Science of Productivity

The New **"Sales"** Year is approaching and we all know that ***to stand still is to die.*** So, we accept the handing down of the 20% uplift on this year's target (not achievement) to meet the expectation of shareholders, executives and the boiling economy. How can we, as Sales Managers, achieve this uplift? Conversations we've heard go something like this;

We'll ask Sales Representative's (SR's) to get 20% more on their target with the same set of accounts. Are those accounts able to give us 20% more? Do we have the product and skill to expect 20% more from those accounts? Why didn't we get more out of these accounts this last year?

We'll add a few more SR's (20%) and give them the accounts no one else wants. Will new skills be any more effective in these accounts that have been rejected by current SR's? Maybe a blue-bird in these "unloved" accounts will come in and make the new SR numbers - **and** ours!?

We'll give more accounts to each SR and ask them to produce the 20% increase that is being "handed down". We're struggling to cover our existing accounts professionally as it is! Will giving the SR more latitude not decrease the quality of delivery? Won't they just cherry pick and not cover the dormant accounts?

We'll rush everyone through a sales training course – we'll expect different behaviour and ask them to get 20% more out of their existing accounts by selling "solutions" rather than "product" - while the rest of the organization doesn't change, When our SR's bring back a "solution" will we be able to deliver? Will we try to deliver a "solution" with the same logistics we used when we were concentrating on "commodity"? Could this damage our reputation? Can we use the same SR's? Mostly the answer is **more feet on the street**. They arrive (if you can find them) they're given a desk and phone – a list of customers and are told "go get them – we have full confidence in your ability"; this "wing and a prayer" way used to work – but solution selling, sophisticated customers, increased competition and lowering barriers to entry have changed the game. This way could ruin your chances in these accounts for ever!

There must be another way, Sales Directors who have a vision of turning their sales teams into world best practice icons are reinventing their sales approach to respond to these challenges. They are making discerning engagement decisions on their customer base for the month/quarter let alone the year ahead, while they work on boosting their SR's productivity – not by hiring the latest wonder kid, but by helping their existing team to sell more. The results have been staggering. SAP America under CEO Bill McDermott have more than doubled their software licensing revenues in 3 years and increased their market share by 17%! Look at this model Figure 1 - Productivity v Capacity below to understand the problem;

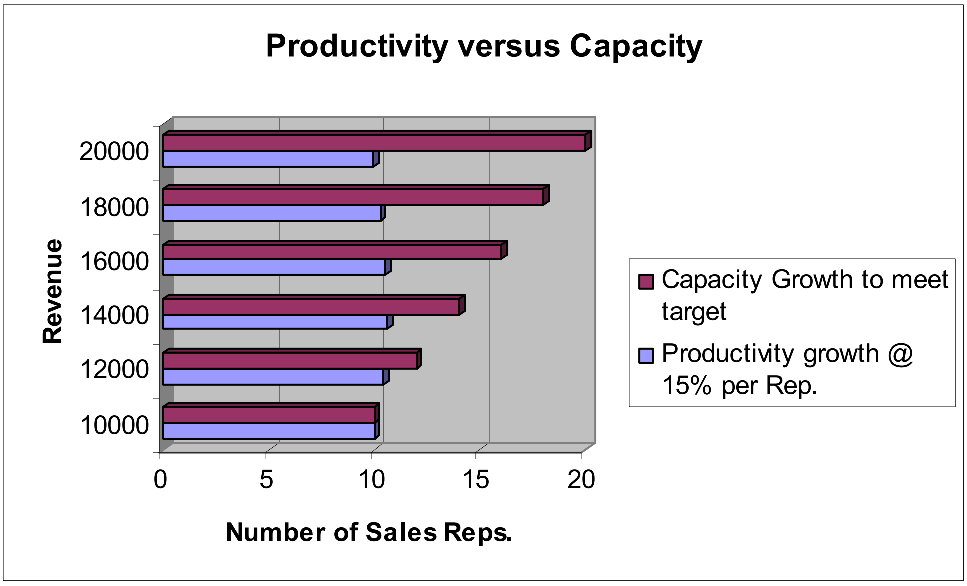

Figure 1 - Productivity v Capacity (HBR[1])

