

## Assessing the Drivers of Sales Performance

### Assessment at a glance:

Most organizations manage business development in a context of cost containment. Metrics such as sales cost per dollar revenue are used for budgeting purposes with the intention of maintaining bottom-line profitability.

The containment operating philosophy leads to budgeting based on trend lines as opposed to understanding of what truly drives sales function productivity. With the high cost of supporting a direct sales force, this void of understanding is a luxury few organizations can afford.

This assessment challenges organizations to estimate the impact of changing certain capabilities. This is a first step of breaking out of the limitations of the trend budgeting approach; over time, the organization can refine its understanding of these true cause/effect relationships.

Despite the ever increasing sophistication of information technology and analytical tools, the Sales function continues to be managed in the same manner it was fifty years ago. Budgets are set based on what happened last year and there is the ever elusive topic of incentives. Certainly, the marketplace will never be a laboratory where one can control variables and assess changes as one does in a clinical setting but there is a significant gap between where we are today and the potential to understand the true drivers of sales performance. The cost of this knowledge gap is enormous. Published reports peg the cost of sales and marketing at thirty-five (35) percent of total corporate costs. Although it is possible to ascribe a return on this investment in the aggregate, this metric affords little practical value from a true management perspective. What is needed is an ability to optimize the mix of drivers in a manner that maximizes the return. As it stands today, we have little insight as to what's working and this insight tends to be drawn from historical performance that may not be predictive of future performance. The ability to understand and manage the drivers of Sales performance could transform an organization's competitive position and its respective profitability.

With so much at stake, why do organizations continue to operate in this same manner? It is a matter of assumptions. If Marketing and Sales are approached as an art form, then the conclusion is that these actions defy objective assessment. One must start with the premise that marketing and sales is a process and that with appropriate discipline it is possible to discern the impact of the drivers of Sales performance. The cost impact alone demands that we better understand the yield of each component of this investment; however, when one adds the opportunity to add innovation to these processes the potential for sustained competitive advantage is very real. Just consider

the track record for Dell, Wal-Mart, and Toyota; these companies have obviously done many things very well, but central to their strategy is process innovation.

This white paper provides the framework for understanding how to direct the organization down this path. It should be noted that this is not the domain of the giants of the industry; today, tools are available that are within the reach of virtually any size organization, the only requisite is the commitment and leadership to make it happen.

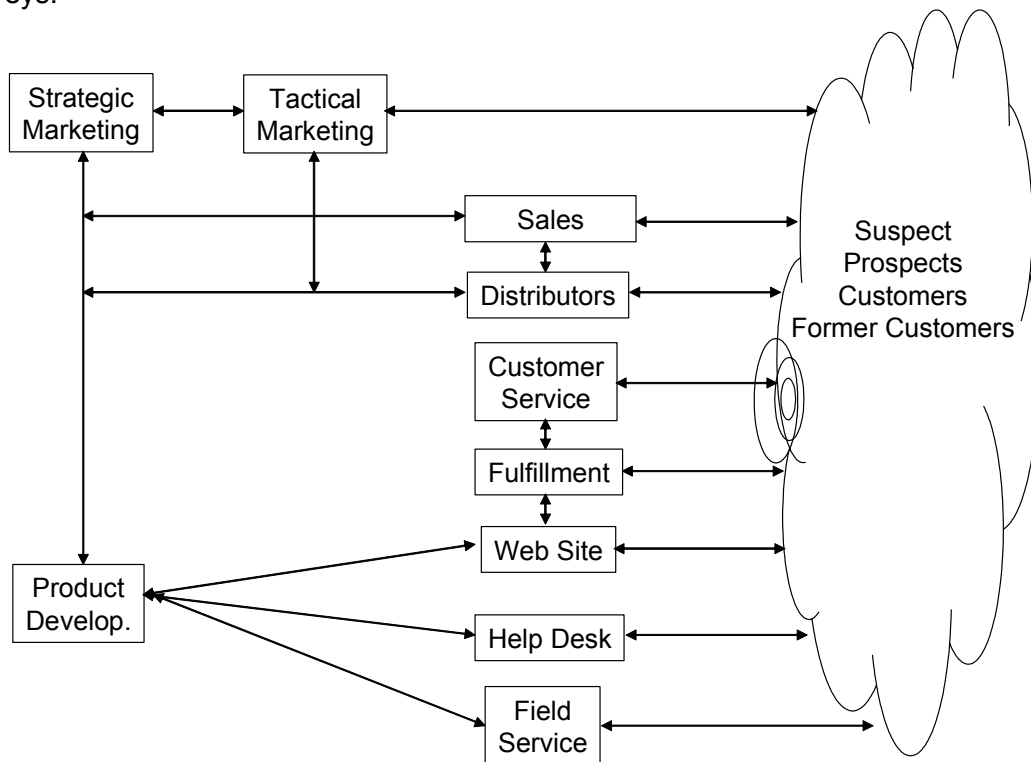
### ***The Go To Market Process***

Although sales activities require a certain amount of individualism and entrepreneurial spirit, sales is a team sport. Most successful sales people recognize that their success is resident in their ability to make things happen within the prospect's organization as well as their own. Sometimes, making things happen within one's own organization is more difficult than the client's organization. It is not difficult to understand how this happens, the typical organization is structured into functions that have performance criteria that establish a check and balance environment as opposed to an orientation of alignment. This topic will be expanded on at the end of this section.

