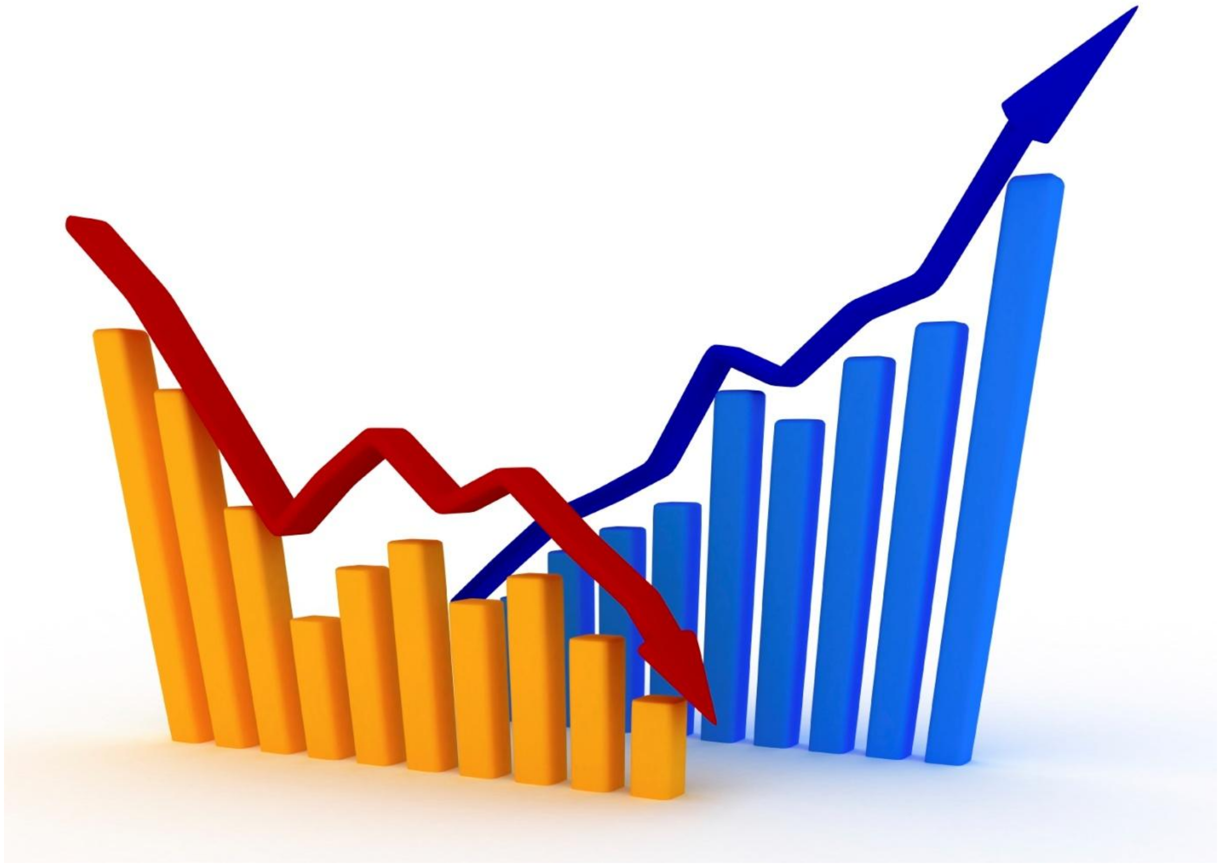
Sales Management 2.0

- Optimizing Sales Performance 2009 - Volume 1



By Jim Dickie & Barry Trailer

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Acknowledgements

We wish to thank all the far-sighted industry executives who so unselfishly contributed their time and insights to the creation of this publication. In addition, we owe a debt of gratitude to many colleagues, mentors, and advisors, without whom this e-book would not be possible. To list them all would be impossible, but a few deserve special mention: Lisa Leonard, Co-Founder and SVP of Customers and Strategy at StreetSmarts, Karen Steele, Senior Vice President Marketing at Xactly Corporation, Samantha Moore, Director, Public Relations and Analyst Relations at Xactly Corporation; our editing team Kim Cameron and Sue Renner.

Table of Contents

There's a certain level of reality you have to face and you're better off taking dramatic action, even if it's extremely painful—which it always is—and living to have a chance to rebuild. The global economy is not more secure; there are more fluctuations and it's more erratic than ever before. One of our executives said, "I hope this is the last time I ever have to make these kinds of decision." I told him, "If you plan to stay in technology another twenty years I can promise you it won't be." You better hone your skills on how to manage a fluctuating workforce in a dynamic economy.

Initially, we were not completely sure we could build a presence in China. After numerous sales engagements, client meetings and training sessions in China, Computershare has displaced the local competitive incumbent and we have established ourselves as the leading provider of employee share plans in China.

As I look at the marketplace, there are two broad areas I'd like to address. The first is in response to the clamor in the business press about corporate abuses. Many feel the need for greater governance and ethics, which may directly relate to everybody on the frontline dealing with customers—especially major account management. The second is the lack of strategic thinking in pricing and on sales.

CSO Insights benchmarks the challenges faced by today's sales and marketing organizations. We track trends in the use of people, process, technology and knowledge to improve sales effectiveness. Research is the core of our business. Each year, we survey thousands of Chief Sales Officers to learn the challenges they see as most critical.

Introduction

One of the great personal benefits of the benchmarking work we do here at CSO Insights is that we get to tap into the wealth of experiences and wisdom of numerous sales and marketing thought leaders. In light of the significant challenges surfaced from surveying over 1,800 companies worldwide during the course of our 2009 Sales Performance Optimization (SPO) study, gaining insights into how to improve the effectiveness of our sales teams is more critical today than ever. Because of this, we decided to produce a series of e-books to share some of the knowledge our colleagues in the sales world have shared with us.

In each e-book we will first overview some of the key findings from our latest SPO research. We will then present a series of commentaries generated from interviews we conducted that profile the approaches that CSOs and their teams are utilizing to effectively leverage people, process, technology, and knowledge to improve sales results, even in tough economic times.

For the purposes of this initial e-book, we selected six interviews that we felt covered a broad range of issues and ideas that would be of interest to many sales and marketing executives. In future e-books we will be taking specific topics such as territory and compensation management, improving lead generation, hiring and developing new sales talent, optimizing cross-selling and up-selling, effectively leveraging CRM technologies, more effectively engaging channel partners, improving sales management via analytics, etc.

To receive these additional e-books, simply send us your contact information. In the body of the email, please describe your areas of interests. As we continue our research benchmarking efforts and complete reviews of additional sales effectiveness initiatives that fit your areas of interest, we will email the new e-books with our compliments. Through this continuing exchange of insights we hope to make this e-book series an ongoing educational process for sales executives, versus a one time learning event.

All indications are that the business environment described (and endured) here in 2009 is the one you'll be facing through the first half, if not all, of 2010. So hopefully the insights you are about to read will be of assistance in helping you weather that storm.

We believe the issues that are about to be raised have broad applicability and we invite you to share this e-book with your colleagues. But even so, we encourage you to only use this information as the basis for brainstorming how to deal with the operational challenges your organization faces. Everyone can benefit from understanding what strategies and tactics others are using, but in the end we must implement strategies and tactics that fit our specific business needs and not those of other firms.

If you have any questions about the information contained in this publication, would like to discuss your specific challenges, or if you would care to share some of your experiences and lessons learned, please call or email us.

We wish you good luck in successfully optimizing the performance of your organization.

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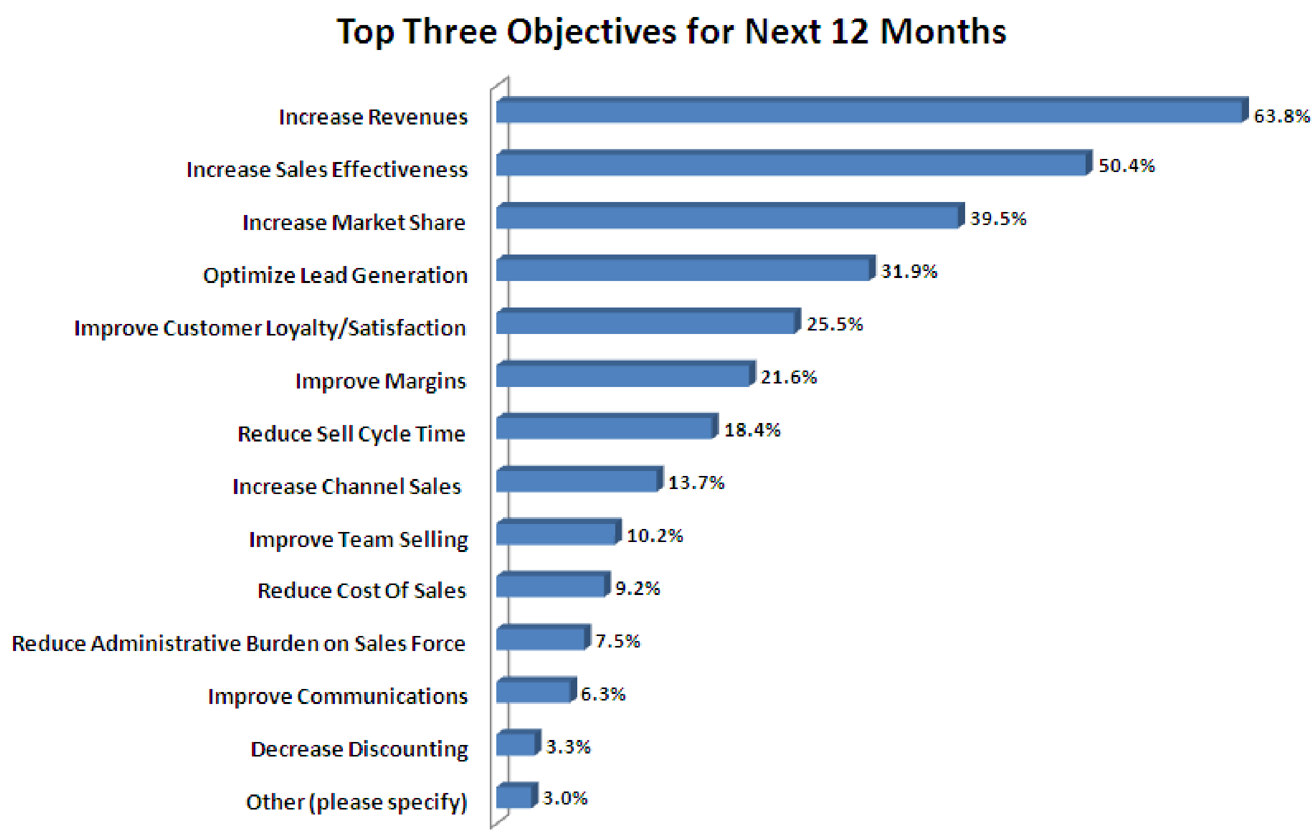
Executive Summary

The motivation for this e-book series was a key finding from CSO Insights' 2009 Sales Performance Optimization (SPO) study. As part of our survey we asked the participating sales executives to share with us the top three objectives they had for the next 12 months. A summary of their input is seen in the following chart:



Clearly, all of these are important areas that need improvement to ensure sales is performing as effectively as possible; but what exactly does "better" look like? What changes do our field sales;

telesales; sales support; sales operations; and sales management teams need to make in order to optimize their performance to help achieve key objectives? And what help should they be looking for from the rest of the enterprise?