We're selling a million and we're asked to make that 2M in 5 years a 20% increase each year. If we increase the productivity of our team members by 15% per year we make it without growing our team – if we decide to increase capacity, our team of 10 becomes 20 with Sales Manager growth from 2 to 4 and resultant fixed costs as well! This model illustrates the need for productivity growth and shows how a 15% team growth can reach the objective without adding additional SR's.

The Need;

Called the scientific approach – for want of a better term, it combines the application of systems around the "black art" of selling – the gut feel and exceptional qualities of the "rainmaker". It uses "process" data analysis and IT tools to redraw territories and

[1] Harvard Business Review – August 2006

increase sales force productivity. The goal isn't to replace the top performers but to "skew" the distribution curve of your team to narrow the gap between the top performers and the rest of the team. Top performers will do better, while SR's in the lower quartiles can show dramatic performance improvements with productivity jumps of 200%! The future of Sales Management is to **do things** by **design** and not **by chance.**

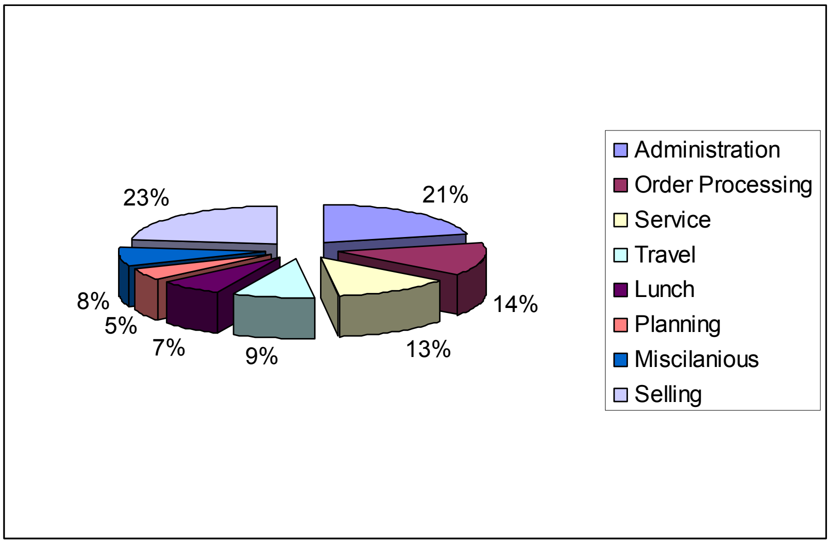

Figure 2 - How salespeople spend their time (salesguru magazine[2])

Our objective then is that through our actions as Sales Managers, to increase SR productivity. This is achieved by measuring and making certain we have a process in place that will progressively improve the amount of time in front of customers, optimising the number and size of closed deals.

The Science of finding the prospect;

Given our experience in South Africa, we have yet to find a sales team that is not expected to ***prioritize*** their own database of contacts and target companies. This is done within the general outline of the expectations for that team – Public Sector – Commercial - Finance etc. Best practices now demand a **top-down enterprise** segmentation of customers using data mining about the past transactions that have been conducted by this prospect with us and competing suppliers. Once this data is assembled, a **bottom-up** list of customers characteristic must be created by the sales team and manager to define those aspects of a customer that (in their view) indicate

[2] Page 6 SG08/06

that they will do business with your enterprise. The Infoteam methodology teaches that these criteria are central to the Project Qualification Profile (PQP). What best practices demand is that we should mine our customer data to indicate which customers exhibit these criteria and not wait for them to be defined by the sales team during qualification of the opportunity. Some of them may be;

- Do we have or can we create a **Coach** for our activities
- **Ethos** of operation and compatibility of culture
- **Potential** of this mini-market
- **Industry Status** – leader, young Turk etc.
- **Strategic placement** of this customer
- The customers **buying cycle** and implementation capability
- A clear understanding of the **customer's need** - from their perspective - of service expectations – Farmer/Hunter/Service Delivery Manager etc.

