

THE CRITICAL 4

THE SBI RESEARCH REPORT



SBI

Q3 | 2018

HOW SALES LEADERS CREATE A CLEAR PATH TO
MAKING THE 2019 NUMBER



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HOW TO ACHIEVE CLARITY AND RESULTS

You are a sales leader. You just received your 2019 number. After you process the predictable request to “do more with less,” you ask yourself the following questions:

- How does the '19 number compare to my current performance?
- Did I get a fair number, and do I even have a fighting chance?

You then text your head of sales operations and say:

Need to meet asap. Just got the '19 number. Need you to dig in and tell me how we get there.

Thus kicks off the annual planning process, one filled with tension and conflict. Sales leaders across all industries are searching for one thing more now than ever: **Clarity**.

Clarity is elusive. Many of your key stakeholders lack clarity themselves and send you mixed messages. The rate of change is accelerating. Boards are more impatient. Your competitors are moving faster every year. There has never been a more challenging time to be a sales leader. Clarity is needed.

CLARITY - You want your CEO to be clear with you. Revenue growth at any cost or EBITDA growth? If they tell you both, you get frustrated.

CLARITY - Your CFO is telling you do more with less. You want more headcount. He is telling you until you make the current heads more productive, you must do more with less.

CLARITY - Your CMO is telling you that they are generating leads. They are driving pipeline at scale. The website has been optimized and click through rates have never been higher. Yet not enough of the leads are qualified.

CLARITY - Your Product leader is showing you where your products rank on the Gartner magic quadrant. But the products developed are falling short of addressing the use cases at an acceptable price point.

CLARITY - Your RVPs are telling you that there is too much noise from corporate. Your company has become hard to sell for and they are underequipped to make the number.

CLARITY - Your reps are telling you they don't have line of sight on ideal customers, quotas are too high, and compensation seems to be less attractive than your competitors.

Without clarity, you are stuck.



THE CRITICAL 4

What are the market leaders, those that deliver revenue growth greater than the industry and competition, doing to prepare for the upcoming year? This year's research revealed 4 critical success factors that these market leaders did to create clarity and generate results. And armed with clarity, sales leaders can win. Sales leaders are known for their ability to execute a plan. But if the plan is not clear, there is great effort with limited results.

Exhibit A – How to Achieve Clarity & Results



If you can nail the critical four, your probability of making your number is 2.7x those who cannot. While they may seem like basic tenets, that is the key insight from this year's research. If you cannot answer the basics, you cannot be a market leader. In 2019, those who can nail the critical 4 are poised to lead.

Revenue Plan	<ul style="list-style-type: none"> How do I go after accounts that are going to spend a lot in 2019 and avoid those that are not? How much of my number should be new bookings vs growing the base? How much should I be spending to make my growth number?
Coverage/Routes to Market	<ul style="list-style-type: none"> How do I properly cover the sales addressable market with the right mix of direct/indirect resources and in what structure? Are we deploying the right resources to cover the market properly? Where do I have pockets of high growth that I can exploit?
Quotas & Comp	<ul style="list-style-type: none"> How do I set appropriate quotas that are tied to territory potential? Do I have a rep comp plan that is market competitive? Is our sales compensation plan incenting the desired behavior?
Talent	<ul style="list-style-type: none"> Do I hire to an 'A' player scorecard with defined competencies and accountabilities by role? Are my Sales Managers and VPs 'A' players when compared against a peer group? Do I have a field operating system that drives weekly execution?

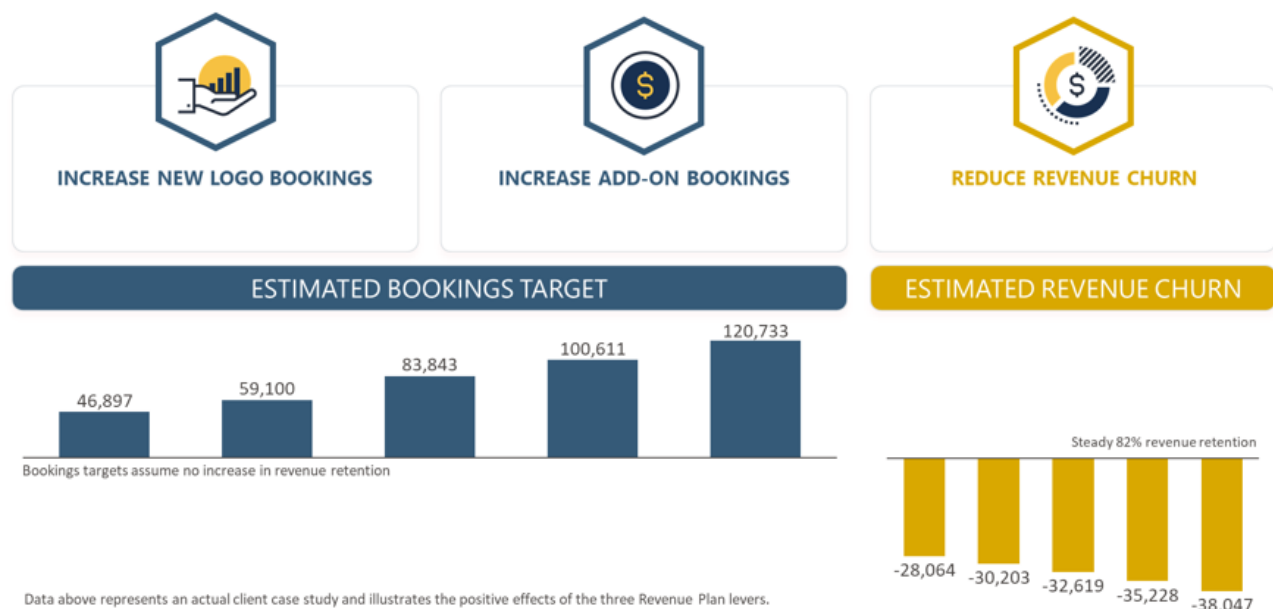


DEVELOP A REVENUE PLAN TO GO AFTER THE RIGHT ACCOUNTS, THE RIGHT WAY

The first of the Critical 4 is The Revenue Plan. This gives direction for how the sales leader will set and make their number for the year. When building the Revenue Plan, the sales leader will compare themselves to year-over-year market and competitor growth. This requires an understanding of the key performance indicators, benchmarks, and relevant assumptions.

