Capturing lost revenue: 5 steps for semiconductor companies

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The global economy is on the upswing in 2013, which means semiconductor companies have a great opportunity to reap the benefits. According to analyst firm IHS, revenue is expected to grow 6.4 percent this year after two straight years of decline. As a result, semiconductor professionals are asking themselves two questions: How can we take advantage of this growth, however brief it might be? And what happens if the economy takes a plunge again?

Semiconductor companies need a strategy that won't leave any revenue on the table – whether the economy is up or down. This article will provide them with five steps to improve business performance, regardless of economic performance, including:

Improve sales efficiency and effectiveness: By streamlining some simple processes, your sales force will be able to spend more time talking with the customer. First, speed up the deal cycle by improving the closing process through automation and by providing an effective deal desk function. Second, improve the ease of doing business with the channel by extending processes to them directly, such as registrations, pricing, inventory, and point-of-sale data.

In one example, ON Semiconductor found that increased quoting discipline and automation reduced quote cycles by 50 percent and increased quote-to-order conversion rates by 11 percent in 12 months without eroding average selling price (ASP). For a multi-billion dollar company this is a significant impact.

Streamline demand generation tracking: Today's typical CRM solution does not provide the comprehensive functionality needed to track demand generation. With today's global business, semiconductor companies need a way to track business as it moves around the world – from design to manufacturing, assembly, and shipping. Improving the transfer of business tracking will enable you to enforce pricing correctly around the world, while also compensating the sales force accurately. Furthermore, better demand gen tracking will allow you to improve cross-regional and cross-channel interactions, giving you more insight into where the real revenue opportunities exist.

Companies like Microchip (which serves more than 50,000 end customers through their channels)and Cirrus Logic (which has enjoyed phenomenal growth over the past few years) have invested in packaged software and processes to help better track business transfer around the globe. Taking this step helps them align their sales and field application engineers with the most lucrative opportunities and protect their margins in the process.

Eliminate toxic pricing: Eliminating toxic pricing is a simple way for semiconductor companies to recoup millions of dollars almost instantly. Once you have implemented the first two steps, you can easily determine where toxic pricing exists. For example, are you providing your best pricing to your poorest performing customer? By improving visibility and control into the discounting process, you will have the tools to address these issues. Analysts report that for every billion dollar in sales, 4–5 million is lost due to toxic pricing.

Two independent surveys of the semiconductor market conducted by AMR Research (now part of Gartner) and Accenture demonstrated that price erosion is costing companies as much as 2.5 percent in lost margin. A recent survey done by PwC also showed that only 27 percent of companies actually use a deal desk, which means these issues are rampant in the industry. ON Semiconductor, Microchip and STMicroelectronics have all reported gross margin improvements through better discounting controls and use of pricing rules.

Implementing effective business intelligence: In today's quickly moving and competitive economy, semiconductor companies need to obtain and utilize accurate and thorough transactional data on a more regular basis. The basic intelligence provided in the quarterly report is not enough. What you need is the ability to coalesce all the information coming in – pricing information, quoting information, details on opportunities, point-of-sale data, and everything else – into meaningful action items. Many organizations have invested in business intelligence platforms and tools that still rely on the companies to build queries in order to extract data. What they need is a purpose-built solution that will not only coalesce data, but also provide an added layer of intelligence which will also recommend actions.

Improve yield of contracts: The reality is that once a deal is signed with your customer, you are locked into the proposed pricing. Unfortunately, customers will often inflate the number of units they want to purchase in order to get a better price. It's only months or years down the road that you realize they only bought 300,000 of the one million chips they initially asked for. This leaves a lot of money on the table. According to Aberdeen Group, the average contract loses up to nine percent of its value because customers do not live up to their contractual commitments. In order to improve the yield on contracts and drive consumption data, you need insight into how many orders are placed against contracts, and it needs to be tracked to your sales organization. That puts the onus on them to have regular conversations with customers and will notify them when they need to take action. This will also impact your pricing strategy without sacrificing the ability to provide customers with discounts as they consume units. For example, if they want a million chips, the first 100,000 will be $1.10, the next 200,000 will be 95 cents, and the rest will be 70 cents per chip. Finally, improving the yield of contracts will allow you to get a better handle on rebates.

An AMR survey has shown that fewer than 50 percent of companies measure the actual performance of their contracts. Furthermore, fewerthan 20 percent proactively measure it throughout the year. These results imply that the sales department is often blind to how much a customer is actually consuming, lacks the data to do anything about it, and is not basing future contract negotiations on past performance. These usually mean that excessive discounts are offered against volume commitments that are never met.

A growing number of companies in recent years, including Atmel, Avago, ON Semiconductor, Maxim, Marvell, PMC-Sierra, STMicroelectronics, Micron, IDT, Linear Technology, Microchip, NXP and FCI, have adopted a more holistic and unified approach to managing the entire flow from design win through to pricing, quoting, contracting and channel management – helping these companies improve their business operations year over year. By implementing this approach and following these five simple steps, semiconductor professionals can improve the bottom line. Even better, these steps can be deployed in any economic conditions and will capture millions of dollars that might be left on the table.

About the author

Over the past eight years Chanan Greenberg has engaged with more than 50 semiconductor companies in the U.S., Europe, Japan and Korea to assist in their sales operations, price and margin improvement initiatives. He has authored several white papers on global price management and revenue management. Before joining Model N, Greenberg was founder and CEO of PrivialInc, where he worked for six years with top 20 government contractors, including Boeing and Lockheed to improve their business development and government bidding processes. Prior to that he served as CEO of Click Online, and spent seven years working with high tech OEM manufacturers, primarily focused on consumer products.