Most sales executives have been bombarded with “theories” about what might work. For this first e-book we focused on interviewing seasoned sales professionals and visionaries about what “is” working in the following areas:

- **Deepening Customer Relationships:** Our past analysis has shown a direct relationship between the level of relationship with customers and sales performance. Joe Batista, Chief Creatologist at Hewlett Packard, contributes insights into how HP is leveraging other assets they have--besides the products they sell--that they can leverage to show their customers a value-add.

- **Effectively Sharing Best Sales Practices**: There is a wealth of sales intelligence inside your company that has never been written down. Heartland Payment Systems’ CSO, Sanford Brown, shares how his firm is leveraging sales knowledge management technology to collect, synthesize, disseminate, and manage this typically untapped asset.

- **Optimizing Incentive Management**: The vast majority of companies have sales compensation packages that have a variable pay component that is intended to help direct sales rep behavior. Cathy Martin, Director of Field Operations at ArcSight, profiles how her sales organization moved from managing this strategic aspect of sales with analysis-limiting spreadsheets to a true sales analytics system.

- **Realigning How You Sell to How Customers Buy:** The “buy cycle” today is significantly different from what it looked like even five years ago. This is mainly due to customers’ instant, ubiquitous access to information via the Internet and the reduced ability of individuals to make decisions (versus committee buying). CEO of TerraGo Technologies, Rick Cobb, shares his "new truths" of sales.

- **Selling Effectively When Selling Virtually:** When we were first exposed to WebEx in 1995, the focus of the system was on how marketing could leverage technology to host virtual events. Seth Bohart, Managing Director for ComputerShare in Australia, outlines how his sales teams are leveraging Web collaboration technology to support their face-to-face selling efforts in China with virtual sales meetings.

- **Reassessing Major Account Management and Pricing:** Are we challenging the status quo within our own companies often enough? Harvard Business School Professor Ben Shapiro shares his insights around two areas; how we effectively manage our strategic accounts and how we should be rethinking pricing.

We are keenly interested in how useful the perspectives of your peers are in helping you reexamine how your firm is choosing to sell. If you have comments on this e-book, and would like to suggest topics for future volumes, please send us your thoughts.

Joseph Batista

When I first met Joe Batista at a sales effectiveness symposium where we were both speaking, I was immediately intrigued with his title: Director & Chief Creatologist—Hewlett-Packard Corporation. As a 'creatologist,' Joe is responsible for the growth, strategy and implementation of creative enterprise and Internet businesses. He concentrates on building value by leveraging capital, labor, market and technology assets. He actively works with emerging companies as a business advisor, formulating innovative ways to leverage technology, marketing and strategy to create a competitive advantage.

Many large corporations seek Joe's 'creative application theory' of applying real world technology and strategy to business domain challenges and business value creation. Joe has been recognized by many organizations for his innovations, including being awarded CIO Magazine's TOP 50 Web Awards for building a leading edge corporate portal to leverage internal knowledge assets. Joe holds a Masters of Science degree from the University of Pennsylvania.

Jim Dickie

Organizing to create value in today's economy, firms must extend beyond delivering excellent products and quality services; we also need to offer our clients expertise and insights. We need to leverage all our intellectual capital—market position, supply-chain of contacts, and technology and process portfolios—to create 'net new' value and tangible results for our clients.

What does a Chief Creatologist do? My responsibility is to act as a resource to our valued clients and the HP Field Account Professionals. Our focus is to live at the intersection of business and technology domains and uncover or create competitive advantage for our clients. For example, we might create a 'second curve revenue strategy' by developing a new, enhanced shopping experience designed to capture and leverage information. This is an innovative concept for companies in the retail industry, and involves utilizing a consumer key chain device, integration of retail infrastructure, and a unique business model. HP could bring all of these items to the table to deliver 'net new' value streams that accelerate a new market reality for our customers.

What we do is triangulate our experiences, any number of different assets in HP's technology and business portfolio, and dialogue with the client on real business challenges. Our passion for our customers is an HP mantra. The outcomes include a variety of projects, innovative alliances, partnerships, technology solutions and new business concepts that really impact our clients' businesses.

For instance, we are working with clients to understand the office-of-the-future. How do you begin to optimize your knowledge workers' environment? By providing 'context' to space, some interesting value propositions begin to evolve for the healthcare, services, and retail firms looking to coordinate and leverage staff and assets within this context.

CREATOLOGY BEGINS WITH A DIALOGUE

Our primary objective is to fundamentally enhance the client process. We know we will have to have traditional conversations with our clients. We will have to understand what they are looking to do technology-wise, what are their requirements from an IT perspective, what types of products have they already installed, what additional solutions have they budgeted for, etc. These are all very predictable conversations with our clients, and we at HP are fortunate in having excellent and extensive product offerings to meet the most demanding of needs. But at HP, that is just the beginning.

For example, I was invited visit a banking client in Buffalo, NY to have a technology-focused discussion regarding how the bank could leverage or enhance their intranet as a tool for their knowledge workers. While HP has a number of hardware and software products to meet this need, we also have extensive practical knowledge from having built intranets inside our company, and from being a pioneer in the whole concept of Business to Employee (B2E) portals. So, rather than continue with an agenda targeted upon technology, we shifted the conversation toward lessons learned, what works and doesn't work, return on investment techniques and best practices, etc. that we at HP have uncovered in solving this business challenge for our own company.

By having these types of conversations, we enhance the working relationship. Customers do not view us as someone who is just trying to sell them something, but rather as a partner with a wealth of knowledge that they can leverage around a particular business domain, such as optimizing the performance of their knowledge workers. Building or inventorying these 'pools of knowledge' and sharing them with clients creates a 'net new' value stream.

I believe most sales executives would agree that this is the selling model of the future. We cannot just rely on delivering excellent products to the marketplace and expect to be successful. Even bundling or repackaging products into solutions is not enough. We have to go beyond that and help our clients see how the solutions can be successfully integrated into their organization to solve their real business challenges, with a sensitivity that each company's DNA (technology, culture, people, markets) are different.

IDENTIFYING YOUR PORTFOLIO OF ASSETS

To apply this concept to your marketplace, you first need to understand *all* the value you can bring to the table, and then unleash this on your clients. When you move to the mindset of thinking, 'How can we impact the business of our clients using our complete portfolio of assets?', only then does your journey begin.

First, you have to begin defining your traditional assets. For a company like HP, these include hardware, software, communications and services. Cataloguing these assets is relatively easy to do. But we cannot stop there; we then need to explore and really understand our intellectual capital. Let me offer some suggestions of where to look.

Untapped or Re-oriented Knowledge — Part of our intellectual capital is the knowledge that resides in the minds of our employees. Maybe some individual down in Florida has developed a unique approach for handling certain internal processes that could be reoriented for a customer. Understanding these assets becomes the key challenge. We need to determine ways to find these insights, collect them, repurpose them and then share them with customers.

Supply Chain of Contacts — Part of our intellectual assets could be our Rolodex. On any given day we are involved in innovative work with our suppliers, our business partners and our customers. By simply being aware of all of the things going on in these three areas, we could provide significant value to customers by putting them in touch with people working on problems similar to theirs; resources they never even knew existed.

Linking — Link two or more organizations or business units within a corporation to build something 'net new.' For instance, we could leverage an internally developed algorithm, software application or business process and bundle it with a piece of equipment. We could link any given product group with R&D to develop a new offering. Or, working with an alliance partner with a new product, we might develop an innovative co-branded service. There are any numbers of linkage options to create new revenue streams.

Now that you have this portfolio of assets, what's next? Many companies have a huge portfolio of assets that go way beyond the traditional products they sell; the problem is that not many firms invest the time and energy to figure out how to reorient those assets to benefit their customers. That is a shortcoming.

_M_ x _V_ = MO CREATING MO…

You often hear executives speak about wanting to create momentum in their marketplace or momentum within their firms. What is momentum? Remember Physics 101? Mass times velocity is what creates true momentum, or what I call MO.

What I am advocating is for companies to understand their true mass, which is represented by their total portfolio of assets. They then need to develop innovative methods to reorient those assets in ways that create velocity in terms of the speed at which customers can solve problems. If they do that, then they will achieve their maximum momentum in revenues and customer satisfaction.

Client Conversations

How do you do that? From our experience, there are three essential ingredients. First, we need to create a forum to openly dialogue with our clients about problems, not products. Based on work we have done with our client base, I developed a program called iVelocity: a not-so-structured format designed to help our clients express their business challenges, competitive threats and market expansion plans.

To optimize this client conversation, we need to assemble a collection of knowledge assets and people from both the customer side and the HP side. The customer's team could include business people, IT professionals, finance analysts, etc. HP might contribute people with expertise in technology, process flow, business innovation, etc. The goal of this phase of the project is to develop a clear and well-rounded understanding of where the customer is and where they ultimately need to be.

The second ingredient is a little more difficult to explain. Here is where Creatology comes into play. If we are going to help our clients extract new ideas and value out of these sessions, we want to involve people who effectively examine and understand things as they are, but then think outside the box and explore brand new ways of dealing with an issue.

That is why, from an HP perspective, we focus on contributing people who have a real passion for innovation. Re-orientation and an awareness of our portfolio of assets form the basis for new and powerful combinations. Adding this to a very talented array of individuals who can test and explore business theses during the iVelocity session will create a 'net new' impact.

The third ingredient that helps a team develop innovation is access to the complete library of assets their company has at their disposal, and the ways those items have been previously reoriented or repurposed. When this knowledge base is added to an understanding of where things are, then creative people can develop solutions that generate significant momentum.

Many sales executives may think that this is the type of work their sales force should be doing. But the program I am suggesting goes far beyond what we can expect from our talented sales professionals. Today, tremendous demands are placed on our selling teams. On a daily basis, they have numerous customer issues to deal with, a flood of email and information requests to read and respond to, plus they have to keep up-to-date with an ever-expanding product line that changes every couple of hours.

Even if they had the time to do it, training sales professionals to perform this function becomes a challenge. In many cases these conversations fall outside of a traditional product-services dialogue. They end up being very detailed business conversations that require a lot of expertise to carry on at the depth the customer wants to take them. We have found that a blended team approach where each individual contributes significantly to the process is a winning combination.

CREATIVE PROCESS IN ACTION

Here is a real world example. Global services organizations—auditing firms, healthcare institutions, manufacturing firms—face a significant challenge regarding how to certify the thousands of people working for them worldwide on a yearly basis. They are looking for innovative ways to train a highly mobile work force on issues surrounding such things as certification and testing.

When we have discussions with these firms, we center on ways to accelerate, track and leverage the knowledge assets within the firm, either for competitive advantage or to meet regulation issues, or both. This is not a conversation about what types of servers you might need; how many terabytes of data will be involved; what type of maintenance contract you need for your hardware; or anything along those lines. We are not anywhere near caring about those issues at this point; we are looking for how to generate a 'net new' impact on business.

During our discussion, we may zero in on the fact that everyone requires mandatory training of approximately 15 credit hours, the delivery mechanism requires video broadcasting, and professionals will have to take time from their busy schedules to physically travel to their company's office locations to receive training.

I think you're getting the picture of the business issues. Our challenge became, "How do we service the training needs of the highly mobile professional in a way that leverages a media-rich learning environment, and that is flexible enough to enhance the learning environment without requiring travel? And how do we build a sound ROI case that supports the new approach?"

We came up with a whole collection of ideas, but immediately began to converge on four themes: 1) Product Assets—existing mobile appliances; 2) Business Relationships—emerging technology market entrants; 3) Intellectual Capital—a pool of talented people to integrate and design the solution; and, 4) Business Mechanics—the ability to build a solid ROI model.

