Eric Curiel

Ideal Customer Profile and Account Ranking for XYZ

Executive Summary

The SMB division can be segmented into a more strategic and granular model through creation of an "Ideal Customer Profile" and account ranking. This new approach would give management and specific sales reps more exposure to accounts with the highest relative potential profitability. The data required to create the ICP and account ranking system will speak to an account's investment in IT, because ultimately this determines the profitability celling for a brand-agnostic VAR.

XYZ's current account segmentation is based solely on seat size. So as we focus more attention on accounts with larger seat sizes, we assume that if two accounts have the same seat size, they have the same potential profit. However, logically we know that this is not true. We know that a 500-seat agriculture company does not present the same potential as a 500-seat software development company. Extreme examples aside, the variances in account characteristics from a subset can quickly expose which accounts have the opportunity to yield higher gross profit. Taking a quantitative approach that depict an account's investment would first require determining which characteristics are proxy to a company's investment in IT. To determine these characteristics: I spoke with fellow reps, drew upon my experience, and analyzed the most profitable accounts as benchmarks.

Introduction

Qualifying accounts requires investigation, communication, knowledge of industry, and data collection. The goal is to understand our customers and prospects well enough to quickly recognize their degree of desirability to us. The information that can tell us the desirability of an account can be discovered through analyzing data on seat size, server size, industry, software procurement strategies, etc. Many of the most desirable accounts have yet to transact with XYZ, and of the percentage that have may only do so with a small percentage of their IT budget thereby making it difficult to recognize their potential.

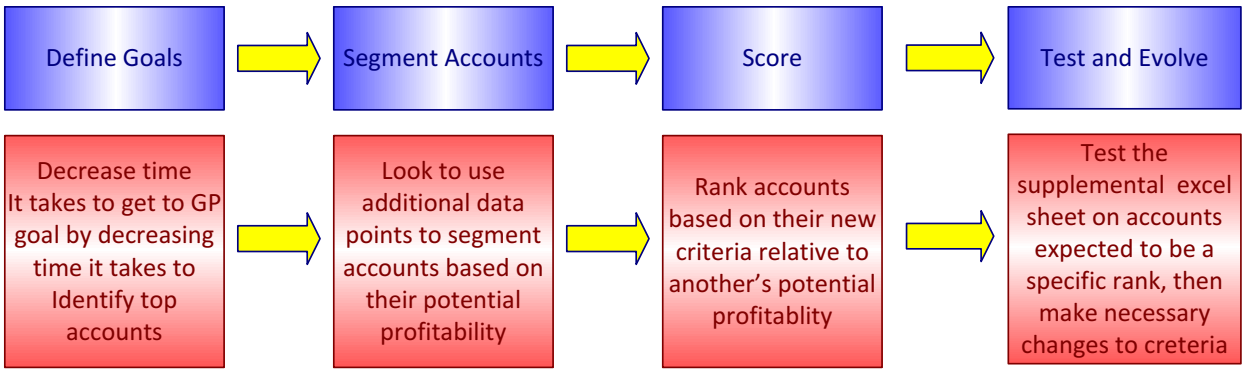
Although our customer and account data is limited, we have a growing SMB force that is constantly calling into accounts and having revealing conversations. These conversations can translate into data points revealing characteristics of the account. Data on accounts can then translate into an intelligent estimation of an account's potential profitability. For us, a young and growing agnostic VAR, potential profitability almost equates to a company's "investment in IT." My proposal would be to define and collect data points generated from our growing SMB force and leverage them in a method that reveals the potential profitability of an account. This would speed up the journey towards gross profit goals while most efficiently utilizing our current internal resources.

