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B2B PROFESSIONAL SALES VOLUME 1

FOREWORD BY ROBERT J. KELLY
CHAIRMAN, SALES MANAGEMENT ASSOCIATION



B2B PROFESSIONAL SALES VOLUME 1

THEORY | PROCESS | APPLICATION | TOOLS

JP AMLIN



B2B PROFESSIONAL SALES VOLUME 1

THEORY | PROCESS | APPLICATION | TOOLS

Volume 1 and 2 Print-on-Demand (POD) Color Hardcover Editions

To accommodate the POD color hardcover services, the original B2B Sales textbook had to be split into two editions to meet the maximum of 550 page requirement for hardcover color books. Therefore, there are now two volumes available for purchase separately with the content as listed below:

VOLUME 1

SECTION ONE: Sales Fundamentals

Chapter 1: Understanding the Role of Marketing

Chapter 2: Value Drivers

Chapter 3: Account Corporate Profile

Chapter 4: Opportunities Management

Chapter 5: Communication Sales

Chapter 6: Sales Activities

SECTION TWO: Consultative Selling Skills

Chapter 7: Sales Call Skills

Chapter 8: Handling Customer Objections

VOLUME 2

SECTION THREE: Selling in Competitive Markets

Chapter 9: Strategic Sales Plan

Chapter 10: Competitive Bidding

Chapter 11: Pricing for Bidding

Chapter 12: Collaborative Negotiations

SECTION FOUR: Putting It All Together

Chapter 13: Pipeline Management

Chapter 14: Relationship Profiling

Chapter 15: Account and Territory Plans

People purchasing the POD color hardcover editions are invited to download a free copy of the entire textbook in color PDF format from **http://b2bprosales.com/txtbook_2021** and the complimentary resources folder from **http://b2bprofessionalsales.com/textbook/#textbook**

I hope you enjoy the book, and if you have any questions, please don't hesitate to contact me; thank you so much.

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Foreword

Salespeople are in the business of asking questions. The first two they're likely to ask are existential. They are "How did I get here?" and "How do I stay?"

The first question is trickier than it looks, as many salespeople arrive in the sales organization without knowing quite how, and perhaps even why. As college students, few plot a career trajectory by aiming for sales, though a whopping fraction of graduates land there—some after eliminating other options, some by rotational assignment, and many seemingly by serendipity alone. Sales managers' career paths aren't much more carefully chosen. Most are promoted for being a good salesperson, a qualification which, to the unfortunate surprise of many new managers, proves a fickle predictor of success.

These accidental salespeople and sales managers evoke Dirk Gently, the quirky investigator from Douglas Adams' comic detective novels. His "Zen" navigation technique involved simply finding "any car that looked like it knew where it was going and follow(ing) it." Dirk, like many salespeople and sales managers, discovers this technique results in outcomes more oft en surprising than successful, but is "worth it for the sake of the few occasions when it is both."[1]

However drawn to sales, whether through happy accident or some more purposeful route, many talented salespeople and sales managers find they want to stay. How they'll do so is a critical concern for them, and for their firms, who hope they'll not only stay but continue to thrive in the sales force. Staying requires finding a way to develop knowledge, skills, and ability in a field not well known for codifying its principles, or mapping the milestones for those traveling its route. There is no qualifying exam, no certification. Many will work for firms without meaningful training programs or with haphazard commitments to employee (let alone salesperson) development. And as if that weren't enough, they'll need to stay current in a field changing with breathless rapidity, adapting to the new models of buying and selling emerging in every industry.

This text is for them. Joe Amlin has assembled in this impressive book a sound foundation for professional sales development and an invaluable reference work useful to salespeople and sales managers at all career stages. It offers theory, processes, and specific applications of how professional salespeople manage their responsibilities. Practitioners will appreciate its focus on actionable techniques, including exercises that allow salespeople to apply concepts immediately after reading each chapter.

Joe's career in the oilfield services gives him unmatched experience in some of the most complex, challenging sales environments in any industry. That experience is evident in this text, with its focus on large opportunity management, competitive bidding and procurement, strategic sales messaging, and collaborative negotiation. Equally valuable for his readers is Joe's experience operating in seemingly every corner of the globe. A Canadian educated in Alaska (among other

places), Joe is a long-time resident of Bali and spent much of his career traveling the world for a firm headquartered in Paris. His global citizenship and easy fluency in many cultures stand apart from others in our field, who mistake their own parochial success for a license to assume what works for everyone else.

Joe's commitment to sales education represents another happy accident for our profession; his contributions are, in true Dirk Gently fashion, equal parts surprising and successful. I met Joe through my efforts to start the Sales Management Association seven years ago. His interest, energy, and support of our fledgling enterprise—as a founding board member, advisor, and frequent contributor—were in no small way responsible for its success (the Sales Management Association now has more than 10,000 enrolled members in 40 countries).

I continue to be astonished by Joe's enthusiasm for the sales and sales management professions, and, like many others who've benefitted from Joe's work, remain immensely grateful for it. This text is an artifact of Joe's commitment, energy, and industriousness in developing our profession and offers ample evidence that as a sales effectiveness "thought leader," Joe's willing to do what so many others eager to claim that title ignore—carefully assess the best ideas, craft actionable insights, and present ideas focused on helping others improve.

In your own pursuits, whether those involve beginning or advancing a sales career, expanding your sales leadership ability, or simply developing a better understanding of the sales organization, I believe you'll benefit from the insights cataloged in this text. I wish you a journey full of as much success as surprise.

Robert J. Kelly
Chairman, Sales Management Association
Atlanta, Georgia

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[1] Adams, D.: *The Long Dark Tea-Time of the Soul*

Preface

The cover represents a puzzle because this is how I viewed sales when I first started in 1983. As a young salesperson, I asked what I needed to do to be successful in sales. I got a lot of advice: some good, some not so good. To me, it was like putting together a puzzle. After some success and failures, I realized the best advice I received was from a very senior marketing manager. He told me "organize yourself for the task, look at all the pieces, set a strategy and execute. Do that and, like putting together a puzzle, all the pieces will come together to create a picture to be enjoyed." After that advice, I felt like I held the key to my success as a salesperson.

This textbook is my third book and, I believe, my best—not because the writing is better than before, but now the experiences are richer. I wrote my first book when still a young and keen mid-level manager thirsty for knowledge and looking for the pieces of the puzzle to manage a professional sales force in a B2B marketplace. My engineering degree did not provide me with the clues I needed. After earning my MBA, I realized there are a lot of very knowledgeable and generous people who were experts in the field of B2B professional sales. They have influenced my thinking and behavior as a professional salesperson. After many discussions with specialists in the B2B sales profession, teaching thousands of people on the sales skills and with the advice from my marketing manager now many years later, I believe I have a key. A key to being shared with today's sales professionals is wanting to be the best they can in their profession.

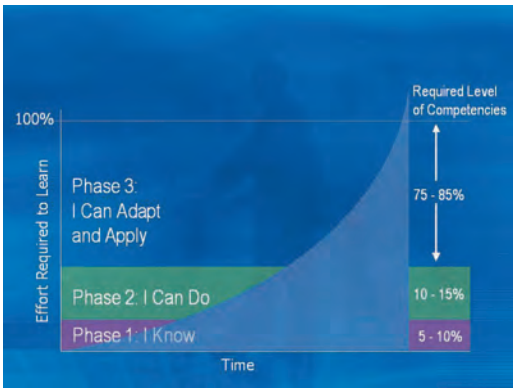
The structure of the textbook follows an academic model where each chapter begins with a list of learning objectives followed by the main text. As much as possible concepts start with a description of the theory to explain the concept, a process to be followed to apply the concept, applications of the process being applied to real sales examples, and tools that you can use to apply the concepts to your sales opportunities.

At the end of each chapter is a summary of the chapter objectives, which provides a method for readers to review and ensure that they have understood the main concepts presented in the chapter. There is also an "Applying the Concepts Section," for those who want to start using the tools that can be downloaded from www.b2bprofessionalsales.com. Finally, a reference section is included for each chapter , as is a suggested reading list for those who want to read more about B2B professional sales topics.

This textbook is not about shortcuts to sales success. The textbook is meant to be read from start to finish as each chapter builds on the previous chapter content. There are four sections in the textbook: Section 1: Sales Fundamentals, with nine chapters; Section 2: Consultative Selling Skills, with four chapters; Section 3: Selling in Competitive Markets, with four chapters and Section 4: Putting It All Together, with three chapters.

Not only is this textbook not a shortcut to sales success, but it is also not a guarantee of sales success. Rather, it is a starting point. The figure below is based on how adults learn and clearly shows that there are three phases in the process of learning as it pertains to achieving a desired level of competency.

The skills used to build the first puzzle add to your library of experience, making the next puzzle easier and faster. Like sales opportunities, everyone now and then there will be a puzzle that will challenge you and cause you to stop and work hard to see the picture and enjoy the success of winning.



Readers of this textbook can expect to gain the foundation, or Phase 1: "I know." By studying the chapter highlights and completing the applying the concepts exercises at the end of each chapter, readers will be able to enter the next level, or Phase 2: "I can do." Reaching the professional sales level, or Phase 3, "I can adapt and apply," requires your commitment to adopting and applying the concepts to your sales responsibilities. A five-year study showed that the average time it takes a salesperson who enters the sales force after having sales training to reach the desired proficiency level of a professional salesperson is eight months to a year.[1] Those who reach the professional sales level become more efficient and effective over time. Efficiency is measured not by taking shortcuts, but by being methodical and thorough in the daily sales lifestyle. Effectiveness is measured by bringing increased satisfaction and value to your customers, your company, and your sense of personal satisfaction from that success.

I hope you find this book useful and that it contributes to your development as a professional salesperson. If you have any questions or comments, please do not hesitate to contact me.

J.P. Amlin

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[1]JP Amlin "From Sales Rookie to Professional" MBA report on sales effectiveness. University of Alaska Anchorage, Anchorage, Alaska (1987).

Acknowledgments

No book is the work of only the author. This book represents experiences, thoughts and ideas shared with my many clients and colleagues. I am particularly thankful to the companies I have had the sincere pleasure to work for either as an employee or privilege to deliver a sales training program. These companies include Archer, Baker Hughes, BGP Marine CNPC, Cummins, OiLSERV, Nucleus Software, Richardson, Schlumberger, Task Frontera Geoscience, TGT, and many more.

It is impossible to acknowledge individually all the people who contributed to the development of this material, although my debt to them is considerable, and I sincerely value their input and extend my gratitude. In particular, I want to thank my colleagues Ken Feather and Carlos Calad, two of the best sales and marketing professionals I had the pleasure to work with while at Schlumberger. I also want to thank Jason Jordan for his contribution to the field of sales effectiveness and Robert Kelly for being a champion of the sales profession.

I especially want to thank the more than 2,000 participants who attended my sales training seminars. Their questions, comments, and suggestions for improving the seminars, the first books, and teaching materials have been a rich source of ideas for this textbook. I look forward to their comments on this book and further suggestions for improving future editions.

Finally, I extend a special thanks to:

- Nanette Day for editing the final print copy, and
- Laura Brown for laying out and making changes to the draft and final versions of the chapters.

I hope as you read this book you find it interesting and useful. Your comments and suggestions on how to improve the book are greatly appreciated.

J.P. Amlin

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SECTION 1

SALES FUNDAMENTALS

This section is the outside of the puzzle; it is the corners and flat edges that hold the puzzle together. In this section, you will discover that successful B2B sales efforts are not a cluster of ad hoc events culminating in the delivery of a price quote. Successful B2B selling is a structured process that effectively demonstrates how your company's products and services help customers meet their objectives better than your competition's. The first chapter is "Understanding the Role of Marketing and Sales." Valuable marketing and sales concepts are explained that will be referenced later in the textbook. The next two chapters are about the customer: "Value Drivers" and "Account Corporate Profile." Throughout the textbook, the focus of all the sales processes is on understanding the customer's value drivers and needs first and then selling. Chapter 4 "Opportunities Management" is the differentiating professional salesperson skill. The salespeople who are better at managing their opportunities win more often because they make time their advantage. The next chapter, "Communication Skills" emphasizes sales is in its simplest form as having a discussion with your customers. Communication skills for a salesperson can be called their most important tool. Chapter 6 "Sales Activities," the final chapter of this section, describes each of the key activity categories of what the professional salesperson does.

After reading this section, you are encouraged to complete the applying the concept exercises and become familiar with the tools described in the chapters and available to you from the www.b2bprofessionalsales.com website.



Understanding the Role of Marketing and Sales



Value-Based Relationships

The goal of marketing is to create profitable customer satisfaction by building valuebased relationships with customers. In most organizations, the marketing position is the process owner of marketing strategies, and the sales staff are responsible for the successful implementation of the marketing strategies. This relationship is analogous to that of the Quality, Health, Safety and Environment (QHSE) function, where the QHSE manager is the process owner of QHSE policies and procedures, and managers are responsible for implementing those policies and practices. This chapter introduces basic marketing concepts and explains why these are important to the sales function. When a manager explains to their staff that everyone is in sales, it means that everyone—the support staff, operations staff and management—must focus on customer satisfaction. The marketing effort is the first step to customer satisfaction.

As a sales representative, it is important to understand the high-level marketing strategy and your role in the marketing process. Marketing strategy and tactics are continuously updated to reflect the changing needs of your customers. Marketing managers use a number of tools and analyses to manage your ongoing marketing efforts. This approach ensures your company's growth through new product offerings and the effective management of current products and services portfolio. Sales representatives play an important role in this effort.

After completing this chapter, you will have sufficient information to achieve the objectives listed in the "Chapter Objectives" sidebar. With this knowledge, you will be able to make a significant contribution to the marketing and sales efforts.

Chapter Objectives

After reading this chapter, you will be able to:

- Define marketing and its core processes.
- Explain how the sales position complements the marketing efforts.
- Understand six key marketing concepts that are used by sales teams in their day-to-day efforts to win business.

What is Marketing?

Simply put, marketing is the delivery of customer satisfaction at a profit.[1] Therefore, the marketing position must understand the needs of selected markets and determine the products and services required to serve those markets successfully. To select the markets and the products and services that fit those markets, the marketing professional follows the process shown in **Fig. 1.1.**

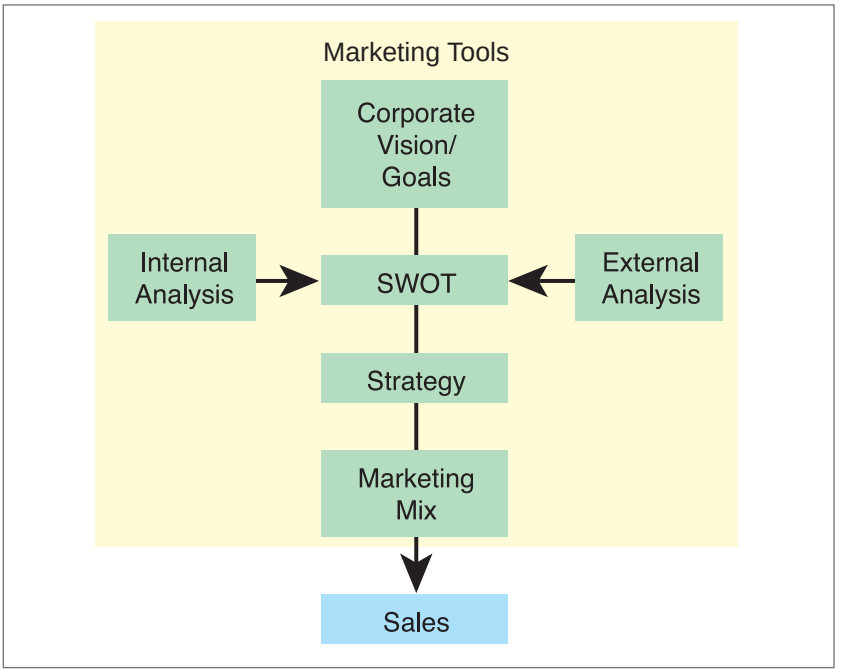


Fig. 1.1
The marketing process is used to select the markets in which your company will compete and identify what products and services to sell in the selected markets.

▶ ***Application Question:***
What is the corporate vision or mission of your company?

The Marketing Process

Every company exists to create a profit for its shareholders. Each company chooses from many options to achieve this objective. The chosen path is communicated to the company's shareholders, employees and customers through vision and mission statements. Guided by this vision, the marketing manager performs a strategic analysis of internal factors (strengths and weaknesses) and an analysis of external factors (opportunities and threats) to determine which markets to serve. This strategic analysis is called "SWOT." After completing this step, the marketing manager develops a formal marketing strategy, sometimes called a competitive strategy,[2] for the identified markets.

When selecting high-level marketing strategies, marketing managers must consider the competitive forces at work in the targeted market. In this way, managers first define the strategic advantages for your customers. Two possible advantages are low-cost leadership and differentiation.

Next, marketing managers pinpoint a strategic target or portion of the market to serve. They decide between serving a broad portion of the market or focusing on a particular niche. With the strategic advantage and target analysis complete, the marketing manager has sufficient information to choose one of the four generic marketing strategies as shown in **Fig. 1.2.**

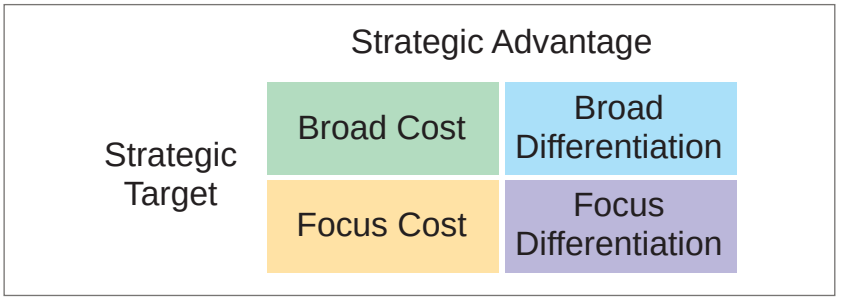


Fig. 1.2
Generic marketing strategies.

After identifying competitive forces, strategic advantages and target markets, marketing managers look at the marketing mix, commonly called the 4 Ps of the Marketing Mix:

- **Product** or service to be offered.
- **Place** where the product or service will be offered.
- **Promotion** activities, which clearly communicate the value of the offering to the market and its advantages over competitor offerings.
- **Pricing** strategy, which includes terms and conditions, price to customers, bundling incentives, credit terms and discounting policies.

Marketing and Sales Responsibilities Compared

As shown in Fig. 1.1, sales is the execution of the marketing strategy. To make decisions about future product development and to determine the viability of target markets, marketing managers seek input from customers, sales and other customer-facing staff. **Figure 1.3** defines marketing and sales responsibilities. Using input from customer and sales staff, the marketing group selects target markets; the sales staff then secures the desired market share at a designated level of profitability. Sales staff are challenged to strengthen customer relationships while negotiating, securing transactions and potentially handling difficult situations. Achieving the long-term objectives of the marketing strategy rests on effective, profitable sales. In other words, successful marketing requires successful sales.

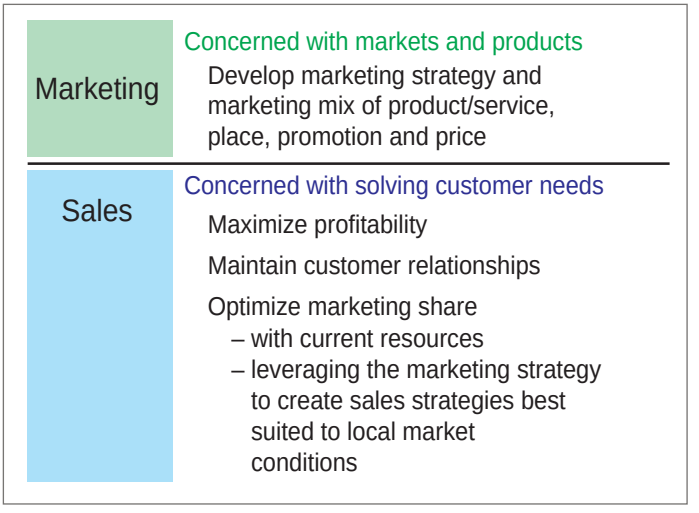


Fig. 1.3
Marketing and sales responsibilities.

A significant difference between the two roles is focus. **Figure 1.4** shows that marketing requires a longer focus to evaluate future market trends such as customer needs, technology developments and competitive threats. Gaps in current offerings must be understood through marketing in order to address those gaps with future offerings. The sales team, however, is much more focused on customers' current and near-term needs and on fulfilling those needs with present offerings.

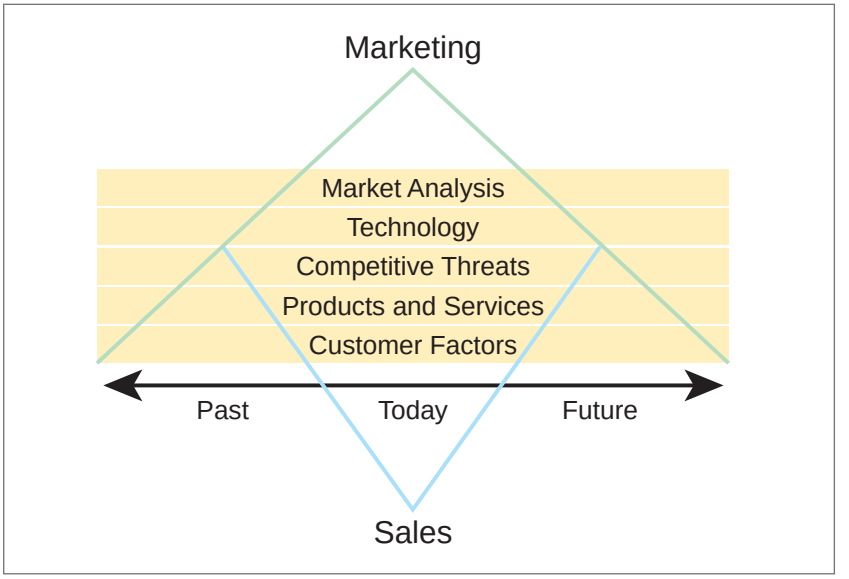


Fig. 1.4
Marketing and sales focus.

The sales team must also be aware of existing competitive threats in order to secure each sale. Several complementary tasks of each group are shown in **Fig. 1.5.**

Marketing	Sales
Business Trends	Client's Plans
Marketing Strategies	Sales Strategies
Market Surveys	Client Needs
Input to R&E	Input to Marketing
Technology Watch	Competitor Watch
Product Testing	Customer Satisfaction

Fig. 1.5
Marketing and sales tasks.

Long-Term Growth

One goal of the marketing function is to ensure the long-term growth of the company. In his article entitled "Marketing Myopia," Theodore Levitt discusses what steps companies can take to ensure long-term growth.[3] He believes companies that define their market too narrowly do not achieve long-term growth. As an example, Levitt describes the demise of the railroad business as the result of the belief that railroad companies were in the railroad business rather than the transportation business. Therefore, railroads saw their market share diminish as other, more efficient transportation alternatives developed.

Another common attribute of companies that do not attain long-term growth is what Levitt refers to as the "shadow of obsolescence." This shadow occurs when a company mistakenly believes it will continue to grow because an expanding market ensures growth. There are no competitive substitutes and the company is preoccupied with a product that lends itself to carefully controlled scientific experimentation. Levitt recommends companies define their markets more broadly to take advantage of growth opportunities.

Companies that do not achieve long-term growth also tend to believe that a superior product sells itself and that continued growth is a matter of continued product innovation and improvement. Such companies are oriented toward the product rather than the markets that use the product. All these biases suggest that, to capture growth opportunities, companies must adopt a customer approach to marketing.

In today's competitive marketplace, where there is less differentiation in offerings, the emphasis must start with the customers and focus on creating long-term, mutually valuable relationships with them. Two prime objectives of a relationship-centered marketing strategy are to increase net present value (NPV) and to extend the lifetime of key customer relationships. These objectives are supported by relationships with suppliers and alliances with competitors.[4]

Another factor that contributes to reducing long-term growth is what Levitt calls "a mirror, not a window." To sell technical products and services, companies often hold meetings with customers to explain the products and services and to offer assurance that outstanding service is part of the sale; however, many technical companies describe their products and services in their own terms when trying to make the sale. Such tactics are like looking at a mirror to present product and service attributes that reflect the company's technical management program rather than the customer's objectives. Levitt suggests that companies are challenged to discuss measurements of service in the customer's terms to demonstrate which business objectives are impacted by a particular product or service.

Marketing Philosophy

The marketing philosophy focuses strongly on the customer. Creating a strong customer focus across all of the company's business units will ensure a more efficient interface with customers. While the organization aids in customer interaction, the customer-focused marketing philosophy enables the marketing staff to effectively analyze potential markets and identify business opportunities. By selecting which segments of the market to serve, marketing staff can offer superior value to the chosen customers by way of products, services and core competencies that target customer needs.

In addition, the organizational structure and customer-focused philosophy provide a greater opportunity to leverage the assets of the entire organization, which further differentiates the company from its competitor companies. In a high-tech industry, the tendency is to develop good products without heeding the size and requirements of the market. By also leveraging the organizational structure, and keeping an eye on customer needs, a company can make better decisions regarding where to concentrate its resources.

▶ ***Selling by Looking Through the Customer's Window***

Customers want to learn about actions taken that result in reducing their total costs, improving revenues, reducing risks, and improving return on investment (ROI).

Marketing as a Continuous Process

Just because a company provides its customers with products and services needed today, does not guarantee that it can meet customer needs in the future. Not only must a company have customer focus, it must be able to predict and position the company to meet future customer needs. In *Competing for the Future,* authors Hamel and Prahalad studied many companies in several industries and found that companies having an active program to think about the markets in which they operated, and how they would like to try to influence the shape of that marketplace, on average, provided higher returns to shareholders than peer companies in their industry.[5] **Figure 1.6** lists questions companies must answer in order to be positioned to capture future opportunities in their industry.

- Organizational transformation must be driven by a point of view about the future of the industry.
- How do we want our industry to be shaped in five to 10 years?
- What skills and capabilities must we begin building now if we are to be the industry leader in the future?
- How should we organize for opportunities that may not fit neatly within the boundaries of current business units and divisions?

Fig. 1.6
Strategic questions for competing in the future.

Figure 1.7 illustrates the decentralized organization, and the role of different groups with respect to the customer relationship. The sales organization is one of the primary interfaces with the customer. Two key roles of the local organization are service delivery and customer relationship management. The objective of the sales staff at the interface is to understand the customer's environment, business drivers and objectives, and then leverage the resources available from

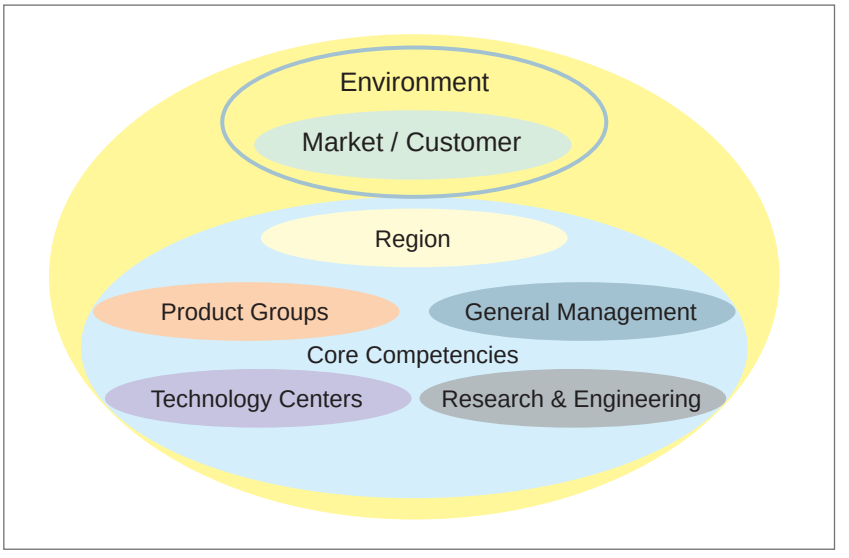


Fig. 1.7
The decentralized organization and customer relationship management.

the different groups in their organization to bring the most value to the customer while sharing in the value. (Concepts and processes regarding value pricing are discussed in detail in Chapter 11 "Competitive Bidding.") When a customer deals with sales staff, he or she works with people who are supported by his or her company's people and resources required to deliver on their promises.

Key Marketing Concepts for Sales

The first part of this chapter described the core processes of marketing and how the sales position complements the marketing efforts. In the remainder of the chapter, six key marketing concepts will be described as follows:

- Product life cycle
- New technology adoption
- Total product concept
- Marketing communications plan
- Buying center
- Buyer behavior

These concepts are used by business-to-business (B2B) sales organizations to enable them to compete effectively and win work in a complex marketplace.

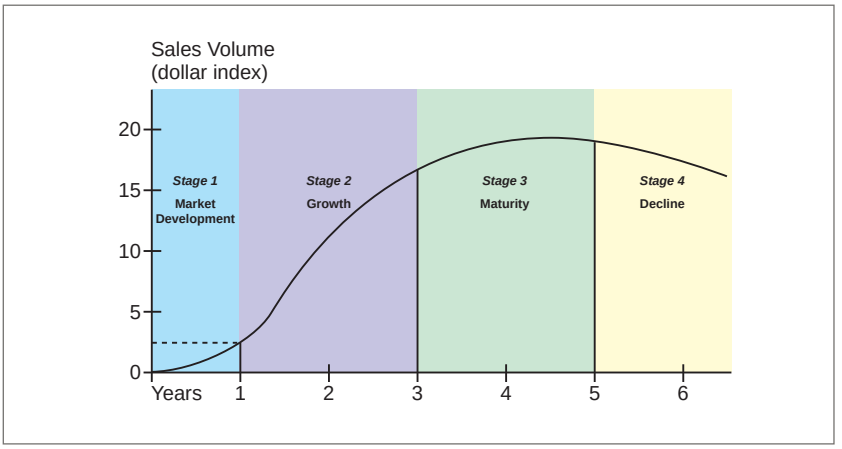


Fig. 1.8
Product life cycle stages.

Product Life Cycle

It is commonly accepted that products go through four stages after the product development stage **(Fig. 1.8)**, each requiring different strategies and tactics.

Market Development. Market development begins after the company has made the decision to commercialize a new product idea. Prior to market development, sales are zero, and the company's investment in costs mount. Then, in the market development stage, sales growth is slow as the product is introduced in the market; profits are typically negative or low because of low sales volumes and high start-up costs. In this stage, the promotional spending and demonstration runs are high in order to introduce customers to the new product and persuade them to try it. The company, especially if it is a market pioneer or leader, must choose a launch strategy that is consistent with the intended product positioning. The initial market strategy is just the first step in the total marketing plan for the entire life cycle of the product or service. The market position in the introduction stage is critical for ensuring the long-term profitability of the product.

Typically, competitive pressures are slight, because competitors often lack comparable products. The competitive edge in this stage comes from making sure the client understands the differences between the new product and those it is designed to replace or, in the case of a revolutionary new product, what it can do to benefit the client's business. Newly introduced products usually require careful explanation of features and benefits and, in many cases, ongoing consultation and support.

Growth. As the new product satisfies the market and demand increases, competitors begin to develop alternatives. In this stage, the competitive response is to present more relevant benefits. The more benefits the product delivers, the more valuable it is to the customer. Profits begin to increase during this stage.

Maturity. The product is well understood by clients and has been copied by many competitors. The key to additional sales during this stage is to differentiate the offering by customizing the solution to provide benefits that the competition does not offer. Profits tend to level off or decline due to increased costs of defending the product against the competition.

Decline. The product becomes a commodity, and price pressure is usually intense. The challenge here is to add sufficient value through customization and differentiation through service—how you provide it rather than just what it is—to command an acceptable margin, which is the main challenge in this stage.

The adoption of new technology has significant impact on the product life cycle and on strategies of differentiation. To understand the shape of the product life cycle, you must look at buyer behavior as it pertains to new technology adoption.

▶ ***Market Development Stage Important to Product Positioning***

In globally dispersed companies, the market development stage is a particularly sensitive time when many locations introduce the new product. In this stage, it is critical that the locations avoid creating spin-off strategies that could jeopardize the position of the product in the global marketplace. If locations deviate from the recommended pricing strategy, clients may communicate this to other operating areas, making it difficult to apply a global pricing strategy.

New Technology Adoption

Buyer willingness to adopt new technology can be described as shown in **Fig. 1.9.** The first groups to adopt new products are described as **innovators**. They account for a small portion of the purchasing population. They buy new technology for the sake of wanting to test it. Some organizations have groups who are given the responsibility of testing any new technology before it becomes widely used in the companies' operations. These groups and individuals are sometimes called gatekeepers in the buying center. These groups are usually good targets for field-testing campaigns during the product development stage and in the market development stage of the product life cycle.

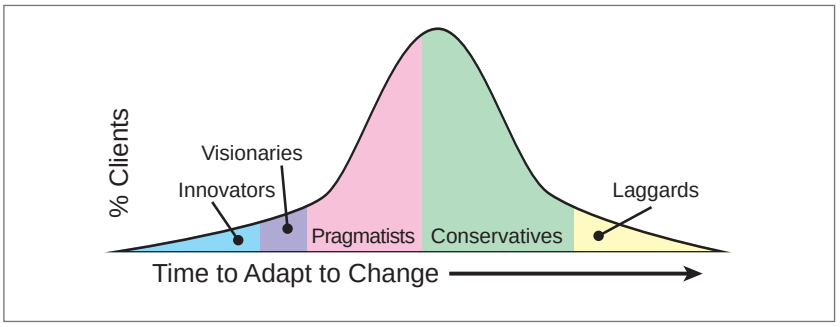


Fig. 1.9
New technology adoption life cycle. Pragmatists and conservatives represent the largest portion of the purchasing population and make up the majority of the purchases in stage two of the product life cycle.

After the new technology has been proven to work as advertised, the next groups to adopt the technology are **visionaries**. Visionaries, like innovators, buy into new product concepts very early in their life cycle, but unlike innovators, they are not technologists. They are people who find it easy to imagine, understand and appreciate the benefits of a new technology and to relate these potential benefits to their other concerns. Whenever they find a strong match, early adopters are willing to base their buying decisions upon it. Because visionaries do not rely on well-established references when making these buying decisions, preferring instead to rely on their own intuition and vision, they are key to opening up any high-tech market segment. Visionaries believe they will gain a competitive advantage by adopting new technology early. They believe they can gain a huge cost or

▶ ***Visionaries at Work***

When logging while drilling (LWD) services were introduced in the 1980s, visionaries in drilling departments, such as BP and Exxon, were quick to adopt LWD as a way to shorten the drilling curve and reduce total evaluation costs.

revenue benefit from the new technology. These two groups—innovators and visionaries—are usually the ones who make purchases of new products during stage one, the market development stage.

The next groups to purchase a new product are the **pragmatists**. Pragmatists share some of the visionaries' ability to relate to technology, but ultimately they are driven by a strong sense of practicality. They know that many new products may not prove viable or practicable, so they are content to wait and see whether other companies successfully integrate the new technology before buying it. They want to see well-established references before making substantial investments. Because this group is the largest—accounting for roughly one-third of the whole adoption life cycle—winning their business is key to recovering investment and development costs of the new product.

The next groups to purchase are the **conservatives**. Conservatives share all the concerns of the pragmatists, plus one major additional one. Where pragmatists are comfortable with their ability to handle a new technology product once they finally decide to purchase it, members of the conservatives are not. As a result, conservatives wait until the product has become an established standard or has gained widespread industry approval and support. Even then, conservatives require a lot of proof and, therefore, tend to buy from large, well-established companies. Like the pragmatists, this group comprises one-third of the total buying population in any given market segment. Securing a large portion of this group is required if high levels of profitability are to be achieved.

The last groups to adopt new technology are the **laggards**. While small in size, the laggards are almost the same size as the innovators and visionaries percentage-wise. Laggards generally purchase new technology to protect investments and to replace worn-out products. An example of laggards are the companies who, in December 1999, purchased new UNIX machines to replace VAX 11780s, which would no longer run and were not upgradable due to Y2K issues.

New Technology Adoption Implications

What do the buyer categories mean to the marketing and sales staff that must sell new products in their markets? In the B2B environment, products and services may be heralded as successful during stage one, when innovators and visionaries prove the product or service meets advertised technical requirements. At this stage, field test participants are easy to find in the innovators. Then, after commercialization, sales are still made to the visionaries, but these sales are not sufficient to achieve the market penetration expected and projected after the successful field test. What happened? Part of the answer lies in the work from Moore.[6] As illustrated in **Fig. 1.10**, not all purchases from the additional groups in the technology adoption life cycle occur immediately one after another.

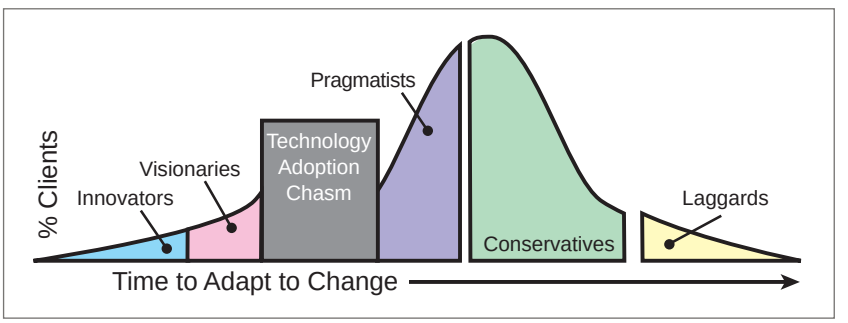


Fig. 1.10
Gaps in the technology adoption life cycle.

Significant time gaps may occur between the purchases made by groups, such as pragmatists and conservatives. If the innovators and visionaries are highly enthusiastic about the new product, competitors are encouraged to start work on similar offerings unless the technology is sufficiently protected by patents. As a result, the large group of visionaries and pragmatists may be shared with competitors, causing a delay in the payout of research and development and commercialization investments. In addition, pragmatists and conservatives may delay purchases unless their concerns are sufficiently addressed. In such cases, projected sales may never materialize, thereby jeopardizing the success of the new product.

The gap between visionaries and pragmatists—the **technology adoption chasm**—is what marketers must address in the initial marketing plan. How do you cross the chasm quickly and achieve the level of market share required to reach your levels of profitability for the product and service? The positioning of new products is critical in order to provide what each technology adoption group wants and determine which group can be used to support sales to another group, as shown in **Fig. 1.11**.

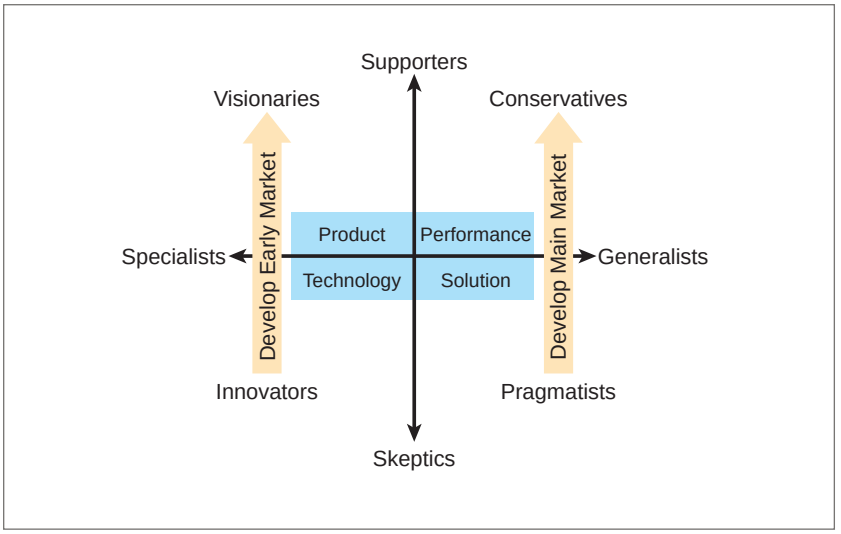


Fig. 1.11
Positioning of new products to new technology adoption life cycle groups.

Figure 1.11 shows that innovators can be used to help sell products and services to visionaries, but do not make acceptable references to pragmatists or conservatives. Successful marketing and field test programs should include plans that capture the required proof to sell to pragmatists and conservatives. Pragmatists can be used as proof to sell to conservatives. As pragmatists represent a significant share of the market, this in itself is sufficient proof to the conservatives that the industry has accepted the product or service. Thus, you must demonstrate a total solution to the pragmatists and industry acceptance of service and performance to the conservatives. **Fig. 1.12** lists specific sales-related factors for each technology adoption group and suggested sales aids to use when selling to these types of buyers.

Technology Adoption Group	What They Want	What They Buy	What You Should Sell (Concerns)	Sales Aids
Innovators	State of the art	Trials	Product excellence Concern Technical CT-50, Concern Service CS-5, Concern Financial CF-45	White papers Nondisclosure agreements Technology Center visits Field test Joint R&E
Visionaries	Revolution Recognition	Customized solution	Future competitive advantage CT-30, CS-60, CF-10	VIP seminars Technical journal articles
Pragmatists	Evolution Solve problems	Total solutions	Proven expertise in solving similar problems CT-20, CS-40, CF-40	SPE papers Testimonials
Conservatives	Not to be left behind	Industry standards	Return on investment CT-10, CS-45, CF-45	Industry reports Cost of ownership
Laggards	Status quo	Enhancement or extension of existing systems	Investment protection CT-5, CS-30, CF-65	Client-specific proposal

Fig. 1.12
New technology adoption life cycle groups and selling considerations.[7]

Total Product Concept

Theodore Levitt, a professor at Harvard University, best describes the challenge facing most marketing plans of new products in his work regarding product evolution and market expectations. Levitt describes the stages a new product goes through and what must be done to win and keep customers. He illustrates his ideas with the total product concept **(Fig. 1.13)**.

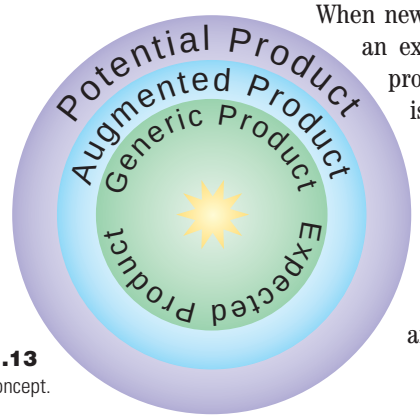


Fig. 1.13
Total product concept.

When new products are introduced, the consumer has an expectation of what the generic product will provide. This explains why selling to innovators is much easier than any of the other groups, especially the pragmatists and conservatives. Innovators buy or test a new product just to see if it works; they do not have any other expectations. This "easy sell" can produce false expectations in terms of being able to sell the product after field test to pragmatists and conservatives. The challenge of the mar-

keting plan is to introduce and gain fast approval from the innovators and then help the visionaries integrate the product through augmentations that enable them to achieve their vision of using the product. These activities must be done while laying the strategy for taking the product to the next highest level, which is a product that is sufficiently differentiated so the pragmatist sees the product as a total solution with value compared to other alternatives. The total solution allows the product to reach its largest potential market before the decline stage sets in as replacement products or increased competition begin to have an impact later in the product life cycle.

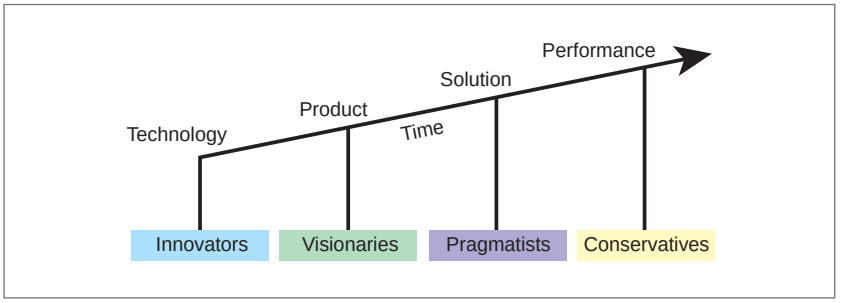


Fig. 1.14
Marketing strategy evolution for new products.

Figure 1.14 illustrates the evolution of the focus for the marketing and sales plans of a new product, and the key components of the marketing message in order to capture a particular group in the technology adoption life cycle as a function of time.

As a sales representative, you want to leverage the product progression to ensure fast and efficient introduction of new technology in the market. At the field test stage, you want to ensure that companies participating in the field test will release the data so you can offer the information as proof to the visionaries that the technology works. When you are in the commercialization stage and introducing the product to the visionaries, you want to learn from their application and augment your product offering so you can offer a proven product to the visionaries and solution for the pragmatists. As you gain more experience and jobs with the technology, keep good records and collect testimonials so that you can convince the conservatives that this is a proven and reliable technology or service. Over time, as you gain a better understanding of how the customer uses the product, you will be able to think of ways to evolve the product to its highest potential.

A key success factor for managing the product life cycle is the marketing communications plan. An effective marketing communications plan helps to keep your market informed and aware of your products and services and creates a buying environment.

Marketing Communications Plan

Two goals of the marketing communications plan are to:

- Create awareness among potential direct or indirect users of your products and services; and
- Have an accurate feedback mechanism in place to capture customer feedback.

▶ *Are You Ready?*

The customer's decision to make a purchase is the result of a long process. In the industrial buying process, the purchase decision-making process is formalized and implemented by using an evaluation model. This is typically done in the customer's evaluation of options phase in the project management process. The project management process will be discussed in detail in Chapter 4 "Opportunities Management." From the sales perspective, you must also be aware of where the buyer is in the buyer-readiness stage, as depicted below.



Each ring's diameter represents the portion of the potential target market, with the bot-tom ring representing 100 percent of the target market. Typically, only a portion of the targeted market is aware of a new or existing company or product or service, as represented by the smaller awareness ring. A smaller portion will be knowledgeable about the company, product or service, and only a very few will actually make a purchase. The vertical position represents the sequence of the stage. For example, the first stage is awareness, followed by knowledge, liking, etc.

The stages buyers normally pass through in making a purchase decision include: **Awareness:** The buyer is aware the company, product or service exists. **Knowledge:** The buyer understands the benefits the company, product or service provides. **Liking:** The buyer has a favorable opinion of the company. The seller's company, product or service will be included on the qualified bidder's list. **Preference:** The buyer prefers to use the company or its products or services rather than other companies or their products or services. The seller's company, product or service will be selected for the short list of preferred suppliers. **Conviction:** The buyer is convinced and has evaluated the seller's company as the best match to the requirements. **Purchase:** The buyer makes the purchase decision from among the best competing alternatives.

Awareness

The first goal of the marketing communications plan is to create awareness in the market about your company's products and services and migrate potential users and buyers to the higher-level buyer-readiness stages (see the "Are You Ready" sidebar this page[8]). Marketing communication plans target a wider audience than the contacts you focus on during the pursuit phase of an opportunity. Marketing communications programs target groups of customers, such as geophysicist, geologists, petroleum and drilling engineers, and different types of projects, such as deepwater and high-temperature/high-pressure operations, in advance of the procurement phase for a particular sales opportunity. By being aware of the customers' strategies that make up the target market and their long-term plans, you can tailor the marketing program for the target market.

The marketing communications plan should be a structured, integrated program that makes use of a variety of marketing communication and promotional tools, including:[9]

- **Advertising:** Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
- **Personal selling:** Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.
- **Public relations:** Building good relations with the company's various publics by obtaining favorable publicity, building a good "corporate image," and handling or heading off unfavorable rumors, stories and events.
- **Direct marketing:** Direct communications with carefully targeted individual consumers to obtain an immediate response. Direct marketing can be conveyed by numerous vehicles—mail, social media, telephone, fax, e-mail and other non-personal tools—to communicate directly with specific customers or to solicit a direct response.
- **Word of Mouth (WOM):** WOM is the number one influencer of B2B purchase decisions. Few B2B customers ever buy anything without first asking around about their experiences with the vendor and/or product. Shown in **Fig. 1.15** are the results of a survey of B2B decision makers by Forrester Research, 84% of respondents said WOM recommendations influence their purchase decisions. While nearly all B2B companies have blogs, only 24% of respondents said they trust blogs. Other research firms also have found that WOM rules in B2B.[10]

Chapter Highlight 1.1: Marketing Communications Programs describes some of the marketing communication tools used by companies. Each promotional tool can be targeted to take the user or buyer through one or several of the buyer-awareness stages. Effective account marketing communications programs focus on the lower level buyer-readiness stages so that when you are in the pursuit phase of a sales opportunity the sales team can spend more time building preference and conviction with the buying center to ultimately win the project.

Feedback

Gathering feedback and listening to your markets are as important as transmitting the message to the customer. They are a required part of excellent communications with your markets. The communications process is defined as sending a message and getting feedback. One rule to follow for effective communication is to always get feedback. If you are not getting feedback, you are not communicating. It is very dangerous for your company to rely only on your impression of the markets' satisfaction. **Chapter Highlight 1.2: Listening to Your Customers** discusses several listening strategies you can employ to develop a more accurate indication of your market's satisfaction.[11]

Chapter Highlight 1.1: Marketing Communications Plan

Are You Aware of That?

An effective marketing communications plan is a key component of a successful sales organization. Communications plans are an efficient, low-pressure method of creating awareness, educating your customers on how your company can assist them in achieving their business goals, and creating a buying environment for your products, services and solutions. Key features of a successful communications plan include the following:

- Remain high quality, current and relevant.
- Remain brief, precise and scheduled.
- Transfer best practices inside and outside the region.
- Include high-level meetings between customers and your company's upper management to discuss solutions to business issues.
- Include a monitoring system to know who is participating and make it easy for customers to receive additional information.
- Address each stage of the buyer-readiness stage.
- Include all components of the marketing and sales promotion tools.
- Include as many word-of-mouth testimonials as possible from satisfied customers.

Listed below are just a few of the successful sales communications plans that meet the above criteria. A successful market communications plan should leverage the available corporate programs and services as much as possible.

Personal Selling, Regular Company Informational Events

- Lunch and learns: Company-sponsored lunches with guest speakers discussing latest developments related to issues relevant to the target audience, such as deepwater completion techniques and fractured reservoir evaluation techniques.
- Participation at professional society conferences and meetings: Company speakers present technical papers on the latest technology developments and applications. Company booth in exhibition hall.
- Annual VIP seminars: Courtesy meetings between upper management teams demonstrating solutions to their business issues.
- Industry-sponsored training sessions: Company-sponsored training courses for products and services used within the specific market.

Direct Marketing and Sales Tools

- Regular document distribution: Complimentary copies of company publications to selected key customers in key accounts.
- Application-specific courtesy informational updates: Solutions page sent on a regular basis to selected customers highlighting specific market technical challenges solved with company products and services.
- Internet website: Company information portal for customers, employees and investors.

Advertising

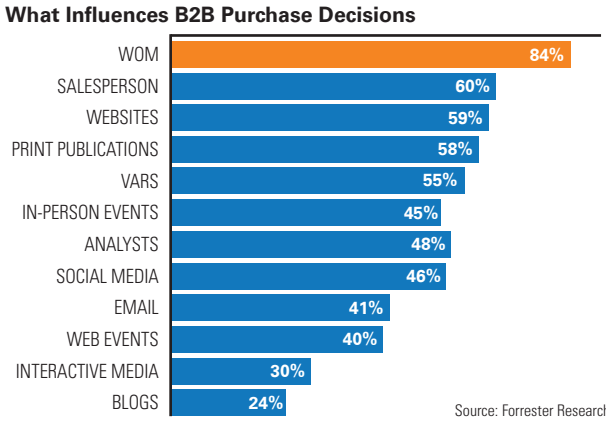
- National and international advertising campaigns: Advertising programs in major trade journals and business magazines.

Public Relations

- Company-sponsored programs and donations supporting community development programs, educational institutions, sports-related programs, charities, community volunteer programs and annual celebrations. Effective public relations programs can make a significant impact on the liking buyer awareness stage.



Fig. 1.15 WOM is the number one influencer of B2B purchase decisions. Few B2B customers ever buy anything without first asking their peers or colleagues about their experiences with the vendor and/or product or service. In a survey of B2B decision makers by Forrester Research, 84% of respondents said Word of Mouth recommendations influence their purchase decisions. While nearly all B2B companies have blogs, only 24% of respondents said they trust blogs.



When you combine a marketing communications program with an effective feedback program, you establish communication links with your markets. Effective communication links make it easier and more efficient for your customers to contact you, discuss issues and leverage the relationship between their company and your company. Impaired communication is both a symptom and a possible source of future problems.

Buying Center

One of the main differences between consumer sales and B2B sales is the number of people involved in the purchase decision. Consumer sales normally includes one or two people, and B2B sales can have many people involved. In the article "Major Sales: Who Really Does the Buying?," [12] author T.V. Bonoma emphasizes that seemingly well-planned, well-executed selling strategies may fail if management does not understand the human side of selling. Marketing managers can get at the human factors of purchasing decisions by answering four questions:

- Who is in the buying center?
- Who are the powerful buyers?
- What does each buying-center member want?
- How do they perceive the seller?

On the next page is a list of the buying roles encountered in most B2B selling situations. In many buying centers, individuals may have multiple roles. For example, a user may be the evaluator and gatekeeper. There may also be approvers who do not work within the company, such as a government-approving department, as is the case in many countries that have a national oil company.

- **Initiator:** High-level manager proposes project that requires significant purchases.
- **Approver:** Manager or committee that reviews the decision maker's recommendation.
- **Decision maker:** Manager or committee that has the purchase decision.
- **Influencers:** Staff have important opinions for which others in the buying center will consult.
- **Gatekeeper:** Corporate purchasing and/or recognized experts who must

Chapter Highlight 1.2: Listening to Your Customers

At the heart of any successful strategy to manage customer satisfaction is the ability to listen to the customer. There are five major categories of approaches that companies can use to listen to their customers. Most highly successful companies employ several, if not all. Many average or poor performers either use very few or do a poor job of incorporating the results into their strategies. The five categories are:

Customer Satisfaction Indices

Surveying customers about their level of satisfaction and plotting the results can help managers understand how satisfied or dissatisfied customers are with both their dealings with the company in general and various elements of the company's product or service in particular. The fact that such indices are quantitative makes them a useful tool for comparing results from different time periods, locations and business units.

Feedback

Customers' comments, complaints and questions fall into this category. A company cannot implement a recovery strategy—a plan for making amends when something has gone wrong—if it does not know who has had a problem. Therefore, it is important to review the company's approach to soliciting feedback—good and bad—on product and service quality.

Market Research

Although companies traditionally invest significantly in this area, they often overlook two critical listening points. Customers should be interviewed both at the time of arrival (when they become customers) and at the time of departure (when they defect) about the reasons for their behavior. New customers should not only be asked, "How did you hear about us?" but also, "What major experiences influenced your decision to try our product or service?" The answers to the first question provide data about the effectiveness of the company's awareness advertising, and the answers to the second supply information about the specific factors that actually sparked the decision to try the product or service. It also is critical to understand why a customer defected.

Gleaning such information requires a high degree of sensitivity and skill because most customers will blame the price or some other relatively basic product attribute in order to avoid discussing the real issue. Carefully questioning departing customers is important for two reasons: to isolate those attributes of the company's product or service that are causing customers to leave and to make a last-ditch attempt to keep the customer. One company we studied found that it recaptured a full 35% of its defectors just by contacting them and listening to them earnestly.

Frontline Personnel

Employees who have direct contact with the customer provide a superb means of listening. However, to take full advantage of frontline employees' interactions with customers, the company must train them to listen effectively and to make the first attempts at amends when customers have bad experiences. They also must have processes in place to capture the information and pass it along to the rest of the company. Many companies that excel in satisfying customers have institutionalized one other practice. All employees—not just those with frontline jobs—spend a significant amount of time interacting in depth with customers.

Strategic Activities

Some companies go to extremes to involve the customer in every level of their business. MTV, the cable music channel geared to 18- to 24-year-olds, insists that most of its employees must belong to the demographic target group. Southwest Airlines actually invites frequent fliers to its first round of group interviews with prospective flight attendants and considers these customers' opinions in decisions to invite certain candidates back for individual interviews. Intuit, the financial software company, regularly brings in customers to participate in product development sessions.

approve new technologies or processes before widespread adoption within a company. Gatekeepers may also proactively analyze the company's future needs and recommend likely matches with potential suppliers.

- **Evaluator:** Corporate purchasing department or other assigned staff who evaluate offerings using an evaluation system. In most B2B purchases, the evaluators follow a procurement process that includes tendering and negotiation.
- **Users:** All employees who use the product or services and provide specifications to evaluators or gatekeepers
- **Partners:** It is also very important for the sales staff to determine if there are any partners who will have a role in the buying process. In some cases, the partners are not the operator of the project and as such may not be in direct contact with suppliers or managing the procurement process, but they could be providing the bulk of the financing of the project and therefore could be very influential in the buying process and need to be contacted.

Marketing and sales managers should listen to the sales force, emphasize homework and details and make productive sales calls the norm by focusing on people who will be in the buying center.

Buyer Behavior

Another very important marketing concept for B2B sales staff to consider is buyer behavior, which can be described as the level of importance the buyer gives to price differences and the level of importance given to product and services differences. Once this is understood, the buying behavior is used to classify buyers as one of four buyer types. This helps the sales staff identify what is most important to the buyer and adjust their sales conversations according to the buyer type. The buyer behavior and buyer types are shown in **Fig. 1.16**.[13, 14]

The upper left-hand corner of Fig. 1.16 shows buyers who seek to buy at the lowest price consistent with some minimum level of acceptable quality that several suppliers can meet. These **price buyers** do not make feature benefit trade-offs and cannot be convinced to pay more for the unique added value of superior features, service or supplier reputation. Price buyers' perception of value is the lowest price, without hassles, and consistent products. These buyers know exactly what they are buying and do not want any surprises.

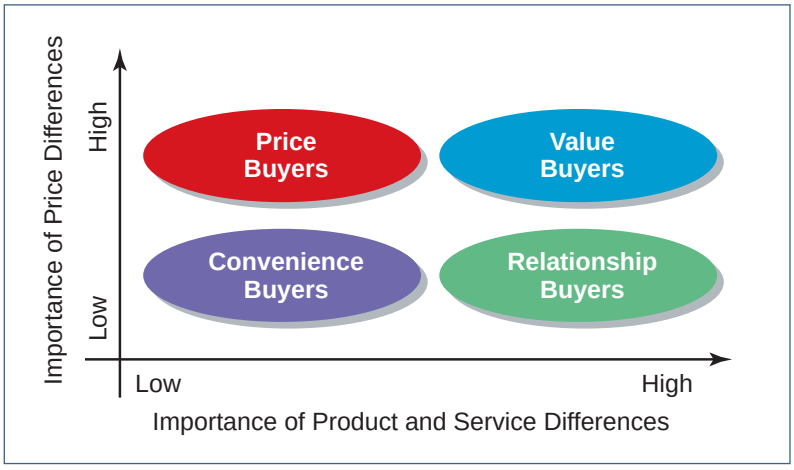


Fig. 1.16
Buyer price, product and service sensitivity classification and buyer type.

In the lower right-hand corner of Fig. 1.16 are the **relationship buyers** who already have a strong preference for one company, based on its unique reputation, its unique features or past experience with that company. If the prices of purchasing from that company do not exceed what they are willing to pay, these buyers will purchase from that company even if there are cheaper alternatives. Their perception of value is to buy the best total solution for their needs. They want to deal with experts so they can focus on other issues. While they know they are paying a premium, they are nonetheless convinced it is worth it.

Although these two segments are frequently considered the two ends of a price–quality continuum, Fig. 1.16 clearly reveals two other segments that do not fit within that linear view of buyers.

Many customers are price sensitive when they make large expenditures or have limited budgets, yet they are also sensitive to differences offered by various suppliers. These **value buyers**, shown in the upper right-hand corner of Fig. 16, may buy a relatively high-priced offering but will do so only after carefully checking the prices and features of the alternatives and concluding that the added value is worth the added cost.

Their opposites, represented in the lower left-hand corner, are **convenience buyers**. These buyers are not particularly concerned about the differences among brands. Any brand will do, but convenience buyers are also not particularly concerned about cost. Consequently, they buy whatever is most readily available, minimizing the search and evaluation of prices and features.[15]

The most common types of buyer behavior for most new B2B purchases are price, value and relationship buyers. Convenience buyer behavior can be important in B2B repurchases or when a customer has several contracts in place with different suppuliers and can buy from any supplier by simply placing an order to any of the approved suppliers.

Figure 1.17 shows what each of the three main buyer groups for new purchases perceive as value.[16]

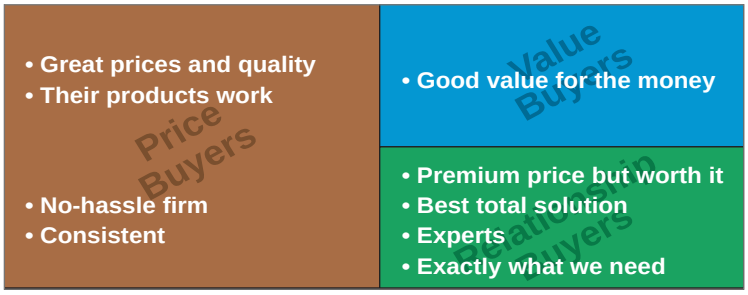


Fig. 1.17
What the three main buyer segments say about value.

Buyer Migration

Conventional economic theory suggests that, over time, natural market forces create a migration of buyer behavior from loyalty and value to price. This happens when products and services become more similar over time, differences between suppliers become less obvious and the deciding purchasing factor becomes price. **Figure 1.18** illustrates this migration.

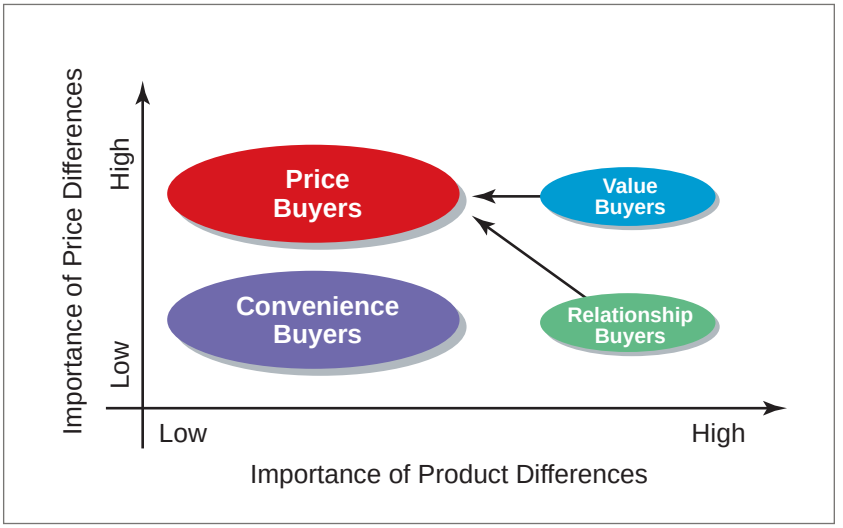


Fig. 1.18
Buyer migration over time.

This migration is observed as markets mature, even in markets where a company constantly introduces value-added products and services. In fact, some procurement departments would like you to believe that price is the only discriminating factor. Why does this happen in an industry that can benefit from more than just low prices?

Here are three common reasons:

- **Lack of customer focus.** This happens when a company's sales staff fail to explain the differentiating features and benefits that result in added value for the customer. Consequently, the customer views all or a selected group of companies and their offerings as the same. This lack of focus is particularly true when the customer does not have the time or internal expertise to quantify the benefits of the added features. As a result, the customer sees all products and services as equal and uses price as the key purchasing factor. **Figure 1.19** on the following page shows three different levels of focus and the main focal points for each level. For example, when sales staff talk to the customer about product features, they show a strong product focus. When they discuss general benefits, they show an application focus; when they discuss added value as it pertains to the customer's specific environment, they use customer focus. Customer focus, discussed more fully in Chapter 7 "Sales Call Skills," is the ideal focus for most sales staff.
- **Service does not justify a price premium over a competitor.** Many studies have demonstrated that customer loyalty is created by superior service, not just good service. When buyers select a supplier, they believe the purchase includes good service. Only total customer satisfaction gives a supplier an advantage over competitors.[17] Later chapters discuss the importance of delivering on the promise during the execution stage of projects, which directly impacts total customer satisfaction.

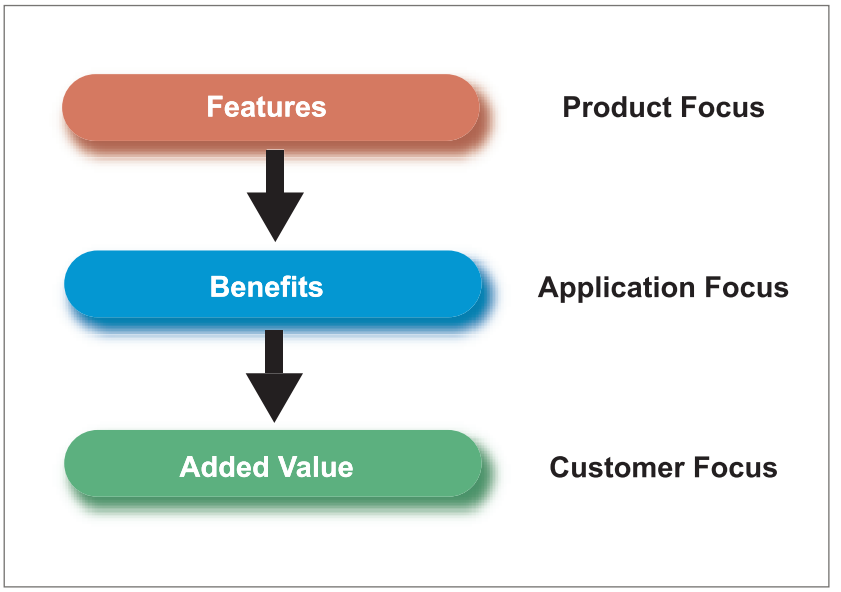


Fig. 1.19
Levels of focus.

- **Poor price management practices.** Such practices occur when a company has variable pricing policies that are not sufficiently justified based on the level of products or services offered, after-sales support or size of the customer commitment. As a result, the company rewards price buyers by giving them a better deal than the value or relationship buyers. Once the value and relationship buyers discover this, they ask for the same prices and behave like price buyers. This typically happens when companies try to increase market share by lowering prices.

This concludes this chapter on understanding the role of marketing and sales. In the discussion of marketing and sales, value was a frequently used word. In the next chapter, value drivers will provide a complete understanding of customer value drivers and how sales representatives can use this information to create a value-based relationship.



Summary of Chapter Objectives

Today's successful companies share a strong focus and heavy commitment to marketing.

Marketing seeks to attract new customers by promising superior value, and seeks to keep current customers by delivering satisfaction. Sound marketing is critical to the success of the organization. Sales organizations play an important role in the marketing efforts and employ key marketing concepts in their day-to-day sales responsibilities to secure business in a complex B2B marketplace.

1. Define marketing and discuss its core processes.

Marketing is the delivery of customer satisfaction at a profit. The processes marketing staff follow to construct corporate marketing strategies start with the company's vision. The final marketing strategy is a function of competitive market forces and a company's strengths and weaknesses, opportunities and threats in the targeted markets and customers' needs. The execution of the marketing plan describes the product or service, targeted markets (place), promotion (professional sales force) and pricing guidelines.

2. Explain how the sales position complements marketing efforts.

The marketing function creates the marketing strategy. The sales team executes the strategy. Feedback to the marketing function regarding the effectiveness of the strategy is a critical part of the sales effort. Feedback covers all aspects of the marketing mix—the product itself, how well it meets the expectations of the customer, whether the promotional aspects of the strategy are sufficient, whether the markets should be narrowed or expanded to whom a company offers the product (place) and whether the pricing achieves the profit levels. In addition, what is the customer feedback in terms of how to evolve the product to a higher level as described by Levitt's "Total Product Concept," and what are the competitor reactions? All this information goes into modifying the current strategy, leveraging the information to other target markets and formulating future strategies. When the sales force executes the marketing strategy successfully, the marketing group is considered successful. When the sales force cannot execute according to the plan, the marketing function is not successful.

3. Understand the importance of each product life cycle stage.

Products and services go through four distinct stages after the product development stage. Each state has different strategies and tactics to ensure that maximum profitability and sales volumes are achieved. The first stage is market development, in which sales are low and costs are high due to start-up costs. Next is the growth stage: Sales and profits begin to increase, and competitors with similar products may begin to appear. Then comes the maturity stage, when sales volumes peak and competitor pressure is the highest. The last stage is decline; now the once-new product or service becomes a commodity with many competitors, all competing with similar products. New products begin to replace the older products and services. Probability in this stage is low. To maximize profitability and usefulness of a product, there two very important marketing concepts–new technology adoption and the total product concept.

4. Describe how the technology adoption preferences of your customers impact their purchasing decisions.

Technology adoption preferences have a significant impact when customers are making first-time purchases. There are five types of buyers, as described by the technology adoption concept. First to purchase are innovators. These are technical experts who try anything new to decide for themselves whether it works. These customers are good targets for field tests. The next group to purchase are the visionaries. Once the technology has been proved to work, visionaries purchase because they are enthusiastic about new technologies and see technology as a way to improve. The next group to purchase are the pragmatists. Pragmatists purchase a solution to a problem. To convince pragmatists, you need to do more than just show proven technology; you have to offer a complete bundled solution. The next group to purchase are the conservatives. Conservatives will buy proven reliable technology. To sell to conservatives, security and dependability are more important than is the aspect of new and great technology. The last group to purchase are the laggards. They purchase new technology only when they have to. When buying products and services, they want what they had last time.

These customer profiles are extremely important to the sales representative when making proposals. The proposed solution is always one of many options. It is the sales representative's job to pick the best solution that is acceptable to the customer.

5. Use the total product concept to differentiate and compete more effectively with existing products and services.

Theodore Levitt uses the total product concept to describe the expectations of markets and customers when buying new products and how companies can differentiate their products and services by thinking about how to evolve their offerings. The total product concept has three levels: The first is generic, followed by augmented and finally potential. The objective for companies selling in the B2B environment is to quickly determine when to introduce new products at the generic level and how to augment to bring more value for the customer, while at the same time differentiating their products and services from competitors. This is key in the market growth and maturity stages. Competitors will always try to catch up by offering similar augmented products and services. Proactive marketing and sales organizations know this and always strive to continuously improve and enhance their offering as the highest potential value to the customer.

6. Identify the key components of the marketing communication plan.

There are two goals of the marketing communications plan: Create awareness, and establish an effective feedback mechanism for your customers. To create awareness, you follow the model described by the buyer-readiness stages. The marketing awareness plan targets all users and buyers of your products and services. Ideally, the plan uses all the marketing and communication tools to migrate users and buyers from the awareness level of the buyer-readiness stage to the preference level. When buying center contacts are at the preference level, the sales team can focus on building conviction and ultimately contact support in the purchase decision. The feedback mechanism completes the communication process, because without an effective listening system you may never determine how the customer perceives your services. Together, the marketing plan and feedback mechanism form the communication links, and most relationships are only as good as their communication links.

7. Identify the key roles in major B2B sales.

In major B2B sales, most purchase decisions are the responsibility of a buying center consisting of the following roles, which can be assigned to an individual or committee: **Initiator:** the high-level manager who proposes a project that requires significant purchases. **Approver:** a manager or committee that reviews the decision maker's recommendation. **Decision maker:** a manager or committee that makes purchase decisions. **Influencers:** staff who have an important say about which system and vendors the company will consider. **Gatekeeper:** corporate purchasing department and/or recognized experts who must approve new technologies or processes before widespread adoption within a company; gatekeepers may also proactively analyze the company's future needs and recommend likely matches with potential suppliers. **Evaluator:** corporate purchasing department or other assigned staff who evaluate offerings using an evaluation system; in most B2B purchases, the evaluators will follow a procurement process that includes tendering and negotiation. **Users:** all employees who use the product or services and provide specifications to evaluators or gatekeepers. It is also very important for the salesperson to determine if there are any partners who will have a role in the buying process. In some cases, the partners are not the operator of the project and as such may not be in direct contact with suppliers or managing the procurement process, but they could be providing the bulk of the financing of the project and, therefore, could be very influential in the buying process and need to be contacted.

8. Identify the four common buying behavior types.

Buying behavior and types are powerful concepts to help the sales staff focus on what the customer views as important. Buyers can be classified based on their perception of the relative importance of price differences and product and service differences. Price buyers view great prices as most important; value buyers will pay more if they believe they will receive more; relationship buyers know having the correct supplier is worth a premium; and convenience buyers will pay higher prices even if the products and services are similar, but the buying process is simpler and allows them to be more efficient when buying. In B2B, new purchases are a key factor for the sales staff to understand and focus on what is different between their offer and the competitor's and what is important to the customer. If the sales staff fail to do this, then value and relationship buyers migrate to price buyers.

Applying the Concepts

1. Visit the web page of your major competitor and identify what strategy they are applying. Determine which competitive marketing strategy your competitors are using.
2. As a salesperson, can you identify two specific times in which you have contributed to the marketing role?
3. Can you identify which stage of the product life cycle two of your key products or services are in?
4. Analyze your top three customers and classify them in terms of their technology adoption preferences. Give specific examples of why you classified them as you did. What are ways your sales effort could adjust to accommodate the different groups?
5. What are examples of situations in which you could augment a current offering that would put you in a stronger position for a future tender? How much would this cost and what would be the benefit to the customer? Do you think this would have a global application?
6. What major marketing communications event have you planned for your key customers? Should there be others?
7. Recall an important tender or bid you submitted. How many of the different buying center roles can you identify and who had those responsibilities?
8. In relation to your customers, what percentage are price, value and relationship buyers?

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Value Drivers



The Bottom Line

Sales representatives are often challenged to demonstrate to customers how you can contribute to their value drivers. Often, customers appear to be preoccupied with the bottom line and do not appear to value your additional capabilities. For customers to better understand and accept your value-added services, you must:

- Be involved when companies identify their value drivers during the corporate planning and execution stages, and
- Make a direct linkage between your product and services and how this benefits the customer on their specific project.

Chapter Objectives

After reading this chapter, you will be able to:

- Explain how and when value drivers are established.
- Know the most common corporate value drivers.
- Explain the purpose of the value proposition.
- Know the basic make-up and contents of an annual report.

Corporate Planning Stage

At the corporate planning stage, management defines the company's corporate vision or mission statement.[1] This vision drives the selection of long-term corporate goals. Management then identifies the critical success factors and value drivers required for meeting those long-term goals. Then, the company sets objectives and specific strategies. At this point, the company is ready to execute.

Corporate Value Drivers

Corporate value drivers are defined as:

Variables that directly or indirectly impact the market value of the corporation as measured by the combined value of the common stock, known as market capitalization.[2]

This definition can be broken into two parts: direct and indirect variables.

Direct corporate value drivers are variables that affect the value of the common stock or share price. Direct variables are stock market-related ratios such as earnings per share (EPS) and price-to-earnings ratio (P/E). What affects these ratios

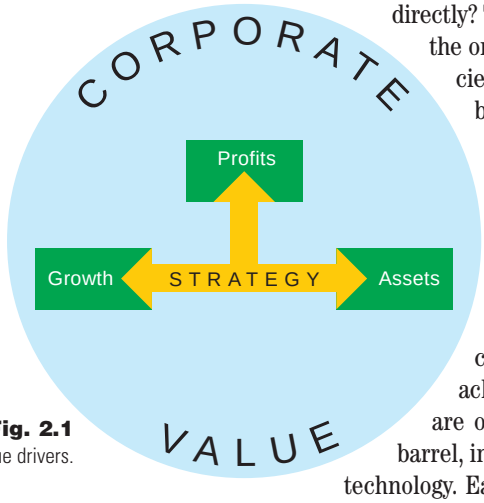


Fig. 2.1
Direct corporate value drivers.

directly? The obvious answer is increased profits, but this is not the only answer. Achieving optimum profit comes from efficient management using assets and identification of the best growth opportunities **(Fig. 2.1).**

Another set of direct corporate value drivers are profitability ratios such as return on equity (ROE) and return on capital employed (ROCE). These are discussed in more detail later. Your company can contribute to all the corporate value drivers.

Indirect corporate value drivers are initiatives or corporate policies that impact a company's ability to achieve its objectives. Examples of indirect value drivers are operational ratios, such as reducing lifting costs per barrel, improving QHSE performance and utilizing appropriate technology. Each company tracks a set of indirect corporate value drivers. These supplement the direct financial value drivers to ensure that day-to-day operations are on track to meet objectives. Both direct and indirect value drivers are typically included in management's key performance indicators (KPI). **Figures 2.2 and 2.3** are examples of technology indirect corporate value drivers for two E&P companies. Sales representatives must reach each account to uncover the direct and indirect corporate value drivers of those accounts.



Fig. 2.2
Indirect corporate value drivers—technology.[3]

Core Technologies

For all the clamor and glamour, technology's chief mission remains to support Chevron's core petroleum business. Inclusion, collaboration and leveraging are dominant themes.

Current examples:

Reservoir Optimization
Industry wide, an average 70% of oil remains locked in reservoirs, unrecovered by conventional techniques. Late in 2000, Chevron and an oil field services firm, launched a multiyear research project to provide the next-generation tools to increase recovery rates from existing reservoirs. The joint effort, says Technology VP Paul, "will allow you to develop a superior set of next-generation software products and modeling capabilities that neither would be able to accomplish individually."

Execution Stage

Corporate objectives lead to the selection of projects for execution. At this stage, the project manager identifies the project's critical success factors and value drivers that will influence the implementation, procurement and project management and review strategies. Project value drivers at the execution stage are focused on achieving the project objectives or producing the expected results. Project value drivers are defined as:

Variables that directly or indirectly impact project results.

At the execution stage, sales staff must determine how to assist customers in achieving their project objectives. One answer is to minimize costs. The strategy to achieve project objectives, however, comes from project management's ability to achieve them while balancing the trade-offs among costs, results, and operating policy. At this point, you must research each project to ensure that you have a complete understanding of the project value drivers and then prepare a clear and concise value proposition statement.

The **value proposition statement** clearly communicates how your services or products contribute to corporate or project value drivers. For sales staff, the first task in the sales cycle is to gather sufficient information about the customer's objectives and value drivers at both the corporate and project levels. With this information, sales staff can then devise a strategy to support a proposal the customer will approve. The "Sales Call Skills" chapter clearly describes the steps needed to build an accurate and believable value proposition statement. Where there are two sets of value drivers, the one that delivers the most value to the corporation must be identified. The answers come at both the corporate value planning stage and the project selection stage. In **Fig. 2.4,** the customer project management process is reproduced from a presentation given by Chevron at an industry conference. The Chevron executive clarifies that the amount of value gained at the execution stage is minimal compared to the value of selecting the right projects in the planning stage.[5]

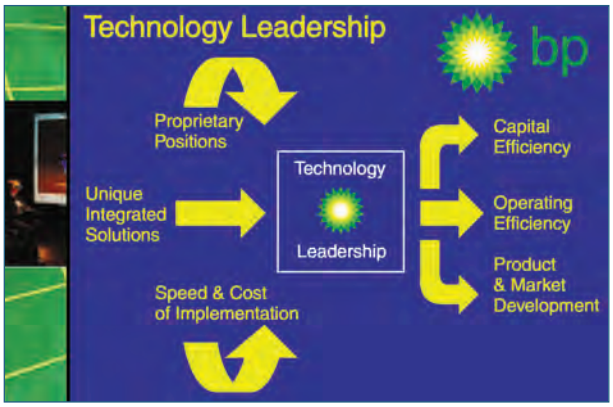


Fig. 2.3
Indirect corporate value drivers—technology.[4]

The ability of your company to impact and participate in the value identification stage is directly related to the quality of the relationship between your accounts and the customer-facing team in your organization. You and your management team should have conversations with your account's executives to generate awareness and understanding of their strategies as set out in phase 1 and ensure that you deliver the products and services in an efficient and effective manner to maintain the value through phases 4 and 5. All parts of your organization's business units should have the expertise needed to understand how projects are sanctioned in the project selection stage (phase 2). Then use this early information to fully analyze from the account's perspective and your company's perspective the best possible options in phase 3.

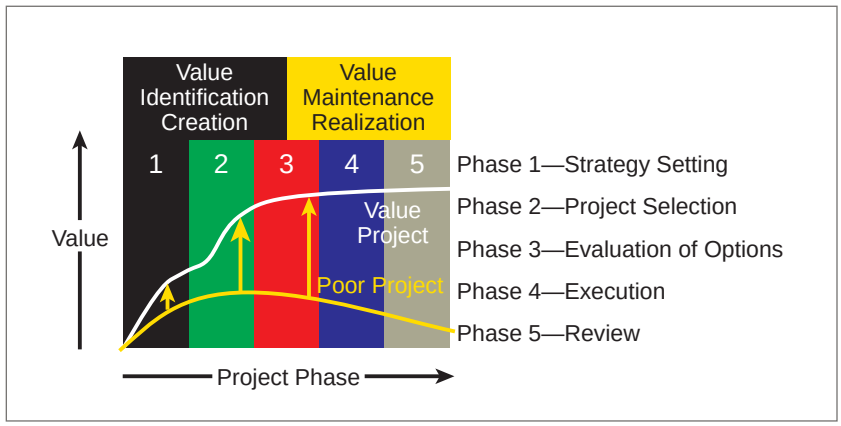


Fig. 2.4
Customer project management process.

Uncovering Company Value Drivers in the Annual Report

Sales representatives can study a number of documents to learn about a customer's value drivers. One of the most important of these is the annual report, the most common and regularly published vehicle a company uses to communicate to shareholders and stock analysts. Annual reports are typically broken into the following sections:

- Message to the shareholders
- Management's discussion and analysis of financial conditions and results of operations
- Financial review consisting of four basic reports: the balance sheet, cash flow statement, operating report (also called net income statement or profit and loss statement), and supplemental information on oil and gas producing activities
- Multiyear summary of financial and operating results

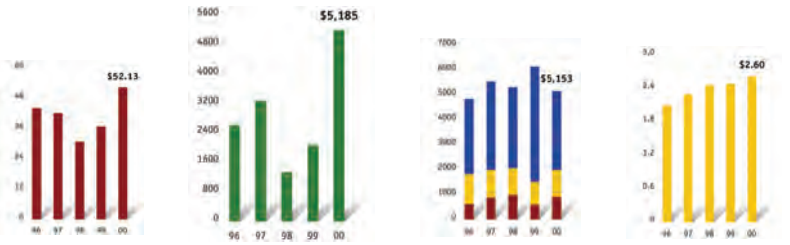
Message to Shareholders

This section of the annual report is typically written by the highest-ranking officer of the company and highlights major developments for the reporting year and future direction. In this section, the company officer gives a high-level review of the company's performance and major initiatives. **Figure 2.6,** shown on the next page, is an example of a high-level review taken from an annual report. This section is very helpful for beginning to uncover both direct and indirect company value drivers. It is typically followed by a tabular summary of financial and operating highlights. Examples of financial and operating highlights for an E&P company are shown in **Figs. 2.5** and **2.7**.

Financial Highlights

Millions of dollars, except per-share amounts	2000	1999	% Change
Net income	$ 5,185	$ 2,070	150%
Sales and other operating revenue	$ 50,592	$ 35,448	43%
Capital and exploratory expenditures*	$ 5,153	$ 6,133	(16)%
Total assets at year-end	$ 41,264	$ 40,668	1%
Total debt at year-end	$ 6,232	$ 8,919	(30)%
Stockholders' equity at year-end	$ 19,925	$ 17,749	12%
Cash flow from operating activities	$ 8,662	$ 4,481	93%
Common shares outstanding at year-end (thousands)	$ 641,060	$ 656,346	(2)%
Per-share data			
Earnings–basic	$ 7.98	$ 3.16	15.3%
Earnings–diluted	$ 7.97	$ 3.14	15.4%
Cash dividends	$ 2.60	$ 2.48	5%
Stockholders' equity	$ 31.08	$ 27.04	15%
Market price at year-end	$ 84.44	$ 86.63	(3)%
Total debt/total debt plus equity	23.8%	33.4%	
Return on average stockholders' equity	27.5%	11.9%	
Return on average capital employed (ROCE)	20.8%	9.4%	
Return on average capital employed, excluding special items	21.8%	10.2%	

*Includes equity in affiliates.



Total Revenues & Other Income
Billions of dollars

Revenue and other income increased sharply higher on prices for crude oil, natural gas and refined products.

Net Income
Millions of dollars

Net income of nearly $5.2 billion was the highest in the company's history.

Capital & Exploratory Expenditures
Millions of dollars

- *Exploration*
- *Refining, Marketing & Transportation*
- *Other*

Cash Dividends Paid
Dollars per share

Annual dividends increased for the 13th consecutive year.

Fig. 2.5
E&P company financial highlights, presented in an annual report's message to shareholders, clearly identifying this corporation's value drivers.[6]

CONOCO AT A GLANCE

Our vision is to be recognized around the world as a truly great, integrated, international energy company that gets to the future first. Conoco operates in more than 40 countries worldwide and at year end 1999 had approximately 16,700 employees. Conoco is active in both the upstream and downstream segments of the global petroleum industry. Power generation and carbon fibers, two developing businesses, are promising new areas for Conoco.

UPSTREAM—EXPLORATION AND PRODUCTION

Business Description | Conoco's Exploration and Production (E&P) activities cover the exploration, development and production of crude oil and natural gas, and the production of gas liquids through gas processing. Upstream is the company's largest business segment, with 1999 capital spending of $1.3 billion. The company is exploring in 15 countries and producing in nine. Conoco's E&P operations compete on a worldwide scale with other major integrated petroleum companies, such as ExxonMobil, BP Amoco, Royal Dutch/Shell, Texaco, Chevron and others, as well as national oil companies, and independent exploration and production companies. E&P customers and partners include host nations and national oil companies—such as Venezuela's Petroleos de Venezuela S.A., Statoil of Norway and the Sylvan Petroleum Company—with whom Conoco participates in major projects.

Operations | In 1999, E&P produced approximately 350,000 barrels of petroleum liquids and 1.7 billion cubic feet of natural gas per day from fields in North America, South America, Europe, Africa, the Middle East and Asia Pacific. Exploration activities are focused in five areas: the deepwater Gulf of Mexico, northern South America and the Caribbean, northwest Europe, East Africa and Asia Pacific. Business development activities are focused in South America, Asia Pacific, the Middle East and Russia. Natural gas and gas products operations include the gathering, processing, distribution and marketing of natural gas and natural gas liquids in North America, the United Kingdom, Norway and Trinidad. In 1999, Conoco marketed natural gas volumes in excess of 4.4 billion cubic feet per day in the United States and Europe, and also processed 64,000 barrels per day of natural gas liquids.

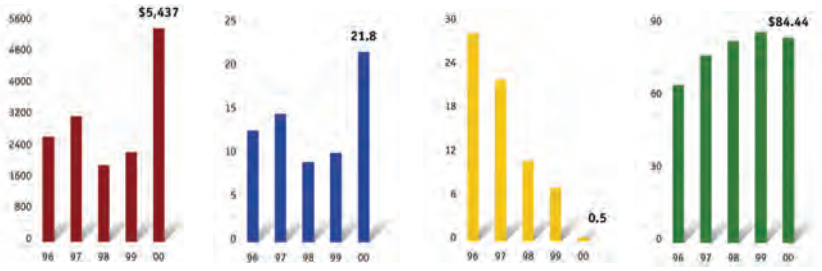
Strategy | E&P's strategy is to provide increasing earnings through profitable growth in high-potential areas around the world. E&P intends to fulfill this strategy by focusing on several key objectives.

- Develop at least two new core areas: Today, Conoco's E&P operations are focused in North America and the North Sea. In the future, Conoco intends to develop new core areas. particularly in northern South America and Asia Pacific, and perhaps in West Africa, the Caspian Sea region, the Middle East and, in the longer term, Russia.
- Maintain industry-leading productive growth: E&P is working to achieve its goal of 4% to 5% annual production growth through highly successful exploration, business development activities and selective acquisitions.
- Portfolio management and efficiency: Upgrading the quality and efficiency of Conoco's upstream portfolio substantially improved performance over the last several years. Conoco continually evaluates properties to ensure the portfolio is producing the maximum value. Proceeds from asset sales are being reinvested in large, early-stage, long-term projects in current and projected core areas.
- Maintain top-quality performance in the industry: Conoco was ranked number one among 14 major energy companies for the two-year E&P performance (1994–1996). The evaluation was conducted by Schroder & Co. Inc., an international banking firm.

Fig. 2.6
E&P company example of vision, objectives and strategies (from the Conoco 2000 Annual Report)

Operating Highlights

	2000	1999	% Change
Net production of crude oil and natural gas liquids (Thousand of barrels per day)	**1,159**	1,127	3%
Net production of natural gas (Millions of cubic feet per day)	**2,469**	2,513	(2)%
Sales of natural gas (Millions of cubic feet per day)	**5,261**	4,936	7%
Refinery input[1] (Thousand of barrels per day)	**1,358**	1,424	(5)%
Sales of petroleum products (Thousand of barrels per day)	**2,314**	2,324	–
Net proved reserves of crude oil, condensate and natural gas liquids (Millions of barrels)	**5,001**	4,784	5%
Net proved reserves of natural gas (Billions of cubic feet)	**9,552**	9,056	5%
Adjusted operating expenses per barrel	**6.06**	5.16	17%
Number of employees at year-end	**28,159**	31,459	(10)%



Earnings, Excluding Special Items
Millions of dollars

Return on Average Capital Employed*
Percentage

Average Annual Return to Stockholders
Percentage

Chevron Year-End Common Stock Price
Dollars per share

Fig. 2.7
Performance highlights, presented in the message to shareholders. The graphs at the bottom show additional value drivers for this company.[7]

Management's Discussion and Analysis of Financial Condition and Results of Operations

This section of the annual report gives a more detailed review of results as supported by financial and supplemental statements. It also includes a summary of each specific operating entity, often geographically. It usually highlights KPIs, such as net proved reserves and operating expenses per barrel.

Both the message to shareholders and management's discussion and analysis of financial results use horizontal, vertical and ratio analyses of results to:

- Evaluate past performance,
- Identify areas of focus or improvement,
- Describe future potential,
- Compare their performance to peers,
- Report on their corporate value drivers.

Financial Review

After the management discussion, the annual report presents a financial review that contains four basic reports. These reports constitute part of the company's annual reporting requirements and are presented in accordance with the general accepted accounting procedures (GAAP) required by the country in which the company is incorporated.[8] All companies must publish three standard financial reports: balance sheet, income statement and statement of cash flows. Oil and gas producing companies must also provide supplemental information on their activities.

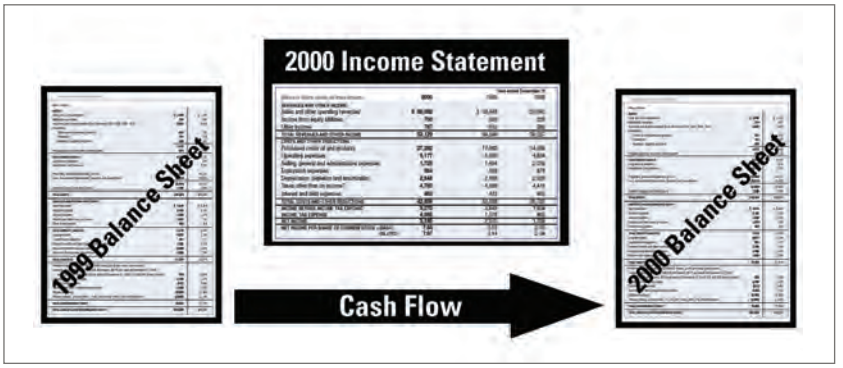


Fig. 2.8
The relationship of the three basic financial reports.

The three basic financial statements are not independent of each other, but are linked as shown in **Fig. 2.8**. Together, they give a full picture of the financial affairs of a business.[9]

Balance Sheet

The balance sheet can be considered the engine of the company. A snapshot of the economic condition of the company, it provides information about:

Assets: the physical resources except for intangibles such as goodwill. These are what the company owns and uses to generate its net.

Liabilities: the claims on those resources by both creditors and shareholders. These are what the company owes and also identify where the amounts owed come from.

Stockholders' equity: the owners' stake in the company.

Assets and liabilities are classified as current or long-term information. In the basic accounting model, assets match the sum total of liabilities and stockholders' equity. An example of an E&P company balance sheet is shown in **Fig. 2.9** on the next page.

Assets

Cash and cash equivalents are cash items that will be used within the operating cycle. Cash is principally all unrestricted, non-interest–bearing funds available on demand.

Short-term investments are classified as available for sale and are in highly liquid debt or equity securities. Those investments that are part of the company's cash management portfolio with original maturities of three months or less are reported as "cash equivalents." The balance of the short-term investments is reported as "marketable securities." Short-term investments are market-to-market, with any unrealized gains or losses included in other comprehensive income.

Inventories include crude oil in storage; petroleum products and chemicals are stated at cost, using a last-in, first-out (LIFO) method. In the aggregate, these costs are below market. Materials, supplies and other inventories are generally stated at average cost.

Long-term receivables are receivables that will not be collected within one year.

Investments and advances are in stock of nonconsolidated entities, joint ventures or trade accounts not collectible within one year.

Property, plant and equipment (PP&E) are carried at cost. Depreciation of PP&E, other than oil and gas properties, is generally computed on a straight-line basis over the estimated economic lives of the facilities, which for major assets range from 14 to 25 years.[10]

Millions of dollars		
ASSETS		
Cash and cash equivalents	$1,896	$1,345
Marketable securities	734	687
Accounts and notes receivable (less allowance 2000 – $30, 1999 – $36)	3,837	3,688
Inventories:		
Crude oil and petroleum products	631	585
Chemicals	191	526
Materials, supplies and other	250	291
	1,072	1,402
Prepaid expenses and other current assets	674	1,175
TOTAL CURRENT ASSETS	$8,213	$8,297
Long-term receivables	802	815
Investments and advances	8,107	5,231
Properties, plant and equipment, at cost	51,908	54,212
Loss: accumulated depreciation, depletion and amortization	29,014	28,825
	22,894	28,825
Deferred charges and other assets	1,248	1,006
TOTAL ASSETS	$41,264	$40,668
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term debt	$1,079	$3,434
Accounts payable	3,163	3,103
Accrued liabilities	1,530	1,210
Federal and other taxes or income	1,479	718
Other taxes payable	423	424
TOTAL CURRENT LIABILITIES	$7,674	$8,089
Long-term debt	4,872	5,134
Capital lease obligations	281	371
Deferred credits and other noncurrent obligations	1,768	1,739
Noncurrent deferred income taxes	4,908	5,070
Reserves for employee benefit plans	1,836	1,796
TOTAL LIABILITIES	$21,339	$22,919
Preferred stock (authorized 100,000,000 shares, $1.00 per value, none issued)	–	–
Common stock (authorized 2,000,000,000 shares, $0.75 per value at December 31, 2000, and 1,000,000 shares, $1.50 per value at December 31, 1999; 712,487,068 shares issued)	534	1,069
Capital in excess of par value	2,758	2,215
Deferred compensation	(611)	(546)
Accumulated other comprehensive income	(180)	(115)
Retained earnings	$20,909	$17,400
Treasury stocks, at cost (2000 – 71,427,097 share; 1999 – 56,140,994 shares)	$(3,385)	$(2,134)

Fig. 2.9
E&P company balance sheet.

Capitalization of exploration costs can be treated using either the full cost method or successful efforts method. With the full cost method, all exploration costs are taken in the financial period in which they occur. With the successful efforts method, which is the most common, the costs for all development wells, related plant and equipment, and proved mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. Costs are also capitalized for wells that find commercially producible reserves that cannot be classified as proved.[11,12]

Deferred charges and other assets are purchased goodwill (excess of cost over net assets of an acquired business), patents, know-how, and intellectual property and contract rights originating in the acquisition of a business. These costs are amortized over the estimated life of that specific asset.

Liabilities

Liabilities are amounts due to parties external to the company.

Short-term debt will be settled within the next year through the use of a current asset or by incurring another current liability for the portion of long-term debt due within one year.

Accounts payable are amounts owed to suppliers, such as your company.

Accrued liabilities are amounts owed to others, interest on borrowings, legal fees, insurance premiums and similar items.

Federal and other taxes on income are accruals for taxes payable within one year.

Other taxes payable are taxes such as production taxes in some countries.

Long-term debt owed, but not due within the year, could be in the form of debentures (bonds backed by the credit of the corporation), secured debt (collateralized loans) and mortgages (debt secured by land or buildings).

Capital lease obligations are liabilities for lease commitments.

Concurrent deferred taxes on income reflect the cumulative difference between tax expenses and taxes payable resulting from transactions in current or past periods that is taxable in future periods.

Reserves for employee benefit plans are liabilities such as pensions and deferred post-retirement benefits.

Stockholders' Equity

Stockholders' equity includes all claims by the owners of the business. It consists of three main components.

Issued preferred and common stock for cash consideration is the main mechanism for bringing owners' capital into the business.

Capital reserves are all surpluses accruing to the common shareholders that have not arisen from normal business trading transactions, such as the revaluation of assets or premiums on shares issued in excess of par value. It may also include debits such as deferred compensation and other accumulated comprehensive income.

Revenue reserves are earnings retained by the company after dividends have been paid to the shareholders. Over time, these reserves build up and are usually used by companies to fund growth. They may also include treasury stock, which is stock the company has repurchased from the market.

Common Values Referred to on the Balance Sheet

These values are typically compared from one year's balance sheet to the next:

Total assets refer to the sum of current and fixed assets.

Capital employed is the balance of total assets less current liabilities. From the example in Fig. 2.9, capital employed for the year (FTY) 2000 is $33,590 [$41,264 (total assets)–$7,674 (total current liabilities)]. Capital employed is the long-term foundation of the company.

Net worth is total assets less total liabilities, which is another way of expressing stockholders' equity except that this definition puts emphasis on the validity of the asset values.

Working capital is total current assets less total current liabilities. This is a measure of the company's liquidity, which is an indicator of cash availability. From the example in Figure 2.9, working capital FTY 2000 is $539 [$8,213 (total current assets)–$7,674 (total current assets)].

Statement of Income Report

The statement of income report records the financial performance of the business over a specified period of time. Produced monthly by management, it includes financial data and statistics and is reported on an annual basis in the annual

Millions of dollars, except per-share amounts	Year ended December 31 2000	1999	1998
REVENUES AND OTHER INCOME			
Sales and other operating revenues	$ 50,592	$ 35,448	$ 29,943
Income from equity affiliates	750	526	228
Other income	787	612	386
TOTAL REVENUES AND OTHER INCOME	52,129	36,586	30,557
COSTS AND OTHER DEDUCTIONS			
Purchased crude oil and products	27,292	17,982	14,036
Operating expenses	5,177	5,090	4,834
Selling, general and administrative expenses	1,725	1,404	2,239
Exploration expenses	564	538	478
Depreciation, depletion and amortization	2,848	2,866	2,320
Taxes other than on income	4,793	4,586	4,411
Interest and debt expenses	460	472	405
TOTAL COSTS AND OTHER DEDUCTIONS	42,859	32,938	28,723
INCOME BEFORE INCOME TAX EXPENSE	9,270	3,648	1,834
INCOME TAX EXPENSE	4,085	1,578	495
NET INCOME	5,185	2,070	1,339
NET INCOME PER SHARE OF COMMON STOCK–BASIC	7.98	3.16	2.05
DILUTED	7.97	3.14	2.04

Fig. 2.10
Statement of income report.

report. This statement is the link between the opening and closing balance sheets of a specified period. It identifies total revenues earned and total costs incurred over the period. The difference is the operating profit or income. An example income statement for an E&P company is shown in **Fig. 2.10**.

