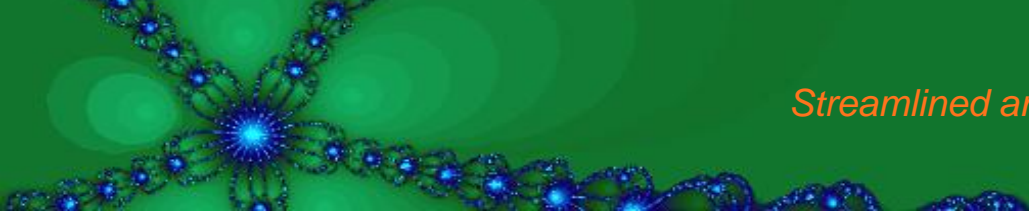


SaaS Sales Management Tips for Software-as-a-Service Executives



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SaaS Sales Management Tips for Software-as-a-Service Executives

Organization Strategy

The essence of the software-as-a-service sales model is volume and speed. It is a reflection of the larger [SaaS business model that assumes large economies-of-scale](#) and low subscription-based pricing. The result is that the SaaS sales operation needs to be managed as a tightly integrated service delivery system, like an airline or a luxury hotel, with each functional group working in tandem to deliver a coherent customer experience. It requires a motivated sales team on the front line that is backed by a strong process infrastructure and a service-oriented culture, as contrasted with the lone-wolf road-warrior approach of traditional enterprise software.

Tip #1 - Instill Customer Service Excellence

Customer focus is not a new idea, but the difference between theory and practice can be striking from one business to another. Achieving customer service excellence begins with values and culture, but in a high-volume business it must also be ingrained in process. The best values in the world will not help if your salesperson fails to satisfy your customer due to faulty systems or information. In fact, over time faulty service processes will erode even the strongest cultural values, because everyone will lose faith as they see the hypocrisy between what you promise and what you can actually deliver. Moreover, if your business is going after the SMB market or some other under-served segment, then service can be a critical differentiator. It is more likely than not that your high-end enterprise software competitor qualifies out and ignores your sweet spot prospects, because it cannot service them profitably. This creates frustration that you can turn to your advantage by outperforming the competition in good old fashioned customer service. However, this advantage will be forfeited if you fail to establish a strong service culture and back it up with the right sales support systems, including your web site, communications infrastructure, sales automation, selling tools, training and interdepartmental cooperation, so that your sales team can deliver the goods.

Tip #2 - Build the Right Team for the Job and Keep it Motivated

Sales is a tough job in any industry, but it is particularly so in SaaS. The skills required to bring in a \$1M quota when the average deal value is \$10K are distinctively different from those required when the average deal value is \$1M. That's 100 deals vs. 1 deal, and that can easily translate into 100 times the activity level and 100 times the frustration if sales staff are not supported by the right management, process and culture. SaaS sales reps are a unique breed and must possess a personality with an extremely high level of energy and enthusiasm that thrives on human interaction and constant activity. But, even the most energetic sales rep will need frequent encouragement and regular breaks in the action to maintain the level of motivation necessary to succeed over the long haul. Therefore, it is essential to maintain a work environment that is as motivating as it is intense. How this is accomplished will vary by organization but public celebration of individual success, ongoing coaching and mentoring,

team building activities and a few fun perks are good places to start. Beyond that, it is a matter of hiring the right people, because hiring the wrong salesperson can be a very expensive mistake in terms of lost revenue and costs. To balance sales performance against acquisition cost, it is important to find candidates with just the right skill fit for the job. Over-hiring and under-hiring are both easy mistakes to make. You should develop a clear understanding of the ideal candidate profile required for success in your specific business before conducting a single phone screen.

Tip #3 - Kaizen

[Kaizen](#) is the Japanese concept of continuous improvement popularized in the [Total Quality](#) movement that originated in Japan and was exported to American manufacturing and service organizations throughout the 1980s and 90s. The SaaS sales organization should strive for continuous improvement that drives up sales efficiency and squeezes out unnecessary acquisition costs without degrading quality of service. In a rapidly growing business, continuous improvement can take on many different flavors. Although essential, it is not only a matter of increasing efficiency by automating routine tasks, such as online purchase or pipeline reporting. When your business is growing, your sales organization and process must not only improve, it must also adapt, which means maintaining a high degree of flexibility and tolerance for change as you increase efficiency. For example, you will frequently hear that you should separate sales and account management, hunters from gatherers. But, this is only one organizational variation that you may need to evolve into as you grow. Reps may wear multiple hats for months or years, and then need to have their responsibilities redefined as the organization grows. Have a long term organizational vision, watch the trends, and consciously decide when to take on new organizational complexity or to eliminate a manual task through automation. Keep your team in the loop, because the best improvements often come from the ground up. And, nothing kills motivation like missed expectations. One day your best rep is both a hunter and a gatherer. The next day this rep is only one. And, the day after that your best rep quits—unless you have managed the change effectively.

