ITSMA's 2002 Sales Performance Study
Benchmarks and Best Practices from IT Services Leaders

Abbreviated Summary

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I. Executive Summary

Introduction

Note: *This abbreviated summary highlights some of the significant findings from* ITSMA's 2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders*. A more in-depth discussion of the study findings can be found in the full report.*

In today's economic climate, revenue generation is the name of the game. All eyes are on the sales organization to produce results. Consequently, a great deal of attention is being focused on improving sales force productivity, enhancing sales coverage models to ensure access to all opportunities, and identifying sales best practices. *ITSMA's 2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders* is designed to:

- Identify and document services sales best practices
- Quantify sales performance metrics
- Benchmark sales coverage models, training, and support practices

Study Scope and Methodology

ITSMA's *Sales Performance Study* looks at sales performance and best practices from two perspectives: U.S. and worldwide. However, the study participants are primarily U.S.-based companies. Further, the focus of the data collected is primarily the direct sales force.

Twenty-seven information technology (IT) companies participated in the *2002 Sales Performance Study* (Figure 1.1). Data was collected in two ways. During 40-minute telephone interviews with senior executives responsible for either sales management or sales support, ITSMA collected qualitative data on sales challenges, initiatives, best practices, and metrics to track sales performance. In addition, each participant was asked to fill out a data collection worksheet (see the Appendix). The data was collected during the months of March and April 2002. Twenty-two of the 27 participating companies submitted data worksheets sufficient for analysis.

Key Takeaways

- **There is an overriding services sales challenge.** Making the transition from products/services to solutions.
- **Some near-universal problems need to be fixed.** Consistency, best-practices sharing, services sales prestige, teamwork, consultative skills, and coverage.
- **Sales management needs to create a more balanced scorecard to track sales performance.** Revenue, quota attainment, and pipeline tracking are not enough to manage and incent solutions selling.

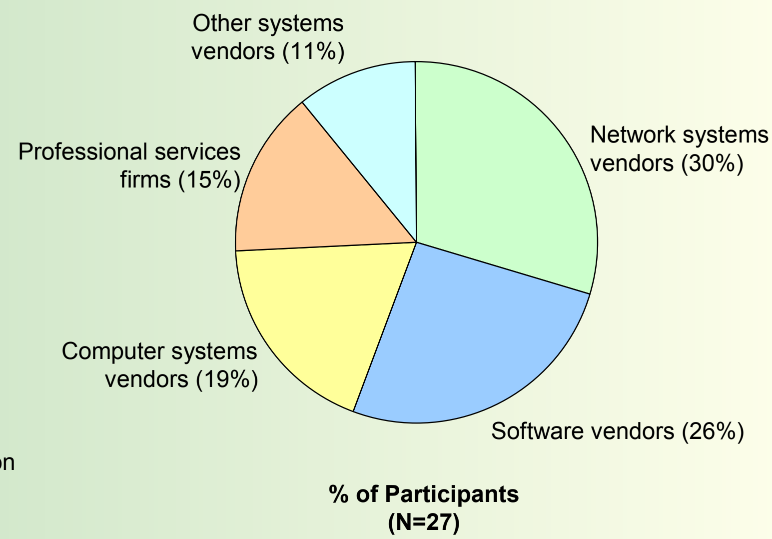
Key Findings

Sales Coverage Models

One of the greatest challenges for companies, whether they are marketing products, services, or total solutions, is the make-up of the sales model—specifically, gaining access to opportunities. An age-old debate rages at product companies on the virtues of having one sales force versus adding a dedicated services sales force. Other companies are challenged to stretch the coverage model to address both high-end and low-end customers. A common goal is to relieve sales reps of the more mundane and less profitable tasks through new types of outsourcing arrangements, telesales, and Internet self-service. The ultimate objective is to increase sales force productivity and reach, without increasing headcount.

