FRANK V. CESPEDES

SALES MANAGEMENT THAT WORKS

HOW TO SELL IN A WORLD THAT NEVER STOPS CHANGING

HARVARD BUSINESS REVIEW PRESS

Library of Congress Cataloging-in-Publication Data

Names: Cespedes, Frank V., 1950- author.
Title: Sales management that works : how to sell in a world that never stops changing / Frank Cespedes.
Description: Boston, MA : Harvard Business Review Press, [2021] | Includes index.
Identifiers: LCCN 2020036313 (print) | LCCN 2020036314 (ebook) | ISBN 9781633698765 (hardcover) | ISBN 9781633698772 (ebook)
Subjects: LCSH: Sales management. | Sales personnel.
Classification: LCC HF5438.4 .C427 2021 (print) | LCC HF5438.4 (ebook) | DDC 658.8/1—dc23
LC record available at https://lccn.loc.gov/2020036313
LC ebook record available at https://lccn.loc.gov/2020036314

eISBN: 978-1-63369-877-2

1

INTRODUCTION

NEW SALES REALITIES

Selling is changing, but much current conventional wisdom about the impact on sales of e-commerce, big data, AI, and other megatrends is misleading and not supported by empirical data. If you as a manager fail to separate fact from hype, you will make decisions based on bad assumptions and, in a competitive market, eventually fall victim to those who *can* understand cause-and-effect links between buying and selling.

Look at how most newspapers reacted for years to digital competitors: try to mimic the online firm, but with a much higher cost structure and while giving away their own content online. This was a literal enactment of the joke about selling below cost but hoping to make it up in volume. Or look at how many retailers responded with self-fulfilling-prophecy actions to e-commerce competitors: cutting head count in stores, not investing in training sales associates, and often being oblivious to online/in-person interactions and the impact on sales and sources of advantage.

Consider The Home Depot when Robert Nardelli became CEO in 2000. In a business built on in-store personnel who provided advice to shoppers, Nardelli made cuts in those areas.

By 2006, Home Depot saw its fourth consecutive year of declining foot traffic, its market value had declined by 55 percent, and it was last among major US retailers in the annual University of Michigan Customer Satisfaction Index, eleven points behind its main competitor, Lowes. As a board member commented—after the fact—"The most experienced store employees, the real experts on plumbing or electricity, had been let go and replaced with less experienced and cheaper part-time store workers. New stores . . . were not generating good returns, leading to further staff cuts."[1] When new CEO Frank Blake took over, he made rejuvenating the point-of-sale experience a priority and that rejuvenated sales and the stock price.

You cannot manage a profitable response to market changes unless you understand changing buying behavior and the corresponding impacts on business-development tasks. Admittedly, this is not a simple TED-Talk-and-a-listicle activity, especially when you're operating in an industry rife with myths, unexamined assumptions, and fads. If you're an executive in most markets today, remember that (as they say in the movies) "you chose this life!" Selling involves a complex combination of factors: a coherent strategy, relevant hiring practices and incentives, and ongoing performance management that motivates the right behaviors in the face of many changes outside the control of your company. You can deny the complexity, but it's still there.

And that's the purpose of this book: to help you separate signal from the noise and clarify key choices and actions. This book can help salespeople respond to changes at buyers and help sales managers improve productivity and results. It can help investors get more from the sizable investments they already make in sales efforts. It can help those in the C-suite navigate the thicket of claims made about emerging technologies and better use those tools in customer acquisition and retention. And it can help all interested readers understand why, in modern economies, improving selling activities is not only a financial and growth issue but, in fact, a key social responsibility of business leaders.

What Is Changing and Why It Matters

It's easy to say things are changing, because change is perennial in business. Fogies, beware. But managers must move beyond platitudes and develop an accurate view of their current situation and how it might evolve. How sales is changing—and not changing—may surprise you. Let's look at some truths and misconceptions about that core business activity and the implications.

