MEMO TO THE CEO

Winning in Turbulence

Turbocharge Sales

By

Dianne Ledingham and Darrell Rigby

Previews the forthcoming book

Winning in Turbulence

By

Darrell Rigby

Bain & Company, Inc.

Harvard Business Press

Boston, Massachusetts

ISBN-13: 978-1-4221-3961-5
3962BC

Turbocharge Sales

When business conditions are harsh, you need every dollar of revenue you can find. Unfortunately, so do your competitors—who seem willing to do almost anything for a buck. You don't want to buy business indiscriminately at discount rates. But you also aren't willing to sacrifice market share to more-aggressive competitors. So, how is it possible to *gain* share without giving away the store?

One powerful way to shore up sales and margins in a downturn is to make your salesforce more effective. A few years ago, GE Commercial Finance added $300 million of profitable new business in twelve months by restructuring and refocusing its sales organization. Those improvements have helped GE Commercial Finance weather the storm better than many in the hard-hit financial services sector. More recently, a mid-sized network equipment company reversed three straight years of declining revenue and improved its gross margin, primarily by revamping its sales efforts. A more-focused selling operation, in other words, can increase productivity and work wonders for the top and bottom lines when both are under pressure.

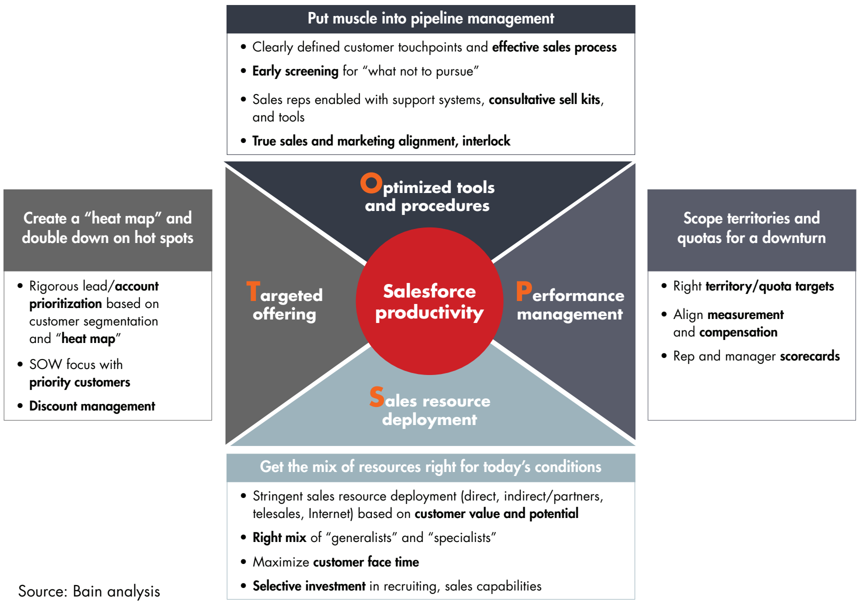
What are the right moves? The key is a numbers-driven approach to boosting your sales organization's effectiveness. The methodology is summed up in a framework we call TOPSales: Targeted offerings, Optimized tools and procedures, Performance management, and Sales resource deployment. It provides executives with a set of practical levers they can systematically apply to increase sales and margins. (See figure 1-1.) The following four tactics—all based on the TOPSales approach—will help you ring the cash register now.

1. Targeted Offerings: Create a "Heat Map" and Double Down on the Hot Spots

Every company has its best customers. These customers are the most profitable and typically the most loyal. What you offer them—the product or service, the brand, the customer experience—is exactly what they want. Sales from such customers produce "good revenue," the kind that's predictable and profitable, and holds possibilities for further expansion. Bad revenue, in contrast, comes from customers that don't value your core business proposi-

FIGURE 1-1

Turbocharge sales



Source: Bain analysis

tion, requiring excessive customization, complexity or discounting, and causing the sales management team to lose strategic focus. Tempting though it may be, no company can afford bad revenue with its explicit and hidden costs.

Companies typically identify their best customers by analyzing win rates, revenue, relative market share, and profitability among customer segments. Economic downturns demand additional measures. Which customers will still be strong and continue to buy in spite of the downturn? Which have strong cash positions, good access to credit, or both? It is also vital to understand which companies *should* be your best customers, even if they haven't been buying from you in the past. In a down market, when many companies are reevaluating their suppliers, opportunities arise to steal share from a distracted competitor. Slowdowns affect industries, regions, and individual companies differently. You need to know not just who your best customers were in the past but who your best customers are now and will be in the future, and how this new perspective affects the potential size of your customer segments.