The Go To Market Process involves all functions that impact the customer experience; it is the total customer experience that defines the customer's sense of value received. It is not the product or service alone or the sales person, it is the entire experience. For this reason, each customer interaction or touch point is an opportunity to leverage this sense of value; therefore, each touch point is a "moment of truth" relative to the contribution to customer value. The functions that define the Go To Market Process include:

- Strategic Marketing: defines product, service, value proposition, price, new product direction, channels, budgets, and marketing promotion mix.
- Tactical Marketing: implements the plans of strategic marketing and handles marketplace leads.
- Sales: can include inside sales, outside sales, and/or sales agents.
- Distributors/Wholesalers: partner organizations that provide a full complement of services including their own sales force.
- Customer Service: this is assumed to be order entry and resolution of issues relating to the order such as backorders and returns.
- Help Desk: these functions can include support of both internal staff and external customers. Help desk is common to software and hardware suppliers where it is practical to setup an escalation process.
- Web site: can provide basic information and route inquiries or it can be setup as an automated order entry (e-commerce) system and/or as a self-help capability.
- Field Service: when on-site product service is involved, a field service capability can be involved; this can be a direct service or one provided by a network of service providers.
- Fulfillment: for simplicity, it is convenient to lump production, service delivery, logistics and distribution into a single bucket.
- Product Development: is responsible for the incremental improvement of existing product, research and the creation of new products, and often is the final level of escalation for help desk issues.

The Go To Market Process can be illustrated graphically as the diagram provided below. Although this graphic is admittedly simplified, it demonstrates that the marketplace is impacted by a number of messages and interactions generated by a diverse set of functions and partner organizations. In addition, each of these functions tend to operate with a unique set of performance metrics and a separate operating system. Given this environment, how does the organization manage the quality of the customer experience? If your answer is customer satisfaction, you should be aware that studies have demonstrated that customer retention is not correlated with customer satisfaction. Therefore, customer behavior cannot be predicted by the results of customer satisfaction surveys.



The Go to Market Process

Note that for the purposes of discussion, the marketplace will be characterized as consisting of the following entities:

- Suspects: represent contacts or accounts that possess the desired characteristics of customers but no validation of interest or potential has occurred to-date.
- Prospects: these are former suspects where there has been validation of interest or potential.
- Customers: these are currently active contacts or accounts.
- Former Customers: these are formerly active contacts or accounts that have defected to the competition.

The Go To Market Process interfaces with these groups as a mechanism to retain the current base of business, gain new business, and re-gain lost business.

Given the importance of the Go To Market Process to create a consistent, value based experience for the customer, it should be obvious that the behavior of each function must be consistent and complementary. However, behaviors are driven by the performance metrics established for each function. Recall, that on the prior pages, it was suggested that current performance metrics form a check and balance mentality as opposed to a value delivery orientation. To demonstrate this incongruity, consider the following metrics that are common to the functions that comprise the Go To Market Process:

- Marketing: metrics tend to follow program and product responsibilities so success for the individual reflect results such as how many programs that were generated, leads produced, or product sold. It is common that even when an organization positions itself as a solution provider, the marketing materials will solely consist of product sheets with feature/function detail.
- Sales: metrics commonly consist of a revenue target combined with an expense budget. This approach generates a predictable sales cost per dollar of revenue but it does not focus sales effort on the quality of the customer or the profitability of that customer.
- Distributors/Wholesalers: metrics often concentrate on revenue and product mix as a reflection of “mind share” but offers nothing regarding targeting of the right customers with the right value proposition.
- Customer Service, Help Desk, Web Site, and Field Service: these functions are often regarded by senior management as “necessary” costs. Therefore, the functions are managed with a cost and risk containment mind set that may not be complementary to the customer experience. Often, the metrics will revolve around productivity such as calls handled per hour as opposed to metrics such as time to resolve problems or problems resolved with the first call.
- Fulfillment: this is really an aggregation for manufacturing, warehousing, distribution, or other delivery functions. Most of these functions operate with a productivity metric that is subject to some service level target. In concept this may not be bad except that the service level metric may not reflect customer needs or the needs of specific customer segments.
- Product Development: metrics concentrate on development costs and timetables; these metrics provide an essential perspective but they may drive behaviors and trade-offs that are inconsistent with customer needs or priorities.

In summary, customers impute value based on the total experience with the supplier. The total experience is delivered through a series of processes that collectively have been labeled the Go To Market Process. The Go To Market Process is not managed as an integrated set of activities; the only barometer of its effectiveness is in terms of aggregate revenue, margin, and profit; it does not provide a window as to what is working in the marketplace and it certainly reveals little that is predictive of the future and yet it is this same perspective that is used for planning.

