Using ROI to Reduce Sales Cycle Time

Abstract:
In the world of B2B transactions, if you are selling on a value proposition then most likely you are assuming that the customer is achieving a return on their investment using your product or service. If you are selling a premium product at a significantly higher price point, then it is also likely that the customer must intuitively or explicitly derive a benefit in excess of the total cost of ownership. Depending on the magnitude of the investment, the customer may have to create a formal return on investment (ROI), before any purchase decision can be made. The reality is that most sales organization must communicate value to customers as an integral part of their function and that the exceptional sales person can position value in the context of the customer's frame of reference.

Particularly when the economy is soft, the ability to demonstrate ROI becomes an essential element of closing the deal but more importantly, if used strategically, ROI concepts can reduce sales cycle times, leverage sales and marketing effort, and support customer retention. In an era where spending is down and decision processes are extended, sales organizations need to apply every ounce of energy and creativity to make things happen. This white paper will provide a framework for examining the sales process and the opportunity for improving performance using ROI as a sales tool and competitive weapon.

The Opportunity: Key Metrics

Most sales organizations are evaluated on the basis of hitting a revenue target subject to maintaining costs at a budget level. Unfortunately, this approach does not explicitly account for the maintenance of margins or the profitability of customers. These issues can be central to long-term organizational health and viability.

Lead management statistics often measure the time required to assign a qualified or unqualified lead to the sales force but all too often lead management becomes a "Black Hole" where lead information enters the system but nothing comes back except an occasional customer transaction. This void leaves both the sales and marketing organizations blind as to improving lead sources, qualifying and/or targeting. Effective targeting and the ability to defend pricing are essential to the protection of margins. It is a costly blind spot.

Sales cycle times are typically associated with opportunity management. Key metrics include:

- The duration of the cycle from start to completion
- The cost of the cycle (sometimes defined as the number of calls
- The win/loss ratio

It is in the best interests of the sales force to drive these opportunities to closure as quickly as possible because there is a practical limit of how many opportunities can be tracked at any given point in time and time lost on missed opportunities is lost forever. Longer cycle times often have a negative impact on close ratios and forecast accuracy, which in turn has a significant impact on the productivity of capital and profitability. Thus, it is not just the sales organization being impacted by the win/loss numbers.

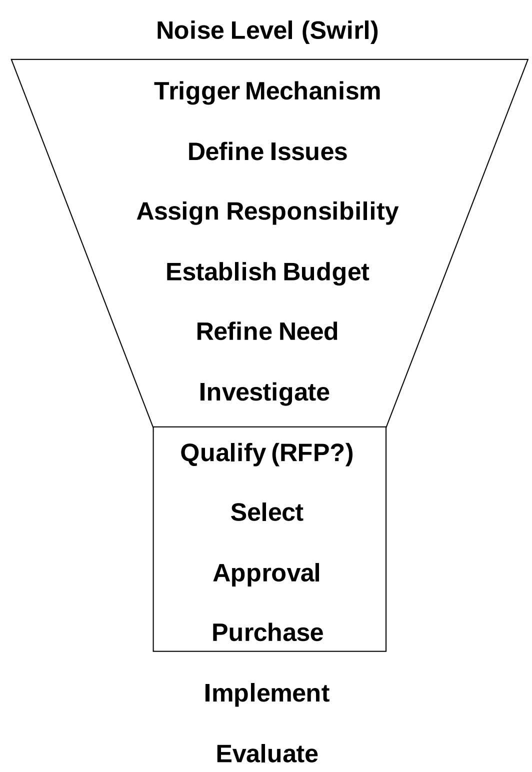
Increasingly, companies are realizing that customer retention is an essential metric. Unfortunately, retention is a lagging metric; the important issue is to identify the reasons for defections before they occur. Customer satisfaction and statistical tools can be used to identify the propensity for a customer to leave but in the final analysis, it is the maintenance of relevance between a customer and a vendor that drives a long-term relationship; this point will be expanded on later in this paper.

Customer Relationship Management (CRM) is based on the notion that organizational performance can be enhanced (maximized?) by focusing on the delivery of value to customers while monitoring their behavior. Thus the use of customer behavior metrics such as customer profitability, retention, acquisition cost, share of wallet, etc. become paramount. Within this new mindset, the sales force migrates from positioning value to being part of the total value delivery process. Success will ultimately be measured in the old fashion way in terms of revenue growth, margins, and profitability; however, the drivers of performance are now recognized as customer behavior metrics and their relationship to the efforts of each function that contributes perceived value to this delivery process. This implies that the organization must get closer to customers and understand their needs and how to satisfy them before the competition figures this out.