Existing Product Assets and Emerging Technology

We created a centrally developed courseware strategy that would be distributed and executed on a mobile device. The learning module could be conducted anywhere—at home, in the airport, during lunch. The mobile appliance delivered on two promises; first, it allowed for the richness of content and learning experience, and second, the instant-on capabilities allowed the learning module to be used anywhere.

Intellectual Capital

Now, the important part. Since we needed to know and track who successfully completed the certification or training, linking the courseware on the mobile appliance to a corporate Learning Management System (LMS) was very important. By providing knowledge and functionality on how to accomplish this, we allowed the HR or training team to track and report who had successfully completed the training. This functionality was very important because it was mandatory for reporting purposes to complete certification.

Business Mechanics

Implementing this type of strategy requires expertise in needs assessment, design, deployment, risk mitigation, collaboration and business case development. By bringing our knowledge to these areas, we were able to help deploy a mobile strategy for delivering a closed-loop learning process that created a new model for learning success. We now call this m-Learning.

Through this process, we were able to tap into relationships HP has with other companies; our experience with enterprise integration and creating learning systems; our product leadership in mobile appliances; and our idea generation and business sensitivity to an economic model and deployment strategy that made financial sense.

Bottom line, we built a new market category environment called m-Learning that not only met the needs of our existing client, but quite honestly could become the next killer app for knowledge-intensive enterprises, especially those requiring regulatory certification or rapid learning deployments to mobile staff.

ULTIMATE GOAL: CREATING ‘NET NEW’ VALUE

If we fast forward a few years powerful new transformations within enterprises will occur with those companies that take advantage of new technologies and combine them with legacy assets to create ‘net new’ Value streams.

Our charter is to create differentiation and value in the eyes of the customer. To do that, you have to dedicate resources to identify, understand and create sources of innovation. You cannot just mouth the words ‘out-of-the-box thinking;’ you have to do the work to make it real and tangible. Our group is a collection of very talented professionals across the HP enterprises that live an HP mantra of passion for customers. It may sound corny, I know, but it’s our culture.

Clearly, the center of gravity in the marketplace is shifting from product leadership to a customer intimacy model. This is a new marketplace, and we need to play by new rules. The solution providers that win in this environment will be the ones that can deal with the complexity of challenges their clients are facing by bringing together a variety of assets to create something that is ‘net new.’ That is what customers will ultimately want to purchase: business impact and competitive advantage!

Sanford C. Brown

Having followed the growth of Heartland Payment Systems for years, I have found them to be one of the most innovative entrepreneurial sales operations in America. For sales professionals that value an environment and culture with full disclosure and complete open candor and honesty throughout the entire organization, I see Heartland as a great place to work.

Heading up their sales organization is Sanford Brown. After joining Heartland at its inception, Sanford was its first sales employee west of the Mississippi. From late 2000 to 2003, Sanford served as Heartland's senior vice president of hospitality marketing, charged with developing and nurturing relationships with trade associations nationally.

Sanford was then named Heartland's senior vice president of sales management responsible for sales infrastructure, sales policy, and formulating business development strategies. In early 2006, he was promoted to chief sales officer. That same year, he was recognized by Selling Power magazine as the National Vice President of Sales of the Year. Sanford was a student at Northern Arizona University. He and his wife Heather and their son live in Belle Meade, NJ. The following insights show how Sanford is leveraging knowledge networking to optimize the performance of their sales teams.

Jim Dickie

We have a decentralized sales organization. Because of this, there is the potential for our sales teams to feel like they are on an island of their own. We realize that they need an element of contact, of community to really draw them into the culture of the company. We are addressing this need in a unique way that has been unbelievably successful in creating a virtual community for sales people to interact with each other and the rest of Heartland.

AN OVERVIEW OF HEARTLAND PAYMENT SYSTEMS

Historically, our job at Heartland has been to earn the right to handle various payment types for small and mid-sized businesses in America. Over the past few years, we have become more sophisticated in our capabilities and we are now moving aggressively into the upper mid market and into corporate markets. What people find unique about Heartland is that we operate in a fully disclosed manner where we pull back the curtain and expose the complexities of our industry. We are the Wizard of Oz, if you will, to our customers.

We demystify the world of payment processing and educate customers so they understand our business, how we make money, and can trust that they are always going to get a fair deal in an industry that is well-known for financial engineering and tricks to basically bilk customers out of fees that they never agreed to pay.

Heartland has about 3,000 employees today. The sales and account management organization has approximately 1,750 professionals representing field salespeople, front line account managers, and professionals in upper management. We are twelve years old and we are still growing at a pretty rapid pace.

The structure of the organization has evolved over those years, but the core sales job has remained the same since day one. In addition, the compensation plan for our organization, which is a 100% commission plan, has remained virtually unchanged since our founding. This is unheard of in almost any sales business, but in particular the payments industry.

The Sales Organization

Over the years we have built a relationship of deep trust with the men and women who represent our services in the marketplace. To preserve this, one of our ongoing key objectives in sales management is to maintain an open connection between the field and management that allows information to flow freely up and down the chain without fear of personal agenda or retribution. This enables us to assemble the most relevant data for making the right decisions to take care of the customers and employees. This is a cornerstone of the business.

Our relationship manager position is our primary sales function. These individuals are responsible for the day-to-day prospecting, canvassing and sales presentations to our core customer base. They in turn report to a territory manager (TM). The TM is a challenging hybrid position that is a combination of making personal sales and mentoring other sales professionals.

While it may not initially seem ideal to have management positions where people need to serve two masters, selling and managing, we have deliberately crafted this position to provide for both of these responsibilities. We almost try and scare territory manager prospects out of the job before they begin because we don't want to oversell it. They see from the start what a commitment it is to move into management. If they find it is not a fit for them, they can transition back into the pure relationship manager role.

At any time, we probably have 125 or 130 people in a territory manager role. This position is designed to be a stepping stone into what we call a division manager (DM) role. We have about 85 division territories across the United States today, of which about 70 of those DM positions are filled at any one time. Some individuals have more than one territory based upon their capacity.

The DM is the level of management where people give up all rights to personal sales and focus strictly on building a team. Their goal shifts to specific margin production goals in a defined geographic territory. Geographical areas can be defined by state, or by county or zip code, depending on the population density of the area. So in Los Angeles, for example, we have several managers because the amount of business in that target market is so dense we can't support it with one individual.

DMs report into 17 distinct geographic regions in the company. Those regions then report into four market owners called Executive Directors (EDs). These EDs are the kingpins of the sales management organization. Each has about 25% of the total production responsibility for the sales plan, and they have autonomy and control over design and execution of the sales strategy within rules agreed to by senior management.

Launching a Knowledge Sharing Initiative

So there you have an overview of the full sales hierarchy. As I mentioned earlier, this is a dispersed sales organization that is also primarily field-based, where people are operating from their home offices, small office suites and automobiles; and that can present a real challenge. How does one go about creating a tangible community for a dispersed field sales force whereby the individuals can participate in a cause much larger than their own individual success, and also be shielded from that isolation that can come from being self directed in the field?

Let me share with the readers an innovative approach we have adopted to leverage technology to foster an environment of team building, collaboration and insights sharing that has allowed us to become effective at delivering and managing information. This effort has created an amazing sense of community in a virtual neighborhood. Our sales professionals now work together with one another and build tremendous relationships and mutual respect, often before they ever meet each other.

Back in 2005, our knowledge sharing initiative started out as a way for us to be more efficient at disseminating materials used for training new sales reps. It was a time of rapid growth for Heartland. We were bringing on board a lot of new sales reps, who would come into the business and immediately need access to knowledge in order to be able to sell effectively.

The problem was that our managers at the division level and above, were out in the field the majority of the time working with people. This resulted in ramp-up issues as new reps were often waiting for a manager to be free to work with them. At a time when they needed access to information the most, to continue to build their momentum and their courage, sales reps couldn't easily access it. When you are in an entrepreneurial environment, getting answers *now* versus tomorrow is the difference between potentially making a sale and losing it to a competitor.

We realized that management's bandwidth was a problem we had to address. The challenge became how to take a massive organization that's growing incredibly fast and come up with a systemized approach to giving sales reps a way to ask questions and get answers as needed. We also wanted to ensure the insights were not only created by the right subject matter experts, but that once the answer was developed that it could be catalogued and stored in an internal forum as long as it was relevant, so that the next person with the same question could access the answer immediately.

Creating the Knowledge Network

We spent the better half of 2005 investing the time to fully understand the sales knowledge management solutions that were available on the market and how they fit our needs. We ended up contracting with StreetSmarts, which became the technology partner for helping us build what we call Heartland's Knowledge Network.

We licensed StreetSmarts as a Software-as-a-Service solution in September 2005, and after proving its value, we made the decision to host the system internally, and launch a beta of the Knowledge Network in October 2005. After the beta started I made a decision to assign dedicated resources to the project, specifically administrators and content managers. While this was a leap of faith at the time, it became apparent to me that management of a system like this would not be a part-time job.

That investment of resources proved to be successful in preparing for a company-wide launch of the Knowledge Network which took place in January of 2006. When the system went live, it contained a wealth of knowledge reps needed. Everything from our training materials, to the history of the organization, to video presentations by senior management on the company's culture and direction, to best practices for selling, to sales policy, product information, competitive intelligence on every competitor in the industry, and the list goes on and on.

The adoption rate by the salespeople was amazing. Through 2006, the Knowledge Network became the storehouse that everyone turned to for relevant sales information. That level of adoption in and of itself would have been judged as a huge success. But somewhere along the line in 2007, the Knowledge Network shifted from a historical repository to a learning management system. It has changed our whole thought process regarding training.

Moving Beyond Training to Virtual Mentoring

We don't use the word training at Heartland anymore because we have moved out of that environment of training, which in our view is static. The difference is that training is often something that is forced on people and we have found that interactive learning is something our people want to participate in. To create buy-in from the very beginning, we engaged users and gave them reasons to use the system. As reps experienced firsthand how knowledge could make them more effective, use of the Knowledge Network exploded, and in 2007 and 2008 we've seen this solution really come into its own in ways we could never have fathomed.

In our organization today, at any one time, we have about 1000 active users of the Knowledge Network, and another subset of probably 300+ sporadic users. Our relationship managers make up the main body of users. A key benefit of the Knowledge Network is the speed at which reps can find the information they need. We find on average that our field users access the tool for about seven minutes a day, and it is a combination of researching different items relevant to what they are going to sell that day and then contributing a couple of insights they have learned from the previous day. In fact, of all the knowledge and intelligence in the system, 80% has come from contributions from the field.

The most recent growth of new users over the last year has been from other departments in the organization such as our service center, accounting, product people, etc. These individuals are now tapping into the Knowledge Network to understand what makes our salespeople tick and to build relationships with our sales teams to break down the barriers that often exist between the operational and administrative functions of a business and sales.
It has been surprising how valuable it has been for non-sales users to leverage the system. There is a personal efficiency gain from using the Knowledge Network. It has become an avenue for them to post

information that salespeople need one time, and know that the whole sales force has access to that knowledge, versus having to handle the same questions over and over as reps call in. The ability to ask questions and get answers has helped build a bond of respect between sales and the rest of Heartland.