Sales Process Efficiency

In the section above, I claimed that the essence of the SaaS sales operation is volume and speed, and that depending on average deal size each sales rep may need to close on the order of 100 opportunities to make quota. As such, a close ratio of 10% vs. 70% means the difference between having to manage 1000 opportunities vs. 150. The efficiency with which the sales process is orchestrated impacts the business from top to bottom. Strategically, it determines the sales expense contribution to acquisition cost, while its practical impact is personally felt on a daily basis by the sales team with a direct correlation to rep motivation, burnout and turnover. These tips address the challenge of getting the SaaS sales process under control, so that you can set proper expectations for your management and your team, increase sales performance through continuous improvement, and lay the foundation for accelerated, profitable growth.

Tip #4 - Set Clear, Objective Sales Goals

Setting clear goals is good practice for any sales organization, but software-as-a-service sales managers don't have it quite as easy as their software counterparts, because of the subscription model. The value

of a deal is more difficult to measure. It depends on time, renewal rates, and future events beyond the initial salesperson's control making it difficult to define exactly the dollar value of the salesperson's contribution. However, this murkiness makes it all the more important to clarify sales goals and remove uncertainty around compensation by having objective, clear measures of goal achievement. Having a simple, objective formula that defines the value of a deal based on recurring revenue is the easiest approach. But, you should also have a solid model of lifetime customer value and the contribution of sales to total acquisition costs, so that you can design goals and commission plans that will scale profitably.

Tip #5 - Measure, Measure, Measure

The old maxim that you can't manage what you can't measure is especially true in software-as-a-service sales. Once you achieve traction in your market your sales pipeline and database will quickly swell to an unmanageable number of opportunities and prospects with a wide range of revenue potential, qualification, and complexity. While each deal requires individual handling, you must divide and conquer to allocate your organization's time and money to the highest value opportunities with the greatest likelihood of closing. This requires a macro view of the sales process, objective qualification criteria for every sales cycle stage, and fact-based heuristic models of pipeline movement and bookings forecasting. But before you can reach this level of sophisticated modeling and decision making, you have to put the appropriate measures and reporting in place.

Tip #6 - Qualify Ruthlessly, Convert Proficiently

With a solid sales process model and objective measures in place, your focus can shift to increasing sales effectiveness through continuous improvement, Kaizen. Each stage in the purchase process from click to close offers opportunity for improvement. All else being equal, an increase in the conversion rate at any stage goes straight to top line revenue. Improving conversion ratios requires both ad hoc sales rep feedback and numerical measures at each sales cycle stage about the prospect's level of commitment, the qualification of the opportunity, and the sales activities that you apply to the deal. Sound complicated? It isn't. These are the same idea viewed through three different lenses: the prospect's, the sales process, and the sales rep's.

$$\textit{prospect commitment} = \textit{opportunity qualification} = \textit{sales investment}$$

When you have balanced this equation, you have efficiently allocated your sales team and maximized your sales investment at a deal-by-deal level. Spending too much time on deals that won't close or missing out on deals that should close can ruin your acquisition cost, team morale, and overall business profitability. In a high volume sales operation, there is no time to waste on window shoppers, unique complex custom requirements, or losing competitive scenarios. For each investment of a salesperson's time that is made to help a prospect take the next step toward purchase, the sales rep should look for signs of equal commitment from the prospect. Developing objective criteria to qualify customers that fit your business, qualify out customers that don't, and providing sales tools and training to move qualified prospects rapidly through to purchase is the name of the game.

Accelerating Revenue Growth

In its simplest mathematical form, revenue is equal to quantity of units sold times unit price.

$$\text{revenue} = \text{volume} \times \text{price}$$

Strangely enough, this basic formula captures the essence of the SaaS sales challenge. Accelerating revenue growth amounts to increasing volume and increasing price. For most software-as-a-service businesses, volume equals the number of paying customers that are using the product and price equals the lifetime value of each customer's subscription.