Revenue and other income are invoiced during the period specified and includes any income from equity affiliates.

Other income includes gains from sales of assets and interest earned from investments.

Costs and other deductions are those costs that relate directly to revenue, such as the purchase of crude oil, gas and products. Operating expenses include costs that relate to the time period covered by the accounts, such as administrative expenses, expenses resulting from unsuccessful exploration activities, depreciation, depletion and amortization, non-income tax expenses, and interest and debt expense.

Income tax expense is the tax paid on taxable income.

Net income is measured from normal operating transactions.

Common Values Referred to on the Income Statement

These values are typically compared from one year's income statement to the next. Each of these values relates to the way profit is distributed to the major interests in the company—namely, lenders, government and shareholders. These values are as follows:

- Profit before interest and tax **(PBIT)**
- Profit before tax **(PBT)**
- Profit after tax (**PAT)**
- Retained earnings **(RE)**

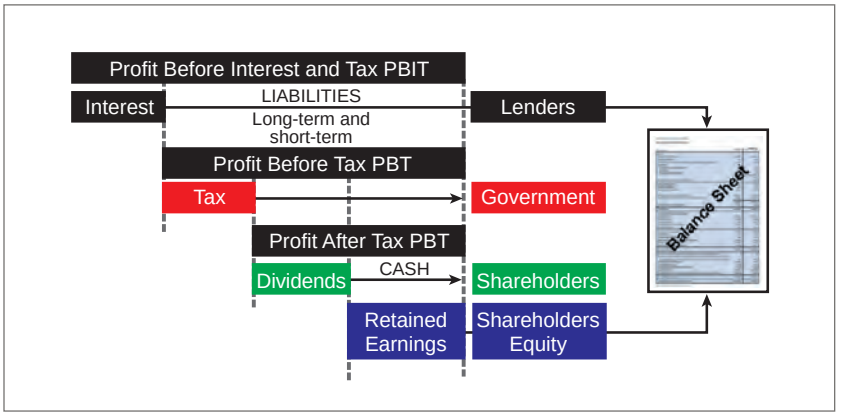


Fig. 2.11
Profit flow and stakeholders.

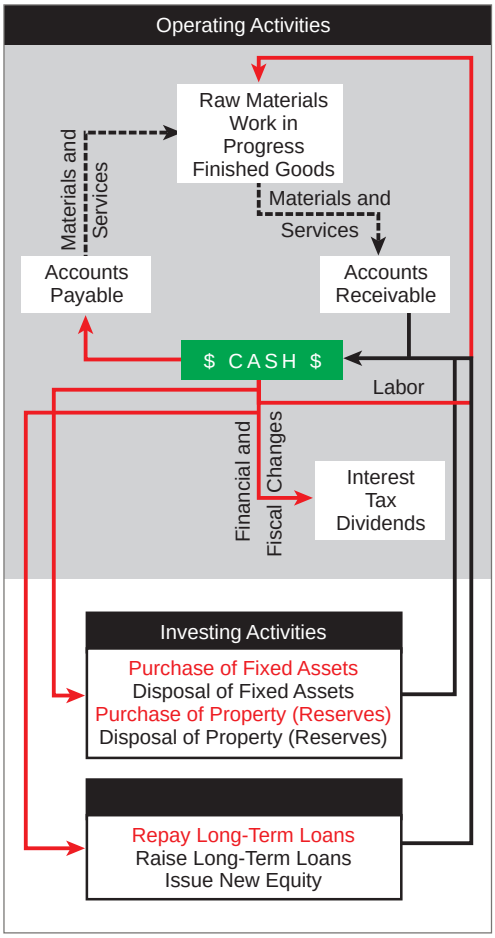


Fig. 2.12 (above)
Main components of corporate cash flow report. The red lines represent uses of cash, and the black lines represent sources. The CASH box consists of profits plus any non-cash flow items such as depreciation of fixed assets, depletion credits for produced hydrocarbons, and expenses taken for unsuccessful exploration programs from previous years. One of the main differences for an E&P company from other companies such as a services company is the additional non-cash flow items to depreciation that an E&P company adds back in to compute operating cash flow.

The order reflects the order of appropriation of the profits, as depicted in **Fig. 2.11.**

Cash Flow Statement

The cash flow statement records changes in cash and equivalents resulting from the following:

- Operating activities
- Investing activities
- Financing activities

Figure 2.12 (left) illustrates the basic components of cash flow as found on the corporate cash flow statement.

Figure 2.13 (below) is a cash flow statement for an E&P company. The individual components of the statement of cash are described below.

Operating activities are the net operating income and any adjustments (gains or losses) made for Depreciation, Depletion and Amortization (DD&A)[13], previous years' dry hole expenses, distributions from any equity affiliates, sales of assets, net change from foreign currency exchange, changes in operating capital resulting from changes in accounts and notes receivable, inventories, prepaid expenses and current assets, accounts payable and accrued liabilities, and other income or non-income taxes payable, and provisions made.

Investing activities include capital expenditures, proceeds from asset sales, sales of marketable securities, purchase of short-term investments, and distributions from any other affiliates.

CONSOLIDATED STATEMENT OF CASH FLOWS	Year ended December 31		
Millions of dollars	2000	1999	1998
OPERATING ACTIVITIES			
Net income	$ 5,185	$ 2,070	$ 1,339
Adjustments			
Depreciation, depletion and amortization	2,848	2,866	2,320
Dry hole expense related to prior years' expenditures	52	126	40
Distributions (less than) greater than income from equity affiliates	(154)	(258)	25
Net before-tax gains on asset retirements and sales	(236)	(471)	(45)
Net foreign currency (gains) losses	(67)	23	(20)
Deferred income tax provision	408	226	266
Net decrease (increase) in operating working capital[1]	846	636	(809)
Decrease (increase) in Cities Service provision	–	(149)	924
Cash settlement of Cities Service litigation	–	(775)	–
Other, net	(220)	187	(309)
NET CASH PROVIDED BY OPERATING ACTIVITIES[2]	8,662	4,481	3,731
INVESTING ACTIVITIES			
Capital expenditures	(3,657)	(4,366)	(3,880)
Proceeds from asset sales	524	992	434
Net sales (purchases) of marketable securities[1]	35	262	(183)
Net purchase of other short-term investments	(84)	–	–
Distribution from Chevron Phillips Chemical Company	835	–	–
Other, net	(73)	32	(230)
NET CASH USED FOR INVESTING ACTIVITIES	(2,420)	(3,080)	(3,859)
FINANCING ACTIVITIES			
Net (repayments) borrowings of short-term obligations	(3,657)	(4,366)	(3,880)
Proceeds from issuances of long-term debt	524	992	434
Repayments of long-term debt and other financing obligations	35	262	(183)
Cash dividends paid	(84)	–	–
Net (purchases) sales of treasury shares	(73)	32	(230)
NET CASH USED FOR FINANCING ACTIVITIES	(5,693)	(626)	(308)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2	1	(10)
NET CHANGE IN CASH AND CASH EQUIVALENTS	551	776	(446)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,345	569	1,015
CASH AND CASH EQUIVALENTS AT YEAR-END	$ 1,896	$ 1,345	$ 569

Fig. 2.13
An E&P company statement of cash flows.

Financing activities include net borrowings of short-term loans, proceeds from the issuance of long-term debt, repayments of long-term debt and other financing obligations, dividends paid, and net purchase or sales of treasury shares.

Net change in cash and cash equivalents[14] are the total of the above activities.

Cash and cash equivalents at the beginning of year are the balance as of the end of the preceding year.

Cash and cash equivalents at year-end is the balance of cash and cash equivalents for the reporting year.

Supplemental Information on Oil and Gas Producing Activities

Evaluating the economic performance of oil and gas producing companies cannot be achieved using financial statements alone. The information contained in these reports can be reviewed to gain insight into upstream investment in terms of upstream capital expenditures and production replacement, which measures attempts to replace produced volumes of hydrocarbons.[15]

The reporting requirement provides supplemental information on oil and gas exploration and producing activities of the company in six separate tables. Tables I through III provide historical cost information pertaining to costs incurred in exploration, property acquisitions and development; capitalized costs; and results of operations. Tables IV through VI present information on the company's estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows. Examples of these tables are shown in **Figs. 2.14 through 2.20** on the subsequent pages.

Costs Incurred in Exploration, Property Acquisition and Development

This table includes all costs for both consolidated companies and affiliates, broken down by major operating areas. Costs included are those incurred in exploration, property acquisitions and development presented with the previous two years' results for comparison. The table includes all costs, whether capitalized or expensed. Table I (Fig. 2.14) gives a breakdown of capitalized costs. Brief descriptions of each major cost category are listed below.

Exploration costs are incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells.

Property acquisitions include costs for acquisitions of proved properties, such as costs incurred to purchase or otherwise acquire proved oil and gas reserves in place. Costs for acquisition of unproved properties include costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties.

Development costs are costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. More specifically, development costs include the depreciation and applicable operating costs of support equipment and facilities, as well as other costs of development activities.

TABLE I – COSTS INCURRED IN EXPLORATION, PROPERTY ACQUISITIONS AND DEVELOPMENT

Millions of dollars	U.S.	Consolidated Companies Africa	Other	Total	Affiliated Companies OPS	TCO	Worldwide
YEAR ENDED DECEMBER 31, 2000							
Exploration							
Wells	366	40	129	535	5	–	540
Geological and geophysical	30	25	149	149	14	–	163
Rentals and other	36	11	65	112	–	–	112
Total exploration	432	76	288	796	19	–	815
Property acquisitions							
Proved	24	1	–	25	–	–	25
Unproved	61	9	175	245	–	–	245
Total property acquisitions	85	10	175	270	–	–	270
Development	737	395	356	1,488	168	240	1,896
TOTAL COSTS INCURRED	1,254	481	819	2,554	187	240	2,981
YEAR ENDED DECEMBER 31, 1999							
Exploration							
Wells	258	40	120	418	3	–	421
Geological and geophysical	37	25	85	147	17	–	164
Rentals and other	30	7	60	97	–	–	97
Total exploration	325	72	265	562	20	–	682
Property acquisitions							
Proved[4]	9	–	1,070	1,079	–	–	1,079
Unproved	27	11	1,202	1,240	–	–	1,240
Total property acquisitions	36	11	2,272	2,319	–	–	2,319
Development	532	518	375	1,425	182	148	1,755
TOTAL COSTS INCURRED	893	601	2,912	4,406	202	148	4,756
YEAR ENDED DECEMBER 31, 1999							
Exploration							
Wells	350	108	101	559	3	–	562
Geological and geophysical	49	31	112	192	16	–	208
Rentals and other	44	23	53	120	–	–	120
Total exploration	443	162	266	871	19	–	890
Property acquisitions							
Proved	12	–	–	12	–	–	12
Unproved	58	–	14	72	–	–	72
Total property acquisitions	70	–	14	84	–	–	84
Development	680	561	411	1,652	156	120	1,928
TOTAL COSTS INCURRED	1,193	723	691	2,607	175	120	2,902

Fig. 2.14
Cost incurred in exploration property acquisitions and development.[16]

Capitalized Costs Related to Oil and Gas Producing Activities

Table II (Fig. 2.15, next page) gives a breakdown of the original capitalized costs for oil and gas producing activities for both consolidated companies and affiliates, broken down by major operating areas for the current reporting period and the previous two years' data for comparison. In this table, the data are presented for unproved and proved properties. A brief description of what each major cost category includes is listed.

Gross capitalized costs include the original depreciation, depletion and amortization costs booked. Capitalized costs for proved and unproved properties include the costs as described in Table I. Support equipment is the capitalized cost of equipment used in operations for both proved and unproved properties. Deferred exploratory wells are the capitalized costs of exploration activities for properties that have yet to be determined as containing producible reserves. Other capitalized costs are for uncompleted exploration projects.

Accumulated depreciation costs include the accumulated credits taken against revenue for items in the gross capitalized costs.

TABLE II – CAPITALIZED COSTS RELATED TO OIL AND GAS PRODUCING ACTIVITIES

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	OPS	TCO	Worldwide
AT DECEMBER 31, 2000							
Unproved properties	337	78	1,459	1,874	–	378	2,252
Proved properties and related producing assets	16,713	4,621	8,346	29,680	1,370	1,158	32,208
Support equipment	469	308	280	1,067	906	254	2,217
Deferred exploratory wells	101	204	95	400	–	–	400
Other uncompleted projects	348	640	476	1,464	255	136	1,865
GROSS CAPITALIZED COSTS	17,968	5,851	10,656	34,475	2,541	1,.926	38,942
Unproved properties valuation	128	59	219	406	–	–	406
Proved producing properties							
Depreciation and depletion	11,991	2,363	3,774	18,128	751	131	19,010
Future abandonment and restoration	778	400	227	1,405	63	13	1,481
Support equipment depreciation	315	127	172	614	535	97	1,246
Accumulated provisions	13,212	2,949	4,392	20,553	1,349	241	22,143
NET CAPITALIZED COSTS	4,756	2,902	6,264	13,922	1,192	1,685	16,799
AT DECEMBER 31, 1999							
Unproved properties	317	69	1,441	1,827	–	378	2,205
Proved properties and related producing assets	16,662	4,034	7,318	28,014	1,158	689	29,861
Support equipment	478	268	321	1,067	902	243	2,212
Deferred exploratory wells	136	132	66	374	–	–	374
Other uncompleted projects	354	758	664	1,775	335	405	2,516
GROSS CAPITALIZED COSTS	17,947	5,301	9,810	33,058	2,395	1,715	37,168
Unproved properties valuation	133	53	157	343	–	–	343
Proved producing properties							
Depreciation and depletion	11,953	1,993	3,071	17,017	681	99	17,797
Future abandonment and restoration	835	371	208	1,414	60	10	1,484
Support equipment depreciation	317	104	142	563	476	80	1,819
Accumulated provisions	13,238	2,521	3,578	19,337	1,287	789	20,743
NET CAPITALIZED COSTS	4,709	2,780	6,232	13,721	1,178	1,526	16,425
AT DECEMBER 31, 1998							
Unproved properties	390	58	235	683	–	378	1,061
Proved properties and related producing assets	16,759	3,672	6,253	26,684	1,015	629	28,328
Support equipment	432	182	307	961	768	232	1,961
Deferred exploratory wells	51	51	91	193	–	–	193
Other uncompleted projects	700	893	383	1,975	408	245	2,629
GROSS CAPITALIZED COSTS	18,372	4,856	7,269	30,497	2,191	1,434	34,172
Unproved properties valuation	151	49	110	310	–	–	310
Proved producing properties							
Depreciation and depletion	11,808	1,719	2,705	16,232	689	32	16,993
Future abandonment and restoration	851	337	187	1,385	57	8	1,450
Support equipment depreciation	315	90	127	532	373	67	932
Accumulated provisions	13,135	2,195	3,129	18,450	1,189	347	19,725
NET CAPITALIZED COSTS	5,237	2,861	4,140	12,038	1,072	1,337	14,447

Fig. 2.15
Capitalized costs related to oil and gas producing activities.

Results of Operations for Oil and Gas Producing Activities

Table III has two parts (Figs. 2.16 and 2.17). The first part (Fig. 2.16) gives a breakdown of the operating performance for oil and gas producing activities for both consolidated companies and affiliates, broken down by major operating areas for the current reporting period and the previous two years' data for comparison. Interest income and expenses are excluded from the results. The costs, which are included in each line item, are as described in the earlier tables. Line items not yet described are listed below.

The second part of Table III (Fig. 2.17) lists the average sales price obtained for oil and gas sales and the average production costs per barrel of oil equivalent for the current and previous two years. It also shows the average price received for oil and gas as of the end of the year for the current and previous two years.

Sales are the revenues received for the sales of oil and gas.

Transfers are the company's shares of revenue received from minority interests in non-operated fields.

Production costs[17] are the costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities, and other costs of operating and main-

TABLE III – RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

Per-unit average sales price and production costs.	Consolidated Companies U.S.	Africa	Other	Total	Affiliated Companies CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 2000							
Average sales price							
Liquids, per barrel	$ 26.35	$ 26.75	$ 26.67	$ 26.59	$ 22.41	$ 20.14	$ 25.63
Natural gas, per thousand cubic feet	4.04	0.03	2.98	3.65	–	0.13	3.55
Average production costs, per barrel	5.37	2.99	3.80	4.27	5.67	2.91	4.28
YEAR ENDED DECEMBER 31, 1999							
Average sales price							
Liquids, per barrel	$ 15.73	$ 17.27	$ 17.69	$ 16.82	$ 13.40	$ 10.53	$ 15.90
Natural gas, per thousand cubic feet	2.17	0.05	2.21	2.14	–	0.38	2.10
Average production costs, per barrel	4.73	2.81	3.32	3.84	4.47	2.39	3.79
YEAR ENDED DECEMBER 31, 1998							
Average sales price							
Liquids, per barrel	$ 11.27	$ 11.49	$ 11.21	$ 11.34	$ 9.73	$ 5.53	$ 10.68
Natural gas, per thousand cubic feet	2.02	0.07	2.26	2.04	–	0.57	2.01
Average production costs, per barrel	5.30	2.94	2.93	4.12	3.10	2.32	3.91
Average sales price for liquids ($/Bbl)							
December 2000	$ 25.41	$ 23.23	$ 24.87	$ 24.43	$ 22.33	$ 24.39	$ 24.21
December 1999	22.25	24.88	24.06	23.68	23.68	11.55	22.65
December 1998	8.86	9.55	9.04	9.17	8.33	3.69	8.58
Average sales price for natural gas ($/MCF)							
December 2000	$ 7.70	$ 0.04	$ 4.16	$ 6.47	–	$ 0.25	$ 6.19
December 1999	2.02	0.04	2.41	2.23	–	0.38	2.18
December 1998	2.23	–	2.47	2.29	–	0.57	2.26

Fig. 2.16
Results of operations for oil and gas producing activities.

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

TABLE III – RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

Millions of dollars	Consolidated Companies U.S.	Africa	Other	Total	Affiliated Companies CPI	TCO	Worldwide
YEAR ENDED DECEMBER 31, 2000							
Sales	$ 2,496	$ 2,804	$ 2,351	$ 7,653	$ 50	$ 710	$ 8,413
Transfers	2,762	506	952	4,220	831	–	5,051
Total	5,260	3,310	3,303	11,873	881	710	13,464
Production expenses	(1,112)	(378)	(520)	(2,010)	(223)	(114)	(2,347)
Proved producing properties depreciation, depletion and abandonment provisions	(862)	(316)	(619)	(1,797)	(129)	(53)	(1,979)
Exploration expenses	(265)	(62)	(237)	(564)	(14)	–	(578)
Unproved properties valuation	(22)	(6)	(82)	(110)	–	–	(110)
Other income (expenses)	(26)	61	243	278	(2)	(56)	220
Results before income taxes	2,973	2,609	2,088	7,670	513	487	8,670
Income tax expense	(1,100)	(1,942)	(924)	(3,956)	(258)	(146)	(4,370)
RESULTS OF PRODUCING OPERATIONS	$ 1,873	$ 667	$ 1,164	$ 3,704	$ 255	$ 341	$ 4,300
YEAR ENDED DECEMBER 31, 1999							
Revenues from net production							
Sales	$ 1,449	$ 1,156	$ 1,415	$ 4,620	$ 24	$ 356	$ 5,000
Transfers	1,626	299	597	2,522	592	–	3,114
Total	3,075	2,055	2,012	7,142	616	356	8,114
Production expenses	(1,005)	(340)	(411)	(3,756)	(206)	(88)	(2,050)
Proved producing properties depreciation, depletion and abandonment provisions	(764)	(311)	(433)	(1,508)	(109)	(47)	(1,664)
Exploration expenses	(161)	(91)	(214)	(538)	(17)	–	(555)
Unproved properties valuation	(22)	(5)	(36)	(63)	–	–	(63)
Other income (expenses)	(358)	(53)	5	(406)	(2)	(9)	(417)
Results before income taxes	759	1,249	863	2,871	282	212	3,365
Income tax expense	(257)	(848)	(416)	(8,521)	(143)	(63)	(3,327)
RESULTS OF PRODUCING OPERATIONS	$ 502	$ 401	$ 417	$ 1,350	$ 139	$ 149	$ 1,638
YEAR ENDED DECEMBER 31, 1998							
Revenues from net production							
Sales	$ 1,368	$ 1,118	$ 757	$ 3,261	$ 28	$ 175	$ 3,465
Transfers	1,185	212	458	1,855	454	–	2,309
Total	2,571	1,330	1,215	5,116	482	176	5,774
Production expenses	(1,132)	(346)	(304)	(1,822)	(153)	(76)	(2,051)
Proved producing properties depreciation, depletion and abandonment provisions	(714)	(301)	(316)	(3,338)	(106)	(40)	(1,477)
Exploration expenses	(213)	(53)	(212)	(478)	(96)	–	(494)
Unproved properties valuation	(20)	(8)	(16)	(44)	–	–	(84)
Other income (expenses)	54	48	85	187	2	(7)	182
Results before income taxes	506	670	452	4,608	209	53	1,890
Income tax expense	(163)	(328)	(323)	(814)	(102)	(16)	(932)
RESULTS OF PRODUCING OPERATIONS	$ 343	$ 342	$ 129	$ 814	$ 107	$ 37	$ 958

Fig. 2.17
Results of operations for oil and gas producing activities, part 2.

taining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. These costs are also referred to as lifting costs.

Reserve Quantity Information

Table IV (Fig. 2.18) gives a breakdown of the net proved reserves for combined crude oil, condensate and natural gas liquids combined and in separate columns for natural gas. These volumes are shown for both consolidated companies and

TABLE IV – RESERVE QUANTITY INFORMATION

	NET PROVED RESERVES OF CRUDE OIL, CONDENSATE AND NATURAL GAS LIQUIDS — Millions of barrels							NET PROVED RESERVES OF NATURAL GAS — Billions of cubic feet						
	Consolidated Companies				Affiliates		World wide	Consolidated Companies				Affiliates		World wide
	U.S.	Africa	Other	Total	CPI	TCO		U.S.	Africa	Other	Total	CPI	TCO	
RESERVES AT DECEMBER 31, 1998	1,196	1,131	519	2,846	578	1,082	4,506	4,991	223	3,187	8,401	161	1,401	9,963
Charges attributable to:														
Revisions	(1)	106	28	133	110	7	250	(151)	77	13	(61)	7	(17)	(71)
Improved recovery	38	88	36	160	25	–	185	7	–	–	7	12	–	19
Extensions and discoveries	43	92	7	142	2	16	160	372	–	3	375	1	21	397
Purchases	5	–	30	35	–	–	35	32	–	5	37	–	–	37
Sales	(12)	–	(22)	(34)	–	–	(34)	(119)	–	(50)	(189)	–	–	(189)
Production	(119)	(117)	(77)	(313)	(62	(30)	(405)	(635)	(12)	(175)	(822)	(30)	(21)	(873)
RESERVES AT JANUARY 1, 1998	1,148	1,300	521	2,969	653	1,075	4,697	4,497	288	2,963	7,768	151	1,384	9,303
Charges attributable to:														
Revisions	(23)	3	(24)	(44)	(98)	115	(27)	(426)	49	30	(347)	2	126	(219)
Improved recovery	44	62	20	126	30	–	156	7	–	8	15	1	–	16
Extensions and discoveries	50	45	17	112	2	76	190	347	–	86	433	5	98	536
Purchases	1	–	213	214	–	–	214	35	–	372	407	–	–	407
Sales	(33)	–	(2)	(35)	–	–	(35	(74)	–	–	(74)	–	–	(74))
Production	(115)	(120)	(84)	(319)	(59)	(33)	(411)	(598)	(15)	(248)	(861)	(25)	(27)	(913)
RESERVES AT DECEMBER 31, 1999	1,072	1,290	661	3,023	528	1,233	4,784	3,788	322	3,231	7,341	134	1,581	9,056
Charges attributable to:														
Revisions	(5)	56	4	55	35	106	195	(29)	450	140	561	8	126	695
Improved recovery	58	20	9	87	16	–	103	12	–	6	17	–	–	17
Extensions and discoveries	46	92	65	203	2	7	212	405	1	371	777	4	9	790
Purchases	5	131	3	139	–	–	139	18	12	–	30	–	–	30
Sales	(8)	–	–	(8)	–	–	(8)	(131)	–	(1	(132)	–	–	(132)
Production	(114)	(53)	(212)	(478)	(96)	–	(494)							
RESERVES AT DECEMBER 31, 2000	1,054	1,465	644	3,163	528	1,310	5,001	3,493	768	3,486	7,747	122	1,683	9,552
Developed Reserves														
At January 1, 1998	1,025	721	293	2,039	435	532	3,006	4,391	223	1,695	6,309	145	688	7,142
At December 31, 1998	982	891	342	2,215	436	646	3,297	3,918	283	2,074	6,255	135	832	7,222
At December 31, 1999	906	940	489	2,334	340	750	3,464	3,345	272	2,243	5,860	131	1,011	7,002
AT DECEMBER 31, 2000	981	943	460	2,284	327	795	3,406	3,109	290	2,929	6,328	121	1,019	7,468

Fig. 2.18
Reserve quantity information.

affiliates, broken down by major operating areas for the current reporting period and the previous two years' data for comparison. The last section shows the volumes of developed reserves. Line items are described below.

Proved oil and gas reserves[18] are the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Prices include the consideration of changes in existing prices provided by fixed contractual arrangements, but not escalations based upon future conditions (e.g., inflation).

Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes 1) that portion delineated by drilling and defined by gas–oil or oil–water or both contacts, if any, and 2) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of a reservoir.

Reserves that can be produced economically through the application of improved recovery techniques (such as fluid injection) are included in the

"proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.[19]

Changes in proved reserves include the following:

Revisions of previous estimates. Revisions represent changes in previous estimates of proved reserves, either upward or downward, resulting from new information (except for an increase in proved acreage) normally obtained from development drilling and production history or resulting from a change in economic factors.

Improved recovery. This improvement refers to changes in reserve estimates resulting from the application of improved recovery techniques.

Extensions and discoveries. These additions are to proved reserves and result from the extension of the proved acreage of previously discovered (old) reservoirs through additional drilling periods subsequent to discovery and the discovery of new fields with proved reserves or of new reservoirs of proved reserves in old fields.

Developed reserves. These reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.[20]

Standardized Measure of Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves

Tables V and VI look at the standardized measure of discounted future net cash flows as related to proved oil and gas reserves (Figs. 2.19 and 2.20). The first table is a standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, broken down by major operating areas for the current reporting period and the previous two years' data for comparison.

TABLE V – STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATED TO PROVED OIL & GAS RESERVES

	Consolidated Companies				Affiliated Companies		
Millions of dollars	U.S.	Africa	Other	Total	CPI	TCO	Worldwide
AT DECEMBER 31, 2000							
Future cash inflows from production	$ 60,830	$ 33,950	$ 27,490	$ 122,270	$ 12,700	$ 30,350	$ 165,320
Future production and development costs	(13,610)	(7,740)	(6,410)	(27,760)	(8,560)	(7,250)	(43,570)
Future income taxes	(16,590)	(15,690)	(7,720)	(40,000)	(1,720)	(6,440)	(48,160)
Undiscounted future net cash flows	30,630	10,520	13,360	54,510	2,420	16,660	73,590
10 percent midyear annual discount for timing of estimated cash flows	(12,340)	(4,130)	(5,210)	(21,680)	(930)	(11,180)	(33,790)
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS	$ 18,290	$ 6,390	$ 8,150	$ 32,830	$ 1,490	$ 5,480	$ 39,800
AT DECEMBER 31, 1999							
Future cash inflows from production	$ 31,650	$ 31,830	$ 23,690	$ 87,170	$ 11,950	$ 24,380	$ 123,500
Future production and development costs	(11,350)	(6,030)	(5,420)	(22,800)	(7,830)	(4,900)	(35,530)
Future income taxes	(7,050)	(16,490)	(6,200)	(29,740)	(1,820)	(4,980)	(36,540)
Undiscounted future net cash flows	13,250	9,310	12,070	34,630	2,300	14,500	51,430
10 percent midyear annual discount for timing of estimated cash flows	(5,480)	(2,920)	(4,590)	(12,990)	(900)	(10,400)	(24,290)
Standardized measure of discounted future net cash flows	$ 7,770	$ 6,390	$ 7,480	$ 21,640	$ 1,400	$ 4,100	$ 27,140
YEAR ENDED DECEMBER 31, 1998							
Future cash inflows from production	$ 19,810	$ 12,560	$ 13,010	$ 45,380	$ 6,020	$ 8,360	$ 59,760
Future production and development costs	(12,940)	(6,980)	(4,930)	(24,850)	(4,470)	(5,860)	(35,180)
Future income taxes	(1,970)	(2,110)	(2,850)	(6,930)	(660)	(200)	(7,790)
Undiscounted future net cash flows	4,900	3,470	5,230	13,600	890	2,300	16,790
10 percent midyear annual discount for timing of estimated cash flows	(1,880)	(1,070)	(2,190)	(5,140)	(390)	(1,990)	(7,520)
Standardized measure of discounted future net cash flows	$ 3,020	$ 2,400	$ 3,040	$ 8,460	$ 500	$ 310	$ 9,270

Fig. 2.19
Discounted future net cash flows.

TABLE VI – CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS FROM PROVED RESERVES

	Consolidated Companies			Affiliated Companies			Worldwide		
Millions of dollars	2000	1999	1998	2000	1999	1998	2000	1999	1998
PRESENT VALUE AT JANUARY 1	21,640	8,460	13,110	5,500	810	1,890	27,140	9,270	15,000
Sales and transfers of oil and gas produced, net of production costs	(9,863)	(5,385)	(3,294)	(1,254)	(679)	(429)	(11,117)	(6,064)	(3,723)
Development costs incurred	1,488	1,425	1,652	408	330	275	1,896	1,755	1,928
Purchases of reserves	1,154	2,811	208	–	–	–	1,154	2,811	208
Sales of reserves	(1,020)	(344)	(347)	–	–	–	(1,020)	(344)	(347)
Extensions, discoveries and improved recovery, loss related costs	5,147	2,886	813	132	385	49	5,279	3,271	862
Revisions of previous quantity estimates	(1,093)	(503)	262	1,281	84	280	188	(419)	542
Net changes in price, development & prod. costs	17,105	25,457	(11,321)	625	6,938	(2,159)	17,730	32,195	(13,480)
Accretion of discount	3,672	1,165	2,096	817	135	289	4,489	1,300	2,385
Net change in income tax	(5,400)	(14,332)	5,281	(539)	(2,503)	614	(5,939)	(16,835)	5,895
Net change for the year	11,190	13,180	(4,650)	1,470	4,690	(1,080)	12,660	17,870	(5,730)
PRESENT VALUE AT DECEMBER 31	32,830	21,640	8,460	6,970	5,500	810	39,800	27,140	9,270

Fig. 2.20
Changes in future net cash flows.

Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pretax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% mid-period discount factors. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

It is important to note that this information does not represent management's estimate of the company's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. Also, the calculation requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of the company's future cash flows or value of its oil and gas reserves.

Table VI, detailing the changes in the standardized measure of discounted future net cash flows from proved reserves, lists the changes in present values between years, which can be significant, and reflects changes in estimated proved reserve quantities and prices, and assumptions used in forecasting production volumes and costs. Changes in the timing of production are included with "Revisions of previous quantity estimates."[21]

Analyzing the Annual Report

From the annual report, you can derive the value drivers used and reported by companies[22] and begin to understand the data used by your customers to calculate those drivers.

Horizontal Analysis

Horizontal analysis compares two or more years of financial data. It highlights areas of focus and typically includes both dollar and percentage changes, as a single measurement may lead to false conclusions. Below are some of the more common items compared on a horizontal basis with previous years.

- Operating earnings income are generated by ongoing operations of the company, excluding special items or adjustments caused by changes in accounting principles. Oil and gas price fluctuations have tremendous effects on operating earnings compared from one year to another. In a good year, there will be additional monies for capital expenditures; in poorer years, cost management will take a higher profile in the following year.
- Capital and exploratory expenditures total the amount spent on related projects and should ensure future earnings growth if managed properly. Decreasing trends could be an early warning of future problems.

Vertical Analysis

Vertical analysis is also used on financial statements and supplemental statements. Annual report discussions use vertical analysis, which involves the expression of items in the statement as a percentage of the "base amount," such as balance sheet items as a percentage of total assets and expense items as a percentage of the total revenue on the income statement. Vertical analysis is a good technique for comparing results for competitors with industry averages.

Ratio Analysis

Ratio analysis allows for the measurement of the relationship between two single amounts. Examples include the following:

- Liquidity ratios
- Asset management ratios
- Profitability ratios
- Debt management ratios
- Market value ratios
- Liquidity ratios
- Operating ratios

Liquidity Ratios

Liquidity ratios show the firm's ability to meet its current obligations as they fall due. There are three common liquidity ratios:

- **Current ratio** measures the cover provided by current assets for current liabilities.

  Current ratio = current assets / current liabilities

  When a company is struggling, it slows payment to creditors and borrowings increase. A falling current ratio indicates trouble.

- **Quick ratio** measures the company's ability to pay off short-term obligations without relying on the sale of inventories.

  Quick ratio =
  (current assets – inventories) / current liabilities

- **Working capital to total assets ratio** indicates relative liquidity of total assets.

  Working capital to total assets =
  working capital / total assets

  where:

  Working capital = current assets – current liabilities

When looking at the liquidity of a company, these ratios are only the starting point of liquidity analysis. Other factors to be considered are the nature of the business, composition of the current assets, seasonal nature of the business and its effect on liquidity, probability of market values deviating materially from book values, and credit rating and ability to refinance short-term debts.

From this point, it is easy to see how your customers need to react decisively whenever there is a large negative price swing in oil and gas prices as their liquidity will be severely affected with large price changes from one year to the next.

Debt Management Ratios

This group of ratios measures the company's ability to manage debt or the solvency of the company. These ratios are a measurement of the risk to long-term creditors and shareholders. Commonly used ratios include the following:

- Gearing ratio
- Debt to total assets
- Times interest earned.

Gearing ratio is the relationship among different types of funds in a company, such as loans and equity. The higher the amount of loan funds, the higher the amount of fixed interest charge in the profit and loss account. Where interest charges are high, a small change in operating profit will have an increased result in return to equity for shareholders. This is compared on a horizontal basis with previous years.

Gearing ratio = total debt / total debt + total equity

Debt to total assets ratio is the percentage of assets financed other than by stockholders.

Debt to total assets = total liabilities / total assets

The lower the ratio, the greater the cushion for creditors. Shareholders, in contrast, can benefit from higher leverage because it magnifies earnings.

Times interest earned (TIE) ratio measures the extent to which operating income can decline before the company is unable to meet its interest costs. Significant levels of interest on debt relative to the company's annual operating income suggests that the company's borrowings are too high.

Times interest earned =
income before interest and taxes / interest charges

Profitability Ratios

This group of ratios shows the combined effects of liquidity, asset management and debt management on operating results. Commonly used ratios are as follows:

- Return on equity
- Return on capital employed
- Total stockholder return

Return on equity (ROE) is a measure of the percentage return generated by a company for the equity shareholders. It is calculated by expressing profit after tax as a percentage of shareholders' funds. Some experts argue that ROE drives company value.

Return on capital employed (ROCE) includes all long-term funds in the balance sheet—that is, shareholders' funds plus long-term loans plus miscellaneous long-term funds. ROCE is calculated by dividing net income before tax by the average of total debt and stockholders' equity for the year.

Total stockholder return is the return to stockholders from stock price appreciation and reinvested dividends for the reporting period.

Market Value Ratios

This set of ratios relates the company's stock price to its earnings and book value per share. These ratios are applicable for publicly traded companies. Commonly used ratios include the following:

- Price/earnings ratio
- Earnings per share
- Market/book ratio

Price/earnings (P/E) ratio shows how much investors are willing to pay per dollar of reported profits. The P/E ratio is calculated by dividing price per share by earnings per share. Generally, P/E ratios are higher for companies with high growth prospects, other things held constant, but they are lower for riskier companies.

Earnings per share (EPS) is the profit earned for the ordinary shareholder as shown in the profit and loss account divided by the number of issued ordinary shares. It is calculated by dividing net income by the total number of outstanding shares.

Market/book ratio gives an indication of how investors regard the company. Companies with relatively high rates of return on equity generally sell at higher multiples of book value than those with low returns. The market/book ratio is calculated by dividing the market price per share by the book value per share, whereas the book value per share is calculated by dividing common equity by outstanding shares.

Operations-Related Measurements

Each industry has a set of standard operating measures used to evaluate the performance of a business year-on-year and against peers and part of the annual report. In this section, the operations-related measures are specifically for oil and gas producing companies.

Operations-related measurements fall into three main categories:

- Reserves replacement costs (RRC)
- Reserves replacement ratio (RRR)
- Lifting costs

Reserves replacement costs include the following four main measurements.

Reserves replacement costs (RRC) are defined as the costs of proved reserves added through all means including all costs and all reserve additions related to extensions and discoveries, revisions, improved recovery and purchases of proved reserves. They are calculated by dividing the ratio of the costs described above by the additional proved reserves. The units are dollars per barrel of oil equivalent added.

Finding and development costs (FDC including revisions) are defined as the cost of proved reserve additions from extensions and discoveries, improved recovery and revisions, but excluding the effect of proved reserve purchases. FDC, including revisions, provides a separate and useful measure of performance in adding reserves with the drill bit, exclusive of costs and reserves added through proved property acquisitions. The units are dollars per barrel of oil equivalent added.

Finding and development costs (FDC excluding revisions) are defined as the cost of proved reserve additions from extensions and discoveries and improved recovery, but excluding the effect of revisions and proved reserve purchases. FDC, excluding revisions, provides another measure of adding reserves through the drill bit. The units are dollars per barrel of oil equivalent added.

Proved reserve acquisition costs (PRAC) are defined as the calculated cost of proved reserves added through purchases of proved properties. They are calculated by dividing the ratio of the costs described above by the additional proved reserves. The units are dollars per barrel of oil equivalent added.

Reserve replacement rates (RRR) are the ratio of added proven reserves divided by the annual production. RRR is a percentage of the additional reserves to the annual production.

Lifting costs per barrel or production costs are a key performance measure calculated by taking operating, selling, general and administrative expenses; adding own-use fuel costs; subtracting special items and expenses of divested operations; and then dividing by production and sales volumes. The units are dollars per produced barrel of oil equivalent.

WORLDWIDE PROVED RESERVE ACQUISITION COSTS (PRAC), FINDING & DEVELOPMENT COSTS (FDC) AND RESERVE REPLACEMENT COSTS (RRC). ALL COSTS IN $ PER BOE. PRODUCTION REPLACEMENT RATES IN %.

		2009	2010	2011	2012	2013	3-Year	5-year
PRAC		$ 4.28	$ 9.53	$ 8.85	$ 10.59	$ 5.20	$ 6.14	$ 6.48
FDC		12.84	17.82	16.88	21.77	22.00	20.13	18.30
RRC		11.68	16.24	15.93	20.69	14.19	16.33	15.54
RRR Oil	(All sources)	119%	119%	147%	139%	219%	169%	149%
RRR Gas	(All sources)	152%	139%	139%	72%	143%	118%	128%
PRODUCTION COSTS		$ 11.58	$ 13.93	$ 18.33	$ 18.89	$ 19.58	$ 18.94	$ 16.52

Fig. 2.21
Worldwide—proved reserve acquisition costs (PRAC), finding and development costs (FDC) and reserve replacement costs (RRC).

2013 PERFORMANCE MEASURES

	Worldwide	Africa/ Middle East	Asia Pacific	Canada	Europe	South/Central America	United States	Other/ Unspecified
Proved reserve acquisition costs	$ 5.20	$ 64.49	$ 3.85	$ 8.69	$ 20.65	$ 19.56	$ 17.58	$ 9.85
Finding and development costs	22.00	44.45	19.78	21.01	71.17	20.94	16.58	31.62
Reserve replacement costs	14.19	45.07	8.28	17.95	57.22	20.91	16.70	28.55
Oil production replacement rates								
All sources	219%	65%	380%	242%	10%	96%	217%	16%
Excluding purchases & sales	115%	65%	101%	249%	40%	97%	225%	48%
Gas production replacement rates								
All sources	143%	41%	174%	141%	22%	136%	210%	89%
Excluding purchases & sales	152%	65%	136%	161%	41%	135%	231%	162%
PRODUCTION COSTS ($/BOE)	$ 19.58	$ 13.90	$ 24.21	$ 21.71	$ 19.88	$ 17.94	$ 14.87	$ 17.78

Fig. 2.22
2013 worldwide regional performance measures (costs in $ per BOE; production replacement rates in %).

Figure 2.21 shows the worldwide historical trends averages for several E&P performance indicators. **Figure 2.22** shows the worldwide and regional performance indicators for 2013.[23]

Using Value Drivers to Advantage

Once the value drivers—corporate direct and indirect, and project value drivers—have been identified, sales representatives have the foundation for planning a sales strategy. This understanding also provides the basis for a compelling value proposition statement that clearly justifies using your company.

This chapter has described how to use the annual report to uncover corporate value drivers. Other sources include corporate speeches, presentations and strategy reports. Often the best source of information for discovering project value drivers is the company contact. The "Sales Call Skills" chapter discusses specific techniques used in sales calls to discover this type of information from contacts.

Corporate value drivers do not change drastically from year to year as they are based on long-term goals that support the corporate vision. Value drivers are important for all sales people to understand. This includes discovering information such as corporate vision, long-term goals, value drivers, objectives and strategies that, once known, are best recorded for each account and then shared with other individuals who work with the account. This information should be maintained in your company's CRM database and stored in the "Account Profile," the topic of the next chapter.



Summary of Chapter Objectives

1. Explain how and when value drivers are established.

In the corporate planning stage, when the company establishes its long-term vision for the company, it will also set its long-term goals. The long-term goals then will set the critical success factors and value drivers for achieving the long-term goals and company vision. With the long-term goals set, then short-term objectives are established, and projects are selected to achieve the objectives. You classify value drivers into two classes: corporate and project value drivers. Corporate value drivers are defined as variables that directly or indirectly impact the market value of the corporation as measured by the combined value of the common stock, known as market capitalization. This definition can be broken into two parts: direct and indirect variables. Direct corporate value drivers are variables that affect the value of the common stock or share price, such as EPS. Indirect corporate value drivers are initiatives or corporate policies that impact a company's ability to achieve its objectives. Examples of indirect value drivers are operational ratios, such as reducing lifting costs per barrel. Project value drivers are for projects in the execution stage, which are focused on achieving the project objectives or producing the expected results. Project value drivers are defined as variables that directly or indirectly impact project results. An example of a direct project value driver is production rate. An indirect project value driver might be a faster and more efficient analysis of logging data. At the execution stage, sales staff must determine how to assist customers in achieving their project objectives. Both corporate and project direct and indirect value drivers are typically included in the management's KPI. Sales representatives must do their research on each account to uncover the direct and indirect corporate value drivers of those accounts.

2. Know the most common corporate value drivers, both direct and indirect.

The two classes of common corporate value drivers are profitability ratios, such as return on equity, return on capital employed, and total stockholder return, and market value ratios, such as price/earnings ratio, earnings per share, and market/book ratio. The most common corporate indirect value drivers are production, lifting costs per barrel, reserves replacement ratio and proven reserves.

3. Explain the purpose of the value proposition.

The value proposition statement clearly communicates how your company's services or products contribute to corporate or project value drivers. For sales staff, the first task in the sales cycle is to gather sufficient information about the customer's objectives and value drivers at both the corporate and project levels. With this information, sales staff can then devise a strategy to support a proposal the customer will approve. The next chapter clearly describes the steps needed to build an accurate and believable value proposition statement.

4. Know the basic make-up and contents of the annual report.

Annual reports are typically broken into the following sections: message to the shareholders, management discussion and analysis of financial conditions and results of operations, and financial review. In the message to shareholders, the highest-ranking officer of the company highlights major developments for the reporting year and future direction. In this section, the company officer gives a high-level review of the company's performance and major initiatives. This section is very helpful for beginning to uncover both direct and indirect company value drivers. Management's discussion and analysis of financial condition and results of operations gives a more detailed review of results as supported by the financial and supplemental statements. It also includes a summary of each specific operating entity, often geographically. It usually highlights KPI, such as net proved reserves and operating expenses per barrel. The financial review contains four basic reports. These reports constitute part of the company's annual reporting requirements and are presented in accordance with GAAP. All companies must publish three standard financial reports: balance sheet, income statement and statement of cash flows. Oil and gas producing companies must also provide supplemental information on their activities.

Applying the Concepts

1. For one of your key accounts, search it's websites for speeches, presentations and strategy documents. Download documents that improve your understanding of its long-term goals, critical success factors and value drivers. Using this information, summarize your findings and describe the account's:
   - Corporate mission,
   - Long-term goals,
   - Critical success factors,
   - Value drivers both direct and indirect,
   - Current objectives and strategies.
2. Which of the value drivers do you believe you can impact with the product and services you sell?
3. Make a value proposition statement for this customer's value driver(s).

References

1. See insets for Conoco vision statement taken from the *1999 Annual Report.*
2. For companies that are not publicly traded, the same concepts apply, except that there are fewer owners of the company.
3. Taken from Chevron's 1999 and 2000 annual reports.
4. Taken from BP Technology Seminar, D. Oliver, Managing Director (June 2001).
5. Adopted from the speech "Capital Efficiency—Importance to a Major Petroleum Company," J. N. Sullivan, Chevron Corporation (1998).
6. Taken from *Chevron 2000 Annual Report.*
7. *Ibid.*
8. For example, in the U.S., the GAAPs are the Financial Accounting Standards Board (FASB) and Securities Exchange Commission (SEC).
9. For a more detailed discussion of financial reports, see C. Walsh, *Key Management Ratios,* London, England, Prentice Hall Publishing (1996).
10. When assets that are part of a composite group are retired, sold, abandoned or otherwise disposed of, the cost—net of sales proceeds or salvage value—is charged against the accumulated reserve for depreciation. Where depreciation is accumulated for specific assets, gains or losses on disposal are included in period income. Maintenance and repairs are charged to expense; replacements and improvements are capitalized.
11. Classification of proved reserves is pending one or more of the following: 1) decisions on additional major capital expenditures, 2) the results of additional exploratory wells that are under way or firmly planned, and 3) the securing of final regulatory approvals for development. Otherwise, well costs are expensed if a determination cannot be made within one year following completion of drilling as to whether proved reserves were found. All other exploratory wells and costs are expensed.
12. Long-lived assets, including proved oil and gas properties, are assessed for possible impairment by comparing their carrying values with the undiscounted future net before-tax cash flows. Impaired assets are written down to their estimated fair values, generally their discounted cash flows. For proved oil and gas properties, the company generally performs the impairment review on an individual field basis. Impairment amounts are recorded as incremental depreciation expenses in the period in which the event occurs. Depreciation and depletion (including provisions for future abandonment and restoration costs) of all capitalized costs of proved oil and gas producing properties, are expensed using the unit-of-production method by individual fields as the proved developed reserves are produced.
13. DD&A: A method of accounting associated with the acquisition, exploration and development of new oil and natural gas reserves. Depreciation is a means of allocating the cost of a material asset over its useful life, such as operating equipment.

14. Cash equivalents represent investments with maturities of three months or less from the time of purchase. They are carried at cost plus accrued interest, which approximates fair value.

15. The presentation of this information is not as consistent as the three previously discussed basic financial reports. Each country has its own GAAP regarding the additional reporting requirements for an E&P company. For example, in the U.K., the reporting requirements are covered in the UK Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities." In the U.S., it is the Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities" (FAS No. 69). The reports shown here are per U.S. standards, as they are the most comprehensive.

16. Figures 4.14 through 4.19 were taken from the *Chevron 2000 Annual Report.*

17. Examples of production costs are labor to operate the wells and related equipment and facilities, repairs and maintenance, materials, supplies and fuel consumed and supplies utilized in operating the wells and related equipment and facilities, property taxes and insurance applicable to proved properties and wells and related equipment and facilities, and severance taxes.

18. Descriptions of reserve quantity line items taken from *Arthur Andersen Global E&P Trends 2000.*

19. Estimates of proved reserves do not include oil that may become available from known reservoirs, but which is classified separately as "indicated additional reserve"; crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; crude oil, natural gas and natural gas liquids that may occur in undrilled prospects; or crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other sources.

20. Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilling. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

21. The description of the standardized measure of discounted future net cash flows and the changes in standardized measure of discounted future net cash flows were taken from the *Chevron 2000 Annual Report.* These last two reports are in accordance with the requirements of FAS No. 69.

22. More in-depth information on commonly used financial analyses can be found in C. Walsh, *Key Management Ratios*, London, England, Prentice Hall Publishing (1996).

23. Reserve replacement ratio data and performance data taken from *Ernst and Young Global Oil and Gas Reserves Study*, 2014.



Account Corporate Profile



Your Basic Research

Professional sales organizations complete their basic research on the accounts they want to build a relationship with before they ever think about what to sell to a specific account. It clearly demonstrates that you, as a professional salesperson, have taken an interest in your accounts and, before you start to sell, you want to understand their company. The account profile is the report based on your research that holds this information and is a document you can share with the rest of the Account team.

The account profile sections hold information regarding the account's business environment, goals, value drivers, strategies, and objectives. This information is then easily shared with others who will be involved with the account. In this chapter, you will learn how to complete the profile information to create the account corporate profile.

Corporate-level information about an account is the main input for an account profile. The accounts profile contains information about the account's products and services, markets, competitors, mission, philosophy, critical success factors, short- and long-term business strategies, and account and industry conditions. Taken together, information in the account profile provides an overview of the account's business and value drivers, which can be used for many purposes:

- **Account briefing:** Provides an introduction to the account that can be used for making contacts or giving presentations.
- **Managing sales stages:** Stage 1 provides an understanding of business drivers in the sales cycle; stage 2 identifies customer needs in the sales cycle. Each of the sales stages will be discussed in depth in the next chapter.
- **Account management planning:** Provides input for making or reviewing account development plans.

Chapter Objectives

After reading this chapter, you will be able to:

- Complete an account corporate profile for your key accounts.
- Know how to leverage the account profile in your day-to-day sales activities.

The account profile requires corporate headquarters information and, when appropriate, information regarding any subsidiary accounts operating in the region.[1] Account profile sections can be completed by referring to the account's annual report, corporate website, and strategy reports as well as by entering information learned during personal contact with the account executive.

Completing an Account Corporate Profile

The account profile sections contain information from the account's perspective. This information is updated annually soon after the account's annual planning meeting. As part of the ongoing business relationship, someone from your company should be assigned the responsibility of updating the account profile annually. The account profile sections are described below.

▶ **References:**

When completing the account profile, be sure to state all sources of information and include any supporting documents for the account in the attachments area of your corporate CRM system.

Business Description

This section consists of eight parts, as follows:

Revenue, Profit, and Fiscal Year End: This information should reflect the most recent reported period for the account. If the account is a subsidiary, this information can usually be found in the management discussion section of the account's annual report and from contacts within the account.

Account Trend: This section is the header for the Account Condition section and is a short description of the account's current growth condition. The recommended options are *Emerging* if the account is new, *Growth* for revenue growth or asset expansion, and *Stable* and *Declining* if the account is starting to limit or reduce its operations in the region. This input should support the situation described in the Account Condition section.

Executive Summary: This section provides a summary of the key information found in the other sections of the account profile. It should be completed after all other sections for the account profile have been completed. The information in this section should be included in any strategic sales plan prepared for the account. Anyone who is participating in a review for a specific opportunity but not familiar with the account can use the executive summary as a quick introduction to the account.

Account's Mission: This section describes the account's stated mission or vision. It usually contains the position the account has stated it wants to achieve or maintain. For example:

> "Our vision is to be recognized around the world as a truly great, integrated, international energy company that gets to the future first."[2]

Account's Philosophy: This section describes what the account believes its unique strengths are and its guiding principles for doing business, which are often called "core values." The Account's Philosophy can also contain a description of the account's culture.[3] For example:

> "The most important thing companies can do is to adhere to some basic principles of doing business. This is not intended to lecture, but rather to emphasize the importance of good fundamentals in pursuing and engineering the enormous challenge ahead. These principles include: Placing the highest priority on the safety and health of employees and the environmental well-being of the areas and communities in which you operate. Operating with an understanding that yours is a long-term business and that therefore you must be committed to 'stay the course' through the ups and downs of the business environment—and making certain you have the financial strength to do so.

Said another way, 'thrive on adversity.' Following a selective, highly disciplined financial approach that does not waste money or pursue uneconomic projects. Ensuring that you can put the highest-quality people in the right place at the right time to get the job done in an effective and highly ethical manner. Having an experienced management team to direct these activities and to work with host governments to achieve mutual objectives. And maintaining an active and substantial program to develop new technology to meet business needs and to solve unforeseen problems on the run."[4]

Account's Critical Success Factors: This section describes the critical success factors the account believes are required to achieve its stated mission. Corporate executives, when addressing investors, stock analysts, and public forums, frequently state the critical success factors, and these are usually stated clearly in the annual report. For example:

"This Annual Report describes Chevron's year 2000 accomplishments and explains your plan for achieving long-term goals. Essential is the set of strategies you call 4 plus 1. The foundation is the 'plus 1'—organizational capability—a system of competencies that when linked together form a unique capability. We intend to achieve this unique capability in four drivers of business success—operational excellence, cost reduction, capital stewardship and profitable growth. Thus, 4 plus 1. Success with this strategy will drive Chevron to world-class performance."[5]

Account's Goals—Long Term/Qualitative: This section describes stated long-term/qualitative goals as found in the account's mission statement. The excerpt below illustrates information that could be included in this section:

". . . goals for the five-year period 2000 through 2004: to be No. 1 in total stockholder return relative to your peers and to achieve a minimum 12% return on capital employed while continuing to grow. Success requires profitable earnings-per-share growth greater than your competitors' . . ."[6]

Account's Corporate Strategies: This section contains specific actions and projects the account plans to undertake to achieve its long-term goals. These strategies usually result in opportunities for your company to supply value-added services.[7]

Account and Industry Condition, and Account Goals and Objectives

Account Condition: The Account Condition section describes the account's current condition and major areas of focus. It also includes information regarding year-to-year trends in income and the balance sheet and cash flow statements. Trends in key performance indicators (KPI's) such as reserves, reserve replacement ratio, and lifting costs per barrel are included, as are any other KPI's the account tracks, such as cost per foot drilled and gearing ratio. Typically, the corporate strategy will target any KPI's that are worsening or falling significantly below industry average. If possible, this section should include the account's assumptions for economic analysis, such as supply and demand and price range. The following excerpt from the *Chevron 1999 Annual Report* illustrates information that could be included in the Account Condition section. In this case, the Account Condition would be growth:

"In late 1998, crude oil prices were at near-record lows, and recovery was uncertain. At that time, you announced plans to reduce capital spending in most of your businesses and to launch a company-wide effort to reduce your

cost structure by $500 million. These moves allowed you to continue funding your growth in international exploration and production. We've more than met your commitments. In the first quarter of 1999, you acquired Rutherford-Moran Oil Corporation, which gives you a new growth platform in Southeast Asia's natural gas market. In September, you purchased Petrolera Argentina San Jorge S.A., a company with excellent prospects in two key geologic basins in Latin America."[8]

Industry Condition: This section describes the general industry condition within the region. At minimum, the description should include a three-year trend of supply and demand, investment levels, reserve and production levels, exploration and development activity, number of operators, gross expenditures, and upcoming lease sales. In countries where a national oil company operates, the description should include any major government programs and give the number of active petroleum agreements. Good sources of information for completing this section are industry reports published by oil companies,[9] governments, and research groups such as the International Energy Agency (IEA).[10, 11]

Account's Corporate Objectives: This section describes the account's highest-level stated corporate objectives for the current year. These objectives usually state the targets for cost-reduction programs, capital investments, return on capital, and investments in major projects. For example, this input section for BP Indonesia would show the BP corporate objectives from the most recent annual report. Subsidiary objectives are also noted in this section. Strategic sales plan users are encouraged to complete the account profile input, then generate the strategic sales plan–Corporate Profile. This profile can be shared with the subsidiary executive to obtain input for modifying the objectives to better reflect the subsidiary's specific objectives.

Products/Markets/Competition

Account's Products and Services: This section, which describes the account's products and services at the corporate level, should include both oilfield and non-oilfield businesses.

Account's Major Markets: This section describes the account's major markets both inside and outside the oilfield and should include past, present, and future markets. In this section, strategic sales plan users can learn about the organization of the company and names of business units—useful terminology when discussing the account with an account executive. This section also identifies which markets are considered the leading contributors to income and production and notes in which markets the company will invest in the near and long term as well as in which markets the company may withdraw from or reduce its investments.

Account's Competitors: This section describes the account's major competitors. This information can be obtained from corporate presentations from financial conferences, strategy reports, industry reports, and individual conversations with account contacts.

Using Account Profile Information

Account profile information can be used for many purposes: account briefing, sales stage management, and account development, as described below.

▶ **Briefing Document:**

The account profile report information is commonly used to brief newly assigned account representatives or others who are contacting the account or making presentations to the account.

Account Briefing

After the account profile has been completed, all account team members should be sent a copy of the report. When any company executives are going to visit the account, he or she should be sent a copy as part of the pre-visit briefing package.

Managing Sales Stages

By completing the account profile information, sales representatives have access to enough information to complete Stage 1—Understanding Business Drivers of the sales cycle. This stage is common across all opportunities for each account.

A complete and thorough analysis of the Trends and Objectives section of the account profile provides excellent preparation for upcoming account projects and allows sales representatives to position their company as the supplier of choice.

Information gathered for the account's Critical Success Factors (CSF's) and Corporate Strategies sections can be used to align your solution to a newly initiated account project or to build a sound business case to recommend an expenditure to address the account's CSFs and Strategies. This information is required to customize and align sales proposals and to clearly state the value proposition for the account.

Account Planning

All account profile information can be used when reviewing your account strategy or account development plans. These plans should complement the account's philosophy and goals.

For example, if your account plan objective is to migrate the account from a price buyer to a value buyer, the role of technology should be stated as a high priority for the account's projects. If this is not the case, your plan would have to address this point before investing in new technologies or adding product development staff.

If your account plan objective is to introduce one of the advanced pricing models, the importance of involving contractors earlier in the planning cycle should be stated as a high priority for the account's projects. If this is not the case, your plan would have to address the difference.

▶ **Alignment:**

Your approach to the people in the account needs to be aligned with the philosophy and objectives of the account. The account corporate profile is an excellent tool for an introduction to the account plan discussed later in the textbook.

The Biggest Benefit of Completing the Account Corporate Profile

The greatest benefit of working through the process to complete an account profile is the awareness gained of what your customers believe they require to succeed. The process of completing an account profile includes working with the account representative to fully understand the account's business drivers. Completing and regularly updating account profile information enables you to become involved early in the project life cycle to prepare for, rather than simply react to new account opportunities.

This concludes the "Account Corporate Profile" chapter. Although short, it nonetheless outlines a very important process of the professional salesperson. The next chapter will describe in detail the center point of all professional sales activities opportunities management. In fact, completing the account corporate profile is the first stage of opportunities management.



Summary of Chapter Objectives

1. **Complete an account profile for your key accounts.**

To complete an account profile, you must have a thorough understanding of the account's business environment, goals, value drivers, and objectives. In addition, you need to determine what is the account's current condition and the industry in which they operate. The account profile should be stored on the corporate CRM system. Anyone in the sales position should be familiar with this information before they start to pursue sales opportunities or provide day-to-day support. This level of knowledge of the account is required in order to prioritize and tailor our activities to provide value added services for the account. Before anyone makes contact with the account for the first time, it should be a minimum requirement for them to review the account profile.

2. **Know how to leverage the account profile in your day-to-day sales activities.**

This report is also an effective tool to brief anyone who will make contact with the account but who is not familiar with the account. Such situations include high-level visitors from outside the region or support personnel who will be assisting to service the account. This can be done prior to contacting the account. Each sales opportunity that you pursue should be checked to understand how it contributes to the account's goals and objectives described in the account corporate profile in the early stages of the sales cycle. This will ensure that you are aligned with the account. The research that you do to complete an account profile prepares you to make value propositions that are specific to the account. It is good practice to show the account corporate profile report to a high-level contact in the account organization to get their feedback regarding the accuracy of the report. You can then use the contact's feedback to improve the quality of the account profile. This approach also demonstrates to the account that you are not just interested in selling to them, but are very much interested in how to assist them to achieve their objectives. Your interest in their business will differentiate you from other sales representatives who wait for a request for proposal to be sent to them before making contact.



Applying the Concepts

1. In the "Applying the Concepts" section of the "Value Drivers" chapter, you were asked to collect information about your account. Using that information, complete an account profile using the template in Appendix A.
2. Complete the account profile and review the profile with one of your key contacts in the account and consider their input to improve the profile.
3. On a rating of 1–5, where 1 is significant and 5 is none, how would you rate the impact an up-to-date and validated account profile would have on effectiveness to work with the customer? Ensure that you consider both long and short terms.
4. Are there any changes or additional information that you would suggest to be included in the account profile?



References

1. If there is an HQ and regional account, the account profile information from the HQ account can be used in the regional account profile and expanded to include the specifics of the regional account for each section. For example, the BP account profile information for the worldwide BP account can be used for the Indonesian BP account profile and expanded to reflect BP Indonesia's specific account profile information, such as objectives and key performance indicators.
2. Taken from the *Conoco 1999 Annual Report.*
3. Note this may be different from the philosophy applied by people in the buying center, which will be discussed in the Strategic Sales Plan chapter.
4. Taken from *Getting From Here to There: Meeting the Oil and Gas Needs of 2010,* presented at the Cambridge Energy Research Associates Executive Conference, remarks by Harry J. Longwell, Senior Vice President, ExxonMobil Corporation.
5. Taken from the *Chevron 2000 Annual Report.*
6. *Ibid*.
7. A good example of a strategy report is the *BP 2001 Strategy Report* by Sir John Browne. The report is downloadable from the BP website.
8. Taken from the *Chevron 2000 Annual Report.*
9. One example is the *BP Statistical Review of World Energy.* This report is typically published each June and made available free of charge on BP's corporate website.
10. The *IEA World Energy Outlook* report examines energy demand and supply for 13 world regions up to the year 2020. The *World Energy Outlook 2000* can be purchased at http://www.iea.org.
11. *Ernst and Young Global Oil and Gas Reserves Study, 2014* is an excellent source of information regarding industry trends for the energy industry.

Appendix A

Account Profile

Account Name: _____

Sales Representative Name: _____ **Date:** _____

Business Description: Revenue: _____ **Profit:** _____ **Trend:** _____ **Fiscal Year-End:** _____

Executive Summary: This is a concise summary of all the other fields read this after reading the other parts of the profile.

Mission: Defines a position the Account is attempting to reach.

Philosophy: What the Account believes its unique strengths are and its guiding principles for doing business, or "core values."

Critical Success Factors: Critical success factors the account believes are required to achieve its stated mission. Corporate executives, when addressing investors, stock analysts and public forums, frequently state the critical success factors, and these are usually stated clearly in the annual report.

Long-Term Goals: Long-term/qualitative goals.

Strategy: The portfolio of projects or initiatives the Account plans to undertake to achieve the long-term goals.

Objectives: Corporate objectives or key performance indicators (KPIs) for the current year, for example targets for cost reduction, capital investments, return on capital, and investments in major projects.

Account Condition: What is a three-year trend for the: main line items in the income statement, balance sheet and cash flow statements? What is is a three-year trend for KPIs such as reserves, reserve replacement ratio and lifting costs per barrel? Include any other KPIs the account tracks, such as cost per foot drilled and gearing ratio. If possible, this section should include the account's assumptions for economic analysis, such as supply and demand and price range.

Industry Condition: For the geographic regions, the Account operates what is a three-year regional trend for key performance indicators (KPIs) such as reserves, reserve replacement ratio, production, and lifting costs per barrel? What is a three-year trend for investment levels in exploration and development in the region? How many operators are in the region? Are there any significant incentive programs or upcoming lease sales in the current reporting year?

Products and Services: What are the Account's upstream and downstream businesses and any other businesses, not in the oilfield?

Major Markets: What are the Account's major markets that it has business?

Competitors: Who does the Account consider its major competitors?



Opportunities Management



Make Time Your Advantage

This chapter describes the opportunities management process used to effectively manage the sales processes that both complement and are focused on your customer's project management process.

Each phase in the opportunities management process has specific objectives that drive your sales activities and strategies. The opportunities management process is designed to organize your sales efforts and identify the customer's needs and value drivers. Followed from beginning to end, the opportunities management process makes time your advantage. The graphic on the right is a representation of opportunities management as a clock, with the main stages of opportunities management on the face of the clock. The key success factor of all time management is prioritizing and identifying the important activities that must be done. Opportunities management for the sales professional is the key to prioritizing the most important sales activities. Opportunities management eliminates surprises and allows you to develop and deliver a value-added solution that is significantly better than the competition. The process also helps secure the project at the desired profitability level.

The customers' project management process described in Chapter 2 "Value Drivers" was used to develop the sales professionals' opportunities management process. One modification was made to the customer's project management process. Although the oil company executive quoted in Chapter 2 did not consider the procurement as a separate phase in their project management process, the procurement phase is nevertheless a phase that each project management team must complete to select their suppliers for their project. Therefore, it is very important for the sales professional to understand. Phase 3–Evaluation of Options has been expanded to include Phase 3a–Evaluation of Options as described in Chapter 2 and Phase 3b–Procurement consisting of five procurement stages shown in **Fig. 4.1** on the next page.

Chapter Objectives

After reading this chapter, you will be able to:

- Describe the sales phases and stages in the opportunities management process and understand the more significant factor in each stage.
- Understand which opportunities management tool to use at the appropriate time in the process.



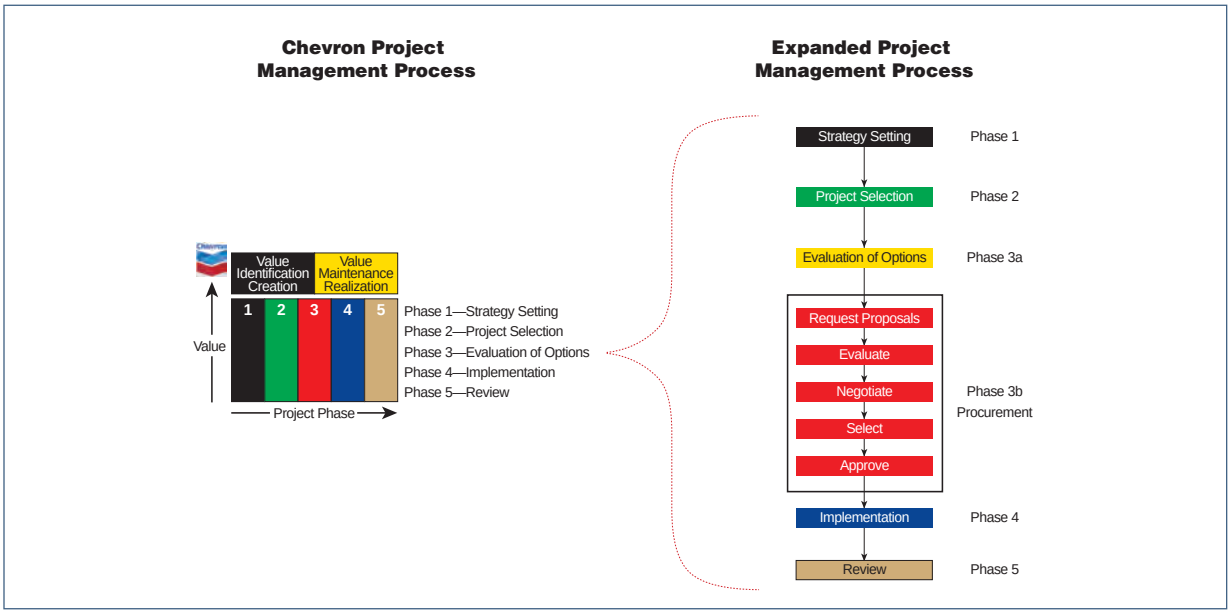


Fig. 4.1
Chevron Project Management Process shown on the left. Expanded Customer Project Management Process shown on the right.

The expanded customer project management process drives the sales opportunities management process, as shown in **Fig. 4.2** below. It is important to realize early in a salesperson's career that the customer's project management process does not wait for a seller's involvement. Each customer management phase you fail to exploit can reduce your chances of winning the project. Sales staff often say their major challenge is overcoming the lack of time available to accomplish all their sales and non-sales tasks. One way to get more time for sales-related tasks is to become involved earlier in the customer management process and not wait to receive the tender. As T. J. Wilson, founder of IBM, once said, "Make time your ally and time will make you." Each opportunities management process phase and stages is discussed in more detail on the following pages.

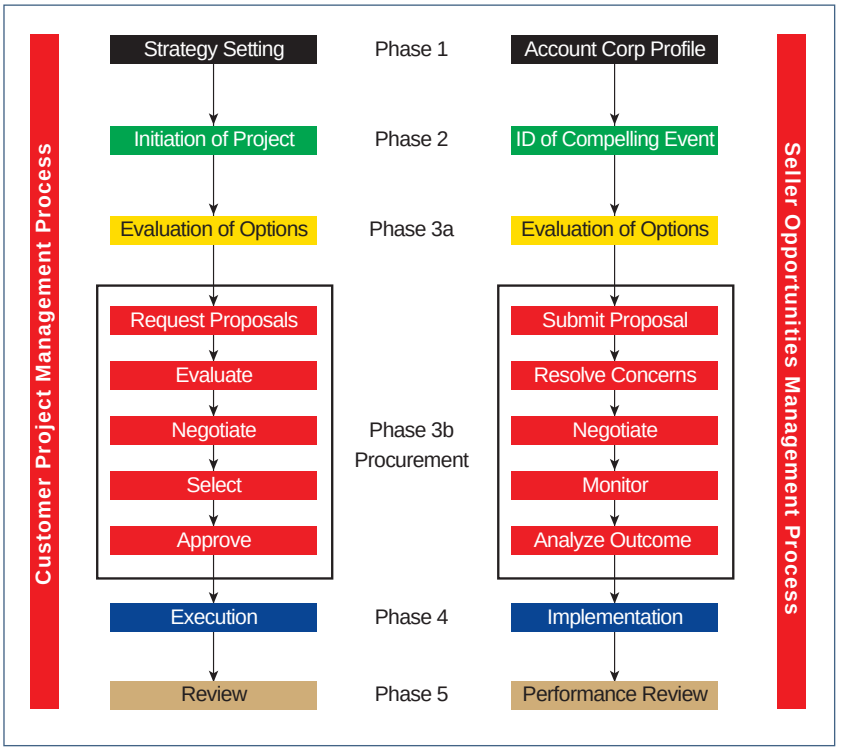


Fig. 4.2
Customer Expanded Project Management Process and Seller Opportunities Management Process.

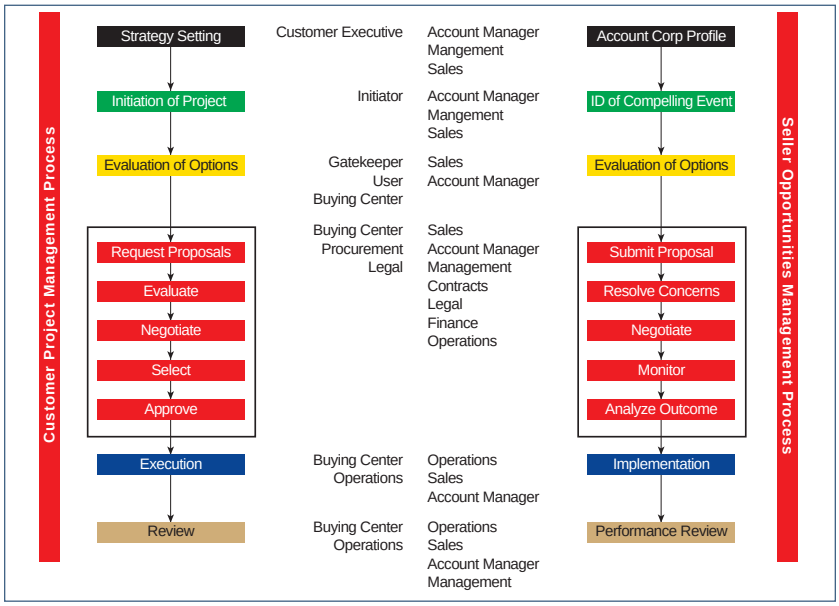


Fig. 4.3
Customer Project and Seller Opportunities Management Processes.

Sales Phases in the Opportunities Management Process

The opportunities management process has five phases. Each sales phase corresponds to a customer project management phase. In each sales phase, you will identify the important issues for the customer and the objectives and issues for sales staff. **Figure 4.3** above shows the most commonly involved people in both the customer project management process and seller opportunities management process. The opportunities management cycle can take from months to many years to complete. Participants from the customer and seller may change with the phases and stages, which makes close team coordination essential.

In large sales, the seller's representatives may be involved in multiple phases from start to finish in the opportunities management process. Preparatiovvn and effective management are essential to securing projects. A key difference between large and small sales is the length of the sales cycle. The "Large versus Small Sales" sidebar shows some other key differences.[1] Most of the time, sales representatives deal with large sales and buying centers made up of many members. From the buyer's perspective, large purchases also carry greater risks than smaller ones, so the sales objective is to clearly demonstrate the value proposition and address any negatives that might concern the buying center during implementation.

▶ *Large versus Small Sales*

Large sales require different strategies and selling techniques than small sales for five reasons:

- Length of the selling cycle
- Size of the commitment
- Relationship
- Risks
- Consequences of the purchase

Most marketing and sales literature discusses sales techniques for consumer markets, which are mostly small sales. Key aspects of large sales, such as those in the business-to-business environment, are shown in the table below.

Factor	Small	Large
Needs	Implicit	Explicit
Sales skill	Closing	Probing
Relationship	Personal	Business
Buying center	Few	Many

Phase 1: Corporate Account Profile

Creating a corporate account profile is the first sales phase of the opportunities management process, which corresponds to the customer's strategy-setting phase. In this phase, the customer frames business strategies and objectives to align with business goals and the corporate mission. The customer also sets the criteria for project selection and defines the corresponding budgets.

During the customer's strategy-setting phase, your objective is to acquire a thorough understanding of the customer's corporate profile. The corporate profile includes corporate-level information about the account's products and services, markets, competitors, mission, philosophy, critical success factors, short- and long-term business strategies, account and industry conditions, and corporate value drivers.

In this phase, you must understand the customer's strategies and the criteria used to select projects for implementation. With this information, you then create a strategy that aligns you with customer objectives and that positions you in favor over your competitors. You may also be able to uncover opportunities to assist the customer in previously unconsidered ways.

The second objective is to stay in close contact with the sponsors and initiators of the customer's projects so you know when a new project has been approved. This objective requires an organized effort to arrange meetings with the account's upper management. Meetings with high-level contacts should be held after the account's annual budgeting or planning process or soon after the annual report is published. This phase is critical to the opportunities management process and is common to all opportunities for any specific account. Carrying out this phase thoroughly and sharing the information across your company through the CRM program gains efficiencies for both customer and seller organizations.

Phase 2: Identification of a Compelling Event

Phase 2 begins when the customer initiates a project. In this phase, the customer identifies projects that meet the criteria developed in the strategy-setting phase. Projects are initiated for many reasons, including:

- Approval through the corporate planning process (for example, an exploration program or new field development project);
- Identification of a problem that warrants action (for example, an outdated evaluation system or increasing water production in an existing field); and
- New knowledge learned from a service provider about products or services that would advance company objectives (for example, a reservoir optimization project to increase production).

In phase 2, you discuss the proposed project with the initiators or sponsors in order to qualify and better understand project drivers and critical success factors. To qualify the project, you must ask questions about what is compelling the customer to spend money and resources on this project and other related project questions, such as:

- Why does the customer have to act?
- How does this project fit into the customer's business strategy?
- What are the customer's key issues and objectives for the project?
- What is the measurable impact on the customer's business?
- What are the consequences if the project is delayed?
- What is the payback if the project is completed ahead of schedule?
- What is the priority for this project compared to others?
- What are the key customer milestones for the project? What events clearly mark the end of each phase of the project management process and the start of the next? This information helps you determine how much time you have for each of the preceding sales phases to prepare and execute your sales strategy.
- Who are the people in the buying center? See the "Major Sales: Who Really Does the Buying?" sidebar for a brief description of the buying center concept.[2] Who has been assigned responsibility for implementing the project, and who has the power to make decisions or influence implementation of the project?
- What is the customer's total budget for the project?

▶ *Major Sales: Who Really Does the Buying?*

In the article "Major Sales: Who Really Does the Buying?," author T.V. Bonoma emphasizes that seemingly well-planned, well-executed selling strategies may fail if management does not understand the human side of selling. Marketing managers can get at the human factors of purchasing decisions by answering four questions:

- Who is in the buying center?
- Who are the powerful buyers?
- What does each buying-center member want?
- How do they perceive you?

Sales managers should listen to the sales force, emphasize homework and details, and make productive sales calls the norm.

At right is a list of the buying roles encountered in every selling situation as illustrated in the purchase or upgrading of a telecommunications system. In many buying centers, individuals may have multiple roles. For example, a user may be the evaluator and gatekeeper. There may also be approvers who do not work within the company but in a government-reviewing department, as is the case in many countries that have a national oil company.

Initiator: High-level manager proposes to replace the company's telecommunications system

Approver: Manager or committee that reviews the decision-maker's recommendation

Decision-maker: Vice president of IT department has final decision on which system will be purchased

Influencers: Staff have important say about which system and vendors the company will consider

Gatekeeper: Corporate purchasing and corporate telecommunications departments analyze the company's needs and recommend likely matches with potential suppliers

Evaluator: Corporate purchasing department completes the purchase to specification by negotiating and bidding

Users: All division employees who use the telecommunications equipment

Overall, the main goal of phase 2 is to maintain regular (preferably semi-annual) contact with the account's high-level managers or others who initiate projects. Each new project must be subjected to the questions outlined in this section in order to fully define the compelling event and get a head start on the next opportunity management phase evaluation of options. A very effective tool for having a focused conversation with the customer to uncover this information is the project summary shown in **Chapter Highlight 4.1: Be Like Nike and "Just Do It!"**.

At this point, the customers, as part of their overall corporate strategy, have selected a project and now are in their evaluation of options phase. The seller's focus at this time is to retrieve information to understand the high-level drivers for the project and contact the customer's project team assigned to carry out the remaining phases of the customer's project management process. At this time, the salesperson completes a level 1 review of the opportunity. The seller's objective is to assess five factors regarding the sales opportunity:

- Is there a sales opportunity?
- Can we compete?
- Can we win?
- Is it worth winning? and
- What next?

To assess the five critical factors, the salesperson answers a series of questions for each factor. By completing the level 1 review, the salesperson identifies what the seller knows and does not know about the opportunity. By identifying the missing information, the salesperson can prioritize what actions to take in the time remaining before submitting a proposal or response to an invitation to tender from the customer. A level 1 review form is shown in **Chapter Highlight 4.2: "Tell Me Doctor, Do I Have An Opportunity?"**. The level 1 review will be discussed in detail in Chapter 9 "Strategic Sales Plan."

Chapter Highlight 4.1: Be Like Nike and "Just Do It!"

The Golden Rule: Understand First, Then Sell

In a sales training seminar for opportunities management, the instructor recommended that the students use a structured approach when having a conversation with their customers. At this point in the lecture, the instructor was referring to qualifying the compelling event for new projects. What the instructor recommended was using the Project Summary Worksheet (shown on the next page). The instructor called it the professional salesperson's checklist and compared it to a pilot's pre-departure checklist. The instructor said a characteristic of real professionals is using the right tool for a job. The amateur will try to use one tool for every job; some salespeople not trained in the professional sales processes will use a blank page from their day timer. The instructor's advice was to use the worksheet in the meeting with the customer and always offer to give the client a copy at the end of the meeting. Much to the instructor's surprise, one senior student Joao claimed his customers would not like a formal approach because his clients liked a more relaxed approach. The sales trainer, who was also very experienced in sales, doubted the student's claim. The sales instructor told a similar story about a salesperson who was skeptical about the worksheet, but when he used the sheet, his customer was pleased and asked for a copy. The instructor suggested Joao be like Nike and "Just Do It!"—that is, try using the worksheet once before drawing any conclusions about the effectiveness of the project solution worksheet. Joao agreed, and the result is shown below in an email to the instructor.



-----Original Message-----
From: Joao Senior Student
Sent: Tuesday, December 19, 2006 2:27 AM
To: JP Amlin Instructor
Subject: Lessons learned. . .

JP,

As per my "IDEAS list" from the seminar, I used the Project Worksheet format for the first time. It is true I edited it a bit, but it was essentially the same info (see attached).

I remembered when you said the story about a salesperson who was skeptical about the project solution worksheet. Well, today my client (Mr. VP International Exploration) was VERY complimentary about the way the meeting went and how the sheet helped the conversation to be focused. He asked me to send it to him and volunteered to review/edit it in case I missed some info.

I'd like to say thanks for the good teaching and I would like to take the opportunity to wish you and your lovely wife a MERRY XMAS and a great 2007!

Regards,

Joao

The lesson from this student's experience is customers do appreciate having conversations they believe will add value. Structured interviews using professional sales tools like the worksheet will give the client the impression they are dealing with a professional. However, it is the responsibility of the salesperson to use the information from the conversation to return to the customer with useful recommendations.

Another lesson for salespeople is to ensure that they understand what the client is trying to do and what they consider are the important factors before starting to sell. The project summary worksheet is designed to uncover the relevant facts about the customer's project. Having this conversation early in the customer's project management process will be very beneficial when it comes time to make a value-added proposal in the later stages of the opportunities management process. By understanding the client's needs before starting the selling process, the salesperson builds credibility with the customer. The Golden Rule is to understand first, then sell.

Having the Right Conversation with the Right Person about the Right Things at the Right Time!

Project Summary

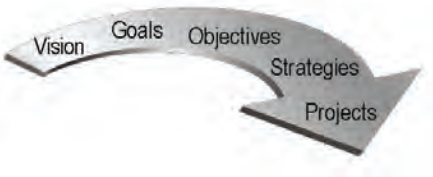
Date: _____ Contact: _____

Company: _____

Business/service unit(s): _____

Project: _____

Description: _____



BUSINESS DRIVERS

CRITICAL SUCCESS FACTORS

Project Objectives

Project Manager

Budget

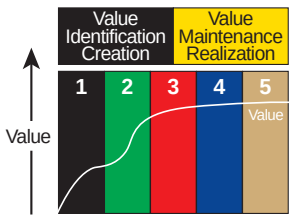
MANAGEMENT TEAM

Operations
Technical
Finance
Procurement
Partners
Government

CONCERNS/EXPECTATIONS

Customer Project Management Schedule

Dates



Phase 1—Strategy Setting _____

Phase 2—Project Selection _____

Phase 3a—Evaluation of Options _____

Phase 3b—Procurement _____

Phase 4—Implementation _____

Phase 5—Review _____

The project summary worksheet is used in the meeting with the customer to discover the important factors, timing, and people participating in the client's project team. The sheet is completed starting from the top, guiding the salesperson to use open questions to the customer about their project. The worksheet can be customized to include the client and seller logos, as well as the client's specific project management process phases. It is best practice to use the sheet in paper form when having the conversation with the customer. A PDF version of the project solution worksheet and other sales tools can be downloaded from http://www.b2bprofessionalsales.com

Chapter Highlight 4.2: Tell Me Doctor, Do I Have an Opportunity?



What You Don't Know Can Be Fatal. Have Regular Check-Ups to Nip the Problem Early

Good advice from your doctor is to get regular check-ups, identify problems, and take action to avoid potentially fatal results. The same goes for sales opportunities. The level 1 review is a periodic check-up for the salesperson. The level 1 analysis is completed early in the opportunities management process—ideally at the start of phase 3a–Evaluation of Options and at several other times during the process that will be discussed later in this chapter.

The story below is, unfortunately, repeated too often in the sales world, and in many cases the salesperson could have prevented the situation by completing the level 1 review before making a proposal to the customer. The review is completed by answering the questions for each factor. Responses to the questions can be "+" for a strong position, "-" for a weak position, and "?" when the seller does not know the answer. This assessment is typically done for the salesperson's company and at least one or two competitors. This story is a real case of one salesperson we will call Wayan.

Sales Opportunity Level 1 Review Form

Account:	Date:	Reviewed by:
Factors and Assessment Questions	Opportunity:	

Is there an opportunity? ❑ Yes ❑ No ❑ ?				
Account corporate profile	+ Completed – Not done	+	The first four questions are assessed from the customer's point of view. The remaining level 1 factors and assessment questions are answered from the perspective of your company and your competitors.	
1. Customer's application or project	+ Defined – Undefined	+		
2. Customer's business profile	+ Strong – Weak	+		
3. Customer's financial condition	+ Strong – Weak	+		
4. Access to funds	+ Yes – No	?		
5. Compelling event	+ Defined – Undefined	?		
Can we compete? ❑ Yes ❑ No ❑ ?		**Our Company**	**Competitor 1**	**Competitor 2**
Requirements diagram Vulnerability analysis Customer value analysis	+ Completed – Not done	–		
6. Formal decision criteria	+ Defined – Undefined	?	?	
7. Solution fit	+ Strong – Weak	?	?	
8. Resource requirements	+ Low – High	+	?	
9. Current relationship	+ Strong – Weak	+	?	
10. Unique business value	+ Strong – Weak	?	?	
Can we win? ❑ Yes ❑ No ❑ ?		**Our Company**	**Competitor 1**	**Competitor 2**
Buying center analysis	+ Completed – Not done	–		
11. Inside support	+ Strong – Weak	?	?	
12. Executive credibility	+ Strong – Weak	+	?	
13. Cultural compatibility	+ Good – Poor	+	?	
14. Informal decision criteria	+ Defined – Undefined	?	?	
15. Political alignment	+ Good – Poor	?	?	
Is it worth winning? ❑ Yes ❑ No ❑ ?		**Our Company**	**Competitor 1**	**Competitor 2**
Business case?	+ Completed – Not done	+		
16. Short-term revenues	+ High – Low	+	+	
17. Future revenue	+ High – Low	?	?	
18. Profitability	+ High – Low	+	?	
19. Degree of risk	+ Low – High	+	+	
20. Strategic value	+ High – Low	–	?	

What next?

What has to happen for you to win this sales opportunity? The Action field identifies the sales tactic being used (e.g., retrieve information, emphasize strengths, minimize weakness, prove value, insultate against competition). Make sure to consider all opportunity management stages. If early in the evaluation of options phase, you should retrieve information from any level 1 factors that have "?'s". The last two actions are the most important actions for Competitor 1 and 2.

Action	Description of action, name of customer, contact from your company, and completion date.
1.	Gathered requirements from contact. Submitted proposal.
2.	
3.	
Competitor 1	?
Competitor 2	

Wayan was about to go on a sales call with his manager and was waiting in the reception area of the customer's office for the meeting. Wayan asked his manager not to bring up a recent sales opportunity that Wayan had just been informed was awarded to the competitor. The manager was surprised and upset and asked what had happened? Wayan said he did not know; he was also surprised as he thought the work was supposed to be awarded to him. After the meeting, the manager asked Wayan to go through the level 1 review; perhaps the results could highlight what went wrong. Shown to the right is the completed review. What is apparent from the analysis is there were far too many "?'s" in this review.

Wayan was correct when he told his manager that he did not know. Unfortunately at the time Wayan submitted his proposal for the work, he did not realize that there were so many unknowns or the level of uncertainty related to him winning the work.

A blank level 1 review form is included in the appendix and can be downloaded from http://www.b2bprofessionalsales.com

Chapter Highlight 4.2: Tell Me Doctor, Do I Have an Opportunity? (cont.)



Sun Tzu was a Chinese military general, strategist, and philosopher who lived in the Spring and Autumn Period of ancient China. He is traditionally credited as the author of *The Art of War*, an extremely influential ancient Chinese book on military strategy. One of his many famous quotes from the Art of War is:

> "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

Applying Sun Tzu's interpretation for the level 1 review would result in something like what follows if he ever decided to become a sales consultant.

Assessment Analysis: Many question marks for your assessment issues and the competitors.

Sun Tzu's Interpretation: If you know neither the enemy nor yourself, you will succumb in every battle.

Assessment Analysis: Plusses and some minuses for seller's assessment, many question marks for competitors.

Sun Tzu's Interpretation: If you know yourself but not the enemy, for every victory gained you will also suffer a defeat.

Assessment Analysis: Plusses and minuses for seller's assessment and plusses and minuses for competitors.

Sun Tzu's Interpretation: If you know the enemy and know yourself, you need not fear the result of a hundred battles.

What Wayan needed to do before submitting his offer was ask more questions to assess the strength of his position and then take actions to win the opportunity.

The next section of this chapter, Opportunities Management Phase 3a–Evaluation of Options, addresses the issue of how to prepare to be in a winning position when you submit your offer.

Sales Opportunity Level 1 Review Form

Account:	Date:	Reviewed by:	
Factors and Assessment Questions	Opportunity:		
Is there an opportunity? ❑ Yes ❑ No ❑ ?			
Account corporate profile (+ Completed / – Not done)	+	The first four questions are assessed from the customer's point of view. The remaining level 1 factors and assessment questions are answered from the perspective of your company and your competitors.	
1. Customer's application or project (+ Defined / – Undefined)	+		
2. Customer's business profile (+ Strong / – Weak)	+		
3. Customer's financial condition (+ Strong / – Weak)	+		
4. Access to funds (+ Yes / – No)	?		
5. Compelling event (+ Defined / – Undefined)	?	?	
Can we compete? ❑ Yes ❑ No ❑ ?	Our Company	Competitor 1	Competitor 2
Requirements diagram / Vulnerability analysis / Customer value analysis (+ Completed / – Not done)	–		
6. Formal decision criteria (+ Defined / – Undefined)	?	?	
7. Solution fit (+ Strong / – Weak)	?	?	
8. Resource requirements (+ Low / – High)	+	?	
9. Current relationship (+ Strong / – Weak)	+	?	
10. Unique business value (+ Strong / – Weak)	?	?	
Can we win? ❑ Yes ❑ No ❑ ?	Our Company	Competitor 1	Competitor 2
Buying center analysis (+ Completed / – Not done)	–		
11. Inside support (+ Strong / – Weak)	?	?	
12. Executive credibility (+ Strong / – Weak)	+	?	
13. Cultural compatibility (+ Good / – Poor)	+	?	
14. Informal decision criteria (+ Defined / – Undefined)	?	?	
15. Political alignment (+ Good / – Poor)	?	?	
Is it worth winning? ❑ Yes ❑ No ❑ ?	Our Company	Competitor 1	Competitor 2
Business case? (+ Completed / – Not done)	+		
16. Short-term revenues (+ High / – Low)	+	+	
17. Future revenue (+ High / – Low)	?	?	
18. Profitability (+ High / – Low)	+	?	
19. Degree of risk (+ Low / – High)	+	+	
20. Strategic value (+ High / – Low)	–	?	

What next?

What has to happen for you to win this sales opportunity? The Action field identifies the sales tactic being used (e.g., retrieve information, emphasize strengths, minimize weakness, prove value, insultate against competition). Make sure to consider all opportunity management stages. If early in the evaluation of options phase, you should retrieve information from any level 1 factors that have "?'s". The last two actions are the most important actions for Competitor 1 and 2.

Action	Description of action, name of customer, contact from your company, and completion date.
1.	Gathered requirements from contact. Submitted proposal.
2.	
3.	
Competitor 1	?
Competitor 2	

Phase 3a: Evaluation of Options

This phase starts with the customer's evaluation of options. By this stage the customer has already sanctioned the project, purchase, or repurchase and is searching for the best product or service to meet their requirements. The evaluation of options phase is the most critical in the opportunities management process as this is when competitive battles are fought and won.

In this phase preparations are made for proposal submission and negotiations that will come in the procurement stage. Your active involvement in this phase positions you more favorably in the procurement process. See **Chapter Highlight 4.3: Understanding Why It is Risky to Wait for the Tender to Come Out**. In this phase you must answer the remaining factors of the level 1 review:

- Can we win?
- Can we compete?
- Is it worth winning?
- What next?

> ▶ ***Apostles and Terrorists: A Company's Best Friends and Worst Enemies***
>
> In a paper entitled "Why Satisfied Customers Defect," T. Jones and E. Sasser explain the importance of customer loyalty and understanding buying center members' unique behavioral attributes (prior individual biases), intensity of satisfaction or dissatisfaction (attitude), and ability to act on their perceptions (competitive market dynamics). As a result of these factors, customers behave in one of four basic ways: as loyalist, as defector, as mercenary, or as a hostage. Turning as many customers as possible into the most valuable type of loyalist, the apostle, and eliminating the most dangerous type of defector, or hostage, the terrorist, should be every company's ultimate objective.
>
> Supporting the valuable buying center members and converting the dangerous types of buying center members are two of the objectives of the implementation phase and account management.
>
> In the evaluation of options phase, you want to determine which buying center members are already aligned with you as mentors and supporters. Later, in the procurement phase, you will rely on their assistance to help you convert the neutral and non-supporters to supporters. If you cannot motivate the non-supporters, you have to devise strategies to help your mentors neutralize them.

The first two questions are significantly different. "Can we win?" is concerned with informal decision criteria and your alignment with the powerful and influential people in the buying center (see "Apostles and Terrorists: A Company's Best Friends and Worst Enemies"[3] in the sidebar.) "Can we compete?" asks how you stand compared to the competition with respect to the decision-making criteria. To answer these questions, one must complete the following five objectives:

- Identify and make contact with key buying center members.
- Determine the decision criteria, evaluation model, and procurement stages that will be used in the procurement phase.
- Ask each buying center member if he or she has the requirements for what he or she will buy from you. What have they identified as the critical success factors or issues? Do they have any concerns or expectations about the purchase or your company? Moreover, how do they rank the decision criteria factors from the most crucial to incidental?
- Formulate a strategy that maximizes a perceived fit.
- Establish the dollar amount of the customer's perceived differential value.
- Address customer concerns and consequences.

Make Contact with Buying Center Members

To win an opportunity you must be in a strong position when you submit your proposal. This requires you to have focused conversations early in the evaluation of options phase with the buying center members before you select your sales strategy. Not having sufficient information can lead to bad decisions and disappointments when you discover you lost the sure bet. The professional salesperson uses the request for proposal worksheet to have these conversations. See **Chapter Highlight 4.4: Get Organized** and the good things that happen when you apply the tools of a professional salesperson.

Chapter Highlight 4.3: Understanding Why It is Risky to Wait for the Tender to Come Out

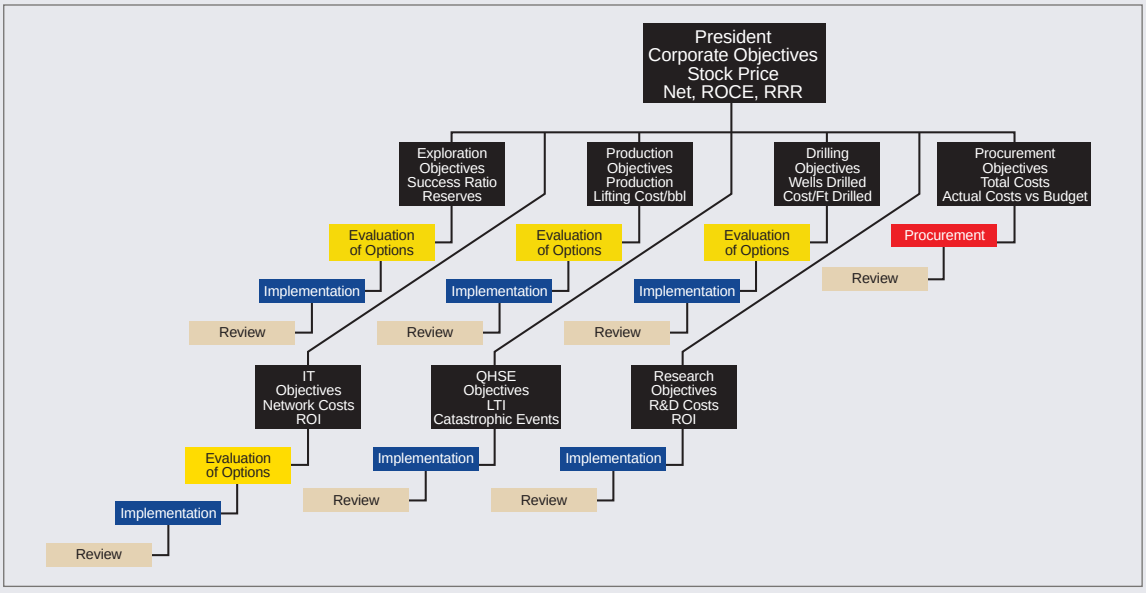
Make Time Your Advantage: Four Good Reasons to Start Before It's Too Late

In the customer's project management process, the evaluation of options phase is separate from the procurement phase. In the evaluation of options phase, emphasis is on being involved with the customer prior to receiving a request for proposal. In the procurement phase, emphasis is on the actual contracting process. Here are some good reasons why these two phases are distinct and important:

1. In many companies, only minimum discussion between the supplier and buying center personnel is permitted during the procurement phase. Such discussion is usually restricted to tender clarification questions. Customers set this restriction to maintain the integrity of the tendering process and to minimize interference in the evaluation process. Because of this, efforts to modify the tender or include exclusive products or services are usually not allowed or evaluated.

2. To establish your price, you must understand how the customer perceives value in your differentiation. In general, the procurement process does not provide sufficient time for you to fully develop and reach agreement on your differential value.

3. Sales representatives who wait to receive tender before beginning the sales process will be dealing withprocurement departments. The flowchart shows a typical account organization with managers of each department (e.g., exploration) reporting to a higher level. Respective boxes list some objectives these departments have. The flowchart illustrates the dilemma faced by sales representatives who initiate a sales strategy only once they recieve a tender in the procurement stage. The procurement department's objectives are very different from those of other departments. Typically, the procurement department receives technical requirements, bid specifications and a list of acceptable suppliers from the technical staff. If there are several acceptable suppliers, the procurement department's focus in evaluating proposals is on contract terms, conditions and price.



