



THE SALES LEARNING CURVE & VIRTUAL SALES

Advice for a successful startup, product launch or foray into new sales territory

When launching a new company, product or service or expanding into a new territory, the temptation is often to hire a new VP of sales, some enterprise reps and build a high powered sales force as quickly as possible. It has been demonstrated, however, that ramping up a sales force too quickly can have very negative impact on the bottom line.

As founding Chairman and CEO of Veritas Software and current Stanford University Lecturer Mark Leslie wrote with Charles Holloway in their 2006 Harvard Business Review article, [The Sales Learning Curve](#), “Smart companies give themselves time and money enough to climb the sales learning curve before ramping up the sales force.” ¹

Visionary companies launching a new product or service that are mindful of the Sales Learning Curve and willing to break free of old paradigms can take advantage of a Virtual Sales model to ramp up their efforts for less risk, higher return on investment and faster speed-to-market.

The following is good advice for any organization looking to start something new.

I. Set Realistic Expectations

Knowing where you are, where you want to go and how you plan to get there is important. So is understanding that Rome wasn't built in a day. Realize that with any new venture there will be an organizational learning curve that must be taken into consideration when figuring annual revenue projections and sales quotas.

As Leslie and Holloway wrote, "Executives need to take responsibility for projecting the shape of the sales learning curve based on realistic inputs and for ensuring that all learning opportunities are identified. Then, the shape of the curve should drive the design of revenue, expense, and hiring plans across the entire organization... The most important role of all for senior executives is setting realistic expectations— guided by the curve—for investors, the board, and employees."¹¹

II. Build Dashboards and Measure Key Metrics

It might be stating the obvious, but figure out what's relevant to your business at each stage in its life, build dashboards and create scorecards to measure the things that matter and track those metrics religiously. Adhering to a structured system makes it possible to disseminate information quickly, especially in an ever-changing market.

One specific metric to keep an eye on is the cost of customer acquisition (CAC) relative to the lifetime value of the customer (CLTV). While this may be a little tough to immediately interpret before you have solid data to go on, that doesn't make it any less important to track.

III. Understand the Sales Learning Curve and Staff

Accordingly

One way to keep your CAC costs where they should be relative to CLTV costs (lower) is to adhere to the principals presented in The Sales Learning Curve and build in a cost efficient manner before you scale. More and more companies are realizing this and starting out with less expensive, yet highly effective inside sales reps that can be effective at generating monthly recurring revenue and, because they are less expensive than field reps, reduce the CAC to CLTV ratio.

"Hiring a full sales force too fast just leads the company to burn through cash and fail to meet revenue expectations." – Mark Leslie & Charles Holloway, Harvard Business Review

One very notable success story is that of salesforce.com who, understanding that they could not afford a traditional enterprise sales model, grew their business for the first five or six years with an inside sales model before adding a field sales model to hit larger accounts.

IV. Take Advantage of Outside Resources

Taking the idea of the inside sales model one step further is the newly emergent **Virtual Sales** concept. For roughly the same cost as a VP of sales, firms such as NuGrowth Solutions provide a complete package, including unparalleled sales leadership, dedicated inside sales representatives, an effective demand generation team and proven territory management systems.

BESSEMER CLOUD COMPUTING LAW #3:

Study the Sales Learning Curve and Only Invest behind Success... The core concept is that software organizations often fail because they staff up their sales efforts too quickly, before the sales model has been refined. This concept is even more critical for Cloud businesses, given the large upfront investment required to acquire customers. Ramping up too quickly will burn precious cash reserve and could sink the business. This typically means you should hire sales reps slowly upfront, only focus on your core geography until your business starts to scale considerably, and separate your "hunters" and "farmers" as you start to ramp.

Excerpted from

"Bessemers Top 10 Laws of Cloud Computing and SaaS." Bessemer Venture Partners.

<http://www.bvp.com/saas/default.aspx>

In an example to demonstrate how to calculate total cost per sales rep, Leslie and Holloway present the following scenario.

“Say a software company pays its average sales rep \$200,000 per year (base plus commission), and a sales rep incurs \$50,000 per year in T&E expenses plus \$80,000 in administrative and operating expenses. That totals \$330,000 in direct costs per rep. To that must be added indirect costs (such as sales support and management personnel), which typically adds as much as 50% of the direct cost per rep, in this case \$165,000. That brings the total cost per rep to \$495,000 per year.”^{III}.

Using those same basic figures, but applying NuGrowth’s model, a company would literally get three reps plus management, marketing support and systems for the cost of that one rep. Not only that, but because the virtual, or outsourced, sales organization is focused 100% on sales, they have the means, the experience and the expertise to begin a productive sales effort more quickly than most.

“When you hire us, you get the team, the infrastructure and a sales culture, already built and ready to hit the ground running – and that applies to both marketing and sales services.” said CEO Greg Tillar.

“We not only come in ahead price wise, we also reduce your risk on the front end and enhance your opportunity on the other end. Once our systems are in place, you can move faster and ramp up the business quickly when you hit the right spot.”

“If you hire someone and they don’t work out, you’ve lost momentum. We keep the whole machine moving forward.”

V. Execute targeted marketing programs in conjunction with the sales effort

“If you build it, they will come,” might have worked for Kevin Costner in “Field of Dreams,” but it rarely works when launching a new product or business. Effective demand generation and lead generation marketing, done in conjunction with your outbound sales effort will serve to

- o Build brand awareness
- o Generate sales leads,
- o Build pipelines, and
- o Increase sales.

Staying mindful of the need to keep CAC down, marketing in the early stages of a launch must be purposeful and sales driven to directly drive leads into the pipeline.

VI. Plan to Scale

Start with a sales and marketing model that has all the scalability needed to go from 1 to 100 without paying the upfront cost for the 100. Your startup model should incorporate best practices in inside sales -- hiring, training, score cards, territory management, demand generation, CRM implementation and execution and establish a model of success that can be repeated. Once that is done, the next hire is less risky and productivity occurs faster because benchmarks and systems are in place.

“ Think SaaS, when you need to add another user to the module, you just turn it on. Once we’ve got the system in place, it is almost that simple - that is why we like to refer to the NuGrowth model as Sales as a Service.”

- Greg Tillar, CEO, NuGrowth Solutions

Partner Effectively

If your organization could benefit from a dedicated sales and marketing team acting as an extension of your company and a proven model built to scale quickly, NuGrowth is your solution.

We are passionate about helping our clients grow and go into each engagement with the understanding that the success of our partnership is based on trust and mutual respect. While we own the sales processes, our clients own the client relationships so team unity is critical.

If you are interested in working with a partner you can trust to grow business and leveraging a virtual sales and marketing model, please give us a call at 800-966-3051.

I. Leslie, Mark, and Charles A. Holloway. “The Sales Learning Curve.” The Harvard Business review, July 2006

II. Leslie and Holloway

III. Leslie and Holloway