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Sales

Hiring Star Salespeople Isn't the Best Way to Grow

by Frank V. Cespedes and Jacco van der Kooij

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You see Pareto's Principle applied to sales all the time — the top 20% of a sales force produces 80% of a company's revenues and margins — and it's applicable in a variety of sectors. In B2B contexts, for example, rep performance in similar territories often varies by 300% between top and bottom quintiles, and in retail stores selling productivity typically varies by a factor of three to four. So it's no surprise that a company's usual response to stalled growth is to hire more stars.

There are a few problems with the hire-stars approach, however. First, there are only so many stars to go around since everyone is fighting over the same candidates. Second, even if you do manage to hire stars, their unique skill sets may not be easily portable. Research indicates that there's good chance that a star at Company A won't be a star — or even productively relevant — at Company B. The third reason is simple math. Even though 80% of sales may currently come from 20% of reps, incremental improvements in the majority's performance will have, in the aggregate, a much bigger impact on growth than stars do.

We're not arguing that stars don't matter, because they definitely do. But, at the same time companies must do more than rely on stars if they want to improve their overall sales performance.

Companies that have adopted a subscription-as-service model (SaaS) are a great example. In the early years of a SaaS venture, stars typically generate the bulk of revenues, and they are often revered and feared internally for the relationships and power they wield. But, as the venture matures, and they continue to close a few big annual deals, they can limit growth since the SaaS model requires higher volumes.

Although it's easier than ever to create a SaaS business, it's also harder to scale one. There's a lot of competition, which keeps a lid on prices and increases customer acquisition costs. A recent survey of 159 SaaS firms with at least $2.5 million in revenues found that almost 55% were spending more than a dollar to get a dollar in annual contract value. It's also a tough talent market, especially in sales.

If companies want to scale, they need to improve their sales processes, and this is especially true of SaaS businesses. It is as important as the products and services they sell and the customers they sell them to, and it's a key to competitive advantage.

Here are three core elements for putting in place a scalable sales process:

Understand the sales tasks. When it comes to sales effectiveness, managers need to consider the tasks that reps must perform, not just their personalities and generic selling skills. These tasks will depend on your company's strategy, the customers targeted by that strategy, and the business model you've put in place to acquire and retain those customers.

Consider a SaaS service such as file sharing or various communications tools such as collaboration or meeting software. These applications aren't typically mission-critical for customers, and are sold at relatively low monthly subscription prices. Buyers can gather a lot of pre-sale information via an online search, which allows them to act more quickly and decisively. On the seller's end, "dialing for dollars" is paramount. They conduct online demos and provide prospects with a semi-customized proposal with a few clicks on the website to make the initial sale. But scaling this type of business typically requires "land and expand" sales tasks such as up-sells (getting the customer to purchase a premium version of the product) and cross-sells (getting the initial customer(s) to provide positive referrals to others in that organization). For example, ScriptLogic, which sold simple IT diagnostic tools to system administrators in the IT departments of small and mid-sized companies, built a good business with this sales approach and a "Point, Click, Done" value proposition.

A SaaS platform service such as CRM or MAS (Marketing Automation Service), on the other hand, requires sophisticated integration to install annual or multi-year contracts. This is a complex initial sale with a longer selling cycle that is harder to do online or by phone. To add to that, reps often have to involve the vendor's engineers in the selling process.

Reps selling CRM services have vastly different tasks than reps selling communication tools. They must focus on landing renewals, increasing price through new functionalities and premium packages sold to different decision makers, and minimizing customer churn. They must also deal with a different decision-making process and budgeting procedures at accounts. The same approach which served ScriptLogic so well in SMB was not effective in selling its products to enterprise accounts, and ScriptLogic was eventually acquired by Quest Software, which employed a very different sales approach in the enterprise segment.

It's also important to keep in mind that sales tasks typically change over the course of a product-market life cycle. Generally, customer education and applications development are often key tasks in early stages. But as the market develops and standards emerge, sales people spend more time selling against functionally-equivalent brands or developing third-party relationships. If your sales process doesn't keep pace with these changes, strategy execution and growth will falter.

