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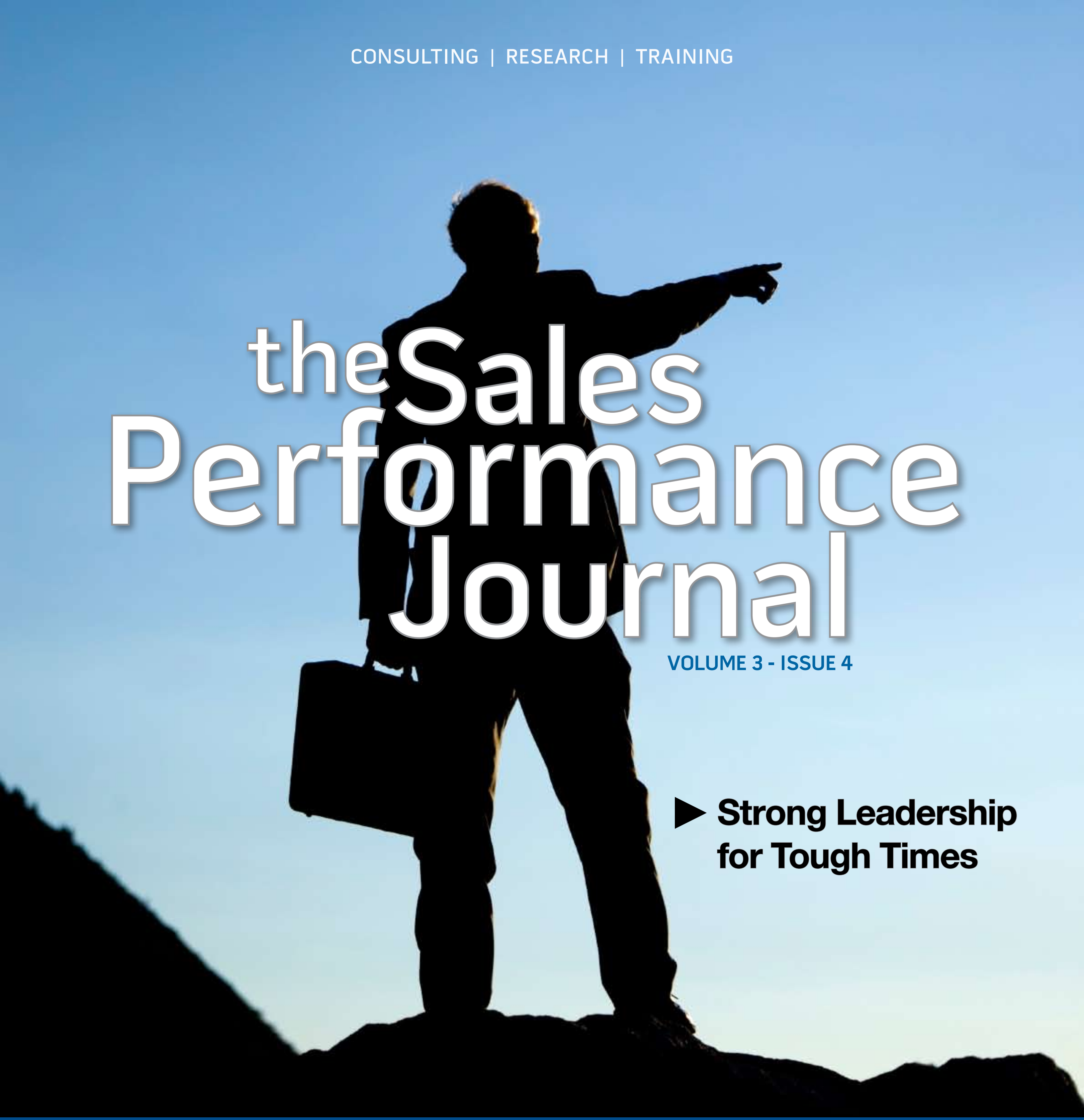

the Sales Performance Journal

VOLUME 3 - ISSUE 4

▶ **Strong Leadership for Tough Times**

MILLER HEIMAN®
The Sales Performance Company

theSales Performance Journal

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The Miller Heiman Sales Performance Journal, Volume 3, Issue 4

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In the last few months, several economic performance benchmarks that have stood for decades have suddenly been shattered. Unfortunately, these new milestones are not moving in the direction we would all prefer, but this is the reality of the current terrain.

