

July 6 — July 12, 2015



## There Are No Liquid Lunches in the Cloud

► Software sales pitches are becoming a lot less about golf and a lot more about products

► The ideal sales rep “has shifted from aggressive and persistent to technical and smart”

Until a few years ago, Evan Blake made about \$300,000 a year selling corporate software with a formula straight out of *Mad Men*. Working for companies such as **Cisco Systems** and **BMC Software**, he'd use connections and charm to land a few meetings a year with buyers from big clients, then spend weeks working up a pitch for each, promising software so customized that both parties knew it probably couldn't be built. “Six to

12 months after doing the deal, you'd go on the apology tour,” Blake says.

Since then, the rise of cloud software has made the Don Draper routine as passé as the two-martini lunch. Most software buyers do their research online, and many compare free trial downloads of software products before they pick a winner. Cloud computing heavyweights such as **Amazon.com** have made it easy for customers to buy

software made by companies from project-management software maker **Atlassian** to HR portal **Zenefits** with a few clicks of a mouse, and without having to get lunch with a local field rep, haggle over prices, or spend years waiting for promised code. Hundreds of thousands of cushy field sales jobs will likely disappear in the coming years, says Andy Hoar, an analyst at Forrester Research. ►

◀ The rare salespeople who are meeting or beating their quotas—while colleagues leave the industry to sell cars or insurance—are those who can combine data-driven product expertise with the backslapping style of the past, Hoar says. Blake is among the relatively few reps who are prospering as never before. He says he earned more than \$700,000 in 2014, topping his previous best year by 40 percent, working in Seattle for **AppDynamics**, a developer of app-monitoring software. **Oracle**, **SAP**, and other software makers are boosting incentives for reps who've made this transition as they get serious about chasing cloud business.

At the same time, younger cloud companies that need to maintain their sales growth are looking for reps who can not only learn how the technology works but also have experience landing multi-million-dollar contracts. "All of the software companies are reevaluating their sales models," Hoar says. While older businesses are looking hard at retraining and different incentive structures, the upstarts have begun to learn "people want to shake someone's hand if they're going to spend \$5 million on something."

The new model means harder work, say veteran salespeople: fewer golf outings and trade shows, more nights at home scouring LinkedIn or writing detailed consultant-style reports on how a product can cut costs or boost revenue.

Big companies are experimenting with ways to adjust, says Tiffani Bova, an analyst at researcher Gartner. SAP eliminated layers of sales management last year and is selling some of its cloud offerings without visiting clients' offices, she says. Oracle has cranked up commissions on cloud deals and trained field

reps in selling with the help of social networks. **IBM** has created a team of consultants to move existing clients to the cloud, instead of relying on salespeople to cannibalize their own commissions.

It's tough to find someone with experience selling both large and small packages of software, because the industry has historically separated sales by deal size. Junior staffers known as inside sales reps would dial up small customers from headquarters, while the more highly paid field reps would shower attention and volume discounts on bigger buyers, often knowing little about the actual products. "You could set up a lunch and say, 'Meet my software engineer and enjoy the demo,'" says Jay Larson, a longtime software sales manager who's now chief executive officer of cloud company **Birst**. "Those people are being washed out of the business."

In the cloud, where customers can bolt almost as easily as they sign on, sales reps need to know their products cold so they can answer the most arcane questions, says Brian Halligan, CEO of **HubSpot**. "The job is no longer to sell as much software as possible. It's to help the customer get as much out of the software as possible," says Halligan, whose company offers marketing and sales software. "The personality profile of the technology salesperson has shifted from aggressive and persistent to technical and smart."

That's shaking up the pecking order in the industry's sales departments, as inside sales shifts from a starter job to a cushy gig where you can make hundreds of thousands of dollars a year by selling to customers who don't need or want a personal visit. Erica Watson, an

"People want to shake someone's hand if they're going to spend \$5 million on something."  
—Andy Hoar, Forrester Research

inside rep at **Demandforce**, Intuit's marketing-software subsidiary, says she earned more than \$150,000 last year wearing jeans and making it home for dinner every night. "I haven't seen many outside sales positions that

are worth looking at," she says.

Conversely, times are tougher for the nontechnical field reps who used to coast on product lines that customers couldn't easily ditch, such as Oracle's databases or **Microsoft** Office, according to Daniel Johnson, chief technology officer at Guardian Life Insurance. "Too many salesmen were savvy about the terms of their contract than in helping us get value from the software," Johnson says. Cloud companies, he says, sell products that don't require a three-day training course: "It just works."