Tip #7 - Lever-up through Marketing

In SaaS, particularly in a SaaS startup, it is very difficult and expensive to drive revenue by sales reps working alone. Outbound calling and offline meetings explode acquisition costs by applying too much sales investment where there is too little prospect commitment (see SaaS Sales Tip #6). The price point and complexity of the typical SaaS deal imply an extremely [tight integration between sales and marketing](#). As a SaaS sales executive, you should never go it alone.

Marketing activities provide leverage to your sales investment, because they move customers through the purchase process many at a time, whereas sales moves them through one at a time. You should work closely with the marketing organization to provide the feedback and direction necessary to create programs and content that bring in high quality leads, automatically nurture less committed prospects and accelerate active opportunities through to close.

Tip #8 - Simplify, Standardize and Automate

In the [Top Ten Dos and Don'ts of SaaS Success](#), I claim that you should accelerate organic growth by encouraging and enabling your customers to buy from you even if no one shows up for work. In this context, organic growth is defined as revenue acquired with zero marginal cost, now that is leverage! When you have achieved this level of marketing proficiency, then the SaaS sales executive can take a step back and apply precious sales resources to only the highest value activities for highly qualified prospects—those places where your prospects and your pipeline benefit the most from a personal touch to move a deal along or increase its value.

However, the principles of simplification, standardization and automation that enable your customers to serve themselves should also be used to empower your sales team. Accelerating and scaling sales volume requires streamlining the entire purchase process from click to close, regardless of who is performing the activities: the customer, the sales rep, marketing, pre-sales services or support. Simple pricing and contracts, standard qualification criteria, opportunity scoring together with automated tools for pipeline management, forecasting, ROI calculation, competitor intelligence, etc. will make your team more efficient and effective, allowing them to focus their precious time and energy on the most critical aspects of the most critical deals.

Tip #9 - Maximize Customer Lifetime Value

One of the great benefits of the SaaS subscription model over licensed software is that you don't have to re-book every dollar you made last quarter before you can grow revenue this quarter. Every new booking leads to increased revenue, because it is layered on top of renewal dollars. That is, if you maintain a low rate of attrition. For the SaaS sales executive, responsibility for revenue does not end once a deal is closed. It has only just begun. Don't expect your customers to hang around if they suffer from poor ongoing customer service, technical support or product quality. While you may not have responsibilities for all these areas, you definitely have an interest and you should cooperate with the rest of the executive team to ensure that your customers receive the ongoing care that they need after the initial deal is done.

It is always easier to sell to an established customer than to a new prospect. Therefore, you should put in place programs for up-selling and cross selling to your current customer base. Targeting specific market segments with enticing discounts, bundles and upgrade programs can double and triple the lifetime value of your customers, depending on your product line. But, if you don't put in place the right process, tools and training for your sales team, they will just wing it and are unlikely to realize more than a fraction of the potential. In addition, it is important to provide feedback to marketing and product development about where these opportunities lie. No one knows better than the sales rep speaking with a loyal customer with budget who is looking to buy something that you just don't have to sell.

Scale Profitably

Revenue is the fuel that powers the engine of any business. It enables movement, acceleration and maneuverability. Without revenue, there is no profit and eventually you run out of gas. While venture funding may provide a startup with a temporary reprieve from this harsh reality, confusing revenue with cash will only result in failure and loss of what might be your lifelong dream. You can borrow cash, but you cannot borrow revenue.

So, it would seem like building a sales operation that generates sufficient revenue to cover costs and scale profitably would be axiomatic and there would be no need to include it in a list of tips for SaaS sales executives. Unfortunately, the characteristics of the software-as-a-service rental model—vertical integration requiring more up-front capital investment combined with low pay-as-you-go subscriptions—have conspired to obscure this unavoidable economic fact. The challenge of the SaaS sales executive is more subtle than that of the traditional enterprise counterpart. While large up-front enterprise license deals support an expenses-be-damned all out attack on revenue, the SaaS model requires a more measured approach that maintains a lock on acquisition expenses, high capital efficiency and a relentless drive toward profitability.

Tip #10 - Match Supply to Demand

Selling enterprise software in 1995 was like expanding into a vacuum. Innovation was everywhere, business productivity leaps were huge, and new product categories were emerging every day. If you sold well and could demonstrate immediate ROI, then you could close the deal. In many sectors, the sales

rep could show up cold and single-handedly unleash latent demand. This is rarely the case today with SaaS. Most SaaS businesses are built on the premise of expanding to underserved market segments, e.g., SMBs out to the long tail, or replacing traditional enterprise systems for lower TCO. Either way, the sales hurdles are higher and they create scenarios where acquisition costs can overwhelm revenue potential. The secret to SaaS sales success is not selling harder, it is selling smarter.

