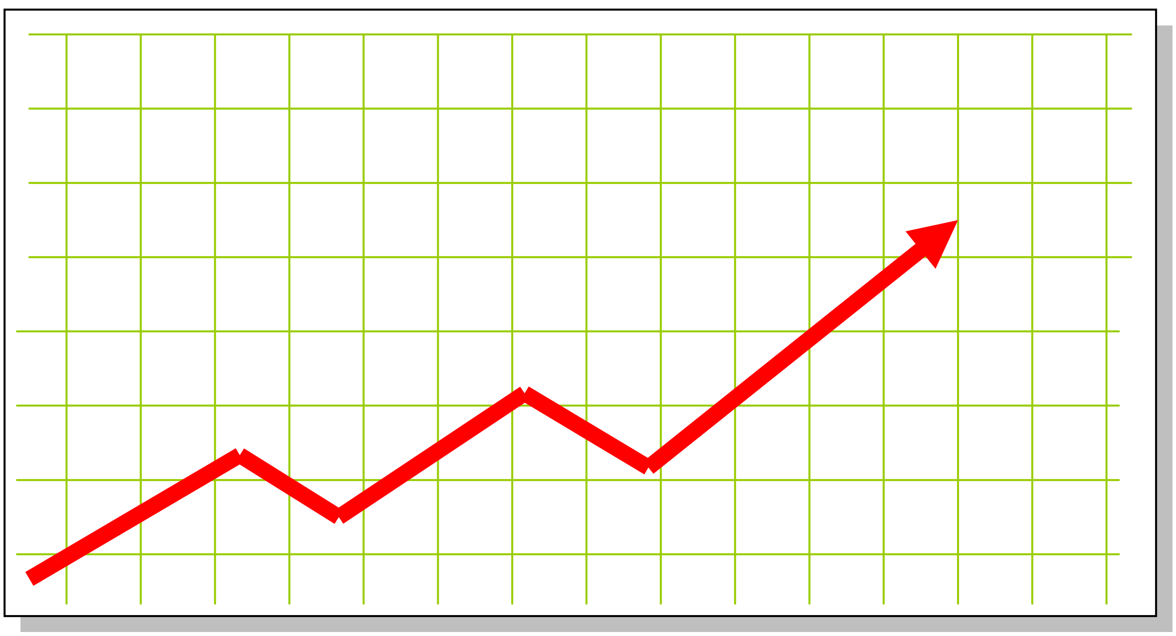
TRACTION

How Innovators Can Achieve Sustained Revenue Growth



by Steve Browne

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“To achieve, you need thought. You have to know what you are doing at that’s real power.”

Ayn Rand

“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.”

Theodore Roosevelt

“Do or do not…there is no ‘try’”

Yoda

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1. ACKNOWLEDGEMENTS

This book would not have happened without Walter Roth and Yves Sukhu each separately threatening to take what I taught them and write the book themselves if I did not. I am eternally grateful for their encouragement, moral support and especially for their threats.

I am also grateful to Craig Fulghum, Laura Mather, Mike Eynon, Matt Brown, Jim Marshall, Tim Draper and Michael Peachey who all generously gave me their time to review outlines and drafts, which greatly improved the final product.

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2. FEEDBACK AND RESOURCES

This book is available as a FREE download (in PDF format) from my website:

www.innovatorstraction.com

You may have downloaded this book from my website or you may have had it given directly to you by a friend. In either case you can check to make sure you have the latest version by going to my website.

I also have a blog where I answer questions and comments posed to me by readers:

www.innovatorstraction.wordpress.com

This is meant as a searchable resource for readers who have questions. I try to incorporate the questions and comments I get into the latest version of the book, but I've left many of the blog entries out there as a resource for readers. I also allow comments on my articles to be posted and I've found this to be an excellent forum. We are all learning more every day about how to effectively bring innovation to the market.

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3. ONE PAGE EXECUTIVE SUMMARY

The purpose of this book is to help entrepreneurs get the whole sales thing right so that what would otherwise be a successful startup does not make common mistakes and end up in the ditch. I've gradually refined the method presented in this book and been successful in using it to get traction at several startups. There are three basic parts necessary to generating the first traction:

1. Targeted Marketing
2. Gradual Refinement of Marketing Experiments
3. A Disciplined Sales Process to Turn Leads Into Revenue

Targeted Marketing

This means figuring out what problem you solve, who has that problem and how to effectively market to them. Startups have scarce resources and cannot afford to sell to everyone. Their very survival depends on figuring out who has the most severe need for their product and selling to them first. The money and noise generated by success in getting traction among these early adopters will allow the startup to get to the next level.

Gradual Refinement of Marketing Experiments

Once the initial target market is identified, the team needs to have a brainstorming session where they come up with a list of potential marketing (lead generation) experiments. I list a bunch of them in the chapter on marketing experiments. One of the challenges for the startup is to start with my list and come up as many as they can think of (including, but hopefully not limited to the list I provide). Then they need to rank them in order of how effective they will be and how many they can afford. Free experiments like pumping your rolodex should be high on the list, as they are affordable and (did I mention?) FREE.

The next step is to try as many of these experiments as the startup can afford, and do more of what works and less of what does not. This will allow the team to come up with what works best for them. This becomes the sales method for that startup. This method is the key ingredient necessary for sustained revenue growth because it can be replicated and is therefore scalable.

A Disciplined Sales Process to Turn Leads Into Revenue

I have a ten-step sales method which I've refined and used over twenty years of selling technology. Generating a bunch of leads is useless unless there is a disciplined sales process for qualifying and closing. This also allows the team to get a handle on the real value of their pipeline and set realistic expectations.

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4. WHY SHOULD YOU TAKE THE TIME TO READ THIS BOOK?

Summary

If you think of yourself as an entrepreneur then I wrote this book for you. I've seen too many good startups stumble or fail due to junior sales and marketing mistakes. Entrepreneurs tend to put everything they have into a startup. They put their heart and soul, their professional and personal reputations, their life savings and all their time and effort for years out of their lives into their shot at making their dream come to life. These efforts deserve to have the best possible chance of success. Yet, despite having everything to gain or lose, I regularly run across startups without a guide to the basics of sales and marketing for startups. This book is meant to provide that guidance.

Why Read This Book?

Traction is the key measure for any startup and anyone who has a stake in the success of an early-stage startup should be interested in it. This will include primarily founders and sales and marketing people (and I include business development in this category). These entrepreneurs are who I wrote this book for. I have an entrepreneurial streak myself and I know the feeling of putting everything you have into trying to make a dream come to life. I've been successful in getting the initial revenue several times. I've also seen lots of startups fail because they got the initial sales part wrong. While advising some startups and entrepreneur friends of mine on how to avoid common mistakes and guide them around the rocks under the water up ahead I was eventually persuaded by them to write this book. So if you think of yourself as an entrepreneur and you've decided to get involved with a startup then you are who I wrote this book for. It is intended to give you the best possible chance of success in getting the initial sales traction necessary to make your dream a reality.

The importance of sales traction cannot be over-emphasized. Traction is the difference between success and failure. This is one of the reasons that venture capitalists advise young MBA's to "go get a sales job". Having sales experience is invaluable in running a successful enterprise. Startups that get traction can attract more investors, employees and customers. Founders who have traction have to give up less equity to get more investment and end up winning big when and if the company takes off. Founders who don't get traction end up with very poor choices. They are eventually forced to either close the doors or sell out for peanuts. All startups fall somewhere on this success-failure spectrum. At one end of this spectrum, founders who get sales right from the start are able to "bootstrap" the company with no venture capital. They get the first few customers to pay for the development of the first version of the product. Microsoft and Oracle are excellent examples of this. The founders became some of the richest people in the world partly because they were not forced to give away all their equity to early investors. Founders who did not get it right ended up at the other end of the spectrum.

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This book is a guide to getting the initial revenue for your startup. Building a company from scratch is not a simple task and there is no one formula for success. However, following this guide will allow you maximize your chances of getting that initial revenue and that will give you a solid foundation to build on.

What This Book is NOT

This is not a general sales or marketing book. This book is specifically geared toward the problem of getting traction at startups. In this book I describe a method which I have developed specifically for use at startups. It is a framework and methodology comprised of targeted marketing and gradual refinement of lead generation experiments combined with a disciplined sales method. There are plenty of sales and marketing books and they do an excellent job of covering various sales and marketing topics. I've read lots of sales and marketing books. All of them have something to offer. If you have chosen sales or marketing as your profession I would highly recommend that you start reading sales books them if you have not already done so. This (combined with on the job training) is how I got the basics of blocking and tackling in sales and marketing. While the methods described in this book can be useful to anyone who is in sales at any company, I don't spend a lot of time going over sales or marketing basics which can be had from dozens of other sales and marketing books. I have even recommended a few in the following chapters which I found to be particularly useful. My focus in writing this book is on the issues faced with getting the initial revenue for a new startup.

Most of the chapters in this book could be expanded into an entire book. In fact, most of the marketing experiments listed in that chapter could be expanded into a book. And the entire collection could then be used by an entrepreneur when starting a company. That would be cumbersome, so I've chosen to write this book as the summary which pulls it all together and allow you the reader choose which of the chapters or topics you decide to go get more in-depth education on from other books or sources.

Who Should Read This Book?

I believe there are three categories of readers for this book:

- Company Founders
- Venture Capitalists
- Startup Employees

Founders of startups need to know how to get traction. They also need to know how to hire and manage sales and marketing employees. They also need a way to accurately measure the value of their pipeline. They need to know how to set expectations with their investors so they

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can under-promise and over-deliver. They need to be able to tell IN ADVANCE when their sales and marketing process is broken so they can do something about it before it's too late.

Venture capitalists need a way to know if the startups in their portfolios have reasonable sales and marketing plans and the ability to execute on that plan. They need a way to be able to accurately measure the value of a pipeline. Everyone claims to have a great pipeline, just like everyone has good employment references and looks like a hero on their resume. Sitting in a board meeting with a startup, the investor needs to be able to determine in a few questions if the projections or claims the executive team is making pass the reasonableness test.

Startup employees need a way to rapidly try different marketing experiments so as to come up with what works and what does not. They also need a way to accurately measure the value of their pipeline. They also need a way to determine if a prospect is eventually going to buy so they can spend their valuable time only on those prospects who are going to become customers.

All of these stakeholders would benefit from a common vocabulary to facilitate communication. Once everyone in a company is familiar with concepts like the three questions and the ten steps they are more easily able to sort through the clutter and focus on those things which will allow them to make progress.

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5. HOW THIS BOOK IS ORGANIZED

This book is organized in roughly two parts. The first part is presented as a series of steps or chapters which will give the startup its first revenue. In addition to these steps, which are in the first half of the book, I’ve included chapters of practical tips on various aspects of sales and marketing for startups. These are the chapters in the second half of the book.

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6. MY JOURNEY INTO SALES AND BACK

Summary

In this chapter I describe how sales can be done in a way that is acceptable to those who never saw themselves going into sales but now find they have to sell in order to make their startup fly.

Sales for People Who "Don't Do Sales"

The sales approach I describe throughout this book could best be characterized as sales for the non-sales person. Many entrepreneurs I've met have this picture of sales people as hucksters. They don't see themselves as hucksters so they don't see themselves in sales. I get that. In fact I started there. I had that same low opinion of sales people when I started my career. I had decided not to go into sales even after I realized that sales people could make a lot more than I realized when choosing my major in college.

I Didn't Start Out in Sales

I started my career as a programmer. I knew the sales reps where I worked made five times as much as I did. I thought I was capable of sales, but I had not made the leap because I viewed sales as "lying for a living". The only sales people I had met growing up were those selling my parents appliances or shoes or used cars or whatever and sales just did not appeal to me as a profession. It did not appear to be something to aspire to. Then I made friends with a young sales trainee while at MCAUTO. (In those days MCAUTO was the data processing division of McDonnell Douglas in St. Louis). And I also noticed that this sales trainee had a lot of personal integrity. Since we were friends, one day I asked him how he was able to still have integrity while choosing sales as a career. He patiently explained to me that professional sales people didn't just try to cram their product down the throats of the first people they came across. He said that his job as a professional sales rep was to identify people who really needed what he had to sell and to work with them. As long as you sold something of value, sales could be an honorable profession. When done right, sales is a search for those with a need. It is not a sales pitch. This was a revelation to me, and I subsequently went into sales. After all, the guys selling the software I was writing made five times as much as I did.

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A Different Approach to Sales

My style of selling is a very different approach from many others I've seen. Most sales people have a particular "style" of selling. Either they are "relationship" sellers (they make friends with the people they are selling to) or they are "high pressure" sales people (we've all encountered this style at one time or another) or they have some other personal style. My approach to sales is to look for a fit between what my product has to offer and what the customer's needs are. Most of my career has been high level sales of big-ticket items (over a million dollars) where the sale was going to be carefully scrutinized by upper management executives before someone wrote a very big check. Relationships might get me in the door, but if the business case was not there I wasn't getting a sale.

At each step in the process I do a reality check to make sure that I've done my homework and there really is value for the customer. At each step in the process, from the coldest cold call to the close of the deal, I reassure them that I have no intention of trying to "sell" them anything. Most people are so afraid of hucksters that they are loath to answer a call that they think might be a "sales call". I still to this day get prospects to agree to online demos by saying that I prefer not to try to "sell" them anything. All I want to do is show them what I have and ask them if it has value for them. This is not only quite effective, it has the added virtue of being the truth.

The way I learn is by:

- Watching things done right and done wrong
- Trying to figure out why some of these things worked and others did not
- Getting my shot and doing some things right and others wrong
- Trying to figure out why some of the things I did worked and others did not
- Eventually getting it right

I've taken this learning approach to each new level of my career:

- From programmer to sales engineer
- From sales engineer to junior sales rep
- From junior sales rep to senior sales rep
- From senior sales rep to sales manager
- From sales manager to VP of Sales
- From VP of Sales to C.O.O. and President

This Sales Approach Has Worked Well for Me

My first sales job was at Oracle. Having Oracle as your first sales job is a little like learning to ride a bike and then entering yourself in the Tour de France. However, for better or worse, that's what I did. I learned a lot in those first four years at Oracle. Oracle was the kind of place where you had to learn fast. I then went and did a few startups and actually came back to Oracle for a second tour, a further three years. By the time I had spent a total of seven years at

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Oracle and had a few startups under my belt I had perfected the sales method I describe in this book. I got my chance to use this method to create an annual revenue stream of thirty million dollars, starting from scratch, in just eighteen months.

I did not do this by becoming a huckster. I concentrated on finding a fit between what I had to sell and what the customer's needs were. The whole time I kept to the promise I made to myself. The promise was that if I was faced with "lying for a living" I would find something else to do.

My selling style (a hunt for value for the customer) allowed me to know which ones to hold and which ones to fold. If I found a good fit, I would bore in even when everyone thought I was on the wrong track. If I found it was not a good fit I would drop the deal and go looking for one with a better fit. This made much better use of the time and effort I put into sales and ultimately allowed me to be successful. It also allowed me to pull deals out of situations which "conventional wisdom" said were hopeless.

I must admit I enjoyed that part a lot. When I was sure I was on the right track I would allow the "he's crazy" attitude to get around by simply not replying to it. Then when I pulled a multi-million-dollar deal out of my hat I appeared to be smarter than I really am.

This Sales Approach Can Work for You

For those like me who never saw themselves going into sales, this approach of looking for value can be a good way to think about sales. Since you are forced to sell in order to get your startup off the ground, this may be the best approach for you to take.

I once had to give a bunch of engineers a crash course in sales. In my first VP of Sales job, the CEO made the decision to get rid of all the sales engineers (SE's) and told the programmers to get out there and travel with the sales folks in their place. I disagreed with the decision, but that's another story. My task then was to give the programmers potty training so they would not stick their foot in their mouth in front of customers. I first had to explain that sales did not consist of "lying for a living". Since I was in sales they assumed I was lying about this also. I patiently described my approach to sales. I also pointed out that, while they were not to contradict the sales reps in front of the customer, I wanted an immediate report of any sales rep lying to a customer. None did. The engineers all got the point and were considerably more comfortable in their new roles as sales engineers.

If you are an entrepreneur who finds sales a necessary evil this approach may help. At the very least it will give you a way to think about sales which will make it more palatable. At most it will allow you to get sales cranked up at your startup to the point where you can attract more investment and a sales professional to take it from there.

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I’ve used this methodology at startups where I was on the management team and I’ve advised many startups on how to use this methodology. In every case the startup, even if it only has a few people working for it, has been able to use what’s in this book to get the attention of Fortune 500 companies. Having these famous brand names as customers creates a magic effect on a startup’s credibility. This credibility comes in handy when talking to potential investors, employees and other customers. Everyone wants to see traction.

My hope is that you will use this book to learn enough about marketing and sales that you will be able to get the first few sales and, when the time comes to hire a sales professional, have the necessary background to hire and manage them for success.

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7. A COMMON MISTAKE MADE BY STARTUPS

Summary

The purpose of this chapter is to point out one of the most common sales and marketing mistakes made by startups and the typically tragic consequences of those mistakes. In writing this chapter I am hoping to point out how this happens so it can be avoided.

The Common Mistake

Most startups fail. Some fail because their idea or product is not right for the market, is too early or too late or there simply is no market. However, many have good products and fail simply because the initial sales and/or marketing efforts are just not up to the task. As an example, one very common sales and/or marketing mistake plays out like this:

1. The founder starts their company and builds something of value.
2. The startup has a “runway” made up of initial investment and meant to last it until sales arrive or they get more investment to extend their “runway”.
3. They then hire sales and/or marketing people who sell nothing for a year.
4. With no sales traction, they have a hard time attracting more investment, employees or customers and the business eventually goes under.

This tragedy can happen even to companies which have a good idea and a good product and should have succeeded. Here is why this happens:

Hiring people with a good sales track record costs a lot of money and money is a scarce commodity at startups, particularly if they have yet to get outside investment. Selling for a startup is VERY different from selling for an established vendor. This means that even well funded startups who can afford a sales professional with a good sales track record run the risk of getting it wrong. The sales person or team may be sledding uphill due to the vast difference between sales at a startup and sales at an established vendor. Many startups have hired an experienced sales person from a large vendor only to have them fail at the new startup. Sales and marketing are different, and both are required for success. So even if the salesperson is good at what they do they may not have all the required experience or skills. The founder may or may not have the sales and marketing experience to recognize how to identify, manage and (if necessary) fire this person before they sink the ship.

Generating sales at a new startup is the hardest end of the sales business. Selling something which has never been sold before is not easy. Convincing people to buy from a startup is not easy. Convincing someone to be the first person in the world to buy something is not easy. No

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one wants to be the first one on the dance floor. At its heart a purchase is an emotional decision. Potential customers may worry that no one else will buy it and they will look like a fool. Maybe there isn't a market for this and they will have made a mistake. Maybe the startup will go under and they will have to explain to their boss that they took their company down a dead-end road, wasting resources and time. And now they have to backtrack while their competition is charging ahead. There was a lot of this going on during and after the recent tech boom and bust. As a result some companies actually made rules that cut down or eliminated purchases from startups. Maybe the product is not yet ready for prime time. All of these and many other factors make the initial sales difficult for a startup.

Not everyone is comfortable doing sales. Unless the founder has sales experience this may be completely out of their comfort zone. What typically happens is that the founder(s) hire a sales person who seems, by every measure they can think of, to have "the right stuff". Sales cycles can take a long time, typically six to nine months minimum, with no apparent maximum. This means that the new sales person spends the first ninety days looking around for the first few early adopter customers. Assuming they locate a few brave souls who are willing to buy from a startup, the first prospects won't actually buy anything until near the end of that first year, if not later. By this time the startup may have used up all or most of its runway. At the very least they will have used up a lot of their credibility with existing and potential investors.

Potential investors will then wonder why the product has been for sale for a year and no one has purchased it. This is critical because of the high failure rate of startups and the attitude venture capital investors need to have. A venture capital firm that invests in early-stage startups will invest (for example) in ten companies. Of these half will go under, a few will break even and one or (maybe) two will make it. Hopefully those that make it will do well enough to make up for the majority which did not. This means that the angel or venture capital investors that an early-stage company would seek investment from are going to take a very dim view of a startup that has been selling for a year with no tangible results. Claiming to have a great pipeline of future sales isn't enough. Everyone claims to have a great pipeline. They will say "if you've been selling it for a year and no one has purchased anything, then maybe there isn't a market".