Now Johnson makes tech salespeople prove their products work on real Guardian projects before he buys. He fights packages that bundle software his employees won't use, as well as the pricey service contracts that are often a cost of doing business with big IT companies. Oracle got 57 percent of its \$38.3 billion in sales revenue from service contracts last year; AppDynamics got 5 percent of about \$150 million in orders from such contracts.

So for a rep such as Blake, the new mantra is "land and expand," also known as word-of-mouth. He hunts for \$50,000 deals he would have sniffed at a few years back and makes sure that whenever the software saves a customer's app from going down, or gets it back online faster, the company's other departments or peers hear about it. Frequently, he says, those events turn into \$250,000 deals within a few months.

As cloud companies prove their worth, deals are getting bigger, Blake says. Last year, he landed a seven-figure contract with the Xbox Live division at Microsoft; it ballooned into a much larger deal a few months later, making Blake's year and helping AppDynamics beat a companywide sales goal, more than doubling 2013's numbers. "He knows his product well and understands how customers use it in large-scale cloud environments," says Ben Schultz, one of the Microsoft buyers. "I have a packed schedule, and lots of time can be lost to sales-related conversations. I haven't experienced that with Evan."

Some startups, including **Slack**, the office-chat company valued at

\$470m

Hourdajian declined to say why the numbers are being used to promote the current \$1 billion financing

Uber's operating loss, on \$415 million in revenue, according to a bond term sheet for investors reviewed by Bloomberg. "These are substantially old numbers that do not reflect business activities today," says spokeswoman Nairi Hourdajian.

Digits



The offices of Gaza Sky Geeks, a Google-backed startup accelerator in Gaza City



\$2.8 billion, are trying to get by without any conventional field reps. Slack serves thousands of companies with just 18 “account” reps (don’t call them salespeople) working out of its San Francisco headquarters. They get bonuses based on customer satisfaction ratings but earn no commission, meaning they don’t have an incentive to sell extras that customers don’t need, says Chief Marketing Officer Bill Macaitas. “It’s just a better way to do this,” he says.

As startups begin looking for bigger clients and broader markets, they tend to want a little more of the old school along with the landing and expanding. Cloud companies, including **Box**, **Marketo**, **New Relic**, and cloud poster child **Salesforce.com**, have hired sales executives from Oracle and SAP. At AppDynamics, President Joe Sexton recently added a bonus of up to \$2,500 for reps who pitch companywide contracts to five chief information officers in a quarter. “If you get four, you get nothing,” says Sexton, who used to run sales for security software maker **McAfee**.

That leaves some hope for the software industry’s Willy Lomans out working their territories. Even **InsideSales.com**, which sells artificial-intelligence-driven phone-dialing software, has hired its first 20 field reps this past year. “It would be awesome if we didn’t need any of them,” says CEO Dave Elkington, because the road warriors

typically cost 50 percent more to employ than staffers who make calls from the office. “But these field guys really know how to ask for really big deals and make people who are spending a lot of money feel comfortable.” —*Peter Burrows*

**The bottom line** The cloud has made software sales a grind for \$50,000 starter deals instead of an elephant hunt for seven-figure ones.

## Startups

### A Tech Ecosystem Built on Rubble

► A Google-backed accelerator is helping entrepreneurs in Gaza

► “We started working harder” to catch up after last year’s fighting

Less than 50 miles from the thriving tech hub of Tel Aviv, startup founders are having a tougher time. In the Gaza Strip, decades of conflict and grinding poverty make reliable electricity and office space tough to come by. Nonetheless, where there are computers and smartphones, there are young

people with ideas for apps, says **Iliana Montauk**, and those she’s met in Gaza over the past two years compare favorably with people at Harvard and in Silicon Valley.

Montauk is the head of **Gaza Sky Geeks**, a startup accelerator in Gaza City. Backed by **Google** and operated by the U.S. charity Mercy Corps, GSG seeks to develop business ideas and connect entrepreneurs with investors. Montauk, a former Google staffer and a native of Berkeley, Calif., is convinced Gaza’s young coders can create tech success stories in the territory run by Hamas. Four GSG companies have secured outside investment from Arab-focused venture funds, and she aims to help another four do so this year.

While Israel’s eight-year blockade of Gaza limits imports of concrete, chemicals, and other materials that could potentially be used for fighting, computers and smartphones are widely available. In June, during a five-day “boot camp” at GSG’s offices by the harbor, about 40 aspiring entrepreneurs showed

off their ideas. Men in jeans and T-shirts and women in headscarves and long skirts perched on multi-colored couches with laptops and smartphones, chatting in English



Concrete and chemicals are scarce in Gaza, but laptops are common

Copyright of Business Week is the property of Bloomberg, L.P. and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.