

Back to Basics: Focus Sales Assets to Drive Profitable Revenue Growth in a Difficult Economy



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Economic Blues Depress Growth

- ▶ The sluggish economy has sales organizations under pressure to grow revenue
- ▶ Pressure may continue despite recent “good news”
 - S&P 500 is trading at roughly 39 times its past years' earnings
 - Investors unlikely to bid up prices as recession continues
 - Companies must post profit improvement
 - Profit improvement driven by revenue growth

Companies Adopt Growth Initiatives

- ▶ **Example: Customer Conversion Teams**
 - “Swap meet” at which a few customers change suppliers
 - Often results in price competition, leading to margin pressure
 - May also lead to service and quality reductions and a trip to price purgatory
- ▶ **Better approach: focus your sales assets – direct and channel**

“What do you want us to do?”

– Your Sales Force

Sales Representatives as Assets

- ▶ Sales representatives are both intellectual and physical assets
- ▶ With physical assets, your ability to leverage them—to get additional business value out of them—is limited



You can't use the same school bus on 5 different routes at the same time

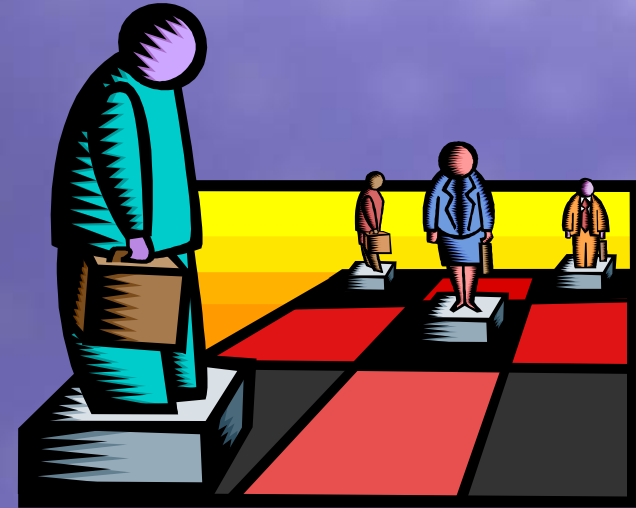


You can't put the same driver on 2 buses at the same time

- ▶ With a physical asset, such as a school bus, management decides which route it's going to take

Sales Representatives as Assets

- ▶ Sales Reps make daily decisions about whom to call on, what product to sell, and what selling activities are important
- ▶ All these decisions determine how your sales assets are tactically allocated



Customer-Oriented

- What geography to focus on
- What industry to call into
- Higher vs. lower volume segments
- Highly vs. less profitable segments
- New vs. existing customers
- HQ vs. field calls

Product-Oriented

- New vs. existing
- High vs. low volume
- High vs. low margin
- Easy- vs. hard-to-sell
- Hold price vs. "win" sale

Activity-Oriented

- Hunting vs. farming
- Selling vs. servicing
- Consultative vs. transactional selling
- Control costs vs. distant location travel
- Leverage self vs. do all personally
- Compete internally vs. cooperate