Once this happens the only hope a startup has to avoid either being shut down or sold just for its technology is a restart effort. Restarting a company means convincing investors to give it another chance and taking another run at it. This is a low percentage shot and even if it works it usually means the founders end up with a sliver of the equity they might have had.

This tragedy happens more often than you would think to founders who had a good idea and produced a product which SHOULD have gotten traction but did not due to a lack of startup experience on the part of the sales and/or marketing staff.

Helping to prevent this tragedy is one of the reasons I wrote this book.

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8. SALES IS NOT A PITCH, IT'S A SEARCH

Summary

The reason for this chapter is to point out that sales is not (as commonly believed) a sales pitch, but a search. By this I mean a search for those who have a need for what you have to sell. This is a simple but powerful concept which threw sales in a whole new light for me when I was early in my career. Instead of trying to "sell" the product to (cram it down the throat of) the first people you run across, professional sales and marketing consists of most efficiently identifying those who have a need for whatever you are selling. Those who have the problem you solve are happy to see you and selling to them is a much better use of your time.

Myth: If you build a better mousetrap the world will beat a path to your doorstep.

This is a popular myth, but a myth nonetheless. I think the reason for its popularity is that we want to believe it. Unfortunately the reality is that if the world does not know about your new mousetrap they will have no reason to beat a path to your doorstep. You will have to go out and find a way to let them know about it.

Sales is not a PITCH, it's a SEARCH

Most people think of sales as a sales pitch. They picture some huckster talking non-stop about the virtues of some particular product. While this may be true of some salespeople, my experience has led me to the opposite conclusion. Sales is not a pitch, it's a search. The salespeople who I've seen make the most money are those who spend majority of their time listening instead of talking and guiding the conversation toward those things which will help them figure out what will motivate the prospective buyer to overcome the hurdles necessary to purchase. The hard part of sales is finding those who have a need for what you sell. Successful selling is therefore not a pitch, it's a search.

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First: Sell Something of Value

The first rule of successful selling is that you have to sell something that has value. It must solve some real problem that people or companies have. If not, you're wasting your time trying to sell it (whatever IT is).

This means that the product has to be able to answer some basic questions like: Why would someone buy it? Why would they not just keep lumping along with whatever they currently have? What problem does it solve? Are customers willing to pay for it? Why would someone buy this product rather than one of its competitors? What is unique about that product? What does it do that no other product does? If you are selling a commodity in today's market, you are in trouble. Finally, is there a reason that someone could not just put off the purchase? If you can't answer (or find answers for) these basic questions, than find something else to do. Life is too short to waste it trying to sell something of no value. Also, selling commodities is not really my area of expertise. My experience and the focus of the rest of the book is on selling value and not on price cutting.

Then: Find Someone Who Needs It

Assuming you have something of value to sell, the best way to succeed in sales is to find as many people as possible who have the problem your product solves. So the next big question to answer is: Who has the problem that your product solves?

As a hypothetical example, let's say you sell a more efficient jet engine. Cool. All you have to do is find people who need a more efficient jet engine. They will be happy to buy from you. You will make them heroes at their respective companies, and you will have happy customers and go on to great riches.

Trying to sell a more efficient jet engine to the general public or even to automobile manufacturers would be a waste of time. By contrast, trying to sell a more efficient jet engine to airframe manufacturers would be an excellent use of your time.

Once you locate a well-qualified prospect, selling becomes a more productive use of your time. The sales pitch itself then becomes a (relatively more) simple question of being able to give a good presentation. There are lots of excellent books and training classes on how to give better presentations. The harder part for a startup is finding qualified prospects to give the presentations to and figuring out what will motivate them to buy.

What This Means in the Real World

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For most sales people, the equation is not as simple as calling on all the airframe manufacturers and setting up appointments to discuss a revolutionary new jet engine design. For most sales people the most valuable asset they have is their time. Picture a large empty room with the floor covered with thousands of playing cards. All the cards are face down, and the floor is almost entirely covered by these cards. One out of every fifty-two cards is the ace of spades. The aces in this analogy represent those customers who have the problem you solve and your job is to find as many of them as possible. Once you find prospects with the problem you solve, the process of selling to them (and not wasting time with the others) is the best use of your time. You could call everyone in the phone book. This would be analogous to turning over every one of the cards one at a time to find the aces of spades. There are better ways. This is the point of targeted marketing.

It Helps to Have Someone In Mind

Find a need and fill it - in that order. Coming up with a solution and then looking for someone who has the problem can still work, but it makes a difficult process more difficult. The whole process of starting a company is made considerably easier if you already know where you are going to get the first few early adopters. The way this typically works is that you noticed a need and then came up with an innovation to address that need. The first customer (or first few customers) can therefore be those people or companies which first inspired your original concept. They may even pay for the first version of the product. Many software companies have started by selling their first version as a project and then eventually turning it into a product.

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9. TARGETED MARKETING

Summary

The purpose of this chapter is to explore some targeted marketing concepts and point out that profiling the ideal prospect and targeting the early adopters of a product are the key concepts a startup must grasp if is to have a chance at success. Startups, more than any other kind of enterprise, have to wisely allocate their scarce resources. The ability to figure out who has the most pressing need of the product or service is of paramount importance. Concentrating efforts on these prospects is the only path by which a startup will find success.

Concepts

The three qualifying questions expanded in the chapter on qualifying will help you to target your market:

- Why buy anything?
- Why buy our product?
- Why buy now?

We will get into each of those questions in more depth later. For now, what's important is how to define your target market. If you sell a development tool which only runs on Oracle, than the group of Oracle users defines your initial target market. If you sell a sales force automation application, your target market is those companies who have a sales force. If you sell an application which organizes patents, you have to find companies which have lots of patents or put a high priority on intellectual property.

Ask yourself who has the problem you solve and how can you most effectively and efficiently identify and market to those people. Create a profile of the ideal customer and this will help you visualize where to look for those prospects.

I live and work in Palo Alto, California. If I was selling a product that appealed to people who spoke Italian, one of the least efficient selling methods I can think of would be to send my sales reps out into the streets here to ask random strangers if they spoke Italian and, if so, would they be willing to listen to a sales pitch? A better bet would be to fly to Italy and repeat the process. The reps would have a higher hit rate and make more productive use of their time.

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Real-world Examples:

I once started the Chicago office for a startup called Patrol Software (now part of BMC Software) which provided a central console to keep track of multiple physically scattered client-server databases. The target market was large client-server applications where the database was distributed in multiple scattered data centers. The first database we ran on was Oracle, so our target market consisted of early adopters of the client-server model who had chosen Oracle and were trying to implement large-scale projects with multiple servers in multiple different sites. This was our ideal customer or prospect profile. We worked with the Oracle field sales force to identify those large deals in their pipeline which were stuck because someone at the customer site was asking “how are we going to manage all these databases in different cities?” We solved a problem for the Oracle sales force because we solved a problem for their larger customers. They helped us identify qualified prospects with a need for our software.

I once worked for a startup called Collation (now part of IBM) which sold automated blueprinting for data centers with component architectures. The product automatically identified and laid out a diagram for the many software components of a large data center and mapped out the dependencies. This allowed the data center managers to identify problems and fix them before they resulted in down time. So our target market was large data centers with complex component architectures. Since our ideal prospect had a large, complex data center it made no sense to waste time selling to companies with small data centers. Our job was to go after companies with large data centers.

I also worked for a startup called General Interface. General Interface sold a development platform which allowed their customers to build a “rich client in a browser”. This meant that our customers would be able to build applications which had the functionality of a client-server application but did not have the expense and difficulty involved in deploying and managing client application software to the personal computers. The product ran on top of web services and therefore our target market was the web services market. I spent my time identifying and qualifying those companies which were deploying a service-oriented architecture (SOA) and wanted a rich client in a browser. This was our ideal prospect profile.

First to File was a restart. The company had been originally started during the internet bubble in the late nineties. They had spent about fifteen million in venture capital before they downsized the company and all but shut down. The venture capital fund which was looking to inject more capital into it for a restart effort introduced me to the CEO. We talked for a while about how the technology had been built and how it had been sold. By looking into the notes left from the first sales effort during the internet bubble we realized that the company had started out trying to sell their online patent organization system to law firms. We came to the conclusion that a better bet would be to sell the system to the customers of the law firms. Patent attorneys command a significant premium for their time and charge by the hour. Asking them to buy a new system to make patent processing more efficient is essentially asking them to purchase a way to cut down on their income. On the other hand, the companies with large patent portfolios who have to pay large amounts of money to patent attorneys have a somewhat higher incentive to purchase a system which will streamline the process.

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Targeting your market greatly simplifies the task of selling. In all of the above cases my job was to identify those companies which were the most likely to have the right answers to the three questions.

- At Collation my job was to identify those companies who had large data centers.
- At Patrol, my job was to identify those companies with large Oracle-based client-server projects.
- In the case of General Interface, my job was to identify those companies who were early adopters of SOA and wanted to deploy richly functional applications which ran entirely in a browser.
- At First to File my job was to find companies who had large patent portfolios.

I believe that sales is not a pitch, it's a search and in each case I used the qualifying criteria to narrow my search. I viewed my territory as a large room with lots of playing cards which were face down on the floor. My job was to figure out which of them had an ace of spades underneath. In each case I used the qualifying criteria to help me skip over the ones which were less likely to contain an ace. I would go to that section of the market (that part of the room) where I was most likely to find those folks who had the problem I solved. This helped me to make the best use of my time and increase my hit rate. This was the most efficient and effective use of my time.

At Patrol, I first skipped over all those who did not have the Oracle database. Then I focused in on those that were doing client-server projects. At General Interface I skipped over those who did not have SOA implemented. Of the ones with SOA implemented, I focused on those that wanted to deploy thin clients and not lose any functionality. The key here is to develop a profile of your ideal prospect and then to use that as a filter or means of narrowing the list of potential prospects. While this "suspect list" does not guarantee that everyone you target will buy, it allows you to get a higher hit rate and make the most productive use of the time you spend prospecting.

How Disruption Starts

The big term now is disruption. Technology is referred to this way if it is going to disrupt the market that it enters. Client-server technology disrupted the mainframe market. Relational databases like Oracle disrupted the database market. The internet disrupted the client-server market. Google disrupted the internet search engine market and is now disrupting the advertising markets. Apple has disrupted several markets. In each case the technology was "disruptive" enough that it left the landscape forever altered.

Typically the disruptive technology is introduced by an innovator who looks first at that segment of the market which has the most acute need for their technology. They address this market first and use the money and noise generated by their initial success to build a better product which has wider appeal to a larger market. They address this market next and use the money

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and noise generated by their additional success to build an even better product which has wider appeal to an even larger market. At each level, the startup continues to build on their success to get to the next level.

Disruption starts, innocently enough, with the three questions I mentioned earlier:

- Why buy anything?
- Why buy our product?
- Why buy now?

Just as a long journey starts with a single step, disruptive technology starts with these three questions. Someone has to first buy something, and early adopters of a disruptive technology have to have answers to these questions before they will make a purchase.

For more on this topic, two excellent books on targeted marketing are Crossing the Chasm and Inside the Tornado, both by Geoffrey Moore. In Crossing the Chasm Moore does a great job of explaining how and why startups need to pick their initial target market carefully and focus their scarce resources on that market. This allows them to get a beachhead from which to expand. In Inside the Tornado Moore expands on this them by showing how startups can use that beachhead to expand into other markets.

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10. HOW TO ACHIEVE SUSTAINED REVENUE GROWTH

Summary

This chapter is intended to illustrate that sustained revenue growth is achievable and the method by which it is to be achieved. This is accomplished only by coming up with a repeatable method or mechanism for locating new qualified prospects. Once they have done more of what works and less of what does not, they will gradually identify a replicable and therefore scalable sales method. This process of gradual refinement is how they will eventually come up with their sustainable revenue growth. This sounds difficult and, while it is not easy, it can be done. After all, other startups have done it.

Replicable and Therefore Scalable

The purpose of the following chapter on lead generation experiments is to give you a starting point in your quest to create a sales method for your startup that is replicable and therefore scalable. Some effective sales methods are not scalable. Sales heroics are not scalable. Unless every salesperson you hire is going to be a one-in-a-million winner, sales heroics will not allow you to achieve sustained revenue growth. A good rolodex is also not scalable. If you hire someone who has a great rolodex, they will immediately call everyone they know. After a month (or at most two) they will have called everyone they know. What then? These things are useful in getting off to a fast start, and should be used. However, they will not give you sustained revenue growth because they are not scalable. Investors typically want to see sustained growth. This means that if you want to build a real company you need to create a method or a mechanism for finding qualified leads and working them through a disciplined sales process to come up with ever increasing amounts of revenue. This sounds like a tall order, but it can be done. Lots of companies have done it and more are doing it every day. The key ingredient is REPLICABILITY. If something can be copied, it can be scaled up. This means that a startup has to figure out a method for gaining sales traction that can be taught to new people who have yet to be hired.

I have done this several times and I've advised others on how to do this. I've always used the same route. I come up with a list of all of the possible ways to generate leads and then rank them in the order which I think will be most effective for whatever startup I'm currently working with. Then we all sit down and figure out which ones we can afford to try. This is a very painful and very necessary exercise if you are to maximize your chances for success.

Then you simply do more of what works and less of what does not and gradually come up with what is the most effective means of generating qualified leads. This sounds deceptively simple.

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The concept is simple. The execution of the concept is not. It will take a load of hard work. However, this is necessary if you want to create a method that will give you sustained growth instead of betting on lightning continuing to strike more and more often in the same place.

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11. LEAD GENERATION EXPERIMENTS

Summary

The reason for this chapter is to help the startup team generate the initial list of marketing experiments which will form the basis of their “trial and error” phase. In this chapter I list some experiments and give definitions and examples. Two of those experiments, cold calling and channels are discussed in more depth in later chapters.

Concept

There are different ways to generate qualified leads. In general, you back up and start by asking what problem you solve, who has that problem and how to effectively market to that crowd. For a new product, this may not be so obvious and some experimentation may be necessary. Come up with a list of at least half a dozen experiments and then simply do more of what works and less of what doesn’t. To do this you need to keep track (from the beginning) of where each lead originated. Make this part of your pipeline report, so you can see what is working and what is not. The results may surprise you. The experiments which produce the most leads may not be the ones you predicted. This happens to me on a regular basis.

Experiments

Here is an example of a list of typical experiments that a startup might use:

Networking

Networking means asking founders, employees and investors and their friends and family to make referrals and warm introductions to people they have in their list of contacts. This is the first place a startup should look. It’s free and a warm introduction is always better than a cold call. All of the examples below start with the assumption that everyone at the company is using their rolodex to help the startup get off the ground.

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Associations and Trade Shows

Also high on the list of places to look for leads should be industry associations and trade shows in your target market. The advantage of these is that they provide places where potential customers congregate in one place. If your target market is financial services or insurance, than try those industry associations and trade shows utilized by financial services or insurance companies. They will have their own trade publications, which you can likely buy advertising space in, and trade shows.

Try to figure out a way to get well-qualified leads from the trade show. I've seen lots of trade shows where vendors give away free stuff (T-shirts, pens, etc.) to get business cards. This should be a last resort to get "leads". Most of the "leads" obtained in this manner are unqualified. Gathering "leads" this way will simply give you a mountain of follow-up work to do in calling all of them after the show. It's better than nothing, but it will be necessary to call all of them and qualify then to see if they really have the problem that you solve. What would be better would be to find a creative way to only have the well-qualified leads drop off business cards to begin with.

At Patrol, we went to the big Oracle trade shows. Almost everyone at the early shows in those days was an Oracle DBA (database administrator). Since Patrol was a graphical product, a central console, we simply rented a big monitor and sat at the booth driving demos off of our laptops with the big monitor pointed at the crowd. Instead of giving away T-shirts in exchange for business cards we just gave a demo that everyone who was walking by could see. This worked very well. The DBA's who were interested in a central administration console would stop by and give us their cards and say "call me". This saved us from having to weed through a pile of business cards (unqualified leads) when we got back to the office after the show to figure out who might be interested and finding out that most of them just wanted a T-shirt to work out in or mow the yard in.

Assigned Meeting Events

Assigned meeting events are a useful place for a startup to look for leads. I sometimes refer to this as speed dating for startups. This is not cheap but can be very effective if the theme of the event provides a target-rich environment. These events are usually held at some nice venue like a cruise ship or a golf resort. The vendors pay real money to subsidize the event and the customers go for free (or for a subsidized rate) as long as they promise to attend a certain number of half-hour vendor meetings. I've found these to be extremely useful as long as they are targeted to the right market. If you know (or strongly suspect) that you will find a receptive audience among a particular crowd, than these assigned meetings provide a productive use of your resources. If your product appeals to financial services firms, then go to a banking and brokerage event.

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One of the advantages here is that there is some self-selection involved in the sign-up process. The way it works is that a bunch of vendors sign up and a bunch of (customer or prospect) executives sign up and then they all they all send in a paragraph of information on who they are and what they do. Once all the information is collected the participants all sign on to a website which allows them each to rank who they want to meet with. A schedule is then established of which vendors end up meeting with which prospective customers. The meetings are typically no more than half an hour, which is just about enough time to get your elevator pitch out and do some quick qualifying. If there seems to be a fit, a phone call, meeting or online demo can be arranged by swapping business cards and agreeing to a follow-up. I've had good luck with these types of events.

The biggest advantage of these events is their ability to compress time. Compared to traveling to three dozen sales calls, these events can pay for themselves in the savings generated by the travel expenses avoided. However, savings from travel is not the reason to do them. The real reason I like these are for their ability to take six months worth of sales calls and make them happen in three days. A startup only has so much runway and these events are a rare opportunity to speed up sales. I've gone to these events and been able to quickly qualify three dozen potential prospects in three days and come away with the ones who I think are likely buyers.

Another advantage to arranged meetings like this are that many of these folks will be otherwise unwilling to answer their phone (for example on a cold call) and allow an otherwise unknown sales person to take up their time. They see these events as their annual survey of technology and don't otherwise take sales calls from strangers. These events therefore provide the only way to get in front of some of these executives.

Two good examples of organizers of these types of events are Richmond Events and Marcus Evans. Richmond Events puts on the CIO Cruise which sails out of Manhattan in the spring and Marcus Evans organizes various summit events throughout the year for different industries.

Paying for Arranged Meetings

This is similar in effect to arranged meeting events in that the startup pays for a series of meetings to be arranged for them. However, instead of all of the prospects coming to a central event, the meetings are simply appointments which take place in the prospect's offices for either online demos or in-person meetings. Similar to the arranged meeting events, the vendor pays for the meetings to be arranged. This is expensive, but works well if the vendor knows or strongly suspects which companies are likely buyers of their product. Again, this is where targeted marketing comes in. One of the advantages of this method over assigned meeting events is that the startup typically hands the vendor a list of who they want to meet with. If a startup were, for example, selling claims

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management software then they could request meetings with all the Vice Presidents of Claims Systems for the insurance industry. Another advantage over assigned meeting events is that they can be arranged over time and are not restricted to a single, annual event. That means that it is a replicable and therefore scalable method of generating leads. It can even be used in place of a telemarketing department.

Some examples of vendors of arranged meetings are By Appointment Only on the East Coast and Rainmaker on the West Coast. My friends and I have worked with both of them and had good results from both. I've also heard about another one in the Midwest called Sales Diesel, but I have no experience with them.

Cold Calling

Cold calling is one of those things which evolved over the years. With the advent of caller ID, cold callers have had to become more creative. In the old days I could use persistence to get someone on the phone. I could continually call their number until one day they were expecting a call from a friend or their boss and they picked up the phone. Caller ID changed all that. One technique which does not, in my opinion, work is the one where the caller manages to speak nonstop for at least five minutes without pausing to breathe. I hate this type of call. When I get these calls like this I wonder how these people speak for so long without the need to breathe. Calls like this give professional sales people a bad name and have required an act of Congress to curb them.