Making the plan is only part of the equation. The other half is knowing which levers need to be pulled to achieve the plan.

Exhibit B— How to Increase Bookings and Reduce Churn



Increase new logo bookings

The estimated books target is grown through increased new business acquisition. Hunting new accounts can open new markets and revenue streams. Optimizing the coverage model and maximize the footprint into competitive territories.

Increase add-on a bookings

The estimated bookings target can also be grown through expansion within existing accounts. Farming all accounts (especially key accounts) provides the platform to land and expand into new revenue streams. Retaining top talent to build lasting relationships will increase customer lifetime value.

Reduce revenue churn

Estimated revenue churn is decreased with customer success programs and by providing a superior customer experience. Incenting the sales force with revenue retention activities can greatly reduce churn.

There are other levers that map across the Critical 4, but these three are the focus of this report.

Improve Pricing Efficiency

Overarching everything is the need to place the right value on a product or service. Doing this will help to win more revenue from a set of target customers. With improved pricing efficiency, reps are less likely to offer discounts because the customers will buy on value.

There are other levers and key performance indicators that map across the Critical 4, but the above four are touched upon in this report.

	Develop a Fact-Based Revenue Plan	Optimize Routes to Market	Operate Within Budget	Put the Right Feet on the Street
Define how to hit the EBITDA target	●			
Set the top-line revenue number	●			
Increase new logo bookings	●	●	●	●
Increase ad-on bookings	●	●	●	●
Reduce revenue churn	●	●	●	●
Improve pricing efficiency	●	●	●	●
Lower CAC and Sales Cycle Length		●	●	●
Increase CLTV, win rate, average deal size		●		●
Increased quota attainment		●	●	●
Increased productivity per head		●	●	●
Decreased rep vacancy rate			●	●

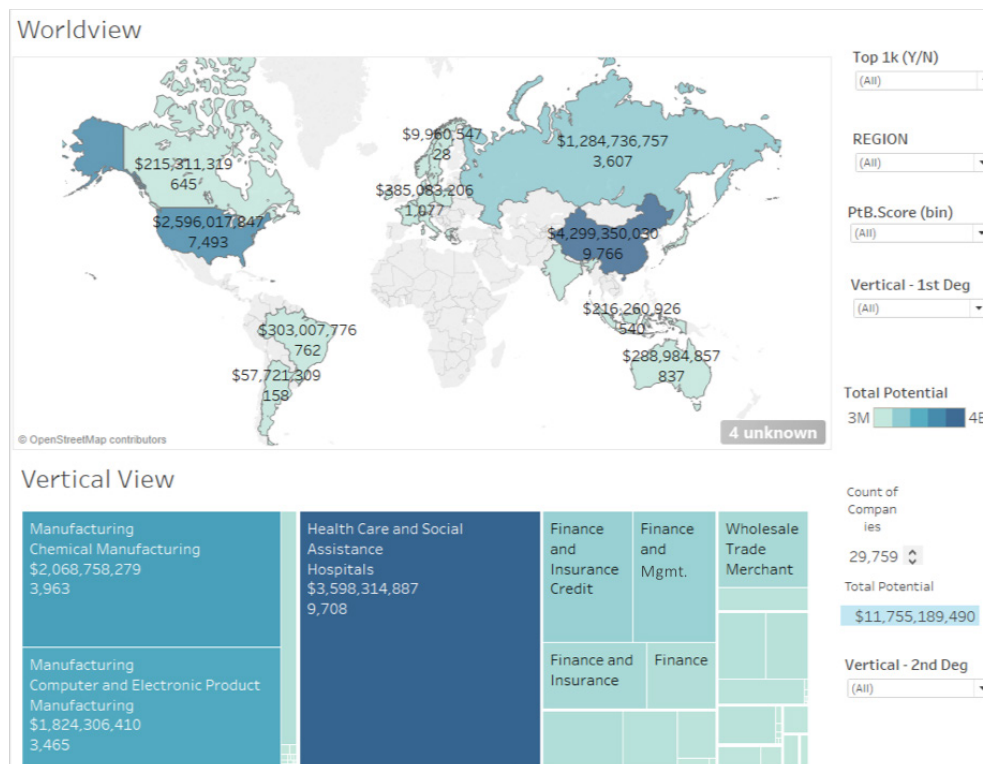
OPTIMIZE COVERAGE OF IDEAL CUSTOMERS & PROSPECTS

Some reps only make their revenue objectives by selling to the easy accounts. Others are spending too much time with accounts that do not fit the ideal customer profile. And yet, some sales reps have so many accounts to cover they cannot serve all of them correctly. You must cover the right accounts with enough selling capacity that can execute the right selling motion

Account segmentation is the first step toward optimizing your routes to market. Accounts are ranked by spend potential and propensity to buy. The Ideal Customer Profile (ICP) also includes Customer Acquisition Cost (CAC) and Customer Lifetime Value (CLTV). When combined, these attributes shape the coverage plan. You can then ensure your coverage plan is matched to the capabilities of the sales talent.