The Knowledge Network ROI

Looking back at the ROI for the Knowledge Network initiative, we immediately started generating hard dollar savings from moving out of an environment where we used to distribute hard copy training materials, binders and portfolios to the sales force. Using the Knowledge Network to create packages of information and deliver them in various media formats has eliminated several hundred thousand dollars of expense in a year alone. That savings has allowed us to reinvest the funds saved to significantly expand our sales learning technology and tools and add more staff to the sales learning team. This has allowed us to enhance the learning environment, make our sales learning even more effective, and better support the needs of our rapidly growing sales team.

There are many performance improvements we are achieving by using the Knowledge Network. The improvement that immediately comes to mind is that the on-boarding process is greatly enhanced by the tool. The Achilles heel in our industry is that selling initially appears to be deceptively simple. In fact, a sales rep can learn enough in a week or two and with decent sales skills that rep can go out and do a job of professional selling.

However, as sales reps go out and sell, they quickly see that this type of selling is endlessly complex and there are so many nuances that it is very easy for a new hire to question their sales abilities. The Knowledge Network gives us the ability to really control what we want new reps to learn and gives them a virtual mentor to turn to if they have uncovered something that is new or uncomfortable for them.

We have a standardized training plan that every new sales representative goes through. It is a four-phased training program that takes place over a 120 day period, during which they touch every single manager in the hierarchy all the way up to the executive director. The program is a combination of field exercises, inspection exercises with the manager and self study homework where the information is generated from the Knowledge Network. To a team of rookies, the Knowledge Network also serves as a virtual support group. Through this approach we have reduced our new hire integration time to six months. If we can get a new rep past that hurdle and keep them successfully engaged for one year, our retention rate is about 90%.

Another benefit is that the Knowledge Network has greatly increased our ability to differentiate against the competition. According to the old way, when information of competitive relevance surfaced, people would distribute the knowledge via phone, email, conference calls or meetings, etc. By the time the sales force was in a position to actually do something with those insights, the relevancy of the event no longer existed or it was a memory in the customer's mind.

Through the Knowledge Network, the pace of harvesting collective intelligence about our competitors has just been phenomenal. It is so amazingly fast that as soon as something happens that is relevant for our sales organization to leverage to gain business, it is almost instantly shared with the entire sales force. We have seen our average margin per account increase about 10% over the last several years. I would probably attribute half of that to the community of users on our knowledge tool.

The last advantage we've seen is that the Knowledge Network has given us a level of accountability and visibility in terms of how we track who is doing what. We now have a set of metrics that weren't available to us before implementing the tool. We now have reports based upon what people are studying, what types of sales knowledge are most useful, what are the biggest issues reps are dealing with, what are our competitors doing, etc. This creates a tremendous amount of information that we can act on very, very quickly, which has value beyond measure. I can't even begin to quantify what that meant to us in terms of time saved, and ideas that we have implemented that have helped grow the company to where it is now.

Advice to Peers

We have been very pleased with our relationship with StreetSmarts. From the start we quickly began testing the limits of their technology. We were very lucky to find a partner that would work with us to develop features that would allow us to expand our concept for what the Knowledge Network could originally do.

Because of how fast we found new uses for the solution, we wound up with a tool virtually customized for us. That was a benefit for Heartland because it gave us what we needed, but I also think it was a benefit to StreetSmarts because our experiences were applicable to other large organizations that they work with. It has been a nice marriage and has resulted in a tool that supports our sales organization in the exact way we sell. I would encourage anyone considering a similar project to first find the right partner to make it happen.

My second recommendation would be to start small, learn about the potential of the tool, and get people to give feedback on how they are leveraging it to disseminate information. Next, I would suggest involving the intended users of the system to help define the best way to implement the system as opposed to making those decisions from a top down perspective. If a sales organization can get to that particular point, I would recommend they be cautious about how much they lock down the system. I know in some industries that is a necessity, but I believe to encourage adoption of the system you have to give salespeople creative license to make contributions so they appreciate the usefulness of the tool, as opposed to feeling it is crammed down their throats.

Third, I would recommend that when you start the project you implement a hosted, Software-as-a-Service (SaaS) solution. This can help you get up to speed quickly. However, I also believe you want to have the flexibility to migrate off the hosted solution and take control of your own destiny over how the system is used and to also realize the financial benefits of moving away from a SaaS model if the usage adoption explodes as ours did.

Cathy Martin

Cathy Martin plays an integral role in ArcSight's compensation planning and analytics. As Director of Field Operations, encompassing sales and services, Cathy's experience in incentive management includes years of working with large, complex sales organizations. At ArcSight, Cathy is at the heart of sales operations working strategically to determine how they are going to hit their revenue targets. Her focus is on developing ArcSight's annual plan, which includes headcount planning, budgeting, compensation planning, sales model planning, and quota allocation.

Equally important, Cathy works on back office operations and is responsible for the analysis and measurement of the business, determining how well the company is performing in different segments and sectors, and providing executive management with key insights into what's working well and what's not.

As with many companies, the analytics, modeling and financial planning was formerly accomplished using spreadsheets. When ArcSight looked to automate its processes, Cathy was at the forefront helping to develop the new procedures and working with the partners needed to accomplish the company's goals. When we interviewed Cathy, she shared with us the following experiences and insights she encountered in implementing this key sales effectiveness initiative for ArcSight.

Jim Dickie

Incentivizing and compensating salespeople is normally seen as a key part of sales strategy development. Yet far too often, the method that companies use to manage this process is spreadsheets. My years of experience have shown this to be complicated, time consuming, and error prone. There is a much more effective way to handle this aspect of sales management.

ARCSIGHT SALES OVERVIEW

By way of background, at ArcSight, the majority of our bookings are generated through a direct sales force comprised of 40 reps. As part of that direct model we have five lead generation people that work in partnership with the field sales reps to help them surface new opportunities. In addition, over the past year we have also been developing a channel sales force that sells indirectly through our resellers, and we have a small inside sales team focusing on selling into the installed base.

Without going into the details, our compensation plan structure would be considered fairly standard for a software company. The target amounts salespeople can make are very competitive, and the leveraged compensation component is sizeable in order to motivate reps to perform well. We pay commissions on a monthly basis based on two parameters; one is license/support bookings and the other is services bookings.

INCENTIVE MANAGEMENT IMPROVEMENT OBJECTIVES

The motivation behind our initiative to optimize our incentive management process was both efficiency and effectiveness driven. Previously, we were paying reps based on a spreadsheet-based approach that was a very manual process. Because of this it was very error prone. If credit changed between reps, then you had to change it not only on the reps' statements, but also on the manager's statement and then for all of the pre-salespeople who got credit for that deal, not to mention any overlays. As you can imagine, it was a time intensive task.

Our initial project objective was to streamline that process and then automate it. It became clear that the second part of this task would require us to implement technology to allow our finance organization to effectively manage that process, saving them time, as well as ensuring accurate, timely payments.

INCENTIVE MANAGEMENT SYSTEM EVALUATION

At ArcSight, our sales team was already leveraging Salesforce.com fairly extensively. Because of that we chose to look only at software-as-a-service (SaaS)-based incentive management platforms. From both a finance and sales perspective, we wanted a solution that was easy to implement and very user friendly.

From my experience at previous companies, I was aware of other options available that were not built on a SaaS platform at the time. While these were established firms, they did not offer any SaaS-based capabilities so we did not include them in our evaluation.

Ultimately, we selected Xactly, headquartered in San Jose, CA. They had all the capabilities and functionalities we needed to optimize our incentive management process, and their future direction was also aligned with ours. In addition, we teamed up with Astadia, a management consulting firm with offices in the San Francisco Bay area where we are located, to help implement Xactly.

PROJECT IMPLEMENTATION

We knew almost immediately as we started the project that we had made the right choice of partners. To kick off the implementation of the new compensation plan for FY09 (our FY09 began in May), we had our first meeting with our lead project consultant from Astadia on a Tuesday. We reviewed our new compensation plan with her, including all the changes we were making to our incentive plans. She had everything changed in our system and ready for review within *four business days*. We had one more follow up meeting to review some fine-tuning. She did this and then we were ready for testing.

In my experience, and I've worked in the compensation department of other companies as well as sales finance, it is just unheard of to basically have all your plans rewritten and ready for testing—all within a week. We completed our tests in a couple of days and then processed our payments for the first month of the new fiscal year, right on time.

You need to know that our finance organization is pretty small, and during this process they were still closing the books from the previous fiscal year. To have Xactly and Astadia step in, get everything implemented so quickly, with all aspects of the new plans working correctly the first time, was huge to our finance group.

CHANGES IN INCENTIVE MANAGEMENT FOR SALES

We are now completing our first year of system usage, so let me share with you what has changed during that timeframe. The first thing is that our salespeople have the ability to see and to view their earnings in real time. Prior to implementing Xactly, reps had to wait to get a spreadsheet that was sent to them via email from finance. More often than not, they would misplace the spreadsheet and would have to request another copy.

Today, sales reps are able to see where they are at any point in time. They can track how they are performing in relation to their quota, what they are being paid on, and how much. If they have any questions, they can drill down into the details, and they can do this online whenever it is convenient for them, on the road, at home, 24/7.

Another major improvement is that managers have access to commissions' data not just for their direct reports, but for anyone in their organization. In cases where managers manage other managers, they can see a manager's compensation plus compensation data from all the reps reporting to that manager. This significantly improves their visibility into sales performance because then they can see which reps are doing well, which reps are short of quota, which reps are making their quota just in specific areas, such as services bookings, how many licenses they have, etc. These insights are a very effective management tool for helping managers monitor and measure the performance of the people in their organizations.

Xactly has reports that show where each rep is in terms of quota, monthly quota and quarterly quota. You can see how much each rep has earned each month. You can then click on the earnings link and see specifically the deals that comprise the earnings. Usage of the system is very intuitive in terms of getting quota data details. The other thing I want to mention is since we moved to Xactly, everyone is more comfortable with the quality of the information than they were with spreadsheets because the process was so manual in nature. Now, sales reps are spending far less time reconciling or making sure that their commission calculations are correct.

Getting the reps and managers to use the new system was fairly easy. We gave each user a login and then showed them some specific information that they needed to view. There were a couple of key reports that we knew they would be very interested in seeing, and showing them that information helped create buy-in. The system itself is one of the more user-friendly compensation packages that I've seen, and it did not take much time to get the entire team up to speed on how to navigate through the application to get the information that was of most interest to them.

CHANGES IN INCENTIVE MANAGEMENT FOR FINANCE

As far as the people behind the scenes in finance, the ones doing the calculations and setting up the system, they required just a few days of training at Xactly headquarters. It was very straightforward and after nearly a year of usage, the benefits to finance resulting from this initiative are numerous.

At the top of the list is that our compensation payments are accurate. If you have ever been involved in the details of reconciling commissions, you know that if you need to change a deal it is a complete nightmare to update the commissions. First of all, you need to figure out all the people who should get credit for the transaction, go back into each spreadsheet and change it for everybody, and then also ensure that all the changes roll up to all their managers. It sometimes takes several hours to fix just one deal. With a manual process like this, there is always the possibility of human error in terms of getting the calculations wrong or using incorrect formulas. That's why sales reps would spend so much time checking to make sure their commissions were accurate. They knew the room for error was high.

Automating our incentive management with Xactly has eliminated errors. In addition, Finance is now able to calculate the payments and finish the commission accrual very rapidly. This is critical because they are on a tight schedule to close the books every month and every quarter end, and get the final numbers to our CFO. The combination of accuracy and speed is very important because incentive compensation is a significant expense in the P&L. You need to ensure the numbers are right, without taking a long time to do so.

