go-ESI Introducing IT Leaders To Enterprise Software Innovations

Introducing Enterprise Software Products to the US and European Markets

A White Paper Prepared by go-ESI

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INTRODUCTION

The most critical activity for all early-stage enterprise software companies, after conceiving and building the product, is the development and execution of go-to-market strategies. Making the right decisions and acting at the right time will be the difference between success and failure, regardless of the product's capabilities. Companies must carefully select and prioritize initial target markets and execute strategies that are custom-built for each market; the deployment of critical human and financial resources is a critical success factor. This White Paper explores the various options available to early-stage companies and introduces an alternative that is built on experience, market presence and a modern approach to sales and marketing.

The Enterprise Software Market

The enterprise software market is a dynamic and quick-changing arena where ever-advancing technologies create new business problems to solve and the innovative software to solve them. This constant churning is why enterprise software product lifecycles are typically less than ten years.

For companies brave enough to enter the fray, the first step for any new software solution is defined by two objectives:

1) Validation of the target market: Is the problem trying to be solved big enough?
2) Product validation: Does the software solve the problem in the most effective and efficient way – is it more compelling than business as usual?

This first step is normally a very focused activity typically performed by the founding management, key members of the development team, and sometimes aided by a small number of skilled field personnel. The approach is opportunity-based (no marketing), leverages existing personal customer relationships and is supported by a concentrated "all-hands" effort to gather a small number of customers that can be referenced.

In addition, the initial activities are normally centered in the company's home country. While this is clearly necessary and convenient, it is not a roadmap to success:

- It is not efficient and does not scale. The founder's skills, knowledge and passion cannot be replicated in any team. Even the best will lack the intensity and commitment. The shear determination of the entrepreneur will always show through. Getting the key players in front of every future opportunity is simply not possible.

- The initial process can easily consume the first 1-2 years of the product's lifecycle.

- Assuming that this approach to entering the market can simply be expanded as a rollout strategy to the rest of the world is a costly and strategic mistake that many early-stage companies make.

Mistakes in these formative years of North American and European rollout operations can easily consume 18 to 36 months on top of the 1 to 2 years spent validating the market and product. As a result, and with product cycles as they are, it can make it almost impossible for the product to reach its full financial potential, regardless of its technological prowess.

Entering the Market: Direct Sales Force or Partner Strategy?

Two Strategies – Two Sets of Issues

For companies wanting to enter the North American or European market, there are two options that are normally proposed:

- A Direct, Outside Sales Force – "My product is mission critical and needs face-to-face consultative, solution selling."
- The Partner Strategy – "We cannot cover the entire territory and will therefore find suitable partners to cover every major metropolitan area."

Unfortunately, both of these options have their flaws and limitations, especially for products with an Average Selling Price (ASP) of between $20,000 and $120,000.

There is no "one-size-fits-all" solution for either the North American or European market; the differences are not just between the two markets since there are differences inside just the European market itself that must be considered. Unfortunately, very few vendors approach this substantial initial investment with a full appreciation of the unique challenges of each market.

Europe versus North America

Let's focus for a moment on the major European software markets, in which the majority of the purchasing power in each country is centered in only a few major metropolitan areas. The distances between these areas are small and the existence of rapid transit systems between most areas makes travel relatively easy and convenient. This allows companies to concentrate a small sales team in a single city with the ability to cover the entire country - certainly through the startup phase (the first 2-3 years).

Conversely, the North American market has 17 states and provinces that account for 80% of the corporate revenue (buying centers). Within these buying centers, there are 19 major metropolitan areas. The geography is large, the travel distances and time zones differences can be challenging (coast-to-coast is a 5-hour flight plus the time zone change – up to 3 hours) and for the most part, there are no rapid transit systems; this makes travel costly and very time-consuming.

The Reseller/Integrator Strategy

It is also important to note that European markets are historically served by small to medium-sized system integrators. These companies exist because the majority of enterprise software purchased in Europe is developed in either the USA or Israel, and these integrators sell, implement and provide support for the software vendors. This is an accepted way to do business, and these integrators are established and trusted partners of their customers. However, the challenge is finding the right partners in each region and developing a productive relationship; this requires both market knowledge and experience.

For the software vendor wanting to enter North America, believing that a similar channel and distributor network exists is a strategic error. The majority of system integrators or reseller partners that have customer trust status are large and represent many products from many different vendors. Getting the attention of an integrator or reseller's sales force is a very difficult and time-consuming effort, especially for a foreign startup with no existing North American customer base. Simply stated, attracting the attention, let alone maintaining attention, in addition to establishing a focused sales and marketing effort through resellers and integrators is practically impossible for early-stage startups.

