HBR's 10
Must Reads on Sales

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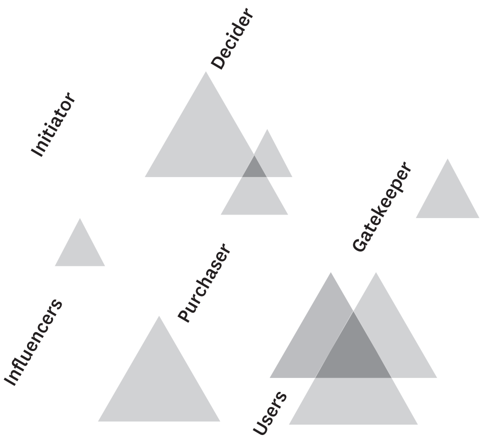
Contents

Members of the buying center and their roles

Initiator	Division general manager proposes to replace the company's telecommunications system
Decider	Vice president of administration selects, with influence from others, the vendor the company will deal with and the system it will buy
Influencers	Corporate telecommunications department and the vice president of data processing have important say about which system and vendor the company will deal with
Purchaser	Corporate purchasing department completes the purchase to specifications by negotiating or bidding
Gatekeeper	Corporate purchasing and corporate telecommunications departments analyze the company's needs and recommend likely matches with potential vendors
Users	All division employees who use the telecommunications equipment



Bases of power

Type of power	Champion	Veto
Reward Ability to provide monetary, social, political, or psychological rewards to others for compliance	n	
Coercive Ability to provide monetary or other punishments for noncompliance	n	
Attraction Ability to elicit compliance from others because they like you	n	n
Expert Ability to elicit compliance because of technical expertise, either actual or reputed		n
Status Compliance-gaining ability derived from a legitimate position of power in a company		n

Note: These five power bases were originally proposed over 20 years ago by psychologists J.R.P. French, Jr., and Bertram Raven. See "The Bases of Social Power" in D. Cartwright, ed., *Studies in Social Power* (University of Michigan Press, 1959).

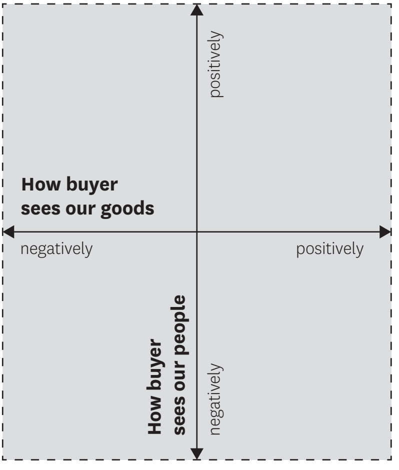
Dominant motives for buying a telecommunications system

The benefits in the shaded column are more highly valued than the others and represent the company's "hot button."

Benefit class

Financial	Product or service	Social or political	Personal
Absolute cost savings Cheaper than competitive offerings Will provide operating-cost reductions Economics of leasing versus buying	Pre- and postsales service Specific features Space occupied by unit Availability	Will purchase enhance the buyer's standing with the buying team or top management?	Will purchase increase others' liking or respect for the buyer? How does purchase fit with buyer's self-concept?

Buyer Continuum



Matrix for gathering psychological information

Who’s in the buying center, and what is the base of their power?

Who are the powerful buyers, and what are their priorities?

What specific benefits does each important buyer want?

How do the important buyers see us?

Selling strategy

How well do Sales and Marketing work together?

This instrument is intended to help you gauge how well your sales and marketing groups are aligned and integrated. Ask your heads of Sales and Marketing (as well as their staffs) to evaluate each of the following statements on a scale of 1 to 5, where 1 is "strongly disagree" and 5 is "strongly agree." Tally the numbers, and use the scoring key to determine the kind of relationship Sales and Marketing have in your company. The higher the score, the more integrated the relationship. (Several companies have found that their sales forces and their marketing staffs have significantly different perceptions about how well they work together—which in itself is quite interesting.)

