The Sales Factory – Parts I, II & III

The greatest area of leverage for business improvement in most organizations is the sales function. This is due to myths, misperceptions and lack of appropriate metrics. Is selling an art or a science? Can an organization really “manage” the sales function to improve performance?

In a series of articles, we will explore the sales operation and how leading companies employ modern management practices, as they have with manufacturing and product development, to significantly improve sales productivity, consistency and predictability.

 What is the Sales Function?

A simple question for most of us – sales is responsible for bringing in revenue for a company. And so, it is, but consider the question another way – what makes up the process of selling? The answers are more varied - it may be the sales methodology that company employs or in too many cases, the lack of a consistent sales methodology. Is every sales person pretty much on their own from finding opportunities through engaging the prospect to closing the sale? Or are they part of a team that starts with marketing and involves coordinating subject matter experts, management, legal and support staff? Most companies view the Sales function as a key production function within the company but few have considered how that function should be organized.

Let’s use an analogy that we would suggest is the basis for how to organize, plan, measure and optimize the sales function – the factory.

Most people would recognize a factory as a production operation because the outputs are products, ideally of high quality and enough to supply the demands of the marketplace. There is extensive theory, research, technology, process and management education dedicated to making the factory faster, more flexible, more efficient, safer, less capital intensive, etc. It is not limited to classic product manufacturing, either. Retailers, consulting firms, financial service firms, etc. have devoted huge effort to breakdown and optimize each step of their respective operations. Books, careers, educational programs and whole philosophies are devoted to this endeavor. Remarkably the sales function is frequently not perceived as its complement and benefit from similar thinking and effort. But Sales is a production function. Very few companies or organizations can exist without a sales organization just as they would not survive without producing and delivering a product and/or service.

Although almost every business function can be looked as have a production process at the core (accounts receivable and collections for example) there are primarily only three that matter – Producing and delivering the product and/or service offering, selling those products and/or services and designing new products and/or services. The other functions (accounting, human resources, facilities, etc.) are supporting cast members to these main actors.

We would suggest the sales function is like any other production function and would yield significant improvement in output ($$ booked), productivity ($$ booked per sales person), predictability (Actual $ to Forecast Revenue), etc. if it was viewed and treated as a factory.

We will cover these topics:

* Organization & Process - What production process is right for your organization?
* Current State - What are the key metrics and how can they be measured?
* Moving Forward – How to evaluate and improve performance.
* People - What role does the sales person play? What are the expectations of the executive team?
* Planning – Developing plans & budgets

The Sales Factory – Part I

For most organizations, selling involves multiple steps. This article is intended for them. The steps during the sales cycle may occur over a week, a month or even years, and can involve many participants both within the selling company and the client. The primary sales management challenges are to determine when these sales cycles will finish and what is the likelihood they result in business for the company.

If one looks at sales as a production function, then consider thinking of the selling process as like a factory. In this article, we will expand on how to apply some manufacturing concepts to the sales function for improving effectiveness.

Let us use an example to illustrate the point. Consider the following simplified process for making potato chips. We start with potatoes, our main ingredient. There are a series of process steps that these potatoes must move through. Each step has loss represented by a yield (the percentage of input that moves on to the next step in the production cycle) until all the steps are completed and we finally have potato chips in the bag. There certainly can be many other steps along the way – testing, moving, storing, etc. but here this is a summary. (Later in the series, we will explore how to determine what steps to measure).

Here is the idealized 5 step example:

Step 5 – Packaging – 98% Pass

Step 4 – Seasoning – 90% Pass

Step 3 – Drying - 90% Pass

Step 1- Sort, Slice & Wash – 75% Pass

Step 2 – Cooking – 90% Pass

In this example, the yield in each step is relatively high but the cumulative results are relatively low. The total percentage of the original potatoes that actual make it into a bag of chips is 54% (Step 1- 75% of the volume makes it through) X (Step 2 - 90% of the volume) X (Step 3 - 90% of the volume) X (Step 4 - 90% etc.) X (Step 5 - 98% etc.).

Production engineers focus on making improvements on each step because small improvements on each have big impacts. If steps 2, 3 & 4 had 95% yield in our example, the result would be 70% of the potatoes making it into a bag, a 30% improvement. The best part is all the improvement would go directly towards added profits.