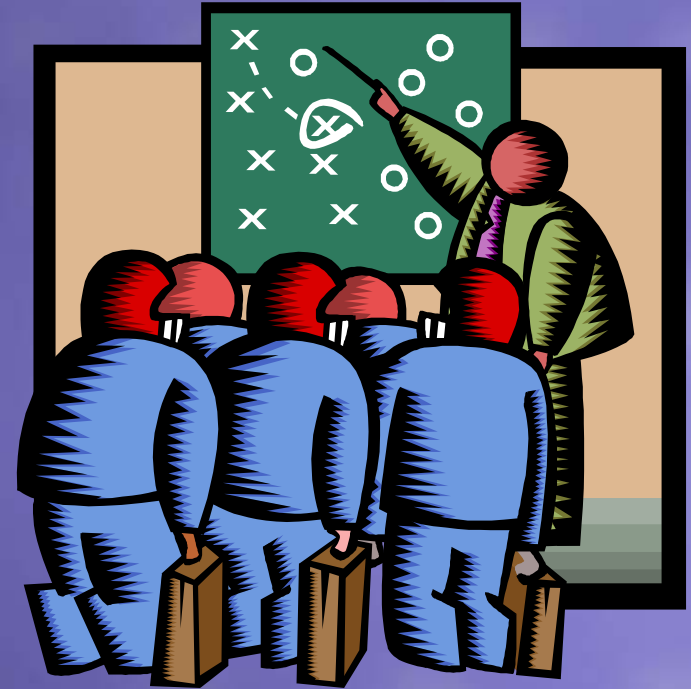
Starting Point: Identify Customer Value

- ▶ **The starting point for focusing your sales assets is the identification of customer value**
 - Not all customers contribute equally to profitability
 - Profitability of business has become more dispersed
- ▶ **Determine how your sales force can meet these challenges**
 - What should be our strategic thrust, marketing strategy, and go-to-market tactics?
 - How profitable are various accounts?
 - To which accounts, and people within those accounts, should we sell?
 - What is our product/service value proposition for which types of customers?



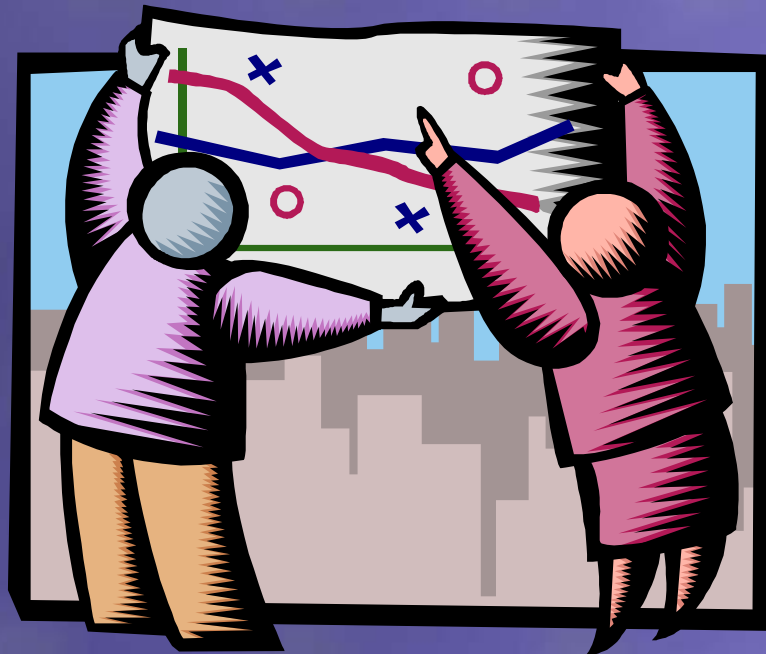
Create Blueprint for Sales Model

- ▶ Create a blueprint for structuring sales models and product/service offerings around class-specific customer needs
- ▶ Case in point: company learns that its critical customers looked to it for “next generation” products and services that would help lower operating costs



Align Internal and External Resources

- ▶ Further focus can be attained by strengthening the alignment between HQ staff and channel resources
 - Create winning, end-customer relationship teams
 - Build critical supplier/channel competencies
 - Provide information needed to make channel partner and account decisions