From Funnels to Streams

For over a half century, buying has typically been framed in terms of a hierarchy-of-effects model: moving a prospect from awareness to interest to desire to action.[2] The AIDA formula and its many variants are the basis (often, the unconscious basis) for sales activities and organization in most firms. It's fundamentally an inside-out process, and customer relationship management (CRM) systems are there to provide data about progression (or not) through that company's funnel—the "pipeline" metrics that dominate talk about sales in books, blogs, training seminars, and coaching initiatives.

But research (and probably some reflection on your own experience) indicates a different buying reality. Rather than moving sequentially through a funnel, buyers now work through parallel activity streams to make a purchase decision. Let's label those activity streams as explore, evaluate, engage, experience (see the sidebar for more detail on each).[3]

BUYING IS A PROCESS OF PARALLEL STREAMS, NOT A LINEAR FUNNEL

Explore. Here, buyers identify a need or opportunity and begin looking for ways to address it, usually via interactions with potential vendors and (as in the consumer auto market) self-directed information search on the internet. Activating a need can be instigated by internal triggers (e.g., a system breaks, a car or other machine wears out, a process fails, a new initiative is born). External triggers include regulatory mandates (e.g., the impact of the Affordable Care Act on health-care insurance purchasing), new technologies or markets, or perhaps advertising and sales promotion.

Evaluate. Buyers take a closer look at options uncovered while defining the need or opportunity, again leaning heavily on self-directed search, peer interactions, and sales representatives from potential vendors. This activity is not primarily about determining the specific product or service they will buy, but about determining the best approach and pathway (e.g., build versus buy, own versus lease, etc.). Buyers are comparing multiple options, identifying the solution type, and winnowing the options to a short list.

Consider buying a car. Consumers now do lots of online research. US auto buyers on average spend about 13 hours online researching car models prior to purchase, and about 3.5 hours at dealerships.[4] Yet most cars are still bought at dealerships (e.g., less than 1 percent of the 40 million used cars sold in the United States in 2018 were online sales and less than 5 percent of new cars). But because auto shoppers can access prices, product reviews, and other information online,

Engage. Buyers initiate further contact with providers to get help in moving toward a purchase decision. Depending on the market and product category, this might involve downloading a white paper or other form of content marketing, sending out a formal request for proposal (RFP) in many B2B markets, or (as they say in the ad business) initiating a "bake-off" between competing vendors. But in the twenty-first century, "engage" activities don't necessarily start and stop with the sales rep. Buyers interact with others in the selling organization. Indeed, another impact of websites, blogs, chatbots, and social media has been to make the seller's organization more visible to buyers. They value interactions with people in product and/or service, and they expect the rep to orchestrate that interaction purposefully.

Experience. A formal buying decision is made and buyers use the product, perhaps in pilots or proof-of-concept trials for new technologies, and develop perceptions about its value. As services become a bigger part of economies and as software becomes more embedded in products, more of that value is what marketers call "experiential value" that only becomes apparent in actual postsale usage. This has important implications for pricing, sales metrics, and other aspects of selling.

their buying behavior is changing.[5] For example, more than 50 percent will leave the dealership if a test drive is required to get the list price of the vehicle. Nearly 40 percent will not patronize a dealer whose website doesn't list vehicle prices, and about 40 percent will leave the dealership if prices aren't posted on the vehicles.

In the auto industry and others, information sources have changed customer expectations about the role of the salesperson as a walking, talking purveyor of a sliding scale of prices. Even when done with good intentions, many traditional sales practices unwittingly increase customer dissatisfaction. Moreover, buyers generally use online tools as a complement to, not a substitute for, sales conversations, and they are discriminating in using these tools. Car buyers, for instance, use third-party websites for model comparisons and reviews, car manufacturer sites for detailed model information and videos, and dealer websites to look for specific vehicles and information about local inventory.

