strategy and are focused on strategic product and distribution milestones. Avoid deals that don't directly align with your traction goal.

- **Create a pipeline of deals you're constantly working on.** For initial testing, you can reach out to a variety of potential partners to gauge interest.

CHAPTER EIGHTEEN

Sales

Sometimes hand-holding prospects can be necessary to turn them into real customers. One effective way to do that is via sales. Sales is the process of generating leads, qualifying them, and converting them into paying customers. This channel is particularly useful for enterprise and expensive products because often customers desire some form of interpersonal interaction before a purchase. Scaling this traction channel requires you to design and implement a repeatable sales model, which we cover in this chapter.

SALES STRATEGY

For consumer products, your first customers will likely come through channels other than sales—SEO, SEM, targeting blogs, and the like. When targeting bigger businesses, however, closing those first few critical customers can be significantly more challenging.

We interviewed Sean Murphy, owner of customer development and sales consulting firm SKMurphy, to talk about how he helps startups get their first enterprise customers:

> *Most of the time [their first customer] is going to be somebody they know or we know. For the most part, our clients are going into a market that they understand with technology that they have developed. We help them make a list of every project they've worked on and everyone they've worked with. They reach out and say, "Here is what we are doing: do you know somebody we should talk to that makes sense?"*
>
> *People who've developed expertise by working in a field for a while are typically able to get an initial meeting—cup of coffee or lunch, these kinds of things. Sometimes we encourage them to shift to a different market because we find out that the technology has more applicability and offers more value there. One of the first things we help them with is what we call a lunch pitch. This is a single piece of paper that has five to ten bullets and perhaps a visual that helps them focus the conversation, making sure they understand the prospect's problem. The early conversations are all about exploring the prospect's problem and pain points.*

Talking to prospects about their problems is not only a necessary sales tactic, but also necessary for good product development. John Raguin, cofounder of insurance software company Guidewire Software, explains:

> *We went to our potential customers, insurance companies, and proposed to do a short free consulting study that would provide [an assessment] of their operation. We would spend approximately seven to ten man-days of effort understanding their operations, and at the end we would give them a high-level presentation benchmarking them as compared to their peers. In return, we asked for feedback on what would make the best system that would meet their needs. In the end, we*

> *were able to work with over forty insurance companies this way. We were honest about our motives at all times, and we made sure to provide quality output.*

When it comes to structuring your initial sales conversations, we suggest using the approach developed by Neil Rackham as outlined in his book *SPIN Selling*. It is a four-part question framework to use when talking to prospects, based on a decade spent researching 35,000 sales calls:

Situation questions. These questions help you learn about a prospect's buying situation. Typical questions include *How many employees do you have?* and *How is your organization structured?*

> Ask only one or two of these questions per conversation, because the more situation questions a salesperson asks, the less likely he or she is to close a sale. That's because people feel like they're giving you information without getting anything in return. This is especially true of executive decision makers who are likely more pressed for time. Make sure you ask just enough situation questions to determine if you're talking to a likely candidate for a sale.

Problem questions. These are questions that clarify the buyer's pain points. *Are you happy with your current solution? What problems do you face with it?*

> Like situation questions, these questions should be used sparingly. You want to quickly define the problem they're facing so you can focus on the implications of this problem and how your solution helps.

Implication questions. These questions are meant to make a prospect aware of the implications that stem from the problem they're facing. These questions are based on information you uncovered while asking your problem questions. Questions could include: *Does this problem hurt your productivity? How many people does this issue impact, and in what ways? What customer or employee turnover are you experiencing because of this problem?*

> These questions should make your prospect feel the problem is larger and more urgent than he or she may have initially thought. For example, your prospect may see hard-to-use internal software as just an annoyance, a necessary cost of doing business. Implication questions can help shed light on the problems caused by this hard-to-use software: Does it lead to employee overtime because they struggle to accomplish things efficiently? Does it decrease overall quality of work? Does it impact employee turnover?

