Cespedes on Sales Strategies Guest was Frank V. Cespedes

[*Cespedes on Sales Strategies (Part 1 of 2)*] & [*Cespedes on Sales Strategies (Part 2 of 2)*]

Cespedes on Sales Strategies

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Transcription of Interview

Joe Dager: *Welcome everyone. This is Joe Dager, the host of the Business901 Podcast. With me today is Frank Cespedes. He is the Senior Lecturer of Business Administration at the Harvard Business School. Frank has run a business, served on boards for start-ups and corporations and consulted with many companies around the world. He is the author of five books, with his latest being Aligning Strategy and Sales. Frank, I'd like to welcome you and congratulate you on a very well-written book.*

Frank Cespedes: Joe, my pleasure to be her with you and your listeners in Business901. Thank you very much for inviting me.

Joe: *Well, I guess I'll start where the book starts out at and as you call it, The Dialogue because sometimes that's the most difficult part. I mean what is The Dialogue?*

Frank: What I'm referring to is the dialogue between strategy in a company and sales, the sales customer acquisition. Just to give you and the listeners some sense of the magnitude of what we're talking about, let me throw some numbers at you. I'm not sure that people really understand the magnitude of this. Despite all the talk, you hear about digital this and digital that, this is the data. US firms spend annually on their sales forces about $900

Billion, that's billion with a B. Now, to put that in context, that's more than 3 times the amount of money that these firms spend on all their media advertising, Super Bowl, everything. It's more than 20 times what they spend on all online ads and digital media, and it's more than 40 times what they currently spend on social media. When I see numbers like that, I'm always reminded of Mark Twain's comment, "If you put a lot of your eggs in one basket, it's a good idea to keep your eyes on that basket." If we keep our eyes on that basket, here's what we find, linking strategy and sales is by far, that's what the numbers tell us, by far the biggest part of implementation in most firms.

Here's a couple of more numbers. There's a company called Effectory. They're basically the European version of the Gallup organization, and they have a great database. Every year they do surveys with companies around the world with their employees and every year they get a bit more than 300,000 responses. Here's what their data tells us. One of the questions they ask in their surveys is "Do you understand your firm's strategy?" Fair question. Less than 50% of employees say, "Yes, I understand my firm's strategy." Which means, more than 50% are saying, "No, not really. I don't have a clue." But, here's the really perverse part of the Effectory data. The closer you get to the customer, in other words, in the responses from people who work in sales and service, the percentage of employees who say they understand their firm's strategy decreases. It goes down. Now, obviously, it's very difficult for people to implement what they don't understand and it's the people who are dealing most directly with customers who don't understand this.

I'm going to give you 2 more bits of data. Because again, I think it frames this. This is research by MariCon is a firm that take a return on invested capital seriously as a measure of business success, and I think they're exactly right about that. What MariCon finds is that on average, firms deliver only about 50 to 60% of the financial performance that strategies and sales forecasts promise. Now think about that data. If you want to understand why investment bankers and other investors tend to be a cynical bunch, that's why. They're regularly dealing with managers and companies that over promise and under deliver.

One last bit of data because I think it's especially important for our topic going forward, a good McKinsey study done just about 2 years ago. In the 21st century, the average S&P 500 company has decreased its cost of goods sold by almost 300 basis points. Now, I'm not sure, if our listeners fully appreciate that, but that is a big deal, 300 basis points is a lot. That adds up for S&P 500 companies over a trillion dollars. While they've done that, their SG&A costs have increased as a percentage of sales.

You can see what's going on here. Part of the explanation for that McKinsey data is the recession, companies cut their cost of goods sold out of necessity, but there's a shifting focus of productivity. Companies have in fact done a lot with the back office, with I.T., with Shared Services. But, where are we increasing the focus? It's on the go to market because that's where the money is increasingly being spent. I think both the good news and bad news for people in sales is that you will, in fact, get a lot more attention from your friends in the C-Suite in future years.