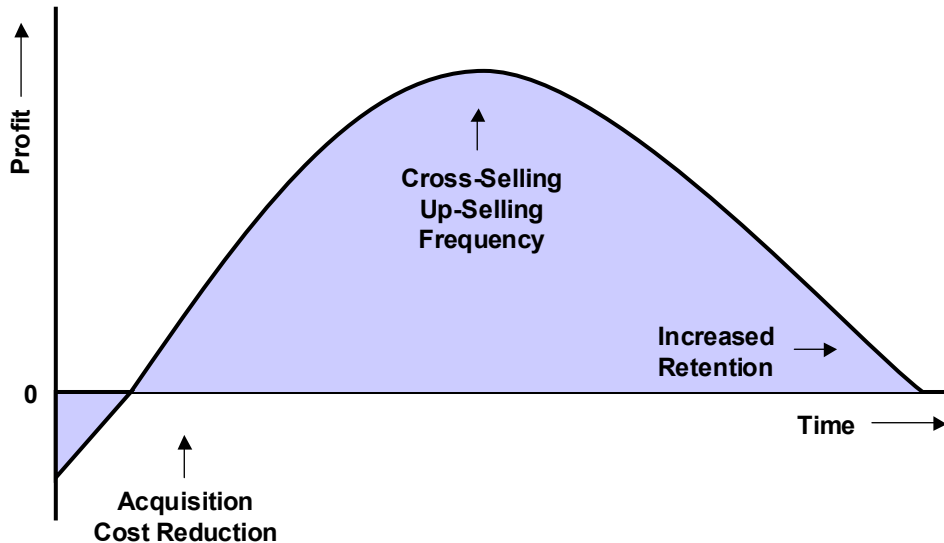
### ***What Drives Profitability***

The metrics associated with the Go To Market Process reflect a curious assumption; they seem to assume that inconsistencies in functional behavior have a minimal impact on customer behavior. This may have been a reasonable assumption in the past but today’s marketplace is characterized by a much more sophisticated buyer. The aggregate behavior of the Go To Market Process impacts revenues, margins, and cost.

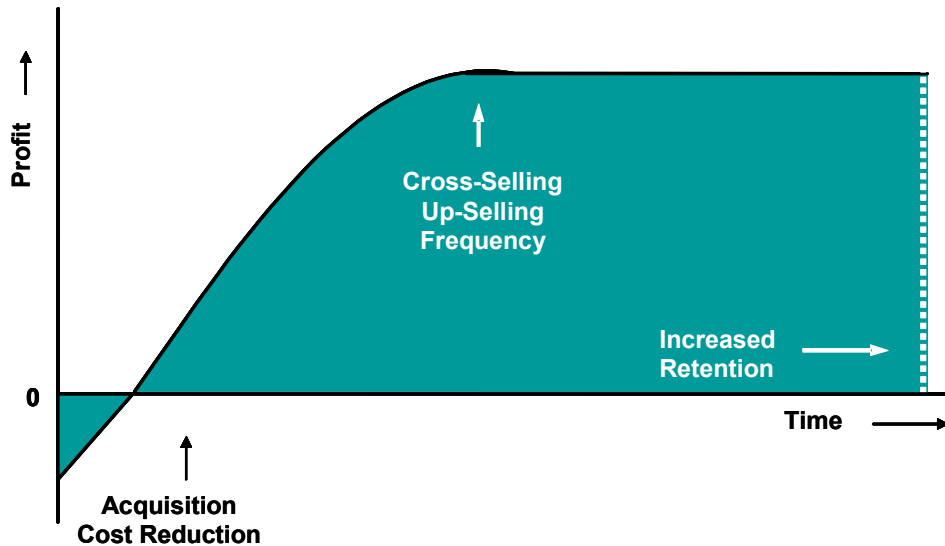
If each function seeks to maximize its productivity, the sum will be less than the individual parts. A functional view of optimization forces an internal perspective; what is needed today is a market or customer orientation. What type of metric will provide such a market orientation? The answer is customer profitability. In this context, the Go to Market Process is managed on the basis of optimizing the profitability of a portfolio of customers. Customer profitability in turn is determined by the behavior of the customer.

The simplest method to prove this notion to the organization is to calculate the profitability of various customer groups. In most situations there will be a prevailing feeling that customer volume is directly tied with profitability; however, this contention is often in error. For example, in retail stores, high volume purchasers may only purchase when items are deeply discounted and have a propensity to return items after they can be effectively re-sold leading to write-offs. For manufacturers, large volume customers often demand large discounts and other special terms/services. When the true net profit is calculated the results are often counter-intuitive.

Another important concept to customer profitability is lifetime value. A straight forward example of this is demonstrated by a bank providing services to teenagers. While a teenager is likely to generate very little, if any, profit; when that same person goes to college and receives a degree, his/her income and other transactions rise. Later, he/she may need a mortgage, etc. So over time the profitability of the individual changes; thus, to assess the desirability of an individual or company, one needs to assess their life time value. Graphical representations of this concept are provided below:



Customer Life Cycle: Business to Consumer



Customer Life Cycle: Business to Business

In both of these examples, the customer starts out below the zero profit line implying that it costs more to acquire and service the customer than the customer's transactions generate in terms of gross profit. Over time, transactions increase and the customer becomes more profitable. In the consumer example, the customer has a physical lifetime and at some point ceases to be a customer. Even in the business to business type of transaction, a customer can go out of business or take their business elsewhere creating a curve that resembles the business to consumer model.

