Building sales for start-ups

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Introduction

Ok, so the product or service has been developed. Beta trials are going well and the prospective customers look like they are willing to buy what you have developed. Your company is about to transition from the development phase into sales. The time has come to hire the sales force and begin the path to profitability.

After months of worrying about product requirements and development execution, you are starting the most critical phase of the company's existence. This is where you finally get to see the match between product/service and the market. The classic question "Will the dog's eat the dog food?" is about to be answered.

The sales phase is critical because you have to ramp expenses to build out a sales team ahead of seeing any sales revenue. The first few sales will begin to give you feedback on all the assumptions that have been made:

- Match of capabilities to customer need
- Gross margin
- Pricing
- Discounts
- Sales cycle
- Cost of sales

Until you begin to get this feedback and validate your assumptions, there is high risk that you will learn your mistakes in parallel. The best way forward is to start small and quickly garner feedback on your assumptions. In this way, you can judge whether increasing sales expense will gain you more revenue.

Yet judging sales progress can be a very frustrating experience unless you take some basic steps to make sure you understand what is going on. You wouldn't expect to be successful in developing a product/service without a plan (complete with milestones, progress reports, risk assessments etc.) and the same logic applies to expanding sales.

The purpose of this note is to provide a framework for establishing a measurable and repeatable sales process that provides timely feedback on the performance of a sales organization. The process is focused on sales efficiency and rapid identification of what it takes to close business.

We'll start of by reviewing the key resource, the sales person, and then go through lead generation, the sales process itself and then review how to develop a forecasting tool for driving business.

The Sales Person

Sales People are optimistic by nature. They are people-people, outgoing souls who are good at relationships and want to please the customer. Figuring out whether you are about to hire a sales person who can be successful selling your product/service can be tough. Sales people are all capable of at least one thing; selling themselves! Past success isn't always a guide to whether they can be successful in your environment. You have to take a deep look into what it took to sell the products they sold in the past;

where they selling product for an established company where there was already recognition of their prior company and its capabilities? Were they blazing a trail or following a path cut by others before them?

The day you hire a sales person they start digging an expense hole. It takes time to train them on your product/service and its capabilities. Once trained, the sales person starts to make calls but still hasn't closed any orders. Until the orders begin to close, the expense hole gets deeper. Remember, its not just the expense of the sales person but also includes allocated costs of any sales engineers, back office sales support, etc. The goal is to minimize the size of the expense hole by making the sales person effective or by realizing that you've hired the wrong person for the job you need done.

There are two basic personality types for sales people; the hunter-killer and the farmer.

The *hunter-killer* is a carnivore; they identify their prey, stalk in to a suitable place to attack and then go for the kill. The really good ones can sell a wide range of different products/services. They relate well to the customers needs and are adept at mapping the company's offering onto the need. Given a set of basic leads, the hunter-killer will develop a sales territory from scratch and will be always looking for what it takes to close the business and get the order.

The *farmer* works best when there is already a developed path to the customer. This person is very polished, has a good rolodex and generally has sold to the same set of customers across several past jobs. He has an "in", is well known and trusted by the customers and is capable of selling when the customer matches the product to the need. If the need isn't clearly matched to the product, the *farmer* likely won't recognize the problem and will continue to invest in the relationships he's leveraged in the past. The farmer is an order taker, not a closer of business.

Over time, a sales organization needs both of these basic types but in the beginning you want to hire the hunter-killer. Hunter-killers are vastly outnumbered by the farmer so finding them is a tougher assignment. Some farmers appear to be hunter-killers but don't close business. You need a sales process in place that quickly lets you judge whether the person can close business or not.

Because of the relationship-driven nature of their personality, most sales people aren't good at cold calls. The cold call has a high probability of being a rejection – the prospect doesn't have a need for what the sales person is selling and so rejects the entrée to starting a relationship. Not only does this go against their personality but its an expensive use of time. The first step in building out a sales process is a focused lead generation capability that builds qualified leads – we'll discuss this in detail in the next section.

