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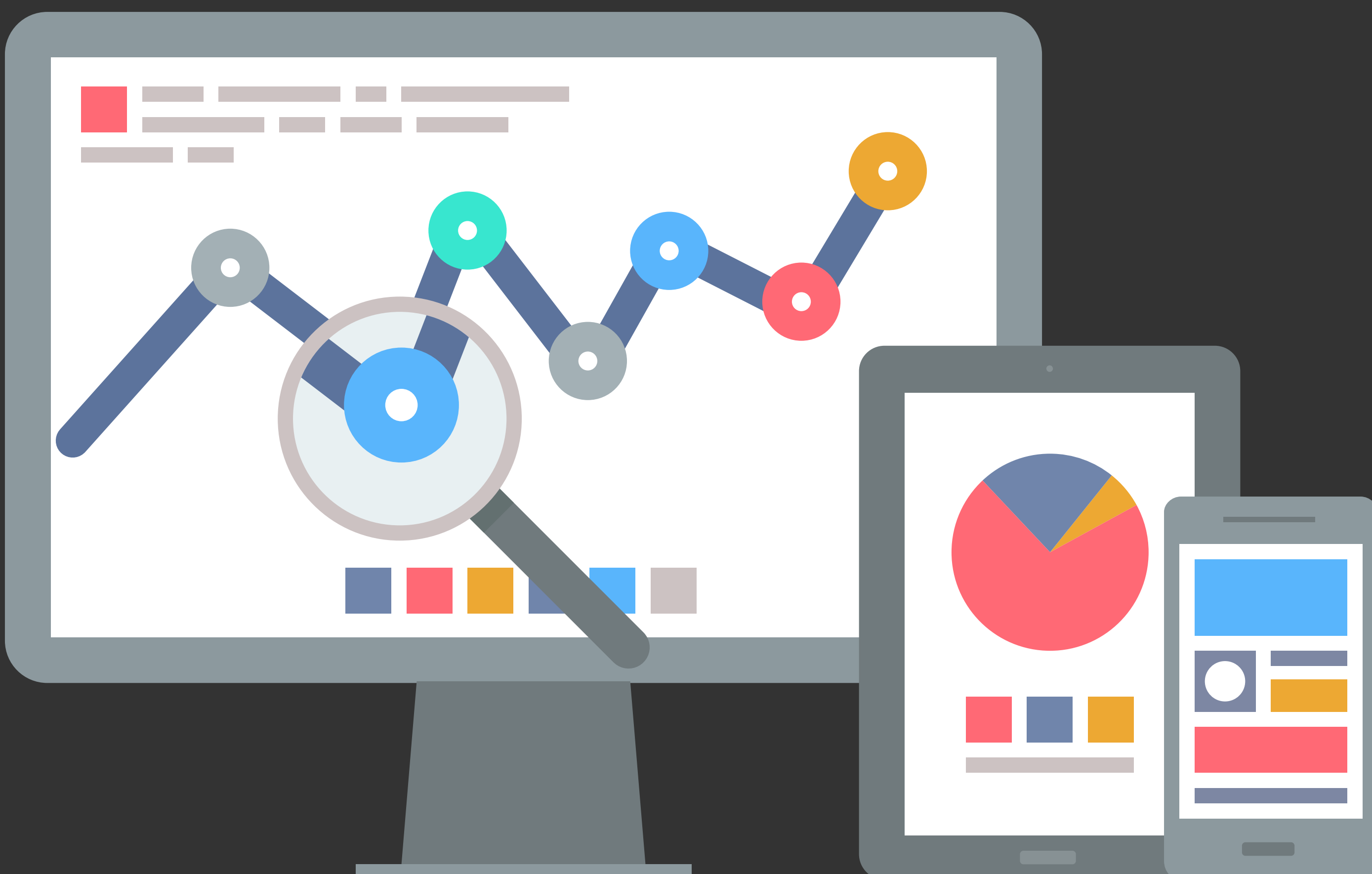
MAXIMIZING YOUR SALES REVENUE



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WELCOME

"Maximizing revenue" is a particularly ambiguous phrase. To a salesperson earning commissions on top line revenue, it simply means maximizing gross sales – at any cost. To a sales manager whose compensation is dependent on achieving a gross margin target, maximizing revenue is dependent upon defending the gross margin of each and every sale. To the chief financial officer, maximizing revenue likely refers to EBITDA (earnings before interest, taxes, depreciation, and amortization) or a similar measure of net marginal revenue as it applies to all financial operations of the company.