What has worked better for me is more targeted calling to people with a high likelihood of interest in the product. This brings us back again to the question of our target market. When I was with a company called First to File we sold an application for organizing patents online. I spent my evenings and weekends looking on the web for the names and addresses of patent attorneys at large companies who had an interest in intellectual property. Calling them during the day was an effective means of drumming up initial revenue for the company.

Note: There are more notes on cold calling in a later chapter.

Influencers

Influencers consist of partners and "connectors" who may not be customers but who have connections with potential customers. In the case of Patrol we worked with the Oracle commercial sales force. In the case of Acquis we worked with the Oracle Public Sector (government) sales force. In the case of Tivoli we worked with the IBM sales force. In each case we tried to identify where our potential customers would congregate. At Collation the first version of the product ran on BEA's WebLogic, so we worked with

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the BEA sales force. We tried to identify where there was a pool of knowledge of which companies had the problem that we solved. Going back to the analogy of the playing cards all face down on the floor, if someone could point out to us which one had the ace of spades under it they could save us the trouble of looking under all of them. I did not work at Wily Technology, but I watched them closely when I was with Collation and they were very effective at using the BEA sales force to get introductions to qualified leads.

Working with influencers has its challenges. The Oracle or IBM or BEA sales force does not exist to send leads to other companies. In each case it was necessary to give them an incentive to work with us. In the case of Patrol we helped Oracle un-stick their large deals which were stalled due to lack of a central console for systems management. At Collation we pointed out to BEA reps that they were losing market share to IBM's WebSphere and that IBM was beating them up on manageability. Collation could fix this problem for them. At Acquis our product ran exclusively on Oracle's Fusion Middleware product and therefore we helped the Oracle reps make their Fusion Middleware quota. These partnerships can take up a lot of time and effort, but they can pay big dividends for a startup attempting to leverage the mindshare of a larger sales force. Harnessing the power of a larger organization can be the booster rocket that a startup needs to get off the ground.

Establishing relationships with larger, more established vendors can also lead to establishing them as potential distribution channels.

Channels

By channels I mean partners who re-sell or otherwise distribute your product for you. This can take many forms, from OEM (original equipment manufacturer) to reseller to partner to simple referrals (which I refer to above as Influencers). Some partners start out as influencers and end up becoming resellers and even acquirers. A channel strategy can be an effective means of distribution and should always be considered an option. A good example of this is how Oracle has long used application vendors as channels for distributing its database technology.

The channel can be exclusive if you are comfortable with having no direct sales. The other channels option is to have a system worked out where your direct rep gets some (but not all) of the credit for a sale through a channel. This is a balancing act where one size will not fit all and some tinkering (mainly with the compensation plan) may be necessary.

In the early days of Oracle customers would buy an application for the functionality it provided and this would drag along the database sale. We sales reps would get some credit for the sale. This created what we called coopetition. I remember when I was the Oracle rep for Ameritech in Chicago (now AT&T – again). The Oracle reps and the

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application vendor sales reps would hang out together at the big Ameritech facility in the suburbs. Some of them were ex-Oracle and we all knew each other. We would give competing presentations to one group in the morning and give joint presentations to other groups in the afternoon. In the morning session we would fight tooth and nail and in the afternoon session we would hold hands and smile and in between we would have lunch together and laugh about it. This balancing act requires that management set up the appropriate incentives for the sales reps to work together.

Media

By media I mean the publications (and broadcasts) that your prospective customers read, watch and listen to. Your potential customers may read industry publications geared to their specific vertical market segment or they may read publications geared to horizontal functions like information technology. Either get to know the reporters at these publications or (sometimes a better bet is to) hire a consultant who has established relationships with them. Getting written about in an article or talked about on a broadcast is a much better endorsement than an ad. Everyone knows that ads are paid for by the vendor, but having an article written about you is assumed to be genuine and is therefore given more weight.

Try to use advertizing which will rise above the clutter and have an impact on your prospective customers. By this I mean consider the effect of multiple coordinated messages aimed at the same prospect. Keep a consistent look and feel so that advertizing dollars spent over time eventually penetrate when the prospects sees the same theme repeated. Spending more advertizing dollars of fewer publications is better than spending a little of each of many publications. Ask your prospects which magazines they read. Once you zero in on the one or two magazines your prospects read, spend your entire ad budget on them. Spending $10K on each of ten magazines may not be as effective as spending $50K on two or even $100K on one. Don't be shy about asking what they will do for a bigger order. See if you can negotiate a combination of advertizing, webinar (see below) and maybe even special promotions like trade show booths or web page links. This increases the impact of your advertizing spending and allows you to rise above the clutter.

Media is not restricted to the press. Prospects also watch and listen to media from everything from TV to cable to radio to podcasts to videos on YouTube. All of these can be potential ways to drive prospects to your website.

If you are going to hire a P.R. firm to help you get publicity, make sure you and the P.R. firm and clear on what you expect to get in return for what you are spending. Also, make sure you know who is going to be assigned to your account. Hiring a P.R. firm is expensive, but may be worth it.

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Webinars

From the vendor's point of view, there are two kinds of webinars, free and paid. In either case these webinars offer participants content like training and information on new trends in the market. They are not "commercials" or demos of the product. Webinars are online seminars where potential prospects can log in and participate in a presentation. By paid I mean the vendor or startup pays a magazine or other media outlet to gather an audience together for them. The payment is seldom by the participants unless there is some real value (like training) in it for them. In cases where the participants have to pay for the privilege of logging into and listening to a webinar the content itself is the product. This is not what I mean here by paid webinars. In both of the cases described below, the actual participants pay nothing to listen to the webinar. The payment I am referring to here is when they vendor must pay someone to generate an audience for the webinar.

Free Webinars

Free webinars are a way to get your point of view out there in the market place. Anyone selling something new will need to educate the market on the need for their product and free webinars are an excellent way to do this while generating leads. GIS Planning often sponsors free webinars to educate the economic development market on the fact that the internet has changed the way everything is bought and sold. And the economic development market is no exception. Since GIS Planning builds and hosts websites to allow economic development organizations to better market their communities online, these free webinars help GIS Planning to raise awareness of the need for the product they offer. The participants sign up for free and GIS Planning gets to educate the market in their point of view. Social media consultants give free webinars on the need for economic development organizations to take advantage of social media to help to promote their communities. The do this to showcase their expertise in the hope that some of the participants will hire them to create a social media strategy for their economic development organization. In both cases the free webinars are used to both educate the market to the problem that needs to be solved and the fact that the sponsor is the best solution to that problem.

Paid Webinars

Paid webinars are the same as free webinars except that the vendor has no way to generate an audience for the free webinar and therefore pays a publication or other organization to get potential prospects to sign up. As I mentioned above, paid webinars are online seminars where the potential prospects can log in and participate in a presentation. This is a good way to give a demo to a targeted audience, some of whom may want to purchase either now or later. This also raises general awareness of your product and company among your target audience. Those who have a current need can

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go into your sales pipeline and those who are just there for an education have now heard directly from you about the benefits you offer. Arranged meetings have a higher hit rate but are more expensive than webinars. Arranged meetings might cost $500 to $1,000 per meeting where webinars might be more like $100 per participant. Like all the other experiments, the idea is to try as many as possible and keep track of the effectiveness of all of them. This allows you to go back later and see what worked and what didn't and how much each cost and make more effective use of your marketing budget as you learn more.

These webinars are typically arranged for a fee by the producers of trade publications. They have email lists of their customers and this is another way for them to generate revenue. They will charge vendors to set up the webinar. The fee varies based on the size and quality of the audience. The more expensive ones give better guarantees. A typical example might be spending thirty thousand dollars on a 300-participant webinar. The publisher of a financial services publication guarantees attendance by giving back ninety dollars for one under 300 who does not show up. The publisher also supplies the name, address and contact information for the participants. The typical format is a few slides of introductory material to "set the table" followed by one or a few customer stories and then closing remarks by a subject matter expert followed by a question-and-answer session at the end.

Having the contact information for the attendees allows you the vendor to follow up and qualify the participants. The hit rate on these is not very high and therefore this should not be used in isolation but rather as part of an overall strategy which consists of a combination of multiple marketing experiments all used together to raise awareness and generate leads. Using webinars in combination with cold calling, arranged meetings, advertizing, blogging, going to trade shows, etc. will prove much more effective than just using a webinar-only strategy.

One advantage of webinars is the impact of multiple media messages directed at a single audience. If your product, for example, appeals to banks or financial services companies and you choose one of the banking trade publications you can arrange a deal with them to purchase a bundle of advertizing which includes webinars along with (for example) print ads in their magazine. They are also much more likely to write flattering articles about your product if you purchase more advertizing from them. In this way a subscriber sees your ad, maybe even reads a flattering review, gets an email invitation to your webinar and all of this helps you stand out from the clutter of everyone else trying to get their attention. The publication already has an email address which is very likely to allow their webinar invitations to get through their subscribers spam filter. Even if the potential prospects don't participate in the webinar, the fact that they got the invitation is additional advertizing for you. This increases awareness of your company and product even among those who don't respond.

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Analysts

By analysts I mean the Gartner, Forrester and IDC's of the world. The analysts are typically consulting companies which large organizations use to help them determine the trends in the market and how this would pertain to their situation. Take the time to get to know the analysts who cover your market segment so that they are familiar with your product when one of your prospective customers calls them to ask their opinion. Doing whatever is necessary to get on their good side is probably worth the effort and/or expense. Companies who buy technology generally view these folks as impartial and knowledgeable (and therefore trusted) advisors.

Advertising

Search Engine Optimization (SEO)

Search engines like Google, Yahoo, ask and others can be an excellent source of leads. Keep in mind that SEO is for the FREE search results and not the PAID search results, which I will refer to here has PPC (pay per click). There are many books and an entire industry which has sprung up to help companies maximize their website so as to rank higher in the search results, so I won't try to cover that here. I would recommend that you not ignore this valuable source of leads. People increasingly look to search engines first, so make sure you are doing everything possible to maximize your ranking. If you are new to this, start with a few good books and then move on to hiring a consultant. Don't wait until you have already built your website to try to optimize it. In fact you should begin immediately to learn about this because optimization begins with the domain name(s) you chose to register.

SEO is a constantly changing and moving target. The search engines continually refine the ranking systems they use to rank the search results which appear when a user enters a search term. This is because some websites continually try to game the system to rank higher and the search engines benefit from having the search results be the most relevant to what the searchers are actually looking for. However, there are a few constant elements to the search algorithms and these can be used to your advantage. For the most part this involves creating an ecosystem of websites that all have different flavors of content and that all relates back to your website so that users are more likely to find you if they are looking for a solution that you can provide.

Pay Per Click (PPC)

Closely related to SEO are the sponsored links which come up when keyword search results are displayed. In Google, this consists of the links which show up at the very top of the results as well as the links which appear to the right. There are also plenty of

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resources on how to maximize the pay-per-click fees paid to the search engines for such prominent placement. Since there is so much available material on these subjects, I will not try to re-create that wheel here. Suffice to say that this should not be ignored. This is just as important as the FREE results above you just have to pay a different piper. In this case you have to pay the search engine itself. They charge per click (thus the name PPC) for those people who click on your sponsored link. This is not cheap, but may be worth it. I would start with cheap experiments until you find what works best. Be sure to specify limits. I've heard horror stories about novices who did not specify limits. Keep in mind that you will pay for every click, not for every sale. This means that unless you specify limits you might end up spending thousands of dollars for a bunch of people who are just looking. That's OK if you are just trying to generate awareness but not OK if you are trying to generate qualified leads.

Other Advertising

Industry trade publications (most of which are now online) are another way to reach customers. These include online magazines (E-zines), trade publications, print advertising, news websites, television, cable, radio, etc. Advertising is one way to drive traffic to your web site. Think of this in terms of the bombardments that preceded ground attacks in the first two world wars. The idea was to soften up the opponents so they were more likely to give up when the ground forces arrived. If your prospects have heard about you, even from an ad, they are more likely to listen to what you have to say when they are finally contacted directly. They MIGHT even contact you.

Some of the online publications can be particularly useful because your ad can have a link back to your website for a purchase or download or other action on the part of the prospect.

The key to the effective use of resources here is to figure out which of these publications are read by the people you are trying to reach. Buying a Superbowl ad for a million dollars may not be the most effective use of your scarce resources. The key is whether or not there is a high correlation between your target market and some particular trade publication or magazine. If so, then this may be a good use of scarce resources.

Your Website

If you are not online, you do not exist. When my family moved to St. Louis in 1980, my mom looked in the Yellow Pages for a plumber. For her, if the plumber was not in the phone book he did not exist. And if he had a bigger ad in the Yellow Pages, that was better. Internet search has become our version of the Yellow Pages. When we know what we want we use a search engine like Google to find the right vendor.

I'm not a Search Engine Optimization expert. There is an entire industry devoted to SEO so I will not try to cover that here. I will, however, point out that following my advice

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in the next section on Driving Traffic to Your Website will in fact boost your search results rankings. The bigger the ad you have in the new Yellow Pages the better.

Your website is what most people first see of your company. Once they hear about you they will hit your website to learn more. However, a website by itself is not a strategy. A website by itself is like a lemonade stand in the middle of nowhere. If there is no traffic going by, it makes little difference if the site is good or bad because it no one will see it. Websites need to be used as part of an overall marketing strategy which includes a way to drive traffic to the site. This is why the next section covers driving traffic to your website.

One of the questions is how people heard about your website in the first place. Did they see an ad? Did they hear by word of mouth? Did they use a keyword in a search engine? Keeping track of this will help you refine your approach as you do more of what works and less of what does not.

The next question to answer is what happens once a prospect gets to your website. Is there a free trial for them to download? Some vendors now have a chat window open when you first get to their website. A window appears and the prospect is invited to start a chat session with a CSR (customer service representative). Others have demonstrations or presentations which provide a more in-depth look at the benefits of their product. When BEA was a startup, they had a successful website marketing strategy because their website was part of an overall campaign. They allowed prospects to download free trial versions of their software. This allowed customers to get their websites up and running. These free trials provided the leads for their sales force, which was able to convert a high percentage of them into customers.

Barack Obama successfully used the internet to market himself all the way to the White House. There was an unorganized army of people out there just waiting to join his cause. He used the internet to organize them into an effective political campaign. Organizations of any kind can use this same strategy. For example, any company which is selling something which is green or eco-friendly could, for example, use the whole “green angle” as part of an overall website strategy.

Here is an example for a fictional company called Green Motors which makes electric vehicles. They could use the green angle to recruit people into their “Green army”. When someone gets to their website there will be multiple places where the website visitor sees a “call to action”. Here are a few examples:

1. Sign up for our newsletter (and maybe get a free logo item)
2. Buy a logo item (T-shirt, polo shirt, hat, water bottle, whatever)
3. Watch a video of the product or a demonstration of the product
4. Download a brochure or screen saver or wallpaper for their computer
5. See a list of events where they can get a chance for a test drive
6. Chat with a representative of the company to answer questions

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The idea is to recruit the visitors into the Green army and make them feel like they are doing their part to save the planet. Just by signing up for the Green Motors newsletter or wearing the logo item they feel like they are contributing to the cause of global sustainability. This will all eventually lead to awareness and sales. Watching the video and signing up for the newsletter and wearing a logo item and taking a test drive are all baby steps which lead up to the sale of an electric vehicle.

The point of all of this is to provide information and generate publicity and sales, so keep in mind that having a call to action is important. There should be an enticing offer of some sort which will get prospects to identify themselves and contact you. Make it easy for prospects to take the next step, whatever that is. Have lots of places on your website which invite them to take that next step. Leverage the internet to organize your army.

Website Usability

Another mistake commonly made by vendors is to have a website which expects too much of the visitor. If you have a website which is hard to use you will significantly cut down on the number of leads you generate from it. I strongly suggest a book called Don't Make Me Think. The actual title is:

Don't Make Me Think: A Common Sense Approach to Web Usability by Steve Krug

This is an excellent book for those of you who can't afford a website design consultant. The author has lots of tips on how to make sure that people who come to your website are able to navigate around and find what they are looking for. Whether you have a little web site that you built on a Saturday afternoon or you have a complex website that took much longer to build, this is a good way to audit it for usability. This can also be used in conjunction with Google Analytics to help you figure out WHY some people are bailing out without clicking on the "call to action" part of your website.

Driving Traffic to Your Website

The way to drive traffic to your website is to place content on the web which will lead potential prospects back to your website. This content will be found and indexed by the search engines so that anyone searching for what you do is more likely to find some of it and that will lead them back to you and/or your website.

Stuart Mease is a great example of this. Who is Stuart Mease? I'm glad you asked. Stuart Mease is an economic developer in Roanoke, Virginia. His job is to attract businesses and jobs to Roanoke. Roanoke is geographically isolated. You have to really work at it to get there. It's not like Chicago or Atlanta or Dallas. You will not be connecting through Roanoke to get someplace else. Knowing that Roanoke is geographically isolated, Stuart realized that he had to harness the power of internet search to promote Roanoke as a place to locate a new facility.

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So Stuart uses (among other things) blogging, micro-blogging, social media, video and other creative ideas to place content on the web. Each additional bit of content placed out there on the web has a multiplier effect. This is similar to the progression of the number of connections between nodes of a network. As the number of nodes increases the number of connections increases geometrically. As the number of nodes in a network goes from 2 to 4 to 6 to 8 the number of connections goes from 1 to 6 to 30 to 56. Stuart gets results for Roanoke by casting a wide net of nuggets for searchers to stumble over and that all lead back to the Roanoke website. All of this stuff gets indexed by the search engines and all of the links and traffic and blog posts combine to raise Stuart's rankings in the search results. All of this raises the visibility of Roanoke on the internet. Without it, Roanoke would not exist.

And he produces results. I recently went to type in STUART MEASE as a search term. I got as far as STUART MEA and the Google interface offered to complete the term STUART MEASE and informed me that there were tens of thousands of results for the search term STUART MEASE and if I was specific enough to search for STUART MEASE ROANOKE I still got over ten thousand results.

Stuart Mease is one person with no staff. He accomplishes this feat by using blogging, tweeting and keeping up with other social media and websites. As the number of blog posts, tweets, YouTube videos, etc. goes up, the number of potential links and therefore results goes up exponentially. This is the multiplier effect.

All of us who are in sales can learn from Stuart's example. If one person in Roanoke can create this much visibility on the web, what could a vendor (large or small) do if they used the same strategy?

Green Motors (our fictional company from the example above) could, for example, use Stuart's strategy to generate content which drives visitors to their website. The videos of people using the product don't have to just reside on the website. There could also be similar videos posted on YouTube. These visitors are then called to action and end up getting the newsletter and wearing a shirt with a logo on it. And they tell their friends or even blog about the company on their own blogs and this generates even more publicity and visitors and all this eventually leads to awareness and sales of electric vehicles.

Blogging and Micro-Blogging

Blogging is almost free and if done well can generate a lot of interest or buzz. Blogging is short for web-logging and is a web-based way of publishing your thoughts on a particular subject. In the case of a technology startup, the founders or the CTO should publish their thoughts on what is happening in the industry and where they think things are going. This shows thought leadership. If what they have to say is interesting and catches on they can generate a lot of interest and the company can get a considerable amount of free publicity. This also helps your rankings in the search engine results.

A blog is simply an online journal that can be read by anyone. Creating a blog means posting a few times per week or month. Having a micro-blog (like Twitter) means

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posting blog entries a few times per day. Twitter is limited to 140 characters so it can also be done from a cell phone. In either case whatever you write gets stored and indexed by the search engines. So if, for example, you are in Wichita and you want to blog about your composite manufacturing capacity, you can tag the post with the term “composites” or composite manufacturing”. This makes it even easier for someone to find while searching online. I have a blog. It took me a Saturday afternoon to set up. It was painless. Anyone can do it. Just go to blogger.com or wordpress.com and push the button that says “Get Started”.

Here are two books to help you get started:

The New Rules of Marketing and P.R.

