Application of Revenue Growth- Profit Margin matrix for Categorization and Prioritization of Customer Leads

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ABSTRACT

Many Business Process Outsourcing companies are offering varied outsourcing services like BPO Services, Selling Solutions and Consulting. Presently the companies are acquiring customer leads through various data sources. Companies have dedicated sales executives to cold call these leads and pitch their services. The sales executives pitch all of their services without understanding customer needs, resulting in low success. The objective of this paper is to introduce the concept of Revenue Growth -Profit Margin matrix which can be used for Prioritization and Categorization of Customer leads. Based on the Revenue Growth(%) and Profit margin we will be able to predict the needs of our customer. The sales executives can categorize the customer leads based on the type of service they might require and within that categories prioritize their leads. Categorization of leads will enable the sales executives to pitch only the services the customer might likely need. Prioritization of leads will enable the customers to give more importance to high priority customers. The internal market research team gathers data on Revenue Growth and Profit margin and use this for categorizing and Prioritizing customer leads. Using this the sales team will be able to engage customers on specific services using open ended enquiries. This will enable the company to differentiate itself from competition and get more attention from the customers. Also they can allocate more resources to the high priority leads. This model was tried in a leading US based BPO company with customers in Mid Market Segment with 2.5X times better response rate. We are hopeful that it can be extended to the other larger market segments with similar results. However we need to conduct the study and see if the effects of items like Depreciation, Initial Revenue on the Matrix before we can conclusively propose it for adoption.

Keywords: BPO, Lead Categorization, Market Research, Analytical Framework, Customer Value Generation

RESEARCH CONTEXT - INTRODUCTION TO THE CURRENT MARKETING PRACTICES OF BPO COMPANIES

In the Research context let us first look at what constitute BPO companies, their services and their current marketing practices. Each business entity consists of several departments. Each department executes a set of activities. These activities can be broadly classified as Core activities and Non Core activities. Core activities are those activities that create value to business entities product or service offering. Non Core activities are other essential activities but they don't add direct value to business entities customers. Examples of core functions include key operational activities like manufacturing, Quality, Marketing and Product Development. Examples of Non Core Activities include Payroll, Accounts, Customer service etc.Many companies look to outsource these non-core activities and concentrate more on the core activities and add more value to their customers.

This is where the BPO Outsourcing companies come in, they offer outsourcing services at lower cost and sometimes at better quality. Over time the BPO companies have expanded their service offerings, today they offer a wide gamut of services which can be broadly classified into BPO Services(Non Core Activities), Marketing Solutions, Consulting Services. BPO companies operate mainly in a Business to Business(B2B) area, They acquire customer leads through various sources. The BPO companies have a sales team who calls these leads from time to time and pitch them their entire range of services. This conventional method results in low success due to two main reasons. First, the customers are not interested in the entire gamut of services. Second, the customers hear almost identical pitch from the rest of the BPO companies. In order to get the attention of their customers BPO companies need to distinguish themselves from the competition and offer unique value to their customers.

Most BPO companies are not following a set logical method for approaching the customer leads. The objective of our research is to propose a logical framework that can be employed by majority of BPO companies for approaching the leads.

LITERATURE REVIEW

While reviewing the work of several researchers in this area we found out most of the research is concentrated around existing customer management. Adam Lindgreen, Roger Palmer, Joelle Vanhamme, Joust Wouters in their 2006 paper discussed a realtionship management assessment tool based on Questioning, Identifying and Prioritizing critical aspects of customer relationships[1]. Their work helps evaluate the present relationship between a company and its customers. Based on the current relationship they develop parameters that need to be incorporated into customer relationship management. M.Rogers and D.Peeper in their 2004 published book "Managing Customer Relationships- A Strategic Framework" list a qualitative approach using trust and loyalty to build relationships with customers[2]. Also there is patented work published by Rachel L Cook in 2008 that deals with prioritizing customer leads. Using a computer model this tool collects data regarding to potential customer budget, Authority, Needs and Timeframe and assigns a priority rating to the customer lead[3]. This model doesn't address two critical problems. First, it still requires huge amount of data collection. Second it doesn't mention which services we need to pitch to the customer. Our proposed Revenue Growth- Profit Margin Matrix framework addresses both these problems.