Now let's assume that an organization has calculated the profitability of each customer and has segmented the customer base into groupings according to a hierarchy of profitability. Next, assume that after studying the behavior of the low and negative profit contribution customers, it is determined that a marketing program can be devised that will move 5 percent of the negative customers into low profitability while also propelling 5 percent of the low profitability customers to medium profitability group as indicated in the table on the next page.

The example demonstrates that moving 5 percent of the customers in each of the two lowest profit groups will yield a 35 percent increase in profit contribution and the actual bottom line results could be significantly higher based on the level of fixed costs not incorporated into the profit contribution numbers. What the example demonstrates is that by understanding the profitability of customers, it is possible to create highly focused programs that have tremendous profit impact.

Remember that the issue of alignment of purpose regarding the Go To Market Process was caused by applying revenue and cost objectives in the aggregate. When this is done, it is impossible to effectively consider the impact on customer behavior and ultimately on profitability. Customer profitability allows the organization to better understand and predict the impact of spending across the Go To Market Process.

Customer Value Level	Profit Value Per Customer	Percent in Segment By Level	Weighted Value	New % Segment By Level		New Wtd. Segment Value
High	\$ 4,808	2%	\$ 96	2%		\$ 96
Medium	\$ 2,728	20%	\$ 545	25%	5% Shift	\$ 682
Low	\$ 1,222	64%	\$ 782	64%		\$ 782
Negative	(\$ 3,663)	14%	(\$ 513)	9%	5% Shift	(\$ 330)
<b>Net Value Per 1000 Customers</b>			<b>\$ 910,000</b>			<b>\$ 1,230,000</b>

35% Increase In Profit Contribution  
Could double bottom line

### Targeting Prospects and Managing Customer Behavior

It is important to realize that assessing customer profitability and life cycle value allows the organization to recognize what type of customer it really wants. The sales organization is no longer chartered to garner any prospect but those prospects that have the highest potential for superior profitability. Also note that profitability is increased by the degree to which customers exhibit certain types of behaviors, so the thrust of the Go To Market Process is to create experiences that foster the desired behaviors and reduce the probability of negative behaviors. Experience with these strategies over time allows the organization to be able to more accurately predict cause and effect and thus to be able to more effectively plan and budget.

What are the behaviors that are linked to growth and profitability? Obviously, linked to the life cycle model the customer must experience awareness of the product/service, try the product/service and be satisfied, and then expand or extend their purchases with the given supplier. Following this same logic and sequence, one would extrapolate the following:

#### Awareness

- Number of inquiries
- Attendance at events
- Visits to web site

#### Trial

- Number of trials, samples, RFPs, quotes, evaluations, etc.
- Number of initial purchases

#### Expand and Extend Purchases

- Number of repeat purchases or the frequency thereof
- Increase in share of wallet (current purchases versus potential volume)
- Increase in the number of items ordered

- Upgrade to higher profit margin product/services
- Use of productivity tools provided by the supplier (e.g. e-commerce)
- Favored or exclusive supplier status
- Timely payment
- Level of items returned
- Level of complaints

Retention and Loyalty

- Renewal of purchase contracts including services such as warranties
- Operating philosophy to treat supplier as a partner
- Formal partner agreements with customers
- Willingness to be a reference
- Number of referrals provided
- Non participation in Blogs or other negative forums
- Unwillingness to defect to competitor despite the attractiveness of the offer
- Willingness to return to being a customer after defecting to a competitor

It should be clear that these behaviors (not an exhaustive list) are directly correlated with the profit life cycle curves presented earlier. These metrics as well as the customer profitability provide significant insight as to what is working and what is not. The Go To Market Process must be finely tuned to cost effectively foster these behaviors and thereby maximize the profit of the customer portfolio. Senior management is no longer relegated to war stories as to what happened in the market.

Given this new framework for understanding what drives revenue and profitability; it should be obvious that managing customer behavior is the key to long-term profitability and that lifetime customer profitability must be a fundamental organizational performance metric. It is customer profitability and customer behavior metrics that enable the organization to create alignment within the Go To Market Process. All other metrics will either be internally focused or not provide a meaningful cause and effect relationship to support decision making. Having established this framework, it is now possible to move on to the topic of what are the drivers of sales force performance.

### **Sales Force Performance**

The following description of potential drivers is intended to cross industry lines; as such, some of the items may not apply to a particular company or industry. In these cases, the item should be simply disregarded. Similarly, since this discussion is targeted at the macro level, the level of detail must be kept at the summary level. Each potential driver will be given a name and a brief description; at this point, the intent is to organize and define the drivers, in the next section, a method for quantifying the drivers will be presented.

