

Bay Networks A & B

Combining Sales Forces



The Facts

- Companies
 - ▶ Wellfleet: East Coast
 - ▶ Synoptics: West Coast
- Products
 - ▶ W: Switches/Routers (20% share, #2)
 - ▶ S: Hubs (#1), Switches (not 1, or 2)
- Sales Headcount
 - ▶ W: 300
 - ▶ S: 200

Activity Triage

- What are the top 3-5 things you work in priority order if you were Gary Beach?
- What is your overarching objective?
 - ▶ Hit the number?
 - ▶ Maintain (best) customer relationships?
 - ▶ Create a new, balanced sales force?

My Priorities - Sales

1. Get my management team in place (by Day 30)
 - ▶ Determine which AVPs we want to keep (goal: balance, buy in)
 - ▶ Offer them retention packages
 - ▶ Outline territory and quota thinking
 - ▶ Sign them up or go to next best AVP
 - ▶ Let remainder go
2. Jointly set the go-forward coverage model (by Day 60)
 - ▶ Determine which reps we want to keep (goal: “best”)
 - ▶ Offer them retention packages
 - ▶ Describe territory and quota assignments
 - ▶ Sign them up or go to next best rep
 - ▶ Let remainder go
3. Hand out overall quota of $(W+S)*130\%$ (or $5+\% >$ sales target)
 - ▶ One number ok here since relatively equal sizes
4. Cross-train on each other’s main products (by Day 90)

Suggest an Approach on Reps

1. Understand revenue profile
 - ▶ Last 3 years' revenue pareto for each
 - ▶ 80/20 customer list for each
 - ▶ Create combined "Top 20%" List
2. Understand Top 20% coverage model
 - ▶ How much direct? Through channel?
 - ▶ Where coverage overlaps, identify best
 - Could be most \$, could be best relationship
3. Develop list of "must retain" reps

My Priorities – Sales Support

1. Customer Support

- ▶ Keep both and integrate slowly over course of first year
- ▶ Don't let anyone touch it significantly

2. Marketing

- ▶ Ensure new VP Marketing understands the sales plan and coverage strategy
 - Especially direct vs. indirect split
- ▶ Review and jointly work merged marketing plan to make certain it supports my goal



Big Question - Channel

- Channel use may vary significantly by product
 - ▶ Lower ASP, non-enterprise, solution vs component
- Channel use may vary significantly by geography
 - ▶ Fixed cost of direct office vs total opportunity
 - ▶ Start up vs mature business
- Do we approach any overlap the same way as we did with reps and managers?



Bay Networks B

One Year Later...

New Jersey: Garden State

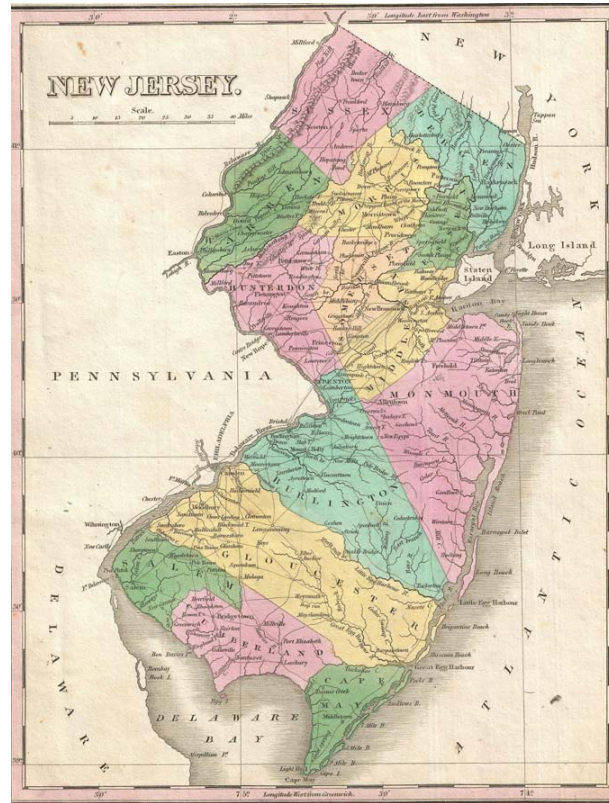


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New Jersey Territory

- What is the biggest problem?
 - Problem: Sales force inefficiency
 - Objective: Gain “sales leverage”
- What’s your healthiest region?
- 2012 Objectives:
 - ▶ 50% top-line revenue growth
 - ▶ 50% channel growth, (to 40% target)
 - ▶ 20% expense growth