INTRODUCTION OF REVENUE GROWTH- PROFIT MARGIN

The Revenue Growth- Profit Margin Matrix is a methodology that can be used for categorization and prioritization of leads. Let us first understand the different steps involved in executing this method in detail.

Step 1: *Preparation of Customer Lists based on Industry*: Obtain the list of customer leads along with their respective companies. Sort them by Industry. Segregate the leads based on the Industry and prepare Individual lists for each Industry.
Step 2: *Collection of data*: Consider each Industry list separately. Check all public sources and databases like Hoovers, Mergent Online to acquire the recent financial data. From these sources we note down the Revenue values for the Last two years and the profit margin for the latest completed financial year. Calculate the Revenue growth and profit margin as a % and tabulate the results.
Step 3: *Check whether data is Normally Distributed*: Ensure that the Revenue Growth Data and the profit margin data are both normal distribution curves. Use the "t-statistic" test to test the normality of the individual data. We can proceed to the next step only if both the data sets are normally distributed.
Step 4: Calculation of Mean: Calculate the mean values of the Revenue Growth values and the Profit Margin values.
Step 5: Plotting the Revenue Growth -Profit Margin Matrix: Take the Revenue Growth Values on the X axis and the Profit Margin Values on the Y Axis. Take the Mean Values of Revenue Growth and Profit Margin as the Origin. Arrange all the customer leads into respective quadrants on this matrix.

After Step 5 Your leads are Segregated into the four different quadrants of the matrix as shown in Figure 1.

Let us understand the relevance of each quadrant and how segregating this will eventually lead to categorization of leads.

Quadrant I: Here both the X and Y variable are greater than Zero, this implies that

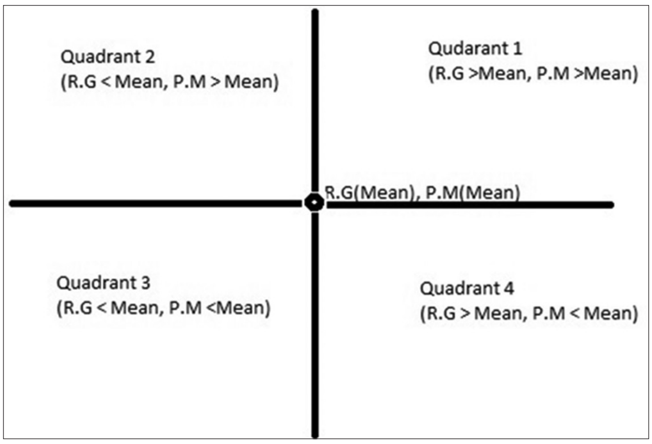

Figure 1: Classfication of leads based on Reveue Growth and Profit Margin R.G= Revenue Growth, P.M=Profit Margin

Revenue Growth >= Mean Revenue Growth, Profit Margin >= Mean Profit Margin.

These companies are posting top line growth greater than the Industry mean while maintaining a profit margin greater than the industry mean profit margin. Hence these companies are performing well and ideally not inclined to make any big changes with respect to their core activities and non core activities. However they may be planning to launch new products or projects. Engage them on that activity, it is easy to consider outsourcing a function for which an in house capacity has not yet been developed. So target the new products/project rollouts. In some cases although the companies are doing well they may be considering outsourcing due to a shift in strategy, inquire to see if there are any plans in that regard.

With regards to priority of these leads all the leads are not of the same priority. Let Px and Py be the priority factors of the variable X and Y in this case Revenue Growth and Profit Margin Let x and u be the mean and standard deviation of the Revenue growth. Then allocate values of Px as follows

X>= x+2u assign Px =1

x+u =< X < x+2u assign Px =2

x =< X < x+u assign Px = 3

Similarly let y and v be the mean and standard deviation of Profit growth. Then allocate values of Py as follows

Y>= y+2v assign Py =1

y+v =<Y < y+2v assign Py = 2

y =< Y< y+v assing Py =3

Let the Priority of the lead be P(x,y) =Px+Py. The range of P(x,y) is from 2 to 6. Here 6 is the highest priority leads and 2 is the lowest priority lead. Start with the highest priority lead and work your way till the lowest priority leads. In Figure 2 below the first quadrant of the matrix. The shaded region on the normal distribution shows the position of the variable on the normal distribution and the priority number assigned to it.