Exhibit C – Prospect Potential

Dashboard view of prospect potential using a Partner Fit score to filter on Addressable Market. Segmentation leads to Territory Design



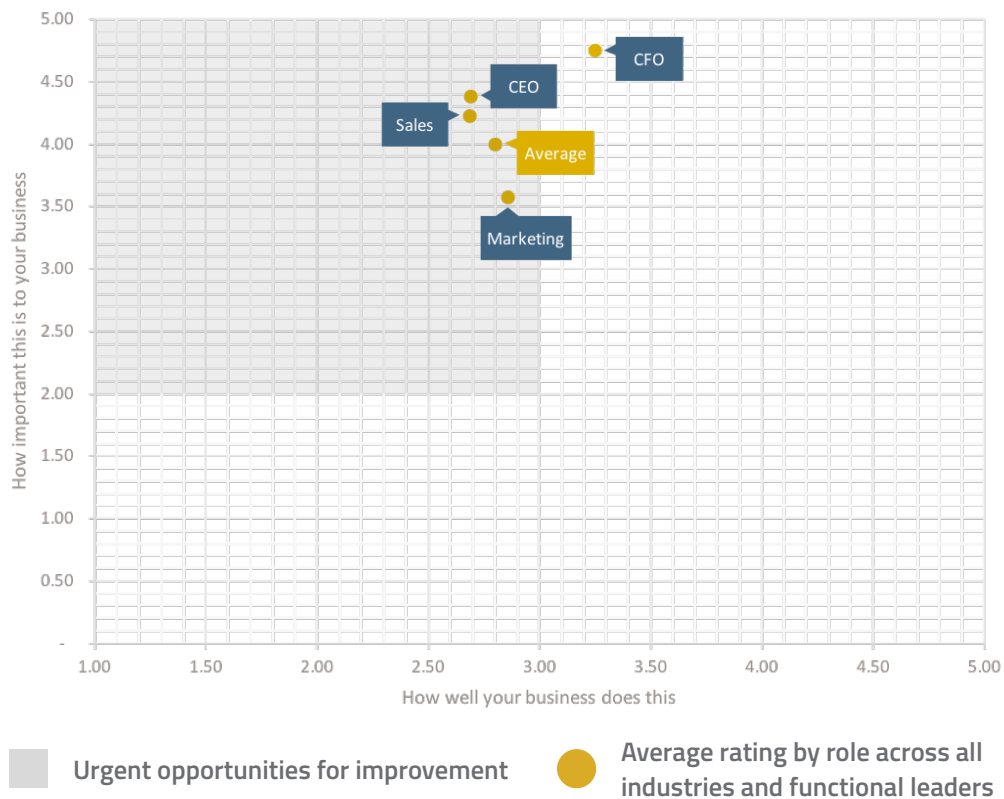
To better align territories with talent, effective compensation and quota packages need to be developed. This is a critical step. As Gartner Group puts it, "Ineffective quota & territory planning can cause organizations to miss up to 10% of annual sales as lost opportunity." This is true because revenue growth is attained when coverage and compensation are optimized to reach the ideal customers and prospects.

As the second element of the Critical 4, covering the right accounts with the right resources balances customer requirements, company revenue expectations and sales rep workload to grow revenues.

In terms of importance to the business, on a scale of 1-5 the average score was 4. But the research also validated several challenges in the market:

- There is a 20% gap between how the CFO and CEO regard their company's ability to design an optimized route to market plan
- On average, companies believe that territory alignment is an urgent opportunity for improvement.

Exhibit D – Routes to Market



Balance customer requirements, company revenue expectations and sales rep workload to grow revenues. On average, across all respondents, companies believe they have an urgent opportunity to improve their Route to Market capabilities. The overall score was 2.80/5.00 (56%)

CEOs and Heads of Sales are aligned on this topic.

The average score on a scale of 1-5 (1 = not very well, 5 = very well) for "how well does your business set quotas?"

2.80 = all respondents

2.69 = CEO

3.25 = CFO

2.69 = Head of Sales

2.86 = Head of Marketing

OPERATE WITHIN BUDGET AND DEMONSTRATE ROI

Bill Sexton, Director of Sales Operations at Zebra Technologies, was interviewed on the SBI Podcast. The topic was the third element of the Critical 4, compensation design & quota setting. He discussed how to operate within budget while providing attractive incentives to inspire exceptional performance.

“[In regard to benchmarking] the real goal is how do we get [from 200 plans globally] to five global plans as a framework,” he says. “And then as we look at some of the subsets, how can we use those plans and make some changes to the way we set quota or just the way we treat some of the metrics inside that plan to accommodate for some of these specialty roles?”

It starts by benchmarking current state against best-in-class plans. This leads to simplicity and the ideal compensation structure. The most effective benchmarking utilizes SBI’s 18 compensation tests.

These tests cross four categories and define the direction and goals of the comp plans. When direction is set, and goals are properly defined, organizations can expect 50-60% of their sales people to attain or exceed 100% of quota.

Category	#	Test Name	Description
REPS	1	Turnover	Does the comp plan attract and retain the best salespeople?
	2	Pay level	Are the base and variable plan components competitive in the market?
	3	Onboarding	How does the plan accommodate new reps? (pay levels, accommodations, ramp time to productivity, ramp failure rate)
	4	Traction	How effective are the plan accelerators?
	5	Distribution	Is the payout variation of top/bottom producers appropriate? What is the gap between OTE and Top performers?
	6	Accountability	How tied are the incentive components to the individual reps ability to directly impact?
	7	Time Analysis	Is effort directed towards the incentive compensation components?
	8	Clarity	Does the sales force understand the plan?
	9	Rep Satisfaction	Are the Reps motivated by the plan?
TERRITORY	10	Quota Setting	What is the benchmark for quota setting and what impact does this have on compensation?
	11	Territory Potential	How does quota by rep and compare to benchmarked territory potential?
IMPACT	12	Cost Analysis	Does the plan cost too much?
	13	Current Projection	What is the likely impact of the current plan in the future. What is the Plan's relative role in delivering company results?
	14	Previous Plan Results	What were the results of past plan changes? Did the changed comp plan drive the desired results? If not, why not?
STRATEGY	15	Alignment	Does the plan reinforce the firm's corporate and sales strategy?
	16	Automation	Does the current state of technology enable corporate and the field to implement (Design, implementation, ongoing calculations and management) the plan effectively?
	17	Compatibility	Is the comp plan for the role compatible with the organization's talent management program?
	18	Role Suitability	Are the components of the comp plan appropriate to the role?