INCENTIVE MANAGEMENT TODAY

The redesign and optimization of our compensation process has also been great for internal morale. In the past, people were really frustrated with the spreadsheet-based method; now the things that used to bother them are non-issues.

The way ArcSight looks at this project in terms of ROI is tremendous time savings for everyone. Salespeople can see how they are doing with a few clicks of the mouse, and know that what they are viewing is correct. Finance is spending less time doing many of the tasks previously mentioned: reconciling commission calculations, doing commission accrual, and calculating any adjustments. Managers can also get the details they need to better understand the business flow.

Some of the specific improvements I can share are that:

- Monthly commission calculations are now completed in less than one business day (versus three days previously),
- Changes to credits now take a few minutes (versus an hour or longer previously) ,
- Better audit trails are being produced without an increase in staff time to do so,
- Automated process for the quarterly sales rep certification letters using document management is now in place,

- Compensation issues can be resolved before pay day, because employees have earlier visibility into commissions earned.

It has been a win/win/win for sales reps, finance and sales management.

LOOKING FORWARD: INCENTIVE PLAN MODELING

When we were doing the planning for last fiscal year (again, we are on a May to April fiscal year), I was using spreadsheets to do the modeling because we had only been live on Xactly for a month or two. We normally do a lot of modeling of our plans. Without going into the details I can tell you that modeling by using spreadsheets are very time consuming.

I'll be starting that work in the next month or two to model for FY10. This time though, the modeling process should be far easier and I expect that Xactly will save me a lot of time. I've already written some reports in Xactly Analytics that will give me the data I need and I'll be able to do the modeling much more quickly. So I know that it won't take me days and days to do like it did last year.

FINAL COMMENTS

In my experience working at my last company with 500 payees, we grew very quickly and because it was difficult to manage the process via spreadsheets, we kept having to add commissions analysts to keep up with the growth. Having an automated system would not only have saved a lot of time, it would also have enabled us to grow without having to add as many people as we did.

Looking back, our new process for incentive management did have costs associated with it. But I believe the cost of staying on spreadsheets is much more expensive in the long run than the cost of managing compensation plans in a more modern, updated and automated way.

If I was talking to a peer who was thinking about changing/moving from spreadsheets to an automated process, I'd say to absolutely do it. And not to think of it in terms of the old software purchasing model that it's going to be expensive, it's going to require a huge implementation effort that will take months and months to complete. Our experience shows that's just not the case.

With partners like Xactly and Astadia, our implementation time was just astounding actually! We found Xactly to be extremely customer focused. During the ramp up time for our salespeople, when we were implementing the system, if they had any questions Xactly's support team were very responsive; they were always helpful and more than willing to answer any question any of us had regarding the use of the application.

I can't say enough about how responsive and helpful Xactly's customer staff was. And their level of support continues after the implementation in terms of dealing with any issues or questions that have come up since the system went live. Xactly delivered a solution that absolutely met our needs in a timely, cost effective manner. Their entire team is very customer focused making the transition from a manual system to an automated one very seamless and transparent.

Based on our experiences, I feel very comfortable telling my peers that your finance organization, your sales reps, your sales management team will save a significant amount of time if you optimize this sales process. In addition, doing so will reduce the possibility for error and everyone will be more confident with the commissions that are being paid.

Rick Cobb

When I first interviewed Rick he was Vice President of Worldwide Sales and Strategic Alliances with Intraspect Software. He moved from there to become Chief Operating Officer at Approva and in May 2008, became Chief Executive Officer of TerraGo Technologies. Rick's background includes graduating from the U.S. Naval Academy, helping to build four successful technology start-ups, and an eight-year stint at Cadence Design Systems. The latter half of his Cadence stay was in Asia Pacific; his last position was in Singapore as Vice President and General Manager of APAC. With more than 20 years of experience in high-tech, Rick has seen the cyclical ups and downs of the business world. We talked about the new 'sales truths' that apply to these challenging times. Based on the response I've gotten when presenting these 'truths' at several sales meetings, and the fact that current opinion polls indicate we are far from out of the woods, I think you'll find Rick's comments and observations especially relevant.

Barry Trailer

There's a certain level of reality you have to face and you're better off taking dramatic action, even if it's extremely painful—which it always is—and living to have a chance to rebuild. The global economy is not more secure; there are more fluctuations and it's more erratic than ever before. One of our executives said, "I hope this is the last time I ever have to make these kinds of decisions." I told him, "If you plan to stay in technology another twenty years I can promise you it won't be." You better hone your skills on how to manage a fluctuating workforce in a dynamic economy.

THE FOUR SALES TRUTHS

Let me introduce what I've been presenting to my team for the past two years as the *Four New Sales Truths.*

1. If you're lucky, last year's decision maker is an influencer this year.
2. As a result of #1, triangulation is essential.
3. You will do three to five times the work to get 20% of the results.
4. People are spending money infrequently on themselves but when they do spend, it's in response to:
    - a key customer they've got to win
    - a product they've got to launch
    - the need to support existing strategic initiatives

I'll add a fifth observation a bit later; for now, let's consider these four.

DECREASE IN INFLUENCE

The first sales truth may shock and dismay you and your high-level customer contact(s). As the economy has slowed, companies to a surprising extent have withdrawn the authority of individuals to make or approve purchasing decisions. Vice presidents of sales, CIOs, even company presidents now may have to take their recommendations to higher levels or to their board for final approval.

If you're lucky, your contact is still credible and retains some influence with this higher authority.

TRIANGULATION

My second sales truth is the importance of triangulation. The level of involvement of your management team and the visibility it needs into deals are much higher today than they've ever been. Getting proper triangulation within business and IT means that both organizations need to be aligned.

In the past, it seemed that there were some business folks that could spend whatever they wanted and jam it down the throat of IT. There were some IT people that could spend whatever they wanted and turn around and tell businesses what to do. We are seeing much less of either of these today.

Triangulation is important because there may be competing projects that you may not even be aware of. Or, the team you are working with may be fully budgeted with millions of dollars to be spent, only to have the CFO decide, "We're only going forward with two of the three projects." Or, "We're freezing all non-critical expenditures for six months."

The way that you identify holes in your strategy is to have a strategy in the first place. This is another aspect of triangulation. Having an account plan and an account strategy is really critical. You must have some process whereby in a collaborative environment you can test your plan, triangulate on things you're hearing and seeing, and plan your next action item. Without that, people are just flying blind.

This is something that I've always used in my career as a manager and as an individual contributor because I thought it would help me to win more frequently. And, the funny thing is that the more I reinforce this, the more we win better and bigger business. There are some people that either refuse to use a process like this or they just don't get it. And they've been relying very much on the fact that there was abundance out there. If they made enough calls in a day, they would find several people that would end up being customers whether or not they understood how the customer bought. So, we've really increased the focus on management's visibility and the coaching process using a structured format.

WORKING HARDER TO GET 20% OF THE RESULTS

Along the lines of working three to five times harder to get 20% of the results, we have tried to slim down the number of things we are directly working on; other areas can be pursued by our developing channels (more on this in New Truth 5). So, the first thing we've done is cut back considerably on the vertical markets that we are pursuing. Also, we want repeatable, truly focused messaging. We want markets that are real markets, where our people have structured avenues to communicate from company to company and throughout an industry.

Our focus has increased by reducing the number of verticals we pursue and emphasizing strategic accounts within these verticals. We have channeled our team efforts on very specific marketplaces where our references would provide the largest impact. We've also increased the coaching and planning on our account management requirements. Those are our two biggest accomplishments. In focusing on the vertical markets, we have relied more than ever on reference selling. So, having a good ROI-based story about a competitor or someone in the same vertical space and leveraging those materials has been our most successful sales approach.

RETURN ON INVESTMENT

A notion that comes up a lot with respect to the fourth truth is return on investment (ROI). Regarding ROI, some decisions that people make are absolutely necessary, like having tires on your car. However, even with essentials, today somebody will ask, "What's the ROI on having those?" Yet nearly everybody today has the required essential products to operate a business.

It used to be that you had email or a web browser 'because everybody else had it.' Those days are over. People spent bazillions of dollars on products because everybody else had them. After-the-fact ROI was frequently measured from a CYA standpoint, because all of a sudden people were saying, "Well, gee, what did we get from that $15 million we spent on CRM?" We've seen sales reps going back to justify additional consulting that was twice the cost of what was originally proposed. Some of that after-the-fact ROI is just, "Let's just do a little to cover your butt here."

Today, people have to make at least some estimation of ROI. It doesn't have to be measured in some grandiose, strategic sense; it can be very tactical. For example, I may want to shut down 12 servers that carry some company solution we built that's costing me X number of dollars on a yearly basis to maintain. ROI can be measured very easily along those lines. People frequently try to measure ROI on the strategic side as increased revenue. But when you get into that level of ROI, everybody is going to claim some piece of the increase in revenue, so it becomes more of a positioning game.

In talking about ROI, there are different levels: business-based ROI, personal-based ROI, strategic and revenue-based ROI, and very tactical, cost-saving ROI. You may deliver a lot of strategic return on investment—customer retention, increased revenue, profits, etc.—but I think today you really have to show strong cost savings.

THE FIFTH NEW TRUTH

I mentioned earlier a fifth observation about the current economic environment. Difficult times call for difficult actions. Lessons learned from the tech bubble's implosion have helped us make the tough decisions and recognize the need for action much earlier in this downturn. Back in 2002 companies refused to face reality (that the bubble's momentum and spending were ending) and they maintained more optimism about recovery than there should have been. Delaying this recognition meant we did not earn the right to be an ongoing successful venture. [Note: Intraspect was sold in 2003 for less than what was considered market value.]

So, this time around (at TerraGo Technologies) we were not interested in clinging to hypothetical growth rates we might achieve if things were just a little better as much as planning results we could absolutely guarantee our owners, employees and customers. We cut the size of our company by more than half, yet we are increasing sales 15% year-over-year with software license sales (a more telling measure) increasing 40% year-over- year (2009-2008). However, it's not just about cutting headcount—here's how we did it.

You need to become better at managing a virtual employment base and outsourcing certain elements of work. It's not just about quickly hiring and firing people real-time. Today it's really about how to run your business so you're always lean; you must be able to leverage partners and external resources when needed and as business demands change. In the future, executives will have even greater pressure to be good at managing through dramatic/dynamic swings in the economy. Those that are only builders and only able to deal with growth and are not able to handle restructuring are going to find themselves out of favor.

For example, we found outsourcing marketing services, web and content design to a local firm proved very useful in our rebranding efforts. Many elements of IT services lend themselves to being outsourced fairly easily. Lead generation services in initiating sales cycles can be outsourced and you can look at your channel development efforts to pursue these cycles without building an entire direct sales force.

Along these lines we've had great success outsourcing our inside sales to a firm that is one of the most successful partners in their space (Federal sector GSA procurement). And they are way better than us at what they do and who they know in this area because they represent ten or fifteen good size companies and have been doing so for years. Their order processing, marketing and lead generation programs are absolutely tremendous. We also have distribution partners internationally where I can't afford to put a full-time sales rep (due to a relatively low volume of business) but still want somebody in country that knows the local customs, the people and have relationships in place. Thirdly, we also have OEM partners who are in our space. For this to work you need to provide something that easily folds into their products that they can easily integrate and sell (along with their solution).

Having said all this, we still handle those things that are key (core) to our company's success. We call on our key accounts, and we own developing core technologies key to our business. We pick partners that make the most sense in rounding out our team and where it's practical for them to complement what we're doing—not taking over core functions key to our business long-term.

