# Sales Risk Survey Executive Summary

**By**

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June 2, 2010

There are few certainties in sales, but here's one: some prospects fail to become customers. Not because we aren't dogged sellers. We all know that if personal ambition and motivation alone predicted sales results, our success rate would soar. But business complexity, velocity of events and situations, constant change, and other uncertainties create multiple risks in selling. On we go, using sales quotas, pipelines, sales "funnels," and revenue forecasts as barometers reflecting our pessimism or optimism—or *risk outlook*.

Which risks become reality? Many of them. A more useful question is which ones have the *greatest likelihood* and *highest impact*? For example, if half the sales force underperforms quota, what causes the gap? If 25% of prospects buy, why do 75% not do so? If the sales forecast is a poor predictor of actual revenue, what causes the variance? One thing is clear: failure to address selling risks puts the organization's goals in jeopardy. Sales risks and enterprise risks are inextricable.

Some risks, like competitive tactics to offer last-minute discounts, are chronic. Others are emerging and not fully understood, for example, *Facebook* fan pages dedicated to airing customer angst about a specific company or product (see related article in *The Wall Street Journal*, Friday, May 14, 2010, *Diaper Gripes Grow Louder for P&G*).

*The 2010 Sales Risk Survey*, conducted in February in partnership with *CustomerThink*, shares insights about risk that others have identified, experienced, and managed. Over one hundred respondents—from salespeople to marketing executives to sales managers—identified key risks that have high importance on sales outcomes. This executive summary enables managers to better understand the selling risks that face their organizations, their impact, and how to prioritize efforts to mitigate them.

# Key findings:

- **Greater uncertainty has a direct financial cost.** Compared to last year, sales pipelines and sales cycle times are increasing. Fifty-two percent said that sales pipelines increased relative to last year, ballooning to an average of three times revenue target. Only 23% said their sales cycle times were trending shorter.

- **The poor economy is perceived as the greatest risk,** with approximately 25% of respondents identifying it as #1, and almost half placing it among the top three risks. "Challenges from competitive forces and new offerings," "inability to establish relationships with decision makers" and "major changes in buyer preferences and needs" also made the top three, with the latter two tied for third.

- **The risk of "no decision" remains formidable.** Forty-four percent named "prospect delayed purchase indefinitely or did not make a decision" as the top reason for lost sales opportunities, followed by "price was high relative to competitors" (38%), and "competitor did a better job in marketing and sales" (35%).

- **Erosion of "sales control" brings new risks.** While the majority of respondents (70%) agreed with the statement "when we lose sales opportunities, we know the reasons why," a surprising 53% indicated that their companies have *less influence* over purchasing decisions than ever before.

- **Even though risks are known, many aren't managed.** Over 63% of respondents agreed "we know the greatest selling risks we face today," but 43% felt that unexpected situations played a role in lost sales opportunities.

- **Most are not preoccupied with having cutting-edge products or services in the sales bag.** Less than 20% agreed with the statement "our customers only buy products with the latest features or technology."

- **We might not like what's happening in Washington, but it won't impact sales strategies.** Less than one third agreed that pending legislation could substantially change their marketing and sales tactics.

- **Companies cannot afford to lose their top sales producers.** Retention of top sales talent was identified as a vulnerability by over 45%, while almost 25% felt their salespeople "lack the basic skills to compete in our markets."

- **Social media plays a role in communications risk.** While nearly 60% felt their salespeople were skilled at communicating key value propositions, a whopping 57% percent disagreed that their companies were "effective at using social media for communicating with our prospects and customers."

- **Supporting technologies are not as vital as sales automation vendors would like us to believe.** Nearly 72% were neutral or agreed with "if we were suddenly unable to use our sales/CRM applications, it would not adversely impact our sales operations."

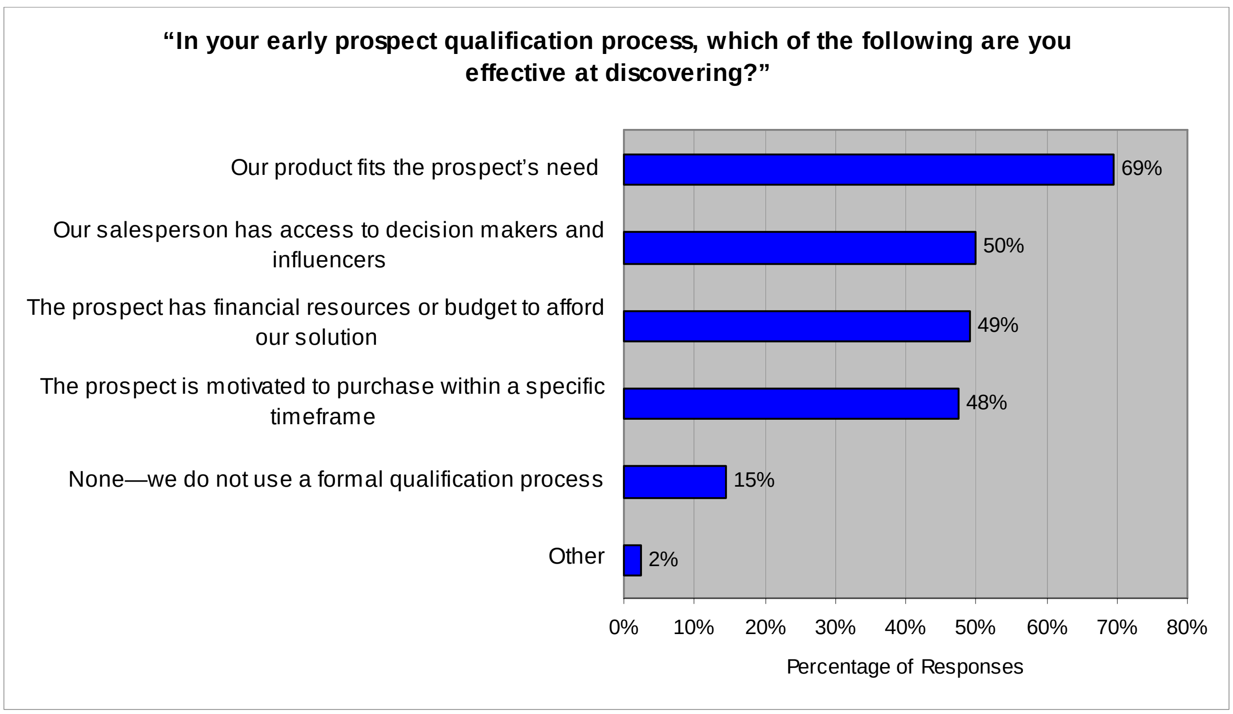
By nature, salespeople are optimists. But the collective observations of the sales executives who took this survey reflect a nuanced view of how people view the economic road ahead. We can infer emerging strategies and tactics based on the opportunities people see and the risks they want to avoid. Odds are that you will recognize that others share your concerns, and that there are ways to protect your business plan from the risks that imperil it.

## When it comes to risk perception, some companies clearly live more dangerously than others . . .

**Responding to the statement, "We exclude any sales opportunity for which we don't have a high probability of winning," only 28% agreed.** By itself, that finding wouldn't be earth shattering. But then came the answers to these two questions. First, when asked whether internal staff is highly committed to the successful completion of sales activities, 63% agreed, almost 12% disagreed, and the 25% balance was neutral. Second, responding to the statement, "we don't have control over our sales process," fully 26% agreed, and over 20% were neutral. Adding this up: 1) companies aren't picky about which opportunities they pursue, 2) a sizable chunk of staff is blasé about winning, and 3) control over the selling process is something many companies don't believe they have. Clearly, caution isn't top of mind.

**Qualification is something most salespeople do. But *when* and *how rigorously* is unclear.** The lack of *early* qualification is risky, because key selling problems might not be identified until scarce selling resources are applied—if they're being identified at all. When asked "in your early prospect qualification process, which of the following are you effective at discovering," *product fit* earned the highest percentage of responses—just shy of 70%. Curiously, 14.5% of respondents did not use a formal qualification process at all (see *Chart A* below). These findings are corroborated by an overall lengthening of the sales cycle, and most opportunities lost to "no decision" (see *Key Findings*).

Chart A



# External forces create the greatest risks.

**"It's still the economy, stupid!"** There's no surprise that the global economic crisis permeated sales risk perceptions. Sixty four percent of respondents believe *their* customers are negatively impacted by economic conditions. Economic forces might have a role to play in the most-cited reason for losing sales opportunities, no decision.

**Customer loyalty has limits—and competition isn't letting up.** A sizable group felt vulnerable to competition. Despite nearly 64% responding they know the strengths and weaknesses of their competitors, over 42% percent indicated that there was a likelihood that a major customer would defect to another supplier.

**Changing buyer preferences—long a *de facto* risk for consumer packaged goods is a risk hot spot for B2B sales, as well.** Ranked #3 of all risks, risks from changing buyer preferences points to a host of upstream business challenges, including long product development cycles, bringing customer intelligence and insight into the organization, and maintaining agile processes.

**Converging technologies are creating new playing fields, and those risks are being felt.** Almost 41% indicated that "our competitors have business models with cost structures that are radically different from ours." Our survey uncovered huge associated risks, especially in pricing. Over 38% believed that their companies could not survive an extended price war, and fully 75% agreed that their "pricing models face constant market pressure." Over 63% disagreed with the statement, "we never lose sales because of price."

**Inability to establish relationships with decision makers, a perennial risk, hasn't been reduced with social media.** Twenty-eight percent of respondents placed that risk in the top three—a curious discovery. On one hand, social media provides salespeople unprecedented power to learn about prospects, to understand them, and to "connect" with them. On the other hand, the same technology and tools offer prospects great power to avoid unwanted communication. It could be a zero-sum game.

**Just a few disgruntled customers can derail a sales strategy.** One surprising finding was that nearly 57% of respondents agreed that "our business is vulnerable to a proliferation of negative customer sentiment (10% of that group *strongly* agreed!). Despite the widespread availability of technology to monitor customer sentiment—and to respond to it—the survey exposed a convergence of trends that portends greater risk for achieving sales goals: 53% indicated their companies have less influence over purchasing decisions than ever before (see *Key Findings*), and a minority felt that their companies were effective at using social media for communications. This means a small number of well-connected bloggers and Tweeters could wreak havoc on a cash flow projection. It's happening as you're reading this—hopefully not to your company.

**Risks from product quality reputation and company/brand recognition *don't* keep salespeople awake at night.** Or maybe it's just that their companies are succeeding at controlling those risks. Almost half believed their companies and brands are known in their target industries, and nearly 80% felt they had a "strong reputation for quality" within their markets. Of course, quality strength brings risks of its own. After few product breakdowns, trust can be undermined quickly.

## There are a wide variety of strategies for managing and mitigating sales risk.

**Companies can't "beat" a bad economy, but they can reduce its impact.** Forty percent of respondents indicated that their companies were positioned to readily expand into new markets. Almost half felt that their selling strategy easily adapts to changes in market conditions, and that their markets are sufficiently broad to survive a downturn in a specific customer segment. But assumptions underpin this optimism, and our survey identified much ambivalence. Almost 32% were neutral about on the statement "our sales strategy relies on risky assumptions—about the same percentage that agreed.

**Production capacity can keep pace with demand—for now.** Scaling back operations doesn't mean products or services won't be available to sell. Over half of respondents felt that when demand increases, they can easily accelerate production.

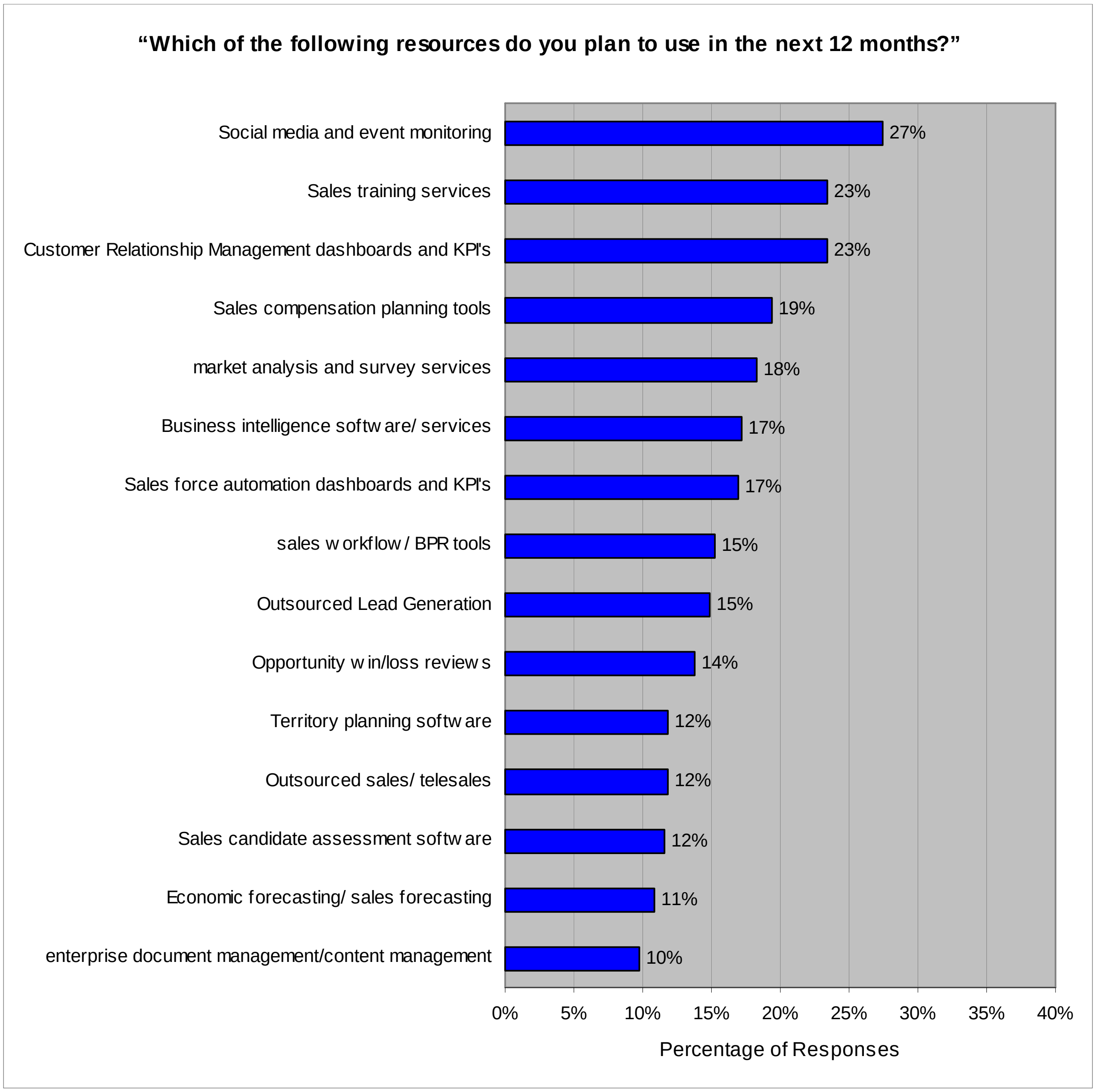
**Ongoing sales force effectiveness programs help eliminate some risks, but the strategy is not widely adopted.** Almost 47% of respondents regularly provide sales force training programs. But at 53%, the total of *neutral* (24%) and *no program* (29%) indicates that sales forces are possibly inadequately trained, or that companies are uncertain about the financial benefit of professional development—or both. In fact, responses to "our sales force is less productive than the industry average," were clustered at the middle: 26% agreed, 32% were neutral, 29% disagreed.

**Sharing risks through channel partners is popular,** but without prior-year data, the direction of the trend is not known. Almost 40% of respondents agreed that "our business success is closely tied to the success of our channel partners." And there's great risk if a key channel partner relationship ends. Less than 30% agreed that if they lost their top five channel partners, their business would experience minimal impact. There were two related findings that were surprising. First, cash flow projections based on partner forecasts are probably not worth the paper they're printed on. When asked if they could depend on the forecasting performance of channel partners, over 40% were neutral, and only 20% agreed. Second, 29% of respondents felt that their products and services are *not tightly embedded* with the products and services partners provide (over 32% were neutral), suggesting low switching costs and vulnerability to substitution or replacement.

**Asking the sales force to bear more risk isn't part of the sales plan.** For most companies, the ratio of commissions to total compensation hasn't changed significantly from last year. Forty-one percent of respondents indicated that compared to last year, the percentage of fixed sales compensation to total compensation is about the same, 26% indicated that fixed compensation is *increasing,* and 21% responded decreasing. The remaining 12% didn't know.

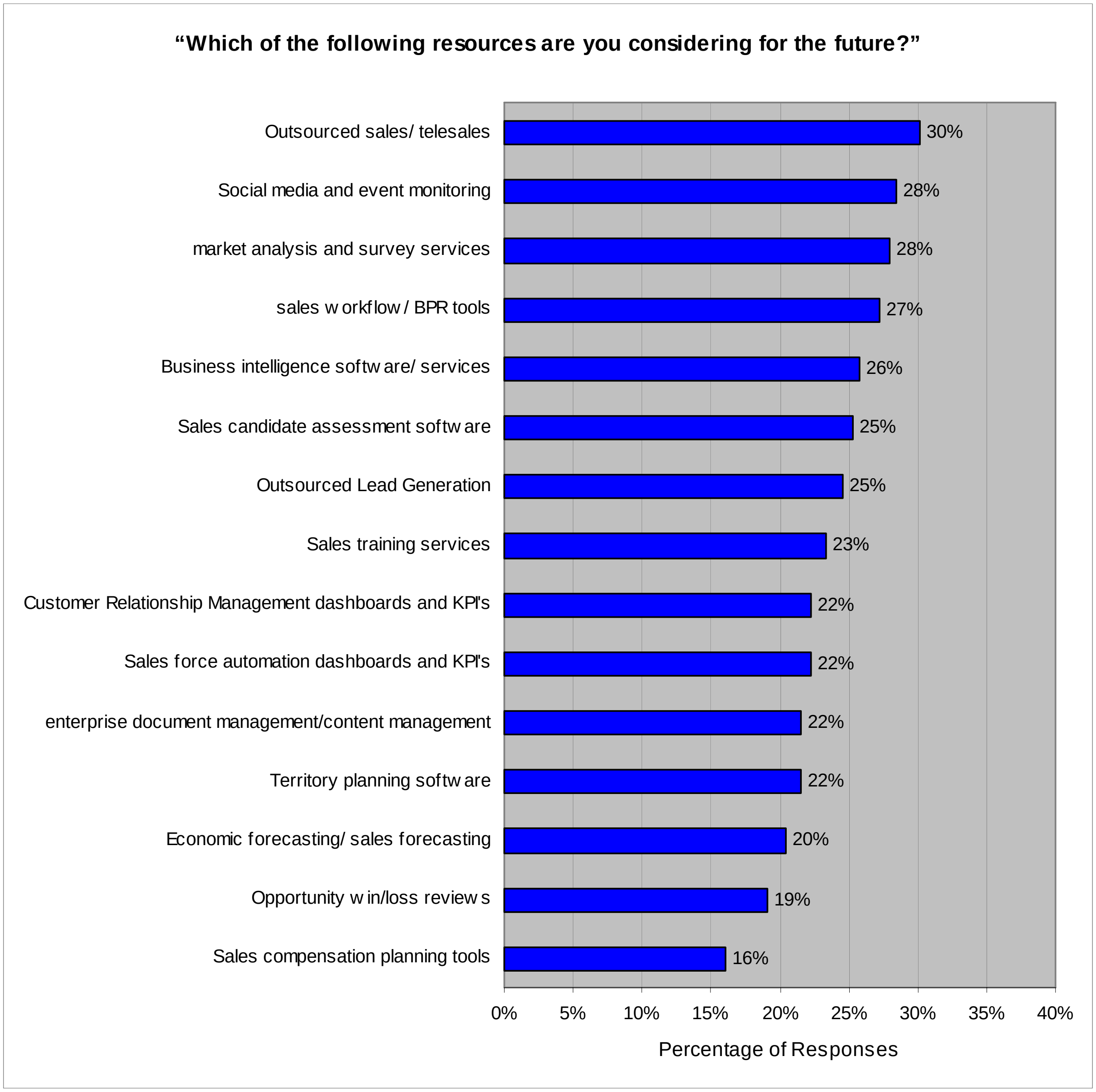
**Current risk mitigation tactics are "tried and true."** Forty-nine percent of respondents use opportunity win/loss reviews, followed by economic forecasting and sales forecasting (41%), and Customer Relationship Management Dashboards and KPI's (36%).

Chart B



**But there are some new tactics on the horizon.** In the next 12 months, over 27% of respondents indicated they planned to deploy social media event monitoring. And in the future, over 30% indicated they were "considering" outsourced sales/telesales.

Chart C



# Which risks loom over the next 12 months?

Respondents were asked "as you consider your priorities for the upcoming fiscal year, which are the top three risks you must reduce or eliminate to achieve your sales objectives?" The top choice, with 34 respondents out of 98: **market-related risks** due to poor economy, interest rate fluctuations, currency valuations, or rapidly changing buyer needs. In fact, out of 98 respondents, 57 identified market-related risks in the top three. Second, competitive risks due to competing firms having better products, more effective sales resources, better strategies and execution. And third, promotion risk due to brand image and company reputation. The lowest-ranked risk among the list? Regulatory risk due to tariffs and pending legislation. Only 11 of 98 placed it among the top three.

But the 69 write-in responses for "What is the single largest risk you face right now?" offers richer insights. Among the opinions, "Obama," "adequate capital to expand and support customers," "successful deployment of CRM/SFA," and "lack of pursuable demand." The breadth of these responses is emblematic of the fact that people see significant risks coming from many directions.

# Conclusion

Successful implementation of strategy requires that an organization's executives recognize and understand the risks and opportunities that they face. But that insight must be offset by an organization's capacity to accept risks—or *risk appetite*. While it seems obvious that every organization must accept that prospects might not buy, managing outcome *probabilities* is not as well understood. Some companies are in a state of *risk homeostasis*—they accept that selling is inherently risky, which lulls them into accepting situations and events that create that risk, and they do little to change them. Or, they do an excellent job in managing one set of risks—lead qualification, for example—but fail to mitigate others, such as sales force churn. Or, they simply don't know at which point risks are unacceptable. All of these are risk management mistakes, because the organization's overall risk exposure doesn't improve.

Failure to effectively manage risk results in failed outcomes and poor financial performance. Because selling risks have high impact on an organization's revenue achievement, it is especially important to manage those risks, and to recognize that selling risks *are* enterprise risks. By taking a retrospective approach to understand what forces have driven sales opportunities off the rails, a company can map the risks that present the greatest likelihood and greatest impact—fundamental insight for risk management. From there, a company can formulate intelligent decisions about risk mitigation actions: accept, reduce, eliminate, share, or transfer.

Retrospectives comprise part of the risk picture, however. A vision for future situations, events, and forces that impact the organization must be considered as well. Assumptions come into play, and it may be valuable to develop multiple scenarios, and to develop strategies for managing each. One final thought: if the worst-case scenario for your business plan is also the most likely, it's time to develop a new strategy.

# About this white paper

To prepare this white paper, the author developed a set of risk categories common to all selling situations, and fielded an online survey to CustomerThink community members and others in February, 2010. Approximately 100 respondents completed the questionnaire.

# Demographic Snapshot of who took the survey

**Customer Markets for companies responding to this survey**

| | |
|---|---|
| Domestic US | 49% |
| International | 13% |
| Both | 38% |

**Annual revenue**

| | |
|---|---|
| Less than $1 billion | 76% |
| Greater than $1 billion | 24% |

**Size of sales force**

| | |
|---|---|
| Less than 50 reps | 69% |
| 51 to 100 | 11% |
| Greater than 100 | 20% |

**Industry**

| | |
|---|---|
| Business / legal services | 10% |
| Computers / technology | 19% |
| Telecommunications | 6% |
| Wholesale distribution | 5% |
| Manufacturing | 8% |
| Financial services | 6% |
| Education | 6% |
| Advertising/media/PR | 5% |
| Other | 35% |

**Location of company**

| | |
|---|---|
| North America | 48% |
| EMEA | 25% |
| Asia Pacific | 21% |
| Latin America | 6% |

**Primary job of respondent**

| | |
|---|---|
| Quota-carrying individual revenue producer | 19% |
| Sales management (Manager, Director, VP, CXO, or GM) | 43% |
| Marketing and business development (other than sales) | 38% |

## About the Author—Andrew Rudin/ Outside Technologies, Inc.

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Rudin is a popular speaker, and has written numerous articles about sales strategy, which are available on CustomerThink, where he participates on the Editorial Advisory Board, and is Chair of the Founder's Council for SalesEdgeOne, a community of sales professionals dedicated to shaping the future of selling.

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