But there is a strong correlation between overall quota achievement and turnover. To combat turnover and reward performance, organizations typically expect to pay between 105% to 115% for 100% overall achievement, though this varies by industry (software can be up to or exceeding 120%). And as Gartner Research confirms, “identifying and implementing the right sales compensation design can improve individual sales rep performance against goal by 11%.” At the field level, this is where clarity and results are ultimately realized.

Exhibit E – How to Operate Sales Within Budget & Turbo Charge Performance



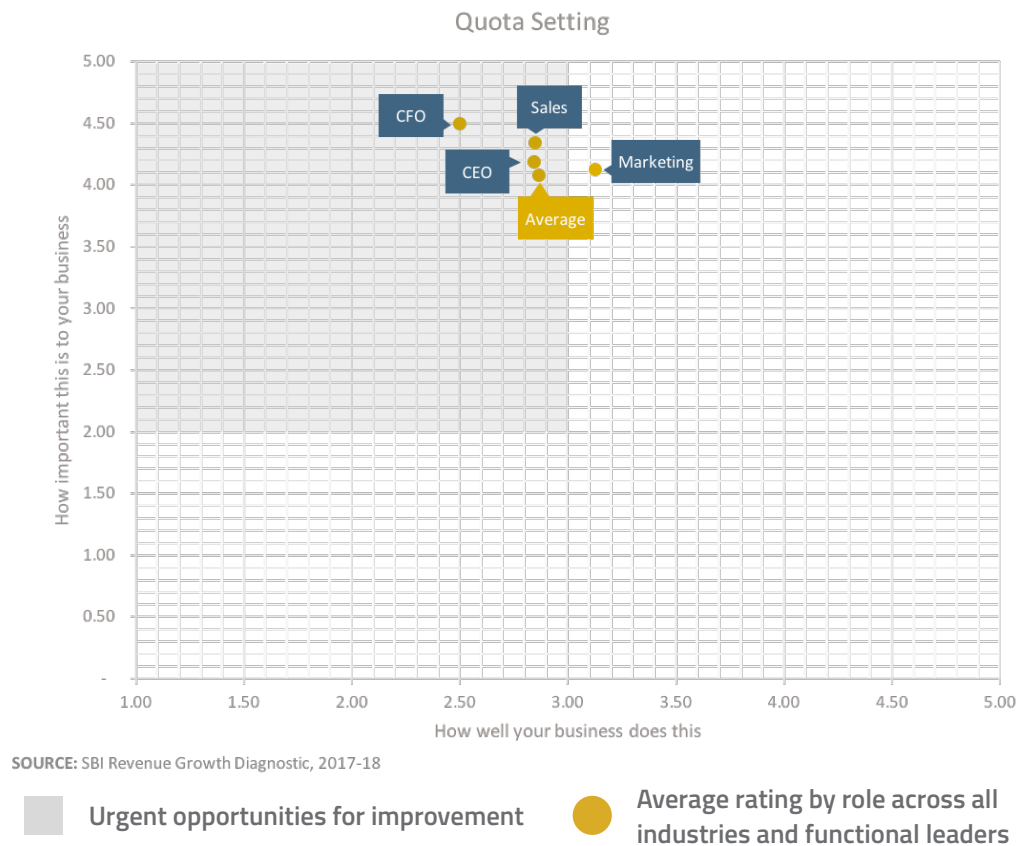
During the Sales Compensation Design & Quota Setting Process, these are the statements to verify:

1. The sales compensation plans align to the organization’s business objectives, strategy and roles.
2. The appropriate selling and management roles are eligible for incentive compensation.
3. The On-Target Earnings (OTE) for each role are competitive with industry benchmarks.
4. Our sales compensation plans enables us to attract, retain, and reward top sales talent.
5. The ratio of base salary to target variable incentive (i.e. target pay mix) is tailored to the selling role.
6. There is a strong relationship between individual rep performance and incentive payout.
7. The 90th percentile performer earns at least 2.5x – 3.0x compared to the median performer.
8. The plan contains no more than 3 measures and each measure represents at least 20% of opportunity.
9. Territories are balanced on revenue/bookings opportunity and earnings potential.
10. We set commission rates by role based on the median target incentive and median quota.
11. The overwhelming majority of our revenue is recurring revenue from existing customers.
12. At least 50% of your sales reps achieved quota last year.
13. At least 90% of individuals participated in the incentive plan last year (i.e. received > \$0 in incentive).
14. Quotas reflect market potential, not just historical spend.
15. Quotas are not overallocated by more than 10%.
16. We are able to forecast sales results with a high degree of accuracy.
17. We distribute the sales compensation plans and make incentive payments in a timely fashion.
18. We have the right systems to accurately measure results and administer the plans.
19. The sales compensation plans are simple & easy to understand.
20. We have a clear understanding of our salary and variable expense compared to revenue.

SBI research confirms that when it comes to quota setting, companies think they can do better. In terms of importance to the business, on a scale of 1-5 the average score was 2.87. But the research also validated misalignment among leaders

- CFOs are 12.2% less confident than sales leaders when it comes to quota setting
- The head of marketing is the most bullish about quota setting

Exhibit F – Quota Setting



A company's revenue goal needs to be intelligently allocated to divisions, regions, districts, territories and sales reps. Unfortunately, it rarely is.