Quadrant II: Here the X variable is less than Zero and the Y variable greater than Zero, this implies that

Revenue Growth < Mean Revenue Growth, Profit Margin >= Mean Profit Margin

These companies are maintaining a profit margin greater than the mean industry profit margin, however their revenue growth rate is lower than the mean revenue growth rate. These companies will be very motivated to increase their top line. Hence these companies will be interested in selling solutions that can add value to them and increase their sales substantially. So the sales executives of the BPO's should pitch the selling solutions to get the interest of these companies.

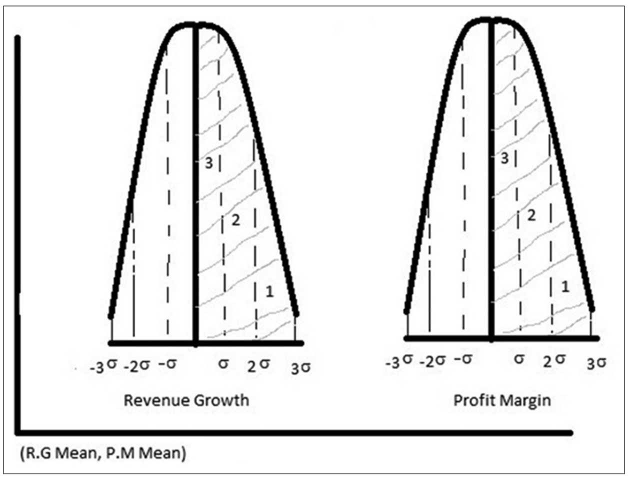

Figure 2: Quadrant I: Prioritzating Leads

The Calculation for the Priority Value of X variable, Px is different from that in first Quadrant.

Let x and u be the mean and standard deviation of the Revenue growth. Then allocate values of Px as follows

X<= x-2u assign Px =3

x-2u < X < x-u assign Px =2

x-u < X < x assign Px = 1

Similarly let y and v be the mean and standard deviation of Profit growth. Then allocate values of Py as follows

Y>= y+2v assign Py =1

y+v =<Y < y+2v assign Py = 2

y =< Y< y+v assing Py =3

Let the Priority of the lead be P(x,y) =Px+Py. The range of P(x,y) is from 2 to 6. Here 6 is the highest priority leads and 2 is the lowest priority lead. Start with the highest priority lead and work your way till the lowest priority leads. In the Figure 3 below the Second Quadrant location in the matrix is shown. the shaded portion shows the location of the variables on the normal distribution and the priority numbers assigned to them.

Quadrant III: Here both the X and Y variables are less than Zero, this implies that

Revenue Growth < Mean Revenue Growth, Profit Margin < Mean Profit Margin

These companies are not only able to grow at the mean revenue growth rate but also are not able maintain the mean profit margin of the industry. These companies will require help with both the selling solutions(to increase revenue growth) and BPO Services (to reduce costs and improve profit margin). However it is prudent to initially engage with them through our consulting services to understand their business pain points and validate them. Then we can suggest either Selling solutions or BPO solutions to improve their performance. It must be noted that some of the business may not have enough disposable cash owing to their performance. Hence discounting of services or grouping services and offering a discount on the grouped services should be considered.

The Calculation for the Priority Value of X variable, Px is similar to that in second quadrant. However the calculation for the Priority value of Y variable, Py is different.

Let x and u be the mean and standard deviation of the Revenue growth. Then allocate values of Px as follows