Statistical regression analysis is done by a decision support tool to identified correlations between these criteria and prospects. Using these correlations, prospects are analysed and prioritised in their ability and desire to do business with our enterprise. Studies have found that the top 30% of these prospects were 3 times more likely to do a deal with us than the bottom 70%. To service this defined market one may need to redesign the sales force – implementing expensive Customer Advocates' as the top end and web-based transaction models at the other. In some case this may mean narrowing territories rather than expanding them – counter intuitively. This could also mean creating new territories that are serviced differently. The objective is to never have a territory that will intrinsically under deliver. The major cause of underperformance and low moral is pointing sales people at wrong targets or loading them with expectations which they feel are unrealistic. ***Pointing them at the right targets will result in a huge boost to productivity.***

The United Professional Sales Association, (UPSA) framework strongly defines the role of marketing in the sales effort. With a science led analysis of the market, marketing can focus on specific customers and segments where each piece of business can be tagged to marketing effort and expense. Experience has shown that sales and marketing working together to bring focused messages to high potential prospects in a segment can drive a 15-25% higher conversion rate of prospects into customers – this is truly building your business around the needs of customers by finding them and helping them reach their targets with your solutions.

The Science of setting targets;

The first steps in creating a sales compensation plan are to understand the sales objectives of the enterprise. This however, should be supported by firm analysis of the market and tactics set for; Protecting the Base; Exploiting Market dominance; Focused R&D and New Market penetration etc. Traditional cascading downwards of a "number" that is derived from a financial target drives unnatural behaviour in the sales team. Too often these numbers are hidden in teams that we never expect to crack them – or - proportionally assigned to teams given their performance last year – or - some mythical gut feel for the ability of a certain segment etc. SR's mostly end up with targets that are either unrealistically low or high, either of which can de-moralise or de-motivate a sales force. Setting targets also must take into account the credibility of the individual SR. One should have, or be working towards, an on-line digital dashboard which is dedicated to the statistical analysis of the SR's performance. Trend analysis can quickly show where a SR or their territory is not achieving; then, by exception, management activity can be aimed at improving the performance or making contingency plans to fix the problem early in the quota year. Capturing this data enables analysis of the pipelines and the credibility of pitching **"close plays"** that are relevant.

We would suggest as a minimum;

- Sales Cycle – Advance = +1
- Sales Cycle – Slip = -1
- Close Month – Bring Forward = +1
- Close Month – Slip = -1
- New Entry = +1
- Deleted Entry = -1
- Sold = +1

See our FREE to download Sales Pipeline Model;

If a SR is "in charge" of his territory they should produce a positive number every month! Given these types of tools, Sales Managers' are capable of producing a consolidated pipeline that is within 5% of the delivered business. One of our customers, who have modelled their acquisition management on Infoteam's methodology, report their pipeline to industry analysis and therefore their share price is influenced by the accuracy in delivery – in that scenario, pipeline accuracy must be a given. Armed with their view of their own performance, each deal has a specific monetary and goal seeking relevance to the SR. Nothing drives behaviour better than understanding the importance of **this** deal in the greater scheme of things as it relates to their own bottom line. How many SR's understand their position in the year on a day-to-day basis?

The Science of productivity;

Most Sales Managers, who are confronted with a 20% growth directive, try to assess how many new accounts or additional SR's are needed to make the target. Lead times to make a SR effective, acquisition of the SR's, are an ongoing headache. Rule of thumb is that only 30% of all hires are destined to become "satisfactory" team-members – and mostly, they will be high-flyers in someone else's team one day, having been knocked into shape through your management! The scientific approach takes a different course.