Overview of Segmentation and Scoring

Segmentation based on potential profitability, or investment in IT, is rooted in data that can be utilized in relative means. To do this, we'll take the criteria that speak to investment in IT and turn them into data points for each account amongst the entire SMB account set (the suggested list of criteria is designed to be relatively easy to obtain, and can be found on the attached spread

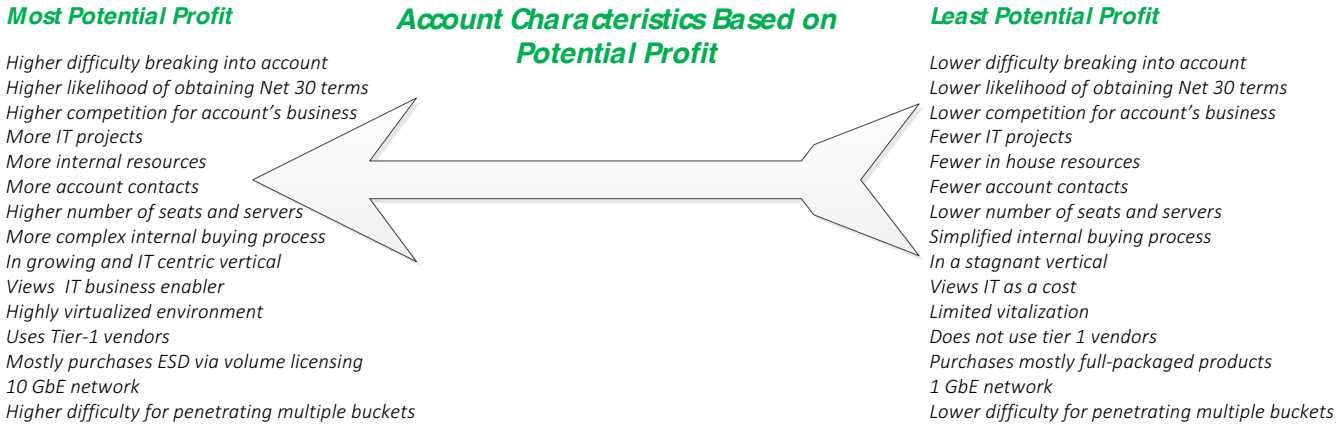
sheet). We'll then take the sum of the numerical data per account and score it based on the account's ability to meet the criteria. This tells us the account's investment in IT. Next, we'll take the account's score and compare it with predetermined thresholds to determine if the account would fall into subset A, B, C, or D. This creates a ranking system—or scoring method—based on qualitative data points obtained by the rep.

The below graphic illustrates the idea from a high level.



Characteristics of A, B, C, and D accounts

Ranking accounts into four different levels assumes that each account in its respective ranking has very similar characteristics to others in its rank. The below figure shows that, as you move from D accounts to A accounts, account characteristics begin to move toward their opposites. As you go from C to B accounts, account characteristics begin to look more like the characteristics listed on the left side of the figure below.



Benefits of Account Ranking

This ranking method can be tied into our CRM and internal processes to give management and reps the ability to swiftly view an account in its relative position.

Account ranking would decrease the time required to reach gross profit target through following ways:

- Providing mechanism to quickly and easily identify top accounts within our organization
    - This gives management a vehicle for inquiring on account touches etc. on top prospects.
    - Identifying and focusing efforts in XYZ's next top 20% GM yielding customer
        - This will speed up our time to GP goals
- Maximization of account touch quality.
    - This leads to a deeper strategy on top accounts.
        - We can focus marketing dollars and management/rep mindshare and efforts.
- Strategic distribution of accounts to reps.
    - This prevents new reps from dealing with a top account.
    - Best reps with top accounts
- Increase incentive for reps
    - Better performance on current accounts give reps access to more A and B accounts
- Creation of "even playing field" for reps
    - Reps with similar success in role and TIR, can receive similar quantities of A, B, C, and D accounts.
        - This is a step toward equalization of opportunity and could help alleviate complaints from reps
- Match strengths of internal resource to bring in.
    - As we grow in size and resources, our senior resources become more scarce
        - Match A prospects with top resources.
- Increase rep efficiency.
    - Put tenured reps with less C and D accounts.
- Improve rep education and project exposure.
    - Complex customer IT projects are revealed through the suggested questions in the excel sheet.

