Harvard Business Review
www.hbr.org

RESEARCH REPORT

Patterns of customer behavior have changed. Today, consumers may be well along in their buying process before you get the first whiff of a lead. Consequently, sales organizations should redesign—and in some ways reinvent—the selling process.

Understanding What Your Sales Manager Is Up Against

by Barry Trailer and Jim Dickie

Reprint R0607C

Patterns of customer behavior have changed. Today, consumers may be well along in their buying process before you get the first whiff of a lead. Consequently, sales organizations should redesign—and in some ways reinvent—the selling process.

RESEARCH REPORT

Understanding What Your Sales Manager Is Up Against

by Barry Trailer and Jim Dickie

For the past 12 years, we have conducted an annual survey of chief sales officers—the executives in charge of their companies' selling efforts. One purpose is to understand what challenges their sales organizations are up against and how those challenges are shifting over time. The 1,275 responses to our 2006 survey indicate an acceleration of trends established over the past several years. Across industries, the selling context has changed, buyers are behaving differently, and the work required of the sales organization is becoming more difficult.

Let's start with the fact that 85% of companies report increases in their product-line breadth, product complexity, *and* participation in new markets. The impact on the sales organization comes in many forms. It takes longer to get a new salesperson up to full productivity: 62% of companies report a ramp-up period of more than seven months. The percentage has risen in each of the past four years, but it made its most dramatic one-year jump from 2005 to 2006. The quotas being assigned to salespeople have also gone up substantially. While this is to be expected, given the rebound in the world's major economies, we were surprised at the level of change—an almost 20% increase, on average, from 2005 to 2006. Meanwhile, sales reps have less help in meeting their goals. The ratios of sales support personnel to sales reps and of sales managers to sales reps both widened.

Somehow, even with such higher demands, quota attainment has not suffered—58% of reps made their quotas in 2005, and 59% in 2006. But various conversion metrics suggest this increased production is the result of just that much more hard work. For example, the past several years have seen declines in the percentages of leads resulting in initial meetings, initial meetings leading to formal presentations, and presentations resulting in sales. The past year alone saw a 5% to 8% decline in these metrics—a big step backward in productivity. (See the exhibit "More Work, Less to Show for It.")

These figures are symptomatic of the more than 100 sales-performance metrics we asked about. Not every metric shows deterioration, but it's hard to imagine anyone concluding from our data that sales has become an easier job.

Diverging Cycles

In-depth interviews with sales executives help to clarify why the data are trending as they are. In the broadest sense, it's because the buyer's cycle has become decoupled from the seller's. Buyers have always had a buy cycle, starting at the point they perceive a need. Sellers have always had a sales cycle, starting at the point they spot a prospect. It used to be that these were in sync, either because the seller created the buyer's perception of need or because the only way for buyers to pursue their desire was to contact a salesperson (frequently for product information). Now, the buy cycle is often well under way before the seller is even aware there is a cycle.

One doesn't have to look far for evidence that this is so. As part of a recent speaking engagement, we asked for a show of hands: How many people had bought a car in the past two years? About a third of the delegates had. We asked them to leave their hands up if they went to the Web for information on cars before they communicated with a dealership. Virtually every hand stayed up. The same finding shows up more scientifically in study after study, in both business-to-consumer and business-to-business commerce. Clearly, the tables have turned on negotiating power, and the advantage of information asymmetry is now the buyer's.

This is profoundly disruptive because sales reps used to live, more than almost anyone in a business, on the knowledge they held in their binders. They were the keepers of the data sheets, reference lists, white papers, and price lists. Whether the customer was a home owner trying to scope out the insurance he needed, a manager comparing commercial databases, or a space shuttle engineer specifying a transformer by weight and performance in certain temperatures—all used to require direct discussions with a vendor's sales rep, and sometimes over extended periods. Today, the information is available on the Web, not just from sellers but from other buyers and third parties. The three tasks we just named and countless others can be accomplished via the Internet in the time it took to write (if not read) this section of our article.

So sales forces find themselves in a challenging spot. Their reps arrive late to the party and must be prepared to respond to a deeply informed line of questioning—and that's if they get to the party at all. We benchmarked a plastics manufacturer that posted over 10,000 pages of product information on its Web site. Soon after, its head of sales noted a troubling deterioration in its lead conversion rate and hired an outside firm to discover the cause. Interviews with prospects who never bought from the manufacturer showed that many of them felt so well informed by the online information, they didn't see the need for an in-person or phone meeting with a company rep. Meanwhile, competitors, typically with no product superiority and certainly no Web advantage, swept in and walked off with the sales. Ease of access to the product information had actually turned into a barrier for the company that provided it.