Four points to ponder;

1. The **contribution of each employee** to the overall revenue of an organisation is modelled. (zipp'ed .xls file 378KB) This may not be a real-world measurement but it gives us a handle on the trend today to reduce staff to make the bottom line more appealing to stakeholders. Changing the number of employees without focus on the revenue generating "engine" either causes the burden to fall on the remaining staff that deliver less quality in the search for productivity – or carry the opposite danger of over-populating the company with super-numerates who are not supportive of the revenue generating activities.
2. Reducing the Cost of Sales through **improved deal size** is the most effective way to drive sustained revenue improvement. Increasing the deal size is only possible if your team can demonstrate increased customer value by up-selling additional features or services. **Lever #1** of the model demonstrates this capability. Not only should a team have a defined strategy to increase their deal size they need to train their people to justify this to the customer. An **intended** by-product of deal size is differentiation from the competition. Ones offering would need to be seriously differentiated for a cost-conscious customer to agree to an up-sell. Differentiation drives market penetration and increased market share. This is the only way to increase revenue with the team you have.

3. **Lever #2** of the model is aimed at **professional management of the pipeline**. (See page 5 above) Not a single team we consult use these statistics to manage their SR's. Most of them have the number but the will to manage continual improvements in this area is lacking. A few percentage points improvement here can mean great productivity benefit to the team. Bringing this matrix under control means that smaller deals can be closed while they are still profitable, while larger deals become more profitable. One would think that a deal sitting in the pipeline and not "progressing" through the sales cycle could not be contributing either positively or negatively to the bottom line. BUT, it is taking management and SR's attention, calls and sometimes even serious executive attention – wining and dining and other activities. Close management of the "Time in Pipeline" is much more important than filling the pipeline – often populated with prospects that will ***never close*** or prospects that ***demand attention*** and just contribute to the cost of sales. Most managers place their emphasis on filling the funnel rather than the progression of those that are in the funnel. The model clearly reflects the importance of bringing this activity under strict control.
4. EVERY team we consult struggles with the **division of labour** which is **Lever #3**. This area shows the "heads" that are involved in support of a SR's activity in bringing in the business. As we increase the numbers involved in the team we increase the cost of sales. There is the direct cost of salaries and overheads, but in most teams, there is the additional cost of split commissions over multiple commission driven individuals who help close the business. This may be the place to make some comments on basic sales compensation "rules". Try these out on your new plan;
    a. **Sales** have aggressive accelerators of uncapped 2x income for sales staff who carry targets.
    b. 40-60% of SR's Cost to Company (CtoC) should be commission based ½ paid on order and ½ on deliver (defined as sign-off/invoice/delivery etc.)
        - Easy to calculate - % of ticket costs (revenue)
    c. **Maintenance (MA)** is rewarded to a Service Delivery Manager (not SR) on customer satisfaction and meeting SLA's 10% CtoC - with renewals at 20% CtoC.

- "Churn" or MA contracts cancelled are debited as a proportion of the revenue that is still to be earned (therefore if at anniversary no debit)

d. **Delivery** is a project function and may be rewarded through a bonus, at a percentage of the defined value of the project, against strict criteria linked to dates and costs and may be as large as 20% of the CtoC

The Science of prospecting;

Most companies segment their customer A, B, C etc. but few point different SR's at the different segments or work on different ways to market within these segments. You could make a significant contribution to productivity by applying science to segmentation. A study of a photocopier/printer company shows that they regard the junior entry SR's as "cannon" fodder (no pun intended). They drive 50 calls a day to gain 20 face-to-face appointments a week resulting in 10 priced proposals a week and 5 closes! Aggressive **activity management** is supported by a concerted effort to show the SR's the benefits of working in this environment – flashy cars, fat entertainment practices etc. Needless to say the young SR's run day and night without too many sales – but a huge input to the sales funnel of information about prospects – mostly gained in door-to-door prospecting. When they burn-out they are replaced because the object is to stuff the funnel – not make sales. Those that survive may move to Key Accounts after sales training. The market intelligence gained through this "cheap" activity is fed to the trained "Key-Account" SR's who are able to match the prospects when the buying-cycle is optimal. Systematic understanding of the prospects according to factors such as potential value, share of wallet, match to our offerings, business cycle – define the sales activity by prospect from face-to-face Customer Advocate through telesales contact centre. No skill, package of products, or service will fit all customers – the homogeneous application is wasteful and the cost of each failure flows directly to the bottom line. Costs spent in the pursuit of "non-sales" are added to the costs of actual sales which drive down the margins on the productive activity – studies show that they can be as high as ½ of your experienced margin!