There are three key mistakes I see companies make in difficult times. We've focused this edition of the *Sales Performance Journal* on helping you successfully avoid all three.

1. We often find that targeted and precise changes are more effective as opposed to broad sweeping upheaval.

2. Losing focus on key customers, which are the firm's more important assets

3. Cutting costs without understanding the implications of how these costs will affect clients.

I invite you to email me your thoughts on what it takes to win in today's selling environment. I would especially like to hear your success stories that connect to a client-focused mindset. There are definitely a lot of companies that are continuing to thrive and I find these companies are typically the ones that build their strategies around helping their customers achieve results.

Regards,

Sam Reese
President & CEO , Miller Heiman, Inc.

strong leadership for tough times

The Most Overlooked Corporate Asset

by Bob Miller, Co-Founder, Miller Heiman

The conventional wisdom: "Corporate assets include people, property, plant, equipment and intellectual property, such as patents, copyrights and trademarks."

The reality: "In addition to traditional corporate assets like people, property, plant, and equipment, one of the biggest -- and often overlooked -- assets of a company is its strategic customer accounts."

Several years ago, Brothers Gourmet Coffees Inc., based in Boca Raton, Florida, saw its annual coffee production plummet from nine million pounds to 300,000 pounds, virtually overnight. The reason? Proctor & Gamble, which had been its largest customer, decided to move production in-house, leaving Brothers in the lurch. As a result, the coffee wholesaler had to close down its manufacturing plant in Houston, which had been in operation since the late 1950s.

The defection of a key customer is every executive's nightmare. In the worst of cases, as with Brothers Gourmet Coffees, the loss can be disastrous if the company can't replace the business quickly. And there are trickle effects, including a loss of credibility and reputation in the marketplace, which could lead to additional defections.

Given all the dangers of losing a key customer, it's amazing how little attention many companies pay toward keeping their major accounts. Amazingly, some firms sometimes realize they're in trouble only after a big customer has already switched to a competitor. Sometimes the loss of a single strategic customer can bring a business to its knees.

Understanding Customer Churn

Customer defections inflict damage to a company in a number of ways. Obviously, there's the drop in revenue from the loss of business, but there are also a number of secondary costs. The defections could, for instance, make potential clients think twice about doing business with you. In addition, the cost of finding new customers to replace the lost revenues can be considerable. The general rule of thumb used in many markets is that the cost of acquiring a new customer is five times that of retaining an existing one. But in some industries, that cost can be much higher if, for example, the market is saturated and it's difficult to get the existing customers of other suppliers to switch their business to you.

For those and other reasons, customer turnover, or "churn," is a huge issue in many industries and is wreaking havoc with the bottom line of many companies. In some cases, it could easily take a company more than a year and substantial resources to replace the loss of a single customer – or to woo back the lost business. When Coca-Cola lost Burger King's business to Pepsi-Cola in the early 1980s, it took Coke several years of planning and strategizing to regain that major account.

Losing a key customer has always been a big headache, but today the loss is all the more painful because of increased pressures. As a result of greater globalization, the competition has grown fiercer than ever before. In the past, rival vendors might have been nipping at your heels eight hours a day, but today that pressure is constant: the Internet and foreign firms have now made competition a constant threat, 24 hours a day, 365 days a year. "It takes years to win a customer and only seconds to lose one," notes Catherine DeVrye, former IBM executive and author of "Good Service Is Good Business: 7 Simple Strategies for Success." And when you do lose any business, it's all the more difficult to replace it.

