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Uncovering The Hidden Costs Of Sales Support

by Scott Santucci

for Technology Product Management & Marketing Professionals

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Strategic Sales Enablement Is The Path Through Trying Economic Times

by Scott Santucci
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EXECUTIVE SUMMARY

Technology vendors are spending, on average, 19% of their selling, general, and administrative (SG&A) costs or $135,262 per quota-carrying salesperson in support-related activities. Few are aware of this enormous amount because the costs are hidden — tucked away in many different budgets dispersed throughout the organization. Corralling these random acts of sales support presents a golden opportunity. By creating a strategic sales enablement program, marketers can drive significant cost savings in the short term, while improving their companies' competitiveness to thrive in the new growth cycle.

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NOTES & RESOURCES

Forrester interviewed 25 vendor and user companies including: Accenture, Allen Systems Group, BearingPoint, BMC Software, CA, CSC, Dimension Data, Dun & Bradstreet, IBM, Kronos, Orange Business Services, Siemens, SunGard, Unisys, and Xerox.

Related Research Documents
"Engineering Valuable Sales Conversations"
November 12, 2008

VENDOR BELT TIGHTENING IS TARGETING SG&A COSTS

In order to weather the current storm and emerge from the recession in a better competitive posture, the executive teams of leading technology vendors are placing a significant emphasis on reducing cost and improving efficiency. Business leaders are feeling the pressure to do more with less. Here's EMC's CEO:

> "We believe this additional program (to cut costs by $350 million in 2009 and $500 million by 2010) will help us strike the right balance between achieving higher levels of efficiency and sustaining strong business agility and performance, without in any way compromising our ability to serve the needs of our customers over the long term. Our goal is to position EMC for continued success throughout the downturn and for even greater success during the next economic growth cycle."[1] (Joseph M. Tucci, chairman, president, and CEO, EMC)

And where are these cuts coming from?

- **Sales budgets are being trimmed.** Over the past four years, businesses have aggressively expanded the size of their sales organizations providing the catalyst for annual SG&A costs to rise 9.9%, 5.4%, 10.4%, and 12.5%, respectively.[2] We expect cuts equal to or greater than those in the last downturn as CFOs work to align expenses with revenue (see Figure 1).

- **Marketing budgets are being slashed.** Marketing budgets, typically allocated as a percentage of revenue and measured as a cost center by finance, will bear the brunt of these reductions. How deep the knife cuts is dependent upon a marketer's ability to provide other alternatives for reductions, while more clearly demonstrating the economies of scale its department can provide

To Meet The Budget Challenge, Expose The Hidden Costs Of Sales Support

Dispersed throughout your organization are a variety of hidden costs tucked away in various budgets — ripe with opportunities for cost reduction.[3] To get a better picture of the real size and scope of sales support, we examined all of the random investments and activities a typical business makes to "help sales sell" and grouped those expenditures into four basic categories (see Figure 2):

- **Base costs directly incurred when hiring and carrying a salesperson.** We looked at the salary, benefits, and on-boarding costs associated with each quota-carrying representative, along with a weighted allocation of infrastructure costs such as office space, computers, telecommunications equipment, and specialized applications paid for in the IT budget.

- **Variable costs incurred as salespeople consume resources or close business.** Commissions and other incentive programs receive the most attention but represent only part of the equation. Inefficient or excessive use of subject-matter experts in the sales cycle create a multiplying effect on T&E expenses, while overly oppressive forecasting and reporting processes create a time burden on reps that could be spent with prospective customers.

- **Development costs related to improving the skill or proficiency of a salesperson.** Keeping the sales force motivated and focused on the right activities is an important function of sales leadership. Unfortunately, investments to improve the skill of the sales force, provide the first line of defense coaching, and create tools to help salespeople manage a complex set of activities are distributed across the organization.

- **Efficiency costs incurred create greater leverage in the sales process.** CEOs are calling on all functional groups, not just marketing, to show how they are contributing to revenue generation. As a result, there are a variety of support groups, like competitive intelligence, that have emerged, which may or may not be in the marketing department. Any collateral, sales tools, account-specific promotional activities, or other expense incurred with an objective to support the sales organization has been accounted for in this category.