NARROW YOUR FOCUS

We focused on our entire process front-to-back and are not taking anything for granted. For example, before everything went in the tank, how long it could take an opportunity to move from one step to another was not a worry; now, if you don't stay on top of your deals you'll watch your business evaporate. And the people that were able to make decisions in the past, and had taken things through procurement a hundred times in the past, had an individual in procurement stop the deal and say, "We're going to not spend that money now," or, "We're going to break that deal up into several pieces spread over time."

So we stay focused on our process, our positioning, our messaging, specific verticals and major accounts.

PROCESS HAS TO BE PART OF THE VERNACULAR

To make this process happen for us, the first thing we did was to train our people. The second step was to make the process part of our vernacular. Every vice president of sales has a process. The ones that don't are absolutely worthless at this phase. If you don't have a way to evaluate a deal and talk about it, then you are going to get wiped out. You must have a common vocabulary. Without it, you can't communicate to your management team, your salespeople, and your systems engineers; you can't ask questions and get consistent answers that everyone understands.

If there is a common vernacular, then when I ask you something, you'll know exactly what it is that I am asking you; if not, we are going to fail. Just as there are salespeople today who have found themselves in a vastly different environment than they've experienced in the past, there are vice presidents of sales who must be struggling like crazy right now. Some companies seem to have totally lost all ability to close business and, of course, blame it on the product, or the market, or the customers. But sales execution plays a role in any environment, and having that ability is absolutely critical. Equally critical is giving our people the tools they need, including a well-defined sales process.

There was a time when people said that, if you use the same standards that you used two to 10 years ago, you will close a third of your business, you'll lose a third of your business, and another third will be lost to a 'no decision' or to a delay. Today, if you look at the early part of the funnel for any quarter, you probably have to double your pipeline amount. You need to adjust either your measurement or your criteria and better define what is a qualified opportunity.

I'm not saying that in today's environment you need 25% more opportunities to start with. You need almost twice as much. In the past, to achieve a $10 million quarter we needed $30 million in the pipeline. In today's environment, we might need $50 million. This means I have to do three to five times the amount of work for 20% of the results. That is a bit facetious, but if you haven't changed your pipeline measurement or qualification mechanism, you need to start now. You need to estimate a much larger pipeline to get the same amount of business that you could have gotten a year or a year and a half ago.

On the one hand, you need two-plus times as many opportunities, and on the other hand, you are looking at fewer deals and are qualifying them more rigorously. Because we've cut out some verticals, we're not spreading ourselves too thin across the board. But pursuing fewer verticals means we have to pick the ones that are big enough to yield sizable volume—that is key. And we rely upon our channel partners to build our volume and give us broader coverage.

The other thing you have to do is make sure expectations are lowered. How much a sales person can achieve is going to be less than in the past. In my view, you have to set expectations within your own company and build these into your model. I heard about another company that used to assign $3 million to $5 million quotas per head and fire any salesperson who missed two quarters in a row. I think that company is in very poor shape right now because they never adjusted their expectations.

They turned over everybody regardless of real talent. There was no qualitative measurement of their people; it was all quantitative.

INCREMENTAL BUYING

In today's environment, people are buying in increments. One of our customers was recently quoted as saying that they are reducing the number of things they are investing in, and are also making sure that whatever they buy works before they buy more of it. The days of the $5 million quota and the drive-by sale are gone. Today, customers begin with a limited pilot. They want to prove it out, and then they want to buy more, but they don't want to buy any more than they can deploy. If you don't readjust expectations in your company, then you are going to have some very disappointed investors and executives.

You'd better make sure you are tracking what's really going on in your marketplace; you may not be able to hit the growth rates that you were hitting, or you may not be able to hit the profitability numbers that you were hitting. And then, if you can't get to those numbers, you need to ask yourself, "Well, how could I do that? What are my alternatives? Is a merger or acquisition appropriate to increase the breadth of my product? Should we open up alternative channels to increase the productivity of my sales force?" These are all questions you need to answer.

SALES IS A TEAM EFFORT

All the factors that make a sales organization great—high quality people, referenceable customers, etc.—aren't just the sales organization's responsibility. The number should be owned by everybody. If you're late by a couple of months with a product, or you have bugs that can't be fixed, it's definitely going to affect your top and bottom lines. It's critical for people to understand that *the objective of a company, of all the functions, is to sell.* This isn't as much a problem in a small company because so much of the company is built around customers. But, even if the company is small and everybody's really involved with customers and deals, you still need to make sure you've got the processes in place to communicate productively. People want to know what's going on and how their area of responsibility makes an impact.

When you interviewed me several years ago I started off by talking about having great people, so let me end on that subject, as well. Now the approach may be different—virtual employees, channel partners, indirect reps—but the same principles apply. And they apply to channel partners as well as individuals.

For now, I think the days of average performers making big bucks are over. The number one thing I look for in a candidate is purposeful behavior. There are very specific ways that you can measure purposeful behavior. Give me a person who has actually demonstrated that she can choose a path and execute on that, rather than someone who has tripped through life and kind of happened to be wherever he was.

The next thing I look for is accomplishment and a consistent track record of success. It's not enough that people choose to try things. They also need to accomplish those things. These are critical factors to me. Also, I like to see that in the business world, even through the dot-com era, these people didn't have a new job every 12 to 18 months.

This is another critical factor. There is nothing you could possibly do to convince me that you were the performer you described on your resume if you were at a company for a year. The first six months, you're getting your hands around things. Your next six months, you're basically trying to close some deals that maybe were already in the funnel. When people give me resumes of 250% of quota every year in their whole career, and every year they went to a new company, that tells me that they were just floating along the top of the bubble.

I want to see a minimum of one job that lasted more than two years. I used to look for one job that lasted more than three or four years.

These are challenging times to be sure; but the world is not coming to an end. To survive and even thrive requires staying focused, redoubling effort, running lean, leveraging virtual resources (people and technology) and working within a process. You need outstanding people in these times but, as we have seen, when they pull together even smaller numbers can deliver outstanding results.

Seth Bohart

Established in 1978 in Melbourne, Australia, Computershare was launched as a technology service provider to Australian stock transfer agents. Listed on the Australian Stock Exchange in 1994, Computershare now has a market capitalization of AU$4billion. Today, Computershare employs over 12,000 employees worldwide, serving approximately 17,000 corporations. The company is a global leader in share registration, employee equity plans, proxy solicitation, and other financial governance and communication services.

Computershare, like many corporations, had an interest in the Chinese marketplace for several reasons: number of companies, size of the employee population and economic expansion of the country. Also, with only one service provider supporting employee equity plans, the company recognized a potentially large growth opportunity. This was in 2005.

By 2008, Computershare had established a skilled, China-focused operations team, developed key strategic partnerships and had driven significant growth for the business line that delivers employee equity plan administration. The Chinese operation is now a profitable, multi-million dollar service provider with over forty Chinese clients.

To learn how Computershare established a presence in China in such a short period of time through effective sales collaboration, I reached out to Seth Bohart, Computershare Plan Managers, Managing Director, China/Hong Kong. Seth has over ten years of experience in equity plan administration and became part of the Computershare team after the company acquired his former employer, Transcentive.

Seth had spent several years driving sales growth for Transcentive on the West Coast. He was subsequently selected for an international assignment to gain an in-depth understanding of global share plan markets and associated practices. Shortly after that, Seth made his first visit to China to complete a market opportunity assessment for Computershare.

The following are insights that Seth shared with me regarding his sales team's experiences leveraging sales collaboration to support effective virtual selling.

Jim Dickie

Initially, we were not completely sure we could build a presence in China….After numerous sales engagements, client meetings and training sessions in the country, Computershare has displaced the local competitive incumbent and we have established ourselves as the leading providing of employee share plans in China.

ENTERING THE CHINESE MARKET

By way of background, Computershare Plan Managers is a specialized division within our company that focuses on the administration of employee and executive share plan solutions. With over 3,000 share plan clients and three million employee plan participants worldwide, we are the dominant player in this field. We work closely with our clients to create the right share plan solution to meet their needs and maximize their return on investment.

Computershare Plan Managers has a strong reputation as an innovative and customer-focused service provider around the globe. However, there are some markets where we are or were not a known entity, such as China. To establish ourselves in new markets, it is important for us to prove that we are an excellent service provider. To explain how we do this, let me share with you the experiences of our Australia-based sales force and our efforts to build the business in China.

Initially, we were not completely sure we could build a presence in China. Our first consideration was how we might secure new clients to prove that Computershare could have a viable business. This was not an easy task given our lack of local infrastructure: a non-existent service offering specifically designed for the Chinese market, and limited funding to develop the business.

As part of our initial selling efforts, we were very fortunate to have the assistance and support of our sister company in Hong Kong, Computershare Hong Kong Investor Services. Although they represent a separate line of business (share registry), they were able to introduce us to many of the influencers, prospects, regulators, and other stakeholders related to share plans in the region. We quickly determined that, although the industry was in its infancy, there was significant potential in the market.

One of our greatest challenges was that we could not develop the Chinese market-specific technology solutions without first securing the revenue needed to justify development. We were, fortunately, able to convince some of our first clients to invest in development of the technology required to service their plans.

Today, after numerous sales engagements, client meetings and training sessions in China – Computershare has displaced the local competitive incumbent *and* we have established ourselves as the leading provider of employee share plans in China with over forty of the largest clients in the market. Computershare has built the largest native Mandarin-speaking services team in the industry, and we are currently generating a desirable profit.

Computershare is the first employee plan provider to establish a local company in mainland China, as a wholly-owned foreign entity. We are in the process of relocating the team to China and I am now the managing director responsible for overseeing the Chinese business, which includes solution implementation, product and technology development, client services, payment and trading processes, financial reporting, and sales and marketing.

PATH TO SUCCESS

So, how did we get to where we are now?

When we entered China, I was selling the same services that I did when I was back in North America. However, I found the sales cycle to unfold in quite a different manner.

In the US, a Computershare salesperson would typically have one or two prospect visits with a decision maker from a company interested in our services. Each meeting would last an hour or two and after those few visits, the potential client would select a service provider.

The process in China did not work in the same way and it simply took longer to move through the sales cycle. Each sales engagement required at least ten meetings with a prospective client before a service provider decision would even be considered. In general, building relationships in China was simply a more complicated task.

In addition to many more meetings, we had to answer an extraordinary number of questions – sometimes providing information several times to address the same question. We also had to find several creative ways to prove our capabilities, prove our services, and prove our dedication to the market.

In comparison to the US or North American market, I would describe the Chinese selling environment as more consultative with an emphasis on relationship building where patience and gentle persistence are required. We learned that being too pushy can seriously jeopardize a potential new client relationship.

We also had the obvious challenges that any company would have when trying to enter a new market, whether it is in North America, Europe, the Middle East, or Africa. The sales process was further complicated by the cultural, language and business etiquette nuances of China. Importantly, we discovered that the Chinese perceive value quite differently than decision makers in North America.

Our experience in China has shown us that a potential client's first objection is always price. We also found that most of our prospects believed they could build their own employee plan service capabilities in-house for less money than we would charge as an outsource provider. Therefore, it was very important for us to sell the value of our knowledge and to sell our demonstrated service capabilities as some of the best in the world. It was also essential for us to highlight our system capabilities and our relationships globally with brokerage houses and other value-add areas that could help us implement the required processes and procedures for providing services in China.