4. Most sales opportunities are repurchases from existing accounts. The customer may use a previous decision criteria that is not optimal for this purchase and may intentionally bypass the evaluation of options phase. The cycle may skip from implementation to the procurement phase when the current contract expires. In such situations, you must initiate an evaluation of options phase during the implementation phase by contacting buying center members, whether or not you are the current contract holder.

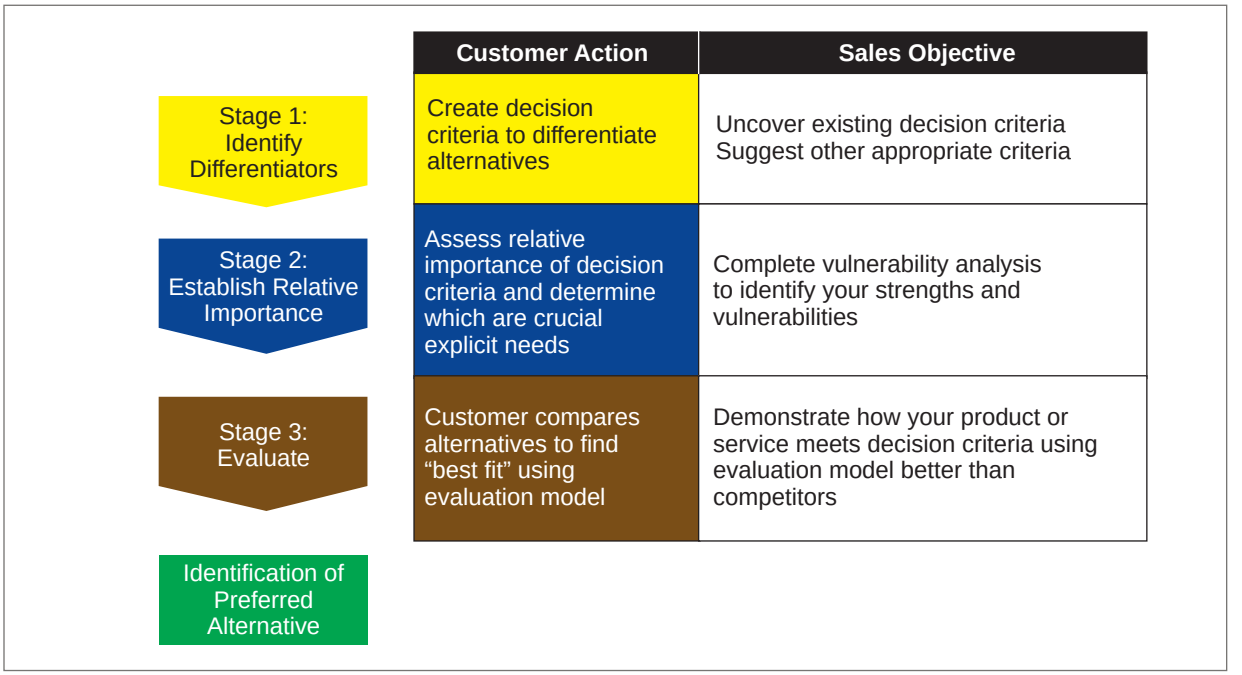


Fig. 4.4
The three stages in the assessment of alternative choices.

Initial contact with buying center members will help you identify those members who can influence the supplier selection decision. You must also determine the issues involved in the decision, and the influencers' perception of you to devise your relationship strategy. In the Strategic Sales Plan chapter, relationship strategy is discussed in more detail. The predisposition of buying center members is a critical factor in deciding whether you can win.

Determine Decision Criteria and Evaluation Model

To establish the decision criteria, it is useful to review the basic stages of decision psychology. When a customer chooses between competing alternatives, the decision process normally advances through three stages:

- Identifying differentiators.
- Establishing the relative importance of differentiators.
- Judging alternatives using an evaluation model.

Figure 4.4 lists each decision-making stage with the customer action and corresponding sales objective.[4]

Identify Differentiators

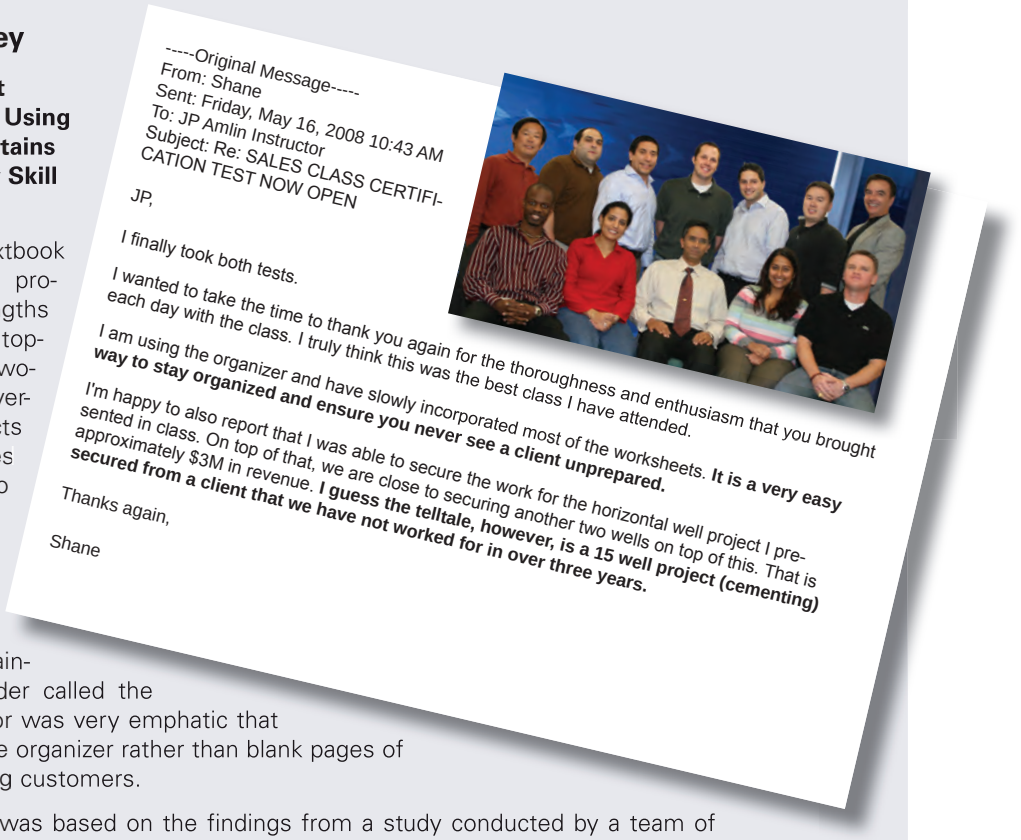
When the evaluation of options phase begins, the customer establishes the criteria for the products and services required to complete the project and achieve the objectives. Most companies simplify this process by initially selecting providers who are capable of providing the required products or services. In some countries, the company or governmental authority dictates that a minimum number of qualified vendors be identified before proceeding to the procurement phase. In such cases, the most common differentiator is price, assuming that all other factors are comparable. The sales representative's objective in this stage is to educate the customer about aspects of your services that differentiate you from the competitors.

Chapter Highlight 4.4: Get Organized

Organization is Key

One Important Aspect is to Create a Toolbox Using an Organizer that Contains All the Tools for Every Skill Taught in Training.

The author of this textbook delivers sales training programs of various lengths covering sales-related topics. One training is a two-week sales school covering most of the subjects in this book. The sales school objective is to provide the person new to sales with the skills sales professionals use to be successful. One take-away from the training was a leather folder called the organizer. The instructor was very emphatic that all the students use the organizer rather than blank pages of their diary when visiting customers.



-----Original Message-----
From: Shane
Sent: Friday, May 16, 2008 10:43 AM
To: JP Amlin Instructor
Subject: Re: SALES CLASS CERTIFICATION TEST NOW OPEN

JP,

I finally took both tests.

I wanted to take the time to thank you again for the thoroughness and enthusiasm that you brought each day with the class. I truly think this was the best class I have attended.

I am using the organizer and have slowly incorporated most of the worksheets. **It is a very easy way to stay organized and ensure you never see a client unprepared.**

I'm happy to also report that I was able to secure the work for the horizontal well project I presented in class. On top of that, we are close to securing another two wells on top of this. That is approximately $3M in revenue. **I guess the telltale, however, is a 15 well project (cementing) secured from a client that we have not worked for in over three years.**

Thanks again,

Shane

This recommendation was based on the findings from a study conducted by a team of sales trainers for one company. When the trainers audited graduates of their sales training program, they observed that the graduates were not applying what they learned because of two factors. First, the sales training did not provide the specific tools to implement the concepts; second, the salespeople were not organized to implement the ideas effectively. As a result, the company launched a program called "Impact" to create a toolbox containing tools for every skill taught in the training.

The criteria for the toolbox were it had to include all the tools and be easy to use and updated by the salesperson. The result of the Impact project was the organizer, a professional-looking folder that could be taken to the customer's office by the salesperson with the forms needed for focused conversations at every phase of the opportunities management process. One student commented that this looked like too much work and would be too difficult. The instructor's comment was, "I never promised you shortcuts or tricks. What I promised was you would learn the theory, process, applications, and tools used by the professional salesperson to be successful in an ever-increasing competitive marketplace."



The instructor paused, looked at each student, and then said, "The only place where work comes before success is in the dictionary. If you like to win, then the results will justify the effort." One student, Shane, stood up and declared that he saw the benefit and was committed to using the tools of the sales professional. Above is the unsolicited email sent to the instructor.

Chapter Highlight 4.4: Get Organized (cont.)

Contents of the Organizer

The contents of the organizer include the standards for time management, such monthly pages for scheduling meetings, task record-keeping and business card holder. However, the heart of the organizer is the Projects tab, which provides space to organize the information on the salesperson's opportunities, plus key concept cards for sales skills that are frequently used by sales professionals. Below is a list of the organizer sales tools (and reference chapter).

1. Account Corporate Profile (Account Corporate Profile)
2. Project Summary (Opportunities Management)
3. Level 1 Review (Opportunities Management)
4. Sales Plan Worksheet (Opportunities Management)
5. Augmentation Analysis (Opportunities Management)
6. Request for Proposal Summary (Opportunities Management)
7. Strategic Sales Plan (Strategic Sales Plan)
8. Pricing Workbook (Pricing)
9. Bid Analysis Worksheet (Bid Evaluation)
10. Sales Call Preparation Worksheet (Sales Call Skills)
11. Sales Call Supporting Worksheet (Sales Call Skills)
12. Post Sales Call Analysis (Sales Call Skills)
13. Negotiation Analysis Worksheet (Collaborative Negotiations)
14. Negotiation Presentation Worksheet (Collaborative Negotiations)
15. Sales Call Skills Card
16. Collaborative Negotiations Skills Cards
17. Account Relationship Analysis (Account Relationship Analysis)
18. Account Plan (Account Management Plan)



You have already seen the first three components listed above, and as you read the remainder of the textbook you will see the other tools. All the tools are available for download from http://www.b2bprofessionalsales.com

Shown to the right is the Request for Proposal Summary. This is an essential tool for having conversations with the people in the buying center in the early part of Phase 3a–Evaluation of Options.

A salesperson who uses the request for proposal form will not forget to ask for important factors about the opportunity they are trying to win. A full size copy of the Request for Proposal Summary is included in the appendix.



You can demonstrate differentiation from the competition in five main areas:

- Corporate capabilities
- Product or service features
- Service performance
- Company sales and support personnel
- Price

Corporate capabilities refer to the abilities of the company compared to those of the competitor. Your capabilities differentiate you from the competition only to the extent that the customer is aware of this advantage.

The customer may perceive that you have the financial strength and sufficient resources to overcome most catastrophic events. This factor—described as the "security of the offering"—differentiates companies such as IBM and Microsoft when they compete against smaller rivals. With this perception, your customers know that, no matter how cyclical the markets are, companies like you, IBM, and Microsoft will be there tomorrow.

The **product or service features** category is the most common differentiator after price. While specific capabilities of unique products and services are easy to demonstrate, you must convert the dollar amount of those capabilities to the added value the customer will gain by using the product or service. By clearly describing specific benefits that align with the customer's objectives, you are practicing customer focus.

Superior performance means applying superior technologies with competent staff and the advantage of experience. Performance criteria must be illustrated in terms of the customer's value drivers, such as reduced costs or improved production. The section to follow on phase 4 describes how you use service quality review meetings and the performance curve to demonstrate superior performance. **Chapter Highlight 4.5: Performance That Can't Be Beat (If you Report It!)** gives an example of using the performance curve to prove differential value.[5]

Company sales and support personnel staff also differentiate you from your competitors. Superior products and performance are even more valuable when supported by highly trained, experienced support personnel. In the evaluation of options phase, sales representatives should demonstrate the strength of your people in meetings arranged with the customer's buying center personnel.

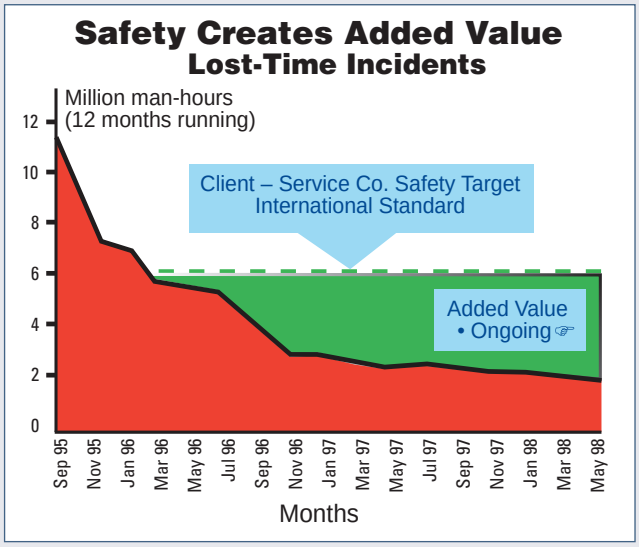
Chapter Highlight 4.5: Performance That Can't Be Beat (If You Report It!)

What Does the Performance Curve Show? Differential Value (If You Plot It That Way!)

How do you leverage your excellent work as a differential value in the next opportunity? First, you find the metric the customer values and then plot it against an accepted standard of performance, such as an industry average or corporate average. The difference is then expressed in value dollars. This example for Venezuela illustrates the concept perfectly.

Added Value Calculation	
Prevented LTIs compared to international standard	85
Cost per LTI	$ 30,000
Added value for customer	$ 2,550,000
Other benefits	Goodwill Best practice
Payback compared to alternative competitive proposals	< 6 months

Supplier A was the incumbent and had very good performance on the current project for a major client in Lake Maracaibo. Because of the ongoing business relationship, Supplier A was able to develop best practices, thereby lowering the lost-time incidents (LTI) rate and reducing LTI costs while building goodwill by reducing LTI.The performance curve below for LTI clearly shows how Supplier A's service team significantly improved performance in a two-year project. However, the contract period for the current project ended, and the customer was required to request offers for another two-year contract period.



The strategy was to help the client understand that awarding the next contract to a competitor could mean losing the advantage gained over the last two years. The sales team showed the client an industry study reporting the average cost of a single LTI for injured personnel to be $30,000.

As shown in the Added Value Calculation table, the reduction of 85 LTIs resulted in $2,550,000 in reduced LTI costs. Supplier A's performance became the differential value to secure the project, even though the competitor's offer was $1 million lower. Collecting this type of information in your service quality review meetings with the customer is extremely useful in the opportunities management process.

Price is the most common differentiator. If the tendering process allows, you may use a two-tier pricing strategy to achieve pricing differentiation. With this strategy, you offer older technologies at a discount to secure the project, and then offer the customer value-added services at a premium price. However, if the customer buys only generic services, the sales representative must work with operations staff to offer a price-differentiated solution that provides the desired level of profitability.

Another approach to a price-differentiated solution is to develop a per unit low-cost solution that enables you to enter the market at a lower cost than competitors and still

▶ *Measuring Up?*

Evaluation models are used to determine whether you can compete. Below are examples of two evaluation models used by your customers.

MCP Evaluation Model

Criteria	Weight	Score	Total
Cost/value	25%	4	1.00
Technical	25%	3	0.75
Cultural fit	25%	2	0.50
Track record	10%	3	0.30
HSE	5%	3	0.15
Range of services	5%	3	0.15
Quality	5%	3	0.15
Total evaluation	100%		3.00

Rating: 5=excellent, 4=good, 3=average, 2=poor

Modified IPR

1 Bid price 60%
Bid price shall be determined from each bid. Each bidder's bid price shall be given points according to the following formula:

P = (60 x L): Be

Where P = points awarded for the bidder's bid price; L = lowest bid; and Be = bid being evaluated.

The lowest bid (L) necessarily gets the full 60 points possible. Example: L = $30 million; B3 = $3.5 million; P = (60 x 3.0): 3.5 = 51.43.

2 Qualifications of bidder's personnel and firm's experience 20%
At a minimum, personnel assigned to this contract should have prior experience in operating in similar conditions and should be qualified engineer(s); graduated engineer(s) or the equivalent, with three or more years' experience as a relevant engineer; and/or operator(s) skilled in these operations, with three or more years as a relevant operator. Bidders should include in the bidding documents a brief overview of the firm's experience in carrying out this type of service.

3 Bidder's work execution plan 20%
Bidders should submit a detailed mobilization plan with specific reference to timing per phase, support base(s), safety provisions, and quality control measures in accordance with a quality questionnaire.

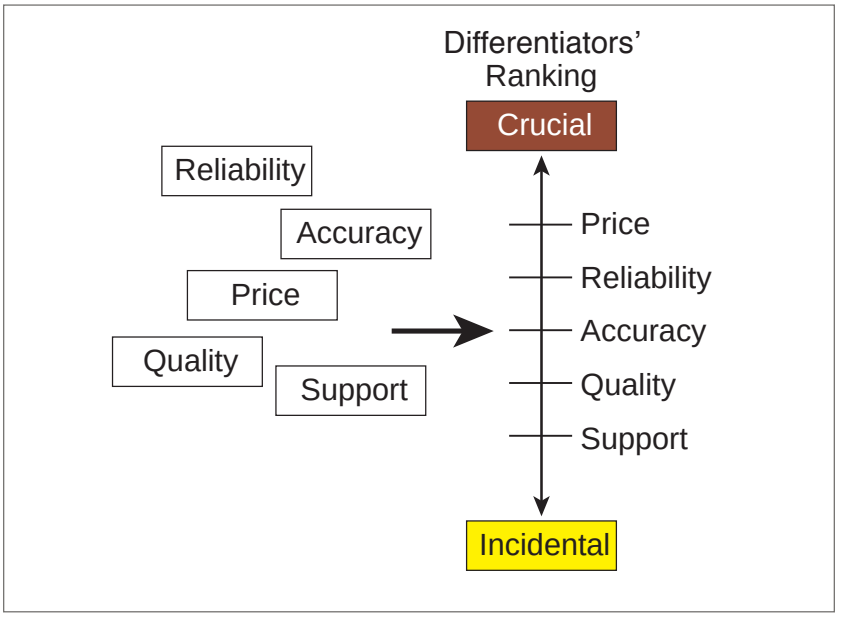


Fig. 4.5
Establishing the relative importance of differentiators.

meet profit targets by achieving operational efficiencies. A price-differentiated solution must be consistent with the pricing practices of the company and region.

Establish the Relative Importance of Differentiators

At this point in the decision-making process, the customer has identified the differentiators—or decision criteria—related to their needs and permits the analysis of alternative options. Then, the customer decides which of these potential differentiators are crucial in making the purchasing decision and which are incidental **(Fig. 4.5).**

Alternatives Using the Evaluation Model

In the final stage of the decision-making process, the customer uses an evaluation model to evaluate all proposals based on their perceived fit with the decision-making criteria. In many procurement processes, the customer has an evaluation model for assessing each proposal. Whenever possible, you want to know what the model is, how it works, and the customer's rating of you against the criteria. Some of the more common evaluation models are discussed below, and two examples from actual tenders are discussed in the "Measuring Up?"[6] sidebar.

Two-Envelope Technical and Financial (TETF)

In this evaluation model, bidders are requested to submit a technical proposal in one envelope and a separate commercial offer in another envelope. The technical evaluation is usually made on a point basis, followed by a ranking and selection of two or more proposals that meet the minimum technical specifications. Only the financial proposals of bidders that pass the technical requirements are opened. The financial proposals of the unsuccessful bidders are returned unopened. The financial proposal is usually evaluated by using a spreadsheet based on a certain activity model, including an economic evaluation of contract exceptions, logistics, and safety. The lowest bidder wins. This evaluation model is popular in countries where government review bodies are involved in the approval process.

Multiple Criterion Points (MCP)

This is perhaps the most widely used evaluation model. Companies such as Shell, BP, and Chevron commonly use this evaluation model because it can accommodate a multitude of criteria in the decision-making process. Each criterion is evaluated individually. Typical decision criteria—price, quality, technical requirements, and QHSE—vary with the kinds of services or products requested. For each decision criterion the bidder is evaluated and assigned a score, typically 1–5 or 1–10, and then each decision criterion is weighted so that the sum of the weights is 100. The winner is the bidder with the most points. In this model, the winning bidder does not necessarily have the lowest price. The winning bid price must be within a predetermined percentage of the lowest bid. If the winning bidder's price is more than the premium allowed, a negotiation will take place.

Inverse Proportional Rule (IPR)

Some customers and official bodies, such as the World Bank, use this evaluation system, which is a variation of the MCP system. Rather than rating each bidder against the criteria, each bidder is compared to how close they are to the best company in the specific criteria. The best company in each criterion gets the maximum number of points for that criterion. Other bidders are given points that are inversely proportional to how far they are from the winner. The winner is the bidder with the most points. As in the MCP model, the winning bid price must be within a predetermined percentage of the lowest bid. If the winning bidder's price is more than the premium allowed, a negotiation will take place.

Most Economically Advantageous (MEA)

In the MEA model, the customer is looking for the best solution. This model is very similar to the MCP, except the winning bidder is not confined to a percentage premium over the lowest bidder. In this model, as long as the winning bidder's solution is more economically advantageous to the customer than any other bidder, they win.

In addition to understanding the customer's evaluation model, you also want to know the stages of the customer's procurement phase. Depending on the account and country, procurement stages vary from simple to complex and informal to very formal. The procurement phase is discussed in detail later in this chapter.

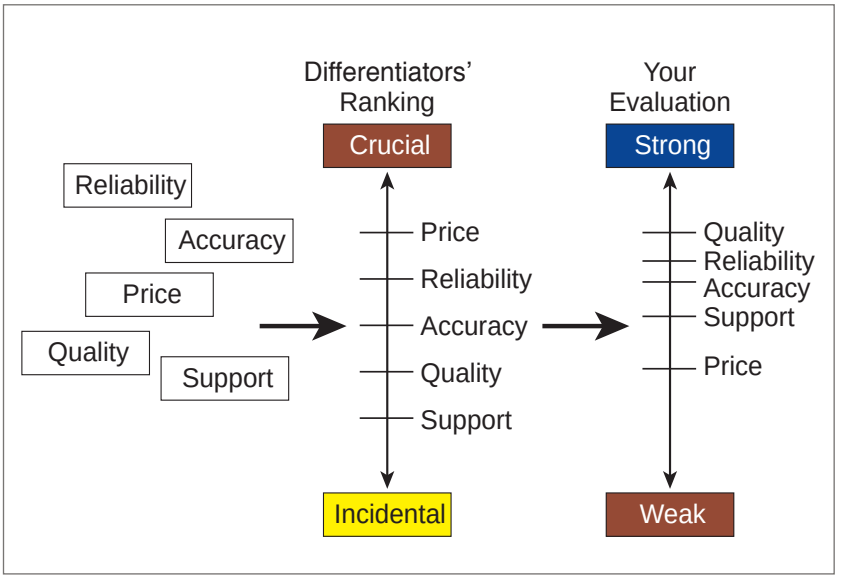


Fig. 4.6
Customer's perceived fit of the you offer compared to the decision criteria.

Formulate a Strategy That Maximizes Perceived Fit

Two analyses are used to formulate a strategy that maximizes perceived fit. The first determines how you will be evaluated against the customer's evaluation model **(Fig. 4.6).**

The second—called a vulnerability analysis—determines how each of the main competitors will be evaluated against the customer's evaluation model. In this analysis you try to ascertain whether a competitor is rated strong and you are rated weak in an area crucial to the customer.

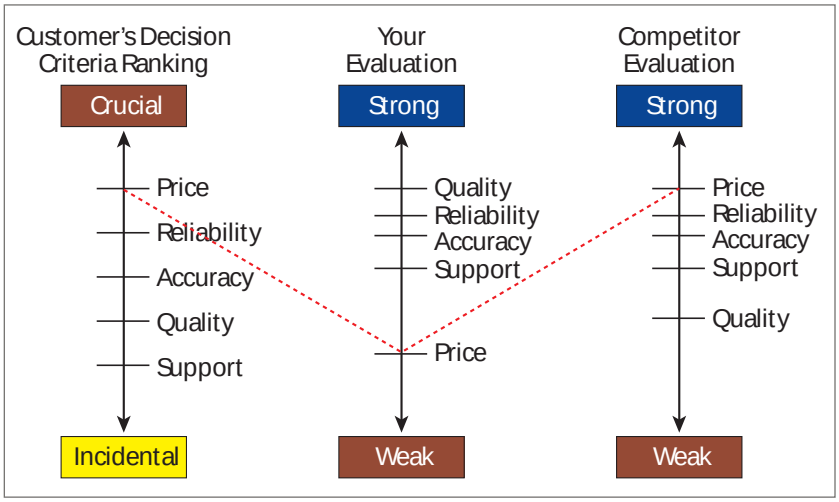


Fig. 4.7
Vulnerability analysis.

Figure 4.7 shows a completed vulnerability analysis. In this presentation, vulnerabilities are highlighted by the criteria that form a V shape (dotted line) when the competitor is rated strong and you weak in criteria crucial to the customer.[8]

This analysis helps you prepare a competitive strategy that takes into consideration the customer's needs and decision criteria, your evaluation, and your vulnerabilities with respect to the competition. In addition to other competitor companies, competition may come from the customer's own in-house services group. It may be a totally different type of solution or service, or it may be a do-nothing course of action. The best way to decide who you are competing against is to carefully analyze all the available options or solutions to the customer.

Figure 4.8 is a summary of the opportunities management activities discussed so far in this chapter. In time, the salesperson is at point A in Fig. 4.8. Now the professional salesperson must select their competitive sales strategy and determine how the sales team will spend the time remaining until they submit their proposal and enter the 3a–Procurement Phase. Up to this point, most of the energy is directed toward retrieving information and estimating the probability of winning the opportunity. From point A on, the sales strategy is set and the appropriate sales tactics are taken, as identified in the strategic sales plan. The creation of the strategic sales plan will be covered in detail in Chapter 9 "Strategic Sales Plan."

The goal of your competitive strategy, then, is to ensure that the buying center evaluates you as having the best-perceived fit for the customer's needs. To select your competitive strategy, you follow a decision process that focuses on the buying center and the customer's decision criteria.

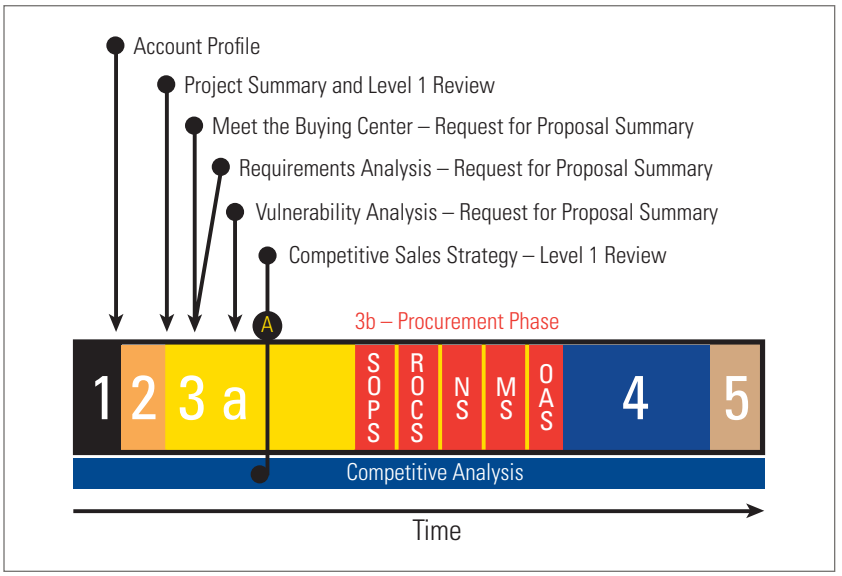


Fig. 4.8
Key activities during the opportunities management process that provide critical input into the selection of the competitive sales strategy. The phases in the opportunities management process are: 1. Account Corporate Profile, 2. Identification of the Compelling Event, 3a. Evaluation of Options, 3b. Procurement Phase, 4. Implementation, and 5. Project Review.

Point A on the chart represents the time when the pursuit decision is made and which competitive sales strategy will be followed for the remaining time in the evaluation of options and procurement phases.

▶ *Influencing Decision Criteria*

Four main tactics are used to influence decision-making criteria. Three are common to both strong and weak positions. The fourth is used in addition to the first three when you are in a weak position. Additional weak position tactics are discussed in the next sidebar.

1. Develop decision criteria from needs you uncovered in the opportunities management process. This is the easiest strategy to implement. Members of the buying center may not be aware of the needs you can satisfy with your products and services. This is particularly true for new products and services, which are developed in most cases to address customer needs not being satisfied by the current product offering. This is very effective when the benefits you offer are unique to you.

(cont. on pg. 86)

Competitive Strategy Decision Process

From the vulnerability analysis, you determined whether you are in a strong or weak position. Next, you must determine if you can improve your ranking in the customer's evaluation given the customer's current specifications or whether you should change the scope of work in order to enhance your position. Another important consideration is the amount of time before the procurement process begins and what you can reasonably achieve during that period. In **Fig. 4.9**, the competitive strategy matrix highlights key factors in selecting the appropriate strategy. It shows four main competitive strategies—two variations for each strategy.[7] The next two sidebars discuss specifics for each tactic used with each strategy.

Frontal Competitive Strategy. If you are in a strong position and do not want to change the scope of work, consider using a frontal competitive strategy. A strong position indicates that you expect to be evaluated significantly better than the competition. Members in the buying center agree that you have a superior offering based on your solution or reputation. In a frontal competitive strategy, use tactics that:

- Influence decision criteria from needs uncovered earlier in the opportunities management process (see sidebar on "Influencing Decision Criteria");
- Reinforce crucial decision criteria that you can meet better than the competition;

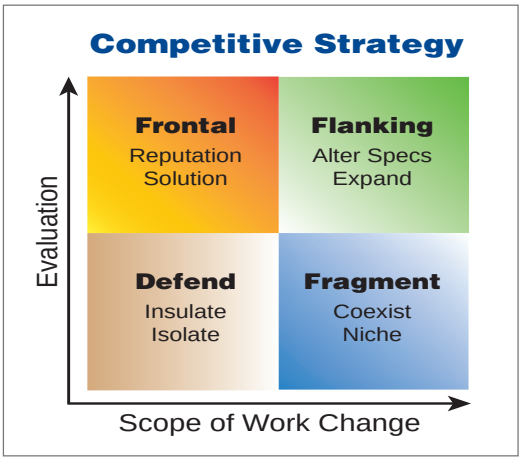


Fig. 4.9
Competitive strategy matrix.

Chapter Highlight 4.6: Making Incidental Decision Criteria Crucial



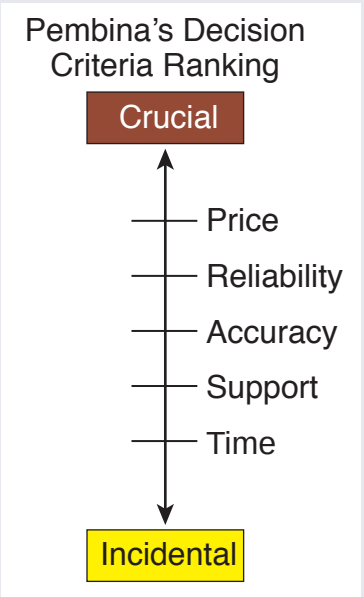
Which Logging Company Should Pembina Choose for Their Lake Erie Project?

Pembina Exploration was in the process of selecting a logging company for their upcoming development program in Lake Erie. The project consisted of drilling, evaluating, and completing 30 shallow gas wells. Buying center members were an area manager (approver), operations manager (evaluator/decision-maker), and chief geologist (user/evaluator/decision-maker).

In previous years, competitors were awarded the work based on low bid. This time, Company A had a year of experience with another operator on the lake who drilled similar types of wells in a nearby area. The bid specification called for logging services for saline muds. In the previous drilling program, Company A logged the wells in half the time compared to competitors. The graph and benefit analysis to the right were presented to the buying center during the evaluation of options phase.

Company A	Salt Mud Wells	Competitor
5	Logging Time	16
$634	Rig Cost/Hr	$634
$3,170	Total	$10,144
30	No. of Wells	30
$95,100	Rig Costs	$304,320
$450,000	Logging Cost	$300,000
$545,100	Total Cost	$604,320
150	Total Hours	480
13.75	Days Saved	

Logging times were at an incidental level in Pembina's decision criteria. They had only asked the suppliers for estimated logging times to determine drilling curves. The drilling season was short because during winter months the lake was too rough to drill safely from barges; meanwhile during the drilling season, days lost due to bad weather could be significant, which often resulted in fewer wells being drilled than planned. The sales representative knew Pembina needed to be as efficient as possible during the short drilling season and was convinced that the faster logging times would provide Pembina with significant savings. Days saved would mean Pembina could complete the entire project in one season.



When the logging time comparison chart was shown to the area manager, he commented, "Is that so?" References were given from the other operator, who validated the logging times. In the procurement phase of the project, Pembina evaluated Company A as less expensive based on total costs, and the company was awarded the entire contract.

In subsequent discussions with the area manager, he stated that Pembina never realized there was a significant difference between service company logging, so they had always awarded the work based on price.

"We never realized there was a significant difference between logging companies for the time they take to log a well. We thought both companies were the same. You showed us that our total costs were higher if we use them even if they were cheaper. We had always awarded the work based on price. You guys actually save us 10 percent on our drilling costs and minimized the risk that we might not get all our budgeted wells drilled this season. Thanks—now go do it!"

Pembina Lake Erie Area Manager

▶ *Influencing Decision Criteria (cont.)*

2. Reinforce that you can meet crucial decision criteria better than the competition. You can reinforce the importance of crucial decision criteria by providing the customer with case histories that demonstrate how you satisfied the crucial decision criteria in similar situations. This is a good opportunity to leverage the company's organization to provide the customer with examples and references where you have successfully satisfied similar crucial decision criteria.

3. Build up incidental decision criteria in areas where you are strong. Many times, the customer believes all competitors are equivalent in their ability to satisfy incidental decision criteria.

When you demonstrate that your offer is better than the competition in the incidental decision criteria and show how this differentiation provides benefits to the customer, the incidental decision criteria become more important. One technique used to your advantage and the customer's benefit is to have a recognized expert explain and demonstrate how important the incidental criteria really are.

In Fig. 4.5, reliability, accuracy, quality, and support are all rated below price in importance. You must show the customer the dollar benefit of the incidental criteria and overcome the apparent problem of having a higher price. See Chapter Highlight 4.3 for more about incidental decision criteria.

- Build up incidental decision criteria in areas where you are strong (see **Chapter Highlight 4.6**); and
- Ensure that supporters are prepared to minimize competitor attempts to reduce the strong position of your offer.

Defend Competitive Strategy. If you are in a weak position and do not want to change the scope of work, use a defend strategy. In this strategy, you either insulate your position from competitor attacks or isolate the competition. The defend strategy is more likely to succeed where you have a current contract and can use the implementation phase to build your defenses and relationships. With a defend strategy, you use tactics that:

- Reduce the importance of crucial decision criteria where you are perceived as weak[10] (see sidebar on the next page, "Weak Evaluation Tactics");
- Build dependencies via barriers to entry;
- Improve and expand relationships;
- Develop decision criteria from needs uncovered in the opportunities management process;
- Reinforce crucial decision criteria that you can meet better than the competition; and
- Build up incidental decision criteria in areas where your offer is better.

Flanking Competitive Strategy. When your offer is perceived to be in a strong position, use a flanking competitive strategy to expand the scope of work or alter the bid specifications to reinforce your position against competitors and their supporters in the buying center. With the flanking strategy, you use tactics that:

- Develop decision criteria from needs uncovered in the opportunities management process;
- Find buying center supporters for the flanking strategy;
- Demonstrate the benefits of the flanking solution;
- Review with supporter(s) to sell the concept of the flanking solution to other buying center members in your absence;
- Reinforce crucial decision criteria that you can meet better than the competition; and
- Build up incidental decision criteria in areas where your offer is strong.

Fragment Competitive Strategy. If you are in a weak position and your chances of improving that position are not great, you can use a fragment strategy, commonly called a "split the work" strategy. Variations to the fragment strategy are peaceful coexistence and niche.

In peaceful coexistence, you identify either a department or location that supports the fragment strategy. For this strategy to be successful, the customer must not perceive any complications with the split solution.

The fragment niche strategy is followed when you are considered stronger than the competition for a portion of the work and it is feasible to split this portion of the services from the main bid specification. With the fragment strategy, use the following tactics:

- Develop decision criteria from needs uncovered in the opportunities management process.
- Find buying center supporters for the fragment strategy.

▶ ***Weak Evaluation Tactics Reduce the Importance of Crucial Decision Criteria—Subtactics***

Sales representatives commonly deal with customers who perceive their position as weak in the crucial price criteria. Four proven subtactics that can be used to improve your evaluation include:

Handling a drawback. Build up the strength of other important criteria. This technique reinforces the danger of challenging crucial criteria and concentrates on building up the importance of other criteria. Key evidence of a drawback is when the customer says, "We would like to use you but you're too expensive" or "You don't have this feature." Faced with drawbacks, you must demonstrate or review the accepted benefits to make the drawback acceptable. The surest way to successfully implement this strategy is to determine the dollar value of the drawback and offset this with the dollar benefits to the customer of using your solution.

Redefining. This tactic alters the way the buyer defines the criterion so that it becomes easier for you to meet. The crucial criterion remains important to the customer, but its definition is altered so that you can meet or exceed it. This tactic is used when the customer objects to the cost of your product or service without taking into account the reduction in other costs such as rig time, support, and installation. To implement this strategy, you must understand the bigger picture to demonstrate that your solution impacts total cost.

Trading off. This technique balances decision criteria where you are weak or that you cannot meet against the limitations, penalties, or disadvantages of using the competitor. Trading off accepts the importance of a criterion but shows that there are other factors to be balanced against it. This strategy requires that you have a thorough understanding of the competitor's capabilities.

All these techniques are discussed further in Chapter 8 "Handling Customer Objections."

- Demonstrate the benefits of multiple suppliers as the optimum solution.
- Rehearse with supporter(s) to sell the concept to split the work to other buying center members in your absence.
- Reduce the importance of crucial decision criteria where your offer is perceived as weak.
- Reinforce crucial decision criteria that you can meet better than the competition.
- Build up incidental decision criteria in areas where your offer is strong.

Alternative Competitive Strategies

When the above strategies are not appropriate, two alternative strategies can be used: the develop competitive strategy and the disengage strategy. The develop competitive strategy applies when there is no sales opportunity now, but there will be in the future. The disengage strategy is used when none of the four main strategies already discussed will put you in a position to compete, for either strategic or logistical reasons. It is also used when you are in a weak position and the competition has significantly better relationships with key members of the buying center.

Develop Competitive Strategy. The develop competitive strategy has two variations: invest and delay. When a compelling event has not been established, but you are reasonably certain it will in the future, you may choose to invest resources for the future opportunity to put you in a competitive position. You may invest in trials, on-site demonstrations, planning support, etc. With the develop invest strategy, you use the following tactics:

- Develop decision criteria from needs uncovered in the opportunities management process.
- Find buying center supporters for the develop invest strategy.
- Rehearse with supporter(s) to sell the concept to other buying center members in your absence.
- Influence requirement specifications for a future opportunity.
- Develop and expand relationships.

The other variation of the develop strategy is to delay. This is appropriate when there is insufficient time to execute the primary strategies or you cannot win or compete. When using the delay tactic, you must address the reason for the delay so that you will be in a stronger position for future opportunities. With the develop delay strategy, you use the following tactics:

- Find buying center supporters for the develop delay strategy.
- Rehearse with supporter(s) to sell the concept to other buying center members in your absence.
- Reduce the importance of crucial decision criteria where your offer is perceived as weak.
- Improve and expand relationships.
- Reinforce crucial decision criteria that you can meet better than the competition.
- Build up incidental decision criteria in areas where your offer is strong.

Disengage Competitive Strategy. When you do not want to win the project because of a lack of resources, a lack of financial attractiveness, or unacceptable risk, you follow a disengage strategy. With this strategy you disengage only from the current opportunity and in a way that ensures that you will be considered for future opportunities. Then you use the opportunity to improve the competitive environment for the next opportunity.

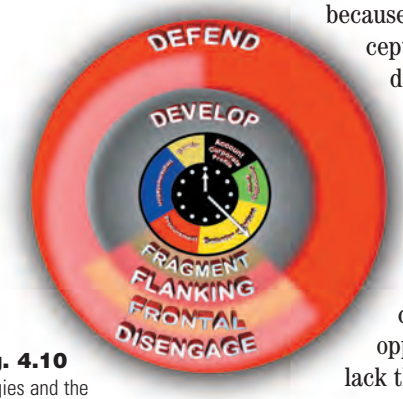


Fig. 4.10
Competitive strategies and the opportunities management clock.

In special cases, the disengage strategy can be used as part of an extended defend strategy, where you concede an opportunity to the competition to create a diversion so their resources are committed to the lesser opportunity. When the more important opportunity enters the procurement phase, the competition will lack the resources to secure the opportunity.

When following a disengage strategy, you can disengage at any time during the opportunity management process, but only after you have a complete understanding of the needs and requirements of the opportunity—usually early in the evaluation of options phase. When you disengage late in the evaluation of options phase or once the procurement process has started, you follow frontal strategy tactics except you price your proposal sufficiently above the strongest competitor to lose the work but not so high as to create the impression you are not serious about the opportunity. In a disengage strategy, you use the following tactics:

- Develop decision criteria from needs uncovered in the opportunities management process.
- Reinforce crucial decision criteria that you can meet better than the competition.
- Build up incidental decision criteria in areas where your offer is strong.
- Demonstrate justification of premium pricing.
- Rehearse with supporters to justify the premium pricing.

Figure 4.10 illustrates the timing for strategy selection and the use for each phase in the opportunities management process. At the beginning of the opportunities management process you are in a defend or develop competitive strategy, depending on whether it is a new project or account (develop) or an existing account or contract (defend). As you pass through the evaluation of options phase, you select a competitive sales strategy for the evaluation of options and procurement phases once you determine how the buying center

will evaluate your offering. The earlier in the evaluation of options phase you select your competitive sales strategy, the more time you have to influence the decision criteria. Timing is essential if you plan to recommend an alternative solution, as in the flanking alter strategy, or expand or shrink the work scope, as in the flanking expand and fragment strategies. Once the work is awarded, you return to a defend position (won the contract), develop position (lost but want to position for a future opportunity), or do nothing and wait position (disengage).

To determine whether the project is worth winning, you must also answer the following questions:

- What is your expected short-term revenue?
- What are the prospects for future sales?
- What level of profitability can you expect?
- What is the degree of risk for the project?
- Is there any strategic value associated with winning the project?

Depending on the types of projects and contractual models used, answers to the revenue questions may be straightforward and easy to calculate. In projects with advanced contractual models or uncertain scope, considerable effort must be given to evaluating the value of the project early in the opportunities management process. Joint value and IPM reservoir optimization are examples of projects whose evaluation may be time-consuming and complicated.

The most difficult question to answer concerns the strategic value of the project. Here, sales representatives must engage upper management for guidance in comparing all potential opportunities, both current and in the foreseeable future. A project that is considered strategic at the location level may not be strategic at the HQ level. Sales representatives are responsible for capturing as much of the market share as possible at the required profit level. Before profit margins are sacrificed in the pursuit of a strategic opportunity, the strategic value must be sufficient to pass the strategic value test at higher levels in the organization.



To win an opportunity you must be in a strong position when you submit your proposal. This requires you to have focused conversations with the buying center members early in the evaluation of options phase before you select your sales strategy. Not having sufficient information can lead to bad decisions and disappointments when you discover you lost the sure bet. The professional salesperson uses the request for proposal worksheet to have these conversations. See Chapter Highlight 4.4: Get Organized and understand the good things that happen when you apply the tools of a professional salesperson.

Phase 3b: Procurement Phase

The procurement phase begins when the customer sends a request for services document. The procurement phase consists of five stages, as shown in Fig. 4.2:

- Submission of proposal
- Resolution of concerns
- Negotiations
- Monitor
- Outcome analysis

The procurement phase is also called "bidding" or "tendering" or one of any several terms. For a more detailed list of some of the procurement documents you may receive, see **Chapter Highlight 4.7: Procurement 101, Part 1**.[8] Many procurement departments follow these five stages. As discussed earlier, one objective of the evaluations of options phase is to understand the customer's evaluation model and the procurement stages used in the procurement phase. The complexity of the procurement usually increases with time.

1. **Early stage:** At this stage, bidding is relatively informal, communication is open, and negotiations are allowed. This stage takes place before the award. The client has no formal obligation to justify the choice.
2. **Mature stage:** This stage includes formal bidding, controlled communication, and a formal opening. There is an "opening price" followed by an evaluation process that results in an "evaluation price," which may differ from the opening price. Negotiation occurs with the "successful" bidder.
3. **Ultra-mature stage:** This stage is very formal, and the service company has only one opportunity to bid. The opening price is the final price, and this price is the value of the contract without negotiation.

When you understand the buying center's procurement stages, you have time to complete many of the standard requirements early in the process. By doing so, you can concentrate on more critical issues, analyze all the information gathered in the opportunities management process, and still have time to support ongoing business.

Usually, more people are involved in the procurement phase than in other phases, particularly during submission of the proposal. Often in the procurement phase a tender coordinator is assigned to oversee the process.

Phase 3b: Procurement—Submission of Proposal Stage

The submission of proposal stage consists of three substages:

- Receipt of the invitation to tender
- Bid documents and proposal review
- Submission of the proposal

This is one of the more rigorous stages of the opportunities management process. At the end of this stage, you submit a proposal that is the basis for a legal contract. In this contract, all services, pricing structure, liabilities, indemnities, etc., are fully and clearly documented.

Receipt of Invitation to Tender

When you receive an invitation to tender, the decision to bid or decline is made by management, with recommendations from marketing, sales, and operations staff. If management decides to bid, the tender acknowledgement form, included

Chapter Highlight 4.7: Procurement 101, Part 1



What's the Difference Between an EOI, RFP, RFT and RFQ?

If you're confused by the plethora of terms around bid management, tender consulting, proposals, and the equally confusing list of acronyms related to procurement, you're not alone. The various acronyms used in the procurement process have a lot to do with the buyer's readiness to purchase.

For example, an EOI (Expression of Interest)—often done in the early stages of the procurement process—may be released if the buyer is just looking, or is seeking industry input into scoping requirements that will then go back out to market later on. An RFP (Request for Proposal) is often the next stage, where the buyer goes to the market for solutions-oriented approaches to service or product delivery.

The RFT (Request for Tender) is a request to really get a proposal on the table around how you would design a solution or deliver a product or service, but usually delves further into what you are like to do business with, such as seeking information about organizational capability and resources, financial viability, sustainability principles, and value adding. An RFT may not seek pricing initially and may involve several phases of short-listing. An RFQ is a request to provide pricing on a product or service, which is generally not asked for in the early stages of procurement, such as with a Request for Information.

For simplicity, I have summarized the key differences below:

RFI – Request (or Registration) for Information

EOI – Expression of Interest

RFP – Request for Proposals

RFO – Request for Offer

RFT / RFQ – Request for Tender, Request for Quotation

RFT differences

In summary, EOIs are useful when the number of players, market size, or approach to solving a problem is largely unknown. RFTs are often used in the major infrastructure and construction industry where solutions to problems are high value, high risk, and very specific.

When to Use an EOI versus RFP and RFT.

In most cases EOIs and RFTs have been pre-designed and specified as a result of a significant amount of consultation, engagement, and preliminary design work. RFPs, on the other hand, provide for greater flexibility. This format is often used in the professional services sector (such as technology, recruitment, environmental consulting, and creative industries sectors), where there are many options and a variety of possible solutions.

in the invitation to tender, is returned to notify the client of your intention to submit a tender. The acknowledgement form must be reviewed to make sure it does not bind you to bid under the customer's terms and conditions.

If strict adherence to tender documents is a condition, and these documents contain requirements contrary to your company's contracts policy, the tender leader confers with the Contracts Department before responding to the customer. The acknowledgement must show the correct legal entity and signature, and the Contracts Department ensures that the tender details are logged into the contracts management database.

▶ *Just Sign Here . . . What Contract Do You Use?*

An important step when, or prior to, entering the procurement phase is to determine if a master contract exists. Check with the Contracts Department to see if a master contract has been previously negotiated with the client in question, covering the type of equipment or service required. If not, then . . .

Can a standard form contract be used?

Standard form contracts should be used, whenever possible, in response to client bids and tenders. As you are the contractor, the experts performing the services every day, it is reasonable that your form of contract be used. A conscious effort must be made to propose standard contracts to clients, or they will rarely be used and you will be constantly in a defensive mode, having to make amendments to client contracts. Standard form contracts currently exist for use for many types of products and services. Copies of these standard form contracts can be obtained from your company's Contracts Department or website.

Bid Documents and Proposal Review

Once the decision has been made to proceed with a tender, the sales representative and contracts groups inform the Tax and Contracts Departments and the QHSE risk manager to ensure that all relevant parties receive a copy of the tender as early as possible.

The review process is conducted twice. First, the invitation to tender documents are reviewed to ensure that there is a complete understanding of the scope of work and the operational, technical, financial, and contractual requirements. This review process will be discussed in more depth in Chapter 10 "Competitive Bidding." The second review takes place once the proposal has been completed to be sure it follows the requests set forth in the invitation to tender and complies with your company's contracts policy.

Every proposal preparation involves a team composed of staff from sales and marketing, operations, contracts, finance, tax, and risk management. In most cases the contracts group participates on the tender team and coordinates with the finance, tax, and risk management groups. Each review process is discussed below. For larger bids or companies that have dedicated groups to prepare proposals, there can be people with dedicated roles, as described in **Chapter Highlight 4.8: Procurement 101, Part 2**.[9]

Operations and marketing. Operations and marketing groups study the commercial and operational/technical aspects of the bid. The tender submission generally incorporates a technical section, which can range from solutions to a series of technical questions and answers. These sections must be reviewed and qualified through consultation with appropriate experts.

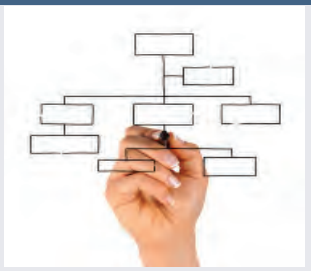
The tender leader develops a bid strategy, which should complement the overall competitive sales and account strategy. The final bid package is tailored to meet the bid requirements to include the scope of work, pricing structure, and project objectives.

The final proposal is reviewed to ensure that all concerned parties understand the operational commitments and price structure, including any price escalations and incentive mechanisms, work logistics, and overall bid strategy.

Contracts. The Contracts Department examines the bid documents from a legal and commercial perspective. This department attempts to promote your standard terms (or refer to a master contract, if it exists) and examines the customer's terms and conditions, including insurance provisions.

The Contracts Department calls on support from the Tax and Finance Departments regarding the legal entity, tax/finance provisions (including terms of payment, taxes, customs, duties, and import/re-export formalities), local insurance provisions, structure of price, bid bond, and performance bond. The objective of the Contracts Department is to ensure that a clear understanding of the rights and obligations of all parties exist.

Chapter Highlight 4.8: Procurement 101, Part 2



Are you resourcing a tender or bid team? Need a proposal writer? A bid manager… no, maybe a tender manager? If you are confused with the mix of terminology used by procurement and business development professionals, you are not alone. Here we explain the difference between bids, tenders, and proposals with a straightforward list of definitions every company needs. The first thing to realize is that terms vary from organization to organization and country to country. They also depend to some extent on the background and skill set of the person involved.

Bid: A bid is an approach to a client in order to gain significant new or repeat business. Bids, by their nature, involve staff from across the whole breadth of one or more organizations. The bid manager needs to be able to interact with many types of specialists, from technical to legal, finance, HR, and senior management, and will need to know their roles, responsibilities, and what they can and cannot be asked to deliver. The term bid or bidding can also relate to the documented offer submitted in response to a request or invitation to tender. The bid will then be evaluated against a set of criteria that are described in the request or invitation to tender.

Tender: The term tender is often used interchangeably with the term bid. However, bid is increasingly being used by the offerer (the supply side) while tender is used on the procurement side (the buyer).

Bid Manager: The bid manager takes full ownership of entire bid program. Sometimes, this may involve a period of research, information gathering, and strategic messaging prior to the bid being released. Responsibilities include overseeing best practice processes and procedures, and managing multiple resources —sometimes cross-functional, cross-jurisdictional and even across companies or the supply chain. As a leadership position, the bid manager—who must feel at ease working with executives and the board—requires strong people management skills as well as the ability to deal with complex business relationships, manage competing priorities, and drive the delivery of a strong winning business case to the client in a high stress environment within tight timeframes.

Tender Manager: The title is often used interchangeably with the bid manager title, although bids, by their nature, are project-based with a beginning and end point. The tender manager, on the other hand, has traditionally been charged with overseeing the capture lifecycle—from identifying and converting significant business opportunities to supervising and delivering tender responses and continually reviewing the bid management process. A tender manager can also be hired on the procurement side to manage tender requirements, oversee the Request for Tender process, and negotiate contracts (sometimes referred to as tender and contracts manager).

Project Manager: To some extent all bid managers act as project managers. A bid shares many characteristics of a project due to its defined beginning and end point, objectives, roles, responsibilities, milestones, and deliverables. For this reason some organizations assign project managers to bid management roles.

Business Profile or Corporate Credentials: A business profile (or corporate credentials) is a promotional or marketing tool that presents a snapshot of your company. It essentially serves as a resume for your business.

Capability Statement: Similar to the business profile, the capability statement is usually tailored to the audience or the contract requirements and describes the company's capabilities and experience, including who you are, what you do, and how you are different from your competitors.

Proposal: The proposal is a written offer from a seller to a prospective buyer. It is a critical step in the complex sales process—i.e., whenever a buyer considers more than price in a purchase—and serves as a persuasive business case for a product, service, or business opportunity. Proposals are client-centric selling documents that are highly tailored and solutions-oriented to the buyer's requirements.

Proposal Writer: Proposal writers are usually tasked with pulling together pre-existing information or creating custom content and tailoring it to the client's needs. Generally, a proposal includes a summary, identifies the problem or business opportunity, and defines the solution and how it will work (the methodology or project plan together with performance criteria), budget/pricing and organizational details, including names and description of credentials (past performance) and expertise of the individuals who will be responsible for managing and performing the work.

Technical Specialist: Also referred to as 'subject matter experts', technical specialists are usually industry specific and are central to developing the client's solution. Their focus is on design and functionality rather than the sale. In the IT space they might be systems programmers or network designers; for major infrastructure they may be civil engineers.

Technical Writer: Technical writers are usually professional communicators who are skilled at translating technical language into plain English instructions for the everyday user of a product or service. The technical writer and bid manager work closely with technical specialists to scope their information requirements and ensure they contribute positively to the bid.

▶ *Best Practice Contracts Policy*

Companies accept responsibility for reasonable risks associated with their activities. However, it has always been, and continues to be, a best practice not to accept any potentially catastrophic liability related to the performance of their services.

Clearly, the first rule is that you will not provide any services or perform any work without a properly signed service order or contract.

A contract or service order under which you will provide services to a client should be based on the mutual-harmless principle. That is, your company is responsible for its people and property, and the client is responsible for its people and property.

In addition, the contract or service order should stipulate that you will not be responsible for and will be expressly indemnified by the client for the following liabilities, except in cases of your intentional misconduct:

- Loss or damage to the well, the formation, or the reservoir
- Cost of controlling a wild well and cost of redrilling
- Damage or injury resulting from pollution originating below the surface or radioactive contamination related to operations, including the cost of cleanup and disposal
- Inaccuracy of any data, or incorrect interpretation or recommendation

For a complete list of your company's contracts policy, contact your contracts manager.

The Contracts Department also reviews the bid for possible exposure risks that could affect the profitability of the project. The expected profitability is more certain when you can minimize your liability for both foreseen (e.g., cost of transportation) and unforeseen costs (e.g., liability for equipment lost or damaged downhole or for pollution damage).

Finally, the Contracts Department reviews the entire proposal as a complete package to ensure that changes inserted for commercial reasons do not pose legal difficulties, such as variations of warranties or penalties or the application of certain concepts (exclusive or call-out nature of the work, incentive mechanism, etc.). The review carried out by the Contracts Department is not confined to a scrutiny of the legal terms but extends to all facets of the bid that might have a bearing on your exposure and, consequently, on the profitability of the project.

Tax. The Contracts Department usually sends a copy of the pro forma contract to the tax advisor for review. The tax advisor's modifications and comments must be included in the tender submission. The Contracts Department reviews changes made for tax or commercial reasons to ensure that the changes will not have inadvertent legal ramifications.

Financial. The Finance Department reviews the tender in depth with regard to all financial issues, including payment terms, bonds and guarantees, currencies and credit checks.

Risk and insurance. The Contracts Department normally reviews the risk and insurance provisions and, where necessary, seeks advice from the Risk Management Department. Catastrophic risks are classified as such at the corporate level. The tender leader, in consultation with the Contracts Department (and, if appropriate, the Risk Management Department), must ensure that you do not accept any liability for catastrophic risks according to your company's contracts policy.

Proposal Submission

The formal proposal should have a professional look, present easy-to-find information, please the client, and make a good impression for your company. In addition to complying with all your contracting policies, the proposal should communicate a value proposition that compels the buying center to engage your company for the work.

The proposal must be prepared and delivered with strict confidentiality. Proposal documents must be closely controlled so that proposal information does not leak to your competitors or their allies. Final pricing details and significant contract terms should be the last information to be printed and inserted into the proposal package.

"The Customer's Point of View" sidebar (next page) features comments from clients about the do's and don'ts for submitting proposals.

Customization. Each proposal should be tailored to the specific customer and the invitation to tender so that it meets the customer's requirements. Your proposal should leave the buying center with the impression that you are addressing an important client issue. When several needs have been identified, they should be treated separately. The customization should also take into account that several buying center members may use the document for their part of the decision-making process. Each buying center role has different information requirements that you should accommodate in your proposal. **Figure 4.11** (page 94) lists the different types of information each role requires for input into the decision-making process.

▶ *The Customer's Point of View*

Below are comments made by customers regarding suppliers' proposal submissions.

Don'ts

- Do not change the rules of the game.
- Do not make pricing and discounts too complicated.
- No big packages.
- Do not impose the rules of the game.
- Complication comes from suppliers, not us.

Do's

- Fast and easy evaluation of bids.
- Simple to understand.
- Total Quality Management.
- One price list per project.
- One invoice per operation.
- Track record of delivering, as promised.
- Customers like flexibility.
- Answer as requested.
- Customers like fit-for-purpose services.

Advice from Customers

- Know personal priorities of evaluators.
- Know main priorities of the project.
- Presentation is important.
- Personalized and researched.
- Purchasing agents want to understand what they are buying.
- Purchasing agents like attention.
- Company policy is to ensure value for money.
- Win–win contracts are achieved through discussion with contractors in an open and cooperative atmosphere.
- Minimize duplication of contractor services.
- Streamline the in-house organization.

Your proposal should include executive summaries, strong value propositions, comparative tables, and detailed information to facilitate the decision-making process for each buying center role. Members in the buying center should be able to efficiently use your proposal to make decisions. When buying centers are large, you must identify the powerful members so you can meet their individual information needs for the decision-making process. Chapter 7 "Sales Call Skills" discusses how to tailor support documents to the specific customer profile of the buying center members.

When referring to the customer's operations in the proposal, you should use their terminology for referring to business units and functional groups. You should also refer to locations, reservoirs, rigs, etc., as they are called within the account.

Organization

Every proposal submitted should have at minimum the following sections:

- Cover letter with executive summary
- Technical proposal
  - Organization
  - Experience
  - Products and services
  - Customer support
  - Quality, Health, Safety, and Environment (QHSE)
- Commercial proposal
  - Pricing
  - Contractual issues
- Appendix

Cover Letter. As this may be the only portion of the document the decision-maker reads, the cover letter is an important part of the proposal. It should state on one page the value proposition and the differential value of the proposal as agreed upon in the evaluation of options phase. The cover letter should leave customers with a strong message about why they should choose you, and it should be placed at the beginning of the technical and commercial proposal when these parts are in separate envelopes.

Technical Proposal. The technical proposal is addressed to the users and technical evaluators in the buying center, who are typically the end users of the products and services called for in the tender to bid. Sometimes the technical evaluators also evaluate the commercial offering, but usually this task is carried out by the Procurement Department. The technical proposal comprises the following sections:

- **Organization.** A description of the you organizations supporting the project inside the region and other individuals or groups such as company headquarters, R&D, and technology centers. If appropriate, include any other support groups within your organization, such as your IT services, that will contribute indirectly to servicing the project and will differentiate you from the competition. Professional qualifications and work experience of the project service delivery team should also be included in this section.
- **Products and services.** This section contains a description of the products and services as requested in the invitation to tender and, if agreed upon by the buying center, any alternative products and services offered as part of a flanking strategy.
- **Customer support.** This is a brief description of the capabilities and resources available to provide direct support to the customer for the project.

▶ *I Do This, You Pay Me This—Simple, Right?*

Below is a checklist for commercial terms in a contract. You should always have your operations manager and contracts manager review the commercial and legal terms and conditions of a contract before submitting your offer. This will keep pricing disputes to a minimum.

Checklist for Commercial Terms

Check what is included in your price, for example:

- Mobilization/demobilization/stand-by charges
- Personnel costs associated with delays/stopovers (especially for remote locations)
- Back-up (at location or on rig)
- Support services/special reports
- Number of copies (unlimited?) distribution of copies to partners (worldwide?)
- Safety equipment and regulations (costs of compliance?)
- Third-party costs, including consumables and any administrative/handling charges.

Check what items/services the client is prepared to provide at its expense (e.g., land/offshore transportation, accommodations and meals, medical aid, diesel, fuel, water, communications, etc.). Usually all other items/services are at your expense.

If you agree to install your equipment, check the location of the rig at the time installation is due to take place.

If you accept liability for a delay in start-up or completion of services, make sure it is limited "to delays attributable to your sole negligence" or "to the extent of you negligence." Consider a fixed financial limit.

Does the client reserve the right to make you modify your equipment to its safety and other specifications at your cost? Make sure the right is limited to requirements specified in the tender and does not extend to future changes. Are there penalties for non-compliance?

Who is to provide visas, permits, special certifications, etc., and at whose cost?

Does the client only accept to pay depreciated value for lost/damaged equipment? If you accepts depreciated value, make sure there is a minimum residual value of 50% of landed replacement value. Is there a proviso that the client will not pay for loss or damage if your company insures equipment?

Are you required to provide a bank guarantee, performance bond, or parent company guarantee? Is there a risk of the client defaulting on payment?

Are you being asked to run the equipment of another supplier?

Clarify safety/technical objections.

Does the bid/contract specify that your company is to provide nominated personnel?



Fig. 4.11
Buying center members and required information.

- **QHSE.** This section calls for a description of your QHSE organization, program, policies, and QHSE records.

Commercial Proposal. This section contains your pricing proposal and contractual issues. The commercial proposal must be carefully completed to avoid potential future conflict between the customer and you. Those who draft commercial proposals must be familiar with commercial considerations in client contracts. See also the checklist in the "I Do This, You Pay Me This—Simple, Right?" sidebar.

- **Pricing proposal.** The pricing proposal should reference an attached price list and clearly explain any discounts and incentive pricing. It should be simple, clear, and easy to evaluate. It is a good practice to generate a sample invoice to make sure the customer understands the services offered and the associated costs.
- **Contractual issues.** This section should include any qualifications and exceptions to the proposed contract and any other legal issues.

Attachments. Attachments to the proposal include the following:

- Registrations with various organizations and government offices, such as taxes and commercial register.
- Business licenses for explosives, radioactive material, pressure, etc.
- Insurance certificates
- Curriculum vitae of operations personnel
- Reference letters
- Technical support documents, drawings, etc.

The actual process of delivering the contract varies from company to company and country to country. Instructions for submission range from very informal (no stamping or receipt of delivery) to very formal, where submissions have to be

made by an authorized company representative and the packages with individual proposals must be sealed with wax and stamped. Late submission is usually cause for disqualification from the tendering process. Typically, requests for extensions must be made in advance of the due date, and usually an extension is granted to all companies if granted at all.

Opening of the tenders is as varied as the submission procedures. Some companies are very informal, and an assigned company representative opens the tender without a witness. In others, a very formal procedure is followed where the proposals are opened and authorized representatives from your company and competitors submitting proposals as well as a representative from the customer's legal department initial every page at the time of opening. Occasionally, submissions will be opened, read, and recorded in public.

After the bid has been submitted and opened, the next stage of the procurement phase—resolution of concerns—begins.

Phase 3b: Procurement – Resolution of Concerns Stage

Once the account has completed an initial evaluation of the proposals, the sale moves into the resolution of concerns stage. In this stage, fears, uncertainties, and doubts may block the decision or cause customers to reopen discussions with the competing bidders. Sometimes this phase is uneventful because the customer considers you to have an excellent reputation for delivering the products and services offered; other times, this is not the case—or the evaluation may be close between you and the other competitors. Resolution of concerns is very characteristic of large sales. This stage must be planned for and managed well.

In this stage, you must understand the risks and consequences for the buying center and work to resolve these issues. See the "What Causes Consequence Issues?" sidebar on the next page. Resolution of concerns includes the following tasks:

- Answering any questions
- Addressing any concerns
- Addressing any perceived consequences

Expecting Customer Concerns. You can prepare to handle the buying center's concerns by predicting those concerns as the decision point approaches. You make this prediction by using the information you gathered during the early phases of the opportunities management process or from the implementation phase of previous projects. For example, you might expect that a price-sensitive buyer, as discussed in the "What Causes Consequence Issues?" sidebar, would return to the pricing issue late in the procurement stage, the value buyer might come back with doubts regarding the value proposition, and the relationship buyer might have concerns about your level of corporate commitment.

Your relationship with the customer is also a good indicator of how likely you are to encounter concerns during the procurement stage. If you are regarded as a vendor, you are likely to have many more concerns to deal with than if you are regarded as a problem solver or stakeholder.

The customer's new technology adoption profile is also a very good indicator of possible concerns. If buying center members are unfamiliar with the technology or solution and they are mostly pragmatists, conservatives, or laggards, you should expect concerns as the decision point comes closer.

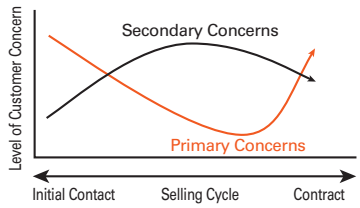
Your competitive sales strategy—especially a flanking strategy—may create concerns for the customer. If your flanking strategy suggests alternatives to their requested services, this may also cause concern regarding your capabilities.

▶ *What Causes Consequence Issues?*

Based on their research, Neil Rackham and his colleagues at Huthwiate, found that consequences are the penalties or risks the customer believes could result from making a decision to select your company's products or services. But what causes consequences?[9]

The researchers were able to gain some insights into the nature of consequences and their causes from a study they conducted about customer concern with price and how it changes during the selling cycle. They found price concerns to be high during the early stages of a sale. Often the customer's very first question is "What does it cost?" One of the reasons for this early concern with price is that the customer hasn't yet fully considered all their needs. As a result, the seller's product or service can't be judged in terms of the problems it solves; therefore, it must be judged on cost, not on value.

As the exhibit below shows, price concern tends to drop as the sale progresses, usually reaching its lowest point in the middle of the cycle. In its place comes an increased interest in applications—in the capabilities, which the product or service provides. Finally, just before the decision, there's often a sharp increase in price concern, with cost issues frequently becoming the central issue on which the whole decision seems to rest. What accounts for this sudden increase in price concern?



One explanation is that the seller's efforts earlier in the cycle try to influence the value equation by developing solutions, savings, and benefits. However, as the decision approaches, the customer naturally looks at the other side of the equation and begins to assess what all these things will cost.

Costs aren't just a question of purchase price. Part of what the customer must pay is measured in less tangible terms: The decision has costs in terms of risks, implementation problems, political dangers, and other things that could go wrong. These form the basis for the consequence issues, which often lie under the surface.

Concerns may also arise because the customer may not remember information that was presented during the evaluation of options phase. This is especially true when there have not been opportunities to reinforce the message throughout the procurement phase. See the "I Told Them That Over a Month Ago. How Could They Forget?" sidebar for a resolution of concerns example and a discussion on retention issues as they apply to a sales environment.[10, 11, 12]

Other Indicators. Buying centers may also develop concerns when large financial amounts are at stake in the decision. As the decision grows in gross dollar size, so do buyers' concerns about risks—especially those related to making an expensive mistake and disrupting business. Senior management may be actively involved or very much interested in the buying decision; consequently, buying center members may be under increased pressure to make the right decision.

When there are many buying center members participating in the decision, there may be political concerns—such as risks of upsetting influential individuals or functions.

Finally, the more competitors involved in the tender, the more alternatives on the table in the buying decision. Here, issues of vendor credibility and competence become important customer concerns. If the competitor is the incumbent and has given good service or is better known, buying center members may worry about the risk of changing service providers.

Discovering Concerns. Once you understand when to expect buyer concerns, you must take action to uncover them if they exist. The most direct way to do this is to ask the customer whether there are any concerns or consequences that you need to address. Be alert for signs of concerns that suggest there may be unresolved consequences.

Often, signs of concern are evident in discrepancies between what should be happening and what actually is. For instance, signs may come in the form of unusual events, such as previously resolved issues coming back as an issue, unjustified postponements, contacts who were willing to meet earlier but are now elusive, and information being passed selectively to competitors but not to you. Unrealistic price concerns are often amplified by unresolved consequences.

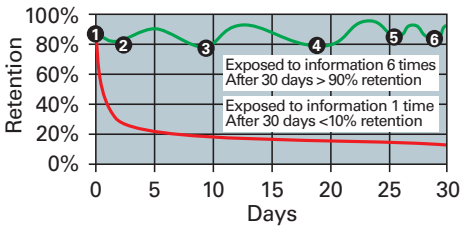
▶ *I Told Them That Over a Month Ago. How Could They Forget?*

You were able to get the key buying center members to gather all at the same time early in the evaluation of options phase and let you make your presentation on the great proposal you were able to put together for their project. It was a great presentation, there were a lot of questions, and everyone thanked you. You then submitted your tender feeling confident you would be awarded the work based on the earlier presentation.

Then you discovered they awarded the work to the competition. In the debrief with one of the evaluators, the customer revealed they were not comfortable that you would be able to make the mobilization in time for the advanced technology. You were shocked, because in the presentation you told them you had another project in the country demobilizing in the next six weeks. How could they forget?

The fact is, they probably forgot 90% of what you told them in your two-hour presentation. The graph above demonstrates why.

Exhibit 1: Retention versus Reinforcement



In his book based on his research, Tony Buzan suggests adults can listen and understand for 90 minutes, but they can only listen with retention for 20 minutes.

Based on Buzan's research, to ensure that customers retain information over time, the message must be reinforced as shown in the graphic above.

Robert Pike, a leading trainer of trainers, in his book *Creative Training Techniques*, suggests using the 90/20/8 rule for the highest level of retention. Present for no more than 90 minutes on any one topic, have a change of pace every 20 minutes, and try to involve the people in the content every eight minutes.

Handling Concerns and Consequences. Concerns and consequences fall into five categories, as follows:

- Indifference
- Skepticism
- Misunderstanding
- Technical drawback
- Financial drawback

Use these guidelines when handling concerns and consequences:

- Don't ignore them; they will not go away.
- Minimizing the issue will not resolve the issue. In fact, this may cause the customer to avoid any further discussion about the concerns or consequences.
- Help the customer resolve the issue rather than prescribe a solution.
- Avoid pressuring the customer to close the sale. This technique works for small sales but is often counterproductive in large sales. If the customer seems indecisive, probe to understand why and address those issues.

The "Sales Call Skills" and "Handling Customer Rejection" chapters discuss specific steps for dealing with each type of customer concern and consequence.

The next stage in the procurement phase is negotiations. Most customers in the evaluations of options phase identify possible products or solutions and suppliers who can provide those products or solutions. In the procurement process, the customer narrows this list to two or three preferred suppliers. The final selection comes after negotiating with each potential supplier to get the best offer. Sometimes, the negotiations stage comes after the customer has made a final selection based on the tendering process. The award, however, is conditional upon reaching an agreement.

Phase 3b: Procurement—Negotiations Stage

Competitive battles are fought in the evaluation of options phase, but the rewards for winning are decided in the negotiations. The following conditions must be met before negotiations can take place:

- A package of work has been tendered, an offer made, and the value of that package determined.
- All concerns and consequences have been resolved.
- Both parties can still vary the terms.
- Both parties have something the other party needs and can trade items of value.

The negotiations stage must fulfill the following objectives:

- Both parties come to an agreement where the value of the final deal is close to the value of the deal going into the negotiation.
- Both parties consider the final deal a win–win agreement.
- The negotiation process strengthens the relationship between you and the account.

Negotiations are a structured process that improves with preparation. To negotiate effectively, you must leverage all the information and value developed in earlier phases of the opportunities management process, such as information regarding the needs and priorities of the account, importance of the opportunity to the account, account and project value drivers, your differential value, and profiles of buying center members and their alignment.

Because of the importance of having this information, a key strategy is to negotiate as late as possible in the buying cycle. This strategy provides more time to gather information in the buying cycle and strengthen your position in the evaluation process. Negotiating too early is a common strategic error. See the "Can I Negotiate Now? No, Later!" sidebar for research on negotiating too early.[13]

The opportunities management process clearly illustrates that each phase of the sales cycle has specific objectives and strategies. By achieving the objectives of the early stages, sales representatives are in the best position to negotiate successfully. The negotiations process and required preparation are discussed in detail in Chapter 12 "Collaborative Negotiations."

Next in the procurement phase is the monitor stage, which is the waiting mode of the sales process. Negotiations are finished, best offers and trades have been made, and the final decision is very near. Did you win or lose? What do you do in the monitor stage is described next.

▶ *Can I Negotiate Now? No, Later!*

Many studies have demonstrated that when salespeople are given the authority to offer discounts to help secure business, they usually give the maximum discount they are allowed to give, and the customer requests still further discounts before awarding the work.

In one study, sales representatives were given authority to give up to a 10% discount in order to win the work. In 93% of the cases, all the sales representatives offered the maximum discount and requested additional discounts later in the selling cycle. How could this be? Their pricing authority was to be used as a negotiation tool, so why did they ask for additional pricing decreases to win the work?

These sales representatives made the mistake of offering a discretionary discount early in the sales cycle, during the evaluation of options phase. They used the discount as a sales tool before the evaluations of options phase was completed. When they started the negotiations phase, they had nothing to trade.

In the above study, management thought the discount would produce an increase in market share and possibly a 3% to 5% change in pricing. What ultimately happened was no change in market share and a 9% drop in prices.

Phase 3b: Procurement—Monitor Stage

In the monitor stage, the customer's decision-maker in the buying center has made the decision and is in the process of passing the recommendation for final approval. In this stage your mission is to:

- Defend your position from competitor tactics;
- Prepare your attack strategy; and
- Prepare for customer negotiation tactics.

Defending From Competitor Tactics

Once competitors discover they have lost the work, they may attempt to interject at higher approval levels to delay, block, or overturn the decision in their favor.

They can also work to have your selection rejected or can attempt to have the entire procurement process canceled and restarted.

This defense highlights the importance of the question "Can you win?" You may never know such maneuvers are taking place if there is no one in the buying center who is aligned with you, and upper management may be susceptible to competitor tactics if you have no alignment at that level. This is the stage where any enemies in the customer's organization may attempt to intervene. Therefore, it is critical you have mentors and supporters in the buying center who can alert you and defend your position.

Here are some actions you can take to combat such events:

- **Alert mentors and supporters in the buying center that this may happen.** If in the past the competition has tried to block an award being made to you, the probability for this is high.
- **Meet with mentors and supporters.** Shortly after negotiations have ended, rehearse with mentors and supporters the benefits of awarding the work to you.
- **Provide mentors with the most recent and succinct support and justification for using you.** Assist mentors by providing support materials so they are ready to quickly address any concerns or consequences the competition or internal enemies may try to create.
- **Meet with the approver to review the decision.** In this meeting your representative reinforces the benefits and addresses any concerns and consequences. In most cases, a high-level manager from your organization who has been thoroughly briefed attends this meeting. This visit should be scheduled ahead of time based on a best estimate of when the procurement process will enter this stage. By waiting until there is a problem to schedule this meeting, the approver may be called on by many suppliers, or the meeting may be blocked.

Your Attack Strategy

In an attack strategy, a last-minute, high-level attempt is made to block the award to the competition. Because of the sensitivity of this strategy, you must determine very early the conditions under which you would use this strategy. You must also consider the consequences of such a maneuver. If you decide to proceed, you must decide who will make the contact and with whom. Should you directly approach the approval level, or should you contact a person who would support your efforts and who has a direct relationship with the approver? Your earlier analysis of the buying center will help you make this decision and really pays off when executing an attack strategy.

Your intervention must be based on your belief that the customer will not benefit from the decision not to choose you. As such, you must have specific reasons for this belief. Prior to launching an attack strategy, it is a good practice to alert your mentors that you plan to take such action and to get their feedback and recommendations.

Preparing for a Customer Negotiation Tactic

Now it is time to rehearse. You thought the negotiations were finished, but the customer has come back to you asking for a concession before they award you the work. You must be prepared to deal effectively with this negotiation tactic. See the "I Can't Believe What Has Happened" sidebar on the next page for an example of last-minute negotiations.

You can be flexible provided the customer is as well. When asked for a last-minute concession, you must be prepared to explain what you are willing to do and what you want the customer to do for you. You must brainstorm internally to develop a list of inexpensive, yet valuable trade-offs that you can suggest in response to such a request. Chapter 12 "Collaborative Negotiations" discusses this topic in more detail.

Once you receive notice that the procurement process is over, you perform an outcome analysis.

Phase 3b: Procurement—Outcome Analysis Stage

Once the customer has made a final decision, you analyze the results of the opportunities management phase to determine how these contributed to your success or failure. The analysis should be done from three perspectives: the customer's point of view, what you achieved, and what the competitors did.

Customer's Point of View

- **Reasons why you won or lost.** You analyze the customer's point of view to determine their reasons for the final decision. You ask the customer how you and your competition scored in the evaluation. You also ask the customer what you did well and what you could have done better.
- **Reasons why your competitor won or lost.** What did the competitors do better than you?
- **Final amount of differential value the customer gave you.** Did the customer discount your differential value more than you expected? Why didn't the customer give you the full amount you expected?

What Did You Achieve

How did you do in each phase of the opportunities management process up to this point? Starting from the beginning, you should evaluate how effective you were in each phase of the opportunities management process by answering the following questions:

- Did you correctly identify the account and project value drivers?
- Did you correctly analyze the buying center? You should update buying center information in your CRM system so it reflects more accurately what happened. Who was the most influential? What were the alignments? Were there

▶ *I Can't Believe What Has Happened . . .*

It is 4:00 on Friday afternoon. It has been a long and difficult battle to win this project, but things are looking good. The decision-maker has recommended using you, and mobilization takes place next week.

Then you get a phone call from your friend in the Procurement Department. Your friend describes a desperate situation. They can't believe what just happened. To everyone's surprise, the competitors increased their discount when their operations vice president visited with the asset manager. The asset manager asked your friend to call to see if you can close the gap, and they want an immediate answer. Otherwise, you will lose the work.

What do you do?

The sales representative in this situation acknowledged the telephone call and thanked the client for making the effort to give him a chance to respond. The sales representative reconfirmed his commitment to the project and, as always, wanted to remain flexible and accommodating. The sales representative asked how big the competitor moved and learned the competitor had discounted an additional 10%. After a long pause, the sales representative suggested he could move 3%, provided the customer paid for transportation charges of the equipment from their place of mobilization. The sales representative explained how the customer was going to be shipping parts of the rig from the same location and could include his equipment in their shipment. In the call for tender, suppliers were to pay for all mobilization and demobilization. The customer didn't commit, but said that he would discuss with the manager and get back to the sales representative Monday morning.

The sales representative's weekend was ruined as he waited anxiously, but on Monday morning the reward came when he received word that the customer had decided to go with his company.

people in the organization you should have tried to motivate or neutralize? Were there buying center members you did not know until it was too late?

- What did you learn from the negotiations? Who carried out the negotiations, and what was their style? What were the key negotiating issues?

What Did the Competitor Do?

To determine what your competitor did, you should answer the following questions:

- What was the offer made by the competitor? Answer with as much detail as possible and include pricing, incentives, discounts, etc.
- Did the competitor have mentors in the buying center?
- What was the competitor's sales strategy, and when did they actively start to pursue this opportunity?
- Did the competitor use any significant tactics such as engineering center visits or last-minute contacts to upper levels in the customer's organization? Did they make any last-minute concessions? Did they bring corporate-level executives to make contacts regarding this opportunity?
- What was the competitor's reaction after notification of the result?

Despite its importance, the outcome analysis stage is often overlooked, or the analysis is not carried out in a factual and methodical manner. "You lost on price" is not an outcome analysis; it is merely an assumption. Outcome analysis helps you prepare for the next opportunity by gaining a better understanding of the customer's final decision. It helps you better analyze the buying center and improve your next competitive sales strategy.

If the opportunity is part of an ongoing operation that is tendered regularly every year or two, the perfect time to formulate the strategy for the next tender is immediately after the outcome analysis with the same sales team, regardless of whether you won or lost the work.

Chapter 9 "Strategic Sales Plan" demonstrates how to conduct an effective sales plan review process, which is a key input when completing the outcome analysis.

If you were awarded the work, the opportunity passes on to operations. In most companies, the sales staff are responsible for providing some level of support during the implementation phase. The next section discusses the reasons for this.

Phase 4: Implementation

The customer has awarded the work to you and begins to implement the project. The sales representative's objectives are to:

- Deliver on the promises made in the evaluation of options and procurement phases; and
- Use the implementation stage as part of the account development process.

Deliver on the Promises Made in the Evaluation of Options and Procurement Phases

To deliver on your promises, the sales representative and operations team join together in the implementation phase to form the service delivery team. The sales representative is responsible for ensuring that operations understands the promises made (this happens before the bid) and delivers the product or services as expected.

This is a good time to review Chapter 1 on T. Levitt's concepts of "looking through a mirror not a window" (discussed in his paper called "Marketing Myopia"[14]) and the total product concept (discussed in *Marketing Success Through Differentiation—of Anything*[15]).

Service Quality Review Meeting

The service quality review meeting is held to determine how well your company is performing; and it is also a good time to understand how well the customer is performing compared to their objectives. You need to know the customer's metrics for success, which were discovered in the identifying the compelling event phase. In this meeting, you report any major operating failures to ascertain what happened and define how you can prevent the failure from occurring again. You also review any major operating successes to ensure that you can repeat them. These two events should be captured as part of your total quality management program.

As Levitt's total product concept suggests, you must look for ways to augment the product during the implementation phase so that you can better meet the customer's needs and impact future decision-making. Once you discover ways to augment the product, you have to decide whether to introduce the augmentations at the service quality review meeting or at some other time.

If you know the project will be tendered again, perhaps as part of the contract renewal process, or if there will be upcoming similar projects, you might want to wait to formally introduce the augmentation in the next evaluation of options phase as part of a flanking alter the rules competitive strategy. Several reasons may compel you to wait. For instance, if the augmentation is easy for the competition to copy, you could lose your advantage in the next opportunity. If the competitor has mentors or you have enemies in the customer's organization, you may want to be protective of improvements that give you a competitive advantage, as the competitor's mentors and your enemies will assist the competitors in duplicating your improvement. It is a very beneficial process for the sales and operations team to take the time to complete an augmentation exercise in the middle of a project implementation. See **Chapter Highlight 4.9: "This is as Good as it Gets?"** about how one sales and operations team impressed their customer and made more revenue.

Strategies for Success in the Implementation Phase

To ensure success throughout the implementation stage, it is useful to review how the customer's learning, efforts, and motivation evolve during the life of the implementation. **Fig. 4.12** on page 106 splits implementation time into three phases. The early phase, called exploring, is where something happens with very little effort. Motivation in this stage is high, but enthusiasm may wane as the implementation moves into the learning stage. Great effort must be expended in the learning stage as the customer uses the new product or services. Motivation continues to drop as efforts are high and results are low. In the next stage—the effectiveness stage—the customer gets the results and motivation goes back up.

The challenge for the sales representative and operations is to anticipate factors that would lead to the effectiveness stage and take action to keep the learning stage as short as possible. In fact, this graph can be shown to the customer when you explain what you can do to shorten the learning stage to keep their personnel motivated throughout the implementation.

To do this, the service delivery team must develop a strategy to address any critical issues the customer may have regarding the implementation. This is best done during the evaluation of options phase as you tailor your products and services to fit the customer's needs and practices. This step will ensure a smooth implementation.

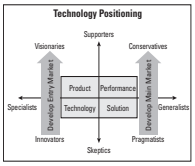
Chapter Highlight 4.9: This is as Good as it Gets?

Mid-Project Augmentation Exercise. Taking Time to Look for Improvements in the Middle of a Project

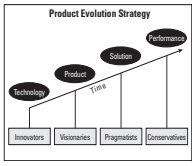
Product augmentation refers to the total product concept and involves adapting, expanding, or modifying the product or service so it delivers more value to the customer. This process is only successful with a thorough understanding how the current product is being used or its limited utilization in the client's decision-making process. Product augmentation opportunities are typically specific to one client, and the associated costs are not significant for the seller. In fact, there may be no extra cost at all; however, the opportunity may disappear if the seller does not fulfill the client's need or if a competitor does. Sales teams and operations often get together to figure out how to add value to the product offering for the customer and to further differentiate the seller's company from a competitor. One example of such collaboration was the creation shown below.

Mid-Project – Product/Services Augmentation Workshop

Account Department Project	Supplier/Product Line(s) Contact	Issue Red-Problem Green-Opportunity	Profile Innovator Visionary Pragmatist Conservative	Current Level Generic Augmented Potential	What Is Required? Describe the offering. What is required? Are there other product lines required?	Cost Incremental Cost to Develop Augmented Offering	Value $ Financial Benefit to Customer of Offering	Global? Yes/No	Ability to Cope Easy Difficult Impossible	Introduction As Soon As Possible/ Next Tender	Marketing Name Be Creative
Drilling	Wireline Cased Hole	Customer's work-over costs are increasing at 25% per year. Workovers do not seem effective.	Pragmatist	Generic -> Augmented	1. Need close coordination between wireline and cementing groups to generate cement evaluation report and recommendations. 2. Need dedicated log analysts in computing center to generate and deliver report within 24 hours.	No more than $1k/report. Already have equipment and people. Just need assigned log analysts.		Yes		ASAP	Cement advisor costs $10k/report
Drilling	Cement Advisor	Lessons learned from previous WO campaigns are not captured and easily shared, causing repeated mistakes.	Pragmatist	Augmented -> Potential	3. Create database of Cement Advisor searchable by issue and location. Put on drilling floor in a computer kiosk touchscreen.	Programmer-$5k one time Hardware-$10k Maintenance contract $1k/month	Making Cement Advisor available easily for Drilling. Engineers would be beneficial and can be used as a training tool.	Yes	Kiosk-easy Cement Advisor-Difficult	Next tender	Cement Advisor plus costs $2k/report







The workshop began with a brainstorming session of the most pressing issues or opportunities that the client was experiencing. Then the team discussed and selected two items from the list to develop ideas on what they could propose to address their assigned issue. The poster shown above is what one team proposed to address the issue of rising workover costs for their customer. The first idea to create the Cement Advisor, a coordinated effort between two of the supplier's divisions working for the customer in their oilfield on the North Slope of Alaska. This augmentation took the generic product cement evaluation and improved the product delivered to the customer; rather than simple data, it became an interpretation and recommendation report. The customer bought the Cement Advisor and installed the "Cement Advisor Plus" in the next contract. This improvement of making a cement advisor database accessible from a kiosk on the drilling department floor is considered to be at the potential level because of the customer's positive reaction and the competition having nothing comparable. The drilling manager indicated that he was impressed with the Cement Advisor and considered it a significant improvement. Now the drilling engineers were given the cement evaluation results in a much more useful format and, consequently, their workover costs had finally dropped year-on-year for the first time in a long time. In addition, the Cement Advisor Plus, from his perspective was state-of-the-art and his team was using it to train their new drilling engineers in workover operations and capturing best practice. His final comment was, "For cement evaluation, this is as good as it gets."

A copy of the augmentation workshop poster is included in the appendix.

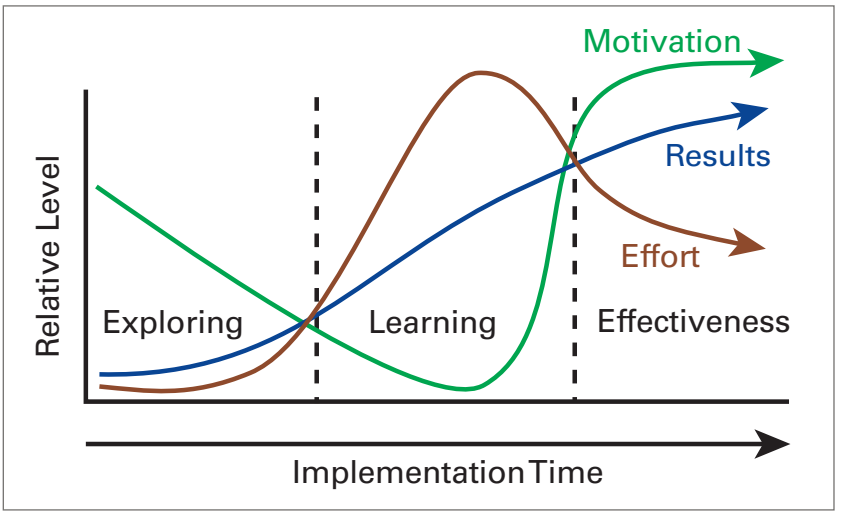


Fig. 4.12 Phases of an implementation.

A good implementation plan must be technically sound and include participation and commitment from key stakeholders. The easiest way to gain participation and commitment is to involve the customer with the service delivery team when the final implementation plans are developed.

The earlier you start to monitor the customer's reactions to your delivery of the product or service, the better. This is where you can use the exploration stage to your advantage. You must examine how the implementation is going and anticipate anything that would prevent your ability to shorten the learning stage once the real work begins. Sometimes you have to create the exploration stage.

Use the Implementation Stage as Part of the Account Development Process

A study by F. Reichheld[16] shows that improving customer retention can significantly improve a company's profitability. Reichheld emphasizes the importance of total customer satisfaction as measured by customer loyalty and that relationship management is critical to achieving total customer satisfaction—the key requirement in retaining customers and improving relationships. There is no better time to develop relationships than when you have the work—when you are on the inside and the competition is on the outside. You can use this opportunity to improve your relationship in several areas:

- **Improve your relationships with contacts in the account.** You do this by developing the relationship rather than just maintaining contact. For example, you can hold lunch-and-learn events or give training courses that include time for both lecturing and entertainment, such as holding a new technology seminar targeted at a customer-specific need combined with a golf outing. Such interactions help create awareness of products and services that may help your customers meet their objectives, and they set the stage for a customer solutions selling environment. You use a more relaxed atmosphere to gain a better understanding of the contacts' objectives and opinions and get to know them better on a personal level. This technique will be discussed in more detail in Chapter 7 "Sales Call Skills."

  Have you improved your status with members in the buying center who were neutral and non-supporters? The best way is to ask buying center members how they perceive your product and services and how you could improve. By contacting neutral and non-supporters, you demonstrate a concern for whether the customer's requirements are being met.

You can also improve your position by contacting your enemies to look for ways to improve the relationship. Having the work is a good reason to visit with them.

- **Improve your understanding of buying center dynamics.** When you ask questions about how the approval process flows, you can better understand and observe exchanges between contacts in the account. This will help in identifying the powerful, influential buying center members.
- **Generate leads and references.** Assuming the implementation is going smoothly, ask those who are involved if you can use them as a reference for another department or location where you could offer the same products or services.
- **Reassess your understanding of the value drivers for the account, project, and contacts.** You must confirm the assumptions made initially in the identifying the compelling event phase to ensure that they have not changed or been added to.
- **Look for ways to improve future projects.** You always want to make suggestions on how things could be done better in the future and on changes or additions to the work scope that would enable you to provide more value. Then you can track and report on factors that should be included in future decision criteria. As in the Pembina example in Chapter Highlight 4.6, during the implementation of the drilling program the sales representative began to report on logging times and improvements made to reinforce the value and importance this should have in future decision-making processes.
- **Key factors to track.** During the implementation you want to monitor the relationship between you and the project team. You should determine whether your role is improving or becoming less important to the account. A good measure of how the relationship is developing is to gauge whether you are taking on more responsibility, participating more in the customer's internal meetings, or providing more products and services to the account as the implementation proceeds. Each opportunity presented in the implementation phase should be incorporated into the long-term account strategy. Have you been able to achieve your account management objectives for this opportunity for this account? This is discussed in more detail in Chapter 15 "Planning."

Earlier in this section the role of the service quality review meeting and its importance in the implementation phase were discussed. The performance review at the end of the project provides the same benefits. Sometimes, the nature of the project does not allow for multiple service quality review meetings, and only a performance review is held at the end of the project.

Phase 5: Performance Review

At the end of the project or contract period, most customers conduct an end-of-project review to compare planned versus actual activities. Some companies, such as BP, call these After Action Reviews, which are considered part of their knowledge management initiative.[17] The objective of these reviews is to capture best practices and lessons learned. From your perspective you want to use this time to:

- **Check for customer satisfaction.**
- **Ask the customer whether everything was delivered as promised.**
- **Document lessons learned.** What major actions would you do again, and what you would do differently next time? This is an indirect approach to reinitializing the sales process.
- **Summarize the project performance.** This should be done in terms of the customer's key performance metrics, major operating successes, major operating failures, and appropriate actions for each.

- **Confirm that everything has been completed.**
- **Ask when the next opportunity will come.** This approach reinitiates the sales process if the customer does not offer the information. You should also select the buying center members from whom you want ask for a reference.
- **Review with all key buying center members not present at the performance review meeting.** You should contact key buying center members who were not present at the performance review meeting and go over meeting highlights with them individually. Typically, initiators and approvers do not attend the meeting.

Key activities in the performance review phase are:

- **Plan and conduct the performance review meeting.** Going to a performance review unprepared sends a worse message than failing to conduct one. The performance review meeting is a considerable opportunity to ensure customer satisfaction and reinitiate the sales process.
- **Report Major Operating Successes (MOSs) and Major Operating Failures (MOFs).** Many studies have shown that if you only talk about problems, the customer remembers the problems. If you constructively talk about both successes and failures, the customer remembers the successes.
- **Document the performance review.** Adults typically remember only 10% of what was presented at a meeting in 30 days if there is no reinforcement effort. The documented performance review becomes a sales aid for the next evaluation of options phase, so take the time to make a professional report.
- **Document lessons learned and propose next steps for future projects.** A detailed list of what happened during the project is not a performance review. The purpose of the performance review is to determine what you can do better next time and leverage the knowledge gained from the completed project. Include a section specifically titled "Lessons Learned and Recommendations." This is another indirect way to influence the decision criteria for the next project.
- **Always check for customer satisfaction.** If you believe the customer may not be fully satisfied, you have time at this point to resolve any outstanding issues. Otherwise, you create a customer that doubts your abilities and may not give you another opportunity to do the work. This is a critical part of successful account management.

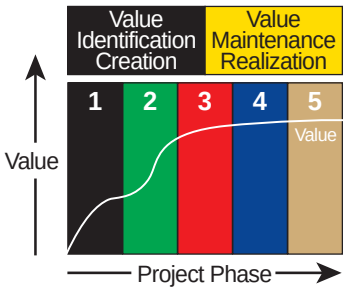
This concludes this chapter on the opportunities management process, a tool used by professional salespeople to use time to their advantage over their competition. In this chapter, many activities were recommended for the life of an opportunity to assist the sales professional in prioritizing their actions.

In addition to prioritizing activities, it is also important to recognize the critical factors in each phase of the opportunities management process. **Chapter Highlight 4.10: Opportunity Management Stages: Description, Objectives, and Issues** provides a summary of every stage of the opportunities management process.

Many of the activities involve customers, and being successful requires the salesperson to have excellent communication skills. Communication skills are the foundation for successful sales call skills and handling customer rejection. These three skills are addressed in the next chapters in the Consultative Selling section of the textbook.

Chapter Highlight 4.10: Opportunity Management Stages: Description, Objectives, and Issues

Customer Project Management Schedule



Phase 1—Strategy Setting

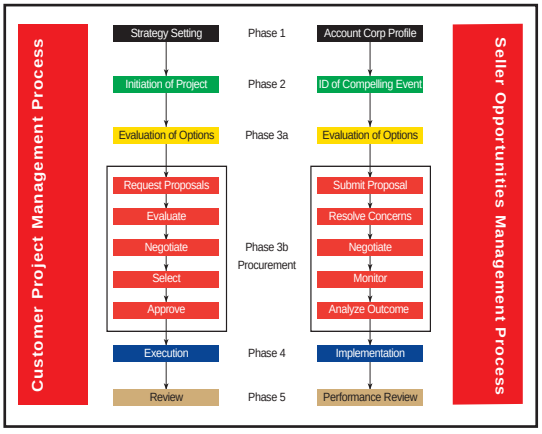
Phase 2—Project Selection

Phase 3a—Evaluation of Options

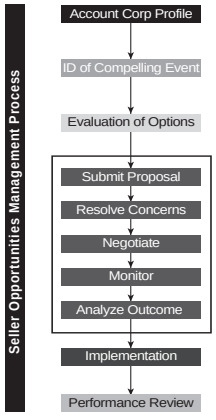
Phase 3b—Procurement

Phase 4—Implementation

Phase 5—Review



Phase 1: Account Corporate Profile



Description

- Have complete understanding of customer's high-level business drivers.

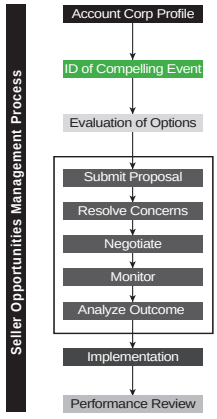
Objectives

- Uncover key metrics and strategies.
- Identify areas of focus for customer.
- Define opportunities to align.