The New Rules of Marketing and PR: How to Use News Releases, Blogs, Podcasting, Viral Marketing and Online Media to Reach Buyers Directly by David Meerman Scott

The author does an excellent job of giving the reader a primer on how to use the internet get the word out about your product. This book is not specific to any one product or category. The techniques described in it could be used so sell anything from toothpaste to software. For those of you who are not making full use of the internet, this is a good place to start.

Twitter Power

Twitter Power: How to Dominate Your Market One Tweet at a Time by Joel Comm and Ken Burge

Twitter Power is both a primer and how-to manual for micro-blogging and Twitter. Blogging is posting a few times per month or per week. Micro-blogging is blogging several times per day. Micro-blogging is also limited to 140 characters so it can also be done from a cell phone.

There is a global conversation going on out there. It will continue whether you join it or not. Your best bet is to join the conversation. One very easy way to get started blogging is to simply post replies on other people’s blogs. When they have something to say, read it and reply with your opinion.

Social Media

Social media is simply using the internet to tell your friends what you think. However, in this case the definition and number of “friends” goes up exponentially with the ease of communicating with them. The internet allows everyone to have the world’s largest cocktail party. And it’s global and it goes on twenty-four hours per day, seven days per week. Some people have hundreds or even thousands of “friends” on Facebook or

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Myspace. And news travels fast. There are lots of examples of people who got lousy service from their internet service provider or whatever and then got on YouTube or Twitter or whatever social media they were using and blasted away and immediately got the issue resolved. The word is out. Companies large and small know that an unhappy customer will use social media to spread the word. People have always talked. We used to call this "word of mouth". The internet has simply put this process into overdrive and speeded it up.

As I mentioned above, the use of social media like Facebook, Myspace and LinkedIn are excellent ways to generate the content necessary to raise your visibility and drive traffic to your website. In addition, this is targeted to the right audience. People who are interested in mountain climbing sign up online for mountain climbing groups on their social media site so they can interact with other people interested in mountain climbing. This means you can target your web content to the right audience of people who all share a common interest, no matter what it is.

An excellent book on user communities, forums, blogging, social networking and how to use these to your advantage is Groundswell: Winning in a World Transformed by Social Technologies by Charlene Li and Josh Bernoff. In Groundswell, they do a great job of outlining the rise of social networking and have lots of real-world examples of what to do and what not to do.

Viral Marketing

Some startups lend themselves to viral marketing. The viral part comes into play when one person signs up and then encourages others to do the same. Examples of this are eBay, Skype, FaceBook, YouTube and Google. This is well worth the time to explore, as it has many benefits. Viral marketing can provide the most "bang for the buck" as the costs are typically little or nothing and the results can be spectacular. This works better if there is some downloadable trial version which can be installed and running with little or no support. Skype is a good example of what I mean by this.

Viral marketing is not limited to consumer products. Some B2B startups have had great success by allowing customers to download trial versions of their software (see the BEA example above). In many of these cases the "viral" part was the buzz they created which drove traffic to their website.

Unsolicited E-mail

E-mail is still useful, but becoming less so. Many people have spam filters and most are terrified of e-mail with attachments. This is best used as a last resort. If you think there's a good reason a particular prospect should give you a chance but they are

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screening their calls (either with an assistant or with voice mail) then e-mail may be worth a try. I typically only send unsolicited email as a last resort. I do this just as I'm about to give up on getting in touch with a particular prospect. This sometimes works. However, the times when it works are those times when I have a specific value proposition for them and I just can't get them to pick up the phone. If I send an email (with no attachment, so it doesn't get filtered out) and I'm specific about what I think I can do for them then I sometimes get a response.

A note on attachments: If I'm tempted to put in an attachment, I provide a link back to the document I would have attached. This keeps the document from scaring them away from even opening the email note. There are even ways to track access to these links to see if the recipients clicked on them.

Have a brainstorming session where you come up with a list similar to the above list of marketing lead generation experiments. And don't limit yourself to the experiments listed above. Get creative. Once you've made your list, try those experiments and simply do more of what works and less of what does not. This method of gradual refinement sounds easy and it is not, but it's worth the effort. Part of the decision to come up with the list of experiments is to determine how many of them the startup can afford. Arranged meetings are expensive and the decision to use this method should be an agonizing one for cash-strapped startups. This is one of those "can you afford NOT to" decisions. Others are easy decisions as they are free. Pumping your rolodex is free, and should already be on your agenda. Cold calling is cheap, but takes time, dedication and skill to be effective. The result of gradually refining what works and what does not will allow you to evolve the most efficient and effective means of sales for your product.

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12. REAL WORLD EXAMPLES

Summary

Here I list a series of real-world examples of how startups used various marketing experiments to get their initial revenue. Stories are a good way to convey a point, and true stories are the best way to illustrate, in concrete terms, how concepts can be implemented. In this way the reader can real examples of how the concepts introduced earlier in the book have been implemented.

Examples

In all of the following examples, the founders started generating leads with networking, so I've chosen not to continually repeat it for each case. Suffice to say that in each case below they used and expanded on their personal contacts to get leads for their startups. What follows are some other specific experiments I used at each of the startups listed below in order to generate initial revenue, customers and a sales method necessary for sustainable revenue growth.

Example: UnifAce

At UnifAce we were selling a fourth generation (4GL) application development tool. I joined the company after it was started in Europe and doing well there but was just getting things going here in the U.S. The strategy that the company used at first was to partner with Sybase. This was an Influencer strategy. The reason it worked well was because, at that time, Sybase was selling a database but not an application development tool and Oracle (their main rival) was selling both a database and an application development tool. Sometimes the Sybase sales reps were faced with a competitive disadvantage when a customer wanted both. In these cases they brought in UnifAce, which was an independent development tool vendor and they were able to compete on a level playing field. This worked well until Sybase bought PowerSoft, which sold the PowerBuilder development tool. This helped to get the U.S. sales operations off the ground and gave them critical mass from which to continue. After the partnership with Sybase was essentially over, UnifAce relied more on the other lead-generation methods like cold calling, trade shows and advertising.

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Example: Collation

At Collation, our target market was large data centers with complex component architectures. So our overall market was defined as those companies with large data centers. Also, the first version only ran on a combination of Sun, Oracle and BEA, so our early adopters were limited to large data centers which were running Sun, Oracle and BEA exclusively. So we used several of the above experiments:

Influencers – We worked with the BEA sales force to identify their large customers (many of which also ran Oracle). BEA's WebLogic was getting heavy competition from IBM's WebSphere in those days. The IBM reps were telling customers that BEA was hard to manage and this message was hurting sales at BEA. We sold a product which would help BEA fight that message by showing their customers how they could better manage their increasingly complex environment. This allowed us to create a partnership with BEA and get their assistance.

Cold Calling – Once we knew our target market, we also knew that just calling the CIO was not going to work. So we (in some cases) convinced the BEA folks to make introductions and in other cases called the prospects directly, but did not just lob a cold call into the CIO as this would have a low probability of success. We asked recruiters how they got lists of people at a particular company that they wanted to target to hire away some of their (for example) sales reps. They said they hired researchers to come up with these lists of salespeople. So we contacted these same researchers to see if they could do the same thing for web architects. I reasoned that the web architects were below the CIO level, so they would answer their phone, but high enough in the IT (information technology) hierarchy to know who to refer us to at their company.

Arranged Meetings – We also used arranged meetings to generate leads. This is where we paid for meetings to be set up for us by a third-party vendor. We used these meetings primarily to do online demonstrations in order to qualify the prospects before we set up trips to go meet with them in person.

Example: General Interface

At General Interface, the company sold a development platform for creating a "rich client in a browser", so the target market consisted of companies which were developing web-based applications which ran in a browser but needed to have all the functionality of software that was installed on the client personal computer. Here we used several of the experiments listed above:

Cold Calling: We used the same method of calling web architects directly to find out if there were projects which fit our profile (a "rich client in a browser"). This method generated a lot of online demonstrations where we were able to further qualify the prospects. This was an inexpensive experiment.

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Arranged Meeting Events: We went to an arranged meeting event where there were a lot of financial institutions (banks, insurance and brokerage companies) and also got a good response rate. This was expensive but worth it.

Associations and Trade Shows: Our CEO attended several shows from which he brought back useful leads.

Example: First to File

At First to File, we sold an online system for keeping patents organized. We were re-starting the company after it had grown and then flopped. In this case I primarily used cold calling to generate leads. I was able to find enough information on the web to use as raw material for the calls I made. I located basic information on large companies (like their name, address, main phone number and what business they were in) from Hoovers. I then found U.S. Patent Office and other websites where I obtained the names, titles and other information on the patent attorneys working at those companies. I would get other information from other sources like Google and pull all of these pieces together to form a surprisingly complete picture of the people I called.

Example: Acquis

Acquis was a startup which sold a piece of software which edited Oracle spatial (mapping) data. The majority of the people who buy map editing software are government entities. This includes Federal, state and local governments. We tried several methods to generate the initial sales.

Influencers – the most obvious place to look was Oracle, and specifically Oracle's government sales group. At that time Oracle had just come out with their new application server software and they were pushing their sales force to generate sales of it. Since Acquis ran only on Oracle and therefore ran only on the Oracle application server. We were able to use this as a hook to get the Oracle sales force to help us identify joint opportunities for Acquis.

Cold Calling – we were also successful in finding enough information on the web to make a cold-calling strategy effective. This also generated a lot of good leads.

Associations and Trade Shows – we also found several good shows where the GIS (geographic information systems) crowd congregated.

Blogging – one of the engineers at Acquis had his own blog and, in fact, had quite a following in the GIS and Oracle Spatial community. We got several good leads from this. These leads would have gone to any company he worked for and we were fortunate to have him.

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13. HOW TO QUALIFY LEADS

The only unforgivable sin in sales is WASTING TIME.

Summary

The purpose of this chapter is to point out two key concepts which have to be used in combination in order to be effective. The first is how to qualify leads and the second is what to do once they have been qualified. The way to most effectively use the results of this analysis is for the startup to only spend its precious resources on those customers who are going to eventually purchase.

Concept

Now that you've had a brainstorming session and run several experiments and generated a bunch of leads, what next? One of the keys to success in sales is figuring out which ones to hold and which ones to fold. Which prospects should you spend your time with? Your time is valuable. Who should you spend it with? Who will buy and who will not? Do yourself a favor and don't waste time with people who will ultimately not buy from you.

This is hard to get used to. My first instinct as a junior sales rep was to try to sell to everyone and anyone. I had a very hard time breaking myself of this habit. Eventually I realized that my time was better spent figuring out as early as possible in the sales cycle which prospects were going to buy and spending my precious time with them. Book publishers and movie producers would like to have a crystal ball which tells them which potential projects will be the winners and which will be flops. That way they would only invest their time and money in the winners. Think of your time the same way, as an investment. Qualifying the prospects in your pipeline will give you a gauge to use for this purpose. If some of your prospects are not going to eventually buy from you then don't spend your time with them. Spend your time locating others who are eventually going to buy and spend your valuable time working with them. Keep in mind that the only unforgivable sin in this business is wasting time.

I once worked for a company called UnifAce which sold a product that lent itself to this question because it solved a specific problem. It was a fourth generation (4GL) application development language which worked with several front-end graphic user interfaces (GUI's) and several back-end databases. This is what it did that was unique. This is what it did that the competition could not. Each of the competitors worked with either specific databases or specific front-end GUI's. So the key was to find those prospect companies which had several of each (back-end

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databases and front-end GUI's) and could not afford to ignore any of them. I spent my time exclusively with them and that was how I made my quota. This is where I first started to figure out basic qualification theory. I could spend twenty minutes quizzing prospects on their requirements and could tell if they would eventually buy from me or from one of my many competitors. This was a very powerful concept because it allowed me to quit wasting my time with people who would not eventually buy from me. I even got to the point of suggesting to customers that they buy from one of those competitors. This would surprise them, but I would explain that it made no sense for us to waste each others time. If this is done diplomatically it buys you enormous credibility with people who will take your calls again and who will take you seriously when you tell them that this time you have something for them. They start to see you more as a trusted advisor than a telemarketer or cold-caller.

This was when it first occurred to me that I was on to something. I've since boiled qualification down to three questions:

The three questions

1. Why buy anything? (Why not just do nothing?)
2. Why buy from us? (Why not buy from our competition?)
3. Why buy now? (Why not wait?)

Someone in management at the prospective buyer's company is very likely to eventually ask these questions before they write a check for your product. So the smartest thing you can do for yourself as a vendor is to ask yourself them as soon as possible in the sales cycle. I usually try to work these topics into the conversation on the first demo. The answers to these three questions will allow you to decide which leads to keep and which ones to throw back. This will allow you to maximize the use of your time (your most valuable asset). This means you can spend more of your time on those deals which will close and less time chasing deals which ultimately waste your time and leave you with nothing.

The job as a sales person is not to waste time beating dead horses. Their job is to find and close new business. So the best use of your time is to ask these questions as soon as possible and, if you don't get the answers you want, move on and spend your time finding someone who does have the right answers. So get to as many people as possible and qualify them and use the three questions to weed through them to identify those who will ultimately buy from you. Those are the ones you want to be spending your time with. This is the most productive use of your valuable time.

This also helps you with credibility in the eyes of your management or investors. Closing the deals you forecasted when you say they will close goes a long way toward enhancing your credibility. Having deals you forecasted either shrink or not come in on time or (worse) not come in at all makes you look bad and may ultimately cost you your job or your company if it keeps happening.

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I've drilled these questions into the heads of the sales reps who have worked for me. In my considered opinion you should be able to wake a sales rep out of a deep sleep and ask them how to qualify and they should immediately blurt out these three questions. So let's look at each of these questions in more detail.

The Three Questions:

Why buy anything? (Why not just do nothing?)

What pain is the customer in that is forcing them to do something? People with no pain have little or not incentive to make changes. Why would the company buy anything? Why not just do nothing? Why not just keep lumping along doing things they way they have always done them? What problem do they have? Does the management of the company recognize the problem, or is there only one lone low-level employee who sees there is a problem? Can the employee be a hero for solving the problem, or will they be seen as wasting time? Is there a specific project which has been assigned by management? If so, is there a budget which has also been assigned? Are people working full time on it?

Why buy from us (Why not buy from our competition?)

What does your product do that is unique? What does it do that differentiates it from other products? What innovation has your company come up with that separates them from the others? Who are your competitors? What are their strengths and weaknesses? Who do they target and why? Does this customer have requirements that fall into your sweet spot? How "hard" are those requirements? Are they able or willing to bend those requirements? If you push them on price during the negotiations, will they suddenly decide that they can live with an alternative?

Why buy now? (Why not wait?)

Can they afford to wait a month? If they can afford to wait a month, can they afford to wait three months? If they can afford to wait ninety days, you will not be able to accurately forecast in what quarter the deal will close. If they can put off the decision for a quarter, they may not really need to buy anything at all. Is there a deadline? Is there some reason or impending event which will compel them to have some system in place? Retail companies, for example, have the Christmas selling season to be ready for. This is a hard deadline for them. If there is a project and a budget and a deadline, these are all good signs. However, look out for deadlines that slip. Large companies often set deadlines and then find that, later on, they simply push the deadlines back when they get behind. For a sales rep who has forecasted a deal to close, this can put them in a position where their management is questioning their credibility.

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How to Find the Answers

Most prospects have other things to do and are typically unwilling sit still while a sales rep they've just met fires question after question at them. However, success in sales depends on figuring out the answers to the above (and many more) questions. At one point when I was working at Oracle I finally got so brazen as to simply blurt out stuff like "What is so painful in your life that's causing you to spend time with software sales reps?" However, working this more smoothly into your sales conversations is probably a better idea. Keep in mind that giving a demo is an excellent opportunity to ask open-ended sale questions like "What interested you enough to agree to spend the time to see a demo?" My current favorite is something I say at the beginning of the demo or presentation. I usually word it something like: "Instead of us just talking about what we want to talk about, why don't you tell us a little about your situation so we can spend time talking about what you want us to talk about". This seems to work well and will usually get the potential customers to open up a little.

Take notes during the demo and write these up to distribute to the others (founders, the top few). These will become a valuable teaching and learning vehicle for everyone involved.

Control and Momentum

Use the answers to the three questions to maintain the momentum of the sales cycle and your control over it. Once the deal loses momentum it's hard to get it back. Don't let that happen. If you really have answers to the three questions then you should be able to do this. If the deal stalls ask yourself and then the prospect if something has changed. Is there still a reason to buy anything? Is there really still a reason to buy from us? Is there really still a reason to buy now? If so, then ask them to help you understand if you have really done your homework and try to figure out why the deal stalled. There is power in the answers to the three questions. The answers should allow you to help your champion and executive sponsor overcome the hurdles to getting you a purchase order. Keep in mind that every quarter there will always be competing needs which will become alternative uses for the budget dollars you are after. You will need to maintain control and momentum in order to become the budget item that wins out over these other competing budget items.

There is a good book which goes in detail into how to maintain control and momentum. It's called The Maverick Selling Method: Simplifying the Complex Sale by Brian Burns.

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14. THE TEN STEPS IN THE SALES CYCLE

Summary

The purpose of this chapter is to point out that a ten-step sales process is the best way to build a foundation for a later chapter on the value of a pipeline. The ten steps allow us to assign ten percent to each step and the definition of each step give a clear and objective measure of the progress of opportunities. Once this process is in place, the true value of a pipeline can be objectively measured.

Concept

Once you have been through the process (described in the previous chapter) of figuring out what does and does not work for generating qualified leads, the next step is to organize those leads into a coherent format so you can make the most of them. The first thing to keep in mind is that qualification needs to happen early in the sales cycle so as to separate the ones you want to keep from the ones you should throw back. This is the reason that qualification is step two. I know this is going to be hard, not to mention counter-intuitive, but please do yourself a favor and trust me that you do not want to spend time with people who are not eventually going to buy from you. Your time is valuable and should not be wasted.

I've also listed an objective measure with each step. This is important as it gives you a way to objectively measure whether you really are at a particular step. For this to be effective a thought experiment you can run is to put yourself in the shoes of the sales manager. Picture yourself as the sales manager asking the sales person the objective question. For example, if the sales rep says they are at step three the sales manager would ask who is the champion. Another question would be to ask what the champion would say if they were asked the three questions. As a sales manager I've actually used this technique. I've asked salespeople to introduce me to their champion and in talking to that person I manage to steer the conversation over the topics in such a way as to determine if they are in fact an effective champion.

Another thing to keep in mind is that steps cannot be skipped. If we don't have a value proposition (Step Two) then we are still at Step One. Also, do yourself another favor and be skeptical. Putting garbage into the pipeline report will produce a worthless result that is dangerous. Inflating the size and progress of the deals will only inflate the forecast. This will raise everyone's expectations and kill your credibility when you over-promise and under-deliver. What you want is the exact opposite. You want is to under-promise and over-deliver. So, if anything, be skeptical and conservative in your assessments of the size of the deals and what stage they are in.

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One final note before we start in on the ten steps. I often add an additional step zero, for Suspects. Suspects are prospects who the startup has identified as being it its sweet spot but who have yet to indicate any interest in the product.

Steps

The sales cycle should be broken down into ten steps:

1. Lead (we got them to pay attention to us)
2. Value Proposition (the three qualifying questions)
3. Champion (we have recruited an internal coach)
4. Executive sponsorship (management sees the value)
5. Proof of Concept (we have a trial plan in place)
6. Formal Pricing (we've given them a formal quote)
7. Negotiations (we're discussing price and terms)
8. Agreement (we've come to agreement on price and terms)
9. Signed Agreement and an official Purchase Order
10. Customer (a happy customer who has paid their invoice)

The ten steps listed above may need to be modified to fit different situations. The way I have them set up here is for a typical enterprise technology sale. Not all sales involve a trial, for example. I'll go into more detail later on how to modify the ten steps. Here is a more detailed definition of each step:

1. Lead (We got them to pay attention to us, agree to a visit, agree to a demo, etc.)

The ten steps start with a prospect who has agreed to spend some time to meet with us. This is our opportunity to learn as much as possible about them and their needs. What keeps them up at night? What is so painful in their lives that they are willing to spend time with sale reps? Their pain is what will drive them to overcome the hurdles to getting is a signed contract and a P.O.