Scoring

20–39 Undefined	60–79 Aligned
40–59 Defined	80–100 Integrated

	Strongly disagree 1	Disagree 2	Neither 3	Agree 4	Strongly agree 5
1. Our sales figures are usually close to the sales forecast.	____	____	____	____	____
2. If things go wrong, or results are disappointing, neither function points fingers or blames the other.	____	____	____	____	____
3. Marketing people often meet with key customers during the sales process.	____	____	____	____	____
4. Marketing solicits participation from Sales in drafting the marketing plan.	____	____	____	____	____

5. Our salespeople believe the collateral supplied by Marketing is a valuable tool to help them get more sales.	____	____	____	____	____
6. The sales force willingly cooperates in supplying feedback requested by Marketing.	____	____	____	____	____
7. There is a great deal of common language here between Sales and Marketing.	____	____	____	____	____
8. The heads of Sales and Marketing regularly confer about upstream issues such as idea generation, market sensing, and product development strategy.	____	____	____	____	____
9. Sales and Marketing work closely together to define segment buying behavior.	____	____	____	____	____
10. When Sales and Marketing meet, they do not need to spend much time on dispute resolution and crisis management.	____	____	____	____	____
11. The heads of Sales and Marketing work together on business planning for products and services that will not be launched for two or more years.	____	____	____	____	____
12. We discuss and use common metrics for determining the success of Sales and Marketing.	____	____	____	____	____
13. Marketing actively participates in defining and executing the sales strategy for individual key accounts.	____	____	____	____	____
14. Sales and Marketing manage their activities using jointly developed business funnels, processes, or pipelines that span the business chain—from initial market sensing to customer service.	____	____	____	____	____
15. Marketing makes a significant contribution to analyzing data from the sales funnel and using those data to improve the predictability and effectiveness of the funnel.	____	____	____	____	____

(*continued*)

	Strongly disagree	Disagree	Neither	Agree	Strongly agree		
	1	2	3	4	5		
16. Sales and Marketing share a strong “We rise or fall together” culture.	____	____	____	____	____		
17. Sales and Marketing report to a single chief customer officer, chief revenue officer, or equivalent C-level executive.	____	____	____	____	____		
18. There’s significant interchange of people between Sales and Marketing.	____	____	____	____	____		
19. Sales and Marketing jointly develop and deploy training programs, events, and learning opportunities for their respective staffs.	____	____	____	____	____		
20. Sales and Marketing actively participate in the preparation and presentation of each other’s plans to top executives.	____	____	____	____	____		
	____ +	____ +	____ +	____ +	____	=	____ **Total**

Do We Need to Be More Aligned?

THE NATURE OF RELATIONS BETWEEN Sales and Marketing in your organization can run the gamut—from undefined (the groups act independent of one another) to integrated (the groups share structures, systems, and rewards). Not every company will want to—or should—move from being undefined to being defined or from being defined to being aligned. The following exhibit can help you decide under which circumstances your company should more tightly integrate its sales and marketing functions.

	Undefined	**Defined**	**Aligned**
Don't make any changes if. . .	The company is small. The company has good informal relationships. Marketing is still a sales support function.	The company's products and services are fairly cut-and-dried. Traditional marketing and sales roles work in this market. There's no clear and compelling reason to change.	The company lacks a culture of shared responsibility. Sales and Marketing report separately. The sales cycle is fairly short.
Tighten the relationship between Sales and Marketing if. . .	Conflicts are evident between the two functions. There's duplication of effort between the functions; or tasks are falling through the cracks. The functions compete for resources or funding.	Even with careful definition of roles, there's duplication of effort between the functions; or tasks are falling through the cracks. The market is commoditized and makes a traditional sales force costly. Products are developed, prototyped, or extensively customized during the sales process. Product life cycles are shortening, and technology turnover is accelerating.	A common process or business funnel can be created for managing and measuring revenue-generating activities.
	Move to defined	Move to aligned	Move to integrated

