

# Reengineering the Sales Process



Justin Roff-Marsh





# >>Contents

1 > Introduction	
What's up with sales processes? . . . . .	4
2 > The Relationship-centric methodology	
The case for Relationship-centric Marketing . . . . .	6
A brief introduction to Relationship-centric Marketing . . . . .	8
Everything you need to know about your sales process you can learn on a factory floor! . . . . .	11
3 > Converting opportunities into sales	
How to convert sales opportunities into sales . . . . .	16
How to build an objective management structure for your sales process . . . . .	22
Opportunity Management: a glossary of terms . . . . .	28
4 > Managing relationships	
The importance of getting religion . . . . .	32
The corporate periodical: Neglected for years. Resurrected at last! . . . . .	37
How to promote, present and profit from seminars and workshops! . . . . .	39
From a marketing department's perspective, every relationship looks like a sales opportunity. . . . .	44
Why there's a silent '\$' in 'Relationship': and why the integrity of your sales process depends upon it! . . . . .	46
5 > Acquiring relationships	
The difference between advertising and prayer! . . . . .	52
The anatomy of a healthy ad . . . . .	54
How your brochure can be a super salesperson for your organisation! . . . . .	57
6 > Process management	
How to establish a clear cause and effect relationship between promotional expenditure and sales . . . . .	62
Is your marketing manager redundant? . . . . .	70
Is your salesperson really selling? . . . . .	73
Performance pay: the case against . . . . .	75
7 > Mysticism and marketing	
'Doctor, I think I've got tuberculosis!' . . . . .	78
The myth of branding . . . . .	79
8 > Working with resellers	
Why resellers don't sell, and why you should be glad they don't! . . . . .	82
9 > Case studies	
<b>Hudson Institute:</b> Hudson's hyper-efficient sales process is also its sustainable competitive advantage . . . . .	86
<b>Gavin Ross Portfolio Management:</b> 'You guys turned a good business into an outstanding one' . . . . .	92
<b>Naturopathica:</b> The wild man of pharmaceuticals and his wilder ride to riches . . . . .	95
<b>Hopkins Property:</b> The investment advertisement that sent a developer's phones ringing off the hook . . . . .	98
10 > Next steps	
Reengineering <i>your</i> sales process . . . . .	100

## What's up with sales processes?

The title of this document (*Reengineering the Sales Process*) presupposes that sales processes do, in fact, need reengineering.

And that's a big call!

For an organisational process to require *reengineering* (as opposed to *fine tuning*) it must be dysfunctional. The bad news is that most sales processes today look like manufacturing processes did 30 years ago.

A lack of *systems thinking* has resulted in processes that are resource-hungry, difficult to manage, and almost impossible to scale.

In most organisations, the sales process *is* the salesperson. While this person (or team of people) would love to be selling, in between prospecting for sales opportunities, solving problems associated with *work in progress* and servicing existing customers, there's virtually no time available.

Furthermore, this salesperson is likely to get little help from the marketing department. The marketing department operates in a vacuum, busying itself with 'branding' activities, which hopefully will make some contribution — at some point in the future — to the general good health of the enterprise in question!

Neither sales training nor technology is the answer. Most salespeople don't need sales training — on the rare occasions they get face-to-face with potential clients, they do just fine. And all technology does is make it easier for salespeople to perform tasks they shouldn't be responsible for performing in the first place!

The good news is that you can find all the inspiration you need to fix your sales process by taking a walk through a manufacturing facility.

In fact, a walk through any efficient factory can teach you the four most valuable lessons you need to learn about sales process design and management.

### I. Design an organisational process, not an individual process

The first thing you notice about a manufacturing process is that it's an *organisational* process, not an *individual* process. You're unlikely to find one person performing all the tasks that make-up the process as a whole. (The person who operates the sheet metal press is not the same person who shrink-wraps the finished product.)

Each task in the manufacturing process has been matched with an appropriate resource (person or technology).

The same thinking should apply to sales process design.

Salespeople should perform only the tasks to which they are suited by ability (and salary level). The other tasks in the sales process should be matched with more appropriate resources.

Salespeople are well suited to negotiating with highly-qualified potential clients. (Or *selling*, in the traditional use of the word.) They are not well suited to:

- > Prospecting (salespeople have neither the specialist skills nor the resources required to generate a steady stream of sales opportunities).
- > Relationship management (if your salespeople are responsible for managing relationships with potential and existing customers, this limits both the number of relationships you can effectively manage, and the time the salesperson has available for selling).
- > Data entry, literature fulfilment and reporting (salespeople make very expensive clerks!)

- > Expediting factory orders (salespeople lack the global view of work in progress required to negotiate effectively with your production manager).

Each of these tasks should be *institutionalised*, leaving your salespeople free to dedicate all of their time to selling.

In an optimal sales process, a salesperson will perform five appointments a day (five days a week) with pre-qualified, pre-appointed prospects, who have indicated a predisposition towards purchasing!

## 2. Design for volume

Manufacturing people obsess about *volume*.

*Volume* is the speed at which a process generates its intended output. The faster a manufacturing process operates, the lower the operating costs (on a per-unit-produced basis).

Sales processes should also be designed to optimise *volume* — rather than to maximise *conversion rates*.

Think about it. It's a lot easier to double the number of appointments your salespeople conduct each week, than it is to double their conversion rates.

A focus on *conversion rates* (productivity) will provide you with only incremental gains. A focus on *volume* can deliver geometric gains in process output.

## 3. Identify the constraint in the process

Smart manufacturers recognise that the volume of a manufacturing process is limited by the volume of the bottleneck (or constraint) in that process. (To learn more about the *Theory of Constraints*, read *The Goal* by Eliyahu Goldratt.)

The same applies to a sales process.

In most sales processes, the constraint is the acquisition of *sales opportunities* (or leads).

In other words, in a typical sales process the output of that sales process (sales) is constrained by the availability of sales opportunities.

To make matters worse, most managers have no idea where sales opportunities come from (let alone how to build the process required to deliver a constant supply of them).

Fortunately, we'll address this issue in the first chapter of this digest with our discussion of *Relationship-centric Marketing*.

## 4. Measure it to manage it

Manufacturers know that *if you can't measure it, you can't manage it*.

Well the same applies to a sales process.

Contrary to popular belief, there's little fundamental difference between a manufacturing process and a sales process. (In fact, you could think of a sales process as a process designed to *manufacture* sales.)

Both processes have inputs and outputs. And both processes consist of a sequence of value-adding steps. Accordingly, both processes can be measured.

You should measure *productivity* (output/inputs) and *volume* for your sales process as a whole, and then again, for each step in the process.

Sadly, few organisations do this. As a result, attempts at process improvement typically result in process sub-optimisation or overreaction to natural variation.

## About this digest

This digest consists of a collection of articles from *AdVerb*, a periodical newsletter dedicated to *sales process engineering*.

The first three chapters will provide you with a sound understanding of our sales process design methodology, *Relationship-centric Marketing*.

The balance of the chapters will discuss issues relating to the practical application of this methodology.

You'll notice that some of these articles date back to when Ballistix was a direct-marketing agency. Nevertheless, you'll notice that our *Relationship-centric* methodology is a unifying theme that permeates the entire publication.

If you find that an issue needs clarification, or if you spot a flaw in one of our arguments, you're welcome to drop me an e-mail.

Enjoy!

Justin Roff-Marsh  
justin.roffmarsh@ballistix.com.au

# > The Relationship-centric methodology

## The Case for Relationship-centric Marketing

Our accountant scratched his chin, frowned a little, and then lent forward and dispensed his professional diagnosis with an air of self-satisfied finality.

“You need,” he proclaimed, “to increase sales.”

At the time, our accountant’s diagnosis provided us with little assistance. We already knew we had to increase sales ... didn’t every business?

What we didn’t know was exactly where these additional sales would come from. And when pressed, our accountant demonstrated a similar lack of insight.

“Well,” he said, “you’ll have to run some advertisements, or hire a PR firm, or something.”

Back then (this was almost 15 years ago) ours was a typical businesses. We had processes for managing customer relationships, for fulfilling orders and for managing accounts, but we had no formal process for acquiring new customers.

Because we had no formal sales process, we were incapable of simply dialing-up the increase in sales the good accountant ordered.

Today, most businesses (large and small) are in exactly that position.

Most can manage their customer relationship, order fulfilment and accounting processes with greater precision than has ever previously been possible. But few have sales processes that are measurable, manageable and, accordingly, scalable.

### A scalable sales process: the Holy Grail

Imagine, for a moment, that your sales process is as manageable and as scalable as your manufacturing process.

You can increase sales simply by feeding this process more raw materials.

Your sales process dutifully converts these inputs into sales, which are rapidly transformed into profits by your efficient fulfilment and accounting processes.

Of course, a percentage of those profits can then be used to purchase more inputs for your sales process, leading to a reinforcing positive (profit-generating) loop.

This scenario is every manager’s dream come true — a true money-making machine.

What keeps this dream out of reach is a lack of understanding of the dynamics of sales processes. Specifically, few managers know what the inputs to their sales processes are, and few understand the process that converts those inputs into the desired output (sales).

### Why won’t conventional sales processes scale?

Let’s start with the output of a sales process and work backwards. Hopefully, as a result, we can map the process and determine the necessary inputs.

Obviously, the desired output of a sales process is sales, but from where do sales come?

Most managers know that sales come from leads (or sales opportunities as we like to call them).

From where, then, do sales opportunities come?

When I ask this question in workshops, I generally get three answers:

1. From existing clients.
2. From referrals or ‘word-of-mouth’.
3. From advertising.

... few managers know what the inputs to their sales processes are, and few understand the process that converts those inputs into the desired output (sales).

On further questioning I generally discover that a significant percentage (typically more than 80%) of sales opportunities come from existing clients and referrals.

If we assume that most referrals are referrals from existing clients (as they typically are), it becomes difficult to classify either as a sales process input.

Because client relationships have a finite life span, a sales process that relies solely on existing clients for sales opportunities (or referrals) will suffer from a steadily diminishing output.

While it may be possible to run campaigns to stimulate the flow of sales opportunities and referrals from existing clients, at best, these campaigns will produce only incremental results. In other words, these campaigns may be valuable, but they will not generate the sustainable business growth we're looking for.

Now the problem with advertising as a source of sales opportunities is that it generally doesn't work! Or to be kinder to the 'branding brigade', it fails to generate sales opportunities at a commercially realistic cost.

What we've just discovered is that this sales process (which, I'm sure you'll agree is a typical sales process) has a fatal flaw: it can't be scaled.

Because, for the most part, future sales are dependent upon past sales, it is a self-contained system. In other words, this sales process better resembles a tree (that grows more or less at it's own pace) than it does a manufacturing process (where there is a direct relationship between inputs and output).

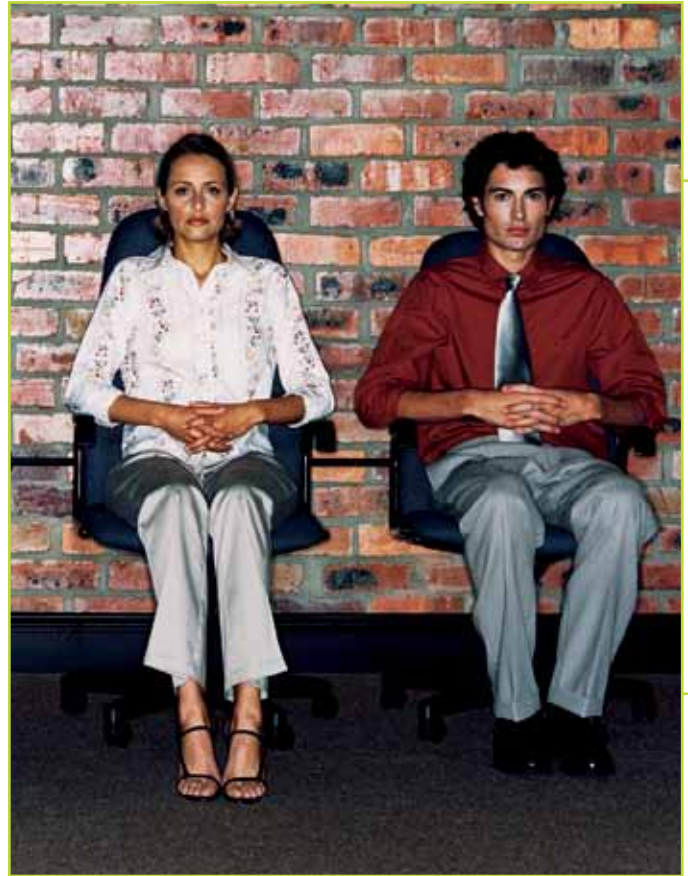
### The case for Relationship-centric Marketing

Our Relationship-centric Marketing methodology calls for a redefinition of the primary source of sales opportunities.

We argue that sales opportunities actually come from the relationships your organisation has under its custodianship.

Of course, some (if not most) of these relationships will currently be relationships with existing clients. But there's no law that says that an organisation must wait for an individual to become a client before it can enter into a relationship with him or her.

In fact our Relationship-centric Marketing methodology explains how an organisation should actively acquire and sustain intimate relationships with individuals who are not yet clients (prospects) and even some individuals who may never be clients (centres of influence).



### Promotional expenditure in, sales out

Our Relationship-centric Marketing article explains how you can use your promotional budget to acquire a constant stream of relationships with potential customers and centres of influence. It also explains how to best manage those relationships to optimise the emergence of sales opportunities.

When you add this Relationship-centric system to your sales process, you have solved your scalability problem.

You now have a clear cause and effect relationship between your sales inputs (promotional expenditure) and its output (sales).

Or, to put it another way, you can increase sales, simply by increasing your promotional expenditure.



# A brief introduction to Relationship-centric Marketing

## How to sell expensive (or complex) products and services

If your organisation sells expensive (or complex) products and services, odds are, you get ‘word of mouth’ business?

The answer to both of these questions lies in the discovery that there are actually two types of customer in this world!

## Two types of customer

We like to say that there are two types of customer in the world.

One type of customer ‘buys’ a product. (She focuses primarily on product attributes and price.)

And the other type of customer ‘buys’ a relationship. (She is less focused on the transaction, and more interested in a longer-term relationship.)

A customer tends to be ‘product-focused’ when she’s purchasing a commodity. If she’s choosing between Qantas and Virgin, between Dell and Compaq or between Holden and Ford, she’s likely to make that decision based primarily upon product features and price.

However, if this same customer were choosing a new accounting firm, looking for a financial planner, or organising an African safari, she is more likely to be shopping for a relationship than for the very lowest price.

Now this observation is more than just a curiosity. The choice between product- and relationship-focused customers affects the very design of a business. The fact is, a business designed to serve product-focused customers will drive the relationship-focused variety away in droves! (And vice versa.)

A ‘product-centric’ business promotes features and price — where a ‘relationship-centric’ business promotes a total solution.

A product-centric business exploits the value in a transaction, where a relationship-centric business profits from the value in a relationship (lifetime value).

And a product-centric business grows primarily by expanding its share of market (more customers) — where a

relationship-centric business grows primarily by expanding its share of customer (more services for each customer).

## A natural advantage for small businesses

While small businesses do not generally have the scale required to compete on the basis of features and price, they do have a natural advantage when it comes to delivering ‘customer intimacy’ — a key requirement of relationship-focused customers.

Furthermore, relationship-focused customers are prepared to pay a premium for these relationships — insulating smaller businesses from the inevitable ‘margin shrinkage’ that efficient markets (read: their larger competitors) inflict upon them.

Smaller businesses tend to recognise this. But few have any idea how to attract, to service, or to profit from relationship-focused customers.

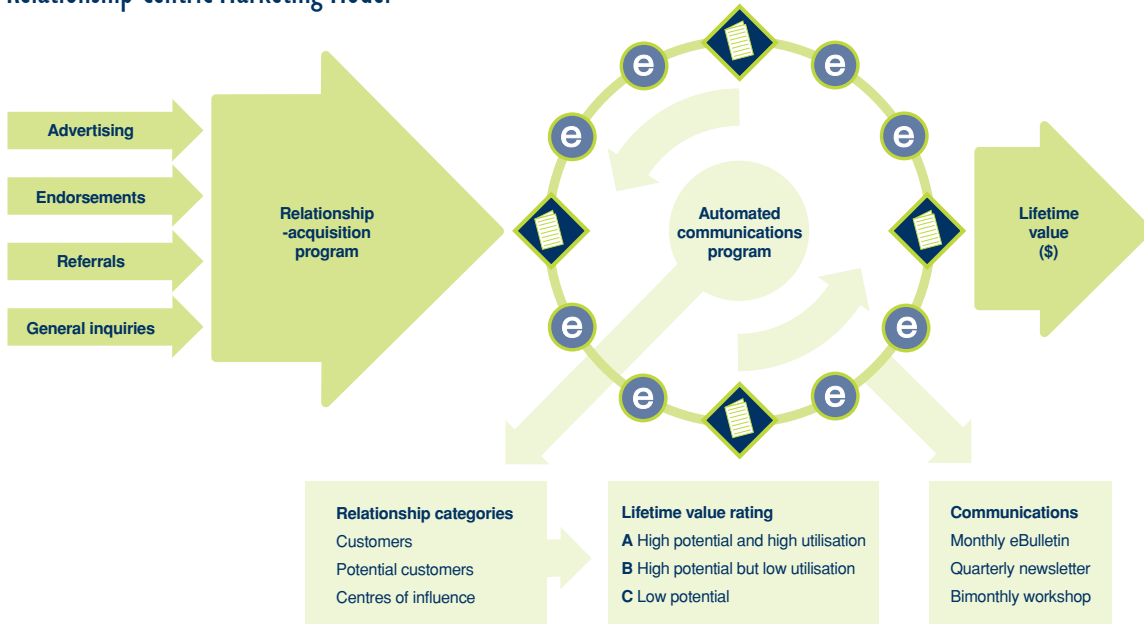
The solution is to turn traditional marketing methodology on its ear and build a relationship- rather than a product-centric marketing program.

## Selling a relationship

If you’ve decided you’d rather be in the business of selling relationships than (keenly priced) products, here’s a three-step introduction to our ‘relationship-centric’ marketing model:

1. Take your focus off sales. If your customers aren’t transaction-focused — you certainly shouldn’t be.
2. Create an automated communications program. Because a key ingredient in any relationship is communication, this system should provide your customers with regular (and meaningful) points of contact with you. Your automated communications program should be designed to exploit the value resident in the relationships under your management. However, rather than designing this program to optimise the value of individual transactions, you should design it to maximise customers’ ‘lifetime value’. ‘Lifetime value’ is a measure of the gross profit earned over the life of a typical customer relationship.

## Relationship-centric Marketing Model



- Identify potential customers and introduce them to your automated communications program. Rather than establishing a relationship with people after they make their first purchase (as is normally the case) you should establish a relationship in advance.

If your potential customers are those who will buy on the basis of a relationship, doesn't it make sense to deliver this relationship in advance? (You'll discover, in a moment, just how inexpensive it can be to introduce potential customers to your automated communications program.)

### Building an automated communications program

Once you've decided to become relationship- rather than product-focused, your first step is to create an automated communications program.

Begin by building a central database, containing the details of existing customers, prospects (potential customers) and centres of influence. (If your database is a little cumbersome, it might be worth considering an off-the-shelf contact management application like Maximizer, ACT! or Goldmine.)

Your next step is to design a program of communications that will build and nurture relationships with the people on your database.

We suggest that an e-mail periodical should be the backbone of your communications program. This is because a good e-mail periodical is both effective and scalable. (It takes no more effort to broadcast an e-mail to 20,000 subscribers than it does to e-mail 2,000.)

We suggest you publish your e-mail periodical bi-monthly. If you wish, you can supplement this periodical with a traditional (printed) newsletter. However, most of our clients have concluded that this is an unjustifiable expense.

Either way, your periodical should be designed to dispense valuable information to your subscribers (not to boast about your organisation). The best periodicals have a do-it-yourself feel. The great thing about sharing your knowledge with your subscribers is that it positions you as an expert in your field — and empowers them to work with you.

### Acquiring new relationships

The best-kept secret when it comes to relationship-focused customers is that you don't have to wait for them to buy from you before you build a relationship with them. In fact, if you

**It is essential to capture e-mail addresses at every point of contact with subscribers.**

build a relationship with relationship-focused prospects before they need to transact, you are almost guaranteed their future business.

### But how do you acquire these new relationships?

The easiest way to acquire new relationships is simply to capture e-mail addresses at every point of contact with your market.

(We're forever amazed by how few businesses bother to establish the simple process required to ensure that this occurs!)

If you sell to businesses, it may be easier than you think to acquire relationships. You might just find that the names and contact details of your prospects are available from a list broker. For example, if your target prospect is a 'human resources manager working in a company with 100 or more employees', this list is available from all good list brokers. Simply buy the list and add the records to your database.

If your prospects need to be better targeted than this, it might be worth commissioning some telephone research to filter these records. For example, if you want to identify those human resources managers who operate a particular software application, it's still cheaper to have someone ring and ask, than it is to try and build the same list using advertising!

If you cannot purchase (or otherwise acquire) a list of suitably targeted prospects, you may have to resort to less direct forms of 'lead-generation'.

Now, because you're looking for relationship-focused prospects, the trick with lead-generation is to promote a relationship — rather than your product or service. The obvious way to do this is to offer prospects a free 12-month subscription to your newsletter. Remembering that your newsletter has been designed to be truly valuable to prospects — this is an offer that's likely to be eagerly

accepted. (About 100 people a month request free 12-month subscriptions to AdVerb via our Website.)

We recommend the following promotional mediums for your relationship-acquisition campaign (listed in typical order of effectiveness):

- > Strategic alliances. Your prospects are already other businesses' clients. Identify businesses that serve your prospects, and convince them to offer a free 12-month subscription to your newsletter to their clients.
- > Direct mail. If the lists that you can obtain from your list broker are not qualified enough to warrant the cost of telephone research, you can identify qualified prospects by offering a newsletter subscription to this list. Respondents are likely to have both an interest in your services, and a bias towards relationships.
- > Advertising. A successful lead-generation advertisement is little more than a good direct mail letter, reformatted for the media in which you're advertising. Of course, your offer is still a free 12-month subscription to your newsletter.

### A recipe for growth

The turning point in the development of any business is the creation of a turn-key sales process. If you sell expensive (or complex) products and services, our Relationship-centric Marketing Model provides a basis for such a process.

Once you have recognised that your ideal customers are those who are in the market for relationships (rather than low-margin commodities), the battle is half won.

Now you can take your focus off transactions and apply it to building and nurturing relationships with a growing army of customers who are prepared to pay a premium to work exclusively with you.

It's easy, once you recognise that there are actually two types of customer in the world!

## Everything you need to know about your sales process ... you can learn on a factory floor!

If you're struggling to multiply the effectiveness of your sales process, I challenge you to take a wide-eyed stroll around a modern manufacturing facility.

I'm betting that, among the noisy machines, the intimidating technology and the strange sights and smells of production, you'll find plenty of inspiration for optimising the design and management of your sales process.

A walk through a factory will help you to define exactly what constitutes an organisational process — and illustrate why most sales processes hardly qualify to be called processes at all!

It will enable you to identify flaws in the design of your sales process — and to arrive at (often counter-intuitive) solutions to these fundamental problems.

And it will introduce you to a new way of thinking about sales process management — and expose why your current management initiatives may actually be sub-optimising the performance of your sales process.

In this article, we're going to explore a hypothetical factory — I'll be your tour guide!

I'll refer to this factory as if it's yours. If you're not a manufacturer, that's not a problem. I'll be sure to explain the relevance of everything we see.

### The factory floor as a classroom

There's a good reason the factory floor makes an ideal classroom for this lesson on sales process design and management.

I want to focus your attention on the word *process* in sales process. And it just so happens that manufacturing people know an awful lot about processes.

In fact, I think it would be fair to say that manufacturing process improvement has driven most of the increases we've seen in organisational productivity over the last century (from the assembly line to the quality movement).



### What is a process?

We'll start our tour by climbing the stairs to your executive suite. (We're making the climb because this mezzanine level provides a bird's-eye view of your factory.)

From up here, it's easier to spot the method in the apparent madness below.

As you look from workstation to workstation, you can see raw materials being gradually transformed into finished products.

This view provides a practical definition of the word process — a logical starting point for our study:

*A process is a sequence of value-adding steps that transforms a set of inputs into an output.*

### Makes sense, doesn't it?

But try applying that definition to your sales process.

You know the desired output of your sales process is sales. But what are the inputs? And what specifically are the value-adding steps that transform these inputs into sales?

When pressed, most executives claim that the input into their sales process is leads (or sales opportunities).

But this answer exposes a fundamental (and common) flaw in sales process design.

If your sales process begins with a pre-existing sales opportunity, your ability to scale this process is constrained by the availability of such opportunities. Now, unless your organisation is in the fortunate position where demand for your product exceeds supply, it's likely that this source of pre-existing sales opportunities is limited.

It's inappropriate, therefore, to regard sales opportunities as the input into your sales process.

Our article on Relationship-centric Marketing explains that sales opportunities emerge from the relationships that your organisation has under its custodianship.

The key to generating sales opportunities is to carefully manage these relationships.

If a relationship precedes a sales opportunity, from where then do relationships come?

Well, generally speaking, relationships come from two sources, existing clients and potential clients.

If you're doing a good job of managing your existing client relationships, you should be more interested in the latter source of relationships than the former. This is because there is a limit to how many sales opportunities you can extract from clients (without damaging the valuable client relationships).

Where you have a finite number of client relationships, the potential to acquire relationships with potential clients is limited only by the size of your market.

To acquire relationships with potential clients, you need to invest money in a special kind of promotional campaign (we call this a *relationship-acquisition* campaign).

This promotional expenditure is the true input into your sales process.

Accordingly, your sales process should probably look something like the diagram in the adjacent column.

### The lesson

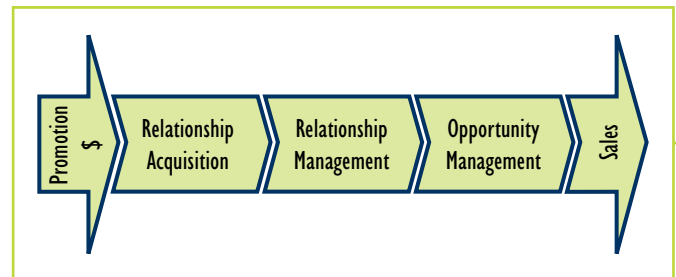
The lesson here is that your sales process should have the same key attributes as your manufacturing process.

It should have inputs, outputs and a sequence of value-adding steps. There should be a measurable *cause and*

*effect* relationship between inputs and output. And it should be designed so that it can be scaled in line with the capacity of your organisation as a whole.

### It's an organisational process

We've descended from the mezzanine level, and we're now strolling through your factory. We stopped and chatted to Terry, a forklift operator who receives raw materials and transports them to the appropriate workstations. We met Sue who operates a sheet metal press. And we even bumped into her husband Bob, who operates a powder-coating booth on the other side of the factory.



In chatting to Terry, Sue and Bob, we noticed that each is a specialist. Each focuses on one step in your manufacturing process — each has a trade qualification relevant to the particular tasks that make up that step. While all exhibited a healthy interest in your manufacturing process as a whole, their focus was obviously on their particular areas of expertise. (When I asked Bob if he ever drove Terry's forklift, he laughed, as if the idea were preposterous.)

It's easy to see that responsibility for managing your manufacturing process as a whole vests with Elliott, your production manager. In contrast to Terry, Sue and Bob, Elliott has only a passing interest in the individual tasks that comprise your manufacturing process. But when we ask him a question about the productivity of this process, he can't wait to share his control charts with us!

If we contrast the division of tasks and resources (in this case people) with a typical sales process, the differences are obvious.

Your manufacturing process is an *organisational* process. However, most sales processes are *personal* processes. In most organisations, the salesperson is *the sales process*.

If you think of a typical sales process, the salesperson (or people) is responsible for prospecting, data entry, literature fulfilment, appointment scheduling, face-to-face selling, the preparation of reports, customer service and even for expediting orders through the factory.

**If the idea of your spray painter doubling as a forklift operator strikes you as ludicrous, so too should the prospect of your salesperson performing clerical duties.**

In such a sales process, a salesperson spends a small fraction of her time selling. The rest of her time is devoted to clerical duties, or duties that could be better performed by other specialists (or by specialist business systems).

This situation appears even more ludicrous when you

consider that a typical salesperson is paid more than a trade-qualified production worker — and perhaps even more than a production manager!

There are three main problems associated with delegating responsibility for your sales process (or any complex process) to a single individual:

- > The process becomes highly inefficient. Your salesperson is so busy performing clerical duties that she doesn't have time to sell.
- > The process suffers from limited capacity (it's not scalable). Because salespeople are expensive, it's hard to justify employing more salespeople in an effort to increase sales. (Especially if sales opportunities are in limited supply.)
- > The process is all but unmanageable. Because a single individual owns the process, it is possible only to measure output. It is not possible to micro-manage the steps that make up the process as a whole.

### The lesson

Your sales process should be an *organisational* process, not a personal process.

If the idea of your spray painter doubling as a forklift operator strikes you as ludicrous, so too should the prospect of your salesperson performing clerical duties.

Your salesperson should perform only those duties to which they are ideally suited (both by skill and by salary level).

Your sales process should be managed by a person with a global view of the process (and not by a salesperson). Our article entitled "Is your marketing manager redundant?" suggests that a typical organisation should consider redesigning its marketing manager's role so that this person becomes a *sales process manager*.

### Design for volume

We're now standing between two parallel assembly lines. On one line, the mechanical components of your product are being assembled and, on the other, the discrete electronics are being soldered into the controller boards.

What's fascinating is that, even though quite different tasks are being performed on each line, the lines are synchronised so that the controller board for each product is finished (and tested) just as the final nut is tightened on the mechanical assembly.

Watching your production process at work is like watching a race car driver in action. Each of his movements is so deliberate, precise and obviously well rehearsed that it's easy to forget he is travelling around the racetrack at speeds exceeding 300km an hour.

Like a racing car, your manufacturing process has been designed for speed (or, more correctly, volume). This is because, as the volume of your manufacturing process goes up, the organisational resources (capital) consumed by this process (on a per-unit-of-output basis) goes down. (Which would you prefer: two slow-moving production lines, or one production line that operates at twice the speed, to deliver the same volume of output?)

In comparison with your manufacturing process, a typical sales process has been designed to maximise conversion rates, rather than to optimise volume. In a typical organisation, each salesperson represents an entire process (each salesperson is responsible for acquiring and managing relationships, for generating sales opportunities and for converting sales opportunities into sales).

Accordingly, a typical organisation has multiple sales *production lines*, each with very limited capacity.

**If you show me a sales process with a conversion rate greater than 50%, I'll show you a process that can't be scaled!**



## The lesson

The obsessive pursuit of unrealistically high conversion rates results in the sub-optimisation of most sales processes. (If you show me a sales process with a conversion rate greater than 50%, I'll show you a process that can't be scaled!)

Your process should be designed to optimise volume for two simple reasons:

Just as a fast-moving production line consumes less organisational resources (capital), a high-volume sales process consumes less sales resources (salespeople's time).

Your efforts to increase conversion rates (more sales training, new technology, better sales aids) will only ever produce incremental (and rapidly-diminishing) gains in output. However a similar investment in volume (more relationships under management) will produce geometric increases in sales (even if conversion rates go down).

## Manage the constraint

We've now stopped at what appears to be the most important step in your manufacturing process.

We're looking at a particularly unimpressive machine (it stamps your product's main housing out of sheets of aluminium). But, for some reason, this machine is attracting a disproportionate share of attention.

This machine has three operators. One is hand-feeding it aluminium sheets from a small pile of inventory. (This is the first time we've seen any inventory in your plant.) Another is removing the finished housings from the machine, checking them and then handing them off to a nearby workstation. And the third is watching the whole process and graphing the output of the machine on a piece of chart paper!

There's a simple reason why this machine is receiving all this attention: it's the bottleneck (or constraint) in your manufacturing process.