The Buy Process

Too often organizations attempt to sell products and service without recognizing that **every sale** involves a corresponding **buy process**. Before discussing the implications of this lack of recognition, let's discuss what a buy process might look like.

Since the purchase of a strategic system is probably one of the more complex decisions facing an organization, consider a scenario where a company is purchasing a CRM system. The purchase of such a system involves significant capital and expense expenditures and commits the organization to a strategy of being customer focused. Therefore, a company typically does not wake up one day and decide it wants to prioritize CRM; it is a process that can be generalized as following the steps or stages indicated in the buy process below.



The Buy Process

Similar to most graphical representations of the sales process, the buy process is also funnel shaped but for different reasons from the sales process. Above the funnel is a phase referred to as the noise level. This infers that at any given point in time, there is often some level of awareness of issues and concerns confronting the organization but because there is so much activity going on many needs get blended into what might be described as background *noise*.

The funnel shape comes from the reality that there are more needs and issues than the organization can focus on. For a need or solution to assume more clarity or priority requires a trigger event, which causes the organization to focus on a specific issue. Sometimes this is caused by a bad quarter, a move by a competitor, loss of a customer or a deal, or the suggestion of a member of the board of directors.

Once an issue has been conceptualized and prioritized, it is unlikely to go anywhere unless there is an assignment of responsibility; this may be inferred or be a specific assignment. Investigation then advances to setting a budget, consideration of options, and the creation of a recommendation. Upon acceptance of a recommendation, a team is typically formed and the buy process moves into a specification/selection mode and ultimately to implementation and evaluation.

With respect to the CRM example, CRM could emerge through a senior executive reading a magazine article, a competitor announcement, a colleague contact, or a management briefing suggesting that this is the technology of the future. Typically, some level of investigation ensues. The depth of this investigation often varies. It could be attending a conference or an executive briefing or simply talking with vendors. The basic questions addressed are:

- What is CRM?
- Does it appear to address the issue(s) confronting the organization?

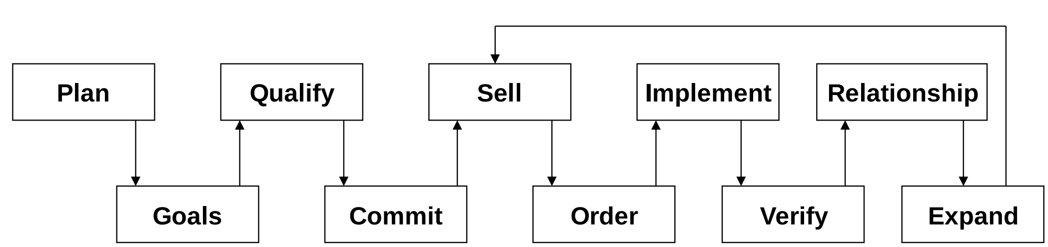
Since the philosophy of CRM is close to motherhood and apple pie, it is likely to get positive support but in many cases, recent experience with major initiatives such as ERP may cause second thoughts. Published failure rates may also reduce enthusiasm for such an endeavor, but for purposes of illustration assume that the decision to proceed is given.

A project team would be assigned to develop a specific recommendation including return on investment. Once the investment is approved, the team can select a vendor(s) and proceed with implementation and post implementation evaluation.

Having established a conceptual framework for the buy process, now let's look at its counterpart on the sales side.

The Sales Process

For most organizations, the sales process is a "process" in name only. If a company has 100 sales reps, it probably has 100 sales processes. Therefore, if a company is going to leverage its knowledge of the buy process or any internal automation capabilities, it must define and document the manner in which it wants its sales force to sell. For discussion purposes, the sales process can be described as a series of five stages and outcomes as follows:



Typical Sales Process Stages and Outcomes

Every sales process has some form of the "fundamental five" stages and outcomes. The outcome of each stage provides input to the next stage and provides the basis for a looping process that supports leveraging customer relationships. In this example, the plan translates organizational goals to the territory level as well as an action plan for accomplishing them. The outcome is a territory plan that includes priorities for leads and prospects. Targeting provides input to the qualify stage where the objective or desired outcome is for the prospect to commit to a meaningful next step(s) that will move the prospect closer to a purchase or otherwise reveal that they are not a viable candidate. In the qualify stage, the idea is to quickly determine the viability of the prospect. The prospect commitment outcome(s) drive the prospect to a close where they generate a transaction, which makes them a customer. The sales process then reinforces the need for the sales person to follow-up with the customer to ensure that they consider the transaction to be complete and satisfactory. Since it is unlikely that the new customer will buy more when the customer does not perceive the first transaction to be complete (applies to all transactions thereafter). Lastly, there is the building of the relationship, which is characterized as recognition of value (based on proof of value). This is a key aspect of positioning for future business from the customer and feedback to the vendor organization. If the customer recognizes value then they are likely to invite the vendor back for future business. Regardless of the attitude of the customer, feedback from this interface with the customer is valuable to the vendor. If the customer agrees, it means that the organization is on-track relative to positioning; if the feedback is negative or indifferent, it suggests that the value proposition needs to be refined.

