How Sales Works

How can we fix it if we don't really know how it works?

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This paper was produced at the request of multiple CEO's who wanted clarification on how various elements of sales interact

Overview

The sales pipeline has air in it because the sales funnel is not full. That's probably because the sales process methodology (SPM) is not directing the salespeople to make the best use of the sales cycle. A contributing cause could be either the incentive plan, the compensation plan or, possibly, both.

Does some of this sound like strange double-talk to you? You're not alone.

So many terms, so little opportunity to learn what they mean. Yet understanding each element of sales management and sales organization is critical for sales success and sales growth. In other words, understanding how sales works is a fundamental part of being a Chief Sales Officer.

This white paper will give you a 50,00-foot view of how sales works.

Analogy

Suppose you were an automobile engineer or mechanic. Imagine that someone who had never seen a car asked you how it worked. Where would you begin? Would you begin by describing the drive train (engine, transmission, differential) and how power flows to the wheels? Or would you begin by talking about how the steering mechanism works? Maybe you would begin by describing the interior: it's functions and its comforts.

Eventually, for the person to understand how a car works, they would need to understand each element and how they interact with each other. They would need to know how to start, steer and stop the car: three different systems. After all, a successful driving experience requires that all elements of the car work.

When your car will not start and you call a technician, their first question is to ask you to describe what is – or is not – happening. If you turn the key and nothing happens, that often indicates an electrical problem. If the engine turns over but will not start, that could be a fuel problem or an electrical problem. If the engine runs but lacks power, it could indicate that there is not enough air making its way to the combustion chamber.

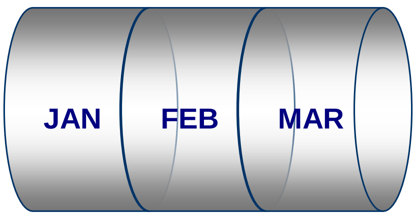
Without knowing what any of this means, you can still discern that there are three critical elements for a car's engine to run: fuel, air to mix with the fuel and electricity to ignite the mixture.

There are three elements that need to be in place for sales to work optimally: accounts, products/services and dollars.

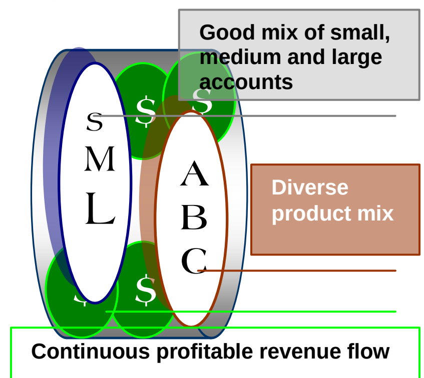
SOME BASIC TERMINOLOGY

Sales Pipeline – Predictive Indicator – Sales Prophecy

The sales pipeline is a time-divided measurement of past, current and future sales activities. It is usually divided into months; however, longer or shorter sales cycles may change that. It provides a snapshot of what is happening in sales and provides an at-a-glace look for anyone in the organization who wants or needs to know what is happening in sales. In most organizations, the three elements listed above need to be represented in each time segment in the pipeline: accounts, products and dollars (who is buying, what they are buying, how much it's worth).



To best visualize the pipeline, think of it as a conduit rather than a pipe. Picture a pipe with three inner pipes. One of the inner pipes represents the accounts that are in the process of being closed. There needs to be a healthy mix of small, medium and large accounts in each segment of the pipeline. Small accounts typically close quickly with less revenue and profit; larger accounts close more slowly and bring more dollars of revenue and profit.



The second internal pipe represents the products and/or services you offer. Some are more profitable than others, some require greater planning for their production. Having the right product mix in the pipe is also important.

Finally, the dollars in the pipe at each segment needs to be analyzed. This is usually the first thing that CEO's and CFO's look for. The COO may be more interested in the products that will need to be available in the future. There are two categories of dollars: revenue and profit. Salespeople need to be focusing on both. There are two types of revenue: recurring and transactional revenue. Recurring is usually more profitable.

So what happens when the dollars are not where they need to be? Or what if the product mix or account mix are not what the organization needs? Read on…

Sales Funnel – Predictive Actions – Doing The Right Things

The sales funnel feeds the pipeline and determines what will be in each segment. The funnel indicates what the current activities are that will eventually create sales in the pipeline. All of the elements that are being measured in the pipeline (accounts, products, dollars, etc.) must be included in the funnel. The funnel shows where each sale is in the sales cycle.

If it takes ten sales calls to close an account, there should be ten calls scheduled in the funnel for each account that the pipeline needs. If the calls require two months to complete, then each ten calls in the funnel today will result in one account being in the pipeline two months from now.

The dollars in the funnel will follow a similar pattern to the accounts. Not all sales will close and some salespeople are better than others at predicting what their results will be. So when we see revenue or profit dollars in the funnel, we need to realize that some of them will come in as planned, some will come in stronger, some weaker and some will not happen at all. (This is where “Probability of Sale” becomes a measuring factor.)

An empty or near-empty funnel today can seem like it is not a problem when today’s sales are strong. Do not be lulled! The funnel and the pipe tell us what is about to happen and what steps need to be taken to improve the anticipated results. For instance, we need more cold calls in the funnel today even though we have more accounts than we need today if the pipeline indicates that there will be too few accounts in a few weeks. Now is the time to address that issue.

Sales Cycle – Roadmap for Actions – What Needs To Be Done

The CSO and other sales leaders look at the pipeline and sees that additional accounts, products or dollars need to be brought in. The sales funnel indicates what actions need to be taken. Now the sales cycle is used to map the specific activities that will be needed to bring about the events in the funnel.

