

How **SALES LEADERSHIP**
differentiates top-tier software companies

Spencer Stuart

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The software industry, even in these difficult economic times, is a testament to the unique entrepreneurial landscape that has developed in the U.S. The industry has created enormous economic value, and no company of any size, regardless of industry or geography, could operate without the benefits delivered through its software infrastructure. In fact, despite the recent economic downturn, software remains one of the most innovative and fastest growing sectors of the global economy, producing \$150 billion in sales annually.

However, within the software industry, there are winners and losers. Some companies thrive while others, even with arguably superior products, market positioning and customers, languish. To better understand both industry and company dynamics, Spencer Stuart led a research study to learn more about the differences between the most successful software companies and their competitors. In other words, what distinguished the leaders of the pack? We learned that sales leadership, above all else, is the key differentiator. Our study offers a candid snapshot on the current thinking, approach and best practices in sales leadership at top software companies.

About our study

In association with *Software Magazine*, Spencer Stuart surveyed and interviewed CEOs, general managers and senior sales executives (EVP/SVP of worldwide sales and VP of sales — North America) at the 30 leading U.S. software companies (based on five-year revenue growth) with revenues of at least \$250 million. These included companies such as BEA Systems, Siebel Systems, Inktomi and J.D. Edwards. Top-line findings were published in the “Software 500” August 2002 edition of *Software Magazine*.

SURVEYED EXECUTIVES LEAD COMPANIES OF VARYING SIZES

Percentage of executives who lead companies with annual revenues of:

Less than \$500 million	42%
\$501 million to \$1 billion	29%
More than \$1 billion	29%

Summary of key findings

- > The best companies focus most acutely on the quality of their first-line sales managers.
- > Team-selling is critical. It is particularly effective when inside sales integrates seamlessly with outside sales, and when true partnerships are developed with large systems integrators.
- > The integration of sales with other company divisions, particularly professional services, is an important competitive advantage, helping companies move quickly from a product- to a solutions-orientation.
- > A person-to-person direct sales force is still the most effective way that successful enterprise software companies go to market. Alternate channels play a role, but it is the direct team that makes the difference.
- > Even though many individual sales representatives are involved in pricing, management still holds the keys to pricing decisions.
- > Sales team compensation, which overwhelmingly is based on revenue, is a major factor in motivating and retaining top performers.
- > Recruiting the best sales talent and training them effectively is essential. The top 30 companies ensure that sales professionals acquire the right skills and training to win in the market.

Our findings

Sales is the differentiator

The key to success in the software market is a capable sales team, underpinned by a strong — though not necessarily the strongest — product. The sales function is critical for a number of reasons. First, software products are highly technical. As a result, many software companies have a difficult time articulating their product’s value to prospective customers, despite compelling technologies. Moreover, the software industry is highly fragmented — with hundreds of companies already competing and new ones entering the market daily. History has shown that even the unstable nature of early-stage startups has not dissuaded large, established companies from doing business with newcomers that make a convincing case for their products. Finally, the best products do not always prevail. The roadside is littered with the corpses of software companies that arguably had better products but were unable to sell them effectively.

This begs the question: What makes a software sales organization succeed? The following highlights important differentiators among the top 30 software companies and spotlights best practice implications for the rest of the industry.

FACTORS THAT DIFFERENTIATE SALES ORGANIZATIONS FROM COMPETITORS

Percentage of CEOs and sales executives who report:

Sales teaming	67%
Technical knowledge	60%
Formal training	40%
Channel strategy	33%
Compensation plan	33%

First-line sales managers are the key to success

Respondents indicate that the most critical element determining the effectiveness of their sales organizations is the quality of the first-line sales managers. First-line managers “create the transaction” and often are instrumental in closing big deals.

Implication: Do you have the right people in first-line management positions? Are you retaining the cream of the crop, or are competitors recruiting them away? These are the individuals who

will shepherd your most strategic sales opportunities. Extra effort must be made to recruit and hold onto top talent.

Teaming is the model for success

CEOs/general managers and sales executives agree that the ability to create high-performing teams is one of the most critical ways they outdistance their competitors. Working in multi-functional teams with other sales and sales-support executives, the sales force is better able to develop strong customer relationships and partnerships. For example, product specialists assist the sales force and help address technical issues, or inside sales people or telesales often pre-qualify sales leads before handing them over to outside sales. Assembling the right team is widely considered more important than hiring a set of “killer” sales representatives.

Implication: Does the executive leadership of your sales function reach out and engage a broadly defined team, or are they more comfortable betting on “one big deal” to pull them through?

Al Shipp, who has led the sales function at BEA and Inktomi, indicates that his strategy of driving revenue through business partnerships has helped his sales teams learn new behaviors. “They have to conduct solution-selling, not just transactional product-selling.”

TEAMS MAKE THE SALE	
Percentage of sales executives who employ team selling for:	
National accounts	78%
Global accounts	78%
Industry or vertical accounts	34%

Stratton Sclavos, chairman and CEO of VeriSign, illustrates his company’s approach to team-selling. “Even in the current challenging economy, VeriSign saw the inherent value in developing a national account model for our sales team. Today’s CIOs are looking for one-stop-shopping for VeriSign’s trusted solutions, whether it be network consulting, authentication or digital brand management. Our account managers — our quarterbacks — serve as the single point of contact for VeriSign’s team of issue-experts and allow a concise delivery of our trusted solutions,” remarks Sclavos.