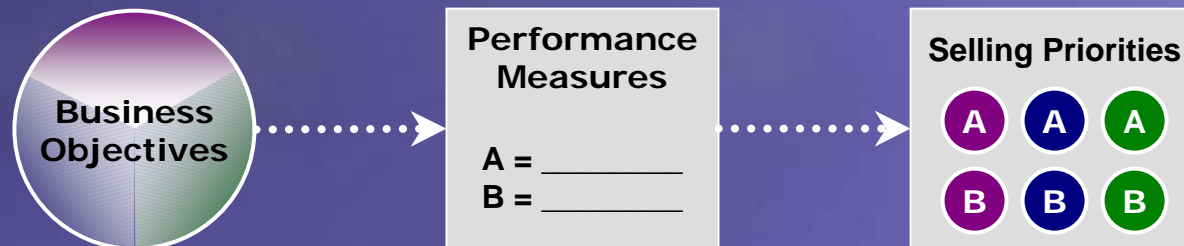
Enable Your Sales Force

- ▶ Sales people must be enabled to sell within the sales architecture and according to the success formula
 - Clean up sales jobs
 - Define job responsibilities clearly
 - Allow customized, customer-specific selling and decision making
 - Create time to sell



Measure Performance vs. Clear Goals

- ▶ Measure your sales people against clear goals specified in their job descriptions
- ▶ The fundamental role of a sales force is to
 - Sustain existing customer relationships with your customers
 - Achieve profitable revenue growth
- ▶ Performance measures influence sales activity, behavior, and performance



Anatomy of “Profitable Revenue Growth”

Profitable	Revenue	Growth
<ul style="list-style-type: none">▪ Margin▪ Price realization▪ High value products▪ Product mix▪ High value customers▪ Lifetime value of customer▪ Move customers to more efficient distribution channels▪ Advanced assessment of customer credit worthiness▪ Days of receivables▪ End-to-end CRM▪ Inappropriate double attribution of results¹▪ Sales force deployment¹	<ul style="list-style-type: none">▪ Customers▪ Prospects▪ Markets▪ Vertical markets▪ New products▪ Cross-selling: Full-line product selling▪ Consultative selling: Value-adding customer solutions	<ul style="list-style-type: none">▪ Period-over-period▪ Linearity▪ Customer penetration▪ Market share▪ New markets▪ More customers buying more▪ Order size▪ Mix of performance: resources and territories¹▪ Replace low performers¹▪ Retain high performers¹▪ Channel partner performance¹

¹Sales Management Priorities

"1st Principles" of Performance Measure Selection

► Performance measures should...

- Be consistent with business objectives and aligned with sales and marketing strategy
- Be specific to sales role
- Reflect nature of sales process
- Reflect sales force competencies
- Reflect what sales force members can influence directly
- Be objective and clearly definable
- Have endurance capability
- Be capable of providing accurate results and timely participant feedback and payout
- Be impartial (not biased toward a participant group or individual)
- Be limited – 3 to 5 in number

**“Simplify,
always simplify.”**

– Albert Einstein

Set Realistic Goals

▶ With performance measures selected, the next challenge is to set realistic goals

- Must have stretch, but must be realistic
- If they're too easy, you'll overpay your budget
- If they're unreasonable, you'll underpay and demoralize your sales force

▶ Quota setting methods:

- Share Method: Historical account contribution as % of overall sales objective
- Modified Share Method: Considers market growth potential, market and territory share, and competitive intensity
- Account Planning Method: Considers each account's historical sales, potential, sales cycle stage, and probability of success

“What gets measured gets done.”

