Building Customer Relationships: Part 1

The Impact of a Great First Impression

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EXECUTIVE SUMMARY

Having recently completed CSO Insights' 14th annual Sales Performance Optimization study, in which we surveyed more than 1,250 companies worldwide, we noted a trend that appears to be a mixed blessing. On one hand, we did see an improvement in the percentage of salespeople achieving quota: increasing from 57.0% in 2006 to 61.2% 2007. On the other hand, we did not see an improvement in sales effectiveness across sales teams, as win rates of forecast deals remained near an all-time low at 48.4%.

In drilling into the study data we found that a key contributor to sales success in 2007 was not necessarily what the reps did, but something the *customers* did. They wrote bigger checks. By that we mean that when customers did opt to sign a contract with a vendor, the average size of the deal was noticeably larger than last year.

While this was beneficial for 2007 results, it should be a warning sign for 2008. Past economic slowdowns have shown us that customers can easily rein in their spending and write smaller checks if they are concerned about the business climate. Our watchword for 2008 is "Sales Effectiveness," and throughout the year we will be writing about a variety of strategies and tactics we are seeing sales organizations employ to optimize the performance of their sales teams.

In this white paper (the first of two parts), we will start to explore the need for increasing sales effectiveness at the very beginning of the sell cycle. Specifically, we will analyze:

- How and why sales effectiveness has been deteriorating in this aspect of selling over the past several years,
- How improving customer relationships can dramatically increase your sales "win" rate, and
- How win rate improvements result in significant revenue attainment increases.

In Part 2, we will explore in detail what firms can do to start to address these challenges, and begin to build richer, more meaningful relationships with clients starting from the very first call. Questions or comments regarding the findings presented in this white paper should be directed to Jim Dickie, (303) 530-6930, jim.dickie@csoinsights.com or Barry Trailer, (415) 924-3500, barry.trailer@csoinsights.com.

INTRODUCTION

Our 2007 Target Marketing Priorities study showed that companies are spending more on generating leads for their sales teams. While we applaud these investments, we are finding that *getting in the door* is one thing, but *getting in the game* is another.

To establish the foundation for this white paper, let's review a key trend we have been tracking from 2003 to 2007: a sales rep's ability to turn leads into opportunities. Specifically, we will focus on a metric of salespeople's ability to convert leads into first meetings. In Figure 1 we see how the number of firms that are reporting a conversion rate of less than 50% has increased over the past few years.