On average, across all respondents, companies believe they do not do a good job setting quotas. The average score was 2.87/5.00 (57%)

CFOs are 12.2% less confident than Sales Leaders when it comes to setting quotas.

The average score on a scale of 1-5 (1 = not very well, 5 = very well) for "how well does your business set quotas?"

2.87 = all respondents (n = 4,700)

2.84 = CEO

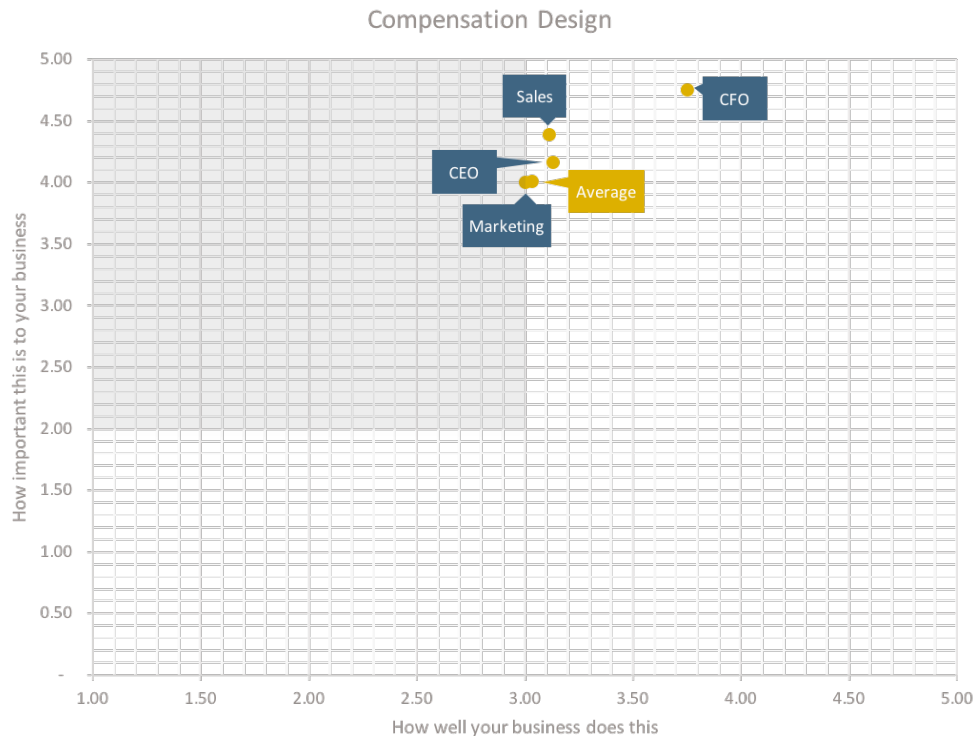
2.50 = CFO

2.85 = Head of Sales

3.13 = Head of Marketing

Together with quota setting is compensation design. On average companies rating their compensation programs as urgent opportunities for improvement. The widest opinion gap is between the CFO and head of marketing while the CEO and head of sales are well aligned on the topic.

Exhibit G – Compensation Design



SOURCE: SBI Revenue Growth Diagnostic, 2017-18



Urgent opportunities for improvement



Average rating by role across all industries and functional leaders

The design of sales compensation plans that enable the company to achieve its revenue targets and maximize incentive compensation to reps that deliver results, without breaking the bank.

On average, across all respondents, companies believe they do an average job designing compensation plans. The overall score was 3.03/5.00 (60%)

CFOs are 20.5% more confident than Sales Leaders when it comes to designing compensation plans.

The average score on a scale of 1-5 (1 = not very well, 5 = very well) for "how well does your business set quotas?"

3.03 = all respondents

3.13 = CEO

3.75 = CFO

3.11 = Head of Sales

3.00 = Head of Marketing

PUT THE RIGHT FEET ON THE STREET TO EXECUTE THE PLAN

“When it comes to the value of talent, Kevin Hickey, President & CEO of BeyondTrust said it best. “Our first competitive advantage with BeyondTrust is really our people. We have passionate people. We have a strong culture. We hire to that culture. Our people genuinely care about our customers and their reputations.”

Kevin speaks to every CEO’s desire to put the right feet on the street to execute the revenue growth plan. This requires a two-pronged approach to talent management:

- Annual capabilities assessments to identify which jobs are best matched with individual skills.
- Quarterly performance assessments to monitor and improve individual performance against a standard.

To build the ideal team to execute the Revenue Plan, the framework outlined in *Exhibit H* should be followed. This is the last of the Critical 4 to be put into place, but not a trivial endeavor.

*“We have a strong culture.
We hire to that culture.
Our people genuinely
care about our customers
and their reputations.”*

Exhibit H– Keep the Right Feet on the Street with Top-Grading

1. The Plan

Overtop the core talent system is a well-defined **talent strategy and execution plan**. This drives a singular philosophy of team performance.