Each of the above questions helps frame the issue as a larger one in your prospect's mind. Then you transition to the final set of questions.

Need-payoff questions. These questions focus attention on your solution and get buyers to think about the benefits of addressing the problem. Such questions should stem from the implication questions you asked earlier, and can include: *How do you feel this solution would help you? What type of impact would this have on you if we were to implement this within the next few months? Whose life would improve if this problem was solved, and how?*

The SPIN (Situation, Problem, Implication, Need-payoff) question model is a natural progression. First you clarify that the prospect is a potential customer and break the ice (situation questions). Then you get them talking about the problem (problem questions). Next, you uncover all the implications of this problem (implication questions). Finally, you focus on how your solution addresses these implications and will solve their problem (need-payoff questions).

How do you get your first customers? As Steve Barsh, former CEO of SECA (acquired by MCI), said in our interview, "You get your first customers by picking up the phone." If you are fortunate, you may be contacting

people you know or were introduced to warmly by a friend. However, you may have to get your first customers by cold calling or emailing prospects.

We interviewed Todd Vollmer, an enterprise sales professional with more than twenty years of sales experience, who told us his approach to cold calling. Tactically, setting daily or weekly targets for outbound calls can help you get through the process. You'll be able to push yourself through some of those uncomfortable feelings (mainly stemming from rejections) with a concrete goal to work toward.

When making cold calls, be judicious about the people you contact. Cold calling junior employees is just as difficult mentally as calling more senior employees, but has a much lower success probability because they have less decision-making authority and industry knowledge. Sean Murphy suggests that your first interaction should be with employees who have some power, but aren't too high up:

> *Ordinarily, it's somebody who is one level or two levels up in the organization; they've got enough perspective on the problem and on the organization to understand what's going to be involved in bringing change to the organization. As we work with them they may take us up the hierarchy to sell to more senior folks.*
>
> *We don't tend to start at the top unless we are calling on a very small business, in which case you've got to call on the CEO or one of the key execs because no one else can make any decisions.*

Once you understand the potential customer's problem and you think your solution can help solve it, you can start to focus conversations on closing the customer. Specifically, Todd recommends getting answers for five specific areas:

Process—How does the company buy solutions like the one you're offering?

Need—How badly does this company need a solution like yours?

Authority—Which individuals have the authority to make the purchase happen?
Money—Do they have the funds to buy what you're selling? How much does *not* solving the problem cost them?
Estimated Timing—What are the budget and decision time lines for a purchase?

After a successful first call, Todd suggests sending a follow-up email documenting what you talked about, including the problems your prospect faces and the next steps. He also suggests closing emails with a direct question such as "Will you agree to this closing time line?"

Unfortunately, many enterprise entrepreneurs do not put enough thought into deciding on their first customer. Identifying the wrong first customer can lead to wasted time and squandered resources. Sean Murphy shared some pitfalls to avoid when seeking out a first customer:

> *One [problem] occurs when the prospect invites you in . . . [but] has no interest in buying what you have or will develop. They would like to learn a lot about this emerging technology area, or this problem area, or something like that. . . .*
>
> *The second situation that's also a waste of time is when someone claims to be a "change agent." He will tell you that your offering is going to have a huge impact; it's going to transform all of General Motors, for example. Substitute your favorite lighthouse customer. Before you get started doing everything that he is telling you to do, you need to ask him, "Have you ever brought other technology into your company?" More often than not unfortunately he will say, "Well, no, but you know I've only been here six months, and this is what's going to let me make a big difference here."*
>
> *So the two typical problems are you end up giving away free consulting or you talk to somebody that in their own mind is this change agent, but they have no idea how to make it happen.*

You want your first customers to be somewhat progressive and willing to work with you closely. As you're still developing your product, you want their active involvement in helping you craft the best solution. Forming a strong relationship is crucial because you want to use your first few customers as references and case studies to give your startup some measure of credibility when you start designing your sales funnel.