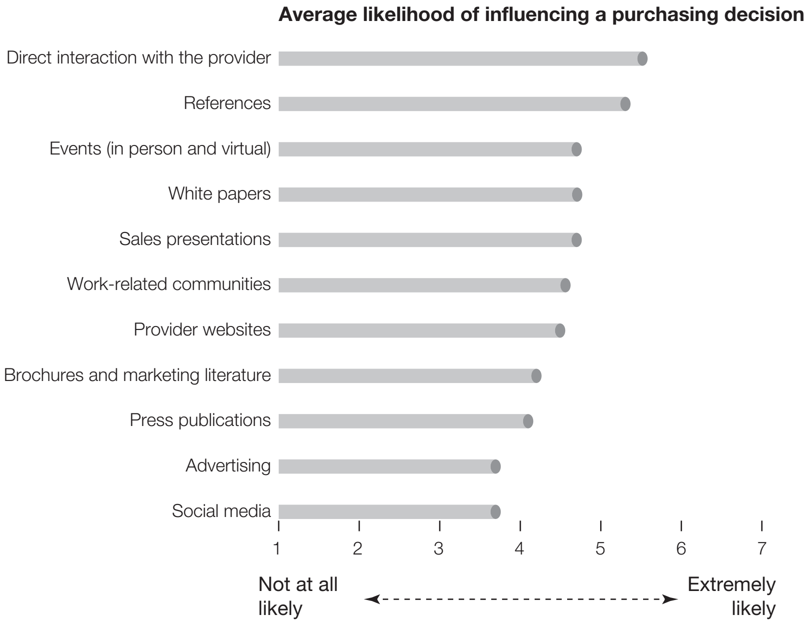
Buying is now a continuous and dynamic process, not a linear funnel. Understanding where customers are, how they navigate between streams in your market, and how to interact with them appropriately in a given stream is now central to effective selling. For the most part, it is still the sales force that must do this. The research results in figure 1-1 echo what car-shopping studies indicate, but now with respondents across industry sectors in North America, Europe, and China.[6]

One reason the sales force remains so important is that most products and services are parts of a wider usage system at the buyer. This means integrating the product with driving, household, or other activities in B2C markets. In B2B markets, buyers must typically justify a purchase decision to others in their organization that are also competing for their share of a limited budget. Some of that combination of economics, solution integration, risk management, and organizational politics can be handled online, but most buying journeys still rely on knowledgeable sales help. Hence, this research also found that, across all buying streams, buyers emphasized the importance of product demonstrations, sales presentations based on their situation, and salespeople who can do that while bringing knowledge from their work with other companies. Among the least-valued interactions, by contrast, are cold calls in response to registering for webinars or online events.

FIGURE 1-1

The most influential B2B marketing activities

On average, business buyers say direct interactions with providers influence their purchasing decisions more than anything else.



Source: Frank V. Cespedes and Tiffani Bova, "What Salespeople Need to Know About the New B2B Landscape," HBR.org, August 5, 2015.

In other words, solution selling and account management skills still matter. But *how* this is done by effective salespeople—that is, the sales tasks—is changing. For example, in figure 1-1, customer references are a close second in terms of influence. But the nature of references has changed. In the past, the seller would cite a few satisfied customers (whose satisfaction, by the way, might be more a function of a price discount than product satisfaction). Now, through the web, customers can connect with each other and get unedited versions of others' experience through review sites such as PowerReviews and access to people at other companies who share purchase and usage experiences through community sites such as SAP Developer Network and Marketo Marketing Nation.

Also affecting sales tasks are activities like content marketing and lead generation by email and other means. Traditionally, these activities were part of marketing's domain, not sales. But these lines are blurring, putting pressure on companies to rethink sales models, metrics, and the relationship between marketing and sales—two functions that are more interdependent but different in their procedures, perspectives, and mindsets. More generally, it's important to recognize that buying streams mean prospects now touch your brand and company at many different points (online, offline, marketing collateral, and so on), and each touch impacts sales tasks.