Sales and Marketing integration checklist

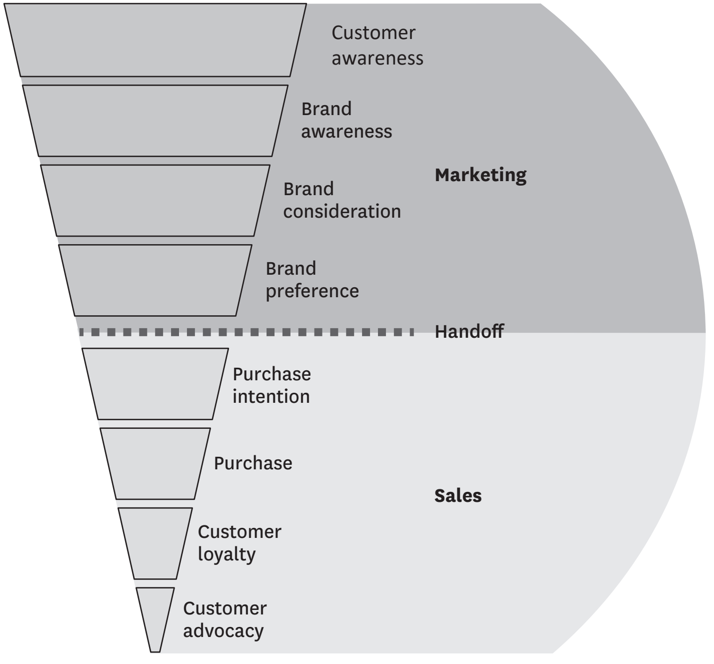
To achieve integration between Sales and Marketing, your company needs to focus on the following tasks.

Integrate activities	Integrate processes and systems	Enable the culture	Integrate organizational structures
☐ Jointly involve Sales and Marketing in product planning and in setting sales targets.	☐ Implement systems to track and manage Sales and Marketing's joint activities.	☐ Emphasize shared responsibility for results between the different divisions of the organization.	☐ Split Marketing into upstream and downstream teams.
☐ Jointly involve Sales and Marketing in generating value propositions for different market segments.	☐ Utilize and regularly update shared databases.	☐ Emphasize metrics.	☐ Hire a chief revenue officer.
☐ Jointly involve Sales and Marketing in assessing customer needs.	☐ Establish common metrics for evaluating the overall success of Sales and Marketing efforts.	☐ Tie rewards to results.	
☐ Jointly involve Sales and Marketing in signing off on advertising materials.	☐ Create reward systems to laud successful efforts by Sales and Marketing.	☐ Enforce divisions' conformity to systems and processes.	
☐ Jointly involve Sales and Marketing in analyzing the top opportunities by segment.	☐ Mandate that teams from Sales and Marketing meet periodically to review and improve relations.		
	☐ Require Sales and Marketing heads to attend each other's budget reviews with the CEO.		

The Buying Funnel

THERE'S A CONVENTIONAL VIEW that Marketing should take responsibility for the first four steps of the typical buying funnel—customer awareness, brand awareness, brand consideration, and brand preference. (The funnel reflects the ways that Marketing and Sales influence customers' purchasing decisions.) Marketing builds brand preference, creates a marketing plan, and generates leads for sales before handing off execution and follow-up tasks to Sales. This division of labor keeps Marketing focused on strategic activities and prevents the group from intruding in individual sales opportunities. But if things do not go well, the blame game begins. Sales criticizes the plan for the brand, and Marketing accuses Sales of not working hard enough or smart enough.

The sales group is responsible for the last four steps of the funnel—purchase intention, purchase, customer loyalty, and customer advocacy. Sales usually develops its own funnel for the selling tasks that happen during the first two steps. (These include prospecting, defining needs, preparing and presenting proposals, negotiating contracts, and implementing the sale.) Apart from some lead generation in the prospecting stage, Marketing all too often plays no role in these tasks.