Objective measure: The difference between a Suspect (Step Zero) and a Step One is that they have shown some interest by agreeing to a meeting, by contacting us, by agreeing to a demo or whatever. Have they done this? If not, they are still at Step Zero (Suspect).

2. Value Proposition (We understand their motivations for buying.)

a. Why buy anything? (Why not just do nothing?)
b. Why buy from us? (Why not buy from our competition?)
c. Why buy now? (Why not put off the purchase?)

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Once we understand their pain we can understand why they would buy. This only happens if we know what and how to ask and we listen to the answers. Once we understand their pain we can make a decision about continuing the sales process. Is this a good fit? Is this likely to close? If their pain is not great, or if this is not a good fit, we should spend our time looking for someone who is a better fit. With solid answers to these questions, we can persist. Without good answers to these questions, we need to look elsewhere. Once we find a fit, even if they don't understand the solution yet, we understand it. Perhaps only one person at the prospect company sees the value of what we do. Part of our job as sales people is to educate the customers on the value of our product.

Objective measure: Do we have solid answers to the three questions?

3. Champion (We have recruited a coach.)

A coach is someone who typically does not have the authority to buy, but who believes in our value and is willing to educate and guide us through the organization and also hopefully sponsor us. They are our source of information. We do not rely on them to drive the process. With the information we get from them, we will drive the sales process. However, we need their help to navigate their organization and identify the buyers and get the detailed information we need to build a solid value proposition.

Objective measure: Have we recruited a coach? Are they helping us?

4. Executive Sponsor (We got to someone with both the problem and the budget.)

An executive sponsor is someone who can buy. They are typically higher-level executives but not always. In rare cases our sponsor is also our coach. Once we've built the value proposition with the information we got from our coach, we present it to the decision maker(s). Only when we have the buy-in from the Executive Sponsor should we go ahead with the Proof of Concept. They have to agree with the value and price and also agree that they will purchase the product if the P.O.C. is successful. The Sales department will sometimes use upper management to get access to higher-level executives.

Objective measure: Do they agree that if the product works as promised they will execute a purchase order?

Note: If you are unsure of their commitment, have them sign a formal trial document. There is an example of one in a later chapter.

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5. Proof of Concept (We got a few users in production to prove the value)

Only after we have the buy-in from the Executive Sponsor can we go ahead with the Proof of Concept. If this is in question, we should have them sign a document which sets the expectations down in writing. (See the chapter on formal Trial/P.O.C. documents). Once we have agreement from the Executive Sponsor, the successful completion of the P.O.C. is merely the release of a contingency.

Objective measure: Are we currently in a trial? Is the product installed?

6. Formal Pricing (We have submitted formal pricing in writing.)

If we have not done so already, a formal quote is sent stating our pricing and the broad business terms which go along with that price. The language should be clear but not too legalistic. A term sheet is sometimes a good idea here. All quotes should have a date which specifies when the offer expires. This should always be done in person. In general, pricing discussions should take place in person. Even informal pricing discussions should be done (worst case) over the phone.

Objective measure: Have we submitted a formal quote in writing?

7. Negotiations (We are negotiating on pricing and terms.)

Negotiations on pricing and terms can sometimes be a long process. This is when we find out if we've done our homework on the preceding steps. If they balk on price we need to go back to our notes and re-confirm the value. This is why establishing value up front is so important. Weak sales reps cave on price. This is an opportunity for role playing, like "good-cop, bad-cop". In general, someone has to preserve their relationship with the prospect so that the lines of communication stay open, and someone has to deliver the bad news that this is as far as we are willing to go.

Objective measure: Are we currently going back and forth on different pricing and quantities or other terms and conditions. Do we or do we not have agreement on these issues? If not, we're still at step seven.

8. Agreement (We have come to agreement on pricing and terms.)

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Once we have agreement on pricing and terms, we then have to work our way through the mechanics of getting the contract signed and having a P.O. generated.

Objective measure: Have we come to agreement on quantity, pricing, terms, deliverables, etc? Are we ready to create the legal agreement and generate the purchase order?

9. P.O. and Contract (We have a signed contract and a purchase order.)

In order to book a deal, we need to have a signed contract, a Purchase Order and verification that the software has been delivered.

Objective measure: Do we have a signed contract and an official P.O.?

10. Payment (We have a happy customer and a payment.)

At this point the customer should be happy and have paid their invoice.

Objective measure: Has the customer paid the invoice? Are they happy?

This list of ten steps may be modified somewhat to fit different sales situations. However, there are a few things to keep in mind when modifying the steps. Qualification should come as early as possible. I've made this step two for that reason. Waiting until later in the sales cycle to qualify leaves you in danger of wasting time. Also, try to keep the number of steps to ten. I've found this to be convenient for forecasting. By having ten steps I can assign ten percent to each step and it just makes the math easier for everyone during forecasting meetings.

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15. HOW TO FORECAST

Summary

This chapter builds on the foundation laid out in the preceding chapters and shows how to bring all the pieces together. The preceding chapters showed how to target the market segment, identify and sell to those prospects and measure their progress through the pipeline. Having done this, now the startup can objectively measure and report on that progress. This will show them where they really stand, which is a prerequisite of getting where they want to go.

The Power of Objectivity

All of this requires discipline and hard work. All of this hard work is not, however, without its rewards. Consider of the power of objectivity. Now you can walk into any situation and use this measure to define the real, objective value of a sales pipeline. If you inherit a sales pipeline and everyone says "wow, look at all of these great deals we have in the pipeline" you can ask a few basic questions and determine for yourself what the real value is. This is not always good news for the folks who thought they had a gold mine ready to pop. However, the first rule of getting somewhere is to know the starting point. How far back are you really starting? If your goal is to under-promise and over-deliver you will need an objective measure of the value of your current pipeline.

Amount Times Probability Equals Expected Revenue

Sales is the life-blood of the company, so accurate forecasting is important. Getting this part right will give you an accurate picture or snapshot of your business. This will also allow you to manage your business. If you pair an accurate forecast with an accurate budget projection and will have a reasonable financial model for your business which fits on a standard spreadsheet. Accurate forecasting is facilitated by having a ten-step sales process, like the one above. This allows the sales rep to assign an objective value to their pipeline by determining how much each deal is worth and what step they are in. For example, if a particular deal is quoted at $30,000 and it's at step five (out of ten steps) then it's currently worth $15,000. This second value or column is the one you total up to get the true value of the pipeline. By going through this calculation for each deal the rep can keep a forecast spreadsheet up to date and easily calculate the value of the their pipeline at any given time. Keeping it in a spreadsheet or other automated report makes this even easier as the total is automatically calculated.

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Accurate forecasting requires honesty. The danger of self-delusion is ever present. The spreadsheet or program you enter the values in will simply add up the numbers you enter have entered and give you a total. The total is therefore only as accurate as the numbers you entered. Inexperienced reps will be temped to inflate the steps or phases that each deal is in. This is a huge mistake as it only leads to over-inflated expectations which will inevitably lead to disappointment. Since the idea is to UNDER-promise and OVER-perform, be conservative in your projections and estimates. You can always raise the number later and everyone will still be happy.

The ten steps listed above each have objective criteria associated with them. Reps should look at each of these criteria and ask themselves if the customer really fits into that step. Here is an example. The criteria for Step Three states that an internal coach has been recruited. A sales manager could therefore ask questions like; what is the name of the champion? Can I meet him or her? Do they get the value? Are they helping us? Objective criteria are useful for several reasons. As a sales rep taking over a new territory you can use these criteria to objectively assess the value of the deals in the pipeline you have inherited. As a new sales manager taking over an existing team, you can use these criteria to objectively assess the value of the pipelines for each rep. If the "champion" is not returning our calls, they are not our champion.

Skipping Steps is Not Allowed

Skipping steps is not allowed. Repeat this one hundred times or as many times as necessary to understand that skipping steps is not allowed. For example, if you don't know why they would buy, they are still at Step One. This is true even if you already sent them a quote and are temped to put them at Step Six. The only way the forecast total will be accurate is to avoid the temptation to inflate the data you put in.

This may be a good place to illustrate objectivity. Several times I've walked into situations where I took over a lame pipeline. I ask a few basic questions like why would they buy (buy anything, buy from us, buy now, etc.) and no one has answers. This immediately tells me that the fabulous pipeline I've just adopted is a dog. This is how I learned to ask these questions during job interviews.

The forecast can be stored either in a spreadsheet (like Excel) for single users or in tabular report form for users of multi-user CRM systems like SalesForce.com. In either case the result is the same. The format is simple. There is one row for each deal in the pipeline, and across the top one column for each of the following: Account Name, Opportunity Owner, Opportunity Name, Type, Lead Source, Amount, Expected Revenue (sort by this column), Close Date, Next Step, Stage, Probability.

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Sample Report Format:

Acct	Cont.	Rep	Type	Source	Amt.	Exp $	Date	Step	Next
GM	Sam	Rep 1	Mfg.	Event	500K	200	Jan.	40%	Trial
AT&T	Dave	Rep 2	Com.	Web	300K	150	Feb.	50%	Price
Ford	Linda	Rep 1	Mfg.	Event	1M	100	Aug.	10%	Dem
P&G	Walt	Rep 1	CPG	Web	800K	80	Jul.	10%	Dem
eBay	Joe	Rep 3	Tech	Friend	100K	40	Mar.	40%	Trial
fedex	Lisa	Rep 1	Svcs	Web	50K	25	Feb.	50%	Price
gmac	Paul	Rep 2	Fin.	Event	50K	20	Jun.	40%	Trial
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.

Let's look at each of these columns in turn:

- Account – the name of the account or prospect
- Contact – the name of the contact at that account
- Rep – which sales rep is responsible for this account
- Type – which vertical industry is this company a part of
- Source – lead source (based on the marketing experiments listed above)
- Amount – the discounted amount on the quote given to the customer
- Expected Revenue – Amount times Probability (10% per step)
- Date – close date (when you expect the Purchase Order and Agreement)
- Step – based on the ten steps or stages in the sales methodology
- Next Step – what is the next step or follow-up step with the prospect

These few columns are the bare bones necessary to do this right. You can include more columns, but these are the minimum necessary. Additional columns might include (for example) a project name if there are multiple sales cycles going at one account.

Whether the forecast matrix is stored in a spreadsheet or generated using a multi-user CRM system it should look the same. The result is that you have a report made up of rows and columns that you can keep up to date and use as a tool to run your business. I always sort mine on the expected value column. This allows me to prioritize my time. The deals with the most expected value sort to the top. A $100K opportunity at step two is worth $20K. A $50K deal at step five is worth $25K. The $50K opportunity (which is farther along) sorts higher on the spreadsheet than the $100K opportunity which is only at step two. Every day I prioritize my time by starting at the top of the spreadsheet. My most important opportunity is at the top of the spreadsheet and I ask myself "Is there anything I need to do on that opportunity today?" I walk down through the spreadsheet like that and use it as a time management tool. I use it to drive my to-do list. Once all of the deals at the top of the spreadsheet are taken care of I spend some time calling prospects at the bottom of the list in order to fill the pipeline.

On the system I use every day, I also add a Step Zero (at zero percent) for Suspects. This is simply a place to put prospects who appear to be in my sweet spot but who I have not qualified

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yet. Perhaps I have made contact and have a call or some other follow-up scheduled but it hasn't happened yet.

The key ingredient here is that the report be sorted by Expected Revenue, which is the Amount multiplied by the Probability. Sorting by Expected Revenue lists your opportunities in order of their value to you. This will allow the report to show you a visual representation of your pipeline and give you a time management tool. Spend your time on the deals with the highest expected revenue first. When you get to work in the morning, start with the one at the top of the list (the one with the highest Expected Revenue). Ask yourself if there is any care and feeding that opportunity needs today. If so, do that first. Then go on to the next opportunity down on the list and ask yourself the same thing. If it needs anything, do it, or put it on your TO DO list. Look at each of these, in order of importance, and made sure that there is nothing else to be done today on each one. Only then should you go prospecting for new opportunities.

Pipeline Math

B2B (business to business) sales take time, typically six to nine months minimum for large purchases. And there is no maximum. Larger companies typically take longer to make decisions. The more heavily regulated the industry or vertical market segment, the longer the sales cycle. The longest sales cycles are in government sales. The next longest are in utilities, which are so heavily regulated as to have many of the sales characteristics of government sales. The length of the typical sales cycle has implications for pipeline math and should be considered in the context of what percentage of supposedly qualified opportunities will actually close and when.

In general, of the opportunities you think are "qualified":

One-third will close when you expect them to close
One-third will close later (after you expected)
One-third will never buy from you

By "qualified" I mean those at step three of my ten sales steps.

This has significant ramifications for pipeline math. This means that for every opportunity you want to close you will need to dig up three qualified leads. This gets fed into the pipeline math formula. So, for example, let's say that one out of every ten unqualified leads from a particular experiment becomes a qualified lead. That means that, out of 100 unqualified leads, ten will become qualified. Once qualified, only three of them will close this year, three will close next year and three will never close. This kind of calculation has to be worked into the marketing budget. If your average sales price is $50K and you want a million dollars in sales, then you have to get twenty sales. Using the numbers from the above example, you would then need to dig up six hundred unqualified leads in order to have a million dollars close from those leads.

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Pipeline Math and Timing

Pipeline math has significant ramifications for timing. Since one third of the “qualified” leads will close within a year and one third will close next year, there will be some leftover after the first year. These leftovers will still be in the pipeline and will be added to whatever new leads are generated for the first quarter of next year.

Once you have some experience with the ratios of unqualified-to-qualified leads from the various marketing experiments you will be able to build a spreadsheet and start to predict what your marketing budget should be for a given revenue target.

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16. WHAT TO LEARN FROM THE FIRST SALES

Summary

This chapter points out that the first sales teach the team what it needs to know about marketing and sales in order to grow the startup to the next level.

What The First Sales Mean:

The initial revenue means that a startup has passed a critical milestone. It's a good start. Building a company from scratch involves a dozen of these critical milestones, and getting the first million is one of them. This means that there IS a market for the product you have created. It means much-needed revenue, not just investment, for which you have to give up savings or equity. It means credibility with everyone, including current and potential investors. It means you now have actual customers who will hopefully be good references for you as you try to get more customers and investors. It means you have built a foundation on which you can grow.

What You Learn In the Process of Getting the First Customers

As important as those things are, equally important is what you learn from the experience of getting those first customers. This will tell you what you need to know to grow the business to the next level.

- What problem do you solve? Who has that problem?
- What market segment do you appeal to?
- Is this a consumer or B2B (business to business) sale?
- If it's B2B, what kind of companies will buy?
- Who (what title) at those companies are the buyers?
- Which experiments did you try?
- Which experiments worked and which did not?
- What was the ratio of unqualified to qualified leads for each experiment?
- What was the length of the sales cycle?
- How did you find those first customers?
- Were you able to sell over the phone or did you have to travel?
- How do you compensate the sales team?
- How will you minimize internal channel conflict?
- How will you minimize external channel conflict?
- Why did they buy? Were these the reasons you predicted?

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- How are they using it? Are they happy?
- How much support do they need to be happy?
- How much are they willing to pay?
- How much did you charge? What pricing model did you use?
- Did you sell the product as a purchased license or as a service?
- Did you charge for unlimited usage or by-the-drink?
- Did you make money on these sales?
- Can you make a profit on future sales?
- Is this a viable business model?
- Is there a different business model you should adopt?
- Should you sell directly or through channels (or both)?
- If channels, who would be the best distributors?
- How will you market to or recruit these distributors?
- How will you manage your relationship with them?

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17. PRICING ISSUES:

Summary

The purpose of this chapter is to illustrate the opportunities and dangers involved in pricing strategy. The concepts presented include the progression of pricing that startups typically go through and how best to take advantage of the opportunities presented and avoid the dangers encountered. Pricing models and value-based selling are also explored.

The Progression of Pricing

Some startups have large customers ready to write big checks for products which have yet to be created. Others have to claw their way up a pricing curve which starts with free and moves up from there.

The progression goes like this:

- giving your software away (sometimes to other startups)
- charging small companies small amounts of money
- charging large companies small amounts of money
- charging large companies large amounts of money

Once you can charge large companies large amounts of money, you have a real company.

The farther up on this curve you can start, the better off you are. As I said before, some startups begin life when someone sees a problem at a large company and offers to solve it. Many software startups have used this theory to begin life as consulting companies and eventually morph themselves into software companies. The same is true of software companies who pull off a similar feat by beginning life with a large consulting project for a large customer who essentially pays for the development of the first version of the software. This is not as common as it used to be, but it still happens.

Different Pricing Models

There are many pricing models available. Looking at some of the options which are out there may help you to find one that works for you. The software business started out as something which mainframe manufacturers gave away with the hardware in order to make the machines usable. Then independent software vendors (ISV's) sprung up to provide better software. This

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was initially sold as a license which was purchased by the user, typically based on the size of the hardware. The latest trend in software pricing (for that software which is not open source or free) is the pay-per-use or by-the-drink model. This is now referred to as SaaS (Software as a Service). And software can either be run as a service, running at the vendor's data center or as a purchased license, running at the customer's data center. There are also many different combinations. For example, a customer may purchase a license for software and run it at servers which are located in a third-party data center. In addition, software can be licensed by the CPU, by named user, by concurrent user or simply by company size. Company size can be measured in many different ways. The key to getting the pricing model right is to find some measure that customers easily understand and accept. The last thing you want is to get into arguments with your prospects and customers over the pricing model. At Acquis the product ran on Oracle, so all of our customers had already purchased the Oracle database. So we adopted Oracle's definition of what was a CPU for multi-core CPU's. This meant that we avoided fights over the definition of a CPU. Oracle had much more leverage and had already set the guidelines and customers were much less likely to use this as a place to make a stand and fight for a lower price. The more you can make it look like "we don't set the rules, we just play by them", the better off you are.

When I started at Tivoli the company had a bunch of different monitoring and management products and sold them based on the number and size of the machines being monitored and managed. Customers would purchase what they needed and perhaps some extra for growth. Tivoli became adept at encouraging customers to buy ahead and finance the whole purchase. This worked well until some customers were unable to accurately forecast what they would need in the future. We found some customers who had a bunch of Product A still unused and "on the shelf" while they needed to purchase more of Product B. This is because they had not been able to accurately predict their future needs when they signed their last enterprise license. We solved the problem by moving to a points system where the products were assigned points based on the value of the product and the size of the machine it was to be run on. The points could then be purchased as a group and drawn down and used for a menu of products.

In general I recommend pricing products based on the value that customers will get out of them. I'm most familiar with software, so my examples lean in that direction. Software that deals with human resources, for example, can be based on the number of employees. However, make sure there is no easy way to "game" the pricing model. If you offer, for example, a free trial, make sure there is no way they can just string together multiple free trials by signing up under multiple email accounts. Remember, pricing is the one thing you have absolute control over. You can charge whatever you want for your product. And you can ask for things in return for lower prices.

One thing the original founders of First to File eventually got right was the product. They started out trying to sell it as a software license and ended up figuring out that they needed to sell it as a service. Looking back at their notes a few years later it became obvious that they recognized their initial mistake and took steps to correct it. The advantage of selling software as a service (SaaS) is that it makes the product easier for the customer to buy. Instead of having to go get approval for a major purchase, your champion can start out with a small purchase and gradually

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grow their usage as they prove to themselves that the product provides value. This get around the problem of having a large purchase price become this enormous obstacle which makes the sales cycle stretch on forever and perhaps they never end up buying anything. Instead of spending from nine months to a year or more arguing over the necessity of spending lots of money they can just get started. After nine months of using the product more and more the sale gradually becomes an accomplished fact. This is a much more productive use of nine months and is one of the reasons that SaaS has become a popular trend.

Another consideration is the length of the sales cycle. Requiring large up-front purchases of software licenses will mean longer sales cycles. Allowing customers to get started small and proving the return on investment (ROI) before buying larger quantities will mean shorter initial sales cycles. SaaS is an excellent way to allow customers to get started small. At First-to-File we had shorter initial sales cycles because we allowed customers to start small and ramp up. By the time they were spending larger amounts of money they were already getting benefits from the system. This got us around the endless sales cycles involved in large purchases where getting internal approval for a large up-front software license purchase takes forever. The larger the purchase, the higher up the management chain your internal champion has to go to get approval. Also, large purchases can be put on hold or stopped at any time due to unforeseen circumstances. So the longer the sales cycle the higher chance you will find out too late that a deal which looked good at first was ultimately a waste of your valuable time. These are some of the reasons that SaaS has become popular.