Your manufacturing team knows that the output of their process as a whole is limited to the output of this constraint. In other words, if this machine can stamp just 20 housings an hour, your manufacturing process can produce no more than 20 complete units an hour.

Accordingly, your team recognises that it must do everything it can to maximise the output of this machine.



(This also explains the small pile of inventory in front of this machine. Because this machine is the constraint, if it stops due to a lack of inventory, the whole manufacturing process grinds to a halt.)

You can learn more about the *Theory of Constraints* by reading *The Goal* (by Eliyahu Goldratt). This brilliant book is a must for those interested in our sales process design methodology.

In a typical sales process, the constraint is the acquisition of sales opportunities.

However, rather than mustering all available resources to elevate (and possibly, eliminate) this constraint, most organisations do the exact opposite!

As mentioned previously, most organisations focus their resources on attempting to convert the small number of available sales opportunities into sales.

Meanwhile, the activities that are supposed to generate sales opportunities are either totally ineffective (most *branding* campaigns), cost-prohibitive (cold calling), or unscalable (referrals).

## The lesson

If the generation of sales opportunities is the constraint in your sales process, you need to focus all your management attention on eliminating this constraint.

You need a scalable and cost-effective method to generate a predictable flow of sales opportunities. And you need a stockpile of *inventory* in front of your *opportunity*

*acquisition* machine to ensure that this machine never suffers a *stock-outage*.

Our *Relationship-centric methodology* explains that sales opportunities are generated by the active (and strategic) management of relationships with clients, potential clients and centres of influence.

Accordingly, you need to pay close attention to the management of the relationships under your custodianship to ensure that you are optimising the flow of sales opportunities.

Furthermore, you must ensure that you have more than enough relationships under management to generate the volume of sales opportunities that you require.

### Manage by numbers

By the time we complete our factory tour it's approaching closing time. We catch Elliott's attention just as he's about to make a dash for his car, with an armload of control charts and his Hewlett Packard calculator (every engineers' best friend).

We thank Elliott for letting us tour his factory and congratulate him on his efficient manufacturing process.

Elliott's armload of control charts alerts us to the fact that he manages his production process with scientific precision.

He performs regular measurements on the productivity and the volume of each component of his process, as well as on the process as a whole. And he uses these measurements to continually fine-tune its design and operation.

It's rare that we find a sales process that's managed with this kind of precision. Which is strange, when you consider that a sales process is just as complex and just as critical as a manufacturing process.

In a typical organisation, the marketing manager manages promotional activities (which should be a component of the sales process). And the sales manager manages the opportunity management process (which is obviously a component of the sales process). But no one manages the process as a whole.

Just imagine what would happen to your manufacturing process if it were treated with the same neglect!

### The lesson

Someone in your organisation must be made responsible for your entire sales process. They must be responsible for both the productivity and the output of the process as a whole. And they must manage this process by numbers, rather than by intuition. (For more information, read our article entitled *How to establish a clear cause and effect relationship between promotional expenditure and sales.*)

When we look at most organisations, we discover that the sales process is the constraint on the growth of the business. We also discover that the sales process is operating at peak capacity (at least with its current structure).

If this is the case with your business, your sales process needs urgent management attention. Until you reengineer this process so that it is both manageable *and* scalable, your business is limited to organic (incremental) growth.

But don't despair, the answer to your problem is close at hand.

You don't need marketing consultants, sales trainers or sales force automation software, you just need to take a stroll around a modern manufacturing facility.



# > Converting opportunities into sales

## How to convert sales opportunities into sales

Tell me, how's your conversion rate?

Specifically, is your organisation converting the optimal percentage of sales opportunities into sales?

My bet is that you'll find this question hard to answer ... for two possible reasons:

- > You don't know what your optimal conversion rate is.
- > You can't bring yourself to be happy with a conversion rate any less than 100% — which makes the concept of an optima superfluous!

This article explores the opportunity management process — that all-important process responsible for converting sales opportunities into sales.

It explains why a conversion rate approaching 100% is undesirable. Why a salesperson and an opportunity management process are not one and the same. And why pep talks and sales quotas are counter-productive.

### Is yours really an opportunity management problem?

Most managers blame their salespeople for a lack of sales.

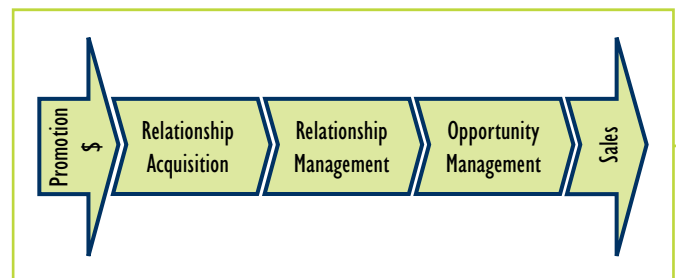
That's like blaming a light bulb for darkness during an electricity failure.

In all likelihood, there's nothing wrong with your salespeople's ability to sell.

The problem is more likely to be a lack of sales opportunities.

It's important to recognise that salespeople are not good at generating sales opportunities. They can do it, but it's an inefficient use of their time. (It's also technically possible to use a light bulb to generate electricity, but there are more efficient means!)

For this reason, we divide sales processes into three key components as pictured below (each component is a sub-process).



The first two components of this sales process (*relationship acquisition* and *relationship management*) generate sales opportunities; the third (*opportunity management*) converts those sales opportunities into sales.

Before we consider your *opportunity management process*, we must ensure that it's your current process constraint. If your salespeople are currently conducting less than three or four appointments a day — and if you don't have a rising backlog of sales opportunities — then your *opportunity management process* is not the constraint.

Accordingly, you need to focus your process improvement efforts elsewhere.

Specifically, you need to work on the upstream components of your sales process to increase the flow of sales opportunities.

(Our article on Relationship-centric Marketing explains how to build the process components you need to generate a predictable and scalable source of sales opportunities.)

## Where are the sales?

Once you have a scalable source of sales opportunities, your sales will go up, right?

Yes and no!

As you increase the opportunity flow, your sales will initially rise. However, as the opportunity flow continues to increase, you will reach a point where your sales volume levels out (and your conversion rate begins to drop).

Once you reach this point of diminishing returns, you'll know that your process constraint has shifted. Yesterday, your process output was constrained by a lack of sales opportunities. Today, it is constrained by a lack of resources in your *opportunity management* process.

It's now time to focus our attention on your *opportunity management* process.

## Multitasking: productivity's public enemy #2

If your opportunity management process is under-resourced, the solution is to employ more salespeople, right?

Not necessarily!

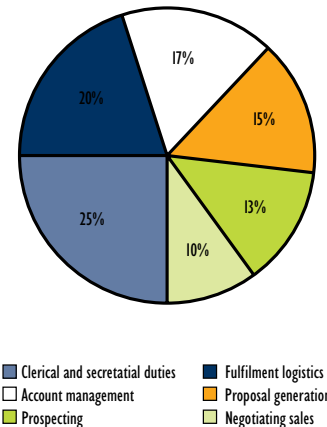
I'd recommend you first perform a *time and motion* study on your existing salespeople.

When you do, calculate the percentage of your salespeople's time that is devoted to each of the following activity categories:

- > **Clerical and secretarial duties.** (Data entry, literature fulfilment, report preparation, appointment scheduling, routine follow-up calls etc.)
- > **Account management.** (Routine 'customer service' visits and order collection.)
- > **Proposal generation.** (Preparing quotations and generating proposals.)
- > **Prospecting.** (Generating sales opportunities.)
- > **Fulfilment logistics.** (Liaison between clients and the production department and expediting client orders through production.)
- > **Negotiating sales.** (Negotiating sales with near-term sales opportunities.)

My guess is that your end result will look something like the following.

## Salesperson's time Allocation



This pie chart would illustrate that your salespeople are devoting only a small percentage (10%) of their time to *negotiating sales*.

We would argue that this activity is the highest-leverage use of their time.

The other 90% of their time is devoted to activities that could (and should) be delegated to other less-skilled and lower-paid individuals (or to organisational systems).

An additional problem here is that, instead of focusing on one activity, salespeople are sharing their time between six activities, each of which requires a different skill set and different resources.

This is multitasking at its worst!

Goldratt (the developer of the *Theory of Constraints*) claims that cost accounting is productivity's *public enemy number one*. Well, if he's right, and we believe he is, multitasking has got to be *public enemy number two*.

Our experience is that the productivity of individuals decreases geometrically as they take on each additional task.

Our estimate is that this decrease in productivity is equal to the *square root of the number of disparate activities*. In other words, conducting six activities concurrently will take two-and-a-half times longer than performing these same activities sequentially!

As a result, when you divest your salespeople of low-leverage activities, the productivity of your *opportunity management* process increases dramatically.

Almost certainly, you will discover that you will not need to employ more salespeople for quite some time.

Of course, the pressing question is, who should be responsible for what?

### Sales: a process, not a black art

To me, the suggestion that a salesperson should sell, does not seem like a radical one. I'm sure if I suggested to a manufacturer that his lathe operator should operate a lathe, he'd be quite comfortable with that idea!

The reason why managers have historically expected salespeople to be responsible for the entire sales process is that sales has never really been a process, in the true sense of the word.

Traditionally, the sales function has been the least scientific, least measurable, least predictable and least manageable corporate function.

As a result, responsibility for the entire function has been handed to these strange, unpredictable, (and sometimes, dare I say it, unsavoury) individuals we call salespeople.

Salespeople, understandably, have been happy to perpetuate the perception of sales as a *black art*. Their *ownership* of the entire sales function puts them in a position of enormous power. (Many sales people regard *their* client list as an asset that can be auctioned off to the highest bidder!)

That, however, is ancient history (or at least it should be). Today, we know that sales is a process. As a result, there's no reason why we shouldn't break that process into its core activities, and match each activity with an appropriate resource — just as we would in the case of a manufacturing process.

We've started by looking at your salespeople because they are your scarcest (most expensive) process resource.

To maximise your return on your salespeople's *time* (of course, time is a salesperson's unit of capacity) your salespeople should ideally do nothing other than conduct appointments with near-term sales opportunities (individuals who have indicated a propensity to purchase).

We recommend that you separate the account-acquisition and the account-management functions.

This is because account acquisition is a higher-leverage use of a salesperson's time.

If possible, your most skilled salespeople should be responsible for account acquisition.

If you must have the same salesperson performing both account-acquisition and account-management appointments, to minimise multitasking, we suggest you split these appointments between different days of the week. (For example, you might schedule account-management appointments on Monday, Wednesday and Friday; and account-acquisition appointments on Tuesday and Thursday).

It should be possible for your salespeople to conduct between three and five sales appointments a day. (Contrast this with your salespeople's current activity levels.)

### Account management

We see considerable amounts of salespeople's valuable time squandered in the name of account management.

Most account-management activities are either unnecessary or ineffective.

A classic example is the scenario where a salesperson spends his time conducting what the Americans call doughnut runs. A *doughnut run* is where a salesperson spends all day visiting existing clients with no apparent motive other than the delivery of doughnuts!

Your account-management activities should be planned in line with the only two sensible objectives of this function:

- > Extending service utilisation (increasing share-of-customer).
- > Procuring repeat orders.

Obviously, extending service utilisation is the highest-leverage activity. The procurement of repeat orders should be handled by customer service personnel (preferably telephone-based).

Where possible, your relationship with clients should be structured in such a way as to facilitate both the procurement of repeat orders and the extension of service utilisation.

To facilitate the procurement of repeat orders, you might agree to provide products on an *automatic replenishment* basis. Alternatively, you might provide clients with an attractive incentive to sign a service contract.

**Traditionally, the sales function has been the least scientific, least measurable, least predictable and least manageable corporate function.**

To extend service utilisation, it is desirable to have your salespeople provide a consultative service to your clients. This service should be designed to assist your clients with the attainment of *best practice* — as defined by methodology that underpins your *basis for communication*. (See our article entitled *The importance of getting religion*.)

- > All data entry (including the completion of contact reports).
- > Campaign management.
- > Literature fulfilment.
- > Appointment scheduling.
- > Preparation of proposals.
- > All routine follow-up calls.
- > Report generation.

If the objective of your salespeople's account-management activities is to extend service utilisation, it's essential that any performance metrics (and incentives) reflect this objective.

We frequently hear managers complain that their salespeople are happy to live on the commissions generated by their existing client bases.

Well ... can you blame them? The question that must be asked here is: why are salespeople paid commissions on repeat sales from existing clients, when the procurement of repeat sales is a low-leverage activity?

Our suggestion would be to pay commissions for:

- > The acquisition of a new client.
- > The extension of an existing client's utilisation of your service.

In each case, incentives can be calculated based upon the projected net present value of the new annuity income stream.

### Sales support

Obviously, your salespeople need some organisational support if they are to conduct between three and five appointments a day.

We typically divide responsibility for this support between two roles. (In smaller organisations, these roles may be assigned to the one person.)

#### Sales coordinator

The sales coordinator is responsible for managing the sales process as a whole (just as your production manager manages your manufacturing or fulfilment process).

They typically provide salespeople with support in the following areas:

#### Production coordinator

The production coordinator provides an interface between your clients, your sales team and your production manager.

They have access to both your client database and your production system. They are responsible for negotiating the scheduling of jobs with your production manager — eliminating the common (and counter-productive) situation where each salesperson attempts to hustle his or her own jobs through the production system!

The production coordinator provides salespeople with the following support:

- > Generation of quotations.
- > All production-related client liaison.
- > Receipt of repeat orders (in low-volume environments).
- > Feedback on clients' order status (where necessary).

### The single point of contact myth

Whenever we suggest sharing salespeople's low-leverage activities between sales and production coordinators, we hear the same objection. 'But, wouldn't our clients rather have a single point of contact?'

The answer, at least in practice, is no, they wouldn't!

Our experience is that clients appreciate being able to have direct access to individuals who can provide the service or the information they require *on the spot*. (Unless your salespeople are grossly under-utilised, they are never capable of providing this degree of accessibility.)

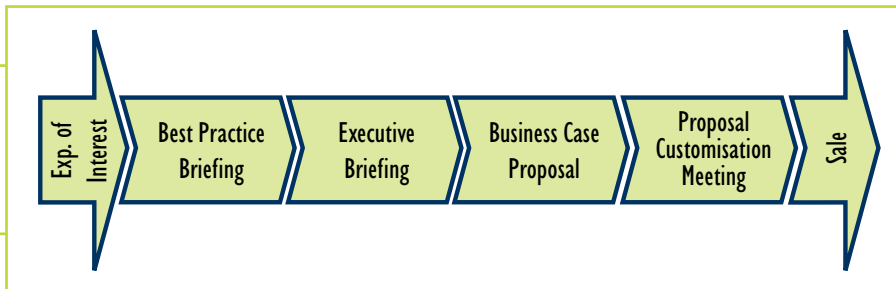
The fact is, clients will favour a highly efficient (low friction) interface with your organisation — even if that interface involves dealing with two or more individuals.

## Process design

Before you can divest your salespeople of these low-leverage activities, you must ensure that your *opportunity management* process is, in fact, a process — as opposed to an unplanned sequence of ad hoc client contacts.

It will take some experimentation to design the optimal process. However, any process is better than no process at all.

The diagram below pictures the Ballistix opportunity management process.



Aside from enabling the divestment of low-leverage activities, a structured opportunity management process provides the following significant benefits:

- > Increase opportunity flow (compress time between *expression of interest* and sale).
- > Eliminate dropped opportunities.
- > Enable forecasting (monthly sales projections).
- > Continual improvement (identify and elevate constraints).
- > Provide potential clients with a structured decision-making process.

## Managing the opportunity management process

As indicated above, a structured opportunity management process enables management (continual improvement).

We suggest you manage your *opportunity* management process using what we call an *open opportunity report*, similar to the one pictured right.

An open opportunity is an opportunity under management, as opposed to an opportunity that has been won, lost, abandoned or suspended.

The most important information on this report is the *total weighted opportunities* and *average days open*.

*Total weighted opportunities* refers to the total dollar value of *open opportunities*, discounted for the probability of winning each sale. This probability weighting is determined by location of each opportunity in your process. You can calculate this weighting by examining your historical data.

*Average days open* enables you to monitor the rate at which opportunities are moving through your process.

On this report, source refers to the source of the opportunity, not the source of the relationship. It is likely that most opportunities will be generated by your *relationship management* activities (e-mail newsletters and events) or by *utilisation extension* campaigns directed to existing clients.

## Process optimisation

As with all processes, you should manage your *opportunity management* process for consistent output — and not for month-to-month *stretch* targets.

Contrary to popular belief, sales quotas, pep talks and internal sales promotions are counter-productive in the long term.

These activities simply time-shift the emergence of sales — producing an unnecessarily lumpy sales curve.

Of course, a lumpy sales curve reduces the efficiency of your other organisational processes and makes it harder for your suppliers to forecast your inventory requirements.

These activities can also be damaging to client relationships. They result in channel loading and depressed conversion rates, as salespeople attempt to fast-track the closure of opportunities.

Your optimal sales volume will be determined by either your production (or fulfilment) capacity or by the capacity of your *opportunity management* process, whichever is the lesser.

## Optimal conversion rate

By now you should have realised why 100% is unlikely to be your optimal conversion rate.

It's far easier to increase process output (sales) by focusing on improving volume, than it is by attempting to increase conversion rates.

Ironically, almost every sales improvement initiative we come across focuses on improving conversion rates.

These initiatives include:

- > Sales training (your salespeople don't need sales training, they need sales opportunities).
- > Software (your salespeople don't need *sales force automation* software — they're salespeople, not clerks — data entry should be someone else's job).
- > Motivational seminars and team-building workshops (if your salespeople have a productivity problem, multitasking's the most likely culprit, not poor motivation).

If you show me an organisation with a conversion rate approaching 100%, I'll show you a sales process with a volume problem!

### Managing change

By now, you're probably wondering what your salespeople will think of this process-oriented approach. How will

you be able to convince them to relinquish control of the *opportunity management* process?

The short answer is, don't try!

It's far easier to drive change by giving than it is by taking. If you initially focus on increasing the flow of sales opportunities to your *opportunity management* process, your salespeople will reach a point where they're crying out for assistance.

Once they realise that they're grossly under-resourced they'll be happy to divest some of their low-leverage activities — in exchange for a calendar full of appointments.

When your salespeople are each conducting three to five appointments a day, five days a week, they will have reached their optimal earning capacity.

The benefits for you are obvious. As well as a significant increase in process output (sales), you have decreased your dependence on individual salespeople. You now have a sales process that can be precisely managed — and rapidly scaled.

**If you show me an organisation with a conversion rate approaching 100%, I'll show you a sales process with a volume problem!**

## Open Sales opportunities

Company	Date Opened	Target close	Days open	Source	Objective	Salesperson	Dollar Value	Stage	Probability	Weighted value
Banksia Pty Ltd	4-Oct-01	10-Feb-01	62	eBulletin 5	Consulting	Jeff	\$15,000.00	Exp. of interest	10%	\$1,500.00
Burns Consulting	15-Oct-01	18-Nov-01	51	Seminar 3	Software	Belinda	\$10,000.00	Inst. to proceed	90%	\$ 9,000.00
Illusionary Concepts	16-Oct-01	5-Dec-01	50	eBulletin 6	Consulting	Denise	\$ 15,000.00	Req. proposal	30%	\$ 4,500.00
No. of opportunities 3		Avg. days open 54		Total opportunities		\$40,000.00	Total weighted opportunities		\$15,000.00	

## How to build an objective management structure for your sales process

Imagine you were to awaken one morning suffering from a strange disorder: one that rendered your eyesight unreliable.

When you open your eyes, your bedroom appears roughly as it did the night before. Your bed is below the open window, and your dresser is still adjacent to the door.

However, a second look reveals that the curtains that normally hang above your windows are missing. As is the painting that normally hangs, slightly crooked, on the wall facing your bed.

What's more, you notice some strange additions to your bedroom furnishings. A plaster bust now dominates your dresser. And an empty hat rack leans precariously against your bed head.

As you rise and navigate your way around your bedroom, you discover that your memory provides the accurate version of reality. In spite of the information tendered by your eyes, your curtains still hang above your open window, and your painting still adorns the wall adjacent to your bed. Your sense of touch confirms that there is no plaster bust on your dresser, and that the hat rack is also a mirage.

You only have to spend a day in a typical marketing or sales department to discover that this scenario is analogous to the environment in which management operates.

Various reports and performance indicators (both formal and informal) provide glimpses of reality. However, this feedback falls short of delivering the accurate and complete view that managers need in order to be truly effective.

When hobbled with an incomplete and unreliable view of reality, managers' activities are, at best, inefficient and risk-adverse. At worst, managers unknowingly engage in activities that are harmful to the organisation as a whole.

Hence the need for an objective management structure!

### Reality

By definition, reality must be the starting point for an objective management structure.

Without the ability to accurately perceive reality, measurement and, accordingly, management is impossible.

Of course, the concept of measurement presupposes something to measure.

This means that the ability to perceive reality is not enough. We need also to determine upon what aspect of reality we should focus.

It is perhaps self-evident that our focus must be determined by our goal. After all, a measurement out of context with a goal is just a number (data, not information).

If your goal were to drive from Sydney to Darwin, your current location, speed and direction of travel are information; the weather in Perth is data.

For this reason, the most critical step in designing an objective management structure is defining your goal.

I've had many managers assure me that this is also self-evident:

Marketing managers tell me that it's their goal to generate sales opportunities.

Sales managers advise me that their goal is to generate sales.

In each instance, managers forget that the processes they manage are part of a larger system. As a result, they fail to recognise that their goal must be subordinated to the goal of the system.

### One system, one goal!

For simplicity, let's define a system as a set of interdependent processes.

A fine example of a system — one with which we're all familiar — is an internal combustion engine (pictured over).

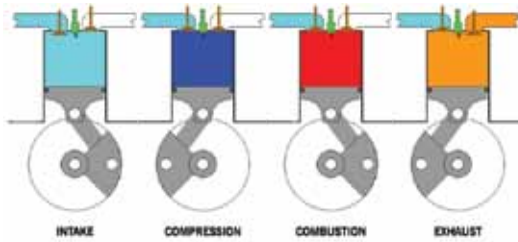
As you no doubt know from your experience with this particular system, the goal of the internal combustion engine is to generate torque (rotational force).

As depicted, this system consists of four processes:

1. **Intake** (a mixture of fuel and air is drawn into the cylinder).



## Internal Combustion Engine



2. **Compression** (this mixture is compressed by the rising piston).
3. **Combustion** (the fuel/air mix is ignited by the sparkplug).
4. **Exhaust** (the resulting exhaust gasses are expelled from the cylinder).

Now, consider this question for me:

If you were the sparkplug in this system, what would be your goal?

- > Would it simply be to generate sparks (as many as possible)?
- > Or would it be to generate (a set quota of, say) 10 sparks a second?

Of course, neither answer is correct.

Your goal could only be expressed in terms that recognise the relationship between your activities and the goal of the system.

Accordingly, your goal would be something like the following:

To produce a spark at the top of each compression stroke.\*

If your goal must be subordinated to the goal of the system, it's essential for us to identify your organisation's goal.

### Why does this organisation exist?

Whenever I ask this question of a seminar audience, I get a range of answers:

- > Some managers claim that their organisations exist to manufacture widgets.
- > Others explain that their organisational goal is produce happy customers.

- > Others try and cover all bases with statements that reference the organisation's relationship with all stakeholders (shareholders, staff, the community, the goldfish in the corporate pond etc.)

In each instance, managers are confusing the *goal* of their organisations with *necessary conditions*.

The goal of any commercial organisation is, by definition, to make money.\*\* Necessary conditions are the conditions that must be present to enable this goal to be achieved.

While the idea that the goal of a commercial organisation is to make money may initially cause managers some discomfort (believe me, it does), it also provides the clarity we need to start to piece together our objective management structure.

### Unravelling organisational complexity

As our internal combustion example illustrated, all goals at a process level must reflect the contribution that the process makes to the goal of the system as a whole.

Unfortunately, organisations tend not to be as simple as our little engine.

In fact, one of the greatest challenges faced by managers is the requirement to understand the interaction between multiple organisational processes.

As has been explained in recent editions of AdVerb, this challenge has been greatly simplified by *Goldratt's Theory of Constraints* (TOC)\*\*.

In short, TOC recognises that the output of any system is determined by the system's constraint (or bottleneck). It also points out that:

- > Every system has a constraint (if it didn't, output would be infinite).
- > At any one point in time, every system has only one constraint.
- > A stable system is one where the constraint remains in one location.

\* *Technically, the sparkplug produces a spark fractionally before the top of the compression stroke.*

\*\* *Goldratt (whose work has had a significant impact on the thinking behind this article) explains that the goal of a business is to make money, now and in the future. I would argue (as, in fact, does he) that the latter part of this statement is redundant (we're all accustomed to recognising the value of future revenues). To learn more of Goldratt's work, begin by reading The Goal.*



- > Because the constraint is the sole determinate of system output, every management decision should reference the constraint.
- > The investment of resources in any non-constrained process or activity will produce absolutely no return (contrary to the assumptions that underpin cost accounting).

An understanding of TOC enables a manager to ignore organisational complexity when making decisions, and simply consider the impact that the options under consideration will have on the system's constraint.

Now, because the goal of the organisation is to make money, when we're discussing system output, what we're really talking about is *money*. And when we're discussing the system's constraint, our consideration is the flow of money at the constraint.

TOC practitioners use a simple formula to express this concept:

$$\text{Flow of Money} = \text{Throughput} / \text{Available Constraint Units}$$

*Throughput* (T) refers to revenue minus totally variable costs (true gross profit).

*Available Constraint Units* (ACU) refers to the number of units of constraint that are available over the period of consideration. (If the constraint is a machine, the Constraint Unit is likely to be time-based. If the constraint is a salesperson, the Constraint Unit will be an appointment slot.)

As we've established, the goal of every process within our organisational system should reference the organisational goal: maximising the flow of money at the system's constraint (or T/ACU).

Let's pause now, for a practical example.

### A two-process organisational system

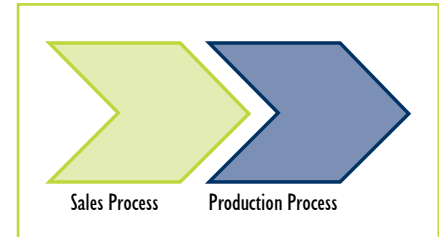
Consider the simple organisation pictured above.

If we assume that the constraint in the organisation above is in the production process, what is the goal of the sales process?

Is it to produce as many sales as possible?

Obviously not!

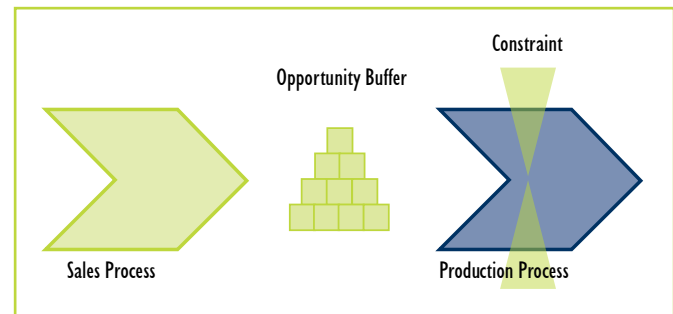
The sales process should produce enough sales to ensure that the production process operates at peak capacity, all the time. To produce more sales than this would waste resources (and annoy the marketplace).



But, that's only the half of it.

If the production process is constrained, the sales process should also produce the kind of sales that are going to deliver the greatest return on the Constraint Units consumed.

Here's the solution:



System Goal: maximise T/ACU (measured at point of sale).

Production Process Goal: maximise T/CU (measured at point of sale).

Sales Process Goal: maintain a production buffer of optimal size (x days' worth of unstarted work in progress). Maximise the value of the production buffer (T/CU).

To translate this into plain English:

The goal of our simple organisation is to maximise the yield (Throughput) it gets on its Available Constraint Units. (Because the output of a system is determined by the system's constraint, this is equivalent to saying that the goal of the organisation is to make money.)

The goal of the production process is to maximise the yield it earns on every Constraint Unit it consumes.

The goal of the sales process is to:

- > Maintain a buffer (or inventory) of unstarted work in progress (or orders) of an optimal size. If this production buffer is too small, there is a risk that the production process may sit idle from time to time. If it is too large, this indicates that the sales process is wasting resources that would be better deployed at the constraint.
- > Maximise the value of the production buffer. The value of the buffer is the total Throughput that the buffer represents, divided by the number of Constraint Units that will be consumed to realise this Throughput. The inference here is that not all Throughput dollars are equal in this scenario. The sales process must focus on winning the sales that produce the greatest yield on the scarce Constraint Units.

### The sales process dissected

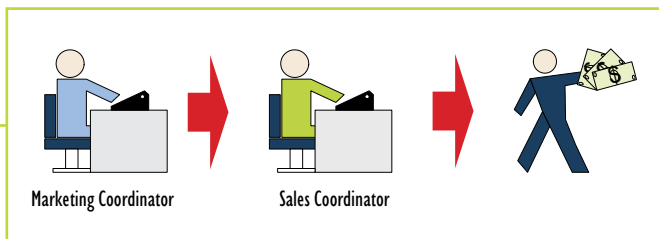
We have now accumulated all the theory we need to apply our focus to the sales process.

I'm going to assume for simplicity's sake (and because it is often the reality) that your system constraint is your sales process. In other words, I'm assuming that your production process can handle all the sales that your sales process produces (at least for the duration of this discussion).

Because we're now shifting our focus from the system (which is a collection of processes), to one particular process within that system, we're now going to have to think at a more granular level.

Our interest now shifts from determining which process is constrained to determining the exact location of the constraint within the constrained process.

Let's consider a simple sales process (designed around Relationship-centric guidelines), containing three personnel:



The basic responsibilities of each person are:

- > Marketing Coordinator. Producing sales opportunities.
- > Sales Coordinator. Managing the salesperson's diary.
- > Salesperson. Negotiating transactions.

Before we even attempt to manage this process, we need to determine exactly where the constraint is.

Now, the nice thing about operating at this level of granularity is that you get to choose! At this level, it's quite easy for you to shift resources around to ensure that the constraint is exactly where you want it to be (and to ensure that it stays there).

If you consider that, in any process, by definition, it is only the constraint that operates at 100% capacity, ask yourself, who in the process above would you least like to be idle?

It's obvious, isn't it?

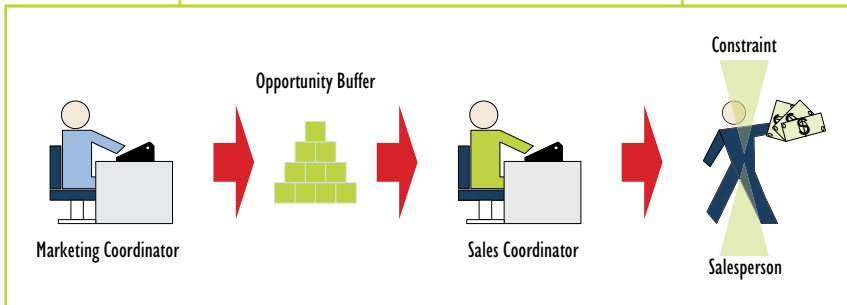
You would like your salesperson to be operating at 100% capacity, all the time. This is because your sales process will generate a greater flow of Throughput when your salesperson is fully utilised than it will when either your sales or marketing coordinator is flat-out (and your salesperson has idle time).

If you want to ensure that your salesperson is the constraint (and stays that way), you simply over-resource the marketing coordinator and the sales coordinator. In practical terms, this means ensuring that they never have to operate at full capacity (at least where their critical tasks are concerned).

As we did in our previous example, we're going to take one more precaution to ensure that the constraint stays put.

We're going to build an inventory (or buffer) of unallocated sales opportunities to ensure that the salesperson never has to sit idle.

**An understanding of TOC enables a manager to ignore organisational complexity when making decisions, and simply consider the impact that the options under consideration will have on the system's constraint.**



Let's look now at each of the personnel operating within the sales process.

The salesperson's goal should be to maximise his Throughput per appointment slot consumed (or Throughput / Appointment). It's worth noting that the salesperson's goal is not simply to maximise Throughput, nor is it to maximise his conversion rate. Each of these goals is likely to result in behaviour that is sub-optimal in the

context of the system as a whole.

The sales coordinator's goal is to keep the salesperson fully utilised. In other words, it is her responsibility to ensure that every available appointment slot is filled. (An empty appointment slot represents an opportunity cost equivalent to the average Throughput / Appointment).

As you've no doubt guessed, the marketing coordinator is responsible for both the size and the quality of the opportunity buffer. The buffer should be maintained at its optimal size (measured in days' worth of appointments). It should also be composed of opportunities that are likely to yield the highest Throughput / Appointment.

Now that we have established an objective (and systemically congruent) goal for each person in our sales process, performance indicators are pretty much self evident:

### Management just got easier

Well there it is: an objective sales process management structure!

Each person's goal (and the accompanying performance indicator) is congruent with the goal of the system as a whole — and, accordingly, is reality based.

Each performance indicator is quantitative, rather than qualitative, meaning that no subjective *interpretation* of results is required.

Each person has only one or two performance indicators (one is optimal),

The resulting process is pictured above:

Now, let's apply the same logic to this sales process that we applied a moment ago to our simple organisational system.

We should first remind ourselves that the sales process pictured above is part of a larger system — the business as a whole.

We already know that the goal of that system is to make money.

We also know that the money that the system makes is determined by the organisational constraint, which happens to be the salesperson.

The salesperson's Constraint Unit is an appointment slot.

Accordingly, the goal of the system as a whole is to maximise T/ACU (or Throughput / Available Appointment Slot).

Now, if we shift our focus to the sales process, it is obvious that the goal of the sales process must be the same as the goal of the system. (The sales process is the constrained process.)

Function	Goal	Performance Indicator
Sales Process	Maximise yield on Salesperson	Throughput / Available Appointment Slot
Salesperson	Maximise yield on Appointments	Throughput / Appointment
Sales Coordinator	Ensure salesperson is fully utilised (Optimal Utilisation is 100%)	% of Optimal Utilisation
Marketing Coordinator	Maintain opportunity buffer at optimal size Maximise value of opportunity buffer	% of Optimal Days $\sum \{Throughput / Appointment Slots \times Probability\}^*$

\*  $\sum$  means sum of. Throughput, Appointment Slots and Probability are all estimates. Probability refers to the probability of your converting that opportunity.

meaning that there is no confusion as to what she should be doing, and how she will be judged.

Each person is likely to have a clear understanding of the contribution she makes to the success (or otherwise) of the system as a whole. As well as being good for morale, this discourages the development of political factions.

### Creating a productive environment

As I'm sure you've already realised, an objective management structure will make an enormous contribution to organisational productivity.

However, there are three more initiatives we recommend you implement in order to create a truly productive environment.

- > **Use run charts.** It's one thing to allocate a performance indicator to a team member. It's another to find a way to use this information to positively influence her behaviour. If you remind yourself that a performance indicator is just feedback from the system, the solution is obvious: plot it on a graph. Better still, have each team member plot her performance indicator on a run chart. An example of a run chart follows. This was generated within Excel, however, traditional plotting paper does as good a (and some would argue, better) job.
- > **Eliminate budgets and bonuses.** Managers traditionally have attempted to motivate their teams with a cocktail of artificial stimulants. Budgets, bonuses, performance reviews, quotas and management exhortations are tactics invented by management to cope with the lack of an objective management structure. You'll find that, if you simply pay your team members what they're

worth — and have each discuss his or her run chart at a weekly management meeting — your requirement for these artificial stimulants will rapidly dissipate.

- > **Replace the word maximum with optimum.** In this discussion I have taken a shortcut (for the sake of simplicity) and allowed myself to use the word maximum on a couple of occasions. I've referred to maximising the yield on the constraint and to maximising the value of the opportunity buffer.

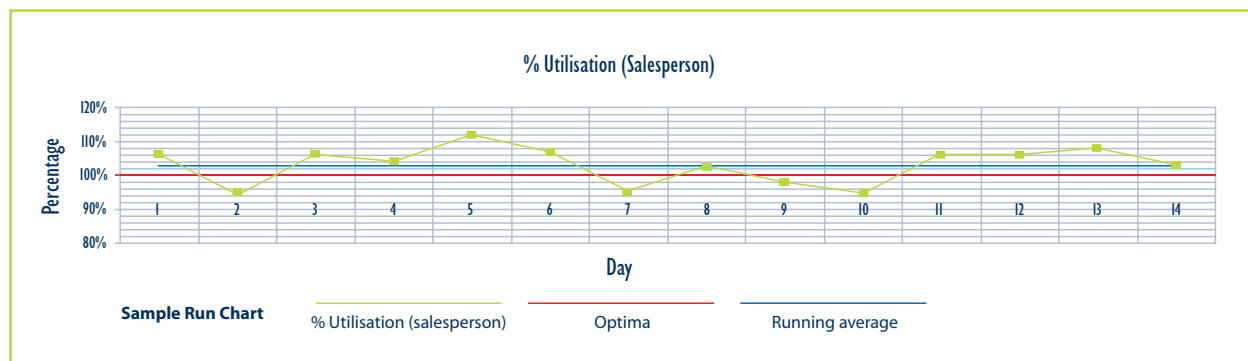
My preference is, in both cases that you replace the word maximise with optimise.

We've already discovered that every process (and system) is constrained. What this means is that, if you scale a process, you will eventually reach a point of diminishing returns.

In the case of maximising the yield on the constraint, you may find the constraint moves (which is generally undesirable), or that your ability to grow your business is constrained (it takes time to recruit and train new staff).

In the case of maximising the value of your opportunity buffer, you're likely to find that, past a certain point, increased promotional costs are likely to overwhelm any increase in opportunity value.

Now, in both instances, it will take some experimentation to determine those optimas. However, in the short term, I suggest you aim only for incremental improvements in these (and similar) situations. From a systemic perspective, it is far healthier to aim first for stability, and second for incremental improvement, than it is to set stretch goals. (The latter approach is guaranteed to wreak havoc elsewhere in the system.)



## Opportunity Management: a glossary of terms

Because Opportunity Management is the component of the sales process in which the salesperson's time is invested, it is critical that this component (sub-process) is managed with precision.

Management precision necessitates clear and unambiguous terminology.

Accordingly, it's appropriate that we put opportunity management terminology under the microscope.

### Sales opportunity

A sales opportunity is a potential sale, to which a salesperson's time is being applied. This sale could consist of a single transaction, or it could consist of a longer-term relationship subsuming many smaller transactions (each of which can also be regarded as a sales opportunity).

A sales opportunity can relate to a potential client or to an existing client.

A sales opportunity has the following preconditions (in the absence of any of these preconditions, it should not be considered a sales opportunity — and, accordingly, a salesperson's time should not be applied to it):

1. An objective
2. A value
3. A strategy

In line with the definition of sales opportunity above, if we choose to apply a salesperson's time to a potential client, we deem that potential client to be a sales opportunity.

Accordingly, at that point, we use our best guesses to fulfil the three preconditions above. If, at the first appointment, the salesperson discovers that there is, in fact, no opportunity, the opportunity is simply abandoned. (This approach contrasts with standard practice, where a salesperson attends an initial appointment to determine whether or not there is a sales opportunity.)

### Opportunity management

Opportunity management is the process of (project) managing a sales opportunity from its inception through to its closure. (A sales opportunity is closed when it is won, lost or abandoned.)

The objective of the opportunity manager (typically a sales coordinator) should be to progress the opportunity through the steps determined by the designated strategy so as to close the opportunity in the minimum time possible. (As debts, sales opportunities reduce in value as they age.)

### Objective

The objective of a sales opportunity describes that which you are attempting to sell. In an environment where there are multiple objectives (product lines), it is common for each objective to be assigned a standard strategy and a standard value.

### Strategy

A strategy consists of a standardised sequence of steps designed to produce the greatest yield on the salesperson's time. (Obviously, it doesn't make sense to design a strategy to maximise the probability of a win without regard for the load on the salesperson's time.)

A strategy is analogous to a project plan.

Where major transactions are concerned, it is appropriate for the customisation and approval of the strategy to be one of the initial steps in the strategy itself.

### Steps

Steps are the activities that make up a strategy. Accordingly, they are analogous to tasks within a project plan.

Steps typically consist of appointments (of various types) as well as the preparation of proposals, feasibility studies and similar.

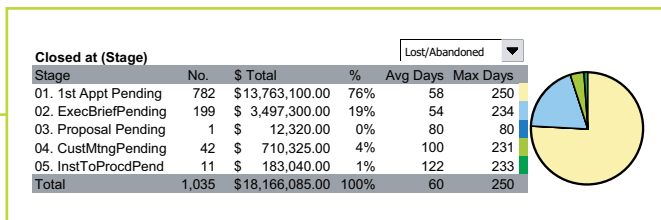
### Stage

Stage references the location of a sales opportunity within the designated strategy. Accordingly, a stage is analogous to a milestone in project management parlance.

In a simple sales process, the terms step and stage may be synonymous. However, in a complex process, the treatment of each step as a milestone is likely to introduce an unwarranted degree of complexity.

An opportunity's stage is used to determine probability. Specifically, each stage will have a probability associated with it, where that probability represents the probability of a win, calculated from historical data. (Probability should not, under any circumstances, be assigned to opportunities on an arbitrary basis.)

We do not treat the outcome of an opportunity as a stage. This is because an opportunity may close before it has navigated all of the strategy's steps. (As illustrated below, it makes sense to record the stage at which opportunities are closed because this intelligence may assist with the fine-tuning of the relevant strategy.)



Stages are named by adding the word pending to the name of the subsequent (critical) step in the strategy.

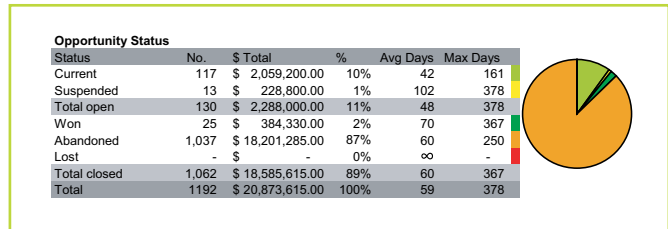
The following is an example of a typical set of stages. These are the stages referenced in the diagrams appearing throughout this article. (The percentage figure associated with each stage is the probability used in Opportunity Pipeline diagram that appears later in this article):

1. Best-practice Briefing (first appointment) Pending (8%)
2. Executive Briefing Pending (20%)
3. Proposal Pending (25%)
4. Proposal Customisation Meeting Pending (30%)
5. Instruction to Proceed Pending (80%)

### Status

Status references the current standing of a sales opportunity. There are two levels of status. At the first level, an opportunity can be either open or closed.

At the second level, an open opportunity can be current or suspended; and a closed opportunity can be won, lost or abandoned.



### Open

An opportunity that is in progress (pending closure).

### Closed

An opportunity that has been completed (it requires no further action).

### Current

Current refers to an opportunity that is being actively managed. Sometimes the term in progress is used in place of current.

### Suspended

Suspended refers to an opportunity that is open, but that does not require action at this point in time. An opportunity can only be suspended if it is, in fact, a concrete opportunity (possessing all of the preconditions referenced earlier). If there is no concrete opportunity (but merely the possibility of a one materialising at some point in the future), the opportunity should be abandoned, and a new one opened when appropriate.

While there is admittedly no logical reason to suspend an opportunity (it's either current, or it's not) we use this status to eliminate opportunities that don't require short-term attention from sales coordinator's to-do lists.

### Won

An opportunity is typically won at the point it becomes an irrevocable sale.

In some instances, a win might not require a monetary transaction. For example, if the objective of the opportunity is to induct a reseller into a Premium Partner Program, the win might be signified by the signing of a Memorandum of Understanding.

### Lost

An opportunity is lost when an action on the part of the potential client renders it impractical for you to devote more resources to the opportunity (e.g. they purchase from your competitor or they elect not to purchase at all)

## Abandoned

An opportunity is abandoned when either:

1. A lack of action on the part of the potential client renders it uneconomic for you to devote more resources to the opportunity (the opportunity has aged to the point where it is more economic for you to invest your resources in other opportunities.)
2. You determine that you do not want to win the opportunity. This might occur when your fulfilment resources are scarce — and you can earn a better return on them elsewhere.

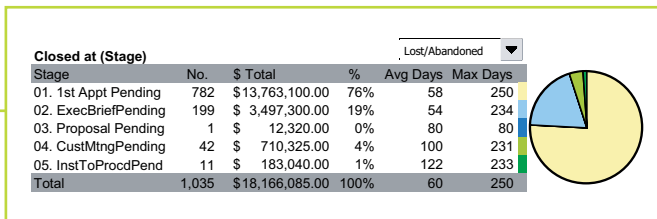
## Opportunity pipeline

The term (opportunity) pipeline refers to the queue of open sales opportunities. A pipeline report indicates the number (and the dollar-value) of sales opportunities at each stage in the opportunity management process.

Generally speaking, a pipeline is healthy when there is an inverse relationship between the number of opportunities at each stage and the probability associated with each stage.

For simplicity, this relationship is usually expressed by multiplying the total value of the opportunities at each stage by the probability associated with that stage. Accordingly, the pipeline is healthy when the discounted value of each stage is roughly equal.

This is illustrated in the following example. As the pie chart indicates, the discounted value of each stage is roughly equivalent. (The % column in this example expresses the discounted dollar values as a percentage of the total — not the probabilities. Because the optimal duration of the associated step is zero days, it is appropriate for there to be no opportunities at the Proposal Pending stage).



## Value

Value refers to the financial contribution that the opportunity will make to your organisation if it is won.

Our preference is that value expresses the Throughput (or pure gross profit) of the opportunity (and not its gross revenue).

If the win results in an ongoing revenue stream, it makes sense to express value as the net present value (NPV) of that annuity. (This calculation is pictured below for a series of \$5,000 purchases over a three-year period. Obviously, both of these figures are likely to be estimates.)

Monthly Revenue	Totally Variable Costs	Throughput	No. of Purchase	Discount Rate
\$5,000.00	40%	\$2,000.00	36	12%
<b>Net Present Value</b>				<b>\$60,817.16</b>

It is redundant to preface the term (opportunity) value with the words probable or potential. This is because the word opportunity already implies probability.

## Discounted value

Discounted value refers to the value of an opportunity, discounted for the probability associated with the opportunity's current stage.

Discounted value can be used (along with the expected close date) to make sales projections only in high-volume environments. To claim (as many sales managers do) that a single \$250,000 opportunity with a probability of 50% represents future revenue of \$125,000 is clearly fallacious!

Discounted value is far more useful for calculating the relative value of opportunities.

## Relative value

Relative value indicates the ranking of a current opportunity, with respect to other current opportunities.

Relative value is used to arrange opportunities into a logical order, based upon the relative return expected on a salesperson's time (an appointment slot).

The easiest way to understand the concept of relative value is to imagine that you are a sales coordinator, responsible for programming appointments into a salesperson's diary.

You want to program these appointments so as to maximise the yield on that salesperson's time. Accordingly, you need to be able to sort current opportunities in descending order of relative value, and then allocate appointments in this order.



We typically use the following formula to calculate relative value:

$$\text{Relative Value} = \frac{\text{Value} \times \text{Probability}}{\text{Days Open}}$$

As is obvious from this formula, the relative value of an opportunity increases as it progresses from one stage to the next — but it decreases the longer it is open.

It's important to note that the figure returned by this formula is a relative ranking — not a dollar figure.

The extract below from the tool typically used by our sales coordinators to programme salespeople's appointments shows this formula in action.

### Opportunity Source

The term source in this context refers to the origin of the sales opportunity.

Specifically, source refers to the promotional activity that generates the opportunity.

It is important not to confuse opportunity source with relationship source. (The latter refers to the origin of the relationship with a contact.)

In many cases, the first opportunity that is attached to a contact will share the same source as the contact itself. Subsequent opportunities, however, will each have their own source.

It is essential that a source is allocated to every opportunity. This enables you to monitor the effectiveness of your promotional (relationship-acquisition and relationship-management activities).

### Appointment

An appointment is a meeting between a client (or potential client) and a salesperson, performed with the express purpose of progressing a sales opportunity.

Because the appointment is the sales process's unit of constraint, we are very particular about what is (and what isn't) an appointment.

Accordingly, any client meeting conducted without a clear and obvious objective does not qualify for the term appointment. (This includes account-management visits with no fixed agenda.)

As mentioned previously (see sales opportunity), an appointment pre-supposes a sales opportunity; and a sales opportunity pre-supposes an objective, a value and a strategy.

Status	Client ID	Objective	Throughput	Stages	%	Days Open	Relative Value
Current	Client1	Business Case	\$ 17,600	05. InstToProcdPend	80%	36	14,080
Current	Client2	Business Case	\$ 17,600	04. CustMtngPending	30%	35	5,280
Current	Client3	Business Case	\$ 17,600	04. CustMtngPending	30%	43	5,280
Current	Client4	Business Case	\$ 17,600	04. CustMtngPending	30%	49	5,280
Current	Client5	Business Case	\$ 17,600	03. Proposal Pending	25%	46	4,400
Current	Client6	Business Case	\$ 17,600	02. ExecBriefPending	20%	43	3,520
Current	Client7	Business Case	\$ 17,600	02. ExecBriefPending	20%	47	3,520
Current	Client8	Business Case	\$ 17,600	02. ExecBriefPending	20%	39	3,520
Current	Client9	Business Case	\$ 17,600	02. ExecBriefPending	20%	28	3,520
Current	Client10	Business Case	\$ 17,600	02. ExecBriefPending	20%	39	3,520



## > Managing Relationships

### The importance of 'getting religion'

#### How to develop an ideology-based marketing strategy

So you think you're going to publish a newsletter?

Hey, that's not a bad idea!

If you make it an e-mail newsletter it's a particularly cost effective exercise. Your distribution costs are nil. Your publishing costs are equivalent only to the time you invest in producing content.

And just think what your newsletter will achieve.

Your newsletter will keep your organisation 'top of mind' with your clients, potential clients and centres of influence.

Your newsletter will establish you as an expert in your field.

And your newsletter will enable you to maintain an enduring and intimate relationship with your marketplace.

Or will it?

How do you know that subscribers will actually bother to read your newsletter? They are busy people, after all.

What's to stop them hitting 'delete' each time your periodical arrives in their inboxes? Or worse still, pressing 'reply' with that dreaded 'unsubscribe' word in the subject line?

It's one thing to publish a newsletter. It's another to produce a publication that will be avidly read, respected and even *awaited* by subscribers.

Of course, when it comes to publishing a great newsletter, *content* is the key. (The same applies to running a great event.)

But what's the mark of great content? How should you select this content? How should you package it? And

how can you ensure that you can keep producing quality content after the second, the tenth, or the one-hundredth edition of your newsletter?

#### Religion is the key!

Our belief is that great content is *more* than simple information, education or instruction.

Great content flows from a higher cause ... an ideology.

The presence of this ideology adds an overriding purpose to all of your communications, supercharging their effectiveness.

Ask yourself, would *Permission Marketing*, Seth Godin's runaway best seller, have been the hit it was if it had just preached textbook marketing practices?

Would upwards of 25,000 stockholders attend Berkshire Hathaway's Woodstock-style annual general meetings if it weren't for *value investing*, Warren Buffet's counter-intuitive investment methodology?

Or would CRM (customer relationship management) have ever captured the executive share-of-mind that it has if it weren't for Peppers' and Rogers' long-term *one-to-one marketing* crusade?

In each case, this higher cause has transformed what would otherwise have been an interesting concept into a religion (at least, in the more general sense of the word).

As a marketer, the notion of a starting a religious movement should be an intriguing one. And there's a simple reason why.

When a concept becomes a religion it becomes infectious. In other words it self-propagates, like a virus! (It's interesting to note that Seth Godin's second book is called *Unleashing the Ideavirus* — it's all about what he calls *viral marketing*.)

The real significance of this infectiousness is the impact it has on the ROI (return on investment) of your marketing activities. If you can successfully ‘start a religion’, the return on your marketing investment will increase exponentially over time. This is in contrast to the diminishing returns we see from most *product-centric* sales processes in mature markets.

So now you understand the importance of ‘getting religion’, how do you go about the process of starting a religious movement? And how does this concept of ‘religion’ relate to our Relationship-centric Marketing methodology?

### Starting a religious movement

We’ve created a simple six-step process you can follow to start your own religious movement. The starting point for this process is your *basis for communication*.

If you’ve attended one of our seminars or workshops, you’ll have heard me introduce this concept. Your basis for communication is the content platform upon which the relationship with your marketplace is built. You can find your basis for communication in the area of intersection between your market’s interests and your expertise (and credibility).

Typically, your basis for communication consists of expertise that you have acquired as a by-product of the delivery of your core product or service.

For example, an office furniture retailer may establish relationships with its marketplace by sharing its *workplace design* expertise with clients, potential clients and centres of influence. (This firm’s market may not have an enduring interest in our office retailer’s range of workstations but it is likely to have an ongoing interest in improving workplace productivity.)

Once you’ve identified a basis for communication, you’re ready to go to work starting your religious movement!

### Step one: identify ‘a better way’

It seems there’s always a better way. No matter what industry we consult to, we always hear the same thing: ‘standard practice is fundamentally flawed’.

In fact, one of the special benefits of being a consultant is having the opportunity to learn the truth about furniture design, industrial air conditioning, merchant banking, aerial mapping and myriad other industries.

Your challenge is to look at your basis for communication and describe standard practice.

Once you’ve done that, you can outline your better way.

Godin does this beautifully in *Permission Marketing*.

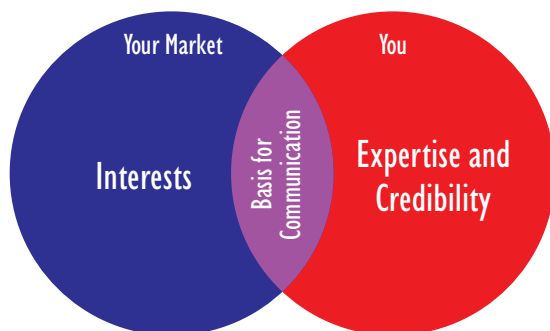
Godin refers to traditional marketing as *interruption marketing*. Every advertisement or promotional campaign is an unrequested intrusion. The marketer views the potential customer as an opportunity for a short-term relationship (a *one-night-stand*).

The *permission marketer* views the potential customer as an opportunity for an ongoing relationship. While she may use *interruption techniques* to initiate this relationship, she then attempts to exchange value for increasing levels of customer permission. (Godin refers to the highest level of permission as *intravenous permission* — that’s the kind of permission you give to a surgeon when you submit to general anaesthetic!)

Your *better way* can describe the optimal process. Alternatively, it can describe the process that should be followed in order to design the optimal process.

The presence of this ideology adds an overriding purpose to all of your communications, supercharging their effectiveness.

### Determine your Basis for Communication





### Step two: create an ideology

For your *better way* to be converted into an ideology, it needs good packaging.

And the first step in packaging a concept is to assign it a name.

It's interesting to note that, neither Ricardo Semler (Maverick) nor Michael Gerber (The E-myth) gave their management methodologies names. I suspect their methodologies would have been more infectious had they taken this next step.

As well as naming your *better way*, you should also assign a name to the *standard practice*. (You can see how Godin has done this in the example above.)

You'll find that it is easier to sell your better way if you position it against standard practice.

While it may seem manipulative to use polarisation as a selling tool, the reality is that you are selling *only* an intellectual position. (You may have noticed how ideological arguments tend to assume extreme opposing positions: 'pro life versus pro choice', 'political left versus political right', 'salvation versus eternal damnation', etc.)

Once your ideology has a name, it needs a model. A model is a simple diagram that provides a portal through which complexity can be viewed.

Your model can be a decision-making tool like a two-by-two matrix or investors' economic clock. It can also be a process diagram, like our own *Relationship-centric Marketing* model.

It's also worth developing your own terminology (when appropriate). When I attend meetings with potential clients,

I often notice that they use Relationship-centric Marketing terminology. They do this because they have become sold on our ideology as a result of their exposure to AdVerb and our events.

We once received a request for a proposal from a potential client where the project brief was sprinkled with our own terminology. This document had been circulated to two or three other consultancies. Our potential client was kind enough to provide a link to our Website to enable our competitors to decipher the brief! Needless to say, we won the work.

### Step three: write a manifesto

Now that your ideology has a name, a model and its own set of terminology, it's time to commit it to print.

Your manifesto can be as simple as an eight-page discussion paper or as complex as a traditional book.

The purpose of your manifesto is to argue the case for your ideology. Nothing more, and nothing less.

Your manifesto should build a bulletproof case by contrasting *standard practice* with your *better way*. It should then present evidence in the form of real-life case studies. While it's nice if the subjects of your case studies are your own clients, it isn't absolutely essential.

If you do a good job of producing your manifesto, you will find that it rapidly becomes your most valuable communications tool. In fact, we often recommend that our clients produce their manifestos in place of a corporate brochure. The fact is, your manifesto will do a much better job of selling your organisation than a traditional corporate profile ever can.

While the first evolution of your manifesto is likely to be a discussion paper, it's well worth ultimately turning it into a book. If you can get your book onto the shelves of bookshops around the country, you have just created a self-liquidating, perpetual promotional machine!

One of the best manifestos I have ever come across is a book called *The Goal*, by Eliyahu Goldratt. *The Goal* is a gripping 'business novel' about manufacturing process design. It does a superb job of selling Goldratt's contrarian process design methodology, the *Theory of Constraints*. *The Goal* has sold over two million copies, a remarkable feat for any business book — particularly one about manufacturing process design.

### Step four: start a movement

Now that you're armed with a manifesto, it's time to start spreading the word.

In reality, this undertaking isn't as ominous as it may sound (no, you're not required to don a suit and spend Sundays knocking on doors!)

You simply need to redirect your promotional resources from the promotion of your organisation to the evangelism of your ideology.

And there are three good reasons to do this:

- > It's easier to sell an ideology than it is to sell a product or service.
- > If you can sell your ideology, you end up selling your organisation by default.
- > Each time you sell your ideology you have an opportunity to recruit a disciple — an assistant in the propagation of your 'religion'. (Of course, this is the key to the viral growth of religions.)

If you're familiar with our *Relationship-centric Marketing* methodology, you've already got a pretty good idea of how to go about evangelising your ideology.

Step one is to attract 'followers' with the offer of your manifesto. And step two is to build an intimate relationship with 'followers' by subscribing them to an automated communications program (consisting of regular newsletters and seminars).

### Acquiring 'followers'

You'll find that a magical thing happens when you begin promoting your manifesto. People actually respond to your promotional campaigns!

While campaigns that promote your organisation are unlikely to yield much of a response, an advertisement for a discussion paper that advocates a new, *better way* can easily generate one hundred or more replies.

Accordingly, your advertisements, direct mail and other relationship-acquisition campaigns should be re-configured to offer respondents a complimentary copy of your manifesto.

Now, if you're worried that this promotional approach will fail to deliver the brand-building benefits of traditional campaigns, you shouldn't be. The reality is that the promotion of your ideology will do more for your brand than traditional self-congratulatory advertisements ever could!

### Turning 'followers' into 'disciples'

Your ongoing communications should offer your subscribers assistance with the application of your ideology to their businesses (or their lives).

Each communication should focus on one facet of your ideology and explore its implementation in detail.

As previously mentioned, the presence of an overriding ideology will multiply the effectiveness of your communications. Rather than being isolated points of contact, each communication with your subscribers will be a part of an ongoing dialogue.

If you can succeed, over time, in converting interested subscribers into ardent believers (or even activists), you win in two ways:

- > Your subscribers are almost guaranteed to turn to you for assistance with the implementation of your better way.
- > Your subscribers will join you in your efforts to spread the word!

It's interesting, isn't it, that your search for compelling newsletter content has led to the development of a complete marketing program. You could call this marketing program an ideology-based marketing strategy — or you could simply call it getting religion!

Before I leave you with your quest to identify an ideology worthy of religious fervour, let me briefly introduce you to the two final steps in starting your own religious movement.

### Step five: make your ideology the industry standard

The idea of making your ideology the industry standard seems counter-intuitive. This is because I'm advocating that you give it away!

Specifically, I'm suggesting that you encourage channel partners — and even competitors — to join your religion.

In practice, as long as you're recognised as the originator of your ideology, you will always have the most to gain from its growth.

Ask yourself, would Stern Stewart & Co have ever been able to make their Economic Value Added (EVA) the financial

standard that it is today, if it was the only consulting firm to advocate it?

### Step six: extend the standard

This last step isn't really about starting a religious movement; it's about extending the life of your movement.

You can extend your standard by showing your followers how your ideology can be applied to other areas of their businesses or lives. I mentioned the Theory of Constraints (TOC) previously. Although this theory initially related just to production, Goldratt has subsequently applied it to finance, project management, marketing, management and other business functions.

It is important not to extend your ideology until it is firmly entrenched as an industry standard. To do so would be to divert resources from what should be your number one marketing objective.





## The corporate periodical: neglected for years, resurrected at last

Wastepaper baskets, the world over, are full of them.

In fact, if there were ever a competition to judge the most self-indulgent of all business communications, the newsletter would have serious competition from only the corporate video for first place!

A tragedy, when you consider that periodicals have the potential to be by far the most valuable communications tool any company can invest in.

Certainly, for most Ballistix clients, periodicals are the backbone of their relationship management activities.

These periodicals position our clients as the thought leaders in their chosen markets and, as a result, generate a steady flow of sales opportunities from both existing and potential customers.

This article explains how you should go about establishing an effective periodical for your sales process.

### The argument for an e-mail periodical?

As you know, the objective of your relationship management program is to generate inbound sales opportunities.

The volume of inbound opportunities is a function of the number of relationships you have under management and the effectiveness of your management activities.

At least in a commercial context, the maintenance of a relationship requires regular transactions. The quality of the relationship is determined by the frequency and the value of these transactions.

Because we are interested in managing relationships with potential, as well as existing clients, these transactions must, by definition, be zero-dollar-value transactions. (After all, if potential clients were spending money with us, they wouldn't be potential clients.)

Because these relationship management transactions are zero-dollar-value transactions, we must transact in a commodity that is both inexpensive to produce and inexpensive to distribute.

Information is the obvious commodity. And e-mail is the obvious distribution medium.

Information (as your transactional commodity) and e-mail (as your distribution medium) both share the same essential characteristic.

Both can be scaled without incurring any incremental costs (after initial — fixed — production costs).

Accordingly, it costs no more to publish an e-mail periodical for 10,000 subscribers than it does for ten.

Because the objective of Relationship-centric Marketing is to build a high-throughput sales process, *scalability* must take precedence over *effectiveness*.

This is why an e-mail periodical should be the backbone of your relationship management program.

Of course, you can augment your e-mail periodical with other types of relationship management transactions. Similarly, you can distribute information via alternative mediums (events, for example).

However, there is rarely a good reason *not* to establish an e-mail periodical as the base-level of communication for your relationships under management.

### Think 'mini-magazine'

Now, for your periodical to make an effective contribution to the quality of your customer relationships, it must be genuinely meaningful. Remember, if you emulate the self-indulgent style of the half-dozen newsletters that are currently providing ballast for your wastepaper basket, yours is likely to suffer a similar fate.

The best model for the editorial style of your periodical is a magazine. The competitive nature of the publishing





industry has resulted in magazine editors becoming particularly adept at producing publications that their readers want to read. (In fact, it's worth noting that Australia has the highest per-capita readership of magazines in the world.)

You would, no doubt, have noticed the rapid fragmentation (specialisation) of magazine titles over the last few years. We suggest that your periodical should be a 'mini-magazine' designed to appeal to a finely targeted group of individuals — your clients (and potential clients).

The key is to emulate the editorial style (and the look and feel) of a publication your customers are already likely to read. Your periodical's articles can then provide readers with more specialised, and perhaps more current, information. The test of the quality of your periodical is to ask yourself: Would my customers be prepared to pay for this content if it were distributed in print form? If your answer is yes, you have a powerful communications tool.

### Compelling content: three components

Once you've settled on the editorial style of your periodical, your next challenge is to decide what you'll write about. Each of our periodicals typically contains one or more of the following content items:

- > **Feature story.** To write a feature story, pick a subject of interest to your customers from within your field of expertise, and 'empower' your readers with a clear understanding of it. (As Queensland's Noel Whittaker has demonstrated with his best-selling books on money, a great way to take ownership of a category is to freely share your expertise.)
- > **Opinion piece.** If you scan newspapers and magazines you'll find opinion pieces in the form of *columns*, *editorials* and *op-eds*. Your opinion piece should simply share your (preferably controversial) opinion on a topical subject. Where other articles in your periodical may be written in third person, your editorial comment should definitely be written in first person — preferably by your organisation's designated spokesperson.
- > **A case study.** Those salespeople who sell services will often protest that it is harder to sell a non-tangible product than it is a tangible one.

The flaw in this argument is that almost every product has a non-tangible component. Furthermore, clients will purchase many tangible products for *non-tangible* reasons.

The great strength of case studies is that they make the non-tangible tangible.

### Who should wear the editor's hat?

Generally speaking, it is wise to outsource the production of your periodical.

Unless your organisation is particularly large, it is unlikely that you can afford to have a full-time staff editor. In the absence of a full-time editor, it is unlikely that anyone in your organisation will have the spare time required to consistently produce the necessary content.

Many of our clients approach journalists from their clients' trade publications with the offer of free-lance work. These approaches are seldom refused!

**There is rarely a good reason not to establish an e-mail periodical as the base-level of communication for your relationships under management.**

## How to promote, present and profit from seminars and workshops

If you've ever seen delegates queue to purchase audiocassette programs at a Tom Hopkins seminar, you've seen the power of a good seminar presentation.

Seminars are a hybrid sales tool. They combine the benefit of face-to-face (or at least eye-to-eye) contact, with the scalability of a direct mail campaign. (By *scalability*, I mean that seminars make it possible for you to speak to 300 people with little more effort than would be required to address just one.)

This article will show you how to harness the power of seminars and workshops to multiply the effectiveness of your sales process.

While some of the ideas in this article may fly in the face of conventional wisdom, we'll stand by them. The fact is, over the last seven years, we've helped our clients to sell more than half a million tickets to various events! In fact, in the last year, our own low-key breakfast seminars have been attended by just over 1,000 executives!

### Why seminars?

Now it could be argued that a seminar is likely to be less effective than a one-to-one sales presentation because the attention of the presenter is shared between audience members — but that isn't necessarily the case.

You see, a good seminar presentation has two important advantages over a one-to-one sales presentation (other than scalability). First, a seminar automatically positions the presenter as an expert (after all, a congregation has gathered to hear this person speak). And second, because a seminar is less invasive than a one-to-one sales presentation, a seminar is easier to promote.

### Seminars as a part of your sales process

The most important question to address when planning your seminar is, where exactly does it fit within your existing sales process?

Typically, you have three options. Your seminar can be used to acquire new relationships. It can be used to add value to existing relationships (with both customers and prospects). Or, if your core business involves promoting seminars, your seminar can, in fact, be your product.

Our suggestion is that the primary objective of your seminar should be to add value to the existing relationships under your custodianship. If you can use the same seminar to acquire new relationships, that's a bonus.

### What are you selling?

The next question you need to address is, what exactly should your seminar be designed to sell?

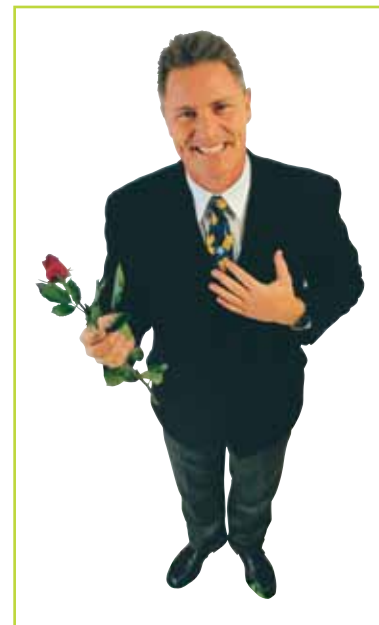
Now, if you remember our first law of sales process design from the last edition of *AdVerb*, you'll recall that each component of a sales process should attempt to sell only what it has a reasonable likelihood of selling.

What this means is that, if it's unrealistic to expect people to purchase your product at the conclusion of your seminar, don't ask them to. Instead, sell them up to the next step (perhaps a complimentary 40-minute consultation).

Ideally, you should only be selling one thing at your seminar. If, for example, you are 'selling' a complimentary 40-minute consultation, you might want to resist the temptation to load up your attendees with books, tapes or other peripherals. After all, you don't want sales of low-margin products to cannibalise potential higher-margin sales.

### To charge, or not to charge?

If there's one question that creates more anxiety than any other, this is it! Our advice is simple: always charge.







The logic goes like this. If you charge for a seminar, your attendance is likely to drop by about 15%. However, if you spend the revenue you earn from ticket sales on additional promotion, you should be able to easily double audience numbers.

Now some of our clients are reluctant to charge because they are not sure that the subject matter will be worth the fee. If you're in this position, I've got bad news for you. If you run an uninteresting seminar, audience members will be disappointed, regardless of whether or not they paid to attend. This is because, for most busy people, the cost of purchasing a ticket to attend a seminar is only a small component of the total cost of attendance. It's better to charge, and then to invest the effort required to prepare a valuable presentation.

We recommend a minimum ticket price of \$25 for business to consumer seminars, and \$45 for business to business events.

### When, where and for how long?

Fortunately, we can be just as definitive in our answers to these logistical questions.

On the 'when' question, we recommend breakfast seminars for executives and CEOs of all but the smallest businesses. Evening seminars work best with consumers and owners of micro businesses.

On 'where', always host your event in a five-star hotel. Our experience is that the small premium you pay to host your event in a more celebrious venue is a worthwhile investment.

And on 'how long', we believe the ideal duration for an event is between one and a half and two and a half hours (including a fifteen minute break).

### Choosing a topic

As well as guaranteeing the attention of your audience members, the correct choice of topic will make your event a breeze to promote.

And when it comes to choosing topics, the cardinal rule is, focus wins!

It may seem paradoxical, but more focused topics tend to attract the greatest audience numbers. For example, six years ago, when we promoted an evening seminar for Morgan Stockbroking, we ran a single newspaper advertisement with the headline, How to use exchange traded options to add growth, security and income to your top-50 portfolio. This advertisement attracted 109 high net-worth investors — which is certainly more than we would have been likely to attract with a seminar on general share investment.

It is essential that your seminar topic promises to solve a problem or provides a benefit of interest to your target audience members (preferably both). If we're working with a client to plan a seminar, we'll use the process of writing an advertisement (or sales letter) to choose a topic. While this may seem counter-intuitive, we've found that the ideal headline for your seminar advertisement also happens to be the ideal seminar topic. Consider the following headlines we've used to promote our clients' events:

The world's greatest marketing blunders — and how to avoid them in your business! (Marketing.)

How to turn \$45 into \$463,000 in just 11 years (Financial services.)

How to ensure that the next person who sleeps with your son doesn't run off with the family farm (Estate planning.)

### Giving it all away

As you may recall from a previous edition of AdVerb, our second law of sales process design states that you should

give freely of your knowledge in order to earn the right to charge a premium for implementation. It's important to bear this in mind when you're planning your seminar presentation. Too often I hear seminar presenters say that they are careful not to give away too much — for fear that, if they do, audience members will no longer need their services.

The reality is that the true value does not lie in the information you share at your seminar, it lies in your ability to implement that information. If you give unreservedly of your knowledge, you will find that audience members will queue after your event to share their problems and ask for your assistance!

### The importance of a model

Perhaps the greatest challenge in planning your seminar presentation is to share your knowledge in such a way that audience members can easily digest it.

There are two techniques you can employ to effectively communicate complex information.

The first is to present this information to audience members in do-it-yourself terms. In other words, rather than explaining how you do what you do, show audience members how they can do what you do themselves.

The second is to present your information in the form of a model.

Models have long been favourite tools of consultants (e.g. The Boston Consulting Group's Boston Matrix). A model provides a user-friendly portal through which complexity can be readily appreciated.

### Structuring your content

When it comes to structuring your content, you can't go too far wrong with the old maxim: tell 'em what you're going to tell 'em; tell 'em; then tell 'em what you've told 'em!

Unless you're a natural comic, I suggest you skip the ubiquitous joke and begin with a promise. Fact is, the best way to get your audience's attention is to promise to solve a problem for them. (i.e. tell 'em what you're going to tell 'em.)

Once you've made this commitment, it's simply a matter of showing them how they can solve this problem — preferably using the model we discussed earlier. (i.e. tell 'em.)

Once you've fulfilled your obligation (and exceeded your audience's expectations) simply summarise your key points and conclude by reminding them that the problem they came with no longer exists! (i.e. tell 'em what you told 'em.)

### Question time

If there's one thing that's likely to bring a seminar presenter unstuck, it's questions! However, if you plan for questions, they can actually assist you to deliver a stronger presentation. To plan for questions, begin by asking yourself the following questions ...

#### Am I happy to take questions?

If you're not confident enough to field questions, simply advise your audience at the beginning of your presentation that, because of time restrictions, you won't be able to provide a question time. Then simply write your e-mail address on a whiteboard and invite audience members to e-mail their questions for your prompt response.

#### Am I happy to be interrupted with questions?

If you're happy to field questions, you should advise your audience whether they should save their questions until a question time at the conclusion of your presentation, or whether they should feel free to interrupt you during your presentation. It doesn't matter which option you choose, as long as you advise your audience of your preference.

If you are going to have a question time, be sure to come prepared with at least two of your own questions. That way, if your call for questions is unproductive, you can ask yourself a question! The best way to introduce your own question is to say, 'You know, a question I'm frequently asked is ... ?'

### Who should present your seminar?

It is important that the person who presents your seminar is a representative of your organisation.

If she is not, she will do little to build your relationship with your audience. For some reason, financial planners love to invite fund managers to present at their seminars. This practice is good for fund managers, but not so good for the financial planners (who pick up the bill)!

These financial planners would be better off learning the content and presenting it themselves (of course, they can still give fund managers credit where it is due).



It's also a mistake to have multiple speakers present a seminar. Unless you're organising a three-day conference, your seminar should be presented by one person only. That person should be the person with the best presentation skills (not necessarily the greatest technical knowledge).

If your presenter does not have great technical knowledge, simply have him direct questions to a panel of experts at the conclusion of your event.

### 'But I'm not a professional speaker!'

If you're the person who's been nominated to present your organisation's seminar, here's some good news. The fact is, you don't have to be a professional speaker in order to present your own seminars.

Provided you present seminars within your area of expertise, your detailed knowledge will automatically provide you with the kind of credibility that a professional speaker would have to work hard to establish.

And assuming that you have a good knowledge of your subject, the other two requisites of a good speaker are

not difficult to come by. You need the ability to speak comfortably before a group (you can get that by joining your local Toastmasters chapter). And, as previously mentioned, you need the ability to present your knowledge in simple, do-it-yourself terms.

### Promoting your event

Once you're convinced that you have an appealing topic for your event, your next step is to write a sales letter. As previously mentioned, this letter should begin with a compelling headline. It should then walk the reader through your seminar, explaining clearly how she will benefit from attending.

Under no circumstances should this letter be any less than one-and-a-half pages in length!

Along with a compelling sales letter, you should prepare a high-quality invitation. We have found that cocktail party quality invitations are considerably more effective than the standard three-fold fliers that are typically used to promote seminars.

Our last promotional tip is an important one. Be sure to send your invitation to at least ten times the number of people that you wish ultimately to attend.

There's nothing that impresses audience members more than a full seminar room. And if you're going to invest the time and effort required to present a worthwhile event, you owe it to yourself to ensure that you invite enough people to make your seminar a success.

### Our own experiences

Almost two years ago, we made the decision to launch our own seminar program. This wasn't a difficult decision to make. We had spent years assisting our clients with their events — and we were aware that a significant percentage of our clients initially discovered us after hearing Justin speak at other organisations' conferences or seminars.

Over the last 18 months, we have conducted eight breakfast seminars — attracting a total of 1,121 guests. Following is a summary of our experiences with these events.

### Event overview

The topic of each of these breakfast seminars has been our Relationship-centric Marketing methodology. We have conducted Brisbane and Sydney events at the Sheraton, and our Melbourne events at the Hotel Sofitel. In each case, revenues from ticket sales (\$49 a single and \$88 a double) have fractionally exceeded costs.

We promote these events with a combination of postal, e-mail and facsimile campaigns. Where we have subscribers' e-mail addresses, we initially send an e-mail invitation, followed by a postal invitation and then an e-mail reminder. Where we don't have e-mail addresses, we skip the initial e-mail and deliver the reminder by facsimile. Our postal pack consists of an invitation (tent-card format) and a two-page sales letter.

Each breakfast runs from 7:00 a.m. until 9:00 a.m. sharp. Justin presents from 7:30 a.m. until 9:00 a.m. At the conclusion of each event, Justin offers audience members a free 60-minute consultation.

### Key ratios

For an audience of 150 (our target) we invite 1,364 executives. Of these 150 audience members, 44 will typically take advantage of our offer of a free consultation. Considering that these events are slightly profitable, our cost-per-consultation (this is our key performance indicator) is \$0, or better.

### The power of e-mail

The promotion of these events has provided us with a lesson in the power of e-mail.

From our fourth event onwards, we introduced e-mail into our promotional process (as mentioned above). As a result, we are now able to sell as many as 60% of available seats without sending postal invitations. This is remarkable when you consider that each e-mail ticket sale saves us almost \$10 in postal costs!

We also use e-mail to send reminder notes (prior to each event), thank-you notes (subsequent to the event), and notes to schedule Justin's free consultations. (For the latter, we simply advise the dates that Justin is in town, and ask recipients to indicate their preference for date and time of day.)

As well as saving us a small fortune in postal costs, e-mail is enabling us to automate event follow-up, which had previously been a labour intensive process.

### Learn more

If you'd like to learn a little more about our events, visit the 'seminar' section of our Website. There, you can read a copy of our sales letter, read an overview of Relationship-centric Marketing, or even listen to recording of our last Brisbane seminar. (You can even purchase a ticket for a forthcoming event in your area!)

... if you're going to invest the time and effort required to present a worthwhile event, you owe it to yourself to ensure that you invite enough people to make your seminar a success.

# From a marketing department's perspective, every relationship looks like a sales opportunity!

At best, most marketing communications are irrelevant to most of their recipients, most of the time.

At worst, these communications run the risk of damaging the very relationships they are supposed to be cultivating.

The problem is, from a marketing department's perspective; every relationship looks like a sales opportunity.

Accordingly, marketing (and sales) people tend to design communications based upon the assumption that every recipient is in the process of making a purchasing decision.

## Few potential clients are sales opportunities

Unfortunately, as the diagram below illustrates, nothing could be further from the truth.

This diagram portrays a marketplace consisting of six potential customers. Each makes a buying decision every 25 days. The duration of each decision-making process is two days.

If a marketing person ('you' in the diagram) were to view this marketplace for a total of eight days, only two sales opportunities would come into view.

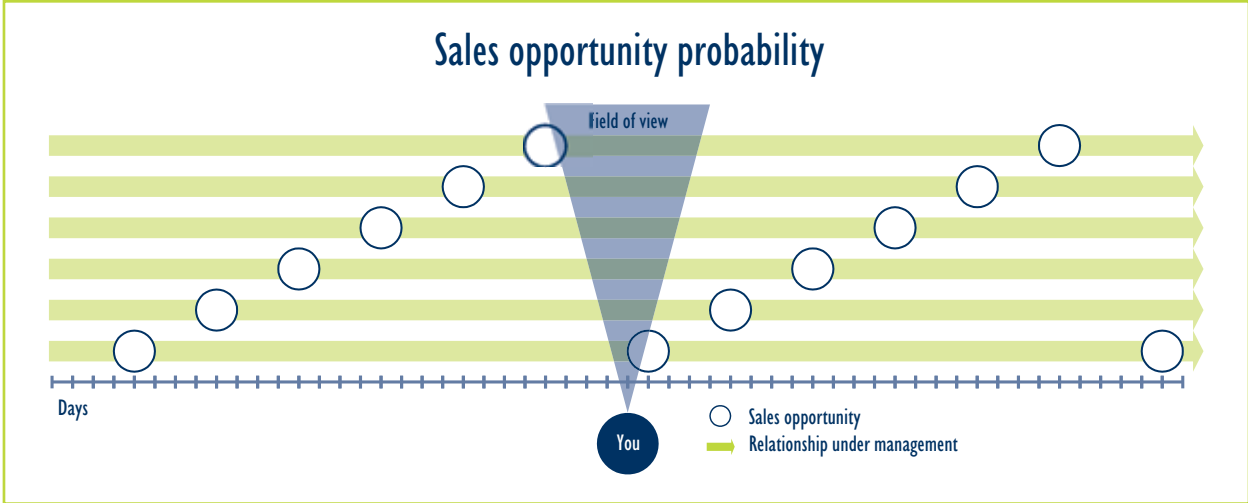
Of course, if the marketer were to notice these two sales opportunities and assume that they were representative of the market as a whole, he would be sorely mistaken.

In the real world, the odds of a marketing communication striking a potential customer within her decision-making process are nowhere near as generous as those illustrated in this diagram.

If you're selling a service or a 'major' product, your customers' buying cycle (time between sales opportunities) is likely to be three or more years. The duration of a sales opportunity may be one or two months. And the persistence of your marketing communication (how long it stays top-of-mind) may be less than a week. (In this more realistic scenario, only one out of every 144 recipients of your communication would be in the process of making a purchasing decision.)

## The real cost of irrelevant communication

In other words, the odds of your communication striking any given customer at just the right time is comparable to the odds of your being able to spear a particular fish in a pond, while wearing a blindfold!



Marketers traditionally compensate for these lousy odds by broadcasting their sales communications to large numbers of potential customers simultaneously.

Now, this approach is like electrifying the pond. You'll get your fish, but the pond will sustain a lot of collateral damage in the process!

Obviously, repeated exposure to irrelevant communications (perhaps for a period of many years) is likely to damage your relationships with potential clients. If these communications are delivered by e-mail, many recipients will eventually unsubscribe themselves from your list — cutting-off your future access to them.

**At best, most marketing communications are irrelevant to most of their recipients, most of the time.**

**At worst, these communications run the risk of damaging the very relationships they are supposed to be cultivating.**

You could argue that this collateral damage is likely to be minor, because those individuals for whom your communications are irrelevant are more likely to simply treat them with indifference.

This is a valid argument. However it ignores the opportunity cost of this promotional approach.

What if, instead of deliberately creating and distributing communications that will be treated with indifference by the greater majority of your marketplace, you were to create

communications that were relevant to recipients, at *any* stage of their buying cycles?

If this were possible, each communication would make a positive contribution to a developing relationship with your potential customers.

Well it *is* possible.

### **Invest in relationships, not sales opportunities**

All you have to do, is identify a basis for *communication* that transcends your quest for sales opportunities. Our article entitled *The importance of getting religion* explains that this basis for communication should consist of the intersection between your market's interests and your expertise (and credibility).

These relationship-building communications may be less effective at inciting action from that small percentage of recipients who are in the midst of their decision-making processes — but that's okay.

The effectiveness of your communication should not be measured on an individual-to-individual basis; it should be measured across the marketplace as a whole.

Remember, when you broadcast a communication to your marketplace, those potential customers who are ready to buy today are a tiny minority. You'll enjoy a significantly greater return on investment if you design your communications to be relevant to those individuals who are not currently sales opportunities!

## Why there's a silent '\$' in 'Relationship': and why the integrity of your sales process depends upon it!

We have disbelievers in our midst!

Among our loyal flock of AdVerb subscribers there are those who profess to embrace our principles but who flout at least one of them conspicuously.

I'm referring to those executives who claim to be Relationship-centric Marketing aficionados but who, nonetheless, invest their scarce promotional dollars in golf days, boxes at sporting events, lunches with no formal business agendas, directionless client visits and — horror of all horrors — birthday and Christmas cards.

Worse still, I'm periodically confronted by executives who hold up such activities as evidence that theirs are Relationship-centric sales processes!

"Look," is the common declaration, "I agree that business is all about relationships; that's why I insist that all of our salespeople memorise the names of their clients' partners, children, and favourite pets."

This article identifies the principle that is being violated in the scenarios above. More importantly, it explores the longer-range implications of this violation and — as a consequence — provides deeper insight into the Relationship-centric sales process.

### The significance of relationships

As you know, the essential attribute of the Relationship-centric approach to sales process design is the recognition of relationships as the most lucrative source of sales opportunities.

The reasoning goes like this.

A (pre-existing) relationship is the most significant influencer of the probability of a given individual transacting with your organisation.

This is evidenced by the following observations:

1. Clients are most organisations' greatest (and lowest cost) source of sales opportunities.

2. Referrals (from either clients or centres of influence) are typically the second-most lucrative source of sales opportunities.
3. An organisation's reputation has tremendous potential to influence a potential customer's purchasing decision, for better or worse. (Of course, the word reputation infers a relationship.)

Although few would question these observations, it is rare for an organisation to formalise the acquisition and management of anything other than client relationships.

To put it another way, most organisations regard clients and relationships as one and the same.

Of course, we argue that this is a logical flaw. Specifically, we argue that client is a sub-set of relationship. In other words, all clients are relationships but not all relationships necessarily have to be clients.

This realisation allows us to:

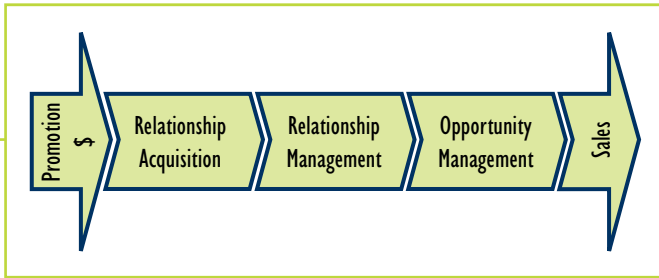
1. Acquire relationships with individuals other than clients (in other words, to acquire a relationship with someone without selling him anything).
2. Manage relationships with clients and non-clients alike.

As a consequence, Relationship-centric Marketing holds that, in order to generate sales opportunities, an organisation should deliberately acquire relationships with (non-client) members of its target market and then manage these relationships alongside client relationships.

An organisation's target market is comprised of three categories of individual:

1. Existing clients.
2. Potential clients.
3. Centres of influence (individuals who may never transact, but who are in a position to influence those who may).





The methodical acquisition and management of relationships represents the first two components of our Relationship-centric sales process, as pictured above.

While it is possible to invest promotional resources directly in the acquisition of sales opportunities, our experience is that, in most industries, our indirect approach is more effective.

This is particularly appropriate in situations where a client's decision whether or not to transact in the first instance is influenced by their estimation of the quality of a future relationship. (If there's a pre-existing relationship, the requirement for guesswork is eliminated.)

Our experience is that the recognition of the relationship as the most lucrative source of sales opportunities impacts positively on both promotional activities and on the opportunity management process.

Where promotion is concerned, our clients frequently discover that it is significantly less expensive to acquire a relationship than it is to acquire a sales opportunity. (We typically achieve the former by giving away some kind of packaged information.)

Where the opportunity management process is concerned, our clients find that a pre-existing relationship reduces significantly the resources required to close an opportunity.

Such is the power of relationships.

### The silent '\$'

If relationships are so valuable, why then am I suggesting that initiatives such as golf days, informal client visits and birthday cards are incompatible with Relationship-centric Marketing?

What is the purpose of such initiatives if it isn't to build relationships?

Might I begin by suggesting that the word relationship has different inferences depending upon the context in which it is used?

If we consider just human relations, it's obvious that there are many kinds of relationships.

We have relationships between doctors and patients, between friends, lovers, employers and employees, politicians and constituents and, of course, relationships between traders (commercial relationships).

For each relationship type there is behaviour that is compatible — as well as behaviour that is incompatible — with that relationship.

It does not follow, therefore, that the behaviour that is compatible with one type of relationship is necessarily compatible with another type.

To choose an extreme example, behaviour appropriate for lovers is not necessarily compatible with a doctor-patient relationship.

Now, the reason I am unimpressed by executives who present golf days and the like as evidence of the fact that their sales processes are Relationship-centric is that they are exhibiting behaviour inappropriate for the context in question.

Specifically, they are assuming that the behaviour that is appropriate for friends is also appropriate for a commercial relationship.

This assumption, as we'll discuss shortly, is a non sequitur (it does not follow).

The executives who make this mistake are dropping the context in which the word relationship is used.

It should be obvious that, because Relationship-centric Marketing is a commercial methodology, the word relationship refers specifically to commercial relationships.

Hence my assertion that there is a silent '\$' in relationship.

### Personal friendship is not a pre-condition of a commercial relationship

This point was driven home to me years ago when I was struggling to make it as a life insurance salesperson.

My sales manager at the time regularly stressed that, prior to launching into a sales presentation, it was essential to build rapport with the prospect.

The technique he offered to accomplish this involved the salesperson gazing around the prospect's home, looking for anything that indicated an interest shared by both parties.

Once the salesperson had identified a common interest, the trick was to steer the conversation towards this subject area and, as a consequence, for the salesperson to demonstrate empathy with the prospect.

My experience with this technique was that it served only to annoy prospective customers. Most displayed reluctance to engage in a conversation of a personal nature when the meeting had been scheduled for commercial purposes.

Even in cases where there was an obvious common interest, the resulting discussion seemed to do little empower the prospect with faith in me — at least in my capacity as an insurance professional.

Counter to my manager's protestations, I discovered that the most effective approach was to dispense with the preliminaries all together and launch directly into the commercial agenda.

In retrospect, I realise that my sales manager was half right. He had recognised that, in many cases, rapport is a necessary condition for a commercial transaction.

However, he had assumed that you would use the same method to build rapport in a commercial context as you would if you were getting acquainted with your host at a dinner party.

My discovery was that, in a commercial context, the selling process itself was a more appropriate medium for the development of rapport.

### It rarely makes commercial sense to invest in social relationships

Let me make clear at this point that I am not claiming that social relationships are a commercial liability.

While, admittedly, in some instances, they can be (e.g. conflicts of interest), this is more the exception than the rule.

Rather, my position is that the investment of scarce resources in the development of social relationships can rarely be justified on commercial grounds.

This is because, when resources are scarce, the real cost of investing resources in one activity is the opportunity cost

of investing those same resources elsewhere.

Or, in practical terms, when promotional dollars are limited, every dollar that is invested in golf days, informal client visits, Christmas parties and the like, is a dollar that cannot be invested in the development of commercial relationships.

Of course, this raises a critical question.

### What is a commercial relationship and how do you develop one?

The term commercial relationship obviously refers to the relationship between two (or more) parties who conduct commercial transactions.

It follows, therefore, that if you wish to enter into a commercial relationship with an individual, you must transact with him.

Herein lies a dilemma:

I am suggesting that you invest in the development of commercial relationships with potential clients. If a potential client is a person who does not transact with you — and a commercial relationship presupposes transactions — how could it be possible to develop a commercial relationship with a potential client?

The solution to this dilemma is one of the key principals upon which Relationship-centric Marketing is based:

A commercial relationship presupposes commercial transactions. However, where potential clients are concerned, these transactions are zero-dollar transactions.

This principle is significant because it provides the loophole we need to build relationships with potential clients without dropping the commercial context.

Specifically, Relationship-centric Marketing stipulates that commercial transactions with potential clients consist of the exchange of a service of some kind for the increased probability of future real-dollar transactions.

In most cases, the service provided (at no charge) to potential clients consists of packaged information — delivered either in the form of a periodical (think AdVerb) or via events (seminars and workshops).

Obviously, the advantage of using information as the transactional commodity is that (packaged) information is a scalable resource (the incremental cost of servicing an additional e-mail periodical subscriber is negligible).

That said, where the value of a client is significant enough, it may be justifiable to deploy more expensive relationship-management resources (e.g. consulting services).

### Transactions build relationships

You may have already detected an inversion of conventional wisdom with regard to the role of relationships in the sales process.

Conventional wisdom supposes that relationships precede transactions. Our method recognises that transactions precede relationships:

You acquire a (commercial) relationship with an initial transaction.

You then increase the value of that relationship with ongoing transactions.

Of course these two activities map back to the first two components of the Relationship-centric sales process:

1. Relationship acquisition. The initial transaction typically consists of the offer (and provision) of a document of some kind. (A white paper or a manifesto.)
2. Relationship management. Ongoing transactions typically consist of the provision of an e-mail periodical and events (seminars and workshops).

As you know, when making the claim that transactions build relationships, we don't differentiate between zero-dollar and real-dollar transactions: both build relationships.

It's reasonable to assume, however, that real-dollar transactions add more value to relationships than zero-dollar transactions and, accordingly, that larger real-dollar transactions add more value than smaller ones.

This realisation can be expressed as an unashamedly simplistic maxim:

If you want a relationship: sell someone something. If you want a stronger relationship: sell him more, more often!

### Valuing relationships

A moment ago, I reminded you of the importance of recognising the opportunity cost associated with the investment of promotional resources in one activity, as opposed to another.

Considering that all promotional investment is (should be) intended to either acquire or add value to relationships, it is necessary to calculate the value of the relationships under our custodianship.

Because we're discussing commercial relationships, the metric (measure of value) must be dollars.

Because a commercial relationship is an annuity (an income stream), the value of this relationship is simply the net-present-value (NPV) of that annuity.

This income stream has two components.

There's the income stream related to current transactions and then there's the income stream related to possible future transactions.

Accordingly, the value of a relationship can be calculated by adding the NPV of current transactions to the NPV of future transactions, discounted for probability.

It's beneficial to consider the relationship management component of the sales process as a conveyor belt, designed to migrate low value relationships into high value ones.

This approach is depicted in the table below. Each row represents a milestone in the development of client relationships. The dotted line marks the point at which a potential client converts into an actual client.

This approach makes it obvious that promotional dollars should be invested in the activity most likely to induce the greatest positive change in the value of relationships under management.

If you apply this test to the allocation of your scarce promotional resources, you are unlikely to conclude that it is justified to devote many of those resources to social activities with no formal commercial objective.

# Activity	Milestone	Client Potential Spend	Opportunity Probability	Client MPV	Opportunity MPV	Relationship Value
1 Research	Prospect identified	80%	0.10%	\$0	\$190,000	\$190
2 Direct-mail campaign	Subscriber	80%	1.00%	\$0	\$190,000	\$1,900
3 Event promotion	Event attendee	80%	7.50%	\$0	\$190,000	\$14,250
4 Opportunity management	Ad-hoc client	80%	100.00%	\$175,000	\$50,000	\$225,000
5 Account management	Service agreement	100%	100.00%	\$250,000	\$0	\$250,000

You're also likely to conclude that it doesn't make sense to devote many promotional resources to clients who are already fully utilising your range of services: the relationship cannot become any more valuable. (It is more appropriate to view client retention as a responsibility of your research-and-development and operational functions.)

### What if mine is a commodity product?

Those who object to our stand on social relationships generally have one last objection.

"Mine," they argue, "is a commodity product. [Social] relationships are all I have to differentiate me from my competitors."

The attempt to differentiate a commodity product with a social relationship is simply a fool's errand.

The resources invested in this endeavour will produce a greater return if they are either passed on to the customer in the form of a lower price or invested in product development (with a view to developing a more meaningful point of difference).

The reality is, if social relationships are all that differentiate you from your competitors, your business's outlook is questionable!

### Nice, but not necessary

The fact that social and commercial relationships share many common attributes makes it easy to fall into the trap of assuming that the two are interchangeable.

This issue is made even more confusing by the tendency of commercial relationships to migrate into social relationships. (It's only too easy to mistake effect for cause.)

However, as this article demonstrates, the application of this seemingly harmless assumption to sales process design can have harmful consequences.

If the inevitable scarcity of promotional resources makes it impossible to treat all commercial relationships as if they are equal, then the assumption that commercial and social relationships are equivalent is reckless in the extreme.



## > Acquiring Relationships

### The difference between advertising and prayer!

For most of us, advertising is a little like prayer. We're not sure it provides any benefit, but we do it anyway, just in case!

Of course, one difference between advertising and prayer is that advertising costs you money. And, as a professional manager, your job is to maximise your return on capital.

In other words, if advertising doesn't work, you shouldn't do it at all. And if it does, you should probably do more of it.

In the context of our Relationship-centric Marketing methodology, advertising can perform one of two functions:

- > It can initiate relationships with strangers.
- > Or, it can enable you to communicate with people with whom you have an existing relationship (customers, as well as potential customers).

Now, I'm sure you'll agree that both of these are worthy causes. However the fact that they are worthy causes is not reason enough to start writing cheques for your friendly ad rep.

Before you do that, you need to satisfy yourself that an advertisement is capable of performing the desired function. You also need to be sure that there isn't a more cost-effective way of producing exactly the same result.

#### Advertising to build a brand

Most of the advertising that surrounds us every day is designed to perform the latter of the two functions above.

Think about it: Coca Cola and McDonalds don't run advertisements to acquire new customers. Their advertising campaigns are designed to communicate with existing customers.

Even an advertisement for Nike or Mercedes isn't communicating with total strangers. Odds are, even if you don't wear Nikes or drive a Mercedes, you still know what those brands represent.

For mass marketers, advertising is simply a cost-effective communication channel. (Mass marketers call this communication 'brand building', in recognition of the fact that it is not intended to directly stimulate sales.)

However, if you serve a niche market (as most AdVerb subscribers do), advertising ceases to be a cost-effective means of communicating with those individuals with whom you have an existing relationship. It's simply more cost-effective to communicate via e-mail, direct mail (including newsletters) and other one-to-one communication tools.

Accordingly, if you serve niche markets, you probably shouldn't be running traditional 'brand building' advertisements at all. You're better off communicating directly with your customers and potential customers.

#### Initiating relationships with strangers

While we rarely use advertising to communicate with people with whom our clients have an existing relationship, we regularly use it to initiate relationships with their potential customers.

This can work well if (and only if) you understand that the design of an advertisement intended to initiate relationships differs significantly from one intended simply to communicate with existing contacts.

A 'relationship-acquisition advertisement' (as we call them) should be designed primarily to acquire potential customers' contact details (including their e-mail addresses).





The easiest way to do this is to 'write the book' on your area of expertise and offer it free — in either book, or newsletter form.

This means that, if the objective of your advertisement is to initiate relationships with strangers, your advertisement shouldn't promote your service at all — it should promote your offer of a free book (or newsletter subscription).

In the following article, you'll find an advertisement we run periodically in the Financial Review in order to acquire new relationships:

It's worth noting that, despite a rare absence of both quirky humour and abundant white space, this advertisement generates around 150 new relationships (AdVerb subscribers) with each insertion!

### Other relationship acquisition options

More often than not, our clients don't have to run advertisements in order to identify their potential clients. That's because their clients' contact details are already in the public domain.

If you can telephone your local list broker, purchase a list of potential clients and add this list to your database, why would you want to advertise in the first place?

Even if this information isn't readily available, advertising is still not your only option. Once you've 'written the book' on your area of expertise, there is a number of alternative promotional mediums available to you. These include endorsement campaigns, broadcast fax campaigns, inserts in professional publications and offers on your Website (and on alliance partners' Websites).

Of all these options, we typically find that endorsement campaigns are by far the most cost-effective. (This is where a non-competitive alliance partner endorses your offer of a free book or newsletter to her house list — often in exchange for you doing the same.)

### Measure it: then manage it!

Another benefit of using advertising (and other promotional activities) exclusively for relationship acquisition, is that it's easy to measure the effectiveness of individual relationship acquisition campaigns.

Our recommended metric for campaign effectiveness is 'cost per new relationship' (or 'cost per response'). This is simply the campaign cost divided by the number of responses.

Of course, promotional campaigns are just like any other business processes: once you can measure them, you can manage them.

We recommend our clients manage their promotional campaigns using what we call an 'activity by source' report. You can grab a copy of a sample report (in Excel format) free from our 'download' zone.

### A little prayer?

In conclusion, if you are a niche marketer, you should not be using advertising to build your brand (or to 'get your name out there'). You can do that by communicating directly with your contacts (via what we call your automated communications program).

If you do choose to advertise, your advertising should be designed solely to acquire new relationships. (These new contacts should be added immediately to your automated communications program.)

And once your advertising is designed to acquire relationships, rather than to communicate with the population at large, it immediately becomes accountable.

As a result, advertising is no longer deserving of its own chapter in your prayer book.

Will a little prayer help?

Perhaps. But only as a supplement to (and not a substitute for) effective sales process design!



## The anatomy of a healthy ad

### Use our simple five-step formula to turn under-performing advertisements into high powered sales tools.

Bill King and son, Stephen, were facing a dilemma common to many business people.

They had a great product on their hands. Something handymen and tradesmen would jump at. But they were having trouble launching it into the marketplace.

As the product's Australian distributors, the Kings had hit a brick wall. Hardware store owners were reluctant to stock the product, because it was new and, in their eyes, untried.

As part of a coordinated marketing program, we set about writing an advertisement to achieve two objectives:

- > Encourage consumers to trial the product (an alternative to sandpaper, called FlexiFile).
- > Convince hardware store owners to purchase stocks of FlexiFile.

In this article, we look at the process for creating such an advertisement. And we show you how you can apply the same methodology to create your own high powered print advertisements.

### One step or two?

Before you begin to create an advertisement for your product or service, there is an important decision to be made.

Is it reasonable to expect the person who reads your advertisement to purchase your product purely on the basis of the information supplied?

Or is the purpose of the advertisement to solicit an 'expression of interest'?

If you are selling a simple and inexpensive product, you may be able to make a sale 'off-the-page' in one simple step.

However, if your product is complex or expensive, your sales process may need to consist of two or more steps.

With a two-step campaign, your advertisement is what we call a 'lead generation' ad. In other words, it is designed to introduce prospects to a sales process — rather than to make a sale at that first point of contact.

A lead generation advertisement would normally offer readers a free information package, report or sample. This 'expression of interest' would then be followed up with either a direct mail campaign, or a telephone or face-to-face presentation.

### It's as easy as AICDC!

There's a simple, five-step process to creating a powerful advert. We call it AICDC — short for *Attention, Interest, Conviction, Desire, Close*. If you adhere to this simple

**Miracle abrasive renders sandpaper obsolete!**

**Amazing new FlexiFile is guaranteed to never clog – and to outlast ordinary sandpaper by up to three times!**

FlexiFile comes in two grades, fine and medium. It is waterproof, and it can be used by hand or with power tools.

Until now, sanding has been a frustrating and time-consuming exercise. This is because ordinary sandpaper is simply not made to last. Within minutes, it starts to clog and lose its abrasiveness, and soon falls apart.

**Revolutionary new abrasive makes sanding a breeze**

FlexiFile is an advanced silicone carbide sanding sheet that's guaranteed never to clog. It's more durable and longer lasting than ordinary sandpaper. And it can be used on almost any surface – by hand or with power tools.

FlexiFile is ideal for sanding wood, plaster, metal, plastic, paint and dozens of other surfaces. It is not affected by rust, grime, sealers or primers, and its double-sided construction enables both sides of the sheet to be used.

Conventional sandpaper quickly clogs and tears with normal sanding

All it takes with FlexiFile is one quick tap and the residue falls effortlessly away

FlexiFile: freecall 1800 678 896

**Your free sample**

FlexiFile truly does render sandpaper obsolete. But don't take our word for it. Try it for yourself! At the bottom of this column, you'll find a coupon that entitles you to a free sample of FlexiFile. Simply take this coupon to any good hardware store and they'll exchange it for a free sample of FlexiFile.

This will allow you to put FlexiFile to the sanding test and discover for yourself that FlexiFile never ever clogs – and outperforms ordinary sandpaper by up to three times!

**Clip this coupon and exchange it for your free FlexiFile sample at any good hardware store!**

process you will find it remarkably easy to create highly effective advertisements.

### Grab their attention!

The most critical component of an ad is its headline. It's the job of the headline to grab the reader's attention — stopping her in her tracks.

If your headline doesn't capture the reader's attention in a split second, she will simply turn the page without reading your advertisement. Try this simple test yourself. Flick through a newspaper or magazine and take note of what catches your eye. Your eyes will automatically skip over those articles that don't interest you, and pause where something demands your attention.

Your headline should make a big claim, in bold, no-nonsense language. This claim doesn't necessarily have to be believable — in fact, the more incredible it sounds, the better — but it must be relevant to the reader. Of course, it must also be truthful.

The FlexiFile headline makes such a claim: *Miracle abrasive renders sandpaper obsolete!* The inference here is immediately obvious. Anyone using sandpaper is doing things the hard way. There's a better alternative. To find out what it is, the reader must read on.

Ideally, your headline should take up at least 25% of your advert's space. And the best headline is one that promises a clear customer benefit. The headline on the advertisement above does exactly this.

Headlines that trumpet a technological or scientific breakthrough tend also to generate an excellent response. You'll notice that the producers of television 'infomercials' favour products that can be promoted as 'new technology' (as well as those that are demonstrable). How many times have you seen a commercial for an exciting new 'widget' and found yourself fumbling for your credit card?

In the FlexiFile advert, the breakthrough factor is emphasised through words such as 'miracle' and 'revolutionary'.

The following are two more examples of headlines that have generated enormous volumes of new business for our clients:

*Rest easy ... that bastard's pinching someone else's hog!* (Promoting a locking device for Harley Davidson motorcycles.)

*The world's greatest marketing blunders — and how to avoid them in your business.* (Promoting a business seminar.)

A headline is generally reinforced by a sub-heading, as in the FlexiFile example: *Amazing new FlexiFile is guaranteed to never clog — and to outlast ordinary sandpaper by up to three times!* Often, the sub-heading will pre-empt the offer — providing the reader with an additional incentive to read on.

Responsibility for attracting readers' attention is often shared by the photograph or illustration. The role of a picture is simply to amplify the message transmitted by the headline.

Before and after photos are particularly effective. If you have a product that lends itself to such a comparison, go for it!

### Building interest

While your headline/picture combination captures the attention of the reader, the responsibility rests with the first two paragraphs of your advertisement to secure her interest.

We often accomplish this with a problem-solution formula, as in the FlexiFile example: *Until now, sanding has been a frustrating and time-consuming exercise.* This is because ordinary sandpaper is simply not made to last. Within minutes, it starts to clog and lose its abrasive surface, and soon falls apart. (Problem).

And the solution? *FlexiFile is an advanced silicone carbide sanding sheet that's guaranteed never to clog.*

### Convince your readers

Use the remainder of your copy, known as the body copy, to build a compelling sales argument. To put it another way, this is your body of evidence. As a barrister is required to prove his case point-by-point in a court of law, you must be able to justify the bold claim you made in your headline.

Describe the features and benefits of the product or service, and offer evidence to support your claims.

When writing your advertisement, try to emulate the style of a newspaper report. The aim is not to trick readers into thinking it's news. It's simply that this is the format that most people are familiar and comfortable with. Newsy text also sounds more credible. Keep sentences short

and interesting, with the most important points in the first few paragraphs. Don't waffle, or get bogged down in technicalities. Use simple, layman's language. And never insult the reader's intelligence, by stating the obvious. Some copywriters try to be too clever or subtle, and end up simply confusing the reader. Write your copy to sell your product or service, not to win advertising awards.

In a two-step campaign, it is important to remember to sell your offer (information package, etc) in your advertisement, not your actual product or service. You'll get plenty of opportunity to do this if your advertisement is successful.

### Stimulate desire

Desire is your emotional argument. This is the mental picture that you create to make the reader feel good about using your product or service. It's like a virtual 'test-drive'. We also call this technique, future pasting, because the reader is 'teleported' to a situation in the future. Stimulate desire by painting a word picture of the reader using and enjoying your product at some stage in the future. E.g. *You'll leave this seminar empowered with ideas to multiply the profitability of your business.*

### Closing your case

The close should be a simple, call to action. In the case of FlexiFile, it was a coupon, offering the reader the opportunity to obtain a free sample of FlexiFile from her local hardware store. (To encourage retailers to participate in this campaign, FlexiFile sold them sample packs and then purchased the coupons collected at the normal retail mark-up.)

In a two-step advertisement the offer can take any number of forms. It may be a free product information pack, or a subscription to your company's newsletter, even an invitation to a seminar or executive briefing.

### How did AICDC work for FlexiFile?

From its first insertion in the Sunday Mail (Brisbane's only Sunday newspaper) the FlexiFile advertisement motivated around 1,000 people to visit hardware stores around Queensland and request the free sample on offer.

Similar results were then replicated with placements of this advertisement in select national magazines.

As well as effectively 'making a market' for FlexiFile, the success of this campaign converted some retailers, who had previously opted not to carry FlexiFile, into enthusiastic stockists.

FlexiFile had arrived! And it was all thanks to the simple, but effective principles of AICDC.

## Relationship-centric Marketing. Embrace it and prosper. Ignore it and perish!

Request a free 12-month subscription to this marketing journal today!

THE STAKES are higher than ever before!

And it's marketing strategy that sets the winners apart from the losers.

Get it right and you win. Get it wrong and ...

Each edition of our quarterly newsletter gives more than 5,600 business owners the marketing strategies they need to gain almost an *unfair advantage* over their competitors.

If you respond today, we will gift you a 12-month subscription to this invaluable publication – absolutely free of charge.

#### Are your customers relationship- or product-focused?

As an *AdVerb* subscriber, you'll learn that there are two types of customer in this world. They can be difficult to tell apart – but their buying motives are diametrically opposed.

If you sell expensive (or complex) products or services – or a product with an essential service component – you'll discover that your ideal customers are the 'relationship-focused' variety.

#### Why traditional sales process design will alienate your very best customers.

You'll learn that you need a special marketing approach to sell to relationship-centric customers. A standard-issue sales process will keep them away in droves!

*AdVerb* will show you how to build a 'relationship-centric' sales process. You'll learn how to compel those valuable customers who are prepared to pay a premium for your service to identify themselves. And you'll discover how to build an automated system that converts prospects into customers and customers into advocates for your business.

#### A subscription to this eight-page, full-colour marketing journal is yours free!

To register for your free 12-month subscription to *AdVerb* visit our online marketing resource centre at: [www.ballistix.com.au](http://www.ballistix.com.au). Alternatively, fax your details to 07 30 100 801 or telephone 07 30 100 800.

Either way, be sure to subscribe to *AdVerb* before your competitor does. Your customers are depending on it!

**Feature stories.** Learn how to harness the power of the Internet, write powerful lead-generation adverts, promote and run effective seminars, publish a newsletter and much more!



**Case studies.** Learn how businesses ranging from gym owners to property developers and law firms have embraced Relationship-centric Marketing – with miraculous results!

**Opinion.** Inclusive opinion pieces from one of Australia's leading marketers. Justin Roff-Marsh debunks conventional wisdom on sales management, customer service, media selection and more!

**Subscribe by:**  
Web: [www.ballistix.com.au](http://www.ballistix.com.au)  
Fax: 07 30 100 801  
Phone: 07 30 100 800

**News and events.** *AdVerb* is just the beginning. We'll help you refine your Relationship-centric sales process with invitations to workshops, and online resources (including tools and articles).

## How your brochure can be a super salesperson for your organisation

### Follow this simple process to transform your brochure into a powerful sales tool

Go on: admit it...

Most brochures make you yawn so hard you fear your jaw's about to snap!

You know, the ubiquitous picture of the board, standing rigidly to attention. The bland letter from the CEO, explaining his company's revolutionary policy of putting its customers first. And the picture of corporate headquarters, complete with a fleet of trucks, apparently hijacked by the Olympic precision parking team!

Fortunately, there's no law that says your brochure *has* to be a printed alternative to Rohypnol. If you follow the simple steps outlined in this article, you can deftly transform it into a *super salesperson* for your organisation.

### Defining an objective

Think about the business challenge you want your brochure to solve. Do you want it to assist in the sale of your products or services? Or do you want to use it to introduce yourself to potential stakeholders (bankers, investors or alliance partners)?

Obviously, each scenario calls for quite a different document.

Once you've decided on an objective, the next step is to consider the role that your brochure will play in your sales process. Will you mail it direct to potential clients? Will interested parties respond to advertisements and request your brochure? Or will your salespeople use it as a sales aid?

Our first law of sales process design is that *each component of a sales process should attempt to sell only what it has a reasonable likelihood of selling.*

This means that if a brochure, or for that matter, an advertisement or a telephone call has little chance of consummating the sale of your product or service, it shouldn't attempt to. Rather, it should 'sell' the next step in your sales process.



If you sell expensive or complex products or services (as most AdVerb subscribers do), your brochure is likely to fit somewhere in the middle of your sales process.

The first step in your sales process is likely to be an advertisement, or a direct mail piece, inviting interested parties to 'put up their hands' and request more information.

The information they request is likely to come packaged in a brochure (although it could also be packaged in a newsletter, an audiocassette or a Website).

Your brochure is then likely to sell the final step in your sales process — perhaps a face-to-face meeting with a sales consultant.

In this scenario, the primary objective of your brochure will obviously be to sell this appointment. Its secondary objective will be to provide a compelling offer for your lead-generation (or relationship-acquisition) activities.

## The importance of desirability

Let's consider this secondary objective first.

Because we're expecting people to telephone and request your brochure, we need to be able to create the perception that it is eminently desirable.

And because we would like to maintain a relationship with respondents after their receipt of your brochure, this desirability needs to be more than just a perception — your brochure *actually has to be desirable!*

The best way to make your brochure desirable is to make it valuable to the recipient. You can do this either by packing it full of useful information — or by stuffing it with \$50 notes.

The former is both more sustainable and more relevant!

There are two more reasons why you should fill your brochure with useful information. Useful information increases the likelihood of your brochure being read. It also positions your organisation as an expert in its field — which certainly makes your services more desirable.

## Giving away the shop

Fortunately, this useful information isn't hard to find. All you need to do is package some of that valuable knowledge you have hiding in your organisation.

Now if there's one gem of advice that incites panic among our clients, this is it! I'm frequently asked, 'Why on earth would we want to give away our intellectual capital?'

Let me answer this question with a question: What's the number one reason your potential customers buy elsewhere?

Isn't it because they don't appreciate the additional value they will gain if they pay a premium to work with you?

Well, in sharing your knowledge with potential customers, you will actually educate them about your point of difference. The act of sharing your knowledge will empower potential customers to do business with you!

Now, I'll let you in on a little secret. Your knowledge isn't worth as much as you think it is. (If you don't agree with me, put it in book form and see how much you can get for it. Even in hardcover, you'll be hard pressed to sell it for more than \$100!) The true value lies in your ability to *implement* this knowledge.

Which brings me to our second law of sales process design: *Give away your knowledge and earn the right to charge a premium for implementation.*

We recommend that you package your knowledge in a *do-it-yourself* format. This *do-it-yourself* treatment will make your knowledge practical and relevant, rather than academic and obtuse. The reality is that only potential customers who can't (or won't) afford your fees will actually attempt to do it themselves. And, by definition, they aren't potential customers anyway.

## Putting your brochure together

So far, we've defined a primary and secondary objective for your brochure, and discovered its most important content element.

Now the strategic issues are resolved, it's time to plan the format of your document.

It all starts with the cover.

## Please open me!

The cover of your brochure is nothing more than an advertisement for the brochure itself.

And like any good advertisement, your cover's most important element is its headline. Of course, this headline should promote the valuable knowledge I've just convinced you to package and place in your brochure.

The name of your product, or of your organisation, should be placed underneath this headline (along with the appropriate logo and descriptor).

To write a compelling headline for the cover of your brochure, write the words 'How to ...' on a sheet of paper. Then follow these words with the primary benefit the reader is likely to enjoy if they read — and act on — the content of your brochure.

The brochure we produced for Medical Spectrum, a company that sells practice management software, carries the headline: 'How to dramatically improve patient care and increase the profitability of your practice.' (Writing good headlines isn't anywhere near as hard as you thought it might be!)

The photograph on the cover of your brochure should be chosen to complement the headline — rather than to compete with it for the reader's attention.





### Introducing ...

When your reader opens your brochure, she should find a brief introduction.

This introduction should expand on the promise contained in the headline and pre-empt the contents of the document. This is particularly important if your brochure is more than eight pages long.

### Educate the reader

The next couple of pages of your brochure should deliver the valuable knowledge we discussed earlier.

Please try and deliver this knowledge so that it has stand-alone value. For example our brochure for Gavin Ross Portfolio Management Services spells out Gavin's five laws of value investing. Some of Gavin's other communications even go to the trouble of explaining his stock valuation methodology.

Our brochure for Aleis International's livestock management system provides the reader with a brief introduction to the optimum stock management methodology. And the substantial document we produced to enable *fullife* pharmacies to recruit new member pharmacies provides prospective group members with a detailed introduction to leading edge pharmacy marketing practices.

In each of these cases, we have tried to impart this information in such a way that it has stand-alone value. In other words, so that the reader can benefit from reading it whether or not she actually purchases the product or service on offer.

As mentioned previously, this approach will position you as a leader in your field (thereby making future information more valuable). More importantly, it will create a need for your product or service.

### Profile your product or service

In other words, by the time you get around to presenting your product or service, the job of selling is more than half-done.

Consider Aleis International's brochure. This document explains that, rather than managing livestock using aggregate data (as producers typically do), the optimal stock management methodology enables a producer to manage 10,000 animals on an animal-by-animal basis.

If a producer wishes to implement this management methodology, he has two choices. He can manage his animals manually, which is indeed possible. Or he can manage them using Aleis International's electronic stock management system.

The reality is that, a producer with 1,000 or more animals will reap enormous economies from using Aleis International's electronic stock management system.

You see, if you can create a need for your product or service by teaching the reader your methodology, all you have to do now is prove beyond reasonable doubt that your product or service is capable of servicing this need.

### A unit of conviction

Years ago, in the insurance industry, a sales trainer taught me that, in order to convince a prospect of something, I should present my information in the form of a *unit of conviction*.

"A unit of conviction," he explained, "has three components: a *product feature*, an associated *benefit* and *evidence*."

As is the case with many direct sales techniques, units of conviction work just as well in print as they do face-to-face.

The significance of this technique is that, in tying each of your product or service's features to an associated benefit, you keep these features relevant to the reader.

**How to maximise the return on your livestock**

**StocTraka**  
AUTOMATED STOCK MANAGEMENT SYSTEM

**How to maximise the return on your livestock**

**The why**

**The what**

**The how**

**The who**

**The where**

**The when**

**The cost**

**The benefit**

**The future**

**Managing the production cycle from the race**

**1 Individual identification**

**2 Data collection**

**3 Data analysis**

**4 Decision making**

**5 Implementation**

**6 Profit**

**Introducing StocTraka**

**Key benefits**

**Key features**

**Key components**

**Key results**

**Key statistics**

**Maximising performance — the StocTraka way**

**Components of the StocTraka System**

**Race Pen**

**Race Pen**

**Race Pen**

**Race Pen**

**Race Pen**

**Race Pen**

**Setting the world benchmark in stock management**

**Setting the benchmark**

**Setting the benchmark**

**Setting the benchmark**

**Setting the benchmark**

**Setting the benchmark**

**Setting the benchmark**



If you're not sure what the benefit of one of the your product or service's features is, ask yourself this simple question. 'How does this feature assist in servicing my reader's need?' (If a feature does not make a contribution to a reader's need, you would have to assume that the feature is irrelevant.)

If an associated benefit makes your feature relevant, evidence makes it believable.

Evidence can take the form of a photograph or diagram, technical data, a testimonial or the results from an independent test.

### Case studies

I don't think we've ever created a brochure without case studies — and I certainly hope we never do!

A case study is the story of a client of yours who has used and benefited from your product or service. It should be written in third person — unlike a testimonial, which is written in first person.

A case study should consist of three components: a description of the problem your client faced; an outline of the steps you took to solve this problem; and a description of the end result. Where possible, a case study should contain direct quotes from your client.

Case studies are important because they enable prospective clients to experience your product or service through someone else's eyes. Case studies are particularly important to service providers because they make an otherwise intangible service tangible.

### Your organisation's credentials

We've left the information about your organisation until last for one very good reason. The fact is, until your reader has discovered that she has a need for your product or service — and *then* been convinced that your product or service has the potential to service her need — information about your organisation is of absolutely no relevance.

When it comes to presenting your organisation's credentials, I have only one piece of advice for you. Make sure each inclusion is relevant to the reader!

If you're in the logistics business, a picture of your fleet of trucks is probably relevant. If you're a computer reseller, it probably isn't.

Now, I understand that some business people feel that pictures of buildings and trucks give their organisation a feeling of substance. My guess is that you can achieve a better result by paying close attention to the overall quality of your brochure — and it's relevance to your reader.

### Ask for the 'sale'

The last component of your brochure is identical to the last component of each step in your sales process. You should ask for the 'sale' — remembering that the 'sale' can either be the next step in your sales process, or an order for your product or service.

Now that you've created a need *and* demonstrated that you have both the ability and the credentials to fulfil that need, you should close by asking the reader to move to the next step in your sales process, which is, in this scenario, an appointment.

The best way to compel your reader to pick up her telephone and book an appointment is to explain how she will benefit from doing so.

Like your brochure, an appointment should be designed to impart some value to your prospect — regardless of whether or not she ultimately purchases from you.

Fortunately, if you sit in on one of your salesperson's appointments (or record one of your own) you are likely to discover that you are already doing this. My guess is that one of your appointments typically begins with a *fact-finding exercise* (an informal audit, if you like). It probably then proceeds to the presentation of a *set of preliminary recommendations*. And concludes with an outline of how, if appropriate, you can assist your prospect with the *implementation of these recommendations*.

The good news is that, if you formalise this process — and explain it to your reader in advance — you'll find she's more likely to go ahead and schedule that appointment.

The last component of your brochure is identical to the last component of each step in your sales process. You should ask for the 'sale'

### How to establish a clear cause and effect relationship between promotional expenditure and sales

#### ... and how to fast-track the growth of your business in the process

Over lunch, a CEO recently admitted to me that his financial controller was using his organisation's profits to build quite a substantial commercial property portfolio.

When I asked if this was best use of his organisation's free cashflow, he smiled, "How did I know you'd ask that question?"

"The fact is," he continued, "the availability of capital is not currently a constraint on our growth."

"It might not be a constraint on your organic growth," I argued, "but I still think that money could be better invested in *new client acquisition*."

We spent the rest of that lunch scribbling on napkins. Together, we discovered that a dollar invested in promotional expenditure was actually providing this CEO's organisation with a better-than 900% return on investment!

By the time coffee was served, we'd agreed that his organisation's sales process could provide a much more favourable return on capital than even the bluest of blue-chip commercial property investments.

In our experience, this holds true for most organisations. Unfortunately, most are reluctant to invest in their sales processes because (unlike other business processes) it's impossible to calculate a return on investment.

#### Science versus art

If you're a follower of our *Relationship-centric Marketing* methodology, you'll know that a sales process has inputs and outputs — just like any other business process.

You'll know that a sales *process* (as the word process implies) consists of a sequence of simple, interrelated steps — just like any other business process.

And you'll know, at least in theory, that each step in a sales process can be measured, managed and optimised — just like any other business process.

This article explains the science (and more importantly, the mathematics) behind sales process management. It will show you how to take control of your sales process and use it to fast-track the growth of your organisation.

If you didn't pay much attention to mathematics at school, you may find this article tough-going at times. But please be sure to persevere.

I'm sure you'll discover that your sales process is harbouring significant growth potential!

#### Management by numbers

If you think about it, the word *management* presupposes *measurement*. The fact is, if you can't measure it, you simply can't manage it.

So, to manage a sales process (or any process for that matter), we need to know what to measure. Generally speaking, we will measure *inputs*, *outputs* and *time*. Specifically, we'll measure:

- > Volume (output/time)
- > Productivity (output/inputs)

We'll measure these *key performance indicators* (KPIs) for the process as a whole, and then we'll break the sales process into its key components (sub-processes) and devise a set of KPIs for each component.

It's worth remembering that your sales process is actually a component of a much larger system: your entire business. In the context of your business as a whole, *revenue* is a measure of volume, and *gross profit* is a measure of productivity. The problem with these indicators is that they are *trailing indicators*: that is, they tell you more about what you have done in the past than they do about what you should do in the future.

Because your sales process is the first step in your entire organisational process, the information you collect from monitoring these performance indicators can be used to enable real-time process optimisation.

As we dissect and analyse the sales process, we'll make references to a fictitious company we'll call *Correlex*. *Correlex* is an engineering firm that consults to property developers. *Correlex's* clients all pay a retainer of \$450 a month to access its consulting services. References to *Correlex* will appear in green-tinted sections, just like this one.

## Measuring the process as a whole

The objective of your sales process is obviously to generate sales.

This process must be designed and managed to ensure that it delivers a sufficient volume of sales in exchange for a commercially realistic investment.

For simplicity's sake, we'll assume that the objective of our sales process is to acquire new clients. But don't worry, we will be sure to take follow-on sales (and even referrals) into account.

Accordingly, the two global indicators in which we're most interested are:

- > Client acquisition rate (new clients per month).
- > Client acquisition cost (cost per new client).

When we're measuring *client acquisition cost*, we're dividing the amount we invested in the acquisition of relationships by the number of clients acquired as a result of that expenditure.

When we calculate this figure, we only take into account the variable costs associated with the promotional campaign that acquired each particular client relationship.

With a promotional campaign, variable costs are typically media costs. We do not factor in the fixed costs associated with that promotional campaign (the cost of creating the campaign). Nor do we include the fixed costs associated with the rest of the sales process (e.g., the cost of managing the relationship with the potential client).

We ignore fixed costs because these are the cost of operating your sales process, rather than process inputs.

Our *client acquisition cost* is most useful for monitoring the performance of our relationship acquisition campaigns. It's important to remember that, unless you have a very short sales cycle, *client acquisition cost* tends to be longer-term performance indicator. (The term sales cycle refers to the average time span between the acquisition of a relationship and the consummation of a sale.) We'll uncover a short-term indicator when we examine the relationship acquisition step of the sales process.

When the CEO of *Correlex* reviews his organisation's sales process, he discovers that, averaged over the last 12 months, *Correlex* acquired two new clients each month.

To determine his average *client acquisition cost*, he divides his total variable promotional costs by the number of clients he acquired over this period.

In the last 12 months, *Correlex* had advertised in the Financial Review, and in a number of specialist publications. It had also run 4 direct mail campaigns. Accordingly, its variable promotional costs consisted of the cost of media for the advertising campaigns, and the cost of mail processing for the direct mail campaigns.

In total, *Correlex* invested \$9,600 in order to acquire 24 new clients: an average *client acquisition cost* of \$400.

$$\$9,600 / 24 = \$400$$

## Optimisation

It's obviously important to know how many sales your organisation is making. It's also nice to know how much each sale is costing you in promotional expenditure.

But, in isolation, this information is not particularly useful.

What you need to be able to do, is compare your actual performance with your *optimal* performance.

A common mistake in process management is to establish absolutes as targets. For example, it would be tempting to assume that the objective of your sales process is to generate as many sales as possible, for the lowest possible promotional expenditure.

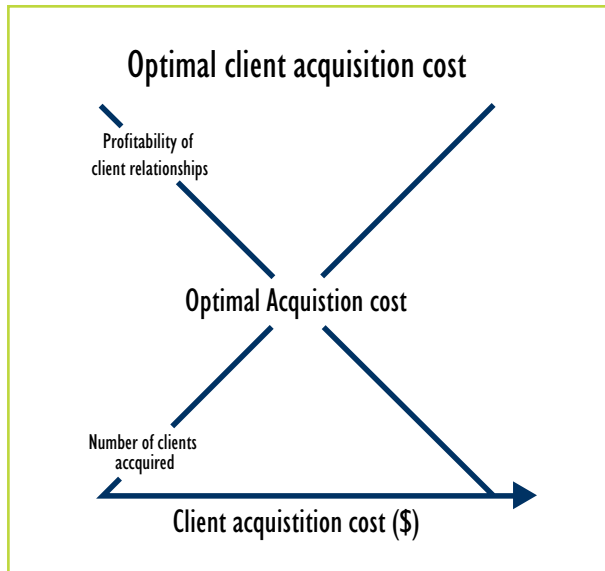
The reality is that sales and promotional expenditure are interrelated. (You can't have one without the other.) A singular focus on either maximising sales or minimising promotional costs is likely to *sub-optimize* the performance of your sales process. The key is to determine the *optimal* relationship between promotional expenditure and sales.

Accordingly, you now need to determine the optimal figures for each of your global KPIs.

*Client acquisition rate* is easy. Obviously, your optimal figure is determined by the capacity of your production and distribution processes. (There's little point generating sales that can't possibly be fulfilled.)

However, your *client acquisition cost* requires a little more thought.

As the graph below illustrates, as your promotional expenditure increases, the number of clients you acquire should also increase. However, with the increased promotional expenditure, the profitability of each client relationship suffers.



In theory, your *optimal client acquisition cost* is the point where these two lines intersect.

In practice, it will take some experimentation (and careful measurement) to calculate your *optimal acquisition cost*.

The starting point for this calculation is the determination of the *lifetime value* of a client. (Your *optimal client acquisition cost* will be a percentage of this figure.)

It is difficult to overemphasise the importance of performing this calculation. Without an understanding of the dollar value of a client, it is simply impossible to effectively manage your sales process.

In our experience, because most organisations have no way to value a client relationship, most grossly underestimate the amount that they are prepared to invest in client acquisition.

This under-investment in client acquisition seriously retards the growth of many organisations.

The publishing industry is one industry that does understand the concept of *lifetime value*. Typically publishers of magazines and other periodicals are prepared to invest at least 100% of the first year's subscription revenue in order to acquire a new subscriber!

### Valuing a client relationship

In financial terms, a client relationship is simply an annuity income stream.

It follows that you can value a client relationship, just as you can value any other kind of annuity (income-producing investment).

You value an annuity using a *net present value* calculation. (*Net present value* is the sum of a series of future payments, discounted for the cost of capital.)

To calculate the *lifetime value* of a client, determine the gross profit you earn in an average year from an average client, then multiply this by the figure in the annuity table below that corresponds to the number of years you retain this average client.

The table on the following page shows how much a series of \$1 payments, to be paid at the end of each year for a specified number of years into the future, is currently worth, with interest at different rates, compounded annually. In other words, the table shows what you should be willing to pay, today, in order to receive a certain series of future payments of \$1 each.

### Cost of capital

Years	5%	6%	7%	8%	9%	10%
1	\$0.95	\$0.94	\$0.93	\$0.93	\$0.92	\$0.91
2	\$1.86	\$1.83	\$1.81	\$1.78	\$1.76	\$1.74
3	\$2.72	\$2.67	\$2.62	\$2.58	\$2.53	\$2.49
4	\$3.55	\$3.47	\$3.39	\$3.31	\$3.24	\$3.17
5	\$4.33	\$4.21	\$4.10	\$3.99	\$3.89	\$3.79
6	\$5.08	\$4.92	\$4.77	\$4.62	\$4.49	\$4.36
7	\$5.79	\$5.58	\$5.39	\$5.21	\$5.03	\$4.87
8	\$6.46	\$6.21	\$5.97	\$5.75	\$5.53	\$5.33
9	\$7.11	\$6.80	\$6.52	\$6.25	\$6.00	\$5.76
10	\$7.72	\$7.36	\$7.02	\$6.71	\$6.42	\$6.14

As you already know, *Correlex* sells a consulting service for \$450 a month.

To calculate the *lifetime value* of an average client, it must multiply the gross profit in a transaction by the number of times *Correlex* transacts with an average client over the lifetime of the client relationship.

On average, *Correlex* retains a client for three years. Its gross profit is 70% (or \$315).

It chooses to account for cost of capital at its overdraft rate, 9%.

*Correlex* calculates the *net present value* of a client relationship by first calculating its annual gross profit, and then multiplying this figure by the appropriate multiplier from the table above:

Average annual gross profit:  $\$450 \times 12 \times 70\% = \$3,780$

Net present value:  $\$3,780 \times \$2.53 = \$9,563$

The CEO of *Correlex* is surprised to see just how valuable a client relationship is.

Prior to performing this calculation, he was considering reducing his promotional expenditure (\$400 per client seemed like a lot — especially for an engineering firm).

Now, however, he suspects that he has been underspending on *client acquisition*!

Accordingly, he decides to set his optimal client acquisition cost at a (conservative) \$900. He also resolves to watch his KPIs carefully and review this figure in six months' time.

As explained, your *optimal client acquisition* cost will be a percentage of the lifetime value of a client. The actual percentage will depend on the fixed costs associated with your sales process (and your sales volume). It will almost certainly be more than 10%. It may even be as high as 50%.

(While the idea of investing 50% of the lifetime value of a client in *client acquisition* may seem ludicrous, it's important to remember that, once an organisation has passed its break-even point, it's effectively enjoying a 100% return on this promotional expenditure. Try earning that in the bank!)

Before he can finalise his global performance indicators, the CEO of *Correlex* must determine his *optimal client acquisition rate*. A quick call to his operations manager confirms that *Correlex* is capable handling four new clients a month.

Global Performance Indicators			
New clients/month		Client acquisition cost	
Actual	Optimal	Actual	Optimal
2	4	\$ 400.00	\$ 900.00

These indicators provide *Correlex*'s CEO with an overview of the relationship between his sales process's inputs and outputs.

His suspicion that he is underspending on promotion is supported by the fact that *Correlex* is growing at 50% of its optimal rate.

Because your global KPIs are longer-term indicators, they do not enable you to manage your sales process on a day-to-day basis.

To do this, we need to divide your sales process into its key components, and then devise a set of performance indicators for each.

You'll remember that a sales process consists of three components:

- > Relationship acquisition
- > Relationship management
- > Opportunity management

Let's start with the final component of the sales process and work backwards.

## Opportunity management

The objective of your opportunity management process is to convert sales opportunities into sales (remember, we're assuming that a sale is a new client). This process will generally involve salespeople, operating either in the field, or from a call centre (or both).

A sales opportunity is typically an *expression of interest* in a specific product or service, generated as a result of your opportunity management process. (Sales opportunities are often called leads.)

As with your sales process as a whole, we are primarily interested in the volume and the productivity of your opportunity management process.

Accordingly, we will begin by measuring:

- > Client acquisition rate (clients per month)
- > Opportunity conversion rate (sales/opportunities x 100)

Of course, the volume of the opportunity management process (*client acquisition rate*) will be identical to the volume of your sales process as a whole.

Your conversion rate is the percentage of sales opportunities that convert into sales.

The CEO of *Correlex* already knows his *client acquisition rate*.

What he doesn't know, is how many sales opportunities his consultants require in order to make each sale.

A survey of his consultants' sales figures indicates that, on average, his consultants convert one in every 2.9 sales opportunities into sales. (Accordingly, his *conversion rate* is 35%.)

But these sales figures also reveal an interesting phenomenon. *Correlex's* CEO observes that conversion rates vary considerably from consultant to consultant. He also notices that there seems to be an inverse relationship between *acquisition rate* and *conversion rate* for individual consultants.

In other words, the consultants who acquire the most new clients tend not to have the highest conversion rates, and vice versa.

He wonders why ...

## Optimising conversion rates

Contrary to popular belief, the primary influencer of *conversion rate* is not the skill of salespeople.

Rather, it is the design of the opportunity management process.

In our experience, opportunity management processes are best designed with a view to minimising the time between the emergence of a sales opportunity and closure of that opportunity (a sales opportunity is closed when it is won, lost or abandoned).

Increasing the *volume* of a sales process may result in lower conversion rates, but this is not necessarily a bad thing!

Sales managers typically manage their salespeople as if a conversion rate of 100% is achievable.

In reality, 100% is rarely an optimal conversion rate. The reason is that, as conversion rates go up, volume goes down.

Ask yourself, which would you prefer: a salesperson who conducts 5 appointments a day, with a 40% conversion rate; or a salesperson who conducts 3 (highly qualified) appointments a week, with a 95% conversion rate? (Hint: salesperson A generates 10 sales a week, where salesperson B generates less than 3.)

You can take the following steps to increase the volume of your sales process:

- > Break the opportunity management process into a number of logical steps.
- > Ensure all sales opportunities follow the same process.



## Open Sales opportunities

Company	Date Opened	Target close	Days open	Source	Objective	Salesperson	Dollar Value	Stage	Probability	Weighted value
Banksia Pty Ltd	4-Oct-01	10-Feb-01	62	eBulletin 5	Consulting	Jeff	\$15,000.00	Exp. of interest	10%	\$1,500.00
Burns Consulting	15-Oct-01	18-Nov-01	51	Seminar 3	Software	Belinda	\$10,000.00	Inst. to proceed	90%	\$ 9,000.00
Illustionary Concepts	16-Oct-01	5-Dec-01	50	eBulletin 6	Consulting	Denise	\$ 15,000.00	Req. proposal	30%	\$ 4,500.00
No. of opportunities	3	Avg. days open	54	Total opportunities	\$40,000.00	Total weighted opportunities	\$15,000.00			

- > At each step in the opportunity management process, be sure to up-sell to the next step.
- > Actively manage open opportunities.

You can manage individual (open) opportunities with a simple tabular report, like the one above. Normally, a sales team will work through this report in its weekly sales meeting. The key indicators to watch are the *number of open opportunities* and average days open. (If you sell a number of products with different price points, you may prefer to monitor the dollar value of opportunities).

Most CRM systems produce such a report; alternatively, you can create your own in Excel.

You can also use the *weighted value* and *target close* data from this report to produce sales forecasts.

*Correlex's* CEO reviews his consultants' differing opportunity management processes. He identifies the consultant with the most efficient process and resolves to benchmark this process and make it the organisational standard.

This new benchmark calls for a *conversion rate* of 25% and an *average days open* of 45 days.

From these figures, he calculates that, at any one point in time, his organisation should have one and a half months' worth of open opportunities:

Optimal monthly sales: 4

Opportunities required to make 10 sales:  $4 / 25\% = 16$

Average days open: 45 (1.5 months)

Optimal open opportunities:  $16 \times 1.5 = 24$

Opportunity Management KPLs			
New clients/month		Conversion Rate	
Actual	Optimal	Actual	Optimal
2	4	35%	25%
Open opportunities		Average days open	
Actual	Optimal	Actual	Optimal
16	24	62	45

## Relationship management

The objective of your relationship management process is to generate a steady stream of sales opportunities from your relationships under management.

We do this by creating an automated communication program. This is a sequence of ongoing communications, where each communication is designed to add value to these relationships.

A typical communication program will consist of a monthly e-mail newsletter and bimonthly seminars or workshops.

We tend to take an indirect (longer-term) approach to the generation of sales opportunities. Our experience is that, if you can design the relationship management process to

position your organisation as the leader in its particular field, sales opportunities will be forthcoming.

Events and other activities can be used to stimulate the flow of activities, but on many occasions, these activities will simply *time-shift* the emergence of opportunities — rather than creating opportunities you wouldn't otherwise have received.

You need to balance your need for sales opportunities against the requirement to add value to the relationships under your custodianship. There is a danger that, if you design your communications specifically to maximise the flow of sales opportunities, you may compromise the integrity of these relationships.

As with our other processes, we are primarily interested in monitoring volume and productivity. Accordingly, our KPIs are as follows:

- > Opportunities per month.
- > Opportunity realisation rate (monthly opportunities/relationships).

*Opportunity realisation* rate advises you of the correlation between the number of relationships you have under management (the size of your database) and the number of sales opportunities these relationships produce each month.

*Correlex* has 1,500 contacts on its database. Because all of these contacts are recipients of *Correlex's* monthly e-mail newsletter, it refers to them as *subscribers*.

On average, *Correlex* receives 12 sales opportunities a month from its subscriber database.

These 12 opportunities represent an *opportunity realisation rate* of 0.8%:

$$12 / 1,500 \times 100 = 0.8\%$$

In order to increase the flow of sales opportunities to the 16 per month required, *Correlex's* CEO realises he must acquire an additional 500 subscribers:

$$16 / 0.8\% = 2,000$$

Opportunities/month		Realisation rate	
Actual	Optimal	Actual	Optimal
12	16	0.8%	0.8%

### Relationship acquisition

The objective of your relationship acquisition process is to acquire a steady stream of relationships with potential clients and centres of influence.

The input into this process is the investment in your relationship-acquisition campaigns (remember, we're only tracking variable costs). The output is obviously the relationships (or subscribers) you add to your database.

The precise management of this process is critical for two reasons:

- > The flow of inbound opportunities is the key determinate of the volume of the process as a whole.
- > In the absence of an objective performance measure, there is a high probability that you will either under- or over-spend on promotion.

Our performance indicators for this process are:

- > Relationship acquisition rate (relationships per month).
- > Relationship acquisition cost (cost per relationship).

*Relationship acquisition cost* is calculated by dividing the variable cost of promotional campaigns by the number of new relationships acquired by those campaigns.

As with our global KPIs, these indicators don't mean much until we can compare actual and optimal figures.

### Optimising your relationship acquisition process

The calculation of your optimal *relationship acquisition rate* is easy. This figure is determined by:

- > Your target database size.
- > Your availability of promotional funds.
- > The capacity of your relationship acquisition process.

The calculation of your optimal *relationship acquisition cost* requires a little more thought.

The amount that you are prepared to spend in order to acquire a new relationship must obviously relate to the value of such a relationship.

But how can you value one more name on your database?

The solution is to value relationships using exactly the same methodology we used to value clients.

... if you can design the relationship management process to position your organisation as the leader in its particular field, sales opportunities will be forthcoming.

Your database of subscribers provides you with a flow of sales opportunities.

You can value a sales opportunity by discounting your *optimal client acquisition cost* for your conversion rate. (In other words, if your conversion rate is 10%, a sales opportunity is worth 10% of your *optimal client acquisition cost*.)

Accordingly, to value one new subscriber, all you have to do is calculate the odds of that subscriber

becoming a client over the life of their relationship with you.

While you can easily calculate the life of a client relationship, it's a little harder to calculate the life of a subscriber. In our experience, it's rare for subscribers to unsubscribe from our automated communications program.

For this reason, we arbitrarily choose to value subscribers over the same lifespan as clients. Accordingly, if the life of an average client is three years, we value subscribers over this same period.

The CEO of *Correlex* is prepared to invest \$900 to acquire a new client.

Because his *optimal conversion* rate is 25%, a sales opportunity is worth \$225.

$$\$900 \times 25\% = \$225$$

He knows that his automated communication program provides him with an opportunity realisation rate of 0.8% per month. Or, to put it another way, for each subscriber on his database, he will receive 0.8% of a new sales opportunity each month.

Because he arbitrarily decides to value subscribers over a three-year period (36 months), *Correlex's* CEO can calculate that there is a 28.8% likelihood of a new subscriber turning into a client over this period.

$$0.8\% \times 36 = 28.8\%$$

If 28.8% of subscribers become clients, it follows that a new subscriber is worth \$64.80:

$$\$225 \times 28.8\% = \$64.80$$

Therefore, this \$64.80 is *Correlex's optimal relationship acquisition cost*.

*Correlex's* CEO decides to set his *optimal relationships acquisition rate* at 85 per month. This will allow him to easily hit his target of 2,000 subscribers within 12 months. (Even accounting for a particularly conservative *unsubscribe* rate of 42 a month.)

R/ship acquisition rate		R/ship acquisition cost	
Actual	Optimal	Actual	Optimal
57	85	\$ 42.50	\$ 64.80

## Is your marketing manager redundant?

You know, I'd hate to be a marketing manager in a typical service-based firm.

The problem is, in such a firm, there's precious little for a marketing manager to manage!

Here's a person with no authority, no direct reports, a tiny budget, and no process to oversee. A person who's only mandate (to 'get the firm's name out there') has no metric with which success can be measured.

Now, I'd like to make it clear that I have no problem with the title of *Marketing Manager*, nor with the person who holds that title. My problem is with the role that's generally assigned to that title.

The fact is, if your firm sells services (or a product with an essential service component), the traditional role of a marketing manager is probably redundant.

If so, you should move fast to redefine your marketing manager's role — to provide him with something of substance to manage, and to provide your firm with an opportunity to recoup its investment in the position.

### The word marketing means too much

Unless you're a consumer goods firm, your marketing manager probably shouldn't manage marketing!

The problem is, the definition of *marketing* is so far-reaching that the word loses all relevance.

Michael Porter (the patron saint of strategy) defines marketing as *the entire organisation, as viewed from the customer's perspective*.

So, is it practical to give your marketing manager responsibility for *your whole organisation as viewed from your customer's perspective*? I suspect not.

Even if we view marketing in terms of its core functions, its reach is still very broad.

First-year marketing students are taught about the four Ps of marketing: *product, price, place* and *promotion* (*place* refers to *distribution*).

My guess is that, in your firm, it's really the last of the four Ps (*promotion*) that concerns you the most. (I suspect that

your product design, pricing and distribution strategies are not in a constant state of flux!)

Accordingly, it would seem beneficial to restrict your marketing manager's role to the management of *promotion*.

### But the word promotion means too little!

However, in the context of a service-based firm, promotion should consist of so much more than simply *getting your name out there*.

Let's face it, you can't sell professional services, information technology, mining equipment or construction services with the kind of promotional campaign that a consumer goods firm would use to sell cornflakes.

You need a process — often a complex, protracted process — that starts with the identification of a potential customer, and ends with the acquisition of an enduring and profitable relationship.

This means that, if you want your marketing manager to manage *promotion*, he should manage your entire *sales process* (and not just your advertising and public relations activities).

### The role of a sales process manager

Okay, the title's not so sexy! But, remember, what we're concerned with here is the role behind the title. (You're welcome to continue to refer to your *sales process manager* by the arbitrary title of *marketing manager*.)

The reality is that, while technically you're restricting the scope of your marketing manager's role, in practice, you're likely to provide him with considerably more responsibility.

Your *sales process manager* should be responsible for the three components of a (relationship-centric) sales process:

- > Relationship acquisition. (The acquisition of relationships with a constant stream of potential clients and centres of influence.)



- > Relationship management. (The ongoing management of these relationships and the generation of sales opportunities.)
- > Opportunity management. (The management of the sales pipeline — the process that stretches from the identification of a sales opportunity through to the winning or losing of the sale.)

In practical terms, this means that your *sales process manager* should be responsible for managing:

- > the regular advertising or direct mail campaigns that acquire relationships;
- > the automated communications (newsletter, seminars etc) that maintain and develop those relationships;
- > and the various steps in your sales pipeline (maintenance of a communications log, dispatch of proposals and scheduling of appointments with sales consultants).

While many firms do not give their marketing managers responsibility for the entire sales process, this is dead wrong. What is the purpose of advertising and public relations activities if it is not ultimately to generate sales?

We frequently come across organisations where marketing managers are busy running 'branding' campaigns, and salespeople are out in the field 'turning over rocks' looking for sales opportunities. Go figure!

If your organisation does not have salespeople, your *sales process manager* should be responsible for the sales-related tasks performed by partners or managers.

### Do you really need a sales manager?

Now that your marketing manager is responsible for the entire sales process, do you really need a sales manager?

Well, good sales process design will reduce the complexity of the opportunity management process and, accordingly, the demands on your salespeople.

In a perfect world, your salespeople should do nothing other than conduct meetings with preappointed, pre-qualified prospects, who have indicated a propensity to purchase.

If you have a large enough sales team, you may be able to justify a sales manager. Just be sure that your sales manager spends his time managing salespeople, and not your sales process. (In other words, if your salespeople spend their time in the field, that's exactly where your sales manager should be.)

### 'Managing' doesn't mean 'doing'

While we're in the process of reengineering your marketing manager's role, it's worth reminding ourselves that 'managing' doesn't mean 'doing'.

I often take a walk through our clients' manufacturing facilities. In the process, I seldom see production managers operating machines.

Why then, do these same organisations have their marketing managers doing data entry, creating advertisements, writing brochure copy, designing PowerPoint presentations, and so on?

The issue is not whether or not your marketing manager is skilled in these areas, but whether or not he can manage your entire sales process if he has his sleeves rolled-up, doing process work.

Tell me, have you ever seen an orchestra where the conductor plays first violin?

### A rewarding career

If you compare the role of typical marketing manager with the role of a sales process manager the differences are profound.

- > The former has little authority and no process to oversee. The latter has authority over the entire sales process — and is in a position to manage this process, from relationship acquisition, through to the conversion of opportunities into sales.
- > The former has no way of quantifying his effectiveness.

The latter can demonstrate a clear return on marketing investment — by relating marketing activities to the sales they produced.

- > The former makes decisions based on intuition and data of questionable relevance (can anyone really demonstrate a linear relationship between brand equity and sales?). The latter (to quote Alfred Sloane) 'manages with the force of facts'.

I mentioned at the outset that I'd hate to be a marketing manager in a typical service-based firm. Tell me, if you had the choice between being appointed marketing manager or sales process manager in your own organisation, which would you choose?

Me, I'd take the role of *sales process manager* along with the title of *marketing manager*. Why would I want to be called a marketing manager? Well marketing managers get invited to more free lunches of course!



## Is your salesperson really selling?

If you have a salesperson, I challenge you to try this simple 'time and motion' study.

Follow her around for a week and take note of the different activities in which she engages — and the percentage of her working hours that are devoted to each.

My guess is that you'll discover something like the following:

- > 60% of her time is spent prospecting (looking for someone to sell to).
- > 10% of her time is spent face-to-face with qualified prospects (actually selling).
- > And 30% of her time is spent servicing existing accounts (looking after people to whom she has already sold).

Now, ask yourself a question: is your salesperson investing her time in the most effective manner?

To answer that question, let's examine each of the activities in which she engages, starting with 'servicing existing accounts'.

In my experience, using salespeople to perform customer service duties is a little like trying to kill a butterfly with a hammer: you waste resources, and make a hell of a mess in the process!

The fact is, the best salespeople tend not to be great at customer service — and vice versa.



Better to give your customer service duties to a full-time, telephone-based customer service person who'll do the job properly, for around half the salary.

Your salesperson can now divide the time she saves between prospecting (now approximately 70% of her available time) and selling (now 30%).

Let's take a look now at prospecting — is this activity really an effective use of your salesperson's time?

If you're paying your salesperson \$70,000 a year, and this person has 20 timeslots a week that she could theoretically fill with appointments, 14 of these slots are currently being spent looking for people to sell to in the remaining six!

Or, to put it another way, each appointment is costing you (in salary alone) \$243, instead of the \$73 you'd be paying per appointment if all of the available slots were filled. Is this so bad?

### The answer's no ... and yes!

No, it's not unrealistic to invest \$243 to set an appointment for a \$70,000 a year salesperson. But this calculation doesn't take 'opportunity cost' into account. In other words, what's it costing in lost sales revenue to have your salesperson perform only six out of a possible 20 appointments?

Let's assume that a typical customer is worth \$10,000 to you (lifetime value) — and that your salesperson successfully 'closes' one sale for each six appointments.

Right now, your salesperson is performing six appointments a week — which equates to one sale, worth \$10,000 (or \$1,670 revenue per appointment).

If you can find another way to invest that available \$243 per appointment, such that each of your salesperson's 20 available timeslots is filled, your salesperson will now be performing an additional 14 appointments — lifting revenues to \$33,400 a week. (That should just about cover your customer service person's salary!)

Therefore, the 'opportunity cost' of having your salesperson do her own prospecting is a massive \$23,400 a week!

## But that's not the half of it!

If your salesperson is no longer setting her own appointments, who is? And what's the likely impact on her closing ratio?

Let's assume that you were to use advertising to generate inquiries — you'll find examples of lead-generation advertisements in this (and previous) editions of AdVerb. And let's assume that you give your new customer service person the job of setting appointments for your salesperson.

Our experience is that responses to a lead-generation advertisement placed in a metropolitan newspaper are likely to cost you somewhere in the region of \$30 each. If your customer service person appoints one in five, each appointment will cost you \$150.

So will your salesperson's closing rate suffer if her appointments are set for her? In our experience, no. The fact is, salespeople's closing rates typically more than double when appointments are set with respondents to a lead-generation campaign.

And there's a simple reason why: those prospects who set appointments after responding to an advertisement — and then reading an information pack (usually the offer in a lead-generation advertisement) — are significantly better qualified than those appointed by a salesperson using traditional prospecting methods.

If we assume that your salesperson's closing rate increases by only 50%, she is now making five sales a week, worth a total of \$50,000.

So let's take a look at what we've achieved with our little hypothetical 're-engineering' exercise.

Well, we've increased your costs. A good telephone-based customer service person will cost around \$35,000 a year. And your lead-generation campaign will cost you \$150 per appointment. (Accordingly, your costs have risen by around \$3,700 a week.)

But we've also increased your revenues — from \$10,000 a week, to \$50,000 a week.

There are 40,000 good reasons to grab a notebook and a calculator — and spend a week spying on your salesperson (with her permission, of course)!



## Performance pay: the case against

Few suggestions inflame passions faster than the suggestion that performance pay be abolished.

It's our contention, nonetheless, that, in an ideal environment, commissions and bonuses are likely to be in conflict with the goal of the organisation.

Of course, traditional sales processes are not 'ideal environments' and, as such, the traditional sales process serves as an illustration of the conditions under which performance pay is, in fact, appropriate!

Let's begin, accordingly, with the case for performance pay.

### The case for performance pay

Let's envisage a situation where performance pay definitely makes sense.

The situation that springs to mind immediately is outsourcing — or more generally — the use of contractors.

If you have outsourced a task to a contractor, it makes sense to compensate that contractor on a per-piece (or results) basis.

Because you are outsourcing, you have no control over the contractor's production process (you can consider only inputs and outputs) and, as a consequence, it doesn't make sense for you to gamble on something over which you have no control.

Most organisations understand this explicitly. This is why most contractors (including service providers) are under pressure to quote on a fixed-price — rather than a time-and-materials — basis.

Now, if you consider the structure of a typical sales process (as discussed in the preceding article), you'll realise that the relationship between the salesperson and the organisation is more similar to a contractor-client than it is to an employer-employee relationship:

1. Salespeople are responsible for the end-to-end sales process.
2. Management has limited (if any) access to objective process data.

3. Salespeople perceive that they own customer relationships (and in many cases they do!)

In this environment, it certainly does make sense to pay salespeople as you would a contractor.

But, as you well know, we maintain that this is not an ideal environment.

What we now have to consider is how the radically different environment we advocate impacts on the case for performance pay.

### The ideal environment

In summary, the essential differences between a typical sales process, and the process we advocate are as follows:

1. Salespeople are responsible only for the conduct of (sales) appointments.
2. All other tasks (including the sequencing of salespeople's appointments) are allocated to a sales support function.
3. Sales process management decisions are subordinated to the organisation's constraint.

If you consider the first two points above, it's obvious that we are no longer outsourcing the sales process, in its totality, to the salesperson.

In fact, we have simplified the role of the salesperson to the point where he performs only one task (appointments\*). As well as increasing (massively) the productivity of the salesperson, the elimination of multitasking provides management with the ability to micro-manage the salesperson.

The thing is, if a salesperson performs one simple task, over and over, management now has access to a statistically relevant quantity of objective data.

This data-stream is the critical feedback loop that enables a process of continual improvement.

*\* It's true that in a major-account selling situation the opportunity management process will consist of appointments of different types. Each appointment type is similar, however, in that its objective is to sell-up to the next step in the process.*

Now that the salesperson can be measured and managed intelligently, the case for performance pay is no stronger for the salesperson than it is for any (and every) other employee.

Which, of course, raises a very interesting question: wouldn't it make sense to provide every employee with performance-based compensation?

Our consideration of point three (above) exposes the first of two fatal flaws in this common argument.

### Fatal flaw one: the optimum is rarely the maximum

If you consider most performance-based compensation programs, their operation is simple. Employees' pay is linked (directly or indirectly) to their productivity.

Accordingly, the harder an employee works, the more he earns.

This approach assumes that incremental increases in employee productivity are necessarily good for the organisation.

Sadly, this assumption is dead wrong. The fact is, in any process, incremental productivity improvements in only one resource will impact on that process's output. (This critical resource is the process constraint.)

Productivity improvements elsewhere will have either no positive impact, or even a negative impact, on process output. (I'm referring now to non-constrained resources.)

Consider a simple organisational process consisting of the following sequence of activities (each performed by a separate resource):

1. Promotion (the generation of sales opportunities).
2. Sales (the conversion of sales opportunities to orders).
3. Fulfilment (the fulfilment of these orders).

If you were managing this fictitious organisation, would you be likely to exhort the people responsible for these resources to produce at their maximum possible rates?

I hope not!

Presumably you'd recognise that there is no benefit in Promotion producing sales opportunities that Sales can't process. And, similarly, there's no benefit in Sales generating orders that Fulfilment can't fulfil.

To provide each of these individuals with a financial incentive to produce at maximum (individual) capacity

will waste resources, unnecessarily inflate expenses, generate chaos and damage customer service.

It's for this reason that the third attribute of an ideal environment (above) is that sales process management decisions are subordinated to the organisation's constraint.

What this means is that the output of the various resources within our process should be synchronised with the maximum sustainable capacity of the process constraint.

Performance pay is likely to have the exact opposite effect.

### Linking global rewards to global objectives

Now, if you think about it, the flawed assumption that incremental increases in employee productivity are necessarily good for the organisation does not have to ring the death knell for performance pay.

It's possible to envisage a compensation program that links local rewards to global optima.

For example, you could:

1. Only reward team members at the process constraint for incremental increases in output.
2. Compensate team members at non-constrained resources for maintaining optimal (rather than maximal) output.

Now, this (smarter) approach to performance pay overcomes the sub-optimisation\* problem. It does, however, introduce two questionable assumptions of its own — and it fails to address the second fatal flaw in the argument for performance pay!

Let's consider the two assumptions first.

The first is that the process constraint will stay in the one location. If it moves (and from time to time it will), it will be necessary to reconfigure your compensation program. You will inevitably find yourself having to explain to team members at the prior constraint that they must now satisfy themselves with a lower rate of pay (this is particularly challenging when the team members involved are salespeople!).

The second assumption is that it is beneficial for team members at the constraint to strive for maximum output. The reality is that what you want is not maximum output

*\*Sub-optimisation' refers to the practice of generating local optima at the expense of the global optimum.*

but maximum sustainable output. While it sounds like a heroic endeavour, the pursuit of ‘stretch goals’ increases volatility and decreases average output.\*

It’s time now to unveil performance pay’s most insidious flaw: the assumption that pay drives performance.

### Fatal flaw two: pay does not drive performance

At first glance, the assumption that people will work harder in the pursuit of a greater income looks innocent enough.

After all, a donkey will chase a carrot, won’t he?

Well he will, until he’s replete! From that point on, the donkey has no interest in the carrot whatsoever.

In our experience, team members’ desire for additional money subsides rapidly once they are earning what they believe to be a fair market rate (assuming, of course, that their basic needs are met by that level of income).

Furthermore, team members value the security of a fixed income more than they value the possibility of a higher (variable) income.

But — and I’m asked this question often — don’t we want our employees to be entrepreneurial?

The answer is ‘no’. We don’t. As suggested previously, we will destroy our organisations if we turn them into a loose cooperative of contractors — all taking risks in the pursuit of a profit (this is, after all, the definition of ‘entrepreneur’).

We want our organisations to be tightly synchronised, highly efficient and totally predictable. The donkey and-carrot method of compensation is totally at odds with this objective.

### Market rate plus some

Now I’m not suggesting that the elimination of commissions should result in a drop in your team members’ average rates of pay.

In fact, I would expect the opposite to occur in many cases.

But I am prepared to suggest that, along with performance pay, we should eliminate the notion that performance and pay should be directly linked.

A better method to apply to the calculation of salary is to estimate the replacement cost of an employee.

This replacement cost should consist of the market rate for a person of comparable capability, plus a premium for the inevitable switching cost you would incur if you were to lose that team member.

You’ll find that this method provides a simpler and more rational basis for setting and renegotiating salaries. Obviously this method will result in an indirect link between productivity and salary (more productive employees will have a higher replacement cost).

You’ll also find that the offer of a good fixed salary (in place of the promise of untold riches) will result in a greater number of better quality respondents to your employment advertisements; particularly when you are recruiting salespeople!

### A caveat

It’s important to highlight that the elimination of performance pay is contingent upon the successful reengineering of the sales process.

If your sales process (or any other process) is intelligently designed and objectively managed, the retirement of performance pay is likely to be a logical and painless eventuality.

An attempt to reengineer a traditional sales process that begins with the heavy-handed suspension of performance pay is likely to have unpleasant consequences.

*\*You do not solve this problem by increasing the measurement period. This results in the ‘student syndrome’: work bunches-up towards the end of each period.*

## > Mysticism and Marketing

### 'Doctor, I think I've got tuberculosis!'

#### Why mysticism and marketing are incompatible bedfellows

Imagine the reaction of your local doctor if you presented yourself with a cough and a slight fever and proceeded to inform her that you were suffering from tuberculosis!

Can you imagine her obediently writing a prescription for Isoniazid and reporting your bad news to the relevant health authority?

Of course you can't.

There's no way that your doctor would be prepared to allow you to self-diagnose.

She may listen patiently to your analysis of your symptoms, but when it comes to formulating her prognosis she's going to rely almost entirely on the results of her tests.

If we wind back the clock 200 years (the scene is Paris in the late 1700s), your doctor would have been a little more compliant.

At this time, the French medical profession held the view that each disease produced a differing set of symptoms in each patient.

As a result, physicians had no choice but to treat each patient as the patient requested. It may not surprise you to know that the death rate in Parisian hospitals was 59 percent.

Fortunately, the view of the medical profession has changed. Systematic observation and statistical analysis have identified that diseases manifest almost identical symptoms from patient to patient. As a result, doctors can now diagnose most diseases without even consulting patients.

Today most businesses manage their sales processes (and, in fact, their entire marketing functions) with a method comparable to that of the French medical profession 200 years ago.

When was the last time you heard a sales manager argue that, because each sales situation is unique, systematic study (and process thinking) is of no use whatsoever?

In the absence of an appreciation of *cause and effect*, mysticism prevails.

Organisations lurch from one magic cure to the next. These cures address symptoms, rather than root causes — with predictable results.

As if that isn't bad enough, *marketing mystics* defend their craft with religious conviction.

They even use quasi-scientific terminology to inoculate themselves from the incursion of rational thinking into their sacred territory.

If you don't believe me, pick up a copy of *Marketing & eBusiness* and see for yourself. Note the technical discussions of branding: one area where *cause* is always mistaken for *effect*! (Sales build brands, and not the other way around.)

If you're a rational thinker — one of the fortunate few — it's important not to underestimate just how entrenched mysticism is in marketing and sales departments.

It took a good 50 years for scientific method to change the way the medical profession thought about the diagnostic process.

You don't have 50 years.



## The myth of branding

At best ‘brand’ is a useful word. At worst, it’s a dangerously misleading management tool.

It’s hard to talk about marketing without using the word *brand* (or one of its derivations). Believe me, I’ve tried!

But in spite of (or, perhaps, because of) its useful nature, the word brand is functionally bankrupt.

More often than not, its use hides sloppy thinking and, worse still, the wastage of frightening quantities of valuable corporate resources.



### Everything and nothing

Over time, marketers have extended the meaning of the word *brand* to mean so many things that it is now basically meaningless (you may recall that I’ve levelled the same criticism at the word *marketing*).

The word brand used to refer to the trademark or distinctive name identifying a product (or manufacturer).

This definition makes sense. Its relation to branding’s genesis — involving the use of a hot iron to provide evidence of ownership on the hide of an animal — is obvious.

Today, the word brand refers to the product or organisation itself (and not just its mark). It also refers to the goodwill associated with that product.

The word *brand* is commonly used as a verb. *Branding* refers both to the application of a name (or mark) to a product, and to *every* activity that impacts *in any way* on the development of goodwill (or brand equity, as it’s commonly called).

Answer me this: what do all of the following have in common?

- > Designing a logo.
- > Running an advertisement.
- > Creating a new product.
- > Answering the telephone.

That’s right. According to *branding* experts these are all branding initiatives.

Of course this liberal approach to the definition of the word brand may be in the best interests of branding consultants — at least in the short term. (For the uninitiated, branding consultant is the title assumed today by opportunistic graphic designers.)

But, unfortunately, it has some unintended (negative) consequences for the rest of us.

### Are we really this silly?

For a start, it makes marketers look sillier than we really are.

In her best-selling, anti-corporate rant, *No Logo*, Naomi Klein quotes marketing executives, who should know better, saying things like the following:

“The product is nothing but the most important marketing tool.”: Nike

“We made the fatal marketing mistake of thinking we were a camera [when] really, we are a social lubricant.”: Polaroid

“Products are made in the factory, but brands are made in the mind.”: Senior advertising executive

As you’d expect, Klein uses these delusional utterances as evidence in her nonsensical argument that brands are responsible for social ills ranging from the exploitation of children in sweatshops, to the murder of a Nobel Peace Prize winner, and a crime she refers to as ‘brain stealing’!

### Unrelated cause and effect

A critical reader of Klein’s book will rapidly draw the conclusion that that she has grossly overestimated the potency of this thing she calls the *brand*.

**You would have to conclude that a great product is the cause and brand equity is the effect.**

The sad thing is that marketers (as evidenced by the comments above) are suffering under exactly the same misapprehension.

The exaltation of the word *brand* (almost to the point of a religion) is based upon a widely-held premise that brands create sales. This thinking is an example of what is

perhaps the most common logical fallacy: *the fallacy of causation*.

The fallacy of causation (also referred to as *unrelated cause and effect*) is committed when we either mistake correlation for causation or, more seriously, when we actually assume that the effect of an action is its cause.

The assumption of the marketing executive above is that Nike sells lots of shoes because it has a great brand.

When you consider that the sale of shoes preceded the development of the Nike brand (goodwill), you would have to conclude that a *great product is the cause and brand equity is the effect*.

### The real cost of irrationality

It's bad enough that this sloppy thinking is used against us by the anti-business activists in our midst.

But what's worse is the economic cost of the erroneous management decisions underpinned by this lapse of reason.

The basic problem is that the premise that *brand equity drives sales* gives marketers permission to engage in an expensive and elaborate ritual that is totally quarantined from the objective of the organisations writing the cheques: *to make money, now and in the future*.

The ritual looks something like this:

- > A marketer runs a promotional campaign with the intent of building a brand.
- > He detects a resulting increase in brand equity (typically by measuring the change in market awareness of the brand).
- > He concludes that this campaign was a success, and goes to work planning the next.
- > He wonders occasionally why he needs such complex formulas to attempt to model the correlation between brand equity and sales revenues.

If this marketer realised that branding is a by-product of sales (and not an antecedent), he would apply himself to those activities that drive sales — and ignore brand equity altogether. His objective would be a derivative of his company's objective: *to make sales, now and in the future*.

He would measure his success by observing the correlation between the money he invests in promotional campaigns and the resulting change in sales revenues.

### Accounting for delayed promotional returns

But (I can hear you thinking), what about the fact that a promotional dollar invested today may not produce a return until some point in the future? Isn't that why we need to measure brand equity?

Well if (and only if) you know for sure that your promotional expenditure does deliver delayed returns, it may make sense to establish a proxy for these future revenues.

The problem with using *brand equity* as a proxy is that (as I'll explain in a moment) it's almost impossible to measure. Accordingly, you will need to find a metric that does reflect the correlation between promotional expenditure and future revenues. In our experience, the best proxy for future sales is current ones. In other words, the best indicator of the long-term effectiveness of a promotional campaign is its short-term results.

### So, is a brand actually worth anything?

If we take the word *brand* at its original meaning (the trademark or distinctive name identifying a product) it seems fair to assume that brands can acquire some intrinsic value. Let's see how this assumption holds up to logical scrutiny.

The logical way to measure the value of a brand (*brand equity*) would be to observe the premium that the market is prepared to pay in order to purchase a product bearing a particular brand, in preference to a competitive product, that is *identical in every other way*.

Because every product has a brand of some kind, this is only a relative measure. This means that you can only value one brand relative to

**Brand equity is a temporary phenomenon, reflective only of market inefficiency.**



another. It also means that when products are not identical in every way, brand value is likely to be incalculable. (If products are not identical in every way, it is impossible to determine what percentage of the premium the market is prepared to pay should be allocated to brand equity — as opposed to product value.)

Let's imagine what would happen in case of true product parity. If two products were in fact identical in *every way*, what is the theoretical value of each brand? That's right, nothing!

In an efficient (fully informed) market, customers will obviously not be prepared to pay a premium for a product when there's a truly identical alternative.

In other words, if customers are currently paying a premium for a product when there's an identical alternative, that *brand equity* is a temporary phenomenon, reflective only of market inefficiency. As share traders know, this kind of arbitrage opportunity tends not to last long.

This line of reasoning illustrates that a brand itself *has no long-term intrinsic value*.

It also highlights that the premium a customer is prepared to pay for one product over another is (in the long-term) directly proportional to the degree of differentiation of that product.

In summary:

- > Brand equity results from the creation (and sale) of a great (differentiated) product.
- > Brand equity is proportional to the degree of (meaningful) product differentiation.
- > In the absence of product differentiation, any *residual* brand equity will rapidly dissipate.

It's time us marketers faced up to reality. If we are operating in the best interests of our organisations, we are not building brands, we are making sales.

We also need to recognise that our ability to drive sales amounts to little more than an *arbitrage play*. In the long run, the most successful products will always be the better products (those that provide customers with the greatest value).

The fact is, business growth has precious little to do with brand equity today. And, if anything, its significance will reduce as time passes and markets become more efficient.

The fact is, business growth has precious little to do with *brand equity* today. And, if anything, its significance will reduce as time passes and markets become more efficient.

The example most often raised to challenge my position on brands is Coca Cola. 'Why then,' the question typically goes, 'does Coca Cola still outsell Pepsi, even though the two colas are all but identical?'

The answer is quite simple. Coca Cola outsells Pepsi because of its vastly superior distribution. (Statistically the distance between you right now and the nearest Coca Cola, is likely to be significantly less than the distance between you and the nearest Pepsi.)

So, even though the sugared waters are very similar, the products, in their broader context, aren't. (Availability is certainly a product attribute.)

To observe the effects of an efficient market on brand equity, note the variance in the prices charged for standard unleaded petrol at competing, (neighbouring) petrol stations.

## > Working with Resellers

### Why resellers don't sell, and why you should be glad they don't!

"If only we could get distribution ... we'd have it made."

I hear this anxious declaration regularly. Particularly from manufacturers and software vendors. I've even heard it from a number of musicians!

Manufacturers want representation from agents or retailers. Software vendors want to establish relationships with resellers. And musicians want representation from a record label.

But in each case, this declaration can indicate a potentially dangerous misunderstanding of the dynamics of the distribution channel. And there's an important lesson in this for all of us — even those who sell direct!

I usually have two comments for those who are having trouble getting distribution:

- > An inability to get distribution is probably symptomatic of a bigger problem.
- > And, if this is the case, it is better to avoid making a commitment to a reseller (I'll use this as a generic term) — even if such an opportunity arises.

Before we examine this 'bigger problem', let's take a look at the role that resellers play in the distribution process.

#### Why resellers typically don't sell

Let's imagine a typical retailer for a moment. The kind of retailer you'll find in any shopping centre. Picture, say, a music retailer.

Now tell me this ... what contribution does our music retailer make to the 'value chain' that stretches from an artist (with a guitar, a microphone and a bad attitude) through to the fan, (who willingly exchanges \$29.95 for

the artist's compact disk — and for the rights to play it, *only* in the privacy of her home or car)?

It would be fair to say that the music retailer's contribution to this value chain is the 'sale' of the artist's compact disk, right?

Wrong!

The reality is that this music retailer doesn't add value by 'selling', at least in the true sense of the word. The retailer's most important contribution is the *provision of a distribution point* — or a 'point of presence'.

If you've ever spent time in a music store, you'll know that staff members spend most of their time simply operating the cash registers. Even those more progressive music stores, with listening stations and staff with specialities in particular music genres, still generate more revenues from Britney Spears CDs than they do from the sales of CDs from lesser-known artists.

Now this distinction applies to most resellers. They don't actually sell: they provide a point of presence. The real selling is done higher up the value chain. Or, to put it another way, they don't sell because they don't have to. The customer has already been 'sold' when she sets foot in the store.

However, there are some resellers that do sell — and who are good at it. And these — believe it or not — are the resellers of which we should be very wary!

#### Why you should be glad that most resellers don't sell

If we stick with retailers for a moment, an example of a reseller that *does sell* is a hairdresser.



Consider, for a moment ... which brand of shampoo do you purchase when you visit your hairdresser?

The one he offers you, of course!

You don't select your favourite brand from a crowded shelf (as you would in a supermarket), do you? Of course not. Your hairdresser makes that selection for you. And, odds are, he provides you with a 'premium' (hairdresser-only) brand, of which you've never heard.

So far, I've managed (at great length) to explain that some resellers sell — and that some don't. You might be excused for thinking: *so what!*

Well, here's the thing: whoever does the selling in a value chain, owns the customer relationship, and ...

*Whoever owns the relationship with the ultimate customer sets the terms!*

That's right, the participant in a value chain with the most power is generally the one who does the 'selling'.

### Our manufacturer gains distribution and locks-out his competitors

Now let's return to our anxious manufacturer, software vendor and musician, and examine the real problem each faces — and the opportunity that this problem provides.

We'll look at our manufacturer's situation first.

Assume that our manufacturer has developed a technically superior product (a chainsaw, perhaps). He's trying to convince hardware stores to stock this tool.

To his dismay, hardware stores appear to have little interest in his product's technical attributes. Even though they seem to be at a loss for any logical argument as to why they shouldn't represent his chainsaw, they simply fail to write a purchase order.

While this scenario makes no sense from our manufacturer's perspective, it's understandable when we consider what we've just learned about typical resellers.

Because a hardware store's primary role in its value chain is to provide a point of presence, it doesn't have a lot of sales infrastructure. Without the sales infrastructure required to 'make a market' for a new product, this new chainsaw isn't an attractive proposition — regardless of its technical attributes. It's far easier for our hardware store to simply promote the best-selling brand.

So what should our manufacturer do?

Well, he has two choices:

- > He can look for a retailer with the ability and the desire to 'make a market' for his chainsaw.
- > Or, he can accept responsibility for 'making the market' himself.

While the first option may appear initially to be attractive, he should approach it with caution.

You see, if he delegates responsibility for 'making a market' to a reseller, the contribution he makes to his value chain is limited to his product's technical superiority. And more often than not, technical superiority is not a sustainable competitive advantage.

This fact is graphically illustrated in James Dyson's brilliant autobiography, *Against the Odds*. James Dyson invented the enormously successful Dyson (bagless) vacuum cleaner. In spite of its groundbreaking technical superiority, Dyson struggled for years to get distribution for his vacuum cleaner. In the process, he was almost bankrupted by a long-running court case with Amway Corporation. He had been attracted to Amway by their market intimacy. However Amway backed-out of negotiations at the last minute,

stole his trade secrets and designed a copycat product! (Fortunately, Dyson won his court case and was awarded significant damages — including an ongoing royalty stream.)

Our manufacturer's second choice is to accept responsibility for 'making a market' for his chainsaw.

He would do this by running promotional campaigns designed to drive customers to hardware stores, asking for his brand of chainsaw.

If he can successfully accomplish this, he will enjoy the following benefits:

- > If only one or two customers request his brand of chainsaw, retailers will fall over themselves to stock his product. We've already discovered that retailers find it easier to supply the brands that their customers request.
- > Once hardware stores sense that this new product is hot, they will start making it easier for customers to purchase our manufacturer's product than they do his competitors'. They'll do this by giving our manufacturers' product premium shelf (and catalogue) space. (Of course, this is the basis of retail 'category management'.)
- > If our manufacturer uses appropriate direct marketing techniques (e.g. couponing) to 'make a market' for his product, he will probably be able to build a database of existing and potential customers. He will then be able to use this database to drive demand (and distribution) for his future products.

So, by assuming responsibility for 'making a market', our manufacturer easily gains distribution and locks-out his competitors.

### Software vendor discovers that resellers' dependence is an asset

Our software vendor's situation differs in only two subtle ways from that of our manufacturer:

- > His resellers are service providers (rather than product vendors). Accordingly, they tend to have a more intimate relationship with their customers (remember our hairdresser example.)
- > Because of software's rapid development cycle, his product's technological advantages are likely to be even more transient than those of our manufacturer.

Both of these factors make our software vendor's contribution to his value chain more tenuous than our manufacturer's.

Therefore, he should be even more wary of delegating the role of 'market maker' to his reseller network.

It would be tempting for our software vendor to consider bypassing this reseller network altogether and sell direct. However, this approach has three shortcomings:

- > Speed and expense. It will take a lot of time and money for our software vendor to replicate the reseller network's infrastructure (their points of presence).
- > Market access. Existing relationships between resellers and customers are likely to lock our software vendor out of some segments of the market.
- > It's not his thing. Our software vendor's stakeholders are likely to take a dim view of his investing their capital in non-core infrastructure. (For an innovator, *research and development* and *market making* are core activities. *Logistics* isn't!)

Our software vendor's distribution strategy should be similar to that of our manufacturer.

As well as working hard to maintain his technology leadership, he should take responsibility for 'making a market' for his software. He should do this by building the marketing infrastructure required to provide his reseller network with a steady stream of sales opportunities (qualified leads). (You can review our article on *Relationship-centric Marketing* for an outline of how to go about building such infrastructure.)

Obviously, if our software vendor is in a position where he can provide a steady stream of sales opportunities, he will have no trouble gaining an audience with resellers.

The reality is that resellers are generally strong when it comes to maintaining existing customer relationships — but weak when it comes to establishing *new* relationships.

If our software vendor can provide resellers with new relationships (in the form of sales opportunities) he will win the (current and future) business from these relationships, but he will also unlock the value resident in his reseller network's existing client base.

Unfortunately, this thinking is counter-intuitive for many software vendors — and for many other organisations that utilise a distribution channel comprising service providers.



Just recently, I had a conversation with a software vendor who advised me that he was looking for ‘resellers who could generate *their own* sales opportunities’.

I advised this vendor that, if I were him, I would be encouraging my reseller network to become dependent upon me for sales opportunities. Long-term, this dependence is an asset, not a liability!

### Musicians must learn to be ‘market makers’

Whilst it may seem strange to group musicians with manufacturers and software vendors, there are some important parallels.

Typically, musicians (and authors) are keen to delegate the role of ‘market maker’ to record companies (or publishers).

Of course, this is not necessarily in the best interests of the musician’s bargaining position.

Interestingly, both record companies and publishers give preference to talent with existing followings. While this may weaken their bargaining position, they view it as a risk management tactic.

Unfortunately, musicians fail to recognise the opportunity that this provides for them. They complain that it is ‘impossible to gain a following without a record company — and impossible to get “signed” without such a following’.

This is simply not true.

INXS, which, at one time, was one of the world’s biggest selling rock bands, amassed an enormous following prior to being signed to Polygram. In fact, in the year preceding their signing, they played an incredible 300 live performances!

Do you think they came to the negotiating table with bargaining power? I suspect so.

The same is true of many best-selling musicians (and authors).

### You sell direct?

Organisations that sell direct can also learn from these examples. Too often, we come across organisations where the responsibility for ‘making a market’ has been delegated, in its entirety, to the sales team.

In such a situation, we typically find the following problems:

Salespeople are difficult to recruit, almost impossible to manage, and difficult to retain.

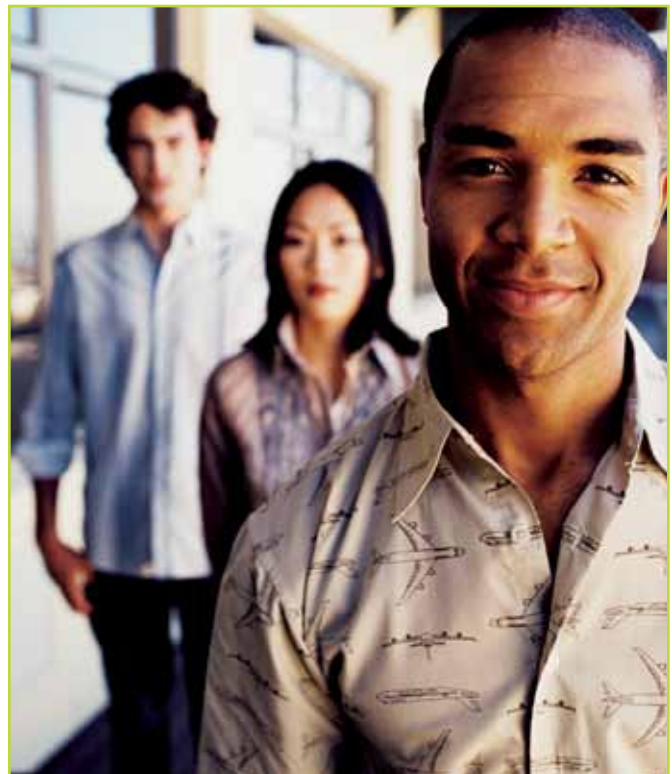
Salespeople own client relationships — meaning that, if salespeople leave, clients often follow.

While salespeople should obviously be responsible for negotiating sales, they shouldn’t be responsible for the generation of sales opportunities.

The moral in all of these stories is that *you delegate total responsibility for selling (or, as we like to say ‘making a market’) at your expense.*

If you’ve been bemoaning the ability of your distribution channel (or perhaps even your salespeople) to sell, stop and be thankful.

Therein lies an opportunity for you to strengthen your strategic position.



### Hudson Institute: Hudson's hyper-efficient sales process is also its sustainable competitive advantage

"Incredulous.

"Yep, that's the best word for it", concedes Phil McGann.

Phil is struggling to describe the reaction of fellow financial planners when he explains how things work at the Hudson Institute.

"When they find out that our financial planners perform eight or nine consultations a day ... that these consultations are *all* conducted over the telephone ... that our small team in Brisbane services 8,000 members all over Australia ... and that almost all of these members have paid upwards of \$1,500 just to access this service ... well, they just don't believe it!

Phil goes on to explain why this doesn't make sense to a traditional financial planner.

"Even the busiest of traditional financial planners has time to conduct only one or two consultations a day. The rest of his day is consumed with clients' portfolio planning, research and administrative activities.

"Even if this financial planner had time to conduct more consultations than this, he'd have no one to talk to. The fact is, when practice growth is dependent upon word of mouth, it takes years for a planner to build a decent clientele."

Phil concludes by ruefully admitting that if convincing a traditional financial planner that it's possible to perform 160 appointments a month isn't hard enough, his next challenge is all but impossible.

"Financial planners assume that, at these volumes, customer service suffers. But, I've seen both environments, and the Hudson quality of service is *far superior!*

"The fact is, our low cost structure enables us to provide a level of service that a traditional financial planner simply couldn't afford."

Phil's dilemma provides a tremendous introduction to the Hudson Institute — a truly incredible business.

In turn, the Hudson Institute provides a great case study of the successful application of our *Relationship-centric Marketing methodology*.

#### From publishing company to full-service financial planner

It's generally accepted that paradigm shifts emerge from the fringes of particular industries — and not from the well-established incumbents.

The Hudson Institute may well be evidence of this phenomenon.

Hudson started life ten years ago, not as a traditional financial planning firm, but as a publishing company.

Its *First Class Ticket* program was a budgeting and do-it-yourself investment toolkit.

To add value to its original *paper and ink* products, Hudson allowed *members* to access a telephone support service, as well as regular capital city investment workshops.

Over time, Hudson realised that members were placing more value in these services than they were in their printed publications. As a result, Hudson increased the frequency and the quality of its events, and replaced its unqualified budgeting coaches with a team of fully qualified financial advisors.

To fund the cost of these additional services, Hudson gradually increased the price of its *First Class Ticket*

program from an initial \$395 to \$3,995. It acquired members by selling tickets to introductory seminars.

In its first eight years, over 100,000 people attended these seminars. Eight thousand subsequently become *First Class Ticket* members.

Three years ago, Hudson's sales process began to suffer from rapidly diminishing returns. A number of other financial services providers had begun promoting public seminars (many inspired by Hudson's very obvious success).

Hudson realised that it could no longer regard the sale of First Class Ticket memberships as its core business. It had to find an alternative source of primary revenue.

The transition to a full-service financial planning firm was the obvious direction to take. Although Hudson had initially felt that independence was its key point of difference, many members actually resented the fact that they had to visit other providers to purchase financial services.

To make the transition, Hudson suspended its public seminar program and set about compiling a suite of financial services. Today, these services include managed funds, finance, direct property and personal insurance (general insurance is outsourced).

Hudson's marketing manager, Noeline Packham, explains that sales of these new services came thick and fast. "When we mentioned in our newsletter that we could now provide financial services, our phones started ringing off the hook.

"We never had time to consider selling via face-to-face appointments. Members were asking for our financial services in their telephone consultations — and they were quite happy to purchase by *remote control*."

"The interesting thing is that, from our advisors' perspectives, nothing much changed. Now, instead of referring members to outside service providers, they simply transfer them to our in-house specialists."

It's taken Hudson just over two years to make the transition from publishing company to one of Australia's most productive financial planning firms. In the process, they've built a sales process that we hold up as *best practice* in *Relationship-centric Marketing*.

### Relationships precede sales opportunities

If you ask any financial planner where his sales opportunities come from, he'll explain that relationships are by far the most lucrative source.

In this respect, Hudson does not differ from any other financial planning firm.

Where Hudson stands apart from its peers is in its scientific approach to the acquisition and management of relationships.

It's Noeline Packham's job to generate around 448 sales opportunities a month. These sales opportunities will translate into 1,120 appointments (2.5 per sales opportunity) — enough to keep Hudson's team of seven financial advisors fully utilised.



Noeline sources every one of these 448 sales opportunities from one location — Hudson’s database of 8,000 *First Class Ticket members*.

The greater majority of these sales opportunities are *inbound* — stimulated by Hudson’s *automated communication program*. The balance are *outbound* opportunities — customer service appointments, set by one of Hudson’s two member services staff — Aimee and Matt.

Hudson’s communication program consists of a weekly e-mail newsletter *The Hudson Report* and a program of specialist investment seminars (quarterly evening seminars in capital cities, and twice-yearly, one-day workshops in regional areas).

The communication program also includes occasional special promotions, consisting of offers relating to specific investment opportunities.

### **Cause and effect**

Unlike many organisations, Hudson knows what the key drivers of inbound sales opportunities are. The first is the content of its weekly newsletter. The second is changes in the financial environment.

Tanya Nicholson is the editor of *The Hudson Report*. It’s her responsibility to monitor the relationship between the content of this newsletter and the volume (and type) of inbound sales opportunities.

When pressed to disclose what content is most likely to make the phone ring, she reveals that, “Specificity sells.”

“It’s not so much the subject of an article,” she explains. “It’s more how it’s articulated.

“If we present facts and figures and practical guidance, the phone rings.

“Our members do love case studies,” she admits. “They love to hear what other members are doing. And currently insurance and property stories are working well.”

Right now, Hudson is stimulating readership of *The Hudson Report* (and accordingly, sales opportunities) with *The Hudson Challenge* — a competition that asks members to answer questions relating to each issue of their newsletter, for a chance to win a \$5,000 managed fund portfolio.

### **Acquiring relationships**

Hudson is not currently running any relationship-acquisition campaigns. It’s having no trouble generating the sales opportunities it needs from its existing member base.

However, it does realise that its continuing growth will require the recommencement of these activities at some stage in the future.

Hudson has two classes of relationship: subscribers and members.

Subscribers are individuals who have subscribed to *The Hudson Report* (and possibly attended events) but have not purchased a *First Class Ticket* membership.

*First Class Ticket* members have unrestricted access to events and, more importantly, to Hudson’s team of advisors.

When Hudson does recommence its relationship-acquisition activities, its first objective will be to convert existing subscribers into members. (Each month, a number of subscribers already discover the benefits of membership from the Hudson Website and become members of their own volition.)

Its next objective will be to acquire subscribers to *The Hudson Report*. It’s likely to do this via strategic alliances and the re-release of its popular book, *How to start with no savings and get rich safely*.

In the meantime, Noeline is about to launch an *associate membership* program. This will enable existing members to add family and friends to their memberships at a steeply discounted rate.

### **Converting sales opportunities into sales**

It’s 8:00am and Scott Adams is reading the *Financial Review* and sipping a cup of fresh coffee.

His six colleagues are doing the same. Their relaxed demeanour and good-natured banter convey a sense of the *calm before the storm*.

At exactly 8:45am, Scott and his colleagues will plug in their headsets and telephone those members who have been scheduled for the day’s first appointments.

At least by way of age, education and character, Scott is representative of a typical Hudson advisor.

He's 31 years of age. He's intelligent and well educated. (His qualifications include a Bachelor of Commerce, a Bachelor of Arts, a Graduate Diploma in Applied Finance and Investment, and a Graduate Diploma in Financial Planning.)

And, as is the case with all Hudson advisors, Scott is a member of the Securities Institute of Australia.

Scott is passionate about wealth creation. Like his colleagues, he reads, thinks and talks about little else. And he derives an obvious satisfaction from counselling Hudson members on the formation and execution of their wealth creation strategies.

Prior to these calls, each advisor will have spent 15-minutes engaged in what Hudson calls pre-call planning. Pre-call planning is a rigidly structured planning session that precedes each appointment. Advisors review members' investment strategies, their histories, and their current financial situations, looking to identify problem areas or opportunities for improvement.

This planning process is streamlined by Hudson's custom-designed computer system — which presents this information in easy-to-interpret reports — and by Megan Armour.

Megan is a para-planner. It's her job to maximise the productivity of Hudson's team of advisors. She does this by confirming that members' financial information is updated (if necessary) prior to their appointments. Megan also takes responsibility for the routine paperwork, literature fulfilment requests and follow-up generated by advisors' appointments — as well as for the project-management of the transactions specified by advisors.

At 9:30, Scott saves his contact notes and completes his first appointment for the day. His next appointment is scheduled for 9:45, allowing him the 15 minutes he needs for pre-call planning. With the exception of lunch and occasional stretch breaks, Scott and his colleagues have appointments scheduled back-to-back for the rest of the day.

### **Operate the process constraint at 100% capacity**

“Our constraint is our team of advisors,” explains David. “My first priority is to provide our people with the resources they need to keep our advisors 100% utilised. If our advisors are not on the phones, we're not making money.”

David Heffernan is Hudson's financial controller. But he doesn't talk like a normal financial controller!

That's because David manages Hudson's accounts using throughput- (as opposed to conventional *cost-accounting*) principles. (*Throughput* accounting is a derivative of Goldratt's *Theory of Constraints*.)

“Fortunately, I studied *throughput* accounting at university,” continues David. “When I got here I recognised that there was no way I could apply traditional *cost-accounting* thinking.

“If I attempted to manage this business for local efficiencies, I could save money by cutting the excess capacity from the functions that support our team of advisors. But I soon realised that this would be a Pyrrhic victory. Without this spare capacity, any unexpected incident would result in unfilled appointment slots in our advisors' diaries. And the opportunity cost of these unfilled slots is far greater than the possible savings from these local efficiency improvements.

David devotes much of his time to looking for ways to increase the capacity of the team of advisors (or to *elevate the constraint*, to use TOC terminology).

“On average, each appointment is worth \$255 to us in gross profit,” David explains. “The key to making this business more profitable is simply to conduct more appointments.

“We can do that by recruiting more advisors — and we're doing that now — but there are many other opportunities to increase throughput.”

David explains that the appointment of Megan (Hudson's para-planner) and of Aimee and Matt (their member services staff) were two such initiatives.

He also details a recent discovery that has added another \$355,000 a year to the bottom-line.

“We always knew that the advisors had occasional *no-shows*. Just four a week, on average. We never worried about these lost appointments, until we calculated their opportunity cost. We realised that four no-shows per advisor is actually 28 lost appointments a week, at a total cost of \$355,000 a year!

**Noeline sources every one of these 448 sales opportunities from one location — Hudson's database of 8,000 First Class Ticket members.**





“We now maintain a safety buffer of members who have agreed to go on stand-by (just like the airlines do). These members benefit, because they have the opportunity to speak to an advisor sooner — and we benefit because we no longer have empty appointment slots.”

### Lessons from Hudson’s sales process

We can all learn a number of lessons from Hudson’s sales process.

#### **Process means process!**

The most obvious one is that Hudson has a formal sales process, as opposed to a loose assortment of ad hoc and unsynchronised marketing activities.

As a result, Hudson can measure the *cause and effect* relationship between the deployment of organisational resources (money and time), and the resulting impact on bottom-line profitability.

This unusual level of accountability is reflected in Hudson’s culture. Without exception, every person I interviewed at Hudson understood the organisation’s key profit driver (their team of advisors). And, everyone understood the direct contribution that his or her activities made to this team’s throughput.

#### **Create an environment that fosters consultative selling**

In considering the relevance of Hudson’s sales process to that of a typical organisation, it’s helpful to substitute the word *advisor* for *salesperson*.

Even though Hudson’s advisors would no doubt bristle at such a comparison, they provide a fine example of the types of individuals that are well suited to a *relationship-centric* sales process.

Hudson’s advisors’ key competencies are their product knowledge and their communication skills. They are consultative in their approach — and comfortable to see each point of contact as an investment in a developing (and profitable) relationship.

While they are certainly ambitious, they are not the kind of opportunistic, short-term thinkers that are attracted to a typical sales environment.

Of course, Hudson’s *relationship-centric* sales process provides the kind of environment where such an individual can flourish.

Advisors do not have to prospect relentlessly. (All of their appointments are provided for them.)

They do not have to be opportunistic, *self-starters*. (The constancy of their work volume, coupled with salary-based compensation packages, provides the perception of job security that all employees expect.)

It’s also worth mentioning that Hudson goes to some effort to provide all staff with a rewarding work environment. Any job-related education is fully funded by Hudson, and some benefits that are not specifically job related are 50% funded. The latter includes gym memberships and fortnightly massages!

#### **Subordinate all management decisions to the constraint**

You don’t have to spend long at Hudson to realise that every individual views himself or herself as part of the advisors’ support team. It conjures up images of a Formula One team, where everyone is fixated on assisting the driver to win the big race.



Marketing personnel see it as their responsibility to maintain what they call the opportunity buffer. The *opportunity buffer* is an *inventory* of sales opportunities, established to ensure that advisors never have an empty appointment slot.

Operational personnel see it as their responsibility to maximise the efficiency of the advisors. They do this by setting their appointments, ensuring all members' financial information is current prior to appointments, preparing all necessary paperwork and project-managing all transactions.

Contrast this with a typical sales process, where salespeople are left to fend for themselves — operating, as a result, at a fraction of their possible productivity. When you consider that a salesperson is almost certainly a sales process's most expensive and highest-leverage resource, it's a lunacy to allow salespeople to operate at anything other than 100% of their possible productivity.

To use *Theory of Constraints* terminology, your salespeople should most likely be your process constraint. This means that everyone else in your sales process should focus on keeping your salespeople fully (and productively) utilised. It also means that all management decisions should be made with respect to their impact on your salespeople's throughput — and not with respect to local efficiency measures.

### **Recognise the true source of sales opportunities**

In most organisations, sales process output is constrained by a scarcity of sales opportunities, rather than by salespeople's capacity.

Most organisations' attempts at generating sales opportunities are hampered by a failure to recognise their optimal source.

Hudson understands that it is counter productive to expect salespeople to generate sales opportunities (their time is better invested selling). It also understands that it is restrictive to rely solely upon clients as a source of sales opportunities (this results in a self-

limiting system — where future sales are dependent upon past sales).

As discussed, Hudson appreciates that *relationships under management* are its most lucrative source of sales opportunities. As a result, Hudson manages relationships with the sole intent of generating sales opportunities (now and in the future). It also understands that its future growth will ultimately be driven by the acquisition of new relationships.

### **More than an effective sales process: a sustainable competitive advantage**

Hudson's sales process provides more than just an efficient source of revenue. It's at the heart of a business model that provides Hudson with a competitive advantage over traditional financial planning firms.

The incredulous response of typical financial planners to this business model provides a clue as to the sustainability of Hudson's competitive advantage.

Another clue is the reaction of Hudson's members.

Even though the Hudson model doesn't enable members to have face-to-face contact with advisors, it does provide far more frequent access than is provided by traditional firms. Hudson advisors talk to members a minimum of two times a year — although, more active members consult with their advisors, on average, six times annually. This accessibility is the service attribute most praised by members in Hudson's annual member satisfaction survey.

I'm sure you'll agree that it's likely that your sales process could benefit from the emulation of some of these *relationship-centric* principles.

But this case study raises the possibility that this approach could provide you with more than just a more efficient sales process. The *relationship-centric* methodology, when implemented in its entirety, might well contribute to your organisation's sustainable competitive advantage — just as it has Hudson's.

## Gavin Ross Portfolio Management: 'You guys turned a good business into an outstanding one'

Gavin Ross is one of those special people who seems never to be short of energy.

Today, however, he is particularly animated.

He's relating the story of how, with the assistance of Ballistix, he has shifted his business's growth into overdrive.

"Consider this," he says — in an effort to justify his excitement — "it took me 22 years to build my business. Come June 2000, it will have taken Ballistix just 12 months to double it in size."

As Gavin's story unfolds, it's easy to understand his enthusiasm. The last six months have seen Gavin replace an unsuccessful advertising campaign with one that generates more new clients than he can possibly handle. He's replaced an unstructured, labour-intensive sales process with one that operates virtually on autopilot. And he's replaced a comfortably uncluttered diary with one that's booked solid — two full months in advance!

### An unconventional investment methodology

Gavin Ross is a portfolio manager.

His clients are high net-worth individuals (they must have a minimum of \$500,000 to invest) who wish to enjoy the higher returns of direct share investment, without having to make buying and selling decisions themselves.

Gavin provides these clients with an alternative to a managed fund. Unlike a managed fund, Gavin manages the shares in his clients' private accounts. His clients benefit from lower fees, as well as from a more personalised management service.

Gavin's clients also benefit from his unconventional management methodology. Gavin classifies himself as a 'value investor'. Value investing is a method that has been popularised by America's hugely successful Warren Buffet (the world's second-wealthiest man).

While many traditional fund managers would like to be regarded as value investors, the quarter-to-quarter reporting requirements (and, in many cases, the sheer size)



of their funds makes this longer-term and (more selective) method of investment management impractical.

After a long history in the financial planning industry (he was one of the original founders of the Australian chapter of the International Association for Financial Planning), Gavin launched his portfolio management service 22 years ago.

His business grew steadily, fuelled by a steady stream of referrals from satisfied clients — as well as by regular media exposure. As his clientele grew, Gavin increased his minimum initial investment from \$50,000 to its current level of \$500,000.

### Reluctant advertiser

When Gavin asked Ballistix to take a look at his newspaper advertisements, he had just about given up on advertising. "I was like most business people," Gavin explains, "I figured that advertising was something you did in expectation of some immeasurable longer-term benefit. I ran ads reluctantly, but I had never known an advertisement to generate more than one or two telephone calls.

"I spoke to Ballistix because I was intrigued by their editorial-style ads. I had no idea whether or not they worked — I just knew I liked reading them!

"What surprised me about Ballistix was that, unlike other advertising agencies I'd spoken with, they didn't seem to place much importance in ads. Their attitude seemed to be 'sure we'll fix your ad, now let's talk about your sales process'.

"I've got to admit, their seeming disinterest in advertising unnerved me at first. I couldn't see much sense working on my sales process when I was coping quite comfortably with my current referral business. I simply had no idea of the level of activity their advertising was about to unleash."

### A success story waiting to happen

Justin Roff-Marsh, from Ballistix, explains that Gavin Ross & Co. was a marketer's dream come true.

"When we met Gavin, we met a man with a remarkable story to tell. He had an invaluable brand in Melbourne. (He had received regular media attention for years — including once being featured on the cover of Personal Investment magazine.)

"His unconventional investment methodology was exciting. (America has a number of popular value investors, including Warren Buffet and Peter Lynch — but no one has taken ownership of that category in Australia.)

"And his enthusiasm for share investment was infectious. (Invariably, when Gavin visits our office, our entire team gathers in the boardroom to ask his opinion on shares, and to marvel at his down-to-earth explanations of otherwise unfathomable economic principles.)

"Gavin was a success story waiting to happen. He'd already done all the hard work — all we had to do was press the 'start' button!

### A whole new sales process

The Ballistix team proposed a three-step sales process. First, advertise to generate responses from qualified potential investors. Second, send respondents a comprehensive information pack to pre-sell Gavin's service — and invite them to invest. And third, plug respondents into an ongoing communications program — to continue to nurture a relationship with those who don't invest immediately.

Ballistix designed Gavin's lead-generation advertisement to appeal to those Melbournians who already knew Gavin from his regular media exposure. The advertisement mentions his \$500,000 minimum initial investment, to avoid generating information pack requests from those who cannot afford his services.

## Here's an opportunity to have financial commentator, Gavin Ross, work his magic with your share portfolio!

His investment methodology is likened to that of legendary US Investor, Warren Buffett. His wise counsel has helped thousands of Australians for more than a decade. And now he's offering to manage your share portfolio for you!

While many would have you believe that share investment is a mystifying process, financial commentator, Gavin Ross, has a different view.

Ross maintains that share investment requires just common sense: "Your approach should not differ from the approach you would employ if you were considering investing in real estate or a small business (you are buying part of a business, after all)", explains Gavin.

Gavin Ross counsels investors to follow in the footsteps of legendary US investor, Warren Buffett. Buffett is America's second richest man. Over the last 30 years Buffett has amassed a \$50 billion fortune — purely from stock investment.

Like Buffett, Gavin Ross believes investing is best done following a few simple principles:

- **Buy value.** As with Buffett, the world's most successful investor, Gavin, only focuses on value.

He meticulously studies companies' fundamentals, performs his own valuations, and only buys stocks when he believes that they are available at a discount to their 'intrinsic value'.

- **For best results: focus on value—not day-to-day price fluctuations.** Gavin Ross adamantly believes day-to-day (or even month-to-month) fluctuations in the sharemarket do not make you richer or poorer. Only changes in a business's intrinsic value make you richer or poorer.

According to Gavin, the market may ignore value for a time, but in the end it will always reflect a company's true intrinsic value.

**Here's your opportunity to have Gavin work for you!**

Gavin Ross uses the principles of value investing to manage stocks for a select group of high-net worth individuals (his clients must have the ability to invest at least \$2,000,000 in the stockmarket).

To help investors to better evaluate his portfolio management service, Gavin has prepared an information package that explains his investment principles in detail.

To request a free copy of this package, phone his office on: (03) 9629 5282.



*Gavin Ross, Respected financial commentator, 'value' investor and portfolio manager.*

BAL3021

Ballistix then created a high-quality, eight-page booklet to replace Gavin's existing 'corporate' brochure. Justin explains why. "Gavin's existing brochure wasn't a bad looking document. The problem was, its four pages of unemotive bullet points really undersold Gavin's unique service offering. We wanted to sell Gavin by empowering the reader with a rudimentary understanding of his unconventional investment methodology.

"Furthermore, we wanted to make Gavin's sales process less labour-intensive by 'institutionalising' much of the information he was disseminating to potential clients in face-to-face meetings."

The resulting document explains the shortcomings of traditional managed funds, and then teaches the reader Gavin's 'five laws of value investing'. It details Gavin's investment management service and helps the reader to determine whether or not Gavin's service will be appropriate for his or her situation. The document also contains a detailed biography of Gavin Ross.

To facilitate ongoing communication with those respondents who don't invest immediately, Ballistix converted Gavin's existing quarterly report into an 'open letter to high-net worth investors'. Like his new brochure, this open letter adds value to Gavin's relationship with potential clients by continuing to teach them about his investment methodology.

### The results

At time of writing, Gavin's new sales process has been operating for around five months.

But Gavin is still having trouble coming to grips with the results it is generating.

He winces a little as he relates the numbers — almost as if he suspects he's dreaming, and he's terrified this introspection will jolt him awake!

"The first time the ad appeared in the Melbourne Age, it generated 186 information pack requests. I just couldn't believe it. I've never seen the phone ring like that before!

"When I sent respondents their information packages, I was confident that we would get one or two new clients — just one new client would have more than paid for the ad.

"Nothing happened for about a week, and then the phone started ringing again — with people requesting appointments. In total, I got five new clients from that first advertisement. Between them, these new clients placed just over \$3 million dollars under my management.

"The amazing thing is that subsequent advertisements have yielded similar — if not better results."

Gavin currently has a queue of potential clients, waiting up to two months to meet with him. He's employed additional staff and had his computer network rebuilt — but, for the moment, he just can't grow any faster.



Gavin concludes, "The future looks exciting. By June next year, I will have easily doubled my funds under management. Once I've done that, I'm going to close-off my service to new clients, so I can concentrate on looking after my existing clients — and my new project, of course."

Gavin is reluctant to reveal details of his new project just yet, although he admits it will be in the financial services industry. And, like his portfolio management service, he claims he will be pioneering an investment concept never before seen in Australia.

He is less reserved, however, in his praise of Ballistix. "You guys took a good business and you transformed it into an absolutely outstanding one. I just can't thank you enough."

## The wild man of pharmaceuticals and his even wilder ride to riches!

It's highly unlikely that any pharmaceutical company would give Peter Nicolas a job!

He rarely gets out of bed before 11:00 a.m.

He seldom visits his office — and when he does, his only brush with any activity that even resembles work is a noisy tour of his troops, exchanging high-fives and boasting of market victories to come.

He's loud, opinionated and confrontational — with the attention span of an agitated gnat.

And he leads a lifestyle so decadent that few rock stars would be capable of keeping up!

But Peter isn't in the market for a job.

The fact is, he's preoccupied with Naturopathica, a \$40 million a year pharmaceutical business he's built from the ashes of a previous venture!

If the fact that a man with Peter's unusual work ethic can build a \$40 million business surprises you, what you're likely to find all the more remarkable is that Peter Nicolas only launched Naturopathica four years ago!

Peter's wild lifestyle has been surpassed only by his business career's wild ride from poverty to success and back again, followed by his recent meteoric rise to riches.

At Ballistix, we're proud to have shared this eventful journey with Peter, his long-suffering business partner, Sonia, and their team.

Along the way, we've learned business lessons we could never have learned elsewhere — and we like to think we've made at least some contribution to Peter's success.

### Down but not out

When Justin Roff-Marsh first met Peter, he had only two valued possessions — his telephone account (both the electricity and the gas had been disconnected from his dilapidated Surrey Hills terrace house), and his sizeable library of direct mail books and magazines.

Peter and Sonia had acquired a taste for direct mail from their first business venture. They had been selling 'little



black dresses' from full-page advertisements in a popular women's magazine. When the magazine decided they wanted to dissolve their joint-venture arrangement and take the business in-house, Peter and Sonia were left looking for another business opportunity.

Peter was spending his afternoons devouring every direct mail publication he could find, and every night he would sit on the phone to the United States speaking to anyone who was anyone in the direct mail industry.

It wasn't long before Peter approached Justin with details of a product he claimed was destined to reverse his fortunes. Justin was more than a little concerned when he discovered that Peter was planning on risking money he didn't have on an advertisement for, of all things, grass seed!

### Grass seed grows into multi-million dollar mail order business

Despite Peter's assurances that CanadaGreen was no ordinary grass seed, Justin remained unconvinced. He could understand why CanadaGreen was popular in Canada (where much of the country is buried under snow for months each year), but he just wasn't convinced that Australians would be prepared to purchase any kind of grass seed by mail order — particularly at \$39 a bag!



# How to turn ordinary, tired grass into a lush, green lawn ... in just 11 days

For just \$39.95 this hybrid grass seed will transform 93m<sup>2</sup> of ordinary grass into a thick, hardy lawn. All you have to do is scatter this miracle seed over your existing grass ... water ... and wait. In just 11 days you won't believe your eyes!



**Before:** Grass is brown and tired, with bare spots and weeds. **After:** In just 11 days – a lush green lawn that will amaze your neighbours.

If you've ever longed for a lush, green lawn – that stays thick and green all year round – you'll love CanadaGreen™. A lush, green lawn is so easy with CanadaGreen™. All you have to do is scatter this miracle seed over your existing grass – water – and wait. In just 11 days brown, tired grass will be transformed into a thick, hardy lawn.

The good news is that you don't need to weed your new lawn. CanadaGreen™ grass seed grows so thick and fast that it crowds out weeds. You won't need expensive sprinkler systems either. Your CanadaGreen™ lawn remains picture-perfect with just occasional watering!

What's more, CanadaGreen™ grows in areas that are bare, shady, weedy or hilly. (As well as high-traffic areas.)

This miracle grass seed was developed by a team of agricultural scientists for greenskeepers working on Canadian golf courses. It was engineered to withstand extreme heat and cold, and to resist heavy foot and vehicle traffic.

CanadaGreen™ has just been introduced to Australia. It has recently passed a round of rigorous tests by the Australian government, and is now available only by mail order.

Order your miracle seed today. (Of course, your purchase is protected by a no-questions-asked, money-back guarantee.)

**Yes!** I would like to have a lush green lawn in just 11 days. Please send me enough CanadaGreen™ to cover the following areas:

93m<sup>2</sup> \$39.95 plus \$2.00 P&H (Total \$46.95)  Save! 186m<sup>2</sup> \$74.95 plus \$8.00 P&H (Total \$82.95)  Save more! 279m<sup>2</sup> \$109.95 plus \$9.00 P&H (Total \$118.95)

Enclosed is a cheque/money order (payable to Trilogy Direct)

Debit my:  B/card  VISA  M/card  Amex  Diners

Card No:

Expiry: ..... Signature: .....

Name: .....

Address: .....

Postcode: .....

**Credit Card Hotline: (02) 337 4615 Facsimile: (02) 388 8863**  
 Postal Address: PO Box 2088, Strawberry Hills NSW 2012

Peter's convictions couldn't be swayed. Justin agreed to let our team create a mail order advertisement for him, as Peter went about convincing Sydney's Sun Herald to extend him \$11,000 credit for a half-page advertisement in its television supplement.

Fortunately, this first advertisement exceeded even Peter's wildest expectations. By lunchtime on the Sunday that first advertisement appeared, Peter had sold \$47,000 worth of grass seed. He was now officially in business!

Peter wasted no time purchasing space in television supplements and women's magazines around Australia. And he immediately converted our print advertisement into a two-minute television 'infomercial'.

Within four months, Peter and Sonia had turned their half-page grass advertisement into a \$150,000 a month mail order business. Peter followed the success of CanadaGreen with a bevy of similarly innovative garden, household and personal products, and in the process built his annualised sales to above \$5 million.

## Success bites!

The mail order business can be a bit like the property development business. If you want to grow fast (and in order to survive, you need to) you invariably gamble your entire business on each project.

When Peter 'rolled the dice' on an electronic pest eliminator it looked as though he was destined to win big. This product seemed to hit a nerve with frustrated consumers who were eager to rid their homes of rats, mice, cockroaches and other crawling nasties.

His initial advertising campaign set his phones ringing as they'd never rung before. Peter had limited stock, but he knew that if he didn't keep advertising, there was a danger that a competitor would buy-up the limited media and mine the rich vein he'd exposed.

Peter's US suppliers promised to airlift product to him as it rolled off the assembly line — but it never arrived. Still, the orders tumbled in and customers became outraged when their orders failed to materialise.

Peter held off requests for refunds for as long as possible by offering customers credit vouchers as compensation for their late orders. But when it became clear that the product that Peter had ordered (and paid for) was never going to arrive, he had to begin writing refund cheques.

After issuing tens of thousands of dollars' worth of refund cheques each day for almost three months, Peter's business was insolvent. He narrowly escaped bankruptcy by convincing his largest creditors to excuse his debts in return for an assurance that he would place his business with them when he bounced back. By this stage, none of Peter's creditors (ourselves included) had any doubt that Peter would rise from the ashes of his failed business.

## New paradigm: new business model

Peter's new business combined his talent for picking winning products, with his direct marketing expertise, along with a new ingredient — retail distribution.

A post-mortem of Peter's failed business revealed that his most profitable products could be characterised as 'ailment-specific skincare and nutraceutical products'.

Products like VeinAway, HairNoMore and ProSlim had been consistent performers. Even with no advertisements on television, Peter was receiving a constant stream of telephone calls from customers, asking if they could re-order.



Peter was also receiving hundreds of telephone calls each month from pharmacists, asking if they could stock his products.

These telephone calls helped to crystallise Peter's thinking. He resolved to start a pharmaceutical company, specialising in ailment-specific natural remedies. He would use mail order to 'make a market' for his products and then extend the life of these products by distributing them through pharmacies.

### Onwards and upwards

This year, as mentioned previously, Peter and Sonia's new business, Naturopathica, will do well over \$40 million dollars in sales.

But as well as a strong cashflow, Naturopathica has a strong balance sheet. Its assets include its brands (it has more than 20 brands — including the best-selling Menoeze, which is endorsed by Rowena Wallace), and its distribution network (Naturopathica's products are now available from almost every pharmacy in Australia and New Zealand).

Peter's new business model is as effective as it's unique.

Most pharmaceutical companies wouldn't dare to sell direct for fear of disenfranchising their reseller network. However, Peter's pharmacy clients understand that his direct sales activity finances the enormous cost involved in 'making the market' for new products.

And rather than providing pharmacists with line-extension after line-extension (each of which consumes valuable retail space and diminishes the return on originally successful brands), Peter delights pharmacists with best-selling brand after best-selling brand.

Furthermore, all of Peter's products are supported by powerful point-of-sale campaigns — and, of course, with the spin-off benefit of his newspaper, magazine and television advertising.

Recently, we suggested to Peter that we build an ecommerce-enabled Website to complement both his mail order and his retail distribution channels.

Within weeks of its launch, [www.naturopathica.com.au](http://www.naturopathica.com.au), was generating over \$50,000 a month in sales. Naturopathica's online presence is styled after Amazon.com — with strong emphasis on cross-selling between related products.

### Australia's largest 'nutraceuticals' company

For a man who has long resisted traditional business practices, his business is now looking surprisingly business-like!

Naturopathica now has a staff of 45. It has its own warehouse (although Peter recently admitted that he has no idea where it is!) And it even has a General Manager (thank goodness).

Peter is obsessed about building Naturopathica into Australia's largest 'nutraceuticals' company. He conceptualises new products daily, he motivates his UK- and South African-based employees with telephone calls from outside Kings Cross nightspots, and he argues regularly (and noisily) with Justin about the intricacies of his business model.

Peter might not have what it takes to get a job with any of his competitors, but he does have what it takes to build a serious business. He is driven. He has an uncanny understanding of what makes people tick. And he has absolutely no fear of failure.



## The investment ad that sent a developer's phones ringing off the hook

Phones — you either love them or hate them. But if you're trying to sell a multi-million dollar development, the last thing you want is your phones to stop ringing.

Just ask Melbourne developer, Jim Hopkins. Jim's company, Hopkins Property (now Flagstone Property), is developing and marketing a \$50 million apartment block in Melbourne's prestigious Southgate district.

The 18-storey development — Gallery Tower — due for completion next year, is targeted at two distinctly different markets. The majority of the apartments — 130 — are being sold to investors, with the remaining 40 earmarked for owner-occupiers.

In order to secure finance for the project, the company was required to pre-sell a percentage of the investment apartments off-the-plan i.e. prior to construction.

Early promotional initiatives had met with some success, but the Asian crisis and an election had slowed telephone inquiries. Hopkins Property sought our assistance to see if we could give their promotional initiatives a boost.

The resulting campaigns did more than just set Hopkins Property's phones ringing again. They generated an avalanche of some 3,000 qualified inquiries that swamped Hopkins' salespeople.

The impact of these campaigns speaks for itself. At time of writing, Hopkins Property has sold 39 two-bedroom apartments (out of a total of 40), at an average price of \$280,000. It has sold 75 (out of a total of 80) one-bedroom apartments. And it has sold six two-bedroom Presidential apartments (out of a total of 10), priced between \$391,000 and \$521,000.

The exciting news is that Hopkins Property is confident that it now has enough prospects on its database to sell the remaining 10 apartments and to justify the development of another comparable property!

### A show-stopping investment proposition

Hopkins Property's initial promotional activities had focused on the property's enviable position. And, with good reason! Gallery Tower is situated in the heart of Melbourne's art and leisure centre — an easy walk from the city's vibrant café society and the Crown Casino.



Our concern was that these features are of secondary interest to investors — Gallery Tower's target market. We felt that investors would be more interested in their likely return on investment.

When we inquired into the investment potential of Gallery Tower, we discovered that this development has quite a magic story to tell.

Gallery Tower contains 120 one- and two-bedroom serviced apartments. These apartments provide investors with a rental return guaranteed for at least 10 years. This rental return, together with an unusually high depreciation allowance, puts typical investors in the position where they can purchase a \$248,000 serviced apartment with no deposit and no monthly outlay. What's more, such an investor would be likely to have a \$1,145 a month surplus that they could then invest with a view to paying off their apartment in as little as 22 years.

Considerable thought had gone into creating this investment proposition however, because the marketing was lifestyle-oriented, the message was simply not reaching investors.

### Spreading the word

To rectify this, we crafted a lead-generation advertisement to trump this investment proposition. This advertisement attracted readers with the rather obvious headline: How the tax man can help you buy a \$248,000 investment apartment with no monthly outlay ... and no money down!

The body of the advertisement spelt out the Gallery Tower investment proposition in some detail — and then invited readers to request a free information package.

In preparation for information package requests, we crafted an addendum to the existing Gallery Tower brochure, focusing exclusively on the investment potential of these serviced apartments.

Our advertisement appeared for the first time in Melbourne's Sunday Age. The following Monday, our team waited by the phone for a call from Hopkins Property to advise on the success (or otherwise) of this campaign.

### Good news!

We didn't hear from Hopkins Property until late Monday evening. The call from Hopkins Property director, Phil Petch, brought good news. "It was quite amazing," recalls Phil. "The phones began ringing on that Monday morning and they didn't stop all day. That first ad generated us almost 200 information pack requests."

This advertisement also marked a turning point for the Gallery Tower development.

Once Hopkins Property realised that their investment proposition had hit a nerve in the market, they set about placing their advertisement in a range of publications including the Financial Review, BRW, The Australian, and metropolitan papers in Adelaide, Hobart and Sydney.

At the same time, we adapted the copy from our advertisement for different media, including a broadcast fax campaign, direct mail and referral campaigns, and a range of campaigns targeting professional publications.

### Managing with scientific precision

With this increased exposure, the flow of information package requests generated by our initial advertisement turned rapidly into an avalanche of eager inquiries. Renae Rogers, Hopkins Property's marketing coordinator tracked these responses with scientific precision, calculating the cost per response for each campaign — and the ultimate cost per apartment sale. The resulting data was used to fine-tune the placement of media and to calculate the optimal insertion frequency for advertisements.

### Booster letters compel hot prospects to show their hands

It wasn't long before Hopkins Property's two salespeople had more qualified prospects than they could possibly follow-up by telephone.

In order to compel 'hot' prospects to identify themselves, we initiated a program of monthly update letters — affectionately dubbed 'booster letters' by Phil. Each of these letters went to everyone on the burgeoning Gallery Tower database, counting-down the available apartments, and cultivating a sense of urgency as a result.

### A sigh of relief!

Now, with just a handful of unsold apartments — and more than enough potential buyers — Jim, Phil and Renae are breathing sighs of relief.

Jim reflects, "Before we consulted Ballistix, our marketing was not as focused as it could have been."

"Ballistix helped us to captivate the attention of the investor marketplace. With their help, we began hitting all the right buttons and the inquiries came flooding in. We have not looked back since."

The Ballistix team looks forward to working with Hopkins Property on its next development.



## > Next Steps

### Reengineering your sales process

If this publication has convinced you that your sales process needs reengineering, we can provide you with additional assistance in a number of areas.

#### You can subscribe free to AdVerb

If you haven't already done so, you should visit our Website and subscribe to AdVerb.

AdVerb is our own periodical. It's also the source of all of the articles in this digest.

Your free subscription will provide you with future articles, as they're published.

It will also keep you up to date with news and developments at Ballistix.

#### You can visit us online

As well as subscribing to AdVerb, a visit to our Website enables you to browse our library of articles (less than half of which are contained in this digest).

Furthermore, you'll find:

- > Information on our regular events (we conduct breakfast seminars regularly in Sydney, Melbourne and Brisbane.)
- > A recommended reading list.
- > Information on Ballistix and our services.
- > Information on a career with one of our clients (or, indeed, with Ballistix).

You'll find us online at: [www.ballistix.com.au](http://www.ballistix.com.au).



>> Ballistix

[www.ballistix.com.au](http://www.ballistix.com.au)

Telephone: 07 30 100 800

Facsimile: 07 30 100 801

PO Box 3338, Sth Brisbane 4101

Suite 5, 14 Merivale St,

Sth Brisbane 4101

## Our consultants can provide hands-on assistance

If you suspect that our sales process design and management methodology may unlock significant potential within your organisation, it's worth considering the involvement of our consulting team.

Our team is highly skilled in the conduct of what we call *Sales Process Reengineering Projects*.

These are carefully planned and tightly managed six- to nine-month projects designed expressly to deliver a positive return on investment within the shortest timeframe possible.

The essential characteristic of our Reengineering Projects is that our consultants work hands-on, in your business, conducting the following activities:

- > Designing and implementing formal processes and supporting technology.
- > Recruiting, training and managing your essential sales support personnel.
- > Coaching salespeople and management on their critical contributions to the sales process.
- > Fine-tuning, the project plan, so as to minimise the process adoption time and maximise your return on investment.

The output of a Reengineering Project is best considered in the following three areas:

- > **Sales process design.** We optimise the structure of your key activities (relationship acquisition, relationship management and opportunity management). We resource your sales process optimally to eliminate multi-tasking and ensure process stability. And we implement appropriate technology and collateral (promotional) materials.
- > **Process management.** We design an objective management structure for your sales process, and install the necessary technology to provide all team members with real-time feedback on their performance.
- > **Operational capability.** We provide you with detailed operational manuals, covering every aspect of your sales process, from recruiting to the operation of technology. Furthermore, we ensure that your management team has the detailed understanding required to effectively manage your sales process on an ongoing basis.

A Reengineering Project is preceded by two critical activities:

### Executive briefing

Our executive briefing is a three-hour workshop conducted for your management team by one of our senior consultants.

Its objective is to provide your team with a working knowledge of our methodology and, as a result, to secure high-level buy in.

This workshop is conducted at our expense.

### Business Case

A formal Business Case for your Reengineering Project is the output of a short preliminary consulting project.

This Business Case contains:

- > A thorough situational analysis
- > An overview of your existing sales process.
- > A detailed set of specifications for your optimal sales process.
- > A migratory plan (Reengineering Project overview).
- > A return on investment model.

As well as enabling you to evaluate the viability of a Reengineering Project, this Business Case provides you with a comprehensive blueprint for your optimal sales process. (In fact, some of our corporate clients, regard the preparation of a Business Case as a valuable benchmarking project, in and of itself).

Your investment in the preparation of a Business Case is likely to range from \$12,000 to \$35,000, depending upon the size of your organisation and the complexity of your current sales process.

## Your next step

If you are interested in working with us to reengineer your sales process, your next step should be to schedule a complimentary Executive Briefing.

To set the wheels in motion, either drop me an e-mail or telephone any one of our team members.

We'll be delighted to have an involvement in the reengineering of your sales process.

Justin Roff-Marsh  
justin.roffmarsh@ballistix.com.au