The Potential Pitfalls of a Direct Sales Force Strategy

Direct Sales Force Model – Outdated?

Hiring a direct, outside sales force as the main method for revenue generation in small to mid-size technology companies is out-of-date, declining in effectiveness and clearly a questionable use of company resources. However, if you do create an outside team, the best option is to target selected major metropolitan areas and limit your sales activities to a small number of easily reached buying centers.

The alternatives to this are either a large travel budget or a number of physical (or virtual) offices in multiple major areas. The average cost of a domestic business trip in 2010 will be around $1,030, so plan for a very large budget and low productivity due to travel down time.

Our experience also tells us that the multiple small, remote office approach is inconsistent with driving performance in a sales team, particularly in a small to mid-size technology company. Research shows the best predictor of sales team success is the amount of coaching per month per person. According to the Sales Executive Council, the only differing factor they could find regarding the top 20% of sales management was the amount of coaching per person per month:

- Greater than 3 hours, top 20%
- Between 2-3 hours, average performance
- Less than 2 hours, poor performance

Taking travel time into consideration and assuming that 40% of a sales manager's time can be allocated to this task, the maximum number of salespeople that could be coached to meet the highest standard is 8 or less:

- 10-hour days
- 8 locations
- Average travel time of 4 hours
- 2 x 1.5 hour coaching sessions per month,
- for a total of 88 hours or 44%

Experience tells us that immediate face-to-face coaching feedback is clearly preferable to separately scheduled sessions. Also, weaker or newer reps may require more time; waiting for a scheduled coaching call will often not suffice. Yes, telephone/video/other technologies may be used, but in the long run these will not match the power of face-to-face, on-demand coaching.

What is more challenging is the fact that in order to attain acceptable revenue performance levels, each salesperson will need to average an absolute minimum of two productive calls per day. This is logistically difficult for an outside sales team in North America. Most decisions over $100,000 go through several levels of approval and have an elongated buying cycle thus demanding multiple calls. All in all, this is not a very efficient model.

The Potential Pitfalls of a Partner Strategy

Using Partners/Resellers to Introduce New Products

The major difference between the North American market and almost all other markets in the world is the availability of "all-purpose" resellers that will dedicate sales and sales engineering resources to selected vendor products. It is a given that the majority of successful software vendors are either U.S. or Israeli-based. This, over time, has provided a major opportunity to reseller partners in all other markets outside of North America and has become the de facto strategy for introducing software products.

It has also become highly acceptable and even desirable for customers in these markets to buy products and services from reseller organizations rather than from the vendor. Logistics plays a large part in making this the preferred strategy in that US vendors can select and focus on a small number of partners (sometimes only one) in each country, or even a group of countries, thereby achieving acceptable margins.

The challenge with the European partner model is getting traction with Tier One partners. As a start-up, you will either be relegated to working with Tier Two partners or you will be required to provide exceptional support to the Tier One partner - simply to ensure that your product receives sufficient attention.

North America Partner Strategies

North America, on the other hand, is quite different and is made up of predominantly three types of partners:

- Regional
- Specialist (mostly industry and regional focused)
- Nationwide integrator

Selecting a strategy of regional and/or specialist partners will require a large number of partners to cover the entire territory. Early-stage vendors experience great difficulty getting traction with even a small number of partners and are usually relegated to working with either second or even third-tier partners - not a winning option.

Going after the small number of nationwide integrators is extremely difficult, even for the largest software vendors. While being able to control or even influence any sales cycle with smaller partners is difficult, it is close to impossible with the larger integrators. Early-stage vendors need to bring focus, intensity and passion to each and every real sales opportunity. Attempting to achieve this with a North American partner strategy should never be expected and is not recommended. It is also important to note that if a partner strategy is desired because of post sales implementation needs, the product is probably a non-starter in the North American market. Buyers today do not expect to spend money on implementation services for products priced at less than $150,000. Quick implementation and rapid ROI is fundamental to success.

Nevertheless, there will always be the need for an effective partner strategy in North America. The right partners, for the right reasons as a complementary strategy should always be considered. For more information on developing the right partner strategy, we recommend reading “go-ESI Channels and Alliances” which can be found on go-ESI.com.