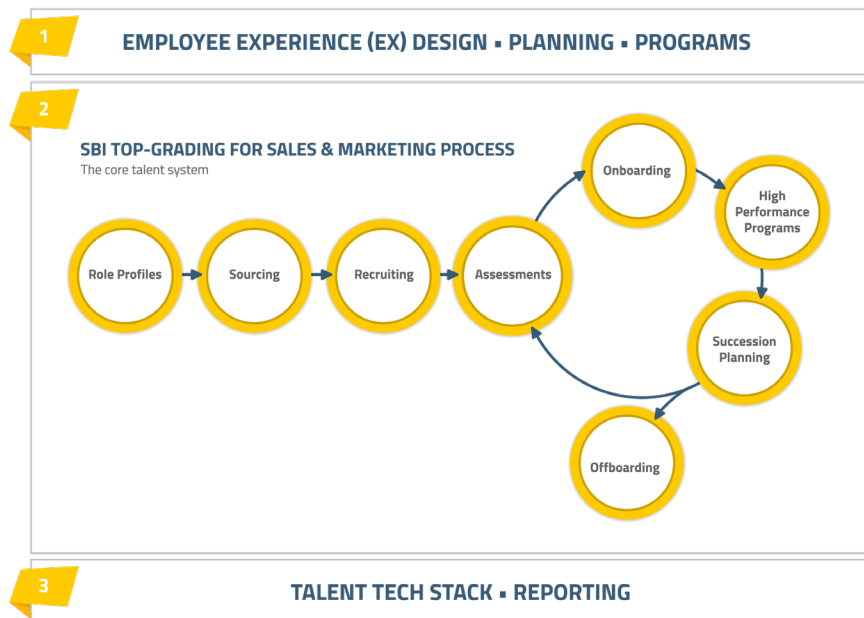
2. The Process

The **Top-Grading Process** is not a linear sequence. Instead, SBI follows a cycle designed to optimize the performance of the team. This requires continuous analysis of the team.

Recruited talent is **assessed** against a selection of competencies from SBI’s comprehensive CAP Library. If the recruited talent are determined to be A-Player, top-performers, then these individuals are immediately **onboarded** onto the team.

High-performance programs are put in place and maintained to evolve and perfect the skill sets required to reach peak performance.

Many companies follow an ‘up-or-out’ talent strategy. **Succession planning** is put in place to promote the high-achievers. Meanwhile, the under-performers are **offboarded** out of the organization to make way for upgraded talent.



3. The Data-Driven Back-End

All performance is quantified against two primary categories.

- Accountabilities (i.e. they meet quota)
- Competencies (i.e. they talk to clients)

Assessments are the lynchpin of the talent program. Everyone is appraised against a customized profile to identify strengths and gaps. This is called the “Top-Grading” methodology.

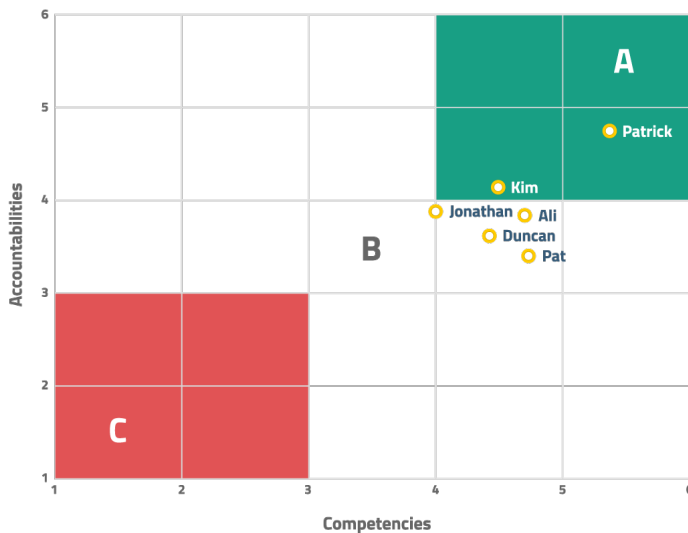
Top-Grading focuses on filling the organization with top-performing,



A Players. It utilizes a behavioral science-based approach to assess current employees and candidates by comparing competencies, accountabilities, and the intangible aspects of emotional intelligence and field presence. The result is a wholistic view of the candidate.

This ultimately reduces employee ramp-to-productivity and employee churn by assuring role fitness up-front in the process. This means the right feet are on the street to execute the sales plan.