Joe: *I think those are very interesting points because it's telling me that strategy is going to be pushed outside the 4 walls but was never understood outside the 4 walls either. This is going to be a new area for everybody?*

Frank: Yeah, I think you're right. I mean if you ask yourself what causes the problem, that lack of dialogue in the data I just cited like most important things in business, there's no one cause, it's a couple of things. But, among them, I would cite the following. I mean, first, many companies do not have a strategy. They have goals. They have mission statements. They have vision statements. I've attended probably as many strategy meetings in my career as anyone, certainly as many as anyone at Harvard Business School. I can tell you, when you cut through the rhetoric at most companies, when they use the word strategy, what they're really saying is let's pick a big number and go for it. Unfortunately, it's a bit more complicated in that it takes more direction.

The other reason is even if the companies have a strategy, and this is what the Effectory data tells us, they do a terrible job communicating that strategy. If you ask executives, "How come you do a better job communicating strategy to your employees, especially the people that deal with customers in sales and service, what you'll hear more often than not is well, it's competitive issues. We don't want our competitors to find out about our strategy. My response to that, I think that's a very, very bogus argument. My response is always, "Look, you've got much bigger problems than competitors reading your strategy documents if your own people don't understand your strategy and can't execute it. So, I think you're right. I think it has moved beyond the 4 walls, and it's going to take work to understand what we really mean when we use a big word like strategy.

Joe: *Well, sales is driven by tactics, right? I mean not by strategies?*

Frank: I think your point's well taken. As you've pointed out to me, we always think of sales, that last yard to get into the end zone, to close. Sales is tactics; strategy is above my pay grade, that sort of thing. But, that's just not true. Strategy and sales is and must be a two-way street. On the one hand, any strategy that's not dealing with the realities of customer acquisition and retention, obviously, isn't much of a strategy.

On the other hand, and this is what I think sales must increasingly understand, there is no such thing as effective selling if it's not connected to the firm's business goals and strategy. Now, it may be good for that individual sales person. It may be good for his or her bonus or commission, compensation, but it's not good for enterprise value. There is no such thing as effective selling if it's not linked to the organization's strategy for maximizing what it does with customers and investors.

Joe: *In your book, you discussed strategy, and put it in perspective, drilling into a value proposition, and I have to say that I've never seen someone discuss a strategy statement. Can you explain the transition between value propositions and strategy statements?*

Frank: I mean the basic idea, Joe, in my book and in my research is this. I start from an assumption based on 30 years in business, including, a dozen running a business. I think it's a pretty good assumption. The assumption is this, in any business, in any industry of any size, startup, Fortune 500 corporations, in any business, value is created or destroyed in the marketplace with customers. It's not created and planning meetings or training seminars; it's only going to be created or destroyed in interactions with customers and that's where you have to start. You always start with the external, with the market, the market includes the industry that you compete in, the customer segments where you choose to play, and that's part of what a strategy should do.

It should provide direction about where we play and do not play, and the market includes the buying processes of those customers where you do play, those customers that you do sell and service. Those factors should inform strategy and the required sales tasks and value proposition. What I mean by that, what sales people must be good at to deliver and extract value so they can implement your strategy effectively. Then, the issue and this is where sales management gets paid; then the issue is aligning our actual selling behaviors with those required sales tasks that are inherent in our business strategy.

Basically, managers have 3 levers to do that, to create that alignment. The first and most important as always is people. Who do we hire? Who are they? What do they know? How do we develop their skills so that they can execute the sales tasks in our strategy? Not those of some generic selling methodology or what they may have learned at another firm with a different strategy. The second lever is what I call control systems, the performance management practices including sales compensation and the metrics that we use to measure sales effectiveness. The third lever I call sales environment and what I mean by that is the company context in which sales initiatives get developed and executed, how communication works or doesn't work across organizational boundaries between sales and marketing for example or sales and product and how sales managers, not just sales reps are selected and developed.