Figure 1.1 Study Participants Represent the Major IT Industry Segments

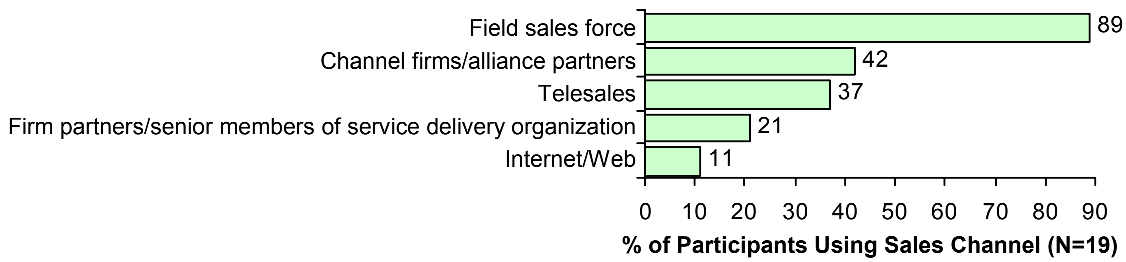
Advanced Technology Services
Agilent Technologies
AMS
Cisco Systems
CNT
EMC Corporation
Ericsson
First Consulting Group
Gateway 2000
Hewlett-Packard Co.
Intellution
Intuit Inc.
J.D. Edwards
Microsoft Corporation
Network Appliance
NCR Corporation
PeopleSoft
PwC Consulting
Spirent Communications,
  Service Assurance Division
Sun Microsystems
Sycamore Networks
Timberline Software Corporation
Unisphere Networks
Unisys
Vanguard Managed Solutions
Vertex Inc.
Xerox Corporation



Source: ITSMA's *2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders*

The most popular route to market is the direct sales force, used by 89% of the study sample (Figure 1.2). Just over half of the participants have a corporate sales force that sells both products and services, and nearly two-thirds have a dedicated services sales force. Comparing the revenue generated by different sales channels in 2001 and 2002, we see that the trend is toward increasing participation of a dedicated services sales force.

Figure 1.2 U.S. Services Sales Channels in Use



Source: ITSMA's *2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders*

Larger companies with services revenue of $500 million or more are more likely to employ a dedicated services sales force. This finding can be interpreted as indicating that a dedicated force is either a luxury that comes with corporate size or a necessity to deal with that size. In either case, it is becoming clear that the sales force is evolving into a structure that includes relationship managers and specialists. The dedicated services sales force is developing into a specialist sales channel, with services reps becoming another member of the account team. From an organizational perspective, ITSMA is starting to see services sales reporting into the same organization as product specialists and account managers rather than a separate and not very equal services organization. Services sales reps are starting to get the recognition they deserve.

Measuring Sales Performance

Given the changes in the current economy and the movement toward more consultative solutions selling, the role of the sales force is changing. More than ever, sales is about building strong long-term relationships rather than executing short-term transactions. But even with the changing expectations of the sales force, the metrics for gauging sales performance have not changed. For the most part, the sales organization is currently being measured on:

- Revenue
- Quota attainment
- The pipeline

Still, many study participants believe that the basic sales performance metrics should be supplemented with measures of:

- Customer satisfaction and loyalty
- Recurring revenue
- New and existing account revenue
- Services/solutions offering mix
- Sales training effectiveness and compliance
- Teamwork and cross-selling
- Sales attrition rates
- Leadership development

It seems that the IT services sales metrics systems are lagging behind the solutions sales transformation that require the sales force to develop new consultative skills and capabilities. With the new emphasis on a more humanistic approach to managing the sales force, the personal and professional development of the sales representative now takes center stage. New metrics must be introduced to ensure that the sales organization is meeting its new goals and commitments. Sales management needs to create a more balanced scorecard to track sales performance. A balanced scorecard would include many of the metrics discussed in this report as well as more qualitative measures such as teamwork, leadership development, training compliance, consultative sales skills, and so forth.

Sales Performance Metrics

Best-practice companies are those that have higher contract penetration rates, services attach rates, contract renewal rates, sole-sourced deals, win rates, and recurring revenue. ITSMA encourages IT services providers to strive for performance metrics that are well above the industry averages reported in this report. The sales performance metrics included in this study are: (See the full report for best-practice target ranges):

- Contract penetration rate
- Professional services penetration rate
- Maintenance or support contract attach rate
- Installation services attach rate
- Contract renewal rates
- Sole-sourced deals
- Win rates
- Repeat business ratio
- Recurring revenue
- Sales lead conversion rate

Repeat vs. New Business

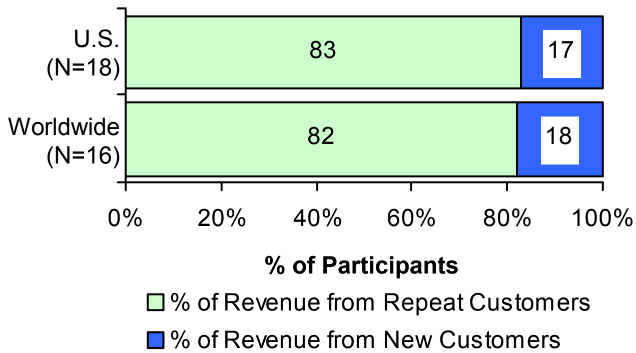
Repeat business, or the percentage of revenue from existing clients, is a critical metric for inferring customer loyalty and satisfaction. In addition, repeat business tends to be more profitable than new business because the costs of marketing and sales and services delivery to well-known customers are less.

