Why Customer Analytics is Critical to Sales Coverage Optimization

ABSTRACT

In today's dire economic climate companies are focused on the bottom-line. As a result, they find themselves balancing competing revenue growth and cost reduction objectives simultaneously. This pain is especially apparent in Sales. Today, Sales must navigate decreased demand, increased price sensitivity, longer buying cycles, and headcount pressure. By ensuring a sales coverage model is optimized, sales organizations can be confident they have the right resources focused on the right opportunities and thereby generate more dollars with fewer resources. However, granular customer-level information is critical to this process. This paper discusses the types of customer centric data and analyses that are vital to sales coverage optimization.

the Optera Group

TABLE OF CONTENTS

What is Sales Coverage?

At its simplest level, an efficient sales coverage model enables companies to increase revenue with existing customers and acquire new customers through an effective application of sales and marketing resource. While the concept is simple, the implementation of a sales coverage model is complicated, requiring companies to make a series of difficult decisions.

When determining how to optimize sales coverage, companies must answer the following types of questions:

1. Who do I sell to successfully?
2. What do these customers look like?
3. How do they like to purchase (through what channel)?
4. How do I group customers and prospects with similar profiles and buying preferences into prioritized segments so that I can allocate the appropriate sales and marketing resource?

This paper discusses the types of data and analyses required to enable companies to make fact-based decisions surrounding these questions.

Why is Sales Coverage Important?

In the current economic climate, many companies find themselves juggling competing revenue growth and cost reduction objectives simultaneously - the old 'do more with less' conundrum. With a keen focus on delivering the bottom line, today's company leadership (and the markets they serve) will continue to expect improvements in productivity.

Sales organizations bear much of this burden. Budget conscious customers look for deals in the form of price reductions; aggressively 'shop' solutions; and delay purchase decisions. Nevertheless, sales organizations are expected to grow revenue while simultaneously minimizing the cost of sales – again, 'do more with less'.

The existence of these market dynamics makes an efficient sales coverage model an imperative. Sales coverage optimization ensures the appropriate sales and marketing resources are focused on opportunities that present the most value and have the highest likelihood to buy; thereby lowering the total cost of sales. In short, an optimal sales coverage model allows sales organizations to 'do more with less'.

What do Data Companies Need to Optimize Sales Coverage?

Understanding the market landscape in which one operates is the most critical component to developing an effective sales coverage model. Companies must understand the who, what, where, when, and why of their customer base to be able to effectively deploy sales and marketing resource against that base as well as to penetrate new prospects that fit similar profiles.

While this seems 'common sensical', many sales organizations rely on reps. and managers in the field to develop their own individual approaches to sales coverage - i.e. identify target accounts, configure territories, and define channel deployment within each territory.

This unsystematic approach can have serious ramifications at the enterprise level. Sales reps. and managers in the field can waste valuable selling time using inconsistent and sometimes unreliable data to develop their own unique approach to sales coverage. Not only can this be costly, the individual approaches are not integrated at the enterprise level which can weaken a company's ability to attack their market in a strategic and focused manner.

The following section discusses the type of granular-customer level data companies should rely on to develop an enterprise – wide, fact-based, approach to sales coverage:

Understand the Current Customer Base:

One of the most fundamental components to developing a sound coverage model is to understand the current customer base: Who buys from me? Why do they buy from me? What do they buy? How do they like to buy from me? What do they look like from a demographic perspective?

Customer analytics marry data points from multiple systems across the enterprise at the customer level to provide businesses with a 360 degree view into the profiles and buying preferences of current customers. These analytics allow vendors to understand customer level: revenue history and concentration, product preference, purchasing patterns, sales channel preference, current pipeline, account coverage, customer and partner satisfaction, and demographic profiles.

Granular visibility into the types of companies and market segments where products resonate, arms vendors with the information necessary to develop precise, effective, sales coverage initiatives. While the concept sounds simple, most companies do not have the systems or processes in place to track their performance at such a granular level; and consequently develop marketing and sales initiatives grounded in theory and intuition, not fact.

While there are hundreds of ways to slice and dice customer level information to answer unique sales coverage questions, the following analyses provide several examples that demonstrate the value customer - level data can provide to sales organizations.

Example One: Who are my largest customers?