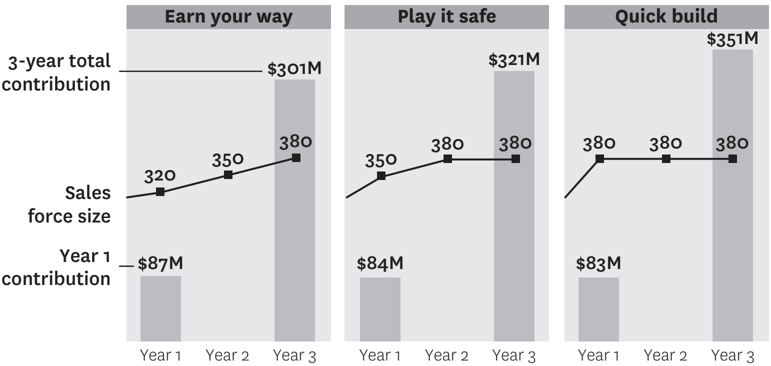
The four factors for a successful sales force

A company must focus on different aspects of its sales force structure over the life cycle of the business, just as it matches customer strategy to the life cycle of a product.

	Business life cycle stage			
	Start-up	**Growth**	**Maturity**	**Decline**
	Emphasis			
Role of sales force and selling partners	H H H H	H H	H	H H H
Size of sales force	H H H	H H H H	H H	H H H H
Degree of specialization	H	H H H H	H H H	H H
Sales force resource allocation	H H	H	H H H H	H
	Underlying customer strategy			
	Create awareness and generate quick product uptake	Penetrate deeper into existing segments and develop new ones	Focus on efficiently serving and retaining existing customers	Emphasize efficiency, protect critical customer relationships, exit unprofitable segments

How sales sizing strategies stack up

In their infancy, companies often undersize sales forces. The charts show the impact of three different sizing scenarios on one pharmaceutical company's profits. The figures are projections based on mathematical models. The pharmaceutical company, which started with 300 salespeople, found that an "earn your way" approach to staffing (increasing the sales force only as fast as revenues increase) resulted in the highest first-year contribution, but it yielded the lowest three-year contribution. The longer-term contribution was highest with a "quick build" strategy (quickly ramping up the size of the sales force to the long-term optimal level).



Sizing the Sales Force by the Numbers

EVERY COMPANY IN GROWTH MODE should conduct a break-even analysis to check if its sales force is the right size. That involves computing the break-even ratio (the ratio of the incremental sales revenue per additional salesperson to the break-even sales), estimating the carryover sales rates, and using those estimates to determine the three-year return on investment in sales staff.

To determine the break-even ratio:

1. Estimate the annual cost of a salesperson (**C**), the gross margin (**M**), which is the amount of sales revenue that the business keeps as profit after deducting variable costs, and the gross margin rate ($\mathbf{M_R}$), which is gross margin expressed as a percentage of sales revenue.

2. Calculate break-even sales by dividing the cost of a salesperson by the gross margin rate ($\mathbf{C \div M_R = B}$). That's the amount a salesperson must sell in a year to cover his or her costs.

3. Estimate the incremental sales revenue that an additional salesperson could generate in a year (**I**).

4. Divide the incremental sales revenue per additional salesperson by the break-even sales to compute the break-even ratio ($\mathbf{I \div B}$). A ratio of 2.00, for instance, implies that a new salesperson will generate gross margin equal to twice his or her cost in a year.

Break-even =

To determine the carryover sales percentage:

5. Estimate the percentage, based on past trends, of this year's sales that the company will retain in future years without any sales force effort. Those are the carryover sales percentages (**K_2** for next year and **K_3** for the year after).

Carryover =	
____	____
K_2	**K_3**

To determine the three-year ROI on sales staff:

6. Take the sum of the gross margin on the incremental sales revenue that an additional salesperson can generate in year 1, the incremental gross margin on carryover sales in year 2, and the incremental gross margin on carryover sales in year 3.