Integrate sales with other functions

Extending the teaming concept further, integration between the sales force and technical support, professional services and the senior executive team is well established within the top 30 software companies, both through formal processes and cultures that encourage it. Typically, however, engineering/product development and CRM/customer service are poorly integrated with sales. As such, untapped opportunities exist to optimize the product development process by getting an accurate view of their customers' needs and challenges through closer working relationships between sales and product development or between sales and customer service.

“Integration between sales and professional services is particularly critical in the early days of a new product introduction when customers need help integrating the new products,” notes Alan Fudge, senior vice president of North American sales for BEA Systems. “This helps the new product introductions go much more smoothly than if the customers or a less well-trained business partner attempted that integration.”

Implication: Do you have the management processes and, more importantly, the culture within your company to permit seamless and natural integration between these functions?

Feet-on-the-street remain the primary route to market

Notwithstanding the increase in telesales, direct marketing and Internet sales, a person-to-person direct sales force is still the way that the most successful enterprise software companies go to market, according to 64 percent of respondents. Channel partners are growing in importance too, according to 16 percent of respondents. Interestingly, the Internet was not yet considered an important sales channel in enterprise software sales.

Implication: To reduce costs in this tough market, has your company's sales pendulum swung too far toward efficient, but not necessarily effective, indirect sales methods?

Management holds the purse-strings

Even though the individual sales representative is involved in pricing decisions, management still holds the keys. Nearly half of pricing decisions, 44 percent, are made by management alone. Fifty-six percent are made by the sales representative according to published guidelines, and 78 percent of pricing decisions are made by sales representatives with management involvement.

Implication: Are you giving away margin by having individual sales reps manage pricing?

Compensation motivates the sales team

It is noteworthy that not a single CEO/general manager selected the compensation plan as one of the top factors for competitive differentiation, while sales executives overwhelmingly favored compensation as one of the top three factors. This insight could present management with an opportunity to focus more on compensation, with an eye toward increasing sales.

Not surprisingly, when it comes to compensating the sales team, revenue remains the primary method for companies to measure sales success. Several sales executives indicated they have tried or want to try margin-based compensation systems, but noted, “It is very tricky to get right.” There also is a divergence of opinion on using compensation systems to direct lead generation, with some executives focused on bringing in more but smaller deals, and others refocusing sales teams back to “elephant hunting.” Special incentives are often used for bringing in these large deals. Additional incentives and motivators for the sales team include equity, variable compensation, recognition and attractive perks.

Implication: Does your compensation system drive the behavior you desire? Has your compensation system become overly complex, fragmenting your sales team's attention?

Recruiting and training cannot be overvalued

Both CEOs/general managers and sales executives feel the ability to recruit the right people is one of the top two issues driving the productivity of the sales organization. This is especially true when a company's product strategy is unique or highly technical — companies must make a greater investment in training to ensure that the sales team has the necessary skills and knowledge base to communicate a product's merits. When it comes to solution-selling, as opposed to more transactional product-selling, survey participants feel that new behaviors and skills are required. Sales executives also felt training to upgrade sales force knowledge was necessary. This is an area in which there was some divergence between sales executives and general managers.

“We use everything from competitive salaries to aggressive commissions and bonus programs [to motivate our sales team],” notes Dean Senner, president and CEO of Thales Navigation. “But to recruit great sales managers, we have to get the basics down first — and that means competing effectively in our field, showing solid growth against our goals, gaining market share and providing a great environment and corporate culture.”

Implication: Do all the hiring managers in your sales organization share the same approach when assessing candidates? Further, are you preparing your sales teams to go into battle with competitors who continue to invest in training their teams? Finally, do you have a compelling value proposition for the COO and CEO at your target accounts? These should not be the same messages you deliver to the CIO.

Conclusion

What can the software industry learn from its most successful companies and fiercest competitors? First, start with a strong product. It does not need to be head-and-shoulders above every other product in the marketplace, but your team needs to have the confidence that it isn't starting with one hand tied behind its back. Next, build the best sales team possible, particularly great first-line managers, as they will be the ones who forge your strongest relationships and largest opportunities. Invest in training so your team is equipped with the full range of skills and knowledge required.

Encourage and support your sales forces' abilities to partner with their peers in professional services, technical support and the senior executive team. Measure and pay your team on revenue, or possibly margin if the metrics are in place to manage this, and ensure that the metrics are simple and reward the behaviors you desire. Keep pricing decisions in the hands of management to protect margins and your company's reputation — and to avoid being seen as the “Fast Deal Freddie” of your sector. Finally, never lose sight of the fact that powerful sales leadership, along with a capable, talented sales force, can mean the difference between your company's success or failure.

SURVEYED COMPANIES

ARIBA	COMMERCE ONE	PEREGRINE SYSTEMS
AUTODESK	COMPUWARE	PORTAL SOFTWARE
BES SYSTEMS	HYPERION SOLUTIONS	PTC (PARAMETRIC TECHNOLOGY)
BMC SOFTWARE	I2 TECHNOLOGIES	RATIONAL SOFTWARE
BROADVISION	INKTOMI	SAP AG
BUSINESS OBJECTS	J.D. EDWARDS	SIEBEL SYSTEMS
CADENCE DESIGN SYSTEMS	MACROMEDIA	SYMANTEC
CHECK POINT SOFTWARE TECHNOLOGIES	MERCURY INTERACTIVE	TIBCO SOFTWARE
CITRIX SYSTEMS	NETWORK ASSOCIATES	VIGNETTE
COGNOS	ORACLE	
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F 34.93.487.09.44

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F 571.618.2317

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F 617.531.5732

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For copies, please contact:
Kelley Allen, Marketing
T 312.321.8344 or
kallen@spencerstuart.com

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