To exacerbate matters, customer loyalty in many industries is on the wane. In the B2B arena, as your customers are finding themselves under increasing pressures from their customers, they are in turn demanding more from you, and if you can't keep up they will find another vendor that can. No deal is safe in today's world.

Interestingly, firms have all sorts of processes for handling their corporate assets. But companies don't always look at important customers in the same way – that is, as corporate assets. In fact, many organizations consider customers to be basically the sole responsibility of the sales department, and the chief sales or marketing officer is held accountable. But that's asking for trouble because certain customers are just as important to a business – if not more – than traditional assets. As such, those customers need to be managed, nurtured and grown, just as with any other crucial asset.

Not Created Equal

In today's world, all customers aren't equal. The well-known adage is that 80 percent of a company's business might come from just 20 percent of its customers. For some firms, the breakdown might be 70/30 or 90/10 instead of 80/20, but the point is that a minority of your customers will usually account for a proportionately larger fraction of your revenues. Moreover, just a handful of customers might be absolutely essential for your success; those firms are your "strategic" accounts.

Strategic customers don't necessarily have to be your largest sources of revenue or profit (although they often are). A "prestige" customer could also be a strategic account. But the larger point is this: because strategic accounts are crucial to your company's success, they can't be treated like any ordinary customer.

For starters, the management of strategic accounts has to have the attention of a high-level executive. Ideally, you need a very senior person in charge. Any program for managing strategic accounts must be owned, driven, and overseen from the top. The responsibility can't reside with the head of the sales operations or the chief marketing officer. It has to reside in the C-suite because you need corporate executive sponsorship. Only someone at that level can help perform certain crucial tasks, including the following: 1. Evaluate the strategic importance and potential of accounts to determine a list of strategic customers, 2. For each strategic customer identified, formulate and implement an account strategy that is consistent with the company's overall business objectives, and 3. Get resources allocated that will help reach those objectives.

Identifying Strategic Customers

A company might easily have a dozen or more strategic customers, but my strong recommendation is that you select no more than a handful for the first year of your program. It's a matter of resource allocation. Remember that strategic customers need to be treated like corporate assets, so you want to start small because doing things the right way for even a handful of strategic customers will take an enormous amount of time and effort.

To encourage customers to participate in your strategic accounts program, you should emphasize your desire to establish a long-term relationship in which you'll be providing direct access to key people in your organization. In short, the huge incentive for a customer to participate is that they will have access to inside information that will enable them to utilize your products and services better to maximize their return on their investments.

Avoiding Common Pitfalls

Given all the ramifications of losing a major customer, I am continually astonished at how few precautions some companies take to guard against that possibility. And it's remarkable to me that any firm should be shocked (or even surprised) after it loses a major account. Whenever that happens, my immediate reaction is that a number of people just didn't do their homework. But don't get me wrong – I'm not saying that no company should ever lose an important account. Some defections can't be helped, for instance, if a relationship is no longer win-win and the customer isn't willing to work it out with you. The problem, though, is that many firms don't take the necessary precautions to avoid being caught off-guard. At a minimum, companies need to watch out for the following five common traps.

1. Becoming complacent. The loss of a customer to your biggest rival is actually more common than you might think. Remember how Coca-Cola initially lost its business with Burger King to Pepsi? Pepsi had shrewdly told Burger King that, "You'll never be number one with Coca-Cola because McDonalds is a customer of Coke. But you can be number one with us." And that's how even entrenched, leading vendors get usurped. Sometimes, a company might be the only game in town – it might, for instance, have a proprietary technology – but then lose that edge as the market matures and competitors offer competing products. The classic example here is Digital Equipment Corp., which dominated the market for minicomputers during the 1970s and 80s. But DEC's arrogance and disdain for smaller personal computers – espoused by founder Ken Olsen's infamous remark, "There is no reason for any individual to have a computer in his home" – left the company woefully unprepared for the coming PC revolution. Eventually DEC was acquired by PC maker Compaq, which itself was later merged with Hewlett-Packard.