Figure 1 Rapidly Growing SG&A Costs Will Come Under Pressure In The Downturn

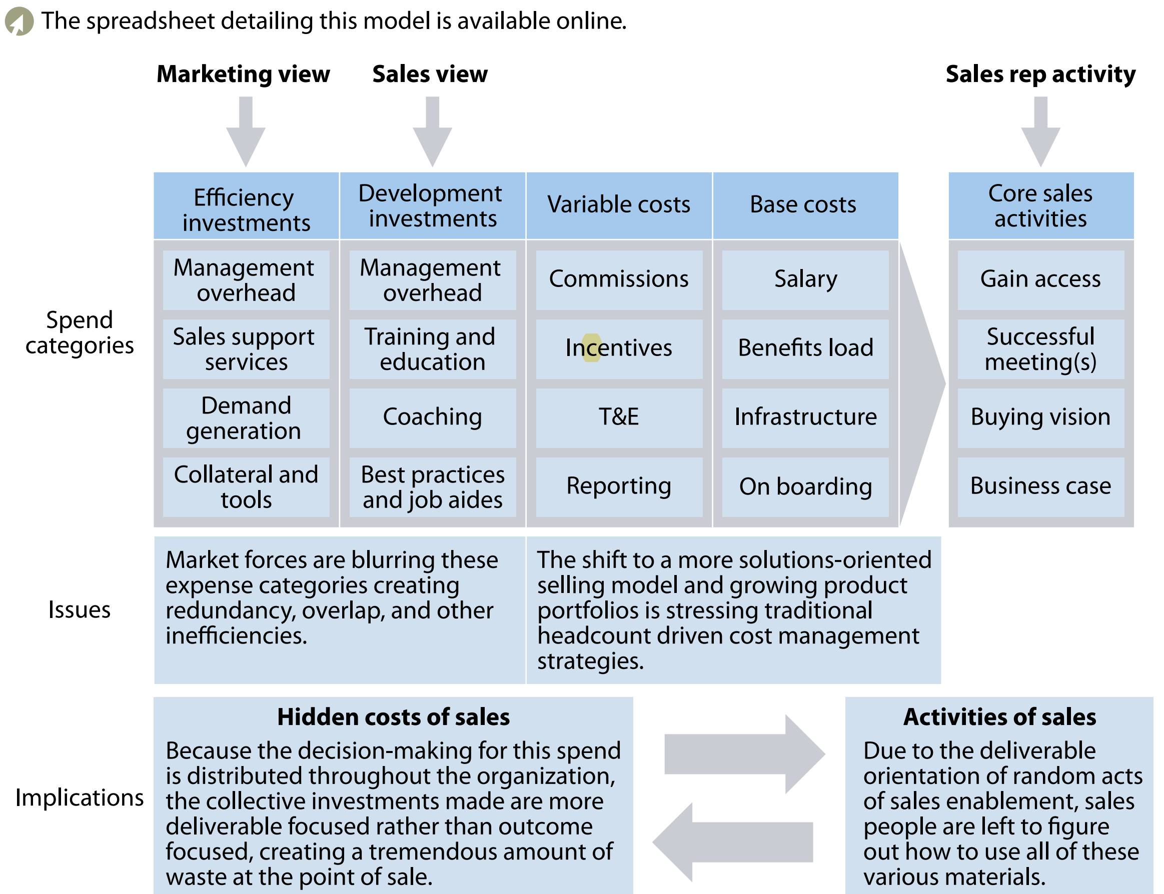
Annual growth rates of SG&A expenses for large technology vendors

Less than -10% | -9.9% to -1.0% | -0.9% to 0.9% | 1.0% to 9.9% | Greater than 10%

	2001	2002	2003	2004	2005	2006	2007	2008
Software	11.2%	-14.9%	-2.2%	-10.9%	48.0%	5.0%	27.1%	17.2%
Hardware	6.8%	-23.6%	-4.8%	11.8%	14.3%	11.6%	9.9%	20.0%
Services	0.7%	-7.6%	2.0%	6.3%	6.3%	8.7%	7.8%	6.8%
Diversified	7.7%	8.5%	5.6%	3.2%	3.2%	3.0%	8.5%	11.4%
Industry	7.5%	-6.4%	1.6%	8.6%	9.9%	5.4%	10.4%	12.5%

53440 Source: Forrester Research, Inc.

Figure 2 Four Expense Categories Fuel The Sales Engine



53440

Source: Forrester Research, Inc.

The Hidden Costs Of Sales Support: $135,262 Per Salesperson

Most companies have good controls to manage the base and variable cost items. However, the funding for development and efficiency categories are scattered throughout the organization — across sales, marketing, product, and even human resources groups — making them very difficult to manage, measure, and track. The first step to identifying the waste is to create a master inventory of all costs related to supporting sales, regardless of their origin, and gauge their effectiveness through the lens of a quota-carrying salesperson.