Issues

- Must happen as a regularly scheduled event, ideally after budgeting or planning process.
- Must be documented and shared with Account Team.
- Not recognized as part of the sales cycle.

Phase 2: Identify Compelling Event



Description

- Account approves project, allocates budget, and assigns project team.

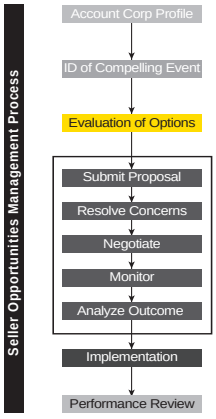
Objectives

- Qualify the compelling event.
- Understand project factors, timeline, and who managers are in the decision-making process.

Issues

- Must be at the executive sponsor level.

Phase 3a: Evaluation of Options



Description

- Account makes choices between competing alternatives.

Objectives

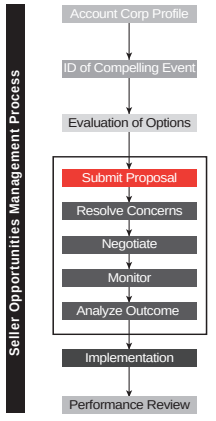
- Can we win? Can we compete? Is it worth winning?
  - Meet the buying center's needs.
  - Uncover decision criteria.
  - Influence decision criteria.
  - Maximize perceived fit.

Issues

- Don't know all the buying center members.
- Account may set criteria before needs are fully established.
- Our offering may not be superior for all decision criteria.
- Importance of soft and hard differentiators.

Phase 3b: Procurement Phase

Submission of Proposal Stage



Description

- Official submission of final proposal.

Objectives

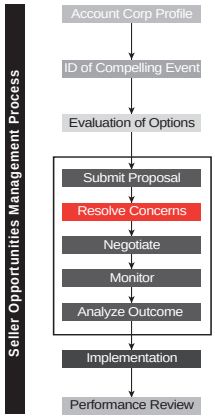
- Clear communication of value, technical, QHS&E, and pricing considerations.
- All legal and contractual considerations presented and complete.

Issues

- No statements of value.
- Pricing proposals not clear.
- Accurate assessment of risks/review not completed.

Chapter Highlight 4.10: Opportunity Management Stages: Description, Objectives, and Issues cont.

Phase 3b: Procurement Phase
Resolution of Concerns Stage

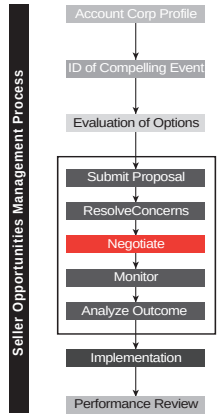


Description
- Fears, uncertainties, and doubts that are barriers to final purchasing decision in your favor.

Objectives
- Answer any questions.
- Answer concerns.
- Answer consequences.

Issues
- Ignore sensitive risks.
- Price is not the real issue.
- Lack of reinforcement.

Phase 3b: Procurement Phase
Negotiations Stage

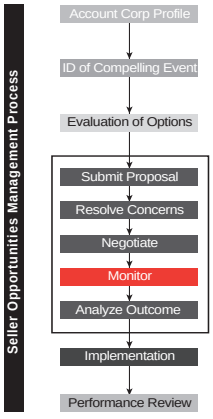


Description
- A process for reaching agreement.

Objectives
- Prepare.
- Know how to negotiate collaboratively.
- Know your alternatives.
- Have trades.
- Know how to deal with competitive negotiators and their tactics.

Issues
- Not prepared.
- Not leveraging information.
- Negotiating too soon.

Phase 3b: Procurement Phase
Monitor Stage

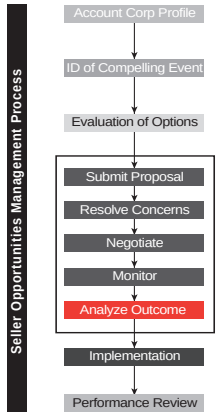


Description
- Monitor progress of decision through to the final approval process and contract signature.

Objectives
- Defend against competitor's desperation attempts.
- Prepare for your attack strategies.
- Prepare for any customer demands prior to award notification.

Issues
- Monitoring responsibilities.
- No preparation or monitoring at approval levels.

Phase 3b: Procurement Phase
Outcome Analysis Stage

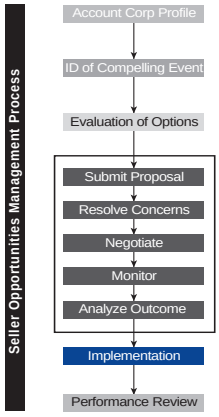


Description
- Outcome analysis of opportunity management process up to end of award decision.

Objectives
- Understand decision from
  - Customer's point of view.
  - What we achieved.
  - What competitors did.
- Analyze sales strategy effectiveness.

Issues
- Not done.
- Not done in a factual manner.
- Not documented.
- Not input into CRM.

Phase 4: Implementation

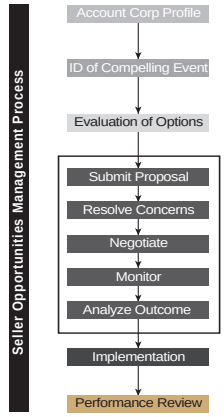


Description
- Account starts project.

Objectives
- Deliver on promises made during early part of sales cycle.
- Use as part of account development.
- Complete augmentation workshop.

Issues
- Address the stages of implementation.
- Handle problems and successes.
- Fail to check for satisfaction.
- Reinitiate the sales cycle.

Phase 5: Performance Review



Description
- Customer has completed project or conducts scheduled review.

Objectives
- Check for satisfaction.
- Was everything delivered as promised?
- Document lessons learned and what we would do differently next time.
- Confirm that everything is complete.

Issues
- Not doing the review! (Failure to check for satisfaction).
- Not reporting major failures and successes.
- Not proposing next steps for next project lessons learned.



Summary of Chapter Objectives

Opportunities management is the key to strategic sales planning. It breaks the sales process into logical milestones with objectives focused on customer needs that can be satisfied with your offer. The process is used by sales representatives to prepare a strategy that clearly communicates and justifies the additional resources needed from others involved in the opportunity. The process helps you balance opportunities and priorities with day-to-day account servicing responsibilities. Following this process allows you to use time to your advantage.

1. The opportunities management process has five phases.

The first phase is the **account corporate profile**. The objective is to build an account corporate profile that describes the account's business environment, goals, objectives, strategies, and value drivers. This phase should be completed once for all opportunities and updated on a regular basis after the account's corporate planning process. This is an important step in the sales process.

The next phase is to **identify the compelling event**. This phase starts once the customer has sanctioned a new project or repurchase. In this phase your objective is to develop an understanding of the project objectives, expected outcomes, the decision-making process and milestones, the buying center members, and whether the project is worth winning. It is also your objective in this phase to get access or introductions to the buying center, if needed. It is important in this phase not to start the selling process too soon; do not make presentations and product demonstrations, or discuss pricing before you fully understand the compelling event and have determined the decision-making process and buying center members.

The next phase is the **evaluation of options**. This phase starts when the account begins a search for the best method and supplier. This is the most critical phase of the opportunities management process, as you begin your competitive battle against the competition to present your company, products, and services as the best option for their project. In this phase you answer two very important questions: "Can you win?" and "Can you compete?" The first question focuses on your relationship with the buying center; in other words, will buying center members assist you or try to prevent you from winning? The answer to the second question is based on whether you have a solution or product that fits into the account's requirements. To answer these questions, you contact the buying center members to build a buying center profile, determine the decision criteria and level of importance of each factor, estimate how you will be evaluated against the criteria using the customer's evaluation model, and compare your evaluation against the competition. With this information you determine if you are in a position of strength or weakness relative to the competition and select your best competitive sales strategy to use from this point to the procurement phase. Failure in this phase happens when you do not exploit the customer's project management process and miss an opportunity to improve your sales strategy. When this happens, the decision criterion is likely to be price comparison with the low bid. Customers in some repurchase scenarios bypass this phase and go straight from implementation (end of one contract period) into procurement, using previously established decision criteria. In such situations, you should initiate an evaluation of options phase in advance of the procurement phase. To answer "Is it worth winning?", you must consider: costs to service the project, the timing of expected revenues, and any risks associated with the project. Other factors to be considered are future revenues and strategic factors. Answering the strategic question requires input from your company's executives.

The next phase is the **procurement phase**, which is made up of five stages: submission of proposal, resolution of concerns, negotiations, monitor, and outcome analysis. In this phase the customer begins the official tendering process. This process is usually very formal, with restricted discussions and involvement with buying center members. The sales effort is joined by a large number of other support staff both for your company and for the account. Legal, contracts, tax, finance, QHSE, and operations have input on the supplier side when completing a proposal. Objectives are set for each procurement stage.

In the **submission of proposal stage** the objectives are to prepare a complete proposal that provides the customer with all the information needed to make the buying decision. The proposal should be easy to read, with your value proposition clearly communicated. All aspects of proper contract preparation have to be followed in order to assess your risks and ensure that all you contracting policies are followed.

The objective of the **resolution of concerns stage** is to ensure that you discover and address any customer questions and concerns that were not addressed by your proposal. You also want to build a win–win agreement that strengthens your relationship with the account.

The outcome of the **negotiations stage** benefits from all the information collected in early phases by allowing you to know the significant issues for the customer, to understand your differential value, and to pinpoint inexpensive yet valuable items that can be used for trades. You must be well prepared to negotiate and have a well-planned strategy for negotiation. While the competitive battle is fought in the evaluation of options phase, the rewards come in the negotiations stage.

After negotiations, you enter into the **monitor stage**, where you watch for and are prepared for last-minute attempts by the competition to interfere in the decision-making process. You do the same, however, only after carefully considering the benefits and risks of doing so. In this stage you must also be prepared if the customer tries to change your proposal in their favor by using last-minute negotiating tactics.

Finally, the decision is made and you complete an **outcome analysis**. The objective is to fully understand why the decision was made either in your favor or against you. What did you learn about the account and the competition that will help you do a better job in your next opportunities management process?

If you win the project, you move to the **implementation phase** as part of the customer's implementation team. The objectives in this phase are to deliver on promises made earlier in the sales process and to use the opportunity to develop the account relationship and reinitiate the sales process. In this phase, you must take care to anticipate implementation problems, measure your progress in delivering on your promises, and capture significant successes as well as lessons learned.

With the project completed, you enter the **performance review phase**, when the customer has completed the project or contract period and determines what the project achieved. Your objectives are to check for satisfaction, ask if everything was delivered as promised, document lessons learned, summarize the project performance, review with all key buying center members not present at the performance review meeting, and ask when the next opportunity will be. The review is an essential part of the overall opportunities management process.

2. A useful tool for applying the concepts discussed is the opportunities spreadsheet.

This is a logical step-by-step process for laying out the information you know regarding the opportunity and then selecting the competitive sales strategy and appropriate tactics. This tool is used in preparation for completing a strategic sales plan.



Applying the Concepts

1. For an opportunity that you recently closed, complete the Project and Request for Proposal Summaries and a Level 1 Review form. How much of the information do you know? The forms are in the appendix and can be downloaded from http://www.b2bprofessionalsales.com.

2. Which of the five phases in the opportunities management process do you think is managed best by your team and which phase is the weakest? Give specific examples of why you think this is the case.

3. Which phase do you spend most of your time addressing? Would you like to spend more time on another phase?

4. By applying the opportunities management process, do you think you will be a more effective salesperson? If so, how will this help you?



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Appendix A

Project Solution Worksheet

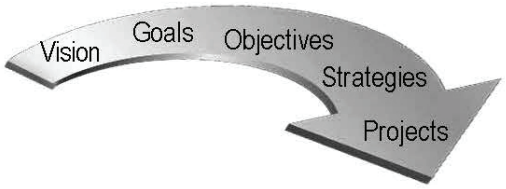
Date: _____ Contact: _____

Company: _____

Business/service unit(s): _____

Project: _____

Description: _____



Project Objectives

Project Manager

Budget

BUSINESS DRIVERS

MANAGEMENT TEAM

Operations

Technical

Finance

Procurement

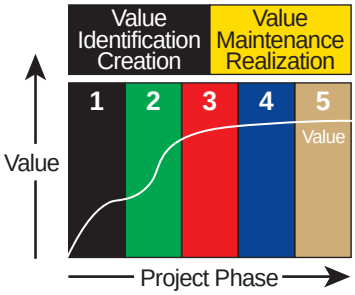
Partners

Government

CRITICAL SUCCESS FACTORS

CONCERNS/EXPECTATIONS

Customer Project Management Schedule



Phase 1—Strategy Setting

Phase 2—Project Selection

Phase 3a—Evaluation of Options

Phase 3b—Procurement

Phase 4—Implementation

Phase 5—Review

Dates

Appendix B

Sales Opportunity Level 1 Review Form

Account:	Date:	Reviewed by:

Factors and Assessment Questions	Opportunity:
Is there an opportunity? ❑ Yes ❑ No ❑ ?	Account

	Account corporate profile	+ Completed – Not done		The first four questions are assessed from the customer's point of view. The remaining level 1 factors and assessment questions are answered from the perspective of your company and your competitors.	
1.	Customer's appl. or project	+ Defined – Undefined			
2.	Customer's business profile	+ Strong – Weak			
3.	Customer's financial condition	+ Strong – Weak			
4.	Access to funds	+ Yes – No			
Can we compete? ❑ Yes ❑ No ❑ ?			Our Company	Competitor 1	Competitor 2
	Requirements diagram Vulnerability analysis Customer value analysis	+ Completed – Not done			
5.	Compelling event	+ Defined – Undefined			
6.	Formal decision criteria	+ Defined – Undefined			
7.	Solution fit	+ Strong – Weak			
8.	Resource requirements	+ Low – High			
9.	Current relationship	+ Strong – Weak			
10.	Unique business value	+ Strong – Weak			
Can we win? ❑ Yes ❑ No ❑ ?			Our Company	Competitor 1	Competitor 2
	Buying center analysis	+ Completed – Not done			
11.	Inside support	+ Strong – Weak			
12.	Executive credibility	+ Strong – Weak			
13.	Cultural compatibility	+ Good – Poor			
14.	Informal decision criteria	+ Defined – Undefined			
15.	Political alignment	+ Good – Poor			
Is it worth winning? ❑ Yes ❑ No ❑ ?			Our Company	Competitor 1	Competitor 2
	Business case?	+ Completed – Not done			
16.	Short-term revenues	+ High – Low			
17.	Future revenue	+ High – Low			
18.	Profitability	+ High – Low			
19.	Degree of risk	+ Low – High			
20.	Strategic value	+ High – Low			

What next?

What has to happen for you to win this sales opportunity? The Action field identifies the sales tactic being used (e.g., retrieve information, emphasize strengths, minimize weakness, prove value, insultate against competition). Make sure to consider all opportunity management stages. If early in the evaluation of options phase, you should retrieve information from any level 1 factors that have "?'s". The last two actions are the most important actions for Competitor 1 and 2.

Action	Description of action, name of customer, contact from your company, and completion date.
1.	
2.	
3.	
Competitor 1	
Competitor 2	

Appendix C

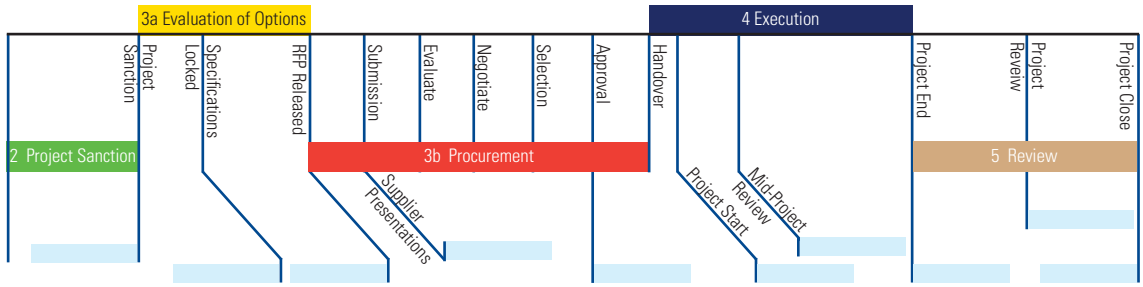
Request for Proposal Summary

Description:

Date: _____

Contact: _____

Customer Project Management Schedule



Customer Project Management Team

2 Project Selection	3a Evaluation of Options	3b Procurement	4 Execution	5 Review

Objective

Contract Holder

Budget

REQUIREMENTS

CRITICAL SUCCESS FACTORS

BUYING FACTORS %

- Financial
- Technical
- Service
- Value
- Other

CONCERNS/EXPECTATIONS

Decision-Making Process

Customer's Decision Criteria

Critical	Strong	Strong	Strong
Incidental	Weak	Weak	Weak

Evaluation Model

Appendix D

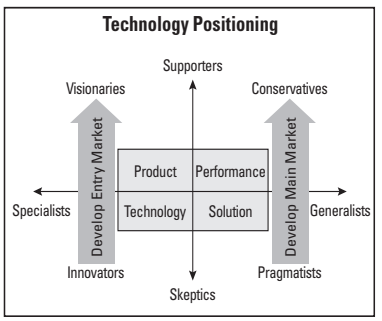
Mid-Project – Product/Services Augmentation Workshop

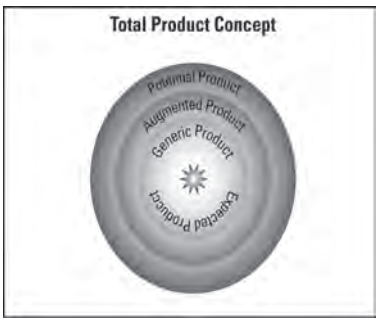
Account Department Project	Supplier/Product Line(s) Contact	Issue Red-Problem Green-Opportunity Pragmatist	Profile Innovator Visionary Potential Conservative	Current Level Generic Augmented	What Is Required? Describe the offering. What is required? Are there other product lines required?

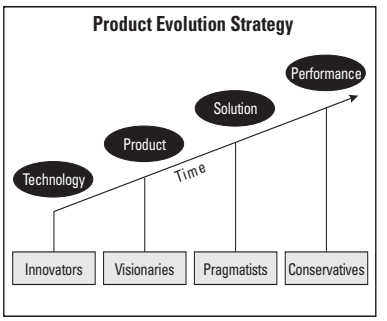
Appendix D

Mid-Project – Product/Services Augmentation Workshop cont.

Cost Incremental Cost to Develop Augmented Offering	Value $ Financial Benefit to Customer of Offering	Global? Yes/No	Ability to Cope Easy Difficult Impossible	Introduction As Soon As Possible/ Next Tender	Marketing Name Be Creative









Communication Skills



The Most Important Tool

The most important skill for a salesperson is effective communication skills. Communication is a complex activity that requires the exchange of information, ideas, and feelings with minimal distortion. The meanings of words and thoughts conveyed to and from your customers must be received exactly as conceived.[1]

This chapter describes the basic communication process and discussion skills that are fundamental to conducting effective and efficient communications with the customer. This chapter is organized in two parts. The first part presents the basic communication process for any exchange between two parties. The second part examines communication skills that are fundamental to effective and efficient communications with the customer.

Communication Skills

Effective communication is a critical part of the sales representative's job. Your ability to communicate defines your ability to give and get information, evaluate and explore ideas and opinions, and persuade others. This section covers the following:

- Basic communication process
- Discussion skills
- Social profiling

Figure 5.1 illustrates how sales communication skills are at the center of each common sales situation.

Each communication skill is used every day in your position as a sales representative. Such skills apply whether you are selling a solution, providing after-service support, negotiating, or handling client dissatisfaction or successes. Good communication skills and understanding of the basic communication process are essential to all of the above interactions.

Chapter Objectives

After reading this chapter, you will be able to:

- Describe and apply the communication process and understand the key factors for successful communication.
- Apply discussion skills in your everyday communications with the customer.
- Prepare effective aligning strategies for individual customers based on their social profile.



Fig. 5.1
Communication skills and common sales situations.

▶ ***Popular Myth: "Communication Is Simple. I Never Think About It."***

Or so you think! Many transactions are processed in every communication. The illustration to the right shows the elements in the communication process. Definitions of these elements follow and apply to a conversation between a sales representative and customer.

Sender: The person sending the message to another person—the customer.

Encoding: The process of putting thought into symbolic form—customer shows engineer a sketch of a well.

Message: The set of symbols the sender transmits—customer explains the need for products or services.

Media: The communication channels through which the message moves from sender to receiver—in this case, the specific conversation and diagram the customer has with the sales representative.

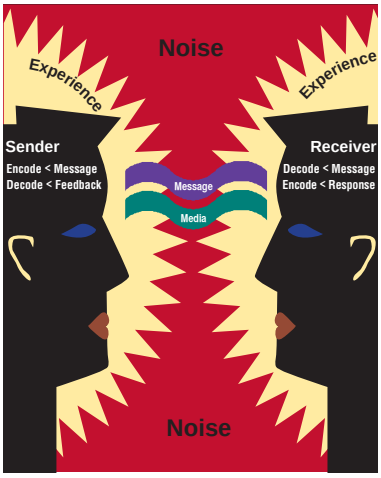
Decoding: The process by which the receiver assigns meaning to the symbols encoded by the sender—the sales representative listens to the customer and interprets the words and diagram.

Receiver: The person receiving the message sent by another person—the sales representative.

Response: The reactions of the receiver after being exposed to the message—clarification question from the sales representative.

Feedback: The part of the receiver's response communicated back to the sender—what the customer hears the sales representative ask.

Noise: The unplanned static or distortion during the communication process,



which results in the receiver getting a different message than the one the sender sent—for example, the telephone rings.

Communication Process

The foundation of effective communications is an understanding of the basic communication process that occurs between you and the customer. This is an aspect that many of us have never thought about. There are nine elements that make up the communication process, as shown in the above diagram in "Popular Myth."[1]

Two of these elements are the major parties in any communication: the sender (the person doing the talking) and the receiver (the person doing the listening). Two other elements are the major communication tools: the message and the media. Four more elements are major communication functions: encoding, decoding, response, and feedback. The last element is noise in the environment.

For a message to be successful, there are two factors that must be considered. First, the sender's encoding process must mesh with the receiver's decoding process. The most effective messages consist of words and other symbols that are familiar to the receiver. The more the sender's field of experience overlaps with the receiver's, the more effective the message is likely to be. The second factor is that the message should be memorable, and results in achieving the objective of the communication. Making a message memorable is dependent not only on the words and symbols used to deliver the message, but also on the delivery of the message. **Chapter Highlight 5.1** lists several techniques to use to make messages more memorable.

Salespeople might not always share their customers' field of experience or their situation. For example, when dealing with a person from the customer's procurement or legal department, the sales representative might not fully understand the procurement or legal issues that are important to the customer. However, to communicate effectively in these situations, the sales representative must make an effort to understand the customer's situation.

This model points out several key factors in good communication:

- Senders need to know the customer and the responses the customer wants.
- Senders must be good at encoding messages that take into account how the customer decodes them.

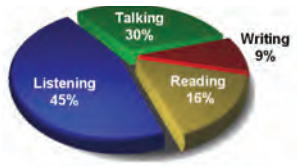
- Senders must send messages through media that are efficient and be ready to receive feedback.
- Senders must be ready to receive feedback and have an efficient feedback mechanism in place.

One of the most important tasks a sales representative has in the communication process is receiving feedback. To be efficient at receiving feedback in the sales communication process, it is essential that the sales representative be a good listener.

Listening

▶ ***Is Anyone Listening?***

In Enshrood Atwater's book *I Hear You,* he shares his research, which found that adults, when communicating, spend 45% of their time listening. This seems odd when you consider that in the formal education system we teach reading, writing, and speaking, but not listening.



Distribution of Communication Activities

It's been said that listening is the most important of all sales behaviors. In fact, research shows that it is the most used and underdeveloped communication behavior! See the "Is Anyone Listening?" sidebar.[1] We all listen to each other at varying levels of effectiveness and attentiveness, depending on the value we place on the conversation and our level of comfort in that situation. There are three basic levels of listening:

- Level 1: Listener is completely attentive, focused, and "tuned in." Listener is concentrating on and absorbing what is being said. Listener effectively decodes all the feedback from the sender and encodes relevant messages.
- Level 2: Listener's attention is intermittent, is divided, or "wanders." Concentration is less intense and often variable. Listener "tunes in and out" of the conversation. Listener starts to miss feedback or messages being sent.
- Level 3: Listener has "tuned out" the speaker. Concentration and attention are weak or distracted. Listener is, practically speaking, not listening, encoding messages, or decoding feedback.

No one can be expected to listen at level 1 all the time. A good indication of level 1 listening is the level of retention you have of the messages and feedback from the communication. As discussed earlier, an adult's retention after 90 minutes in a presentation would fall dramatically to less than 10% unless multiple reinforcements are made. The ability to stay at level 1 for more than 90 minutes is difficult. There are many sources of noise or barriers to effective listening. Some are completely outside the listener's control. For example:

- External or environmental distractions (noise, interruptions),
- Speaker-related problems (accents, speech, and gesture mannerisms),
- Unfamiliar or unexpected content,
- A desire to put one's own viewpoint first, and
- Lack of readiness to listen (fatigue, anxiety).

To overcome the effects of noise on listening, it is essential that sales representatives practice active listening and help the customer hear through the noise.

Active Listening

Even sales representatives and customers whose behavior indicates level 1 listening don't always get the most from every conversation. The average person can process ideas three times faster than anyone can speak. It is a behavior that fast-moving television and radio ads use to their advantage. Therefore, two-thirds of your listening time is "free" when someone else is speaking. Effective listening is an interactive process that requires feedback and involvement. That's why it is also important to make sure that you are fully prepared to ensure that messages are heard and feedback is given when communicating with the customer. If you don't consciously manage the communication process, then the level of retention for both you and the customer will be low.

Chapter Highlight 5.1: They Did Not Remember What I Said! No, They Did Not Remember You!

In the sidebar "Communication is Simple. I Never Think About It," the point made is that there are a lot of unconscious activities that are going on using several of the senses and processes in the brain for a successful communication. It is also important to realize that, as a salesperson, not only do you want to have a successful communication with your customer, but you also want to make it memorable and action-oriented.



For this aspect, it is the salesperson's responsibility to plan their communications to make the communication more memorable. Combining neuroscience and cognitive psychology gives us clues about where attention is processed in the brain, how memories form, and how decisions are made. This information is applied to practical applications, such as making content memorable and actionable.[2] One of the main contributors to forgetfulness is the concept in cognitive psychology called "interference." If your communication isn't distinctive enough, it looks too much like other content; people forget it and—possibly even worse—attribute it to somebody else. Most researchers agree that people typically forget 90% of the content to which they are exposed. This premise is true for any content presented in a finite amount of time, such as sales calls, presentations, web content, and marketing content. It doesn't apply to training that must be 100% learned and remembered to perform a job, such as the skills needed to pilot an airplane or make a successful sales call. Extensive training and repetition increase retention beyond the 10%.

For content with limited exposure to an audience, your goal is to make a strong impression: to take control over the 10% of the information we want the customer to remember. Therefore, there are two important questions:

- What do you want your customer to remember? (three or four points)
- What do you want the customer to do? (call to action)

You can measure success by how closely customers' memories and actions match what you wanted them to remember and do. People forget things for a variety of reasons. By understanding why people forget, you can craft your content to increase what is remembered.



There are entire books on this topic, but here are six tips to make your message more memorable:[3]

- **Recency and Primacy:** Reserve the first and last parts of your discussion for the most important topics. This is part of the 10% of what the customer will remember. These effects are known as the recency and primacy effects. Customers will better remember what you say at the start and end of your conversation.

  In Chapter 7 "Sales Call Skills," these very important parts are called the value proposition (first) and next steps (last).

- **Visualization:** Describe a picture of what you are discussing. This will help the customer visualize what you are discussing by using drawings, metaphors, analogies, or a prop like a physical object to demonstrate the concept you are talking about.

- **100% Market Share:** If you have a relevant story related to your discussion, tell it to the customer. An effective story should be efficient and told in a couple of minutes. This is a very powerful technique for connecting with the customer so they better remember your

Chapter Highlight 5.1: They Did Not Remember What I Said! No, They Did Not Remember You! (cont.)



discussion. A proven effective way to make stories stick is to tell them using the "Hero Model" in five steps: Step 1: Everything is normal. Step 2: Something changes. Step 3: The Hero pushes back. Step 4: Enter the mentor, who makes a recommendation to the Hero. Step 5: The Hero decides and saves the day.[4]

- **Exercise:** Not all people learn or absorb information in the same way. Some people learn and remember better if the information is presented orally, allowing them to discuss more; others are more kinesthetic learners and remember better by physically interacting with a hands-on approach. Still others learn better when they can visualize, as highlighted in tip No. 3.

- **Read and Record:** Use all the customers' senses by having a handout or summary of your discussion that allows them to read supporting information and make notes on the handout as your message is delivered.

Ensure that your handouts provide ample white space for the customer to take notes. The way the message is delivered has as much to do with retaining the message as the message itself. In a very good book titled *Conversations that Win the Complex Sale,* the authors again draw on neuro research to identify the critical do's and don't's of successful conversations. Their top three "deadly sins" of messaging are the following:

1. Information overload
2. Not from the customer's point of view
3. Not telling what is different between you and the competition

Commit any of these sins and the conversation is dead. In fact according to research completed by Miller (1978),[5] information overload or any combination of these sins will cause the customer to become irritated, confused, and unable to make a decision—not a good state for a salesperson to put their customers in. The do's are based on the fact that in decision-making three parts of the brain play a significant role. These are the cortex, responsible for logic and complex thought; the limbic system, responsible for many functions including emotion; and finally, the brain stem, the oldest part of the brain, responsible for survival, the startle response, and the basic functions that keep you alive. Think of them as the three main parts of a buying center in each customer's head. Based on these facts, the author recommends using one or more of the following factors in your conversations with the customer to improve retention and facilitate decision-making: use emotion, make it personal, contrast, provide concrete examples, keep it simple, and use stories.

When dealing with customers, try to communicate with emotion. A landmark study conducted by Professor Albert Mehrabian at the University of California, Los Angeles concluded that, when communicating messages with emotion (feelings and attitudes):

- 7% of meaning comes from the words that are spoken;
- 33% of meaning is paralinguistic (comes from the way the words are said: tone, pitch, pace, and volume); and
- 55% of meaning is in the facial expression (body language).

The take-away from this chapter highlight is you have a lot to do with whether or not your message is remembered, and if the customer doesn't remember you they probably won't remember your sales call.

One last critical point: You only get one chance to make a first impression—make a good one. Be on time, be dressed appropriately, and be prepared. All these factors demonstrate you care, and most of us will remember people who we think care.

Practice active listening skills with others in your day-to-day activities outside the customer's office. This can help you identify the barriers that are distracting and habits that interfere with effective listening. **Chapter Highlight 5.2: Active Listening Best Practices** lists techniques to help identify at what level of listening both you and the customer are and suggests aids that can help keep the other person and yourself at level 1.[6] **Chapter Highlight 5.3: "12 Reasons Why You Might Hear 'You Are Not Listening To Me!'"** discusses common traps that people can fall into when having a conversation. The way to improve is to be aware this might be happening and then, in your next discussion, be mindful. If you sense you are making one of the twelve mistakes, force yourself to give the other person your full attention.[7]

Discussion Skills

Many communication interactions with the customer will be in the form of discussions. An effective discussion is easier to have once you recognize it as an activity that has these three main components:

- Opening the discussion
- Delivering the message
- Closing the discussion

Later chapters covering common sales situations customize each of these components and processes to make them more effective for a specific situation.

Opening the Discussion

When holding a discussion with one or more customers, you have a responsibility for the outcome of that discussion. You need to participate to be sure the customer understands the purpose and focus of the discussion and you both leave with a common understanding of what has been explored, accomplished, or agreed to.

At the beginning of any discussion, there is always a degree of tension between you and the customer. The degree of tension can vary from very high to almost non-existent, depending on the circumstances. One of your most important jobs in opening the discussion is to initiate conversation in a manner that reduces the level of tension to one that is productive before proceeding.

Figure 5.2 shows the level of tension throughout a discussion. It is your job to look for signs when the level of tension is too high or too low, and try to manage the level to stay in the productive green zone.

▶ ***Opening a Discussion***

- Begin with preliminaries.
- Make a general reference to the topic(s).
- Use a neutral tone.
- Do not share your opinion.
- Check for feedback from the customer.

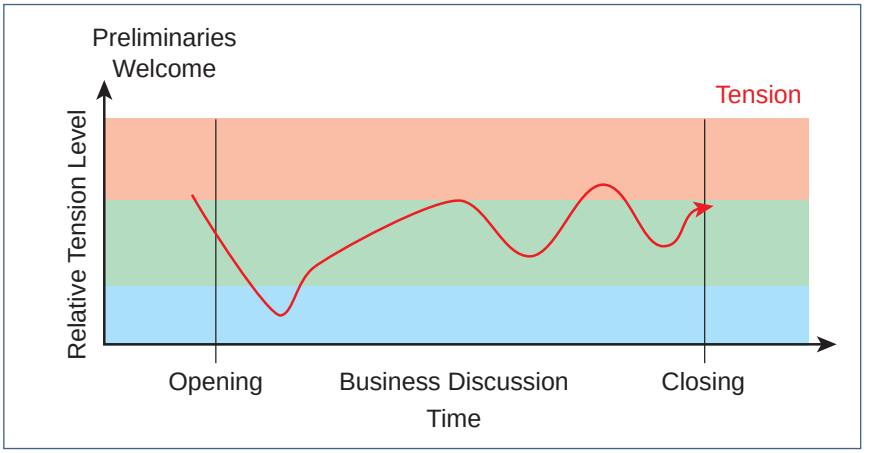


Fig. 5.2
Level of tension in a business discussion. The level of tension is plotted as the time during which the business discussion progresses. Typically, tension at the beginning is high (red zone) and does not facilitate holding a discussion. In this phase of the discussion, you use preliminaries at the opening to reduce tension to a productive level (green zone). There are also times when tension might become too low (blue zone) and discussion can easily be stalled and unproductive, perhaps distracting from the main purpose for the discussion. Our responsibility during the discussion is to be alert to signs that indicate tension is getting too high or too low and try to manage tensions back to the productive green zone. This characteristic of a discussion is probably most important in the different sales situations you will encounter.

Chapter Highlight 5.2: Active Listening Best Practices

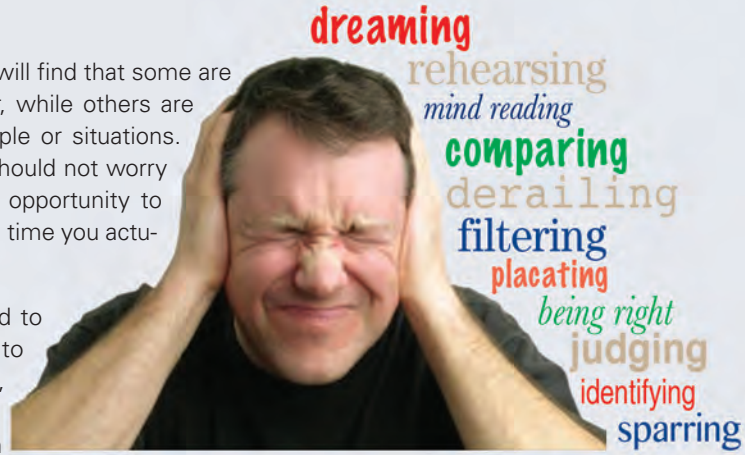
Who is Listening to Whom?

Review these active listening best practices before your next value presentation for the upcoming multimillion-dollar contract. They can make the meeting more memorable.

THEY	YOU
Level 1	
• Make eye contact. • Sit straight/lean forward. • Nod in agreement. • Use gestures. • Ask questions. • Take notes.	• You are completely "tuned in" to the person. • You have no difficulty concentrating. • You easily absorb what you hear.
Level 2	
• Make intermittent eye contact. • Slouch/lean back. • Maintain noncommittal facial expression. • Fidget. • Say very little. • Do other simple activities.	• You are tuning in and out. • Your attention is divided between the speaker and other thoughts. • Your concentration varies from weak to intense as your mind wanders and returns to the speaker.
Level 3	
• Have a fixed and glazed stare. • Slouch/lean away from speaker. • Project a look like you are not there. • Remain immobile and silent.	• You are pretty well tuned out. • Your attention is mostly elsewhere, and your concentration is weak. • For all practical purposes, you have stopped listening.
Tips for Keeping Them and You at Level 1	
• Vary the tone of voice from time to time. • Emphasize critical points. Speak lower when asking a question. • Make sketches or use a white board for drawing to illustrate points periodically. • Ask for confirmation and understanding. • Ask their opinion. • Move closer or lean in to move closer to the other person. • Take a break during a long meeting. • Make eye contact. • Keep the presentations interactive.	• Organize the information as you hear it. • Classify what you hear. • Separate main ideas from supporting ideas. • Put the facts in chronological order. • If a single focal point fails to keep you at level 1, apply 2 or 3 at once. • Identify the emotions behind the words by monitoring body language, facial expression, and tone of voice. • Before you start the conversation, tell yourself to be at level 1. • Prepare questions that are stimulating.

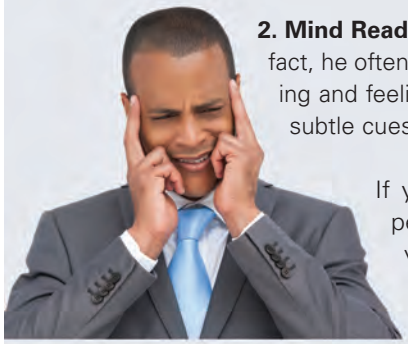
Chapter Highlight 5.3: 12 Reasons Why You Might Hear "You Are Not Listening to Me!"

Blocks to Listening



There are twelve blocks to listening. You will find that some are old favorites that you use over and over, while others are held in reserve for certain types of people or situations. Everyone uses listening blocks, so you should not worry if a lot of blocks are familiar. This is an opportunity to become more aware of your blocks at the time you actually use them.

1. Comparing: Comparing makes it hard to listen because you are always trying to assess who is smarter, more competent, and more emotionally healthy: you or the other person. Some people focus on who has suffered more or who is a bigger victim. While someone is talking, you think to yourself: "Could I do it that well?" You cannot let much in because you are too busy seeing if you measure up.



2. Mind Reading: The mind reader does not pay much attention to what people say. In fact, he often distrusts it. He is trying to figure out what the other person is really thinking and feeling. The mind reader pays less attention to words than to intonations and subtle cues in an effort to see through to the truth.

If you are a mind reader, you probably make assumptions about how people react to you. These notions are born of intuition, hunches, and vague misgivings, but have little to do with what the person actually says to you.

3. Rehearsing: You do not have time to listen when you are rehearsing what to say. Your whole attention is on the preparation and crafting of your next comment. You have to look interested, but your mind is going a mile a minute because you have got a story to tell, or a point to make. Some people rehearse whole chains of responses: "First I will say, then he will say, then I will say," and so on.

4. Filtering: When you filter, you listen to some things but not to others. You pay only enough attention to see if somebody's angry or unhappy or if you are in emotional danger. Once assured that the communication contains none of those things, you let your mind wander.

Another way people filter is simply by avoiding hearing certain things—particularly anything threatening, negative, critical, or unpleasant. It is as if the words were never said: You simply have no memory of them.

5. Judging: Negative labels have enormous power. If you prejudge someone as unqualified, you do not pay much attention to what they say. You have already written them off. Hastily judging a statement means you have ceased to listen and have begun a "knee-jerk" reaction. A basic rule of listening is that judgments should only be made after you have heard and evaluated the content of the message.



6. Dreaming: You are half-listening, and something the person says suddenly triggers a chain of private associations. You are more prone to dreaming when you feel bored or anxious. Everyone dreams—and you sometimes need to make Herculean efforts to stay tuned in. But if you dream a lot with certain people, it could indicate a lack of commitment to knowing or appreciating them. At the very least, it is a statement that you do not value what they have to say very much.

Chapter Highlight 5.3: 12 Reasons Why You Might Hear "You Are Not Listening to Me!" (cont.)



7. Identifying: In this block, you take everything a person tells you and refer it back to your own experience. They want to tell you about a difficult operation, but that reminds you of the time you had a worse situation in another country. You launch into your story before they can finish theirs. Everything you hear reminds you of something that you have felt, done, or suffered. You are so busy with these exciting tales of your life that there is no time to really hear or get to know the other person.

8. Advising: You are the great problem-solver, ready with help and suggestions. You do not have to hear more than a few sentences before you begin searching for the right advice. However, while you are thinking of suggestions and convincing someone to "just try it," you might miss what is most important. You did not hear the feelings, and you did not acknowledge the person's pain. He or she still feels basically alone because you could not listen and just be there.

9. Sparring: This block has you arguing and debating with people. The other person never feels heard because you're so quick to disagree. In fact, a lot of your focus is on finding things to disagree with. You take strong stands and are very clear about your beliefs and preferences. The way to avoid sparring is to repeat back and acknowledge what you have heard. Look for one thing you might agree with. One subtype of sparring is the put-down. You use acerbic or sarcastic remarks to dismiss the other person's point of view.



A second type of sparring is discounting. Discounting is for people who cannot stand compliments. The basic technique of discounting is to run yourself down when you get a compliment. The other person never feels satisfied that you really heard his appreciation. And he is right: You did not.

10. Being Right: Being right means you will go to any lengths to avoid being wrong. You cannot listen to criticism, you cannot be corrected, and you cannot take suggestions to change. Your convictions are unshakable. And since you will not acknowledge that your mistakes are mistakes, you just keep making them.

11. Derailing: This listening block is accomplished by suddenly changing the subject. You derail the train of conversation when you get bored or uncomfortable with a topic. Another way of derailing is by laughing something off. This means that you continually respond to whatever is said with a joke or quip in order to avoid the discomfort or anxiety in seriously listening to the other person.

12. Placating: "Right, right ... Absolutely ... I know ... Of course, you are ... Incredible ... Yes ... Really?" You want to be nice, pleasant, and supportive. You want people to like you, so you agree with everything. You might half-listen, just enough to get the drift, but you are not really involved. You are accommodating rather than tuning in and examining what is actually being said.

To open a discussion, begin with preliminaries, such as referring to events in which both you and the customer perhaps have an interest or asking general questions about the customer to get to know the person's field of experience or situation. These preliminaries help reduce tension to a comfortable level. You then begin the business discussion with a general reference to the topic(s). By doing this, you achieve two goals: You introduce the purpose of the discussion, and you prepare the other person for participation.

By using a neutral tone, you do not impose your personality on the discussion. By withholding your opinion when opening the conversation, you do not influence the other person's opinions. It is important to maintain a neutral, non-judgmental tone and avoid offering your opinion on the subject. A judgmental tone or expression of opinion often gives the impression that you have already made up your mind about what has happened or what should be done.

Once you have completed communicating the purpose of the discussion, you then ask for feedback from the customer. If you are the receiver, you want to be sure the sender (the customer) has clearly given an opening before you begin the discussion so you are clear on the customer's purpose for the discussion. If the person doesn't offer an opening, then ask for the reason and objective of the meeting before beginning the discussion. With this clear understanding, the level of tension for the discussion should be very much in the green zone. We now begin to deliver or receive the message.

Delivering the Message

The message can be a variety of subjects you want to communicate to the customer. It can be delivering a proposal for a project or making a presentation on features/benefits/value, providing after-sale support, handling customer dissatisfaction, negotiating, or communicating a success. Each of these messages is specific to a sales situation. Each message must be clear, concise, and appropriate for the targeted customer or audience.

During the delivery of the message, you want to make good use of these discussion skills:

- Probing
- Clarifying and confirming

These skills allow you to test for understanding and acceptance as the message is being delivered. You will often be required to use one or several other discussion skills, such as the following:

- Exploring ideas
- Triangulating the topic being discussed
- Using constructive criticism
- Managing differences of opinion
- Giving credit

Each of these skills is discussed below, along with examples of how they are used in typical sales situations.

Probing

During delivery of your message, use open and closed probes to keep the communication interactive and the participant's level of listening high. Depending on the sales situation, you might even begin the conversation after opening with probing.

For you and a customer to make an informed, mutually beneficial decision, the two of you must share an understanding of the customer's needs, concerns, issues, and circumstances. Use open and closed probes to collect information and improve your understanding. Probing is the means by which you gather information to achieve that understanding.

After listening, probing is one of the most important skills any sales representative can develop. The ability to ask questions that logically and efficiently uncover important information about a customer's needs is a distinguishing characteristic of the sales communication skills process.

Your goal in probing is to build a clear, complete, mutual understanding of a customer's needs, concerns, issues, and circumstances. A clear understanding means that, for each client topic being discussed, you learn:

- Specifically *what* the customer wants, and
- *Why* it is important.

A complete understanding means that, for the particular decision the customer is making, you learn each of the client's needs, concerns, and issues as well as the priority of each. A mutual understanding means you and the customer share the same understanding—that the clear, complete picture you have of the customer's needs is the same picture the customer has. A clear, complete, mutual understanding ensures that the recommendations and actions you take to address those needs contribute to the customer's satisfaction in the most effective way possible.

Probe when you want to get information from a customer. The signal to probe comes from you. Probe whenever you feel you need more information to achieve a clear, complete, mutual understanding of a customer's needs. How much or how long you probe depends on the complexity of the topic being discussed and the clarity with which the customer describes it. The more complex the topic or the more difficulty the customer has explaining it, the more you have to probe.

The more you know about problems and challenges before a meeting, the better prepared you are to explore them. Of course, understanding problems and challenges involves more than understanding the facts. You must also understand the customer's perception of the facts.

Customers' perceptions of problems and challenges are necessarily "filtered" through their own viewpoints. Customers' viewpoints are shaped by:

- Their jobs;
- The function or department they work in;
- The organization or company they work for; and
- The project they are working on or thinking about.

Therefore, it is necessary to know something about most or all of these layers. To do so, learn as much as you can about a customer's circumstances, problems, and challenges before meeting face to face. When there are gaps in your understanding, fill in the gaps by probing.

Open and Closed Probes

A probe is a question or other request for information. There are two general types of probes: open probes and closed probes. Open probes encourage customers to respond freely. In general, it's a good idea to keep your probing as open as possible. For example:

- What are the key factors for success in this project?
- What are the costs associated with the failure?
- How can you leverage this technique to other operations?

Open probes encourage customers to open up and allow them to share information they think will be useful to you. Open probes in sales situations are used to gather information about a customer's field of experience, situation, and circumstances.

Closed probes limit a customer's response to yes or no, a choice among alternatives that you supply, or a single, often quantifiable fact. For example, you might ask:

"Have you selected a company?"

"Have you considered this kind of approach before?"

"Do you believe my company is responsible for the failure?"

Closed probes bring focus or closure to a discussion and make efficient use of time. But if you rely too heavily on closed probes, customers may feel as if they are being interrogated and become unwilling to share information. Two frequent uses of open and closed probes are to confirm and clarify the message, and to prompt feedback exchange.

Confirming and Clarifying

▶ ***When and How to Confirm***

- Confirm when you think you understand, but you're not 100% sure or you want to reject, ignore, or disagree.
- State your understanding of *what* and *why.*
- Ask if you understand correctly.

Confirming and clarifying are basic skills in all sales communication processes. When used properly, they make certain you have a complete and accurate understanding of what the other person is saying and the person also clearly understands what you are saying. Partial understanding or misunderstanding wastes time, causes confusion, and weakens mutual confidence.

Confirming. Confirm your understanding whenever you think you understand, but you're not 100% sure, or you want to reject, ignore, or disagree with what you've heard. When you state your understanding of *what* and *why,* you let the other person know exactly what you understand. This helps the other person tell you whether your understanding is correct.

For example: "In other words, you want to focus on the Baku project *(what)* in order to meet your mobilization date for that project first?" *(why)* Then, ask a closed probe to find out whether or not your understanding is correct. For example: "Is that right?"

At times, you will confirm your understanding simply to reassure the other that you understand. For example: "Yes, I see why the issue of on-site support is critical. It will allow you to keep your specialist on the other project." When you confirm to reassure, it is especially important to state both the *what* and the *why*.

Clarifying. Clarify when you don't understand the *what* or the *why* of what you've heard. To clarify, you simply ask for information to complete your understanding. For example: "What did you mean by 'extreme conditions' *(what)* and why did you bring it up at that point in the discussion?" *(why)* Or, "Tell me more. Where do you see a conflict in the Bintang information?"

Clarifying and confirming are important and easy to do. The trick is remembering to use the skills. Sometimes it is easier to assume that you understand or just guess at the meaning. However, for effective communications, it is always important to confirm and clarify. Despite your best efforts to listen and communicate effectively, there is always the possibility that you have missed or misunderstood something the customer says. One way to be sure you and the customer achieve a mutual understanding of what is being discussed is to confirm and clarify.

Another good use of probing skills is when you are exploring ideas with the customer. Perhaps you are looking for alternative approaches to a project, remedies to a problem, or ideas about what each has to trade in a negotiation.

▶ *Exploring Ideas*

When you invite a suggestion:

- Give a reaction.

When you make a suggestion:

- Invite a reaction.

When you use or build on the ideas of others:

- Acknowledge the connection.

When you need to be innovative or imaginative:

- Temporarily alter restrictions.

When you need to triangulate:

- Use a neutral tone.
- Do not express your opinion.
- Refer to the problem as an "it."

Exploring Ideas

When exploring ideas, your intent is to promote a free exchange of information or suggestions. You want to make sure that everyone's ideas—including your own—are listened to, understood, and responded to. Often, while exploring ideas, you might wish to encourage the customer to respond creatively or to view the issue from another perspective. At other times, your own ideas will build upon those of your customer.

The discussion skills of exploring ideas will help you encourage the free exchange of information, while retaining responsibility for the outcome of the discussion. However, it is not appropriate to explore ideas when you have already decided what you are going to do. When you explore ideas, you are inviting the customer to participate in the free exchange of alternative ideas and suggestions. If you are unwilling to consider alternatives, you should not extend such an invitation. For the same reason, you should never present your decision in the form of a suggestion or try to lead others into coming up with your decision. These practices can damage your credibility and cause the other person to feel manipulated.

Inviting Suggestions

To arrive at a mutually acceptable decision, both parties should participate in the exploration of ideas. However, as customers are more likely to be committed to ideas they've developed, it is often helpful to begin by inviting a suggestion. Since you have invited a suggestion, it is important that you give a reaction to the customer's idea. If your reaction is negative, it should be given as balanced feedback—even if you have to clarify to find merit.

Ignoring others' ideas is the equivalent of rejecting them. This can make others less willing to offer ideas again. By inviting reactions to your own suggestions, you demonstrate that you are willing to consider alternative ideas. You also show that you are interested in finding a course of action acceptable to the customer. This increases the probability that the customer will be committed to implementing the final decision. For example:

"I think you should… How does that sound?"

"What do you think about…?"

"I'd like to try… Would that work for you?"

As with the other interpersonal skills you've learned, your intent in using these is to encourage others to continue to seek mutually satisfactory outcomes and solutions. Often, the suggestions you make are based upon the ideas of your customer. When this happens, it is important to acknowledge the connection to the original idea, which recognizes the customer who contributed the idea by giving proper credit. It also promotes continued cooperation and teamwork. For example:

"Your suggestion for manning the project might be even more workable if you changed it this way. Let's add…"

"What you said about… has given me another idea. I think you might be able to…"

"Lonnie's approach will also help solve another problem you've had with…"

Remember, this skill is an alternative way of making a suggestion. As you know, whenever you make a suggestion, it is important to invite a reaction. For example:

"What do you think?"

"Does that support your original idea?"

When you explore ideas, you can sometimes find solutions or alternatives quickly. At other times, it can be difficult to find workable ideas. In such cases, you might

need to explore ideas in greater depth. A good way to do this is to temporarily alter restrictions—to enter the world of "suppose" and "what if."

Alter Restrictions Temporarily

Why alter real-world restrictions? Sometimes the best way to find a realistic, practical alternative is to start with one that is fanciful or impractical and then make it workable. Innovative solutions require imagination, and too much concern for real-world requirements can chain down anyone's imagination. By temporarily altering restrictions, you can break the mold of conventional thinking.

In addition, some customers have trouble stating—or even recognizing—their real needs and concerns. By temporarily altering restrictions, you can often encourage customers to discover or express what is really important to them. When temporarily altering restrictions, either remove restrictions or impose additional ones. For example:

"Suppose price weren't an issue?" *(restriction removed)*

"What if you got the equipment now?" *(restriction removed)*

"What if the meeting were tomorrow?" *(restriction imposed)*

"How would you do it if you were us?" *(restriction imposed)*

"Suppose you had to do both wells in the same day?" *(restriction imposed)*

By changing real-world requirements, you stimulate creative thinking.

Triangulating the Topic

During your discussions with customers, you might have concerns, issues, or problems that must be discussed. It could be an operational problem, sales issue, or concern you have about their ideas and suggestions. When you discuss these types of topics, it is important that you disassociate the topic being discussed from the person. You can do this by turning the topic into an "it" instead of linking it to the actions or statements of the customer. This process, known as triangulating the topic, removes responsibility for the topic being discussed from the people discussing it and places the topic on neutral ground, where both parties can participate equally in solving it, looking for solutions from both parties' perspectives. **Figure 5.3** represents the process of triangulating the topic.

For example, you would not respond to an idea by saying:

"You know, the last time you tried that, your people never gave us the 24-hour notice you agreed to." Instead, you would triangulate the concern "off" the customer by saying: "That might present the additional logistics for the operation and make 'it' difficult for them to administer."

Sometimes your discussion will address an existing concern. It could be a formal problem-solving session, a post-mortem, or an informal attempt to find useful answers. This technique is used extensively in handling client dissatisfaction and negotiations. In these sales situations, introduce the discussion by triangulating the concern. As always, use a neutral tone and withhold your own opinion when you open the discussion. In addition, refer to the problem as an "it" instead of linking the subject to the actions or statements of any group or individual.

At times when dealing with concerns and exploring for ideas, you might want to discuss alternative ways of handling the issue without acknowledging the customer's ideas. To do this, you use the discussion skill of constructive criticism.

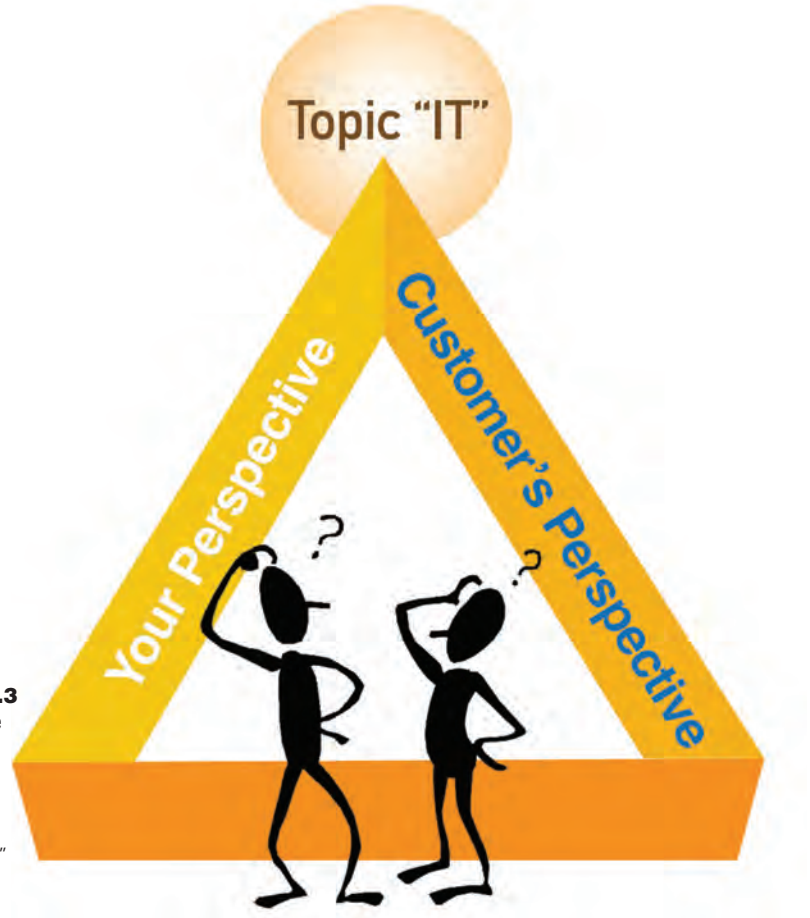


Fig. 5.3
Triangulating a topic. Treat the issue, concern or problem as a challenge for both parties. Look for solutions from both parties' perspectives. Refer to the topic being discussed as "it."

▶ *To Give Constructive Criticism, You...*

1. Introduce the subject.
2. Give balanced feedback.
3. Specify what you want to see retained.
4. Specify what you want changed.
5. Explore the next steps:
   a. Invite ideas; offer responses
   b. Offer ideas; invite responses
6. Summarize the next steps you've agreed to.

Constructive Criticism

Constructive criticism is a powerful tool for retaining the positive points of a discussion while addressing the weaker points. In various sales situations, the customer's constructive criticism will help you develop the best solution for the topic being discussed. It helps you earn the customer's commitment to the next steps and strengthens your relationship, because the criticism is applied in a positive fashion.

The first step in constructive criticism is making sure you understand what you've seen or heard—accurately and completely. Constructive criticism based on incorrect or incomplete understanding often does more harm than good. As always, you want complete, accurate understanding by clarifying and confirming.

Begin by letting the customer know what you plan to talk about. It is just that simple, and it is important because many of us have a tendency to start talking with no introduction. If the customer is sending the message and you are unsure of it, clarify what is going to be discussed in order to avoid confusion. To make sure your intent and message are clear, begin your constructive criticism by stating what you intend to discuss (as appropriate) and why. For example:

"Sheila, I want to talk about our last job on the Z Pad well *(what)* so you can evaluate what went wrong and come up with ideas of doing it better" *(why).* Or, "I think you should review wellsite procedures *(what)* so you can find ways of eliminating the confusion you experienced on the last well" *(why).*

The next step is to give balanced feedback by discussing what you want to see retained and what you want to see changed. Balanced feedback builds the customer's confidence in your objectivity and fairness. It shows you are as interested

in what is right as what is wrong—that your feedback is intended to offer an improved option.

Equally important, by focusing on the positive, you capture the customer's interest and set the stage for serious consideration of what needs to be improved.

To complete the constructive criticism, identify the positive aspects of what is being discussed and how this relates to the aspects you want to change. The more closely these "retain" and "change" aspects are related, the more natural and persuasive the balanced feedback will be.

Sometimes you won't find much that you want to see retained, in which case, never try to fake it. Instead, refer to the customer's good intentions (to improve, do things right, please the customer, etc.). Then make the connection between what you want to see retained and what you want to see changed. When you do so, avoid using "watch out" words such as "but," "however," "unfortunately," and "nevertheless." These words might suggest that stating the positive aspects has been a set-up for negative aspects, which defeats the purpose of specifying what you want to see retained. Instead, use phrases like:

"And you'll do even better if…,"

"It's also important to…,"

"I'd also like to discuss…,"

"In addition, I noticed…,"

"And to improve the overall performance even further…"

Phrases like these unite both parts of the balanced feedback in a natural, believable way. Once you've made the connection, describe what you want the customer to change and why. For example, assume that you want the customer to change the terms of a contract. You might start your constructive criticism this way:

"I really like the incentive clauses you've included in the contract terms. I think this will have everybody aligned to achieve the project objectives *(positive aspects of what you want retained in the contract)*. I'd like to discuss the term of the contract. One year is not going to get the resources you need dedicated to this project to make your deadline" *(aspects of the contract you want to see changed)*.

Once you've described what should be retained and what needs to change, discuss the next steps for achieving change and retaining desirable aspects. As always, you want the customer to contribute ideas. Explore the next steps by:

- Inviting ideas and responding to them.
- Offering ideas and inviting responses.

The most important part of this skill step is maintaining the two-way flow. When you respond to the customer's ideas, you show you are interested and really listening. Of course, when your response involves honest criticism of the customer's ideas, that criticism should take the form of balanced feedback.

When you invite responses to your ideas, you show you care about the customer's viewpoint. When you listen to the customer's response, be sure that your expression and body language convey focus and concentration. By showing you take the customer's ideas seriously, you strengthen the customer's perception that you've developed the next steps together. This encourages commitment to whatever next steps emerge from the discussion.

Following from the example above, you might invite suggestions from the customer like this:

Sales representative: "Would there be any other contract period you could consider?" *(invite suggestion)*

Customer: "We could make it three years." *(feedback)*

Sales representative: "Great. That would justify dedicating the required resources." *(respond to feedback)*

You could choose to offer ideas. In this case, the conversation might proceed like this:

Sales representative: "I would like to suggest a three-year term that would justify dedicating the required resources for the project. *(make a suggestion)* Do you think that would be acceptable?" *(invite feedback)*

Customer: "The three-year term would be okay as long as you have a termination clause." *(feedback)*

Finally, summarize the next steps on which you've agreed. This ensures that your next steps are mutually understood and sets the stage for predictable, accountable follow-through.

At times, customers will resist your ideas. When this happens, use the communication skill of managing differences.

▶ *Managing Differences*

1. Defining the difference:
   - You're not sure that a difference exists.
   - You don't fully understand the difference.

   How:
   - State what's important to you (what and why).
   - Clarify what's important to the customer (what and why).
2. Discussing the difference:
   - You fully understand the difference.
   - You can honestly consider alternatives.

   How:
   - Invite and respond to the customer's ideas.
   - Offer ideas and invite the customer's responses.

Managing Differences

A difference of opinion occurs when you want one thing to happen but the customer prefers something else. More often than not, these disagreements reflect opinions about what has already happened. Typical differences can involve these situations:

- Resolution of problems
- Interpretation of contract terms
- Fair pricing conditions
- Operating procedures that are not in accordance with your company's standard procedures

When differences like these arise, you can handle them in several ways, depending on the difference and the situation.

- When you're not 100% certain that a difference exists or what the difference is, define the difference.
- You understand the difference and are willing to consider alternatives. You discuss the difference.
- You cannot (or will not) consider an alternative. You conclude the discussion.

Defining the Difference

When you're not sure a difference exists or what the difference really is, the first step is to make sure that you and the customer have a clear, mutual understanding of the situation. To do so, state what is important to you *(what you want to happen and why)* and clarify or confirm what's important to the other person *(what the customer wants to happen and why)*. For example:

"I'd like to be sure I understand what you want. What you want is for my company to mobilize the equipment before your president has signed the contract, because if you don't start now, it could jeopardize getting the well drilled before monsoon season *(important to customer).* I fully understand your reasons. The reason my company does not start any job before the contract is signed is because, if anything catastrophic happens before the contract is signed, the potential risks are huge" *(important to you).*

It is essential to define the difference when you have any doubts at all about the nature of the difference. This way you eliminate confusion on both sides and resolve many differences by identifying what is really important to both parties. Sometimes, the real difference is smaller than the imagined difference and can be resolved immediately. For example, the customer might say: "Well, you might be able to get a work order signed for the mobilization." By defining the difference, you learn that the customer really wants to start the mobilization, and there can be possible alternatives to cover the risks to your company by having a work order signed.

As this example shows, the difference is more easily resolved than what you might have first thought. What the customer really needs to know is what you need in writing to start to mobilize for the project. Before the sales representative defined the difference, the sales representative thought the customer didn't care and didn't take his concerns seriously.

Once the difference is defined, decide whether you will discuss it in order to find mutually acceptable alternatives.

Discussing the Difference

You cannot discuss every difference in the same way. For example, the difference might involve legal, policy, or safety issues that leave no opportunity for discussion. A difference might be the result of a management decision you cannot modify. Occasionally, you may simply have no time for a real discussion. However, when you can discuss the difference, invite ideas and responses to the customer's feedback or offer ideas and invite feedback to your ideas. In the previous example, if the customer had not suggested the work order, the conversation could have gone as follows:

Sales representative: "I would like to suggest that our region manager meet with your president to explain the importance of having the signed contract before you mobilize, and at the same time, if your president has any questions, our region manager can answer them. *(make a suggestion)* Do you think that would be acceptable?" *(invite feedback)*

Customer: "Okay. That might help expedite the situation. Does your region manager know our president?" *(feedback)*

Another approach could be:

Sales representative: "What would it take to have your president sign the contract in the next couple of days?" *(inviting ideas)*

Customer: "If you had your region manager contact our president and discuss any issues he has, it might get him to sign it faster." *(responding)*

Sales representative: "Good idea. I can arrange that today." *(feedback)*

Once again, the key is to maintain the two-way flow of conversation. Even if you cannot find an alternative that completely satisfies both parties, the respect you show by discussing the difference will help the customer accept an unwelcome decision.

Concluding the Conversation

When you've reached an agreement and are ready to conclude the discussion, summarize what has been discussed and the agreed-upon actions to follow the discussion, and then check for feedback from the customer.

▶ *Concluding the Conversation*

1. When you have found an agreeable solution or follow-up action.

How:

- Summarize the discussion.
- List the action items to be done.

2. Check for feedback from the customer.
3. When there is a difference of opinion and you cannot honestly consider alternatives or you cannot find mutual agreement.

How:

- Acknowledge the customer's right to differ.
- Explain what you've decided and why.

As mentioned earlier, you won't always be able to search for or find mutually acceptable alternatives. Sometimes, after trying, you cannot find any. In either event, conclude the conversation in a way that safeguards your relationship with the customer and eliminates any possible confusion about what you've decided. To conclude the conversation when you cannot find an acceptable solution, acknowledge the customer's right to differ and explain what you've decided and why.

Acknowledging the customer's right to differ demonstrates your respect for the individual. As appropriate, you may want to thank the customer for that input. For example:

"Jim, you've made a clear, logical case and I appreciate your position. What's more, I hope you'll always feel free to state your case this way, even when you have a fundamental disagreement."

Explaining what you've decided and why also demonstrates respect by showing you believe the customer deserves a full explanation of your decision and the logic behind it. For example:

"As far as this project goes, I'm going to ask you to try to do whatever you can to have the contract signed, because my company cannot mobilize without it."

Handling differences is always a difficult situation. However, if you take the approach described above, you will be able to have a difference of opinion and still maintain the relationship between you and the customer. If you apply this process, you may find that you end up with fewer differences.

The last discussion skill—giving credit—is easier and more pleasant for most people to do.

Crediting

As an effective sales representative, use positive events and efforts as building blocks for continuous improvement in your relationships and in your delivery of your services and products.

One way of supporting this effort is to reinforce the desired aspects and behavior that inspire further efforts. Often, the desire to improve is contagious. When your team and customer demonstrate their desire to do better, an "improvement ethic" tends to affect all aspects of the relationship. Crediting is a powerful tool for motivating individuals (and the team) to improve. Unlike some conventional rewards and incentives, crediting costs nothing, strengthens team spirit, and makes you feel good, too.

When to Credit

Give credit when the customer or other colleague:

- Performs better than expected (e.g., customer sends you a complete project overview in addition to the bid specifications);
- Performs consistently to expectations (e.g., customer always keeps you totally informed of the operations and needs); and/or
- Meets expectations the customer usually does not meet (e.g., customer is able to arrange a field visit with key buying center members on your behalf).

These three steps create a powerful impact that influences behavior by giving the customer positive feedback and an emotional incentive to maintain and improve performance.

▶ *Crediting*

Give credit when the customer or colleague:

- Performs better than expected (e.g., customer sends you a complete project overview in addition to the bid specifications).
- Performs consistently to expectations (e.g., customer always keeps you totally informed of the operations and needs).
- Meets expectations that the customer usually does not meet (e.g., customer is able to arrange a field visit with key buying center members on your behalf).

To give complete credit, follow these steps:

1. Give a specific example of performance.
2. Mention personal qualities that contributed to performance.
3. Mention resulting benefits to:
   - The customer.
   - You, your team, or both.
   - Your company.

Begin the crediting process by mentioning the behavior or activities that make the customer's performance worth crediting. This makes the credit believable, gives the customer useful information about what you see as valuable, and provides recognition of the aspects that will improve the topic being discussed. For example:

"I'm impressed by the coordination between the operations team and the stimulation group."

Next, mention the personal qualities that contributed to the performance. Mentioning personal qualities gives your credit emotional power. This part of the credit ties the valued performance to something even deeper and more essential: the individual's personality. It says something positive about the customer as an individual and shows you have focused seriously on the credit and that you really mean it.

To complete this step, relate the behavior you've identified to a talent, quality, or other virtue you associate with the valued performance. For example:

"Your thorough, point-by-point planning made the operation very efficient."

Always, provide only honest feedback. Never fall into exaggeration or flattery, which weakens the credit, your overall credibility, and your ongoing coaching effort. It is often helpful to think about the customer's self-image. If you can truthfully refer to qualities you know the customer considers especially important (e.g., intelligence, creativity, and determination), make an effort to spotlight those qualities as part of the credit.

Next, mention resulting benefits. By addressing the outcome of the customer's performance, you give that behavior added importance in the customer's mind. The value of the behavior increases with every good result you mention. Therefore, the more results you can honestly describe, the better. For example:

"I estimate that the advanced planning you proposed made the job 20% more efficient, reducing rig costs for the stimulation by 4 hours, or $40,000."

Crediting can have an extraordinary effect on just about any individual. All of us respond to a credit that 1) focuses on a specific contribution; 2) praises a quality, talent, or virtue in ourselves; and 3) demonstrates the importance of what you've done by describing its impact on other people. When you deliver a sincere, well-deserved credit, the customer will:

- Think about it often;
- Discuss it with pride; and
- Feel a strong impulse to justify the compliment.

Be alert to situations that warrant giving credit to the customer. The gesture will be appreciated and contributes to improving the relationship and aspects of the operation.

The skills discussed up to this point make up the core sales communication skills. These skills are used in all sales situations commonly encountered. In the communication process model discussed at the beginning of this chapter, it was stated that it is important to know the customer's field of experience to relate better to situations and prepare effective messages in your communications. As one of the most successful sales training companies, Richardson has identified what it considers to be the critical skills for sales conversations, shown in **Chapter Highlight 5.4 "Six Critical Skills for Successful Sales Conversations."**[8] Another important skill you can use to help communicate effectively is to determine the customer's behavioral style. The technique for doing so, called social profiling, is discussed in the next section.

Chapter Highlight 5.4: Six Critical Skills for Successful Sales Conversations

There are numerous factors and variables that go into a sale or selling situation. Many of those are beyond the sales representative's control or influence, but the one aspect that is in the representative's control and can make or break the sale is the conversation. Richardson has identified six critical skills used in dialogue with buyers needed for sales excellence. They are critical because you cannot be highly effective in sales without mastering all of them.

These skills provide the flexibility to be client-focused. If you are weak in any one of the areas, it will reduce your overall effectiveness. Your objective in using these skills is to maintain a 50/50 client-to-salesperson dialogue.

1. Presence. Projecting interest, conviction, energy, professional appearance, and confidence. What image do you portray as you stand before your potential clients? Too immature (and therefore unseasoned) to understand the complexities of business? Too old (and therefore too seasoned) to connect with the way things work today? Do you come off as smug and overconfident or too humble and possibly desperate?

To be effective, you need the right combination of each of these traits to make your prospect to want to work with you.

2. Relating. Connecting with the client includes three levels of relating: rapport, acknowledgment, and empathy. One you've established the right presence with your audience, you then need to show that you can relate to your client and their needs and interests.

- Rapport: You don't need to become best friends, but you also have little chance of a successful relationship if you rub each other the wrong way. Building rapport requires feeding off of their verbal and nonverbal cues to know how best to communicate with your prospects on an interpersonal level.

Finding things in common to bond over helps, but it isn't absolutely critical as long as comfort and trust are enabled.

- Acknowledgment: It's not about you; it's about your client and their needs or wants. It's also about their personal stake in the successful outcome of what you're selling them to make their company better. Share with them your sincere understanding of why you're there and of the client's situation.



You could also share what you hope to achieve, but this is in very broad terms at this point—don't launch off into a presentation, but rather, set expectations for the discussion.

- Empathy: Beyond acknowledgment, you need to demonstrate that you not only understand the issue, but that you also realize the impact it has on their business and the importance of rectifying it. A key factor in conveying empathy is to effectively restrain and hide any critical opinions or judgments beyond stating the obvious.

3. Questioning. Probing to understand the prospect's needs or wants. This can be tricky and might take longer than you'd like, so be patient. You know where you want to lead your prospect, but how you get there can vary depending upon the prospect's degree of understanding and acceptance of the issue and solution. The best outcome is for the buyer to feel as though they had an equal part in leading the way or that it was their idea all along.

Chapter Highlight 5.4: Six Critical Skills for Successful Sales Conversations (cont.)



Imagine getting directions to a destination. As the seller of the solution, you can see the clearest, shortest path from point A to point B. However, if you rush to get there without the consent or understanding of the buyer, you could lose them (literally). Realize that in questioning, you might be better off taking a more circuitous route that satisfies their concerns and expectations before arriving at the destination. Of course, you also need to collect any relevant information that explains how they got where they are and where they want to go, key stakeholders, timing, etc.

4. Listening. Listening in an effective way (versus efficient listening) is one of the most critical skills to master in sales. You have your own agenda for the conversation, but don't forget that so does your prospect. You can't half listen if you're going to engage your customer and respond to what they're saying or asking instead of simply preparing to barrel forward with what you want to say.

If you're not actively listening, then several things could happen (none of which are good). You could miss an important piece of information that, while you can inquire about later, makes you look distracted and inattentive for not hearing it the first time around. You could miss an opportunity to cross- or upsell your prospect. Or, you could be seen as what you are: someone with their own agenda regardless of what is of interest to the client.

5. Positioning. Being persuasive (versus only exchanging information). Although it's important to maintain focus on what the buyer wants and says during the conversation, don't lose sight of why you're there, too. You want to be actively engaged. The buyer might already be sold on you and your services, which should make your job easier. But when you're up against competitors, you're facing an uncertain buyer, or the buyer has objections, you'll need to be able to respond accordingly and persuasively. There is an art to doing this effectively without coming off as arrogant or defensive.

6. Checking. Remember that this is a conversation, not a presentation. As such, you must get into the habit of asking for feedback on what you have said. This is important because it lets you know how the client is reacting and lets you adjust your presentation. It also keeps the client involved. Checking is a key aspect of Questioning, (see #3). You want to confirm that everyone's tracking on the same page before you find yourselves in drastically different places.

Of course, you don't want to stop after every sentence, which gets tedious and annoying very quickly. Rather, think in terms of bits and chunks of information to discuss and validate before moving on to the next point.

These six critical skills will allow you to create a dialogue; understand the client's needs, priorities, and perspective; and close profitable business.

To reiterate what was said at the beginning of this post, being weak in any of the skills will reduce your overall effectiveness. Your objective in using these skills is to maintain a 50/50 client-to-salesperson dialogue.

You can also use the six critical skills as shorthand to prepare for and critique your calls and give yourself and your teammates feedback.



Social Profiling

Social profiling is a model developed from the Jungian concept of personality types. The social profile model is based on two dimensions of human behavior: assertiveness and responsiveness.

Assertiveness is the degree to which a person is perceived as attempting to influence the thoughts and actions of others. Responsiveness is the degree to which a person is perceived as expressing feelings when relating to others. **Figure 5.4** lists characteristics people display for behaviors of assertiveness and responsiveness.

Social Style Matrix

When you combine the behaviors shown in Fig. 5.4, you can describe the following four broad social profiles:

- Analytical
- Amiable
- Driver
- Expressive

From the person's social style, you can infer a number of inherent tendencies. For example, Drivers and Analyticals tend to be more task- or people-oriented than Amiables or Expressives. Each social style is shown in **Fig. 5.5**.

Analytical Style

A person who behaves in an analytical style tends to be more Ask Assertive and Control Responsive. In a sales situation, the analytical person is perceived as detail-oriented, deliberate, and well organized. This type of person listens and studies information carefully before weighing all alternatives, with reference to established policies, criteria, and objectives. An Analytical tends to avoid personal involvement with salespeople and lets others take the social initiative. In general, this type of person prefers an efficient, businesslike sales approach.

▶ *How Would You Describe an Analytical?*

- Conservative and practical in business decisions.
- Detail-oriented; relies on a structured approach and factual evidence.
- Tends to avoid uncomfortable situations by changing the topic or withdrawing.
- Prefers a systematic, thorough approach to data-gathering and presentation of recommendations.

The strengths commonly attributed to analytical buyers include the following:

- Ensures that company's needs are met
- Is careful about committing company resources
- Analyzes facts and evidence before deciding
- Makes practical, cost- effective buying decisions

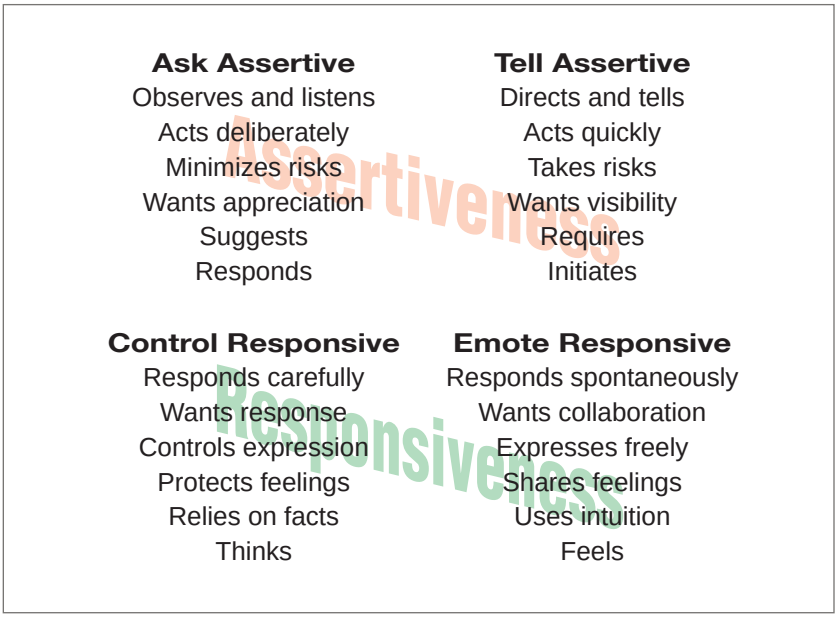


Fig. 5.4
Perceptions of assertive and responsive behaviors.

The analytical person wants to understand how things work in detail, as opposed to being given an overview. An Analytical's needs are best met when information is gathered in a systematic, efficient manner; sufficient information about the company, product, and service is provided; and time for processing recommendations is allowed.

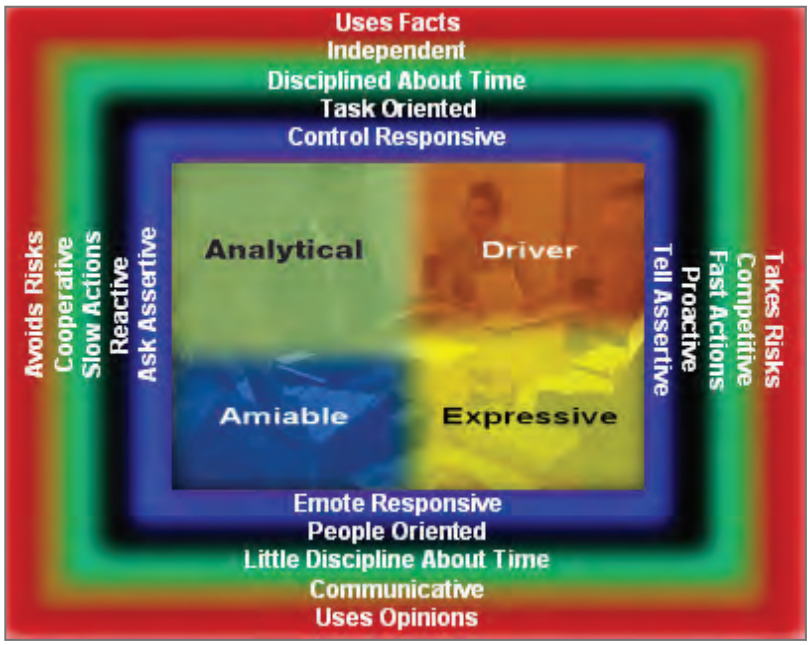


Fig. 5.5
Social profile matrix and common behaviors.

Amiable Style

The amiable person tends to be more Ask Assertive and Emote Responsive. An amiable person is seen as warm, cooperative, and deliberate. This type of person generally gathers information and processes it with others before making a decision.

An Amiable wants to establish a strong, trusting relationship with a salesperson prior to considering a purchase. This type of person wants to be assured that others will support buying decisions and that the salesperson will keep commitments. The amiable customer wants to feel confident that the product or service will be accepted. An Amiable's needs are best met when a trusting relationship is established, and the salesperson takes the time to understand the needs of the person and the organization and is responsive to requests and problems.

Driver Style

The driver person tends to be more Tell Assertive and Control Responsive. A Driver is seen as controlling, forceful, and results-oriented. This type of person usually has clear objectives and responds to those who can demonstrate that their product or service can efficiently and effectively achieve results. A Driver tends to have a high sense of urgency and little need for establishing relationships with salespeople.

This type of person wants to know options and their probabilities of success. The Driver wants a salesperson to listen carefully before recommending products and services. A Driver's needs are best met when information is gathered in an organized manner and the salesperson listens willingly and avoids becoming defensive. Follow-up on requests is timely; case histories, references, and factual support are provided; and time for considering options is allowed.

Expressive Style

The expressive person tends to be more Tell Assertive and Emote Responsive. An Expressive is perceived as fast-paced, outgoing, and enthusiastic. This type of person often has a vision of the future and is responsive to products, services, and people that help achieve that vision. An Expressive will take the time to establish open, trusting relationships with those who can make it easier to achieve goals.

This type of person wants a salesperson to collaborate in finding and implementing quality solutions to meet their needs. The expressive person wants to see the "big picture" before probing the details. An Expressive's needs are best met when the salesperson questions and listens well, can demonstrate competence, allows

▶ *How Would You Describe an Amiable?*

- Careful but cooperative in business situations.
- People-oriented; relies on the support of others and shared decision-making.
- Tends to avoid uncomfortable situations by withdrawing or changing the topic.
- Prefers an interactive approach to problem-solving.

The strengths commonly attributed to amiable buyers are as follows:

- Ensures that others will accept buying decisions
- Carefully determines whether commitments will be honored
- Processes recommendations with others before deciding
- Is sensitive to the needs of others in the discussion
- Establishes trusting relationships with others

▶ *How Would You Describe a Driver?*

- Knowledgeable and controlling in business decisions.
- Goal-oriented; relies on information that supports results.
- Tends to act quickly and confront issues directly.
- Expects people to listen carefully and respond in a timely manner.

The strengths commonly attributed to driver buyers include the following:

- Keeps discussions focused on objectives
- Explains situations so that the salesperson can recommend appropriate solutions
- Makes expectations clear
- Acts quickly, after careful consideration of options
- Attempts to balance quality and cost considerations when making decisions

▶ *How Would You Describe an Expressive?*

- Futuristic, holistic in thinking.
- Motivating; attempts to make others enthusiastic about visions and ideas.
- Tends to be direct and open, even in uncomfortable situations.
- Prefers a collaborative, team approach to problem-solving.

The strengths commonly attributed to expressive buyers include the following:

- Openly offers information to help the salesperson meet needs
- Collaborates on the proposal to make it effective within the organization
- Is concerned about the quality of solutions and their implementation
- Adapts to the needs of others
- Is innovative and willing to take risks

the other person's input to the proposal, helps the person obtain internal support for the proposal, and stays on top of the implementation.

In a sales environment, the Social Style Summary table shown in **Fig. 5.6** on pg. 142 lists some strategies to apply when dealing with customers with the respective social profile.

Sixteen Sub-Quadrants

Studies have shown that people rarely display only one type of social profile. Actually, less than 5% of the people studied showed the behavior of only one social style. What is typically seen are people who have a dominant or main profile and a secondary, less dominant profile. When combined, you get a matrix of 16 sub-quadrants that describe people's behavior. This information is used to determine how your customers like to make decisions and how you can better align with them in different sales situations. The model or profiles you use are shown in **Fig. 5.7.**

When describing a customer's social profile, you use one of the 16 quadrants (e.g., B1 Analytical Driver). B1 is the cell and abbreviated reference to the social profile. In this case, the dominant style is Driver and the secondary style is Analytical. You use this information to help you better align with your customers in different sales situations.

This information is entered into the CRM database, along with other information specific to the individual customer.

Managing Tension

Each social profile type reacts differently when experiencing tension, stress, conflict, or disagreement or dealing with an incompatible personality type. As sales representatives, you must be aware of the type of behavior that indicates when the customer is experiencing tension and what the fallback behavior is. You should manage and avoid creating tension when dealing with the customer. When planning interactions with the customer, align with the customer's preferred way of doing business that best fits with the customer's social style.

In some situations, such as negotiations and when handling customer dissatisfaction, the customer could resort quickly to, or already be in, a fallback behavior when you arrive. In such situations, it is important that your responses be appropriate for the customer's personality type in order to resolve the issue quickly. The typical fallback behaviors for each type of personality are shown in **Fig. 5.8.**

	Driver	Expressive	Amiable	Analytical
Likes	Control	Social	Supportive	Detailed
Measures personal value by	Power Results	Applause Support	Approval Attention	Respect Activity
Needs environment	Responds	Inspires to their goals	Suggests	Provides details
Support their	Conclusions and actions	Dreams and intuitions	Relationships and intuitions	Principles
Give benefits that answer	What	Who	Why	How
For decision give them	Options and probabilities	Testimony Incentives	Guarantees and assurances	Evidence and service
Take time to be	Efficient	Stimulating	Agreeable	Accurate
Let them save	Time	Effort	Relationship	Reputation
Backup style	Autocratic	Attacker	Acquiesces	Avoider

Fig. 5.6
Communication strategies for specific social styles.

The most effective strategy for managing tension when dealing with the customer is to take a proactive approach. Try to deal with the person in a way that best fits with the individual's social style. This is called aligning with the customer's personality type. People with conflicting personality types are frequently uncomfortable with each other. In sales situations, this conflict or tension can impede communication. Depending on the extent of the disparity between personalities, types of awareness and adaptation become prerequisites for a successful or satisfactory outcome.

D1 Analytical Analytical	C1 Driver Analytical	B1 Analytical Driver	A1 Driver Driver
D2 Amiable Analytical	C2 Expressive Analytical	B2 Amiable Driver	A2 Expressive Driver
D3 Analytical Amiable	C3 Driver Amiable	B3 Analytical Expressive	A3 Driver Expressive
D4 Amiable Amiable	C4 Expressive Amiable	B4 Amiable Expressive	A4 Expressive Expressive

Fig. 5.7
Social profile matrix with 16 quadrants.

Aligning with the Customer's Personality Type

To ensure effective and efficient communications with customers, learn to align by adapting your behavior so that it is compatible with the customer's social style and makes the person feel at ease. Compatibility does not require you to give up or change your own natural personality type. It simply means that you must be versatile: You must be willing and able to adjust and modulate your own behavior so the client finds it neither disagreeable nor threatening in any way.

The first step in the process of aligning is to be sure you understand your own personality type. Review the previous figures and see where you fit in. Which social style best describes you? Then ask your manager and peers how they would

describe your social style. Self-image is often an erroneous indicator of personality type, as it can vary depending on the situation and with whom you are dealing.

To practice identifying social styles, discuss the social profile model and apply those criteria to colleagues and customers you know well. This allows you to share perceptions and correct misunderstandings or misinterpretations about behaviors common to each personality type. To further assist you in determining your social style, see **Chapter Highlight 5.5: You Got Style? Let's Find Out** on the next page.

All sales situations require that you align and follow the specific sales situation process simultaneously. Before an important meeting, plan your strategy for aligning with a particular client at every stage of a specific sales situation.

First, identify the customer's personality type and describe the behavior patterns or characteristics that support your conclusion. Then, develop specific plans for adapting the tone and content of remarks at each stage to the customer's personality type. In each sales situation discussed in the next chapter, you will recommend ways for tailoring each stage of the sales situation to each of the personality types and recommend ways to respond to fallback behaviors to help get a customer back on track.

When planning the details of a particular call in advance, focus on exactly how to anticipate the specific customer exhibiting "typical behaviors" and how that individual will respond. Role-playing is often a good technique for getting personalities out on the table, allowing you to improve your aligning skills in a safe environment.

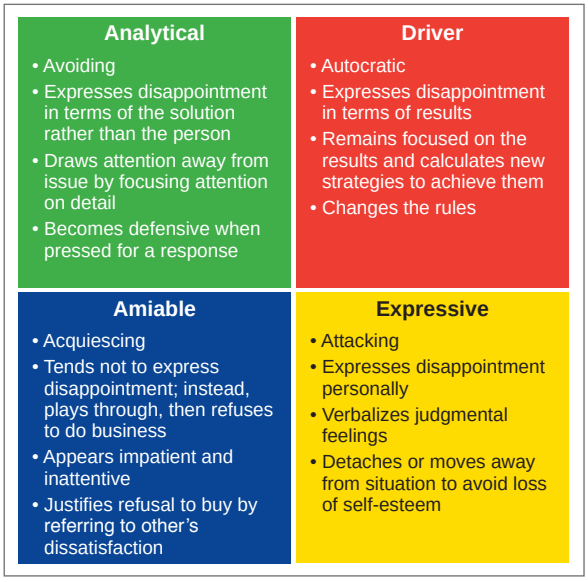


Fig. 5.8
Fallback behavior for each social style when experiencing tension.

By concentrating on the social profiling skill, you maximize your effectiveness with your customers. The establishment of rapport is an important factor for building successful relationships with your customers. Unless you and your customer can understand each other and work harmoniously toward a single goal, your sales efforts won't have much positive impact. **Chapter Highlight 5.6: That's Funny, the Last Customer Liked My Presentation** discusses some strategies for aligning with the different types of social styles.

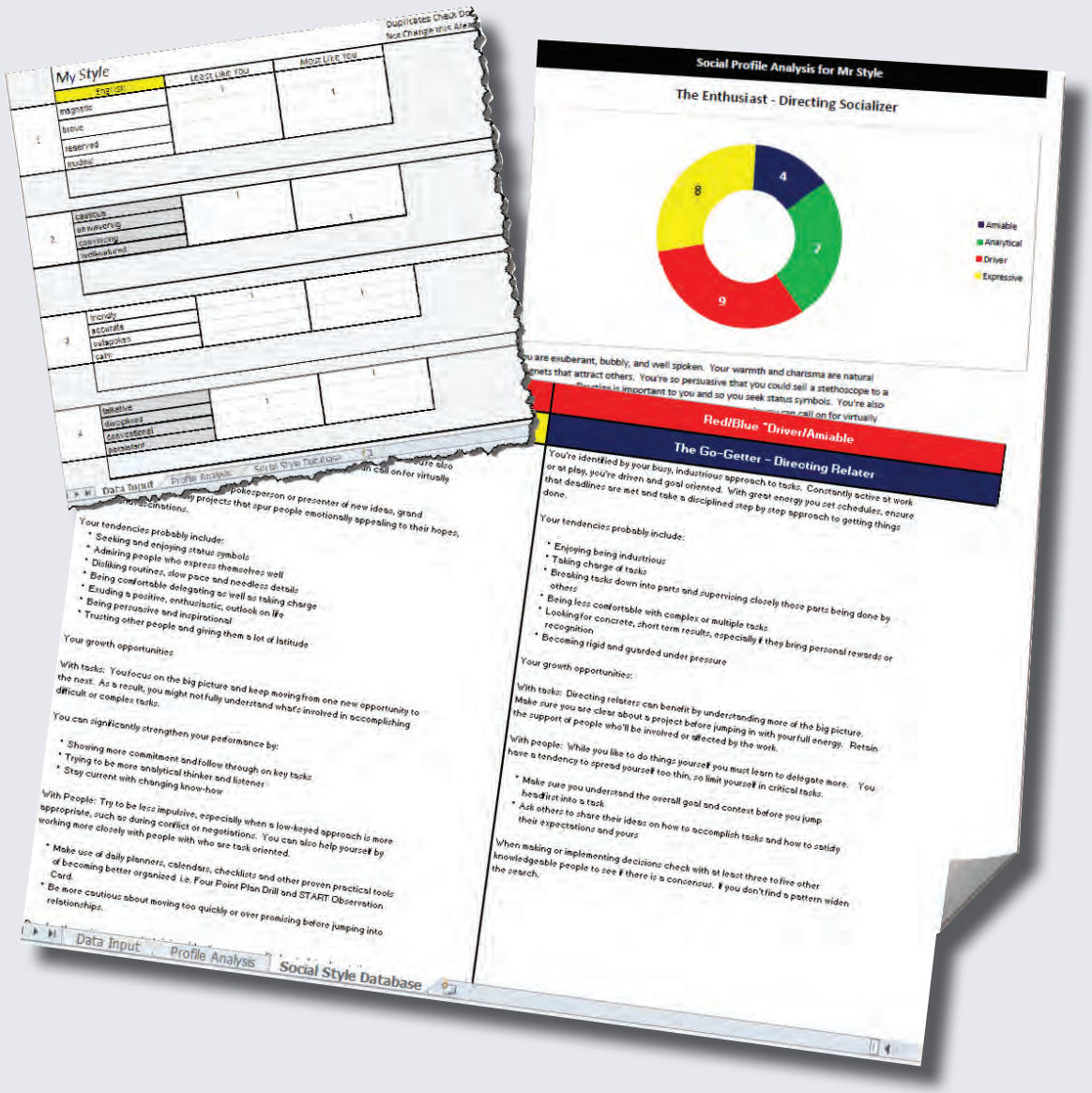
The concepts of personality type and aligning techniques apply internally at your company. As part of an effective team, you should apply these techniques in all aspects of your job. In the next chapter, you will examine specific sales situations regularly encountered and the processes to follow as a sales representative.

Chapter Highlight 5.5: You Got Style? Let's Find Out

A Test to Figure Out Your Style

You can download a simple test to determine your style. To complete the test, answer questions in an Excel spreadsheet identifying in a group of four words which word is least like you and which word is most like you. There are 27 groups of words for you to repeat the same selection process. After completing the survey, you are presented with your social style analysis, a summary of your style, and what might be some of your tendencies and growth opportunities with tasks and people.

To learn more about other social styles, you can browse the social style database, which has descriptions of the majority of social types described in the social profile matrix in Fig. 5.7.



Chapter Highlight 5.6: That's Funny, the Last Customer Liked My Presentation

How Does the Customer Prefer to Do Business?

Aligning with the customer is one of the most powerful skills you can use to improve the chances of successful communication. Below are the aligning strategies for the four main social profile classifications. One of the best ways to discover how the customer prefers to do business is to ask the person what type of information is needed, how much detail, options, etc., the customer would like to have to make a decision.

Analytical

- Is highly detailed → Talk in specific terms about client needs and product features and benefits.
- Thinks and works deliberately → Present information, feedback, and ideas in a logical, orderly way, clarifying and confirming frequently.
- Relies on facts and structure → Solicit information so that your understanding of situations is complete and accurate.
- Avoids personal involvement → Keep conversation on a business level.
- Focuses on immediate details → Avoid idealistic long-range projections.
- Withdraws from uncomfortable situations → Focus on aligning; concentrate on immediate situations, actions, and short-term results.
- Respects professionalism → Approach situations factually rather than emotionally.
- Dislikes surprises → Review action plans and other agreements in writing, and provide advance notice of changes.
- Values efficiency → Respect the customer's time.

Amiable

- Is friendly → Establish a casual, informal atmosphere.
- Values strong relationships → Demonstrate personal interest based on trust in the customer, by sharing personal information.
- Likes to hear about people as well as facts → Mention co-workers and clients when discussing ideas and solutions.
- Enjoys give-and-take → Share information freely, be open to questions, and solicit ideas and input.
- Engages the help of others in making decisions → Provide feedback and ideas, acting as a resource for making decisions.
- Avoids conflict by agreeing and backing out later → Raise difficult topics gradually, clarifying and confirming frequently and establishing commitment in stages.

Driver

- Values time → Make concise points, avoid digressions and interruptions, and respond quickly to requests for information or assistance.
- Expects their input to be taken into account → Solicit the customer's input into your recommendations and respond to them directly.
- Has little need for on-the-job relationships → Maintain a business relationship, avoid personal questions, and start business discussions quickly.
- Is forceful and controlling → Be forthright but brief, remaining open-minded and flexible to avoid conflict; make recommendations to issues for their consideration.
- Is results-oriented → Inquire about the customer's project and personal objectives.
- Acts based on a high probability of success → Share information on previous success; present a range of possibilities, action steps, and ideas.
- Requires factual support → Provide evidence, examples, and testimonials supporting your proposals.

Expressive

- Focuses on the big picture more than details → Discuss concepts and provide details when requested.
- Appreciates people/information as well as technical facts → Discuss the individuals involved in the situation.
- Is fast paced, outgoing, and enthusiastic → Maintain a brisk pace and express enthusiasm for the customer's ideas.
- Visualizes ideal outcomes → Inquire about the customer's goals, ideas, and expectations.
- Appreciates support → Offer to participate in implementing action plans.
- Enjoys give-and-take; provides information willingly → Listen attentively, provide information, and solicit ideas and input.
- Prefers an open, direct approach → Address difficult issues straightforwardly.
- Wants input into solutions recognized → Use crediting.
- Appreciates creative incentives → Suggest innovative approaches with recognition.
- Is innovative and willing to take risks → Offer bold, imaginative solutions.



Summary of Chapter Objectives

This chapter set the foundation for applying the specific sales processes you can expect to encounter in day-to-day sales activities. The majority of your time will be spent communicating with the customer. Doing so successfully requires that you have an understanding of the communication process and basic communication skills.

1. Describe the process and key factors for successful communication.

The communication process consists of two or more individuals exchanging a message and giving feedback. The message is encoded by the sender and delivered using a medium that is appropriate for the situation. The receiver decodes and interprets the message and encodes any feedback to give to the sender. The sender has to consider the receiver's field of experience and abilities to decode the message. The sender has to be prepared to decode any feedback the receiver might exchange as a result of the communication. Sometimes external noise can make it difficult for the receiver to get the message clearly. Examples include physical noise or noise in the medium used, such as inappropriate words and images, that the receiver cannot decode as expected by the sender.

In your day-to-day activities, it is important to check the quality of your communications. The key factors for successful communication require the message to be clearly prepared by the sales representative and received by the customer. Ask yourself: Are you relating to the customer's field of experience and does your message medium and symbols have relevant meaning for them? Do you have a system in place to make it easy for the customer to send you feedback, and do you respond quickly to the feedback?

At the center of good communication skills are good listening skills. The most effective way to ensure good listening practices is to use active listening. This requires that you use free time during communications to process what the other person is sending and to keep focused at level 1 listening.

2. Apply discussion skills in everyday communications with the customer.

Discussion skills consist of opening the discussion, delivering the message, clarifying and confirming, and closing the discussion. When opening the discussion, the main objectives are to make certain the tension level is at an acceptable level to facilitate the discussion, inform the customer what you are going to discuss, and ask for any feedback regarding what you want to discuss.