Elusive Decision Makers

Another deep trend behind the sales productivity downturn has to do with changes in how buyers make decisions. Salespeople have long been versed in the concept of the "economic decision maker"—that single individual, particularly in a large deal, who holds ultimate responsibility for the decision to buy. But such individuals are a vanishing breed. Replacing them are committees or multiple layers of approval all equally important to the decision to move ahead. This is partly why the length of the average sales cycle keeps increasing. In our 2004 and 2005 surveys, approximately 18% of the companies reported sales cycles of seven or more months. This year, that figure approached 25%. On the opposite end of the curve, only 42% of companies in the 2006 survey stated that their sales cycle was three months or less, compared with 51% in 2005. At the same time, the number of calls salespeople have to make before a decision is made has risen over the past four years. Our interviews underscored that these are not more calls on the same people; they are more calls on more people, as deals require more levels of sign-off and the support of more stakeholders.

Priorities and Plans

Part of our survey's aim is to understand the

Barry Trailer (barry.trailer@csoinsights.com) and **Jim Dickie** (jim.dickie@csoinsights.com) are partners at CSO Insights, a San Francisco–based research firm that studies how companies market, sell, and provide service to customers. Every year, they publish the results and analysis of their annual Sales Performance Optimization survey, a detailed study of key sales-effectiveness metrics. They've written several books on sales force technology and leadership.

challenges sales leaders face, but the more valuable part is to discover how they are responding to these challenges, and what actions yield positive results. As they plan initiatives for the next 12 months, sales executives are focusing their investments as shown in the exhibit "Top Sales-Management Priorities for 2006."

It comes as no surprise to us that lead generation is by far the top priority. Two benchmarking studies we conducted in the second half of 2005 underscored this finding. Both highlighted the importance of increasing campaign response rates, improving the hit rate in converting initial leads to qualified prospects, and making the most of leads when they are generated. All the needles are pointing in the same direction—toward reinventing how to get the attention of potential buyers.

For a salesperson, a steady stream of worthy leads is practically nirvana. Right now, our survey shows, about 20% of salespeople's time is spent on prospecting. The value of freeing up some of that time for pursuing already-defined opportunities is obvious. Also, when the flow of leads is more robust, the qualification of those leads tends to be more rigorous; the candidates that do make it into the sales pipeline tend to have shorter sales cycles, higher contributions to profits, fewer complications, and higher customer-satisfaction ratings.

This raises the question: What makes a qualified lead? For too many salespeople, the answer remains: anyone who can fog a mirror. Their bosses are hoping that better sales-talent management, more disciplined processes, and evolving technologies can put a finer point on things.

Depth of a Salesman

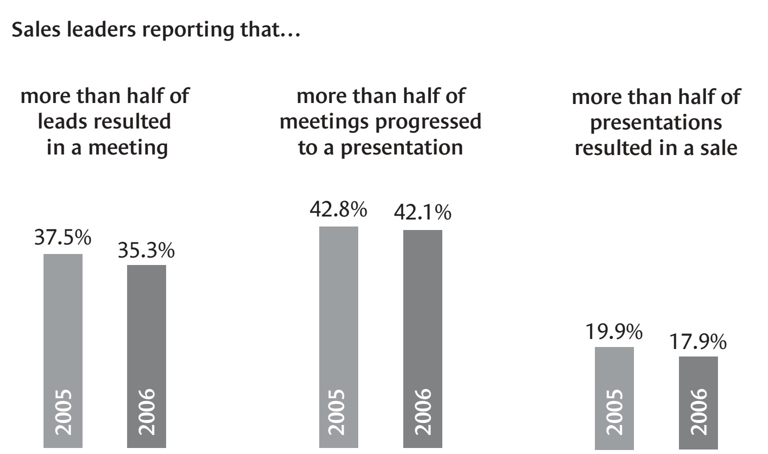
Sales executives understand that the new selling context has real implications for how they hire, train, manage, coach, and retain salespeople. Sales reps must now be able to dive deep, answering specific technical questions, and fly high, providing purchase-justification arguments, solid business cases, and assessments of overall performance impact. They must provide more nuanced application knowledge and be able to "unhook" some of what buyers believe they know without alienating them.