Part of the problem is that the leading company in a market frequently gets tagged as being arrogant. "They're getting too big for their britches" and "they've become difficult to work with" are the common complaints, whether they're justified or not. In fact, some customers will even look for that kind of behavior and misinterpret every tiny miscue on your part as a sign of your supposed arrogance. So, especially when you're the leader in a market, you almost need to bend over backwards to fight even the slightest perception that you've become arrogant or complacent. Otherwise, you leave yourself vulnerable to the competition.

2. Succumbing to denial. Interestingly, sales reps are often the last people to realize that they're in trouble with an account. The problem is that they misread the warning signs, or they go into denial. In their minds, they might mistakenly assume that just because an account has been with them for years, that customer will remain loyal. And that's another reason why you need a team of people in charge of your strategic customers, because you don't want to end up paying for the mistakes of a sales rep or account manager who's in denial mode. The team should regularly conduct account reviews that will force account managers to confront reality.

3. Missing a warning sign. Whenever there's an important change at your or your customer's company (a reorganization or shift in strategy, for example), you need to follow up to ensure that all your bases are still covered. One of the most common ways to lose an account is through a change in personnel – say, for instance, when a key executive at your customer's firm leaves. Remember that the people at both your and the customer's company will frequently change.

Again, regular account reviews can be a very effective mechanism, helping you catch early warning signs. The main focus of the reviews should be the customer's business results. Then you need to continually monitor your progress, specifically in terms of how improvements on your end are helping the customer's business.

4. Not obtaining "buy in." Although every company should set up a program to manage its strategic accounts, the process can trigger resistance from the sales group. At worse, a turf battle could ensue between corporate and sales. To prevent that from happening, you need to be mindful of the politics involved.

5. Failing to get support from the top. A program for managing strategic accounts must have support from the top of your company. Ideally, the CEO, COO or some other C-suite executive would be in charge, and that person would get other high-level executives to participate. The surest way to strengthen the relationship between your and your customer's firms is to get top executives at both organizations involved. The top managers at your customer companies won't be likely to participate if they don't see a similar commitment from the executives at your own firm.

6. Relying on defense instead of offense. Sales managers will often tell me about an important customer that they're losing to a competitor. Then, half-panicked, they'll ask, "What should we do?" I'm sorry to report that, at that stage, they may have already lost the account and even a flurry of heroic "firefighting" activity won't be enough to save it. So the lesson here is that you have to make sure that you don't let your customer relationships devolve to the point at which a client is seriously entertaining sales pitches from your competitors. Of course, it's difficult to maintain the same level of attention and service to an account that you gave when the customer first came on board. But companies that drop the ball in managing an account will eventually find themselves having to play defense, which is what you don't want to be doing.

Today, it's easier than ever for companies to lose important customers. But many firms still have their heads in the sand, unaware how quickly that a major account could take its business elsewhere. In my view, not having a program that treats your strategic customers like corporate assets is simply asking for trouble, and those companies that fail to see that are going to be in for a rude awakening, probably sooner rather than later. ■

Recognizing the Need for Strong Leadership

by Bill Golder, Vice President of Sales Operations, Miller Heiman

The current economic situation has resulted in a call for change in many organizations. To survive, organizations know they need to rise to the occasion and make things work despite difficult conditions. But the lack of clarity for what these changes should be is a significant challenge to overcome.

We are seeing conditions that have made many sales organizations scared for their health and longevity. The difference between those organizations that will fail and those that will thrive is their leadership. We often see that organizations that make drastic changes to compensate for the upheaval in the marketplace are the ones that veer off course. But we can learn a few things from them.

Resolute Leadership

Responsible for driving change, sales leaders must be experts in their areas. Without expertise, it is difficult to be resolute in decision making – and without conviction in the direction they're taking others, direct reports will have difficulty rallying behind them. They've got to be able to think on their feet to manage people, processes, numbers and tasks, all the while coaching their performers to succeed.