Note that once a set of stages and outcomes are defined, the vendor organization can define a set of best practices that can provide a basis for hiring, training, support, and coaching. This model provides a holistic view of the sales process and can be used as a vehicle for communication throughout the organization particularly with functions that have key interfaces with the customer such as marketing, customer service, and finance (credit and invoicing).

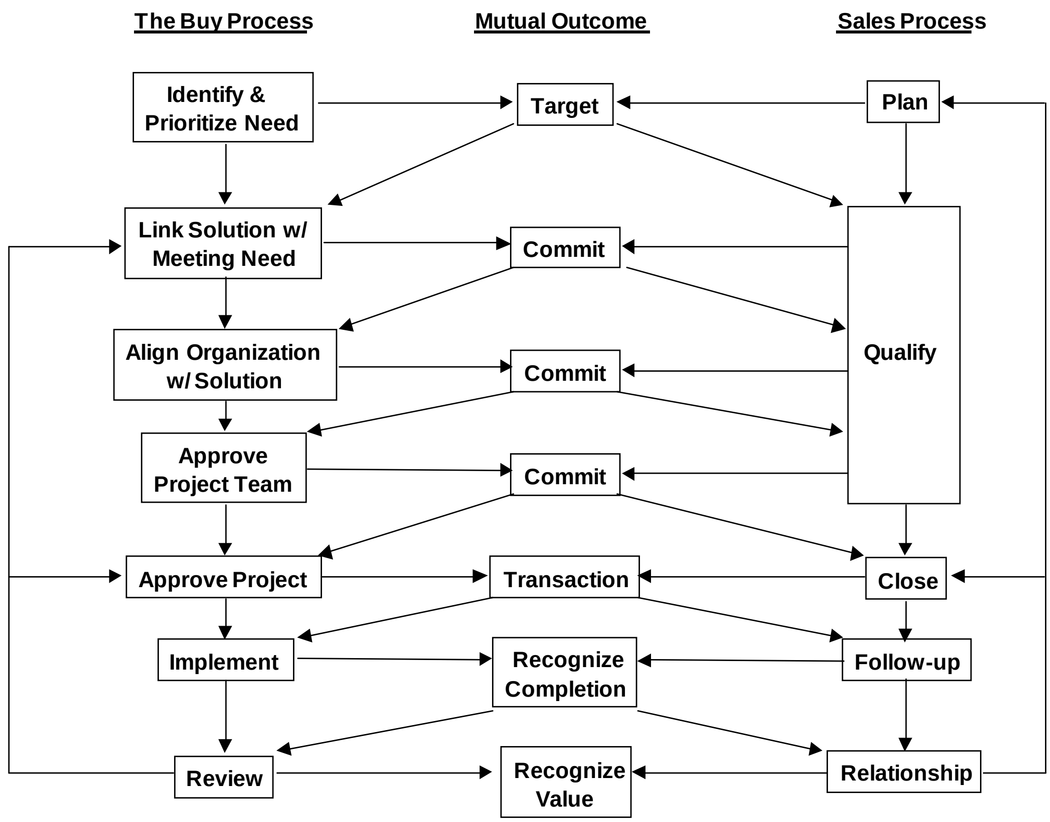
Unfortunately, many organizations confuse the sales process for what is essentially *opportunity management*. Opportunity management is focused on tracking the progress of major deals from inception to final determination. These tools are certainly valid but they tend to ignore the front end and back end of the sales process and therefore encourage “gun-slinger” type of selling that has limited long-term viability.

Integration of the Buy and Sales Cycle

From the buy/sales process model (next page), the following conclusions should be obvious:

1. Proper targeting and qualifying of prospects are critical to sales productivity. If the sales person enters too soon, it is basically a missionary sell wherein the sales person spends a great deal of time and effort to educate the prospect with questionable odds on actually getting any business. On the other extreme, if the sales rep enters at the *Approve the Project* juncture, the prospect may be at the Request For Proposal (RFP) point where a preferred vendor is already entrenched.