The Numbers

- 2011
 - ▶ Revenue: \$12.10M
 - Direct: \$9.05M (75%)
 - Channel: \$3.05M (25%)
 - ▶ Expense: \$3.23M (27%)
 - Base: \$1.5M
 - Commission: \$1.73M

- 2012
 - ▶ Revenue: \$18.15M
 - Channel: \$4.58M (50% growth) - \$7.2M (40% of total)
 - Direct: \$13.6M (50% growth) - \$10.9M (20% growth)
 - ▶ Expense: \$3.87M (20% growth, \$640k, 21% of revenue)

- Do you see any issues?

Northern Region Observations

Like	Don't like
Covered ½ F1000	Region did not make quota
One rep (AI) was 2 nd highest in all of New jersey	75% of reps did not make plan
Largest average deal size	Channel hardly exists
Wellfleet reps appear to be able to sell Synoptics product	Synoptics reps not able to sell Wellfleet
	Dan seems problematic

Key Takeaways:

- Channel and training appear to be the biggest issues
- Too much focus on direct, based on legacy

Central Region Observations

Like	Don't like
High productivity channel	Did not make quota
Synoptics and new rep can do well	F1000 coverage (25%)
Channel partner training and selection	Temp agency to call accounts
Channel in region on "auto-pilot"	
Optimism into next year	

Key Takeaways:

- Channel and training are great
- Telesales model working, though ad-hoc
- Limited F1000 coverage



Southern Region Observations

Like	Don't like
Exceeded their number	Two blew away the number and the others did not make quota
F1000 touch (almost 50%)	Not a team
Joe and Maria model and blended revenue	Wellfleet products difficult to sell by Synoptics rep
Highest earning rep (Maria) in NJ	Lack of training
Channel attempt by Joe and Maria	Reseller effectiveness (\$5k)

Key Takeaways:

- Model works really well for two reps
- Not a team
- Difficult to scale



What were some channel models you envisioned?

- More reps/better reps, same model
 - ▶ What's the problem with this?
- Fewer managers/less overhead
 - ▶ How do you do this?
- Shared “services”: Add NJ-wide telesales
 - ▶ Comp telesales team on channel revenue
 - ▶ Comp other reps on all revenue or direct revenue?
- Increase channel and channel productivity

Channel Leverage!

- Goal channel = 40%; means direct “only” needs to grow by \$1.75M
 - ▶ 2011: \$12.1M total
 - \$3.1 channel, \$9.05 direct
 - ▶ 2012: \$18M total
 - \$7.2 channel, \$10.8 direct
- Is it possible to grow the channel by over 2x (138%)?

Let's take a look

- Assume:
 - ▶ Low productivity channel is \$15k/partner
 - ▶ Medium productivity is \$26k/partner
 - ▶ High productivity is \$48k/partner

- By region:
 - ▶ North (low): \$305k -> 20 channel partners
 - ▶ Central (high): \$1,270k -> 26 partners
 - ▶ South (medium and low):
 - \$1040k (Joe, Maria) -> 40 partners
 - \$440k (Pete, Igor) -> 29 partners

North Region

- Last Year (low productivity channel)
 - ▶ 20 partners @ 15k/yr = \$300k
- Plan This Year
 - ▶ Increase existing to \$48k
 - ▶ Recruit another 30 @ 26k (medium)
 - ▶ $20 * 48k = \$960k$
 - ▶ $30 * 26k = \$780k$
 - ▶ Total \$1.74M



Central Region

- Last Year (High productivity channel)
 - ▶ 26 partners @ 48k = ~\$1,270k

- Plan This Year
 - ▶ Existing resellers go to \$100k, new at 26k
 - ▶ Recruit 15 more resellers
 - $26 * 100k = \$2.6M$
 - $15 * 26k = \$0.39M$
 - Total = \$3.0M

South Region

- South (medium and low productivity)
 - ▶ 40 @ 26k = \$1040k (medium)
 - ▶ 29 @ 15k = ~\$440k (low)
- Plan
 - ▶ Increase medium to \$48k (like central)
 - ▶ Increase low to \$26k
 - ▶ 40 * 48k = \$1920k
 - ▶ 29 * 26k = 754k
 - ▶ Total = \$2.7M



Channel leverage is possible

- $\$1.7 + \$3.0 + \$2.7 = \7.4M (“only” need $\$7.2\text{M}$)

But what does it take to get it,
and can we afford it???