High-potential customers are the hot spots in an otherwise cooling economy. Once you have a sense of who they are, you can draw a "heat map" of the market to guide your sales efforts. Managers and reps can identify and sell the specific combinations of products or services best suited to these customers' needs in a downturn. For example, selling campaigns should be created around those things that offer productivity improvements, a quick return on investment, or those that can be covered by a customer's operating budget rather than by its constrained capital budget. Everyone who interacts with customers can concentrate his or her efforts on the hot spots, with the goal of retaining profitable buyers and generating demand. A few months ago, for example, a broadcasting company refocused its advertising sales team on a few key segments, including healthcare providers, which appeared to be less affected by the downturn, and specialty retailers, which desperately needed advertising to counter declines in consumer spending. After just two months, sales in the broadcaster's two test regions were up 90 percent and 450 percent.

This kind of targeting pays off, of course, only if reps are held to tight guidelines on pricing. Pricing is the subject of another installment in this series, so we won't go into detail here. But in a downturn, sales managers need to be particularly aware of potential profit erosion due to price leakage. Carefully calibrated strategic promotions aimed at maintaining share in key market segments may make sense. But discounting and other forms of trade spending can go unchecked without close attention from management. One appliance company found that dealer discounts, display and price promotions, and rebates had unintentionally reduced its average realized price to only 57 percent of net market price. After analysis, the company was able both to reduce overall discounting and to redirect some of the dollars to high-growth accounts. The result was a 20 percent increase in earnings before interest and taxes (EBIT). Targeted offerings enable these kinds of fast adjustments, concentrating resources and effort on the accounts that will contribute most when sales are dropping or profitability is under pressure.

2. Optimized Tools and Procedures: Put Muscle into Pipeline Management

In a downturn, sales cycles lengthen, sometimes considerably. Prospects express interest but won't commit. Customers commit verbally but won't place the order. Cash is tight everywhere, and procurement specialists move slowly. Sales reps may believe they have full pipelines. To managers, however, the pipes seem full of molasses. There just isn't much business coming out the tap.

Close, disciplined pipeline management attuned to the heat map can help improve win rates for the business that is flowing. Sales managers and reps have three essential tasks in this area: screening each sales opportunity; ensuring that high-priority projects get the marketing, selling, and executive support they need; and tracking progress against goals.

- ***Screening.*** A heat map has obvious advantages for account planning, but it also lets you dissect the existing pipeline. Managers can screen out the opportunities that don't fit the map. They can focus reps' efforts on those that do fit. With longer sales cycles, your selling resources will be stretched across more accounts, and you have to make certain they are aimed at the right targets. Sales managers also need to ensure that reps have honest assessments of when they expect sales to close. The key here is careful forecasting, tracking, and discussion of major opportunities. Even if elapsed time increases, the company should have internal benchmarks on conversion rates from one stage to the next and historical win rates relative to major competitors—and should apply those benchmarks rigorously.

- ***Support.*** Many companies have realized that a downturn is a good time to switch to a more consultative selling process in order to discover and address customer opportunities that are harder for less astute competitors to tackle. Marketing and sales-support materials used in a consultative process can be tailored closely to client needs. The broadcasting company's sales reps, for instance, relied on market research and messages designed for each targeted segment. In consultative sessions, the reps offered clients customized "flights" of commercials specifying lengths, frequencies and times of day, and cross-platform (online) advertising opportunities—all with the aim of maximizing the ads' impact on consumers.

- ***Tracking.*** Every company tracks prospective sales as well as deals that have closed. Few push sales tracking deep into the rhythm of the organization. Companies such as GE, IBM, and Cisco have customized "digital cockpits" that enable quick, regular pipeline X-rays and analyses. The demand for current information is particularly acute in a downturn, because the sales organization may need to react rapidly to changes in the marketplace. One computer industry executive told us, "The sales cadence and pipeline management system that was institutionalized around Y2K really helped us in the 2001 crash. It was a key enabler for us to perform as well as we did."

There are many automated tools on the market that can facilitate tracking. The growing popularity of software-as-a-service means that companies can buy automated tools on a pay-as-you-go basis. That may be an attractive option when cash is scarce. What matters most, though, isn't the technology or tools you choose, it's the management processes and disciplines that put the technology to work. These include systematic channeling of leads to reps; routine, detailed account and pipeline discussions; and meticulous tracking of customers' readiness to purchase, as well as their current cash-and-credit positions. Some companies create a "Deal War Room" when turbulence hits their industries to ensure this kind of discipline is applied consistently, with clearly defined roles for each function in driving revenue.