Companies must have visibility into how their current customer base breaks down in terms of revenue concentration. In other words, who are my largest and most important customers? While this seems like an easy question to answer, more often than not, I find that most companies are surprised when presented with the data.

The analysis below prioritizes customers based on total revenue contribution to a vendor over a three year period. More specifically, it evaluates how many companies make up each 25% increment or 'quartile' of a vendor's total revenue. In this case, the vendor's revenue base is extremely concentrated with only a few customers comprising the vast majority of revenue – 14% of the total customer base drives 75% of total revenue.

**Chart 1. Revenue Segmentation Quartile Analysis — 2006–2009 Revenue**
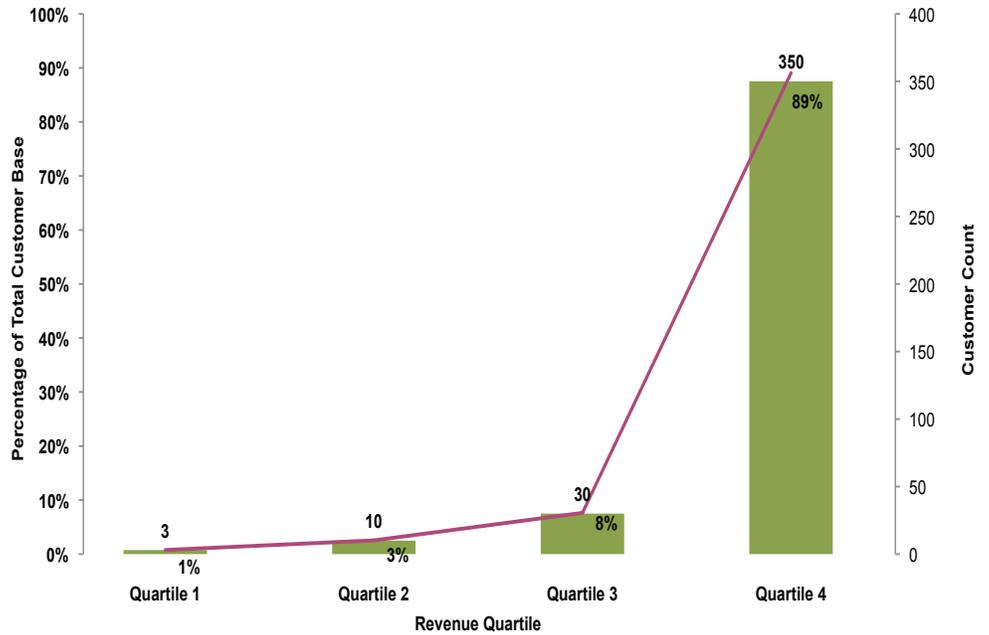
Core Customer Base:
1% of customers generate 25% of rev.
4% of customers generate 50% of rev.
12% of customers generate 75% of rev.

When revenue from these top accounts was tracked over time, the analysis also revealed that these customers were increasing spend each year. In short, the vendor maintains a very small base of accounts that drive the vast majority of revenue and these customers appear to be satisfied and loyal as is evidenced by their increase in spend each year.

Chart 2. Growth in Top 3 Revenue Quartiles by Year
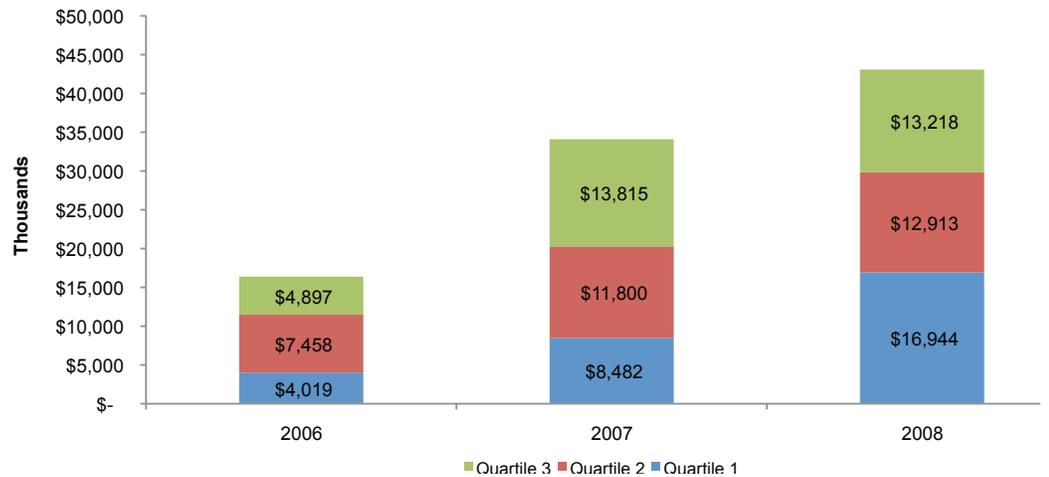
While this analysis is relatively simple, it has a number of more tactical implications from a sales coverage perspective:

> The company has a strong and loyal customer base – protect and grow the base:

  – Identify underpenetrated or new business units within existing core accounts

  – Leverage existing relationships in core accounts to penetrate new units

  – Ensure sales coverage is appropriate to grow 'deeper and wider' – consider a national or 'quarterback' account model on the largest customers

  – Ensure quotas reflect opportunity in underpenetrated business units

  – Ensure marketing efforts are relevant and integrated with the sales process – does sales possess the appropriate tools and campaigns to further penetrate accounts

  – Ensure account planning and individual customer reporting is reviewed regularly

  – Monitor customer satisfaction

> Given extreme revenue concentration, the vendor faces significant churn exposure – if the vendor loses one of the top accounts, the financial impact will be significant. Diversify the customer base to mitigate risk:

  – Develop demographic profiles based on demographic profiles of core base

  – Identify targets that fit profiles where the company currently has no presence

  – Consider 'hunter territories' and tailored comp programs around qualified prospects

  – Provide account contacts and intelligence to sales teams to facilitate penetration and shorten the sales cycle

  – Develop targeted lead generation programs

Example Two: What do my customers 'look like'?

In addition to understanding who their largest customers are, companies must also have an understanding of what their customer base looks like from a demographic perspective. Demographic segmentation groups customers with similar characteristics such as size, industry, and geography into groups and evaluates the total revenue contribution of each group.

Providing companies with an ability to understand revenue contribution by demographic segment allows them to prioritize markets and define marketing and sales coverage initiatives that resonate with each unique segment. For instance, in the case below, the company was surprised to learn that nearly two – thirds of historical revenue was driven by enterprise class companies; whereas the marketing department was spending the vast majority of its time designing programs to target small business. Marketing has since redirected efforts. In addition, the company is currently considering the creation of a dedicated sales team to sell into the Financial vertical since it comprises nearly a quarter of the company's revenue base.

2006–2009 Product Revenue By Company Revenue Size
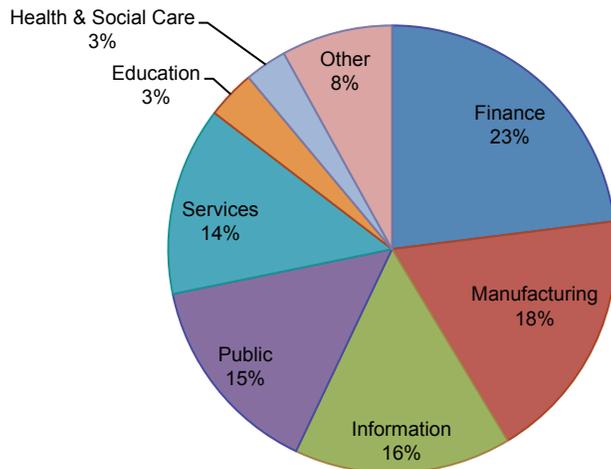
2006–2009 Product Revenue Industry Segmentation
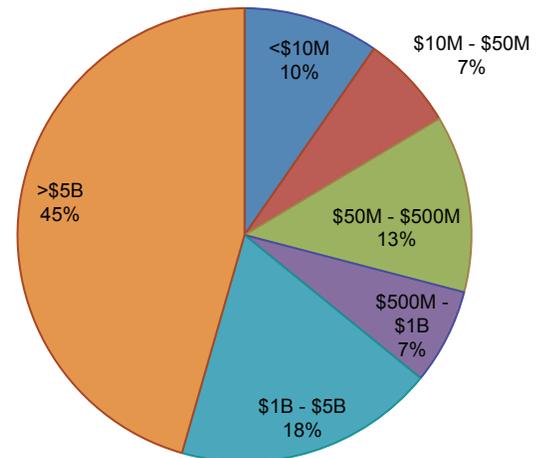
Example Three: How do my customers buy from me?
Channel segmentation provides visibility into how different customer segments buy (direct, reseller, eCommerce, etc) so that companies can deploy a channel strategy that aligns with customer purchasing preferences.