Those are the links. It begins with the external market because that's where values created are destroyed. If there is a strategy, there should be choices and a valued proposition for the external market in that strategy, and that should be explicit. The issue is how do we get the behaviors to align and support those tasks. Those are the links that I talk about chapter by chapter in the book.

Joe: *Jumping around here because I found so many intriguing concepts throughout the book. I mean it's not a book that you will read once, Frank, I have to tell you. You mentioned something, the difference between segmenting and a term I seldom use which is partitioning a market. Is there a difference between segmenting and partitioning?*

Frank: Yes, by segmenting I mean focusing on the problem or the opportunity that the buyer confronts. A segmenting starts with what is and is not customer value for those customers that our strategy chooses to focus on.

What most firms actually do, they may call it segmenting but what they're actually doing is what I call partitioning the market. What they're doing there is simply chopping up their market in terms of identifiable accessible categories. Let me give you an example. I've served on Boards. I've worked with start-ups. Ask well, "What are our, who do we focus on in our business?" You very often hear things like "Well, we focus on healthcare market or financial services market. Now, step back and think about that. I mean healthcare, 20% of the GDP, what could it possibly mean actionably to say we focus on the healthcare market, are we talking about hospitals, insurance firms, end users, financial services, same thing, hold diversity of different types of institutions with very, very different buying processes, assumptions and needs in terms of customer value.

Segmentation starts with the customer; partitioning starts with how we're going to market. Again, it's the customer and what the customer values that's ultimately going to drive your pricing, your sales tasks, not the other way around. So, that's the distinction I'm trying to get at, and I think that it's good that you don't use the word partitioning, but most companies are in fact doing that.

Joe: *We're living in this digital world now, though, or so it seems and you disputed some of that in your opening comments but a lot of people have regulated sales just to another marketing process, one of 20 or something, okay. Does it really deserve a separate strategy and does it really deserve the level of intention that you seem to give it?*

Frank: I think that the people and especially the media and I think it's important that we call that out because I think that's one of the reasons for what I'm about to say. I think that many, many people in business and in the media simply misunderstand the impact of the internet and of digital media on business and on sales tasks. Again, let me throw some numbers at you because at a certain point, you got to confront the empirical data. Let's go back to 1992, 1992 is a good year to look at because, in 1992, neither you nor I nor most of our listeners could spell internet, right? There was no such thing as E-commerce, etc. In 1992, according to the U.S. Bureau of Labor Statistics, there were 14 million people in the United States that had full-time sales positions, all right? As you fast forward to 2014 which is the last year we have this data available, and after more than 2 decades of the internet, E-commerce, all this talk about the death of the salesperson, disintermediation of sales, in 2014 there were 20 million people in the United States with full-time sales jobs and that number almost certainly grossly underestimates the number of people in the U.S. who work in sales because in an increasingly service economy as you know many, many people who sell for a living are not called sales people for reporting purposes. They're called Vice Presidents or Associates or Managing Directors or something like that.

Again, let's just start with the data, it is simply not true that the sales person is being disintermediated or for that matter that sales forces are shrinking. They haven't shrunk. They've grown. I think one of the reasons people labor under this misconception is that we have a few places where, yes, very clearly retail sales for example in the book business have been disintermediated by Amazon. The media itself is a great example. The most profitable year for newspapers is in the United States was as recently as the year 2001, early in this century. Obviously, what happened in less than a decade has, you know, destroyed in many ways that industry. About 40,000 journalists were laid off and I think it's just natural for those people in the media to say "Wow if the internet did this to me, it must be doing it everywhere." But it's not. That is not the point. I do think that the impact of digital is grossly, and I mean, grossly overstated.