For the purposes of this discussion, the "revenue" that we seek to maximize refers to the **Gross Marginal Revenue (GMR)** created by sales — top-line sales revenue minus the Cost of Goods Sold (COGS).

This is what a business owner or SBU (small business unit) manager understands to be the real dollars that fund salaries, benefits, sales expenses, general and administrative expenses, marketing expenses, debt service and so forth, and provides the revenue that fuels

> SMALL-TO-MEDIUM SIZED COMPANIES TEND TO FOCUS THE VAST MAJORITY OF THEIR ATTENTION ON THE PRODUCTS OR SERVICES THEY PRODUCE, OFTEN FAILING TO ADDRESS THE BASIC FACTORS THAT CAN AND WILL MAXIMIZE THEIR REVENUES."

company growth through innovation, expansion, acquisition, etc.

Unfortunately, small-to-medium sized companies tend to focus the vast majority of their attention on the products or services they produce, often failing to address the basic factors that can and will maximize their revenues. Again, for the purposes of this paper, we are not considering the expense side of business (where there is often plenty of work to do as well), but on the gross marginal revenue created by sales (or salespeople).

The following equation highlights the factors that impact marginal sales revenue:

Gross Marginal Revenue = (O x WP) x (OV x MP) x F

GMR = (Opportunities x Win Percentage) x (Opportunity Value x Margin Percentage) x Frequency (# of times repeated in a time period)

A cursory analysis of this equation suggests five ways that a company (or a salesperson) might theoretically increase gross marginal revenue (GMR):

- Identify more opportunities (O)
- Increase win percentage (WP)
- Pursue larger opportunities (OV)
- Increase gross margin percentage (MP) by increasing top-line revenue and/or reducing COGS
- Shorten the selling cycle; i.e., repeat the sales cycle with more frequency (F)

In light of the equation above, these conclusions seem fairly straightforward. However, our observations over the past twenty years have revealed several common errors that serve to dramatically limit the amount of revenue that a company (or salesperson) might otherwise be able to achieve. Each of these errors,

in one or more ways, are in direct contradiction to the (apparently) obvious conclusions listed above:

- Many, if not most, salespeople simply do not have enough **opportunities** (O) and/or enough potential opportunity value (OV) in their sales pipeline (sales funnel) to achieve their revenue forecasts (or sales quotas, or sales projections). It is not uncommon to discover that a salesperson is in desperate need of more opportunities and/or higher-value opportunities to meet their sales forecasts, but is not even aware of the deficiency without a detailed analysis of key sales metrics.

- Average salespeople will often pursue the easiest sales opportunities, which are most likely those sales with lower opportunity value (OV). Larger sales are more complex, more difficult, more time consuming, and require significantly more skill to close. Salespeople often avoid larger sales opportunities because of 1) a lack of confidence, 2) a comfort zone created by success with smaller opportunities, and 3) a lack of accountability (typically from sales management) to larger opportunities.

- Clearly, a salesperson whose average sale, or opportunity value (OV), is small requires more customers to reach a defined performance level than salespeople whose average sale is much larger. What is often ignored in this situation is the impact on the operations of the company. For example, compare two companies – one that has 200 customers producing $1 million in total sales revenue and one that has 600 customers producing the same total sales revenue. The strain of an additional 400 customers on the internal operations of the company is significant, requiring much more time and overhead, and creating considerably more drain on the company's resources.

- Finally, salespeople generally do not see or understand the value of strategic differentiation and its impact on maximizing revenue. Their sales presentations often do little to communicate the company's competitive advantages or to address the prospect's long-term strategic needs or objectives. Unwittingly, these salespeople often walk themselves

> "STRATEGIC DIFFERENTIATION IS THE PLANNED AND DELIBERATE USE OF THE COMPANY'S COMPETITIVE ADVANTAGES TO UNIQUELY POSITION THE COMPANY IN THE MINDS OF PROSPECTS."

into a situation where they are forced to sell on price simply because they fail to create a compelling value proposition, or they present a solution that is (incorrectly) perceived as a commodity purchase.