The leadership that drives change won't always be in the higher echelons of the organization. Those who are leading the sales frontlines will at times be required to make snap decisions, and you've got to have the right people there to ensure the right decisions are made. There is a need for intuitive thinkers, those who will know what to do when they don't have clear orders from the top and can get top-tier performance from those they lead. Who rises to the occasion is more important than the occasion itself. Developing sales leadership that will drive progress and reinforce the need to stay close to customers is imperative in today's ever-changing environment.

Leading Toward the Customer

As Sam Reese, president and CEO of Miller Heiman, recently remarked, you can never go wrong by getting close to your biggest customers. Intuitive leaders know this, and those who lean toward strong leadership will find themselves driving forward with this at the heart of their actions.

Without strong leadership in place to drive such an initiative, it's easy to fall back to a near-sighted push for actions that, while they produce immediate results, steer you away from long-term results. It behooves organizations to develop such forward-thinking leadership, so that when the time comes, decisions that have the ability to change direction can be made.

Regardless of clearly-defined company strategies, goals, or objectives, some circumstances call for snap decisions. These sorts of quick decisions require a level of sound judgment because no matter how well you plan, some things will be unexpected. You'll need true leadership with level heads in the trenches to make the decisions that will benefit your organization.

Achieving leadership among your frontline sales leaders means emulating it in the higher ranks. Setting that example of how to lead permeates throughout an organization – it spreads to those individuals on the frontline who are closest to your customers and hear their concerns.

One Miller Heiman client organization in particular, one of the largest telecommunications companies in Canada, has seen how strong leadership can inspire from the top all the way to the bottom. The organization's CEO instilled a sales culture that orbited around a sole pivot: the customer. But without the example set by the organization's leadership, the change from transaction selling to selling solutions would have been poorly adopted throughout the company. Organizations can have strategies that will work in theory, but without individuals to reinforce the changes, the potential to fall short increases.

{ Who rises to the occasion is more important than the occasion itself. }

As we have learned from many of our esteemed clients, those credited with leading their organizations through current economic challenges are those who are making customer-focused decisions.

Many lead by setting standards for their organizations with benchmarking statistics. They compare their organizations' actions and processes to those of world-class organizations and strive to emulate them. They roll up their sleeves and review the brass tacks of their sales functions, dissecting both their wins and losses to gain a stronger understanding of how to better lead sales actions in the future.

Many lead their organizations by implementing programs designed to pull strategic customers into the planning process itself. They appoint internal account teams to cultivate client relationships, and by doing so uncover areas for improvement within the sales organization and open themselves to a new venue for feedback. Companies who have successfully implemented these relationship management initiatives continually map client expectations and monitor how those are being executed against. They also try to explore how else they can improve their products or offerings to better meet customer needs. As with any long-term client relationship, the desired outcome evolves through time. There has to be an existing understanding of this so flexibility and open communication can be established to ensure the selling organization and the client are on the same page.

Walking a mile in the customer's shoes sheds light on areas of your organization that could stand refinement, but it will have to be by individuals who aren't afraid of moving out of their comfort zone.

One of the smartest strategies you can put into play is just that: getting the organization closer to its customers. The nearer you are to them, the greater chance you have for securing those accounts. But strategies alone aren't going to be enough to pull you through these challenging times. Because our world continues to be shaped by the forces that are both in and out of our control, the determining factor of an organization's health and sustainability will be whether they develop the sales leadership that will reinforce the precise changes they need to draw ever closer to the customer. Recognizing the leadership potential in those who can be developed and cultivated is going to be essential. ■

Decisions Crossroads: The Budget Cut Conundrum

An interview with:
Sam Reese, President & CEO, Miller Heiman
and Steve Grossman, Principal, Mercer

It's a scary market out there. Words like "volatile," "uncertain," "unstable," "challenging," "difficult" and even "tumultuous" dominate headlines.