Does this mean the internet is not a big deal? No. What the internet is doing is not, for the most part, disintermediating or replacing sales people but what it is doing is changing the nature of sales tasks. And again, if you follow the research and point of view in my book, that's a big deal because when buyer behavior and sales tasks change, both strategy and sales people must change. I'll give you an example, automobile dealerships, buying cars, if you look at the best available data, the U.S. consumer, the average U.S. consumer when they're buying a car, now spends about over 11 and a half hours online researching the purchase. They go to Edmunds.com, etc. to find out what is the dealer paying, what's the cost of various packages and other options and so forth. By contrasting, I only spend about 3 and half hours in the actual retail dealership. Does this mean the auto dealer and the auto dealer sales person is dead? No, it does not. It is ultimately only a relatively trivial percentage of cars that are actually bought online. About 95% are still bought in dealerships. But, the sales tasks are changing obviously. Those customers now walk in already knowledgeable about the product, about comparative pricing, about options, etc.

What this does is put more pressure on the value added of the sales person. They still remain central. They still close or do not close the vast majority of sales in that industry. What they need to do that has changed and by enlarged, that's been the impact of digital and the internet. Not to replace or get rid of sales people but to change the sales tasks.

Joe: *I think that's very well said. It really puts it in a great perspective. I go back to though is if they're walking in there being more knowledgeable and farther along, let's say in the sales cycle as far as what they need to be presented. That brings out that new age question of commission and pay structure for a sales person. We go to the Dan Pink theory or the Drive theory that money is not a prime motivator. Are commissions still important for sales people? Is that structure still a way to motivate them and is it a doable thing in the way that sales are being handled now?*

Frank: Yes, and well, and by omissions, Joe, I assume that what you mean is, I mean more generally, what's the role of compensation and financial incentives in motivating the behavior of salespeople. Am I right?

Joe: *Sure.*

Frank: Yes, and adding Dan Pink, it's got a number of interesting things to say about sales but I think you're right. Dan in his books will basically say, "It's not about money, you know, it's all about inherent motivation." I've got some colleagues in the university who say that. I would say a couple of things in response. The first and I don't mean to be a wise guy about this, but I think it needs to be said. Anyone who tells me that money is not an important part of motivation in business. All I can say is that is not the planet that I have lived on for the past half century. I think money counts. I think financial incentives count and not just in sales but in virtually every are of business. One of the myths about sales people, you hear these phrases like coin-operated, etc. You know what, the only thing that really counts in sales is money, and I always say to Senior Executives, "Well, excuse me, "Are you doing your job not for the money?" You're doing your job simply for the greater good of God and glory?" Money counts. It counts in all areas of business. So, folks like Dan Pink and others say just forget about. I think that's a huge, huge mistake.

I think the way you've got to think about compensation in sales and in many other areas of business is that while it counts, it is a necessary but not sufficient cause of getting the behavior that you want. Here's what I mean by that. In sales, think about initiatives you see all the time, cross-selling or selling value or whatever. If the compensation system doesn't support those goals, your odds of getting that behavior are slim to none because at the end of the day as the old joke says, "You know, what are you saying to the people in your sales force? Who are you going to believe, the offsite speech or your paycheck?" They're going to believe their paycheck.

Even if you have the appropriate incentives and compensation plan, again, it's a necessary but not sufficient cause. You can pay people anyway you want but if at the end of the day when they're in front of a customer, they lack appropriate buyer or product knowledge or they can't get access to the right people or the product they're selling isn't the right product. That compensation system is not going to help you very much.

I'm saying 2 things that I do not think are contradictory, Joe. I disagree when people say that money is not a primary motivator. It is among the primary motivators, but it's not the only motivator. It's again, necessary but not sufficient to get the behavior you want and that's what business is about. At the end of the day, business is about behavior. It's not about simply good intentions or lofty aspirations. It's what we do or do not do in the marketplace.