From a broad perspective, each of these issues is created by a lack of understanding of the steps a company (or salesperson) must take to maximize revenue (GMR). The majority of sales professionals simply do not receive the training and development necessary to maximize revenue for the company or themselves, as internal sales training is typically limited to product knowledge and application. Although companies may wish to provide more extensive selling skills training for their salespeople, they tend to view this type of training as addressing only "soft" selling skills; i.e., networking, rapport-building, presentation techniques, objection handling, closing questions, and so on - skills that may, or may not, immediately translate into additional sales revenue.

We believe these selling skills are necessary and they should positively impact sales performance; however, any training that does not directly address the GMR equation above will necessarily fall short of its desired effect.

In reality, sales should be considered a "production system," one that is defined, in part, by the GMR equation. Therefore, effective sales training should necessarily address the following three key principles of maximizing revenue that are derived from the GMR equation:

1. **Identify and pursue "high-value, high-probability" opportunities (maximizing the relationship between O and OV).**
   In other words, companies must cultivate prospects with the highest potential revenue and the greatest probability of a sale. This principle is critical because salespeople are constrained by the amount of time they have to create and maintain customers.

THREE KEY PRINCIPLES TO MAXIMIZING REVENUE

2. **Close (or win) more of these high-value, high-probability opportunities (increase WP).**
   Although it is obvious that companies should pursue higher value opportunities, there remains the need to be able to close those opportunities. Larger opportunity values are critical, but identifying high-probability opportunities provides a greater likelihood of closing those opportunities. There are a number of skills that directly impact the ability to get more "hits" when you get to the plate, and to ensure that you get better pitches to hit.

3. **Focus on creating higher selling margins in every opportunity (increase MP).**
   This is generally the most

problematic of the three principles as most salespeople do not have the attitude or the mind-set necessary to defend sales margins, a situation largely created by a lack of training and a lack of understanding of

> HIGH-VALUE, HIGH- PROBABILITY OPPORTUNITIES MAXIMIZE THE RELATIONSHIP BETWEEN OPPORTUNITIES (O) AND OPPORTUNITY VALUE (OV)."

the critical components that lead to higher margins. In fact, the most common tactics used to defend margins – claims of market superiority, a presentation of "superior" product features, or the inclusion of "added value" – are rarely persuasive. What is required to successfully defend your margins is a comprehensive "price defense" strategy, and discounting should strictly be a strategic decision rather than the first response to a prospect's negotiation tactics.

Though it isn't difficult to understand that maximum revenues result from larger opportunities, higher win percentages, and higher gross margins, it is a quite different thing to understand how to execute on these three principles – or to understand the key missing ingredients that prevent companies from executing on these three ideas.

Thus, the bigger question: How?

What must a company (or salesperson) do in order to consistently identify and close larger opportunities – at higher gross margins? How exactly should a company execute on the three principles of maximizing revenue?

> SUCCESSFULLY DEFENDING YOUR SALES MARGINS REQUIRES A COMPREHENSIVE "PRICE DEFENSE STRATEGY."

HOW TO EXECUTE ON THE THREE KEY PRINCIPLES

1. Understand your critical sales metrics

> *"When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind..."*
> ***Lord Kelvin (William Thomson)***

As strange as it may sound, many companies – and far more salespeople – simply do not understand the mathematics of selling. They fail to comprehend how much essential information can be derived from an understanding of critical sales metrics.

To be sure, many companies track and analyze sales revenue, selling expenses, and, in some cases, gross margin. To varying degrees, companies may create sales forecasts or sales quotas and provide reporting on the monthly, quarterly, or annual attainment of those objectives.