With this done, you then deliver or receive the message. Proceed by using the appropriate medium for the message in a specific sales situation. Each message must be clear, concise, and appropriate for the targeted customer or audience. During the delivery of the message, make good use of the discussion skills of probing, clarifying, and confirming. These allow you to test for understanding and acceptance as the message is delivered. At times you will also be required to explore for ideas and triangulate topics being discussed to find agreeable solutions or follow-up actions to the discussion.

Frequently, the discussion skills of constructive criticism, managing differences, and crediting must be used. These skills are particularly useful when dealing in sales situations where there might be a strong difference of opinion, such as when handling customer dissatisfaction and negotiations. In constructive criticism and managing differences, try to modify behavior so the project or task can be successful. Crediting is used to maintain the type of actions and behavior people have exhibited to help you be successful.

Once the discussion is finished, conclude by summarizing what was discussed and agreed to, and check for feedback from the customer. On some occasions, you will not be able to agree on what needs to be done. In these situations it is important that you safeguard the relationship by concluding the conversation in an appropriate manner. Do this by acknowledging the customer's right to disagree and explain what you've decided and why.

3. Prepare effective aligning strategies for individual customers based on their social profile.

Each customer differs in terms of how they like to conduct business and discuss information, the manner in which it is presented, and how the person interacts with others. A skill you use to tailor your communications is social profiling. To do so, ask how the customer likes to conduct business, observe the person's behavior, and ask others. Our perception of the customer's social profile is biased by our own social profile, so it is important that you know what your social profile is. Once you feel comfortable knowing what the customer's social profile is, you can then modify and align your approach so the customer can be efficient in making decisions. Each customer's social profile exhibits typical behavior when experiencing tension. Be alert to these signals when you see these actions and make every attempt to reduce tension.

Applying the Concepts

On your next meeting with the customer, prepare the following precall sales sheet. Then, analyze the call using the analysis column to rate your call as to how well you applied the sales communications skills. Use the form below.

Date:_____ Account:_____ Opportunity:_____

Customer:_____ Social Style:_____

Your Social Style:_____ Purpose of meeting:_____

Opening statement:_____

What is your main message?_____

What percentage of the call where you at: Level 1___% Level 2___% Level 3___%

How did you align with the client?_____

What communications skills did you use during the meeting?_____

_____

Give a brief description of how you used the skill._____

Probing Description:_____

Clarifying and Confirming Description:_____

Explore Ideas:_____

Triangulating the Topic:_____

Constructive Criticism:_____

Managing Differences:_____

Crediting:_____

What was your concluding statement?_____

How would you describe the tension as the meeting progressed?

Always green level ☐ Sometimes blue, mostly green ☐

Sometimes red, mostly green ☐ Mostly blue ☐ Mostly red ☐

Which communication skills do you feel comfortable with?

_____

Which communication skills do you need to practice?

_____

_____

_____

D1 Analytical Analytical	C1 Driver Analytical	B1 Analytical Driver	A1 Driver Driver
D2 Amiable Analytical	C2 Expressive Analytical	B2 Amiable Driver	A2 Expressive Driver
D3 Analytical Amiable	C3 Driver Amiable	B3 Analytical Expressive	A3 Driver Expressive
D4 Amiable Amiable	C4 Expressive Amiable	B4 Amiable Expressive	A4 Expressive Expressive

Purpose of the call?
☐ Yes ☐ No

Checked for feedback?
☐ Yes ☐ No

Aligned?
☐ Yes ☐ No

Probed?
☐ Yes ☐ No

Clarified/Confirmed?
☐ Yes ☐ No

Explored ideas?
☐ Yes ☐ No

Triangulated?
☐ Yes ☐ No

Constructive criticism?
☐ Yes ☐ No

Managed differences?
☐ Yes ☐ No

Credited?
☐ Yes ☐ No

Concluding statement?
☐ Yes ☐ No

Meeting a success?
☐ Yes ☐ No



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Sales Activities



The Steps to Success

The sales activities are used throughout the opportunity management process and in the broader responsibilities of successful pipeline, account, and territory management. The definition of each management process is shown in the sidebar "I'm not Management, I'm Sales". There are five main sales activities as shown in **Fig. 6.1** with the core skill of relationship management being a part of each sales activity.

In this chapter each of the main sales activities will be discussed in detail and pipeline management will be briefly introduced. Later in the textbook there will be a dedicated chapter discussing pipeline, account, and territory management.

Chapter Objectives

After reading this chapter, you will be able to:

- Understand the key sales activities to manage a sales pipeline.
- Make relationship-building a specific and continuous process.
- Choose which components of prospecting to include in your prospecting plan.
- Apply a structured approach for building proposals.
- Know how to manage key follow-up activities.

Relationship Management

Many things go into winning a sale—the fit of your solution, your value proposition, pricing, track record, responsiveness, and so on. Although all these factors impact your customers' decisions to buy, Aberdeen, an independent research firm, in its September 2009 study with 500 best-in-class companies, identified the relationship between the customer and salesperson as the #1 reason why a customer buys from a salesperson. It boils down to how the customer feels about (i.e., trusts and relates to) the salesperson or sales team. Successful salespeople have known this for a long time, and hard data affirms it.[1]

In another study published in the *Journal of Marketing,* the authors concluded that salespeople involved in the marketing of complex services often perform the role of "relationship manager." It is, in part, the quality of the relationship between the salesperson and the customer that determines the probability of contin-

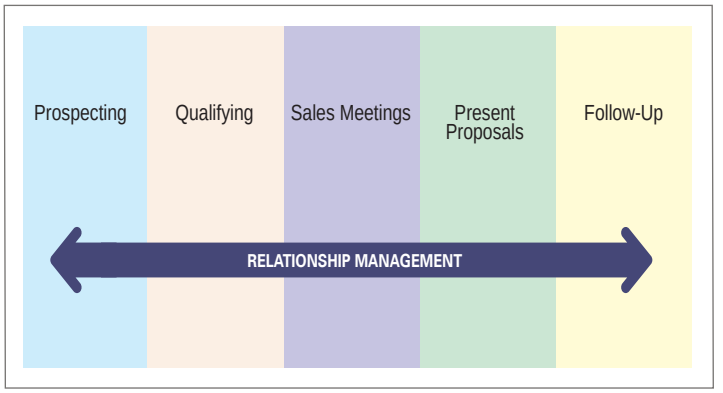


Fig. 6.1
Sales activities critical to a salesperson's success.

ued interchange between those parties in the future. The findings suggest that future sales opportunities depend mostly on relationship quality (i.e., trust and satisfaction), whereas the ability to convert those opportunities into sales hinges more on conventional source characteristics of similarity and expertise. Relational selling behaviors such as cooperative intentions, mutual disclosure, and intensive follow-up contact generally produce a strong buyer–seller bond.[2]

In the context of a salesperson, there are very specific skills and activities that lead to stronger customer relationships, as follows:

- Communication skills
- Customer profiling
- Trust building
- Application of the sales activities in a professional productive manner for both the customer and salesperson

Building Strong Relationships

It is very important for the salesperson to recognize the value of building relationships and getting to know and understand their customers. The success and satisfaction that result from having ongoing business relationships with satisfied customers are what professional salespeople strive to achieve. Up to this point in the textbook, you have already read about the communication skills you will use in the sales activities and two very important customer profiling factors: technology adoption and social style. These factors provide insights into how to better align with the customer to assist them in making a business decision.

However, what does building relationships mean? One of the best references for building relationships is the book entitled *The Trusted Advisor*[3] in which the authors are experts in the professional services and consulting industry. The authors share their real-life experiences coming from their fifty years of professional services and consulting industry experience. The basic premise of their book is to build stronger relationships with your clients. What you are trying to do is have them trust you more. Trust or stronger relationships can be measured by the level of the customer's perception of four key elements that make up the trust equation:

- Salesperson's credibility
- Salesperson's reliability
- Level of intimacy
- Salesperson's self-orientation

For more description of the trust equation, see **Chapter Highlight 6.1 "Tipping the Scales."** The major take away from the trust equation for salespeople is that you can develop relationships by strengthening the elements making up the trust equation. For salespeople, the rewards of stronger relationships with your customers are many. A few of the more significant benefits are as follows:

- Earlier notification of customer projects, giving the salesperson more time to prepare a winning proposal
- Willingness from the customer to act as a reference or provide leads to help the salesperson gain access to decision makers of future business
- More productive and efficient negotiations that are conducted in a collaborative spirit, resulting in the best deal for both sides
- Honest feedback regarding proposals and levels of service and satisfaction with the salesperson's organization and performance

▶ "I'm Not Management, I'm Sales"



You may not be in management, but sales staff are expected to effectively manage their assigned area of responsibility, which most commonly in B2B sales is either a territory or one or more accounts. To determine the value of your business, you need to have an opportunity pipeline.

Specific definitions for each are:

Opportunity Management
Strategically managing a single opportunity in a competitive marketplace.

Pipeline Management
A pipeline is a database consisting of all identified opportunities for the area of responsibility of the salesperson. Each opportunity falls in one of the ten stages of the opportunity management process. To maximize revenue from a pipeline, the salesperson must prioritize sales activities based on opportunity stage, revenue, competitive threats, and strategic importance of the opportunity.

Account Management
Develop strong relationships with all of a client's executives and decision-makers; understand the account's business drivers and how the account prefers to do business with it's suppliers. The goal of account management is to maximize the long-term value for both the supplier and the account. For large key or strategic accounts, there can be a dedicated Account Manager who is a resource for salepeople selling to the account.

(cont. on opposite page)

Territory Management

The salesperson's responsibility is an assigned a territory. Within the assigned territory, the salesperson must prioritize how they spend their time with the goal of maximizing revenue from the territory. The most common territory assignments are as follows:

- By Country, Region, City, or Zip Code
- By Vertical Market: Examples of vertical markets include manufacturing, health care, and energy. Large vertical markets such as energy may be divided into sub-markets, such as conventional and unconventional
- By Named Account: Several accounts are assigned by company name. Large accounts may be further subdivided by geography, division, business unit, etc.



Each of these benefits are significant for a salesperson working in a competitive marketplace. Receiving the benefits requires the professional salesperson to invest time and resources into building stronger relationships with their customers. The salesperson should ask themselves in which situations they have to demonstrate credibility and reliability to get to know the customer better (intimacy) and show the customer they care about their success.

Some of the opportunities for professional salespeople to positively impact each of the trust factors are listed below. This is not meant to be an exhaustive list, but a start to which you can add your ideas of things you can do for each factor.

Credibility

- Do your research into your target markets and accounts. Understand the customer's needs.
- Prepare: Have proof of the benefits your customer will receive if they use your company's product and services.
- Understand your products and services. Know what your strengths and weaknesses are for the major issues and successes.
- Take time to become familiar with the competitors' products and services.
- Share industry reports of interest and share insights.
- If you cannot answer a question, tell the customer you do not know, but will try to find out and get back to them.

Reliability

- Be early for appointments.
- Use appointment requests to formalize and have meetings posted on personal calendars.
- Check with operations or manufacturing to ensure availability and deliverability of products and services before making commitments to the customer.
- Keep the customer up to date on progress and changes. Be the first to call before they call you.
- Always check timing at the start of meetings and stay on schedule.
- Be predictable in a professional sense. Use checklists, forms, and procedures to ensure that important information is discovered and critical factors are always considered.

Chapter Highlight 6.1: Tipping the Scales

The Trust Equation

We hear a lot of conversations these days about building relationships, but just exactly what does that mean? For most of us, a better relationship means a relationship where the level of trust between the individuals is increasing. So how do you increase the level of trust? According to the authors of *The Trusted Advisor,* trustworthiness revolves around words, actions, emotions, and motives.

The relationship between these factors and how each affects your ability to build trust is described by the Trust Equation, as shown below:

$$T = \frac{C + R + I}{S}$$

Where:

T = Trustworthiness.

C = Credibility. This factor revolves around words and is high when the other person believes they can believe what you say.

R = Reliability. This is more action oriented and increases when the other persons believes you will do what you committed to.

I = Intimacy. Intimacy is about emotion and increases when the other person feels comfortable around you.

S = Self-Orientation. This factor is about motives and decreases when the other person believes that you care about their success as well as your own.

- Trustworthiness.
- Credibility revolves around words and is high when the other person believes they can believe what you say.
- Reliability is more action oriented and increases when the other person believes you will do what you committed to.
- Intimacy is more about emotion and increases when the other person feels comfortable around you.
- Self-Orientation is about motives and decreases when the other person trusts that you care about their success as well as your own.

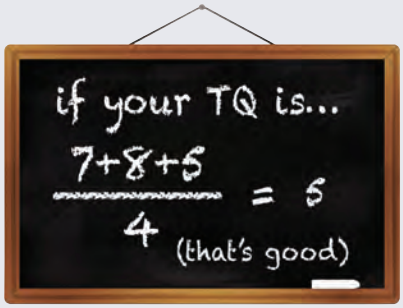
To estimate trustworthiness, the authors assigned values to each factor on a 10-point scale, with 1 being low and 10 being the best for the C, R, and I factors. For the S factor, a rating of 1 indicates very low self-orientation, meaning you care much more about the customer than yourself, and a rating of 10 indicates that you do not care about the customer, but only yourself. Based on this measurement, the authors then estimate a typical level of trustworthiness for a new client and a successful existing client relationship as:

New client: T = (C+R+I)/S = (5+3+2)/8 = 10/8 = 1.25

Existing client: T = (C+R+I)/S = (7+8+5)/4 = 20/4 = 5



Chapter Highlight 6.1: Tipping the Scales (cont.)



For salespeople, this is very helpful as the equation gives you specific factors to focus on to build relationships with your customers. What is evident from how the equation is calculated is that self-orientation is the most critical factor.

Not all relationships are going to develop without some issues. What the trust equation suggests is if you have a problem with the factors in the numerator (top part of the equation) you can recover the relationship but having a problem with the self-orientation is much more serious. It will be very difficult to recover the relationship, and it will take much longer than recovering from problems with the factors in the numerator. For example, if you recommend something to your customer and it does not work, you can apologize. State you were convinced this should have worked and your reasons why, and commit to investigating why the problem happened and try to find a remedy. In this scenario, your credibility has decreased, but with proper handling of the problem you will recover. The same can be expected for reliability and intimacy. However, if your actions demonstrate your motives are for you and not the customer, this will be very difficult to recover from. For example: To make your assigned quota for selling a new product or service, you sell this to the customer and they pay for it. However, they do not need this and they do not use it. If the customer realizes this, it will be very difficult for you to recover from this type of action. The customer will not trust you next time you try to sell them something they have not asked for. In most cases this will result in you not being considered for the next purchase or only involving your company when they send out the request for proposals.

In today's competitive marketplace, relationship is more important than ever. If in an evaluation for the award of work is close, the relationship between the supplier's salespeople and the customer's buying center members can be the deciding factor.

Tip the scales in your favor—show that you are a trusted advisor!

Level of Intimacy

- Take time to build rapport at the beginning of conversations.
- Extend invites to social events and other activities not directly connected to business.
- Ask about your customers and their family, as appropriate. First meetings in most cultures expect and allow for these types of conversations.
- Send holiday gifts, as appropriate.
- Take an interest in your customers—make note of special dates and anniversaries.
- Take customers and their spouses out for lunch or dinner or to other types of sporting or entertainment events outside of normal working hours.
- Share common hobbies or interests and charitable group activities.

Self-Orientation

- Understand the customer's needs fully before you start to sell. The opportunity management process is designed to help sell in this manner.
- At the start of sales meetings, begin with the value proposition.
- When presenting proposals, start with the customer's need or benefit.
- Check to ensure that the customer understands and whether they have any other issues or concerns.

- Prepare questions you think the customer may have of you when meeting for the first time or making recommendations.
- Always ensure that you deliver on your promises made during the pursuit phase of an opportunity in the implementation stage. Ask whether the customer used and benefited from what you sold them.

In the later sections of the textbook, you will see:

- There are steps included in the sales call skills to ensure that you keep focused on relationship building during sales meetings and presentations of proposals.
- The level of relationships will be considered when building a strategic sales plan for a specific opportunity. Special attention is given to relationship factors to answer the question "can you win?" Do you have strong enough relationships with key members in the buying center who want you to win and who will defend choosing you over your competitors?
- In account plans, there are relationship assignments. People from the supplier team are required in an ongoing business relationship for their assigned contacts and to become a resource for others who want advice or information about contacting the person for the first time.

Pipeline Management

Pipeline management (also referred to as sales funnel management) enables the salesperson to prioritize their sales activities. One of the key factors for prioritizing is opportunity sales stages. **Figure 6.2** below shows the relationship between sales activities, the sales pipeline and the opportunity sales stage. Leads, sometimes referred to as potential opportunities, are added to the pipeline as the result of successful prospecting. Once the salesperson completes the qualification process, the less attractive leads will be dropped from the funnel and the sales stage is set to closed withdrawn and the remaining opportunities are now in the sales stage as confirmed leads.

The salesperson will make additional customer contacts and decide if this is a sales opportunity their company can win. At this point in time, the confirmed lead sales stage becomes a sales opportunity for which additional sales calls will be made with the buying center members and a proposal or bid will be prepared and submitted. At the time the proposal is submitted or in the more formal tendering process when the request for proposal is received from the customer, the sales

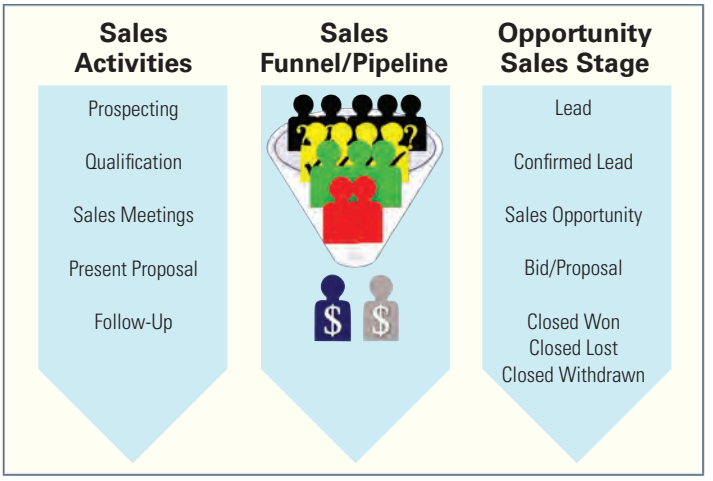


Fig. 6.2
Shows the relationship between sales activities, sales pipeline and opportunity sales stage.

stage is changed to bid/proposal. Once the customer decides the winner, the sales stage is changed either closed won or closed lost and either you or your competitor will make revenue from the sale.

At any time after a lead is added to the pipeline, the opportunity sales stage can be changed to closed withdrawn for reasons such as the customer cancels the project or it was discovered after the lead was entered into the funnel that in fact there was no real opportunity and it is not pursued, effectively taking it out of the pipeline. The reason for tracking such types of opportunities will be discussed later in Chapter 13 "Pipeline Management."

The follow-up sales activities vary depending on the type of award. Some awards are for the single purchase of products and the follow-up activity can be as simple as ensuring that the products are received on time and in good condition before checking for any other needs of the client and agreeing to a follow-up contact. In other types of awards, there may be an ongoing contract that can last from months to years and requires a significant portion of the salesperson's time to follow up with the customer over the life of the contract. These types of follow-up activities were discussed in detail as part of the opportunities management process in Chapter 4.

In the next section, each of the key sales activities will be discussed in more detail, starting with prospecting.

Prospecting

Prospecting can be considered successful if it results in an opportunity being added to your sales pipeline. To add an opportunity to your pipeline, there must be a qualification decision. Qualification will be discussed in a separate section.

Unfortunately, a lot of salespeople have a negative perception of prospecting because it is often associated with a popular or unpopular prospecting technique called "cold calling." See the sidebar "Making a Cold Call Warm." However, a good prospecting plan includes several prospecting activities, as illustrated in **Fig. 6.3** and listed below:

- Corporate Marketing Communications Plan (MCP)
- Research
- Current Accounts
- Referrals
- References
- Networking
- Conferences
- Cold Calling
- E-mail Marketing
- Tracking



Fig. 6.3
Prospecting activities.

Corporate MCP

In Chapter 1, marketing communication plans were discussed and when done well result in a significant number of leads (request for further information or follow-up by company representative). In some companies that have industry brand recognition, the salespeople never use any other prospecting techniques. These lucky salespeople have access to more leads than they will ever have time to qualify. What makes most corporate MCPs successful is the variety of techniques

▶ *Making a Cold Call Warm*

Salespeople dread the thought of making a cold call to set up a meeting with someone they do not know and potentially for a company they have never worked for before—maybe in a city where they have no business that is i n a country where they have no business. Help! I think I'd rather go to the dentist.

Well it does not have to be stressful. Warm up your cold calls by doing some up-front preparation, as listed below:

- Check your internal CRM system to see if the prospect is in your CRM system and whether anyone has contacted the person recently. If so, contact that person and ask for some insider information on how to deal with this person
- If there are no recent contacts but the person is in your system, then check to see who entered the person into the system and contact them
- Hold a marketing event (lunch and learn, breakfast briefing, webinar, etc.) for the targeted company or territory and specifically invite the list of people you considered cold calls. If they attend now, you have the opportunity to meet them and thank them for attending, and now they are no longer a cold call
- Send out an email to generate awareness by addressing a challenge or issue you believe the cold contacts have. Include two levels of requesting information: a link they can go for additional information and a second link to be contacted with your email link



- Check with your suppliers to see if they know the people on your cold call list and ask if they could act as a referral
- Check with your current customer base; if someone knows the people on your cold call list, ask them to act as a referral
- Check one or several of the social media sites for insights about the person. This may lead to a common point of interest or you may discover someone who knows them and may be agreeable to introducing you or providing some insights about the person
- If you cannot find any information or anyone who knows the people on your cold call list, research their company and use your experience with similar companies as your common ground

Chances are, with a minimum amount of preparation before you pick up that phone, making a cold call could turn out to be a walk on the beach!

that are used to target the early stages of the buyer awareness stages of awareness, liking, knowledge, and preference. The techniques or components of successful corporate MCPs are as follows:

- Internet presence (web and social media) that is easy to find with high rankings on Internet searches
- Website with high quality content, white papers, success stories, and other publications available to the general public, with easy request for information or contact facilities as well as visitor statistics to help manage and improve the website
- Subscription services for regular updates via e-mail or regular mail
- Participation in industry conferences and events (speakers, booths and sponsorships of events)
- Advertising
- Public relations such as participation in national and local charities, corporate-sponsored charities, or donations of either money or employees' time
- Industry-sponsored training sessions can be either for a fee or by invitation

In some companies, it is that salesforce who must source some or all of their own leads if they are to achieve their sales targets. However, in this situation they should be aware of what the corporate MCP consists of (content, schedules, other support resources, etc.) so they can leverage when possible the corporate MCP assets in their prospecting plan.

Research – Account Specific

Prospecting is more successful when it is focused on specific requirements of a target market segment that your product and services can provide. For account-

specific research, the main tool is the Account Profile described in Chapter 3. From the account research, the salesperson then develops an account plan identifying a pipeline of opportunities for which a sales plan is created. The specifics of what an account plan consists of will be covered in Chapter 13 "Pipeline Management."

Research – Territory Specific

To support your selling efforts in a territory, you need to identify the following:

- Territory size in terms of market expenditures and number of customers
- Type of customers (profit/non-profit, government, international, national, large, medium, small, very small)
- Segmentation of market by customer needs or industry
- Number of competitors, market share, value proposition, call patterns
- Customer buying behavior (formal/informal, buying frequency, process). A best practice when entering new territories is to hold interviews with target customers to learn about their needs prior to committing resources to the territory. A good source for this type of information is customer procurement departments or financial managerss
- Existing territory pipeline
- Significant industry events or conferences
- Professional organizations and local chapters

From the territory research, the territory salesperson, revenue objectives, or quotas are allocated. Quotas are then used to set call patterns, which includes the allocation of the salesperson's time with target customers or segments. The biggest challenge is to ensure that the salesperson's time is optimally allocated across a large group of multiple customers.[4] Important outcomes from the territory research include any additional demand generation efforts, such as resources or support needed beyond the corporate MCP, and the amount and type of prospecting the salesperson will commit to as part of the territory plan.

Current Accounts

Too often, salespeople do not allocate a portion of their prospecting time to their current accounts, which are accounts they are currently selling to. This happens when the salesperson becomes confident that the account will continue to buy from them or has a fear of changing anything when they are being successful. Prospecting in current accounts must be done tactfully and is most effective when the salesperson goes:

- Deeper into departments for which they are selling to, getting to know more people who are in the department. Rather than depending on a single point of contact, for example, in procurement, also make contact with operations and finance, etc.
- Vertical, to contact higher levels in the customer organization and more end users. When contacting different levels in an organization, it may not result in adding more opportunities directly into your pipeline, but can provide you with a better understanding of the company's needs and decision-making process. This will assist you in preparing better proposals to defend against the competition trying to win work from your account. This better understanding can help you discover additional

▶ *The Amazing Dozen Donuts*

If there was a Prospecting Hall of Fame, this story would be hanging proudly on display. A sales manager of a city sales group was brainstorming with his sales team for innovative ways to capture more business. In many of the accounts, customers were splitting the work between his company and several competitors. In one sales meeting, a salesperson got an idea that every Friday the sales team should deliver donuts to a select group of accounts. His logic was that there was a chance these clients would need a supplier over the weekend and their operations team would often simply assign the work to the last salesperson they saw before the weekend. The idea was if the clients became confident that they would see the salesperson in the office every Friday morning, the customer would assign the weekend jobs to that salesperson. Therefore, as part of the company's client appreciation initiative, they would bring one to three dozen freshly baked donuts—chocolate covered, frosted, jelly filled—every Friday depending on the size of the account. The result was amazing! Salespeople identified up to $100,000 of additional work being secured. As expected, when the salesperson stopped by to drop off the donuts and have coffee, operations staff started to ask the salesperson to come by their office before they left so they could brief them on upcoming work on the weekend. In this case, the convenience buyer behavior was resulting in the salesperson's company being assigned the work.



needs from the current account that enables you to sell more products and services within the same opportunity. This can be additional sales of similar or complementary products or selling up to higher levels of products or services.

- Wider, to contact other departments or locations within the same account or partners of the account. These departments may have similar needs and provide new opportunities for you to sell to them.This type of prospecting in current accounts is referred to as cross-selling. This will be discussed in more detail in the account development strategies in the "Account Management Plan" chapter later in the textbook. Current account prospecting leverages your current customers to act as reference or referral to gain access to new contacts. The access can be in several forms:
- Assisting you in setting up an internal marketing event, such as a lunch and learn presentation. For example, they assist you with identifying who should be on the invitation list.
- Introducing you to other people who may be interested in your products or services or have similar needs. This can be in person or through a telephone call or e-mail.
- Giving permission to use their name or reference your experiences with them.
- Providing a letter of reference that can be used internally and possibly externally.
- Co-authoring industry or white papers or success stories that can be used as sales collateral in future sales calls or marketing programs.

In the opportunities management process, this activity is recommended as part of the implementation stage for generating leads and references. In Chapter 1, referrals are classified as word-of-mouth marketing, which was identified as the number one influence for B2B purchasing decisions. Every salesperson needs to make securing referrals part of their prospecting activities in their current accounts.

Walking the Halls

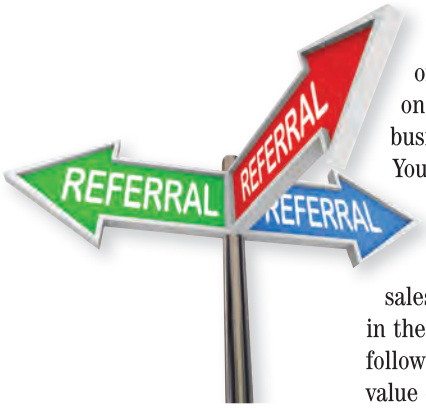
When you have customers that you visit on a regular basis, always try to either arrive early or stay after finishing a meeting to give yourself time to walk the halls to say hello to contacts that you may not have spoken to recently. You should also have a list of customers who you have not met but would like to meet and give them your business. A great example of another version of walking the halls is in the sidebar "The Amazing Dozen Donuts."

Multiple Visits

When visiting an existing customer, you should always try to schedule at least one more visit in addition to your primary visit. If the visit requires you to travel to another country, city, or location, try to schedule additional visits to fill the open time before or after your primary visit. As mentioned earlier, in current accounts you always want to establish more relationships. When you are already in the cus-

tomer's building, you can ask your primary contact if they could introduce to another contact who they think may be interested in talking with you.

Referrals



Why are referrals so powerful? Part of the answer is contained in the first part of this chapter. It has to do with relationship and trust. According to one article on referrals, when you ask for and get a referral from an existing customer or business associate, there's more than simple familiarity working in your favor.[5] You're tapping into existing relationships, which accelerate your ability to obtain new business. In typical selling situations, trust is the first and foremost issue in the mind of your prospects. The prospect asks himself or herself, "how do I know I can trust this person and this company?" Brian Tracy, author and sales training professional, cites building the trust bond as the critical first step in the selling process. He says building trust with customers is 40% of the process, followed by uncovering needs, presenting solutions, and asking for the decision. The value of the referral in this sense is illustrated below in **Fig. 6.4.**

Some salespeople feel it is not professional to ask for referrals and that good service is not something that should be rewarded, but expected. This is not why you ask for a referral. A referral is for your future customers. What you are trying to do is make it easy for them to believe and decide to have the first meeting with you. Getting referrals becomes more natural and easier when you use referrals as part of your sales call processes. Once you begin to make the use of referrals as part of your sales call processes, then you can refer back to your earlier meetings and have a conversation similar to this:

Salesperson: "Mr. Customer, how do you perceive the performance of our products for your operation?"

Customer: "So far excellent. Your products have done what you said they would."

Salesperson: "Thank you. I really do appreciate your comments. Do you remember when I called you the first time and I mentioned that your colleague, Mrs. Jones, recommended that I contact you?"

Customer: "Yes, I remember that very well."

Salesperson: "May I ask why you agreed to meet with me?"

Customer: "I respect Mrs. Jones and if she was satisfied, then I was pretty sure it would work for us."

Salesperson: "That is what I thought and now I would like to ask you, based on your experience, do you know anyone with similar needs as yours that could benefit from similar products? Calling someone new to ask for a meeting is a rela-

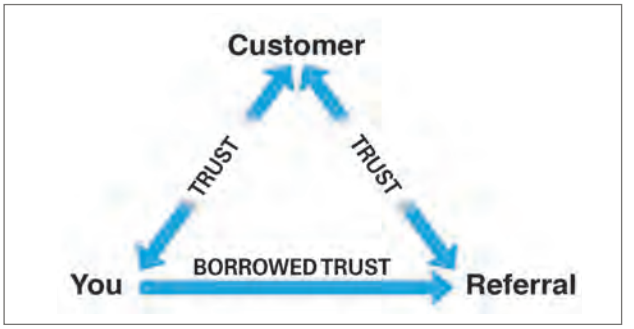


Fig. 6.4
Trust bonds already exist between you and the customer and between the customer and the referral. The referral process creates a level of borrowed trust between you and the referral, a great advantage for starting the selling process.

tively easy decision for the customer if someone they know and trust recommends the meeting."

Customer: "Well yes, I do know of someone. Would you like me to introduce you?"

References

Salespeople should handle references the same as referrals. References are sales aids that can be used as proof when selling, specifically when supporting and handling customers' negative reactions. Both supporting and handling customers' negative reactions will be discussed in the next two chapters. References, like referrals, come from existing customers. The most compelling references are when the references are on the customer's company letterhead and signed by the customer. There is an excellent example of a reference letter on page 208 in **Chapter Highlight 7-2: The $200,000 Makeover.**

The conversation the salesperson may have asking the customer for a letter of reference might go like this:

Salesperson: "Mr. Customer, how do you perceive the performance of our products for your operation?"

Customer: "So far, excellent. Your products have done what you said they would."

Salesperson: "Thank you. I really do appreciate your comments. Do you remember when we first met and, when I was explaining how our products would benefit your operation, I showed you a letter from Mrs. Jones stating that our products helped them reduce their rejection rates by 13%, reducing their production costs by 18%?"

Customer: "Yes, I remember that very well. In fact, for us the improvement may be even greater."

Salesperson: "What is your estimate of your savings?"

Customer: "Closer to 20%. Our parts are more expensive than Mrs. Jones' department."

Salesperson: "Mr. Customer, can you give me a similar letter like what I showed you from Mrs. Jones? For my future customers, it is more compelling when someone like yourself, who is known in the industry, shares your success by using our products. If you want, I can write a draft for you and send it to for your consideration."

Customer: "Perfect. Send that to me and I will put the final version on our letterhead, sign it, and give it to you the next time we meet."

Salesperson: "Excellent, I really appreciate it."

As outlined in **Fig. 6.5,** some customers will provide references of different levels or restrictions:

- Give a letter of reference, but only for use inside their company or with their partners.
- Use their example, but remove specifics about their particular situation.
- No released documents, but will allow you to use their name and have interested customers call them.

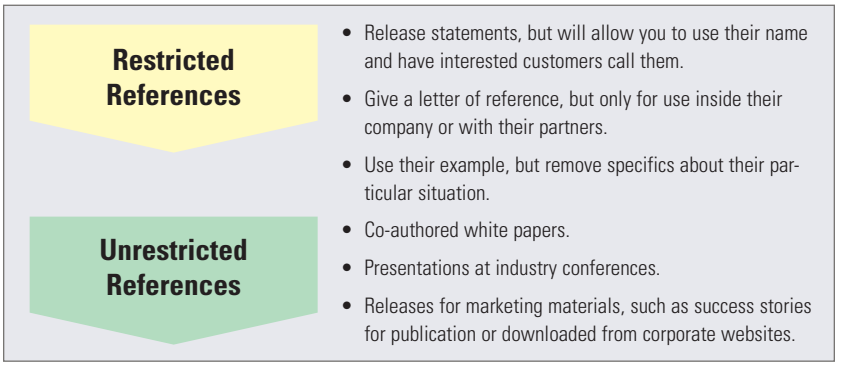


Fig. 6.5 Restricted and unrestricted versions of references.

All releases are good, and by using referrals and references during your initial contacting and sales processes, you are clearly demonstrating to the customer the purpose of the referrals and references. Other versions of references are:

- Co-authored white papers,
- Presentations at industry conferences, and
- Releases for marketing materials, such as success stories for publication or downloaded from corporate websites.

Whenever you use a referral or reference, you must take the time to do several things:

- When you use the referral or reference for the first time, let the customer that gave you the referral or reference know that you used it and thank them for their help. Show them your appreciation by inviting them to lunch or a social event or giving them something of interest, such as an industry report.
- When a customer gives you a referral, make it a habit to call upon the referral as soon as possible.
- When you use a reference and there is a chance the prospect may contact the customer, you must immediately follow up with the customer giving you the reference after the meeting in which you used the reference. If the prospect does contact the customer in regard to the reference, they may not remember what it is that you would like them to emphasize. Make it easy for them to help you and alert them they may be contacted. Review what you would like for them to communicate to the prospect.
- Always offer to write the letter of reference or have an example that you can leave with them.

A very good health check for any business is how many references, referrals, and other marketing materials are generated from current accounts on a monthly basis.

Networking

The salesperson should be looking for ways to increase the number of people you know. In a business context, there are many ways available for the sales professional to do this, such as the following:

- Professional societies
- Conferences and industry exhibitions
- Training
- Social events
- Social media
- Community activities

Professional Societies

These types of groups are perhaps the best form of business networking. If the audience of the professional society is your target market then there are many opportunities for you to meet new potential customers and competitors and to market or build your brand awareness. For example, if your company is selling upstream products and services to the oil and gas industry, there are many professional societies, such as the Society of Petroleum Engineers (SPE). The SPE has 143,962 members in 147 countries with 199 sub-sections or special interest groups. If your company sells computer parts and services, a great professional society to join is the Association of Computing Machinery (ACM). ACM has over 100,000 members globally with 37 special interest groups, holds 170 conferences each year, and provides more than 50 publications annually.

Each society offers networking opportunities, such as the following:

- Participating at annual conferences at which you have opportunities for presenting, exhibiting, and socializing
- Most professional societies are non-profit; as such, there are many opportunities for volunteers to work at conferences and social events
- Marketing opportunities such as advertising, training to sponsoring local chapter meetings, and lunches. Advertising can be done in printed materials and online websites
- Perhaps the best networking opportunity is becoming an active committee member

Be very selective when deciding which professional communities to join. Consider membership benefits such as access to papers, research and conferences as well as the number of networking opportunities in your area.

Conferences

Conferences are a great way to network and provide another opportunity for active participation. Planning is the key to getting the most from a conference as most conferences will have keynote speakers at breakfast and lunch. There are typically several sessions running concurrently during the day, so you have to choose which ones to attend. Some conferences will have several social events during the evenings. These are great opportunities to have your spouse join, adding another dimension to your networking efforts. For the major conferences, which can have literally thousands of attendees with many concurrent sessions, it is a best practice to plan as a sales team and ensure that targeted sessions and social events have a representative from your company. To ensure this happens, it takes a coordinated team effort. At the end of each day, the team should meet back together to debrief on the day's events and share contacts made during the day. It is also a good idea when there are multiple conferences relevant for your company create a conference calendar and assign specific people to attend, while others remain on duty and take calls for those attending the conference.

Training

Continued professional development and education are a great way to rejuvenate your processional drive and another great opportunity for networking. Training can be considered from two scenarios:

- Publicly available training
- Training as a marketing tool

▶ **World Wide Webinars**



By carefully selecting which publicly available trainings you register for, you can find yourself sitting with potential customers during the training and working in teams. Most publicly advertised training will state which companies attend and provide a roster at the training. Coffee breaks and lunches are great times to introduce yourself to people you have not met and trade business cards.

Training as a marketing tool is a very powerful networking tool. In this scenario your company can send invitations to targeted companies and individuals you would like to meet. There are a variety of options for training, varying from:

- Lunch and learns (popular in most industries), where guests arrive at 10:30 am, listen to a 45-minute presentation followed by question-and-air session and then eat a buffet lunch.
- After-hours cocktails or dinners, following a similar format as the lunch and learn.
- ½ day training sessions, which start at 9:00 a.m. and finish at noon, followed by lunch.
- Multiple-day sessions.
- Webinars. Online training can be both live and on-demand. Webinars are one of the growing techniques companies are using today to create brand awareness and prospecting without many of the limitations of the traditional techniques discussed, and the number of webinar service providers are increasing every day. For some interesting webinar facts, see the sidebar "World Wide Webinars."[6]

Do some research before your training to determine if your training session qualifies for continued educational units or credits and include this information in your invites. As in all marketing events, make it easy for your customers to request additional information or contact and collect feedback. Follow up after the training event to say thank you for attending and offer any further assistance.

Social Events

These types of events can take on many forms, such as entertainment, sporting, holiday activities. As with the conferences, there are many types of social events available, and planning and careful selection will ensure that you are rewarded for your time spent at the event. It is also a good idea to create a social event calendar and assign sales team members to specific events to ensure the best coverage of the events while maintaining people available to cover for those attending. Some social events have costs, so proper planning is critical to ensure the best return on the investment. Social events can also be a good opportunity to invite current customers and potentially new customers as part of your prospecting efforts.

Social Media

For a lot of people the Internet changed the way they think, work, and discover. Today online social media has created another option for networking. Some of the more popular social media online sites are LinkedIn, Twitter, and Facebook. Sites such as LinkedIn offer professional level accounts that are designed to make online networking more organized and effective. **Figure 6.6** on the next page is an example of the LinkedIn Premium subscription benefits as related to on-line networking and prospecting. Consider social media to build your personal brand. Create interesting posts, while allowing your audience to feel a personal connection to you. Leverage your core group to retweet items of interest, identify things you like, and follow others with similar interests as you. Give back to your groups by adding comments when you have insights to share.

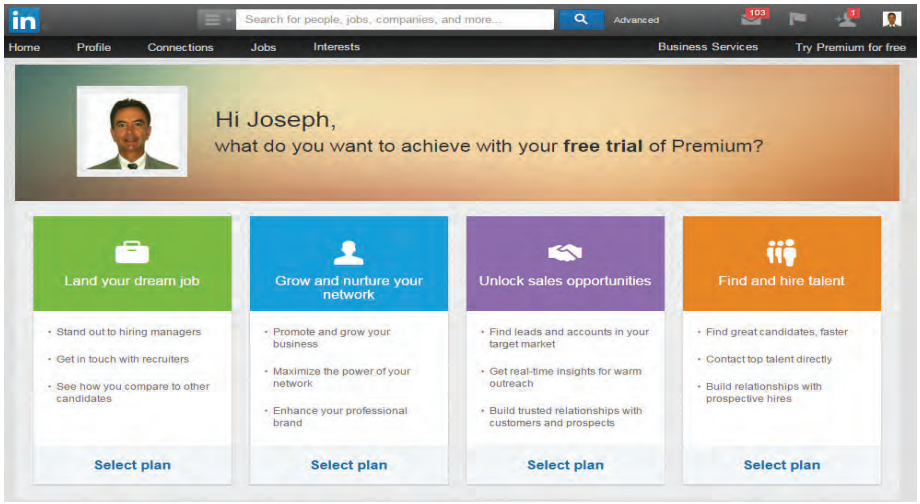


Fig. 6.6
LinkedIn Premium service targeted for online networking and prospecting.

There are many options for learning how to use social media effectively for prospecting, including on-line and instructor-led training and even entire conferences dedicated to the topic of social media. In addition, on-line social media offers an easy way for you to research contacts in preparation for your first meetings.

Community Activities

There is a saying that people prefer to buy from friends rather than strangers and, as one survey showed, people will consider recommendations from people they know the most. See the sidebar "Who Would You Trust?"[7] Your participation in community activities is a great way to network and give back something to the neighborhoods where you live and work. As discussed in Chapter 1, in the buyer readiness section, buyers prefer to buy from companies and people with whom they have a favorable impression. There is no better way to build that favorable impression than by participating in local charitable events. If your company does not have a specific community or charity they sponsor, then ask your customers which community events or charitable groups and associations they support and do the same. The favorable impression and the good personal feeling you get from participating in these activities make this type of networking very rewarding.

Elevator Speech

The purpose of all forms of networking is to come into contact with people who may need or benefit from your products or services. At a networking event, you are not going to have a sales meeting. When you meet someone at a networking event, you want to follow these steps:

- Exchange pleasantries (introductions, including why you are attending or who invited you to this event).
- Ask questions about the other person (where are they from, is their family with them, etc.).
- Ask what line of business are they in.
- Inquire which company they work for.
- Find out what they do.
- Tell who you work for and what you do. Develop a thoughtful and engaging statement that describes you and your company. Describe what you or your

▶ *Who Would You Trust?*

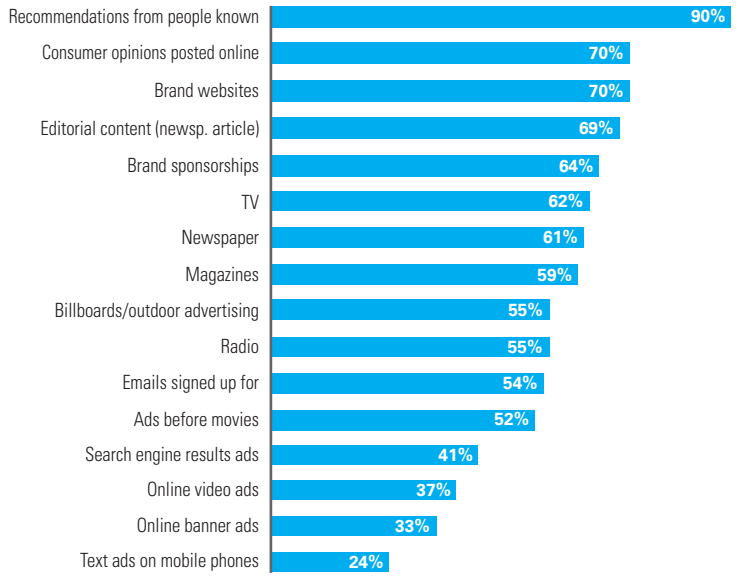
Recommendations from personal acquaintances or opinions posted by consumers online are the most trusted forms of advertising, according to the latest Nielsen Global Online Consumer Survey of over 25,000 Internet consumers from 50 countries.

Ninety percent of consumers surveyed noted that they trust recommendations from people they know, while 70% trusted consumer opinions posted online.

"The explosion in Consumer Generated Media over the last couple of years means consumers' reliance on word of mouth in the decision-making process, either from people they know or online consumers they don't, has increased significantly," says Jonathan Carson, President of Online, International, for the Nielsen Company.

However, in this new age of consumer control, advertisers will be encouraged by the fact that brand websites are trusted at that same 70% level as online consumer opinions.

Have Some Degree of Trust* in the Following Forms of Advertising, April 2009



Source: The Nielsen Company

*E.g., 90% of respondents trusted "completely" or "somewhat" recommendations from people they know.

company does in terms of benefits your customers receive or what you help your customers do. Make sure it is not a selling statement. Networking isn't about the sale. It is about the relationship.

- Listen to their response, and if it appears there is a business connection or other connection, exchange business cards or contact information. It is okay not to exchange business cards if giving the business card does not have value. If you do decide to give your business card but they do not offer you their card, it is acceptable to ask them for a business card. If they do not have one, then write their contact information on the back of your card.
- Ask if it would be okay for you to follow up with them appropriately, for example, to set a time for a meeting or send some additional information.
- Comment that it was nice meeting them and you look forward to meeting them in the future.
- If you are going to follow up with them, make a couple of notes on the back of their card to remind you where you met.

There are different versions of the elevator speech for different occasions. As the name suggests, the elevator speech is short with one purpose: create interest in you and your company and agree to a follow-up action. If you are in the reception area of your customer's office waiting to go into a meeting and someone walks in who does not know you (or you them), this is a perfect time for an elevator speech. In this case, after you have determined who they are and what they do, rather than describing what your company does generically, describe the intended benefit of the meeting or presentation you are waiting for. Depending on their response, decide if a follow-up action is required. A very effective follow-up action for a senior executive is to ask them who would they suggest you talk to. In most

cases, they will recommend a gatekeeper or manager responsible for the relevant area and now you have a referral—perfect.

For your elevator speech to be effective, you have to think, plan, and say your elevator speech before arriving at the event. Think about the different types of people you might meet and what an appropriate follow-up action would be depending on the person's job, department, position, etc.

Cold Calling

As stated at the start of this section, prospecting and cold calling are what some people envision when people talk about sales. Unfortunately, most people have a negative opinion of this type of activity and would prefer not to do this, even though in many cases the person has never tried cold calling. As described in the sidebar "Making Cold Calls Warmer," a cold call is calling someone you do not know but you want get their agreement to meet. At this meeting, there will be a sharing of information. The objective of the meeting is for you and your customer to agree that there is potential for your company to work for the prospect. In today's world, there are very few occasions when you should make a cold call. There are, however, times that you will want to meet people for the first time and set a time for that meeting. As with all prospecting activities, prior to making the call, do your research. You should have a reason for calling someone, as follows:

- A referral
- In your research you discovered their company has a program or project that is planned that will require your company's products and services
- They purchased from your company in the past and you are following up
- You or someone from your company submitted a proposal or quote in the past and you are following up
- They made an on-line request for more information
- You will be in their office or building, or city visiting with another customer and would like to visit with them
- Competitors of their company are benefiting from your products and services
- You are following up on an earlier correspondence you sent (e-mail, mail, etc.)
- Your company is holding a promotion, running trials, giving away samples, etc.

Once you have your reason for calling clearly established, then think about the call. A best practice is, in advance of the call, send an e-mail letting the person know:

- The reason you are calling them.
- Your value proposition.
- Time and day you will call. Also, give them an option to suggest another time and day for the call if what you suggested is not convenient.
- If they are not the correct person to contact, ask them to suggest the correct person to contact.

When you make the call, follow this flow:

- Introduce yourself and remind them you are following up on an earlier e-mail that you sent them.
- Exchange pleasantries.
- Explain the reason for the call and your value proposition.
- Ask a qualifying question.

- Ask to set a time or define the next steps.
- Check if they will invite anyone else to the meeting.
- Ask if there is anything else they want you to be prepared to discuss.
- Thank them for their time and tell them you are looking forward to the meeting.

An example conversation is below:

Customer: "Hello, this is Mrs. Jan."

Salesperson: "Good morning, Mrs. Jan. This is Mr. Salesperson from Company X. I hope you are enjoying the break in the weather this week."

Customer: "I'm not, but I hope I can this weekend."

Salesperson: "Yes, let's hope it stays. Mrs. Jan, I'm following up on an earlier e-mail that I sent on Monday. Did you receive that?"

Customer: "Yes, I did."

Salesperson: "Great. As I stated in my e-mail, Mr. Partner recommended that I contact you as he said that you have a very similar project coming up in the next 12 months and he felt your project would be as difficult as his. Is this still in your plans?"

Customer: "Yes, it is and it will be very similar."

Salesperson: "In Mr. Partner's project, he was dealing with some very tough deadlines. He decided to use our FAST service, which he estimated reduced his project days by 10%, which allowed him to meet his project time-line. Is that something that you would be interested in?"

Customer: "Yes, indeed."

Salesperson: "What I recommend is for us to meet and discuss your project so I can understand your objectives and your critical success factors. Then I can make some recommendations as to what type of products and services would best help you. Do you have time for a 30-minute meeting next Monday at 10:00 am?"

Customer: "That works for me, and I will have a couple of other team members in the meeting."

Salesperson: "Oh thank you. And may I know their names?"

Customer: "Yes, my operations manager, Mr. Smith, and my procurement manager, Ms. Putu."

Salesperson: "I'm looking forward to the meeting. Is there anything else you want me to come prepared for?"

Customer: "No, but thank you for asking. See you next week."

The cold calling practice is not only for new clients. It can be done with customers you are currently working for. As mentioned earlier, during the implementation stage of a customer's project, you should leverage your existing relationships to meet more people in the customer's organization. Follow the same format for a cold call when calling new contacts in existing customers' organizations.

E-mail Marketing

E-mail is a nice complement to cold calling. It is also an important part of the corporate MCP program that can be leveraged by the salesperson. The idea is the salesperson registers on their company e-mail subscription list. When there is an e-mail update sent from the corporate MCP that the salesperson believes is relevant for target customers, the salesperson forwards the e-mail to his or her customers to build awareness and the customer's reply for further information will be sent back to the local representative. For this to be used as a prospecting technique, the salesperson must have an e-mail list of potential customers. This same list can also be used to send out local success stories and announcements.

The purpose of a prospecting e-mail is to create awareness and generate interest so the recipient can request further information or follow-up. Below are some guidelines for creating e-mails as a prospecting tool. They need to be created with the purpose of generating interest. As such, an effective format for a marketing e-mail is:

- **Interest-generating subject line.** The most important element of effective e-mail marketing is the subject line, which can be thought of as the headline, according to Linda Pophal, author of *Direct Mail in the Digital Age.*[8] The headline should provide a short, immediate, and specific benefit to the audience, she says, and must also avoid including words likely to get caught up in spam filters because they sound like "advertising talk"—a word like "free," for instance.
- **Personalized.** Use the name of the receiver and send it to one person at a time. This is simple to do with the mail-merge option in most e-mail software packages, such as Outlook. The salutation you choose immediately indicates if you cared enough to figure out who should really receive your e-mail, or you just picked a name out of a list. It also communicates respect, professionalism and friendliness.
- **Body of the message.** Be brief and to the point. You want your prospects to be so compelled by your e-mail that they'll act now. To make that happen, you must include key pieces of information: the prospect's specific need, expected benefits, demonstration of capabilities, and call to action. Best practice is keep the message in the body to 75-125 words. Keep paragraphs brief and vary the length. Draft the e-mail and send it to yourself. How does it look in your in-box? See if it grabs your attention when you open it and begin reading. Leverage your work. Use the same e-mail for prospects that have similar needs.

▶ ***E-mail—Could Get You $16,000—A $16,000 Fine That Is!***[9]

Compiling an e-mail list of people who have opted in to receive information about products and services is a no-cost, high-performance means of connecting with target prospects through e-mail. Giving consumers the opportunity to opt in keeps e-mail marketers in compliance with the Federal Trade Commission Controlling the Assault of Non-Solicited Pornography And Marketing Act of 2003 (FTC's CAN-SPAM) regulations, guidelines that say what e-mail marketers can and cannot do. Failure to comply may result in fines as high as $16,000—per e-mail—according to the FTC. The main requirements include not using false or misleading header information or deceptive subject lines, clearly identifying messages as advertising, and including contact information and business location. In addition, the sender needs to include information about how recipients can opt out of receiving future mailings.



- **Call to action.** Make it easy for your reader to ask for more information or request a contact. It should be one click and require a minimum amount of information before clicking send.
- **Lead-generating signatures.** Your signature is not just the opportunity to provide all your contact information. Use it to hook your prospects into learning more about you and your company with a simple click.
- **Opt-out option.** The reader with one click should be able to be taken off your mailing list. (See "E-mail–Could Get You $16,000–A $16,000 Fine That Is!").



Tracking

One of the most critical factors of a successful prospecting plan is persistence because the results from prospecting may take time to materialize. Like all programs, to understand how effective you are, you must track the results, such as which prospecting efforts return results as measured by new business, repeat business, generating more leads, and size of orders. Also, once a prospect has been contacted but does not have an immediate need, it is very good practice to keep in regular contact, possibly through marketing programs and periodic follow-up via telephone, web, social media, sms, or e-mail.

If your prospecting efforts do not get a response from the prospect the first time you make contact, then set a reminder to follow up. The customer's silence may not be due to a lack of interest but bad timing. Your follow up may very well be appreciated when they have more time to talk to you.

After a successful prospecting effort, you have potential buyers and opportunities that are in the sales stage-lead. The next activity is to qualify the lead and determine if there is a real opportunity for which the customer will spend money and purchase products or services from you or your competitor. This sales activity is called qualification.

Qualification

To qualify a lead, you complete an opportunity level 1 opportunity assessment as discussed in Chapter 4 "Opportunities Management," Stage 2 Identification of the Compelling Event.

The level 1 assessment, as described earlier, contains four categories of questions:

- Is there an opportunity?
- Can you compete? Do you have a competitive offering?
- Can you win? Do we have sufficient buying center support?
- Is it worth winning? Will it earn your required profits or is the opportunity strategic?

To change an opportunity from lead to confirmed lead sales stage, the salesperson must, at a minimum, answer the first category of questions: "Is there an opportunity?" To facilitate this discussion with the customer, the salesperson should use the Project Solution worksheet, as described in Chapter 4.

The earlier and faster the qualification activity can be completed, the sooner the salesperson can decide if they should spend more of their time trying to win the opportunity. However, as with all of the sales activities, there are no shortcuts and the salesperson must complete the qualification by talking with the customer. See the sidebar "Let Me Try Mental Telepathy First. I Hear It Works." The other common issue with the qualification activity is the qualification is not done or the qualification is done too late. The qualification activity needs to be as soon as

possible so the salesperson removes low probability opportunities and focuses their time on the confirmed opportunities. During the qualification activity the salesperson is retrieving information about the opportunity and the people involved in the customer's decision-making team.

The qualification assessment is conducted by answering the following questions and assessing a negative –, question mark ?, or, positive + depending on the answer to the question. The questions below are more detailed than originally discussed in Chapter 4 "Opportunities Management."

Question 1: Customer's Application of Project

- What is the objective of the customer's project?
- Do you understand the connection between the company's vision, goals, and objectives and requirements for the project?
- If you can answer these questions, evaluate this as + to indicate it has been defined by the customer.
- If the customer has not defined the requirements, select – for undefined. If you do not know or understand the requirements, select the ?.

Question 2: Customer's Business Profile

- What is the account condition, as described in the account corporate profile?
- If the account is in a strong position, select the + for strong. If not, select – for weak. If the business profile is unknown, select the ?.

Question 3: Customer's Financial Condition

- Customers in a strong financial condition are evaluated as +.
- For lesser known accounts, you should check with your controller for input on the customer's financial condition and payment practices. Your financial department will use credit ratings and other financial reports to determine the account's financial condition. If the financial condition is weak, select the – option; if it is unknown, select the ?.

Question 4: Access to Funds

- Have funds been allocated to this project, and if they have, what is the budget?
- If not, what is the approval process, and what are the chances of approval for this project?
- Are other competing projects more likely to be selected before this project for the current fiscal year?
- If funds have been approved and you know the budgeted amount, select the +. If not, select – , and if you do not know the answer, select the ?.

Question 5: Compelling Event

- Why does the customer have to do the project and when will the customer do it?
- What are the expected outcomes and paybacks?
- What are the consequences if the project is delayed or accelerated?
- Who has the objective for implementing the project?
- Who is the sponsor of the project?
- If you can answer these questions, the compelling event is defined as a +. If not defined, select the – , and if you do not know the answer, select the ?.

▶ *Let Me Try Mental Telepathy First. I Hear It Works.*



"Scientists claim 'telepathy' success after sending mental message from one person to another 4,000 miles away."[10]

They connected one person in Mumbai, India, to a wireless headset linked to the Internet and another person to a similar device in Paris. When the first person merely thought of a greeting such as *ciao* (Italian for "hello"), the recipient in France was aware of the thought occurring, according to a report in the journal: The subject receiving the message could not comprehend the word itself, but could report flashes of light in their brain that corresponded to the exact moment when the word *ciao* was being thought.

Well, this has some way to go before salespeople can sit in their offices and rub their temples to have a conversation with their customers. Too often, when salespeople are asked who told you that, there is a moment of silence that means "no one, it is what I assumed." This is not good enough in the qualification activity. When completing an assessment, if the information has not come from a conversation with the customer done by the conventional means, then the assessment for that factor is ?.

In sales, if you do not know or have not asked the customer, don't guess. It is very dangerous to make strategies from assumptions when the customer is only a conversation away.

Chapter Highlight 6.2: "I Got Questions. You Got Questions"[11]

Meet Ben Duffy

This is an old story, but vitally important in understanding the power of empathy and questions.



Ben Duffy (1902–1970) was a high school dropout from Manhattan's Hell's Kitchen neighborhood who eventually became an icon in the advertising world.

Literally going from the mailroom to the presidency of BBDO, a worldwide advertising agency headquartered in New York, he had a stellar career that advertising people still talk about today. BBDO currently has over 15,000 employees and is the most awarded agency network in the world. Many would argue that much of that success is the result of Duffy's work.

How Duffy Discovered the Power of Empathy



Many years ago at American Tobacco, the largest tobacco company at that time, an ad account was available and every advertising agency in the country was aggressively pursuing it. At that time, Duffy owned a small advertising agency and was eager to obtain an account of this size.

Among his competitors were several very large agencies with more money, more resources, and more staff. Duffy had an appointment with the president of the tobacco company coming up soon. He thought to himself, "How can I possibly compete with these large agencies? What can I offer this company that the big boys can't?" The more he tried to prepare, the more frustrating the situation became. He just could not see how his little company could compete.

After some time, he realized that "How can my small company compete with the big companies?" was the wrong question. He had been approaching the situation from the point of view of a salesperson, not from the client's point of view.

Key to Successful Selling

On that day, Duffy discovered the key to successful selling: empathy through questions. He thought, "I'm going to put myself in this guy's shoes. I'll think of all the concerns and questions that I would have if I were him." He wrote down fifty questions, then honed them down to the ten he thought would be most important to his prospect.

When the day of the appointment arrived, he sat down with his potential client and said, "In preparing for today's meeting, I put myself in your position and thought there were probably some things that you would like to know about me, my company, how we do business, and what's in it for both of us. So I have prepared a list of ten of those questions."



The tobacco company president looked surprised and said, "Well, that's interesting, I wrote down ten questions for you, too." They swapped lists, and six of the questions were exactly the same.

Based on Duffy's preparation and the similarity of the lists, the president of the tobacco company decided that maybe the two companies did have something to talk about.

Guess who got the account?

Another key point to remember when in the qualification activity is you not only need to qualify the opportunity, but the customer also needs to assess and qualify you and your company as an acceptable supplier. There is a very famous story about how one salesperson was able to secure the biggest opportunity of his life by not only preparing his questions for his first meeting but also preparing a list of questions he thought the customer may have of him. See **Chapter Highlight 6.2: "I Got Questions. You Got Questions"** for the rest of the story.

When having sales-related discussions with the customer, you apply a consultative and customer-focused selling approach following what is called the need-satisfaction selling process. The professional selling processes have developed over many years. In their literature search on B2B selling, authors Terry Bacon and David Pugh read books written as early as 1894.[12] Since that time, professional selling has gone through a continuous evolution, becoming more relationship based, customer focused, and value driven. A brief history of the professional sales development is provided in **Chapter Highlight 6.3: From the Sea to Sales: The Evolution of a Profession.**

The consultative selling approach used in conjunction with the need-satisfaction process are two of the guiding principles for professional salespeople today. These concepts will be used throughout the sales activities for both large and small sales. Chapter 7 will provide a detailed look at sales call skills used to execute the need-satisfaction process.

The next activity after qualifying an opportunity to confirmed lead is sales meetings.



Sales Meetings

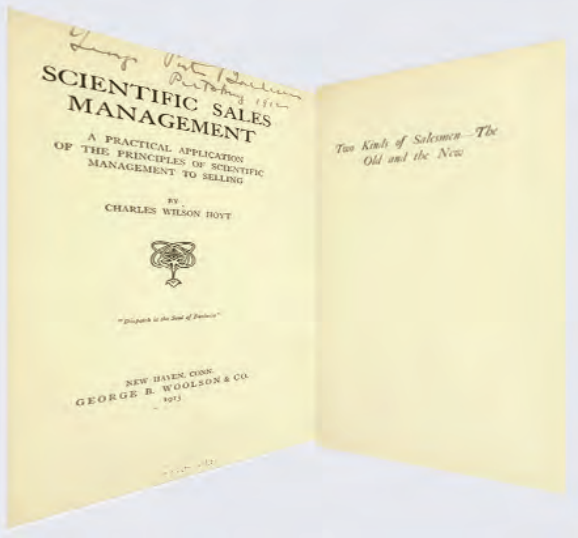
In the opportunities management process described in Chapter 4, sales meetings are the core activity in Stage 3a Evaluation of Options. Once an opportunity has been confirmed (assessment question "Is there an opportunity?" is answered yes), then the next three questions of the opportunity assessment are evaluated. Answering these questions will determine if the opportunity is a sales opportunity that you want and you can win. There are many times when there is a confirmed opportunity, but a company competing for the work will never win because of one or more reasons in the assessment. To answer the next three questions in the assessment, the salesperson uses the request for proposal interview form (described earlier in Chapter 4) to hold further conversations with people in the buying center from the customer's organization. By using the request for proposal interview form, the salesperson should be able to answer the following questions.

Can You Compete?

Question 6: Formal Decision Criteria

- A fully defined formal decision criterion meets the requirements described in the vulnerability analysis described in Chapter 4. The customer must have a defined set of criteria ranked from critical to incidental and have an evaluation model by which to evaluate the competing offers. You should know who has created the decision criteria. If approval comes from depart-

Chapter Highlight 6.3: From Sea to Sales: The Evolution of a Profession



The selling presentation has changed over the years. The changes are a reflection of the nature of the economy and underlying theories of how people buy. The following periods witnessed different approaches to selling:

Agrarian Age. 1850 and earlier. Selling was based on self-learned skills of salespeople. There were no major efforts to study the art of selling.

Early Industrial Age. 1850–1920. The economy of the United States began to shift from an agrarian economy to industrial. With the rise of manufacturing, salespeople became of increasing importance to the economy. During this period, owners of factories began to shape the army of salespeople from a loose network of "peddlers" to a more organized selling force. For example, around 1850, Cyrus McCormick (the inventor of the wheat reaper and thresher) organized a national network of selling agents who operated on stricter selling controls than the peddlers of the past. As time went on, manufacturers such as Gillette, Eli Lilly, Scovill, and others began to hire salespeople specifically to represent one company. This was a dramatic change from the past. In 1894, William Miller wrote *The Art of Canvassing: How to Sell Insurance*.[13]

From 1910 to 1920, there was a growing interest in improving the selling process. Psychologists, notably Freud and Jung, essentially founded the discipline during this period as many of the new psychologists began to study the buying process. They were interested in discovering the mental states that buyers went through so that salespeople could better influence the buying process. Chicago-based System Company published *How to Increase Your Sales: 126 Selling Plans Used & Proven by 54 Salesmen & Salesmanagers* in 1908. Fredrick Taylor published one of the most influential management books ever written, *The Principles of Scientific Management*.[14] In 1913, C Hoyt. influenced by Taylor wrote *Scientific Sales Management; a Practical Application of Principles of Scientific Management to Selling*.[15] (pictured above).

As early as 1911, psychologists were studying and describing the mental states that customers would exhibit as they proceeded through various phases of making a purchase. At this time, the buyer action theory was developed, consisting of five stages: (a) favorable attention, (b) interest, (c) desire, (d) action, and (e) permanent satisfaction.

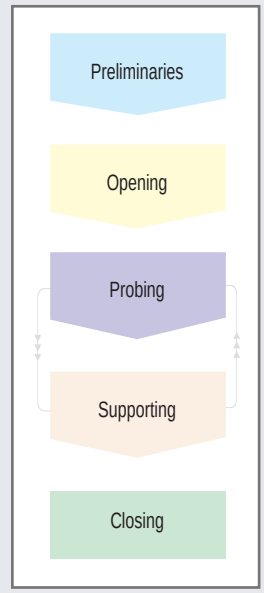
Mature Industrial Age. 1920 to 1950. Building upon earlier psychological observations, in 1922, Edward K. Strong's first book, *The Psychology of Selling Life Insurance,* became the first academic book on selling.[16] Strong attempted to translate the abstract psychological customer descriptions and observations into concrete techniques that could be used by salespeople. In the section "The Tactics of Selling," (pp. 351–465), Strong talked about tactical selling techniques as a series of five steps. He prescribed presentation techniques that salespeople could use to cause the potential customer to enter each of the psychologically described buying mental states, thereby leading them to buy. This approach is still being taught today and is prevalent in traditional "transactional selling."



Post-Industrial Age. 1950–1980. Selling and marketing made a tremendous leap forward. Led by marketing researchers, the marketing concept was introduced to industry by academicians. The concept began its journey of wide acceptance in sales and marketing theory. The marketing concept uses a customer focus as opposed to a seller or product focus. Essentially, the selling practices as advocated by Strong in the 1920s were "seller-centric"—that is, they were focused on the various techniques that could be applied to the customer to induce or make them enter mental states that would lead to buying. The marketing concept advocated that sellers start

Chapter Highlight 6.3: From Sea to Sales: The Evolution of a Profession (cont.)

with customer needs and then try to satisfy these needs. The marketing concept led to a new theory of buying called the need-satisfaction buying theory is shown to the right and will be discussed in detail in Chapter 7 "Sales Call Skills."



The Need-Satisfaction Buying Theory

The need-satisfaction buying theory is the basis for "consultative selling." Essentially, sellers adopt the philosophy that they are consultants to help potential customers solve need problems; the customer has a problem to be solved, and the product/service has the potential benefits to solve the problem. This approach to selling is "customer-centric." The seller adds-value and is important to the buyer throughout the buying process. The theory states that the buyer goes through the discrete steps to make a buying decision, especially a decision on complex and expensive products/service. The consultative selling approach consists of five steps:

1. Recognition of Needs: The value that a salesperson can add in this stage is the help customers recognize and the definition of problems and needs in a new or different way.
2. Evaluation of Options (Alternative products): The value that a salesperson can add here is showing superior solutions, options, and approaches that customers may not have understood or considered.
3. Resolution of Concerns (Decide on one of the alternative products): Value here is created by the salesperson helping customers to overcome and remove obstacles to acquisition.
4. Purchase (Logistics of acquisition): The value a salesperson can contribute here is making the purchase painless, convenient, and hassle-free.
5. Implementation: The salesperson adds value by showing customers how to install and use the product/service.

Information Age. 1980–present. The United States was "on the ropes" economically as it fought increasing global competition. The "Toyota Phenomena" and the quality movement invaded the US economy. The country responded by copying the Japanese and other competing global companies. With a proliferation of look-alike quality products, competition for customers began to shift to more abstract nuances to differentiate one product from another. The salesperson, as well as his or her supporting company, became an important component of the product or service that the customer considered as value. In addition, the growing proliferation and availability of information (the Internet and web) developed a generation of increasingly informed buyers.

In the past, salespeople were primarily providers of product/service information. However, the increased availability of information to buyers began to shift the salesperson's primary roles. Salespeople now had to reexamine who they were and why they existed. While their traditional role of providing the means to make "transactional" sales was still important (there are still many products/services today requiring this approach), the legacy of the marketing concept and adding value within the need-satisfaction buying theory of the buying process became increasingly important.

Thus, for many commoditized (standardized and look-alike) products/services, potential customers are relatively sophisticated and have access to information. They do not need salespeople to make a buying decision. "Transactional selling" is also taking place electronically. However, for complex, customized products and services, salespeople need to add value during the buyer's need-satisfaction buying process. This consultative selling approach has its roots back to the 1920s and was documented by W. F. Hypes who wrote a chapter titled "The Salesman as the Customer's Partner" in the System Company publication *How to Increase Your Sales* mentioned earlier.[17] In modern times, the first book published on this topic was Marck Hanan, James Cribbin and Herman Heiser's *Consultative Selling,* published in 1970.[18]

The remainder of this book will leverage these pioneers' thinking and contributions to the professional selling community. In addition, many more of the modern thought leaders' works will be referenced to build actionable sales processes for today's competitive world of sales.

ments outside the account (such as partners and government agencies), you must meet with them and determine whether they have the same decision criteria.

- Do you know the process for approval in such situations? If you believe the customer (including external approvers) has well-defined decision criteria, select +. If not, choose –, and if you do not know, evaluate the question as ?.

Question 7: Solution Fit

- Will you be evaluated as strong or weak against the customer's decision criteria when compared to competitors?
- Can you do anything to improve your evaluation, such as redefining the decision criteria or addressing the customer's negative reactions, such as misunderstandings, skepticism, or drawbacks?
- How do the most influential buying center members rank our solution? If you believe you will be evaluated as strong, select + . If weak, choose – . If you do not know or have not validated your expected ranking with someone in the buying center, select ?.

Question 8: Resource Requirements

- For you to secure and implement the project, will it require additional resources and investment?
- Are there other projects that could use the resources if you do not do the project?
- Must you make significant modifications to your solution to qualify?
- Must you invest significant time and effort to sufficiently analyze the risk and build a complete proposal that makes a strong business case? Input from the business managers should be provided for large projects. If the resources required are low, select + . If high, select – , and if you do not know, select ?.

Question 9: Current Relationship

- What is the status of your current relationship?
- Do you have an ongoing business relationship, and are you working with the customer on other projects?
- How well do you know the key buying center members?
- When completing this question, compare your relationship relative to the competitors. To answer this question, only one company should be evaluated positively to reflect their competitive advantage. The company with a + will most likely have information in advance of their competitors and could also be the company the customer will speak to last before making their final decision. For the company with the strongest relationship, select + . For companies with weaker relationships, select – , and if you do not know, select ?.

Question 10: Unique Business Value

- What differential value does your solution bring to the customer's project? To answer this question, you should complete the customer value analysis and validate your differential value with appropriate buying center members.
- In which of the five common differentiating factors (product or services, service quality, company capabilities, service and support personnel, and price) do you provide differentiated value? Will your value be evaluated in the decision criteria?

- If you have significant differential value that will give you a competitive advantage, select +. If you do not have differential value, select – , and if your differential value has not been validated, select ?.

Can You Win?

Question 11: Inside Buying Center Support

- Do you have mentors and supporters inside the buying center?
- Can they influence the purchase decision, and will they act on your behalf?
- Do the competitors have more inside support?
- You should be able to reference specific actions of the mentors or supporters to prove their support. If you believe you have significant inside support that improves your chances of securing the opportunity over the competitor, select + for strong, – for weak, and ? if you do not know.

Question 12: Executive Credibility

- Do you know which executives have an interest in the project? Do your executives have on-going business relationships with them?
- How do they know you if they are not a current account?
- Do the customer's executives consider you a vendor, problem-solver, or trusted advisor?
- Can your executive make contact with the account executives easily during the resolution of concerns and monitoring stages of the procurement phase? These factors were explained in Chapter 4 "Opportunities Management" in the procurement phase section. If you have an active account management program, you should be in a good position relative to your competitors. If you are in a strong position, select + ; if in a weaker position than the competitors, select – ; and if you do not know, select ?.

Question 13: Cultural Compatibility

- Does your account relationship profile indicate a good match between what the account wants from its suppliers and what you provide? (This is discussed in Chapter 13 "Account Management Plan.")
- Does your company have executive-to-executive level ongoing business relationships?
- Does the account consider you the best company to work on this project?
- If you are not well positioned, what would you have to do to gain a better position? Is there time? If corporate compatibility is good, select + ; if it is poor, select – ; if you do not know, select ?.

Question 14: Informal Decision Process

- What will be considered beyond the formal decision criteria, and who will contribute to the final purchase decision? If external departments or government agencies have to give final approval, do you understand their informal decision process?
- Do you have previous experience knowing what it takes to get approval beyond having a best-evaluated solution?
- Have you had a previous experience with the account where an award or loss was turned around in the late stages?

- What issues can be negotiated? If you are confident you understand the informal decision process and have a plan to manage it, select + ; if you are not capable or do not have the right contacts and supporters, select – ; if you do not know, select ?.

Question 15: Political Alignment

- How well aligned are you with the high-influence buying center members? Are they supporters of your company?
- Do you know their business and personal agendas? Can they change the decision criteria after the evaluator or decision-maker submits a recommendation?
- Will they act on your behalf?
- Do you have more influential supporters than the competitors?
- Who has the most powerful buying center member as their supporter?
- If external departments or government agencies have to give final approval, are you in alignment with their powerful approvers? If you believe you have a stronger political alignment than your competitors, select + ; if you are weaker, select – ; if you do not know, select ?.

Is It Worth Winning?

Question 16: Short-Term Revenue

- Is the short-term revenue for this calendar year high or low?
- Once the contract is awarded, can you sell additional services or expand the work scope?
- Will there be other projects coming in the short term that would enable you to leverage the resources allocated to this project?
- Will your equipment and staff be utilized at full capacity, or can you generate other revenue with the same resources from other projects unrelated to this opportunity?
- Is there anything you could do to improve short-term revenue? If the resources for this project have a reasonable probability of generating high short-term revenue, select + ; if low, select – ; and if you do not know, select ?.

Question 17: Future Revenue

- Ask the same questions as the short-term revenue questions but now from the long-term perspective.
- What kind of year-on-year growth might you expect in future revenue streams?
- If long-term revenue-generating prospects are high, select + ; if low, select – ; and if you do not know, select ?.

Question 18: Profitability

- Is the expected profitability high or low?
- What would have to happen to increase profitability?
- Could you negotiate items that would improve profitability or lower your costs?
- Does the level of expected profitability warrant the resources, or are there more profitable projects that could use the resources?

- Do you have contractual protection for the resources requested, but not used? If profitability prospects are good, select + ; if they are not or are low, select – ; if you do not know, select ?.

Question 19: Degree of Risk

- What are the levels of technical, financial, and other risks associated with the project?
- What are the risks of the customer not fulfilling the work scope, ending the project early, or canceling the project? How could you cause your solution to fail?
- What are the critical dependencies in delivering value to your customer?
- How could the customer cause your solution to fail?
- What is the impact on your business if the solution fails?
- How much investment do you need to make to start the project?
- How much of this investment is at risk? If the risk profile of the opportunity is low, select + ; if it is high, select – ; if you do not know, select ?. If the risk factor is high, what could you or the customer do to reduce it?

Question 20: Strategic Value

- To determine whether a project is strategic, you must determine whether the project is more profitable than other projects of the same time period that use the same resources. If so, why?
- Do long-term account factors such as product development or competitive issues make winning this project strategic? To answer this question when resources are limited, it is advisable to obtain upper management input. The strategic value of a project is best answered by upper management. If the strategic value is high, select + ; if it is low, select – ; if you do not know, select ?.

With the assessment completed, the salesperson then decides on the appropriate sales strategy for this opportunity. The opportunity sales strategies were described in detail in Chapter 4. The options are:

- **Disengage.** This strategy is chosen when the salesperson decides this is not a sales opportunity their company can win. This can be the result of too many negatives in the assessment analysis and or they do not have enough time to try and improve their position or the opportunity is not attractive. The sales stage will be set as disengage and as per guidelines described in Chapter 4. Once the outcome of the opportunity is known the salesperson sets the sales stage to closed lost and record in their CRM system which competitor won and the estimated value of the deal.
- **Attack.** The salesperson believes they can win this opportunity and selects one of the competitive sales strategies as described in the opportunities management process. The sales stage will be set frontal, flanking, defend, or fragment. In the attack mode, the salesperson executes their sales strategy as described in Chapter 4, focusing on building buying center support for their proposal.
- **Develop.** The sales proposal will not be presented in the current calendar year. The salesperson will stay engaged with the customer to improve their position and use the develop sales strategy tactics as described in Chapter 4. Most companies have well-defined guidelines for reviewing sales opportunities before making the final decision to disengage or pursue and which competitive sales strategy to select. This process will be reviewed in Chapter 7 “Strategic Sales Plan.”

During the sales meetings activities, the salesperson will use their probing skills to retrieve more information about the needs and concerns the people in the buying center have about the opportunity. Once they have a good understanding of the customer's needs, the salesperson is then ready to present their proposal, which is the next step in the sales activities.

Present Proposals

In this sales activity, the salesperson uses the skill of supporting in the need-satisfaction process. The skill of supporting will discussed in detail in Chapter 7 "Sales Call Skills." When the salesperson begins to present their proposal or, in a more formal bidding process, receives the request for proposal from the customer, the opportunity sales stage is set to bid/proposal.

The effective creation and presentation of proposals requires a number of sales skills as shown in **Fig 6.8.** The need-satisfaction process skills of opening, probing, supporting, and closing will be discussed in the next chapter. Handling objections, and negotiations have dedicated chapters later in the textbook. Communication skills were discussed earlier. Proposal writing skills will only be touched upon for a couple of critical aspects of the proposal, and there is a dedicated chapter for competitive tendering that includes a discussion of factors to be covered in tender submissions.

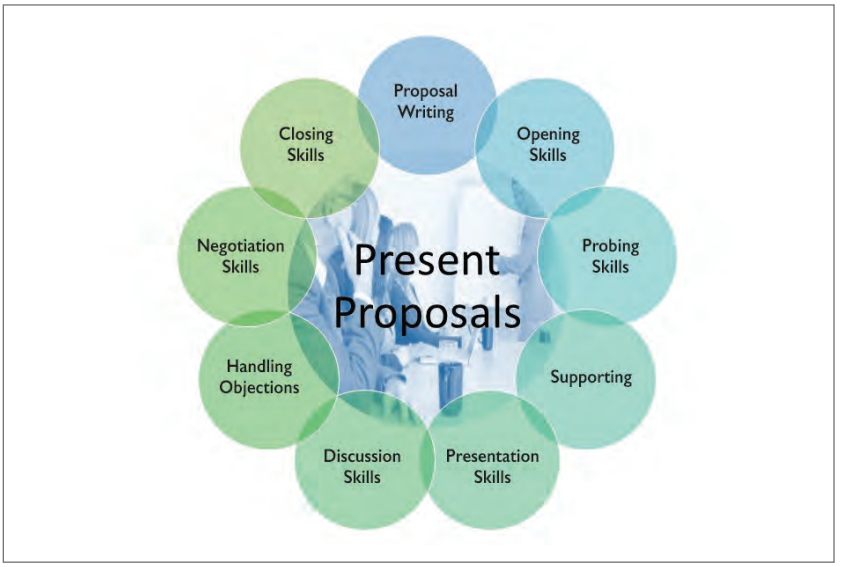


Fig. 6.8
Presenting proposals is a multifaceted sales activity.

Writing proposals is a process that starts early in the opportunity management process and leverages the outcomes of each of the sales activities. A four-step process shown in **Fig 6.9** is followed to create a powerful customer-centric proposal. Each of the steps will be described in more detail next.

Step 1: Determine Content

The best tool to collect your proposal content is the client interview form and, in particular, the request for proposal form. These forms help the salesperson to have customer-focused conversations with people in the customer's buying center.



Fig. 6.9
Four-step process for creating a powerful customer-centric proposal.

Step 2: Organize

To organize the content, use the Sales Call Preparation Support Worksheet, which will be discussed in detail in the next chapter. In general, for each one of the customer's stated requirements, you will identify which products or services you have that will be used to satisfy that need. In advance of presenting the proposal, consider the buyer's profile information and determine how to best present this information. Also at this time consider what negative reactions you may encounter while supporting this need and include in your proposal a demonstration of capabilities to make it easy for the customer to believe. Organize your proposal around three to five main components that are important to the customer. A fatal mistake for some salespeople is to discuss only what they do better than the competition and not, without talking about where they are the same or weaker. This will be discussed in more detail in the next chapter.

Step 3: Draft Proposal

There are many ways to write a proposal. One way is to organize the proposal components of a customer-centric proposal as shown in **Fig. 6.10.** This format is very common and has been proven to be effective.

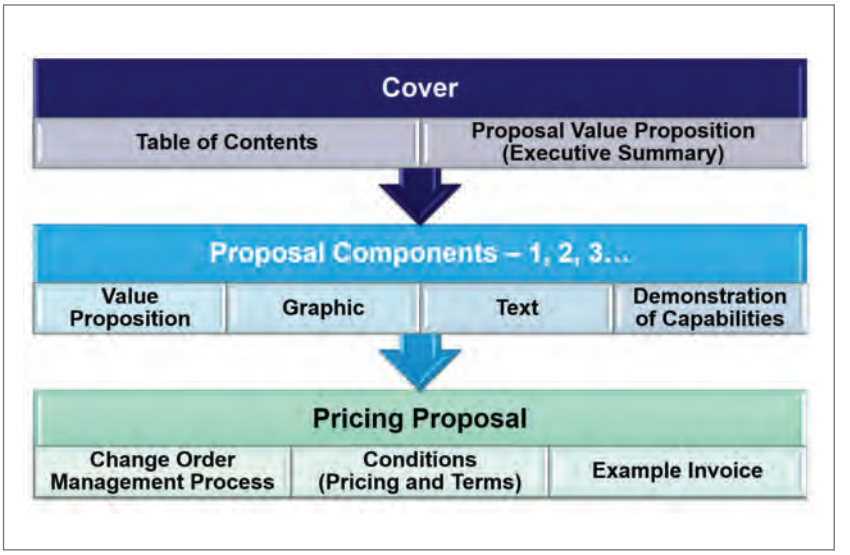


Fig. 6.10
Components of a customer-centric proposal.

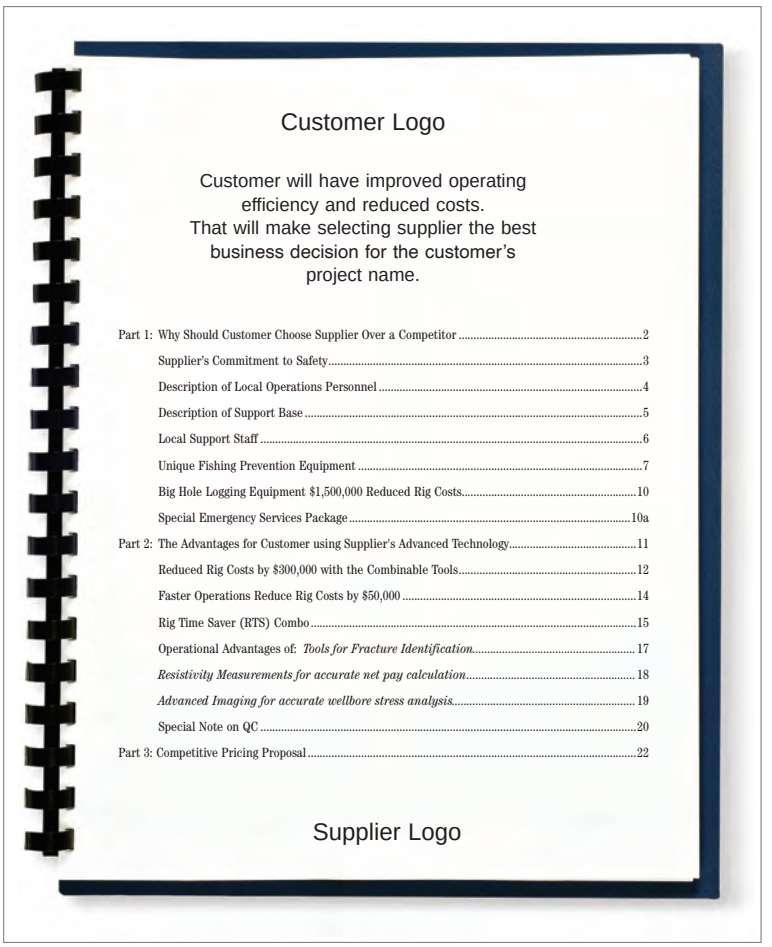


Fig. 6.11
Table of contents to facilitate proposal presentations.

Cover

Place the customer's logo on top of the pages and your company's logo on the bottom. Include a simple title, date, prepared for who, and prepared by. There should also be a back cover, again with the customer's logo on top and your logo on bottom. The covers add a professional look to your proposal.

Table of Contents

The table of contents is more than headers and page numbers. Not to minimize the importance of having a simple way to navigate the proposal, but the table of contents also adds a professional touch to the proposal. A clever way to write the table of contents is to indicate the proposal component name and the benefit. This is another way to emphasize the added value of your proposal. The table of contents is also a useful tool for your supporters to easily find the key points they will use to defend the selection of your company. Shown in **Fig. 6.11** is an example of an effective table of contents for a real proposal.

Proposal Value Proposition

This is an executive summary, meaning it is less than one page. The executive summary should be from the customer's perspective; start with the customer's name, restate the customer's objectives, and then define what it means to the customer when they choose your products or services. A customer-centric way to think about value for the customer is the value stairs, shown in **Fig. 6.12.** At the base of the stairs is the way salespeople think about their products and services—feature, benefit, and value. On the steps of the stairs is the way it should be explained to the customer in terms of what it is, does, and means for the customer both for their project and them personally, when applicable. This will be discussed in more detail in the supporting section in Chapter 7 "Sales Call Skills." **Fig. 6.13** is an example of a value proposition written using the structure of the value stairs.

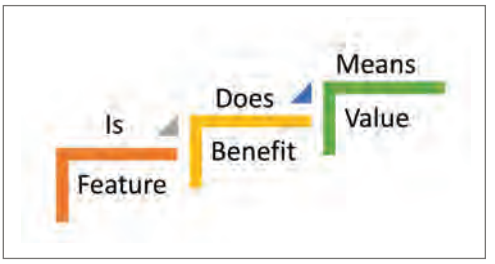


Fig. 6.12
The value stairs.

Proposal Components

There can be as few as one proposal components or as many as required. A good writing guide is to keep the proposal components linked to the customer's key needs and have no more than three to five components. There can be multiple elements to each component. The objective of writing your proposal this way is that it facilitates your conversation with the customer during the presentation.

It is important to remember that your objective is to convince the customer you have the best product or solution for their needs. As discussed in the communica-

tions chapter, the customer does not need to remember all the details, just that for the three to five proposal components they were convinced you had the best proposal for their needs. If they want the details that made up each proposal component, they can go back to the proposal.

In the table of contents section in Fig. 6.11, there are three proposal components. The first proposal component is presented as a question to the customer: "Why should customer choose supplier over a competitor?" The second proposal component is "The advantages for Customer using Supplier's Advanced Technology," and the third proposal component is "Competitive Pricing Proposal." These were the three proposal components for this opportunity that the salesperson wanted the customer to remember after the presentation of his proposal. As you can see in the table of contents in Fig. 6.11, there are many more details for each component. This level of detail was added to the component because for this client these were all important factors for customers in the buying center who were going to make the buying decision. If you follow these guidelines you will win the opportunity and stay out of sales jail. See the "Staying out of Sales Jail" sidebar for some good sales tips.

There are many excellent books on writing powerful proposals. One of the best books on the topic is called *Powerful Proposals: How to Give Your Business the Winning Edge.*[19] *Powerful Proposals* gives businesses proven strategies for creating customer-centered documents that outshine the competition. *Powerful Proposals* goes beyond "this is what we do" documents and takes the reader step by step through designing customer-focused proposals that highlight the firm's tangible benefits to the client. This book contains invaluable information on creating effective executive summaries, writing themes, and generating the text, plus how to maximize graphics, call-outs, and other visual elements.

Applying the advice from the authors of *Powerful Proposals* to the Star Oil proposal for which the executive summary was shown in Fig. 6.13, the proposal

▶ *Stay Out of Sales Jail*

There are three sales laws that, when followed, will lead to sales call success. For each sales law, there is a specific sales tactic that is selected when setting your sales call objective.

Sales Call Law No. 1

People prefer to buy from friends rather than strangers.

Sales call tactic: Retrieve information about the company and person.

Sales Call Law No. 2

Understand before you sell.

Sales call tactic: Retrieve information about the project and specifically what it is the customer needs to ensure that their project objectives are achieved.

Sales Call Law No. 3

Talk to the customer about three things.

Short version

What is important to the customer.

What is important to the customer.

What is important to the customer.

Expanded version

What is important to the customer and why you are better than the competition.

Sales call tactic: Prove value

What is important to the customer and why you are the same as the competition.

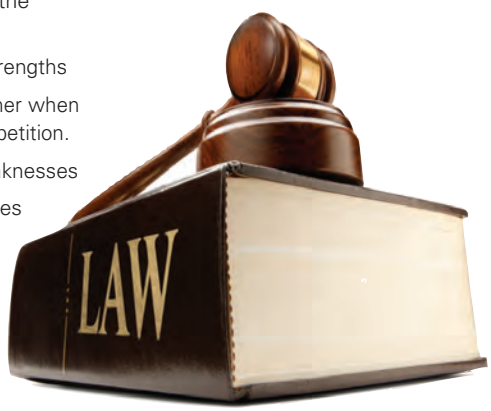
Sales call tactic: Emphasize strengths

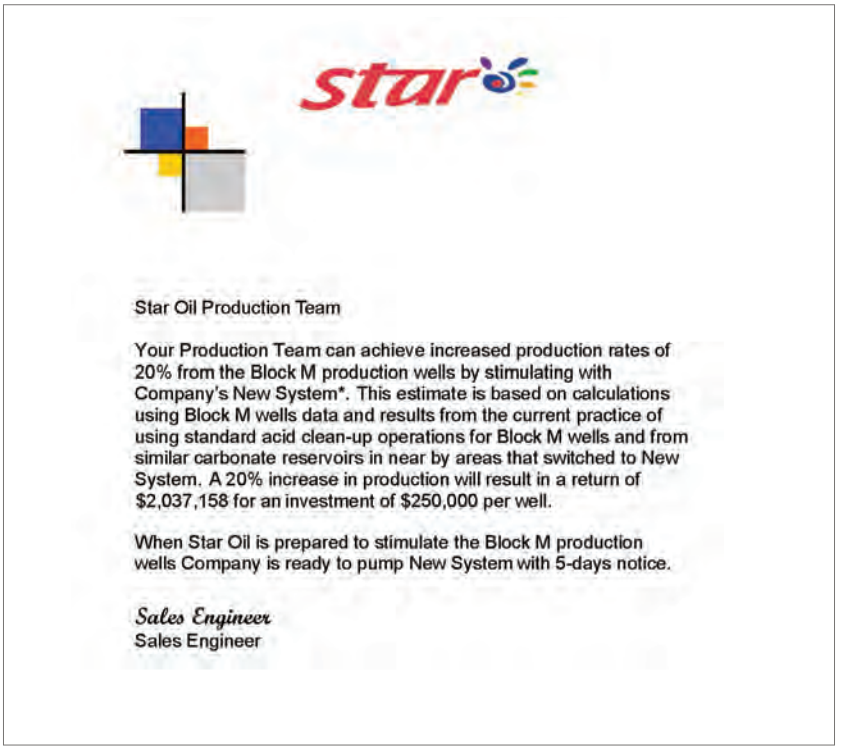
What is important to the customer when you are not better than the competition.

Sales call tactic: Minimize weaknesses

Ensure that every sales plan uses the above sales tactics for generally retrieving information in the early part of an opportunity. This is done by having conversations with people in the buying center using the project solution and request for proposal worksheets. The next tactics are to prove value, emphasize strengths, and minimize weaknesses.

By following a plan constructed in this way when it comes time for the customer or buying center members to select their supplier, you will be insulated from the competition. This is very important because in most B2B large sales, when the purchase decision is made, you will not be in that meeting with the customer.





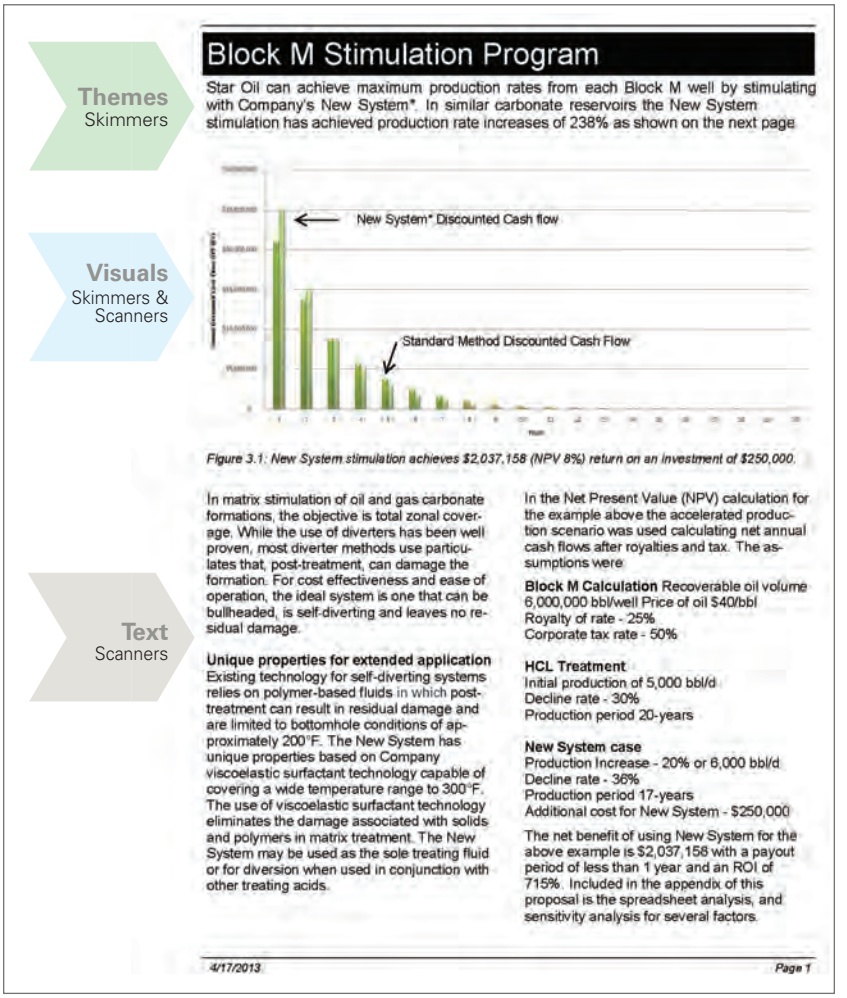
Star Oil Production Team

Your Production Team can achieve increased production rates of 20% from the Block M production wells by stimulating with Company's New System*. This estimate is based on calculations using Block M wells data and results from the current practice of using standard acid clean-up operations for Block M wells and from similar carbonate reservoirs in near by areas that switched to New System. A 20% increase in production will result in a return of $2,037,158 for an investment of $250,000 per well.

When Star Oil is prepared to stimulate the Block M production wells Company is ready to pump New System with 5-days notice.

Sales Engineer
Sales Engineer

Fig. 6.13
Executive summary written using value stairs model.



Block M Stimulation Program

Star Oil can achieve maximum production rates from each Block M well by stimulating with Company's New System*. In similar carbonate reservoirs the New System stimulation has achieved production rate increases of 238% as shown on the next page.

Figure 3.1: New System stimulation achieves $2,037,158 (NPV 8%) return on an investment of $250,000.

In matrix stimulation of oil and gas carbonate formations, the objective is total zonal coverage. While the use of diverters has been well proven, most diverter methods use particulates that, post-treatment, can damage the formation. For cost effectiveness and ease of operation, the ideal system is one that can be bullheaded, is self-diverting and leaves no residual damage.

Unique properties for extended application
Existing technology for self-diverting systems relies on polymer-based fluids in which post-treatment can result in residual damage and are limited to bottomhole conditions of approximately 200°F. The New System has unique properties based on Company viscoelastic surfactant technology capable of covering a wide temperature range to 300°F. The use of viscoelastic surfactant technology eliminates the damage associated with solids and polymers in matrix treatment. The New System may be used as the sole treating fluid or for diversion when used in conjunction with other treating acids.

In the Net Present Value (NPV) calculation for the example above the accelerated production scenario was used calculating net annual cash flows after royalties and tax. The assumptions were:

Block M Calculation Recoverable oil volume 6,000,000 bbl/well Price of oil $40/bbl
Royalty of rate - 25%
Corporate tax rate - 50%

HCL Treatment
Initial production of 5,000 bbl/d
Decline rate - 30%
Production period 20-years

New System case
Production Increase - 20% or 6,000 bbl/d
Decline rate - 36%
Production period 17-years
Additional cost for New System - $250,000

The net benefit of using New System for the above example is $2,037,158 with a payout period of less than 1 year and an ROI of 715%. Included in the appendix of this proposal is the spreadsheet analysis, and sensitivity analysis for several factors.

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Fig. 6.14
Proposal component page following layout recommended in *Powerful Proposals.*

component for the "Block M Stimulation Program" is shown in **Fig. 6.14.** As discussed in the communication chapter, each person has their own communication style as influenced by their technology adoption, social style, learning channels and the buying factors such as their role, objectives, and concerns. To ensure that each page of your proposal is effective and appeals to as many customers as possible, each page should have a theme, visuals, and text. This layout will satisfy the way most people review information for the first time, such as when you are presenting your proposal. As described in *Powerful Proposals*, some people are skimmers. Skimmers will flip through a magazine to find what is interesting. Having themes accommodates this type of customer. Some people are scanners. Scanners want to see the details, like when you scan a page into text. Having text accommodates this type of customer. Visuals appeal to both. A best practice when adding captions for figures in a proposal is include the "what it means to the customer".

The additional benefit of applying this writing style for responding to customers RFP's is it demonstrates compliance and responsiveness. As pointed out in *Powerful Proposals*, in the customer's first phase of evaluation, they are looking to eliminate non-compliant proposals. They do not want to waste their time evaluating proposals that are not compliant. This first review also affects their initial impression of how responsive the proposals are to their needs. Using themes that follow the customer's issues or requirements gives the proposal a more compliant appearance and the composition of the pages with themes, value propositions, visuals, and text make the proposal look responsive.