X<= x-2u assign Px =3

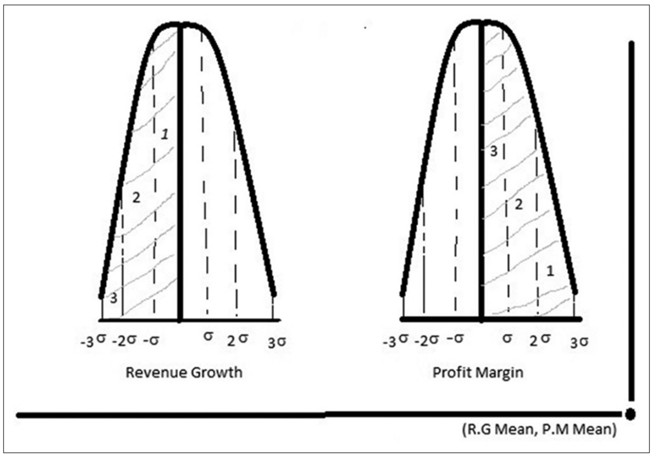

Figure 3: Quadrant II: Prioritzating Leads

x-2u =< X < x-u assign Px =2

x-u < X < x assign Px = 1

Similarly let y and v be the mean and standard deviation of Profit growth. Then allocate values of Py as follows

Y<= y-2v assign Py =3

y-2v =<Y < y-v assign Py = 2

y-v < Y< y assing Py =1

Let the Priority of the lead be P(x,y) =Px+Py. The range of P(x,y) is from 2 to 6. Here 6 is the highest priority leads and 2 is the lowest priority lead. Start with the highest priority lead and work your way till the lowest priority leads.

Quadrant IV: Here the X variable is greater than Zero and the Y variable is less than Zero, this implies that

Revenue Growth >= Mean Revenue Growth, Profit Margin < Mean Profit Margin

These companies are having a top line growth rate greater than the mean revenue growth rate but their profit margin is lower than the Industry mean profit margin. These companies will be interested in BPO Services to reduce their costs and improve their profit margin. Hence BPO sales executives should pitch their BPO services to these companies and emphasise on how the BPO services will enable them to improve their bottom line.

In this case, the calculation for the Priority Index of X variable is similar to Quadrant I and the calculation of the Priority Index of Y variable is similar to Quadrant III.

Let x and u be the mean and standard deviation of the Revenue growth. Then allocate values of Px as follows

X>= x+2u assign Px =1

x+u =< X < x+2u assign Px =2

x =< X < x+u assign Px = 3

Similarly let y and v be the mean and standard deviation of Profit growth. Then allocate values of Py as follows

Y<= y-2v assign Py =3

y-2v =<Y < y-v assign Py = 2

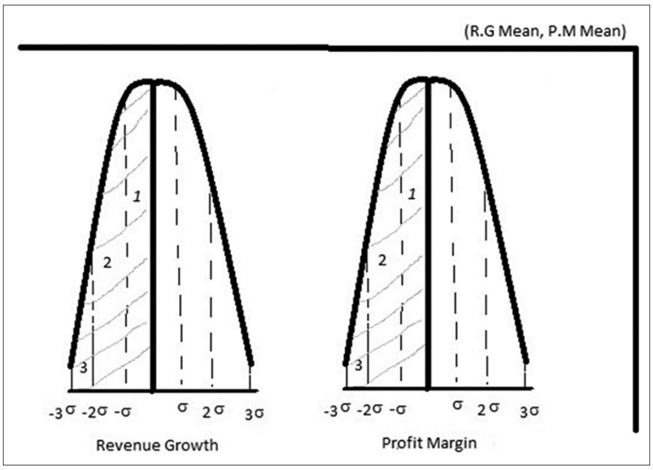

Figure 4: Quadrant III: Prioritzating Leads

y-v < Y< y assign Py =1

Let the Priority of the lead be P(x,y) =Px+Py. The range of P(x,y) is from 2 to 6. Here 6 is the highest priority leads and 2 is the lowest priority lead. Start with the highest priority lead and work your way till the lowest priority leads.

Application to Cases

We have applied this model to a list of 300 leads pertaining to US Law firms. We have collected the Revenue Growth and Profit Margin data about these leads from Hoovers Database for the years 2011-2012. After collecting the data we have conducted the test for normal distribution individually on the two different data sets Revenue Growth(%) and Profit Margin(%). Both of the data sets have passed the test and can be considered as normal distribution. The mean Revenue Growth rate is 5.5% and the Mean Profit Margin is 30%.

When we have categorized the leads by segregating them into four lists for the four quadrants discussed in our methodology. Out of the 300 leads the second and the fourth quadrants contained 75 leads each while the first quadrant and fourth quadrant contained 76 and 74 leads respectively. The homogenous distribution of the data around the mean values validates the similarity of the various customer businesses.