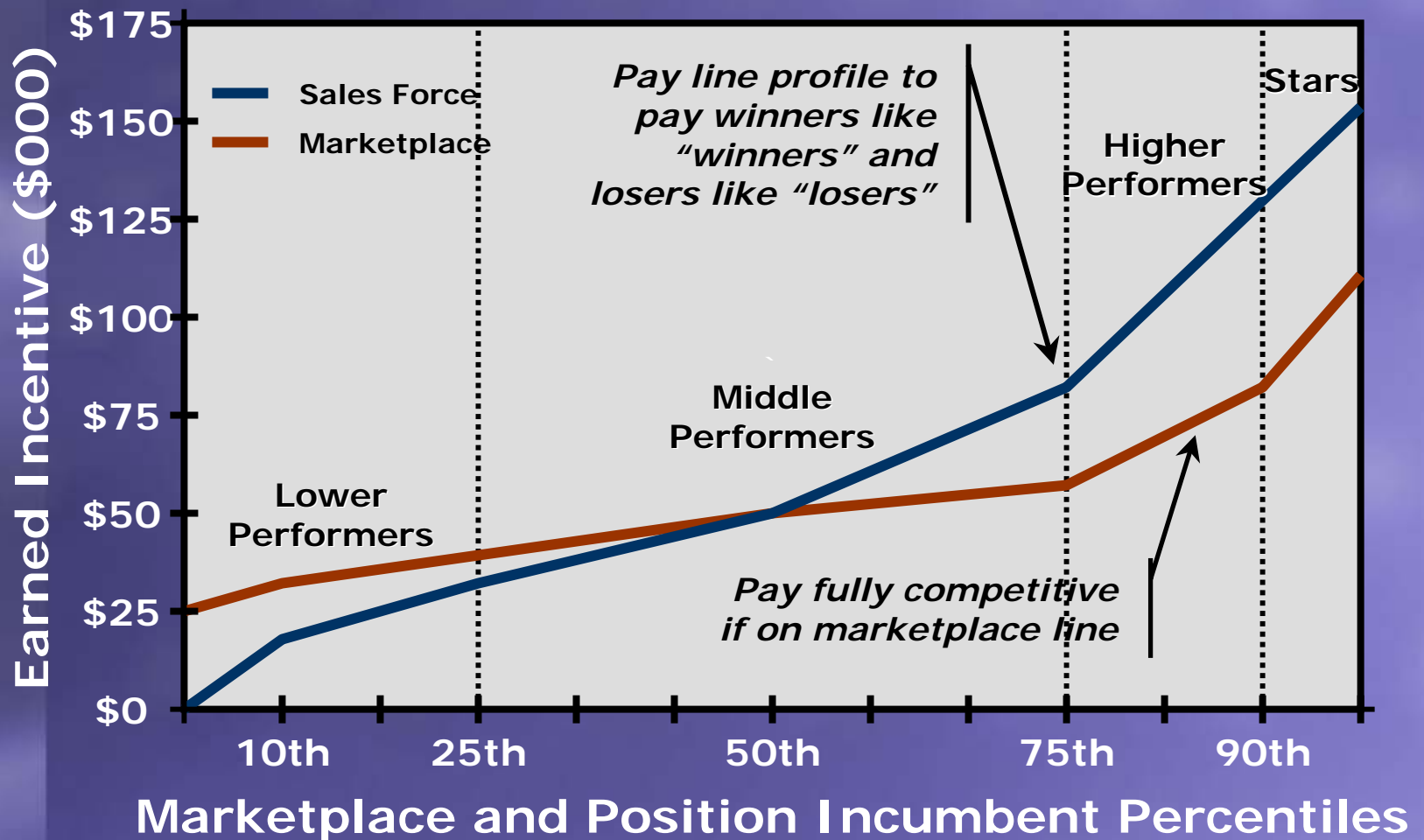
– William Hewlett,
Hewlett-Packard

Fine-tune Quotas as Necessary

- ▶ **Even well-allocated quotas need to be adjusted occasionally**
 - Balance business realities with any quota adjustment
 - Reconcile incentive earnings for prior performance vs. opportunity under new quota
 - Consider business retention and market share vs. quota attainment
 - Consider profitability vs. growth
 - Identify your "critical to retain" sales resources
- ▶ **It's important that your sales incentive design communicates the importance and value of attaining and surpassing goals**

Incentive Payout Profile

Illustrative Incentive Comparison



Incentive Multiples

- ▶ **“Incentive multiples” communicate the extent that incentive payouts to high performers are materially different than the awards paid to low performers**
 - Calculation: payout at high performance divided by payout at low performance
 - Acceleration across the continuum of “minimum acceptable” through “outstanding” performance indicates incrementally higher payout for performance achieved