Forrester developed a framework — a pro forma cost-per-salesperson statement — to help sales and marketing executives to catalog the sales support spend across their organization and provide a structured way to look at the cause-and-effect relationships between investments and sales results. We gathered publicly reported financial information from 50 technology vendors and vetted assumptions through interviews with business leaders and CFOs.[4] The analysis shows that companies spend about (see Figure 3):

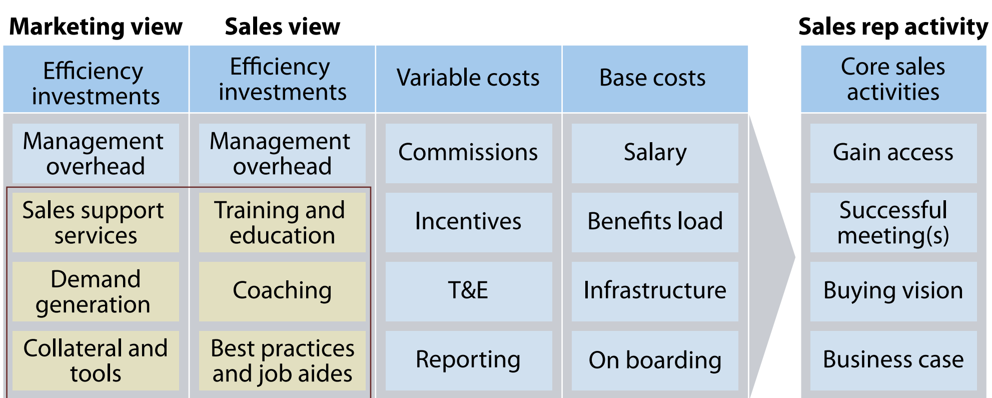
- **$35,000 per salesperson annually on external sales support services and materials.** Starting with firms' total revenue, we pulled out only the B2B component and made assumptions about relative T&E spending, G&A spending, and sales and marketing staff. For example, we estimated that one-third of sales and marketing costs are allocated to expenses other than headcount.

- **$100,000 per salesperson for marketing and sales staff allocated to sales support.** Interviews and company filings allowed us to estimate the number of quota-carrying salespeople; sales support staff like management, training, operations, and sales engineers; and sales support staff within marketing groups like vertical industry specialist, field marketing, and proposal support.

The collective SG&A costs of our 50-company sample were larger than the gross domestic product (GDP) for the entire country of New Zealand.[5] Keep in mind, this does not include T&E expense, which would add another $82,200 per rep to the tally. Wow.

Figure 3 Hidden Costs And Inefficiencies Lurk In Sales And Marketing Budgets

The spreadsheet detailing this model is available online.



	Sales support spending: From marketing	Sales support spending: From sales	Total
External spend	$26,038	$8,680	$34,718
Headcount	$20,109	$80,435	$100,544
Total	**$46,147**	**$89,115**	**$135,262**

Sales support spending per quota-carrying sales rep per year

53440 Source: Forrester Research, Inc.

Sales Support Investments Should Contribute Directly To Key Selling Outcomes

Would your top salespeople invest $135,262 the same way your company has? Of course not. The majority of sales support spending isn't targeted to achieve sales milestones, and as a result, a tremendous amount is wasted. Sales support expenditures must be directly related to specific selling activities that can be clearly defined and measured. Forrester has identified four measurable sales outcomes that can fit into any selling methodology.

- **Gain access.** Salespeople must be able to secure meetings with the right level of stakeholder within a given account.
- **Have successful meetings.** Once he's in the door, a salesperson must have an effective conversation (or series of dialogues) where a client agrees to explore the topic further or he must earn the right to suggest a solution to the client's problem.
- **Create a buying vision.** The group of stakeholders involved in evaluating a proposal or concept must believe your product or service will help them solve their problem and have a shared understanding — among their group and with the vendor — of what the outcome will look like and what they need to do to realize their desired outcome.
- **Develop a business case.** Regardless of whether the decision-maker is using emotional or objective reasoning, there is a reason behind a decision. The more a seller truly knows a firm's value proposition, the more clearly the seller can communicate compelling reasons to buy.

IT'S TIME TO HAVE AN ADULT CONVERSATION WITH YOUR CFO

CFOs have always known that there is tremendous waste in the brackish waters where sales and marketing overlap. Shackled to the chart of account definitions required by accounting standards and struggling to understand what's spent in sales and marketing budgets, CFOs lack the visibility into the cause-and-effect relationships between spending and results they need to help uncover and address the waste. Cost management programs that have their genesis in the last recession provide a tremendous amount of spending information, but finance executives are missing the "Rosetta stone" to connect specific expenses to measurable return. To have a better conversation about effective sales support:

- **Define sales enablement as a cross-functional activity.** A marketing leader has two choices: 1) Either proactively blow the whistle on random acts of sales support and start a dialogue about waste across the organization, or 2) take the defensive posture and prepare for periodic microscopic item-by-item budget reviews. CMOs who start a cross-functional dialogue about the economies of scale will elevate their strategic status within the organization. Leading companies have started to develop cross-functional groups whose mission is to better coordinate the resources invested in sales support. Forrester defines this discipline as sales enablement.