The Science of training;

We have a client who wants to create a Sales Academy to teach people to be SR's at an MBA post-graduate level. Selling is basically a very simple activity. ***Find, Qualify,***

Craft, Close and Deliver. The WHAT of selling is clearly defined in a body of knowledge and specified by professional bodies such as United Professional Sales Association. The HOW is taught in an experiential way by a plethora of training bodies with methodologies which define that sales cycle. Others train the art of questioning, observing body language etc. Still others teach the internal knowledge of the enterprise which enables the SR to navigate the multi-disciplined minefield of the customer and the vendor. What is often missing is the concentration on the business skills that are required by the SR. Enable their ability to build a value statement that means something to the client – or take one built by the enterprise and be able to articulate it.

FIRST, invest in the professional development of your people in the target market of your client – teach them to speak "C" for CEO's and retail, mining and manufacturing for those markets. Have as an objective that your team must be smarter at the customers' business than your opposition and you'll differentiate and drive up-sell. Next, measure it!

SECOND, create dedicated teams that address the different segments of the market, don't mix teams on a single account – there is nothing in sales called a "Relationship Manager" – a SR must be king-of-the-heap in the account, applying others - with skills to help - on the sale, but taking ultimate authority and responsibility to close the business. To have 2 SR's on an account doubles the Cost of Sales and is a recipe for disaster. In South Africa it produces the "Aasvoël (vulture) Effect" with carrion eating SR's circling around the prospect and taking up a large amount of management time.

THIRD, apply emerging technologies to automate the acquisition and service of your target markets. Web-based purchasing and configuration tools are common place where 1-on-1 sales activity was taken for granted just years ago. Selective engagement is the name of the game – customers crawling with SR's during the buying phase should not attract the same staff (in numbers or skills) during the consolidation phases but still needs to be managed as before - or even more carefully. Most projects don't just "happen" they need to be as a result of a concerted effort of education and preparation in the client. The trick is to be there and influence that project before the client goes to the market to search for suppliers.

The Science of Performance management;

"Make your numbers and they leave you alone" – is a cliché which operates in 99% of sales teams. Very few enterprises collect data and analyse what it takes to make this process definable and drive continued improvements. If you're measuring you can make early decisions on the productivity of a team or an individual. Teams and individuals never just "keep going" and the earlier you recognise a problem the quicker you can implement corrective steps and "save" a revenue year. New SR's reach their productive level in some defined period – in our market about 12 months. If they haven't got there in that time, they probably never will and either they will leave or you'll start the process of managing them out. The key to retention is setting SR's up to succeed – this is almost never an act of good fortune but a result of planning based on collected data. If you're not measuring the process and only looking at results, therefore history, you're missing the most important management skill in helping SR's stay on top of their game. 1950's thinking (see 8 above) was to stuff the funnel and demand coverage of the target by 3:1 – current thinking is to manage the process of winning 100% of the qualified opportunities and knowing your ratios and lead times defines the qualified pipeline statistic.

Conclusion;

OK, I hear you groan, it makes sense but where to start? Pipeline management and salesperson credibility is what you're being paid to do – start there. Progress through analysing wastage in team deployment and end up with prospect and market segmentation through analysis. That is a continuum from easy through difficult and cheap through expensive. Unless you're committed to this path you'll be doing the same things every year and expecting a 20% improvement in results – is that possible?