What Does It Take?

- Marketing Air Cover
- Training, Training, Training
- Channel enablement (incl. telesales)

- What it shouldn't take
 - ▶ A Lot More Sales People

- When that happens, it's because the channel partner is fulfilling business, not generating business

What Does It Cost?

- Create telesales for the entire state
- Capacity model for telesales
 - ▶ 1 person/10 resellers
 - ▶ # Resellers: $50 + 41 + 69 = 160$
 - ▶ 16 people @ 60k each = \$960k
 - ▶ Split 50-50 with channel = \$480k expense

The 2012 numbers

2012 objectives

Increase sales by 50% to \$18,000,000
Budget increase of 20% to \$3,870,000

Create new telesales team
Combine south and central

Quota \$1,800,000
cost/rep \$150,000 base

\$3,870,000 expense

	<u>plan</u>	<u>reps</u>	<u>base salary</u>	<u>commision</u>	<u>2011 comp</u>
North	\$7,200,000	4	\$600,000	\$600,000	\$1,200,000
South + Central	\$10,800,000	7	\$1,050,000	\$1,050,000	\$2,100,000
Extra channel	\$200,000				
Total NJ	\$18,200,000	11	\$1,650,000	\$1,650,000	\$3,300,000
channel	\$7,200,000				
direct	\$11,100,000				

<u>Telesales plan</u>	<u>reps</u>	<u>salary</u>	<u>commission</u>	<u>Cost total</u>	<u>Cost 50-50 reseller</u>
\$7,500,000	16	\$60,000		\$960,000	\$480,000
	Susan	\$150,000	\$150,000	\$300,000	\$300,000
426 resellers					

Total Expenses	\$4,080,000
Target	\$3,870,000
Over/Under	\$210,000
Add revenue	\$200,000
Adj, exp.	\$3,880,000

Summary (1)

- M&A often gets financially justified on synergies (post-merger cost savings)
 - ▶ A big source of those synergies often exists in the sales force (\$12.5M here)
- Combining sales forces presents a very complex management challenge
 - ▶ You can't miss in year 1 (yet many do)
- Key success factors revolve around creation of the best combined selling capability, minimizing distraction and getting productive fast



Summary (2)

- Channel sales have significant benefits
 - ▶ More market coverage, faster, for less
 - ▶ It is a leverage model
- Channel sales *can* reduce sales process control and level of market engagement
 - ▶ Channel-committed organizations find ways to mitigate this potential issue
- It is very hard to balance both models in one company without setting very distinct boundaries for each

Bottom Line

- Don't get caught in the middle between sales models!
 - ▶ Unclear boundaries creates conflict
 - ▶ Paying everyone on everything is expensive and *ultimately* unaffordable
 - ▶ Fulfillment vehicle instead of real business partners creates negative leverage
 - ▶ If you don't train and market and enable, you won't develop a true channel
 - ▶ If you don't enable efficiently, you lose

By Territory

(combined south + central)

	<u>plan</u>	<u>% channel</u>	<u>channel revenue</u>	<u>resellers</u>	<u>productivity</u>
North				50	(blended)
Al	\$1,800,000	24%	\$435,000	12.5	\$34,800
Matt	\$1,800,000	24%	\$435,000	12.5	\$34,800
Ed	\$1,800,000	24%	\$435,000	12.5	\$34,800
Dan	\$1,800,000	24%	\$435,000	12.5	\$34,800
	\$7,200,000		\$1,740,000		
	<u>Actuals</u>	<u>% channel</u>	<u>channel revenue</u>	<u>resellers</u>	<u>productivity</u>
South + central				69	
Joe (mgr)	\$900,000	107%	\$960,000	20	\$48,000
Maria	\$1,800,000	53%	\$960,000	20	\$48,000
Pete	\$1,800,000	22%	\$390,000	15	\$26,000
Igor	\$1,800,000	20%	\$364,000	14	\$26,000
	\$6,300,000		\$2,674,000		
(Old Central)				41	
New (Susan)	\$1,800,000	72%	\$1,300,000	13	\$100,000
New (Joe)	\$900,000	43%	\$390,000	15	\$26,000
Fred	\$1,800,000	72%	\$1,300,000	13	\$100,000
	\$4,500,000		\$2,990,000		



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