Nice-to-Have vs. Must-Have

One of the things I typically advise startups to do is to look for prospects with a real NEED what they have to sell. Any product which solves a real need addresses a spectrum of prospects. The spectrum goes from nice-to-have to must-have. The logical thing for startups with scarce resources (which is all or most of them) to do is to concentrate on the segment of the market at the MUST-HAVE end of the spectrum. This is why I wrote the earlier chapter on Targeted Marketing. The thing to do is identify those customers who have such a crying need for your product that they will even purchase the product before it exists. This sounds odd, but it happens. This is how consulting companies sell consulting projects. They sell a PROJECT, not a PRODUCT. Identifying companies who have such a need reduces your risk and may allow you to build the company with OPM (other people's money). This is a good thing. If you are unable to identify customers who will buy a project, the next best thing is to find customers who would purchase a product if it existed. The better job you can do of identifying your initial target market, the farther up on the pricing progression (above) you will be able to start.

When Oracle was a startup, the founders got the CIA to fund the development of the first version. Later, when Oracle had a product for the VAX/VMS market, they were able to sell to the departmental mid-range market. This market was looking for things like decision support and specialty applications. This was still not the mainstream database market, but it allowed the company to continue to grow. As the product grew in capabilities and speed it was eventually

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able to address more and more of the mainstream database market. The founders were able to identify the first few early-adopter customers who had such a need for the product that they forgave its faults and limitations. As the product evolved it was able to address a wider market of prospects with needs but who were unwilling to buy an early-stage product.

This is a real-world example of the spectrum I mentioned above. The early adopters are at the must-have end of the spectrum and the mass market is at the nice-to-have end of the spectrum. The task of the startup is to identify the early adopters who have-to-have what they produce.

Sell value. Don't Cave In on Price.

Once you have gone to all the trouble to do your homework, you don't have to cave in on price. Every customer will eventually ask for a lower price. This is natural. No one wants to pay more for anything than they have to. This is particularly true of enterprise sales where there is very little snob appeal for conspicuous consumption. However, if you have targeted your market and located customers who have the problem you solve then you should be able to get a reasonable price for your solution. If you and the customer are unable to agree on price, then something is missing. If this keeps happening, then take another look at your pricing model. If you are selling something of value to people who have the problem you solve, then they should be willing to pay for it.

At this point in the sale, most inexperienced reps will cave in on price. This is a mistake. If you have really done your homework and sold value, hold the line on price. Anyone can give stuff away. That takes very little sales skill. My years of experience have taught me that when the customer says "I want a discount" I counter with "Here is the price for that quantity and here is the value we bring you".

Selling Value

If you show a prospective a smart phone for one dollar and the customer offers fifty cents, the correct response is not "OK". The proper response is to point out that with a smart phone the customer can take short trips without a laptop. The sales rep should point out that the customer would be free to travel without being loaded down like a pack mule and be able to sail through airport security without being strip-searched and that all these benefits make the gizmo worth ten dollars and that a price of one dollar is a bargain.

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Pricing Issues Are Sensitive

All pricing discussions are sensitive. Handling this aspect poorly can kill a deal. The overall strategy is to put off pricing discussions until we have established value. Any time we are asked about pricing we should immediately ask "for what size deployment?" Only then will we know how to answer.

Also be careful of the customer who asks for the price assuming a large quantity. I have been asked in the past by customers for the price for a quantity of one thousand. When (as a junior sales rep) I stupidly answered the question they then said "OK, I'll take one". Sometimes it's necessary to show them the entire discount schedule and let them pick which discount level they choose for themselves.

Pricing is a Source of Control

There are very few things you can control. One of them is pricing. You have the right to charge whatever you want for your product. You have the right to put a drop-dead date on a quote that says that a particular discount is only good until a specified date. In January you ask a prospect how long it will take to get a deal done. They say ninety days, so you give them a discount which is good until the middle of June. This way when their internal processes turn out to be slower than they forecasted, you have some leverage when they come back to you and ask for an extension of their discount.

Negotiate Something in Return

This negotiation should be part of all of you pricing conversations. Early stage startups are sometimes forced to give free or heavily discounted prices to the first few customers. Try and avoid this by doing a better job of targeting your market, but if you find you must concede on price, get something in return for it. For example, ask for a reference in return. One of the main reasons for a startup to give away the first version of the product is to have a few references. If this is the case then ask for the reference when the customer asks for a discount. A fair question to ask when someone asks for a discount is to ask them to be a reference (assuming the product does what you say it will do).

A reference can take many forms. The traditional way is when another prospect comes along and your earlier customer is willing to take a reference call and tell the prospect how happy they are. This still happens regularly. There are also lots of ways to capture a customer story and put it on your website. This can be done as a page on the website with pictures and a few good quotes from happy customers. This can also be done as a video which is available to download from your website. If done well the video can serve as a substitute for a reference call. I've even seen sharp vendors who persuade a customer to do a video where they answer all of the

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typical questions that would come up in a reference call. This obviates the need for the reference call.

A Note on References:

Keep in mind that good references are valuable and should not be wasted. Keep your customers happy or you will lose them, and don't burn your references out with over-use. Keep reference calls until later in the sales cycle. Don't burn your references out with everyone who is just kicking tires. If someone asks for a reference, simply say:

"We typically keep those until later in the sales cycle. Just like we will respect your time should you become a customer, we would make sure that we only send serious buyers to you for a reference."

Then ask how serious they are about buying. If they are ready to buy, then go ahead and agree to set up a reference.

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18. TRIALS: FREE vs. PAID

The only unforgivable sin in sales is WASTING TIME.

Summary

The purpose of this chapter is to point out a method for ensuring that scarce resources spent on a trial or P.O.C. (proof of concept) are not wasted on prospects who will not eventually purchase.

Concept

First try to sell without doing trials. If this is not possible, try to charge for trials. This is a good way to qualify prospects. If necessary, make the trial fee a down payment that is refunded if they go ahead and purchase the product. If the price is $25,000 and the trial costs $5,000 then when the prospect ends the trial with a purchase of the product they will only owe you the balance of $20,000. Their willingness to pay for a trial is a strong signal that you are not wasting time and they will eventually buy. People hate to go to their management and get them to spend money on a dead end. They will typically only go ask for the $5,000 for the trial if they really intend to go ahead and spend the whole $25,000.

Often a vendor will be forced to agree to free trials of their product. This is especially true of startups where there are no existing customers to use as references. In these cases the startup needs to make sure they are not wasting their precious time. The last thing a startup wants to do is a free trial which does not result in a sale. The idea is to make sure that the prospect is well qualified before agreeing to a free trial. I've found a good way to make sure that the prospect is well-qualified is the Trial Plan. The purpose of the trial plan is to set expectations up front while there is still time to either back out or renegotiate. While at Oracle I often used these to make sure that the prospect understood that I expected an order if the trial went off and the product did what we said it did. This sounds obvious, but I found that often people have not told me all of the objections they have or the hurdles they must overcome in order to buy a product.

The trial plan has several sections:

- Here is the problem the prospect has
- Here is the solution we, the vendor, propose
- Here is the value of the solution
- Here is how we prove the solution works
- Setting Expectations
- Here is the price of the solution

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This is a much more formal version of a trial close (asking for the order). This prevents the startup from spending a lot of precious resources (time, money, etc.) only to have the "buyer" say (at the end of a successful trial) that they now have some undisclosed reason for not being able to purchase the product. If I suspect hidden objections, I will actually write the trial plan up as a formal document and have both parties sign it. Sticking a pen in someone's hand and asking for a signature, even on a non-legally-binding document, comes as somewhat of a shock. Any reservations they have about going ahead with the deal will often come out when you bring up the subject of the trial plan. Start talking about coming up with a formal trial plan that you are both going to sign and suddenly the hidden objections are no longer hidden. If in fact there are objections which will prevent the deal from happening, they should be dealt with up front before you spend your precious resources.

I've included a recent version below (one which we used at Acquis):

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19. AN EXAMPLE OF A FORMAL TRIAL DOCUMENT

September 26, 2005

Contact Name
Contact Title
*Organization (*FL Turnpike Project)
Address

Dear (*Contact Name*),

Thank you for your continued interest in Acquis Inc. Here's a first draft of the "Quick Start Trial" plan we discussed. I've organized it into several sections:

1. The issues faced by FL Turnpike
2. The solution we recommend
3. The value to Florida Turnpike
4. The proof of the solution
5. Setting Expectations
6. A price quote for your deployment

Please look this over so we can discuss it on Friday when we touch base over the phone. This first draft is just that – a first draft. I'd like to get your input to see if I really understand your situation and the challenges you face in deploying spatially enabled internet-based field asset management applications. Then we can make whatever changes are necessary and jointly come up with a document which we can both support and agree on. If you have any questions I can be reached at …

Thanks again –

Walter

Walter R. Roth
VP of Operations
Acquis, Inc.

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Section One – The issues faced by FL Turnpike

Our understanding is that Florida Turnpike's vision is to move from centralized spatial desktop applications to spatially enabled internet-based enterprise asset management applications. You currently have only 3 people editing field data, and you'd like to move that number to potentially 200 concurrent editors, managing in the field over 60 asset types (e.g., road signs, etc). You'd like a system that is real time, mobile and interactive from the field, operated by GIS specialist, and non-GIS specialist, alike.

Given the large number of editors and viewers, you currently face a cost issue with other proposed solutions that carry a $10k/user license model. You'd like to have an unlimited user per cpu based model that gives you more value for your money. Currently, you are running a server with 2 cpu(s). As a result, the quote based on the initial scope document from Intergraph was more than you expected or deemed appropriate given alternatives.

The project you propose also includes having to convert SHP files into Oracle's native format, SDO_Geometry. Additionally, once the initial project that includes maintaining one asset type (e.g., the demo managing road signs) is completed, you'll need to extend the application to 60+ other types of assets. Resources for this would include internal resources and/or 3rd party resources already engaged with the project. You face the issue of understanding how much resources would be involved for both service parts of the overall project.

Given current limitations on reliable bandwidth in the field, you face the issue of having to deal with an "occasionally disconnected" environment. You'd like to have a system that could not only operate in an "occasionally connected" environment today, but that can support a "browser-based always connected" environment, once your network infrastructure supports it in the future.

Finally, you'd like your application to support GPS, aerial photos backdrops and "check in, check out" syncing features that do not require considerable implementation or development costs. One of the issues faced re: the Intergraph proposal was the development/implementation cost they associated with building the "checking in, checking out" aspect of their proposed solution.

The situation has lead FL Turnpike to need a solution that is affordably licensed per cpu, which covers each of the issues described above, ultimately getting you closer to your overall vision.

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Section Two – The solution we propose:

ADE Remote:

ADE Remote™ is an enterprise location software solution that enables real-time interactive updates and reporting of location information for online services.

ADE Remote™ is a unique web ready spatial editor which supports three levels of architecture. With ADE Remote customers can manage data locally (Files on disk), connect directly to Oracle, or connect to ADE deployed on the middle tier application server. This enables editing of Oracle 9i/10g Locator, Spatial, Geometries, Oracle 10g topology and attribute data in the field.

ADE Remote™ leverages the complete Oracle technology stack to provide a fully scaleable, robust, **Oracle Spatial editing solution for the disconnected or occasionally connected user**.

Cost effective enterprise solution – one example of using ADE Remote as a lightweight cost effective enterprise solution would be the mechanisms it uses for "checking in, checking out" edits. ADE Remote supports the entire Oracle technology stack and makes use of its row level locking mechanisms. As a result, ADE Remote does not require costly implementation/development fees as other software/service companies propose for the development of similar functionality. The same is true for security and scalability.

Thin client based and mobile – one example of how lightweight and mobile ADE Remote is would be by its database centric architecture. ADE Remote makes use of the entire Oracle technology stack and provides only the missing requirements. Other software vendors do not, and for example, have thick clients that duplicate functionality found within enterprise databases. Additionally, such thick clients also require costly non-Oracle middleware for things such as scaling and security. Furthermore, for Acquis' ADE Remote, interface forms are tied directly to database tables and are modified automatically when changes to the database are made.

"Always Connected" and "Occasionally Connected" supported environments – one example of how Acquis minimizes software complexity is its single code base. Acquis has a family of products that supports any type of connection. ADE Standard is 100% web-based in an "always connected" broad band environment. Migration from ADE Remote to ADE Standard is manageable, especially when minimal customizations are made during its implementation. Furthermore, ADE Remote can be extended to mobile devices with the soon to be introduced product, ADE Mobile.

ADE Remote™ is targeted to organizations with visions that require real-time, interactive location information that can be combined with other data types in a consolidated enterprise environment built on open standards.

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ADE Remote “Quick Start” Trial:

ADE Remote “Quick Start Trial” kit includes the following:

1. 1 unlimited user cpu license of ADE Remote running on FL Turnpike’s servers
2. Acquis would build the basic data model *(i.e., convert sign data from SHP files to SDO_Geometry)*
3. Build basic interface forms that are required for sign data project
4. Review of what would be involved re: extending the application to FL Turnpike’s 60+ asset types. *Note: extending to assets that only differ in file type can take less than an hour. Assets that require 60-70% different fields, it could take around a day per asset. Knowledge of Java and/or XML, along with Oracle spatial increases implementation/modification speed. (See below section for more information on training that is available from Acquis* and/or Oracle** for an additional fee).*

Acquis Inc Services – one example of Acquis service expertise is its role in the 2010 Census, both in its capacity to design, develop and deploy the interactive update portion of the project, and also in its overall executive overview role for the entire 2010 Census project (sole source agreement worth up to $21M). Acquis has expertise in getting data into Oracle, but also with getting its ADE Remote product into production.

Acquis Inc Training – one example of Acquis as a trainer is in its role training large system integrators such as Northrop Grumman. Acquis trains how to use, maintain and extend its initial applications Acquis builds. Having done so, it helps savvy organizations accelerate the learning curve of a new application, and cuts implementation and maintenance costs significantly.

ADE Remote “Quick Start” Trial costs:

The cost of the ADE Remote “Quick Start” is $10k (requires signed non-legally binding agreement re: the potential of the total roll out of project). If FL Turnpike eventually decides to roll out the solution and buy more licenses as described by the attached quote, then the $10k paid for the Quick Start Trial kilt will be deducted from the total price.

If FL Turnpike would prefer to have Acquis waive the up front $10K cost, then upon signing at the bottom of this legally non-binding document, Acquis will do the following:

1. Build FL Turnpike’s basic data model for sign information *(estimated time required: 2 – 3 days of work)*
2. Build FL Turnpike’s basic interface forms *(estimated time required: 1-3 days)*
3. Run the trial demo on Acquis servers

In this case, after the free ADE Remote “Quick Start” trial, FL Turnpike would have the option to buy the demo (i.e., to install it on their servers), along with all of the work done to it (e.g., data model), for $10K.

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If FL Turnpike then decides to expand its purchase from the trial to the total project as described in the attached quote, then the $10k paid for the Quick Start Trial kit would be deducted from the total price.

Available training to consider for an additional fee:

** 3 to 5 day training to implement, modify and extend application to 60+ asset types. This could be purchased as an add-on to the Quick Start Trial kit. Quick Start Trial kit only includes a review of what is involved. The ballpark add-on price would be around $5k. Note: training would include 1-2 days of general training, with up to 3 days of hands on training that is specific to your application, and specific to extending it to all your asset types. Because it is hands-on, the training would result in development work that can be used and extended immediately.*

*** 5 day training by Oracle on Oracle Spatial is also useful and can be purchased from Oracle, for a ball park estimate of our $3k (need to confirm with Oracle). Information re: Oracle spatial implementation/training is copied below***. If you would like a contact into the training group, I can arrange that.*

**** From what I've heard, users of Oracle can learn enough to get up and running with Oracle Spatial after taking a 5 day training class offered by ORCL. A company's in house Oracle expertise is a factor in how quickly Oracle Spatial can be learned and then used effectively.*

Additionally, I have learned that Oracle Locator/Spatial 10g includes ease of use features like self-tuning spatial indexing, coordinate systems transformations under the covers.

Here is some material I found that addresses how easy Oracle Spatial is to use: Overview white papers for Oracle Spatial & Locator at http://www.oracle.com/technology/products/spatial/index.html.

For Example (see below):

- *Spatial and Locator—Data Sheet (PDF)*
- *Oracle Locator: Location-Enabling Every Oracle Database—Technical White Paper (PDF)*
- *Oracle Spatial 10g—Technical White Paper (PDF)*

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Section Three – The value to FL Turnpike:

FL Turnpike, like many organizations, has been asked to "do more with less". The need for spatially enabled, real-time, mobile enterprise field applications has increased while traditional GIS vendors remain proprietary with expensive thick client interfaces. The only answer to this is to adopt an open platform (e.g., Oracle), standardize on a file format that is read by all applications (e.g., SDO_Geometry), implement a thin client that utilizes the complete Oracle technology stack with no redundant features and deploy it over the Internet.

Increased number of potential data editors has also increased the need for an easy to use, web based, non-exert system that is sold by an unlimited user cpu license. Acquis offers this cpu pricing for unlimited users which significantly reduces Fl Turnpike's costs.

Section Four – The price of ADE Remote:

Per the attached quote, the price of FL Turnpike's ADE Remote ranges from (XXX) to (YYY). We recommend a Tier 1 deployment, priced at (XXX) as an initial purchase by mid November. As long as the Tier 5 or unlimited enterprise license is completed by the end of March of '04, we will consider the initial purchase a down payment on the (YYY) price.

Section Four – The proof of the solution:

In order to prove that FL Turnpike's ADE Remote does what we say it does and works in FL Turnpike's environment, we propose a trial or Proof of Concept (P.O.C.). This P.O.C. should include the following tasks and deliverables:

Tasks	Deliverable	Due Date	Owner
1. Pre Installation con call			
2. Pre Installation preparation			
3. Initial Installation			
4. Initial Setup/Configuration			
5. Initial Discovery			
6. Demo to Executive Sponsor			
7. Regular use of ADE Remote			
8. Etc.			
9. Etc.			
10. Etc.			

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Section Five – Setting Expectations:

This "Quick Start Trial Plan" is not a legally binding document for either FL Turnpike or Acquis Inc. However, our expectation is that a successful trial of ADE Remote will show that it can do what we say it can do for FL Turnpike and result in a purchase of ADE Remote by FL Turnpike for $10k plus support, by the end of xxxx, 2005. Please see the attached price quote. If this is also your expectation, please sign below.

Sincerely –

Walter

Walter R. Roth
VP of Operations
Acquis, Inc.

Acquis, Inc.	FL Turnpike
Name_____________________	Name______________________
Signed____________________	Signed_____________________
Title______________________	Title_______________________
Date______________________	Date_______________________

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20. MORE NOTES ON COLD CALLING

Summary

This chapter expands on the cold calling introduced in the chapter on marketing experiments. That chapter listed cold calling as one of the experiments. This chapter goes into considerably more detail on how this is done effectively.

My Basic Approach

Everyone has their own approach to cold calling. Mine is to try to put people at ease that you are not trying to sell them anything. I once had someone who answered the phone blurt out "I don't take sales calls" and I said "That's OK, I just wanted to ask you a few questions to see if this is a good fit". So he said "OK" and I was able to start the conversation by qualifying him.

This is a typical reaction. People are conditioned to dislike cold calls, which they associate with high-pressure sales tactics. So the key to being effective at this is to make sure that you are calling people with a high likelihood of having a need for your product (targeted marketing) and then putting the prospect at ease that you are not going to launch into a high-pressure sales pitch.

Figuring Out Who to Call

First, see the chapter on targeted marketing. Once you have decided which market to target, you will have decided which vertical industry and which companies to target. The next question is who at those companies to call. The important part here is to try to figure out which title is the most likely entry point. Who is going to be the most interested in what you have to sell? Who is going to be a hero if they buy your product? Who is going to benefit the most?