3. Performance Management: Scope Territories and Quotas for a Downturn

Traditionally, sales managers have defined territories and set quotas based on a combination of history, gut instinct, and mandates from headquarters. If headquarters expected revenue growth of 10 percent, every rep's quota would be set 10 percent higher than last year's. That approach no longer works well, even in the best of times. Forward-looking companies are adopting more-scientific techniques for managing the salesforce.

At Aggreko North America, a division of the U.K.-based equipment rental company, executives gather regional data on the critical business factors that influence each of the company's markets—oil refining, home construction, and so on—and then calculate the firm's share of each market to set goals for growth. Armed with this data, area sales managers develop a view of territories, accounts, and quotas for individual reps by multiplying potential market size by target shares for each market. An iterative process between the local reps and senior management ensures that expectations for individual salespeople are both realistic and in line with overall corporate objectives. The new numbers-driven approach helped Aggreko boost salesforce productivity by 90 percent in one year.

When the economy is struggling, the need for accurate data of this sort is even more acute. Do territories correspond appropriately to the heat map, or are some productive reps left out in the cold? Are quotas realistic in light of the new conditions? The network equipment company that turned around its revenue decline had been pursuing 15 different industry segments. But its heat map showed that five of those segments accounted for most of its revenue and profits. So it redesigned territories and reset quotas accordingly.

Companies can develop scorecards for both reps and managers to help them track their own performance. A rep's scorecard could include metrics such as the company's share of the customer's wallet in the current conditions; the rep's progress toward quota; the health of the pipeline at each stage; and even the quality of account plans for selected strategic accounts from the heat map. Managers' cards can include overall margin and rep turnover (both wanted and unwanted), as well as the individual metrics for the reps they supervise.

4. Sales Resource Deployment: Get the Mix of Resources Right for Today's Conditions

When customers are wary of buying, sales managers face two critical challenges. One is to maximize the time reps can spend in front of customers, explaining the benefits of what they are selling. The other is to keep overall sales costs under tight control. Effective deployment of sales resources can help with both objectives.

To maximize face time, check the heat map: the hot spots show the customers most likely to buy. That's where you need your best reps—and you need them out there selling, not traveling or doing paperwork. Measure the time that reps spend in front of customers compared with total time. If it's less than what you think it should be, or less than benchmarks for your industry, consider channeling some of the reps' administrative functions to support staff, rearranging territories to reduce transit time, or simplifying the systems that the reps are expected to deal with. A few years ago, sales executives at Cisco Systems set a goal of reducing reps' nonselling time by a few hours each week and charged the IT department with making it happen. The subsequent improvements in Cisco's sales-support systems streamlined the administrative tasks required of sales reps and helped to generate several hundred million dollars in additional revenue.

A downturn may also require companies to streamline and rationalize their salesforces. With the right approach, that becomes a powerful lever to refocus the salesforce and boost productivity. Most companies use a variety of sales channels: enterprise or other direct sales, telephone sales, dealers or value-added resellers, and the Internet. In many industries, a combination of mergers or acquisitions and ongoing product extensions has created a need for specialists to complement the generalists in the field. Detailed information about the behavior and profitability of customer segments and microsegments from the heat map, as well as data about the productivity of existing selling efforts, allow sales executives to decide how best to deploy these different resources. To keep costs low, a company can beef up its telesales operation and replace underperforming in-field reps. Aggreko, for instance, now directs inquiries about commodity rentals to the Internet or handles them through telesales, while inquiries about large consultative projects are sent to specialized sales reps.

This also may be a good time to increase your use of partners. The network equipment company mentioned earlier boosted its revenue partly by focusing business development and marketing efforts with a few select partners. For example, it bundled a networking solution with PCs and servers from one OEM (original equipment manufacturer) that was targeting the same industry segment. This was no small effort: the partners developed joint marketing collateral, events, training, and refined incentives for each organization, not to mention joint pipeline planning. But it paid dividends; the network equipment company grew its sales with that partner threefold in just nine months.

Preparing for Recovery

No downturn lasts forever. When the recovery comes, your sales organization should be positioned to capitalize on pent-up demand. Companies that win during and after turbulence often recruit top sales talent from competitors or may even pursue acquisitions and integrate the acquired company's best sales reps with their own.

In either case, the TOPSales approach helps position the salesforce for high performance. It focuses sales teams on robust data-gathering operations and then uses that data to set goals and quotas, manage territories and pipelines, and ensure consistency in processes and priorities. It helps determine the right mix of specialists and generalists. And it prepares your reps to sell products and services tailored to what companies need in a downturn. Companies can no longer afford to rely on the persuasive or relationship-building powers of a small group of stars with native sales talent.

The steps outlined will help you get started on the process while you're navigating today's turbulence. Every business confronting a downturn needs to sustain revenue and margin, and astute management of your salesforce will improve your performance in both areas.