However, most companies (or salespeople) have little idea what percentage of opportunities they win (WP) beyond a "gut

> A METRIC IS A DATA POINT OR A MEASUREMENT THAT PROVIDES INFORMATION ABOUT A PARTICULAR ACTIVITY. SALES "METRICS" ARE MEASUREMENTS OF KEY SALES ACTIVITIES, LIKE TOTAL SALES, GROSS MARGIN, PERCENTAGE GROWTH, AVERAGE REVENUE PER ACCOUNT, ETC."

feel." Our experience is that this number is typically skewed because salespeople rarely track the actual number of opportunities (O) they work. Further, salespeople typically are not aware of the average value of their opportunities (OV) or the average gross margin of those opportunities (MP). With no understanding of these critical metrics, salespeople have little idea of where they stand, what they must do to improve, or what performance standards are realistic.

There are many more measures that are important to maximizing revenue. For example, companies rarely have a clear idea of the distribution of their sales revenue and the impact this distribution has on account management. In our experience, an 80/20 distribution of sales revenue (or something very close) is almost guaranteed In other words, in almost every case, 20 percent of customers will be producing approximately 80 percent of the sales person's revenues.

This distribution necessarily means that the top 20 percent of customers are producing sixteen times more average revenue per account than the average account revenue produced by the bottom 80 percent of customers. This knowledge should lead to different strategies for managing those top accounts, and it should lead to much different strategies for managing the bottom 80 percent; strategies that will have an enormous impact on maximizing the company's revenues.

For example, when it becomes obvious that it takes four times as many customers (in the bottom 80 percent) to produce one-fourth of the total revenue, companies will often select all or some of these customers to receive nominal price increases. There are two very positive results that can occur as a result of the increase: 1) the company increases its gross profit immediately, and/or 2) several customers may choose not to continue doing business with the company, resulting in less drain on the company's resources.

But what about that?

> AN 80/20 DISTRIBUTION OF SALES REVENUE MEANS THAT TWENTY PERCENT OF CUSTOMERS WILL BE PRODUCING APPROXIMATELY EIGHTY PERCENT OF THE COMPANY'S REVENUES."

What about the revenue that is lost if customers decide to go elsewhere? A quick look at the mathematics shows that, for a company with an average gross margin of 40 percent, a 10 percent price increase on the bottom 80 percent of customers would produce enough additional gross marginal revenue to allow for the loss of as many as 20 percent of their customers while maintaining the same gross profit (see Appendix B). While we are not suggesting that companies should automatically raise prices on all customers in the bottom 80 percent, different pricing strategies should be strongly considered for different tiers of customers.

What, then, are the "critical" sales metrics? We believe at minimum, a company (or salesperson) should track and analyze the following:

- Number of qualified opportunities (O)
- Average value of opportunities (OV)
- Win percentage, or closing ratio (WP)
- Average margin percentage (MP)
- Monthly and quarterly sales vs. forecast (or quota)
- Monthly and quarterly gross margin vs. forecast (or quota)
- Quarter-over-quarter growth
- Year-over-year growth
- 80/20 distribution:
    - Average revenue and margin of Top 20%
    - Average revenue and margin of Bottom 80%

Understanding these critical metrics will dramatically impact your ability to make the decisions that will help maximize your revenue. You will have a much greater understanding of which areas need improvement – and why – and how those improvements will impact your financial statements.

Consider these two examples:

- Veteran salespeople should be directed to focus their sales efforts on those prospects with a potential opportunity value (OV) greater than or equal to the value of the smallest customer in their Top 20%. This forces capable salespeople to increase top line revenues, and gross margin dollars will rise concurrently.

- If a hypothetical evaluation of a sales team reveals that the Salesperson A's top line revenue is thirty percent higher than Salesperson B, but Salesperson A's gross margin percentage is six percent less than Salesperson B, then both are in need of sales training. However, each salesperson requires a completely different emphasis – Salesperson A needs to create more opportunities while Salesperson B needs to learn strategies to increase margins. The resulting improvements from both will have a dramatic impact on the company's bottom line.

2. Implement a Defined Sales Process (Business Development Process)

> *"If you can't describe what you are doing as a process, you don't know what you're doing."*
> ***W. Edwards Deming***

If you want something done right – and you want it done consistently right – you need to create a well-defined process to produce a particular result. Without a process, a series of actions that can be taught, measured, and duplicated over and over, consistent results will be elusive at best, and non-existent at worst.