The pressure to raise the salesperson's game is all the more intense because, when customers don't perceive any added value from their interaction with a seller, the buying process can shift dramatically. Executives at a computer hardware manufacturer told us that for one of their product lines, over 36% of 2005 sales came through "reverse auctions"—those race-to-the-bottom exercises where the customer says it will buy a certain number of units, and vendors with comparable products bid the price down to close the deal.

The good news is that companies' planned investments in training are up this year—and most of those resources will go beyond building the product expertise that has been the salesperson's traditional contribution. Many management thinkers before us have outlined the levels through which sellers must ascend in their customer relationships. We see this as a four-step progression: from vendor to preferred seller, then to consultant, then to contributor, and finally to partner. Each advancement pays off handsomely in increased credibility, access, margins, and repeat business—and decreased competition, price sensitivity, and sales-cycle length. But consider what's required of the sales force to achieve that progression. While a vendor needs only a good product or service, a preferred seller must have a higher level of un-

More Work, Less to Show for It

Sales is a numbers game: Given a quantity of leads, salespeople will convert only so many into meetings. Some percentage of those meetings will progress to formal presentations. And some fraction of those presentations will yield sales. Our survey data show all those numbers looking worse in 2006 versus 2005, continuing a trend of several years' deterioration. The net effect is that it now takes many more leads—and much more work—to win the same amount of business.



derstanding of how the seller will use it and what functionality is required. A consultant must understand a customer's business, a contributor must understand the customer's industry, and a partner must understand the customer's particular organizational issues. The shortage of salespeople knowledgeable and talented enough to attain those upper levels will become even more acute in the coming year, as our survey indicates an overall increase in net-new hiring. (See the exhibit "Sales Forces Will Grow.")

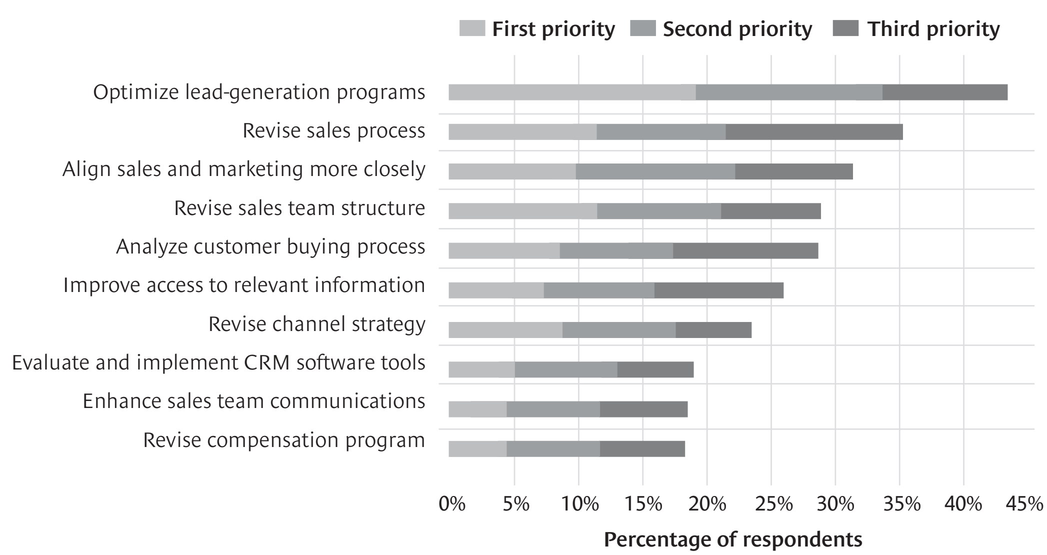
The right attitude. As sales executives make these new hires, they tell us they are on the lookout for reps who are, or are willing to be, process oriented. We'll discuss what it means to be process oriented in the next section, but for now let us share a basic piece of advice: Run, don't walk, from any candidates who say, "Look, if I don't make my numbers, you can fire me." They are expressly telling you they are not open to inspection or to the notion of continuous improvement.