Once the sales person has a qualified lead there needs to be a consistent process that is used to follow the progress of the lead and progress it forward to an order. Having the same process in use across the entire sales force allows you to measure progress both of prospective customers and of the different sales person. It helps you evaluate between different sales people and different territories.

Making sales is a very measurable process and lends itself to many different metrics that can be used as a way of judging progress. Sales metrics are your best tool for managing a sales force and making them productive.

Lead Generation

The most effective way to use a sales person is to give them totally qualified leads as their introduction to a new sales prospect. What is a totally qualified lead (TQL)? A TQL establishes that the prospect:

- Has a need that the company's product/service can fill
- Determines that the prospect has allocated budget to fill the need
- Has agreed to meet with a sales person and a meeting has been scheduled

Generating TQLs can be done by less expensive labor than a sales person using a combination of the telephone, Web-based presentations and sales collateral. Just like sales is a process, generating TQLs is also a process complete with its own metrics.

The input to the TQL generating process are all sources of leads whether generated from advertising, direct mail, email campaigns, trade shows etc. You should make sure that you track the cost of each of these input leads so that marketing can measure the effectiveness and cost of different programs.

Each lead needs to be followed up to determine whether there is real interest or not. Experience has shown that passing these unqualified leads directly to the sales people results in a lot of wasted opportunity and waster time. Many sales people look over the raw leads they are handed for prospects where they have some level of existing “in”; those get called and the rest get dropped in the waste basket.

Each lead goes through the following process;

1. Make contact with the person named on the lead.
2. Discuss the prospect’s need and establish whether they are a fit for your solution.
3. Send them sales collateral.
4. Schedule a web or phone based presentation and complete the presentation.
5. Follow up on any questions the prospect may have.
6. Determine whether there is budget available to solve the need.
7. Get the prospect to agree to a meeting with a sales person and schedule the meeting.

The leads are progressed through these different steps by a lead generator using the phone, email and the Web. The person doing this task is usually young, outgoing, good people skills and very presentable. They need to be trained on the company and its product/service so that they can present a high-level overview and move the prospect through the different steps. It typically takes 80-100 phone calls to generate one TQL. So measuring the number of leads being processed, the number of phone calls being made and the progression of the raw leads through the pipeline of the process, allows you to assess progress.

It is generally best to build the lead generation capability in-house. This way you can get direct measurement of progress and also get early feedback on how well the presentation of the capabilities is working. Each lead generator needs to be trained and then carefully coached through the first few weeks of generating TQLs.

There are a number of consulting companies that can be hired to build an internal lead generation process. Two that have been used by other USVP portfolio companies are:

- SalesRamp
- SunsetDirect

The Sales Process

Simply stated, the goal of the sales process is to have a repeatable process that can be followed by *every* sales person. It is a framework to measure progress against converting a totally qualified lead into an order. Note the emphasis on *every* sales person – this cannot be an optional process, it is the very heart of a functioning sales team.

The process centers around the development of an account plan for each TQL. The account plan contains the following information:

- Prospect company name
- Date initiated (TQL meeting date)

- Brief description of the prospect's need
- Brief description of the proposed solution
- The dollar amount of the proposed solution
- Quarter in which budget is allocated
- Quarter in which an order is projected to be closed
- Names, email addresses, phone numbers and rating for:
    - The **technical influencer(s)**—this is the person who is the prospect's lead technical staff who has to buy into the proposed solution, what it will take them to implement the solution, how it fits in their environment and how well it solves their problem. It is critical to get the technical influencers on your side early on as they can become a strong advocate (or road block) toward getting an order. If you are successful, the technical influencers will look like heroes once the solution is in place.
    - The **internal customer**—this is the person who has the need and wants to get it solved. Usually this person is in a management role or has been given a specific mandate to fill the need.
    - The **coach**—this is a person who works for the prospect who wants to see you succeed and provides feedback on how things are going, gives heads up on local politics and can provide back door information.
    - The **buyer**—this is the person whose approval is needed to generate an order. It has to be someone with sufficient level of spending power to approve the order. Depending on the size of the prospect, this may be the CEO, the CFO or a divisional VP/Director.