IMPORTANT: this is where sales efficiencies and economies can happen. By shortening or automating different steps in the sales cycle, each element can happen better, faster and at a lower cost of sales (COS). For instance, if it takes five calls to close a sale, how could the salespeople use their pre-call planning activities to reduce the number of calls to four – or even three? Could they do enough research before the first call to give them enough information to skip the second call?

Improving this area begins with mapping the sales cycle: plotting each step in converting “Unknowns” to “Endorsers”. It takes time and it is an exercise with a high ROI.

Sales Process Methodology (SPM) – Staying on the Right Road – The How-To’s

Every salesperson is different and every customer is different. Still, there are principles that can be followed on every call that will insure that all of the “i’s” were dotted and all of the “t’s” crossed. This is the sales process methodology that the organization embraces. The better SPM’s facilitate pre-call planning, call execution and post-call critiques. This is the step-by-step process that becomes rote behavior for the successful, seasoned veteran.

IMPORTANT: This is the area where Kaizen for Sales can be most effective. Which elements of the sales process could the salespeople eliminate, delegate or automate? Every day new capabilities, technologies and processes are introduced to accelerate the sales process. How are your salespeople staying on top?

Compensation and Incentive Plans – Sales Motivation – The Rewards

There are two aspects to the remuneration salespeople receive; compensation and incentive. Compensation is the ongoing salary they receive for performing their basic tasks. Incentive is additional payments made for extraordinary performance. Balancing the mix between these two elements is important – and difficult. It is determined by the length of the sales cycle, the complexity of the customer's buying decision, your corporate objectives and the strengths of the salespeople. "Cafeteria comp plans", where every salesperson is on a different pay program, is the most effective – and extremely difficult to manage. Just remember the cardinal rule that every company in America violates: "Tie your compensation to your expectations".

5 QUESTIONS TO ASK ABOUT HOW WELL YOUR SALES ARE WORKING.

1. *In what format is our pipeline distributed – and do we need to change that?* Excel spreadsheets are the most common format followed by Word documents, PowerPoint presentations and, finally, CRM output reports.
2. *How do we know that our funnels are addressing the most lucrative or most important elements?* Is the funnel at each section of the pipeline filled with the right account, product and revenue opportunities?
3. *What elements of our sales cycle can be eliminated or accelerated?* Refining the sales cycle results in sales happening faster. This facilitates keeping the pipeline full.
4. *What is our compensation strategy and how does it need to change?* Is it time to change the base salaries of your people?
5. *What incentives are working best for us?* What incentives do your salespeople respond to best?

YOU BE THE DIAGNOSTICIAN

Actual situations from our files…

Sales professional: *"I sold a huge contract. Big dollars. Good margin. Then, manufacturing could not deliver, the customer got mad and we lost the deal. Shouldn't I get my commission anyway?"* How would you respond? Think about it before reading on.

This looks like a case where the company did not support the salesperson. After all of their hard work, the company could not deliver and the salesperson was left hanging. Here are the diagnostic questions: 1) Was the sale in your forecast? In other words, did others in the company know it was coming? 2) Was the sale in the pipeline? Did others in the company know <u>when</u> it was coming? Large sales often require additional resources. Did operations have enough time to prepare? 3) Was there an alternative for fulfilling the order to keep the customer? Staggered delivery? Out-sourcing?

Sales manager: *"My senior salespeople are not cold calling. It's only the new guys who really hustle. Should I consider replacing the older salespeople with younger ones?"* How would you respond? Think about it before reading on.

Is this an age/demographic problem or is it an incentive/compensation problem? In organizations where salespeople can build a book of business with ongoing commissions, it is not uncommon for them to have annuities that fund their lifestyle. Looking at their sales cycle, you will probably find that they do not want or need to cold call to increase their income. If new accounts are important to you, bring on more salespeople as opposed to replacing your existing ones. If that is not an option, change the compensation program, the incentive program or both to change the behavior of your senior salespeople.

CEO (CSO): *"It's feast or famine around here. Either we cannot get the work out fast enough or we're idle and looking for something for our people to do."* How would you respond? Think about it before reading on.

This is usually a combination of a pipeline and an account or industry management problem. The pipe has "air" in it when there are not enough sales. This situation often indicates that the majority of the customers have similar buying cycles. So, examining the funnel, we might find that most of our calls are being made on similar companies in similar industries. This is too many eggs in one basket, right? The cure comes from manipulating the incentive plan (for short term results) or the compensation plan (for longer results). The manipulation should cause the salespeople to call on accounts with different buying cycles at different times during the year or month.

CEO (CSO): "*We have excess inventory in some products lines. Do we run a special to get it out of here?"* How would you respond? Think about it before reading on.

There are different ways of disposing of excess inventory and running a special – also known as a SPIFF. This usually involves reducing the price to make it easier for the salespeople to sell and more attractive for the customer to buy. That is the poorest option. Begin by asking the question: "Why is there excess inventory?" this should lead back to a problem with the sales forecast and that should be traceable through the sales pipeline. If the forecasting **problem** is not corrected, the **symptom** of excess inventory will continue to crop up. Now, how to handle that inventory. Consider using the incentive plan but instead of reducing the price, add a bonus to each sale. Salespeople often know where they can sell difficult products. They don't pursue those sales because they are, well, difficult and they pay the same as easier sales. Instead of reducing the price by 30% and eliminating most of your margin as well as damaging your image, add a 15% "immediate cash bonus". You'll lose less money, maybe even make a profit, and your salespeople will be in front of additional customers – the ones who buy the products you have not been selling.

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