2. However, it should also be apparent that helping the organization work through their internal alignment and justification issues could reduce the calendar time to reach project approval stage where the vendor can actually **sell** something. In the post installation period, the sales rep needs to ensure that the customer considers each phase of their project to be complete because this is often essential to move to the next phase. Lastly, the sales rep needs to review the perceived value add. This is critical feedback to the vendor organization and is often pivotal to the customer being an evangelist or at least a positive reference for helping to close new deals.



Intersection of the Buy and Sales Processes

3. There is always a buy cycle. In the case of CRM, it is a strategic sell, but even where the purchase is routine there is always a buy cycle. For example, vendor performance is often reviewed within certain cycles and contracts with vendors often have renewal dates. New partial revisions or updates typically require reviews. Each of these situations is an opportunity to leverage the buy cycle and either create a new customer or further enhance the standing with existing ones.

How to Shorten the Sales Cycle

It is one thing to understand and document the respective buy/sales cycle; it is another to utilize this information and insight. The process begins by being able to target or otherwise identify innovative organizations that are early adopters versus lower level staffers who are merely kicking tires. The sales person needs to determine whether the prospect is worthy of an investment in time and effort if the prospect requires significant education versus other prospects that are further down the path.

Once a prospect has been qualified, the sales rep must assess the proper course of action to facilitate the decision process. Typically this involves providing data as to how to address the issues, positioning the company in terms of the prospect’s needs and value criteria, and influencing the decision criteria. These steps tend to reduce buy cycle duration and enhance the probability of a vendor win.

As stated previously, following up on each implementation phase and documenting benefits enhances the value perception of the customer and makes them a better reference which in turn speeds other sales campaigns due to the availability of quality references.

The ROI of Using ROI to Shorten the Sales Cycle

There are essentially three places in the sales process where a ROI type calculator can leverage sales performance:

1. In the qualifying phase, a simple ROI calculator can be used to encourage prospects to do essentially a simple order of magnitude assessment. This tool serves two purposes; one is to clarify for the prospect the opportunity and the other is to differentiate those inquiries that are serious versus those which are tire kicking. For example, GE Information Systems created a simple ROI calculator for inquiries relative to Electronic Data Interface (EDI). GE found that companies that took time to input the data to complete the evaluation were orders of magnitude more likely to actually implement EDI than those who did not complete the analysis.

2. During the final phases of qualification and commitment to purchase, organizations often must justify their proposed purchase. By providing, a ROI calculation tool, prospects can either use the tool itself or use the business rationale to create the justification. Either way, the reference provides the prospect with ideas and a direction that shortens the time span required to create the necessary justification. For example, Nordstrom Valves Inc., located in Sulfur Springs, TX, manufactures and sells to the oil and natural gas industries. Their product is considered the “Cadillac” of the industry. To illustrate the value of its products, Nordstrom implemented an interactive software program. The technology has proved useful to sales people and to customers, who now have better information with which to select a valve. One of the keys of their sales success is to get the customer to specify Nordstrom valves upfront. However, with sales cycles as long as one year and prices that can be 15-25 percent higher, Nordstrom needed a better way to market. The program they developed compares the prices of Nordstrom’s valves against competitors by factoring maintenance costs along the way. Sales people use the program to quickly demonstrate life cycle cost analysis, ROI, and break-even analysis. The system has a configuration capability of over 500 valves. Customers can input pressure and flow and the system presents the results in a graphical and easily understandable format. Both the financial and configuration software can be left with the customer to configure products themselves.

3. In the post implementation phase, it is important to revisit the value received by the customer. This reinforces in the mind of the customer that value was received and provides the vendor feedback relative to what is important in the eyes of the customer. For example, a Fortune 100 company “knew for sure” that customers were buying a certain component on the basis of price and technology. Business reviews with customers later demonstrated that 90 percent of the customers were buying on the basis of delivery and the availability of technical design assistance. When this was recognized, the company revamped the entire sales process and support functions to deliver against this criterion. Consider the potential for waste when a company is investing heavily in areas where the customer subscribes little value.

Assessing the Opportunity

In order to add some additional perspective on the potential impact of an ROI calculator for the sales organization, consider the following illustration.