Exhibit I - Top-Grading for Sales

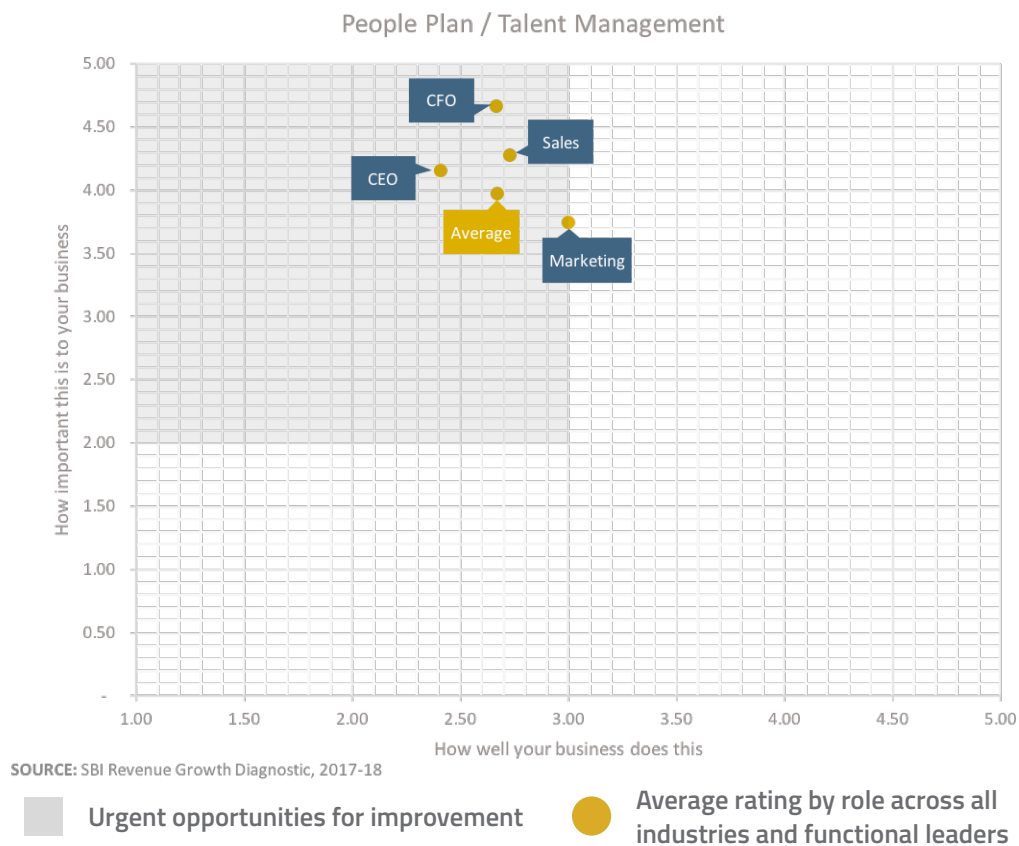


Rep #	Rep Name	Accountabilities	Competencies
1	Kim	4.15	4.45
2	Patrick	4.75	5.32
3	Jonathan	3.95	4.01
4	Duncan	3.85	4.39
5	Ali	3.85	4.66
6	Pat	3.40	4.70

Indeed, hiring and retaining the best talent is needed to execute the Revenue Plan. As part of the Critical 4, once A Player talent has been identified, they can be allocated across the territories and accounts. They can deliver on the bookings target and churn reduction plan.

It is common for the talent program to fall short of expectations, as illustrated in Exhibit J. This is a real threat to the sales leader's ability to achieve clarity and results.

Exhibit J – People Plan / Talent Management



Talent Strategy helps executives build a team of high – performers to put on the street and achieve their revenue goal. When done right, the ideal Talent Strategy means leaders will have confidence that their teams can execute their plans with clarity.

On average, across all respondents, companies believe they do an average job designing compensation plans. The overall score was 2.67/5.00 (53%)

Sales Leaders are 13.3% more confident than CEOs when it comes to having the right feet on the street.

The average score on a scale of 1-5 (1 = not very well, 5 = very well) for “how well does your business set quotas?”

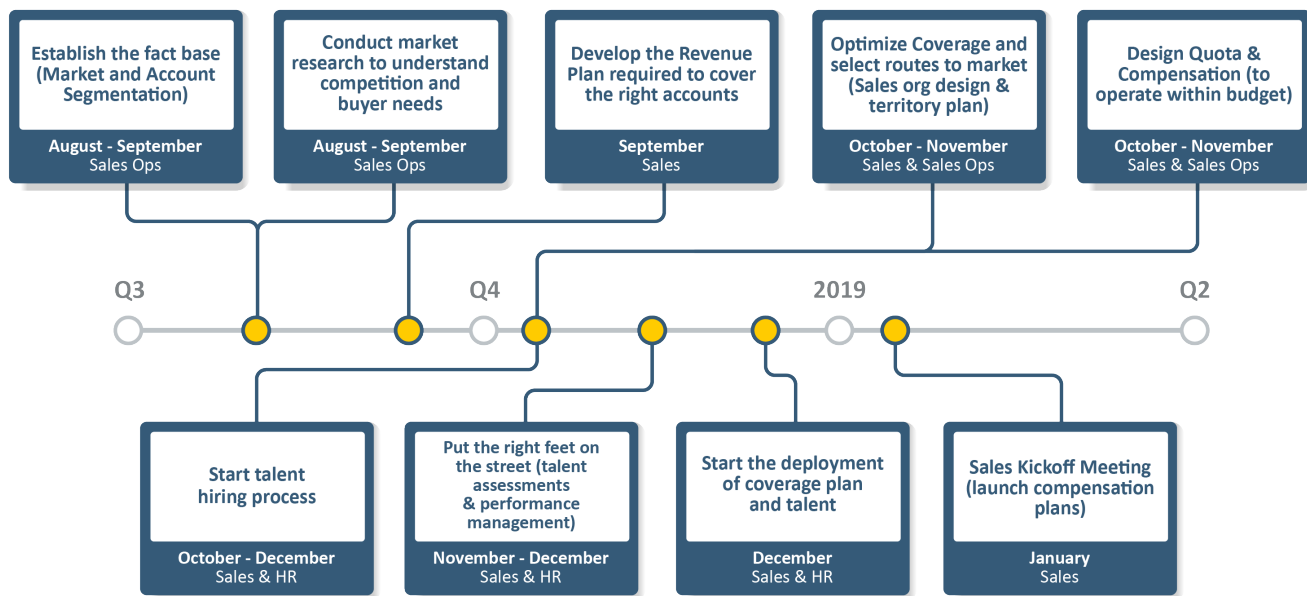
- 2.67 = all respondents
- 2.41 = CEO
- 2.67 = CFO
- 2.73 = Head of Sales
- 3.00 = Head of Marketing

NOW WHAT

This year's research revealed the Critical 4 that market leaders did to create clarity and generate results. Sales leaders are known for their ability to execute a plan. But if the plan is not clear, there is great effort with limited results. Naturally, you are asking yourself what you need to do, in which order, and within what timeframe to execute the plan.

It is recommended to follow a sequenced execution plan to jump start the process. To prepare for 2019, the below table lays out the necessary steps that will cascade into the entire sales organization.

Exhibit K – 2019 Readiness Execution Planning Period



The Critical 4 will drive clarity and achieve results. There are many other things you can do. And some of those may be helpful on the margins. As a sales leader, you must make some bets. One of those bets must be centered on how you create a clear path to the 2019 number. Armed with the answers you will get from the Critical Four, you will have an information advantage. This information advantage will ensure you set expectations with the board and your CEO on what they can expect. Your peers will know what you need from them. They will know what they can expect and not expect from you. The field will admire your conviction to pick a small number of things and be great. Most importantly, you will have increased your odds in making the 2019 number. And that's all any sales leader wants.