The flip side of repeat business is new business, or revenue from new-name accounts. Selling to new customers often involves stealing market share from competitors or substitutes or converting self-servicers to users of external services providers. New business is a vital source of growth; therefore, companies cannot rely solely on business from repeat customers.

The average percentage of repeat business for participants in this study is an extremely high 83% in the United States (Figure 1.3). In previous ITSMA benchmarking studies, repeat business averaged 50% to 60%. This dramatic change in the repeat business ratio can be attributed to the current economic environment. Customers today are highly risk averse. Their cautious approach to transacting business is leading them to do business with suppliers with which they are most familiar. Likewise, services firms are finding that they are having more success selling their wares to existing, rather than new, customers.

This trend toward an increased percentage of revenue from existing customers raises some interesting questions. Is this too much business from existing customers? Are companies sacrificing an important source of new growth? Is this phenomenon a result of poor new business selling skills or a calculated effort on behalf of IT services providers?

Figure 1.3 Repeat vs. New Business



Source: ITSMA's *2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders*

Sales Costs

After conducting six annual benchmarking studies, ITSMA has been able to identify various characteristics of best-practice companies. One of these characteristics is that best-practice companies measure and monitor their sales costs. Reducing these costs, which are a major component of the cost structure at IT companies, can significantly influence profitability. Best-practice companies measure, and therefore manage, their cost of sales.

However, ITSMA noticed that the majority of participants in this study are not measuring and monitoring their sales costs. Data on this topic was difficult to obtain and somewhat unreliable. Only 55% of the participants in the *2002 Sales Performance Study* were able to quantify their services sales costs.

For respondents who can quantify their sales costs, it appears that as a percentage of revenue, the cost of services sales is less than product sales. Sales rep compensation, both base and variable pay and benefits, make up the majority (nearly two-thirds) of total sales costs.

Sales Training

Given the downturn in the economy and more cautious nature of IT services buyers, IT salespeople have seen their day-to-day roles change from "order takers" to relationship managers, trusted advisors, and new business prospectors. Many salespeople are ill equipped to make the transition to more proactive selling and need support, tools, and new skill sets. Many of the study participants commented that building professionalism in the sales force is a fundamental challenge. Further, with the trend toward a more humanistic approach to IT sales, professional development in the forms of both sales management and mentoring and formal training is receiving more attention. Sales-training excellence is one of the key characteristics of the companies that the study participants admire most.

On average, companies invest $2,615 per sales rep per year to train sales representatives in the United States. The worldwide number is very similar at an average of $2,514. These numbers represents a significant departure from previous training investment benchmarks, which were closer to $5,000 per sales rep. The training investment numbers include all costs for materials, training personnel expenses, operating expenses associated with facilities and infrastructure, and travel.

Although the dollar amount invested in sales training has declined in the past two years, the number of days spent in training has remained constant. Many more companies are leveraging technology such as online seminars and computer-based training. They are reducing training costs by eliminating travel expense and bringing the training directly to the sales force. A blend of face-to-face training and Web-based training appears to be most cost effective.

Sales Support

One of the best ways to help the sales force be more productive is to relieve them of the more mundane, repetitive tasks or remove time-consuming activities that keep the reps from direct selling activities. Many companies, although not all, do this through a formal sales support function. ITSMA can think of no reasons, other than politics, that would keep a company from instituting a sales support organization. Often, services sales forces are viewed as “second class” and therefore do not warrant their own sales support. IT services firms must lobby to achieve recognition that dedicated services sales are full-fledged salespeople worthy of dedicated sales support resources.

Sales Automation

Sales automation systems help sales representatives monitor and analyze opportunities, track their pipeline, forecast, report, and so forth. Most companies have already implemented or are in the process of implementing a sales automation system. Only one company in the sample has forsaken sales force automation.

