key segments. In all, leaders will see a step change in sales performance. In an environment characterized by slowing sales growth, this could be a crucial differentiator in the years to come. ○