Finally, if you consider these streams and what buyers value in suppliers' behaviors, then a big disconnect emerges. Despite advances in technology over the past decades, most sales models are incapable of dealing with the reality that buying is so often continuous and dynamic—an ongoing motion picture, not a selfie or snapshot in a funnel. Going forward, many companies must reconfigure their selling, and despite what you often hear, no single tactic (e.g., a given selling methodology, "challenging" the customer, or big data analytics) will do this. Aligning buying and selling is a process, not a one-shot deal.

The Importance of Talent

As firms confront new buying processes, required sales competencies change. Figure 1-2, based on an extensive database of company sales profiles, indicates the altered nature of sales competencies at many firms. Competencies that were considered essential only a decade earlier were lower in priority by the second decade of the twenty-first century. Does this mean that developing leads, qualifying prospects, persistence, and adapting to different buyer motivations are no longer important in selling? No. The way to interpret this data is in keeping with the punchline to the old joke about two hunters pursued by an angry bear: "I don't have to outrun the bear; I just need to outrun you!" As one should expect in any activity where success is measured by *relative* advantage, the focus of productivity improvement in sales is shifting. Yesterday's distinctive sales strengths have become today's minimum skill requirements in more industries. This has implications for hiring, training, compensation, and performance evaluations.

These talent issues also affect what most salespeople must now do *within* their firms in order to sell externally. Consider two recent surveys: one with more than 3,100 sales professionals about trends affecting their role in their companies, and the other with over 7,000 consumers and business buyers about their expectations when dealing with companies and salespeople:[7]

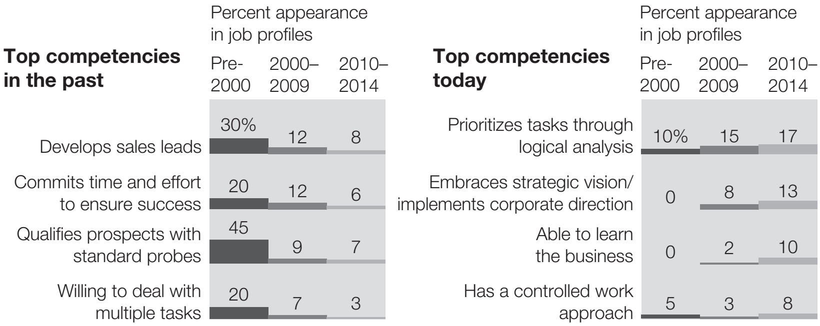
- About three of four sales respondents (73 percent) rated collaborating across departments (e.g., sales, service, operations, marketing) as critical or very important to sales success.

- Conversely, 73 percent of consumers and 78 percent of business buyers say they are likely to switch if faced with inconsistent levels of service from their suppliers.

As customers move between streams and deal with multiple people at a selling organization, a prospect and order touch multiple functions in moving from initial contact through exploration, purchase, and postsale activities like billing, warranty, or field service. When asked who is responsible for the customer experience at their suppliers—sales? service? operations? marketing?—buyers legitimately respond, all of them. But at the seller, each function usually has different priorities. Billing is evaluated on receivables, service on case resolution, marketing on lead generation, and so on. This is one reason why

FIGURE 1-2

Salespeople require different competencies than in the past



Source: "The Best Ways to Hire Salespeople," HBR.org, November 2, 2015.

"customer focus" is a perennial slogan but not a behavioral reality at most firms.

Cross-functional coordination—and its evil twin, misalignment—is pervasive in selling efforts today. The same surveys found that while seven of ten salespeople say it's critical to have a single view of the customer across departments, fewer than one in five (17 percent) rate their companies as great at providing this capability. In this situation, salespeople must often become the de facto integrator, if only because it's typically the rep who made the sale who gets called when the buyer has a request or complaint and who must then get other functions to respond. Hence, this survey found what other research about sales indicates: on average, sales reps spend only about a third of their time (in this survey, 36 percent) actually connecting with clients or prospects (either online or in person) and about two-thirds of their time (64 percent) on nonselling activities such as service, internal meetings, and administrative tasks. This has implications for the development of reps, productivity, and the best use of talent in a given sales model.