7. Subtract from that sum the annual cost of an additional salesperson.

8. Divide the total by the additional salesperson's annual cost. The result is expressed as a percentage. The formula looks like this: $[(\mathbf{M_R} \times \mathbf{I}) + (\mathbf{M_R} \times \mathbf{I} \times \mathbf{K_2}) + (\mathbf{M_R} \times \mathbf{I} \times \mathbf{K_3}) - \mathbf{C}] \div \mathbf{C}$

ROI =

The break-even ratio and the first-year carryover rate can tell you how to size your sales force. In the table below, the numbers in each cell represent three-year returns on sales force investment. Businesses can set their own criteria, but in our experience, companies have sized their sales forces optimally when the ROI is between 50% and 150%. If the ROI is below 50%, the sales force is too large, and if it is over 150%, the force is too small.

(*continued*)

New salesperson sales/Break-even sales	Carryover									
	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
0.25	−75%	−72%	−69%	−65%	−61%	−56%	−51%	−45%	−39%	−32%
0.50	−50%	−45%	−38%	−31%	−22%	−13%	−2%	10%	22%	36%
0.75	−25%	−17%	−7%	4%	17%	31%	47%	64%	83%	103%
1.00	0%	11%	24%	39%	56%	75%	96%	119%	144%	171%
1.25	25%	39%	55%	74%	95%	119%	145%	174%	205%	239%
1.50	50%	67%	86%	109%	134%	163%	194%	229%	266%	307%
1.75	75%	94%	117%	143%	173%	206%	243%	283%	327%	374%
2.00	100%	122%	148%	178%	212%	250%	292%	338%	388%	442%
2.25	125%	150%	179%	213%	251%	294%	341%	393%	449%	510%
2.50	150%	178%	210%	248%	290%	338%	390%	448%	510%	578%
2.75	175%	205%	241%	282%	329%	381%	439%	502%	571%	645%
3.00	200%	233%	272%	317%	368%	425%	488%	557%	632%	713%
3.25	225%	261%	303%	352%	407%	469%	537%	612%	693%	781%
3.50	250%	289%	334%	387%	446%	513%	586%	667%	754%	849%
3.75	275%	316%	365%	421%	485%	556%	635%	721%	815%	916%
4.00	300%	344%	396%	456%	524%	600%	684%	776%	876%	984%

Oversized Right size Undersized

Optimizing the maturity phase

Mature companies optimize their resources when sales forces focus on the customers, products, and selling activities that generate the highest response to their sales efforts. To do that, sales leaders must ask themselves the following questions:

Resource allocation decisions

Customer	Product	Activity
What market segments should we focus on: • High volume or low volume? • Highly profitable or less profitable? • National accounts or smaller accounts? • New or old accounts? What industries do we call on? What geographic areas do we focus on: local, regional, national, or international? Which accounts should headquarters staff call on, and which should field sales call on?	What products should we focus on: • Existing or new? • High volume or relatively low volume? • Easy to sell or hard to sell? • Familiar or unfamiliar? • Differentiated or nondifferentiated? • Products with long selling cycles or short selling cycles? • Products with high short-term impact and low carryover or with low short-term impact and high carryover?	What activities should we focus on: • Hunting for new customers or retaining old customers? • Selling or servicing? How do we allocate relationship experts, product experts, and industry experts?

A new selling guide for reps

The best salespeople are replacing traditional "solution selling" with "insight selling"—a strategy that demands a radically different approach across several areas of the purchasing process.

Solution selling	Insight selling
What kind of company to target	
Organizations that have a clear vision and established demands	Agile organizations that have emerging demands or are in a state of flux
What sort of initial information to gather	
What need is the customer seeking to address?	What unrecognized need does the customer have?
When to engage	
After the customer has identified a problem the supplier can solve	Before the customer has pinpointed a problem
How to begin the conversation	
Ask questions about the customer's need and look for a "hook" for your solution	Offer provocative insights about what the customer should do
How to direct the flow of information	
Ask questions so that the customer can steer you through its purchasing process	Coach the customer about how to buy, and support it throughout the process

Prioritizing your opportunities

The scorecard below, derived from the ways high-performing reps evaluate potential customers, can help you assess whether or not to pursue a deal.