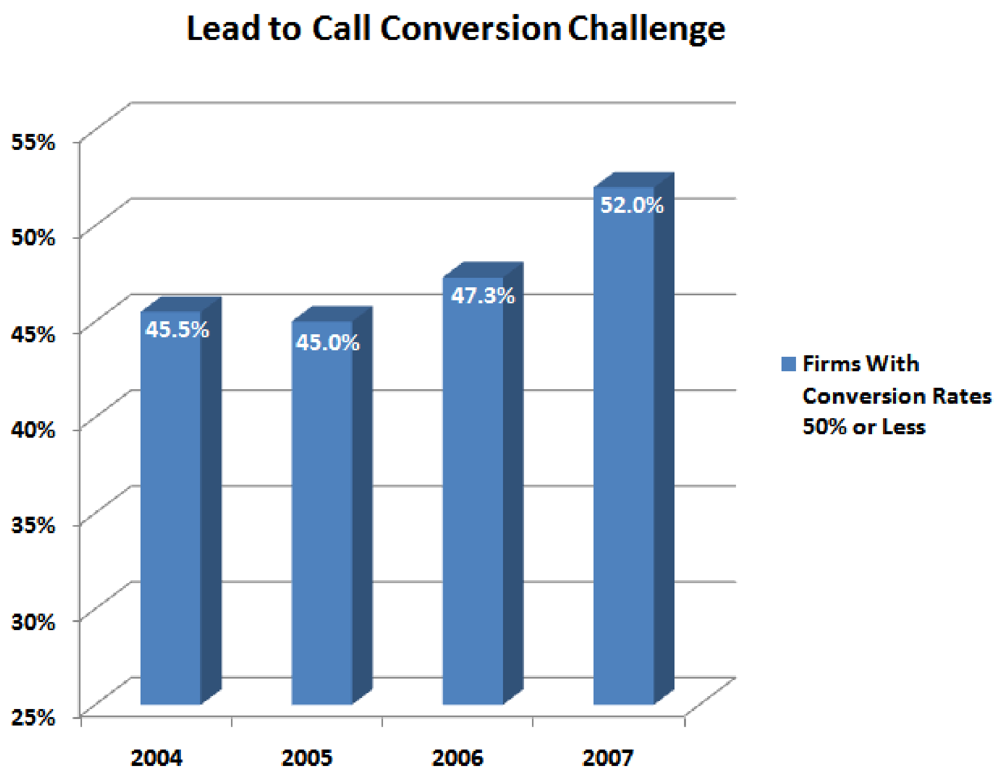

Figure 1

After a drop to 45% in our 2005 survey (an all-time low since we have been tracking this metric), the number of sales organizations having problems converting leads into initial customer calls is on the rise. And without companies adjusting how they sell, we see this trend continuing in 2008—something that should be of concern to both CSOs and CMOs.

These numbers lead to the following question: What is causing this deterioration in sales effectiveness? According to the analysis of the study data, a key contributor to this decrease in conversion rates is a noticeable shift in the expectations that customers have when they do talk to a sales rep.

THE CHANGING CUSTOMER *BUY CYCLE*

Let's also include the buying side in this discussion, and flash back to 1998. Ten years ago, we often found that the initial conversation between a sales rep and a prospective buyer focused on the *product*. There was a simple reason for this: at that time, the rep was the keeper of all product knowledge. That person knew all the features and benefits, feeds and speeds, pricing and packaging options, the names of the references, etc. By virtue of being the product expert, the rep could establish credibility with the prospect and create a valid business reason for that person to want to have additional conversations.

Today, in an ever-increasing number of cases, that relationship has shifted. The reason? The Internet. During the past decade, firms with something to sell have invested heavily in making information about their products and services available over the Web. This has been a boon for buyers, giving them the ability to start their buying cycle on a firm's web site, educating themselves on all the product-related questions and issues, etc.

But this self-education obviously changes the selling/buying equation—and choreography.

Now, when a buyer wants to talk to a seller, the conversation needs to shift away from *the product*, and focus instead on *the solution*—how a seller can help a buyer solve problems. This situation is illustrated in Figure 2, which shows the responses we received from the participants in our latest Sales Performance Optimization study regarding the changes they are seeing in customer expectations.