Incorporating Pareto's Principle

The development of this idea serves to satisfy the hypothesis that manifested from this proposal. My hypothesis was this: If we examine XYZ's top reps, the common finding is that 80% of their GM stems from 20% of their customers, thus following Pareto's Principle. So the quest became to investigate the GM-related data for a few of our top performers.

I took two of our top three IAEs based on GM and analyzed their GM-related data. By taking their total number of customers and finding out how much GM each of those customers produced in a rolling 12-month period, the numbers broke down the percentage that each account contributed to the overall GM for that particularly heavy- hitting rep. The number 2 IAE (from a GM standpoint for 2012) followed the Pareto's Principle rule almost to a T. Eighty-five percent

of his business came from 19% of his account base. The number 3 rep made roughly 80% of his GM from 31% of his customers. I did not have access to rep number 1's data; however, it is likely that he was also very close to the 80/20 rule.

In addition, the books of 3 of our top field AEs were investigated. These were some of the most successful reps with lofty tenure. These AEs followed pretty closely to Pareto's rule as well. Rep X had about 80% of her GM from about 12% of her customer base. Rep Y earned 80% of his GM from 31% of his customer. Finally, Rep Z obtained 80% of his GP from 23% of his accounts.

What does this mean to the SMB division?

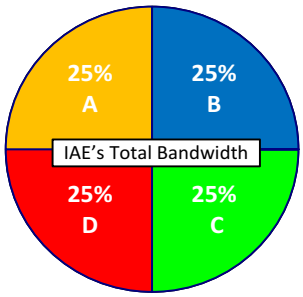
It is sensible not to accept the above-mentioned findings as fact for all successful reps; as I'm certain many can attest to knowing a fair amount of successful sales reps who did not have books of business that so closely follow this 80/20 rule. I imagine, because of the youth of our corporate division, we might find more AEs that happen to fall in line with this rule than some of our competitors. What I found useful from this investigation as it relates to SMB exaggerated the following truths: an AE has finite bandwidth; and, an organization has a finite account base. A finite number of highly potentially profitable accounts exist in this account base. I became interested in how these truths could relate to each other, and what they could tell us about where a rep spends his time and how this affects our organization's time-to-GM goal. The following detailed IAE behavior shows where the IAE spends his finite bandwidth throughout different stages in his career, and how this affects the quality and quantity of touches highly potentially profitably accounts receive.

The reported behavior is based on what I have seen as common tendencies for an IAE in an environment with low visibility into its accounts' potential profitability. The below figures show three snapshots of the IAE as he progresses from a new rep into a moderate-tenured IAE, and finally into an IAE with high tenure. The figures show how much focus a rep typically puts into a particularly ranked account at a given stage in his career, and how that affects our organization.

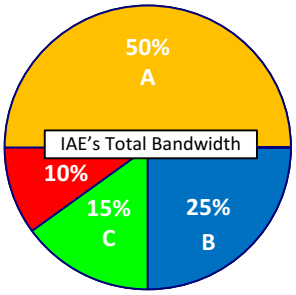
Maximizing Rep Bandwidth

In our current model, top accounts can be difficult to spot. Thus, new reps often neglect top accounts, or they focus too much time on those with low potential profitability. Most new reps give all accounts in their book equal touches regardless of the account's relative potential profitability. When a new rep starts as an IAE, she doesn't really know what a good account looks like, and thus the new IAE will typically give equal attention to all. C and D accounts are getting just as much of a rep's time as are SMB's next top accounts. The rep typically jumps on any opportunity she finds and begins to focus on fostering the opportunity regardless of the account's ranking. Figure 1.2 illustrates this idea by showing a new rep's finite bandwidth at

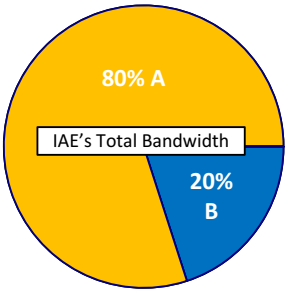
100%, and how she tends to partition this bandwidth equally into all accounts. Since most new reps don't know what an A or B account looks like, they could be missing out on giving special attention to accounts with the most potential profit.