Manufacturing, for example, is governed by process. Project management will follow a strict set of process guidelines. Accounting uses a well-defined process to create consistent outcomes. In most any department inside almost any company you will find a process, or a series of processes, that is used to create accuracy, consistency, and dependability.

This observation is true, of course, as long as you stay out of the sales department. Which defies both reason and common sense. If a sales process will help create consistent results, while providing the ability to determine a specific cause of sales failure, why do the majority of companies not have one?

Without a defined sales process, companies face predictable challenges:

- When a salesperson is successful, you won't know exactly why. Is she a great salesperson, or just lucky? Why exactly did she win that particular sale? Can she do it again?
- When a salesperson is unsuccessful, you won't know exactly why. Was the price too high or the product poorly differentiated? Did he do a bad presentation, or was it an unqualified prospect? Did he lose to a competitor, or simply fail to ask for the order?
- It will be hard to determine how to train new salespeople because you're not sure which skills contribute most, or least, to success. Thus, companies focus on product training and exclude selling skills training.
- It is extremely difficult for the company to help a struggling salesperson improve because you are not sure which skills contribute most, or least, to success.
- Unable to produce consistent results, or clearly identify performance barriers, companies tend to cling to the theory that they must hire the "born salesperson."

Without a clear sales process in place, the sales manager's job is considerably more difficult. A salesperson might not have the talent to sell, or he might just need work on specific skills. But which ones? It is frustrating to know how to react to sales slumps. Do you tell your salespeople to work harder? Make more calls? Prepare more quotes? Or are they simply failing to understand customer needs? Or identify decision makers? Or qualify prospects?

Who knows?

On the other hand, when sales is viewed as a production system, companies can create more consistent results, assess and measure individual performance more effectively, train for specific improvements, and most importantly, improve win percentages (WP) dramatically.

How? A defined sales process (especially in combination with a clear understanding of the critical sales metrics) creates more opportunities, higher opportunity values, more qualified opportunities, and far more effective sales presentations. Ultimately, salespeople find themselves presenting the right solution – one that takes both short-term needs and long-term business strategies into account – to high-value, high-probability prospects.

This is the perfect recipe for maximizing value: Increase both opportunity value (OV) and win percentage (WP) while rigorously defending margin percentage (MP).

At minimum, then, an effective sale process should include the following:

- Detailed definition of the ideal customer
- Identification of ideal prospects
- Research and blueprinting of ideal prospects
- Rigorous prospect qualification
- Prospect interview and discovery
- Identification of needs and performance gaps
- Integration of proposal into short- and long-term strategic needs
- Implementation and follow-up

> IF THERE IS NO PROCESS, YOU CAN'T MEASURE IT ACCURATELY.
> IF THERE IS NO PROCESS, YOU CAN'T IMPROVE IT SPECIFICALLY.
> IF THERE IS NO PROCESS, YOU CANNOT ASSESS IT EFFECTIVELY.

These process steps do not detail a number of selling skills that are necessary for long-term selling success; however, they are defined steps that allow for measurement, assessment, and focused skills training.

3. Learn How to Strategically Differentiate your Solution

> *"If you ignore your uniqueness and try to be everything for everybody, you quickly undermine what makes you different. If you stay in the shadow of your larger competitors and never establish your "differentness", you will always be weak."*
> ***Jack Trout***

Companies (and salespeople) are rarely able to articulate what makes them unique. In fact, the very simple question "Why should I from you?" almost always elicits a host of generic and rather trivial answers. These answers do little to rid prospects of the notion that most companies are pretty much alike and offer nearly identical products and services.

The typical answers to the hypothetical question, "Why should I buy from you?" are these:

- Because we're the best in the industry.
- Because we have a great quality product (or the best).
- Because we have great customer service (or the best).
- Because we have been in business for forty years, or we're the oldest in the industry, or we are the market leader...

> SALES SHOULD BE VIEWED AS A "PRODUCTION SYSTEM"; I.E., IT SHOULD HAVE A DEFINED PROCESS LIKE ANY OTHER SYSTEM IN THE COMPANY. A DEFINED SALES PROCESS ALLOWS FOR ASSESSMENT, MEASUREMENT, AND TARGETED IMPROVEMENT."