It's an environment that breeds panic and fear from the bottom of the chain all the way to the top – where orders are often rashly issued to take immediate reactions: cut, trim, save. Initially, the impulse is to high-tail it to a company's selling, general and administrative costs and use a weed whacker to anything that's not directly delivering financial results. Anything that might initially cost the company without providing an immediate return is in danger of dismissal.

Steve Grossman, leader of Mercer's sales effectiveness business in the Americas and principal for the company, says it's a matter of knowing what the right actions are before you're backed into a corner. "It's important to remember that we're in this for the customer," he says. "Putting the customer first and foremost allows us to focus on what costs are going to be truly necessary in order to provide them with the solutions they need."

"A company's bottom line is driven by its sales force," says Grossman. "When the market looks bleak, the first thing a company's leadership needs to do when assessing costs is gain a better sense of what is appropriate. To give your sales force the best opportunity for survival, cuts and trims in the selling arena need to be separated into those that will benefit the company, and those that may look good to cut at first but will actually hurt the sales force in the end."

Miller Heiman president and CEO Sam Reese strongly cautions against making impulse decisions concerning selling costs.

"Don't get caught in a trap of singling out what you think might not be providing any immediate return," Reese says. "Just because you can't see a monetary return affixed to it doesn't mean it has no value." Reese mentions that a common tendency C-suites have is to cut support to the sales force. While it might save money immediately, it can cripple the organization in the long run, causing possibilities for new business development to dry up.

Reese believes that hasty cuts will only perpetuate the cycle for loss. "There are several organizational facets that are often hastily eliminated – with detrimental effects to the sales force and overall organizational health. Rather than reacting, leadership needs to focus on the kind of support the sales force must have in order to operate toward a more robust bottom line."

Sales Support

Components of the organization that don't deliver cash on a silver platter are often looked at as expendable. While these auxiliary sales components spend time cultivating brand and messages, they can be seen as a conduit for the sales force. They're dealing with an intangible currency: potential prospect and current customer buy-in. This constant conversation helps deliver new business as well as cross-sell and up-sell opportunities. Without these components, your organization can almost assuredly prepare for a shriveled funnel in the future.

Common Victims of Budget Cuts

- Marketing
- Advertising
- Public relations
- Client services

Says Reese: "Now more than ever, sales forces require the support that enables them to hit their goals, regardless of how independently they can operate. The pressure to close more sales is not going to lessen in a strained economic environment."

Sales Force Size

Salaries, compensation, incentive programs—they can be pricey for a company. And when trouble looms on the horizon, many companies begin to embrace the "do more with less" mentality, trimming the size of their sales force. Companies will often choose to engage in outsourcing options, which, Reese states, is a bad idea.

"Aside from the obvious lack of sales representatives that would drive your bottom line, companies risk barraging their customers and prospects with carelessly delivered, overly-piloted talk tracks that do nothing to uncover the customer's concept, nor convey your company's intention to understand the customer's needs and develop a solution jointly."

In a highly competitive market, an impersonal pitch from a third party jeopardizes the ability to differentiate, leaving customers to make up their own mind about value added.

The more control you give your customers, the less likely they are to see the true value added and the more likely they are to make a decision based on price.

"Rather than focusing on what to cut, look at what you can leverage," says Grossman. "Are there top-performers in the organization that can help enhance the rest of the force's performance? Is there data you can collect internally and externally that will provide a clear direction for proper decisions?"

Thorough Processes

In an effort to bring more contributions to the plate in less time, organizations often pressure their sales force to close more sales faster. A valiant strategy in theory, but the reality is that when leadership forces the sales force to push for quicker decisions from customers, they can actually put customers in an easy position to say no. “Customers don’t see it as an effort to get their product faster,” says Grossman. “Attempts to expedite the sale come off like the bully shaking you down for milk money on the playground. But we’re not on the playground. Your customers can pocket their milk money for another day – and they will if they’re backed into a corner.”