Account touches per IAE (w/ low tenure) Figure 1.2



Account touches per IAE (medium tenure) *Figure 1.3*



Account touches per IAE (w/ high tenure) *Figure 1.4*

From my experience, when an IAE becomes more tenured, she begins to have a basic understanding of qualifying accounts. Figure 1.3 shows the basic tendency for an IAE to start shifting focus toward A and B accounts. However, the focus on C and D accounts remains when projects arise with these accounts. Given the vast solutions we offer, it can be a time drain to put in the effort and education necessary to properly foster any opportunity with a young SMB division. A young organization typically requires a heavy time investment to properly quarterback projects. If the opportunities the IAE finds are in C and D accounts, she will likely invest just as much time in these projects as she would if they were A and B accounts. Thus, the IAE could be missing out on showing value and starting relationships with A and B accounts. In the rep's focus on a given opportunity, XYZ might not be fostering an A or B account at all. For A and B accounts, one might consider a more strategic approach—such as finding out info from partners and presenting tailored and relevant information to the customer. Sometimes, just additional mind share and manager input can be helpful.

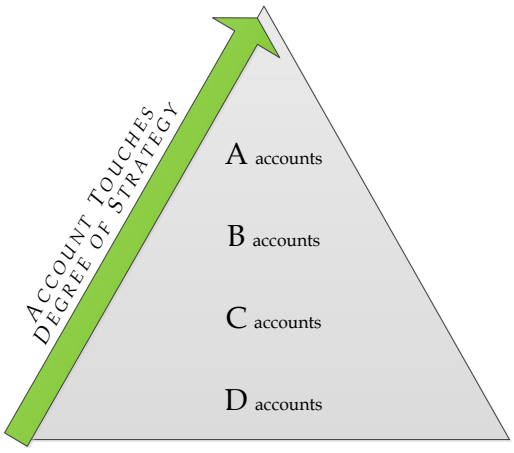
An IAE with lofty tenure has more accounts to maintain and grow. Hopefully, these are A and B accounts, so his efforts will yield a high gross margin that will take advantage of skilled and experienced IAEs. C and D accounts will often have small opportunities, but the rep would be better off discovering opportunities in A and B accounts. Ideally, A and B accounts would make up most of a rep's focus, growth, and maintenance efforts. Figure 1.4 assumes that the 80/20 rule has shown its face in a tenured rep's book, and assumes the rep would focus most of his efforts on A accounts. Consequences resembling this figure would be a more common for our most successful reps. Specifically, the big GM is coming from the A accounts, and thus the IAE focuses something like 80% of his bandwidth on these customers. Less successful tenured IAEs

seem to be stuck on some variation of figure 1.3.

The Ideal Situation

After seeing some of our top reps closely following the 80/20 rule, one might argue that a book of business partitioned this way is not ideal. The reasons for this seem obvious. If you lose this 20% of your customer base, then you are left with only 20% GM. A successful and tenured rep with mostly A customers would likely find little use for B, C, and D accounts, but his strategic efforts could be used to more deeply penetrate A prospects and increase his customer base with the kind that can yield the big GM. From conversations with people more experienced than me, it seems a rep is able to really trim down his number of accounts after 3 to 5 years of tenure. Five to ten highly profitably customers along with a few A prospects to grow into seems to be an ideal scenario for a rep. Five to 10 A accounts gives the rep the ability to constantly have projects hit in a given year. This quantity of A accounts allows for a rotation of larger projects occurring for that rep in a given time frame.

The figure below shows the different level of focus an organization should ideally invest in differently ranked accounts. The most strategy and touches would be invested into A accounts, while D would get the least.