When the company discussed in the previous two examples analyzed purchasing activity across each customer segment, the analysis indicated that the company had almost zero separation of channel responsibility. In other words, the direct and partner sales forces were selling into all accounts, both large and small. In fact, more than half of the vendor's direct reps were focused on the smallest accounts.

Since direct coverage is the most expensive form of coverage and large customers generally prefer to have a direct single point of contact, the company decided to refocus its direct coverage on the largest accounts and leverage channel partners to penetrate smaller accounts. In turn, this provided direct sales with more time to provide quality service to higher-touch accounts and to uncover new opportunities in affiliated subsidiaries that were not previously covered. In addition, the move opened up far more channel feet on the street to identify and penetrate new accounts, which as illustrated above was a necessary move for the company to mitigate customer churn risk (see company before and after coverage models below).

COVERAGE MODEL	
BEFORE	AFTER
SEGMENT I • 4 accounts • Avg annual rev.: $3.3M • 70% direct / 30% partner • 25 locations • 6 direct reps / 7 partner reps	**SEGMENT I** • 8 direct reps • National account coverage where appropriate
SEGMENT II • 11 accounts • Avg. annual rev.: $1.0M • 65% direct / 35% partner • 60 locations • 8 direct reps / 15 partner reps	**SEGMENT II** • 15 direct reps • National account coverage where appropriate
SEGMENT III • 44 accounts • Avg. annual rev.: $250K • 50% direct / 50% partner • 200 locations • 15 direct reps / 50 partner reps	**SEGMENT III** • 28 direct reps / 8 partner reps
SEGMENT IV • 339 accounts • Avg. annual rev.: $33K • 35% direct / 65% partner • 400 locations • 25 direct reps / 200 partner reps	**SEGMENT IV** • 3 direct "hunters" / 220 partner reps

In addition, the company measured revenue contribution over the three years by partner across the portfolio of 272 partners to understand partner contribution and performance over time. This data informed substantial changes to the company's partner tiering strategy. The company was able to prioritize partners based on historical revenue contribution, identify and eliminate 'dead weight' partners, and develop tailored marketing and product training for the most important partners.

Conclusion

The knowledge gleaned from customer analytics can inform substantial changes to a vendor's sales coverage and marketing initiatives that result in both top and bottom-line growth. However, the ability to capture and analyze customer level trends is absolutely vital to this process. Without an understanding of one's customer base, vendors cannot direct targeted sales and marketing initiatives that truly resonate with distinct customer segments.

While the vendor scenarios discussed above are relatively simplistic analyses, it is surprising how few companies can track their results at the granular level necessary to produce these analyses. Companies simply do not have the systems or processes in place to capture data from disparate systems and consolidate them at the customer level into a central repository for reporting. Companies should view this capability as a strategic competitive advantage over their peers as it enables them to outperform in the areas of marketing and sales coverage.

About The Optera Group

The Optera Group, LLC, (Optera) is a professional services firm specializing in understanding the business value of technology and the processes associated with effectively selling and marketing technology to modern day buyers. Optera advises clients on their market strategies and the way their solutions create value in real-world implementations. Optera has extensive experience in economic analysis, value selling methodologies, research, and general business analysis.

To learn more about The Optera Group or this report see www.opteragroup.com or please contact:

Tory Bond
Principal Consultant
tory.bond@opteragroup.com
303-809-4597

Tory Bond, Principal Consultant

Tory is a sales operations professional with a proven track record of delivering top and bottom line results to sales organizations in the technology field. She has ten years of experience helping companies with market segmentation, distribution, and sales coverage strategies; organizational design; compensation planning; customer analytics; key performance metrics; and new account acquisition programs.

Prior to joining the Optera Group, Tory played key senior level sales operations and financial roles within a variety of leading technology companies, including Sun Microsystems, StorageTek, and QwestCyberSolutions (now part of IBM). Tory also held roles outside the technology industry, with PriceWaterhouseCoopers Corporate Turnaround Practice and as Director of Business Development at Consumer Capital Partners, a private equity firm. Tory has a BBA in Finance from the University of Texas, where she graduated with honors.