Sales enablement is a strategic, ongoing process that equips all client-facing employees with the ability to consistently and systematically have a valuable conversation with the right set of customer stakeholders at each stage of the customer's problem-solving life cycle while optimizing the return of investment of the selling infrastructure and providing a dashboard of information to provide up-to-date reports to inform the business on the health of its value communications engine.

- **Paint sales enablement as a business within the business.** CFOs will warmly receive a marketing leader armed with an analysis of the random acts of sales support that resembles a pro forma P&L statement for sales and will seriously consider suggestions that will help bring order to the chaos, while creating economies of scale. For example, enterprising sales and marketing leaders are creating inventories of related activities like demand management, product training, and field marketing and are proposing the consolidation of those budgets under one group and immediately cutting the combined costs by 10% to 20%. What CFO who currently struggles to understand the business impact of sales support investments wouldn't support that proposal?

Develop An Outcome Orientation

For B2B businesses, sales transactions are still driven by the actions of salespeople. However, the productivity of each representative can be dramatically improved by focusing on developing integrated, cross-functional programs targeted to achieve specific outcomes measured against sales milestones. By changing the orientation from "what's the deliverable" to "what's the outcome," marketers can become far more targeted with their programs, trainers more precise with their curriculum, and salespeople more productive. A few examples:

- **Facilitate executive-level access not white paper downloads.** Develop messaging, collateral, call scripts, follow-up tools, and buyer training all focused on helping salespeople gain access to a specific role within a given account. In the film *Wall Street*, Charlie Sheen's character Bud Fox called on Gordon Gecko every day for several months just to secure a meeting. If you're asking salespeople to call higher up in the value chain, you need to provide them with a constant supply of useful content that's in the language of the executive you are calling on.

- **Provide materials that can be tailored to the situation not a standardized presentation.** Once your salesperson has finally secured that meeting with the CIO, how is it going to go? What will they talk about? While it's true you can identify a common formula for how other companies go about solving similar problems, the drivers and specific requirements are going to vary from company to company. Standardized, linear presentations are not effective with executives unless that presentation has been perfectly crafted to meet the sweet spot of a given account. The better strategy is to arm sales teams with a scorecard-type approach that allows a more give-and-take, diagnostic conversation and tailored follow-up. This requires tight coordination between tools, solutions teams, collateral development, and training.

- **Develop a shared vision of success not a technical diagram of your products or services.** As your sales force moves up to more executive levels, it will notice a different sort of customer requirement — "Help me get my people on board." Change is especially difficult to IT staffers whose well-worn processes will be substantially disrupted by what you're proposing. Regardless of the ROI, an executive may determine that the effort to deal with a possible staff revolt is too great to acquire your products or services. If you are finding that you are losing a sizable number of deals to "no decision," your company probably has this problem. You need to lay out a simple map that shows the before and after with a specific path and recognizes the realities of migration.

- **Build a business case that helps realize your customer's vision not just your ROI.** Technology has a transformative effect on business, often allowing both efficiency and effectiveness improvements. Far too often vendors focus on justifying only their piece of the puzzle. "Our software will allow you to reduce two FTEs, while reducing the number of incidents by 25%." Instead, sell the value of the customer's whole initiative. For example, one desktop services provider lost an opportunity after it had won the RFP because it kept trying to negotiate the contract based on cost benchmarks when the customer's goal was improving the productivity of his knowledge workers. There are many different tools and techniques available to quantify value depending on the role you target. Make sure your approach matches the audience and connects it to the value of the business problem as they see it.

RECOMMENDATIONS

FIVE STEPS TO BUILDING A WORLD-CLASS SALES ENABLEMENT PROGRAM

Savvy marketing executives will seize the opportunity to provide the CFO with a more strategic and measurable approach to sales enablement and thereby change the prevailing perception of marketing as a cost center into a function that can help optimize revenues and expenses. Budget pressures or not, putting sales support resources to their maximum effect should be a high priority. Here are five areas for action:

- **Inventory today's random acts of sales support.** Before having a conversation about the return on investment of sales support expenditures, all of the programs that were funded to meet these criteria must be identified. Marketers, perhaps with the help of the finance department, should catalog all investments where funding was based on a "help sales sell" business case, regardless of functional domain.