The first and most obvious problem with these answers is that each of your competitors is saying exactly the same thing. It seems that every company claims to be the best and the brightest, to be the market leader, to offer the industry's highest-quality, and on and on. For buyers, this makes the decision process quite difficult. Without a clearly differentiated solution, which offering is best? Can you really make a bad choice if each product is really that good? What criteria should be used to make a determination?

The answer, of course, is price – and competing on price is never advantageous for maximizing value. Companies compete on price for two significant reasons. First, they have not learned how to differentiate their offerings and present a true "value" proposition. Second, they have convinced themselves that their industries are commoditized and price is the only thing that really matters to their customers. In this case, customers have done a far better job selling the vendors than the vendors have done in selling the customers. These two factors almost guarantee that companies will continue to give away gross margin dollars and fail to maximize their revenues.

The second and less obvious problem with the answers given to the question "Why should I buy from you?" is that the language used in the reply is so vague and ambiguous that it doesn't communicate any real value in the first place. When a company claims to have 'great quality,' what does that really mean? A customer might interpret the word quality to mean any of the following things: performance, fit and finish, response time, availability, selection, after-sale service, the customer experience, and much more.

The same is true for service. What is 'great service' exactly? Again, for any given customer it can mean something completely different. The reality is that, in the case of quality or service, generic claims of superiority serve no purpose whatsoever in the mind of the customer.

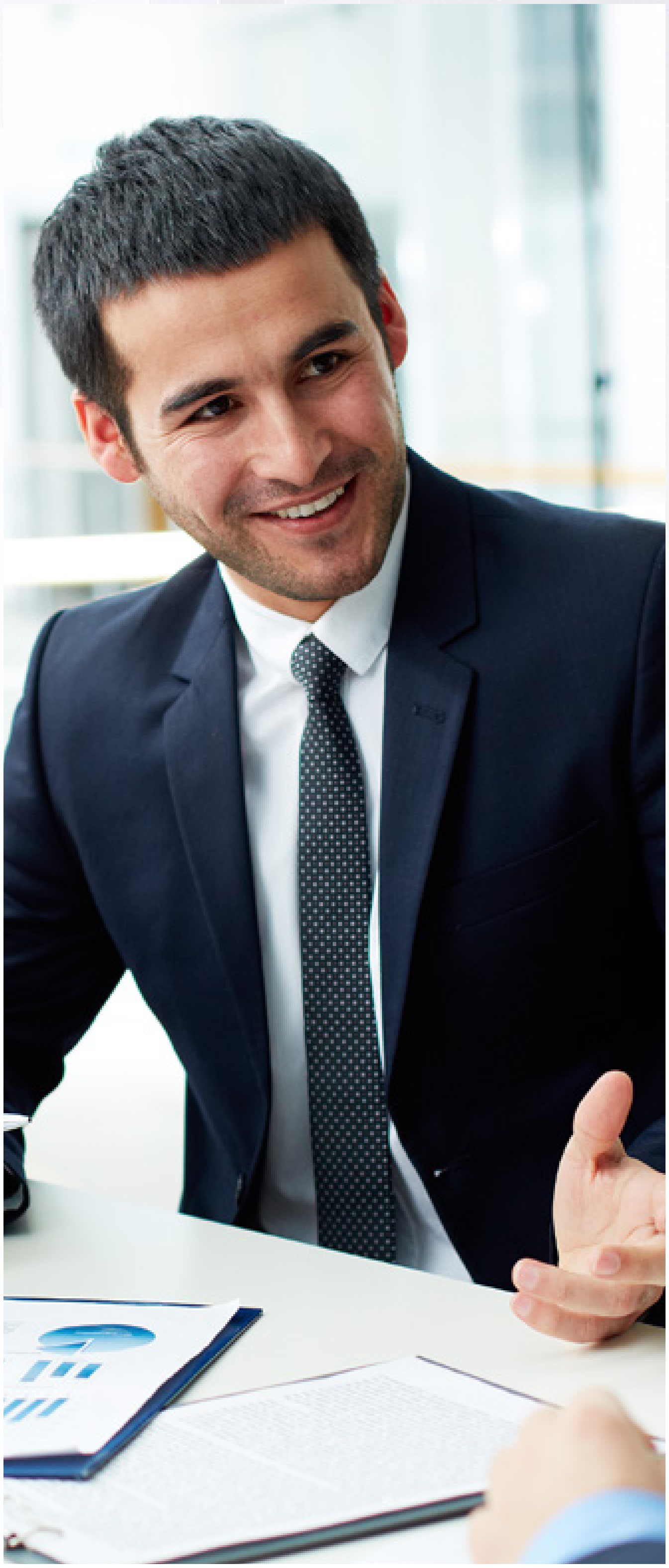
These challenges are compounded by the fact that most salespeople have the same issues when presenting their products or services. The typical salesperson is little