Incentive Multiples

Company vs. Marketplace Incentive Payout Percentiles

Outstanding vs. Excellent
90th vs. 75th

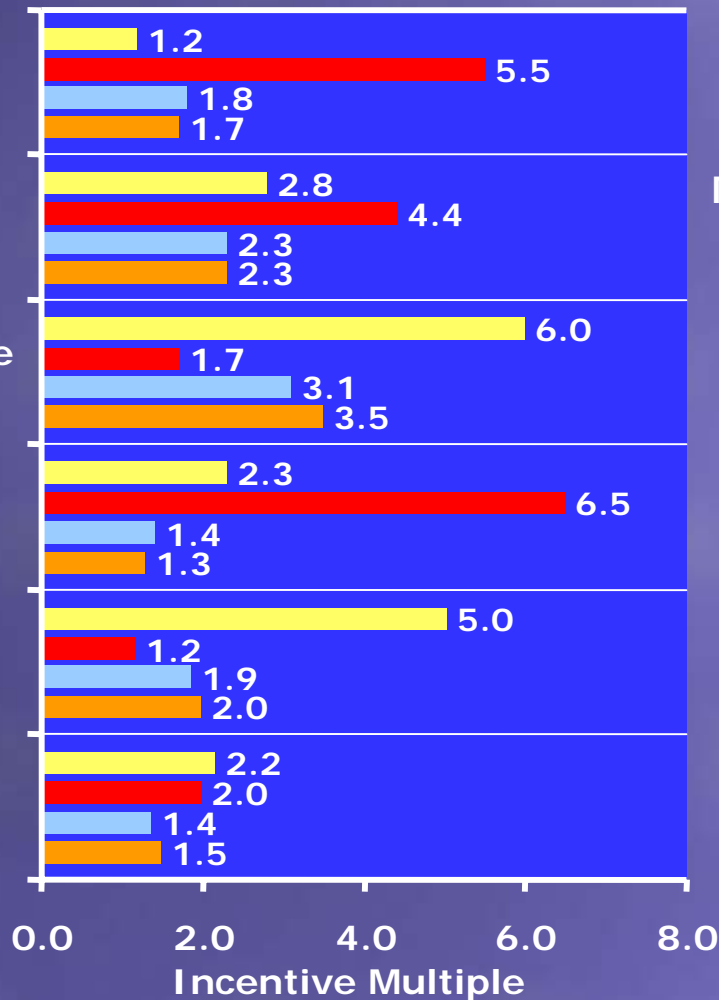
Outstanding vs. Target
90th vs. 50th

Outstanding vs. Min. Acceptable
90th vs. 25th

Excellent vs. Target
75th vs. 50th

Excellent vs. Min. Acceptable
75th vs. 25th

Target vs. Min. Acceptable
50th vs. 25th



Performance Level	Incentive Payout
Outstanding	\$39,000
Min. Acceptable	\$6,500

↓

$\$39,000 \div \$6,500 = 6.0$

- Company
- Market Segment 1
- Market Segment 2
- Market Segment 3

Incentive Multiples

► Manufacturing Industry

Performance Comparison	Sales Representative			Major Account Rep.	
	Junior	Mid-Level	Senior	Key Acct.	Nat'l Acct.
Outstanding vs. Excellent	2.1	1.7	1.9	1.9	1.9
Excellent vs. On-Quota/Goal	1.9	1.5	2.1	1.9	2.0
On-Quota/Goal vs. Min. Accept.	2.0	2.5	2.0	2.0	2.0
Outstanding vs. Min. Accept.	7.9	6.6	8.2	7.1	7.4
Excellent vs. Min. Acceptable	3.8	3.8	4.2	3.8	4.0

Note: Incentive multiples have historically been much larger, particularly at the performance extremes (i.e., outstanding vs. minimum acceptable) where values have tended to range between 10 and 15. The recent economic slowdown in the U.S. and an unusually high incidence of companies paying large incentive awards to low performers account for the downward shift.