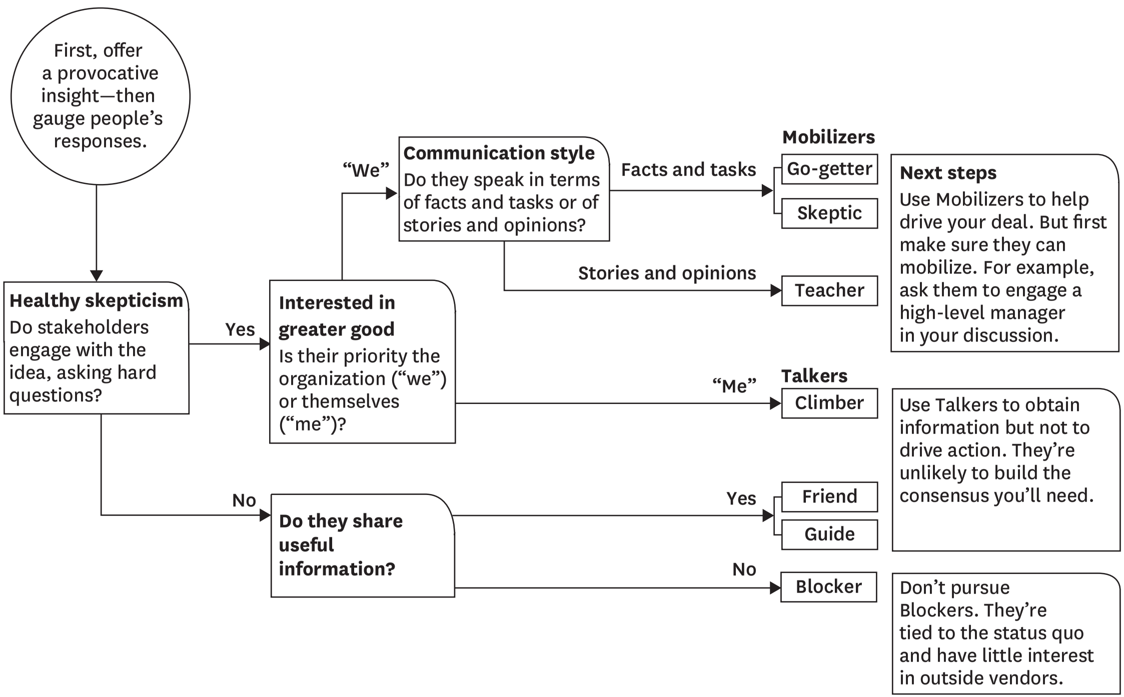
1. Organizational basics	Yes	No		
Does the customer have significant current or potential spend?	☐	☐		If either answer is no, do not pursue a deal
Is the customer financially sound?	☐	☐		
2. Operating environment	Yes	No	Unknown	
Does the customer face external pressures to change, such as new industry regulations or loss of market position?	☐	☐	☐	1 point for each Yes
Are there internal pressures to change, such as new management or a rethinking of strategic direction?	☐	☐	☐	
3. View of the status quo	Yes	No	Unknown	
Is there organization-wide discontent with the status quo?	☐	☐	☐	2 points for each Yes
Does the current supplier fall short of expectations?	☐	☐	☐	
Is the customer unhappy with existing workarounds?	☐	☐	☐	
4. Receptivity to new or disruptive ideas	Yes	No	Unknown	
Do internal stakeholders frequently share best practices?	☐	☐	☐	3 points for each Yes
Do they attend conferences and other learning events?	☐	☐	☐	
Do leaders look to the broader organization for ideas?	☐	☐	☐	
5. Potential for emerging needs	Yes	No	Unknown	
Do stakeholders engage in constructive dialogue when their assumptions are challenged?	☐	☐	☐	4 points for each Yes
Do they seek to continue conversations about industry benchmarks and trends?	☐	☐	☐	
Is there at least one confirmed “Mobilizer” in the company?	☐	☐	☐	
Total	☐			

Scoring

0–10	10–20	20+
Consider not pursuing the opportunity	Consider pursuing with limited resources	Consider pursuing with limited resources

Finding the right allies

We identified seven distinct stakeholder profiles within customer organizations. Star reps filter out the less useful types and target the ones who could help drive the deal. Here's how to do the same.