<p><b>Driver:</b> Go to Market Process Alignment</p>
<p><b>Description:</b> The Sales Function does not operate in a vacuum. The other functions that comprise the Go To Market Process contribute to the customer experience and therefore impact customer behavior both positive and negative. If the Sales Function has to gain new customers to replace lost customers; this action will dilute Sales productivity and the productivity of the organization at-large. Therefore, this driver requires the organization to assess to what degree effort is aligned to create a customer experience that results in the desired customer behaviors that enhance customer profitability?</p>

**Driver:** Clarity of the Organization's Value Proposition

**Description:** This driver is really addressing three issues: (1) does the organization have a well articulated and understood value proposition, (2) is the value proposition translated into a coherent strategy by customer segment according to customer needs and (3) is the value proposition translated into Sales ready messaging? Lack of these conditions will cause confusion as to desired organizational direction and dilute Sales productivity due to a lack of focus. Think about it, if the organization is selling on the basis of value, what is the message delivered by the organization if it is not clear or appropriate? This discipline brings the Marketing and Sales organizations together in a collaborative manner.

**Driver:** Lead Management

**Description:** This process represents another one of those critical intersections between Marketing and Sales. Marketing is chartered with the task of Demand Generation and this includes lead generation. Sales is chartered with Revenue Generation and therefore must convert these leads into customers. In addition, feedback from this process is critical to improve the marketing mix and the delivery of quality leads.

**Driver:** Product and Service Delivery

**Description:** This driver simply challenges the organization as to whether it is truly delivering against its promises and are the promises consistent with customer needs? A classic example of this is where operations ships according to their promise date but the delivery is not tracked or unknown. Does shipping on time translate to the desired customer experience? Note that this item may relate to alignment or it may be an overlooked customer need.

**Driver:** The Customer Buy Process

**Description:** For years now, software vendors have positioned Sales Force Automation (SFA) as a means to shorten the sales cycle. Although it is true that SFA can introduce mechanisms that encourage follow-through on deals, it is absolutely ridiculous to assume that software alone is going to somehow magically reduce the length of the sales cycle. For every purchase decision there is a corresponding buy decision on the part of the customer. The most effective way to shorten the sales cycle is to reduce the buy cycle. Understanding the customer's buy cycle is fundamental. Once this is understood, there are ways to leverage technology to reduce the duration of this process; this involves sales "tools" that aid customer decision making. Common tools are configurators that allow the sales person and/or the customer to *configure* a product to their needs or desires. This technology is used on some auto manufacturing web sites; another example is Dell on their web site. Other examples include ROI calculators which helps the customer justify the purchase and conversion tables that reference your product against competitive designations thereby simplifying the purchase process. Opportunity Management tools can be designed to provide reference to sales ready value assessments that prompt the right value questions to the right people within the prospect's organization thereby establishing closure and consensus regarding the buy process.

**Driver:** A Defined Sales Process

**Description:** The issue here is not whether one is using spin selling, consultative selling, power base selling, etc.; these are techniques to be used within the call. The sales process defines the conduct of the sales person as he/she manages his/her territory. Thus, it starts with the Territory Plan and defines the steps required to move suspects to prospects to customer status and then move on to build the business within the customer base. Without a defined sales process, how does one coach sales people and communicate Sales process support needs with the rest of the organization?

**Driver:** Mix and Quality of Sales Resources

**Description:** A fundamental issue for the Sales function is whether the structure reflects an effective and productive manner to meet the value needs of the customer segments? For example, the use of inside sales staff can often increase the productivity of the sales force; in some cases, customers prefer to have access to an inside sales person. Likewise, there may be insufficient technical or specialty resources to support organizational strategies and the customer segments involved; the result can be reduced product/service penetration or reduced customer satisfaction/retention. Territory sizing, boundary setting, and assignment are included in this category.

**Driver:** Sales Management Practices

**Description:** This driver is highly correlated with motivation and quality issues (sales person behavior). The question here is the degree to which Sales management is hiring the right resources, retaining them, training them, shortening their learning curve and coaching them for promotion and overall effectiveness? An extension of this question of course is how well the managers are being trained and motivated to perform this task?

**Driver:** Deal Flow Management

**Description:** The revenue generation for many organizations is a function of deal flow (new business being awarded to the company). The management approach associated with deal flow is referred to as Opportunity Management. The tools used for Opportunity Management range from rudimentary (paper/spreadsheets) to sophisticated (SFA applications that calculate close probabilities and dates and use multicolored graphics). The purpose of Opportunity Management is twofold: forecasting revenue and managing the deal flow to ensure that deals are moving toward closure and that sufficient deals are being identified to support future revenue targets.

The bane of forecasting is predictability and the length of the time horizon. Organizational decision making is heavily reliant on the revenue forecast; therefore a lack of preciseness is typically interpreted as a need for more control. Control often translates into the use of milestones and sales steps that have an internal focus as opposed to a customer focus. For every sales cycle there is a buy cycle; yet organizations focus on what the sales person does as opposed to what the customer does. Then we wonder why the forecast is in error and the sales cycles stall. The obvious answer is to recognize the buy cycle and to equip the sales people with tools that help the customer shorten the length of their buy cycle.