Segmentation Method

A good account is ultimately invested in IT. Accounts with a higher investment in IT will also have larger potential profitability to an agnostic VAR. More than seat size is required to determine how invested in IT a particular account is. Defining the characteristics that speak to a company's investment in IT will give us a vehicle to rank accounts. The characteristics are in themselves data points to use in a meaningful way. Before we can take the data and use it to rank

accounts against one another, we must first define what "good" looks like. Below is my take on what "good" looks like to an agnostic IT VAR.

Top accounts tend to:

- Be virtualized or has plans to be
- Buy software via volume licensing
- Exists in verticals such as finance or the software industries
- Have a 10GbE or faster network speed
- Have a Microsoft EA
- Keep IT staff in house
- Experiencing growth
- Have a large quantity of servers and end users or "seats"
- Views IT as a business enabler

This criterion is a work in progress, and can be improved through further analysis and input from more tenured personnel. The corresponding Excel sheet takes the characteristics above and translates them into data points that can be used to rank accounts.

Data Collection

Once the characteristics of a good account are defined, they must be obtained. The trick is to turn these variables into data points utilizing a vehicle that is advantageous, due to the youth of our SMB organization. The above characteristics are translated into relatively simple questions which can be found in the Excel sheet "Customer Profiling for Scoring." By utilizing a young, energetic sales force and their continuous phone efforts, XYZ can obtain information that will be valuable long after a rep transitions into other roles. Below is a screenshot that will produce information which can be leveraged to prioritize SMB accounts and strategically focus on the ones that are most instrumental to successfully driving to our GM goals.

.

	Investment in IT									
	How many seats?	How many servers?	What Vertical is this account in?	Is IT viewed as a business enabler or a cost?	How Virtulized are you?	Do you use Tier 1 Vendors?	Do you purchase Box Product?	Are you currently or do you plane to move to 10 GbE?	Do you outsource IT?	Do you have an EA?
weight	24	20	12	17	11	10	6		-20	+20
data set	200-500	0-10	Business Products and Services	Yes	No, but plan to th	Servers/Client- HP, Dell, IBM, Sun, Lenovo			Yes	Yes
Customer Rank										

(see accompanied excel workbook)

Each question or characteristic is given a weight pertaining to its importance in telling the story of how invested in technology an account is. The weights of each characteristic, or question, are

based on the degree to which these characteristics exist as commonalities amongst largely profitable accounts. From seeing accounts with high GM that do not have an EA—this characteristic is all or nothing—, I decided to make this category serve as a bonus only. Contrarily, when a company outsources most of its IT, it becomes less attractive. This was also made an all-or-nothing question as well; a yes to this question would provide the account with negative "bonus" points.

Account Ranking

Now that the account characteristics that speak to investment in IT are defined and quantified, we can take the next step, which is to rank the accounts. Theoretically, if we take all our accounts and score them against the suggested criteria, they will obtain a point total that speaks to their investment in IT. The accounts with higher scores will be those that are more likely to yield greater GM.

To rank the accounts, we must first set a threshold for how many points are necessary for each rank. To set these thresholds, we will base our A-ranked accounts on the range of some of SMB's current top accounts. Taking the point-total difference of A accounts with the largest spread will give us the range to use for B, C, and D accounts. Once the range is set, it will become possible to rank all qualifying accounts.

Conclusion

XYZ's youth lends itself to a minimal amount of data on account spending, trends and so on. Gathering data points that can be used in a strategic and analytical fashion could help a rep, and ultimately, XYZ, by creating a hyper focus on accounts that can yield the highest gross profit goals.

The last bit of data analyzes was to discover what the average time taken for an account to trust XYZ enough to move from commodity transactional spending to data center purchases. Not having access to this type of customer data poses somewhat of a challenge in the concrete illustration, however, one can agree that it takes time to build this kind of trust. XYZ begins this process from the very first moment we engage in a focused and strategic fashion. The process of building strategic relationships with all of the potential, top-earning accounts cannot start until they are identified. In addition to decreasing our time spent in hitting GM goals, the proposed method will also aid in streamlining resource management and increasing efficiency.