

Measuring Business Performance Indicators of SMEs in B2B Markets

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Abstract:

Small and medium enterprises (SME) often have a regional sales approach. Flexibility is one of their strengths. A research project at Aalen University will investigate the effort which is needed for SMEs in B2B business to convert from a locally operating company to an international player. To this end a global sales strategy needs to be developed and introduced. Key performance indicators, describing sales and engineering efforts as well as the company's profitability need to be defined and measured before and after the introduction of the global strategy. The comparison will show to what extent the new business orientation has improved the company's results.

Keywords:

Sales strategy, SME growth, International Sales Approach, Measuring Sales Effort; Measuring Engineering Effort, Flexibility Cost; Niche Markets, Long Term Market Success

Introduction – Importance of SME

SMEs stand for over 50% of the total business of the industry, employing almost 70% of all industrial workers and train 85% of the young man seeking an education, as published by the FAZ journal and the EU-Commission. SME are often innovative and have less troubles going through an economical crisis. Supporting SME, improving their market performance and helping them to grow into a secure market position is a worthwhile target. No doubt that this needs a well defined strategic approach in today's competitive markets. (French, 2004: 765-776; Kraus, Harms, Schwarz, 2007). Titelnot et al. (1999) showed that following closely a defined strategy appears to SME to be the opposite of what they declare to be their strengths: to be flexible and to follow customers wishes. In order to convince the management of SMEs to leave trodden paths and to implement a strategic approach, solid and relevant data about the performance of their current and possible future business must be gained and key performance indicators established and discussed. The Hochschule Aalen, Germany, plans to run a research project which will show in a quantitative way the impact of the introduction of a global strategy to SMEs.

Establishing a future orientated business strategy

The standard procedure for the elaboration of a marketing strategy is quite known. Kotler et al. (1999) and Sattes (2001) suggest to define the market segments in which the most success is probable, to develop or adapt the products to the specific needs of the market segments in order to achieve cost leadership or technical leadership and to penetrate the market. This is true for big companies as well as for SMEs. SMEs are not just a small version of a big international company. SMEs have developed their specific business approach which is working fine for them, but seems not to let them grow in the desired way (French, 2004; Kraus, Harms, Schwarz, 2007). When SMEs want to introduce a global marketing strategy, they are confronted with a couple of problems. Establishing a strategy means additional

efforts, see chart 1. The concentration upon target customers and target applications further leads to a loss of flexibility, as they will not fulfill any more every wish of their customers.

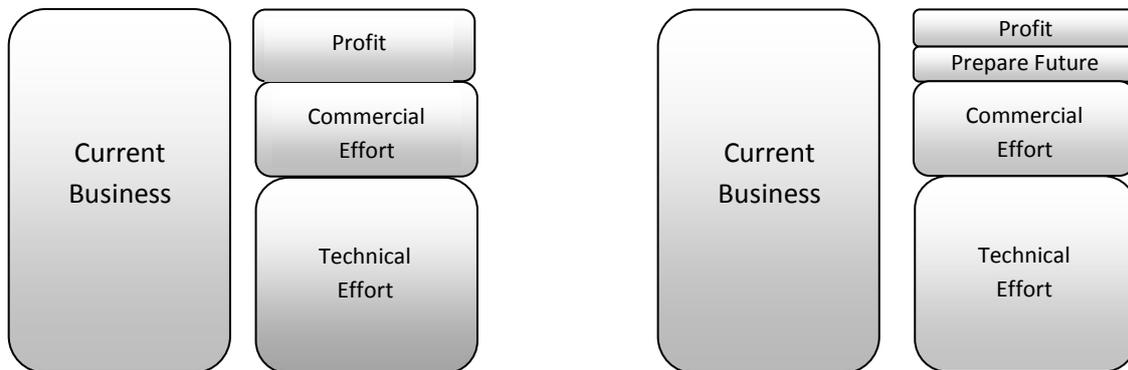


Chart 1: Implementing a future orientated strategy reduces the profit of the company temporarily

Stahl et al (2008) have worked on the impacts of the globalization for SMEs. Their work shows the bottlenecks and shortcomings when SME acquire international customers. Lack of qualified personnel, lack of knowledge and lack of trust are just a few brakes to the global approach. One more aspect needs to be taken into consideration. Schnaithmann (2009) reveals that technically oriented companies often prefer to technically change their products to meet new, locally situated customer's expectations over finding more distant or international customers to their existing products, hence chose a "technical" market approach instead of a "commercial" or "sales oriented" one. The disadvantage of a "technical" market approach lies in the fact, that this approach is quite costly, as a lot of technical modifications must be done. To evaluate the profitability of this market approach, the cost of technical efforts needs to be compared with the cost of a wide global sales network.