Ambitious Enterprise sells e-learning applications to major corporations in the US. For many organizations e-learning is a new concept, which requires significant investment beyond the purchase of the tools provided by Ambitious. Some organizations are aware of this technology while others are completely unaware of its existence. Ambitious has hired 50 sales people and their loaded cost is $200,000 each. Each territory has a quota of $4 million; roughly half of this amount needs to come from new customers. Last year Ambitious deployed a sales automation application and has a reasonable idea of number or calls, leads, etc. and considers each sales person to be doing a good job based on the tools they have been provided to date. Senior management is convinced however that the organization has to work smarter in that many sales campaigns do not lead to new business.

An analysis of sales activity indicates that the sales people net out around 200 selling days when vacations, holidays, meetings, conferences, and training are accounted for. Given an average to two face-to-face calls per day, this equates to 400 calls per year or $500 per call. Roughly 40 percent of the sales person’s time is spent with existing customers, this leaves approximately 240 calls available for new business. Average deal size is $250,000, this means that 16 deals are required to make quota and that typically 8 of these must come from new customers.

To close a deal requires 20 face to face calls and therefore 8 deals requires 160 calls leaving 80 calls to be invested in qualifying. If each territory receives 48 leads per year, then the hit rate is 8 divided by 48 or 16.6 percent.

Assume that Ambitious discovers that when a lead is entered into the system, if the company sends a simple survey and ROI estimator, the companies that complete the survey and calculator are five times more likely to actually purchase the product. Assume that this improves targeting by 12 percent. This would mean that the hit rate goes from 16.6 percent to 20.75 percent (16.6 x 1.12). Given 48 leads, this would equate to one additional deal per year. One extra deal times 50 sales reps generates an incremental $12,500,000 (50 x 250,000).

Following the success of the lead package, Ambitious invests in a high quality ROI calculator that effectively helps organizations sell their e-learning initiatives internally (facilitating the buy cycle). This step reduces the average time to close from 16 weeks to 12 weeks and reduces the calls to close from 20 to 15. This frees an additional 40 calls, which should equate to at least one more deal per year, which would add another $12,500,000 in revenue without considering any impact on existing customers. Further assume that revenue forecasting is improved by 10 percent due to reduced deal close time and the access to the internal customer economics. This allows Ambitious to better utilize staff consultants, which equates to a $1,000,000 reduction in costs.

Further, assume that Ambitious goes all out and uses a proof of value (POV) discipline that invests sales rep time in reviewing results with each customer to ensure delivered value. This step requires extra calls but generates additional reference accounts that provide leads and help to improve win ratios based on the quality of the referral. If this improves the close ratio by 10 percent it would easily compensate for the reallocation of sales time assuming that each POV required a half-day to complete. To assess the impact of these changes on Ambitious, the following chart provides a summary of the improvements:

Category	Existing	Improvement	Projected
Revenue	200,000,000	25,000,000	225,000,000
Cost of goods sold (50%)	100,000,000		112,500,000
Sales and Gen. Admin.	50,000,000		50,000,000
Other Costs	10,000,000	(1,000,000)	9,000,000
Net Before Tax	40,000,000		53,500.000
Tax (50%)	20,000,000		26,750,000
Net After Tax	20,000,000		26,750,000

Thus, on an after tax basis, the improvements in the sales process generate an incremental $6.75 million dollar increase to the bottom line. Senior management is happy but they recognize this is just the beginning of the commitment to this discipline.

Summary

1. Regardless of the product or service being sold, the absence of a defined sales process is analogous to going on a trip to a new destination without a roadmap. Operating with a defined sales process is a necessity.

2. If your organization is selling on a value proposition and not providing tools for the prospect or customer to assess this value both before and after the purchase then you are completely dependent on the customer to accurately perceive and assess this value. This tends to be a risky position from a number of perspectives:

- The customer may not fully appreciate the value and therefore approach your product/service as a commodity (pressure on margins).
- Your assessment of value may not match the customer's, leaving your competitive position vulnerable.
- You may be investing time and effort in providing something the customer does not value.
- The customer may desire something that you do not realize is important.
- The customer may be evolving new needs and requirements that become obvious too late. This type of situation is often not picked up in customer satisfaction surveys.

3. Recognizing and facilitating the customer's buy cycle is a practical and pragmatic method for leveraging sales effort and effectiveness. The results can have a spillover impact on other parts of the organization; for example, improvements in forecasting can have a significant impact on cash flow and costs.

4. Many of these capabilities can be achieved at relatively nominal costs, yet they represent critical strategic importance to the long-term viability of the organization. Particularly in an era when emphasis on bottom line profitability is so pervasive, an organization can ill afford to rest on its reputation; its customer contribution must be real and palpable.

About The Author

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader. 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 their competitive capabilities.

Mr. Petersen can be reached at 505-401-0199 or gpetersen@competitiveperformance.com