**Driver:** Product/Service and Problem Solving Training

**Description:** How well does the Sales organization know their products, competitive products, and how the customer uses the product? Does the customer view the Sales organization as a resource or simply as a service?

**Driver:** Industry Knowledge and Training

**Description:** How knowledgeable are the Sales people and to what degree do they add value to customers in terms of helping the customer to be successful? Are the sales people capable of communicating and working with customers on both a strategic and tactical level? Product and Industry training is split for very deliberate reasons; it is all too common to focus on product training and ignore the issue of how the product is used across industries.

**Driver:** Tools

**Description:** The Sales function is often chartered with the challenge of managing their territories as though it were their business, demonstrating products, conducting assessments, etc. with limited to nonexistent tools to facilitate their effort. Examples of such tools are territory and account plans, account management systems, ROI calculators, product configurators, value assessment guides, etc.

**Driver:** Quality of Sales Effort

**Description:** Quality of effort is often viewed by management as the domain of manufacturing but the customer is constantly evaluating the quality of the interface in terms of:

- Value of sales calls and response to questions
- Response time to messages
- Follow-up time to answer questions, complete quotes, complete evaluations, supply samples, etc.
- Aid in selecting the correct product/service
- Ensure satisfaction with the product/service provided.

**Driver:** Productivity

**Description:** This includes standard productivity metrics such as number of calls, cold calls, and/or coverage metrics where the pattern of call or frequency of call is the focus. Productivity is linked to activity type metrics; does the improvement of the level of these activities improve (drive) performance?

**Driver:** Partner Support

**Description:** The Sales function often has responsibilities for supporting partner organizations such as distributors, retailers, wholesalers, etc. This support often involves training, joint calls, etc. The question posed by this driver pertains to the quantity and quality of this support and its impact on Partner performance.

**Driver:** Coordination/Collaboration

**Description:** This topic is often difficult to separate from The Go To Market Process in that collaboration is frequently associated with other functions. Sometimes, the collaboration pertains to linking sales people together in terms of sales teams or simply learning what others have done under similar circumstances.

<b>Driver:</b> Proof of Value (POV)
<p><b>Description:</b> The concept associated with POV is very simple: if one is selling on a value basis, one needs to present an assessment of value delivered to the customer to validate the proposition on a periodic basis. This discipline can be very valuable to the seller organization for the following reasons:</p> <ul style="list-style-type: none"> <li>➤ The customer is reminded that value is being delivered and its respective impact (promotes retention).</li> <li>➤ Validation of value add often leads to an invitation by the customer to explore new opportunities (cross-sell/up-sell).</li> <li>➤ Recognition of value add by the customer reinforces a value image in the sales person's mind so that they are less prone to offer price concessions (improved margins).</li> <li>➤ Negative feedback from the customer may suggest a need to improve quality (customer at-risk) or it can imply an opportunity to better target value-add (improved profitability).</li> </ul> <p>Implementation of POV is not necessarily simple but it is singularly the most powerful method for getting the organization to look at the world through the eyes of the customer.</p>

<b>Driver:</b> Regain Lost Customers
<p><b>Description:</b> This refers to a program that is targeted at regaining customers that have decided to use a competitive product/service. The intention is to regain them as a customer and retain them. Experience with this driver can lead the organization to be pre-emptive by identifying customers at-risk of defection; this avoids costly programs and lost productivity.</p>

<b>Driver:</b> Compensation Programs and Promotion Criteria
<p><b>Description:</b> This category is placed last because compensation programs and how people are promoted strongly influences behavior. Therefore, after considering the other drivers, one must consider the degree to which the existing compensation program and promotion criteria help the organization to hire the right people, encourage the right operational and sales behaviors, and retain the best performers?</p>

<b>Driver:</b> Other
<p><b>Description:</b> Any other factor that does not appear to be explicitly inferred by the above items.</p>

### ***The Assessment***

The purpose of the assessment is to challenge the organization to quantify its assumptions regarding the real drivers of Sales performance. The driver categories outlined in the previous section merely identify potential issues that impact performance, the assessment requires the organization to establish an order of magnitude estimate of the current level of performance versus a sense of potential and its incremental financial impact on the organization. At this stage, it is likely that the assessment will involve a fair amount of guess work; this may engender some discomfort within the organization but this condition reflects an inability to evaluate cause and effect. The focus moving forward should be to improve this understanding.

For each driver, the assessment will require a gap score. The gap score is based on a five point system where five (5) represents perfect compliance with the sense of ideal

versus a one (1) which suggests that compliance is extremely weak to non-existent. Thus, if the organization does not have a defined and documented sales process, the score is a one even though the overall performance of the sales force is considered good to excellent. The impact of improving the gap score will be considered in the context of moving performance/compliance from the current level up to something very close to a five. This impact will be estimated in the context of incremental revenue (%), incremental improvement in average margin (%), and improvement in Sales productivity (%) as measured by Sales cost as applied to the current revenue base. In the aggregate, these estimates will indicate the total potential for improvement; however, as importantly, the value of the individual drivers will provide a reference in terms of prioritizing areas in need of improvement.