The best approach is to give those on the sales force the opportunity to unearth customer needs and develop a solution based on their concept of results. Drawing ever closer to clients primes your sales force to habitually think in terms of what customer needs really are and portrays that your organization is concerned that your customers achieve their goals.

Discounting

“The value of your offering should stand firm,” says Reese. “If you can’t justify your solution’s current price, you need to revisit what you’re truly providing your customers.”

Some might say that discounting is merely a survival tactic. In reality, it is a pitfall. Discounting to entice more customers conveys a message that the product wasn’t worth its original price. It can set an organization up for even greater damage when the market rebounds. When conditions improve, will organizations be able to justify raising the price of their solution merely by saying customers can now afford to pay this price?

What Now?

“Knowing what pitfalls to avoid is only half the battle,” Grossman says. “The other aspect is understanding what is appropriate to cut in order to save on the costs of selling.”

Understanding what works can help organizations model a similar path to success. And while it’s generally imperative in volatile economic times, it’s smart to consider the value of being frugal at all times, regardless.

“Sometimes the path for moving forward can be shrouded by rampant uncertainties in volatile markets,” Reese says. “But organizations can focus on best practices in order to trim those costs and make appropriate decisions.”

Grossman says that it all tracks back to having a close handle on customers. By understanding which opportunities present the best probability for closing in a reasonable amount of time, organizations can make sure they are directing resources to prospects with a higher probability of closing.

“Another action successful organizations are taking right now is making well-informed decisions about where and when they spend their time with customers,” Grossman says. “Can the commitment you’re after be obtained without having to step on a plane and put in the actual face time? Maybe that is an option even your customer will appreciate, as they’re most likely in the same boat you are. That’s something that you will learn by maintaining communication consistently with clients.” Figuring out whether that advancement will occur without incurring the price tag of a plane ticket helps shave some unnecessary costs. Can your sales force do more over the telephone or provide value to customers by email?

Another important step that sales organizations are taking to ensure their costs are justified is to continuously assess and qualify situations with customers and potential opportunities.

“We often assume that we need to continue to spend money in order to pursue an opportunity,” Grossman says. “But instead, organizations need to continually ask whether that spending is warranted. Is it still a good investment? Have things changed within the account that make spending less relevant?"

Overall, Reese asserts that organizations that rely on and consistently refine their customer processes are the ones that are able to speed things along. Those that jump the gun often lose sight of their customers and, in turn, their business.

"It really comes down to responding intelligently to conditions instead of reacting on impulse," Reese says. "Tight conditions do allow less time to make decisions, but strong leadership will keep the customer at the heart of the organization in all they do. The best solution for moving forward in tough times is to weigh the outlying circumstances and apply a well-thought strategy instead of a topical band-aid." ■

About Sam Reese

Sam Reese has led Miller Heiman to its position as the foremost thought leader and innovator in the strategy, process and training that drives sales performance. Since he joined the company in 2000 as president and CEO, Sam has grown Miller Heiman's revenue by more than 150 percent, expanded product offerings and e-learning initiatives and amassed a partner network of world-class sales consultants. His passion for achieving results has inspired individual team members to strive for top performance, and has contributed to a culture based on ethics and integrity.

Prior to joining Miller Heiman, Sam held executive leadership positions at British Telecom, Kinko's and Corporate Express. His experience and success in sports, business, technology and leadership give him a unique perspective on what it takes to win in today's competitive business environment.

About Steve Grossman

Steve Grossman, a principal in Mercer's human capital business, leads the company's national sales effectiveness practice. For more than twenty years, he has consulted on domestic and international sales force management issues as well as marketing, competitive analysis and organization effectiveness. Steve has particular expertise in helping clients manage through the difficult process of driving change in a sales environment.

His clients include a wide range of industries, including: professional services, business services, financial services, consumer products, distribution, hospitality, telecommunications, info-tech, medical products/ systems/services and general manufacturing.