

New research reveals that widespread margin blindness is crippling the financial performance of European organisations

Forthcoming report from Vendavo and Cranfield School of Management academic finds striking evidence that a lack of insight into margin and how to increase it are having a significant effect on shareholder value and financial health of organisations

- High performing organisations place a greater emphasis on margin than those that are behind market expectations
- Nearly half of all CFOs (47%) would not know how to increase margin quickly
- 80% report inconsistencies in margin definition across their organisation
- 43% of organisations believe sales teams are using gut feeling to make pricing decisions

LONDON, UK – April 13, 2016 - European organisations performing ahead of market expectations and creating more value for shareholders place a much greater emphasis on understanding and improving margin than their competitors. This is the key finding from a study published today by profit performance experts Vendavo and Patrick Reinmoeller, Professor of Strategic Management at Cranfield School of Management. The report also highlights a worrying lack of insight into margin among many organisations, and a clear link between low level of margin insight and company underperformance.

Margin matters

Based on a poll of 200 C-Level executives from across Europe, the importance placed on margin is telling. Those who report growth ahead of market expectations are more likely to say that maintaining or increasing margin is vitally important (41%) to their organisation, in comparison to those behind (4%).

The results suggest a significant lack of insight into margin and how to affect it. Nearly four in ten (38%) respondents would not know how to achieve an increase in margin tomorrow. Crucially, this figure rises to 67% for respondents from organisations that are performing behind market expectations.

The research also suggests that the way margin is defined within an organisation is vital, with a startling 80% reporting inconsistencies across their business. Those with one completely consistent definition of margin within their business are most likely to be growing ahead of market expectations, while 57% who report that growth is behind have no agreed definition of margin, compared to 8% of those ahead of expectations.

Issues on the front line

Margin is of course inextricably linked to pricing and deal sizes. Yet the CFOs and CMOs surveyed believe their sales teams still rely on gut feeling and personal relationships to agree the price of deals. Again, the study suggests this is having an impact on financial performance: CFOs that have made low gains for their shareholders are most likely to report that their sales team still base prices



on gut feeling (62%), while CFOs that have made high gains are most likely to report that their sales team use up to the minute data (45%).

Profit levers

Further analysis tells us that pricing could be used more effectively as a profit lever. In the last five years, nearly half (49%) of all organisations have applied price increases or price reductions, yet less than a quarter (22%) found it to be the most effective lever. The research indicates that having relevant up to the minute pricing data in the hands of sales teams would support profit growth – an organisation’s ability to drive growth in profit margin is higher and they are more likely to be growing ahead of market expectations – 55% of these organisations are using real-time data to make pricing decisions.

“Our study clearly highlights a strong link between an organisation’s ability to maximize margin on every deal through price effectiveness and overall financial performance”, commented Robert Irwin, Vice-President, Business Consulting, Vendavo Europe. “Many organisations are flying blind, lacking the insight to quickly improve their profit margins and alleviate price pressure. This is having a detrimental impact on business operations and shareholder value. We see increased reliance on short term cost out programs and emphasis on cost leadership, whereas margin leadership at deal level can be more effective and significantly boost financial performance.”

“While eking out margin gains is incredibly tough in most industries, the report suggests that many C-level executives feel their organisation is under-equipped to affect it,” said Patrick Reinmoeller, Professor of Strategic Management, Cranfield School of Management. “Yet it’s quite simple – if you don’t have the insight into margin, then there’s only a limited amount you can do to influence it strategically. And when it’s impacting financial performance, executives need to instill an even greater focus on margin across the organisation, and better insight to inform those crucial decisions driving profitability.”

To register to receive the full report in May 2016 or for any further information about Vendavo please visit: www.marginmatters.eu

About the research

The survey took place during September and October 2015, and was carried out by independent consultancy Vanson Bourne who polled 200 CMOs and CFOs of companies with more than 1000 employees and with revenues over \$1 billion in the UK, DACHs, Nordics and Italy. Further commentary on the results will be supplemented in a comprehensive report being produced by Patrick Reinmoeller, Professor of Strategic Management, Cranfield School of Management.

About Vendavo

Vendavo harnesses the power of Big Data to generate actionable insights that enable businesses to sell more profitably. Our margin and profit optimization solutions help global customers make better data-driven decisions for pricing and sales effectiveness. Using cutting-edge analytics and deep industry expertise, Vendavo boasts the largest number of implementations for B2B enterprises in the industry, having helped more than 300 company divisions dramatically increase revenue, improve profit margins and maximize shareholder value. Located across the globe, Vendavo is the solution of choice for Global 2000 companies in industries such as chemicals, industrial manufacturing, high-tech, and distribution.