more than a product-pusher, expounding on the many can't-miss, must-have features of the solution, which leads a prospect even further into the idea that the solution is little more than a commodity item that can be acquired from one of several (allegedly) good companies.

Each of these revenue-killing problems can be substantially remedied by understanding what it is that prospects really want from salespeople (or companies). Extensive research conducted by HR Chally Group revealed that buyers desperately want salespeople who:

1. Understand their businesses,
2. Design the right applications,
3. Solve mission-critical business problems, and
4. Are creative in responding to their needs.

Clearly, the differentiation that buyers crave will specifically address these needs. As more and more vendors battle for fewer and fewer opportunities, most will compete the only way they know how – by offering a lower price. However, by differentiating the company, matching the proposed solution to the customer's needs, and addressing the prospect's critical business issues, a company has a far better chance of maximizing its revenues.



To differentiate themselves, companies must learn to exploit their competitive advantages, in part by determining the answers to the following key questions:

- What are we known for?
- What can we do that no one else can do?
- How are we different than our competitors?
- How can we uniquely deliver our product or service?
- What do our customers want?
- How can we quantify our quality or service performance?

CONCLUSION

Maximizing revenue is an art and a science. However, rather than learning the science, companies tend to rely on a robust economy for success – or to blame a sluggish economy when times are lean.

The alternative is to take control of your outcomes and learn the critical components of maximizing revenue: Understand your key sales metrics, implement an effective sales process, and exploit your competitive advantages.

APPENDIX A

Annual Gross Marginal Revenue = (O x WP) x (OV x MP) x F

In this equation, Opportunities (O) are those viable prospects that enter the sales funnel. Whether those prospects are created by traditional marketing means (promotion, advertising, etc.) or are created by internal or external sales staff, these prospects represent potential sales for the company.

Win Percentage (WP), then, is the fraction of those opportunities that are successfully closed and become customers. For example, a salesperson might have ten potential prospects that eventually lead to four revenue-producing customers, resulting in a Win Percentage of forty percent. Win Percentage is also referred to as “closing percentage” or “closing ratio.”

Opportunity Value (OV) is the amount of top-line revenue represented by those sales that are actually won. For the purposes of evaluating this equation, it is the value of a specific opportunity, but, practically speaking, it would be the average revenue of all opportunities combined (total top-line sales revenue divided by the total number of customers).

The Margin Percentage (MP) achieved in each sales determines the amount of gross margin dollars each opportunity creates, and is calculated as 1 – (COGS)/(Opportunity Value).

Again, from a practical standpoint, it would be the average margin percentage of all opportunities using the calculation 1 – (COGS)/(Total Sales Revenue).

Finally, the Frequency is the number of times an opportunity can be closed, typically referred to as the Sales Cycle. For instance, if a sale typically takes three months to close (from initial sales call to closed sale), a company could repeat the cycle four times in a given year. If a sales cycle could be reduced to two months (and be repeated six times annually), it would increase GMR by 50 percent.

APPENDIX B

Illustration of the results of a nominal price increase: Assume a company has 100 customers producing $100,000 in sales revenue at an average gross margin of 40%.