So, what does this have to do with sales you might ask? Like many products, the production of a sale has many steps and consequently, many opportunities for loss. In any sales situation, a “prospect” is the main ingredient of a sales cycle (more on the definition of a prospect later in this series). Let us consider a 5-step sales process and typical “yields” for each step, starting with a “prospect”:

Step 2 – Needs Discovery – 20% Pass

Step 5-Contract Terms Agreed – 95% Pass

Step 4-Proposal Accepted - 80% Pass

Step 3 – Proof of Concept – 50% Pass

Step 1- Qualify Prospect- 10% Pass

In this example, the percentage of prospects that turn into a sale is less than 1%! (Step 1 - 10%) X (Step 2 - 20%) X (Step 3 - 50%) X (Step 4- 80%) X (Step 5 - 95%).

There is a huge opportunity for the sales “production engineer” to improve this process. Consider the implications of moving from 1% to 2% overall yields:

* Twice as many sales for the same marketing spend
* Twice as many sales from the same sales force
* More than twice the profitability due to leveraging existing overhead.

Easily said, of course, but how is it done? Let us consider some basic assumptions in the example that are preconditions to making these improvements:

* What are the main stages in your sales process and what are the yields today?
* Assuming I have this data, where can you get the most leverage?
* What needs to been done to improve any one of those stage’s yield?
* Which sales people need the most help and at what stage?

The analogy to the production engineer in the modern sales organization is the sales manager. In upcoming issues, we will explore the role sales management plays and how to address the questions above. In advance of the next issue, consider documenting the main stages in your sales cycle and ponder how you could start measuring yields.

The Sales Factory – Part II

Last issue we began the discussion on how to apply manufacturing concepts to the sales function. In this issue, we will take it deeper and explore how to diagnose the issues and provide insights. Let us use an example from the previous article to illustrate the point.

This is a sample of the idealized 5 step sales cycle example:

Step 2 – Needs Discovery – 25% Pass

Step 5-Contract Terms Agreed – 95% Pass

Step 4-Proposal Accepted - 80% Pass

Step 3 – Proof of Concept – 50% Pass

Step 1- Qualify Prospect- 15% Pass

Recall, in this example, the percentage of prospects that turn into a sale is less than 2%! (Step 1 - 15%) X (Step 2 - 25%) X (Step 3 - 50%) X (Step 4- 80%) X (Step 5 - 95%).

There is a huge opportunity for the sales “production engineer” or Sales Manager to improve this process. Consider the implications of moving from just a 2% to 4% overall yields:

* Twice as many sales for the same marketing spend
* Twice as many sales from the same sales force
* More than twice the profitability due to leveraging existing overhead.

The first step is to define and standardize on a sales process. In our example above there are 5 milestones. Using this model and real data from a client company that provides 6 figure technology solutions, let us consider different sales people and their situations.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Sales Person | Milestone 1 | Milestone 2 | Milestone 3 | Milestone 4 | Milestone 5 | Projected |
| “Ideal “ | 15% | 25% | 50% | 80% | 95% | 1.5% |
| Rep A | 24% | 43% | 55% | 90% | 100% | 5% |
| Rep B | 6% | 30% | 60% | 85% | 90% | <1% |
| Rep C | 12% | 20% | 40% | 90% | 100% | <1% |

We can see that in this situation, Rep A has been extremely productive relative to the model and his/her peers. We can further see that each sales representative has different areas for potential improvement. Let’s highlight some of the findings:

* Rep A is very efficient at converting Qualified Prospects into sales – if he/she is meeting or beating quota, that is an excellent result but if they are underperforming, it may mean they are cherry picking the easiest prospects to sell. If so, they may need encouragement to loosen the filter and compete harder for more sales.
* Rep B has relatively low number of prospects turning into sales. If they are a new sales rep building their pipeline this would be expected initially but the ratio should improve. If they are an experienced rep, this would be an indication of high prospecting activity but a failure to position the company/product effectively or indiscriminately pursuing any available opportunity.
* Rep C is relatively effective at achieving Milestones 1 & 2 but has a low conversion of Stage 2 through Stage 3. This will require further investigation but possible causes could be the prospects are not quite ready to purchase, competitors are out positioning your sales person, the Discovery process is not effective or the sales person is not gaining access to key decision makers and opportunities are stalling.