**Sample Calculation**

Define the base numbers. These should not be pie in the sky numbers but rather reasonable expectations given current performance levels. For purposes of illustration, assume that the figures are as follows:

Direct Sales	Partner Sales
Revenue = \$100 million	Revenue = \$10 million
Ave. Margin = 30 percent	Ave. Margin = 10 percent
Sales Productivity = 5 percent	Sales Productivity = 2 percent

For simplicity, assume that the improvements only pertain to the Direct Sales portion of the business; so we will only use the figures on the left side of the table. Assume that the estimated improvement in Direct Sales revenue is 10 percent. This means that the potential is to create an incremental \$10 million in revenue.

$$\$100 \text{ million} \times .10 = \$10 \text{ million}$$

Next, assume that a five percent increase in Direct Sales average margin is estimated. This means that average margin increases by 1.5 percent (.3x.05). Also note that this improvement is applied to the base revenue plus the incremental improvement, so the net impact is as follows:

$$\begin{aligned} & \$10 \text{ million} \times .30 = \$3 \text{ million} \\ & \quad \quad \quad + \\ & \$110 \text{ million} \times .015 = \$1.65 \text{ million} \end{aligned}$$

$$\$3 \text{ million} + \$1.65 \text{ million} = \$4.65 \text{ million (margin)}$$

Next, assume that Direct Sales productivity improves by five percent. This results in a .25 percent improvement in sales cost that would be applied to the base and incremental revenue.

$$\$110 \text{ million} \times .0025 = \$.275 \text{ million}$$

Thus, the potential improvement for direct sales would be \$4.65 million plus the \$.275 million equal to a total of \$4.925 million. This figure represents profit contribution, not a net or after tax number. From a percentage standpoint, the impact will most likely be greater when taken to the net profit line item level due to the impact of fixed costs.

The same approach would be used to calculate the impact on Partner Sales...

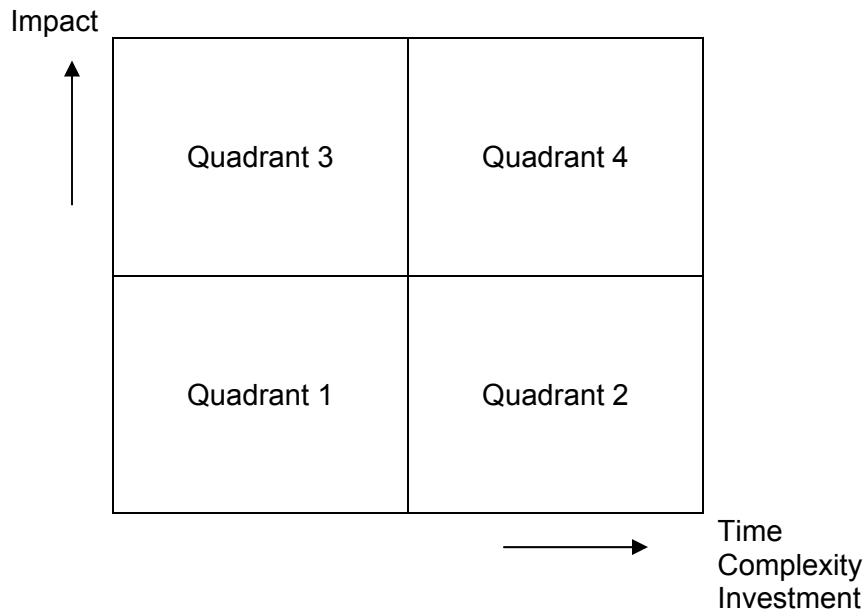
An assessment worksheet is provided in the Assessment Worksheet portion of this white paper. These calculations using the worksheet format are provided below for reference:

Driver: Total Impact							Gap Score: 2.0	
Direct Sales								
1	\$100	x	.30	x	.05	=		\$1.5
	Base Revenue		Ave. Margin		Δ Margin			Δ Margin \$
2	\$100	x	.10	x	.30	x	(1+ .05)	= \$3.15
	Base Revenue		Δ Revenue Gain		Ave. Margin		1 + Δ Margin	Δ Margin \$
3	\$100	x	(1+ .10)	x	.05	x	.05	= \$2.75
	Base Revenue		1 + Δ Revenue Gain		Sales Product.		Δ Product. Gain	Δ Profit \$
								\$4.925
								Sum Lines 1,2,&3
Partner Slis.								
4	\$	x		x		=		\$
	Base Revenue		Ave. Margin		Δ Margin			Δ Margin \$
5	\$	x		x		x	(1 + )	= \$
	Base Revenue		Δ Revenue Gain		Ave. Margin		1 + Δ Margin	Δ Margin \$
6	\$	x	(1+ )	x		=		\$
	Base Revenue		1 + Δ Revenue Gain		Sales Product.		Δ Product. Gain	Δ Profit \$
								\$
								Sum Lines 4,5,&6
								\$4.925
								Sum Lines 1,2,3,4,5, &6

Note that the symbol Δ refers to net change or improvement. This change is expressed as a percent but for the purposes of the calculation one must convert these numbers to a decimal equivalent; so 1% is equivalent to .01. Also note that with a gap score of 2.0, each point in reduction in gap score improves profit contribution by \$1.64 million (\$4.925÷3.0).