Multichannel Management

Should we be online *or* in person, interacting via the web or through salespeople, in our sales efforts? Answer: yes. Customers are unbundling many traditional channel arrangements as they switch streams. So, avoid a false dichotomy; face the facts and the go-to-market implications for your business.

First, some facts. E-commerce has been here for over thirty years. Books.com was selling online while Jeff Bezos, founder of Amazon, was still working on Wall Street. The number of salespeople in 2019 listed by the Bureau of Labor Statistics is more than 11 percent of the country's labor force, an *increase* in sales employment in the United States during the twenty-first century.[8] Further, the BLS data almost certainly undercounts the reality because, in a predominantly service economy like the United States (and many other countries), business developers are often called associates, managing directors, or vice presidents, not placed in a "sales" category for labor-department reporting purposes. But selling is what they do. Meanwhile, after decades free from sales taxes, e-commerce comprised 11.4 percent of retail sales in 2019 in the United States.[9] No one really knows the comparable numbers in China, because many stores are state-owned and internet data is censored. Estimates are that e-commerce in China in 2019 was somewhere between 25 and 35 percent of total retail sales. Why more than in the United States? Retail infrastructure is still developing in China, and air pollution makes going to a mall less pleasant.

Yet, daily you find articles about the "death of the salesman" due to disruption by e-commerce, where "disruption" is synonymous with death, not Schumpeterian creative destruction. The enforced shutdown of stores during the pandemic accelerated these predictions, but let's look beyond the headlines.

Much of the excitement about e-commerce and digital marketing is tied to the notion of virality: you post something on social media, it goes viral, millions of people see it, and you have not spent much to do that. But as my colleague Sunil Gupta points out, that's not easy.[10] A study of messages on Twitter, Yahoo, and others found that more than 90 percent did not diffuse at all, about 4 percent were shared once, and less than 1 percent more than seven times. Other studies indicate that most internet communication is between people who live near each other and are driven by what researchers call "homophily"—the commonsense observation that birds of a feather (people with similar interests) indeed flock together. As Wharton professor David Bell explains, the way people use the internet is largely determined by where they live, the presence of stores nearby, their neighbors, and sales taxes.[11]

Moreover, interactions between online and offline channels have important implications for revenues and costs. Shoppers who pick up their online orders in a store spend more—about an additional 25 percent.[12] Meanwhile, about one-third of all clothing ordered online is returned versus 8 percent for items bought in a store (fitting rooms: customers who try on clothing in the store are almost seven times more likely to buy than those who search for items on the web, according to research firm Body Labs). Yet processing a return in the store costs retailers half of what it costs when an online order is shipped back to the distribution center (and, thanks to competition with Amazon, shipping is now often "free").[13]

In fact, the biggest retail trend before the virus was "clicks and bricks," even for once pure-play e-commerce firms like Birchbox, Bonobos, Warby Parker, Wayfair, and—yes indeed—Amazon, among others. Philip Krim is a cofounder and CEO of Casper Sleep, the online mattress firm started in 2014. In 2018, Casper opened its first permanent retail store, announced plans to open two hundred more over the next three years, and also sell through twelve hundred Target store locations. Krim explains well the new streams of buying behavior and consequent multichannel requirements: “Consumers today are often online and offline at the same time. Our customers are shopping with us on average for 2.5 weeks . . . coming back to the website and consuming information there multiple times. They’re coming to stores multiple times [and] all of these different combinations of customer preferences is something that we want to solve.”[14]

Shopping has always been a social as well as an economic transaction since the Greek Agora, Roman Forum, Grand Bazaar in Istanbul, Le Bon Marché in nineteenth-century Paris, malls in the twentieth century, and through decades of global internet use. Will the social distancing necessitated by the pandemic mean a big change in this historical pattern? Look at what was happening online before the deadly virus of 2020.

