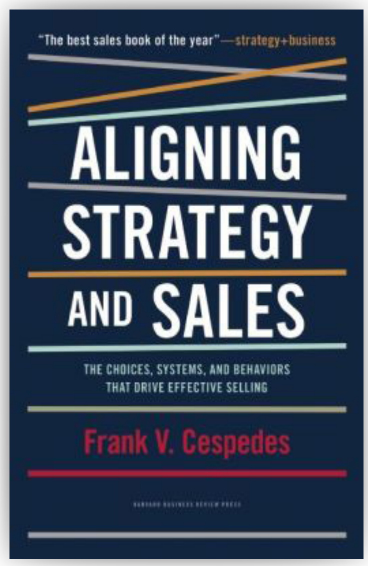
Aligning Strategy and Sales

The Choices, Systems, and Behaviors that Drive Effective Selling

Frank V. Cespedes



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Key Concepts

- *Strategy is choice.* A coherent strategy should, at a minimum, clearly articulate key choices about the *objectives* that a company hopes to achieve and the implications for resource-allocation priorities; the *scope*, or the customers and markets the company will and will not serve; and the *advantages*, or what capabilities the company has (or, can develop) to serve those customers.
- *Many executives confuse strategy with other important but distinct attributes of a company, such as its vision, mission, purpose, or values.* As a result, communicating direction and priorities to the organization becomes, despite the best intentions of its leaders, difficult and sometimes impossible.
- *Given a coherent strategy, the next step is to articulate it in ways that busy people in the field can understand and embrace.* To do this, leaders must understand the links between their businesses' strategic choices and the sales tasks required to execute these strategies.
- *Aligning strategy and sales requires an ongoing systemic approach and not just a quick-fix motivational speech or particular selling methodology.* Leaders must integrate internal factors that drive performance management in their sales initiatives with external factors, especially the target market/customer characteristics that flow from strategic choices.
- *Key sales performance management factors include people, compensation plans, and performance reviews.* Hiring is a key sales management lever. With an average annual turnover rate in sales of 25 percent, the equivalent of the entire sales force must be replaced at many firms every four years. To hire well, leaders must un-

derstand the sales tasks in their strategies, focus on behaviors, be clear about what they mean by "relevant experience," and involve human resources (HR) in the recruitment and selection process.

- *There are always links (intended or unintended) between compensation, evaluation, and motivation.* How organizations pay will affect the kind of people they attract to their sales forces. There are many myths about sales compensation, and managers must think through key issues about desired behaviors before setting any quota numbers or incentive plans.
- *Performance reviews and the metrics used to evaluate performance are crucial alignment tools.* Effective performance feedback is a process, but there are things that managers can and should do before, during, and after performance conversations with salespeople. A performance review ultimately relies upon the metrics used to evaluate and reward performance.

Summary

Introduction

For most firms, the most expensive and difficult part of execution is aligning sales and other go-to-market efforts with the company's espoused strategy and goals. Firms in the United States, for instance, spend more than three times on sales expenses than they do on all media advertising (and typically a higher proportion in B2B firms), and almost 100 times more than they spend on social media. But consultants and business schools have provided little guidance and research about the role of the sales force in implementing strategies. In **Aligning Strategy and Sales** (Harvard Business Review Press), Frank V. Cespedes helps companies diagnose any gaps between their strategies and the actual practice of selling. He presents examples, tools, and a framework that can help both salespeople and C-suite leaders develop their competitive advantage and get sales results that achieve business goals.

Part One: We Have a Problem

Confronting the Problem

Despite the huge sums of money spent annually on sales efforts, few business strategies address sales activities in connection with financial, brand, or competitive goals. Too often, in fact, the strategy is far removed from actual interactions between an organization and its customers. This is reflected in research results: less than 10 percent of strategies are effectively carried through to successful implementation and, on average, firms only deliver 50–60 percent of the financial results their strategies and sales forecasts promise. This results in a lot of wasted money, time, and managerial effort. Conversely, getting better at this core linkage means a potentially huge increase in value—to employees, shareholders, and ultimately to society—due to better resource allocations.

Even within the realm of sales management, it's important to recognize the interacting dimensions that must be managed to link selling effectiveness with strategy.

Diagnosing the Problem

Organizations struggle when they develop strategies without taking into account how people will execute them. Many variables influence implementation in sales, but diagnosing them requires recognizing that there is no such thing as effective selling if that selling is not connected to business goals.

Managers cannot improve implementation by simply training salespeople better, developing creative compensation plans, or establishing brilliant strategies. In reality, many problems that are classified as "sales problems" are really strategic alignment problems. They cannot be resolved unless senior executives and sales managers focus on linking their companies' implementation initiatives with their strategic goals. Strategists and salespeople need to develop ongoing dialogues and create links that will help them diagnose and analyze the different factors that affect implementation. They need to use a common set of terms and reduce complex concerns into smaller components that are measurable and manageable.