Joe: *Your book spends a lot of times with the sales manager and maybe they are the ones that play the role of aligning strategy with sales actually more so than anybody else. Do great salespeople make great Sales Managers or, maybe the better question is how much does sales experience play a role for someone in sales management?*

Frank: Great question and from my point of view, Joe, very timely question. Actually, just earlier this week, 2 days ago with someone else, I just published an article about this in Harvard Business Review. A couple of things, one is let's start with the latter part of your question, about experience. It's very important I think that especially in sales when managers are clear about what they mean by relevant experience.

First of all, you are correct. If you look at the data at surveys, previous experience is by far the most common criterion used by Sales Managers in hiring and in talent assessment. You know, most surveys, over 50% of the managers always cite selling experience within the industry as their key selection criterion for hiring sales people. If you ask yourself, why is this? Well, basically driving that point of view is a perception that many Sales Managers have that there's a tradeoff between hiring for experience versus spending money on training.

That's not exactly right because if you agree with me, and I think the data supports what I'm saying if you agree that selling effectiveness depends upon your company's sales tasks. There's no such thing as performance in the abstract. It's only performance in our organization, with our tasks. If you adopt that point of view then experience is inherently, I'm going to get academic for a second, Joe. It's inherently a multi-dimensional attribute. It can refer to experience with any or any combination of the following things. A given person's experience for example with a customer group, somebody who worked in banking or some other area of financial services and we hire that person in a software firm to sell our software to financial firms because they know those organizations. That's one type of experience.

On the other hand, it may simply refer to experience with technology, the engineer or the field service technician that's then hired to sell a category of equipment. It may refer to experience with a particular geography or culture. We hire people from a given nationality or an ethnic group because they're the ones who can help us sell in China or India or to an ethnic community in the United States for that matter. Or, it may simple refer to experience in selling, you know, somebody who's been an insurance agent or a retail associate and they have experience selling. But, the point is this, the relevance of each of those types of experience depends upon your sales tasks. Managers have to clarify that. They've got to clarify what type of experience is and is not relevant, and frankly I think this is what more senior executives need to do. If, they've got to hold managers, especially sales manager's feet to the fire, they've got to require them to do that. They've got to require them when they're doing sales hiring to clarify what they mean by experience.

The other part of your question was, you know, is being a sales person important to being a great Sales Manager. I think the inevitable answer here is yes and no. We all know the no part of that answer. I mean every company I have ever worked with and believe me, at this point in my career I've worked with a lot. Every company always has a whole set of stories about the great sales person who was promoted to Sales Manager and was a disaster because they don't know how to manage. They try to become the super sales person and they're only as good as their arms can reach. Obviously, that's a different job, and there's a whole chapter in my book about that, about why it's a different job, how it differs and what's required.

I think it's a mistake to adopt the point of view that has become increasingly common among some observers and that is that because they're different jobs, it's not important to have been a sales person before you're a Sales Manager. I think that is a mistake because it ignores the human realities of most sales management jobs. And, I learned this when I ran a business. What does a Sales Manager have to do? He has to make some very, very important and tough decisions about individual human beings. She has to hire and fire. She has to make decisions about compensation and bonuses. She has to do performance reviews, and those are not easy things to do if you lack credibility. And, it's difficult I think to achieve credibility with sales people if you can't point to your own sales experience.

The problem and this gets me back to my first comment; the problem is that many sales people when they become Sales Managers clone themselves that they basically say, "Look, this is what worked for me, so I'm sure it's going to work for you." That's obviously not the way to go. That doesn't mean that having selling experience is not an important prerequisite for being a Sales Manager because of the human realities. You're asking people to do things, you're affecting their paychecks, their careers, especially in sales, their sense of identity, and you need to have some credibility as well positional authority in order to do that. I think hiring Sales Managers from the ranks of sales people is not irrational, but there's a lot of room for improvement in that process in most companies.