Another component of any page is white space. White space encourages and provides the customer with an area to make notes and add highlights as you present your proposal. It is a good practice when presenting your proposal to have a copy for yourself and each person you are talking to and encourage them to make notes on details specific for their purchase.

For smaller sales, when the salesperson is possibly qualifying and presenting a proposal in the same meeting, it is efficient to have a template with blanks for the customer to enter their specifics.

Step 4: Review and Rehearse

Review

The review at this stage is focused on proposal qualities. Before this review, the proposal must be edited, meaning the proposal has been checked for grammar and spelling and flow. The review of the proposal qualities include[20]:

- **Compliance.** There are two compliance considerations. Customer compliant: Is the proposal structured according to solicitation proposal instructions, evaluation factors, and other solicitation requirements such as licences, permits, and résumés? Company compliant: Has the proposal been reviewed as per your company requirements, such as signing authority, terms and conditions, operational commitments, and pricing.
- **Completeness.** For small sales, after the request for proposal interviews are completed, the salesperson (as described in Step 2: Organize) should use one or several supporting worksheets to identify which requirements will be discussed in the proposal. In larger sales, where the customer has provided a specific format and content of proposals, then in the review the reviewer should check if all the proposal sections are completed as per the customer's instruction.

- **Responsiveness.** Does the proposal respond to the factors identified during the client interviews? Are the customer's objectives and critical success factors as they stated in the proposal? Does your proposal express your understanding of the prospect's situation and strategic drivers? For each expressed want and need, have you minimized any gaps between your offer and the ideal solution? Does the proposal give the impression that the customer's business is important to the salesperson?
- **Appearance.** Does the proposal look good? Do the proposal components have the same style and color palette? Is the text consistent in terms of the message being communicated? Are the discussions logical and flowing? When required, are there examples to clarify how topics being discussed will work or be applied in the customer's environment?
- **Win Themes.** How well does your proposal express your culture, relationship capabilities, and technical offering as a natural fit for this prospect and their requirements? Do the three to five key proposal components resonate and create confidence in you as a provider? Does the proposal sell the company's proposed features/solutions by turning them into customer benefits and clearly explain what this means for the customer in their situation? Does your proposal differentiate your company from its competitors for considerations that are important to the customer? Differentiators are features that matter to your prospect and cannot be matched by your competitors. Differentiators can be unique products and services that your company has or unique capabilities to deliver the required products and services the customer requires. In tight situations, the winning margin often comes down to small advantages in differentiation.

In this stage, someone should complete the review who:

- Is not directly involved in the opportunity. There have been many studies done that prove we cannot proof our own work. See the sidebar "Get a Second Opinion."
- Understands the customer's perspective and will read the proposal like a customer. In small sales the proposal will normally be reviewed by one person. If a team of people will be evaluating the proposal, have two people review: one person as the evaluator and the other as the decision-maker.

The reviewer or reviewers will give feedback to the salesperson or sales team on the strong parts of the proposal and areas that could be improved. The list below includes some of the more common issues that can be fixed if caught in time:

- Failure to focus on your client's business problems.
- No persuasive structure: information dump.
- No clear differentiation from your competitors.
- No compelling value proposition.
- Buried key points: no impact, no highlighting.
- Too hard to read: overuse of jargon, abbreviations, too technical.
- Customer-to-seller's name ratio is less than recommended 3:1.

In larger more formal tender submissions, customers will insist that suppliers accept their terms and conditions and the opportunity can have complicated requirements. For these types of tenders, there will be a separate discussion in Chapter 10 "Competitive Bidding."

▶ *Get a Second Opinion*

You have finally finished writing your proposal. You've sweated over your choice of words and agonized about the best way to arrange them to effectively get your point across. You comb for errors, and by the time you publish you are absolutely certain it is perfect. But, the first thing your customer notices isn't your carefully crafted message, it's the confusing word choice in the executive summary. You want to slide off the chair and hide. Before you present your proposal, get a second opinion. A reviewer might see something you missed during proofing.

The reason these problems get through isn't because we're stupid or careless, it's because what we're doing is actually very smart, explained psychologist Tom Stafford, who studies at the University of Sheffield in the UK. "When you're writing, you're trying to convey meaning. It's a very high level task," he said.[21]

As with all high level tasks, your brain generalizes simple component parts (like turning letters into words and words into sentences) so it can focus on more complex tasks (like combining sentences into complex ideas). "We don't catch every detail, we're not like computers or NSA databases," said Stafford. "Rather, we take in sensory information and combine it with what we expect, and we extract meaning." When we're proofreading



our own work, we know the meaning we want to convey. Because we expect that meaning to be there, it's easier for us to miss when parts (or all) of it are absent. The reason we don't see our own mistakes is because what we see on the screen is competing with the version that exists in our heads.

This can be something as trivial as transposing the letters in "the" to "hte," or something as significant as omitting the core explanation of your article.

Generalization is the hallmark of all higher-level brain functions. We can become blind to details because our brain is operating on instinct. By the time you proofread your own work, your brain already knows the destination.

This explains why your readers are more likely to pick up on your errors. Even if you are using words and concepts that they are also familiar with, their brains are on this journey for the first time, so they are paying more attention to the details along the way and not anticipating the final destination.

When you're proofreading, you are trying to trick your brain into pretending that it's reading the thing for the first time. Stafford suggested that if you want to catch your own errors, you should try to make your work as unfamiliar as possible. Change the font or background color or print it out and edit by hand. "Once you've learned something in a particular way, it's hard to see the details without changing the visual form," he said.

Rehearse

There are two types of rehearsals:

- Presentations used when there will be a formal presentation of the proposal to the customer's team
- Role-plays used when the salesperson will reviewing the proposal with one or two people from the customer.

The salesperson should, whenever feasible, request to present their proposal in person and not simply send their proposal via e-mail or courier.

Professor Pentland of Living Labs at MIT conducted thousands of hours of studies examining how people communicate with one another. He published what he learned in an excellent book entitled *Honest Signals.*[22] One conclusion was there is an unconscious communication channel between people that reveals itself through nonverbal signals. Because these honest signals happen mostly at the unconscious level, they are very hard to fake. The signals are tied to your biology and are very difficult to suppress. In one of his studies that consisted of MBA students presenting their business plans for funding from venture capitalist, one group saw the presentations and another only received the printed proposals. The group seeing both the presentations and proposals choose a completely different set of proposals than the group only receiving the printed proposals.

One significant conclusion from Professor Pentland's study was the way you deliver your message has a direct impact on the perceived content of the message. The implication for salespeople is you are part of your company's value proposition and, when presenting your proposals, let your commitment, enthusiasm, and belief in what you are offering help convince the customer that your proposal is the best.

As being in front of your customer is so important when presenting your proposal, being your best requires rehearsing. You want to rehearse the delivery of your proposal in order to ensure all the mechanics of the delivery are smooth so you can focus on delivering the proposal with the biggest emotional impact.

For both the presentation and informal rehearsals, the salesperson briefs the person playing the customer on how they expect them to react to the proposal and possible negative reactions to the proposal. The person playing the customer gives feedback after the rehearsal. If possible, the presentation or role-play should be recorded. You cannot lose by doing a rehearsal for several reasons:

- If the actual delivery of the proposal goes as you described for the rehearsal, it is an indicator you have a good understanding of the customer.
- If the real presentation does not go as you described, it is an indicator you do not have a good understanding of the customer and it is much better to know this so you can improve on future proposals.

During the rehearsals, will discover your strengths, gaps in the proposal information, and how well the proposal flows while you and/or your team respond to customer questions and objections during the presentation. This type of feedback is invaluable and cannot be discovered by only having someone reviewing your proposal.

Going through the review and rehearsal steps gives you the insights to correct or improve your proposal before you take it to the customer. In the sales world, it is about the small things that can make a big difference. See the sidebar "I'm Not a Loser!"

There is a lot of work to be done after a proposal has been presented, as described in Chapter 4 "Opportunities Management," particularly in terms of the resolution of concerns, negotiations, and monitoring stages. All these actions keep you close to your customer, enabling you to react quickly to developments that may prevent you from winning the deal. The final sales stage after the results are known is closed won or closed lost. Now the salesperson will start follow-up activities.

Follow-Up

Follow-up activities, as described in the opportunity management chapter, consist of actions taken during the later stages of:

- Outcome analysis
- Implementation
- Project review

The actions listed in the opportunities management chapter were for closed won opportunities. These actions ensure that, by following up, the salesperson and their team communicate that the customer's business is important, deliver on the promises, strengthen the relationship, build trust, and use this time to develop more business with the account.

▶ ***I'm Not a Loser!***

In my sales training seminars, I start off the seminar by first showing this flip chart to stress the point that in sales it's not okay to simply do a better proposal than your last proposal. It must be the best proposal for the customer. If it is not the best, it does not mean you are better or good: it means you are a loser. Some people, especially when they enter sales from a technical position, have come from a job where it is okay not to be the best provided you are trying to get better—and even if you are not trying to get better, as long as you are doing a good job that is acceptable.

In sales, good is not good enough. In sales, the salesperson must realize that your competitors' salespeople are talking with your customers every day and are trying to beat you—to make you a loser.



The second part of my introduction is to show the names of the people in the graphic and ask what these people do—are they politicians, golfers on the European tour, scientists, swimmers, or soldiers?

Very few people get the answer correct, but they do know Michael Phelps, the greatest swimmer of all time and the most decorated Olympian of all time. The names of the people on the list are swimmers Phelps beat. They all came in second. The biggest margin of victory in those victories was 0.025 seconds! In fact, in the 2008 Beijing Olympics, Phelps beat Cavic by .01 seconds to win his seventh gold medal and tie Mark Spitz's record.

The point is, in sales there is no silver or bronze medal. If you are not the best, you are a loser. Phelps was the best, but that never stopped him from relentlessly training and trying to improve. He was not looking for big improvements; he just wanted to be the best he could be.

In sales, when you think you have a great proposal ready to go, jump back in the pool and review and rehearse your proposal and then do one more lap. Getting just a little bit better might bring you the gold!



In this section, four additional key areas will be discussed:

- Handling problems or customer dissatisfaction
- Initiating a difficult message
- Handling successes
- Outcome analysis customer debrief

Once the customer starts to purchase your products or services or enters into the implementation stage of the project, it is critical for the salesperson to be sensitive to how the project is going from the customer's perspective. This was described in Chapter 1 "Understanding the Role of Marketing and Sales" as selling by looking through the customer's window and not looking in a mirror. Once in the closed won sales stage, some projects will go as planned or even better; these make for great references. Some do not go as planned and can result in significant problems; these make for great references depending on how the problem is handled.

Handling problems and successes are key follow-up activities, and both are built around the key concepts of total quality management (TQM) and 6 Sigma and solid communication skills. The important factors are gather the facts, analyze, act, and report. The continuous improvement process applies for both problems and successes.

Handling Problems and Customer Dissatisfaction[23]

When a customer raises a problem you were not prepared for or expecting:

- Encourage feedback from the customer, ask questions to understand, ask permission to take notes on key points, and mark points for clarification.
- Let the customer talk first and ask clarifying and confirming questions after the customer has finished. Try to develop a clear understanding of how the problem has impacted the customer, project, and company, if appropriate. When possible, ask for specifics about how this problem has affected them specifically, the project objectives, and the company.

- Be polite and sympathetic; show empathy with your words, body, and language, and lean toward the customer.
- Check with the customer for what they recommend for the next steps.
- Take ownership of trying to resolve the problems and communicate internally to the people who need to be involved from your company to deal with this issue.
- At this point it may be appropriate to take this information back to your office or discuss it with another person. If so, give the customer a time you will return to them with an update.
- Deal with complaints as quickly as possible and be available or arrange to have the best person available to discuss the problem with the customer in person, if feasible.
- Keep the customer aware of your progress and establish remedies for the problem.
- Address the underlying causes of the problems.
- Document the actions to be taken both to remedy the problem and to ensure that the problem will not happen in the future.
- Check for the customer's satisfaction.
- Thank the customer for taking the time to share and cooperate with you on this issue.

After Meetings—Relating to Handling Problems and Customer Dissatisfaction

- Follow up with a summary of the meeting that is suitable for distribution to the customer and internally and distribute it as soon as possible. Attach all correspondence to the company CRM system linked to the opportunity.
- Do not avoid the customer.
- Work to retain the relationship by making contact as soon as possible after the problem has been addressed. This contact is best if in person but can also be via e-mail, telephone, or social event. As required, fulfill expected servicing contacts.
- If appropriate, have your manager or other executive follow up with the customer management to acknowledge the situation and restate the importance of the customer's relationship.
- Be prepared to brief any other external customers who have contact with the customer.
- When the issue has been resolved, ask the customer for correspondence stating that the problem has been handled to their satisfaction. If the customer states they cannot, ask why. If the reason is due to unresolved issues, apply the problem-handling steps to resolve the open issues. If the customer states they do not want to for other reasons, ask if they can be a reference if other customers want to validate that the problem has been resolved.

Even though having a customer express their dissatisfaction is not pleasant, you want to ensure that you:

- Don't become defensive. When listening to the customer, listen, clarify, and confirm your understanding. In most cases, take the time to go back to your office and review the information with the other team members and determine what can be done.



- Don't pass the responsibility or cause of the problem to others. Use the skill of triangulation as discussed in the communications chapter.
- Don't make excuses. However, identify all contributing factors in your analysis and recommended actions.
- Don't accept abusive behavior or language from the customer. Tell them this is not constructive behavior and ask them to stop and continue on a more productive manner. If they do not stop, politely stop the meeting, tell the customer you will contact them later in the hopes that you can continue a more useful dialogue, and report the situation to your management.

If the customer does not accept your recommendation or solution, then handle it as a difference of opinion as discussed in Chapter 5 "Communication Skills." Be polite. Agree to disagree. Thank the customer for their time.

Initiating a Difficult Message

Sometimes you have to initiate a difficult message. This can be for such reasons as the project start-up has been delayed due to equipment or crews arriving late, equipment failure, or overdue invoices not being paid. When these types of situations happen, you need to take steps to inform the customer and correct the situation. In cases like these, before you engage with the customer, break the conversation into three parts: before, during, and after.

Before the Meeting

- Prepare. Be sure you have researched facts and options.
- Review the communication skills summary card.[24] The communication skills of constructive criticism will be used and, if needed, the skills of handling a difference of opinion and triangulation.
- Prepare the message considering the customer's social style. Review the "Managing Tensions" section in Chapter 3.
- Put yourself in the position of the customer. Identify the consequences, both positive and negative, to the customer whenever possible.

During the Meeting

- Open the meeting. Take time for pleasantries, rapport building, checking for how much time they can spend with you, and if there is anything they wanted to discuss while you're there. Then state the purpose of the meeting by positioning the message clearly, providing a rationale and a positive outcome. Be concise and carefully choose language not to incite. Do not state what you want the customer to do. That will be stated at the end of the discussion.
- Describe your preparation for this meeting and any efforts you have made on the customer's behalf.
- Avoid being defensive. Do not shift blame to the customer or someone in your organization. Use the skill of triangulation. Refer to the issue as "it."
- Explain the situation in a neutral tone.
- Explain your company's position and the reason why. Ensure that you stay committed and your support for your organization's position and express empathy for the customer's position.
- If the customer disagrees, then probe to understand why they have taken this position. If this is the situation, use the skill of handling a difference of opinion. Be prepared to offer and ask for alternatives or options to identify an alternative acceptable solution.

- If no alternatives or viable alternatives are identified, ask the customer to brainstorm, if appropriate.
- If a solution is agreed to, summarize the next steps.
- If no solution is agreed to, state your respect for the customer's position by acknowledging it and the and reasons why, as stated by the customer. Then state you and your company's position and the reasons why as well as the next steps.
- Reconfirm and express empathy again for the customer's position.
- Ask the customer for their support and explain that you value the relationship.
- Ask if there is anything you can do for them to help close this issue, such as contacting any of their colleagues or management.
- Thank them for taking the time to discuss this issue.

After the Meeting

- Follow up with a summary of the meeting that is suitable for distribution to the customer and internally and distribute it as soon as possible. Attach to the company CRM system linked to the opportunity.
- Do not avoid the customer.
- Work to retain the relationship by making contact as soon as possible. This contact is best if in person but can also be via e-mail, telephone, or social event.
- If appropriate have your manager or other executive follow up with the customer's management to acknowledge the situation and the, restate the importance of the customer's relationship.
- Be prepared to brief any other external customers who have contact with the customer.
- The next opportunity you have to discuss the same situation, ensure that you use the skill of crediting as discussed in Chapter 5 to demonstrate your appreciation for their efforts and the benefits resulting from this.

Handling Successes

Handling successes is a very important aspect of continuous improvement. Companies wanting to achieve their best performance make analyzing failures and successes equally important. In a recent performance study, it was concluded that soldiers who discussed both successes and failures learned at a higher rate than soldiers who only discussed failures.[25] In another more recent research, it was shown that in fact neurons retain successes better than failures.[26] This has significant implications for salespeople and helps us understand the results in a separate study, which concluded that customers who experienced problems and successes remembered the successes better (detail and recall one month later) than the failures. However, what the salesperson needs to ensure is that, when you have a success or you and your team beat expectations, don't just brag about it. You have to take the same TQM and 6 Sigma approaches as when handling a problem and apply it to the success to ensure that you can make it happen again. If you do not take the time to demonstrate to the customer that you understand why the success happened, then the customer may just think you got lucky. See the **Chapter Highlight 6.4: "How Did You Know?"**

Chapter Highlight 6.4: "How Did You Know?"

In a sales training session on the Nile River in Cairo, the instructor's recommendation was to report successes and failures and you will have a more satisfied client.

The instructor had just described a study where, in the first control group, when the parent came home, the other parent only told about all the good things their son had done. In another group, the returning parent was only told all the bad things their son had done. In the third group, the returning parent was told both the good and bad things their son had done. The impressions of each group were as follows:

- First group: the other parent was hiding something
- Second group: their kid was a problem
- Third group: we have a pretty good kid

The instructor stated the conclusion: Report both successes and failures and the customer will be left with the impression that you are a good supplier. At that time, Ahmed (one of the students) raised his hand and said that he understood what the instructor was suggesting, but it just does not work like that in Egypt. The instructor was puzzled and suggested, jokingly, that maybe it was the pyramids that had an effect. After a few chuckles, the instructor asked Ahmed to explain.

Ahmed explained his company had, one month earlier, set a world record for running their tool for thirteen years non-stop, with no failures. So he had sent a flyer to his customers announcing the success. Then, just last week, the same type of tool failed after just two weeks. The operations team collected the equipment and other operating information and sent the machine back to the factory in Singapore for analysis and inspection. And after all that, Ahmed delivered a two inch binder full of analyses, findings, and recommendations to eliminate this type of failure. The instructor acknowledged Ahmed's information and asked, "And what is your point?"



Ahmed paused and said, "I was just notified over break that we lost. So you see, it just doesn't work that way here." The instructor then said, "Okay, let me confirm. You had a success and you sent a flyer." Ahmed said, "Yes." The instructor then stated, "Then you had a failure and took the equipment back, did the analyses and tests in Singapore, and gave the customer a two inch report." To add effect, the instructor picked up the seminar training textbook, which was almost two inches thick and quite heavy, and let the textbook drop and slam onto the desk. "And you gave that to the customer." Ahmed said, "Yes." The instructor said the customer stated, "You got lucky." Ahmed was startled and said, "How did you know?"

The instructor said "The flier is bragging. Why did you not send that equipment that set the world record back to the factory and gather all the operating statistics possible and make a similar report like the failure, identifying what were the critical success factors and recommendations to achieve a similar performance as the equipment had run for thirteen years? Had you done that, the customer would be excited about the prospect of having more of that level of performance."

The instructor then shared another incident from his experience in Indonesia. His operations team held monthly service quality review meetings with the customer. Normally, the topics of discussion were a review of the previous month's operations and what was coming up in the next thirty to sixty days and report on any failures and successes following the TQM process. In this particular meeting, and after reviewing the expected activity, the operations manager reviewed a failure, the outcome of the root-cause analysis, and recommendations to ensure that the failure would not happen again. Then in the same month of operations, there was a significant success where a new service was run successfully, saving the customer significant costs. This was of particular interest because in earlier attempts the new service was not successful. The operations manager went through the same type of review for the success and presented the root-cause analysis and recommendations to ensure that this type of performance could be counted on in the future. After the service

Chapter Highlight 6.4: "How Did You Know" (cont.)

quality review meeting over lunch, the only topic of discussion was how soon the new service could be introduced across the customer's operations. The instructor said, "While I was at lunch after the meeting, I was thinking if we had not discussed the success, most likely the customer's staff would have had reasons why they could not attend lunch."

The instructor than asked, "Who has heard of Babe Ruth?" Ahmed again put up his hand and said "He was the homerun king in the US in the 1920s." The instructor was impressed he had the era correct. "Yes, and did you know he was also the strike-out king of all time? Not many people remember that." The instructor then said to the class, "People remember the successes... if you tell them."



Ahmed said, nodding his head, "I get your point. I wish I had taken this training a year ago."

Customer Recognizes Success

When the customer recognizes a success, you:

- Encourage feedback from the customer, ask questions to understand, ask permission to take notes on key points, and mark points for clarification.
- Let the customer talk first and ask clarifying and confirming questions after the customer has finished. Try to understand how this impacts the customer and project- and company-level objectives and value drivers. When possible, ask for specifics of how this success has specifically affected them, the project objectives, and the company.
- Be excited about the success, show enthusiasm with your words, body, and language, and lean towards the customer.
- Check with the customer for what they recommend for next steps.
- Take ownership to ensure that an analysis of the success is done and document the success to understand the contributing factors and communicate this information internally to the people who need to be involved in your company to agree on the actions.
- At this point it may be appropriate to take this information back to your office or discuss it with another person; if so, give the customer a time you will return to them with an update.
- Deal with success as quickly as possible and be available or arrange to have the best person available to discuss the success with the customer in person, if feasible.
- Keep the customer aware of your progress as you discuss and establish next steps.
- Document the actions to be taken and capture the best practice that resulted in the success.
- Address any underlying issues associated with the success that could be improved.
- Check for the customer's satisfaction.
- Thank the customer for taking the time to share and cooperate with you on this issue.

Chapter Highlight 6.5: Perfect!



Plato is credited for saying "beauty is in the eye of the beholder." Like beauty, success is subjective for the person looking at the performance. What you may consider standard or expected could make the customer ecstatic. Here is an excellent example from a quarterly service quality review meeting.

The operations manager had just presented a list of eight changes his crews had made, resulting in small efficiency improvements. When the eight items were looked at individually, none of the items alone would be significant; however, when added together, the eight items resulted in the customer being able to open an additional outlet in the same year. Rather than opening ten outlets as per the original plan, the customer was now able to open eleven in the same timeframe. The customer's reaction was, "That's perfect. This is just what we need." The customer's delight was due to the fact that he had become very concerned that his company was not going to be able make the objective of ten outlets and now, with the efficiency improvements, he was confident eleven was achievable. He would have some very good news to report to his management.

What the customer did not know was that this list the operations manager presented at the service quality review meeting did not exist just two days earlier. What happened during the preparation for the meeting? The salesperson for the account went to the location and asked the operations staff to share some of their successes since the project started. The room was silent. The salesperson's response was, "People, I know you are doing good things. There have not been any issues on this project. Tell me what improvements, big or small, have you made since you started." The salesperson asked the room to split into two groups and brainstorm a list of improvements they had made and an estimated benefit to the client as a result.



After twenty minutes, the groups had come up with fifteen items that they then grouped into six categories. They discussed the list, eliminating several of the items, leaving eight items that had quantifiable efficiency gains and when added together were something the salesperson was excited to share with the customer. However, one project manager asked, "Why are we reporting this? This is what they pay us to do." The salesperson's reply was, "You're correct—this is what they pay us to do, but it is not what they pay us for." The project manager was now looking confused and asked, "What do you mean?" The salesperson said, "Our customer pays us for the products and services they require to build these outlets. There are a lot of companies that can provide this for them."

"However, not every supplier is going to do what you have done. You are thinking about the customer's objectives and trying to eliminate waste and improve efficiencies. The customer knows what they pay for, but not necessarily what they can do better because of our efforts. It is up to us to ensure that they know about our efforts that result in them being more successful. If we do not, and for the next project, the customer chooses a cheaper supplier for their products and services and they can only open ten or fewer outlets rather than eleven, they made a bad decision. And as far as I'm concerned, that would be our fault for not letting them know what we do for them. It is like knowing you have a supplier that is watching out for you. Not all suppliers will do that."

This is a powerful example with two take-aways. First, you have to look for successes. Imagine a small child sitting in the back of a car going through the forest and seeing deer playing along the road. The child gets excited and asked her father, "Daddy, Daddy, do you see the deer?" The father, who is concentrating on driving the car, says, "No Sweety, I don't". To which the child answers, "Daddy, you have to be looking to see them." The same is true for successes: You have to make it a follow-up activity to be looking for successes.

Chapter Highlight 6.5: Perfect! (cont.)

Second, don't discount the small successes. As Robert Collier, a famous American, stated, "Success is the sum of small efforts—repeated day in and day out." A good way to find successes is to ask: Are there actions that your company has taken to enable the customer to:

- Improve operational efficiencies.
- Reduce risks and uncertainties.
- Make faster decisions.
- Reduce overall project costs.
- Earn a better return on investment.
- Increase more sales.
- Improve profitability.
- Improve logistics.
- Have access to limited resources or experts.
- Addressing customers-stated concerns and expectations.
- Achieving or beating stated objectives.
- Achieving customer objectives consistently.

The improvements in any of the above could be due to better supplier performance; new products or services; innovative processes; continuous improvement; better understanding of the customer's business goals and objectives; organization and processes; and transfers in staffing, with expertise in a given domain. Understanding what your company's contribution was to the better performance and knowing how to capture and report this to the customer are key actions in the follow-up activities for salespeople.

- As appropriate, ask the customer for a reference and release to use the reference with other customers as a demonstration of capabilities. Have an example or draft of what you would like the customer to provide.
- Follow up with a thank you note or small gift of appreciation, as appropriate, for sharing the success. Ensure that you use the skill of crediting, as discussed in Chapter 5 "Communications Skills."

Salesperson Recognizes Success

Before you initiate a discussion to confirm a success, you must first clearly define the success. This should be done as part of the process when discussing the customer's objectives, critical success factors, concerns, and expectations. These factors are captured during the qualification and sales call activities. In addition to these factors, once a project or sales is initiated, the customer may decide to purchase new products or services. For these sell-up sales, it is always important to understand what the customer will define as success as a result of buying new or additional products and services. There are also other scenarios that can be considered success; see **Chapter Highlight 6.5: Perfect!** for some other ideas for success. When you believe an event deserves being highlighted as a success, bring it to the customer's attention. In cases like these, before you engage with the customer, break the conversation into three parts: before, during, and after.

Before the Meeting

- Prepare. Be sure you have researched the facts and have completed the root-cause analysis for the success with the operations team and you have made an estimate to quantify the impact of the success.
- Prepare the report. Document the success and understand the contributing factors. Consider the customer's social style and the type of information they will need to validate the success.
- Determine what the best practice procedure will be to replicate the success again.
- Address any underlying issues associated with the success that could be improved.

During the Meeting

- Open the meeting. Take time for pleasantries, rapport building, checking for how much time they can spend with you, and if there is anything they wanted to discuss. Then state the purpose of the meeting by positioning the message clearly, providing a rationale and a positive outcome.
- Describe your preparation for this meeting and any efforts you have made on the customer's behalf.
- Let your enthusiasm show with your words, body, and language, leaning toward the customer.
- Review your report with the customer. Check often to ensure that the customer is in agreement.
- Check with the customer for what they recommend for the next steps.
- Take ownership to ensure that any follow-up activities are done and the people who need to be involved in your company agree on the actions.
- At this point it may be appropriate to take this information back to your office or discuss it with another person; if so, give the customer a time you will return to them with an update.
- As appropriate, ask the customer for a reference and release to use the reference with other customers as a demonstration of capabilities. Have an example or draft of what you would like the customer to provide.

After the Meeting

- Follow up with a summary of the meeting that is suitable for distribution to the customer and internally, and distribute it as soon as possible. Attach to the company CRM system linked to the opportunity.
- If appropriate, have your manager or other executive follow up with the customer management to acknowledge the success and then restate the importance of the customer's relationship and the opportunities to work collaboratively as in this success.
- Be prepared to brief any other external customers who have contact with the customer.
- Followup with a thank you note or small gift of appreciation, as appropriate, for sharing the success. Ensure that you use the skill of crediting as discussed in the communications chapter.

All the activities discussed up to this point in this chapter highlight two points:

- Focus on the customer after the sale.
- Employ excellent communication skills.

Without the focus on the customer and the ability to handle difficult conversations with the customer and to capture successes in a productive fashion, the salesperson's attention can all too often turn to the next sale. It is the follow-up activities that make for stronger relationships with the customer and provide the sales collateral to help make it easy for future customers to believe in your company's ability to deliver on your promises. The next follow-up activity is the outcome analysis customer debrief.

Outcome Analysis Customer Debrief

As described in Chapter 4 "Opportunities Management," the last stage of the procurement stage is outcome analysis. The outcome analysis customer debrief is done for all opportunities closed won, lost, and withdrawn. The outcome analysis customer debrief needs to be done as close to the customer decision and, if possible, with a minimum of two people in the buying center—ideally, the person who evaluated the proposals and the decision maker or other influential person in the buying center. The guidelines below are for each opportunity outcome won, lost, and withdrawn.

Closed Won Opportunity

- Express your excitement in winning their business and thank them for the award or order.
- Explain that the purpose of the interview is to learn as much as possible about the customer's perceptions and experience during the recent sales process so your organization can continually improve.
- Discuss confidentiality. State that you want to communicate feedback throughout your organization; if the customer/prospect feels there are certain aspects that are too sensitive, they should be identified during the conversation.

Feedback Regarding Your Proposal

Ask simple open questions regarding your proposal:

- Why did they make the award to you?
- What did they like best about your proposal?
- What could have been improved?
- Was there anything additional they would have liked to include?
- Do they have any recommendations for the next opportunity?
- Now that they have made the award, do they have any concerns or expectations?

Product- and Service-Specific Feedback

Ask more specific questions, if not answered previously by the customer:

- Overall, what do they think of your products or services?
- How well did your product capabilities meet their expectations?
- How would they characterize the completeness of your portfolio?
- Who were you competing against?
- How did you stack up against the competition?
- What did the customer view as your strengths and weaknesses?
- What did the customer view as your competitors' strengths and weaknesses?

Marketing

- What marketing messages resonated during the buying process?
- What marketing tools were most effective?
- Are there marketing tools that they would recommend be made available (web, social media, etc.)?

Sales Effort

- Did you focus and identify all their needs?
- How well did you explain your solution for their environment?
- Were all their questions or concerns addressed in the proposal?
- Is there anyone else they would like to talk with now?

Decision-Making

- Who was involved in the decision-making process?
- What was the primary driver in their decision?
- What were the contributing factors?
- Was there a model?
- What did they evaluate as the costs of your offer?
- Did they contact your references? If so, were they helpful?

About the Company

- What was the customer's perception of your organization before entering the buying cycle?
- Did their perception change?
- If so, how did it change?
- Were they aware of the company's roadmap and future product and service strategies?
- Did the company's future direction factor into their decision?

Open Feedback

- Does the customer have any additional comments or suggestions?
- Do they know of anyone else who has similar types of projects or needs they recommend you contact and could they give you an introduction?

After the Debrief

- Send a thank you note to the customer for taking the time to debrief with you.
- Have your manager or executive send a thank you note or make a telephone call to their executive thanking them for the opportunity and stating that your company is looking forward to working with them.
- Summarize in writing the notes from the interview and distribute them to appropriate internal personnel.
- Conduct a debriefing meeting internally and list any action items that came out of the meeting.

Some of the information above should have been discussed during the qualification and sales call activities, such feedback regarding your products and services and the decision-making process. However, that was before the customer had offers from the competition. It is good to compare the feedback you had before and after as this will indicate if there were any misunderstandings and how good of a job the competition did selling against you.

Closed Lost Opportunity

- Express your disappointment in not winning their business and how you really believed what you had submitted a winning proposal.
- Explain that the purpose of the interview is to learn as much as possible about the customer's or prospect's perceptions and experience during the recent sales process so your organization can continually improve.
- Discuss confidentiality. State that you want to communicate feedback throughout your organization; if the customer/prospect feels there are certain aspects that are too sensitive, they should be identified during the conversation.

Feedback Regarding Your Proposal

Ask simple open questions regarding your proposal:

- What did they like best about your proposal?
- What could have been improved?
- Was there anything they would have like to include?
- Any recommendations for the next opportunity?
- Now that they have made the award, do they have any concerns or expectations?

Product- and Service-Specific Feedback

Ask more specific questions if not answered previously by the customer:

- Overall, what do they think of your products or services?
- How well did your product capabilities meet their expectations?
- How would they characterize the completeness of your portfolio?
- What did the customer/prospect view as your strengths and weaknesses?
- What did the customer/prospect view as your competitors' strengths and weaknesses?

Marketing

- What marketing messages resonated during the buying process?
- What marketing tools were most effective?
- Are there marketing tools that they would recommend be made available (web, social media, etc.)?

Sales Effort

- Did the you focus and identify all their needs?
- How well did you explain your solution in their environment?
- Were all their questions answered?
- Is there anyone else they would like to talk with now?

Decision-Making

- What was the primary driver in their decision?
- What were the contributing factors?

About the Company

- What was the customer's perception of your organization before entering the buying cycle?
- Did their perception change?
- If so, how did it change?
- Are they aware of the company's roadmap and future product and service strategies?

Open Feedback

- Does the customer have any additional comments or suggestions?
- When will they next be making a purchase? Would it be ok for you to contact them for that opportunity?
- A best practice is to agree with the customer that you will contact them in three to six months unless they need to contact you before that. This can be via e-mail, telephone, social media, or in person.
- Do they know of anyone else who has similar types of projects or needs they recommend and could they give you an introduction?

After the Debrief

- Send a thank you note to the customer for taking the time to debrief with you.
- Ensure that they are on your contact list for future marketing campaigns.
- Summarize in writing the notes from the interview and distribute them to appropriate internal personnel.
- Conduct an internal debriefing meeting internally and list any action items that came out of the meeting.
- Have your manager or executive send a thank you note or telephone call to their executive thanking them for their team's time and disappointment in not winning their business. Let the customer executive know the sales team will do an review of the feedback from their team and your company is looking forward to having an opportunity to work with them in the future.

Closed Withdrawn Opportunity

Express your disappointment regarding the opportunity being canceled. If the opportunity was canceled after submitting your proposal and the customer evaluated it, follow the same debriefing as for a closed lost opportunity. Ask for more details to understand why the project was canceled and if there is a possibility the project or purchase could be done at a later date. If the customer did evaluate, ask them who would have won the opportunity.

If the opportunity was withdrawn before you submitted your proposal, you should still debrief the customer on the following topics, as appropriate.

- Explain that the purpose of the interview is to learn as much as possible about the customer's or prospect's perceptions and experience during the recent sales process so your organization can continually improve.

Feedback Regarding the Future Submission of a Proposal

Ask simple open questions regarding what they want to see in future proposals:

- What do they look for in a proposal?
- What are common aspects of proposals they think can be improved?
- Do they have any recommendations for the next opportunity?
- What are their concerns or expectations when evaluating proposals?

Product- and Service- Specific Feedback

Ask more specific questions if not answered previously by the customer:

- Overall, what do they think of your products or services?
- How well did your product capabilities meet their expectations?
- How would they characterize the completeness of your portfolio?
- What did the customer/prospect view as your strengths and weaknesses?
- What did the customer/prospect view as your competitors' strengths and weaknesses?

Marketing

- What marketing messages resonated during the buying process?
- What marketing tools were most effective?
- Are there marketing tools that they would recommend be made available (web, social media, etc.)?

Sales Effort

- Did the you focus and identify all their needs?
- How well did you explain your solution in their environment?
- Was there anyone else they would like to talk with now?

Decision-Making

- What was the primary driver in their decision for canceling the project?
- What were the contributing factors?

About the Company

- What was the customer's/prospect's perception of your organization before entering the buying cycle?
- Did the perception change?
- If so, how did it change?
- Did future directions factor into your decision?
- Were you aware of the company's roadmap and future product and service strategies?

Open Feedback

- Does the customer have any additional comments or suggestions?

After the Debrief

- Do they know of anyone else who has similar types of project or needs they recommend and could they give you an introduction?
- When is the next time they will be purchasing and would be okay for you to contact them for that opportunity?
- Send a thank you note to the customer/prospect for taking the time to debrief with you.
- Ensure that they are on your contact list for future marketing campaigns.
- Summarize in writing the notes from the interview and distribute them to appropriate internal personnel.
- Conduct the debriefing meeting and list any action items that came out of the meeting.
- Have your manager or executive send a thank you note to their executive thanking them for their time and expressing disappointment that the opportunity was canceled. Also state that your company is looking forward to having an opportunity to work with them in the future.

This concludes the discussion on the sales activities. All the activities are scalable and should be adopted to fit the sales environment of the salesperson. The sales activities need to be adjusted to fit the salesperson's assignments. For example, a salesperson who has been assigned a new territory will need to dedicate more of their time to prospecting initially and, as they secure more business, their time will be divided more evenly among all the sales activities. A salesperson who is assigned one or two accounts or a large account with ongoing business will do less prospecting and spend more time building relationships and conducting sales meetings, proposals, and follow-up.

Conversations and meetings with customers are a reality of the sales profession. All the sales activities require that the salesperson have conversations and meetings with the customers. This contact can be in person, via telephone, or via e-mail. It is essential that the salesperson be very good at having successful conversations and meetings with their customers. The skills for successful sales-related conversations and meetings are called sales call skills and are based on the needs-satisfaction process discussed earlier in this chapter. The next chapter will discuss in detail the sales call skills and tools for having successful sales-related conversations and meetings.

Summary of Chapter Objectives

1. Make relationship building a specific and continuous process.

Relationship building is about making a positive impact on the level of trustworthiness between you and your customers and prospects. The more trustworthy you are, the easier it is be successful with your clients and make your sales objectives. There are many possible opportunities for a salesperson to build trust with their customers. Different situations can be used to strengthen or improve the customer's perceptions of your credibility, believe what you say, build reliability, have confidence in your ability to deliver on specifics and results especially for promises made during the pursuit of an opportunity, create intimate and comfortable feelings with you, and orient your customer so they know that you have considered their best interests and objectives before you try selling to them.

2. Understand the key sales activities to manage a sales pipeline.

To maximize the value of a pipeline, the salesperson must pro actively manage the pipeline. The active management of a pipeline starts first with new opportunities being continuously added to ensure that there is a continuous revenue stream, with new sales replacing opportunities that are closed. Leads that have been qualified become either confirmed leads or closed withdrawn. A confirmed lead passes the qualification questions in the opportunity assessment for **"Is there an opportunity?"** and it is confirmed that the customer will make a purchase of the products and services you provide. A closed withdrawn lead is something that does not pass the assessment questions and will not result in the customer spending money to purchase the products and services from your company. In the opportunity management process, the qualification activities occur during the identification of the compelling event. The main tool for holding the customer qualification conversation is the Customer Project Solution Worksheet.

Once an opportunity is in the confirmed lead sales stage, the salesperson uses sales meeting activities to learn more about the customer's needs from different people in the buying center by completing the assessment questions for "Can We Compete" (do you have a technically acceptable offering), "Can We Win" (do you have enough people in the buying center who want you to win) and **"Is it worth winning?"** (financial and strategic questions). At this point, the salesperson will select their competitive sales strategy and ask the fifth question of the opportunity assessment: What are they and the sales team going to do next? At this time, the salesperson will have their strategy reviewed and set the sales stage to closed withdrawn if the assessment questions indicate there is no real opportunity. In the sales opportunity-disengage stage, the sales team is not going to pursue the opportunity and will let the competition win the opportunity for a number of reasons. The sales opportunity-attack stage includes four competitive sales strategies of frontal, flanking, defend, or fragment. The competitive sales strategy selected will guide the salesperson on what they will do going forward to win this opportunity. The other option the salesperson can choose for the sales stage is sales opportunity-develop. In this sales stage, the opportunity will not be closed in a calendar year, but the sales team will stay engaged with the customer to better improve their chances of winning the opportunity in the future. The opportunity management process stage evaluation provides a significant level of detail and the tools used during confirmed lead and sales opportunity stages. Later in the textbook, there is a dedicated chapter focusing on deciding and creating a strategic sales plan built to execute a competitive sales strategy. The strategic sales plan review process is also described at the end of that chapter.

The next key sales stage is bid/proposal, which is when the salesperson will present their proposals; in larger more formal opportunities following a customer's tendering process, the bid/proposal sales stage is set once the RFP is received. The key sales activity in this stage is present proposals. A proposal is not a quote. A proposal is a sales document that is a tool for both the salesperson and supporters inside the customer's buying center. The opportunity management process is a very important resource for the salesperson during this stage. Later in the textbook for formal tendering processes, there are three chapters dedicated to these activities: bid evaluation, pricing, and negotiations.

Once the outcome is known and the winner is announced, the sales stage is set to closed won, closed lost, or closed withdrawn.

3. Choose which components of prospecting to include in your prospecting plan.

Many people have a negative perception of prospecting, mostly due to using prospecting incorrectly. By understanding the purpose of prospecting and how to create a buying environment for your customers, prospecting becomes rewarding by creating opportunities to talk to many new potential customers. Prospecting involves finding the customers in your

target markets or accounts that can benefit from your products and services. The objective of prospecting is to have the customer agree to talk to you about their business. Too many salespeople try to take shortcuts and try to sell while prospecting, which is not effective. An effective prospecting plan has a variety of components used together to keep a continuous source of leads flowing into your pipeline. The prospecting components are: corporate marketing communications Plan (MCP), research, current accounts, referrals, references, networking, conferences, cold calling, e-mail marketing, and tracking. Prospecting should include each of these components, with the amount of time and frequency allocated to each dependent on the salesperson's area of responsibility territory versus account assignments and the level of brand recognition the salesperson's company has in their marketplace and their position compared to their competitors.

4. Apply a structured approach for building proposals.

The proposal is a tool to convince the customer you have the best option for them. The creation of the proposal starts with the early research completed as part of the prospecting stage and the information collected during the sales meetings earlier in the sales activities. This information is then classified as to the important points that must be discussed in the proposal, organized into three to five proposal components, each with a well-defined and written value proposition that explains to the customer what you will provide as part of your proposal, what the features and benefits do for the customer, and what this means for the customer for their specific application. Many people from the buying center can use your proposal to make their decision. To ensure that your proposal appeals to as many people as possible, the proposal must be written with pages consisting of themes (headings and value propositions), visuals (graphics), and text (details). The opportunity management process procurement stages identify all the critical customer milestones that a proposal must go through before being selected.

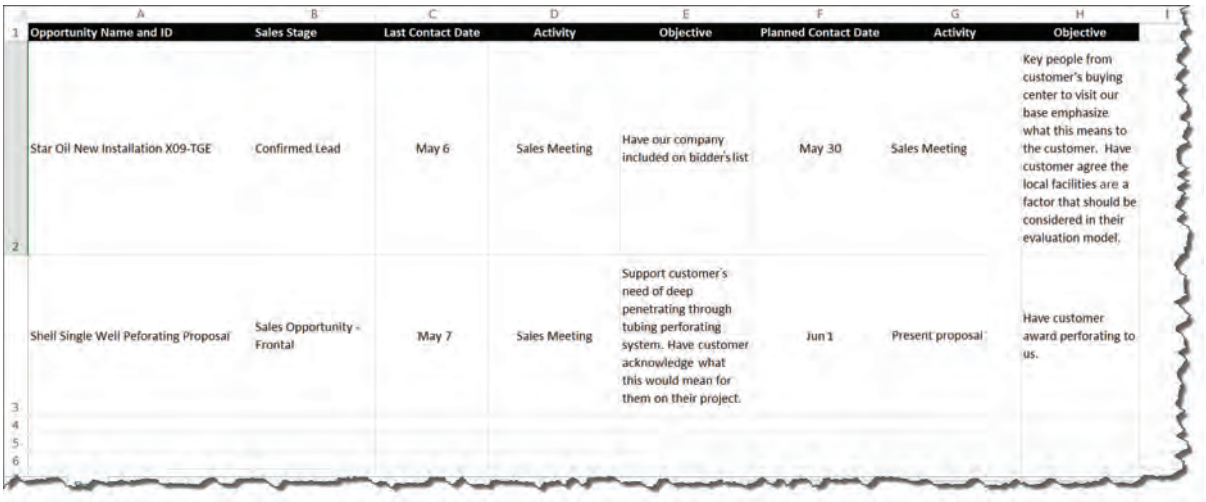
5. Know how to manage key follow-up activities.

For each of the outcomes there are specific follow-up activities that need to be done, including debriefing with the customer tailored for each outcome and the other activities as described in the opportunity management process. In addition, there are three activities the salesperson must be very good at to be successful at managing the follow-up activities: handling customer problems or dissatisfaction, initiating a difficult message, and handling successes. The salesperson's ability to handle these different customer scenarios will have a direct impact on the customer's perception of how well and what level of service they received from their supplier. The opportunity management process stages included in the follow-up activities are outcome analysis, implementation, and project review. Each of these stages has several additional activities the sales team should complete as part of the follow-up activities.

Most of the activities a salesperson will spend their time on involves sales-related conversations with the customer following a consultative selling approach using the need satisfaction process. The consultative selling approach is made up of all the factors discussed and recommended in the textbook up to this point, and the approach will continue to be followed for the remaining sections, with added emphasis during the bidding and negotiations. The needs-satisfaction process at the heart of the consultative selling approach includes the most critical selling skills: sales call skills and handling customer negative reactions. These skills will be presented in detail in the next two chapters.

Applying the Concepts

1. List your top five opportunities you are working on now down the left side of an Excel worksheet, as shown below. Identify the sales stage for each opportunity, your last contact date and objective (what you wanted the customer to agree to at the end of the meeting), and when your next contact is planned for and the objective of the meeting. The purpose of this exercise is to have you think about your activities and apply the terminology used in the chapter. This is also a very basic pipeline.



Opportunity Name and ID	Sales Stage	Last Contact Date	Activity	Objective	Planned Contact Date	Activity	Objective
Star Oil New Installation X09-TGE	Confirmed Lead	May 6	Sales Meeting	Have our company included on bidder's list	May 30	Sales Meeting	Key people from customer's buying center to visit our base emphasize what this means to the customer. Have customer agree the local facilities are a factor that should be considered in their evaluation model.
Shell Single Well Peforating Proposal	Sales Opportunity - Frontal	May 7	Sales Meeting	Support customer's need of deep penetrating through tubing perforating system. Have customer acknowledge what this would mean for them on their project.	Jun 1	Present proposal	Have customer award perforating to us.

2. From the list of prospecting components below, how many of these are you doing now and, if you are not doing them now, what could you do for this component? Refer back to the prospecting section of this chapter for a description of each.
   - Corporate Marketing Communications Plan (MCP)
   - Research
   - Current Accounts
   - Referrals
   - References
   - Networking
   - Conferences
   - Cold Calling
   - E-mail Marketing
   - Tracking

3. From the customers you know, pick which customer would rate you highest (on a scale of 1 to 10, where 1 is low or bad and 10 is high or excellent) for credibility, reliability, and intimacy. What did you do to deserve that rating? Considering self-orientation, where 1 is great and 10 is very bad (you only think of yourself), which customer would give you the best self-orientation rating and why? Once this is done, think of your customer base again and which customers would rate you the lowest on each factor and why. An example is shown on the next page. Can you think of some things you can do to improve the relationship with the people in your worst list? Of the trust factors overall, which do you think is your strongest and weakest? Can you think of how you can leverage your strengths and address your weaknesses?

Factor	Best	Rating	Why
Credibility	Thomas	7	Co-authored SPE paper.
Reliability	Sarojini	8	Last project everything went like clockwork.
Intimacy	Michelle	7	Have played squash a lot and have gone to dinner with spouses.
Self-orientation	Yingtai	3	Let Yingtai present the paper at SPE even though I did most of the work.

Factor	Worst	Rating	Why
Credibility	Ben	3	Could not deliver on promise made on new technolgy on last project.
Reliability	Artur	3	Missed our last two planning sessions for community football team.
Intimacy	Ahmed	3	New engineer for custom drilling team arrived 6 months ago and we have not met.
Self-orientation	Gulgzel	8	Current project:she believes I was not clear about charges for equipment ordered but not used.

4. Following the format for a proposal component page, as shown in Fig. 6.13, think about an upcoming proposal you will present and make a rough draft of your page. Include a theme (heading), a value proposition under the heading, a graphic with the caption stating what this means for the customer, and what would be in your text for a more detailed explanation.

5. Follow-up activities: Make a list showing your last follow-up activity. Now knowing what you know about how to complete the activity, would you have done anything differently? What would you add to the list of actions based on your personal best practice?

Activity	What would you do differently?	Add–based on your best practice
A. Outcome Analysis Customer Debrief		
B. Handling Problems or Dissatisfaction		
C. Initiating a Difficult Message		
D. Handling Success Customer Recognized		
E. Handling Success Salesperson Recognized		



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SECTION 2

CONSULTATIVE SELLING SKILLS

This section has two chapters: "Sales Call Skills" and "Handling Customer Objections." Building on the concepts introduced in the earlier chapters, this section describes in detail how to have a consultative selling conversation with your clients.

The consultative selling process follows the total quality management process. All parts of the consultative selling process are covered and the tools available for you to use for planning, execution, reviewing, and coaching. When you follow the steps described in this section, you will be better prepared and organized for your sales calls and will gain much more from each sales call. Your customer will also find the visit valuable and a good use of their time. Too many salespeople will schedule visits with their clients without sufficient planning or review. The salesperson who masters these skills will become one of the differentiating factors why your customers will choose your company.

The sales call tools described in the chapters are available to you from the www.b2bprofessionalsales.com website.



Sales Call Skills



Applying the Basics

"Success is neither magical nor mysterious. Success is the natural consequence of consistently applying the basic fundamentals."[1]

In the previous chapter, it was shown that sales activities are what a salesperson does to manage their day-to-day responsibilities. Many times this requires having a sales conversation with their customers and prospects. In B2B sales, the most effective approach is consultative selling following the need-satisfaction process. Some people challenge the need for such a structured approach and argue that should be more relaxed and ad hoc less work. The reason for the structure is justified by the results. Successful professional salespeople strive to win in a competitive environment. They take luck out of the success equation by following a methodical and repeatable process and making conscious decisions of how to win their customer's business. As captured in the Jim Rohn quote above, success is the natural consequence of consistently applying the basic fundamentals. The consistency of effectively applying the need satisfaction process is achieved with basic sales call skills the topic of this chapter.

Chapter Objectives

After reading this chapter, you will be able to:

- Understand the structure of the sales call.
- Understand and use the sales call skills.
- Apply the total quality management (TQM) process to the sales call process and complete the preparation and analysis steps before and after each sales call.

The Need-Satisfaction Process

The sales call is the application of the need-satisfaction process, as shown in **Fig. 7.1**. The goal of the need-satisfaction process is to make mutually beneficial decisions for both the customer and the salesperson. Not all sales calls will go through all the steps of the need-satisfaction process and, depending on the type of sale, not all the steps have the same level of importance. See **Chapter Highlight 7.1: Fit for Purpose: I Will Take One of These, These, and These.**

Each part of the need-satisfaction process is briefly described below, and later in the chapter each part will be explained in detail.

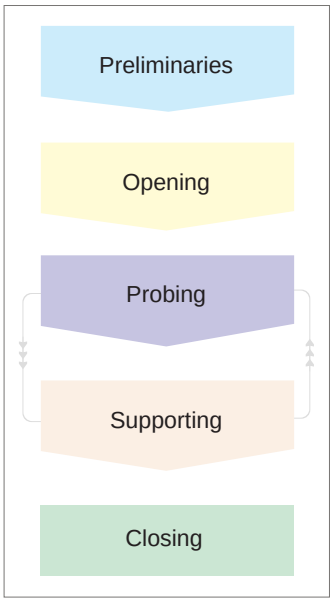


Fig. 7.1
The need satisfaction process is a five-stage process that the salesperson follows when conducting sales calls during the sales activities. The goal of the need-satisfaction process is to make mutually beneficial decisions for the customer and salesperson.



Fig. 7.2
The sales call TQM process: planning, execution, and analysis.

Preliminaries: Sales call will begin with preliminaries to start the conversation and build rapport with the customer.

Opening: An opening to start the business discussion of the meeting.

Probing: Asking questions to discover needs of the customer.

Supporting: After the salesperson understands the customer's needs, then they support explaining how their products and services will address the customer's needs.

Closing: The salesperson concludes the meeting, and customer agrees on the action items.

Preparing for the Sales Call

Sales calls are not ad hoc events. Successful sales calls apply the total quality management (TQM) processes of planning, execution, and analysis to ensure that the sales call is effective and efficient, as shown in **Fig. 7.2**. For each part of the TQM process, there are specific tools the salesperson will use to assist them to prepare, execute, and review.

For each sales call, there is a minimum amount of planning prior to the meeting, and analysis and action items that follow the meeting. For each sales call, there should be the following:

- CRM database information check regarding the account, opportunity, and name of the contact(s) with whom you will be meeting in the sales call
- Purpose, objective, and back-up objective
- Prepared opening statement, probing strategy, and support documents
- Post-call analysis of the execution of the sales call: processes, outcome, and action items

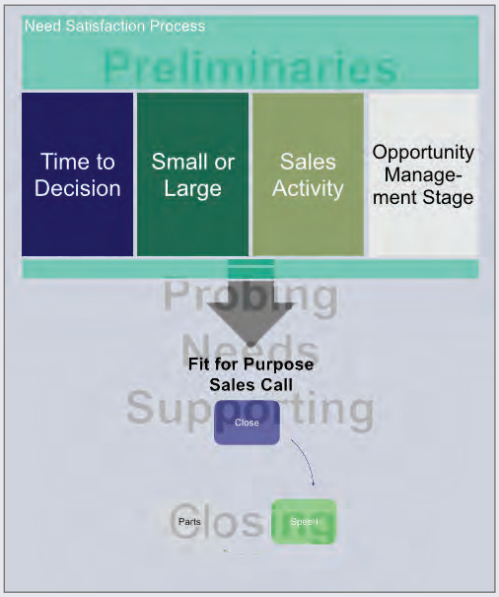
Customer Relationship Management (CRM) Database Information Check

Pre-call preparation starts by reviewing your company's CRM database. From the account corporate profile, you will find the required background account information regarding corporate goals, objectives, and strategies. This information helps you to know what the specific business drivers are for the opportunity you are trying to win. You will also need the organizational and buying center analysis, which provides insights into how to deal with the contact(s) you will meet in the sales call. If you have not previously met the person(s), it is a good idea to query your company's CRM database to see who entered or last made a change to the contact record and also check who entered the most recent opportunity in the CRM database for this account. You can then contact that colleague for information about the contact(s) you will be meeting.

The first tool a salesperson will use when preparing for a sales call is the sales call preparation worksheet. The complete worksheet is included in the appendix of this chapter and available for download from the textbook website. The basic information for the sales call is entered into the buying center profile section of the sales call worksheet and then aligning strategies based on the customers profile can be prepared and entered into the aligning strategies sections of the worksheet.

An example of completed worksheet sections are shown in **Fig. 7.3.** Once the entire worksheet is completed, it becomes a valuable tool for debriefing other

Chapter Highlight 7.1: Fit for Purpose: I Will Take One of These, These, and These



The consultative selling approach used in combination with the need-satisfaction process allows the salesperson to customize a sales call for a specific purpose.

Neil Rackham in 1988 completed a landmark study and published his results in a book entitled *SPIN Selling*.[2] His conclusions shocked many professionals in the sales profession; however, his study spanned ten years and Rackham and his associates observed more than 35,000 B2B sales meetings, identifying the difference between successful salespeople and less successful salespeople. A significant observation was the relative importance of the steps in the need-satisfaction process for large and small sales. From a customer perspective, the factors that drive what is considered large or small sales are:

- **Length of the sales cycle.** The bigger dollar value of the sales, the longer the sales cycle. This can be due to the approval process.
- **The risk of mistakes.** Generally having to get it right will cause the customer to treat a purchase like a big sale. They will want to take their time so as to not make a poor decision.
- **Number of people involved.** Sometimes a small sale will have only one person you will need to talk to. They can have all the responsibility to make the decision. This is not uncommon for repurchases. Larger sales can have people not only from one company, but also include partners and government organizations. Buying center roles may be committees of people rather than one individual.
- **Size of the customer commitment.** This is normally measured in dollars, but can also be defined by contract period and people commitment. The bigger the commitment, the better off you are to treat the sale as a large sale.

What Rackham discovered was the larger the sale, the more important the step of probing has impacting sales success. The smaller the sale, the more important the closing was. This shocked many people since, up to the time of *SPIN selling* the widely accepted belief was that for sales success the salesperson should always be closing or "ABC"—an acronym made famous by the movie *Glengarry Ross* when Alec Baldwin, who plays the sales motivator, informs a group of under-performing salespeople, "you must ABC!" What Rackham proved was ABC was true for small sales, but not for large, more complex sales.

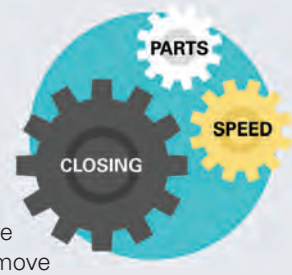
In B2B sales, you can have both small and large sales. A common situation is to win a large opportunity and once you are in the implementation stage, there can be many smaller opportunities.

By considering the factors relevant to the sales call, the salesperson can create a fit-for-purpose sales call. This is done by choosing only the parts of the need-satisfaction process to meet the purpose of their specific sales call, at what speed they will cover all the steps of the need-satisfaction process, and what will be included in their closing. As shown in the figure above, the factors that influence the design of the sales call are as follows:

- **Time to Decision.** When will the customer make the award or choose their supplier
- **Small or Large.** Length of sales cycle, risk of mistakes, number of people involved, and size of commitment
- **Sales Activity.** Is the salesperson prospecting, qualifying, conducting a sales meeting, presenting proposals, or following-up
- **Opportunity Management Stage.** Account profile, identification of the compelling event, evaluation of options, submission of proposal, resolution of concerns, negotiations, monitoring, outcome analysis, implementation, or project review

Chapter Highlight 7.1: Fit for Purpose: I Will Take One of These, These, and These (cont.)

How the number of parts, speed, and closing are designed is explained below.



Parts

Preliminaries: Every sales call will begin with preliminaries to start the conversation and build rapport with the customer. The time spent on preliminaries varies depending on many factors, including culture.

Opening: Start the business discussion of the meeting. Every sales call will have an opening. Then, depending on the factors shown above, the salesperson may move to probing or supporting.

Probing: Asking questions and listening to discover needs of the customer. In smaller sales, the salesperson normally will go through each one of the need-satisfaction process steps in one meeting. Alternatively, they can collect the customer requirements and return with a proposal, at which time they would then support. Larger sales following the opportunities management process will have several sales meetings where the salesperson will only probe to discover needs for each of the people in the buying center. After this and selecting their competitive sales strategy, they will then have sales calls to support without the need to probe.

Supporting: Matching customer needs to your product and services. As stated above, small sales normally go through all the stages. In some B2B sales, the collection of customer requirements (probing) can be done by one group, such as online ordering, and then another group or salesperson will support and close. In larger sales as mentioned above, the supporting only happens after the sales team has met with all the buying center members and understands their needs, their competitive sales strategy is selected considering the competition's strategy. In large sales, not every sales call will have supporting. In fact, a problem for some salespeople is supporting too soon. This will be discussed in more detail in the supporting section.

Closing: Asking for the customer's commitment. Every sales call will have a closing.

Speed

The timing for how fast each part of the need-satisfaction process is covered is dependent on if the sale is large or small and the time left before the customer makes a purchase decision. In small B2B sales, the entire need-satisfaction process can be done in one sales call. The sales call could be carried out via the telephone, email, or web or in the customer's office. Large B2B sales can take from months to years, with the formal closing asking for the award happening as part of the customer's RFP process. If a customer needs to make a decision fast, the entire need-satisfaction process can be accelerated, even in a large sale. For example, the customer has a crisis and needs to fix the problem as soon as possible. In this situation, the salesperson could go to the customer's office and find all the buying center members in the meeting room and then be asked to wait outside while they make a decision. The speed for which a sales cycle is completed is largely controlled by the customer's buying processes. For example, do they negotiate after an offer has been made? Do they have partners or reviewing departments? All these issues were discussed in Chapter 4 "Opportunities Management."

Closing

In the closing, the salesperson concludes the meeting and agrees on the action items to be addressed after the meeting. Depending on the factors shown in the figure above, the closing can range from checking to see if the customer needs anything else to asking for the customer's commitment to award the work to the salesperson. In small sales, the closing is asking for the customer to buy your products or services. In larger sales, most closings are actions that will lead to the customer or buying center being convinced your offer is the best once they review your proposal and notify you of their decision.

Each one of the factors in the chapter highlight will be discussed in detail later in the chapter. The purpose of the highlight is to emphasize that not every step of the need-satisfaction process will be used in every sales call, but every successful sales outcome will have included each step of the need-satisfaction process. The sales call must be tailored to fit the purpose of the sales call.

Sales Call Preparation Worksheet

Date: 10/3 **Account:** BOC **Opportunity:** Exploration Program – wireline

Stage: Evaluation of options – early **Competitive Strategy:** Flanking – Alter

Reviewed Account Corporate Profile? ☑ Yes ☐ No Project part of BOC objective to improve reserves in region.

BUYING CENTER PROFILE

Contact	Position	Role	Social Style	Technology Adoption
B. Brown	Drilling Mgr	Decision-maker	Driver/Analytical	Conservative

CRM Database up-to-date and complete? ☑ Yes ☐ No Need to check social media for additional insights.

ALIGNING STRATEGIES

	Driver	Expressive	Amiable	Analytical
Preliminaries: Quick reference to Bruins, as he is a Bruins hockey fan.				
Likes	Control	Social	Supportive	Detailed
Opening Aligning Strategy: Proven techniques for his consideration.				
Measures personal value by	Power Results	Applause Support	Approval Attention	Respect Activity
Probing Aligning Strategy: Start with customer lead probing to get his view.				
Needs environment	Responds	Inspires to their goals	Suggests	Provides details
Supporting Aligning Strategy: References.				
Support their	Conclusions and actions	Dreams and intuitions	Relationships	Principles
Closing Aligning Strategy: If meeting goes well ask for his recommendation for next steps or ask for support.				
For decisions give them	Options and probabilities	Testimony incentives	Guarantees and assurances	Evidence and service
Take time to be	Efficient	Stimulating	Agreeable	Accurate

Fig. 7.3
Sales call preparation worksheet buying center profile and aligning sections.

people who join you on the sales call and to keep a record of sales calls made for a specific opportunity.

Setting the Sales Call Objective

Each sales call will have a specific purpose, tactics, and objective. The purpose is what you as the salesperson want to achieve on the sales call. As a result of your purpose, you will execute one or more sales call tactics to achieve the objective of the sales call. The objective is what you want the customer to agree to at the end of the sales call. The relationship between purpose, tactic, and objectives is shown in **Fig. 7.4.**

For example, when the sales activity is "Present Proposal," the opportunity management stage is "Resolution of Concerns" and the competitive sales strategy is "Frontal Solution." The purpose of the sales call could be to secure the opportunity, but in this scenario, your solution is not the cheapest. In this case, your sales call tactic would have to be "Prove Value" to justify the premium price. The objective would be to have the customer acknowledge the value and issue a purchase order for your products or services.



Fig. 7.4
Purpose, Tactic, and Objective.

One of your key decisions in the opportunities management process is to select the appropriate competitive sales strategy as discussed in Chapter 4 "Opportunities Management" and then decide which tactics to use. Common tactics for the sales call are shown in the sidebar "What is Your Purpose? Are You Tactful?" The execution of a successful opportunity plan includes all these tactics. **Chapter Highlight 7.2** shows some common purposes, tactics, and objectives for each of the sales activities and opportunities management stages.

For each sales call, there must be a purpose and clear objective as well as backup objective. Your backup objective is a lesser next-step commitment. This is your fall-back position if you don't accomplish your primary objective when the customer is reluctant to commit to your primary objective.

The process used to select your specific sales call objectives begins with making a list of all the specific actions the customer could take as a result of you successfully executing your sales call tactic. Then rank the list in order from the most feasible and desirable to the least feasible and desirable. Next, select the best action as your primary objective and your second highest ranked action as your backup objective. The feasibility factor is a function of the following:

- Contact's social profile
- Buying center role
- Procurement process being followed by the account for the opportunity
- Phase of the opportunity management process

An example of a completed objectives section is shown in **Fig. 7.5** and the actions section is shown in **Fig. 7.6**. With the objectives set, the next step in the sales call

▶ ***What is Your Purpose? Are You Tactful?***

Every sales call has a purpose and objective. The purpose is described by the sales tactic and supports your sales call objectives.

Over the complete sales cycle, all the PRIME^3 sales tactics should be completed, starting first with Retrieve Information. If the salesperson has proved value, minimized weaknesses, and emphasized strengths, then they are insulated against the competition.

Being insulated against the competition is very important in the late



stages of an opportunity. The reason is when the customer makes the final decision in large sales, the salesperson will not be in the office of the customer in most cases. Therefore, it is essential that the customer be able to recall the reasons why he or she should choose you over the competition. If so, then you are insulated against the competition.

During the procurement stages, it is a good practice to visit the customer and review your proposal to reinforce (support) why your proposal is the best option for them.

Chapter Highlight 7.2: Sales Call Purpose, Tactics, and Objectives

Sales Activity	Opportunity Mgmt. Process	Purpose	Tactic	Objective
Prospecting	Account Profile	Understand what drives the account.	Retrieve information.	Customer agrees to meeting to determine needs.
Qualification	Identification of Compelling Event	Fully qualify the compelling event and determine if the project is worth winning. Determine buying center participants.	Retrieve information.	Customer to agree to accept proposal. Customer to agree to introduce key buying center members.
	Evaluation of Options			
Sales Meetings	Early Stages	Contact buying center members to determine decision criteria and evaluation model; determine can we win, can we compete.	Retrieve information.	Customer agrees to contact references to validate features and benefits.
	Middle Stage	Formulate strategy that maximizes perceived fit Select competitive strategy.	Prove value. Emphasize strengths. Minimize weaknesses.	Gain customer's agreement on value of features and benefits of solution.
	Late Stage	Demonstrate advantages of solution to buying center members. Apply relationship strategies.	Prove value. Emphasize strengths. Minimize weaknesses. Insulate against competition.	Confirm all needs have been addressed and no other questions or issues to be discussed.
	Procurement Phase			
Present Proposals	Submit Proposal	Submit organized proposal with clear value proposition statement and required information for each of the main buying center participants.	Prove value. Emphasize strengths. Minimize weaknesses. Insulate against competition.	Review proposal; answer any questions or concerns.
	Resolution of Concerns	Seek out risk and consequences that the buying center has and work to resolve them.	Prove value. Emphasize strengths. Minimize weaknesses. Insulate against competition.	Customer to confirm all questions and concerns have been addressed.
	Negotiations	Agree on final terms and conditions. Win-win agreement. Strengthen the relationship.	Emphasize strengths. Minimize weaknesses.	Customer to agree to terms and conditions of negotiated agreement.
	Monitor	Be prepared for late procurement phase tactics by competitor, customer and your attack strategies if required.	Emphasize strengths. Minimize weaknesses. Insulate against competition.	No further questions or concerns.
Follow Up	Outcome Analysis	Understand final decision and lessons learned.	Retrieve information.	Customer award to you.
	Implementation	Deliver on promises made. Strengthen the relationship.	Prove value. Emphasize strengths. Minimize weaknesses. Insulate against competition.	Confirm customer satisfaction with products and services. Customer to provide referrals and references as appropriate. Confirm customer satisfaction with handling problems and successes.
	Performance Review	Capture lessons learned and best practices. Reinitiate selling process.	Retrieve information. Prove value. Emphasize strengths. Minimize weaknesses.	Confirm product and services delivered, as promised. Confirm future needs of customer.

Sales Call Preparation Worksheet

Actions the *customer* should undertake to achieve the sales call tactics:	D Desirable	F Feasible	R Ranking
Agree to value as calculated and support decision to use BHA; support running demo job.	**High** Med Low	**High** Med Low	1
Agree to verify claims with internal groups.	High **Med** Low	**High** Med Low	2
Agree to verify claims with references.	High **Med** Low	High **Med** Low	4
Agree to review calculations used; contact later to verify.	High Med **Low**	**High** Med Low	5
Agree to BHA logging string but not to other benefits.	High Med **Low**	**High** Med Low	6
Agree to mobilization plans but not to BHA benefits.	High Med **Low**	High **Med** Low	9
Agree to pass information with one of their reports and set up contact.	High Med **Low**	**High** Med Low	8
Actions *you* could undertake to achieve the sales call tactics:			
Make presentation to drilling group on rig reduction ideas and mobilization plan.	**High** Med Low	**High** Med Low	3
Arrange shop tour and meeting with proposed rig personnel.	**High** Med Low	High Med **Low**	10
Meet with any suggested contacts.	High **Med** Low	**High** Med Low	7
	High Med Low	High Med Low	
	High Med Low	High Med Low	
	High Med Low	High Med Low	

ACTIONS

Fig. 7.6
Example of a completed sales call worksheet actions section. The two top-ranked actions are selected as the main objective and backup objective for the sales call. However, depending on how the sales call progresses, the sales representative may ask for one of the lower-ranked objectives.

Sales Call Tactic(s):
- ☑ Prove value
- ☐ Retrieve information
- ☐ Insulate against competition
- ☐ Minimize weaknesses
- ☑ Emphasize strengths

Sales Call Primary Objective: 1. Get agreement on rig time savings for Big Hole Logging service. 2. Check for acceptance of emergency package and mobilization plan.

Backup Objective: Have Brown contact reference to confirm value. Agree to follow-up meeting.

OBJECTIVES

Fig. 7.5
Example of a completed sales call objectives section.

▶ *SMART Objectives*

There is no argument when it comes to making your objectives SMART. If you Google SMART objectives, you will find lots of variations to choose from. A proven SMART test is below:

- **S**pecific actions to be taken.
- **M**easurable outcome that demonstrates the objective has been achieved.
- **A**ccountable. Someone is responsible to complete the objective.
- **R**ealistic. It is good to have stretch objectives but only if they can be realistically achieved.
- **T**ime bound. The objective has to be completed by a specific date.

If your objectives pass the SMART test, you won't look stupid.

planning process is to prepare your preliminaries and opening statements for the sales call. Both of these steps could be conducted over the telephone or via e-mail to schedule a sales call visit with the customer. Good objectives are well defined and very specific. Once you have your objectives set, ensure that they pass the SMART test as described the sidebar "SMART Objectives."

Preliminaries

This is the initial part of the discussion between you and the customer. The goal of the preliminaries is to reduce the tension levels to a level appropriate for the business discussion, as discussed in Chapter 5 "Communication Skills." The length and style of this phase of the conversation depends on relevant cultural norms and expectations. It will also be dependent on the individual customer's personality, as described by the person's social profile. Amiable and Expressive customers will engage in the preliminaries longer than Drivers and Analyticals. Most customers will give you a clear sign, either verbally or by using body language, when they want to begin the business discussion. Be alert for these signals.

Greeting

The greeting is very important as it sets the tone of the meeting. If this is the first contact with the customer it will also make your first impression, which of course you want to be positive. The greeting communicates a lot more than hello. It is also how the greeting is sent with body language, tone, and words.

When greeting the customer in person, arrive early and be dressed appropriately for the visit. When welcoming the customer, stand up straight, use their full name and thank them for taking time to visit with you. The last part of the greeting is the business card exchange.

▶ ***Preliminaries***

Goal

The goal of the preliminaries is to reduce the tension levels to a level appropriate for the business discussion.

When

The first part of the contact with the customer

How

- Greeting.
- Rapport building.
- Tell what you have done to prepare.
- Check for timing.
- Permission to take notes.

Rapport Building

Rapport building for some people can be confusing in not knowing who should lead this part of the preliminaries. It depends on the customers—your lead depends on the person's social style, as mentioned earlier.

The purpose of rapport building is to get the conversation started. Ask nonthreatening culturally appropriate questions. Some examples are:

- How long have you been with the company or this department or in this position?
- Do you have family here?
- Ask questions or make comments regarding economy, industry, business, sports, or entertainment events.
- Compliment them on a recent accomplishment or milestone.
- Comment on obvious mentionable characteristics: model cars on front of the desk, a picture with a famous person, dogs on their computer screen.
- Use the person's full name (i.e., Mr. Smith). Start formal until invited to be less formal.

Tell What You Have Done to Prepare

Telling what you have done to prepare gives you credibility and helps the customer feel more comfortable with what you say. The customer will appreciate the fact that you have invested some of your time for this meeting and make them feel important. In some situations, the customer may also suggest other sources or contacts that you can use for future calls when preparing. If this part of the sales call is being conducted over the telephone or by e-mail, they may also suggest you do some other preparation to help make the visit more productive.

Check for Timing

Confirm how much time the customer has for this visit. Even if the visit was agreed upon via telephone or e-mail, always check once in the customer's office. It is better to adjust the sales call at the start then have the customer excuse themselves in the middle of the call before you have covered your critical points.

Permission to Take Notes

Always ask permission to take notes and offer to make a copy for the customer at the end of the sales call. This is essential when you are using the sales call worksheets, which will be discussed later in this chapter. To do this, you will need to explain the form being used and why and ask if they would like a copy at the end of the meeting. For example:

Salesperson: "Is it okay that I takes notes during our meeting?"

Customer: "Yes, no problem."

Salesperson: "I will use a Project Solution Worksheet, which helps me not miss any important details about your project. If you want, at the end, I can make you a copy."

Customer: "Yes, I would like a copy. Thank you."

When this phase of the conversation is complete, begin the business discussion by starting the next step of the sales call process: the opening. Shown in **Fig. 7.7** is a completed preliminary section from the sales call preparation worksheet.



Fig. 7.7
Sales call preparation worksheet preliminaries section.

Opening

The goal in opening is to reach an agreement with the customer on what will be covered or accomplished during the call. A meeting is opened after the preliminaries.

▶ *Opening a Sales Call*

Goal

To agree on what will be covered or accomplished.

When

At the beginning of the sales call.

How

- After preliminaries.
- Propose an agenda.
- State the value proposition.
- Check for acceptance.
- Check for customer's agenda.

Propose an Agenda

Propose an agenda by saying how and what you would like to do or accomplish during the call. This sets a clear direction for the conversation. An example of a proposed agenda statement is:

"What I'd like to do today is discuss (how) with you some technology my company has developed for horizontal wells" (what).

The **how** part of the agenda is to let the customer know how you want to hold the communication and what your medium will be. For example, you might want to make a presentation, have the customer meet an expert you have brought along, or review a proposal. The **what** part of the agenda tells what, in general terms, you want to discuss. After the agenda, state the value proposition for the customer.

State the Value Proposition

By stating the value proposition, you get the customer's attention and prepare them to listen. The value has to be believable, relevant to the customer's field of experience, and presented in terms the customer can appreciate. In your value proposition statement, you might say:

"I believe you can reduce your drilling costs by 10% to 15%." The value proposition needs to be short and describe what your product and services mean to the customer as discussed in Chapter 6 (see the discussion on the Value Stairs).

In Chapter 1, buyer behavior was classified into four buyer groups: price, value, relationship, and convenience. One of the reasons value and relationship buyers migrate to price buyers is a lack of customer focus from salespeople. By clearly stating in your value proposition statement how your products or services will impact the customer's value drivers, you make clear the added value your company provides. Once you have stated your value proposition, you then ask for feedback by checking for acceptance.

Checking for Acceptance and Checking for Customer's Agenda

After proposing an agenda and stating the value, use the skill of confirming and make sure the customer accepts the agenda you have proposed and does not have anything to add or have his own agenda for the meeting. You might say:

"How does that sound?" or "Is there something else you'd like to cover?"

Checking for the customer's agenda demonstrates to the customer that you are also concerned about what they want, not just what you need. It also takes into consideration that in many situations with your customers, you have an ongoing business relationship or active projects they may want you to address while you are visiting with them. If the customer does have some additional items to be discussed, then decide with the customer the order in which the issues will be discussed.

▶ *No, I'm Sorry, I Don't Have Time to Visit with You Today*

A common mistake for many sales representatives is to state their sales call objective in the value proposition statement. Take the first example cited, but re-stated another way:

Sales representative: "I would like to visit with you to discuss our new technology. I think you should run it on this well."

Customer: "No, I'm sorry I don't have time to visit with you today."

In this exchange, the sales representative has just asked for the customer's time and only mentioned the sales representative's benefit—the customer agreeing to run the new tool. In most cases, this is not a very compelling reason for the customer to give you the time to meet with them.

With acceptance at this point, you start to deliver your message and hold the intended sales discussion. If the customer does not accept the agenda, use clarifying and confirming techniques to understand why. A common problem with new salespeople is that instead of stating the value proposition, they describe their objective for the sales call. However, the customer may not agree to the meeting, especially if the individual has other priorities. Remember that the purpose of the sales call is to have the customer agree to the objective at the end of the sales meeting in the closing. See the sidebar, "No, I'm Sorry, I Don't Have Time to Visit with You Today," for how not to open a sales call meeting.

Planning for the Preliminaries and Opening

Planning for the opening consists of four parts:

- Aligning strategies
- Ideas for preliminaries
- The agenda
- Value proposition

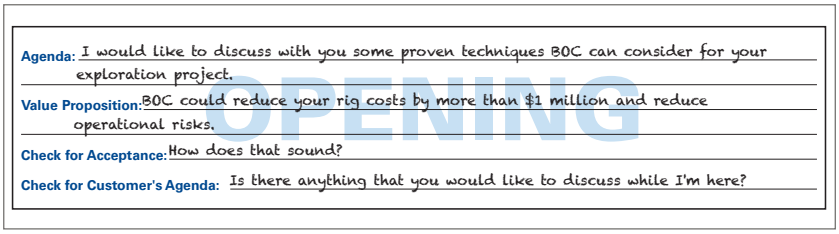


Fig. 7.8
Sales call preparation worksheet opening planning section.

Figure 7.8 shows a completed opening section of the sales call preparation worksheet. The four-step opening process is listed on the left-hand side.

Preliminaries

In this section, list ideas for discussion topics to use in the preliminaries stage before the opening. If you have met with the customer earlier, you should be familiar with the person's hobbies, interests, etc. Consider the customer's social profile. For some customers, the preliminaries may be no more than your personal introduction.

Agenda

In the agenda section, write what you are going to tell the customer. The reason for thinking about this prior to setting up the sales call is to ensure that you do not state your sales call objective and get an early rejection, as described in the previous sidebar.

Value Proposition

Write what you will explain as the value proposition. As discussed in Chapter 2 "Value Drivers," the value proposition statement clearly communicates how your services or products impact the customer's targeted value drivers or critical success factors. The value proposition can address the customer's corporate, project, or personal objectives. Stating the value proposition lets the customer know how the meeting will be useful, and further establishes your focus.

Check for Acceptance and Check for Customer's Agenda

In the check for acceptance section, write your confirming statement for the opening. A good practice is to check with the customer to see if there are any other issues the person wants to discuss in the sales call.

Sales Call Discussion

In the discussion part of the sales call, deliver a clear message—supporting your objective for the sales call. The communication skills used in the discussion part of the sales call are as follows:

- Probing
- Supporting
- Handling customer rejection (next chapter)

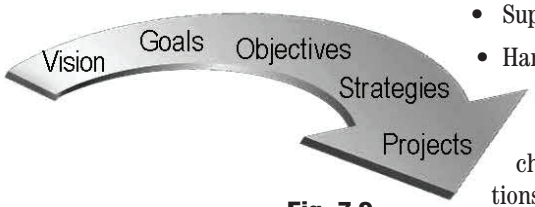


Fig. 7.9
The drivers of customer requirements. The corporate vision establishes the corporate goals. Goals establish corporate objectives and strategies for achieving the objectives. Typically, the objectives will result in projects being initiated. Once the projects have been initiated, the project requirements are established. It is critical for the sales representative to fully understand the connection from the corporate vision through to project requirements before beginning the selling process.

In all of the sales conversations you will have, whether it be probing, supporting, or handling negative reactions, always ensure that you are checking with the customer. Confirm and clarify throughout the conversations, and never assume that you know what the customer means if they make a vague statement or they understand what you have stated. Continuous checking will keep both you and the customer engaged throughout the conversation.

For a successful sales call discussion, you must anticipate how the customer will react to your message and be prepared to support and address any rejection behavior. This is done by preparing probing and supporting strategies and presentation materials that are customized for the specific customer you are meeting, based on the individual's profile (i.e., position, role, social style, and technology adoption). The specifics of how to handle customer rejection is the topic of the next chapter.

Probing

Prior to the sales call, prepare probing strategies based on your sales call purpose. To assist you in planning your probing strategy, review the opportunity management process and tactics listed in Chapter Highlight 7.1. Even in simple or smaller sales situations, apply the same probing strategies to make certain you understand the customer's business drivers and requirements. The only difference in a simple sales situation is the size of the sales team and less time involved to retrieve the information. In some cases, it may be as short as a one meeting. The challenge is always to make the connection between what you are providing to satisfy the customer's requirements and the higher-level goals and objectives that create the requirements. **Figure 7.9** illustrates the connection between the corporate vision and requirements.

Understanding this relationship is the first priority of any probing strategy. When you understand the goals, objectives, and strategies driving the project, you will be in a better position to propose a solution that best satisfies the requirements and contributes to the project strategies and objectives.

Probing to Uncover Customer Requirements

When you understand the relationship between the business drivers and the project requirements, your goal in probing is to build a clear and complete mutual understanding of a customer's requirements. This means that you understand the objectives, concerns, or issues associated with those requirements. In probing, you may uncover many wants or problems that may not be connected

▶ ***Probing***

Goal

To build a clear, complete, mutual understanding of the customer's needs

When

You want to elicit information from a customer.

How

Use open and closed probes to explore the customer's:

- Circumstances.
- Requirements.

Open probe: Encourages a free response

Closed probe: Limits a response

Use *confirming and clarifying* after giving or receiving information.

to requirements. The customer may be telling you what is wrong, but does not want to take action or spend resources to change. By understanding the strategies and objectives for a project, you will be in a better position to identify what the real requirements are and where your can impact the value drivers. For example, a discussion between a salesperson and customer could proceed in the following way:

Salesperson: "What are your requirements for the program?" *(open probe)*

Customer: "A cheap, basic evaluation." *(requirement)*

Salesperson: "Why is that?" *(open probe, clarify)*

Customer: "The wells are low producers and we have to keep our costs under control in order to make a profit." *(strategy)*

Salesperson: "What are your profitability targets?" *(closed probe, clarify)*

Customer: "For this field, we want to keep our lifting costs at or below $3.50 per barrel." *(higher level objective)*

Salesperson: "Is that a corporate objective?" *(closed probe, clarify)*

Customer: "Kind of. The company has a goal of reducing lifting costs by 20% over the next five years in order to improve profitability by 10% over the same time period, so this is our target." *(business goal)*

In the above discussion, the salesperson does an excellent job of probing. The probing reveals a vague requirement, "cheap basic evaluation," and discovers that the strategy for the project is to lower the lifting costs to the target objective, driven by the corporate goal to improve profitability. The salesperson now understands that lifting costs and profitability are very important value drivers, in addition to the customer's basic evaluation. The salesperson still needs to probe to fully understand all the issues, concerns, and circumstances regarding the requirements of the evaluation. However, the salesperson can now explore all the possibilities of how he or she can provide a basic evaluation and help lower the customer's lifting costs and increase profitability—a total solution.

In addition to the business requirements, strategies, and objectives, the salesperson must also consider the customer's personal objectives and requirements. It is important to understand how the results of the project will affect the customer's personal objectives and strategies for success. The salesperson might ask:

Salesperson: "Do you personally have any concerns or expectations about the project?" *(close probe)*

Customer: "Yes, I have a big concern. Half my bonus is tied to lowering the lifting costs by 20%." *(personal objective)*

Salesperson: "Wow! That is a pretty serious objective." *(confirming)*

Customer: "Yes, and I will make it!" *(clarifying)*

Salesperson: "Anything else? *(closed probe)*

Customer: "Well yes, now that you ask. I don't want any problems this time. The last project in this field was plagued with major cost overruns and I looked pretty bad. I don't want that to happen again." *(personal strategy for success)*

The above exchange gives the salesperson the personal requirements of the customer that will also play an important part in the decision process. The salesperson has a good idea of the business and personal requirements he or she will have to address to secure the project.

▶ ***Two Types of Probes: Long Version and Short Version***

Open Probes

- Encourages free response
- Long version

Visualizing open probe: Understand the customer's vision of success from his or her point of view and gain a deeper understanding of the client's primary objectives.

- Short Version
  - What can you tell me about your project?

Closed Probes

- Limits response to:
  - Yes or no, choice among alternatives.
  - Closed probe to confirm need.
- Long Version

Visualizing closed probe: Helps client draw conclusions.

- Short Version
  - Very effective if the customer has provided information by first using the open probe.
  - When the customer has finished talking, ask "Is there anything else?"

One of the most effective probing techniques is the visualizing probe. There are two types of visualizing probes: open and closed (see sidebar "Two Types of Probes").

Open Visualizing Probe

An open visualizing probe asks the customer to visualize what the ideal situation would look like or consist of. For example, after the opening, an effective first probe is:

"Can you describe for me what are the key factors for success in this project?"

Or

"Can you prioritize for me what the key factors for success are as you see them?"

This probe will usually get the customer to describe several of the key factors. When the customer stops talking, an effective yet simple closed probe is:

"I see. Anything else?"

If there is anything else to add, the customer will usually describe it at this time. If not, the customer will simply say:

"No, that about sums it up."

Closed Visualizing Probe

Another version of the visualizing probe is the closed visualizing probe. As you uncover the customer's requirements, it is helpful to show how your benefits will satisfy a requirement. You can do this with closed probes that allow the customer to visualize and acknowledge the outcome you have in mind.

"What if we could complete this for you in five business days? Would that help?" Or, *"If you could relieve your rig manager of routine supervisory tasks, would that allow them to focus on the more important issues?"*

The second type of closed visualizing probes encourages the customer to picture or imagine resulting benefits. For example:

"Picture how strong a position you'd be in with clear data showing exactly how much gas you are making from each zone." Or, *"Can you imagine what these integrated services efficiencies could do for your bottom line?"*

Planning a Probing Strategy

To make the most of what you know, it is useful to create a sales call probing strategy based on your pre-call planning, as described earlier. A probing strategy is simply a sequence of probes you can use to structure your questions. Probes help the customer recognize and confirm requirements you can satisfy. There are two types of probing strategies classified based on who is leading the discussion, the customer or the salesperson. Each is appropriate for specific sales call situations. The first probing strategy is the customer lead probing strategy.

Customer Lead Probing Strategy[4]

The customer lead probing strategy is used when the salesperson asks questions based on customer feedback. It can be considered more of an exploring probing technique from the customer's perspective. The customer lead probing strategy is based on SPIN© probing strategy developed by N. Rackham. Rackham's research was discussed earlier regarding the relative importance of the need-satisfaction process components for large and small sales. Another very important

▶ *Customer Lead Probing*

When

You want the customer to guide the conversation to discover facts and requirements about the opportunity.

How

Use open and closed probes to discover:

- Situational information of the customer's business.
- Problems or opportunities.
- Implication of the problem or opportunity.
- Need payoff of addressing the problem.

factor discovered in Rackham's research was the way successful salespeople probed in B2B sales. The title of his book, *SPIN Selling*, is the acronym for the probing strategy Rackham says most successful salespersons use. His research concluded that effective probing consists of the probes described in **Fig. 7.10.**

The SPIN probing strategy follows the opportunities management process. In the early phase of the opportunity management process, establish corporate goals, objectives, and strategies, or what Rackham calls "S," Situation probes. Next, identify the compelling event, which corresponds to the "P" or Problem probes in the SPIN strategy. At this point, you are confirming that the problem exists and the customer considers the problem or opportunity to be serious enough to take action to address it. Next are the "I," Implication probes, which correspond to the evaluation of options phase. Using these probes, position or align your offering in

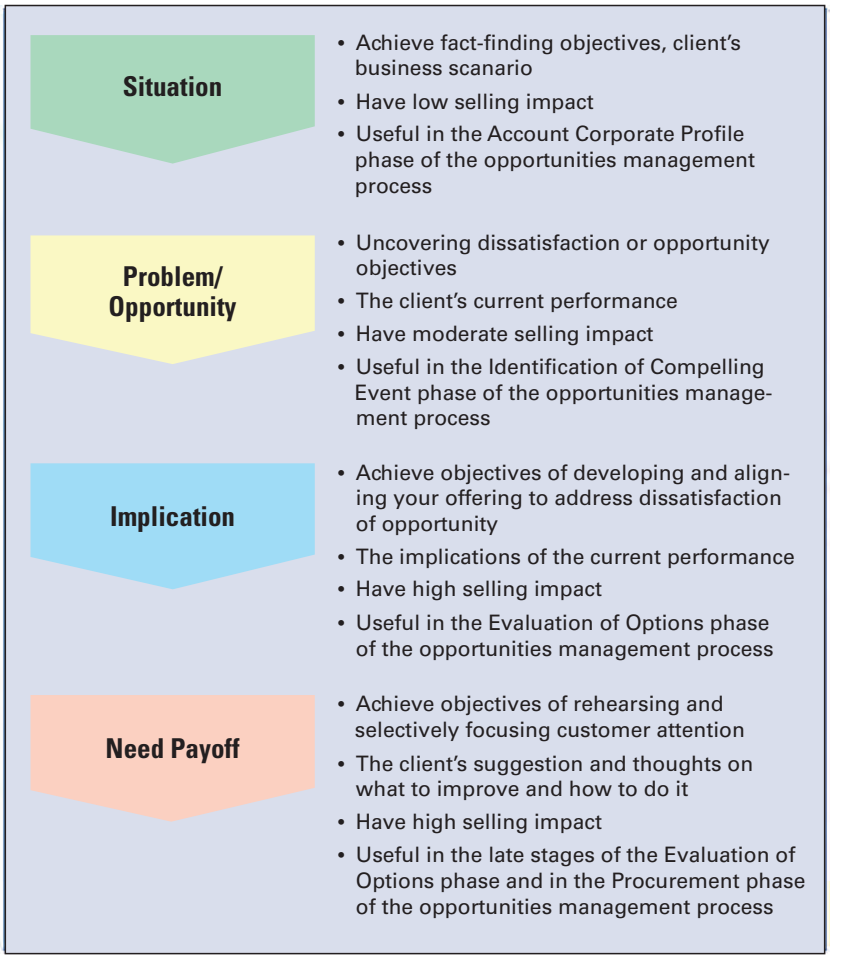


Fig. 7.10
SPIN probing strategy. The SPIN probing strategy suggests that you should start with the situation questions, then proceed to the problem questions and implication questions, and finish with the need payoff. Once you have reached this stage, you are then ready for the demonstrating capabilities stage of the selling process.

the best way, so the perceived fit is considered a good fit to the customer's requirements. In the last probing stage of the SPIN strategy, use the "N," Need-payoff probes that get agreement from the customer on the benefits received from using your products and services.

Example of a customer lead probing sequence:

Situation: "What can you tell me about your project?"

Problem: "As you see it now, what are your critical challenges or success factors?"

Implication: "What if these factors are not addressed? What is the impact **to your project?**"

Need Payoff: "What is the benefit if these factors are correctly handled?"

Another way to use the customer lead probing is to classify information as the customer responds to your questions. For example: You ask the customer "What can you tell me about your project?" and they say "The last time we ran over budget by 15%, and that was a disaster!" From this reply, even though the salesperson was asking for situational information, what the customer responded back with was implication. In this situation, the salesperson would recognize they have implication information, but no situation or problem information. Therefore, the salesperson would go backwards in the model and ask "And what caused that?" (a problem question). If the customer responds, "It was the lost circulation zone that we spent five days trying to fish the stuck tool from," now the salesperson knows what caused the problem and could ask, "So this year you want to ensure you have a plan to deal with the lost circulation zone, so you do not over-spend your budget fishing?" This is a need-payoff probe. If the customer confirms the need payoff, the salesperson can then go back to the first question again and ask what else the customer can tell them about the project to discover the situational information.

By classifying the information as the conversation progresses, it becomes very easy for the salesperson to stay at level 1 listening.

▶ ***Sales Lead Probing***

When

You want to guide the conversation to address anticipated problems and needs.

How

Use open and closed probes to:

- Determine that the problem or need exists.
- Quantify/qualify the situation.
- Identify consequences of inaction.
- Confirm willingness to look/listen.

Sales Lead Probing Strategy [5, 6]

The second probing strategy is used when the salesperson wants to lead the discussion and have the customer recognize and confirm needs you can satisfy for them. In this probing strategy, the salesperson leads by asking a set of preplanned questions. This technique was developed by Learning International and evolved from the original Xerox Persuasive Communication Skills program **(Fig. 7.11).** The salesperson asks questions that:

- Determine a possible problem or requirement exists.
- Quantify/qualify the problem, learning additional facts.
- Identify consequences of failing to solve the problem or meeting the requirement.
- Confirm the customer's willingness to listen to, or look at, relevant features and benefits.

This technique is particularly useful for difficult situations when the customer may be indifferent or when your company is not well known by the account. It is also recommended when you suspect a problem or need exists, but the customer has not raised this as being a requirement or issue. Your first step is to verify your assumption by starting with an open probe. This lets the customer give you as much or as little information as they want to provide. For example:

"Since that zone is likely to be over pressured, how do you plan to drill it?"

Or

"I know a lot of local operators have been running into problems associated with abnormal overpressure. What has been your experience?"

Phrase your probe tactfully. Be sure your probe does not imply poor customer performance. Once you are sure a problem or need exists, continue probing to clarify the issue for yourself and the customer. If the customer does not have the need or problem anticipated, do not try to address it. Instead, probe for other needs or problems.

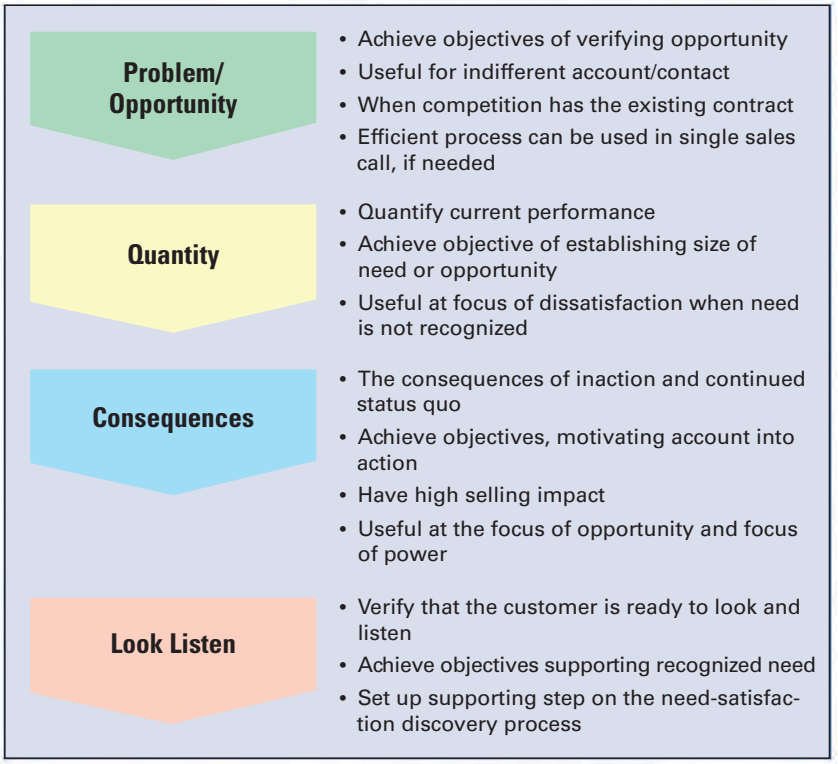


Fig. 7.11
Sales lead probing strategy.

Once you have confirmed that the problem or requirement exists, use open and closed probes to confirm additional details in quantifiable, measurable terms. Mutual understanding of the situation's size and scope helps you focus on what your company can do to help. Ask questions that define the size and scope, such as:

- "When does it occur?"
- "How frequently does that happen?"
- "How much does that cost you?"

With the size of the problem identified, ask questions to confirm the consequences of inaction as well as the potential cost of letting needs go unmet and problems unsolved. Consequence probes help you and the customer focus on these risks and costs. By doing so, the questions build momentum to take action. There are many ways to phrase consequence questions. For example:

- "What would happen if you did not?"
- "What are the potential cost consequences if you don't?"

Sometimes, your consequence probes include a viewpoint the customer may not have considered. For example:

- "Let's say the zone doesn't turn out to be commercial. What does that do to your development program?"
- "Assume that 3D could turn up information confirming your original assumptions. If that were true, how would you calculate the cost of not having that information?"

Once you have a complete understanding of the need or problem and the importance to take action, confirm the customer's willingness to look at or listen to suggestions that will address the issue. For example:

- "Would you be willing to look at some ideas about how to deal with that?"
- "I have an idea that should take care of the problem. Can you discuss it?"

You may also want to use a visualizing question to confirm the customer's interest in discussing features and benefits. For example:

- "If you could do away with that entire contamination problem, would you want to know how that works?"
- "Let's assume I could show you potential efficiencies that can address the cost-reduction objectives you've been discussing. Would you like to look at some specific examples of how an integrated services approach will bring down the total cost?"

Once the customer has expressed a desire to hear how you can address the issue being discussed, use the step of supporting, which is discussed in the next section.

Combining both probing strategies can be effective. Use sales lead probing as a backup to customer lead probing, if the customer does not raise the requirements you expected.

As a general rule, early in the opportunities management process strategy, as you gather and improve your understanding of the customer's situation, use customer lead probing and requirements. Later in the evaluation of options phase, as you begin to build your ideas and solution for the customer, confirm your solution by leading the discussion. However, as mentioned above, a customer may be indifferent to using your company. In these cases, as a backup to customer lead probes, use more specific probes to confirm an opportunity or requirement the customer has not raised. **Figure 7.12** illustrates the process to follow.