## Creating an Improvement Strategy

It is always difficult to generalize regarding strategy. However, a good starting place is to map out the impact of the drivers versus the perceived difficulty of implementing the change necessary to create the benefit as referenced below:



Quadrant 3 is often referred to as low hanging fruit, whereas Quadrant 4 represents longer term investments. Initiatives that address the various drivers are not going to be mutually exclusive and therefore it may be desirable to plot the initiatives in a similar format to prioritize their implementation. In doing so, one should be cautious regarding paying attention to foundational issues such as customer profitability and Go to Market Process alignment, these issues may require more time but they are fundamental to long-term profitability.

## Setting the Strategy

It would be a rare organization that does not generate a very large estimate for profit contribution potential. Likewise, the organization may be somewhat overwhelmed by the complexity of the challenge. As with any major initiative, the strategy has to embrace an approach that breaks the various components into digestible, bite size chunks. The first task is to assign overall responsibility for the initiative to a senior executive with a mandate for success that includes a definition for success that is defined by relevant metrics. The senior executive must have a stake in the success of the initiative and results must be included as an integral part of that person's compensation package. The senior executive must have an adequate budget and access to quality resources.

Next, the potential for each driver must be converted into an action plan with a corresponding budget, resources, time table, success metrics, and assessment of benefits. The reason for establishing an action plan for each driver is that it may be desirable to work on some action items in parallel; further, it is also possible that some of the action items will either be common to several drivers or there may be dependencies.

The final strategy must be integrated into an overall plan with budgets, success metrics etc. Review of progress must be a topic at all senior management performance review meetings (must become core to running the business).

### Assessment Worksheets

The assessment is divided into sections corresponding to the Driver categories presented earlier. Each page will contain a calculation matrix with a subject line indicating the Driver name. By clicking on the Driver Name, the assessment will refer you back to the page that describes the Driver; likewise, if you click on the Driver on the description page, it will return you to the score sheet page. Each data element that requires your input is highlighted in yellow. If you do not enter a number, the system will enter a value of zero, which implies zero change or not relevant.

The system employs format and reasonableness checks for the data input.

- Sales volume is assumed to be in millions of dollars (no decimals)
- Margins and Productivity are to be input as a decimal. So .01 corresponds to 1% and .001 corresponds to .1% or one tenth percent. The assessment allows for three decimal places.
- Editing checks are built into each data input field, if you receive an error message you are most likely making a decimal error, recheck the above ground rules.
- Each Driver worksheet will use the Direct Sales and Partner Sales baseline figures that you input below.
- Each worksheet will provide a place to add a brief set of notes regarding assumptions.
- Navigation is best accomplished by using the computer mouse.
- To complete a calculation use the Enter key; otherwise there is a delay in completing all related computations.
- At the end of the worksheets the system will provide a summary and tabulate the totals for your reference.
- Remember to enter the Gap score before entering the financial data in the worksheet.
- **You must print your results at the end of the session; the system does not save your input or results.** It may be prudent to work through the assessment estimates first before entering the data.

Start the assessment by entering the Base line data as indicated below. Baseline data should represent historical values or reasonable forecasts that portray today's level of performance.

Direct Sales		Partner	
Base Revenue		Base Revenue	
Average Margin		Average Margin	
Sales Productivity*		Sales Productivity**	

\* Sales productivity is measured in terms of \$ Sales Costs divided by \$ Revenue. This yields a ratio that is often converted to a percent; however, for the purposes of this worksheet use the decimal value. For example if the sales productivity was 4% you would enter .04.

\*\*Sales productivity for the Partner portion of the business would be measured in terms of \$ Sales Cost dedicated to Partners divided by \$ Partner Revenue.









































<b>Driver</b>	<b>Gap</b>	<b>Potential</b>	<b>Improvement Per Gap Point</b>	<b>Cost to Implement</b>	<b>Time to Implement</b>
Go to Market Process Alignment					
Clarity of the Org.'s Value Prop.					
Lead Management					
Product and Service Delivery					
The Customer Buy Process					
A Defined Sales Process					
Mix and Quality of Sales Resources					
Sales Management Practices					
Deal Flow					
Product/Service Training					
Industry Knowledge and Training					
Tools					
Quality of Sales Effort					
Productivity Issues					
Partner Support					
Coordination/Collaboration					
Proof of Value					
Regain Lost Customers					
Compensation Programs & Promotion Criteria					
Other					



*About The Author*

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations and is the Managing Director of GSP & Associates LLC, a consulting firm dedicated to helping organizations leverage and justify their investment in CRM related technology.

Mr. Petersen is the author of six books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *CRMS: ROI & Results Measurement*
- *CRM Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- *Making CRM An Operational Reality*

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