Surprisingly few study participants measure sales rep satisfaction with the sales automation system. Further, of the companies that do measure sales rep satisfaction, most report that the sales reps are dissatisfied with the system. Sales reps will not use a sales automation system unless the system returns benefits to the individual. Mandating usage from above will only get the company so far. Paying the reps to use the system may also come up short if the value equation is out of line. Each individual sales rep must perceive that he or she is getting a return on the reps’ personal investment of time. Consequently, IT services companies must ensure that the system is providing more value than it takes.

Speaking of ROI, not a single company in the study has undertaken an analysis of sales automation ROI!

Best-in-Class Sales Practices

Based on this research with leading IT companies, ITSMA has compiled a list of services sales best practices in the following areas: sales organization and strategy, sales management, and training. The most significant best practices are highlighted here in this Abbreviated Summary. (For a more complete description of best practices, please refer to the full report.)

Sales Organization and Strategy

- **Creating focus.** Best-practice organizations recognize that they cannot be all things to all people. Consequently, they focus on select customer segments, key solutions, and specific strategic partnerships. They keep the complexity at a manageable level.
- **Implementing structured, formalized, centralized processes.** If there is anything the sales organization despises, it is surprises at the end of the month or quarter. By implementing processes with good reporting mechanisms and centralized top-down control, best-in-class services sales organizations are able to keep surprises to a minimum.
- **Leveraging multiple sales channels to increase coverage.** The name of the game is opportunity visibility. Best-in-class sales organization recognize that there is more than one route to market and experiment with new channels such as partners and the Web.
- **Aligning sales and marketing goals, integrating activities.** Solutions sales requires in-depth knowledge of the customer's business. As such, the marketing team can be invaluable in providing the content and thought leadership needed to conduct the consultative sales process with senior executives. Sales and marketing teams at best-practice companies are joining forces and working toward common goals. Marketers are even joining account sales teams.

Sales Management

- **Building a sense of community with aligned objectives.** Sales management must be able to communicate a clear vision with shared goals and objectives. Sales organizations must move from a loose association of individual contributors to true teams.
- **Systematically benchmarking and using sophisticated analyses to set realistic goals and expectations.** Best-practice sales organizations regularly benchmark performance to ensure that the stretch goals they set are attainable.
- **Using a balanced-scorecard approach to measure sales performance.** Revenue, quota attainment, and pipeline tracking are not enough to manage and incent solutions selling. Best-practice organizations use a balanced-scorecard methodology to evaluate sales performance, emphasizing both quantitative and qualitative measures of performance as well as more predictive performance indicators.

Training

- **Designing training to reduce variance in performance.** At best-practice sales organizations, the difference in performance between the top-performing salesperson and the bottom-performing salesperson is kept at a minimum through skills assessment and training.
- **Developing consultative sales skills.** Negotiation, presentation, and closing skills, although still important, are yielding the stage to consultative sales skills. The technology companies that will succeed are those who:
  - Develop deep industry/business knowledge
  - Cultivate the ability to penetrate the boardroom as well as the frontline engineers
  - Hone ability to question and listen to uncover true customer needs
  - Sell value

This Abbreviated Summary provides insight on the key trends and best practices in services sales organizations. ITSMA encourages all organizations that have not benchmarked their services sales performance with other leaders to consider doing so.

If you have any questions about ITSMA's sales performance research, or you would like to benchmark your sales organization, contact Julie Schwartz (jschwartz@itsma.com or +1-781-862-8500 ext. 12).

Purchase details for the 2002 Sales Performance Study

http://www.itsma.com/research/abstracts/S003.htm

Appendix A: Table of Contents for *ITSMA's 2002 Sales Performance Study: Benchmarks and Best Practices from IT Services Leaders*

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About ITSMA

ITSMA specializes in helping companies market and sell services and solutions. As a membership organization, we work with the world's leading technology and professional services firms to generate new business, build customer loyalty, and strengthen brand differentiation. Our members include industry leaders such as Accenture, Cisco, EDS, EMC, Fujitsu, Hewlett-Packard, IBM, Microsoft, Nokia, SAP, Siemens, and Unisys. Through research, consulting, training, and events we provide the insight and expertise companies need to improve marketing performance and business results. ITSMA is based in Lexington, Massachusetts, and has offices in the United States, the United Kingdom, and Japan. Learn more at www.itsma.com.

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