SALES TACTICS

Picture a funnel. As applied to sales, you start with many prospects at the top, qualify the ones that make good customers in the middle, and then sell a certain number of them on your solution at the bottom. We interviewed David Skok, general partner at Matrix Partners and five-time entrepreneur (he's taken three companies public and one was acquired), to talk about creating profitable sales funnels.

The first goal is to drive leads into the top of the funnel. Usually, this means using other traction channels to make people aware of your product. While cold calling or emailing can be an effective way to reach your first customers, David believes it's less effective when trying to build a repeatable sales model:

> *I'm in favor of gaining traction through some kind of marketing channel first, then using sales as a conversion tool to close [those leads] into business. It's very, very expensive to use cold calling, and really not that effective by comparison with using marketing to get some kind of qualified prospect and then using sales to close that prospect.*

The next stage in a sales funnel is lead qualification. Here, you want to determine how ready a prospect is to buy, and if they're a prospect in which you should invest additional resources. For example, many companies require an email address and some company information in order to access materials on their site (e.g., a white paper or e-book). This information is then used to determine which prospects are worth spending more time on.

For example, HubSpot, which sells $5,000-plus-per-year marketing automation software, uses this information to determine how much time it should invest in a lead. If it gets a lead from someone running a small business on Etsy or eBay, HubSpot may choose to invest less time in that prospect because chances are someone running a smaller business is just not a good fit for its offering.

Mark Suster, two-time entrepreneur and partner at Upfront Ventures, suggests a simple approach to bucket leads into three categories: A's, B's, and C's:

> *I define "A deals" as those that have a realistic shot of closing in the next three months, "B deals" as those that you forecast to close within three to twelve months, and "C deals" as those that are unlikely to close within the next twelve months.*
>
> *"A deals" should get much of the salesperson's time (say 66 to 75 percent of time), "B deals" should get the balance as each sales rep needs to build their pipeline and bigger deals take time. And the key to scaling is that "C deals" should get no time from sales. They should be owned by marketing.*

In many organizations, marketing is in charge of generating leads and doing basic lead qualification. Then the sales team further qualifies and eventually closes the leads. It is part of the marketing department's job to make sure the sales team gets the information they need to just focus on qualified leads. Mark has this to say about marketing and sales working together:

> *Marketing's job in working with salespeople is twofold:*
>
> *To arm—which means to give the reps all of the sales collateral they'll need to effectively win sales campaigns. This includes presentations, ROI calculators, competitive analyses, and so forth.*
>
> *To aim—which means helping sales reps figure out which target customers to focus on. It's about helping weed out the nonserious leads from the urgent ones.*

Once you've qualified your leads, the final step is to create a purchase time line and convert prospects to paying customers. Todd recommends laying out exactly what you are going to do for the customer, setting up the timetable for it, and getting them to commit (with a "yes or no") to whether or not they will buy.

An agreement at this stage might look like this: "We'll set up a pilot system for you within two weeks. After two weeks, if you like the system we've built and it meets your needs, you'll buy from us. Yes or no?" Getting a yes or no answer allows you to focus your time on deals that are likely to close without wasting time on prospects that aren't prepared to buy.

Closing leads can happen in a variety of ways. For some products, it can be done completely by an inside sales team (meaning salespeople who don't travel). This team usually calls qualified leads, does a webinar or product demo, and has an ongoing email sequence that ends with a purchase request. In other cases, you may need a field sales team that actually visits prospective customers for some part of the process—it all depends on the complexity and length of your sales cycle.

Remember that, no matter how good your sales team, the customer is the one who decides to buy your product. It is crucial to keep the customer in mind as you design your sales funnel, meaning you should make their decision to buy as easy as possible. As David said in our interview:

> *You want to recognize that your prospect has a series of issues and questions they will want resolved before they make a buying decision. These are things like "Am I sure that this is the best product?," "Am I sure that this will work for my situation?," "Will I get a good return on investment?," "Will this integrate with a system I have working in place today?," and so on.*
>
> *A lot of companies design their sales cycles around how they think things should work. I believe very strongly in the notion that you have to design it from the customer standpoint inwards, as opposed to your standpoint outwards, which is the normal way I see people thinking about this stuff.*

> *Once you know what that buyer's questions are, you want to design your process to effectively address all of their questions and recognize what kinds of things need to be handled. Ideally, as many of these questions you can handle on your Web site, the better. Your job, once you have their email, is to answer all of their buying questions and then create a trigger that gives them a strong reason to buy.*

You can keep track of when prospects are dropping out of your sales funnel. The points in your funnel where many prospects drop off are called "blockages."