I've seen lots of sales reps who simply got the name of the CIO (and the main number of the company) from Hoovers and lobbed in a call. The problem with this is the low probability of success. Once the CIO has their name in Hoovers they get 100 calls a day from every sales rep in the world. So to keep from going insane they have a wall of some sort built to keep cold callers out. So the best outcome from this type of call is the occasional referral to one of their underlings to check you out. This is how I hit on the idea of simply calling the web architects. While we were hoping for a referral from the CIO to one of the web architects, I thought "why not just call the web architects". I thought I had done my "targeted marketing" homework, so I

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thought they should be interested in what I had to offer. And if I really had something of interest to them they might be willing to either give me a few moments of their time to check it out or refer me to someone who would really be interested. This gave me less chance of being rejected by a particular company who I thought should be interested because I had multiple points of contact (multiple web architects) at a particular company instead of one (the CIO's assistant). If calling one contact was unproductive I could call others.

Increasingly the web is the place to find information on who to call. As more and more information gets absorbed by the internet, the likelihood increases that the answers you seek are there. The question becomes one of how to find them. As I've said before, I used to spend hours doing "web mining" and even considered outsourcing this function. I know several vendors who have outsourced the web mining function with good results. Web mining can be a time-consuming task and time-consuming tasks which can be done on the web are a prime target for outsourcing.

Another recent tool I've used is ZoomInfo. This is essentially Google for contacts and I've found it to be useful. It's a search engine with the same basic components (web crawler, index and user interface) as generic search engines like Google, but it's geared specifically to the search for contact information. It saves me a lot of time in hunting around on the web for contacts because they've already gone out and located and organized it into a searchable database. The paid version is MUCH better than the free trial version. It's not cheap, but it's worth it.

Lining Up the Calls

However you figure out who to call, the next task is lining up the calls you will make the next day. In order to be effective you will need to make between 50 and 100 calls per day. A call in this context means an outbound dial. In order to make that number of calls, you will need to have a list made up with at least the company name and the name, title and phone number of the person you are going to call. The phone number can be the main number of the company, but you still have to have somewhere to start. This list must be created and added to in the off hours because you will need all of the normal working hours to get 50 to 100 calls made. It helps if you have multiple time zones to work in because that stretches out the "normal" working hours. For example, living in California I can get up while it's still dark out and start calling the East Coast.

The Call Script

The call script I used at First to File went something like this:

Hi, this is Steve Browne with First to File. Did I catch you at a convenient time?

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(Then I would pause and allow them to answer.)

If this was not a convenient time to talk, I would ask them for a more convenient time. If they asked what the call was about, I gave them brief (one or two sentences) version of what we did and asked if they were interested in a brief discussion. My first goal was to get them to agree to a half-hour online demo of how they could better organize their intellectual property to put all the paper patent files in digital format.

By spending my off hours doing web-mining research into who to call and lining up my calls for the next day I was able to be a one-man-band and generate the initial stream of customers and revenue for the company.

At Acquis the product ran on top of the Oracle Spatial option. In addition, we knew that the heaviest users of GIS (geographic information systems) software were government users. These consisted of Federal, state and local and foreign governments. So we focused on calling into government GIS offices and used Oracle Spatial as the first filter to weed out those with long sales cycles. If they did not already own Oracle Spatial, they were years away from needing our software, so this was one of the first questions we asked. By focusing our efforts this way we were able to generate the first million dollars in sales for the company.

The call script we used was similar to the one above.   We would call and introduce ourselves and ask if this was a good time to talk. Then we would pause and allow them to answer. This made the call seem more like a conversation and less like the fog-horn blast that some telemarketing firms seem unable to resist.

In any case, the key to cold calling prospects is as quickly as possible put them at ease that you are not going to try to “sell” them something. The idea is to say that you just want to ask them a few questions to see if this is a good fit or not. This allays their fear that if they agree to talk to you they will be hounded by a telemarketer and pestered until they regret ever having picked up the phone. I also use the technique of offering an online demo by reassuring the person on the other end of the phone that I prefer not to try to “sell” them anything. I much prefer to simply show it to them and then ask if it has value for them. This gets them to relax and (again) allays their fear of being at the receiving end of a high-pressure sales pitch. They are much more willing to agree to a 45-minute online demo if they think that all you are going to do is show them something and then ask if this looks like a good fit for their needs.

Keep in mind that to be effective at cold calling the caller must make somewhere between 50 to 100 outbound calls per day. This means that the calls have to be lined up and ready to dial before the workday begins. Lining up that many calls is a lot of work. At First to File I would spend evenings and weekends hunting around on the web for which companies to call, who at those companies to call, email addresses, physical addresses, phone numbers, etc. We even considered outsourcing this to India so that the web mining would be done in the 12 hours when I wasn’t making calls (since India is 12 hours offset from the U.S.).

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Another hard part is the willingness to make one more call. This is why the character and drive of the sales people you hire is of primary importance.

I recently read a book called The Contrarian Effect: Why It Pays (Big) to Take Typical Sales Advice and Do the Opposite by Michael Port and Elizabeth Marshall. I liked it.

The authors make the point that the old high-pressure sales tactics no longer work. I think that they are right in that the old tactics no longer work as well as they used to and to be effective sales reps need to pay attention to the new tactics they suggest.

Everyone has access to a vastly increased amount of information. This means that not only do sales reps have a harder time getting through the clutter (in the age of Caller ID, for example), but they also have to compete with the fact that buyers can check up on their facts. Car dealers have to contend with the fact that consumers can have a copy of the invoice in their hands when negotiating.

The authors correctly suggest low-pressure sales tactics where the sales rep makes a point to get to know the needs of the prospective buyer before attempting to close the sale.

The book is an easy read and well worth the time.

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21. MORE NOTES ON CHANNELS

Summary

This chapter expands on the channels introduced in the chapter on marketing experiments. That chapter listed channels as one of the experiments. This chapter goes into considerably more detail on how this is done effectively.

Concepts

My take on channels is similar to my take on sales as a career. When it's good it's great and when it's bad it's the pits. I'm wary of handing my fate over to anyone else, and I'm VERY wary of exclusive channels where I have no access to the end customer. So while some OEM relationships work famously well (Microsoft, Intel and the PC manufacturers like Dell, for example) a startup has to be very careful before handing its fate entirely over to a big brother. This relationship has the potential to be either a booster rocket or a killer. One of the key differences between the two is how to manage channel conflict.

One way to negotiate this minefield is to look for something the reseller has to add. If an application vendor uses a development tool or other component in it's product it become a VAR (value-added reseller). This gives the startup a way to differentiate their direct sales offering from the offering of the VAR. This is one way to cut down on channel conflict and allows the startup to have both the direct sales and VAR revenue with a minimum of disruption.

Avoiding Channel Conflict

Sometimes channel conflict can be avoided in other ways. At Patrol we were approached by BMC to be a reseller. At that time we were looking for $6M of investment to expand our direct sales force. And we were offering 20% of the company in return. The venture capital community was interested in more equity for that amount and we had yet to find an investor when the discussion with BMC started. Their offer was tempting, but they made a reseller agreement a requirement of the investment. We all got together and decided that competing with BMC would be very difficult. They had one hundred sales reps to our six, and relationships with most of the Fortune 500. This scared us, since we would be selling the exact same piece of software. We said that in order to buy the right to resell our software they would have to buy the whole company. They then asked us how much we wanted for the company and we

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eventually settled on $34M. This was for a company with approximately $1.5M in sales at the time.

When channel conflict is not managed well the partnership can become a nightmare and descend into unproductive recriminations. This is particularly hard on the startup and can even be fatal if not corrected quickly. Be very careful of OEM or VAR negotiations where they ask for exclusivity. This should be avoided if possible. Dating is a good idea before marriage. See how well the two vendors get along before making the relationship more formal or more binding.

Keep in mind there is a big difference between the respective headquarters (or VP's of Business Development) getting together and signing an agreement and the actual sales forces of the two companies getting along and cooperating effectively. Some channel relationships do not require the respective sales forces to cooperate. Others do. Telling coin-operated sales reps to cooperate is not worth as much as giving them an incentive to cooperate. They will only cooperate if they are paid to cooperate.

A partnership on paper is a good start, but the real partnership is what happens in the respective sales offices. This requires an entire sales campaign on the part of the startup hoping to get sales from the big brother partner. This takes resources away from direct selling and this represents both danger and opportunity for the startup. The danger is that the effort will be wasted while they should have been selling directly. The opportunity is that the channel effort will pay off in increased sales with decreased sales. My advice (again) is to take baby steps. Start with some cooperation on a common prospect. If this works well then see if the success can be scaled up to a formal partnership. This is what I mean by dating before marriage.

Internal Channel Conflict

Channel conflict is not limited to conflict between the respective sales forces of different vendors. Channel conflict can occur between the "telesales" or inside sales force and the "field" or outside sales force of the same vendor. This typically happens when management tries to separate the "big" and "small" deals into field sales and telesales. The simple version is to draw a line and say "deals above this size are to be handled by field sales". This sounds simple but causes trouble (channel conflict). I've seen telesales reps cut larger deals into multiple smaller deals to have them come in "under the limit". The field rep understandably takes a dim view of this. In addition, some smaller deals may lead to larger deals and the field sales rep may want to control the sale. This may be due to their relationships with the customer or simply due to their superior experience working strategic sales. My advice in these situations is to give the team a quota and pay them on the total. Then they work out for themselves who is in the best position to work the deals. They work to maximize revenue. Their personal goals are aligned with the goals of the startup enterprise.

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22. HOW TO HIRE AND MANAGE SALES PEOPLE

Summary

This chapter deals with the issues of how to identify those sales candidates who will be effective in their roles and how to manage them once they are hired. Issues around how to structure the early sales force and how to set expectations are explored. This chapter is written from the perspective of the founder who is looking to hire a salesperson who will be effective.

Hiring Sales People

Hiring sales people is hard. The hardest part is how to know in advance which ones will succeed and which ones will fail. The ones that fail will cost you a bunch of time and money, neither of which you can afford.

The key to hiring sales people is to understand that most people would be terrible at sales. This is because success in sales requires people who have sales skills and are internally motivated. If they are not internally motivated they will not continually make that “one more call” that allows them to locate and close more business. Finding a person with fire in their guts is difficult. And this task is made more difficult by distractions. When management is not sure how to tell who will be good they default to measures they are comfortable with.

I’ve always looked for only three qualities in sales people – guts and brains and drive. These are the three things I can’t teach them. Without these qualities they will not make exceptional sales reps. With these qualities they are in danger of succeeding, and I can teach them the rest. Also, a person who is smart and aggressive will be willing and able to learn the things I have to teach them.

A big mistake to avoid when hiring sales people is something I’ve mentioned briefly before. The temptation to hire someone with “the right rolodex” is huge. Even pros who have been in the business a while succumb to this temptation. The problem is that after they’ve been there a month and they’ve called everyone they know, then what? Hire the person with guts and brains and drive. Their list of contacts is a bonus and should be considered last among the attributes you are looking for. Use the methods in this book to locate the target market and the specific buyers. Don’t make the mistake of hiring the wrong person just because they have a rolodex. You will regret it.

Startups pose an additional challenge in that, in addition to the above qualities, the sales and/or marketing staff need to have the specialized skills and experience specific to startups. Simply

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having done sales or marketing at a larger firm would not be an adequate indicator of success at a startup. There are many examples of startups who have hired someone from a larger firm only to have them fall on their face. This failure not only uses up valuable runway, it casts doubt on the viability of the startup in the eyes of new investors. This can be deadly.

I've also seen many sales professionals who look good on paper but just don't have what it takes to do a startup. This was particularly true after the tech boom and bust. There were many sales folks during the bust who seemed to be longing for some sort of return to the boom days where they could just take orders. I miss those days too, but they are gone. The technology business which rose from the ashes of the boom and bust is a much leaner one where order takers need not apply.

How to Tell If They Are Self-Starters

This is an excellent question, and one that is not easily answered. The best way is to know them for years and have worked with them before. However, that answer is a cop-out. Everyone knows that this is the best way to hire people. The REAL question is how to figure this out for people you've just met. How do you set up the interview process to filter out the ones who don't have it?

The closest I can come to a real answer is to start by weeding out the ones who clearly don't have guts, brains and drive. This is done with basic requirements and screening interviews which don't take as much time as the detailed interviews. Weed down to a few finalists first because the next step takes a lot of time and you don't want to spend this much time with candidates unless they are finalists. The finalists are worth spending time with because they are going to be a liability in the long run if you get this part wrong. This will leave you with a few who all seem to have drive. Then the question becomes which of these few to hire.

The best way to determine if they have real drive is to drag them through a relatively brutal interview process which involves multiple interviews and multiple interviewers at the same time. Multiple interviewers will give you several opinions of the candidate and each may have a different perspective. One may catch something that others miss. This is also true of multiple interviewers at the same time. I've been through interviews where it was three on one and they dragged me through my life history starting with high school. They asked me to justify every major decision I made in my adult life. These were tough interviews, but I came to understand that this technique was useful. It forces the candidate to allow you past the public face and gives you a look at how they really think. Having multiple people in this marathon session is both more efficient (which is important as this may take hours) and (again) makes it easier to catch inconsistencies.

The best book I've come across recently which describes this process in detail is Bradford Smart's book called Topgrading – How Leading Companies Win by Hiring, Coaching and Keeping the Best People.

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Hiring a VP of Sales for a Startup

The VP of Sales for a startup must be the tip of the spear. By that I mean the VP of Sales must come up with the first few sales, create the sales manual and then teach others how to do what they did.

So one of the first filters to use is to make sure they have created revenue (from scratch) at a startup. If they don't have this recent experience, that is a problem.

My next bit of advice for a founder or CEO faced with hiring a sales or marketing vice president would be to ask them for their plan. Once you get down to only a few candidates, ask them what they would do if you hired them. See if they can produce a plan. By seeing this you can best judge if they are in danger of being successful.

By a plan I mean at least the summary of the sales plan which would be the sales (and/or marketing) section of your startup's business plan. This has several advantages:

- It will weed out those who are incapable of coming up with a plan. If the candidate can't create a sales plan for your company they are unlikely to be able to create and implement a successful plan once you hire them.

- It will allow you to see what you are buying before you hire them. That way there are no big surprises later. If you disagree with the plan you can discuss that during the interview cycle. Maybe one of you will learn something.

- The results you get from asking a few people to come up with a plan can be illuminating. Hopefully the finalists are good at what they do. Getting their opinion of how to tackle the sales challenge will be useful at a minimum and might even lead to new insights.

Realistic Expectations

I see a lot of startups make another typical mistake by setting unrealistic revenue expectations. In the chapter on forecasting, there is a section on pipeline math. Put yourself in the place of an intelligent sales candidate and work backward from the quota you are asking them to sign up for. Figure out how many leads, qualified leads and closed deals will be necessary to come up with the revenue goal you are setting. This will keep you from setting unrealistic expectations.

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Compensation Negotiations

Compensation for smart and aggressive sales reps is high, so expect to offer real compensation. However, there are different parts to the compensation plan which can be worked out in negotiations.

Any good sales plan is comprised of components like base salary, commissions, bonuses, equity and benefits like health care coverage or 401K plans. Here are what I mean by each of these terms:

Base Salary – I like to keep base salary around 50% of the total compensation

Commissions earned as a percentage of sales – I like to use a scale which goes up as the sales person approaches their quota. If, for example, you want an average of 10% commission for sales up to 100% of quota, you might have a scale that looks like the following:

- Zero to 24% = 4%
- 25% to 49% = 8%
- 50% to 74% = 12%
- 75% to 99% = 16%

So for a quota of one million dollars, the sales rep earns $100K in commission, or an average of 10%. However, the rewards are increased as the rep approaches their quota. In addition, the percentages can keep increasing once the rep is over quota.

Bonuses – can be added for achievement of specific goals or objectives. I've offered bonuses for making quota or for large deals (say, $1M).

Equity or stock options – which can be earned over time

A startup which is well funded may also offer benefits like health care coverage, although I've seen startups which have yet to be funded wait until they have funding before they offer benefits.

Keep in mind that these components can be negotiated. First you determine what level of sales rep (junior, senior, executive, etc.) best fits your needs. And then determine what level of compensation you want to offer to attract a good one. Then you can always point out that some of the parts can be traded off for others. Once you determine how much air (total compensation) is in the balloon, one end can be squeezed and the other end gets bigger. For example, a lower salary could be traded for more equity. I've also seen performance bonuses handed out in the form of stock options or equity.

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The Foot Soldiers

My advice for anyone hiring a sales person would be to set up a brutal environment and invite them to join it. At Acquis we started at 6:00 AM. That meant that at 6:00 AM the lights were on, the sales people were on the phones and the place was hopping. This had several benefits. One of the benefits was that we were able to stretch the working day by taking advantage of time zones. Another benefit was that, when we advertised for sales people, we could weed out the ones who did not want to work hard and get ahead. Taking out an ad on Craig's List which points out the benefits of getting great sales training at a hot startup and also points out that "we start at 6:00 AM" gives both the carrot and the stick. It might read like this:

> *High-Tech Sales People Needed:*
>
> *We are looking for entrepreneurs who want to start their careers in software sales. We offer excellent pay, benefits and stock options with a fast-moving startup. We also offer excellent sales training, quick promotions and the experience of being in a successful startup. We work hard. We arrive at our Menlo Park office before 6:00 AM to start calling our East Coast customers. We are looking for more entrepreneurs like ourselves who have guts and brains and drive. We offer a $100K comp plan ($50K base, $50K commission on quota) as a starting salary. Our first entry-level sales person was promoted from this position (thus this opening) within a few months with a 50% raise (to $75K/$75K base/comm.). We like to promote from within. Coming here and participating in our success will give your career an elevator ride and allow you to "earn your stripes" in high-tech sales. You will also make a pile on the stock options.*
>
> *If you have guts and brains and drive please send a resume to…*

Talk to Their Soul

One of the key things to keep in mind when managing sales people at a startup is that you need to talk to their soul. Startups require a considerable amount of effort in order to succeed. People will only put out that level of effort if they see something in it for themselves. This is why startups typically offer equity to the employees. They have a chance to participate in the big win if it works, so they are willing to go the extra mile. This is particularly true of sales people at a startup. They need to know that their success is tied to the success of the startup.

As a founder or sales manager trying to hire sales people you will need to figure out what makes them tick and offer them something of value. This typically means equity, but not always. Sometimes there are other things (usually in addition to equity) which the person may want to get out of the experience.

For example, when I was first at a Acquis the founder asked me to fire one sales guy and keep another. I met and liked the one they wanted me to keep and met and (initially) disliked Walter,

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the one they wanted me to get rid of. So far everything made sense. Then a few interesting things happened.

First, I learned that the sales rep they wanted me to keep was unwilling to make cold calls. This seemed to me to be a considerable handicap given that a willingness to pick up the phone and make those calls was a basic requirement of the job. He was (and is) a good guy. He was just not suited to his role.

Then I discovered that the one they wanted me to fire (Walter) was in fact someone I wanted to keep. He turned out to have guts and brains and drive, so I decided to work with him.

After I decided, during a rather interesting conversation* (see note below), that instead of firing him I wanted to keep and mentor him, I then had to figure out what would motivate him. More than anything he wanted to punch his "sales ticket". For the same reason that venture capitalists advise young MBA's to get some sales experience, he wanted to do the same. This would give him credibility in Silicon Valley as he moved up into the executive ranks, which he definitely wanted. So during this same conversation I offered to move Walter into sales and teach him sales at the same time. This resulted in his willingness to not only stay but work incredibly hard. We were able to restart the company and we were able to get the company to its first million in annual sales.

I use this as an illustration of how to speak to someone's soul if you really want to motivate them to work hard enough to have an effect on the bottom line. The credibility he would get from making a success out of sales was worth more to him than anything.

* Note: When I say "interesting conversation" above, it went something like this (keep in mind at this was my first day as the new VP of Sales and he was the employee they told me to fire):

Steve – (considering the looming need to fire the rep) "how do you see your job here?"

Walter – (knowing that I'm probably considering firing him) I see my job as coming up with sales, marketing and business development for the company and get the initial sales.