  The rating is a number from 1 (Unfavorable) to 10 (Most favorable) that is a qualitative assessment of how supportive the individual is to seeing you fill their need.
- Simple organization chart that shows how the different people relate to one another in the prospects organization.
- History of contact (phone calls, evaluations, meetings, etc.) in reverse chronological order so that the most recent contact is at the top.
- Plan to convert to order: this is a set of steps that shows how the prospect will be moved forward to an order. It includes presentations, evaluations, etc. toward building confidence. The plan needs a target date, actual date and an owner for each step in the plan.
- List of issues: these are the obstacles that are in the way together with a proposed action to resolve the issue. For each issue, there is an owner, target date and actual date resolved.

This information can usually be summarized on two or three pages and should be captured by a sales force automation system (SFA) such as SalesForce.com, SugarCRM or similar. Unless all the information is present in the account plan AND the information is captured in the SFA system, the sales person should not get commission for a sale.

There is a template for the account plan in appendix A at the end of this note.

The account plan for each prospect should be reviewed weekly by sales management with an emphasis on completed actions during the last week, the actions for the upcoming week and the issues & actions that need to be taken. The review should be very crisp and quantitative; sales people should be kept focused on the plan review and not allowed to digress into qualitative assessments or anecdotes.

In many cases, the conversion of a prospect to an order will require an evaluation or trial of the product/service. Especially in the case of a product evaluation where you are shipping product to a prospect, it is critical to have an evaluation plan that describes what will be done and how long it will take. The prospect needs to sign off on the evaluation plan and agree to allocate resources to complete the evaluation; corresponding resources need to be assigned within your company to support the evaluation and quickly respond to issues.

The expectation should be set up front that a successful evaluation will result in an order. No product should be shipped to a prospect for evaluation without a plan in place. This is the only way to qualify where to place evaluation product and to minimize the amount of product that is deployed for evaluation.

Think of the pool of evaluation units as dead capital that has consumed your resources but isn't generating revenue.

You should insist that a high-level sales dashboard is constructed and updated every week. This should include the key metrics that allow you to track the overall sales process as a review tool both with your sales staff and with the board of directors.

A sample sales dashboard is included in Appendix B.

The Sales Forecast

The sales forecast is the tool you use to track how leads are progressing towards orders and therefore whether your sales target for a given quarter will be made or missed. Achievement of target sales with associated gross margin contribution is the most critical element of your business plan at this stage of the company's life. It directly affects how much capital it takes you to reach breakeven and self-sufficiency.

Company performance against sales objectives is affected by many factors; some, such as product functionality and quality are within your control while others are influenced by the general business environment and the factors affecting the business of your prospects. It is common for sales to show some level of seasonality even when growing sales. Having a detailed history of how sales have been generated in the past is an input to business planning for the current financial year.

A sales forecast is an assessment of the sales prospects for the current and future quarters. Its primary source of data is the SFA system that tracks all prospects and their progression towards an order. Secondary inputs to the forecast include the sales teams assessment of which prospects will close in the quarter (committed sales) and potential upside, prospects that might close in the quarter.

There is a tendency among sales executives to base the forecast on a probability analysis of the prospects under development. This starts off with the concept that the funnel of sales prospects can be ranked by probability based on the stage of the prospect. A prospect might be ranked at 10% probable after a first customer meeting with subsequent milestones in the process of converting the prospect to an order ranked at increasing probabilities. The dollar value of the prospect is multiplied against the probability (ie $100,000 order at 90% contributes $90,000 to the forecast) and the total of all the weighted prospects is the forecast.

The end result is a very misleading forecast; for example, the day before the end of the quarter, our 90% order is worth either 100% if it can be converted to an order or 0% if we can't close it by the end of tomorrow!