Blockages are usually due to sales funnel complexity. You want to make purchasing your product as simple as possible. Some ways you can minimize blockages:

- Removing the need for IT installs with SaaS (Software as a Service)
- Free trials (including through open source software)
- Channel partners (resellers of your products)
- Demo videos
- FAQs
- Reference customers (such as testimonials or case studies)
- Email campaigns (where you educate prospective customers over time)
- Webinars or personal demos
- Easy installation and ease of use
- Low introductory price (less than $250/month for SMB, $10,000 for enterprises)
- Eliminating committee decision making

CASE STUDY: JBOSS

JBoss, an open source provider of middleware software, created a sales funnel that drove $65 million in revenue just two years after founding (Red Hat later acquired it for $350 million).

JBoss first focused on generating leads. More than 5 million people had downloaded its free software through SourceForge (a popular open source software directory), but JBoss had no contact information for these prospects. Knowing it needed a way to consistently generate leads, JBoss gave away its software's documentation (which it had previously charged for) in exchange for a customer's contact information.

This worked out well because customers were motivated to get the software documentation, which showed them how JBoss worked. Contact information was a small price to pay. For JBoss, this information was essential, as it could now communicate with prospects about its paid offerings. This tactic generated over more than ten thousand leads per month.

That many leads posed a problem of its own: the impossibility of contacting them all individually. It was now time for JBoss to qualify these leads and determine which were most likely to buy. The company used Eloqua, marketing automation software, to determine the pages and links a prospect engaged with before accessing the documentation. Prospects who spent a lot of time on support pages were good candidates for the JBoss support service, the product that generates revenue for the company.

JBoss's marketing team would call these promising leads to further qualify them. Each of these calls was made specifically to determine if a prospect had the desire to get a deal done. If so, qualified prospects were passed to sales.

In this final stage of the funnel, prospects were contacted by individuals from an inside sales team. This is where the standard sales process kicks in: calls, demos, white papers, etc. The sales team closed about 25 percent of these prospects thanks to their thorough lead qualification (industry averages hover between 7 and 10 percent).

Unqualified leads not yet ready for sales were put into lead nurturing campaigns. These prospects received the *JBoss Newsletter*, as well as invitations to webinars, and were encouraged to subscribe to the JBoss blog. Customers who reached a certain level of interaction with nurturing campaigns (e.g., those who clicked on certain links in emails or attended a webinar) would then be put back into the sales pipeline and contacted by someone from sales.

JBoss built an impressive and wildly successful sales funnel. A big reason for JBoss's success was that its sales funnel was designed from the standpoint of the customer. The company utilized free tools to generate leads at a low cost by offering customers the documentation they wanted in exchange for contact information. It then qualified them through marketing built on internal analytics. Finally, JBoss used an inside sales team to close each deal at an average deal size above $10,000.

TARGETS

- **Don't rule out cold calling.** Good first customers have a burning need to address a problem, are interested in your approach to solving their problem, and are willing to work with you closely. Sometimes cold calling is the only way to find them.
- **Build a repeatable sales model.** An effective sales funnel has prospects enter at the top, qualifies these leads, and closes them effectively. Map out your sales funnel, identify blockages, and remove them. Keep the buying process as simple as possible.
- **Get the buyer to commit to time lines.** To close sales effectively, get an affirmative at each point that you are on track to close. Always know exactly what steps are left.
- **Keep the customer's perspective in mind.** Talk to people who *need* your product and understand their common concerns. Address those concerns specifically on your Web site.