But candidates aside, even some of your top producers currently on board may have this attitude, as well as another counterproductive impulse: "Nobody talks to my clients without me." For many years and in many ways, sales reps have fought to "own" their accounts and essentially broker customer relationships. All communication was through the sales rep, and exactly who was (or was not) involved in the dialogue on the buyer's side was often kept secret. Today, however, it's vital that a sales rep act as a facilitator between the two organizations, marrying up peer-to-peer discussions. So how do you change the hoarding behavior?

First, recognize that your reps are holding their accounts as bargaining chips. Then, reflect on why they feel the need to do so. If they were to foster communication between the company and their accounts, would the culture reward them? Or would it ask, "Since we're the ones doing the work of having all these conversations, why are we paying this guy so much?" Similar behaviors arise when companies roll out technology solutions like customer relationship management (CRM) systems and discover what a hurdle they face in user adoption. Sales reps think to themselves, "Hmm. If you know who I'm calling, have all their contact info, know the last time we talked and what we talked about…" Human nature tends to finish the thought with the worst fear: "…then you don't need me anymore." Again, because reps feel the

Top Sales-Management Priorities for 2006

We asked sales executives what areas they were targeting for improvement in 2006. More than anything else, better lead generation is their goal. This makes sense given that lead conversion rates have suffered. The more a salesperson can rely on a good lead-generation program, the less time she has to spend on low-return cold-calling.



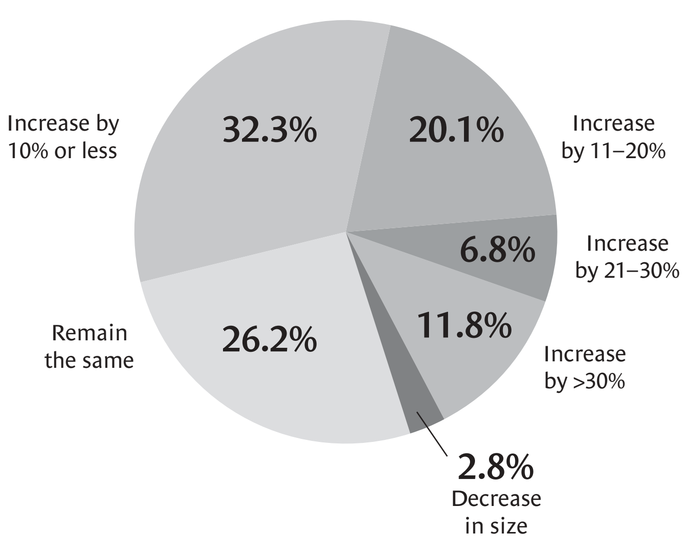
need for bargaining chips, they withhold information and knowledge.

Time in position. The expected increase in the number of new hires in 2006—and the experienced reps being targeted—should also serve as a warning. Smart sales executives are putting programs and policies in place to retain their best talent. Doing so has clear advantages. Our survey indicates that the greater the average tenure of the sales staff, the higher the percentage of reps making quota, the higher the average deal size, and the shorter the average sales cycle.

This year, we benchmarked several companies that were focusing on sales staff retention. For example, a publishing firm has a program that allows the top 10% of its reps (based on the previous year's performance) to hire their own administrative people for the coming year and bill the firm for the expense. This makes these stars even more productive and has brought their turnover rate down to 0%. A software firm is working to make sales a true life-cycle profession. Its new job structures allow salespeople to progress as individual contributors, as opposed to going into management to advance their careers. Other companies are motivating their sales support staff to stay in their jobs, too. One technology company, in the course of conducting customer satisfaction reviews, found that clients' ratings were often directly related to the tenure of technical support people working on their accounts. The company's compensation system, however, was encouraging those tech reps to move into other jobs, in development, technical marketing, or training. The firm changed that system by providing financial incentives for tech reps to continue working within established client relationships.

Sales Forces Will Grow

Hold on to your best reps—more than two-thirds of our 2006 survey respondents said they were planning to increase the size of their sales forces.



Process Prowess

Among sales management priorities, revising the sales process isn't far behind the top priority of generating more leads. But having a process is not the same as using a process. In our 2006 survey, 39% of respondents said that less than half of their sales force regularly uses the process the company has laid out as its standard, and another 31% said the standard process is followed by fewer than three-quarters of their reps. Having worked with many sales organizations, we've come to believe there are four levels of process prowess.

