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BEYOND GROWTH TARGETS

Are you spending too much on sales?

Sales leaders are too busy trying to hit their revenue targets to focus on cost inefficiencies, says Blue Ridge Partners managing partner Jim Corey

How efficient is your sales force? Probably less than you think, says Blue Ridge Partners managing partner Jim Corey. Whether it's too much time spent chasing unpromising leads or inefficient go-to-market models, sales teams can "accumulate layers of economic inefficiencies that begin to cost a material amount of money", he says. Corey talked to *Private Equity International* about how to cut out waste in sales and why CEOs lack the experience to step in.

Q Where do you find these inefficiencies?

The most important area involves human performance. In our experience, sales people tend to spend dramatically less time selling then anyone would have envisioned. We have found it averages about 30 percent. The leadership team is often surprised it's that low. The rest of the time is spent undertaking a number of administrative and customer service tasks that aren't selling. This hurts the economic value of a sales hour.

Often companies have the wrong people in sales jobs. For many of our clients we conduct a 'skill-will' assessment and many sales people, often a third, don't have the right skills or aren't making enough effort. Some of these people are just in the wrong role: they are 'farmers' employed as 'hunters' to seek new leads, but they are never going to be successful.

And, sales people often waste time chasing unqualified leads. Because they are under tremendous pressure to show a pipeline of productive leads for fear of receiving unwelcome criticism, they over-invest in leads that never close.

Q Why doesn't management notice?

They do. These inefficiencies are seen but accepted. Sales organisations are built to optimise profitable revenue growth. They are not built to optimise economic efficiencies. Sales leaders are so focused on making their targets that they tolerate lower levels of performance. They think some revenue from a weak performer is better than none [from an open vacancy].

However, we often find by squeezing out inefficiencies there is the potential for 10-25 percent savings and reinvestment. In that range they become material. The business could apply this money to new products, enhancements to current products, entering new end-markets, being more effective in cross selling or building new tools for their sales reps.

Q And what could be done with the time?

Many sales organisations are struggling to hire new people. And when they do, they experience a very slow ramp-up period that is often twice as long as they expected. Right in front of them are proven, experienced sales reps who, if they were released from non-selling tasks, could double their selling time. That is so powerful. It's not just about money; it's about getting more out of the current investment in sales people.

Q If the impact is material, why do businesses underestimate the value of fixing these inefficiencies?

I'm quite sure all sales leaders are aware that these inefficiencies exist, but they don't have time to fix them and they don't know the economic value of them. They don't have the facts. They probably don't even know how much time is being spent [on each task]. Most sales leaders are very effective at working in the business and can produce revenue growth. They aren't necessarily very good at working on the business. »

> ***Sales organisations are built to optimise profitable revenue growth. They are not built to optimise economic efficiencies***

***Corey:** CEOs fear 'touching the wrong wire'*

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» That's a different skill set and it's hard to find a sales leader that can do both.

Q So why don't chief executive officers step in?

Executive search firm SpencerStuart undertook a study that revealed only 17 percent of CEOs have direct experience in leading a sales organisation. The 83 percent who do not are very reluctant to wade into a complex area where their sales leader is busy producing revenue numbers for fear of touching the wrong wire and losing customers or their best sales people.

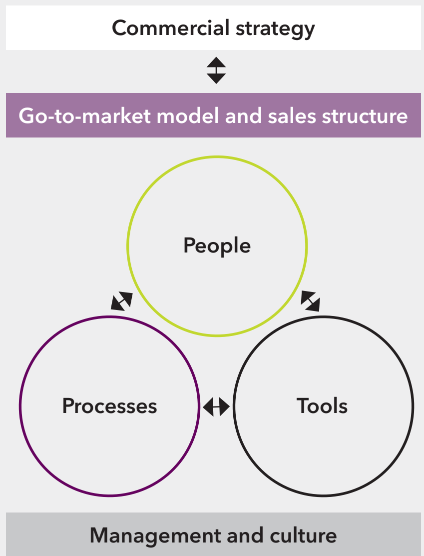
However, when you talk to sales people, they are begging for help with this topic. They often believe they are being held back because processes are too complex or they think the company isn't giving them the tools that they need or prices are set too high. They are receptive to changes because they believe they are going to be helpful. Poor performers might feel threatened, but in many cases they are people that should be exited from the business anyway.

Q You say sales leaders are often reluctant to dismiss weak performers. What's the solution?

Usually a sales rep quits or a company eventually gets fed up with weak performance and exits a person. The HR team kicks into action, understands what skill set is required, puts the spec together and finds candidates. Or the sales leader says they might know someone. Typically, when a sales opening materialises there isn't a ready supply of qualified candidates. The answer is to maintain a pipeline of potential candidates. This prepares sales managers to exit an underperformer as they know there are other candidates that could be better.