Match your sales process and resources to the buying process. Most sales organizations spend a lot of time and money tracking progress (or not) through their sales "funnels." But selling is always more about the buyer than the seller, and most customer buying journeys resemble a meandering path rather than a progressively tapering funnel. B2B buyers, for example, tend to work through four parallel streams to make a purchase decision. So it's important to understand where customers are in their journeys and how to interact with them appropriately at a given stage.

With SaaS, the initial stage usually starts when the potential customer recognizes a fixable problem or opportunity. The seller can help to trigger that recognition in any of a number of ways, including starting a content marketing or SEO campaign to generate inbound leads, cultivating referrals from existing customers, making sales calls, planning conferences, sending emails to build awareness, and using social media to generate word of mouth.

Subsequent stages again depend on buyer behavior and strategy. Most SaaS businesses have three tiers: a self-serve tier that allows for trial evaluation, a second tier that allows a single or departmental decision maker to engage and experience, and a third tier that requires selling to multiple stakeholders at the customer.

Although some stars can navigate across all tiers, most reps can't. So, in order to optimize the productivity of your sales force, you must determine where in the process different reps should get involved. Often, high-velocity inside sales reps are productive at the lower tier but counter-productive at higher tiers, which involve a more complex, cross-functional decision-making unit.

Use tools to turn data into information. Considering the average U.S. company already has *more* data in its CRM system than in the entire Library of Congress, you probably feel overwhelmed by Big Data. That's why it's important to keep in mind that the role of data is to help you make better decisions, and in order to separate signal from noise, you need to know what you are measuring and use the right tools to measure it.

Think about forecasting. Most firms put their pipeline information into a CRM either weekly or monthly and then review the volume and value of leads in that pipeline. In order to forecast for the following month or quarter, they typically extrapolate future performance from that snapshot: "Bob did $200,000 in sales last quarter, so let's budget him for $250,000 next quarter," and so on.

But buying streams, especially for SaaS, are more like a motion picture than a snapshot, which means you should be measuring flows such as "what is Bob's ratio of Monthly Recurring Revenue to Sales Qualified Leads (SQL)?" or "what is Sally's ratio of Commits vs. SQLs?" These questions will inform a big decision: hire more people like Bob or find out what Sally is doing right.

The minimum data streams include the categories outlined below:

Minimum Sales Data Streams for a Subscription-as-Service Organization

These categories will help you separate signal from noise.

Lead Type	Description	Pri
Contacts	People with job titles that are potentially relevant to your service.	< $
Prospects	People who are likely to have a problem you can solve with your service.	$0
Suspects	People who have taken action (e.g., searched, attended a webinar, downloaded a paper) about the problem they are experiencing.	$0
Marketing Qualified Leads [MQL]	People for whom you've verified contact information. They include inbound leads, which you've scored and ranked.	$1.
Sales Qualified Leads [SQL]	People you've contacted and who have a problem that you have a relevant solution for. They can be either converted MQL leads or targeted outbound leads.	$1

Source: Frank Cespedes and Jacco van der Kooij

With this data and the relevant analytic tools, you can make distinctions that will help you build a scalable sales process. For instance, depending upon your business model, you can look at any or all of the following and make better use of your Marketing and Sales budget:

Volume Data: metrics that track volume by tracking Wins from number of Marketing Qualified Leads (MQLs) and SQLs.

Conversion Data: ratios that track, for instance, how many MQLs result in SQLs.

Opportunity Costs: extrapolations across multiple metrics. For example, you may compare the cost and Monthly Recurring Revenue generated by a marketing campaign in 30 days versus alternative uses of that money, the customer acquisition costs of your online versus field-sales team, up-sell and churn percentages, and so on.

Many sales efforts need this process because business now changes often and fast. It's true that any process is only as good as the people managing that process. But hiring Sales Operations or other "data analysts" without an iterative process in place is a recipe for frustration and expensive failure. And failure doesn't scale.

Conversely, make sure not to follow your process myopically or in a rote manner. Remember to look up: there *are* stars. But also remember that you don't need to move everyone to the 90^{th} percentile. Moving up a quartile would be a big deal, and that's the role of a relevant sales process.

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