Further assume an 80/20 distribution of revenue:

- The top 20 percent of customers produce $80,000 ($4,000 per customer).
- The bottom 80 percent of customers product $20,000 ($250 per customer).
- Those 80 customers produce $8,000 in gross marginal revenue (40% of $20,000 in revenue), which is an average of $100 per customer.
- If prices were raised 10 percent on all 80 customers, the resulting increase in gross profit is $2,000 (or an additional $25 in marginal revenue per customer).
- Give this scenario, the company could lose 16 customers (20% of the bottom 80 customers) and still maintain the same gross profit ($125 in gross margin x 16 customers = $2,000).

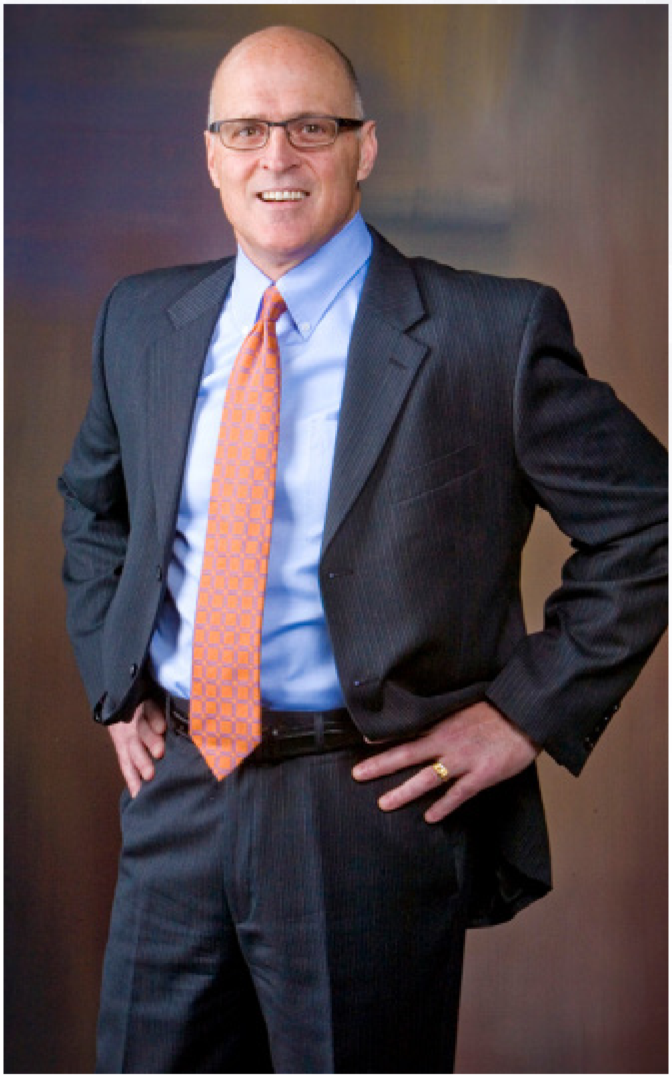
If a company has 1,000 customers producing $1 million in revenue at 40 percent margin, the number of customers they could afford to lose – and maintain the same gross marginal revenue – is 160 customers.

The point here is that 160 customers require an enormous amount of time, effort, and company resources that would no longer be required.

Removing this amount of stress on the organization can have a dramatic impact on every department – fewer shipments, fewer invoices, fewer customer service calls, and so on.

ABOUT THE AUTHOR

A national award-winning sales representative and corporate sales executive, Kelly has spent the last twenty years teaching and training organizational leaders in sales and executive management. He is a highly acclaimed platform speaker and widely recognized as a dynamic thought leader in the fields of leadership, sales development, and strategic planning.



He has written two books: 1-on-1 Management™: What Every Great Manager Knows That You Don't, and Quit Whining and Start SELLING! A Step-by-Step Guide to a Hall of Fame Career in Sales.

Drawing on a vast experience as a winning player, a dynamic coach, and a successful entrepreneur, Kelly delivers game-winning coaching and training.

Is it time to change your results?

For sales, management leadership, strategic planning, or to make a dynamic impression at your next meeting, email kelly@bizlockerroom.com or call 918-521-2345.

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Some contributions made to this Ebook by G. Bruce Riggs, MBA (www.bruceriggs.com).