Q To help businesses cut inefficiencies, you have developed the Commercial

THE COMMERCIAL EFFICIENCY FRAMEWORK



The tool to identify and prioritise commercial efficiency focuses on six key areas:

Commercial strategy – aligning sales expenditures with the aspirations, strategic actions and economic expectations for the sales organisation.

Go-to-market model and sales structure – customising the sales model for each major customer segment and designing the most economically appropriate sales organisation.

People – recruiting, onboarding, developing, compensating and retaining sales personnel to provide the quantity and quality of skill sets required to economically deliver on the commercial strategy.

Processes – establishing structured, scalable sales processes that remove unnecessary complexity and are repeatable across the sales organisation.

Tools – providing sales reps and sales supervisors with automated support to productively plan, execute and monitor bid/proposal activity.

Management and culture – establishing a leadership style focused on openness, accountability, high performance and winning; creating a culture that rewards success and has real consequences for underperformance.

Efficiency Framework. What is it?

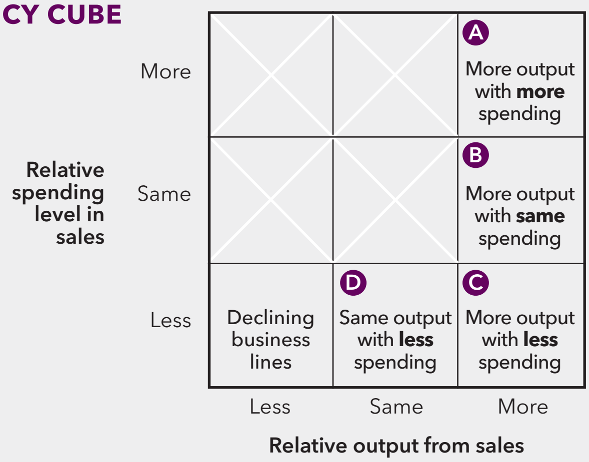
Sales organisations are very complex and they have lots of moving parts. In an effort to try and simplify it, we developed a framework to identify and prioritise actions that can result in material savings by reducing economic inefficiencies. Of the six dimensions, the most important is the people, followed by the commercial strategy. A company has to have the right people in the right role spending the right amount of time against the right opportunities otherwise sales organisations are not going to perform well.

Even so, they have to execute against a sensible commercial strategy and know their sweet spot, where they are going to win, where they are likely to lose, how they are positioned against competitors. And, of course, they need to be supported by processes, tools, management and culture. All these six elements are highly intertwined. Leaders have to assess the impact of changes in one area on all the others. That is why it's hard to squeeze out these inefficiencies.

For example, the sales commission and incentive scheme is an important thread running through all these pieces. A company may believe its growth will come from rolling out a new set of products, but sometimes sales reps can make more money selling older products and are not going to spend time selling the new ones. A business needs to design a compensation system that helps it achieve its commercial strategy.

> ***Sales leaders are very effective at working in the business and can produce revenue growth. They aren't necessarily very good at working on the business***

SALES EFFICIENCY CUBE



Q In this sales output grid, where do businesses want to be?

In the lower right corner, where businesses are getting more and spending less. In the middle of the bottom row, if your business is under some pressure and demand is weakening, you're going to try to sustain flat level revenue growth but spend less to get it. All the way over on the left you have a declining business. If a business is unwilling to ring out these inefficiencies, or if they are unable or don't have the time, they might migrate to the upper right corner, which is where a lot of companies sit. Businesses in Cell A accept the existing cost structure. Our point is that it's more sensible to move down the right-hand column by squeezing out some of the inefficiencies to help find those incremental expenditures necessary to grow.

Q How does this work in practice?

I'll give you an example. A global provider of information services realised their sales reps were not touching many of their high-potential prospects. As a result, the company wanted to increase the size of their direct sales team. This incremental cost was largely offset by lowering the number and cost of non-quota carrying personnel and reducing the number of sales reps assigned to low growth products. The result was a doubling of revenue growth rates with no increase in costs, Cell B.

Q Where should a business begin as it seeks to make its sales organisation more efficient?

The first thing is to understand the facts underpinning performance in each of the six areas. For the people element, we often conduct a survey of sales reps to ask where they spend their time. That is often eye-opening for the leadership team. Another is to understand individual sales rep performance relative to their cost. We have a return on investment calculation that takes the gross margin dollars a person produces and divides it by their total cost, ie, their pay, including base, bonus, compensation plan, all of their travel expenses and benefits. Then you start to realise that a very large percentage of gross margin dollars, it could be up to 90 percent, are produced by only 25 percent of your sales people. Then people realise that something different needs to be done. ■