As always, we wish you good luck as you try and make your number.

OUR RESEARCH-BASED APPROACH

The findings in this report are supplemented by our Revenue Growth Diagnostic data that drew insights from five primary roles: CEO, CFO, Head of Product, CMO and EVP/head of Sales.

- 4,785 surveys completed
- 727 Marketing surveys
- 2,789 Sales surveys
- 58 industries represented
- All company sizes by number of employees and total revenue are represented

We asked leaders how well their companies perform in key strategic focus areas. These leaders self-reported their performance on a scale of 1 – 5 (1 = not very well and 5 = very well). Any score under 3 is a failing grade. Below is a summary of average scores.

Strategic Focus Area	Score (scale = 1-5)	Percentage
Fact Based Revenue Plan to Cover the Right Accounts (Solution: Segmentation)	2.86	57%
Optimized Coverage Model Allocation (Solution: Territory Alignment)	2.97	59%
Operating Within Budget (Solution: Quota Setting)	2.87	57%
Operating Within Budget (Solution: Compensation Design)	3.03	61%
Put the Right Feet on the Street (Solution: People/Talent Management)	2.67	53%

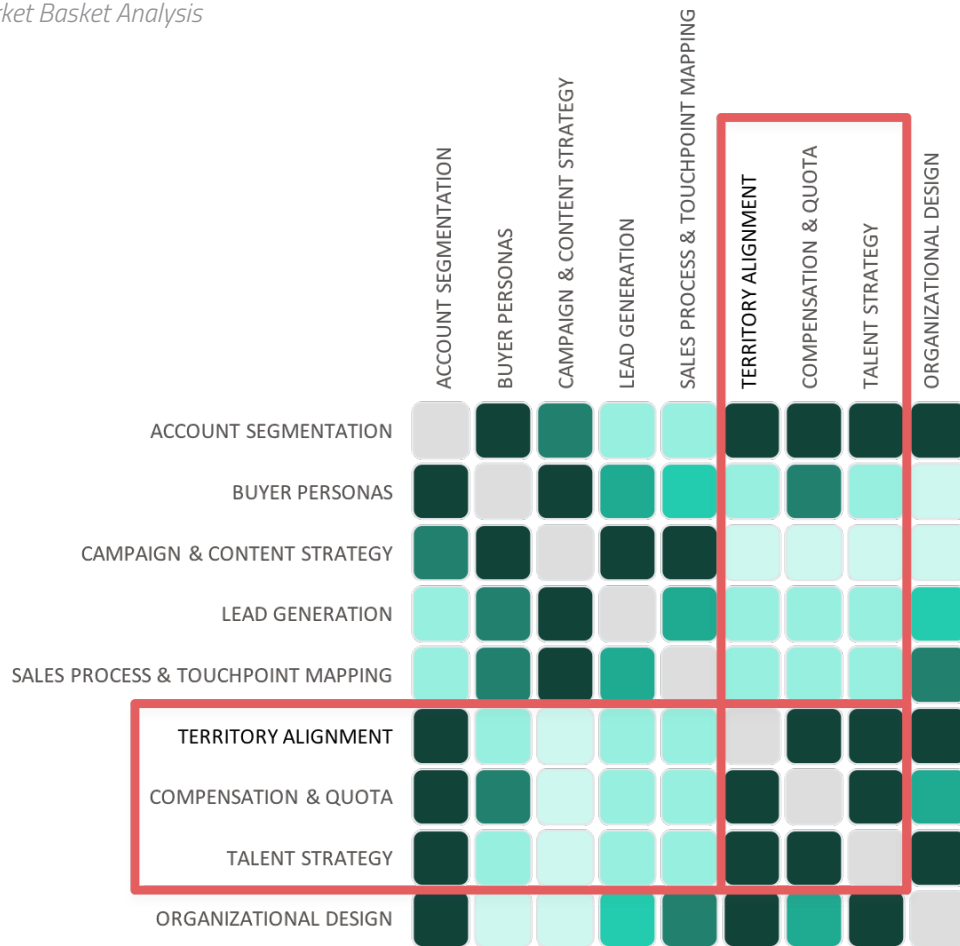
With failing grades across the board, it is no surprise that sales leaders are struggling with a lack of clarity. To address this, these same leaders are investing in solutions that not only drive clarity but their Revenue Plan. While average performance in these strategic focus areas is low, investment in these areas is growing.

This research report focuses on top-of-mind revenue planning items for sales leaders and the strong connection between several key areas:

- Fact Based Revenue Plan to Cover the Right Accounts (Solution: Segmentation)
- Optimize Routes To Market (Solution: Sales Org Design & Territory Plan)
- Operating Within Budget (Solution: Quota & Compensation Design)
- Putting the Right Feet on the Street (Solution: People/Talent Management)

When a fourth element, the Revenue Plan, is added, these components provide clarity and results. This is the basis of the report.

Exhibit L – Market Basket Analysis



To understand how important it is for leaders to solve their challenges in key strategic areas, SBI conducted a needs analysis of the market.

We mapped key areas of the Revenue Growth Methodology to each other to understand market needs. The darker the color the more likely these two will be implemented as a bundle.

When focused on top-of-mind revenue planning items for sales leaders, our findings show a strong connection among the following areas:

- Optimizing Coverage Model Allocation (Solution: Territory Alignment)
- Operating Within Budget (Solution: Comp Design & Quota Setting)
- Putting the Right Feet on the Street (Solution: People/Talent Management/Org)

These components are linked for good reason: they are designed to provide clarity of direction and to drive the following results:

- Increase new logo bookings
- Increase add-on bookings
- Reduce revenue churn
- Increase average selling price and deal velocity
- Allocate the right number of resources to the market
- Retain and develop the right talent to achieve results



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