By 2019, usage on the major social media platforms had been flat over the previous four years in the United States. In fact, social media usage had *declined* among Americans less than thirty-five years old, and the only age group using Facebook more than in prior years was people fifty-five or older.[15] Online ads were clicked by only 0.06 percent of viewers, and an estimated 60 percent of those clicks were accidental.[16] As a marketing medium, online channels were cluttered, subject to diminishing returns, increasingly viewed with suspicion by consumers as media attention to foreign hackers raised awareness of cybersecurity issues, and distrusted by many advertisers because of measurement issues and fear of their ads being placed near objectionable content. Combined with the ability to block ads, the rapidly growing costs of acquiring customers online, the experience of “Zoombombing,” and controls on consumer data imposed by EU regulators and others, it’s unclear how much buying and selling will be done online in the future.[17] It's also unclear whether social distancing made people more eager to transact online or simply demonstrated the limitations of buying, selling, and managing virtually.

"Predictions are always risky, especially about the future." But it is now and likely to remain a multichannel world. Buying behavior should drive selling, as retail history itself shows. Department stores were a response to the commercialization of women's fashion in the late nineteenth century, so stores offered multiple brands and pioneered consumer credit via installment-payment plans. Malls responded to suburbanization in the twentieth century. There's always been "disruption": in any market, some figure it out and others do not. Check out thedepartmentstoremuseum.org for a tour of dozens of defunct retailers over the past century. Technologies affect business, but business is always more than bits and bytes.

Your Road Map

I've organized the book around core categories: people, processes, pricing, partners, and productivity. The categories overlap, and that's the point: effective selling is ultimately an organizational outcome where people and performance management practices fit your sales process, pricing approach, and choices about go-to-market partners. Andrew Carnegie was once asked, "Which element is most important for the success of a business: brains, capital, or labor?" His reply: "Which leg of a three-legged stool is most important?" It's the fit of people, process, and pricing and partners that drives sales productivity.

> **People.** Who you hire, how, and what you do in training and developing salespeople are more important and expensive than ever. In the aggregate, hiring in sales is

often more expensive than many capital expenditure (capex) decisions in companies, and firms already spend 20 percent *more* per capita on sales training than they do in other functions. Yet most current hiring practices exacerbate the difficulties, and the ROI from sales training is disappointing. Part I examines aspects of sales talent that should inform your hiring practices, how to get better, and actionable links between hiring and training.

Process. Other things affect sales outcomes in addition to the skills and smarts of a sales rep. Part II looks at choices in constructing and reconstructing a replicable process of sales efforts and the implications for customer selection, call patterns, conversion analytics, developing a deal profile, compensation, and using data to understand buying journeys and inform relevant sales activities.

Pricing. This is a moment of truth in business. Part III examines how pricing can build or destroy profits in a changing landscape, the importance of price testing in today's information-rich markets, and how to link pricing with your value proposition, sales model, and selling behaviors.

Partners. It's an omni-channel world where prospects and orders touch multiple points in the distribution channel for most products and services. Selling now also means working with channel partners that are influential during the buying journey and after the sale. The options have increased, and so has the managerial complexity. We'll examine key components in channel design, and I'll provide guidelines and diagnostics for realigning the role of channels in sales programs.

Productivity. Because of the central role of customer acquisition in a company, changes in selling requirements have wider organizational implications. But many C-suite leaders are out of touch with the activities of their customer-facing colleagues. The final chapter examines why, what leaders can do to close this gap, and the social impact of improving sales productivity in the United States and other economies.

There are few universals that apply across all sales contexts, and you should be wary of gurus who say there are. How you drive that fit will depend on your particular business context. But my advice is to start with people.