How data can drive sales growth

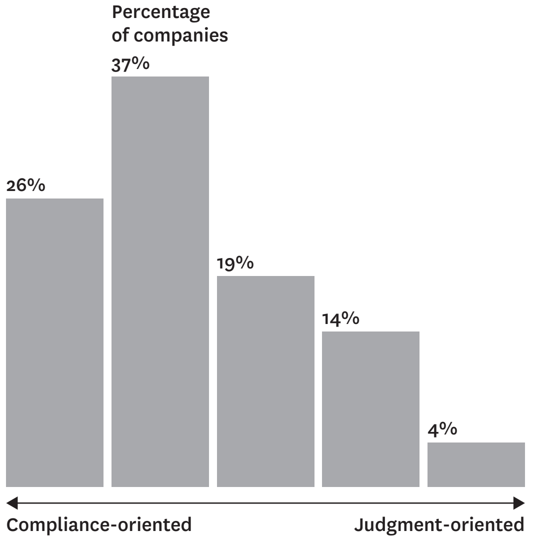
Traditional approach	Micromarket strategy
Data management	
Sales collects customer data from internal sources (CRM, billing, customer-service databases)	Sales combines very large databases of internal and external data such as demographics, social media chatter, and competitive intensity
Data are updated and analyzed quarterly or semi-annually	Data are updated and analyzed monthly, weekly, and daily
Outside analysts provide tools, advice, and statistical services	Data collection and analytics are done by in-house experts
Resource allocation	
Sales coverage is defined by large regions and territories	Sales coverage is segmented into dozens or hundreds of micromarkets
Sales resources are allocated according to a region's historical performance	Resources are deployed at the micromarket level according to expected future opportunity
Performance management	
Rep (and channel partner) performance is assessed relative to other reps (and other channel partners)	Performance is assessed relative to the opportunity within micromarkets
Collaboration	
Sales, marketing, and other departments are siloed	Sales, marketing, strategy, customer service, and other functions are collaborative

The new world of sales

Old world: Process-focused		New world: Judgment-oriented
The customer expresses a defined need	**Qualification criteria**	The customer is in a state of uncertainty
Identify a stakeholder with the authority to spend	**Stakeholder selection**	Identify a stakeholder who is open to change and can influence decision makers
Demonstrate the value your solution provides relative to competitors' offerings	**Nature of the conversation**	Disrupt the customer's thinking and assumptions about its business

Compliance climates still dominate

Sales reps need some latitude in how they engage highly knowledgeable and wary customers. But in many organizations—even those trying to adopt a new approach to selling—reps report that the sales climate is oriented toward monitoring their compliance with prescribed processes rather than encouraging them to exercise judgment.



How reps use judgment

Here are some of the ways reps use judgment at each step in the sales process.

Steps in the process				
Cultivate the opportunity	**Assess the customer's receptivity to insight**	**Challenge the customer's thinking**	**Build consensus**	**Close the deal**
Determine if the opportunity is worth the investment of time	Make informed assumptions about the customer and its needs	Judge when best to engage key decision makers and other stake-holders	Tailor re-sponses to stakeholders' highly varied objections and reactions	Assess the buying group's understanding of what dif-ferentiates the solution from the alternatives
Hypothesize about new ways to engage the customer	Identify atypi-cal sources of information about the cus-tomer and its assumptions	Adapt the ap-proach in order to generate buy-in	Creatively determine ways to revive stalled deals	Know when to stand firm or acquiesce in negotiation
Infer the scope of the opportu-nity on the basis of limited infor-mation about the customer	Exercise patience in order to allow an opportunity to develop	Assess the worthiness of the pursuit on the basis of the customer's reaction	Encourage and arm key stakeholders to influence detractors	Identify nego-tiation points beyond terms and conditions