Establishing a global Market Strategy for SME

Working out an international market approach for the SMEs involved in this research work is the first challenge. Ansoff (1957), Baum et al. (2007) , Simon (2002) and others have worked on how to achieve this best. Customers requirements must be identified and classified into typical requirements for customer groups. The need for new technical solutions as well as the need for new sales packages needs to be investigated. New technical solutions may be a reduction of required space, less power consumption or better serviceability of the equipment. New sales approach may consist of a lease offer, payment per saving or amortization of the equipment price over a certain time period. If a technical and commercial favorable bundle can be established, the SME will have a competitive advantage which helps him to penetrate the international markets.

This market investigation will be done with the aid of partners in France, Poland, the United States and Australia in order to have a very detailed picture of the market situation coming from first hand information. It is expected that this market research will give solid enough data for the SME to decide on how to approach the international market.

Establishing Business Performance Indicators

Before the abovementioned business strategy is applied, key performance indicators must be defined and measured in order to tell the business performance before and after introduction of the global strategy. Target of the performance indicators is to measure the sales effort, the technical effort and the profitability. Sales efforts are composed out of acquisition cost, which contain communication and travel cost and customer care cost. More business performance indicators are: project handling cost, purchasing cost and financial cost. Technical effort can be expressed in terms of project definition cost, design cost and production cost, including organization cost. Profit will have to be expressed as contribution, i.e. sales price of the

project minus variable cost (Braker, 1986). Cost ratios for all indicators must be set up in order to compare different projects. Ratios can be defined as cost per turnover, per added value and per contribution. It is to be expected that these figures vary a lot from project to project. In order to establish typical figures, a number of projects need to be analyzed and averaged. Working out these ratios will show if these indicators describe the performance of the company good enough or if different indicators need to be established.

It is expected that the nature of the business will change after introduction of a global sales strategy. Serving precisely defined market segments with special products will change the relationship of technical efforts versus commercial efforts. Sales efforts will go up and technical efforts will go down. If the implementation of a global strategy is successful, the reduction of technical efforts outweighs the increase of sales efforts as shown in chart 3. This leads to a better business performance and a stable position on the market.

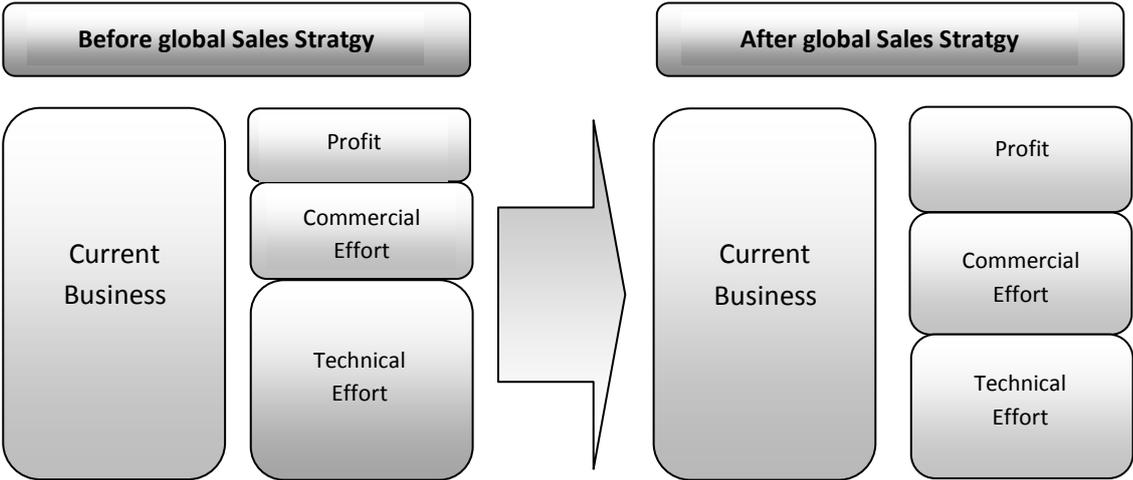


Chart 3: Profit is expected to grow if technical effort is reduced

The following hypothesis will be worked on:

- Business performance indicators can be established, which describe the sales efforts, technical efforts and the profitability of a typical, locally operating SME
- A global business strategy can be found which enables a SME to sell products worldwide
- The introduction of a global strategy will change the business structure of the SME. Expected are significantly reduced technical efforts and moderately increased sales efforts
- Profitability and market position will improve with a successful implementation of the global strategy

If the intended quantitative description of the business transition can be established and the results of the new business approach is positive, the results are highly interesting for all companies working in the mechanical engineering sector, being similar structured as the investigated companies. The findings will be published in papers, seminars and sales conferences. It is expected that the example of this SME will motivate others in similar business to follow and establish in their company a global business approach.

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