Integrating Financial Measures

Conceptual Incentive Alternative #1

► Sales Goal: Revenue Growth and Price Realization

- Part A: Uncapped quarterly commission on aggregate territory revenue. Commission rate accelerates as revenue delivered exceeds results from prior same period and quota

Part A

Territory's Aggregate Revenue Performance Range	Commission Rate on Incremental Revenue
> 120% of Quota	8%
110% to 120% of Quota	4%
100% to 110% of Quota	2%
≥ 80% of Prior Year's Result to 100% of Quota	1%
< 80% of Prior Year's Result	0%

Integrating Financial Measures

Conceptual Incentive Alternative #1

- ▶ **Sales Goal: Revenue Growth and Price Realization**
 - Part B: Price realization multiplier elevates the Part A commission earned on revenue

Part A		Part B										
X %	×	<table border="1"><thead><tr><th>Quarter's Price Realization (PR)</th><th>Commission Multiplier</th></tr></thead><tbody><tr><td>$4\% \leq PR < 6\%$</td><td>1.50%</td></tr><tr><td>$2\% \leq PR < 4\%$</td><td>1.25%</td></tr><tr><td>$0\% \leq PR < 2\%$</td><td>1.10%</td></tr><tr><td>$PR < 0\%$</td><td>1.00%</td></tr></tbody></table>	Quarter's Price Realization (PR)	Commission Multiplier	$4\% \leq PR < 6\%$	1.50%	$2\% \leq PR < 4\%$	1.25%	$0\% \leq PR < 2\%$	1.10%	$PR < 0\%$	1.00%
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Integrating Financial Measures

Conceptual Incentive Alternative #2

► Sales Goal: Revenue Growth and Priority Product Selling

- Part A: Quarterly bonus opportunity for results vs. goal (could be uncapped)
- Part B: Quarterly bonus determined by number of quarterly product goals met

Part A

Territory's Aggregate Revenue vs. Goal	Quarterly Bonus Opportunity
≥ 150%	\$16,000
130%	\$8,000
100%	\$4,000
≥ 90%	\$1,000
< 90%	\$0

+

Part B

# High Priority Product Goals Met	Quarterly Bonus Opportunity
5	\$5,000
4	\$2,500
3	\$1,500
≤ 2	\$0

Integrating Financial Measures

Conceptual Incentive Alternative #3

- ▶ **Sales Goal: Retain and Grow Gross Profit From Current High-Value Customers. “Win” New, High-Value Customers. Commercialize New Products**
 - Parts A and B: Quarterly bonus opportunities on results generated from high-value customers. Eligibility for Part B award is dependent on threshold performance being attained for current customers

Part A

Current High-Value Customers' Gross Profit \$ vs. Goal	Quarterly Bonus Opportunity
≥ 150%	\$16,000
130%	\$8,000
100%	\$4,000
≥ 90%	\$1,000
< 90%	\$0

+

Part B: Is revenue from current high-value customers ≥ 75% of Goal? If yes, Bonus Opportunity is...

New High-Value Customers' Revenue vs. Goal	Quarterly Bonus Opportunity
≥ 150%	\$5,000
130%	\$2,500
100%	\$1,500
≤ 50%	\$0

Integrating Financial Measures

Conceptual Incentive Alternative #3

- ▶ **Sales Goal: Retain and Grow Gross Profit From Current High-Value Customers. “Win” New, High-Value Customers. Commercialize New Products**
 - **Part C: New product revenue should be sought from current and new customers**



Part C

2% Commission on quarter's revenue from new products

Summary

- ▶ **Focus your sales resources on the task at hand**
 - The right customers
 - The desired performance outcomes
- ▶ **Enable sales personnel to succeed**
 - Clean up job responsibilities
 - Articulate priorities
 - Allow customized, customer-specific selling, and decision making
 - Create time to sell
- ▶ **Fit your sales incentive to the sales challenge**
 - Reward high performance
 - Penalize low performance