Steve – (amazed at the answer) "that sounds a lot like my job description as VP of Sales"

Walter – "Yes, I told them not to hire you. I told them we needed a sales engineer, not a VP of Sales"

Authors Note: at this point I was absolutely astounded at the frankness of the answer. That answer took real guts. At this point I completely reconsidered and decided that, rather than firing this guy, I wanted to keep him. I wanted to persuade him to not only stay but to have a real incentive to help me get the company back on track.

That's when I offered to mentor him and he agreed.

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Managing Sales People

As far as managing any sales people, my advice would be to insist on using the pipeline format described in the above chapter. That will give you an objective measure of status and over time this will also allow you to judge progress. If you are in fact going to make it over the fence at the end of the runway, then you should see regular progress toward flight. That is one reason the sales and forecasting methodology and is so important. You should see regular progress toward actual sales and this progress should be measured objectively. Do not wait until the plane is about to hit the fence before addressing these issues. By then it may be too late.

If you determine that sales are not making sufficient progress you have to determine what the problem is and fix it while you still have time. Is there really a market for your product? Are you targeting the right market? Are you ahead of the market? Are you too late to market? Is your price too high or too low? Do you have the right pricing model? Be sure to look at these areas before just shooting the sales person. One trend I've noticed in Silicon Valley is to simply blame the VP of Sales when things are going badly. This is only a temporary fix and will do no good in the long run if there are other problems.

Start With Sales Reps at HQ

One mistake startups make is to immediately hire sales reps in remote offices. I've made this mistake myself. The classic scenario is one where reps are hired in major cities in the East, Central and West. For a Silicon Valley startup this traditionally meant hiring a sales rep in New York, Chicago and one at HQ. While this may have worked in the old days, this is not the way I do things now. I start with sales folks here in the local HQ where I can keep an eye on them. I make the first sales and teach the people I hire how to sell. Having them in the same place allows me to make sure they are using the sales techniques which I outline in the chapters above. Once we have the first million in sales and we have the first few sales people hired and running smoothly we will know what works and what does not. By then I have a good handle on what to expect from a new rep. I know how many calls they can be expected to make. I know how much revenue to expect and how soon to expect it. In short, I have the metrics necessary to judge if the new rep is going to work out. Only then will I risk hiring sales people in remote offices.

Use Telesales at First

In the old days, one of the reasons startups hired sales people in remote offices was to cut down on travel costs. With the advent of online demos, there is less need to travel to qualify

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leads. Use remote demos to qualify leads. The remote demo is a chance to ask questions. Only once the three questions have been answered should you need to travel to meet face-to-face with prospects. This cuts down dramatically on the need to hire sales people in remote offices.

Don't Blur Lines of Responsibility

I once had a sales rep working for me who I suspected I would have to fire. The CEO had allowed her to take on channels responsibility along with sales in the western region. My first step was to remove the channels responsibility. I did this because every time sales reps have their feet held to the fire they look for somewhere to hide. In this case I did not want her to be able to hide behind the channels responsibility. Several months later, when I brought her in for a pipeline review which went badly, she still tried to hide behind the fact that she had spent some time on channels. She said that had taken up a lot of her time. The reason I tell this story here is to point out that you should not blur lines of responsibility. Give them nowhere to hide. For example, make the VP of Sales responsible for all the sales of the company, including channels. If they are responsible for the total, then their personal goals are aligned with the company.

The Role of the Sales Engineer vs. Sales Rep

Some products require a Sales Engineer or S.E. in addition to the Sales Rep. This happens when the product is complex and needs a technician to give demonstrations or explain technical aspects. Often a Sales Engineer and a Sales Rep will work as a team to close business. In these cases there are several things to remember:

- First, keep in mind that they have separate roles and responsibilities.
- The Sales Rep is responsible for a stream of revenue.
- The S.E. is responsible for knowing the product.
- The Sales Rep leads the efforts of the team.
- While the S.E. needs to be able to walk and talk and dress appropriately, they are not Sales Reps.
- If the team does not make quota, fire the Sales Rep, not the S.E.
- Being the Sales Rep is a higher-risk (and higher reward) occupation than being the S.E.
- The Sales Rep has a higher "up-side" to their total compensation.
- Sales Reps and S.E.'s might have similar base salaries, but the Sales Rep makes a higher total compensation if the team makes quota.
- The S.E. can be extremely valuable to the sales effort by doing much of the actual "selling" of the product. By this I mean giving sales pitches which get the prospect excited about the features and benefits of the product.
- The S.E. can also be valuable to the sales effort by getting the contacts to open up about what's going on at the account.
- The Sales Rep is a wolf. The S.E. is a wolf in sheep's clothing.

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- S.E.'s have much more credibility with customers. They should do most of the talking. Prospects will believe more of what they say.
- Customers will see the S.E. as a fellow geek who is genetically incapable of lying.
- A good S.E. will use their relationship with the prospect to find out things like why the customers are buying (why buy anything, why buy our product, why buy now, etc.).
- A good S.E. may even be able to get them to open up about their requirements and what other products they are evaluating.
- They may even be able to find out how your product ranks vs. the competition.
- A good S.E. is worth their weight in gold. Smart Sales Reps will treat good S.E.'s well because they know that their income depends on the care and feeding of a talented S.E.
- Smart S.E.'s want to work with top Sales Reps because they want to be associated with a winning team.

Don't Hit the Fence at the End of the Runway

The whole point of this book is to help startups avoid being in the position where they have used up their runway without getting enough traction to either attract more investment or get to breakeven. Startups which manage to use their runway wisely and get traction are able to do what I refer to as make it over the fence at the end of the runway. They are able to get enough sales to either attract more investment or they have enough sales that they don't need more investment. If they are at breakeven they are in a much better negotiating position. The best time to look for money is when you don't need it.

Once startups fail to make it over the fence at the end of the runway they become a low percentage shot. Founders in this position end up having to try to attract sales and marketing people to pull off a restart. Unfortunately this leaves everyone with poor choices, and most sales professionals who they would want to have come to work for them have better options. Try to avoid being in this position. Use your runway wisely so you don't hit the fence. If you end up in this position, your best bet is to immediately identify what the real problem is and fix that. And lower your expectations (i.e. quota) for the next sales person and let them know that you know that this is a restart.

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23. WHAT IF YOU ARE THE SALES CANDIDATE?

Summary

This chapter is sales interview from the perspective of the candidate. There is no way to tell which startups are going to succeed, but there are obvious signs which can be recognized when they are making obvious mistakes. Here I describe what to look out for, some of the telling danger signs and how to deal with them when they come up.

The Six Million Dollar Quota

Part of the genesis of this book is that I was advising a friend of mine, Yves Sukhu, while he was interviewing for sales jobs out here in Silicon Valley. He was excited about the prospect of moving out here and working at a startup. He kept coming up with opportunities and I kept finding holes in them. I had done startups so many times that I got a sense of where the skeletons would be buried in each of the opportunities he was interviewing for. Yves would say "this one looks good" and I would say "dig over there, I bet there's a body buried there" and I would be right.

This happened several times. For example, once he came to me with an opportunity he found on Craig's List. He had contacted the company and they were interested in talking to him. The startup was a bunch of smart folks who had come up with what looked to me like a great idea. Their product seemed to me to have real value. It was a development tool for companies which had adopted a service-oriented architecture (SOA). This looked like to Yves like a good fit. So I started asking questions like how long they had been in business and how sales had been going.

It turns out they had made the mistake I outline in the chapter on common mistakes. They had hired the wrong sales guy and he had not delivered and they had to do layoffs. Things went downhill from there. They were looking for a new sales guy and that was the job Yves was interviewing for. I was telling him to watch out that they didn't saddle him with an unrealistically large quota. He asked what I meant and to illustrate I predicted that they would ask him to sign up for a six million dollar quota. He reacted with surprise (and perhaps some disbelief) that a company with no revenue would expect him to agree to a quota so high, especially in light of the long sales cycles in B2B (business-to-business) sales. I stuck to my prediction and, sure enough, it came true. The next day they said that the job would carry a six million dollar quota.

They ended up offering him the job and he ended up turning it down.

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This kind of thing happened a lot. Eventually he threatened that if I didn't write a book he would take everything I taught him and write the book himself. This was not the first such threat I'd received and eventually I decided to go ahead with the project.

Red Flags

I've had a lot of experience over the twenty-plus years I've been selling technology. I started out as a programmer and eventually moved up through the sales ranks. At each new level, I've seen things done right and I've seen things done wrong. When it was my turn to be in charge I've done things right and I've done things wrong. And I've studied the process along the way, reading and thinking and talking about it with others. This is how I learned. I've also noticed something about startups. It's possible to start a company and do everything wrong and then blame it on the sales guy when the product doesn't sell. Keep in mind that most startups fail. While looking for a startup to join, here are some red flags to watch out for.

High Quotas

What is an unrealistically high quota? Sales expectations for a startup with no revenue history are difficult to estimate, but there are some guidelines. When I walked through the quota discussion above with my friend, I gave him a formula to use as a guideline. Start with the average sales price and divide the quota by that. If the average sales price is $50K, then the startup needs to close twenty opportunities for every $1M in revenue. This means that to get $6M in revenue a startup would have to close one hundred and twenty new opportunities. Using the pipeline math discussed in the chapter on forecasting this means that a startup would have to mount a massive marketing and sales effort in order to even come close to a $6M quota. So I walked my friend through this equation and had him ask the startup to work backward from their $6M quota to see how that related to their marketing plans. The results may or may pass the laugh test.

The discussion goes something like this:

Candidate: What quota is associated with the job?

Interviewer: Our plans call for $6M in revenue.

Candidate: What is the average ratio of leads to closed deals and with an average sales price of $50K, that's approximately 120 deals closed, so what marketing plans do you have to generate the leads necessary to close 120 deals? If one out of ten leads turns into a qualified lead and one of ten qualified leads turns into revenue, then only one out of every 100 leads becomes a closed deal. Using this rough estimate, you will need twelve thousand leads to close six million dollars.

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The discussion can go several directions from there. Assuming the candidate manages not to fall on the floor in laughter, he or she can ask questions like:

- How many sales reps will be needed to weed through and qualify twelve thousand leads?
- By the way, these leads all have to be located in the first ninety days to have any chance of closing before the end of the year. Do your marketing plans call for four thousand leads per month in the first quarter?

More likely, the conversation won't get that far. Once you show a grasp of pipeline math they will have a hard time talking you into accepting a fantasy for a quota.

Don't be afraid of large quotas. Be terrified of not having what you need to fill that quota. If you find yourself in a position where management has no intention of supplying you with what you need to do your job, flee. If they have no intention of giving you what you need to fill the quota then it is just a fantasy and you are taking a huge risk by agreeing to it. Over the years I got into the habit of using pipeline math to make sure I had what I needed to fill the quota I was agreeing to.

By arming my friend with these concepts he was able to pick his way through the mine field of looking for a sales job at a startup in Silicon Valley.

(Note: In this particular case the product had value, but the founders had not read my book. I forgave them for not having read it because, not only had we never met, I had not written it yet.)

How did I know they would ask him for an unrealistically high quota? I didn't know but I strongly suspected it because they had made the classic mistake of hiring the wrong sales and marketing people and selling nothing for a year. Now they were under the gun. They had used up their runway and, not having the plane in the air were about to hit the fence at the end of the runway. Instead of admitting this, they simply expected the new pilot to change the laws of physics for them. It's easier to assign a high quota than it is to fill it.

Restarts

Find out how long the startup has been in business and how long the product has been for sale. If it's not a new product, how has sales activity been to date? Who has been selling it and what are the results? Why is the job open? Did the last sales person get fired? If so, why were they fired? Try to avoid being the fourth VP of Sales at a startup. If you are tempted to get involved in a restart, make sure everyone acknowledges this and understand why it failed before and what you are going to do differently. Restarts can work, but they are a low percentage shot. The restart success stories always begin with a clear understanding of what is broken and how it will be fixed.

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Vague Equity Promises

Be wary of people who will not allow you a realistic share in the upside. There are many ways to lose at the equity game. Startups are a risk. By joining you are going to share in the downside so make sure you share in the upside. I've seen many games played on this front. Ask for specifics. Ask for percentages. If your equity, for example, is expressed as a number of shares, ask how many total shares there are. Ask about potential future rounds of funding, as these will dilute whatever stock you get. Ask about liquidation preferences. Do as much as you can to learn about venture capital funding and how many ways there are to lose at the equity game. This subject is too large to go into without another book and I am not an expert on the subject. The key thing is to ask and make sure that you are comfortable with the answers. If you catch any vagueness in the answers, bore in looking for specifics. If the answers are still vague, flee.

This also happened with my friend who was looking to move to Silicon Valley. Two of the opportunities he was looking at and which looked good at first offered him tiny slivers of equity. In the case listed above in which he was asked to take on a six million dollar quota, he was also offered one tenth of one percent of the firm, and this he would accrue over four years. In another case he liked the opportunity and I asked what equity they were offering. When he asked the answer was vague. When he asked for more clarification he discovered that they simply would not tell him what equity was included in the compensation package.

Being Set Up to Fail?

Both of these opportunities looked good at first. Both turned out upon closer scrutiny to be bad options which would have left him in a worse position. For example, right now my friend is with a successful startup which passed all my tests. His success will allow him to make money and have his pick of offers. Silicon Valley is a bit like a high-tech Hollywood. Doing a good job in an independent movie (a minor success) allows you to get a better role in a major motion picture. Participating in a flop will harm your career and limit the roles you are subsequently offered. So had my friend taken the job with the huge quota he would be set up to blame for the problems. Even if he had brought in their first million, he would be blamed for being below twenty percent of quota. A year after taking the job, he would likely be looking for another job. After spending years building he career to the point where he is able to look for a job as the sales executive at a startup in Silicon Valley, he could be tossed under the bus and end up looking for a job having just flopped. Having a flop on his record while he is looking for a job here would be very difficult. Investors would prefer to risk millions of dollars of investment in someone with a recent win on their resume.

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Lack of Integrity

If you are going to pour your heart and soul into making something come to life (and you will need to do this in order to have any chance at success) then you should only work with people you trust. You are going to work too hard to work with someone who will not watch out for your interests. Any sign, however small, of lack of integrity should be seen as a red flag. Dig in and find out if there is an issue. If you're not sure, keep looking. If you get to a job and the things you negotiated during the interview change after you get there, leave. If you take a job and the people you work for show any signs of a lack of integrity, find another job. There are too many ways to lose at a startup and if you work for someone who has integrity issues, they will not look out for your interests when and if the payoff comes. Don't waste your time working toward a payoff that is an illusion. One of the advantages of having many employers insist that they are at will employers is that the employees should have therefore have no qualms about acting like at will employees.

Lack of Value

Does the product have value? Can you answer the three qualification questions?

- Is there a reason someone would buy anything? Why not just do nothing?
- If so, is there a reason they would buy this product? What is different about this product? What does it do that its competition does not?
- Is there a reason they would buy now? Can they wait? How long?

If the product does not have value, pass on the opportunity. Life is too short.

Another question to ask yourself is how to segment the market. If you come upon an opportunity you should look to see if there is a way to segment the market so that there will be a more efficient way to identify customers. Where do potential customers congregate in groups? Is there an industry trade group or an annual convention of some sort? Is there a way to use that group to make more efficient and effective use of your time? Is there a common trait they all share? Is there a way to use that trait from a marketing perspective? Are the all customers of a particular vendor and, if so, does that vendor have a user group or trade show? These are questions you are going to have to ask if you take the job, so start thinking about it before you even show up to the interview.

The VC Test

Would a venture capital (VC) firm invest in the startup? Your time is valuable and you are about to invest it in a startup. Here you have to think like a venture capitalist. If the startup already has venture capital investment, this is a good sign. However it's always good to do your own independent evaluation. If you are serious about doing startups, buy a good book on venture

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capital investing use that as a filter. If a VC would not invest, this is a red flag. If the company does not have VC backing, then ask “why not?”

The Sacred Pipeline

If the current pipeline is somehow sacred or off limits, this is a danger signal. As a VP of Sales, the second to the last thing you want to do is take over a situation where huge expectations have been created only to find out the pipeline has a true value which is much lower than those lofty expectations. The absolute last thing you want to do as a VP of Sales is not to be able to objectively measure that pipeline. I once took a job where I was told during my first week as a new VP of Sales that I was not allowed to talk to the current prospects. I was told not to be a “glory hog” and that these deals were about to close and therefore I should not “introduce any new players”. In hindsight I should have made this a deal-breaker and walked. Hindsight is such a wonderful thing.

“Drive the Bus Into a Ditch”

I was once hired by a startup as only to have the founder and CEO tell me in the first two weeks to quit wasting my time with big companies and sell to other startups in Silicon Valley. The trouble was that the product only had value for large companies. Selling to startups would be a complete waste of time. I tried to point this out and got nowhere. Unfortunately he was under pressure from the board to show progress and wanted a few quick wins. Since startups move faster he wanted me to sell to them. I resigned. The last thing I needed was to have the founder and CEO telling me to drive the bus into the ditch and then later blame me because the bus was in the ditch.

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24. THE ELEVATOR PITCH PYRAMID

One thing I've found useful to do is come up with a pyramid or list of increasingly detailed sales pitches. This helps for sales calls (like cold calls) but has many other benefits. Starting at the tip, with the tag line and getting increasingly larger and more detailed as you move down to each wider layer of the pyramid until you get to the business plan at the base.

- The tip of the pyramid is the tag line you use with your logo.
- The next level down is a one sentence summary of what you do.
- The next level down is the "elevator pitch". An elevator pitch is so named because the idea is that it's short enough that you could say it if you ran into someone in an elevator. This means that an elevator pitch should be just a few sentences or a concise paragraph.
- The next level down is a one page overview of a six-page executive summary of your business plan
- The next level down is a six page executive summary of your business plan
- The next level down is your detailed business plan

The advantage of having this handy with the top three levels committed to memory is so that you sound comfortable and don't fumble with it if you run into someone and need a short summary. If someone asks what your company does you need to pick one of the top three (depending on how much time you have to respond) and say it smoothly and with confidence. It also helps you to organize your thoughts as you go through the process of creating your business plan.

The advantages of having the bottom three layers written down is that the team has to go through the process of thinking their way through the questions necessary to come up with a business plan. Some investors will ask for your business plan just to make sure you have gone through this process.

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25. ABOUT THE AUTHOR

Steve Browne is a seasoned technology executive with twenty-five years of software development, consulting, pre-sales technical support, direct sales, channel sales, telesales, government sales and sales management.

Steve is currently VP of Sales for GIS Planning. GIS Planning is a software company in San Francisco which specializes in using search technology to assist economic development organizations in attracting jobs and economic growth to their communities. Before that he was most recently President of Voice Signature, a technology startup which provides a means of getting a legal signature on a document over the phone. Prior to Voice Signature, Steve was the VP of Sales and then Chief Operating Officer of Acquis, Inc. (now owned by Leica). Acquis was a technology startup in the GIS (Geographical Information Systems) space. As VP of Sales and C.O.O., Steve bootstrapped Acquis from zero to breakeven, getting them their first $1M in annual sales. Prior to that, Steve was VP of Sales for General Interface. General Interface (now part of TIBCO) was a startup which offered a development platform to enable a “rich client in a browser”. Steve also created the initial streams of revenue for startups Collation (now part of IBM) and Geodesic (now part of Veritas). Prior to that Steve used his targeted marketing and value-based selling methodology to create a $30M annual stream of revenue from scratch as the Director of the Service Provider Business Unit for the Tivoli division of IBM. Steve also had seven successful years of selling for Oracle, which included many multi-million-dollar deals in the Federal and telecommunications markets where Steve was the direct sales rep.

Steve was one of the founders of Patrol Software, which was sold to BMC Software in 1994 for $34M. Steve started his career as a developer for the MCAUTO division of McDonnell Douglas (now part of Boeing) in 1983 and opened the Oracle St. Louis office in 1987.

Steve graduated Summa Cum Laude from the University of Missouri in 1983 with a BS in Business and a concentration in Management Information Systems.

Steve lives in Palo Alto, California with his wife and daughter.

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