Joe: *Is there any summary or a final advice to sales leaders who are improving performance, any summary advice to those developing and implementing sales strategies, let's say?*

Frank: Let me break it down into 2. First advice to the folks doing strategy and then the sales people, I'll get back to what I said earlier, many companies confuse strategy with things like purpose, vision, values, goals. Don't do that. Don't confuse those things. They're very, very different, and when you confuse those things, that's bad news. It's bad news for your firm and ultimately for your career. It's the responsibility of those who formulate a strategy to be aware of and insist on those distinctions. The strategy is about how we're going to get from here to there.

As I said earlier, it begins with the external marketplace. It doesn't begin with the way we think about ourselves. It doesn't begin with who we are or hope to be. It begins with the people who will or won't spend money on your products and services. That's the realm of strategy. Purpose, vision, those are other things, they're important, but they're not strategy.

For sales people, I'd offer them 2 chief summary bits of advice, Joe. The first again is about people. It gets me back to the earlier good question you asked. Start there. You need discipline hiring that's linked to your strategy. You've got to develop people. Somebody once said to me earlier in my career that many companies maintain their equipment better than they do their people. Unfortunately, that's true, and ultimately you will get what you don't maintain. So, you need development. You need training and that training has to be focused and customized to your goals. Again, because markets change, it's not the responsibility of the market to understand and be nice to your company's strategy. That has to be an ongoing process.

The second thing that I would emphasize to sales leaders is performance reviews. In my experience, performance reviews are still, in most companies, the most underutilized lever for influencing behavior. A busy manager, especially in sales, tend to treat performance reviews as a quick drive by conversations that are really about compensation, not about review, evaluation, and development. But, so much of strategy in sales alignment is only visible and manageable through ongoing account and performance reviews. Doing performance reviews effectively, giving effective feedback, coaching, that is a trainable skill, and there's lots of room for improvement in most sales forces when it comes to conducting performance reviews, and it's usually well worth investing in that. So, those would be my summary of advice.

Joe: *I think that's great advice because I can remember, in my early years of management, I had these annual performance reviews that I delved out and their bonus were attached to it. Every time I said something, someone was thinking "Gee, is that a plus for my bonus or a minus for my bonus." They really weren't thinking about anything else.*

Frank: Even when the dialogue is actually a bit freer, the problem is that too much of the advice in performance reviews is basically somebody saying to somebody else, "Do good and avoid evil or get better." How do I make that real? I'm not going to get born again. Again, that's the Sales Manager's responsibility. But, notice, by the way, if you're a Sales Manager, and you're going to accept that responsibility, you've got to be paying attention to your people throughout the year. You can't do what many Sales Managers do which is the week before the scheduled performance review, let me pay some attention to Charlie. You've got to be doing this on an ongoing basis.

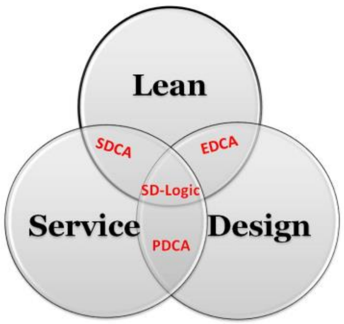
Joe: *Where could someone find out more about the book and reach out to you for more information?*

Frank: Well, I mean there's 2 places, one is like most books these days, you can get it on Amazon. If you go to Amazon, either type in my name or the title of the book Aligning Strategy and Sales, you'll see the book there. I do have a website, www.FrankCespedes.com, and you'll see some information about the book, as well as a series of articles I've written since the book.

I do make a very sincere and open-ended offer to your listeners. If you do buy the book and read it, which I hope you will, I would really appreciate getting an e-mail from those who do read the book. Let me know what makes sense to you, what doesn't make sense, why, give me an example, positive or negative. You know, I've published a number of books in my career and I have discovered that is ultimately the only way to improve.

Joe: *I think that's great advice. I would like to thank you very much, Frank. This podcast would be available in the Busines901 iTunes store and the Business901 website. So, thanks everyone for listening.*

Frank: Thanks to you, Joe.



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