 So, the data will provoke many more questions, not the least should be why certain individuals are so effective at certain stages. Cross training your sales people through sharing of their respective experiences and tactics should provide an increase in every team member. But recognize that most successful sales people are not conscious of what they do so well. It will take the Sales manager to observe and/or extract the necessary lessons that can be applied.

In our next issue, we will explore how to develop among your sales team the desire to internalize this approach and begin the creation of the management reporting systems required to support these efforts.

The Sales Factory – Part III

Defining and capturing the key metrics to measure and improve your sales productivity is a major cultural challenge for many companies. Sales people, if they have a process, are unlikely to want to adopt a new method or even share “their” formula. Defining the formula and major milestones is critical but useless if the criteria are not continuously applied. Hence, the futility of generating forecasts – often based on sale’s people and sales manager’s gut but justified with vague categories and hard percentages.

Ideally, the sales process and major milestones is simple, clearly defined, aligned with the CRM system and ruthlessly audited by the sales management. But most importantly, it is should be motivating for the sales team. An excellent source for developing and implementing a self-motivating system is Milestone Selling ([www.milstoneselling.com](http://www.milstoneselling.com)).

Back to our factory analogy, in each major stage of the production process is clearly defined, represents a major step, and can be readily measured. Just as when producing a product, there will be many supporting activities (moving the material, establishing the relevant machine settings, etc.) so as in sales where calls are made, meetings scheduled, emails sent, etc. to support the sale. These are necessary but not the primary measure – moving through the stage/milestone is what is important. This also makes it easy for the sales person to internalize.

Here is an example:

Salesperson A has a yearly quota of $1,000,000 and the average transaction is ~ $40,000. They need to achieve 24 sales in the year or 2 per month. In this company’s process, there are 4 major milestones in each sales cycle and if this person was perfect they would have moved through ~ 100 milestones in the year (24 X 4). This could be represented as 2 per week.

Despite what some salespeople may think, no one is perfect so the achieving more milestones is necessary. Below is a graphical description. For each milestone, there is a percentage of likelihood of progressing to the next milestone, represented by the percentages. Working back from the sales goal of 24 new deals, we can see that 27 will need to reach the contract milestone. As 50% of the opportunities do not progress beyond the proof milestone, this sales person will require twice the contract milestone volume (27/50%). The same applies for the Discovery milestone achievement.



The total required milestones are the sum of each stage (24+27+54+108) for a total of 213 or slightly more than 4 per week (213/50 = 4.25).

In our example, this sales person is not expected to sell something each day or even each week. By applying the milestone concept:

* There is a clear measure of progress during each sales cycle for both sales people and the sales manager,
* The sales manager gains an understanding of each sales person’s ability to progress relative to the others or baseline,
* The sales manager can more readily determine new hire performance,
* The sales person has a simple weekly goal,
* Sales management can more effectively plan staffing and resources.

In a factory, it is important to maintain an even flow through the production process. It is difficult or even impossible to work only one stage of production at a time. The principles of just-in-time and Lean have been applied to smooth flow and dramatically improve manufacturing efficiency, productivity and quality. These same principles can be employed in sales and it begins with defining the stages/milestones and then calculating the required number of milestones.

Perhaps the most significant benefit of the milestone approach is the acceptance by sales people and internalization of interim goals that lead to sales achievement. When a sales person can describe a good week by the milestones they have overachieved versus their goal, sales management can devote more time to coaching their sales team to greater success.

Finally, two additional points: (1) These concepts can be effectively deployed and reinforced within a capable CRM system but by due to its simplicity, it is not a necessity, initially. (2) Marketing and Lead Development can benefit from more reliable projections of qualified lead requirements to support the sales and hence, business goals.

Summary:

This series has strived to demonstrate that sales is a production function which can be measured and improved as any production function. It provides a framework (milestones) which simplifies the management of each sales cycle as well as a means for management and salespeople to measure progress. It further provides a basis for the sales people to focus on interim goals which lead to sales. For management, the framework will allow for identifying where in the sales cycle individuals are over and underachieving by stage. Furthermore, once consistent metrics are captured, sales management can be more confident in revenue and staff planning, assessing recent hires and

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