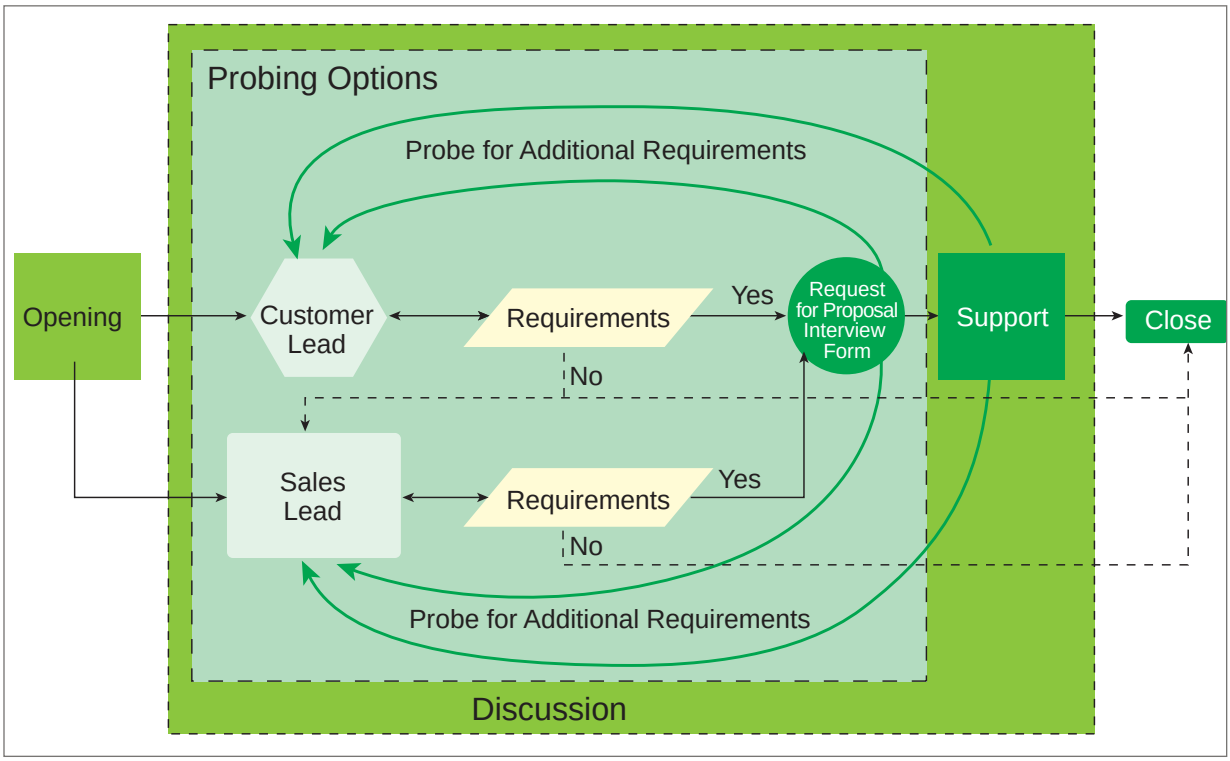


Fig. 7.12
Probing options during the of the sales call. The figure illustrates the options available to the sales representative when probing. The preferred pattern is to start by using a customer lead probing strategy, usually with a visualizing open probe, to discover the customer's requirements. The sales representative can choose to fully develop the requirement and then support or fully develop the requirement before probing again to uncover more requirements and support all requirements in one step. Once it appears that the customer has no more requirements to offer, the sales representative may use a sales lead probing strategy if there are still some unrecognized requirements that your company can satisfy. In some situations, such as with an indifferent customer, the sales representative can also start by using a sales lead probing strategy. These types of negative reactions will be discussed in detail in the next chapter.

Preparing Probes

Prior to the sales call, complete the following five-step sales call preparation probing exercise:

1. Prepare a list of all the questions you would like to have answered.
2. Next, categorize the questions according to whether the questions are situa-

Questions you want to ask:	S Situations	P Problems	I Implication	N Need Payoff	✔ Answer
Where is this project in BOC's priorities?	•				
Are there any specific objectives you or your group have for this project?	•				
What is the cost for one day of rig time?			•		
What are your major concerns or issues for this project?		•			
Who will be involved in the selection of the logging company?	•				
Do you have any concerns about the project?		•			
Do you have any concerns about using my company?	•				
Do you believe there are advantages to combining multiple services from one company?				•	
If the project is delayed, what are the consequences?			•		
Are there any other ways the logging co. can assist BOC other than with logging services?		•			
Have you been involved in their projects? If so, which logging company did you use?	•				
How will you measure success for this project?				•	
What key operational metrics will you track for the project?				•	
What cost components make up one day of rig costs?	•				
Is there anything else I could do for you on this project?	•				
What is the budget for the project?	•				
Would you support a decision to use my company?	•				
Who will decide on the testing company?	•				
Questions Customer may want to ask you:					
How many projects have you done like this?					
What are the costs?					
Can your competitors provide similar services?					
Who else has used this technology?					
What are our options if this fails?					
Has anyone else from BOC used this?					

Questions

Fig. 7.13
Sales call preparation worksheet questions section completed for the Chukchi Sea Exploration opportunity.

tion, problem or requirement, implication, or need payoff. **Fig. 7.13** is an example from the sales call preparation worksheet questions section.

3. Once you have completed the list of questions and categorized them. Review the lists to be sure that each type of question is asked, avoiding a high frequency of one type of question. As reported in the book *SPIN Selling*, implication and need-payoff types of questions have a higher correlation to successful selling.[4] Situation and problem questions do little to help customers solve problems or meet their objectives, so be efficient in gathering the situation and problem background information and move quickly to implication and need-payoff types of questions.

4. Prepare several general open probes to ask to make certain you uncover the required information you have listed in the first step and any other information the customer will offer that you have not thought of. The more general probes you should prepare are:

   - The visualizing open probe you will use at the start of the sales call.
   - Probes to find information about the customer's situation, problem or requirements, implication, and payoff used in the customer lead probing technique.
   - Probes used to confirm a problem or requirement, size of the problem, consequences of inaction, and more information in the salesperson lead probing technique.

With experience, you will develop a set of probes for each different situation that you will encounter and be able to reuse the next time you have a customer with a similar need or project. Two examples of effective visualizing open probes you can use in the majority of your sales calls are:

- "Can you prioritize for me the key success factors for this project?"
- "Can you describe to me the key issues for this project?"

Typically the response from the visualizing open probe will be sufficient to give you information regarding the situation and problem or requirements. If the customer has not answered all of your situation problem or requirement questions on your list, use the confirming and clarifying probes to ask the questions. From there, you can ask generic implication and payoff questions, such as:

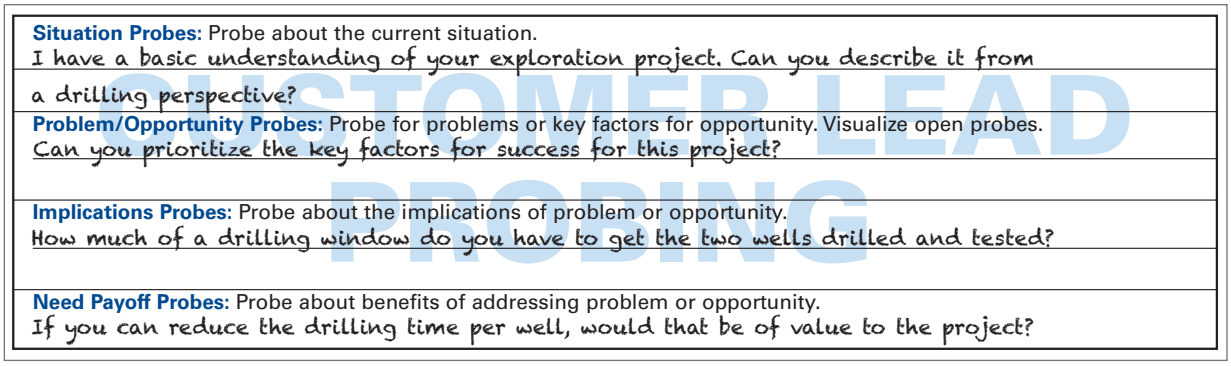
- "For the most important factor you described, what would the implication be for the project if you didn't achieve this?" *(implication)*
- "For the most important factor you described, what is the measurable benefit if you achieve this?" *(payoff)*

If the customer does not offer a key factor that you believe is an important requirement, use the sales lead questioning technique to confirm this is a factor the customer should consider important.

By asking questions one step at a time and gaining agreement from the customer, you are adding value for the customer by helping them recognize important issues they were not aware of. This is one of the key aspects of the consultative selling approach. Once the customer confirms the need, you then ask the customer if they would like to hear more about how you can address this need.

For example, for an exploration project in which the salesperson is discussing the requirements for the borehole assembly (BHA), the customer's drilling engineer has stated they need directional and gamma ray information, but has not mentioned a need to reduce the chances of getting the BHA stuck. However, the salesperson believes this requirement is important, based on the last drilling program where the customer lost two BHAs. Supported by this belief, the salesperson should have prepared a sales lead probing sequence. The probing sequence might be as follows:

Salesperson:	"Do you mind if I ask you a few more questions regarding the program?" *(ask permission to probe)*
Customer:	"No, go ahead."
Salesperson:	"Thanks. In last year's program, weren't there two wells where you lost the BHA?" *(confirm the problem exists)*
Customer:	"Yes, now that you mention it, we did."
Salesperson:	"Each lost BHA and fishing operation cost in total about $500,000?" *(confirm size of the problem)*
Customer:	"Yes, and this year we budgeted $600,000 for each well for the fishing contingency plan."
Salesperson:	"If you don't do anything differently from the last program, you will probably have the same chances of losing a BHA."
Customer:	"Yes, this is why we have budgeted for it."
Salesperson:	"Would you like to hear how another company was able to reduce the fishing frequency for a similar project by 50%?" *(confirm the customer wants more information)*
Customer:	"You bet. Tell me how."
Salesperson:	"What the customer did was add to the BHA our downhole weight on bit and downhole torque sub this way . . ." *(support need with relevant feature benefit; see next section)*



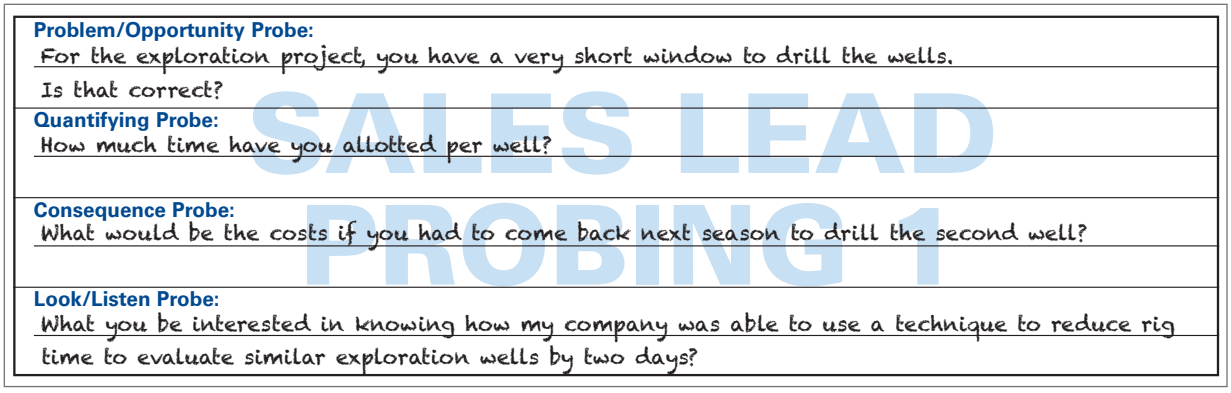


Fig. 7.14 (top)
Sales call preparation worksheet probing section—Customer Lead Probing.

Fig. 7.15 (bottom)
Sales call preparation worksheet probing section—Sales Representative Lead Probing.

The third step, as discussed earlier in Chapter 6 "Sales Activities," is to prepare questions and answers the customer may want to ask you as per the Ben Duffy story.

Planning probes before the sales call helps ensure that you do not miss any opportunities to uncover customer needs and requirements. As stated earlier, probing is the means by which you gather information so you have a clear, complete and mutual understanding of a customer's requirements. Shown in **Figs. 7.14 and 7.15** are the completed probing sections of the sales call preparation worksheet.

To help the customer make an informed buying decision, provide information about the ways in which you can address those needs. Following are supporting skills you can use to provide information about how your product and service features, and benefits, satisfy the customer's requirements.

Supporting

The goal in supporting is to help a customer understand the specific ways you can satisfy an expressed need. When you support, you provide information about your products, services, people, and organization. You provide this information by discussing features, benefits, and values. A feature is a characteristic of your product, service, or organization that provides a benefit to help satisfy a customer's requirements. The value is the specific impact the benefit will have for the customer's situation. This is what is referred to in Chapter 1 "Understanding the Role of Marketing and Sales" as having a customer focus. An important tool for supporting is the support worksheet, which is discussed in more detail in the supporting planning section.

How and when you support expressed requirements depends largely on the type of sale.

In small sales, you may support each need separately after you and the customer have discussed it in the same meeting. In large sales, you may need to contact other people in the buying center and gather competitor intelligence before you start supporting.

▶ *Supporting*

Goal: To help a customer understand specifically how you can satisfy a need.

When

- The customer has expressed a need.
- There is mutual understanding of the need.
- You know how your product/organization can address the need.

How

- Acknowledge the requirement.
- Describe relevant features and benefits.
- Demonstrate capabilities.
- Check for acceptance.
- Test for value.

Feature: A characteristic of a product, service, or organization.

Benefit: How a feature helps a client.

Value: Specific benefit provided in the customer's situation.

In small sales, you can choose between supporting after each need is stated or probing for more requirements. To use this approach, you can ask the customer after they describe one requirement "Is there anything else?" Once the customer has no more to tell you, begin your support of the multiple needs.

To support a need:

- Acknowledge *(confirm or clarify)* the need.
- Describe relevant features and benefits.
- Demonstrate capabilities.
- Check for acceptance *(confirm the customer's understanding)*.
- Test for value.

Acknowledging the Requirement

An effective way to promote an open exchange is to acknowledge the customer's needs. Show you understand and respect expressed needs. A good time to do this is when you make the transition from probing to supporting. To acknowledge the need, either confirm or clarify the need based on your understanding. You might say:

- "It's always wise to involve people in decisions that affect them." *(confirming the requirement)*
- "And why is that a top priority?" *(clarifying the requirement)*

Acknowledging creates a sense of alignment. It lets the customer know you understand the expressed point of view, and empathize with those feelings. Acknowledging further supports the customer's desire to take action. It prepares the customer to hear what you have to offer and encourages the sharing of additional requirements. There are many ways to acknowledge needs. For example, you can agree the need is worth addressing:

- "That makes sense."
- "I think you're right to make that a priority."
- "That is important in an organization like yours."

Mention the importance of the need to others:

- "Many of the organizations we work with have come to similar conclusions."
- "I talk to a lot of drilling engineers who share that concern."
- "You're not alone in that viewpoint."

Show that you recognize the consequences of not satisfying the need:

- "Right. If you don't do something, it's bound to continue."
- "Sure. As it stands now, it will be hard to meet your objectives."
- "Definitely. You don't want to let those costs get out of hand."

Demonstrate your awareness of the feelings that surround the need:

- "That must be very frustrating."
- "Sounds like a very challenging mandate."
- "It's difficult when you have to involve so many people in the decision."

It is important to become comfortable acknowledging in a variety of ways, so you are not always saying, and the customer is not always hearing, "I understand."

Acknowledging prepares the customer to listen and helps you make a smooth transition from the identification of a need to an explanation of how you can help. There are other times when acknowledging is useful, such as when a customer expresses a need but you are not ready to support it or you are not yet sure how you can help. You can demonstrate your understanding by acknowledging the need.

Besides acknowledging needs, you can acknowledge the information a customer provides as well as the feelings or opinions the customer expresses:

- "That's quite useful to know."
- "I appreciate your concern."
- "That's an interesting way of looking at it."

You don't want to acknowledge everything a customer says. To be effective, your acknowledging statements must be sincere and reflect genuine empathy, understanding, and respect.

▶ *Feature Dump*

When a sales representative tells a customer all the possible features and benefits without separating the implicit features from the explicit features, you call this a "feature dump," which is not a good sales practice.

"Dumping" potential features on the wrong customer is just as bad as ignoring benefits altogether. In most cases, you will encourage the customer to drop to level 3 listening level.



Describe Relevant Features and Benefits

Once you have acknowledged the requirement, describe relevant features, benefits, and value. When describing features and benefits in a support statement, you can start with the feature or the benefit. You might say:

- "The three-dimensional geovisualization application I'm talking about will increase the speed and accuracy with which you can define subsurface relationships for you. By doing that, you reduce your E&P costs and risks." *(feature first)*
- "You can reduce your E&P costs and risks by defining subsurface relationships more quickly and accurately with our three-dimensional geovisualization application." *(benefit first)*

The features and benefits you describe must be relevant to the customer's situation. Avoid spending time supporting potential or irrelevant benefits. It is your job as your company's representative to present only the features that address the customer's explicit requirements. It is tempting to elaborate, because your company offers many features and even more benefits. However, if you do not listen carefully and actively match your benefits to the needs expressed, you may find yourself describing benefits that do not apply. When this happens, it is called a "feature dump" and most customers will stop listening and other things. See the sidebar "Feature Dump." When you support, describe only those features and benefits that address the particular need you are supporting. For example:

Customer requirement:	"I have a reasonable schedule, but I do have a budget to meet. I can't afford to have any surprises causing delays. That can lead to major unanticipated expenses. I need to have the data in hand before trouble hits."
Feature:	Logging while drilling real-time data transmission.
Relevant benefit:	Protects budget by providing data in time to help operator spot trouble before it happens.

After describing relevant features and benefits, offer relevant proof to demonstrate your product or service capabilities.

Demonstrate Capabilities

A relevant proof is determined by the customer's social profile, technology adoption preference and buying center role. In the logging while drilling example, a

relevant proof to demonstrate capabilities with a profile of an Analytical/Amiable Pragmatist/User (social profile–technology adoption preference–role) is to show a professional society paper describing how another company successfully drilled and evaluated wells in a similar environment. Do not move ahead in your discussion until you know the customer has understood and accepted your explanation.

Checking for Acceptance

In checking for acceptance, you are confirming that the customer understands and accepts your support. Keep in mind you do not have to check verbally. Usually, it is sufficient to make eye contact, assess the customer's reaction to the information, and respond accordingly. If the customer gives any indication of not understanding your information or the benefits you have presented, find out why. Handle any confusion or concern right away. If you cannot tell whether a customer accepts the benefits you introduce, ask a confirming question, such as:

- "How does that sound?"
- "Would that be of interest to you?"

If the customer reacts favorably to a benefit, make a mental or written note. When it is time to close, you'll want to remember which benefits were accepted. Once the customer has acknowledged the feature and benefit, it is time to ask what kind of value this benefit would provide in the customer's operation. Referring back to the value stairs described in Chapter 6 "Sales Activities" the next step in the supporting process clearly articulates what the feature benefit means to the customer.

Test for Value

Testing for value is the final and most important step in supporting. Testing value ensures that the customer is able to make the connection of how the feature and benefit will impact their operation. When you test for value of a feature and benefit unique to your company, you are making sure the customer will be able to justify using your company in the final stages of the decision-making process. A test for value probe could be asked as follows:

Salesperson:	"If you could get the logging done while drilling, how much rig time could you save in your program by running the logging simultaneously?"
Customer:	"I would estimate with the total depth at 5,000 meters, it would easily be two days."
Salesperson:	"And how much is your rig time per hour?"
Customer:	"We use $6,000 an hour for this rig."
Salesperson:	"So 48 hours at $6,000 per hour is $288,000."
Customer:	"Wow. I never actually realized it would be that significant. I will have to bring this up at tomorrow's drilling meeting."

Not Prepared to Support

Before supporting, ask yourself if the customer has actually expressed a need. If not, use a closed probe to confirm the need. You have to be convinced that both of you clearly understand the "what" and "why" of the need. If not, keep probing. Ask yourself if you can satisfy the need. If you can't, acknowledge the need, but don't make a complete support statement until you can describe the relevant

features and benefits and test for value. If the customer has a requirement or need you don't know how to satisfy, acknowledge it. Say you will get back with an answer after you consult with others in the office or at your company to learn if anyone else has had a similar request by other customers. See the sidebar "Supporting Early" for reasons why this is not a good idea.

▶ Supporting Early

Supporting early is a common problem. You must be sure you support only after the customer has:

- Expressed a requirement.
- There is mutual understanding of the requirement.
- You know how you can address the need.

If you support before these conditions are met, the customer may feel you're interested only in pushing your product and may doubt your commitment to understanding and satisfying the expressed needs.

Preparing to Support Customer Requirements

Effective and efficient supporting of customer requirements requires planning. Prior to making a sales call:

- Predict the customer's objectives and requirements—what are the needs and why are they important.
- Prepare the sales call supporting worksheet and support aids.
- Prepare a sales lead probing sequence for the requirements you are planning to support.
- Predict likely rejections and prepare to address them.

Predict the Customer's Requirements

Prior to the sales call, predict the customer's requirements and the level of importance placed on each requirement. You will recall in the opportunities management process that this was part of completing a vulnerability analysis and opportunity supporting worksheet in the evaluation of options phase. In addition, in the specific sales call, you also considered how your solution addressed the individual's personal priorities.

Prepare a Sales Call Preparation Support Worksheet

As discussed in Chapter 4 "Opportunities Management," for each opportunity, you will use your probing skills to interview the customers in the buying center and complete the project solution and request for proposal worksheets. These completed worksheets give you a complete understanding of all the customer's needs at both project and personal levels. This will allow you to addresses the customer's specific requirements. This worksheet will be used to organize your supporting of the customer's requirements.

For each feature and benefit, have an appropriate support aid to demonstrate capabilities. These can include an white paper, log example, success story, or list of references. Each support aid should be appropriate for the customer's profile. As part of the support process, also predict the possible types of rejections the customer might have and be prepared to handle them. We will discuss this situation in more detail in Chapter 8 "Handling Customer Rejection." For benefits that have a specific monetary value, estimate the value and list all the parameters needed or used to calculate the value. In the sales call, you will discuss the estimated value and parameters with the customer.

As discussed earlier in this chapter, the benefits with dollar values calculated are used in the "Prove Value" tactics. If you can't calculate the specific dollar value of the benefit, consider it a strength and use this in the "Emphasize Strengths" tactic. If you are more expensive than your competition, then you must justify your premium. There is no better way to do that than by quantifying your value. Once the customer has this information. It becomes a simple return on investment (ROI) calculation to justify the more expensive option.

Predict What Type of Rejection the Customer Could Have and Prepare to Handle It

Occasionally, the customer will reject what you are claiming regarding features, benefits, and the resulting value of your solution. By considering what the most likely rejection would be prepare an appropriate strategy to address it. When a customer does reject, it is best to deal with it immediately and then continue on with the sales call. An unanswered rejection can stop the whole sales process and minimize the positive impact of other features, benefits, and values you want to discuss. We will discuss this in detail in the next chapter.

Figure 7.16 shows an example of a sales call preparation support worksheet. This type of worksheet is especially helpful in pinpointing multiple benefits provided by the features you discuss. The worksheet helps you select the appropriate requirements to discuss, depending on your sales call objective and tactics.

Being prepared in advance makes the sales call much more efficient. You will not have to set up another meeting with the customer to find a demonstration of capabilities or to overcome any supports that were rejected. After effectively supporting you should ask for next steps, as identified in your sales call objective. This is done in the closing of the sales call, which is discussed next.

▶ ***Closing***

Goal

To agree on the appropriate next steps.

When

- Customer signals a readiness to move ahead.
- Customer has accepted the benefits you've described.

How

- Ask the customer if there are any other issues to discuss.
- Review previously accepted benefits.
- Propose the next steps for you and the customer.
- Check for acceptance.

Closing

You build the foundation for an informed, mutually beneficial decision by understanding a customer's needs, and by helping the customer to understand how you can address those needs. If you do an effective job of probing and supporting, your customer will be ready to move ahead, and closing will be a natural next step in concluding your discussion.

Your goal in closing is to reach an agreement for the next steps in moving forward on a mutually beneficial decision. Close the sales call when the customer signals a readiness to move ahead. This may be a verbal or nonverbal signal that the customer is interested in moving forward. Examples of closing signals are:

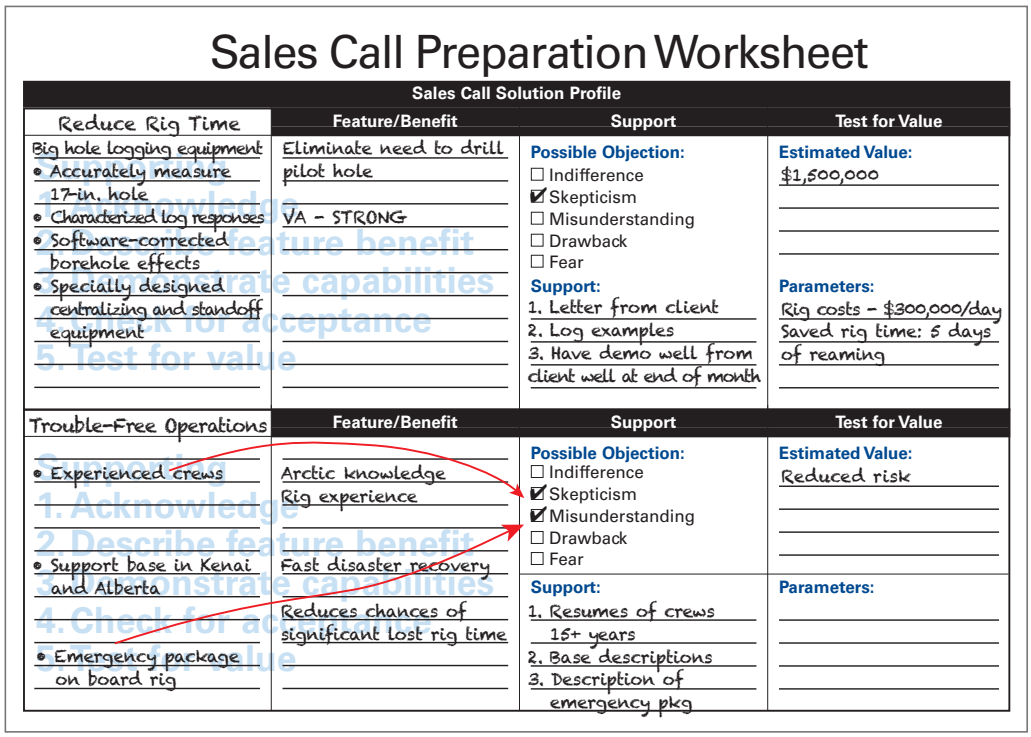
- "It all sounds good."
- "You've made some interesting points."
- "I like what I'm hearing."
- The customer smiles, nods, or looks at you expectantly.

If the customer has already accepted the supports you've described, but doesn't signal a readiness to move ahead, it is acceptable to use a test close and propose the next steps.

Check for Any Other Issues

The first step in closing is to ask if there are any other questions or needs to discuss before you begin to close. If there are none, start the second step of closing by reviewing the previously accepted benefits.

In the course of a call or several calls, you may support a number of needs with a variety of features, benefits, and demonstrated value. Ideally, make written notes of the benefits and value the customer accepts. This is a simple process if you use the sales call preparation worksheets. Mark the accepted benefits as the sales discussion progresses.



Sales Call Preparation Worksheet

Sales Call Solution Profile

Reduce Rig Time	Feature/Benefit	Support	Test for Value
Big hole logging equipment • Accurately measure 17-in. hole • Characterized log responses • Software-corrected borehole effects • Specially designed centralizing and standoff equipment	Eliminate need to drill pilot hole VA – STRONG	**Possible Objection:** ☐ Indifference ☑ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support:** 1. Letter from client 2. Log examples 3. Have demo well from client well at end of month	**Estimated Value:** $1,500,000 **Parameters:** Rig costs – $300,000/day Saved rig time: 5 days of reaming
Trouble-Free Operations	**Feature/Benefit**	**Support**	**Test for Value**
• Experienced crews • Support base in Kenai and Alberta • Emergency package on board rig	Arctic knowledge Rig experience Fast disaster recovery Reduces chances of significant lost rig time	**Possible Objection:** ☐ Indifference ☑ Skepticism ☑ Misunderstanding ☐ Drawback ☐ Fear **Support:** 1. Resumes of crews 15+ years 2. Base descriptions 3. Description of emergency pkg	**Estimated Value:** Reduced risk **Parameters:**

Fig. 7.16 Sales call preparation worksheet, sales call solution profile section. Tip: When you create a specific proposal that will include pricing terms and conditions, use the worksheet as described in Chapter 6 "Sales Activities" to organize your proposal components and select which requirements you will include in your proposal.

Review Previously Accepted Benefits

Reviewing previously accepted benefits reminds the customer of the benefits and expected value resulting when a purchase decision is made (or agrees to take steps toward such a decision). This review lets you convey your confidence in moving ahead. Position your review of benefits with phrases like:

- "Let me recap some of the ways we can help you achieve your goals . . ."
- "As you've discussed . . ."
- "Let's go over the highlights of what we have talked about so far . . ."

Begin your review of the accepted benefits. For example, when you are demonstrating the benefits and value of an integrated project management approach, you might say:

- "We've agreed that the integrated approach discussed will help you generate important savings. You estimated the savings as much as 20% similar to the company in the reference letter I showed you. Also, it will give you a single point of accountability, so you'll know exactly who to talk to when you have questions or concerns the moment they arise, and be sure of a fast response."

In many sales scenarios, both large and small, the salesperson will need to have several sales meetings. For each meeting there will be a close. The question becomes is that close with a big "C" or little "c"? See the sidebar "Is it a Big C or Little C?" to know the difference.

Propose Next Steps

Once you've reviewed previously accepted benefits, propose the next steps. These are either your primary or backup objective you had planned earlier. Depending on how the sales call has progressed, close with your backup objective if it is more appropriate. If the sales call has progressed well, ask what the customer would recommend as the next steps. If the suggestion is not what you had hoped for, you can still recommend considering your next steps.

▶ *Is it a Big C or Little C?*

This is a common question heard in the office of sales professionals, especially from their sales managers. The big "C" refers to whether the salesperson closed on the deal, winning the work. Or was it a little "c," meaning the customer agreed to the next steps that will move the opportunity forward, getting closer to an award. Some people may think the big "C" is more important than a little "c." But in fact, in large sales as concluded from the research of N. Rakham discussed earlier, asking too soon or often for the award in large sales lowers the chances of winning the work. As the saying goes "slowly, but surely." Some little "c" closes can go a long way to winning you the work. Don't rush the sale.

Shown next are little "c" closes. You might ask the customer to:

- Review a proposal.
- Attend a demonstration.
- Arrange for you to make a presentation.
- Arrange a meeting with a decision maker.
- Do some internal "selling."
- Meet again with you.
- Give you the specifications and submit an estimate for the job.

You might offer to:

- Prepare a proposal.
- Set up/conduct a demonstration.
- Make a presentation.
- Meet with a decision maker.
- Provide materials and ideas to prepare the customer to "sell" internally.
- Meet again to further explore the client's needs.
- Take immediate steps to begin the job.

Factors That Determine Use of Techniques

Some of the factors that may influence your choice of techniques include the following:

- Successful past experience
- Your level of rapport with the client
- National/regional influences and preferences
- Your personal style
- Customer's personality
- Products, services, or capabilities being offered

In some sales calls, you may have to revise your objectives in the middle of the call in response to new information from the customer. Your ability to improvise new sales call objectives based on that information will often be the key to a successful close. This is why it is important during planning to list as many possible outcomes that will advance the sales call, because you may have to use one of your lesser outcomes to advance the process.

Specifying what you'd like the customer to do next ensures that the commitment you're asking for is clear. Saying what you'll do next demonstrates your commitment to working with the customer. As discussed earlier, ensure that your objectives pass the SMART test.

However, do not to make commitments that are significantly more substantial than those you ask the customer to make. If the customer isn't willing to take some action, decide how that lack of interest affects the time and effort you invest. Over time, the commitments you and your customers make should reflect the mutual responsibilities that characterize any good relationship.

When closing a sales call, there are many ways of the customer to award you the work. The **Chapter Highlight 7.3: "Sign Here, Here, and Here"** describes several options for your consideration.

Checking for Acceptance

After proposing next steps, make sure the customer accepts the plan you've outlined. You might say:

- "What do you think?"
- "Can you arrange that?"
- "How does that sound?"

When the customer doesn't agree to your next steps, even after accepting the benefits and value you described, the reluctance to take the next step may delay the decision you seek. The customer might say:

- "I'd like to hold off on that for a while."
- "Sounds good, but it's too early to make a decision."
- "I'm just not sure. Let me get back to you in a couple of days."

If you have been listening carefully throughout the conversation, this reluctance should not come as surprise. Rather, it will reflect what's been discussed so far. However, a customer's reluctance to close is predictable.

Some common reasons why customers may unexpectedly (or not so unexpectedly) refuse the close are because they:

- Have needs that have not been uncovered.
- Have questions that have not been answered.
- Are skeptical about your ability to deliver the benefits you've described.
- Remain reluctant to accept the rigors of change.
- Object to some aspect of your solution, or to the action steps you've suggested.
- Are unable to make a commitment.
- Are too early or too late in the opportunities management process to take the requested actions.
- Do not have the required authority or are not at a level to make detailed decisions.

When a customer seems reluctant to move ahead, probe to find out why. You might ask:

- "Why is that?"
- "Is there something else we should talk about?"
- "What needs to happen before you'll be ready to make a decision?"
- "Can you tell me the reason for your hesitation?"

If the customer raises a concern that was not revealed during the sales call, or a concern that was not satisfactorily handled, address the concern and consequences at this time.

Handling customers' negative reactions is an important part of the need-satisfaction process and will be discussed in detail in the next chapter.

When the customer is satisfied the concern has been addressed, proceed with the closing. If the customer is willing to move forward but at a slower pace, propose a lesser commitment than the one you originally asked for. Get the best commitment the customer is willing and able to make. If you can't get a decision or commitment to a next step, set a date by which a decision or commitment will be made, or set a date for a future meeting.

When it is obvious from your probing that the customer has given you a well-considered refusal to move ahead or has decided to award the work to a competitor:

- Express your disappointment.
- Thank the customer for taking the time to meet with you.
- Ask for feedback depending on if it is a small or large sale.

If it is a small sale, ask immediately after the customer has stated they will award the work to another company. In this scenario, ask:

- What factors contributed to the customer's decision?
- What did your offer or proposal lack?
- What did you do—or not do—that affected the decision?

Chapter Highlight 7.3: Sign Here, Here, and Here

Techniques for Winning the Deal—Next Steps

Professional sales representatives use these nine techniques to close the deal, with the customer awarding them the work.



Success Story Narrative

Narrate a comparable situation to show why the customer should commit to moving ahead. When describing your success story, explain how the next steps resolved pertinent problems, doubts, or other issues you're proposing. For example: "We recently converted hard-copy data like this for an abandoned Baku field. The results were excellent, and we had no trouble doing it in five days. We can get it finished in less than a week, if I can have your permission to begin immediately."

Point of Urgency

This close motivates the customer to act quickly or risk losing an advantage (or being penalized in some way). For example: "I think it would be best for you to agree on the schedule now, while I can guarantee availability of the equipment for the dates you need."

Sign Here

To use this approach, rely on actions rather than words to get a commitment. For example, you might produce a service form and begin to fill it out. You should use caution with this technique; it works best with clients you know well. In less familiar relationships, it may appear presumptuous.

Provisional Order

This technique allows the customer to commit even when circumstances beyond your control would otherwise cause a delay. For example: "Assuming the others are available, I'd like to schedule the meeting for Wednesday, based on your agreement to give you a couple of hours in the morning."

What Do You Recommend

When the sales meeting has gone very well and you are dealing with Drivers or Expressives, an effective way to propose next steps is to ask, "We have covered a lot of ground today. What do you recommend you do next?" You may be surprised by what the customer recommends, and you can always add or suggest your next steps if you think your next steps are more appropriate.

Direct

The direct technique is short and to the point. You use it when the customer gives you a strong buying signal. For example: "You can give me the specification right now and I will have the products delivered by Monday afternoon."

Supposition

This technique produces a commitment that depends on conditions or criteria. For example: "If I can have the unit at the dock on the date you've asked for, can you agree to award us the work today and I will start the mobilization?"

Either/Or

This technique encourages commitment by assuming the decision has been made and inviting the customer to finalize the decision with a simple, either/or choice. For example: "We can run the service for either well. It's your call." Another example is: "All you need to do now is decide whether to go with the standard service or upgrade. Which one do you want?"

Chapter Highlight 7.3: Sign Here, Here, and Here (cont.)

Step-by-Step

The step-by-step approach allows you to direct the main decision by asking for a number of small decisions that the customer can easily accept. For example:

Sales representative:	"Then why don't you touch base with your contracts department and, if they have any questions regarding the contract, do you think you can get their commitment to send those to you by Monday?"
Client:	"Yes I think so."
Sales representative:	"If you send those to me on Monday afternoon I will get with my contracts person and we can review any changes on Wednesday."
Client:	"Sure. sounds perfect"
Sales representative:	"And then we have our executives sign the contract on Friday and we start the project the 1st of the next month."
Client:	"Great. Let's do it."

Remember, there is always potential for future business. Make it clear that you want to maintain a presence with the customer by asking permission to stay in touch. This can be done as part of the planned account management program activities, discussed in Chapter 13 "Pipeline Management." Another option is to make a special effort to send articles of interest or invitations to relevant events. Communicate your undiminished readiness to help the customer and organization. Encourage the customer to contact you as other opportunities arise.

If it is a large sale and you have presented your proposal, then follow the steps as described in Chapter 6 "Sales Activities," section "Outcome Analysis Customer Debrief."

Preparing for the Closing

Preparation for the closing is completed by thoroughly implementing the other parts of the sales call process. All the previous preparation, as documented in the sales call worksheet, should enable you to achieve a successful outcome. The sections of the sales call preparation worksheet already discussed are the:

- Buying center profile
- Aligning strategies
- Objective setting
- Developing a probing strategy
- Preparation of the sales call support worksheet

The final preparation for closing occurs during the sales call. As the discussion progresses, actively analyze the feedback and prepare a brief summary of the agreed-upon points to use in the closing. A tool you can use is the closing section of the sales call worksheet. Make notes on accepted benefits and value the customer acknowledges and use your notes to summarize accepted benefits. **Figure 7.17** shows a completed closing section of the sales call preparation worksheet.

Even when you don't make a sale, your commitment to a mutually beneficial decision will work to your advantage in the long run. The more professionally you respond to rejections, the more likely the customer will be to call you in the future. Once you finish the sales call, complete post sales call analyses, regardless of the outcome of the sales call, as discussed on the next pages.

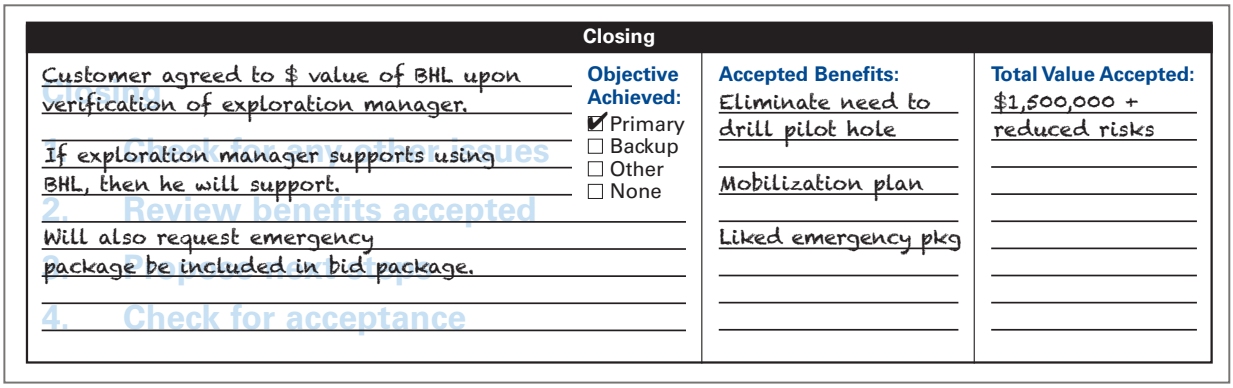


Fig. 7.17
Completed closing section of the sales call preparation worksheet, which is completed during the sales call.

Post Sales Call Analysis

At the conclusion of each sales call, complete a post sales call analysis. The post sales call analysis has two parts. The first is analyzed from a strategic point of view. The second is a level 1 sales call effectiveness review. In the next section, you will discuss the level 2 sales call analysis.

Sales Call Strategic Analysis

The sales call strategic analysis should answer the following questions:

- What was the outcome of the call?
- What impact does this have on the opportunities management process and your competitive strategy?
- What are the next steps?
- Update the opportunity sales plan (SSP). The SSP will be discussed in detail in a later chapter.

What was the outcome of the call?

In this analysis, decide if the sales call objective or backup objective was achieved, or if lesser but related actions were agreed to **(Fig. 7.18).** Did the actions agreed upon improve your chances of winning the opportunity? By answering these questions you categorize the sales call as successful or unsuccessful. See the sidebar, "We Will Call You…" for definitions of a successful and unsuccessful sales call.[5]

Opportunities Management Process

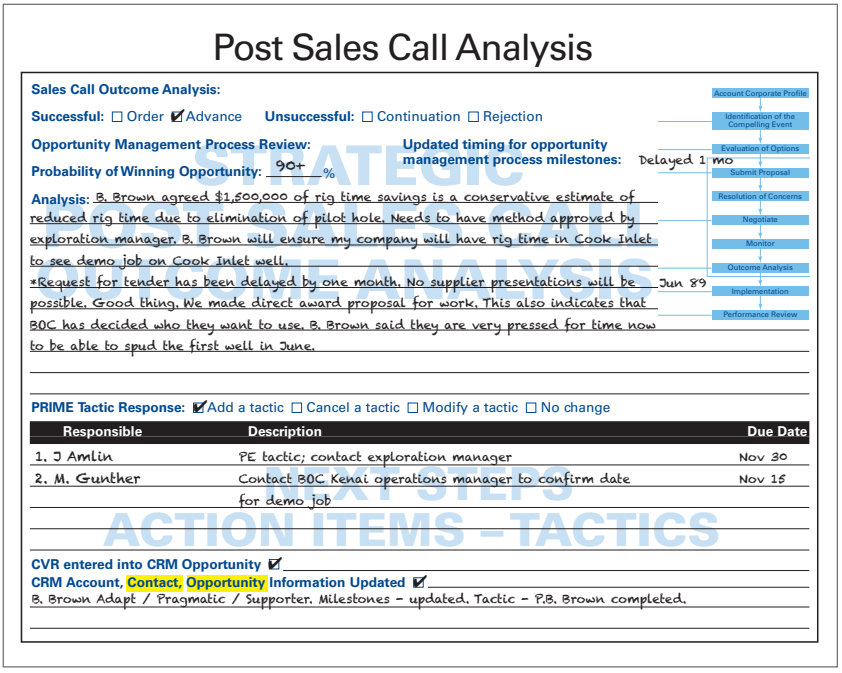
For large sales each sales call is part of a strategy to execute a tactic to win an opportunity. At the end of each sales call, analyze any additional information gained and update the competitive strategy for the opportunity. The analysis is completed by:

- Reviewing the opportunity plan.
- Summarizing next steps.

Reviewing the Opportunity Plan. After each sales call, review the opportunity plan and new information from the sales call to decide if the plan should:

- Have a tactic added or canceled.
- Have a tactic modified.
- Continue as planned.

Fig. 7.18
Post sales call analysis, next steps and process section of sales call preparation and analysis worksheet.



Post Sales Call Analysis

Sales Call Outcome Analysis:

Successful: ☐ Order ☑ Advance Unsuccessful: ☐ Continuation ☐ Rejection

Opportunity Management Process Review: Updated timing for opportunity management process milestones: Delayed 1 mo

Probability of Winning Opportunity: 90+ %

Analysis: B. Brown agreed $1,500,000 of rig time savings is a conservative estimate of reduced rig time due to elimination of pilot hole. Needs to have method approved by exploration manager. B. Brown will ensure my company will have rig time in Cook Inlet to see demo job on Cook Inlet well.

*Request for tender has been delayed by one month. No supplier presentations will be possible. Good thing. We made direct award proposal for work. This also indicates that BOC has decided who they want to use. B. Brown said they are very pressed for time now to be able to spud the first well in June.

Jun 89

Account Corporate Profile
Identification of the Compelling Event
Evaluation of Options
Submit Proposal
Resolution of Concerns
Negotiate
Monitor
Outcome Analysis
Implementation
Performance Review

STRATEGIC SALES PLAN
SUCCESS ANALYSIS
NEXT STEPS
ACTION ITEMS – TACTICS

PRIME Tactic Response: ☑ Add a tactic ☐ Cancel a tactic ☐ Modify a tactic ☐ No change

Responsible	Description	Due Date
1. J Amlin	PE tactic; contact exploration manager	Nov 30
2. M. Gunther	Contact BOC Kenai operations manager to confirm date for demo job	Nov 15

CVR entered into CRM Opportunity ☑

CRM Account, Contact, Opportunity Information Updated ☑

B. Brown Adapt / Pragmatic / Supporter. Milestones – updated. Tactic – P.B. Brown completed.

Information from the sales call gives you better insight into the customer's requirements and perception of your ability to satisfy those requirements, compared to competitors. Answering the above questions becomes even more critical when the sales call was not successful in achieving its planned tactic. A series of unsuccessful sales calls may suggest that the sales team should review their competitive position and strategy.

Chapter 9 "Strategic Sales Plan" will discuss creating and using a sales plan to manage an opportunity in more detail. At key decision points in the opportunity management process, the sales team should reassess the competitive strategies based on the progress of the plan and information collected. The key inputs for this activity are the client visit reports (CVRs) reported from earlier sales calls. Once you have finished your analysis, update the probability of winning the opportunity, based on your review of the plan and analysis of the new information from the sales call.

Summarizing Next Steps. With the above analysis completed, make a list of action items, namely the next steps. In this part of the post call analysis, document and inform the sales team members of any follow-up action items that were agreed to, and other actions for the sales team, based on the outcome analysis. Be sure that for each action a person is identified who should complete the action by a target date. Figure 7.18 is an example of a completed sales call analysis section using the post sales call analysis form. Once the analysis is completed, the post sales call analysis should be entered into the company CRM system as a CVR attached to the opportunity.

Level 1 Sales Call Effectiveness Review

In the level 1 sales call effectiveness review, examine each process of the sales call and ask yourself:

- What was done well and what do I want to retain?
- What could be done better and what do I want to improve for future sales calls?

▶ *We Will Call You...*

How do you know a good sales call from a bad one? Sales calls can be classified into two types: successful and unsuccessful.

A successful sales call consists of either a confirmed sale or advance.

A confirmed sale is a firm commitment to purchase, such as a signed contract.

An advance is when the sales call results in some agreed-to actions that improve your chances of securing the work.

An unsuccessful call is one that does nothing to improve your chance of securing the work. Unsuccessful sales calls consist of two types of calls: continuations and rejections.

A continuation occurs when no agreements are made to advance or improve your chances of securing the opportunity. You know this is the case when the customer says something like, "Thanks for the presentation. We will call you . . ."

A rejection is when the customer has refused to make any commitments, has awarded the work to another company, or has chosen to do nothing.

To answer these questions, systematically go through each process and ask a series of questions to determine your effectiveness for:

- Preliminaries
- Opening
- Probing, confirming, and clarifying
- Supporting
- Handling rejection
- Closing
- Level 1 listening and aligning

To determine what you want to retain and what to improve, go through each sales skill listed above and ensure that for each skill you used each step of the process, as discussed earlier in this chapter.

- Did you begin with preliminaries having a clear agenda and value proposition?
- Did you check with the customer for acceptance before beginning the sales call discussion?

During the discussion, did you feel that you aligned effectively with the customer? Was there a sense of tension in the meeting? Did the conversation flow smoothly?

Were you able to discover and give the information you intended with your probing strategy? Were there questions after the meeting you wished you had asked the customer but didn't think of before or during the meeting? What was the customer's reaction to your questions—irritation or interest?

During the supporting processes, did you acknowledge the customer's requirements by confirming or clarifying? Did you check for the customer's acceptance after each support? Did you explain how the features of your products and services result in benefits for the customer? Did you feel comfortable using the checking for value statement and how did the customer respond? Were your support aids adequate or do you need to modify or create additional support aids?

Did the closing come naturally or was time was running out and you could sense the customer wanted to finish the meeting? Did you review the accepted benefits and the customer's specific value? When reviewing, what was the interest level of the customer? Was it at level 1 listening or at lower levels at this point?

Did you encounter customer rejection at the beginning of the sales call—after supports or when trying to close? Were you able to adequately handle the rejection or did you need to return to resolve the rejection?

What percentage of the time were you at level 1 listening and what percentage of the time was the customer at level 1? What could you do to keep yourself and the customer at level 1 listening a higher percentage of time?

When completing the sales call effectiveness review, use the level 1 sales call effectiveness review analysis worksheet. As you review each sales call process, rate your performance as one of the following:

- Needs improvement
- Good
- Very good

The analysis of the sales call should be conducted as soon as practical after the sales call, so details are not lost with time. The benefit of doing the sales call analysis is that with time you can judge your progress in the targeted areas needing improvement. Improving your sales call skills will also impact other communications with the customer, within your company, and in your personal life. These

same sales skills are used in many of the other sales activities, such as negotiations. **Figure 7.19** is an example of a completed post call process analysis section.

Level 1 sales call analysis should be done on as many sales calls as possible. It is part of your personal commitment to the total quality management processes to maximize the efficiency and effectiveness of the supplier–account relationship for each of the main sales activities.

Complete the post sales call analysis, preferably in the customer's building immediately after the sales call, before doing anything else. Doing this consistently requires that the post sales call analysis be scheduled as part of every sales call. Some salespeople prefer to do the post sales call analysis back at their office, but that is a mistake. To understand why, see the sidebar "What Happens If They See Me?"

Level 2 Sales Call Effectiveness Review

The level 2 sales call effectiveness reviews are observed sales calls. Completing a level 2 requires you to have assistance ideally from your sales manager or colleague trained in sales. If a sales manager is not available, find a colleague or peer who has been trained and uses sales skills on a regular basis. This individual takes an active coaching role in the level 2 review, as described below.

The purpose of the level 2 sales call is to develop a more detailed analysis of your sales call performance, starting with the planning stage through the execution and analysis stages. Having an independent observer assist in the sales call process may uncover areas for improvement you had not considered. These may be areas you are not able to recognize because of your involvement in the execution of the sales call. An important factor to remember is that level 2 sales effectiveness reviews are not a joint sales call. When soliciting your manager's or colleague's assistance for a level 2 review, that individual is present for coaching purposes. The level 2 review consists of the following:

- Level 2 review preparation
- Pre-call briefing
- Sales call observation

Fig. 7.19
Level 1 review completed section of the sales call preparation worksheet.

Level 1 Sales Call Effectiveness Review:

	Need Improvement	Good	Very Good	Comments
Preliminaries	✔			-Little nervous at first NO BUSINESS CARD!
Opening		✔		-Good value prop statement. Could skip preliminaries next time.
Customer Lead Probing		✔		-Picked up on higher svr. concerns and more expressive than driver.
Sales Lead Probing		✔		-This project is on B. Brown's personal objectives.
Supporting			✔	-Liked very much the reference letter.
Closing	✔			-Should have asked Brown what he suggested we do next instead of making recommendation first.
Objection Handling	✔			-Having reference letter easily resolved skepticism.
Listening/Aligning/Tension	✔			-A little too preoccupied with my preparation. Missed a couple of points Brown restated over lunch.

Support Documents:

☑ Need to develop

Once have the BOC demo job completed, need to create report and sales aid. Ask for reference from Brown regarding reduced rig time.

☐ Need to modify

PROCESS

▶ *What Happens if They See Me?*

A sales manager was reviewing his sales team's client visit reports (CVRs) when he noticed his new salesperson had very few CVRs. But he was sure the salesperson was very active contacting clients and pursuing opportunities. The next morning the sales manager asked the salesperson to come to his office for a coffee and asked him how he was enjoying the new position. All was great. The manager then asked how many CVRs he was creating on average a week.

The number was very low—only half the average number of CVRs entered by the other sales staff. When asked why his CVRs entered were low, the salesperson's explanation was he was trying to enter the CVRs, but when he arrived back at the office there would be telephone calls from customers to return and internal meetings. It was very difficult to make the contacts and take care of all the other responsibilities.

The manager smiled and said, *"I know it is not easy. But your system is wrong. You do not do your* CVRs *here in the office. You do them immediately after your call."* The salesperson looked puzzled and asked, *"*Where?*"* The manager said in the customer's building, normally in their reception or coffee area. Now the salesperson looked shocked. *"You mean in the customer's building?"* The sales manager said, *"*Yes.*"* The salesperson answered *"But what if the customer sees me?"*

The sales manager smiled again and said *"Perfect. If the customer comes out of their office and sees you taking five or ten minutes to summarize your call, what will they think?"*

The salesperson was silent for few seconds and then said *"I guess that the call was important to me."*

The sales manager said *"I can't think of a better way to end a sales call, can you?"*

- Post-call debriefing
- Troubleshooting

Level 2 Review Preparation

To prepare for a level 2 review, complete the sales call preparation worksheet for the coaching call as described earlier in this chapter and review post sales call analysis worksheets from a previous sales calls. Previous reviews will determines your sales skill focus areas for this level 2 review. The sales call focus area is a specific sales call skill. Inform the observer to take detailed notes on how you execute the skill. For example, from the post-call analysis in Fig. 7.18, the sales call skill focus area for the level 2 review is to execute better listening. It is beneficial to have several of your last sales call preparation worksheets to refer to with the observer when doing the pre-call briefing.

Pre-Call Briefing

In the pre-call briefing with the observer, review the sales call preparation worksheet. Going over each section carefully will give the observer background information regarding the call in preparation for what to expect during the sales call. The observer should provide constructive criticism for areas of the pre-call preparation that might make the call more effective.

Also, review the roles in the observation call in the pre-call briefing. If you are doing the observation call with your sales manager, who has had the sales management training, the individual will understand the expected role and welcome your initiative to have a level 2 review. If you are conferring with a colleague, be certain the individual understands that the responsibility involves observing the call and recording the events of the sales processes as thoroughly as possible. Your colleague is not present to impress the customer. A completed sales call briefing section from the level 2 sales call observation form is shown in **Fig. 7.20.**

Sales Call Observation

At the start of the sales call, introduce the observer and the person's role. This is a simple process if the observer is your boss or the regional or HQ sales or marketing manager. In these situations, you might use an introduction such as:

- "This is Mrs. Lynn Wilson, our regional sales manager. She is accompanying me today as part of your account maintenance program and will take a notes on how I conduct and participate in our meeting."

If the observer is a colleague, you might use an introduction such as:

- "This is Jason Smith. Jason is the salesperson for other oil companies here in town. Today, Jason has accompanied me to observe the meeting as part of your account maintenance program and will take notes on how well I conduct and participate in the meeting."

Of course the exact introduction you use depends on many factors. Discuss the introduction before the meeting and agree with the observer on the introduction that you will use. With the introductions complete, begin the sales call following your plan. At this time the observer begins to take notes.

The observer records the interaction between you and the customer using the level 2 sales review observation form. An example of a completed sales call observation form is shown in **Figs. 7.21. 7.22, and 7.23.** When recording the events of the sales call, the observer should use as few key words as possible in order to remain unobtrusive. The observer should also avoid facial expressions or gestures that communicate personal feelings about the call. In general, the observer should maintain a low profile so that you can proceed with the sales call as normally as possible. At the end of the call, the observer should thank the customer for the opportunity to sit in.

Level 2 Sales Call Observation Form

The level 2 sales call observation form has been designed to guide the note taking of the observer for each sales skill. The top part of this form has the pre-call briefing, which has already been discussed. It is followed by the foundation sales call skills and each step skill is listed. The bottom part of the form has space for the observer to record general observations regarding the sales call dynamics that developed, including:

- Sales call tension
- Aligning
- Listening levels for you and the customer

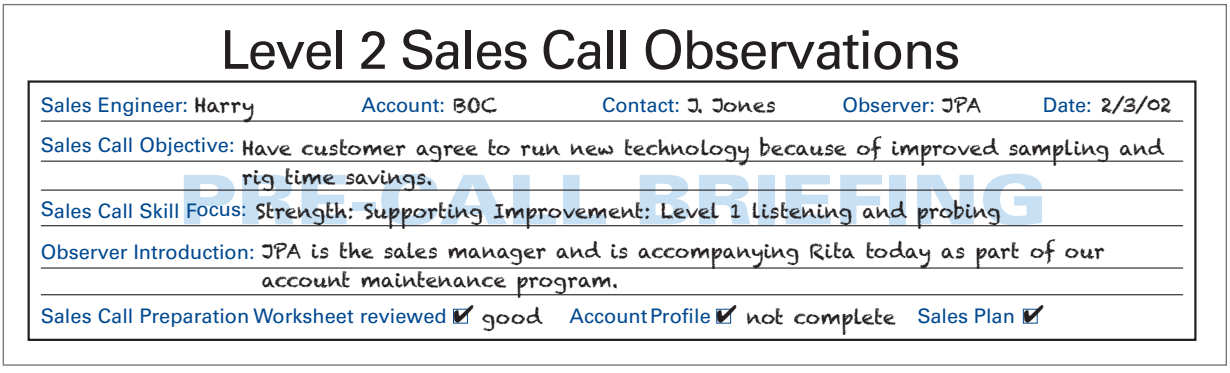
These notes are to assist the observer in preparing the summary comments on page 2 of the form. When page 2 is completed, the observer reviews the comments with the salesperson, and both decide on the most appropriate improvements, if needed, as part of the post-call debrief.

Post-Call Debriefing

With the call complete, conduct the post-call debrief as soon as possible. In the post-call debrief, the observer will use the notes taken during the meeting to prepare summary comments. When this is completed, review them together.

The review should start with the salesperson reviewing how they perceived they did. The observer listens and compares the salesperson's analysis to their summary.

Fig. 7.20
Complete pre-call briefing section of level 2 sales call observation form from sales calls preparation worksheet.



Level 2 Sales Call Observations

Sales Engineer: Harry Account: BOC Contact: J. Jones Observer: JPA Date: 2/3/02

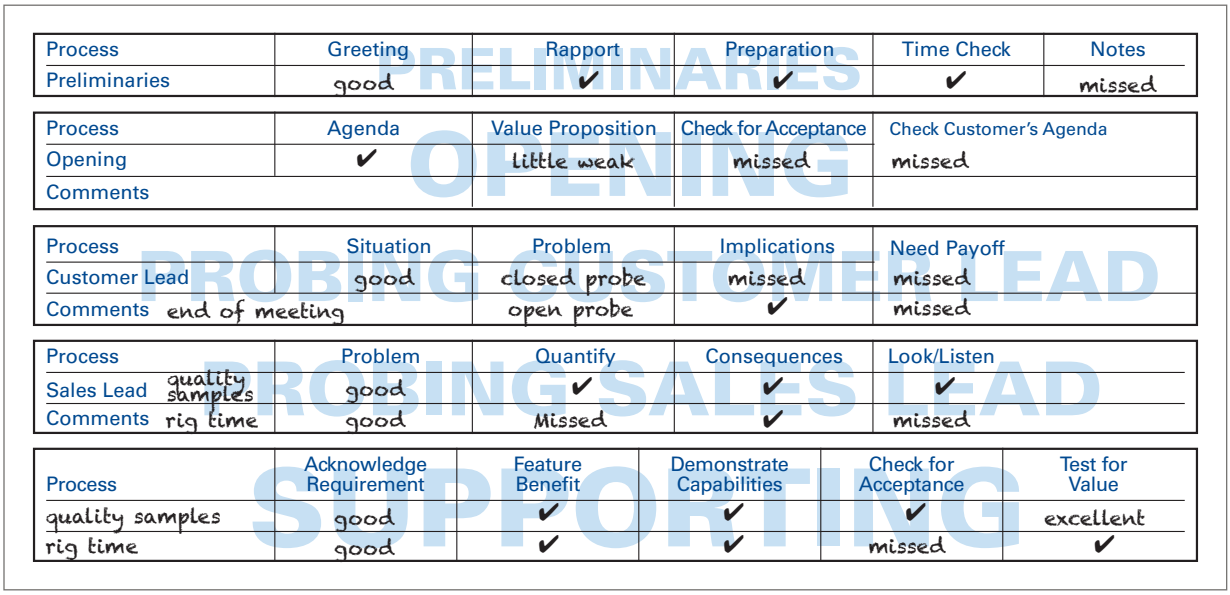
Sales Call Objective: Have customer agree to run new technology because of improved sampling and rig time savings.

Sales Call Skill Focus: Strength: Supporting Improvement: Level 1 listening and probing

Observer Introduction: JPA is the sales manager and is accompanying Rita today as part of our account maintenance program.

Sales Call Preparation Worksheet reviewed ☑ good Account Profile ☑ not complete Sales Plan ☑

PRE-CALL BRIEFING



PRELIMINARIES

Process	Greeting	Rapport	Preparation	Time Check	Notes
Preliminaries	good	✔	✔	✔	missed

OPENING

Process	Agenda	Value Proposition	Check for Acceptance	Check Customer's Agenda
Opening	✔	little weak	missed	missed
Comments				

PROBING CUSTOMER LEAD

Process	Situation	Problem	Implications	Need Payoff
Customer Lead	good	closed probe	missed	missed
Comments	end of meeting	open probe	✔	missed

PROBING SALES LEAD

Process	Problem	Quantify	Consequences	Look/Listen
Sales Lead quality samples	good	✔	✔	✔
Comments rig time	good	Missed	✔	missed

SUPPORTING

Process	Acknowledge Requirement	Feature Benefit	Demonstrate Capabilities	Check for Acceptance	Test for Value
quality samples	good	✔	✔	✔	excellent
rig time	good	✔	✔	missed	✔

Fig. 7.21
Completed level 2 sales call observation section for the basic sales skills of opening, probing, and supporting.

Then the observer gives their feedback. First, the observer describes what they observed in terms of strengths and areas for improvement. The observer should give reasons for the assessment and address where their observation was different from the salesperson's feedback. Together, they agree on the cause of any problem areas and actions to improve them. As a guide to completing the post-call summary comments, the next section lists the seven most common sales call skill problem areas. The chances of you having one or more of the same difficulties are high. As the observer goes over the summary comments, listen carefully to see if the description of the observed problem fits one of the common problems. Discuss the applicable improvement actions listed with each performance problem. A completed level 2 sales call review form is shown in **Fig. 7.24** on page 256.

Sales Call Skills Performance Problems

The following pages describe seven common problems related to the misunderstanding or misapplication of critical selling skills. For each situation described, probable causes and recommended improvement actions have been outlined.

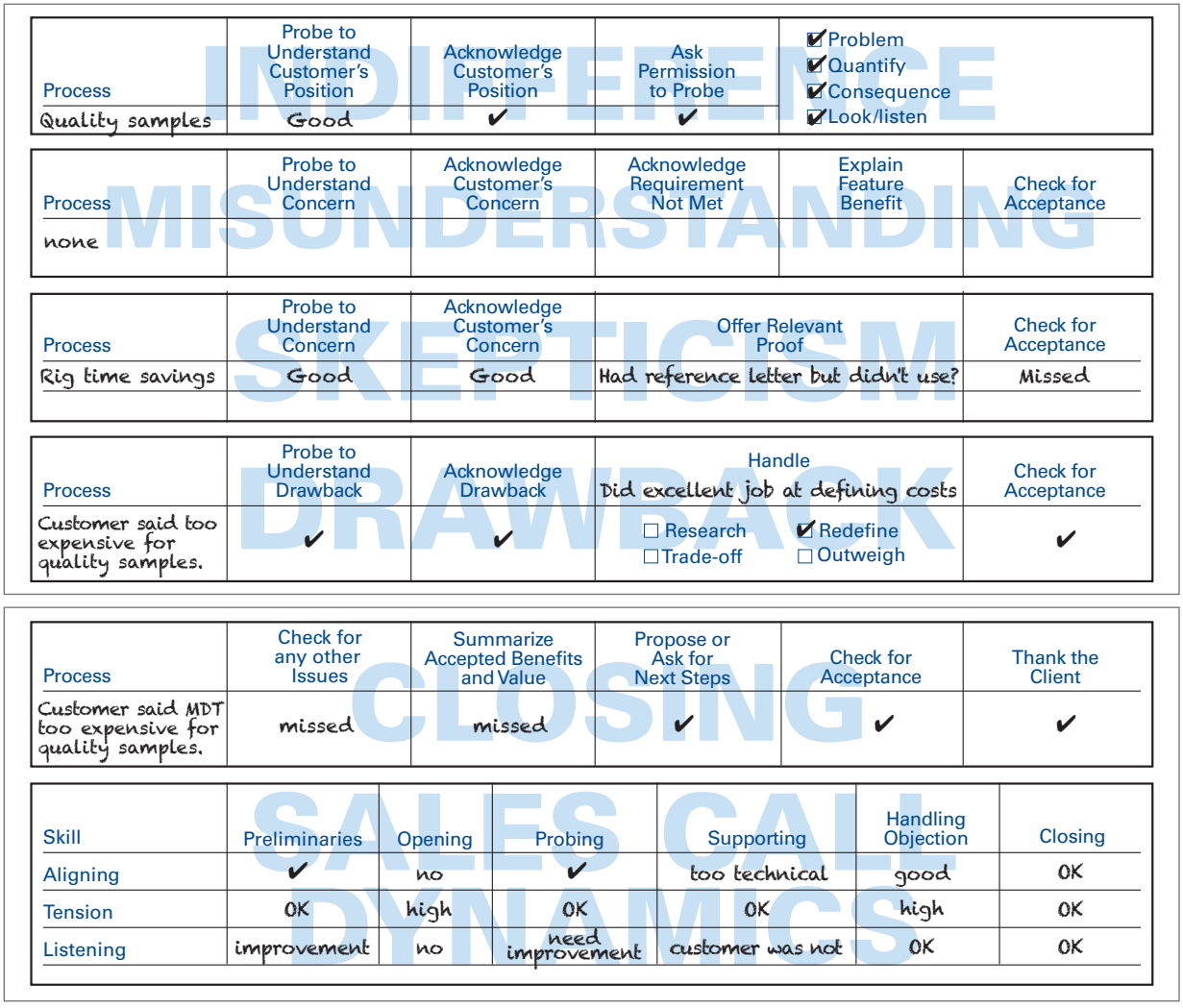
1. **Does Not Recognize Opportunities and Requirements When the Customer Expresses Them.** You don't recognize or respond appropriately to customer opportunities and requirements. In fact, you may seem almost oblivious to high-potential opportunities and requirements that would give the customer strong reasons to make a commitment. The customer gets annoyed because time is wasted in what appears to be an unsatisfying meeting and may not agree to another meeting.

Possible Causes

Sales Skills Deficiency: You may not hear the requirements and opportunities expressed. You may be too busy figuring out what to say next and may not be listening. Listening is, of course, an integral part of the skill of probing.

Technical Knowledge: You may lack knowledge about the products, applications and technical requirements, or account situation that would allow you to recognize an opportunity or need or you might not be applying this knowledge during call preparation.

You can determine if it is technical knowledge by reviewing your sales call preparation worksheet and interview forms (project solution and request for proposal) with the observer or technical expert in this area. If your supports are judged to



INDIFFERENCE

Process	Probe to Understand Customer's Position	Acknowledge Customer's Position	Ask Permission to Probe	☑ Problem ☑ Quantify ☑ Consequence ☑ Look/listen
Quality samples	Good	✔	✔	

MISUNDERSTANDING

Process	Probe to Understand Concern	Acknowledge Customer's Concern	Acknowledge Requirement Not Met	Explain Feature Benefit	Check for Acceptance
none					

SKEPTICISM

Process	Probe to Understand Concern	Acknowledge Customer's Concern	Offer Relevant Proof	Check for Acceptance
Rig time savings	Good	Good	Had reference letter but didn't use?	Missed

DRAWBACK

Process	Probe to Understand Drawback	Acknowledge Drawback	Handle		Check for Acceptance
			Did excellent job at defining costs		
Customer said too expensive for quality samples.	✔	✔	☐ Research ☐ Trade-off	☑ Redefine ☐ Outweigh	✔

CLOSING

Process	Check for any other Issues	Summarize Accepted Benefits and Value	Propose or Ask for Next Steps	Check for Acceptance	Thank the Client
Customer said MDT too expensive for quality samples.	missed	missed	✔	✔	✔

SALES CALL DYNAMICS

Skill	Preliminaries	Opening	Probing	Supporting	Handling Objection	Closing
Aligning	✔	no	✔	too technical	good	OK
Tension	OK	high	OK	OK	high	OK
Listening	improvement	no	need improvement	customer was not	OK	OK

Fig. 7.22 (top)
Completed level 2 sales call observation section for the four customer rejection behaviors and appropriate handling steps.

Fig. 7.23 (bottom)
Completed level 2 sales call observation section for the closing, appropriate handling steps, and the sales call dynamics section.

be weak, discuss how to improve them. If the solutions are complete, the cause of the problem is a sales skills deficiency.

Improvement Actions

If sales skills are the problem, review the section on probing in this chapter and Chapter 5 "Communication Skills." In your next call, do more confirming and clarifying of the customer's feedback to identify expressed requirements.

If you believe that you have a good understanding of probing and listening skills, conduct a role-playing exercise in which the observer is assisting you as the customer. When you hear the "customer" express a requirement, stop the role-playing, paraphrase the requirement, and then support it. If the role-playing customer expresses a need you do not respond to, the customer should stop and explain what was just expressed, and then you support. If you have just returned from a sales call where this skill was a problem, replay the sales call in the form of role-playing.

In subsequent calls, take notes using your sales call preparation sheets as an aid to help focus your attention on listening to the customer and identifying requirements you can support.

If deficient technical knowledge is the problem, review your preparation support worksheet to improve and/or add features and benefits to the supports. In addi-

Level 2 Sales Call Review

Sales Call Preparation	☑ Very good ☐ Satisfactory ☐ Improvement needed	Summary Harry had very good plan going into the sales call. He had a clear objective and backup objective with a good list of other possible actions. Good list of questions and sales call solution profile with supports.
Preliminaries	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary A little too long for the driver style of the customer. No business card and did not check for timing.
Opening	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary Suspect his social style for Jones is not amiable, but more driver. During preliminaries, Harry spent too much time with small talk. Jones getting a little irritated. Value was generic; could have been more specific to Jones' program.
Probing Customer Lead	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary Customer lead probing needs work even though Harry had written down probes beforehand. Perhaps role-playing would solve this.
Probing Sales Lead	☑ Very good ☐ Satisfactory ☐ Improvement needed	Summary Excellent job on sales engineer lead probing. Customer accepted value of MDT samples (see over).
Supporting	☐ Very good ☑ Satisfactory ☐ Improvement needed	Summary Overall very good, especially on sampling and the need for quality. Missed one check for acceptance on rig time.
Customer Objection	☑ Very good ☐ Satisfactory ☑ Improvement needed skepticism	Summary Brilliant job on customer indifference and drawback regarding sampling. Missed chance to offer reference letter for skepticism on rig time savings. Made another meeting to get back to Jones regarding this! Not efficient use of time.
Closing	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary Didn't check for any other issues before moving to next steps. Did not review accepted benefits, but this was OK as meeting was short.
Aligning	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary Could have been better as Jones wanted to get on with business, yet Harry was still making small talk. Some of Harry's features and benefits dwelled on the technical details, which did not interest Jones.
Listening	☐ Very good ☐ Satisfactory ☑ Improvement needed	Summary During Harry's sales engineer lead probing, he was not listening or confirming or clarifying what Jones was saying. During Harry's support, he was too technical; Jones was starting to drift to lower levels of involvement, which Harry didn't seem to recognize.

COMMENTS

PERFORMANCE AREA	IMPROVEMENT ACTION	
☐ Technical knowledge ☐ Account knowledge ☑ Sales skill	☐ Observation ☑ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	In general, Harry is doing a pretty good job in most aspects of the sales call, as evidenced by his achieving his primary objective. Believe doing a role-play to improve in the areas in which he needs improvement would achieve the necessary focus and improvements on his next sales call. Look forward to the next Level 2. JPA
☐ Technical knowledge ☐ Account knowledge ☐ Sales skill	☐ Observation ☐ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	
☐ Technical knowledge ☐ Account knowledge ☐ Sales skill	☐ Observation ☐ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	

Fig. 7.24
Completed level 2 sales call review comments section.

tion, ask for supports you can use as sales aids. You may also have to attend technical training if you have not had sufficient technical training on the product or services.

As part of the service and product introduction of any new product, a sales toolbox should be provided. The toolbox has a generic customer presentation that lists the product or service details, theory, as well as key features, benefits and applications. Review the customer presentation in the toolbox and thoroughly understand the material so you can customize the features, benefits, and application to each customer.

When arranging meetings for your next sales calls, ask what the customers want as main requirements for the opportunities you are going to discuss (open visualizing probe). Make certain your sales call support worksheet addresses each requirement. Be prepared to support the requirements. It is a good idea to review your sales call support worksheet with the domain expert before going on the call.

2. **Over-controlling the Call.** A symptom of this problem is using too many closed probes. When this happens, the customer will tend to make brief responses. Even when the customer does talk, you don't respond to what's expressed as important. Instead, you provide support on the basis of untested assumptions. By failing to listen interactively for understanding or rapport, you do not align with the customer. As a result, the customer remains at a lower level of participation, possibly at a lower listening level, and may be reluctant to give any significant commitment for next steps.

   This approach is especially inappropriate when dealing with Expressive customers, who enjoy an active give-and-take and respond best when given a chance to talk. Over-control also alienates Driver customers, who want to control the conversation themselves. While Analytical customers expect a pragmatic approach, they resist any effort to force their attention. Amiable customers reject salespeople who try to force the conversation and fail to build rapport.

Possible Causes

Sales Skills Deficiency: You have not mastered the skill of probing, particularly the use of open probes, to uncover requirements and to align. You may also fail to listen effectively when the customer responds to probes. You make little effort to raise the customer from lower levels of participation and listen at higher levels. Thus, you conduct the call in a way that better complements your own personality type, rather than the customer's. You have little or no ability to recognize the customer's personality type.

Technical Knowledge: Sufficient product knowledge may also be lacking. As a result, you can't relate new requirements to product and service features and benefits, and you force the discussion into areas you are prepared to handle.

Improvement Actions

If deficient sales skills are the problem, review the section on probing in this chapter, and the aligning strategies for all personality types in Chapter 5 "Communication Skills." The result of effective probing and aligning is to have the customer talk freely and for you to listen to what is said. It's important for customers to state in their own words what's important to them.

If you believe you have a good understanding of probing and aligning skills, conduct role-playing in which you play the role of the customer and your colleague takes the role of the controlling salesperson. After the role-playing, debrief on how it feels to be on the receiving end of an overly controlled probing strategy.

This problem can also be the symptom of a very well-prepared salesperson. When you have done a very good job of preparing and researching the customer's needs, there can be a tendency to want to demonstrate how well prepared you are. Instead of using preparation to respond to expressed requirements, you conduct the sales call only to confirm your findings. Remember, this approach is a sales lead probing strategy and should be used only when appropriate. As suggested earlier, begin by using a customer lead probing strategy. Use the salesperson probing strategy only for requirements you believe the customer has, but they have not raised them as an issue.

In subsequent calls, be sure you are thoroughly prepared and use your aligning strategies for each sales call skill. Use your customer lead probing strategy imme-

diately after the opening. Also check with another salesperson who knows the contact to confirm an accurate classification of the customer's social style.

If your preparation is sufficient, engage in role-playing in which you play the salesperson and practice using your customer lead probing and aligning strategies for the given scenario. Ask the observer to interrupt the role-play if you start to use too many closed probes or do not confirm the customer's expressed statements accurately.

If deficient technical knowledge is the problem, follow the same improvement action for technical knowledge, described in the first problem of this section, "Does Not Recognize Opportunities and Requirements When Customer Expresses Them." Seek technical support from a domain expert and determine how to correct the problem, either through better sales call preparation or training.

As you have already seen from the above improvement actions, the foundation to improving sales call performance is completing the sales call preparation worksheet. If all the preparation is complete from technical services—feature/benefit considerations—the problem is in the execution of the skill.

3. **Probing Without Apparent Direction.** You probe, but without the necessary focus to elicit meaningful responses. You may use too many open probes, even when not yielding relevant information. This unstructured approach causes an Analytical customer to doubt your competence and true concern. The Amiable customer, while welcoming questions up to a point, also wants feedback to responses. Driver customers quickly feel that endless probing is wasting time. Expressive customers want probes to culminate in discussion of how their ideas will be turned into reality. By not making clear the purpose or direction of extended probing, you risk irritating—and even alienating—all these types of customers.

Possible Causes

Sales Skills Deficiency: You are not comfortable enough with probing skills, aligning, and raising strategies to formulate logical questions quickly. You may also be concentrating on what you will say next, rather than listening actively for understanding and building rapport.

Technical Knowledge: You lack sufficient knowledge of the customer's requirements or personality type (or both) to ask appropriate questions and establish rapport.

Improvement Actions

If deficient sales skills are the problem, first make certain you have completed sufficient pre-call preparation, so your probes are directed toward the areas of highest potential need. By using a complete sales call preparation worksheet, your sales call meetings will have a much better defined purpose and logical flow from the opening to a natural conclusion at the closing.

If sales call preparation is not the problem, conduct a role-play in which you play the salesperson. This should help overcome the problem. Pay close attention to your opening and the early part of the sales call, as this part of the meeting provides the direction for the call. Record the role-play and play it back. Analyze your performance. Discuss any points with the person playing the customer. You should identify where better probing would have improved the effectiveness of the sales call role-play.

If deficient technical knowledge is the problem, follow the improvement procedures described earlier. Before going on your next sales call, review your sales call supporting worksheet with the domain expert.

4. **"You Tell Instead of Support"—Don't Ask Enough Questions.** You do most of the talking, and the customer is forced to listen most of the time. The Amiable customer dislikes this approach, preferring a collaborative give-and-take. The Analytical customer feels ignored and their input is not being considered. The Driver customer resents your attempt to control the conversation, plus the apparent lack of concern for the customer's ideas and objectives. The Expressive customer, standing ready to explain a preferred ideas, becomes frustrated when not given the opportunity to do so. In most of these cases, customers remain at low participation and listening levels. In this type of sales call, the probability of the customer making a significant commitment in the closing is low.

Possible Causes

Sales Skills Deficiency: You are not comfortable with the skill of probing, especially as part of the interactive listening process. You may not see the value in probing, feeling that it's easier and more efficient to tell someone about the product or service than it is to ask a lot of questions. Therefore, you choose to operate in more of a telling mode rather than probing and supporting the customer's requirements. You also may not recognize the customer's personality type, and can't probe in a way that achieves alignment.

Technical Knowledge: You are not sure of what questions to ask because you depend on the standard technical presentation, regardless of the customer involved.

Improvement Actions

If deficient skills are the problem, review this chapter's materials on probing and supporting. When you take the approach of "telling instead of selling," from a customer's point of view, it will appear as if your objective is to simply to sell your services and not help meet the customer's objectives and project requirements. This lack of customer focus may make it difficult for the customer to appreciate what is different about your solution. This is not the approach to take. As discussed several times in this textbook, the professional salesperson must apply the consultative selling approach. You are in the business of providing customer solutions and building strong business relationships.

Before each sales call, be sure to have thoroughly prepared your customer lead probing strategy. Start each sales call with a visualizing open probe and follow up with open probes, following the customer lead probing strategy. Also, pay close attention to your aligning strategies. In preparing for the sales call, check with your peers and discuss the social profile of the customer you are going to visit.

With your sales preparation worksheet complete, conduct a role-play in which you play the salesperson. Tape-record or videotape the role-play and play it back so that you can analyze your performance.

If possible, plan to accompany another salesperson on a sales call as part of a modeling sales call. Select a salesperson you believe is very good at using all the sales skills, or get the recommendation of your sales manager. Plan to have another level 2 sales call review to observe the use of probing and aligning skills to check for improvement in this area.

If deficient technical knowledge is the problem, follow the improvement procedures described earlier. Before going on your next sales call, review your sales call supporting worksheet with the domain expert.

5. **Supports Prematurely.** You support whenever the customer describes a problem or dissatisfaction, thinking it might be a need. You may also support vague

requirements that lack appropriate definition. As a result, you lose credibility by supporting issues you don't fully understand—issues that may not, in fact, be important to the customer or may not be real issues at all. The customer quickly loses interest, and you may be unable to establish rapport or gain any meaningful commitment.

Possible Causes

Sales Skills Deficiency: You don't know the difference between situational information and problem information, and/or opportunities and requirements, and you don't probe for understanding to confirm requirements. You might lack a probing strategy for developing background information on opportunities and requirements. Your supports, therefore, are premature.

Account Knowledge: You're not familiar enough with the customer's company to understand potential problems or specific requirements. You, therefore, tend to support vague requirements.

Improvement Actions

If deficient sales skills are the problem, review the probing and supporting sections of this chapter. Understand the purpose of each step of the probing and supporting processes. Before each sales call, make sure to fully complete the sales call preparation probing strategies for both the customer and sales lead.

Conduct a mini role-play in which you play salesperson. Your colleague plays the customer, making various statements of opportunities and requirements. The "customer" should prompt you when necessary to probe for understanding and to confirm requirements before supporting.

If deficient account knowledge is the problem, first review the materials in Chapter 2 "Value Drivers," Chapter 3 "Account Corporate Profile" and Chapter 4 "Opportunities Management." Then identify the higher-level business drivers for the customer's project. Before you go to the sales call, be sure you have reviewed and considered the information in the your CRM database.

Print the account corporate profile and review it with a customer from the accounting, ask for feedback.

Review the opportunity-specific sales supporting worksheets with other sales people who are familiar with the account and get their feedback on the business drivers for the opportunity. Make the connection for what your company is providing with a higher-level customer business drivers.

In your next sales calls, use a visualizing probe to ask what the main business drivers are for the opportunity.

6. **Weak Support Statements.** You neglect to acknowledge the customer's need (the first step of supporting), and instead start to tell the customer about the product or service. or you make support statements with features only, neglecting to introduce benefits that describe how the product's features will satisfy the customer's requirement. As a result, the customer may not listen to or understand the value of what you have to offer and will not be aware of the benefits or value to justify making a commitment if you are more expensive than your competitors.

Possible Causes

Sales Skills Deficiency: You have not mastered the steps of supporting or fully understanding the purpose of the supporting steps.

Account and Technical Knowledge: You do not have enough product or account knowledge to make strong, logical connections between the customer's requirements and the product or service you offer. Instead, you continue to rely on general benefits for all supporting situations.

Improvement Actions

If deficient sales skills are the problem, review the materials on supporting. Understand the reasons you are acknowledging the customer's requirement. Then support with features and benefits, explaining why you also test for value.

Review your sales call preparation worksheet to be sure you have thoroughly completed the sales call supporting worksheet with benefits and customer value estimates.

If preparation is not a problem, conduct a mini role-play in which you play the salesperson. Have your colleague play the customer, stating the requirements. Respond with support statements and have the role-playing customer prompt you if you forget any steps of supporting. If you support with only a feature (but no benefit), ask the role-playing customer to say, "So what?" Do this until you feel confident that you can apply the skill of supporting well.

If possible, plan to accompany another salesperson on a sales call as part of a modeling sales call. Select a salesperson who is very good at using all the sales skills, or get the recommendation of your sales manager. Plan to have another level 2 sales call review to observe the use of supporting skills to check for improvement in this area.

If deficient technical knowledge is the problem, follow the improvement procedures described earlier. Before going on your next sales call, review your sales call supporting worksheet with the domain expert.

If deficient account knowledge is the problem, follow the improvement procedures described earlier. Before going on your next sales call, review the account profile and have another salesperson familiar with the account comment on your opportunity-specific and sales call supporting worksheets. Also discuss the higher-level business drivers in relation to the opportunity and sales call.

7. **Makes Weak or Unrealistic Closing Statements or Fails to Close.** You fail to summarize the benefits and value that the customer has agreed are important, or you close with tentative language or language unsuited to the customer's personality type. You do not formulate a logical, realistic action plan that requires customer commitment. As a result, the customer is ready to accept and is waiting for you to close and recommend the next steps. This is risky because customers in this position are liable to slip from acceptance and back down into less positive attitudes.

Possible Causes

Sales Skills Deficiency: You may not have mastered the skill of closing. You may not be able to react appropriately to what happens on the call, or may not recognize the value of the skill steps. Also, you may be unable to close in terms that satisfy the customer's personality type.

Account Knowledge: You may not know enough about the customer's business to formulate a logical, realistic action plan. You may have neglected to think through the commitment in pre-call preparation. The result is either a tentative closing or an unrealistic request for commitment.

Improvement Actions

If deficient sales skills are the problem, review the materials on closing in this chapter. Review your sales call preparation worksheet and, in particular, the objectives for the sales call and your aligning strategies for closing.

Conduct a role-play in which you are the salesperson using the sales call preparation worksheet for an upcoming sales call. Have your colleague, acting as the customer, assume a particular personality type, telling you what that type is. Write out a full closing statement appropriate for that personality type. Assume the customer has accepted the supports you have listed in the sales call worksheet. Use one of the techniques listed in Chapter Highlight 7.2: "Sign Here, Here, and Here" or the sidebar "Is it a Big C or Little C?" Now conduct the role-play starting at the closing. Do this several times, each time having the role-playing customer take on a different social profile.

If possible, plan to accompany another salesperson on a sales call as part of a modeling sales call. Select a salesperson who is very good at using all the sales skills, or get the recommendation of your sales manager. Plan to have another level 2 sales call review to observe the use of closing skills and check for improvement in this area.

If preparation is the problem, closely review your actions and sales call objectives section of the sales call preparation worksheet. Be sure you are fully developing your list of possible actions that could advance the opportunity for both the customer and your company. Have another salesperson review your list to see if anything should be added.

If deficient account knowledge is the problem, follow the improvement procedures described earlier. Before going on your next sales call, review the account profile and have another salesperson familiar with the account comment on your sales call objectives. Also list possible actions that could advance the opportunity plan. In addition, review the role your contact has in the buying center to ensure that the proposed next steps are appropriate.

▶ *Planning Sales Calls and Success*



In a large sales force in a very competitive market in North America, the most successful sales representative was a twenty year seniority employee with ten years in the sales role. He handled more accounts and had better sales results than most of the other sales representatives.

When asked how he was able to manage more accounts and achieve above-average results, as measured by higher key services sales ratios and lower discounts, he pointed to a binder on his shelf. On the spine of the binder was "Sales Call Preparation Work-sheets 1991." It was next to similar binders for 1990 and 1989. Every sales call he had made in 1991 was in chronological order. Each pre-call and post sales call analysis section was complete with a photocopy of any support aids he used. When questioned why he, as a seasoned sales representative, would go through the planning stages each and every time, and wouldn't that be a waste of his time, he grinned and said, "No, I think it would be a waste of the customer's time if I didn't."

Learning a New Skill

This chapter has presented the sales calls skills needed to successfully execute the need-satisfaction process and all the skills required to achieve the highest level of sales call effectiveness. To the new salesperson, all the concepts added together might seem overwhelming. If you try to apply them all at the same time in your next sales call, the results could be much less than you hope for. As in learning any new skill, following a few guidelines can help you be successful.

First, understand the concepts and feel comfortable in how to apply them. You can accomplish this by completing the "Applying the Concept" exercises. Next, before going on your sales call, prepare by using the sales call preparation work-

sheets described in this chapter. Successful salespersons make preparation part of their daily sales routine. See the sidebar "Planning Sales Calls and Success" for an example from one experienced and successful salesperson. Select one or two of the sales call skills to focus on in your next sales call. Chances are you are already in a sales position and making sales calls, so you need only to use the material in this chapter to modify your sales call routine and improve your effectiveness. As in any other activity that is new at first, it may feel awkward. You may stumble the first few times, but don't give up. If you are having a problem executing a sales skill, try doing some role-plays or single skill practice.

Review the seven common sales call skill deficiencies to learn if the one you are having a problem with is on the list.

If you are part of a sales team, include as part of your annual objectives a minimum of four level 2 reviews with your sales manager. You will benefit from having someone observe your sales call and from the sales manager's experience. Consider this practice as part of your personal TQM program. When selecting your level 2 review sales call, choose one that is in a low pressure, early in the opportunity management process, or in a sell opportunity during the execution stage, after you have been awarded the contract.

The sales call activity is one of several daily activities that occur between you and the account. The need-satisfaction process provides guidelines for how you conduct your sales calls. The sales call is a frequently used and important tool in the consultative selling approach. When properly conducted, the sales call can strengthen the relationship between you and your customer. It can also enable your company to provide services at a profit by capturing a portion of the added value that the customer recognizes you provide.

As stated at the start of the chapter, sales success is the natural consequence of consistently applying the basic fundamentals. For salespeople, the basic fundamental is the sales call.



Summary of Chapter Objectives

1. Understand the structure of the sales call.

The sales call is the application of the need-satisfaction process consisting of the **pre-call planning, execution, and review** immediately following the sales call. Sales representatives need to become proficient at every phase of sales call skills early in their careers. This is a five-step process consisting of preliminaries, opening, probing, supporting, and closing.

2. Understand and use the sales call skills.

The sales call is a key component of the sales representative's skills. Without good sales call skills, even a sales representative who has great products and services knowledge is unlikely to be successful. Sales call skills are built on the foundation of effective communication skills. The sales call structure starts with preliminaries; in this step, the salesperson reduces the initial tension that may exist early in the sales call and uses this time to build rapport, let the customer know what preparation you have done, confirming the time available for the meeting, and asking permission to take notes. After the preliminaries is the opening. In the opening the sales representative introduces the topic of discussion by stating the agenda and the means to be used to convey the messages. The means may consist of a presentation, showing examples, introducing another team member, and so on. After the agenda has been presented, the sales representative states the value the customer should receive from the meeting and, before beginning the discussion, confirms acceptance by the customer and checks for the customer's agenda.

The **discussion** part of the sales call delivers the message the sales representative wants to convey. This involves **probing** and **supporting** customer requirements. There are two main probing strategies.

The first and most common is **customer lead probing**. The sales representative primarily uses open probes to gain a deeper understanding of the customer's business **situation, problems, or opportunities,** plus **implications** of the problem or opportunity, which reveal **needs** and **payoffs** for addressing the problem or opportunity.

The second probing strategy is the **sales lead probing strategy**. It is used typically as a backup to the customer lead probing strategy, when the customer lead probing strategy does not uncover all the requirements for which you can provide a solution. The sales lead probing strategy uses a combination of **open** and **closed probes** to confirm the requirements the sales representative believes the customer may have. Executing this strategy requires several steps. The sales representative develops a probing sequence that confirms the **problem** exists, determines the size or **magnitude** of the problem, confirms the **consequences** of not addressing the problem, and finishes with a **look/listen** probe. The latter probe establishes whether the customer would like to have more information on how your company can address the problem or issue.

The sales representative should identify a requirement, have a complete and mutual understanding of the requirement, and know how his or her company can provide a solution. Next, the sales representative **supports** the requirement with a **feature** and **benefit.** In a supporting action, the sales representative **acknowledges the need, describes the relevant features and benefits, demonstrates capabilities, checks for customer acceptance**, and then **tests for a specific customer value**.

The sales meeting may involve a variety of probing and supporting sequences. These continue to the point at which the customer or the sales representative has no more to offer for expressed requirements. It is critical for the sales representative to be as efficient as possible during the discussion. The task is to quickly identify requirements the customer is prepared to address. The salesperson then supports, presenting only features and benefits relevant for the customer's requirements. To ensure that the discussion process is conducted as efficiently as possible, the sales representative uses the communication skills of **aligning**, monitoring **tension levels** during the discussion, and staying at **level 1 listening.** Every attempt should be made to keep the customer at the higher levels of listening and involved in the discussion. The sales representative must stay alert to recognize the customer's closing signals and know when to conclude the meeting.

The last step in the need-satisfaction process is the closing. In the closing, the salesperson starts by asking if there are any **other issues** the customer wants to discuss. This is followed by a **review of accepted benefits, asking for the next steps** and **confirming acceptance**.

3. Apply the total quality management (TQM) process to the sales call process and complete the preparation and analysis steps before and after each sales call.

The TQM process for sales calls consists of **pre-call planning, execution**, and **post-call outcome analysis**, followed by a level 1 sales effectiveness review conducted after each sales call and, finally, a level 2 sales effectiveness review conducted on a less frequent basis.

The pre-call planning is conducted before each sales call and consists of completing the sales call preparation worksheet. The worksheet facilitates pre-call planning, the execution of the call, and post-call analysis. The sections of the sales call worksheet are the **buying center profile**, a list of **possible actions** the customer could take, and agreed-to actions you could take to advance the sales strategy for the opportunity. The other sections are the **preferred objectives** for the sales call and appropriate tactic(s) for the sales call, a list of questions the sales representative wants to have answered by the customer, questions the customer may have for the salesperson, planned **probing strategies**, **sales call supporting worksheet**, **closing summary**, and **level 1 review form**. Using the sales call preparation worksheet, the sales representative is now well prepared to conduct a successful sales meeting.

Immediately after the sales call, the sales representative concludes the sales call processes by completing a **post sales call analysis**. In the post sales call analysis, the sales representative completes a **sales call outcome analysis** by summarizing and communicating the **action items** to sales team members who need know what was agreed on with the customer in the sales call. The sales representative also classifies the **outcome** of the sales call as a **success**, resulting in an **order or advance**, or as **unsuccessful**, resulting in a **continuation or rejection** of any next steps proposed by the sales representative. Based on the outcome of the sales call, the sales representative completes a **strategic review** and decides if the opportunity sales plan should have a **tactic** added, modified, or removed. The post sales call analysis should be entered into the CRM database as a **Customer Visit Report (CVR)**. The final step of the post sales call analysis occurs when the sales representative completes a **level 1 sales effectiveness review**. In this review, the sales representative evaluates the execution of each step of the sales call. The object is to identify strengths and improvement areas, and to develop a plan to leverage the strengths and simultaneously target areas for improvement in future sales calls.

On a less frequent but regularly scheduled basis, the sales representative should complete a **level 2 sales effectiveness review**. This review requires the presence of either the manager or other sales professional trained in the sales processes. This meeting observer will accompany the sales representative on a sales call and observe the interactions. The outcome of a **sales call observation** is a critical review of the sales representative's sales skill strengths and weaknesses as well as action plan for improvement. The **improvement areas** can be classified as **sales skills, account knowledge**, or **technical product or service knowledge**. The actions can include **practicing** specific skills, conducting **role-plays**, preparing better**, researching** the account, **observing** a modeling sales call, attending **training**, and completing **other actions** as agreed between the observer and sales representative.



Applying the Concepts

1. Complete a sales call preparation worksheet and level 1 review for an upcoming sales call you have planned. Be as thorough as possible when completing the different parts of the worksheet. Take time to develop your list of possible actions to advance the sales strategy and a list of questions you would like to have answered in the sales meeting a well as questions your customer may have of you. Show your sales call preparation worksheet to another salesperson who is familiar with the account. Ask for input regarding your plan and the social profile of the contact(s) you are going to meet. The electronic version of the sales call worksheet is available from the textbook website.
2. Develop a sales aid for one of your key services or products that you can use in an upcoming sales call to demonstrate capabilities. When developing your sales aid, be sure it fits onto one sheet of paper and is customized for the specific customer contact you are visiting. Be certain it is appropriate for the customer's social profile, technology adaptability, and role in the buying center. Develop a brief, clear feature benefit description and an example application. If possible, include a list of references and list of recent accounts who have used the product or service. On the backside of your sales aid, list information you would require to calculate the specific dollar value the benefits would create for the account. Refer to the guidelines in Chapter 6 "Sales Activities" for creating a proposal.
3. What processes should you have in the region to enable the sales team to consistently capture supporting materials and produce sales aids for use in your sales meetings? What additional steps would be needed to make the materi-

als ready for use in advertising in your local chapter of a professional society newsletter? Would this be a program that could impact the success of the region? Who would have to be involved in the program and what types of incentives would be needed to make the program a success?

4. Are there any changes you can recommend to improve the sales call preparation and outcome analysis worksheets?
5. Assuming you have completed a sales call using the sales call preparation worksheet, how beneficial would you rate this practice on a scale of 1 to 5, where 1 is no benefit to you and 5 is excellent?
6. Who in the region would be best qualified to assist in a salesperson's level 2 sales effectiveness review? How many level 2 reviews should a salesperson complete per year? Should the level 2 program be part of the salesperson's incentive program? Should it be part of the sales manager's incentive program?
7. Which of the sales call skills do you find the most difficult to execute? Why do you find these difficult? Which ones do you find the easiest? Why do you find these easy?
8. Discuss and compare the techniques you use to execute the sales call with other salespeople in your office.



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4. Adopted from Rackham, N.: *SPIN Selling.*
5. There are many probing strategies that have been developed over the centuries, beginning with the Socratic method, also known as the method of elenchus, elenctic method, or Socratic debate. This technique is named after the classical Greek philosopher, Socrates. It is a form of inquiry and discussion between individuals, based on asking and answering questions to stimulate critical thinking and to illuminate ideas. One of the modern techniques developed by the PAR Group is explained in their book *Cracking the Code to Leadership: The PAR Skills.* Their technique uses the acronym, NIQCL (pronounced "nickel"), which stands for understanding how others feel about Needs, Importance, Quantify, Consequences, and Look/Listen.
6. Herrington, G., & Malone, P.: *Cracking the Code to Leadership: The PAR Skills*, West Conshohocken, PA, Infinity Publishing (2007).

Appendix A

Sales Call Preparation Worksheet

Date:_____ **Account:**_____ **Opportunity:**_____

Stage:_____ **Competitive Strategy:**_____

Reviewed Account Corporate Profile? ☐Yes ☐ No_____

BUYING CENTER PROFILE

Contact	Position	Role	Social Style	Technology Adoption

CRM Database up-to-date and complete? ☐Yes ☐ No _____

Social Style Preferences

ALIGNING STRATEGIES

Social Style	Driver	Expressive	Amiable	Analytical
Factors Likes:	Control	Social	Supportive	Detailed
Measures personal value by:	Power Results	Applause Support	Approval Attention	Respect Activity
Needs environment:	Responds	Inspires to their goals	Suggests	Provides details
For decisions give them:	Options and probabilities	Testimony incentives	Guarantees and assurances	Evidence and service
Take time to be:	Efficient	Stimulating	Agreeable	Accurate
Support their:	Conclusions and actions	Dreams and intuitions	Relationships	Principles

OBJECTIVES

Sales Call Tactic(s):

☐ Prove value
☐ Retrieve information
☐ Insulate against competition
☐ Minimize weaknesses
☐ Emphasize strengths

Sales Call Primary Objective:_____

Backup Objective:_____

Preliminaries

PRELIMINARIES

Business Card ___ **Rapport** _____ **Preparation** _____ **Time** _____ **Notes** _____

Video _____

OPENING

Agenda:_____

Value Proposition:_____

Check for Acceptance:_____

Check for Customer's Agenda:_____

Appendix A

Sales Call Preparation Worksheet

Actions

Actions the customer should agree to do to achieve the sales call objectives:	D Desirable	F Feasible	R Ranking
1	High Med Low	High Med Low	
2	High Med Low	High Med Low	
3	High Med Low	High Med Low	
Actions your company should take to achieve the sales call objectives:			
4	High Med Low	High Med Low	
5	High Med Low	High Med Low	
6	High Med Low	High Med Low	

ACTIONS

Questions

Questions you want to ask: 4 P's of Questioning, Prefacing, Phrasing, Pacing, Pursuing

		S Situations	P Problems	I Implication	N Need Payoff	✔ Answer
1	Preface Question					
2	Preface Question					
3	Preface Question					
4	Preface Question					
5	Preface Question					

Questions the customer may want to ask you: Capabilities, Personnel, Management, References, Pricing, Service, OSH&E, Problems, Successes

1 Question
Answer

2 Question
Answer

3 Question
Answer

4 Question
Answer

5 Question
Answer

QUESTIONS

Appendix A

Sales Call Preparation Worksheet

Customer Lead

Situation Probes: Probe about the current situation.