The only viable way to build a forecast is to look at **sales coverage** – the ratio of *qualified* prospects to the target for the quarter. A sales coverage of 3-5 to 1 is needed to have a decent chance at being able to achieve the sales target for a given quarter. It's a matter of statistics; you can't control when a given prospect will turn into a sale but you can put more prospects in play. At some point, the law of averages starts to work for you and a predictable *amount* of business can be closed rather than a specific set of business. Whether the number is 3:1 or 5:1 (sometimes even larger!) depends on the nature of what you are selling and the market to which you are selling.

For a given sales approach (and team), the percentage of the overall business that can be closed in a given quarter can be very consistent (it may be consistently below your plan – this points to other issues such as sales approach, pricing, lack of functionality, competition, etc. and warrants close examination) and provides a sanity check against the business goals for the next quarter.

For example, let's say that the sales team has regularly closed 30% of the pipeline of prospects in a given quarter. If the following quarter ramp in revenue would require 50% of the then available prospects to be converted, it's a pretty good bet that you're going to miss the sales target for the next quarter.

Similarly, tracking the rate of business closure during the quarter is also a good indicator over time. Ideally business would close linearly through the quarter – after one week, you would have one twelfth of the target closed, after two weeks – one sixth and so on. Many businesses show a pronounced hockey stick in closing business with a disproportionate amount of business closing in the last two to three weeks of the quarter. The curse of the hockey stick affects companies large and small; Oracle for example books 60% of its business in the last three weeks of the quarter with escalating discounts being used as incentives to get customers to order. Unfortunately they have trained their customers to expect increasing discounts and are stuck with a process they are hard pressed to change. Such are the dangers of quarterly reporting!

A simple graph can be used to track the closure rate of business against plan; ideally the rate of business closure is one or above a straight line between 0 sales at the beginning of the quarter and 100% at the end. Track the actual closure rate during a quarter on the graph. The graph can be used to track progress not only against the current quarter but also against past quarters.

The process of building the sales funnel is broadly:

- Lead generation results in Totally Qualified Leads (TQL)
- TQLs are the input to the sales funnel and are the minimum qualification level to be considered in the funnel.
- TQLs are associated with a projected closure date as part of the account plan for each lead.
- The forecast for the quarter is the sum of all TQLs with projected close dates in the current quarter.

The key to linear business is the objective for each sales person to close business within the upcoming week. An integral part of the forecasting and sales management process is a weekly conference call or meeting of all sales people to review what business they will close *this* week.

This call will force attention to be maintained on closing business and also stimulate demand for new sales leads on which to call.

Conclusion

The key to managing revenue growth is to have a defined process and a set of metrics that provide visibility into the operation of the sales team. Regular reporting and review of the metrics will bring trends to light and highlight issues that relate to other functional areas of the company.

Even great sales executives will benefit from a defined process; the truly great ones will insist upon the process, the rest you may have to help!

Target Account Sales Plan

Prospect Name:		Sales Person:	Date Initiated:
$ Value:	Budget Q:	Proj. Close Q:	Plan Rev:

Description:

Proposed Solution:

Prospect contacts

Role:	Name:	Title:	Phone:	Email:	Rating:

Org. Chart:

Target Account Sales Plan

Plan to convert:				
Action:	Owner:	Completion Date:	Issue to close:	Status:

Issues:			
	Owner:	Orig. Date:	Completed Date:

Contact Log			
Date:	Type:	Who:	Description:

Appendix B – Sales Dashboard

Sales by region, by quarter

- Target/actual
- Sales efficiency ($revenue/$cost)
- Average days to close
- % of prospects closed
- Cover ratio ($Prospects/target)
- Prospects number and $ (Total, closed, lost, moved to next quarter)
- $/sales rep
- Average discount

Quarter performance

- Last week - $ target, $ closed
- This week - $ target, $ projected
- Quarter to date – Target, Actual
- Linearity graph (by week target vs. by week actual)

Pipeline Stagger chart

- $ and number required at 3.5x cover required vs. actual

Lead Generation

- Last week (# calls made, # prospects by stage of lead development, TQL generated)
- By lead rep – calls made, TQL generated

Sales Rep Performance by territory, by rep

- Sales quota by quarter (target, achieved)
- Quarter stagger chart – Required by week vs. actual by week