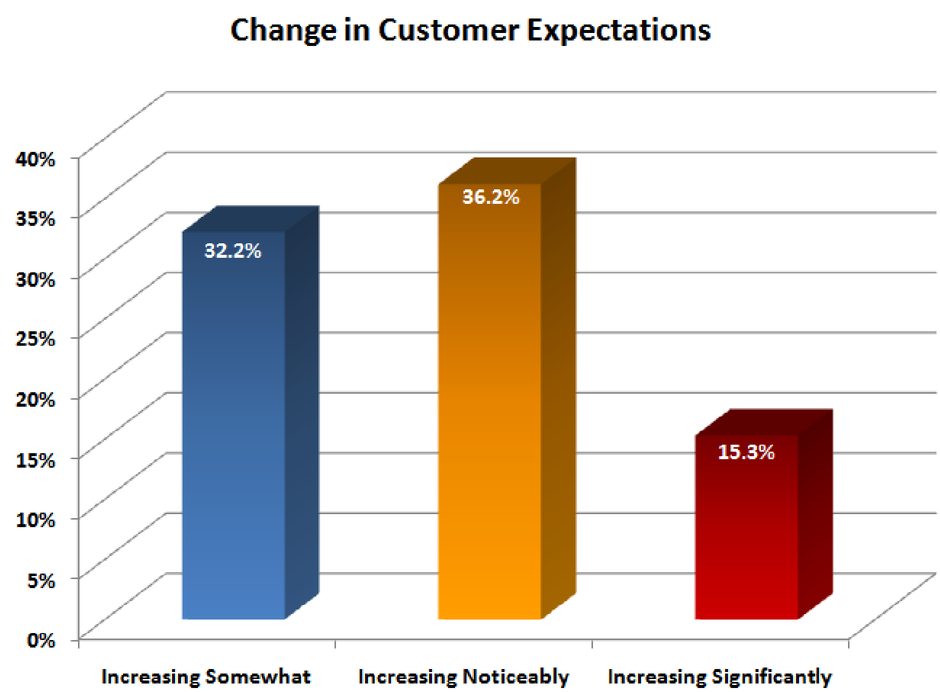

Figure 2

Here we find that 83.7% of the firms surveyed report an increase in customer expectations (the third year in a row that the percentage was over 80%), compared to 12.3% reporting no change or decreasing expectations and 3.8% that do not know.

Are our sales teams up to the task of meeting today's increased expectations when they first contact a prospect? Are they able to plan for and execute the types of sales calls that will create a reason for the buyer to want to involve them further in their buying process?

The recent study data would suggest that in too many cases, the answer to those questions is no. Consider the following. As part of our analysis of sales effectiveness, we track over 100 metrics related to how well sales reps sell. If salespeople are going to excel at converting leads into opportunities, there are three activities they should be great at: researching prospects before the initial call; developing a sales strategy for how to create and pursue an opportunity; and finally, for those prospects who have interest but no time, reps need to implement a lead-incubation strategy to remain in contact with prospects until the latter can dedicate part of their schedule to evaluate the rep's offerings.

In Figure 3 we see how companies are rating their abilities to execute each of these key aspects of selling.