Although the majority of the decision makers with whom we spoke were fluent in English, we needed to be sensitive to the language preference in China. As a result, we produced all of our marketing materials, presentations and brochures in English and simplified Chinese. Computershare has now hired a Chinese sales staff and our entire team is conversant in Chinese; we have the largest Mandarin-speaking team in the industry. Therefore, the language barrier and nuances to communicating in a language other than English are much less of an issue now. We have realized a much shorter sales cycle as a result.

A VIRTUAL APPROACH

Selling Virtually

It is interesting to note that Computershare has only recently hired equity plan administration staff to work in China. We accomplished a great deal through our Australia-based team and received counsel and introductions though our stock transfer team based in Hong Kong. Our ability to succeed in selling into China without having local equity plan administration staff is surprising to many. However, we found that selling and providing our services remotely has not been as big of an issue as some might imagine.

Computershare developed processes and service components to make it look and feel like we were operating “right next door.” For example, we provide clients with a local Chinese toll free number that rings through to our Chinese-speaking team in Australia. Another approach that we adopted was the use of web-based tools to service our clients as well as sell to our prospects. This has been very effective.

In our sales environment, the use of an online/web-based presentation, conferencing and meeting technology has become an essential part of our sales artillery. We use it quite frequently, especially if there is urgency for us to meet with a local Chinese client. The common misconception is that Australia is in close proximity to China. In reality, it is a twelve and a half hour flight from Sydney to Beijing.

Two key advantages of Web conferencing for us are the time and expense we save from not traveling to remote provinces across China. In the past, even once we arrived in Beijing, we would spend up to another day and a half traveling to remote areas or provinces to visit with potential clients such as the largest dairy manufacturer in China or the largest solar manufacturer in Mongolia.

When you spend that much time traveling in trains, buses and taxi cabs just to get to the client, it can be extremely expensive. Web conferencing has allowed us to become much more efficient in the number of prospect touches we can facilitate and it decreases the amount of travel time. It also allows us to be much more strategic about which meetings require a trip to China.

Using web-based meeting and collaboration tools, we have also been able to effectively execute specific sales tasks such as a customer needs analysis. More importantly, we have been able to deliver high-impact presentations to review core service capabilities, value-added services and unique value propositions with potential clients.

Web conferencing is much more effective than a phone-based conference call. People want to see visual presentations, as they can be easier to follow and much more interesting. I believe you can only effectively show complicated process flows and complex interactions amongst numerous parties when you actually have a visual, diagrammed presentation where you walk the client through step by step. We have found that we can more clearly articulate our messages through the use of the web-based technology, and our prospective clients more clearly understand and retain what we are conveying.

Virtually Servicing Clients

Another thing we have found is that Web conferencing tools are very effective for training our clients' employees. We offer on-site as well as remote web-based training. I have personally found that on-site is always more effective as you can assess how things are going through visual observation. However, when considering time and expenses as well as overall efficiency, our web-based training approach is actually preferred by our clients three to one.

To be effective with our training, we develop customized materials for our clients' employees specific to their plan or plans, and then we provide online sessions for their employees no matter where they are located. Many of our China-based clients have employees located in various provinces. So, we will set up two to three sessions to deliver training to 700 to 1,000 employees, rather than traveling to five different locations over six days to provide 20 to 25 sessions. This approach has been very effective for sales presentations as well as for our clients' training and educational needs.

Considerations for Presenting Online

As web-based meeting, presentation and collaboration tools are user-friendly and easy to implement, we did not have any challenges within Computershare. However, we did experience some difficulty in convincing prospective and current clients to take advantage of the technology. Many of them simply preferred face-to-face meetings, and/or because they had not previously used web-based presentation and collaboration tools, there was the fear of the unknown.

We were persistent and requested that our audience simply give us ten minutes to show them how easy it was to get set up and how easy it was to use. In the past, we had preferred to meet in person as well. So, we were very focused on making sure our prospect was aware that the use of a web-based conference technology was not intended to replace all face-to-face meetings with them. It was simply a means of getting to know one another quickly and easily.

It is important to know that there are risks associated with virtual selling. Sometimes there is too much focus on improving efficiency and saving expenses rather than emphasizing the effectiveness of the selling process.

It is important to spend time developing the presentation. We have found that using a story-telling approach is very effective in China. To do this, a needs assessment should first be completed and then leveraged in developing a presentation customized to the specific requirements of the prospect. This is an important component to delivering a high-impact, presentation for use in web-based meetings. This will ensure that the attention of the audience is fully captured by speaking to the prospect's needs and requirements.

I would highly recommend that those intending to use web-based tools hone their online presenting skills through mock presentations or role-plays before getting in front of a potential client. We do this with the Computershare team. The presenter sits in one room delivering the presentation online to a mock audience in another room.

Through many sales engagements, we learned that the verbiage and content of a presentation should be in Chinese and include a lot of process flow diagrams, screen shots and pictures to support the story. A presentation delivered on-site is usually used as a prop in that you speak to the presentation. We have found that a virtual presentation is essentially relied upon more heavily. With a remote presentation, you need to speak directly to it and guide the prospective client through the message flow.

Finally, during a remote sales call, it is important to create a dialog with the prospect rather than delivering a monologue. Again, because it is not possible to be in the room with the audience, it is important to be actively engaged with them, and the presentation content needs to be specifically directed to their needs and requirements.

Impact on Sales Success of Virtual Selling and Servicing

Looking back, we could not have entered the Chinese market without support from our colleagues in Hong Kong while spending time in the country to develop local relationships. Once we had the clients and proved that we could service Chinese companies, Web conferencing became a very effective tool for us. While certain prospects prefer that we meet them face-to-face and we can accommodate this while many do not have this requirement. Without the cost and time of travel, selling over the Web is clearly efficient when done well.

With this technology, we are able to save time and connect with many more clients in the same amount of time needed for just a few face-to-face meetings and at a much lower expense. Today, leveraging Web collaboration tools in addition to having Chinese clients to reference has allowed us to shorten our sales cycle by 60% or more since we began our sales effort in China. Lastly, we don't have to wait to move things ahead by going back to China to meet locally with our clients.

SUMMARY OF SUCCESS IN CHINA

There is no one secret or key to success in China. For Computershare, it came down to a combination of efforts: we built on solid relationships our colleagues in Hong Kong had cultivated; we were frequently in China in the initial phases to get to know all the important players and their issues; we adapted to the local culture and were prepared to have that culture drive our sales cycle in the early stages; we listened to our clients for their actual needs; and finally, we used all the technology available to drive improvements in communication and efficiency while effectively demonstrating why this new virtual way of doing business will benefit clients and their employees.

Benson P. Shapiro

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I was introduced to Ben Shapiro by a friend who had attended an executive program at Harvard. I was surprised to find him accessible and responsive. I was not surprised to find him a good thinker and articulate on sales and marketing. Ben is a well-known authority on marketing strategy and sales management with particular interests in pricing, product line planning, and marketing organization. He is also the Malcolm P. McNair Professor of Marketing Emeritus at the Harvard Business School, where he taught a wide variety of MBA courses, including Industrial Marketing, Sales Management, Creative Marketing Strategy, and Integrated Product Line Management from 1970 to 1997. He continues to teach there in several executive programs, including the CEO Program, Young Presidents' Program, and Business Marketing Strategy. Professor Shapiro is the author, co-author, or editor of 14 books and 19 Harvard Business Review *articles. Since 1997, Professor Shapiro has concentrated his professional time on consulting, speeches, boards of directors, and writing.*

Barry Trailer

As I look at the marketplace today (September 2002), there are two broad areas I'd like to address. The first is in response to the clamor in the business press about corporate abuses. Many feel the need for greater governance and ethics, which may directly relate to everybody on the frontline dealing with customers—especially major account management. The second is the lack of strategic thinking in pricing and its impact on sales.

DO THE RIGHT THING

There's been a lot of talk about empowerment and about getting people who are on the frontline to do what's right for the customer. This is particularly true when you're dealing with major accounts. An account manager who is responsible for a single account that represents significant business is treated as a high-level executive and is told, "Use your good judgment."

At the same time, the company has a strategy, a set of policies or guidelines, and lots of other people who are using their good judgment. The tension comes when, for example, a national account manager says, "Of course we can make that custom item. We'd be delighted to, particularly given that you're going to give us $5 million in sales on it." That account manager then goes back to the plant manager, who says, "Hell, no; I can't schedule that in for the next two months. The setup will take three days and I don't have the capacity."

This can create enormous tension between what is right for a single customer, large or small, and what complies with your set policies, procedures, and strategies.

I express this as a governance issue because, if you look at what caused the problem at Arthur Andersen, a lot of it involved conflict between responding to a revenue opportunity and doing what made more longer-term sense. Arthur Andersen had a group of people in Houston who wanted Enron as a customer. Those people were responsible for generating certain amounts of revenue and Enron was an enormously successful account for them.

Meanwhile, the Andersen central accounting group was responsible for accounting procedures and correctly performing accounting protocols. The Houston group sent their work through this audit protocol group and it was turned down. What ensued was a big fight between doing what was fundamentally right in the long run, which was to say 'no' to Enron, or making short-term revenue and profits, which the Houston people wanted.

This issue in governance—the tension between centralization, strategies, procedures, and local empowerment—becomes most important when we're dealing with individual salespeople.

A less controversial and more common example of this same dynamic would be a vice president of sales saying to his or her organization, "We are not going to lose one point of market share this year, but I don't want to see any Mickey Mouse deals."

This could be interpreted as, "No price cutting." For example, at the end of the quarter, companies that have very high fixed costs, such as high tech and software companies where incremental revenue turns into profits very quickly, will sell as much in the last two weeks as they sell in the other eleven weeks of the quarter. That means there's price-cutting. It may not be illegal, but it is often inappropriate and dumb. If you take that one step further, you encourage your sales force to literally bribe the buyers.

In addition to giving your people mixed messages, which is a governance issue, you also train your buyers to wait until the end of quarter. I traveled with a key account saleswoman for Xerox in 1990. What one of her customers did to her on June 29th, the last business day of the half year, was brutal. The buyer said, "I'm buying three of those big copiers. I can either buy them today or I can buy them on Monday. How are you doing on your quota for the quarter?" He knew he had nothing to lose.

Xerox wasn't going to turn down the order if it was placed on Monday, but the customer could squeeze out as much as he wanted. It seems to me that this is a very big issue that never gets talked about.

WHEN EVERYTHING CHANGES

I think it became clear during the summer of 2001 that the game had changed. If you were a vice president of sales in 1999 or 1998, you had the wind at your back. Everybody was worried about not losing orders, and about keeping their growth tracking with everyone else, particularly in the same industry. The relevant question was: are we investing fast enough so that somebody doesn't get in front of us?

The trouble was that, in some industries, people lost sight of what were the important metrics. For example, in telecommunications and Internet services you had some companies—WorldCom is a great example—that were reporting profits when they should have been reporting losses. So, not only did you have the generalized euphoria of the market but the specific euphoria of an industry, which naturally led to overcapacity.

If you look at high fixed cost industries, you'll see that this has been going on for an enormously long period of time. In the railroad industry there was something called the Panic of '73 (note: 1873). That's when the railroads had all over-invested. Between Albany and New York City, for example, three parallel railroad lines might have been built. Each line competed a little on service, but mostly on price because they already had invested their fixed cost. Essentially, whatever was run over those lines would give some incremental revenue.

The overcapacity problem with telecom and Internet services is analogous because they had built parallel systems and were battling for *any* revenue. The overburden was compounded by both the natural bias toward growth, and the fact that these emerging industries were high fixed cost industries with lots of 'network externalities,' or 'network effects.' That is, the more customers I have, the more variable is the product. This is true of eBay; the more people who are selling and buying on eBay, the more attractive eBay is to the new seller or buyer.