Level 1 companies may be perceived as being antiprocess, though what they really lack is a single standard process. Everyone does his own thing his own way. Being Level 1 does not mean a company is unsuccessful, but it does mean it is unpredictable.

Level 2 companies expect their salespeople to follow a process, but use isn't monitored or measured. This describes nearly half of the firms in our survey.

Level 3 companies typically enforce use of a standard process, sometimes religiously, but because their monitoring strictly looks backward, they are still susceptible to miscues and missteps in a constantly changing market.

Level 4 companies dynamically monitor and provide feedback on reps' use of the standard process. These organizations modify the process when they detect even minor changes in market conditions.

Level 4 companies are rare, but we found that they are formidable competitors—especially when they have also implemented CRM systems. As shown in the exhibit "Process Pays Off," their performance ratings tend to be much higher than those of the rest of the survey population.

Buyers have a process, too. While a surprising number of companies do not formalize their sales processes, those that do typically define the seller's steps in the process. We suggest that companies go even further and keep track of the actions required of *buyers*. Such actions might include explaining why the opportunity is critical, outlining timing and budget, identifying key buying influences, offering to make introductions, and detailing purchasing and approval processes.

Why bother? As a seller, every step in the selling process is yours to make; it may seem like you control virtually all the actions. But there's one exception: You can't close the opportunity by yourself. Therefore, the truest test of your progress toward successfully closing a deal (and thus a more accurate basis for forecasting) is what the buyer is doing to advance the sale. The actions taken on the purchasing side to move a deal forward are worth defining and tracking.

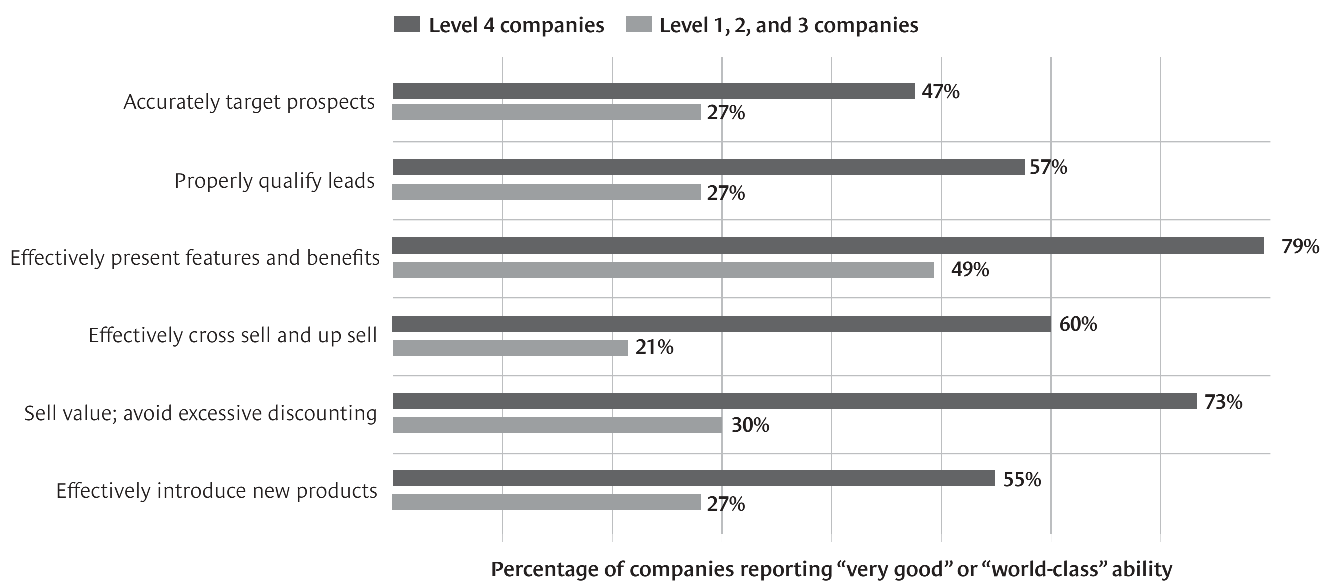
Marketing kicks off the sales cycle. Third on the list of sales executives' priorities is to align sales and marketing more closely. Again, thanks to the wealth of online information available today, buyers are conducting early and detailed investigations before contacting any seller. So the first sales response is most likely not in sales' hands but in marketing's, where Web site responsibility most often falls. Other approaches like telemarketing and marketing portals create even more overlap as both functions inform prospects and qualify them. Where a clear boundary once existed between the two areas, things have now become blurred.