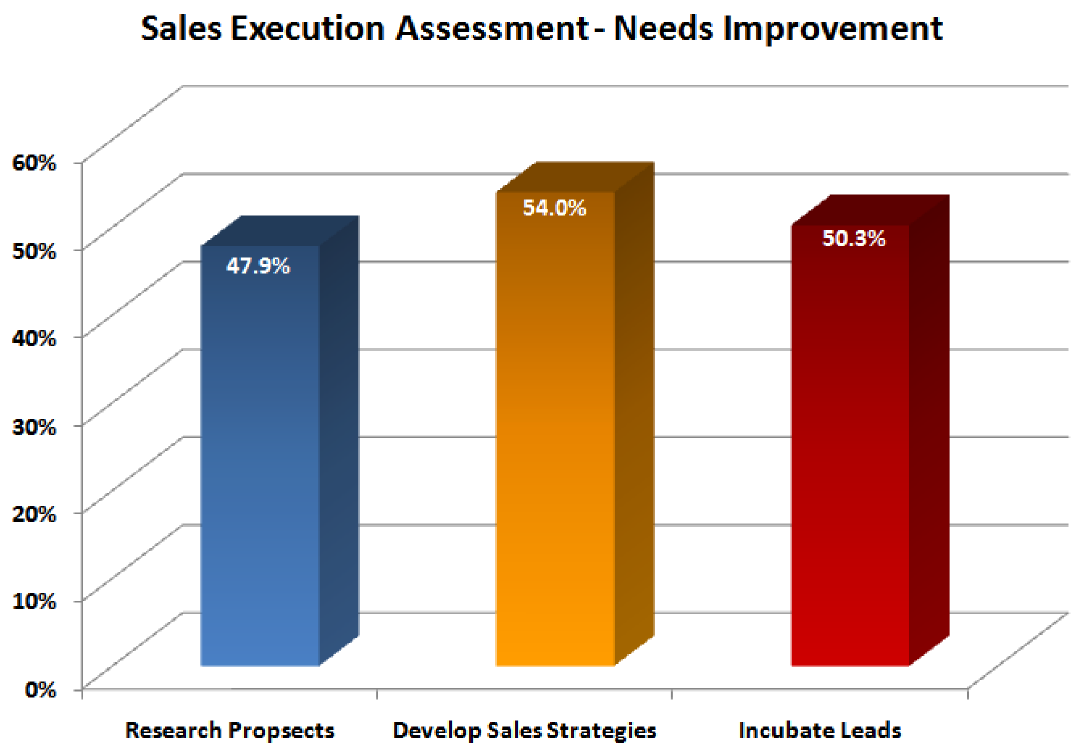

Figure 3

Comparing the above numbers to the percentage of firms that said they excelled in each of these areas—9.6%, 9.9%, and 5.3% respectively—we are left with the impression that we may not be up to the task of creating the case for why prospects should involve sales reps continually throughout their buying process. And without achieving that level of customer intimacy, we cannot build effective relationships with clients. But how big of an issue is this? Do deeper relationships really matter?

THE VALUE OF CUSTOMER RELATIONSHIPS

In our 2007 Sales Performance Optimization study we introduced the concept of the five levels of customer relationships we typically find vendors achieving with their customers. These are briefly reviewed below.

Approved Vendor: *We are seen by the majority of our customers as a legitimate provider of the products or services we offer, but are not recognized for having any significant sustainable competitive edge over alternative offerings.*

Preferred Supplier: *Based on our marketplace reputation and past dealings with our customers, while competitors may offer alternatives, we are normally seen as the preferred vendor for them to do business with.*

Solutions Consultant: *Based on a specific set of product-related, value-added knowledge or services we offer, our customers view us not only as a vendor, but also as a consulting resource on how to best use our products or services.*

Strategic Contributor: *Above and beyond the products and services we offer, our customers view us as a source of strategic planning assistance for dealing with broader-based challenges they are currently facing.*

Trusted Partner: *At this highest level we are seen as a long-term partner whose contributions—products, insights, processes, etc.—are seen as critical to the client's long-term success.*

With this as a framework for comparing companies and their sales performance, in Figure 4 we review the win rate of forecast deals that each of these groups achieved in our most recent survey: Level 1—approved vendor, Level 2—preferred supplier, Level 3—solutions consultant, Level 4—strategic contributor, Level 5—trusted partner.

	Win Rate %
Level 5	55.0%
Level 4	52.3%
Level 3	48.8%
Level 2	48.9%
Level 1	44.7%

Figure 4

Clearly, deeper relationships do matter to customers. But let's make sure we understand the monetary impact of the above. For the purposes of this analysis, let's review the performance of a Level 1 company that, over time, is able to move to Level 5 in their marketplace.

Let's assume the company has a sales force of 100 reps, each rep has a $1M quota, and the average deal size is $50K. Using these figures, and rounding the Level 1 win rate to 45%, we see that in order to make quota, a rep would need to have 44 forecast deals to pursue to expect to win the 20 needed to make quota.

Now if by enhancing the level of relationship the Level 1 firm had with its customers, the company was able to raise themselves to Level 5 and now achieve a 55% win rate, each rep would close approximately 24 of those 44 deals. Four more deals per rep, at $50K each, would mean $200K more in gross revenues. That figure times 100 reps would mean $20M more for the organization as a whole. Clearly, the ROI is significant.

How do you achieve that?

MOVING UP THE RELATIONSHIP LADDER

In benchmarking the sales efforts of firms that create deep relationships with their customers, we find they do three things very well at the beginning of the sales process: they prepare differently, they engage differently, and they follow-up differently than other firms.

In a previously published analysis, *Proactive Sales Intelligence*, we discussed in-depth how to more effectively prepare for your initial contact with a prospect. We recommend that you review that document for insights into that aspect of selling.

In Part 2 of this white paper, we will focus on how to engage and follow up with prospects more effectively. Using case studies, we will profile new methods you can use early in your sales process to start the relationship-building off on the right foot from the very first contact.

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