After categorization of the leads we have followed our methodology of prioritization and ordered individual list in the decreasing order of priority. Four Sales executives with similar track record are selected. Each of them is given a list and corresponding

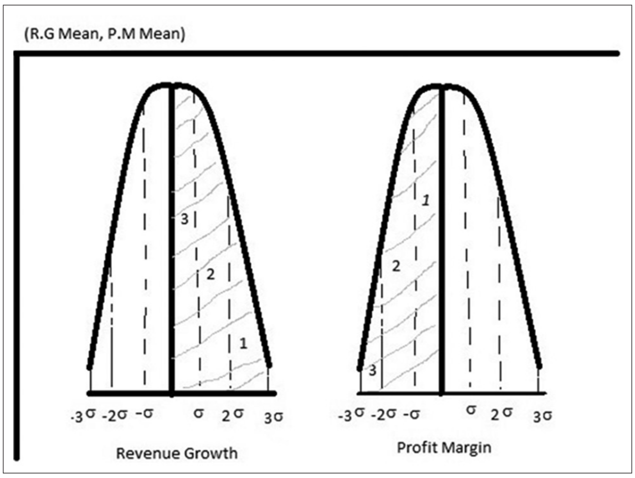

Figure 5: Quadrant IV: Prioritzating Leads

Table 1: Data pertaining to leads and prospects as per the priority value

Quadrant in the matrix	Priority rating	Number of leads	Prospects	Prospect percentage
I	6	27	21	78
	5	32	17	53
	4	16	5	31
	3	1	1	100
II	5	20	15	75
	4	42	25	60
	3	13	6	46
III	4	17	12	71
	3	31	19	61
	2	26	12	46
IV	5	16	12	75
	4	37	24	65
	3	22	14	64
Total		300	183	61

sales pitch. The sales pitch involved selected service based on the matrix. After making the initial sales pitch our executive asked the customer for a scheduled follow up call with our team if he wanted to learn in detail about our service. We have marked the customers who had the follow up call as prospects. For any given Rating, the percentage of Prospects to total leads is named the Prospect Percentage. They are tabulated by Quadrant below.

Discussion of the Observations

In each quadrant we observed a high Prospect Percentage from the top rated leads. In each quadrant more than 70% of the top rated leads requested for a follow up meeting with our team and these leads qualified as prospects. Also as the Priority Rating of the leads decreased the Prospect Percentage also decreased. Also the Prospect Percentage for the low priority rating leads had a wider spread of 33% with the Priority Percentage varying from 31% to 64%(the 100% value is not considered as it for 1 lead only) while the Prospect Percentage for high priority leads has lower spread of 4% with the Prospect Percentage varying from 71% to 75%.

Inferences from the Data

After analyzing the data from our process we can make two significant inferences. First, there is a strong correlation between our perceived customer needs and the actual customer needs i.e. irrespective of the quadrant in most of the cases the customers are interested in purchasing the services which we have anticipated. This can be established from the fact higher the Priority Rating of the Customer lead, higher its Prospect Percentage, irrespective of the quadrant. Second, customers are more receptive when we have pitched targeted services at them rather than the entire list of services we offer to the market. Our average Prospect Percentage is 61%. Usually the Prospect Percentage when a BPO company pitches all its services is 25%. Our Prospect Percentage is approximately 2.5X better. Hence we can infer customers are more receptive when we pitch targeted services rather than all the services in the initial sale offering.

Limitations of our Revenue Growth- Profit Margin Matrix

In this model we are only considering two factors, the Revenue Growth and Profit Margin. We are not considering the effects of factors like Depreciation, Interest Expenses and Non-Operational Income. As the data set we have explored is of law firms the effect of these factors was negligible. However when we go into diverse industries like manufacturing, Technology, Pharmaceuticals and other sectors, we will probably feel the effect of these factors. Another factor in our data set is the similarity of businesses. However in most of the large businesses the product/service offerings and their business structures will not be homogenous. Effect of the diversity on the accuracy of the model needs to be studied.

Further Work

The model needs to be applied to customer leads data in diverse industries like Technology, Manufacturing, Healthcare, Insurance etc. After studying the results of the studies of these diverse industries we can recommend it as a standard tool for the BPO companies.

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