Problem/Opportunity Probes: Probe for problems or key factors for opportunity. Visualize open probes.

Implications Probes: Probe about the implications of problem or opportunity.

Need Payoff Probes: Probe about benefits of addressing problem or opportunity.

CUSTOMER LEAD PROBING

Sales Lead: short description of the problem or issue

Problem/Opportunity Probe: Probe to confirm if problem or opportunity exists.

Quantifying Probe: Probe to confirm the size and frequency of the problem or opportunity.

Consequence Probe: Probe to identify consequences of inaction.

Look/Listen Probe: Probe to confirm willingness to see or hear how you can assist with this issue.

SALES LEAD PROBING 1

Sales Lead

Problem/Opportunity Probe:

Quantifying Probe:

Consequence Probe:

Look/Listen Probe:

SALES LEAD PROBING 2

Sales Lead

Problem/Opportunity Probe:

Quantifying Probe:

Consequence Probe:

Look/Listen Probe:

SALES LEAD PROBING 3

Appendix A

Supporting Worksheet

Sales Call Solution Profile

Customer Need	Feature/Benefit	Support	Test for Value
Supporting 1. Acknowledge 2. Describe feature benefit 3. Demonstrate capabilities 4. Check for acceptance 5. Test for value		**Possible Objection:** ☐ Indifference ☐ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support Documents:**	**Estimated Value:** **Parameters:**
Customer Need	**Feature/Benefit**	**Support**	**Test for Value**
Supporting 1. Acknowledge 2. Describe feature benefit 3. Demonstrate capabilities 4. Check for acceptance 5. Test for value		**Possible Objection:** ☐ Indifference ☐ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support Documents:**	**Estimated Value:** **Parameters:**
Customer Need	**Feature/Benefit**	**Support**	**Test for Value**
Supporting 1. Acknowledge 2. Describe feature benefit 3. Demonstrate capabilities 4. Check for acceptance 5. Test for value		**Possible Objection:** ☐ Indifference ☐ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support Documents:**	**Estimated Value:** **Parameters:**
Customer Need	**Feature/Benefit**	**Support**	**Test for Value**
Supporting 1. Acknowledge 2. Describe feature benefit 3. Demonstrate capabilities 4. Check for acceptance 5. Test for value		**Possible Objection:** ☐ Indifference ☐ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support Documents:**	**Estimated Value:** **Parameters:**

Post Sales Call Analysis

Closing

Closing
1. Check for any other issues
2. Review benefits accepted
3. Propose next steps
4. Check for acceptance

Objective Achieved:
- ☐ Primary
- ☐ Backup
- ☐ Other
- ☐ None

Accepted Benefits:

Total Value Accepted:

Sales Call Outcome Analysis:

Successful: ☐ Order ☐ Advance **Unsuccessful:** ☐ Continuation ☐ Rejection

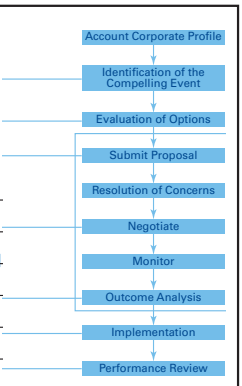
Opportunity Management Process Review:

Probability of Winning Opportunity: _____%

Updated timing for opportunity management process milestones:

Analysis:

STRATEGIC
POST SALES CALL
OUTCOME ANALYSIS



PRIME Tactic Response: ☐ Add a tactic ☐ Cancel a tactic ☐ Modify a tactic ☐ No change

Responsible	Description	Due Date
1.		
2.		
3.		

NEXT STEPS
ACTION ITEMS – TACTICS

CVR entered into CRM Opportunity ☐ _____

CRM Account, Contact, Opportunity Information Updated ☐ _____

Level 1 Sales Call Effectiveness Review:

Process	Need Improvement	Good	Very Good	Comments
Preliminaries				
Opening				
Customer Lead Probing				
Sales Lead Probing				
Supporting				
Closing				
Objection Handling				
Presence				
Relating				
Questioning				
Answering Questions				
Listening				
Checking				
Positioning				
Handling Tension				

PROCESS

CRITICAL
COMMUNICATION
SKILLS

Support Documents:
☐ Need to develop _____ ☐ Need to modify _____

Appendix C

Level 2 Sales Effectiveness Review

Sales Engineer:	Account:	Contact:	Observer:	Date:

Sales Call Objective:

Sales Call Skill Focus:

Sales Call Preparation Worksheet reviewed ☐ Account Profile ☐ Sales Plan ☐

Steps	Greeting	Rapport	Preparation	Time Check	Notes
Preliminaries					

Steps	Agenda	Value Proposition	Check for Acceptance	Check Customer's Agenda
Opening				

Steps	Situation	Problem	Implications	Need Payoff Confirmation Probe
Customer Lead				

Steps	Problem	Quantify	Consequences	Look/Listen
Sales Lead				

Steps	Acknowledge Requirement	Feature Benefit	Demonstrate Capabilities	Check for Acceptance	Test for Value
Supporting					

Objection Handling

Steps	Probe to Understand Customer's Position	Acknowledge Customer's Position	Ask Permission to Probe	☐ Problem ☐ Quantify ☐ Consequence ☐ Look/listen
Indifference				

Steps	Probe to Understand Concern	Acknowledge Customer's Concern	Acknowledge Requirement Not Met	Explain Feature Benefit	Check for Acceptance
Misunderstanding					

Steps	Probe to Understand Concern	Acknowledge Customer's Concern	Offer Relevant Proof	Check for Acceptance
Skepticism				

Steps	Probe to Understand Drawback	Acknowledge Drawback	Handle	Check for Acceptance
Drawbacks			☐ Research ☐ Redefine ☐ Trade-off ☐ Outweigh	

Steps	Check for Any Other Issues	Summarize Accepted Benefits and Value	Propose or Ask for Next Steps	Check for Acceptance	Thank the Client
Fear					

Steps	Acknowledge Customer's Concern	Connect with the Customer (story, analogy, metaphor)	Recommend Options to Move Forward	Check for Acceptance
Closing				

Critical Communication Skills

Skill	Opening	Probing	Supporting	Handling Objection	Closing
Presence					
Relating					
Questioning					
Answering Questions					
Listening					
Checking					
Positioning					
Handling Tension					

PRE-CALL BRIEFING
PRELIMINARIES
OPENING
PROBING CUSTOMER LEAD
PROBING SALES LEAD
SUPPORTING
INDIFFERENCE
MISUNDERSTANDING
SKEPTICISM
DRAWBACK
CLOSING
FEAR
SALES CALL DYNAMICS

Appendix D

Level 2 Sales Call Review

Sales Call Preparation	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Preliminaries	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Opening	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Probing Customer Lead	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Probing Sales Lead	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Supporting	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Customer Objection	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary
Closing	☐ Very good ☐ Satisfactory ☐ Improvement needed	Summary

COMMENTS

Presence	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Questioning**	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Listening**	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Positioning**	☐ Very good ☐ Satisfactory ☐ Improvement needed
Relating	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Answering Questions**	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Checking**	☐ Very good ☐ Satisfactory ☐ Improvement needed	**Handling Tension**	☐ Very good ☐ Satisfactory ☐ Improvement needed

Summary

Action Plan

PERFORMANCE AREA		IMPROVEMENT ACTIONS
☐ Technical knowledge ☐ Account knowledge ☐ Sales skill	☐ Observation ☐ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	
☐ Technical knowledge ☐ Account knowledge ☐ Sales skill	☐ Observation ☐ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	
☐ Technical knowledge ☐ Account knowledge ☐ Sales skill	☐ Observation ☐ Review ☐ Other ☐ Preparation ☐ Role play ☐ Research ☐ Training	

Appendix E

Sales Call Skills

Preliminaries

1. Greeting – Business card
2. Rapport building
3. Tell what you have done to prepare
4. Check timing
5. Permission to take notes

Opening

1. State agenda
2. Value Proposition
3. Check for acceptance
4. Check for customer's agenda or propose your agenda, or both

Probing

Customer Lead

1. Situation
2. Problem or Opportunities
3. Implication of problem or opportunity
4. Need payoff – Confirm your understanding of the problem or opportunity and implication.

Probing (cont.)

Sales Lead

1. Problem or opportunity – Confirm the issue exists for customer
2. Quantify the size of the issue
3. Consequences what would happen if the issue was not addressed
4. Look/Listen would the customer like to see or hear more on how you could assist them in addressing the issue

Supporting

1. Acknowledge the need
2. Describe feature and benefits
3. Demonstrate capabilities
4. Check for understanding
5. Test for value

Closing

1. Check for any other issues
2. Review accepted benefits
3. Ask customer for next steps or propose next steps
4. Check for acceptance
5. Thank the client



Handling Customer Objections



Getting to Yes!

Previous chapters have discussed the consultative selling approach and how to apply the need-satisfaction process in the key selling activities throughout the opportunities management process. By following this professional sales discipline, you have a better appreciation of customer requirements and higher business drivers. With these sales skills and customer knowledge, you will be able to prepare proposals that are aligned to the customer's requirements and demonstrate your solution's value. Even with your best efforts, however, there will be situations when the customer will have concerns or will not accept your recommendations. Such situations are classified as customer objections. See **Fig. 8.1.**

Chapter Objectives

After reading this chapter, you will be able to:

- Describe most common customer objections encountered during the consultative selling approach process.
- Understand how to react and overcome common customer objections.
- Prepare strategies to avoid customer objections.

Customer Objections

This chapter discusses how to handle the five most common causes of customer objections, as follows:

- Indifference
- Misunderstanding
- Skepticism
- Drawbacks
- Fear



Fig. 8.1
Common customer objections.

The five types of customer objections can occur at any phase of the opportunity management process. The salesperson is responsible for trying to minimize customer objections by anticipating them and preparing strategies that address the customer's concerns. The best time to address customer objections is early in the opportunities management process—ideally in the evaluation

of options phase. But sales staff should also be prepared to address customer concerns that arise later in the opportunity management process.

General Framework of How to Handle Objections

The standard approach to handling any customer objection is as follows:

1. Probe to understand the negative reaction
2. Acknowledge the negative reaction
3. Handle as per the specific negative reaction guidelines
4. Check for acceptance from the customer

By applying this model whenever you get a negative reaction from a customer, you will immediately become more confident and better at handling the situation. Each step will be discussed briefly below, and then the handling of each instance of customer negative response will be addressed in detail.

Probe to Understand the Objection

When the customer states an objection, such as "you are too expensive," the salesperson must probe to gain a better, more detailed understanding of why the customer is stating this before trying to address the response. As stated earlier, there are five main factors that can cause the customer to have an objection during your discussion, and you must identify the cause before attempting to handle the objection. For example, below are all possible answers to the common "you are too expensive" objection.

- **Customer:** "You are too expensive."
  Salesperson: "Can you help me understand why you say that?"
- **Customer response 1:** "What you are suggesting is interesting, but I think we are okay for now—doing it like we always have before." *(indifference)*
- **Customer response 2:** "All those benefits you described. I'm just not confident you will deliver." *(skepticism)*
- **Customer response 3:** "Well, your competitor is offering me the same thing at 20% less." *(misunderstanding)*
- **Customer response 4:** "I have verified that the competitor is offering the exact same product with the same specifications and delivery date." *(drawback)*
- **Customer response 5:** "Your product does not let have the same options as your competitor." *(technical drawback)*
- **Customer response 6:** "Look, I understand what you are offering. But not at this time." *(fear)*

The above examples are all possible responses in customer objection. If you do not understand the reason for the objection, continue to probe until you do and then move to the next step. When the customer does express an objection, ensure that you always express empathy and interest in what the customer has expressed. This can be done with:

- Speaking slower and with an emphasis on "help me understand."
- Using body language (nodding your head, leaning forward, looking concerned).
- Prefacing before you start questions. Prefacing is the statement of why you are asking questions and makes the customer feel comfortable with your

▶ ***Do You Care?***

If you are being asked if you care, then you need to read this carefully. Empathy with customers is a very important part of demonstrating your understanding, and nowhere is that more important than when the customer has an objection you want to resolve.

Below are some tips on how to be more empathetic:

Put aside your viewpoint, and try to see things from the other person's point of view.

When you do this, you'll realize that other people most likely aren't being evil, unkind, stubborn, or unreasonable. They're probably just reacting to the situation with the knowledge they have.

Validate the other person's perspective.

Once you "see" why others believe what they believe, acknowledge it. Remember: Acknowledgement does not always equal agreement. You can accept that people have different opinions from your own, and that they may have good reasons for holding those opinions.

Examine your attitude.

Are you more concerned with getting your way, winning, or being right? Or, is your priority to find a solution, build relationships, and accept others? Without an open mind and attitude, you probably won't have enough room for empathy.

Listen.

Listen to the entire message that the other person is trying to communicate.

Listen with your ears: What is being said, and what tone is being used?

Listen with your eyes: What is the person doing with his or her body while speaking?

Listen with your instincts: Do you sense that the person is not communicating something important?

Listen with your heart: What do you think the other person feels?

Ask what the other person would do.

When in doubt, ask the person to explain his or her position. This is probably the simplest, and most direct way to understand the other person. However, it's probably the least used way to develop empathy.

questions. An example of prefacing for the "you're too expensive" objection is "20% more expensive certainly needs to be explained. Do you mind if I ask you a few more questions?" For more pointers on showing empathy, see the sidebar "Do You Care?"[1]

Acknowledge the Negative Reaction

Once you have a clear understanding of what is causing the objection, then you acknowledge. As recommended in the "Do You Care?" sidebar, acknowledging does not mean you have to agree. You can acknowledge their concern: "Okay, now I understand why you say that we are 20% more expensive" or "I can see now why you think that." While it is possible to show acknowledgment through body language (eye contact, head nod), it is important for you to verbally acknowledge what has been said. The client at this point should be ready to listen to what you have to say about their objection.

Handle as Per the Specific Objection Guidelines

Following this section on the general framework of how to handle objections is a discussion for each one of the five types of objections, as listed earlier. As you handle the objection specifically, addressing the root cause for the objection, you must continually check with the customer that they understand and ask whether they have any questions or concerns.

Check for Acceptance

The customer's objection has been handled successfully when they agree. Failing to check for acceptance if the customer is satisfied with your explanation could give you the wrong impression that the objection has been removed. The other scenario is that the salesperson incorrectly identifies the negative reaction, such as a misunderstanding when the objection was skepticism. In this situation the customer can give very good feedback as you explain your product or service because they do understand and, as you explain, you are in fact reinforcing their understanding, but

you have not addressed their skepticism. If you do not check after your explanation if the customer is satisfied with your answer and that the objection they had earlier has been resolved, you would not discover that the skepticism was still there. The first objection to be discussed is customer indifference.

Customer Indifference

For an open exchange of information on a sales call, the client must be interested in the exchange. Sometimes, sales staff must call on clients who are not strongly interested in meeting with them. This commonly happens when you engage with the customer before they have identified the compelling event, which is stage 2 of the customer project management process. Some of the reasons customers may be indifferent include:

- The customer does not realize it is possible to improve their company's current circumstances.
- The customer does not understand the importance of making an improvement, or the particular topic the salesperson wishes to discuss is low on the customer's list of priorities. See the "From Euphoria to Panic" sidebar for another classification of customer indifference.[2]
- The customer is currently in the implementation stage and is using and satisfied with a competitor's product or service. The competitor could be an internally supplied service. The customer assumes that, at the end of the current contract, the company will engage in a repurchase process.
- Previous experiences with your company have not met the customer's expectations.
- The individual customer feels that he or she may lose some control by working with your company.

Other clients may know that they need to improve their circumstances but may be indifferent because:

- They are unwilling to deal with the stress of change.
- They want to avoid decisions they perceive as risky.

Sales staff will know the client is indifferent when the client expresses satisfaction with their current circumstances. When clients are not interested in exchanging information, they may say:

- "We already use the competitor, and we're happy with them."
- "We like the way things are working. We don't need to make any changes."
- "We'd rather handle that internally. We have the resources for it."
- "Sorry. We're just not looking for any help in that area right now."

▶ *From Euphoria to Panic*

In the popular Miller-Heiman sales training seminar and book titled *Strategic Selling,* the author describes the buyer's perception of the need to change as being one of four states. These four states can also be compared to the degree of indifference as described by the probability of the customer taking action.

The four states of a customer's need for change, as described by Miller-Heiman, and the expected level of indifference are:

1. Growth. There is a gap between the results of today with the results needed for today and future expected demand. The probability of the customer taking action is high.
2. Trouble. The results today are projected to worsen in the future. The probability of the customer taking action is high.
3. Even keel. The results today and expected future needs are on track. The probability of the customer taking action is low. This customer may exhibit an indifferent attitude to any proposed changes.
4. Overconfident. The results today are better than expected, and the future appears to be under control. The probability of the customer making changes is low to none. This customer may exhibit an indifferent attitude to any proposed changes and, in fact, may consider any proposal for change as negative.

Each of these customers can cause the salesperson to have feelings ranging from euphoria to panic regarding the chance of making a sale.

Overcoming Client Indifference

The process of overcoming indifference must be handled tactfully as the salesperson can do more harm than good by implying that the customer is uninformed. Also, as stated before, the sales model discussed in this textbook is based on the consultative selling process to satisfy the customer's expressed needs and requirements. To overcome a customer's indifference, sales staff must not "push" your company products or services that have not been requested by the customer. Sales staff must maintain a tactful yet searching response to overcome customer indifference and apply the model in a way that is consistent with local cultural norms and expectations. Your approach should consider your knowledge of the custom-

▶ *How to Overcome Client Indifference*

When a client expresses indifference:

- Acknowledge the client's point of view.
- Request permission to probe.
- Use the sales lead probing process to create client awareness of needs.
- Support confirmed needs.

er's situation and social style. The steps to overcome client indifference are shown in the sidebar "How to Overcome Client Indifference." The first two steps bring the client to a point where he or she is willing to exchange information. The third step guides that exchange.

Acknowledging the Client's Point of View

Clients who are satisfied with things as they are may think that you'll try to sell them something they don't need. You can reassure a client that this is not your intent by making it clear that you understand and respect theirpoint of view. The time you spend on this step will depend on how you read the client's social profile and, sometimes, on what's appropriate to the culture. You might say: "I understand that you're happy with your current supplier," or "I hear you and appreciate that you're not experiencing any problems right now."

Requesting Permission to Probe

After acknowledging the client's point of view, request permission to probe by making an opening statement with a limited agenda. Your agenda is limited both in scope (asking a few questions) and in time (a few minutes, just long enough to find out if there's a reason for you and the client to continue talking now or at some point in the future). By proposing a limited agenda, you further reassure the client that you aren't trying to apply pressure.

As with other opening statements, you want to state the value of proceeding to the client and check for acceptance. Because you are attempting to reverse indifference, you also want to avoid any appearance of moving ahead without permission, which may seem arrogant or presumptuous. Again, client sensitivity to this point will reflect cultural norms and personality factors. You might say:

"I wonder if I might ask you just a few questions about what you look for in terms of data acquisition. Even though you're satisfied with your current vendor, we might find ways in which we could help you at some future time. Would a few minutes be all right?"

Another example might be:

"If you could spare just a few minutes, I'd like to find out a little about your current plans with regard to the Bintang field, which a lot of people are talking about now. We've had a fair amount of experience out there, some of which could be of value to you. Can you spare another minute or two?"

Use the Sales Lead Probing Process to Create Client Awareness of Needs

Once you've tactfully acknowledged the client's point of view and requested permission to probe, and the client has agreed to exchange information, you probe. The purpose of probing is to build the client's awareness of things that they might want to improve or accomplish and that you can help improve or accomplish.

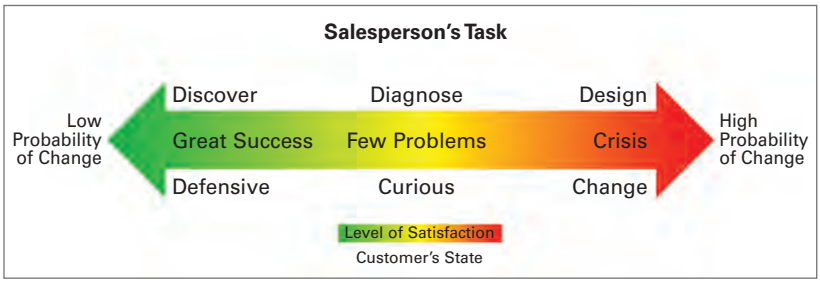
To probe to create client awareness of needs, use the sales lead probing strategy as described in Chapter 7 "Sales Call Skills." When you verify whether a current problem or opportunity exists, probe to focus quickly and certainly on an area of concern to the client. For example:

"What has your experience been with downtime using your current acquisition methods?"

Gather facts that quantify and qualify the problem in ways the client may not have done. Use these probes to "set up" the consequences questions you'll address next.

▶ *No Thank You, We Are Happy with Our Current Supplier*

The above statement is not uncommon when you are not the current supplier. Shown to the right is a graphic representation of the likelihood of change as a function of the customer's current level of satisfaction with a current supplier, from great to crisis.



In this scenario customers are indifferent because they are very satisfied with their current supplier; in this situation the customer would be on the left-hand side of the continuum and will appear to be indifferent or defensive during the conversation. Knowing the customer's level of satisfaction gives you a good indicator of the likelihood of change.

The secret is the salesperson's task. If the salesperson wants to improve their chances of winning, then they need to fully understand what factors contribute to their current successes. In this situation, the customer will not want to lose or stop what they believe is a great success. The salesperson will need to support this need by demonstrating to the customer they will continue to enjoy the current successes.

The second task for the salesperson, once the customer is confident they will not lose anything they are enjoying now, is to discover what areas they would like to see improvement in and then support those needs.

For example:

"Could you estimate the number of unproductive hours that you're paying for in an average week in that field right now?"

Focus on the consequences of inaction. Whenever possible, ask about the potential impact of the problem on the individual client. For example:

"Over the course of the project, what impact does this have on your schedule in terms of the objectives you set for the project?"

Gain the client's agreement to look at/listen to your ideas for a solution. You may use a simple closed probe or a visualizing probe. For example:

"It sounds to me like you might want to think about ways to reduce that downtime. Is that correct? If I could show you a way to cut those downtime costs significantly, would you like to hear what I have in mind?"

Support Confirmed Needs

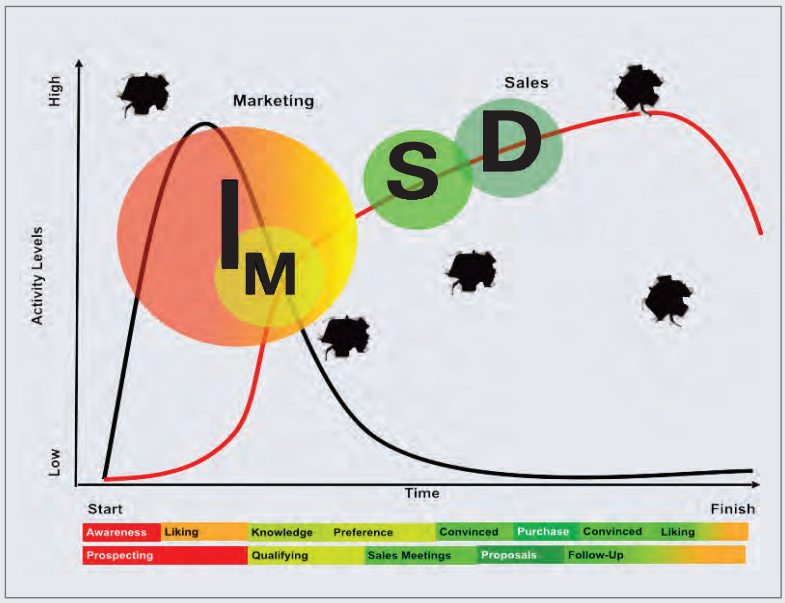
At this point, if the customer has agreed that this is a need worth discussing, you can begin to support the need as discussed in Chapter 7 "Sales Call Skills."

Sometimes a client's indifference takes you by surprise. Then, you depend on your ability to apply the technique to overcome indifference immediately. An important factor to remember when addressing the customer's indifference is if, at any point during the discussion, the customer does not acknowledge any step in the process, then you acknowledge the customer's feedback, stop the process, and either move onto another sales lead probing sequence or move onto closing the call.

It is not uncommon to discover indifference when prospecting or that you are not the current supplier for a company. See the sidebar "No Thank You, We Are Happy with Our Current Supplier." Knowing how to handle indifference and all the customer objections is an important sales skill. At the end of this chapter, there will be a discussion of corrective actions for salespeople having difficulties handling objections similar to the section on common problems in Chapter 7 "Sales Call Skills." However, when you discover indifference and if it is occurring frequently in your customer base, you want to ask why this is happening so often and what the root cause for the indifference is. If you are interested in the answer, read

Chapter Highlight 8.1: Is Your Marketing and Sales Plan Bulletproof?

If you feel like your customers are constantly shooting at you when you are trying to execute your sales activities, this chapter will help you dodge the bullets, but maybe a better solution is have the customers put their guns away.



Shown in the figure on the right is a plot of marketing and sales activity levels for one opportunity on the Y-axis and the buyer readiness stages and sales activities as a function of time on the X-axis. In Chapter 1 "The Role of Marketing and Sales," however, the buyer readiness stages stopped at "Purchase". In the figure, after purchase the stages of "convinced" and "liking" are repeated. The reason for this is in B2B sales as part of the follow-up activities and as described in Chapter 4 "Opportunities Management," savvy salespeople know they should convince the people in the buying center again after the purchase that they made the correct decision by choosing their company. This will insulate them from their non-supporters during the implementation stage. Also in B2B sales at the end of the project as part of the follow-up activities, the salesperson should never miss the opportunity to say thank you to help build the "liking" opinion the customers have for your company.

The plot shows that, in the early stages of the buyer readiness stages, marketing activities should be high to target the buyer readiness stages of "awareness", "liking," "knowledge," and "preference" and supports the salesperson's activities of "prospecting" and "qualifying." As time goes by, "leads" become "confirmed opportunities," the sales activities increase, and the salesperson has sales meetings, presents proposals, and follows-up with their prospects. Based on this, a potential root cause of "indifference" can be your marketing communications program (MCP) not building "awareness" or making sufficient product comparisons to create "Preference" for your company. If this is the case, then adjusting the MCP may eliminate many of the indifference objections.

If there is a lot of "misunderstanding," then more effort should be made to educate your target audience. Perhaps less effort can be given to advertising and more to company-sponsored training seminars or lunch-and-learn sponsored events.

Once leads have been confirmed, salespeople become more active with the prospects as shown in the figure. Before the customer makes their "purchase" decision, the salesperson has to convince the customer their proposal is the best for them. If there is a lot of "skepticism" in sales meetings and when presenting proposals, then the marketing and sales collateral is weak or the supporting skills of the salespeople is weak—or a combination of both. Marketing and sales must work together to ensure that they have the appropriate demonstration of capabilities to convince the different buyer types they sell to.

If there are too many drawback objections, then either your pricing is wrong or the salespeople are not testing for value in the final step of supporting. The cause for this could be the marketing and sales collateral is not capturing documented references of customers enjoying real value as a result of using your product and services or salespeople's weak supporting skills. A high frequency of skepticism or drawback objections requires that the situation be reviewed by the sales manager and that level two sales effectiveness reviews be completed in order to confidently isolate the root cause for too many objections.

Chapter Highlight 8.1: Is Your Marketing and Sales Plan Bulletproof? (cont.)

The focus of this chapter is how to handle customer objections when you are confronted with this in the customer's office. If you are experiencing frequent objections, have a discussion with your sales manager and review your MCP and your supporting skills. Then maybe there will be less shooting.



Now for the bad news. If you discover indifference during the sales meeting, don't be surprised if you have to deal with misunderstanding, then skepticism to finally overcome a drawback. It is like a domino effect. The bottom line: Work as a team with marketing, do an excellent job of supporting, and you will have fewer bullets to dodge.

▶ ***Resolving a Misunderstanding***

The customer expresses a misunderstanding when it's clear that he or she thinks you can't provide a feature or benefit you can provide. To resolve the misunderstanding:

- Probe to understand the concern.
- Acknowledge the concern.
- Confirm the need behind the concern.
- Support the need as per the supporting process.
- Check for acceptance.

Misunderstanding

With a misunderstanding, the client thinks you can't satisfy a particular need that you can satisfy. While there may be many reasons for the client's misunderstanding, it is often because the need hasn't been discussed and supported or the customer has made an assumption regarding your capabilities without having complete information.

Resolving a Customer Misunderstanding

You know the customer has a misunderstanding when they express dissatisfaction with a feature or lack of a feature of your product or service. For example, the customer may say something like "What you have said sounds good, except we need to be able to do more than what your tool does" or "We can't use that service because I've heard that it won't work in our conditions."

Eliminate a misunderstanding by taking the following steps:

Probing to Understand Misunderstanding

When the customer expresses a misunderstanding, you first probe to ensure that you fully understand the misunderstanding—as you did when the customer expressed skepticism—and let the customer frame the misunderstanding in their own words. You might use an open clarifying probe to have the customer describe the misunderstanding in more detail. For example, "You said that you can't use this service. Why is that?" or "You said the service will cost more than what you are using today. What do you mean by costs more?"

Acknowledging Customer Misunderstanding

Once you have a complete understanding of the customer's concern, address the misunderstanding. By acknowledging the customer's misunderstanding, you are providing feedback to the customer that you understand what it is that your product or service can or cannot do. For example, you might say, "Okay, I understand now what it is that you need" or "I see why that is important."

Once the customer acknowledges your feedback, move to the next step. If the customer does not acknowledge your understanding, you must keep probing until your understanding is confirmed.

Confirm the Need Behind the Concern

Next, probe to discover the need behind the concern. To confirm the need, use a closed probe that includes the language of needs. For example:

Client:	"Your approach is interesting, but there's a problem. I think it's too limited for our application."
Salesperson:	"Why is that?" *(probe to understand the concern)*
Client:	"Well, it sounds like a good way to do candidate selection more systematically. But that's not necessarily enough. What about during and after treatment? That doesn't seem to be on the program."
Salesperson:	"So you're looking for a way not only to identify wells, but, to evaluate the treatment during pumping, and then do a post-job evaluation, right?" *(confirming probe to transform the expression of a problem into an expression of a need)*
Client:	"Exactly."

Once you've confirmed the need behind the concern, as above, you may have to probe further about the "what" and "why" of the need to be sure you have a clear understanding before you support.

Supporting the Need

Once you've confirmed the need behind a misunderstanding and have a clear understanding of the need, proceed as you would with any need you can satisfy—that is, support it by acknowledging the need, describing relevant features and benefits, demonstrating capabilities, checking for acceptance, and testing for value.

▶ ***Resolving Skepticism***

The customer expresses skepticism when he or she doubts a feature, benefit, or value you have described. To resolve the skepticism:

- Probe to understand the concern.
- Acknowledge the concern.
- Offer relevant proof.
- Check for acceptance.

Skepticism

When you make a support statement, clients sometimes doubt that your product or organization has the features or can provide the benefits you've highlighted. The client may say:

"I'm not convinced you can cut my costs combine significantly" or "You've done all that in conditions like the ones I'm looking at? I don't think so."

When a client expresses doubt that a product, service, or capability does what you've said it does, you've encountered skepticism. The steps to handling customer skepticism are described below.

Overcoming Customer Skepticism

When a client first expresses skepticism, the nature of the concern may not be clear. When you're not 100% sure why the customer is skeptical, probe until you are sure before responding. The customer may be skeptical for many reasons, including previous experiences with another organization or with your company.

Probing to Understand Skepticism

It is best to let clients frame issues in their own words. Once you have a complete understanding, you can respond appropriately and effectively. You might use an open clarifying probe to have the customer describe the skepticism in greater detail. For example:

"You said that you find that hard to believe. Why is that?"

"You seem skeptical about what I have said. Why is that?"

"What would you like to see to feel more comfortable with what I've shown you?"

Once you have an understanding of why the customer is skeptical, move to the next step of handling skepticism.

Acknowledging Customer Skepticism

By acknowledging customer skepticism, you provide feedback to the customer that you understand why they are skeptical. For example you might say:

"Okay, I understand now that you need more examples of where we have achieved similar cost reductions of this size"

"I see this is the first time you have heard of this service."

When acknowledging a client's skepticism (or any concern), be careful not to suggest that there are problems with your product or organization. In other words, don't say things such as "You're right" or "Many of our clients have that same concern."

Equally important, don't become defensive, argue, or debate the client. Depending on cultural sensitivities and social profile factors, taking an adversarial stance can quickly destroy rapport and undermine even a promising relationship. At this point, simply make it clear that you can appreciate the client's point of view.

Once the customer acknowledges your feedback you are ready to move to the next step. If the customer does not acknowledge your understanding, you have to do some more probing until your understanding is confirmed.

Offer Relevant Proof

Once there is a mutual understanding of the skepticism, offer proof by providing evidence that your solution does have the feature and/or does provide the benefit and value you've described. For example, suppose you told a customer that your company has considerable experience for companies operating in similar conditions. You might say:

"Here's a list of the jobs we've done in similar areas. As you can see, it includes several projects the same size as yours in terms of the number and condition of the wells."

In offering proof, make sure the proof you offer is relevant—that it addresses the specific feature or benefit the client is skeptical about. When you have several proof sources, use the one that best addresses the specific feature or benefit the client is skeptical about and is best suited for the customer's social profile. See the "Pick a Proof, Any Proof" sidebar for suggested resources.

Checking for Acceptance

After offering proof, check to make sure the client accepts it. If the client rejects your proof, probe to find out why and, if possible, offer a different, more appropriate proof if you can. Or ask the client what they need for them to be confident that you can do what you claim. Whatever you sell, it's important to know which features and benefits clients tend to be skeptical about and to identify credible proof sources for them.

▶ *Pick a Proof, Any Proof*

Below is a list of proof sources commonly used by sales representatives. Having a library of sales aids, or proofs, is a valuable resource for any sales representative.

- Professional society and other technical papers
- Anecdotal evidence/case histories
- Testimonials (written, on-the-spot calls)
- Technical journals
- Cost analyses
- Demos
- Certification sheets
- Brochures and other product literature
- Field tests and other reports
- Services team names and qualifications
- Statistics

Drawbacks

When the client is skeptical or has a misunderstanding, once the objections are removed the customer should agree to use your product or service because it satisfies their needs. Drawbacks are different in that your product or service cannot do what they need or has something they do not want. In this regard, your offering is not ideal. Drawbacks are usually expressed as a:

- Technical drawback. The client is dissatisfied because your company does not have a desired feature or has an undesirable feature. The technical drawback is easier to address during the evaluation of options phase. If technical drawbacks are expressed during the procurement stage, there may not be sufficient time to resolve the drawback, and the situation indicates that you did not fully understand the customer's requirements well enough early in the opportunities management process
- Financial drawback. "We would like to use you but you're too expensive." This is commonly expressed during the procurement phase and specifically during the negotiations stage.

Resolving a Drawback

You know the customer has a drawback with your product or service when they express dissatisfaction with a feature or lack of a feature or benefit of your company's product or service. To handle a drawback, follow the steps described below.

Probing to Understand Drawback

When you encounter a drawback, it's particularly important to probe to understand the need(s) behind it—what the client wants and why. Even though you can't provide the particular feature or benefit the client is looking for, you can still position your response to show that the features and benefits you do provide contribute to the overall results he or she is looking for. When you encounter a drawback, it's important not to dismiss it as unimportant. Responding openly to drawbacks demonstrates your integrity and reflects positively upon both you and your company.

Acknowledging the Concern

As with the other types of concerns you've considered, you acknowledge a client's concern to let them know you understand and appreciate it. You might say:

"I can see why you'd want to work with people you've known and trusted over the years."

As before, once you acknowledge the customer's concern, check for acceptance and then move to the next step. You might say something similar to:

"Is that your concern?"

Tactics for Handling a Drawback

Once you complete the first two steps in resolving a drawback, decide how best to handle the specific drawback. Four tactics can be used for resolving a drawback:

- Research
- Outweigh
- Redefine
- Trade-off

▶ *Resolving a Drawback*

The customer expresses a drawback when he or she is dissatisfied with the presence or absence of a feature or benefit. To resolve a drawback:

- Probe to understand the concern
- Acknowledge the concern
- Select the most appropriate technique or combination of techniques for addressing the drawback:
  - Research
    - – Request time to involve your company's technical resources
    - – Make recommendation based on new technical solution
  - Outweigh
    - – Refocus on project objectives
    - – Offset cost of drawback with value of previously accepted benefits
  - Redefine
    - – Suggest modified definition of evaluation criteria
    - – Introduce benefits of your solution
  - Trade-off
    - – Refocus on project objectives
    - – Offset drawback with strengths of your solution
- Check for acceptance

Each tactic is best used for the drawback situations described next. However, there will be times when resolving a drawback to the customer's satisfaction may require using one or more of the tactics combined.

Research. When the drawback is technical in nature and you are unsure as to whether an alternative technique or solution to the customer's technical requirement exists, ask the customer for time to research their requirement. You might say something like:

"That is the first time I have had a customer request that capability. If you agree, I can go back the office, make a request in our technical support system, and get back to you tomorrow on how we can address that need."

Requesting time for research serves two purposes. First and most important, you might find a technical solution to the customer's requirement that you were not aware of. By finding a solution you can go back to the customer and support the need as described in the supporting section in Chapter 7 "Sales Call Skills."

Second, it demonstrates to the customer that even though you may not have an immediate solution to the requirement, you have the support of your company's technical community.

If you cannot find a technical solution to satisfy the customer's requirement, or based on previous experience you are confident that your company cannot provide the customer with the feature, service, or benefit they need, then use one of the other techniques listed below to overcome the drawback.

Outweigh. Use the outweigh option when you can demonstrate financially to the customer that the cost of the drawback is more offset by the financial gains of the unique features and benefits of your solution the customer accepted earlier in the sales process. By using the outweigh technique, you are building the strength of other important criteria.

This tactic is commonly used when the customer objects to the cost of your product or service without taking into account the reduction in other costs, such as rig time, support, and installation. To implement this strategy effectively, you must understand the customer's objectives for the project, as discussed in Chapter 2 "Value Drivers," and demonstrate how your solution impacts the project objectives.

Outweigh is the preferred technique for addressing a drawback; it eliminates the danger of challenging crucial criteria (such as the techniques stated on page 290) and concentrates on building the importance of other criteria. However, for this technique to successfully overcome a drawback, you must have the customer's agreement on the dollar value of previously accepted benefits. Ideally, this agreement was obtained done during the evaluation of options phase of the opportunity management process.

To use the outweigh technique, probe to ensure that you fully understand the drawback from the customer's point of view and then acknowledge the client's concern. Next, help the client put the drawback in perspective—to consider it within the broader context of their other needs.

You can do this by inviting the client to step back and look at the bigger picture. You might say:

"From what we've discussed so far, there are other aspects of this project that are also important to you. Let's step back for a moment and consider everything together."

"Would you mind if we took just a few minutes to review some of the other factors we've discussed that will also be considered in your decision?"

In addressing a drawback, avoid using the word "but" between acknowledging and refocusing. If you say "but," the client may feel that you're minimizing the impor-

Chapter Highlight 8.2: We Would Like to Use You, BUT...

An effective way to introduce the outweigh tactic for handling a drawback is with the use of a spreadsheet analysis. The case histories described below all used a spreadsheet analysis to outweigh the customer's stated financial drawback:

"…we would like to use you, but you are too expensive…"

By presenting the accepted value and demonstrating the strengths of your solution against the weaknesses and drawbacks of the competitor's solution, you can outweigh the financial drawback and turn the "No" into a "Yes."

Case 1: Canada

Customer Negative Reaction: Financial Drawback
Handling Technique: Combination Redefine, Outweigh and Trade-off
Competitive Sales Strategy: Frontal Solution

This example was shown earlier in Chapter 4 "Opportunities Management" as an example of how to influence the customer's decision criteria to make an incidental criterion more important and, therefore, put Company A into a stronger position in the customer's evaluation. The competitive sales strategy used was frontal-solution, based on superior service. The technique used to change the criteria was to redefine the customer's decision criteria to include rig time for logging as part of the logging costs, then to outweigh the financial drawback plus include a trade-off of days saved against the additional acquisition costs. The price differential between Company A and the competitor was overcome by considering the rig time savings that Company A provided due to its more efficient logging operations in the customer's drilling environment. In addition, the customer also profited from having more rig days for drilling (13.75) in the season than before when using the competitor to log the wells. The rig time savings in the salt mud environment was more than sufficient to outweigh the competitor's cheaper price. Company A was awarded the project based on this evaluation. Prior to the salesperson presenting the comparison logging times the customer, had not considered the impact of rig costs for logging the well in their decision-making process.

Company A	Salt Mud Wells	Competitor
5	Logging Time	16
$634	Rig Cost/Hr	$634
$3,170	Total	$10,144
30	No. of Wells	30
$95,100	Rig Costs	$304,320
$450,000	Logging Cost	$300,000
$545,100	Total Cost	$604,320
150	Total Hours	480
13.75	Days Saved	

Had the muds been fresh, further research would have been necessary to quantify the financial benefit of how much the extra drilling days meant to the customer for the project, as the rig time savings from the more efficient fresh mud logging operations would have saved the customer only $19,000 in rig costs and while adding 1.25 days for drilling more wells. This clearly would not have been a sufficient value to overcome the $150,000 price differential between Company A and the competitor. Additional effort would have been required to discover and quantify other Company A features, benefits, and customer value. Perhaps a different competitive sales strategy—flanking, defend. or fragment—might have been required.

Added Value Calculation	
Prevented LTIs compared to international standard	85
Cost per LTI	$ 30,000
Added value for customer	$ 2,550,000
Other benefits	Goodwill Best practice
Payback compared to alternative competitive proposals	< 6 months

Case 2: Venezuela

Customer Negative Reaction: Financial Drawback
Handling Technique: Combination Outweigh and Trade-off
Competitive Sales Strategy: Frontal Reputation

This example was shown earlier in Chapter 4 "Opportunities Management" to highlight the power of tracking customer service indicators over long periods of time to demonstrate the benefits of an ongoing business relationship and the power of the performance curve. In this example, the value added to the customer's operation was the reduced cost due to lost time from accidents. The customer's QHS&E manager and Company A staff did the research jointly. With this information the customer was able to justify continuing to use Company A for the next contract period. There was a $1,000,000 price difference between Company A and the competitor. The competitive sales strategy used for this opportunity was frontal-reputation.

Chapter Highlight 8.2: We Would Like to Use You, BUT... (cont.)

Had the reduction in lost time incidents (LTIs) not been so significant or the price difference greater than $2,550,000, the sales team would have had to include goodwill in the decision criteria and use it as part of a trade-off technique in addition to the risk of switching service providers in a difficult operating environment. Also, the sales team would have had to do additional research to present and quantify other Company A features, benefits, and customer-specific value.

Case 3: Indonesia

Customer Negative Reaction: Financial Drawback
Handling Technique: Combination Outweigh and Trade-off
Competitive Sales Strategy: Flanking Alter

The customer required low-density cement slurries with high compressive strength in 7-in. production casing be-cause of the formation's low fracture gradient. The value proposition communicated by the sales representative was to replace the two-stage cementing system and associated extra materials and cost with the single-stage advanced cementing system. The sales representative presented the spreadsheet analysis for overcoming the customer's financial drawback. Because the calculated financial benefit was less than 10%, the sales representative thought it would also be best to combine the outweigh tactic with a trade-off tactic, emphasizing that in addition to the financial savings the customer would also benefit from lower rig costs. For future comparisons, the sales representative will turn the rig time savings into a value by calculating the cost per hour for the rig and, thus, the cost benefit. Company A was awarded the work and executed several successful jobs for the customer. The next step the sales representative took was to ask for a letter of reference so that, for future opportunities, the sales representative could update the demonstration-of-capabilities spreadsheet to include the customer's reference letter.

Item	Competitor 2 Stages	Company A Single Stage
Technique		
Costs		Not required
Stage collar	$6,000	Not required
External casing packer	10,000	$50,000
Cement slurry 1st stage	20,000	Not required
Cement slurry 2nd stage	15,000	Not required
Personnel costs for SC and ECP	6,000	Not required
Total cementing costs	$66,000	$50,000
Reduced cementing costs using advanced system		$16,000
Total rig required	18	8
Reduced rig time by using advanced system		10

tance of their concern. Instead, use words and phrases like "and," "it's also true," "let's look at," or "let's consider." To begin using the outweigh technique, you might say something like:

"I understand the importance of keeping costs as low as possible and that the proposed invoiced solution will be more expensive than the competitors—part of our additional cost comes from the fact that our solution provides you additional benefits. One of the more significant financial benefits you will receive is the reduction of rig time. As we discussed earlier, we will reduce rig costs by more than double the additional invoice costs for the service. This is achieved by eliminating the need to make multiple runs into the well to acquire all the data you need to evaluate the wells. Do you agree?"

When selecting benefits to review, ask yourself which ones would be most likely to outweigh the drawback. Consider reviewing:

- Benefits that address the highest priority needs of the client
- Benefits that impact the project objectives
- Benefits you know your competitors cannot provide

An effective way to present the outweigh technique is to use a spreadsheet presentation of the factors as shown in the **Chapter Highlight 8.2: "We Would Like to Use You, But . . . ."** The outweigh technique is the most effective technique

Chapter Highlight 8.2: We Would Like to Use You, BUT... (cont.)

Case 4: Alaska

Customer Negative Reaction: Financial Drawback
Handling Technique: Combination Outweigh and Trade-off
Competitive Sales Strategy: Flanking Alter

Company	Competitor	Company A
Rig costs/day	$300,000	$300,000
Days spent reaming	5	0
Days logging	3	2
Total days for logging	8	2
Logging irg costs	$2,400,000	$600,000
Evaluation costs	$800,000	$2,100,000
Total costs	$3,200,000	$2,700,000
Benefits		Fewer risks for bad hole conditions to develop

This example is taken from the case study used throughout the textbook. In this opportunity, Company A was competing against one of it's major competitors to secure an exploration program for the evaluation services. The operating environment is characterized as very expensive. Rig costs average $300,000 per day, the drilling window is very short (only two months), and the borehole conditions are unpredictable. The spreadsheet analysis was used in the negotiations when the contracts manager stated a financial drawback. Here is an excerpt from their discussion:

Contracts Manager: Based on our calculations, your company is more than double the cost of your competitors.

Sales Manager: What do you mean by costs?

Contracts Manager: We calculated the cost as per the example logging runs described in the request for proposal.

Sales Manager: Did you include rig time costs accrued during logging operations?

Contracts Manager: No, why?

Sales Manager: When you consider the rig time required for logging operations, due to our unique services as verified by your petrophysical and drilling departments, we are $900,000 cheaper than the competitors. Let me go through the calculations so you can see how.

The sales manager then reviewed the spreadsheet analysis with the contracts manager and resolved the financial drawback. Company A was awarded the project based on this discussion without having to make any movements on logging costs. Even if the competitor had decided to give the logging services away, they could not have overcome Company A's strong position.

▶ *Apparent Drawbacks*

Apparent drawbacks arise when clients want to gain leverage for what they consider a better deal. Especially if they're trained or experienced buyers, they may agree with the dictum, "Never let the vendor leave smiling."

In that case, they may express drawbacks for tactical purposes—in order to win price or other concessions. If that's the case, you may eventually have to move out of the sales mode and into a negotiating posture—but not necessarily. The outweigh method will help you resolve the apparent drawback, eliminate the need for negotiation and clearly demonstrate the win-win aspects of the proposal.

to use in dealing with the customer's negotiation team, who is focused on your invoice costs and may not be aware of all the value your solution provides their particular project. When this is the case, you call it an apparent drawback. See the "Apparent Drawbacks" sidebar.

Redefine. This tactic alters the way the buyer defines a criterion so that it becomes easier for you to meet or resolve the drawback. The crucial criterion remains important to the customer, but its definition is altered so that you can meet or exceed it and therefore overcome the drawback. Use the redefine option when you can demonstrate that the customer's decision criterion is too narrow, does not adequately consider the benefits of your solution, or fails to capture all the negative impacts of the narrow definition used for the decision criteria. You might begin the redefine tactic as follows:

"I see in your services specification that you have requested a nuclear magnetic logging tool. However, in your zone of interest, the borehole size will be large. Unless the tool is decentralized, the data acquired through this section will be dominated by the borehole signal. This borehole-saturated signal will not give the formation readings you need to accurately evaluate the zone and could result in additional costs. Even worse, it could bypass a productive zone. Is this something that you want to take into account?"

Once the customer agrees, you are prepared to support the need and demonstrate

the value of your solution. This technique is best used early in the evaluation of options phase when the customer is still developing the decision criteria.

Trade-off. This technique balances decision criteria where you are weak or cannot meet the limitations, penalties, or disadvantages of using the competitor. Trading off accepts the importance of a criterion, but shows other factors that must be balanced against it. This strategy requires that you have a thorough understanding of the competitor's capabilities. Use the trade-off option when you want to justify using your solution based on the agreed-upon strengths of your solution. Trading off is similar to the outweigh tactic, except that there has been no agreement on the dollar value of your solution. As such, this technique should be used as a last resort, either late in the evaluation of options phase or during negotiations if you cannot demonstrate the dollar value of the your solution's benefits. Trading off is typically used in conjunction with the other drawback tactics when the evaluation between your company and the competitor is close and could result in a lowest bidder selection.

A common drawback to using the trade-off tactic is when the customer wants to minimize the risks of an operation. Below is an example of a discussion where the customer expresses a drawback and the salesperson uses the trade-off tactic to overcome the pricing drawback.

Customer: "We would like to use you, but you are more expensive than the competitor."

Salesperson: "I certainly understand you want the best deal. Can you tell me how much more expensive are we?"

Customer: "You are 10% more expensive for all charges."

Salesperson: "Okay, that is what I expected. Can you tell me how concerned you are with the need to recover from a catastrophic event such as a unit failure?"

Customer: "That would be a disaster, as we have to have this project completed before the weather forces us to go into standby."

Salesperson: "Yes, in similar projects we have participated in, our clients had similar concerns. They considered the size of our in-country operation as an advantage as we could provide the resources needed to recover from any catastrophic failure. They felt the added security for continuous operations was worth the premium they paid for having Company A rather than the competitor on the rig."

Customer: "You're right. We need to consider this in the evaluation."

In the above example, the salesperson is now ready to support the ex-pressed need of the customer as discussed in Chapter 7 "Sales Call Skills." When using a trade-off to overcome a pricing drawback in a negotiation, you must have a supporter who can influence the buying decision to validate your claims of the benefits for the negotiating team.

▶ *Resolving an Objection Resulting from Fear*

The customer expresses acceptance of your effort to resolve their objection, but is not agreeing to move forward. The customer has anchored due to a past negative experience. To resolve the misunderstanding:

- Probe to understand the real reason for the anchor.
- Acknowledge the concern.
- Connect with the customer through a story, analogy, metaphor, etc.
- Recommend options to move forward.
- Check for acceptance.

Fear

This type of objection is an emotionally based. The phenomenon has been studied in neuro-linguistic programming (NLP). What happens is the customer will "anchor," or become stuck due to a negative emotional memory from the past. You know that the customer has anchored if after trying to address an objection such as indifference or skepticism, the customer accepts your explanation but will not agree to go forward. In Chapter 5 "Communication Skills," there was a brief dis-

cussion regarding the parts of the brain that contribute to decision-making. These are the cortex, responsible for logic and complex thought; the limbic system, responsible for many functions including emotion; and finally, the brain stem, the oldest part of the brain, responsible for survival, the startle response, and the basic functions that keep you alive. In this situation, where fear is creating the objection, the old brain's survival instincts are dominating the cortex powers of reasoning. The fear of suffering a loss (could be business or personal) minimizes the potential gains. The key here is not to become impatient, but instead try to enlist the limbic system to move the anchor by following the steps below.

Probe to Understand for the Real Reason

Probe to understand the objection, concern, and consequences. What is the reality the customer sees? A good way to think of this is the three levels of why. When people offer a reason for an objection, you might get rapport or a vague answer.

Salesperson: "Why can't you confirm your purchase?"

Customer: "You are too expensive." *(rapport answer, first level of why)*

The problem is for some people this is a safe answer that can be used to easily explain why the customer did not buy from you. The key to probing for the type of fear-based objection is to dig beneath the rapport or vague answer get to the rational answer.

Customer: "You guys are 15% more than your competition." *(rational answer, second level of why)*

Salesperson: "But you get better answers with better measurements. I thought you agreed this is what you needed."

Customer: "Yes, that is true, and I have heard that many times. But unfortunately, it takes effort to extract that information and when it comes time to make the decision, no one has the time. This has been repeated many times. I looked like I was wasting the company's money, and I'm not going to do that again." *(real reason, third level of why)*

Acknowledge the Customer's Concern

Paraphrase back to the customer their reality, ensuring that you show empathy with your voice, body language, and words.

Salesperson: "Yes I understand why you are concerned. It is not just having better measurements, but using the measurements, and you're not comfortable the team has the resources when it comes time to making decisions to incorporate this information."

Customer: "Yes, that is correct. I don't want to be viewed as not able to control the spending."

Connect with the Customer

Connect with the customer using a story (personal or about another customer in a different industry), example from history, current event, quote, analogy or metaphor. What you are trying to do with the customer is have their perception change. Get them to look at possible outcomes to the objection they have from a different perspective. The use of a story can help them "pull-up" their anchor. It is like framing a picture. You first see it in a black frame and then in a gold frame; in the gold frame it looks so much better. The picture itself has not changed, but the way you see it does. The same is true with an objection resulting from fear. By reframing the objection, your customer may see the outcome differently.

▶ *What?* We Discussed This Already![3]

Pop quiz: You're nearing the end of a lengthy sales cycle with a large buyer, and so far it's been textbook perfect. When the prospect asks for one more meeting, you figure you'll be tying up loose ends and closing the sale. Instead, the prospect is somber and raises multiple doubts about moving forward. Do you a) offer a discount, b) start overcoming each objection, or c) relax, knowing you've got the deal?

The correct answer is "c." Surprised?

Less-experienced sellers often interpret a litany of last-minute objections as an indication that they have lost the deal. Observe the following:

- Panicked that a big deal appears to be slipping away, the inexperienced salesperson often makes "the potentially fatal mistake of dropping price," thinking it will make the buying decision easier. But the opposite is true. "The message you send by discounting is that the concerns about risk are valid," warn Holland and Young.
- The reality is that if a buyer is sharing their risk concerns at the end of the buying cycle, it means you are probably the vendor of choice. That's because final risk concerns can arise only if a buyer is envisioning a purchase being made. Holland and Young liken this natural process to a couple on the night before getting married. Last-minute jitters and cold feet are normal as the two wonder whether they've made the right choice, but these concerns can only arise with a firm commitment being imminent. The same is true for buyers; if they raise sudden concerns at the end, it's a sign a commitment is forthcoming—but only if you handle things right.

So how do you handle these last-minute objections? First, stay calm. Remember that these concerns are a good sign and that if you handle them with patience, the sale will be yours.

Second, recognize the objections for what they are—*fear,* an emotional hurdle for the buyer. As such, *do not try to tell the buyer why he or she shouldn't be concerned;* that's like telling buyers they're wrong to feel the way they do. Instead, be patient in allowing the buyer to work through the issues. It is likely they aren't looking for resolution, but simply wants to be heard. And since people only vent to those they trust, consider it a sign that you're trusted.

Once you've discussed the issues that are addressable, your best course of action, say Holland and Young, is to "summarize the potential value, the shortcomings of the current system, the capabilities needed, and the references that have been provided, and then gently ask the buyer to move forward." If you've done it right, the customer will say yes.

Salesperson: "You know, I had the exact same reaction when I wanted to buy decision analysis software for my team; all I wanted was a Monte Carlo plug-in for Excel because I did not have time to learn how to use the sensitivity analysis and decision tree tools. I knew it was better, but I was willing to do without it until the rep showed me the difference it made for two of his customers who are just like me. So what I had actually decided was I did not have time to make better decisions. That is not what I wanted. I wanted the best decisions. What we agreed on was for one of the team members to get trained on how to use all the modules. Now we have a much better and holistic approach to our decision-making and the rest of the team are being trained over the next twelve months."

Recommend Options to Move Forward

Small steps with a fear-based objection can be a big step towards gaining an agreement.

Salesperson: "If I can have one of our senior interpreters on site with your team during the data acquisition to run the analysis and go over the results, do you think that will help you get the most from your investment? After that we can look at setting up a real-time decision support access to our support center for future operations."

Check for Acceptance

Salesperson: "How does that sound. Will that help you get best of both worlds: data and decisions?"

Customer: "I like it. I think that will work."

In situations where fear is the cause of the objection, you must ensure that you keep in contact and continue to support their decision. Continued updates on the progress of making their decision a reality will keep the anchor up. In fact, last-minute objections are actually a good sign if you handle them correctly. See the sidebar "*What?* We Discussed This Already!"

When You Can't Resolve a Customer's Negative Objection

There will be times that you cannot resolve a customer's negative response. If you recognize this early in the opportunity management process at the beginning of the evaluation of options phase, you have a number of options available to you:

- Unresolved negative reaction is indifference or drawbacks. Uncover additional needs you can support with additional benefits. This may involve additional meetings with other members of the buying center and determining their requirements for the project.
- Unresolved concerns are skepticism or misunderstanding. Determine what actions the customer requires to address their concerns in addition to what you have already done to resolve them (for example, a demonstration job or additional proofs or meetings with experts or management to resolve concerns and consequences).
- Unresolved concern is a financial drawback due to imposed decision criteria that do not consider added value. Find a higher-level buying center member (high influence) who can change the decision criteria to consider added value. When meeting with the higher-level buying center member, use the outweigh drawback tactic. The value should result from one of your company's's unique products or services that impacts one or more of the customer's projects or corporate value drivers.
- You cannot resolve the client's concerns or fears, which will result in your company being evaluated in a weak position. Consider a weak position competitive sales strategy, as discussed in Chapter 4 "Opportunities Management," and either defend or fragment. In the defend strategy, where one of the key decision-makers has an objection anchored in fear, your supporter can talk to the person with the fear as a colleague and use the same approach to have them lift their anchor.
- You can only resolve a portion of the client's concerns, but believe you have supporters and strong evaluation. Consider a flanking competitive sales strategy that gives your company the strongest evaluation.

When you discover the customer's negative reaction late in the opportunity management process and are unable to resolve the customer's concerns, you have fewer options. In this situation, your strategy will be restricted to the procurement phase of the opportunities management process. Your options to indirectly overcome a client's negative reactions during the procurement process are:

- Plan a negotiation strategy to make sufficient trades to satisfy the concerns by having a well-prepared list of valuable, inexpensive trade-offs. This strategy is discussed further in Chapter 12 "Collaborative Negotiations."
- Prepare an attack strategy for late in the procurement process as described in the monitor stage section in Chapter 4 "Opportunities Management."
- Make a concession (last and most undesirable).

All the procurement phase strategies to overcome a customer's negative reactions to your proposal should be closely scrutinized and used only if the project is

considered to have strategic value. The project's strategic value must be decided by your upper management and in discussion with the business manager. Finally, if it is determined that your solution will be evaluated as weak for financial considerations, then a competitive sales strategy of disengage, as described in Chapter 4 "Opportunities Management," should be considered.

Clients' Objection Prevention

The first section of this chapter discussed how to handle clients' negative reactions when you encounter them. This section discusses an overall sales strategy you can to implement to prevent the client from having negative reactions. The strategy consists of four actions:

- Continuous client marketing and sales communication program to build awareness and education of your solution's benefits.
- Opportunity planning and management.
- Pre-sales call planning, execution, and analysis.
- Proactive relationship management.

Each action, when taken together, greatly improves your chances of preventing customers from having negative reactions to your proposals and securing the desired customer's agreement during the opportunities management process. Failure to complete any one of the above actions results in more client objections during the pursuit of an opportunity, forcing the salesperson to spend more time resolving concerns and less time on other important matters, such as other customers or other opportunities.

Continuous Client Marketing and Sales Communications Program

Preventing client objections begins by proactively avoiding negative reactions to your proposals in the first place. Many of your customers' objections come from their lack of awareness of the benefits that your products and services can provide. A key component to every regional sales organization is a continuous client communication program to build awareness, liking, knowledge, and preference.

Such programs help eliminate many of the customer's objections, such as indifference, misunderstanding, and skepticism. Marketing and sales communication programs were described in the marketing chapter. With a continuous communications program in place, the sales force can target specific customers to address the early stages of the buyer readiness stages and help establish your company as the preferred company. With continuous client communication in place, you address the client's overall awareness of your company's benefits. These programs are planned outside the pursuit of specific opportunities.

Then, when new opportunities arise, the sales force can increase the customer's conviction to use your company by leveraging the success of past projects and demonstrating specific project value for the opportunity in question. If customers' unresolved negative reactions prevent your company from gaining a customer's conviction, your company may not be selected in the purchase decision.

Opportunity Planning and Management

Once you begin the opportunities management process, you analyze all the factors that impact the opportunity, starting with customer factors, such as project requirements, buying center dynamics, and competitive threats, to establish how your company will be evaluated in the decision-making process.

The goal of a completed opportunity analysis is to identify specific solution vulnerabilities and select your competitive sales strategy to leverage your strengths that best addresses the vulnerabilities and put your company in the strongest position to secure the opportunity. The competitive sales strategy will be implemented by the sales force using the tactics discussed in Chapter 4 "Opportunities Management" and Chapter 6"Sales Activities." A key factor in opportunity planning is your ability to understand your vulnerabilities. Vulnerabilities are predictions of customers' negative reactions to your proposed solution. The opportunity plan with the greatest probability of success and with the desired profitability is what the sales representative tries to build as early as possible in the opportunities management process. This makes time their advantage to adequately address vulnerabilities or demonstrate value.

As you execute your tactics, the competitors vying for the same opportunity will be executing their own tactics and counter-tactics. This is especially true in the late stages of the procurement phase. New negative reactions, such as financial drawbacks, skepticism, and misunderstandings that did not exist before, may suddenly appear as a result of competitors' influences during the procurement process. This means you have to be alert to and continually reevaluate and check the customer's reaction to your proposal throughout all the procurement stages until the contract is signed, and you must always be ready and available to respond to new concerns.

An important stage in the procurement phase of the opportunities management process is the outcome analysis stage. In the outcome analysis, as discussed in Chapter 4 "Opportunities Management," you need to analyze the outcome, whether negative or positive, from three perspectives: the customer's point of view, what you achieved, and what the competitors did. If you believe you lost on price, you know you were not successful in overcoming the pricing drawback. If you did not overcome the pricing drawback, you should try to determine why you were not successful. Did you overestimate or not confirm your unique value? Were the strengths you used in a trade-off tactic not considered? Was the customer skeptical, or was there a misunderstanding? Conversely, if you were awarded the project, why? If you were more expensive, what did the buying center use to justify the cost difference? How did they value your products and services? Did they award the project due to trade-offs? Did they contact the references you provided? If so, why?

Answers to these questions help you better prepare to prevent and resolve customers' negative reactions in future opportunities for the specific account and for similar projects for other accounts. The following discussion focuses on how to use opportunity management to prevent customers' negative reactions.

Pre-Sales Call Planning, Execution, and Analysis

Discovering objections during a sales call is not a good sign, but not being prepared to handle the objections can be fatal. Pre-sales call planning, execution, and analysis are also an absolute requirement in preventing customers' negative reactions. This is done by using the project supporting worksheet described in

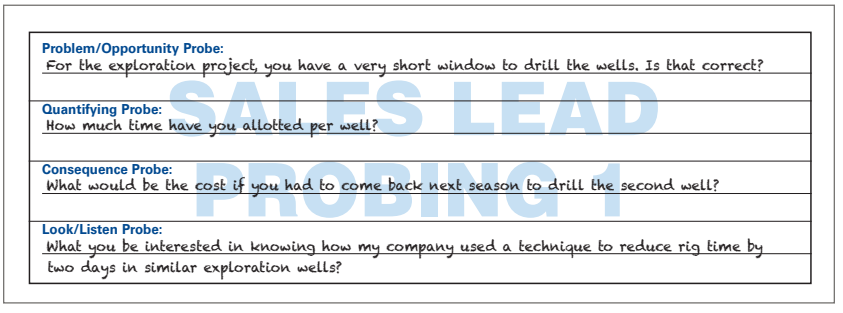
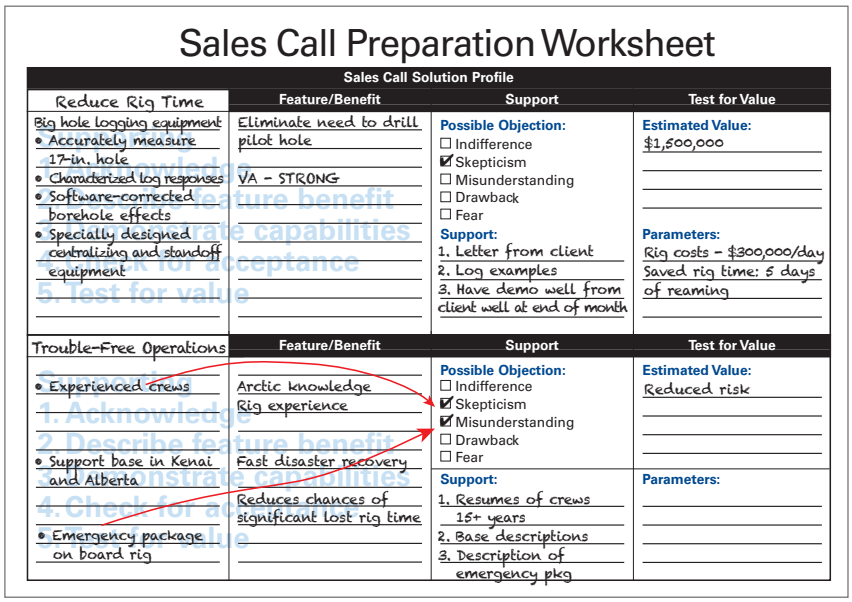


Fig. 8.2
Sales call preparation worksheet probing section, Sales Lead Probing.



Sales Call Preparation Worksheet

Sales Call Solution Profile

Reduce Rig Time	Feature/Benefit	Support	Test for Value
Big hole logging equipment • Accurately measure 17-in. hole • Characterized log responses • Software-corrected borehole effects • Specially designed centralizing and standoff equipment	Eliminate need to drill pilot hole VA – STRONG	**Possible Objection:** ☐ Indifference ☑ Skepticism ☐ Misunderstanding ☐ Drawback ☐ Fear **Support:** 1. Letter from client 2. Log examples 3. Have demo well from client well at end of month	**Estimated Value:** $1,500,000 **Parameters:** Rig costs – $300,000/day Saved rig time: 5 days of reaming
Trouble-Free Operations	**Feature/Benefit**	**Support**	**Test for Value**
• Experienced crews • Support base in Kenai and Alberta • Emergency package on board rig	Arctic knowledge Rig experience Fast disaster recovery Reduces chances of significant lost rig time	**Possible Objection:** ☐ Indifference ☑ Skepticism ☑ Misunderstanding ☐ Drawback ☐ Fear **Support:** 1. Resumes of crews 15+ years 2. Base descriptions 3. Description of emergency pkg	**Estimated Value:** Reduced risk **Parameters:**

Fig. 8.3
Sales call preparation worksheet, supporting section.

Chapter 7 "Sales Call Skills." The sections of the worksheet specifically targeted when preventing customers' negative reactions are the sales call supporting worksheet and prepared sales representative probing pages. These pages assist you in preparing and rehearsing how you will begin discussions regarding benefits the customer may be indifferent to or unaware of. They also help you demonstrate capabilities with support aids for possible negative reactions. **Figures 8.2** and **8.3** show a completed probing page and sales call supporting worksheet section.

Thorough preparation and good supporting techniques should eliminate most customers' negative reactions. To prepare for a specific sales call, you should:

- Review previously completed sales call worksheets for sales calls made earlier in the opportunity, similar opportunities, or opportunities where the person(s) contacted were part of another buying center.
- Check the CRM database for recent opportunities for similar products and services and review the outcome analysis. Take special note of the opportunities for the same account and for opportunities where the main competitors are the same as the ones in your region.
- If the current opportunity is a continuation of a customer's multiyear project that was tendered earlier, review the service quality review meeting minutes and project review meeting minutes. Check for any performance issues that may have created the customers' negative reactions that you might have to resolve in this opportunity. Check also for outstanding performance that can be used to demonstrate value and strengths.
- Consider your own experiences and solicit input from the sales team, especially the region segment business manager. They may have information regarding the negative reactions clients tend to have for the type of solution you are proposing. Ask for relevant proof sources you could use to demonstrate capabilities that could address the customer's concerns.
- Find out which competitors the client may be talking to and determine what kinds of information the competitors might be communicating to the client that could lead to misunderstandings.
- Consider which features and benefits competitors offer that might result in the client expressing drawbacks about your product or organization. This is discussed in more detail in Chapter 9 "Strategic Sales Plan."

Chapter Highlight 8.3: The $200,000 Makeover



It was 7:00 p.m. on Sunday night June 7, 1993, when the Company A salesperson for the then-Malaysia–Thailand–Vietnam wireline division received a call from the Texaco drilling manager. The drilling manager asked the salesperson if he could be in the Texaco office on Monday morning for an urgent meeting. The time was set for 8:00 a.m. The purpose of the meeting was to describe to the customer's drilling and petrophysics teams, including the details and availability of the Company A's drill pipe-assisted logging system.

The phone call was brief, and the Texaco drilling manager did not provide much detail about why the meeting was urgent, as he was obviously concerned about other issues. Immediately after the phone call, the Company A salesperson called one of his golfing partners, a Texaco drilling engineer who worked for the drilling manager. When asked about the situation, the Texaco drilling engineer explained that on a rig Texaco was operating offshore in Malaysia, was experiencing problems getting wireline evaluation tools to the bottom of most wells. This frequently resulted in having to run drill pipe back into the well to do a clean-out trip with the drill pipe in after several attempts to get the logging tools to the bottom of the well. To make matters worse, even after doing the clean-out run with the drill pipe, the logging tools would become stuck when logging the well, and then an even more costly cut-and-thread operation was required to retrieve the logging string from the well—overall a very expensive procedure.

Texaco decided it was time to use the drill pipe-assisted logging technique, where the wireline tools are connected to the drill pipe and run into the hole, and then the wireline cable is connected once the tools reach the casing shoe. Although this is a time-consuming operation, it was still more efficient than a fishing operation. Competitor B was the wireline logging company on the current well, and Texaco had just finished cementing the drill string into the hole after Competitor B's drill pipe-conveyed system had failed. Then, the drill pipe became stuck. Texaco was preparing to sidetrack the well and switch out Competitor B with either Company A or Competitor A.

This was the purpose of the urgent Monday morning meeting. Company A and Competitor A were asked to present their drill pipe capabilities and equipment availability. Clearly, the customer was well advanced in the buyer-decision stages. They were aware of the competing options available and had a reasonable knowledge of each system's features and benefits. Both Company A and Competitor A were presently working for Texaco on different projects, but there was no clearly preferred system. The Texaco drilling engineer told the salesperson that the job would go to the company that could convince the Texaco team who had the most reliable and dependable system available to log the next section of the well.

With this background information, the salesperson quickly called a sales representative who he had worked with in Alaska and who was now in Stavanger working as a sales representative. The sales representative had recently been in Kuala Lumpur for a conference. Over dinner one night, the sales representative had described the success his division was having running "supper combinations" on drill pipe and, in fact, as a result of their recent logging successes, a North Sea customer had written a congratulatory letter to Company A. Using the advantage of the six-hour time difference between Kuala Lumpur and Stavanger, the salesperson was able to catch the sales representative at Sunday brunch. The sales representative in Stavanger faxed the letter that day to Company A's office in Kuala Lumpur.

This was just what the salesperson had been waiting for since the earlier discussion with the sales representative in Stavanger. He had been actively searching for a customer reference such as the North Sea customer letter after the meeting with Texaco two months earlier as Texaco began evaluating logging options for next year's program. The sudden turn of events on the current wells made the issue much more urgent. At the earlier meeting, the salesperson had just presented the table of recent jobs as part of his support and demonstration of capabilities. When he checked for the customer's acceptance, the drilling engineer asked if he had any client references or case studies. As a result of this sales call, the salesperson was actively looking for customer proofs, which prompted the discussion with the sales representative over dinner at the SPE conference.

Chapter Highlight 8.3: The $200,000 Makover (cont.)

With the North Sea customer letter, the salesperson knew he could improve his support document.

On Monday morning, the salesperson put together a copy of what he was going to present to the Texaco team, including the reference letter from the North Sea customer and a table of the most recent drill pipe-conveyed logging jobs done by Company A globally. The meeting went as planned, and the salesperson presented the Company A drill pipe-conveyed logging system features and benefits, supported with the combination job history table and reference letter. Texaco told the salesperson they would make a decision within a few hours. As he left the meeting, the drilling manager called in the Competitor A salesperson, who was waiting in the reception area. Two hours later, the Company A salesperson received a call and was instructed to arrange to have the Company A drill pipe logging system on the dock by 4:00 p.m. that day. The drill pipe-conveyed logging job was done a week later without problems. The revenue was $200,000!

Location	Tool String Top-Down	TD Meters	Deviation	Temperature	Operating Time
Norway	Tool string 1	4,003	80°	75° C	43 hours
Norway	Tool string 2	4,760	71°	135° C	35 hours
Norway	Tool string 2	5,700	81°	90° C	36 hours
Oman	Tool string 1	2,270	90°	90°C	18 hours
Oman	Tool string 2	1,942	90°	90°C	19 hours

To: Company A
Attn: Company Rep

Date: 27.04.93
TMC/tmc

From: Manager Reservoir Technical Operations

Subject: Improved combinability of openhole logging tools.

Customer A would like to take this opportunity to commend and congratulate your recent efforts in the area of improving the combinability of your openhole logging tools. We regard the success of the recent reservoir logging operations on Offshore A and B platforms as an important technological achievement, one that has a tremendous potential for improving the economics of logging in highly deviated wells.

The savings made possible by your modifications to the tools, in the form of reduction of rig-time plus accelerated production, are considerable. We estimate that the most recent operation alone, where a standard tool string and services for pressure sampling and dipmeter logging were combined into a single run, resulted in a savings to us on the order of 1 million dollars.

Due to rapid developments in high-angle drilling technology over the past three to four years, Customer A has been drilling a steadily increasing proportion of long-reach and horizontal wells. This trend is expected to continue in the future. Because of the high costs and risks involved with reservoir data acquisition in these wells, we have been experiencing a steadily increasing pressure to reduce our level of data acquisition to an absolute minimum. Our acquisition strategy was heading in the direction of replacing openhole wireline logging with a minimum suite of MWD/LWD logs.

With your improved combinability, drill pipe-assisted logging once again becomes an economically feasible logging method. In addition, we are no longer in a situation where marginal data acquisition and data quality must be pitted against the abnormally high rig-time costs involved with multiple logging runs.

It is our strong belief that this project has and will have a profound effect upon the market for logging services in the North Sea. We hope, therefore, that Company A can give the support and development of these techniques the priority that they deserve.

Once again, we would like to thank Company A managers, engineers, and technicians who have devoted their time to this project. We feel that it has taken a relatively short period of time for them to find a successful solution to our problems with logging in high angle wells, and this expediency should be commended. The ability to address our special problems in a fast and effective manner, as seen by us, is one of the most important elements of total service quality.

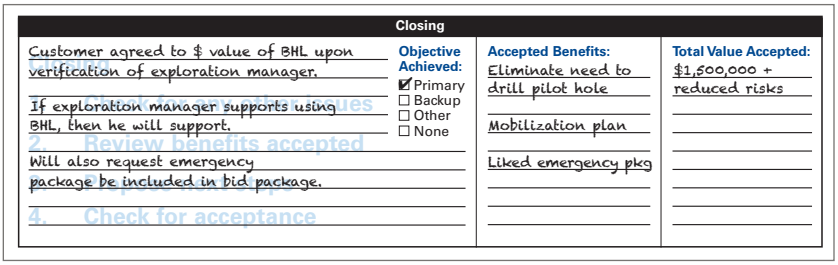
Thank you,

Manager Reservoir Technical Operations

On the next golf outing with the Texaco drilling engineer, the salesperson asked why Company A had been selected. The drilling engineer replied:

"You came in and did a good job at explaining the system and then showed us the job history table and the letter from the North Sea customer—that impressed everyone since the logging string we wanted you to run was much simpler than what you had been doing in places like the North Sea and the Middle East. Competitor A's sales representative came in and did a pretty good job as well in telling us about the system. But when asked if he had anything else to leave with us to help us make the decision, he gave us tool diagrams and a brochure! This didn't make anyone feel comfortable that they could do the job because this was the same type of proof Competitor B had given us!"

Fig. 8.4
Completed closing section of the sales call preparation worksheet, which is completed during the sales call meeting in preparation for the closing. In the Shell Chukchi Sea opportunity, one of the buying center members from procurement raised a financial drawback during negotiations. The price differential between Company A and the competitor was resolved using an outweigh tactic by presenting the accepted value from the sales call with the drilling manager in the evaluation of options phase.



Closing

	Objective Achieved:	Accepted Benefits:	Total Value Accepted:
Customer agreed to $ value of BHL upon verification of exploration manager.	☑ Primary ☐ Backup ☐ Other ☐ None	Eliminate need to drill pilot hole	$1,500,000 + reduced risks
If exploration manager supports using BHL, then he will support.		Mobilization plan	
Will also request emergency package be included in bid package.		Liked emergency pkg	

Late in the opportunity management process, you will want to keep track of the contacts being made with people in the customer's buying center in support of the opportunity to ensure that you have a record of the accepted benefits and value. This record will be invaluable for overcoming drawbacks late in the procurement phase. **Figure 8.4** provides an example of a closing summary from the sales call preparation worksheet for sales calls made in the case study referred to throughout the textbook. It clearly shows the accepted benefits and value.

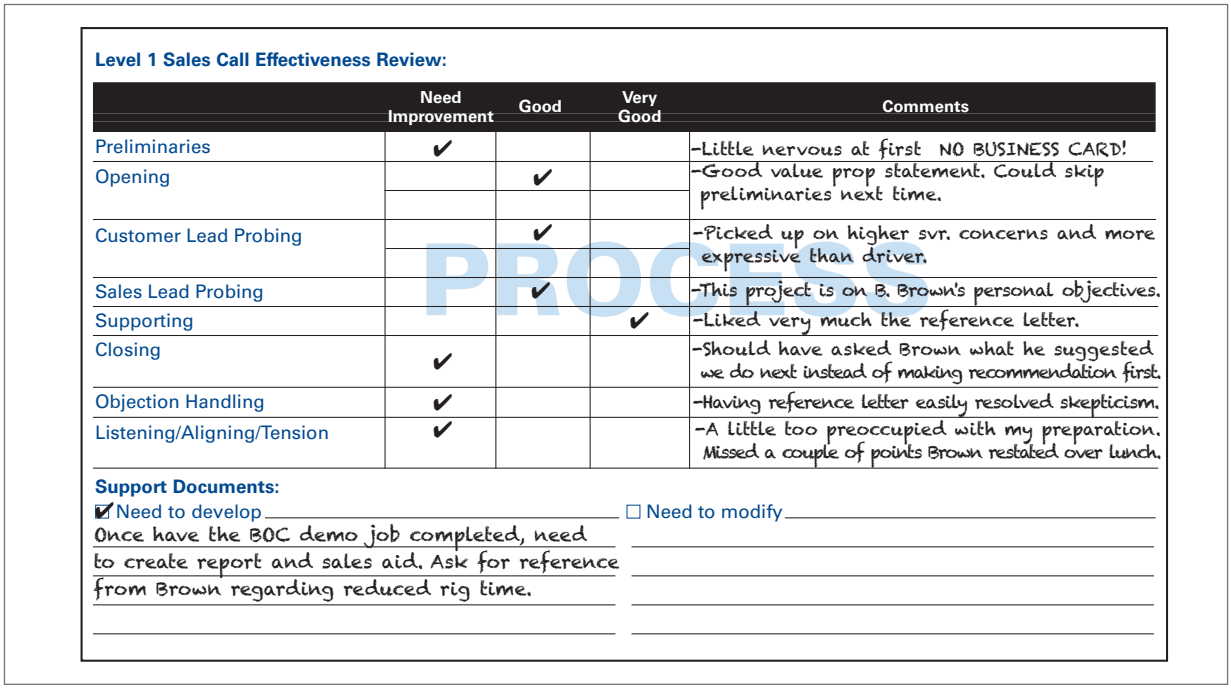
Level 1 Sales Call Effectiveness Review

Part of the sales call process is the evaluation of how well you executed the supporting and handling of customers' negative reactions. Again, the worksheet facilitates your personal review of the sales call with the Level 1 Review section of the worksheet. In particular, consider how effective your sales supports were in demonstrating capabilities and satisfying any concerns the customer may have had. Ask whether you need to modify any support aids used in order to make them more effective or make a support aid the customer asked for and you didn't have.

Many times the customer will also offer what they would like to see if they are not totally satisfied with your proof. In this case, ensure that you check the need to develop box in the support documents section.

You should complete a Level 1 Sales Call Effectiveness Review (**Fig. 8.5**) after each sales call and keep good records by completing the project supporting worksheet and entering the information into a client visit report in the CRM database.

Fig. 8.5
Level 1 Sales Call Effectiveness Review section from the Post-Sales Call Analysis page of the Sales Call Preparation Worksheet.



Level 1 Sales Call Effectiveness Review:

	Need Improvement	Good	Very Good	Comments
Preliminaries	✔			-Little nervous at first NO BUSINESS CARD!
Opening		✔		-Good value prop statement. Could skip preliminaries next time.
Customer Lead Probing		✔		-Picked up on higher svr. concerns and more expressive than driver.
Sales Lead Probing		✔		-This project is on B. Brown's personal objectives.
Supporting			✔	-Liked very much the reference letter.
Closing	✔			-Should have asked Brown what he suggested we do next instead of making recommendation first.
Objection Handling	✔			-Having reference letter easily resolved skepticism.
Listening/Aligning/Tension	✔			-A little too preoccupied with my preparation. Missed a couple of points Brown restated over lunch.

Support Documents:

☑ Need to develop
Once have the BOC demo job completed, need to create report and sales aid. Ask for reference from Brown regarding reduced rig time.

☐ Need to modify

PROCESS

This part of the sales total quality management process will assist you in making ongoing improvements in your sales skills. To see how one salesperson made his company $200,000 by completing his level 1 review, see **Chapter Highlight 8.3: The $200,000 Makeover.**

The most effective way to determine how well you handle customers' negative reactions is to ask someone such as your sales manager to observe you regularly in sales calls as part of your development program. The level 2 review form includes sections for taking notes on handling customers' negative reactions in the sales call observation page, as shown in **Figs. 8.6** and **8.7**.

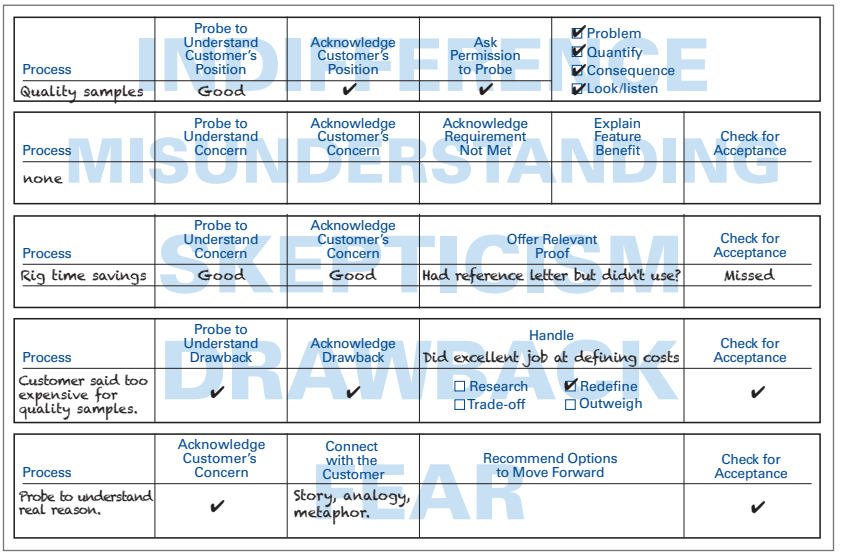
The next section discusses common performance problems with recommended improvement actions if the problem is determined to be one of sales skills, technical knowledge of products and services, or account knowledge. You should review these lists if you have difficulties handling customers' negative reactions or if you are going to be observing someone in a sales call.

Handling Customers' Objection Performance Problems

The following pages describe three common problems related to the misunderstanding or misapplication of critical selling skills for handling negative customers' reactions. For each situation described, probable causes and recommended improvement actions have been outlined.

1. Doesn't Recognize or Handle Skepticism Effectively

You have difficulty recognizing skepticism when it occurs, or you do not respond to skepticism with proof sources that are relevant to the client's business or suitable to the client's personality type. The client who has an Analytical social profile, for example, requires several proof sources, preferably of a technical nature—specifications, data, and case histories. Amiable clients want experts' reports and testimonials. Clients who are Drivers want facts. The Expressive client likes anything that confirms the sales representative's ability to turn their ideas into real-



Process	Probe to Understand Customer's Position	Acknowledge Customer's Position	Ask Permission to Probe	☑ Problem ☑ Quantify ☑ Consequence ☑ Look/listen
Quality samples	Good	✔	✔	

INDIFFERENCE

Process	Probe to Understand Concern	Acknowledge Customer's Concern	Acknowledge Requirement Not Met	Explain Feature Benefit	Check for Acceptance
none					

MISUNDERSTANDING

Process	Probe to Understand Concern	Acknowledge Customer's Concern	Offer Relevant Proof	Check for Acceptance
Rig time savings	Good	Good	Had reference letter but didn't use?	Missed

SKEPTICISM

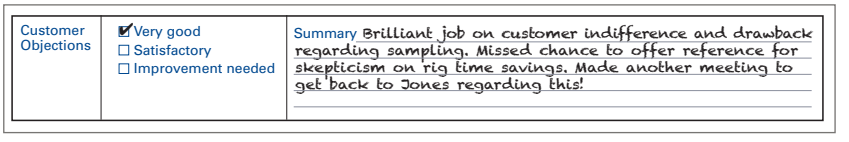
Process	Probe to Understand Drawback	Acknowledge Drawback	Handle	Check for Acceptance
Customer said too expensive for quality samples.	✔	✔	Did excellent job at defining costs ☐ Research ☐ Trade-off ☑ Redefine ☐ Outweigh	✔

DRAWBACK

Process	Acknowledge Customer's Concern	Connect with the Customer	Recommend Options to Move Forward	Check for Acceptance
Probe to understand real reason.	✔	Story, analogy, metaphor.		✔

FEAR

Fig. 8.6
Completed Level 2 Sales Call Observation Section for the five customer objections and appropriate handling steps.



Customer Objections	☑ Very good ☐ Satisfactory ☐ Improvement needed	Summary Brilliant job on customer indifference and drawback regarding sampling. Missed chance to offer reference for skepticism on rig time savings. Made another meeting to get back to Jones regarding this!

Fig. 8.7
Completed Level 2 Sales Call Review comments section for customer objection.

ity. By not providing the kind of proof that each personality type demands, you fail to raise clients from skepticism to higher, more positive attitude levels.

Determine Cause(s)

Sales skills deficiency: You may not know how to recognize skepticism when the client expresses it. Generally, this happens when you fail to listen or probe for understanding of an attitude or simply assume understanding of an attitude. You may also try to use the same demonstration of capabilities for all customers regardless of social style.

Technical knowledge: You may not know enough to offer meaningful, relevant proof sources or to anticipate those benefits about which the client is likely to be skeptical. This often occurs because you have not done the necessary pre-call planning.

You can determine if this is the cause by reviewing your sales call preparation worksheet and, in particular, the opportunity-specific supporting worksheet page. This could also be reviewed by another person who has technical expertise in this area. If the observer finds your supporting worksheets to be weak, discuss how to improve them. If they are complete, then the cause of the problem is a sales skills deficiency.

Improvement Actions

If deficient sales skills are the problem, you should review the materials on recognizing and handling skepticism. In your next sales call, be sure to complete the sales call preparation worksheet for the features and benefits you want to introduce. Try to predict which of the features and benefits the customer is most likely to express skepticism about and ensure that you prepare an appropriate demonstration of capabilities for the specific customer's social profile. If you still encounter skepticism after you've revealed your proof source, remember to probe for understanding of the attitude rather than assuming understanding or ignoring the concern. Review the section on how social style affects how customers make business decisions in Chapter 5 "Communication Skills."

If preparation is not a problem, then conduct a mini role-play in which you play the sales representative. Have the person playing the customer state the client's requirements while you make support statements. Have the person playing the customer use expressions of skepticism and encourage you to probe for understanding. Then, once you believe you understand, acknowledge the skepticism, explaining the customer's position and why they are skeptical. Once the customer agrees, then support again—this time with a different demonstration of capabilities that will satisfy the customers objection.

If deficient technical knowledge is the problem, review your preparation worksheet, opportunity supporting worksheet, and sales call supporting worksheet pages to improve and add supports to address the features and benefits included in the supporting worksheet. You may also have to attend the appropriate key services seminars given by the segment if you have not had sufficient technical training on the product or service. During the key services training, time is set aside to practice supporting customer requirements with the features and benefits from the key services.

The sales toolbox, as part of the introduction of any new product, includes a generic customer presentation that lists the product or service details and theory as well as the key features, benefits, and applications of the service or product. Review the customer presentation to thoroughly understand the material as you must be able to customize the features, benefits, and application for your customer base.

2. Difficulty Handling Indifference

You do not adequately handle the attitude of indifference. Perhaps you simply fail to probe for unrealized needs, or do so ineffectively. As a result, the indifferent customer with a Driver social profile who is goal oriented and values time is never convinced that continuing the conversation will be worthwhile. The Expressive client starts off feeling no need for your company's help and ends up the same way, despite being normally receptive to help in realizing a personal ideas. The Analytical client, whose indifference is based on technical assumptions, is never made to question these assumptions and thus never changes them. The Amiable client talks freely about his indifference, but you fail to capitalize on this client's open and candid nature by probing to discover more needs. The result is the same with all personality types: The client's attitude remains negative, indifferent to the end.

Determine Cause(s)

Sales skills deficiency: You may not understand or recognize the attitude of indifference as clients typically express it. This may be due to a lack of understanding about what indifference is, or to an inability to recognize the indifference expressed by each personality type. It is also possible that you may not have mastered the strategy of uncovering unrealized needs when dealing with indifference, or of doing so in a way that fails to achieve alignment with the client's personality type.

Technical knowledge: You may not have sufficient knowledge about the client's needs, the competitive situation, or of the service in question, to know which opportunities to probe for when handling indifference.

Account knowledge: You're not familiar enough with the client's company to understand the client's specific problems or requirements. You, therefore, tend not to target their requirements for your sales call discussions. Instead, you remain at the application level, never focusing on the specific account's situation, and therefore do not offer specific dollar value for the solution's unique features and benefits.

Improvement Actions

If deficient sales skills are the problem, review the materials on handling indifference, plus the material on personality types and how to align with each one. After reviewing the material, you should be able to explain the strategy for uncovering unrealized needs, paying attention to how that strategy is modified to help reach an area of alignment with each personality type.

If an understanding of indifference or how to handle indifference is not a problem, conduct a mini role-play in which you play the sales representative. Have the person playing the customer provide expressions of indifference in words that each one of the four personality types would use. You should respond to each expression by probing for understanding, then identifying which opportunities to pursue in order to confirm unrealized needs. Be sure to probe in a way that aligns with the personality type you've assumed.

You may also need to practice delivering a sales lead probing sequence to uncover unrecognized customer needs. Prepare a set of sales lead probing questions for specific situations where you commonly encounter client indifference. Then, conduct a mini role-play in which you play the sales representative and the other person plays the client. Use the scenarios you developed and have the customer respond in role as a typical customer would to the probing sequence. At the end of the mini role-play, ask the person playing the customer for feedback on how well you were able to address the indifference. Repeat this exercise until you are comfortable with the use of the sales lead probing sequence.

If deficient in account knowledge, ask your sales manager to analyze with you one or more of your accounts where the client has been or probably will be indifferent. Discuss why the client is indifferent, the client's personality type, and what questions you can ask to uncover unrealized needs. Describe how you will tailor your probing to align with the client's personality type and what specific sales lead probing sequence you will use to uncover unrealized needs and align with the client.

If deficient technical knowledge is the problem, then follow the same improvement action for technical knowledge as described above in the first problem. Seek technical support from a domain expert, and determine how to correct the problem either through better sales call preparation or technical training. As you have already seen from the first problem area, technical knowledge improvement actions start by completing the sales call preparation worksheet. If all the preparation is complete for technical services—features and benefits considerations—the problem is in the execution of the skill, as discussed above.

Be sure to discuss with a domain expert (using a completed sales call preparation worksheet) all aspects of the sales call preparation. Ask for feedback on the completeness of the sales call preparation worksheet from a technical perspective. With the domain expert, discuss the following:

- The most common reasons for indifference and what kinds of information are needed to handle this attitude
- Where to obtain the necessary competitive information and review any information that is new to you
- Which customer requirements the competitor has unique features and benefits for that could cause the customer to identify drawbacks in the solution proposed
- How competitors try to overcome your unique features and benefits that create drawbacks for them

After the discussion, compile a list of future opportunities and customer requirements. For each opportunity and requirement for which your solution has unique products or services, develop a sales lead probing strategy to uncover needs satisfied by these features and benefits.

With your sales manager, select two or three accounts where the customer has been or probably will be indifferent and develop strategies for handling those clients. Review the strategies with other sales representatives who deal with the respective account(s) and ask for their feedback. Also, review the region marketing and sales communications program to create awareness of your company's unique features and benefits. Ensure that enough buying center members from your accounts attend or are included in the program. If their attendance is missing, you may have to be more pro-active to gain their commitment to attend. You may also have to use a more direct, low-pressure awareness technique, such as courtesy informational flyers, as discussed in Chapter 1 "Understanding the Role of Marketing and Sales."

If deficient account knowledge is the problem, first review the materials in Chapter 2 "Value Drivers" and Chapter 3 "Account Corporate Profile" These resources assist in building an understanding of the customer's value drivers. Print the Account Corporate Profile and the Project Solution Worksheet and review these with a customer in the account who is a supporter and ask for their feedback.

Review your opportunity-specific worksheets with other sales representatives who are familiar with the account, and get their feedback on the business drivers for the opportunity. Be sure you can make the connection between what your company is providing and the value drivers of the customer.

In your next sales calls, make your first probe a visualizing probe to determine the main business drivers for the opportunity. If there are specific accounts in particular where you have frequent cases of indifference, ask someone who is familiar with the contacts in the buying center to conduct a role-play in which they play the indifferent client. Ensure they adopt the appropriate personality type of the customer for the role-play. Practice handling their indifference with appropriate probes.

3. Difficulty Handling Misunderstandings

You have difficulty recognizing customer misunderstandings. You either don't probe to understand the misunderstanding, or you treat it as a different type of negative reaction by the customer. By not handling the misunderstanding correctly, the sales call is not efficient, the customer becomes impatient, and unmet needs or requirements are not addressed. As a result, the sales call ends and you fail to resolve the clients' misunderstanding.

Determine Cause(s)

Sales skills deficiency: You may not know how to recognize a misunderstanding when the client expresses it. Generally this happens when you fail to listen or probe for understanding of an attitude or simply assume understanding of an attitude. You may also try to use the same demonstration of capabilities for all customers regardless of social style.

Technical knowledge: You may not know the complete range of features and benefits of the products and services you are offering and, therefore, cannot identify the misunderstanding as a lack of customer knowledge about the features and benefits of your company's products and services. This happens when you have not done the necessary pre-call planning.

You can determine if this is the cause by reviewing your sales call preparation worksheet and the sales call supporting worksheet section with a person you consider to have technical expertise in this area. If they find your supporting worksheets to be weak, discuss how to improve them. If they are complete, the cause of the problem is a sales skills deficiency.

Improvement Actions

If deficient sales skills are the problem, review the materials on handling misunderstanding. After reviewing the material you should be able to explain the strategy for handling a misunderstanding. A common reason for not handling misunderstandings properly is insufficient probing to gain a full understanding of why the customer has expressed a negative response.

Conduct a mini role-play in which you play the salesperson. Prepare a set of sales aids for specific situations where you commonly encounter client misunderstanding. Then, conduct the mini role-play in which you use the scenarios you have developed and have the person playing the customer provide expressions of misunderstanding. You should respond to each expression by probing for understanding, and then confirm the customer's unmet needs. Once you have confirmed the unmet need, then support as you would normally for a customer need. Make sure that you support in a way that aligns with the customer's personality type you've assumed for the role-play. At the end of the mini role-play, ask the person playing the customer for feedback on how well you were able to resolve the misunderstanding. Repeat this exercise until you are comfortable with handling the misunderstanding process.

If deficient technical knowledge is the problem, follow the same improvement action for technical knowledge, as described above. If all the preparation is complete for technical services—features and benefits considerations—the problem is in the execution of the skill.

When a new salesperson is confronted with a customer's objection and is not sure how their solution can address the objection, a good strategy is to use the research tactic to seek expert advice before treating the objection as a drawback. This assumes that you started preparing your solution according to the standard sales procedure early in the opportunity management process in the evaluations of options phase and have used the initial sales call to discover all the critical buying center members' requirements. Based on these requirements, prepare a proposal that best meets these needs. Review your solution with your sales manager or technical expert before returning to the customer to present it. This way, you get a second opinion on how to improve the proposal and address areas in which you are lacking in technical knowledge. Attend the appropriate technical training to improve your technical knowledge and familiarity of supporting collateral you can use to better explain technical features, such as videos, web pages, and released examples. All these will help make it easier for the customer to understand.

4. