AlixPartners

MARCH 2020

TOP NINE MYTHS OF REVENUE AND GROWTH

Myth eight: hands off my sales organization!

AlixPartners' Top Nine Myths of Revenue & Growth series spotlights the changing calculus of top-line revenue strategies and suggests ways companies can overcome commonly held revenue and growth myths as they pursue—and achieve—profitable growth.

FOR COMPANIES SEEKING TOP-LINE REVENUE GROWTH, THE RULES OF THE GAME HAVE CHANGED.

Across industries, market dynamics are evolving at an ever-increasing pace as companies derive data-driven insights and apply digital strategies to move quickly and decisively in order to adapt and grow.

WITH THOSE NEW RULES COME NEW STRATEGIES.

Now more than ever, speed to results and rapid execution in sales, marketing, pricing, and profitability are becoming fundamental to remaining competitive. Many commonly held assumptions have been rendered obsolete, yet many companies still fall prey to the myths as they struggle to respond to the competition.

AVOIDING THE MYTHS AND ACHIEVING TANGIBLE GROWTH.

With the changing rules of the game, how can investors and managers overcome myths and maintain or enhance profitable growth? More important, how can they execute while staying strategically nimble enough to remain responsive to the market and not only survive but also thrive?

HANDS OFF MY SALES ORGANIZATION!

How cost transformations can be reframed as opportunities to optimize the sales organization and pivot towards growth.

When challenged by stalled growth, corporate leadership usually takes aim at Opex reduction. Sales-related functions often remain unchanged on the theory that the company can't afford to disrupt revenue-producing activities, especially when growth has turned negative. Leadership opts to boost operational efficiency elsewhere in the organization while sticking with familiar sales approaches, strategies, incentives, processes, and systems, in the belief that doing so will protect the top line and avert a death spiral that traps the company in an accelerating cycle of cost reductions and falling sales.

It won't. By cutting everything but the sales organization, companies actually increase the risk that they'll enter a death spiral. While the rest of the company realizes efficiencies, the untouched sales organization never unburdens itself from legacy structures and processes that are out of alignment with the company's go-to-market aspirations, and thus never realizes its potential.

We have found that companies that work early on to realign the sales organization while they implement their cross-functional cost transformation programs are better positioned to win. As they emerge from their initial transformation efforts, their sales organization is better aligned, more operationally efficient, and better able to pivot to growth.

To be successful, companies should take a holistic approach to transforming their selling activities. This approach consists of two critical steps:

1. **'No regrets' operational improvements critical to enabling a successful salesforce,** such as operational visibility, back office and process effectiveness, and lead generation.

2. **Pivoting to growth by realigning the go-to-market strategy** and its associated selling motion. Typical tactics include realigning the channel or distribution model, reconfiguring marketing spend, launching market share recapture programs, and optimizing incentives to drive the right behaviors.

A LEGACY TECH COMPANY STRUGGLES AMID A CHANGING COMPETITIVE LANDSCAPE

We recently worked with a market-leading digital services company whose revenues and margins were eroding rapidly under pressure from new competitors focused squarely on the company's target markets. The company's efforts to reverse the declines were hampered by its high legacy cost base, which had built up in the company's early years, when heavy investments in growth led to inefficiencies across the organization. Year-on-year bookings were declining at double-digit rates, and the sales pipeline was drying up. Compounding the problem was management's lack of visibility into sales performance, owing to conflicting data from multiple sources and inadequate metrics. With no clear path forward, leadership lacked the confidence to take action, even as quarter-on-quarter revenue continued to decline.

The company's private equity sponsor engaged us to formulate a concerted plan to drive down costs across the entire organization while realigning the sales organization to win. We responded with a plan that took direct aim at the belief that it was too risky to reconfigure the sales organization. Our approach: to define and execute a cost transformation that unfolded in parallel with a strategy to mold a focused sales organization more capable of promoting growth (see figure 1).

While collaborating with leadership to define a new go-to-market strategy, we immediately set out to boost the sales organization's operational effectiveness to prepare for growth. Our approach included:

PHASE 1: 'NO REGRETS' TACTICAL EFFORTS TO ACHIEVE OPERATIONAL EFFECTIVENESS

1 ESTABLISHING A REVENUE WAR ROOM TO DRIVE OPERATIONAL VISIBILITY AND CONFIDENCE

Because they were working with unreliable data, leadership was mired in an endless cycle of delayed decisions and paralysis. Reports were cumbersome and time-consuming to produce and yielded little useful information. We immediately set out to establish a cross-functional revenue war room capable of rapidly producing reports drawn from single sources of truth. At the same time, we streamlined and accelerated the publishing process to yield consistent, trustworthy data. The information gave leadership the confidence to make pivotal decisions on growth programs, track impacts month-to-month, and change course as necessary.

2 OPTIMIZING LEAD MANAGEMENT

Working without tracking and follow-up, the sales organization was converting less than 40% of its leads. We created an integrated lead management process with supporting systems to dramatically improve lead conversion rates through AI-based scoring, end-to-end visibility on status, and accountability for follow-up. Lead conversion rates soared to 87% in two quarters, and revenue increased by $20 million.

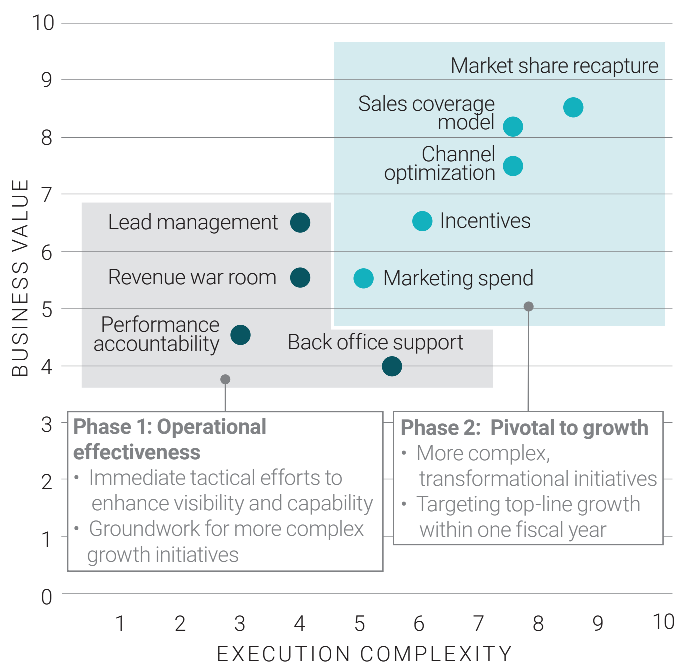
3 HOLDING SALES REPS ACCOUNTABLE FOR PERFORMANCE

Sales reps were missing the mark because management lacked clear targets and the operational visibility needed to track and manage performance. We established a governance cadence to drive performance with partners and reps as well as joint account teams to generate growth in both new sales and renewals. Armed with cross-organizational insights across geographies, management was able to pinpoint underperforming reps and partners and take corrective action before they missed their targets. That new capability also allowed management to reward high-performing sales reps to accelerate growth.

4 ESTABLISHING A NEW, GROWTH-ORIENTED COMMERCIAL FINANCE OPERATION

We established a new operational support unit that worked with the sales organization to close deals more quickly. We also consolidated order management and sales operations into centers of excellence (COEs) to support the organization across geographies. The COEs supplied management with the data needed to monitor sales activities and exert more control over decisions involving pricing and order management.

FIGURE 1: RETOOLING THE SALES ORGANIZATION TO PIVOT TO GROWTH



PHASE 2: PIVOTING TO GROWTH WITH A LEAN AND MEAN SALES ORGANIZATION

With the confidence gained from understanding where the pain points were, leadership was now positioned to make proactive decisions to achieve tangible growth. Recognizing that fortune favors the bold, they began to pivot the company toward growth, powered by a lean and mean sales organization.

1

OPTIMIZING THE SALES COVERAGE MODEL

Field sales reps had been organized according to an outdated legacy territory coverage model. We modernized and redesigned the sales coverage model to optimize across strategic accounts, industries, and the partner base before finally taking geography into account. Internal sales and sales engineering roles were then realigned to support the new model.

2

OPTIMIZING THE CHANNEL

The partner base was transformed from an unmanageable number of partners, many of whom were simply harvesting renewals for a handsome payday, into a focused team of professionals positioned and incentivized to help the company grow. We worked across the sales organization to establish new performance tiers, metrics for success, and financial incentives to drive the right behaviors. Quarterly business reviews with partners and reps resulted in reprioritized activities as well as a 5% increase in channel partner sales within four quarters.

3

REFOCUSING MARKETING SPEND BASED ON A DEEPER UNDERSTANDING OF MROI

Concurrent with the retooling of the sales organization, the company optimized its marketing spend to better align with new strategic priorities. A data-driven review of the ROI on marketing programs was conducted with an emphasis on making the most effective use of every dollar spent. Leadership was finally able to trace which marketing efforts were producing results and adjust spending accordingly.

4

OPTIMIZING BEHAVIOR THROUGH INCENTIVES

Incentives were optimized to reward new and renewal sales performance by both sales reps and channel partners, weighted toward encouraging growth across strategic products and accounts. Concurrently, the company reset its channel strategy by deploying a new pay-for-performance program to reward channel partners who contributed meaningfully to growth. The redesigned programs, coupled with regular performance reviews, resulted in accretive revenue growth within two quarters.

5

RECAPTURING MARKET SHARE

With the tools in place and the organization aligned to win, we implemented an aggressive program that combined marketing campaigns, lead management, partner performance management, and special incentives to reclaim market share from direct competitors. The company achieved a new level of focus by integrating the market share recapture effort with the new revenue war room and working cross-functionally across sales, marketing, and product R&D to respond proactively to the rapidly evolving competitive landscape. *For the first time, our client was fighting back—and winning.*

The approach we implemented produced a higher-impact sales organization designed to reignite growth. Within two fiscal years, the transformation initiative generated $250 million in accretive revenue against $3 billion in annual sales, and took $95 million out of the sales organization's $630 million Opex spend. The sales organization transformation yielded $175 million in EBITDA improvement for the company, translating to $1.7 billion accretive enterprise value.

A WHOLE-COMPANY TRANSFORMATION REVEALS OPPORTUNITIES TO GROW

A cost savings program isn't just about Opex reduction. It's also an opportunity to transform the selling organization. You could use the restructuring effort to reorient your business to optimally support your future-state go-to-market motion and redefine your selling motion. The result: the coveted ability to do more with less as you drive better top-line performance. In short, you could emerge leaner, meaner, and ready to drive sustainable growth.

CONTACT THE AUTHORS:

Jason McDannold
Managing Director
+1 312 241 8218
jmcdannold@alixpartners.com

Kyle Nelson
Managing Director
+1 214 697 6722
knelson@alixpartners.com

ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

The opinions expressed are those of the authors and do not necessarily reflect the views of AlixPartners, LLP, its affiliates, or any of its or their respective professionals or clients. This article regarding Top Nine Myths of Revenue and Growth Series ("Article") was prepared by AlixPartners, LLP ("AlixPartners") for general information and distribution on a strictly confidential and non-reliance basis. No one in possession of this Article may rely on any portion of this Article. This Article may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. The information in this Article reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Article. This article is the property of AlixPartners, and neither the article nor any of its contents may be copied, used, or distributed to any third party without the prior written consent of AlixPartners.

©2020 AlixPartners, LLP