The go-ESI Approach to Revenue Generation

Early-stage Software Sales Model

Early-stage enterprise software companies need a different model – one that integrates all revenue generating elements into a revenue engine, using modern demand identification/generation and a disciplined, high activity, high productivity, rapid reaction and low travel sales organization that has total control over every step in the sales cycle.

This is a lower risk method for driving revenue. It is a centralized sales model managed by a metric driven integrated marketing and sales funnel. The implication of this approach is more sales calls per day with a higher inquiry/sale conversion rate. Increased, real-time coaching decreases ramp time and rep turnover and increases targeting and focus. Closed loop processes provide daily input on effective targeting, sales skills, processes, etc. The revenue team is able to change and adjust much more quickly. These are critical success factors for early-stage software organizations.

This model requires fewer sales people given the higher level of activity. In addition, the ratio of sales to sales engineering can run as high as 7:1, meaning significantly lower expenses. Conversely, there is an increase in spending on marketing programs and personnel to drive toward the high end of demand generation effectiveness.

Key to success of this model is the effective assembly of disparate skills and the leadership to drive the team to achieve common goals:

- Content creation/management
- Campaign management/execution
- Marketing automation
- On-line Marketing
- Database Marketing
- Inside sales
- Sales operations/automation

The go-ESI Approach to Revenue Generation

Built on Sales 2.0 Technologies and Best Practices

The team monitors metrics daily such as leads, calls, conversion rates across sales stage by industry type and by value proposition. Revenue is driven through telephone and web interaction, employing skills that are equivalent to high-end outside sales executives. Face-to-face sales calls are possible, but only for the highest value, most qualified customers. A hybrid “inside/outside” sales model may be recommended, dependent on the nature of the product and complexity of the sales cycle. A complementary, but integrated partner strategy is also possible.

The model is built on the principles of Sales 2.0, combining marketing and sales force automation technology and processes to give senior management instant visibility into the cost of revenue acquisition, inquiry to close conversion rates and end-to-end pipeline activity. It also provides near real-time information regarding markets, buyers, trends and issues that allows for quicker decision-making and targeted use of revenue generating budgets.

With the go-ESI approach, early-stage enterprise software companies have a significantly greater chance of success. In summary, the key factors are:

- A centralized, focused team that is fully in tune with everything that is happening in the funnel, from inquiry to close
- Real-time coaching and instant teamwork to focus the right resources on the right opportunities all of the time
- The ability to measure performance of each rep at each funnel stage and to rapidly respond with targeted coaching or immediate campaign adjustments.

Modern Demand Generation

Buyer Behavior has Changed

Buyer behavior has changed dramatically over the past 3-4 years. The most significant change has been the willingness to respond to modern demand generation methods. In addition, the web has had a profound impact on the way customers gather information, educate themselves and evaluate alternatives.

To use these changes to their advantage, early-stage enterprise software companies must:

- Influence the market through social media strategies and community marketing. Extend your voice across blogs, social networks, forums, communities, micro-blogs, podcasts, video sharing, etc.

- Move from searching for customers to being found by people who need their products. In the words of one CMO, "we must seek to be found"; push marketing is out, pull marketing is in. Spending time on search engine optimization and search marketing is a critical success factor. Customers hire your product to do a job. When they search for ways to do that job, they must find you. Once they find you they must be able to find personalized, relevant and anticipated content. Email blasts with an invite to a generic webinar will no longer work.

- Measure results, making quantitative measurement the foundation to accountability. Don't just generate demand, but manage it as well. Inquiries must be objectively measured and scored as they move through the marketing funnel to take the mystery out of when sales becomes engaged with a prospect. In addition this "accounting system" should deliver investment vs. return information related to marketing expense.

A Disciplined Sales Organization

Following a Well-defined Sales Process

Improvisation is great, but not when it is related to the accuracy of the pipeline or the repetition of tasks and practices known to drive success in a sales organization. The sales team must adhere to a common set of activities and have common definitions of when and why a client moves from one sales stage to another.

The sales team must manage to an overall size, conversion rate and velocity. Key metrics must be established, measured, reported and reviewed daily, including:

- Lead volumes
- Conversion rates
- New Opportunities
- Demonstrations
- Proof of Concepts

Exception-based reporting must exist to know when opportunities are spending too long in a sales stage or move from one sales stage to the next.

go-ESI's Preferred Model for US Success

go-ESI's cost-effective approach integrates all revenue generating elements into a revenue machine -- a centralized sales model based on high activity, high productivity, driven by modern demand generation and managed by a metric-driven integrated marketing and sales funnel. It provides a substantially greater chance of success during an enterprise software company's most critical stage.