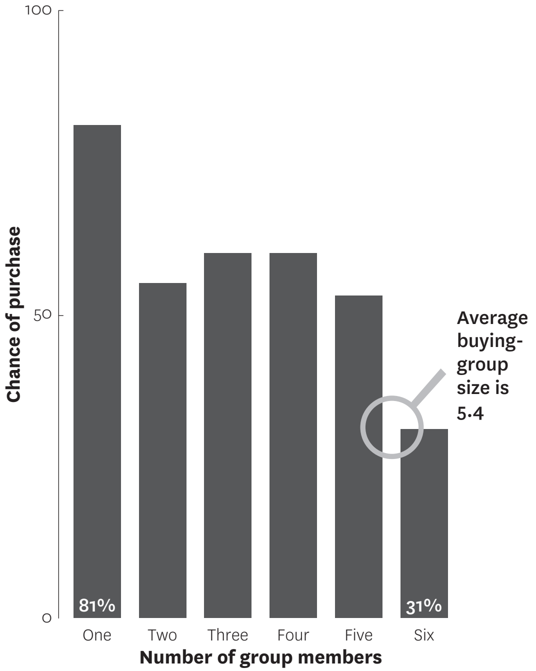
Value selling versus tiebreaker selling

With value selling, suppliers build a case to prove that their offerings provide greater worth to customers than competitors' do. But when purchases aren't strategic, that approach is ineffective, and suppliers need something extra whose value is self-evident to win the sale.

	Value selling	Tiebreaker selling
Supplier's core offering	**Highly differentiated** The product or service has unique features that customers appreciate	**Undifferentiated** The customers want only their basic specs met at a competitive price
Customer's view of the purchase	**Strategic** The purchase significantly contributes to differentiating the customer's offerings	**Not strategic** The purchase is not critical to differentiating the customer's offerings
Customer's willingness to extensively evaluate the offering's value	**High**	**Low**
Deal winner	**Quantified value of offering** The offering provides quantifiably higher value than that of competing offerings, which more than compensates for its higher price	**A "justifier"** The supplier offers an extra that the customer finds valuable without analysis and that shows the purchasing manager's contribution to the business
Supplier's goal	**A significant price premium** (>5%)	**A slight price premium** (3%–5%)

Group size matters

The likelihood of a purchase drops sharply as the number of decision makers increases.



Source: CEB/Motista 2013 B2B brand survey

How to create a sales comp plan

Sales compensation plans need to support a company's strategy; motivate a broad range of performers; be fair and simple to explain and understand; and result in payouts that are within a company's budget. Here are the steps sales managers must take to design a plan that meets those criteria.

Step 1: Set the pay level	**Step 2: Balance salary and incentives**	**Step 3: Design the plan**			**Step 4: Choose payout periods**	**Step 5: Consider additional elements**
		Metrics	**Plan type**	**Payout curve**		
This is crucial for attracting and retaining talent.	The proportion of earnings that comes from salary and from incentives determines the riskiness of the plan. The proper balance varies by industry and is often based on the degree of certainty that a salesperson's efforts will directly influence sales.	Most companies still pay salespeople a commission based on gross revenue, although some companies pay on the basis of profitability of sales.	Many companies supplement salary and commissions with bonuses based on exceeding quotas or reaching other goals.	Caps on earnings limit the pay of top performers and flatten the payout curve (or make it "regressive"); accelerators or overachievement commissions ramp up the pay of top performers, creating a "progressive" structure.	Companies can set quotas and bonus structures to cover periods ranging from a single week to an entire year. Research shows that shorter payout periods help keep low performers motivated and engaged.	Many companies use nonmonetary incentives, such as contests or recognition programs.

Source: Adapted from *The Power of Sales Analytics*, by Andris A. Zoltners, Prabhakant Sinha, and Sally E. Lorimer