Success and failure in business are not only due to luck, timing, and effort. These things matter. But so does a strategy that makes coherent choices, effectively allocates available resources, and communicates to people in the field.

Fixing the Problem

Cespedes proposes a framework to foster such a dialogue and improve selling and strategy formulation. The basic logic of a useful *framework*—a mental model for looking at reality—that helps businesses align strategy and sales (and manage their interrelationships) includes the following components:

1. *Key externals*: In any business, value is created or destroyed in the marketplace with customers. A coherent strategy must therefore start with the realities of the external market today, not yesterday, and how businesses will handle opportunities and threats found in the external market. Key externals include:

- The industry in which the company competes.
- The market and product segments the company targets.
- The decision-making and buying processes of customers.

These factors should inform strategy and the required *sales tasks*—what salespeople must be good at to deliver and extract value in order to implement their strategies (not the tasks in a generic selling methodology) effectively.

2. *Key sales levers*: Then, the issue is aligning selling behaviors with those tasks. Managers basically have three levers to do that:

1. The skills, knowledge, and attitudes of the salespeople they hire and develop.
2. Control systems such as sales force organization, performance metrics, and compensation systems.
3. The environment in which sales initiatives are developed and deployed, managers are chosen and trained, and teamwork is encouraged and coordinated.

Cespedes labels this framework *The Seller's Compass,* and it has many practical implications. For example, sales managers can use it to change how they select and use available selling resources, how they develop their people, and how they look at their own careers and developmental needs. CEOs, strategists, and CFOs can use it to evaluate sales numbers, as it provides a diagnostic that can help them avoid glib generalizations about selling and measure the important things. Further, when this integration is achieved, businesses improve both their sales and strategies.

Part Two: Linking Strategy and Sales

Defining the Goal of Strategy

The goal of business strategy is profitable growth, and profit should mean what economists call *economic profit* (EP), or what is left after subtracting the cost of capital from net operating profit, rather than simply accounting gross margins. However, many business managers fail to understand that the worst situation for a company is when it is adding customers and growing sales, but its economic profit is negative. In that situation (which, data indicate, is common), the investments that the company is making to increase sales are only accelerating the destruction of the enterprise value for that company.

Many experienced and well-educated executives do not understand these basics because the concept of "opportunity cost" is difficult to grasp and is often ignored in day-to-day business operations. In many companies, executives are unaware of the cost of their capital and they focus on sales metrics instead, which are actually trailing indicators of performance and value. Sales managers especially are focused on "the numbers" because those metrics determine their bonuses.

Another reason that executives do not see problems when EP is negative but sales volume is increasing is that they believe this is a necessary condition to realize real profit in the future. This approach is reasonable only if executives have developed coherent strategies that are in touch with the realities of their customer bases and markets.

Strategy is not the same as a mission or purpose. It is not an aspirational statement or a list of company values. Rather, strategy is an articulation of how a company intends to advance from its current status to a desired, but uncertain, future status. The path from here to there is both *analytical* (a series of linked hypotheses that can be tested) and *behavioral* (the coordinated efforts of people who work in different functions but must align for effective selling to happen).

Making and Articulating Strategic Choices

Developing a strategy involves making choices and trade-offs. Companies need to determine what makes them different from their competitors, which customers to serve, which services and products to provide, and in which activities to invest. Without clarity about what the company will do and not do, the company has no strategy.

Unfortunately, in many companies, these choices are not clearly articulated. Any coherent strategy should specify, at a minimum, three components:

Selling effectiveness in not a generalized trait. It's a function of the sales task. And the task will vary according to the selling company's strategy and the customer's buying process.

1. The *objectives* that the strategy hopes to achieve and the goals that will motivate behavior and the allocation of resources.
2. The *scope* of the market that the company wants to serve, including segments, geographic locations, and product categories.
3. The *advantages* the company has or can feasibly develop to serve those customers effectively.

Sales Tasks and Strategy

After key choices are developed into strategies, companies then need to translate them into criteria that are used to select customers and manage sales opportunities. In many firms, this is a process hampered by myths about selling and salespeople. Selling is the most contextually determined set of skills in a company: what works there does not necessarily work here. But training firms, consultants, and others have an incentive to generalize across distinct situations and the result is often a mismatch between sales tactics and required sales tasks.