As a result, the sales force needs to be much more aware of marketing's activities and better communicate its own. Prospects and customers have a remarkably low tolerance for having to repeat themselves or to sit through repetitive presentations, especially when they have already taken the time to inform themselves of a seller's product and service capabilities.

For many sellers, the chief benefit of closer alignment between these two functions will be a better flow of information around leads. Salespeople constantly complain to marketing that there aren't enough leads. Marketing typically responds by asking, "What happened to the leads we gave you?" Every lead has a life, and there's no reason the status of each should not be known by both groups. And this, conveniently, brings us to the topic of technology.

Process Pays Off

We asked survey respondents about their sales organizations' performance along six important dimensions. Separately, we assessed each company's capabilities in sales process management. Note the huge performance differential between the organizations we found to be at Level 4 in their process prowess and the rest of the pack.



Technology and Knowledge

Starting with the first contact management programs, evolving to sales force automation, and eventually morphing into customer relationship management, countless hours and dollars have gone into applying technology to sales. Early efforts focused primarily on efficiency improvements—doing things faster. Today's efforts focus more on effectiveness—doing things better. Our survey indicates new investment will be concentrated in CRM applications, sales knowledge management resources (including subscriptions to information-mining services, internal document-management portals, and internal tools for sharing best practices), and collaboration through technology (for instance, Web-based meetings, instant-messaging capabilities, and computer-delivered training). Just as important, we learned from current users of these applications that they are becoming easier to install and manage and that end-user adoption rates are rising.

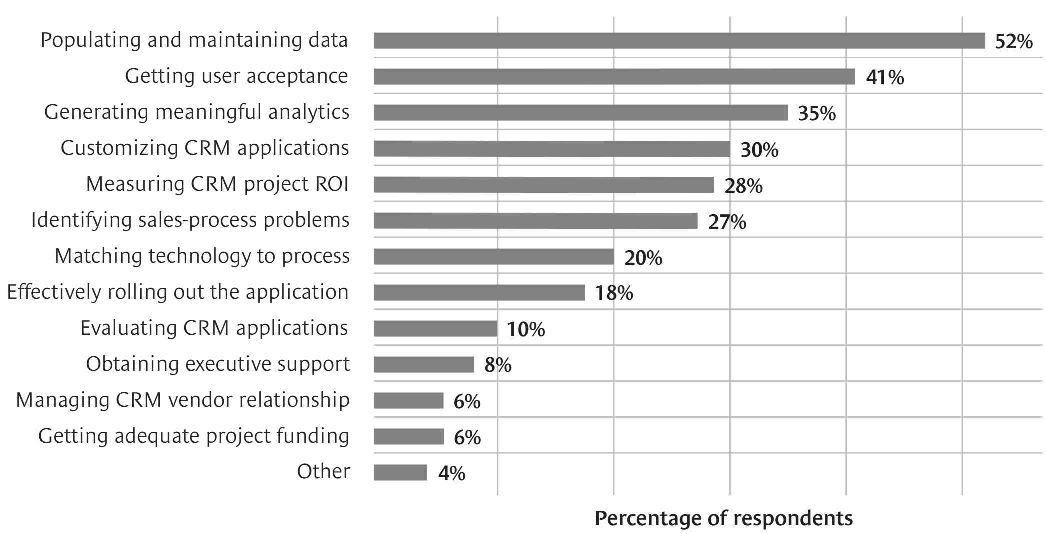
By far the most common use of CRM today is contact management. Salespeople are most interested in having a contact database, a calendar function, e-mail, and integration with document templates. CRM's early breakthroughs—like the ability to generate a form letter drawing on designated fields and formatted with no extra spaces—now seem quaint. Today, CRM's automated processes usher contacts through predetermined paths using branching logic (for example, if no response to last mailing, send letter B; if contacted by phone, send letter D), literature fulfillment, and more.

Still, most of these functions are focused only on efficiency. Many of the very latest features, specifically analytics and dashboards (like graphical displays of data), are making processes more effective. They allow sales leadership to monitor things like aging reports for opportunities in the pipeline for longer than the mean cycle time; opportunities that have jumped several process steps, then stalled out; fallout patterns (steps at which opportunities have dropped from the pipeline); and prospect-quality ratings. How many metrics can be ginned up (think baseball fans' love of inconsequential stats) isn't as important as how many of them are leading indicators of future sales performance.