- **Audit spending across the enterprise.** Either consciously or inadvertently, many of these disparate "sales support" programs do more to help the internal performance metrics of the sponsoring group, rather than actually influence the productivity of quota-carrying salespeople. Product certification training (boost product or service line P&L performance), digital marketing investments (improve Web site metrics), and sales representative profiling (make recruiting and compensation processes easier) are but a few examples of investments that are hard to trace back to a measurable sales objective. The audit will also reveal the burden placed on sales teams to connect the dots between these various programs and how they help sales teams perform their job more effectively or efficiently.

- **Eliminate programs that don't drive sales.** After exploration and analysis, marketers should call out programs whose end results provide benefits more to internal groups than drive sales productivity and propose other cost reduction strategies (like consolidating related budgets and providing 10% to 20% immediate reductions) to the CFO.
- **Shift focus to sales process outcomes.** Use the four common sales activities — gaining access, successful meetings, creating a buying vision, articulating a business case — as the design point to create a portfolio of end-to-end programs focused to achieve specific, measurable outcomes. For example, if gaining CXO level access is a critical challenge for your sales force, quantify the impact of that problem and design a program to address all of the barriers that stand in the way (e.g., lists, message, hot items, sales confidence, reputation, offer) rather than treat one symptom ("We need thought leadership") and hope that will produce desired results.
- **Adapt the system to changing customer realities.** By shifting from meeting siloed objectives and monitoring deliverable usage to a salesperson's productivity and outcome-based measures, vendors will create a feedback loop that feeds the virtuous cycle of continuous improvement. Better end-to-end execution increases sales teams' productivity, which enables them to communicate more value to customers (more consistently), which then creates more sales and ultimately earns more funding for better programs and so on. Over time, marketing executives will create tremendous leverage in the sales process by dramatically improving the productivity of each individual salesperson.

WHAT IT MEANS

BUILDING THE FOUNDATION FOR THE FUTURE

What's on the other side? During the last recession, professional procurement organizations emerged to control spending. While growth objectives pushed spend management into the background, procurement groups have been growing in power and influence over the past eight years. More mature buyers have begun to heavily stratify their IT suppliers, anointing a few as strategic suppliers and relegating most to commodity status. With the severity of this recession, and the future need for businesses to use profits to finance more of their capital expenditures, buyer/seller relationships will increasingly be sorted into value-added and commodity categories.

Real-time, authentic, and accurate buyer knowledge and an ability to quickly adapt to changing business cycles are key success factors to compete against other vendors vying for the strategic provider space. At the other end of the spectrum, reducing selling costs and creating a more efficient sales distribution system will be critical to creating profitable operations in an environment of enormous price pressures.

SUPPLEMENTAL MATERIAL

Online Resource

The spreadsheet detailing our assumptions and methodology for estimating the hidden costs of sales support shown in Figure 2 and Figure 3 is available online.

ENDNOTES

[1] "EMC Announces Preliminary Fourth-Quarter Financial Results in Line with Previous Guidance," EMC press release, January 9, 2009 (http://www.itweb.co.za/office/emc/0901090808.htm).

[2] Forrester analyzed 57 publicly traded companies that reported revenues, SG&A expenses, and operating margins in every year between 2000 and 2008. Companies were categorized into software, hardware, services, and diversified segments with an industry average calculated across all segments.

[3] Competing business units, product marketing, demand generation, and sales operations professionals all create programs to support their sales organizations. For example, unbeknownst to its chief operating officer, one enterprise software firm had funded 31 different sales support programs. None of these disparate initiatives (e.g., selling guides, return on investment calculators, reference programs, and competitive intelligence portals) were integrated with each other or were designed with sales use in mind. The vice president of sales rejected the more than three months of training requested by these project owners. To deliver a return on investment for their individual projects, the marketers turned into shadow sales support professionals whose advice on how and what to sell undermined the transformation program of the sales leadership team. What a mess. See the November 12, 2008, "Engineering Valuable Sales Conversations" report.

[4] Our assumptions were developed to create an estimate for the technology industry as a whole and do not account for variances between segments (software, hardware, services, etc.) nor accommodate for variations between accounting standards. We've built in a variety of checks in our analysis to make sure our estimate erred on the conservative side.

[5] Our sample size of 50 public companies tallied to $132.75 billion of B2B-related SG&A costs. According to the International Monetary Fund, New Zealand was the 51st largest economy in the world with a 2007 gross domestic product of $128.7 billion.

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