Cespedes reviews what research has indicated about selling effectiveness, how to translate a strategy into customer-selection criteria, and what it takes to be good in sales. He presents a step-by-step approach for identifying a company's *Ideal Customer Profile* (ICP) and the implications for improving or redesigning a sales model and, in some cases, a different business model. He emphasizes that successful companies understand their core customers and how customer selection can trigger a domino effect of activity. Doing business with customers always involves opportunity costs of money, time, and people. Resources applied to one customer are unavailable to support another. Opportunity management therefore is key to strategy and the ICP is where sales tasks and strategy objectives come together.

Part Three: Performance Management

Linking Sales Tasks to Sales Behaviors

Linking selling behaviors with buying processes is the essence of performance management. Cespedes covers important distinctions in analyzing customer buying behavior and the types of selling behaviors relevant in a situation, including:

- The difference between products and problems, from the customer's point of view.
- The common status-quo bias in buying behavior.
- The differences between lead users and mainstream customers during the selling cycle.

He illustrates how these factors and the ICP process shed light on core sales productivity metrics, cost management (especially selling and general/administrative costs), channel selection, and the perennial sales issue of identifying and communicating customer value.

These factors—money, motivation, management—affect each other and execution. They should be linked in a strategically effective pay plan. Money counts, but you can't substitute money for management.

Developing a Sales Organization

In order to select high-potential salespeople, leaders must understand the behaviors necessary for success, recruit in accord with those attributes, and train those selected. To have an effective sales organization, Cespedes outlines the following process and explains the research and examples behind each step:

- *Build your team, not another firm's team.* To find the right employees, leaders must identify the behaviors required by their firms' strategies, understand what that means for building and managing a portfolio of sales talent, and then put their best talent where it counts most.
- *Develop the fundamentals.* Leaders must implement consistent, customizable, and measurable training techniques and development programs for sales representatives that focus on behaviors and follow-up activities.
- *Choose your strengths and limitations.* There is no one best way to organize a sales force. Instead, leaders must understand the strengths and limitations of common forms of sales organization, then choose and manage their problems and opportunities.
- *Focus on buying behavior.* Sales tasks across industries are being altered by new buying options. Multichannel management—including a mix of online and personal selling—is now the norm. This has implications for performance management methods relevant to linking strategy and sales.

Sales Compensation and Incentives

Answering the question, "How should we pay the people responsible for dealing with customers?" implicates multiple aspects of a business model, including goals, recruitment, training, the types of orders a firm gets, evaluations, and daily interactions between sales personnel and others both in and outside the firm.

A strategically effective compensation plan should:

- Identify the most important sales tasks and prioritize them.
- Use motivation incentives to reinforce and support factors that salespeople can control, and encourage attention to factors that they cannot control by rewarding accurate forecasting and market intelligence.

- Include a mix of salary and incentive pay, and understand how incentives do and do not affect behavior.
- Provide and manage incentives based on metrics that reflect strategic choices.

Reviewing Performance and Measuring Effectiveness

Performance reviews are among the most underutilized levers for affecting behavior in most organizations. Yet reviews, and the metrics used to evaluate sales results, powerfully influence the environment and culture in which strategy is or is not executed. Although sales managers may understand the importance of delivering effective feedback to improve performance, they often find it difficult to conduct conversations about performance for various reasons, including:

- They want to avoid conflict during performance reviews so employees like them.
- They are reluctant to hurt employees' self-esteem by delivering "bad news."
- They are afraid of backlash, resistance, or disruption of sales by salespeople, who are typically resistant to authority.
- They rationalize their avoidance of candid feedback by saying they are too busy.
- They lack a process for preparing and delivering feedback.

Performance reviews are among the most underutilized levers for influencing behavior in most organizations.

Research shows that in sales, coaching has little effect on weak performers (where the issue is often a poor fit with that sales role) and star performers (where the issue is constant motivation). Instead, managers make the most impact when coaching employees in the middle, usually improving performance by almost 20 percent with useful feedback.

To improve performance, sales managers need to provide feedback that is concentrated, customized, and actionable. Before reviews, managers must clarify with reps the standards with which they will evaluate them and how sales efforts should align with corporate strategies. Managers can then use the following five steps to conduct their reviews:

1. Convey positive intentions to help salespeople improve (unless the conversation is about moving them out of their jobs).
2. Describe specific strengths and weaknesses that have been observed.
3. State how their behaviors or actions (not personality traits) have made an impact, using cause-and-effect language.
4. Ask for a response to encourage dialogue.
5. Focus the discussion on options and solutions that the salespeople can implement or their organizations can provide.

To be effective, performance reviews must be connected with follow-up activities, including:

- Account plans and compensation should be linked to metrics from performance reviews.
- Regular feedback should be set up as an iterative process.
- Patterns should be analyzed to determine which changes to make in processes, investments, and people in order to better align sales with strategies.

Reviews rely on metrics to evaluate and reward performance. Metrics should distinguish between *efficient* performance (doing things right) and *effective* performance (doing the right things), and they should change to adapt to market or strategy changes. When measuring sales activities and evaluating performances, managers should consider:

- The price of goods sold versus the cost-to-serve customers.
- Cash flow and its correlation to the length of the sales cycle.
- The efforts required for team selling.
- The requirements of selling through distribution channels.

Part Four: Closing

Building Human and Organizational Capabilities

A key fulcrum and perennial sore point in many firms is developing sales managers who can manage as well as sell. Organizations must select and develop managers who can interpret strategies into relevant sales activities and performance behaviors. Many companies select sales managers from their sales forces, but the transition from salesperson to sales manager can be difficult, and organizations must help newly assigned managers make the transition.

To do that, every company needs a shared model of career and personal development that realistically covers the key transitions and challenges as sales managers take on more responsibility for the performance of others in the organization. Sales managers must typically augment the behaviors that made them successful as sales reps with new skills and perspectives required to manage the performance of others. A useful tool for doing this is the *four stages model* of how professionals who stay high performers throughout their careers deliver increased contributions to their organizations as they move through each stage of their careers:

1. *Helping and learning*: Whenever someone joins an organization, he or she must learn the ropes, demonstrate relevant competencies, figure out which activities are truly critical, and earn the trust of colleagues. Sales managers must accept their roles as supervisors (not just "super reps"), learn their organizations, and perform core tasks.
2. *Contributing independently*: Those who make the transition to stage 2 do so by developing a track record and reputation as someone who can deliver. Sales managers are expected to perform additional responsibilities proficiently. It is important that they develop relationships with peers, supervisors, and team members.
3. *Contributing through others*: The only way to perform beyond the limits of individual contribution, however, is to leverage the contributions of others. This is precisely what good managers do. Sales managers start to increase their organizational knowledge and widen their business perspectives. They help others increase performances, acting as role models and mentors.
4. *Shaping organizational direction*: Going from stage 2 to 3 is about moving beyond individual contribution. However, contribution at stage 3 is also limited by whom managers know and can influence directly in performing current activities; in other words, Stage 3 performers make the best of the cards they have been dealt. Stage 4 is about helping to reshape the deck and ensuring the continued relevance of the cards. Sales managers represent their functions to important external groups on strategic issues. They adjust work processes and practices to improve organizational capabilities and performances. They make difficult decisions and wield power for the benefit of their organizations.

Selecting salespeople to be sales managers is not stupid. It's how the selection is made and what happens before and after the promotion that determines effectiveness.

Making Connections

Because sales impacts many functions within an organization, cross-functional coordination is crucial. There are practical ways to improve the coordination required for effective selling and strategy implementation. Cespedes provides tools for doing the following:

- Diagnosing the activities that affect relations between functions in an organization, including each group's contribution to delivering strategic value and the interdependencies driving each group to make that contribution.
- Establishing the relevant *Rules of Engagement* for accelerating performance of key shared, cross-functional activities and minimizing silos that inhibit selling and the effective execution of strategies.
- Thinking about and managing the *Strategy* → *Sales* performance cycle on an ongoing basis.
- Understanding the links between daily sales initiatives and the core drivers of financial performance and enterprise valuation.

Features of the Book

Estimated Reading Time: 5–6 hours, 336 pages

In **Aligning Strategy and Sales**, Frank V. Cespedes helps executives and sales managers understand how to link strategic objectives and goals with real-world sales tasks. Cespedes offers actionable advice while recognizing the complexity of the process of aligning sales with strategies. He details why strategies fail in the field and what managers can do to change this. Based on research across industries (not just anecdotes), the chapters include tools, frameworks, case studies and examples that help illuminate the salient points. After reading the book, readers can also use the extensive list of references in the notes sections and the detailed index to find further information. The book is relevant to C-suite leaders and sales managers, as well as those in finance and HR. **Aligning Strategy and Sales** has been called "the best sales book of the year" (*Strategy + Business*); "a must read" (*Gartner*); "a Top-50 Sales book" (*Top Sales World*); "thoughtful, clear, and engaging" (*Sales Pro Insider*); and "perhaps the best sales book ever" (*Forbes Insight*).

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Frank V. Cespedes is the MBA Class of 1973 Senior Lecturer of Business Administration in the Entrepreneurial Unit at Harvard Business School. He has run a business, served on boards for start-ups and corporations, and consulted to many companies around the world. He is the author of five other books as well as articles in *Harvard Business Review*, the *Wall Street Journal*, *California Management Review*, *Organization Science*, and other publications.