The established order remains: Get your process straight, then automate. Determine first what the high leverage points are (for example, sharing best practices, increasing order accuracy, and following up on marketing campaigns effectively) and then prioritize them. Most of what has been captured and stored in call reports, forecasts, win/loss reports, and CRM systems is data. And most of this is not useful because historically there was no well-

Where CRM Falls Short

A customer relationship management system is only as good as the data it draws on. So perhaps it's no surprise that the demands of populating a large-scale database and keeping it up-to-date constitute the biggest challenge in CRM projects. Progress on that front would no doubt address the second greatest hurdle: getting salespeople to use the system. Indeed, the two go hand in hand.



In our 2006 survey, 39% of respondents said that less than half of their sales force regularly uses the process the company has laid out as its standard.

defined process behind the data creation to ensure consistency. (See the exhibit "Where CRM Falls Short.") If you doubt this, consider how a typical sales manager responds to a set of reps' forecasts. His or her first reaction is to think, "I know that Ted's 60% is different from Suzie's 60%, which is different from Jim's 60%."

Having a process in place that defines what 60% means and that, with managerial oversight, is uniformly and correctly applied provides the basis for solid *data*. Having an application—be it business intelligence, data-mining tools, or analytic capabilities built into the CRM application—to grind through those data produces *information*. Categorizing and storing this information so that it is both accessible and actionable leads to *knowledge*. Creating a culture that rewards sharing and recognizes contribution brings all these components together to produce a competitive sales and marketing organization.

The Art of Selling

We often follow up with companies where we have conducted formal sales training. In one such company, we had equipped the salespeople with a form to use in their work. The form tied together several concepts taught in the course and, by doing so, could quickly reveal the strengths and weaknesses of a given sales opportunity. On our return, we discovered that their use of the form was not exactly rigorous. The vice president of sales hedged a bit, saying, "We're not religious about using the form. I mean, we tend to use it on bigger deals....Some reps use it more than others...."

Rather than simply rehash the concepts, we asked the sales reps to go through their files and desk drawers and find any forms that had been completed during campaigns that year. Thirty reps managed to produce a few forms each. Our instructions were simple: "These forms are your equivalent of game films. Together, they cover nearly a hundred deals you pursued this year. Divide them up into wins and losses and look at them. Figure out what they're trying to tell you."

We share this story because the "films" taught us something. Unbelievably, between deals won and lost, there was no difference in what we thought was a key metric: the reps' success in getting to the top decision maker. However, in those deals that had been won, reps had early on and continuously made clear that they wanted and were trying to get to that decision maker, and they had articulated why that was important. It appeared that their clear and ongoing efforts to get to the decision maker produced positive pressure on the outcome of those deals even though, in many cases, the reps never actually got to that key individual.

For two sales experts who have spent years gathering data, it was one of those counterintuitive findings that keeps the job interesting. It was tempting to fall back on that classic conclusion—that selling is a science, except when it is an art. But we know that the best selling is now highly automated and process oriented, and that careful measurement produces insight and continuous improvement. And so another temptation prevailed: Here was a fresh hypothesis about selling. Given sufficient data, we could test it.

Reprint R0607C
To order, see the next page
or call 800-988-0886 or 617-783-7500
or go to www.hbr.org

Harvard Business Review OnPoint

Harvard Business Review OnPoint articles enhance the full-text article with a summary of its key points and a selection of its company examples to help you quickly absorb and apply the concepts. *Harvard Business Review* OnPoint collections include three OnPoint articles and an overview comparing the various perspectives on a specific topic.

Further Reading

The *Harvard Business Review* Paperback Series

Here are the landmark ideas—both contemporary and classic—that have established *Harvard Business Review* as required reading for businesspeople around the globe. Each paperback includes eight of the leading articles on a particular business topic. The series includes over thirty titles, including the following best-sellers:

Harvard Business Review on Brand Management
Product no. 1445

Harvard Business Review on Change
Product no. 8842

Harvard Business Review on Leadership
Product no. 8834

Harvard Business Review on Managing People
Product no. 9075

Harvard Business Review on Measuring Corporate Performance
Product no. 8826

For a complete list of the *Harvard Business Review* paperback series, go to www.hbr.org.