Selling smarter entails distinguishing between where you can profitably create demand and where you can only profitably service it. Then, matching that demand with the nominal sales investment required to close it. For example, if you go to a trade show where there are too few prospects too early in the purchase process, then you may be pushing on a string. However, if your website brings in highly qualified prospects, then your sales investment should be well worth the return. Similarly, cold calling to a purchased list may return nothing, but calling to a targeted group of current customers or registered prospects with a specific offer might just work. Every SaaS business has a unique and complex mix of target prospects that vary by revenue potential, pain level, product understanding, reach-ability, etc. Knowing where to push and where to pull is not easy, but it is essential.

Tip #11 - Consistently Increase Contribution

Assuming that you have mastered the art of knowing where to push and where to pull in your market, you still have the challenge of applying the exact amount of force required to close each individual deal. Apply too much, say too many reps or too much experience for the job at hand, and your acquisition cost exceeds the deal value. Apply too little, and you miss opportunities or lose deals that could have been won with just a little more effort. Stray too far too often in either direction and you cannot scale profitably.

This tip is your CFO's perspective of the previous SaaS Sales Tip # 6 Qualify Ruthlessly, Convert Proficiently. When you are knee deep in the sales strategy for a specific deal or the details of your latest improvement to your pipeline management process, you should never lose sight of the fact that these activities are only the various means to a single financial end. The ultimate goal is to maximize sales contribution, i.e., revenue - selling cost. It is impossible to scale profitably if the operation that supplies the fuel for the business burns more than it provides. As the SaaS sales executive, you must show the same ownership of contribution that you show for revenue. Otherwise, your short term success can spell long term failure for the business. And, don't fall victim to the [recurring revenue mirage](#). Keep it simple and be accountable. Increase revenue while consistently increasing revenue per rep and lowering fully loaded sales acquisition cost, and profitability will take care of itself.

Tip #12 - Fearlessly Face the Risk

Don't think you can control it. This is the claim of Dont #8 of the [Top Ten Dos and Don'ts of SaaS Success](#). It is as much personal counsel for SaaS executives as it is strategic advice for the business. It is also perhaps the most difficult tenet of all for the SaaS sales executive to digest, especially when [coming out of a traditional enterprise software background](#) where the sales rep has maximum, albeit never complete, control over the deal. In SaaS, as much or more control lies in the sales process, and the boundaries of that control are defined by your market—it is a numbers game. But, managing by numbers and process metrics often feels like gambling. Kaizen does not offer the same level of managerial

comfort as putting your top rep on a plane to bring in that million dollar deal before the end of the quarter.

Nonetheless, it is your job to bring in those numbers. Whether or not the company has fuel for growth, profitable growth, depends on your performance. Foolish attempts to eliminate risk by exercising control beyond the natural limits that your market, your sales process or any individual deal allows will cause you to over invest in unqualified demand, over spend on customer acquisition and spiral into long term unprofitability. You cannot buy control with cash. And, there is no room for doubt or hesitation. You must motivate your team, maximize their chances of success, and fearlessly face the uncertainty that remains.

About

This whitepaper is based in part on recent blog posts concerning software-as-a-service business strategy at Chaotic Flow (www.chaotic-flow.com) by Joel York (www.crunchbase.com/person/joel-york).

Currently Chief Marketing Officer for Xignite (www.xignite.com), a pioneer in financial cloud services, Joel York has more than 15 years of experience bringing software and software-as-a-service (SaaS) products to market. He has managed global marketing and sales organizations serving over 50 countries, including local operations in the US, UK, Germany, Israel and India. His experience ranges from \$5 SaaS subscriptions to \$5M enterprise deals and he shares his expertise on SaaS, cloud computing and Web 2.0 business strategy on his blog.

Prior to Xignite, Joel provided SaaS strategy and marketing consulting services at affinitos, where he worked with rapidly growing Web 2.0 clients such as Conduit and Zendesk. At Conduit, Joel served as interim vice president of marketing and led the establishment of US operations for the global company. He has held senior management positions leading the marketing and sales organizations of both startups and midsize public companies, including Navis, eMind, Passlogix and SPSS. He began his software career at Deloitte Consulting.

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