FAULTY SIGNALS

In addition to this problem, we now know the situation was exacerbated by greed and what clearly look to be illegal activities. In a normal and honest arena, other competitors would have been seeing a yellow or red light in terms of investing in more capacity. Instead, everyone was seeing a green light.

In a normal market, it's as though you have an intersection of five streets. Some of the lights are red, some are turning yellow, and one is green. With the misreporting and cooked numbers, the net effect was that all the lights were green. Everybody was investing and you got a collision as they all came together in the same space. The shenanigans played made it worse.

Now, let's return to the vice president of sales who says you have no choice but to make quota. As that person, I can't go to the board and tell them we're growing less than 30% a year when the whole industry is growing 30% a year. I have investors who are piling on saying, "GBF—get big fast." And, I've got to use up all the regular capacity plus all the additional overcapacity invested due to the shenanigans. In this pressured situation, 'good judgment' can fly right out the window.

As a result of past events and current questioning, I think that we're going to be rumbling around in this lukewarm environment for a while. The trick will be to make very, very efficient and effective use of your sales and marketing resources to generate revenue and build a long-term position. Those are very tough things to do simultaneously, particularly if you're a public company under quarter-to-quarter pressure to realize profits—with the added scrutiny of today's environment.

All of this conflict has to be sorted out. I think that we're in for a couple of very challenging years and I don't think that, at least in the next decade or two, we'll see another period like the recent big bubble. It got bigger than normal, yet its correction is proving less painful than I expected, mostly because home building has held up so strongly along with other consumer durables, such as automobiles. But if there are problems in those areas, then I think we're going to see even more long-term problems.

A contributing factor is the very low interest rates. They are so low partially because inflation is so low and partially because productivity is so high based on all those investments made during the late 1990s. In some ways that means employment, particularly of professionals, may be quite limited for the next couple of years.

There's an interesting circularity that comes back to the issue of governance. People throughout the organization are asked to make very good decisions, but those decisions are very hard to make objectively if their very jobs are in jeopardy. This is why you've got to have a central set of strategic precepts and shared values that guide people. We've seen that these precepts will be challenged when you're dealing with very large chunks of revenue.

BIG DEALS, BIG DILEMMAS

That's another difference that we hadn't seen before. Through the 1990s and going back to the 1980s, we had an enormous amount of consolidation. A simple example, if you're old enough to remember it, is the independent neighborhood toy store. Today, three retailers—Wal-Mart, Kmart, and Toys R Us—do about 85% of the retail toy business in the U.S. If you built and sold locomotives years ago, you had lots of independent large customers, possibly up to 40 in number. Now there are two or three. We have seen this consolidation in industry after industry.

This has put enormous pressure on prices, and it means that the orders have become huge and come in big chunks. You either get Wal-Mart or you don't. And it's not going to impact a single territory (e.g., Boston, New Jersey, Cincinnati). Either you have Wal-Mart or you don't. I think this has added to productivity in some ways, but it's also put enormous pressure on companies to lower prices even as total deal size has gotten much larger.

WHAT YOU SHOULD KNOW

I am amazed that very few major account managers, especially those who are responsible for a million to well over a billion dollars in revenue, have been thought of in terms of their ability to negotiate. Very few companies have provided enough training in negotiation or looked hard enough at pricing.

There's no question that companies are paying more attention than before, but the complexity and the stakes have gone up faster than companies' ability to analyze them. It's interesting to me that over the last couple of years, there has been a big surge around the issue of pricing software. If I were running a good-sized sales force, I would spend a lot of time making sure that my key account and global account sales managers understood an enormous amount about negotiating and pricing, and that they were supported by the best kind of analytics.

Most companies aren't very skilled at pricing. They figure out what they think are their costs, add on some margin, or charge what they think the market will bear until the competition shows up. But there is damn little going on in actually understanding what value they contribute to an end user, their customer. They don't understand the customer's perception and quantification of value.

When you set a price, it's absolutely critical to understand the value that customers experience. One of the jobs of the salesperson is to make sure that the perception is as high as the reality. The second thing that you've got to keep in mind is your own cost structure; yet very few companies understand their costs well.

Further, most companies don't know who are their most profitable customers. We've got so many different pieces of data, whether you look at it from an operations perspective, a marketing perspective, or an accounting perspective. People have to be able to figure out the profitability at the order level—at the customer level.

I was teaching a cost accounting case on account profitability to a group of senior executives at Harvard. Here are a hundred people in one of our big amphitheater classrooms. I was halfway up the aisle and turned around to walk back to the board. As I did, I was responding to someone's statement about strategic accounts. I asked, "What is a strategic account?" Someone from the back of the room yelled out, "It's an account where you lose money!"

I turned around and nobody would admit to saying it. It is interesting that salespeople can inevitably find a good reason to sell to somebody. And what you often hear is, "Hey, this is a great piece of business." What you don't hear is, "It's commissionable. How could it be anything but great?" In most organizations, the salespeople get commissions whether an account is profitable or not. Many sales managers get so enamored with accounts of high testimonial value or size that they neglect the profitability issue.

STRANGE BEDFELLOWS: FINANCE AND MARKETING?

Back to the governance issue, finance and marketing are coming much closer together. In today's world, the sales and marketing vice presidents better go to lunch with the CFO because the strength of your balance sheet may determine how aggressively you can operate in the market today.

As an example, General Motors just signed (Fall 2002) a deal with their Canadian unions that keep General Motors pumping. Now, the UAW in Canada is taking a look at whether they should go after Chrysler or Ford, who are in much weaker positions. They have less cash and their market share is going down, whereas it looks like General Motors' market share may have stabilized or even gone up a tiny bit. What you see here is the circular relationship between marketing strength and financial strength.

Marketing strength enables you to price well and get paid more for something than it cost you to produce. If you're really strong, you understand the perceived value, cost, and long-term situation, so you are constantly upping your price, making money, and building financial strength. If the CFO has been doing this right, you're not giving the money away through stock buy-backs or other activities. There's a strong balance sheet to go along with the strong income statement.

I would argue that a strong income statement is, to a good extent, the responsibility of the sales and marketing vice presidents; the CFO is in charge of the strength of the balance sheet. Ten years ago, you didn't see that kind of intimacy between sales/marketing and finance. One of the things that we must improve is managing our large accounts, not only from a sales perspective and a competitive perspective, but also from a financial perspective.

We must get better at playing a chess game over many moves. It isn't simply, "I'll do this and see what they do." It's much more: "I'll do this, the customer will respond this way, and the primary competitor will respond that way. Then I'll do another thing and, in all likelihood, those two players will do these things. And then I'll do another thing." Very few companies think that way proactively or have a strategy down at the major transaction level.

They may have a vague strategy up in the clouds, but when you're dealing with big orders that have enormous financial and competitive impact, you need a definitive structure. You've got to figure out what you will do if you get the order, what you will do if you don't get it, what your competitor will do if you get it, whether or not you have to cut your price, and so on. Most people are still running in reactive mode. They are still walking into the next boxing glove hitting them in the face rather than questioning, "If I duck now and hit him, where can I then move to protect my face?"

For companies that may be feeling on the ropes, or may in fact be there, it can be especially difficult to take the long view. A lot of the American psyche still goes back to the gunslinger mentality. We could sit around and try to figure this out, but instead elect to just go shoot something.

This condition isn't surprising given that most sales vice presidents are salespeople who learned to be reactive. Plus, they entered into selling because they were action oriented. Now we're asking sales vice presidents to act—but to think before they act.

Metrics

Yet the folks who do sit back and think are generally operating more off their experience or intuition than analytics. If times have changed as much as we're talking about, then a lot of what they may be intuiting could be completely wrong.

There's no question that if I built my intuition in a different world, then it won't work here. If I'm used to hiking in the northern temperate forests and I get stuck in Death Valley, I won't know how to operate. One of the questions I like to ask is how often people do post-audits. For example, you hire a salesperson and he doesn't work out. Do you sit down and ask why this person didn't work out, and what can we learn from this so that we don't repeat the same mistake?

I don't know any company that regularly post-audits pricing decisions. There are some companies that post-audit investment decisions and there are a few that post-audit new product failures. But I don't know of a single company that post-audits pricing or sales force decisions that addresses the issue, "Here was our goal in this pricing decision, and here are our expectations. Did those things happen?" If you don't have a feedback loop to do post-audits and learn, then you are bound always to be reactive.

If you are running a sales force with 100 people today, you have 100 individual experiments going on at the salesperson level. If your people average three calls a day, you've got 300 natural experiments going on daily.

I once sat on the board of a large wholesale company that had 220 branches in the United States. We figured out which branches were best at pricing, analyzed what they were doing, and shared these insights with the other branches. If you look at post-audits and figure out what is successful, then you have a chance of learning. Without that, you're going to fail. Their activities were still a series of experiments, but they proved to be immensely successful because they were done with rigorous discipline and analytics.

Customer Relationship Management (CRM)

The most frequent place to hear anything about process and/or metrics in conjunction with sales or marketing is customer relationship management (CRM). However, CRM is stalled out right now because a) companies don't have much appetite for more software, and b) a lot of them are hugely disappointed with their forays into that area.

Tom Siebel is saying CRM is dead, and what's needed is ERM, which is basically linking CRM to enterprise resource planning (ERP): back and front office all combined so that everybody has perfect knowledge. But that idea certainly hasn't proved out to date.

It's been my experience that the smaller, simpler information system projects have been more successful. Siebel has been incredibly successful, so I hate to disagree with him, but *if big isn't working, you don't go to humongous*. Anybody who has done an SAP implementation hated it.

In fact, I've heard several CEOs say to me, "I'll go through this once in my life. I'm going to retire before it comes up again." I would argue that, if I was Siebel and recognized that 'big' has been difficult, and then I'd want to put in smaller, more focused projects. I would select, for example, a simpler sales reporting system than an integrated CRM-ERP system.

I think Siebel has a problem in thinking that either they or SAP are going to win, depending on which one brings this humongous system to market. I think that for the next N years, smaller projects are going to be the watchword, and being able to put them together will be very important. We need to get the little things done and then go to the next level of getting the big things done.

Siebel may not agree because that's not their strength. In some ways, it plays to the strength of their more limited competitors. But humongous systems such as SAP that take forever to install and force you to run your business around their system architecture are often misdirected. Most people can't implement them because their business was developed instead around the customer's needs, and the secondary need was to make a profit.

When you try to drive corporate architecture with software architecture and tell the customer to organize the way you want them to organize, most customers are going to say no. Customers will find a company that's easier to do business with.

In fact, the phrase 'user friendly' does not apply only to software; it applies to companies. I don't want to do business with you if you force me to do business your way. And if I've got another option, I'll take it. With Microsoft on my PC, I don't think I have an option, so if Mr. Gates makes it hard for me to use Excel, I'm out of luck. With CRM, it's different. There are lots of options and people want something with a short payback, not an enormous return on investment in 15 years.

PARTING SHOT

For many people, the confluence of sales management and selling on the one hand, and pricing on the other, is where the action is. You should think about this balance between transactions and relationships every day and ask, "What am I doing to make myself more valuable for my customer? To make my people more capable and more motivated? And, at the same time, to make more money?" Notice the order: customer, employees, company.

If you think about it that way then you can gain one hell of a lot. Marketing leadership means understanding that you don't make money unless your customer does well. And, you can't do well unless your employees feel like they're doing well—only then can you make a lot of money.

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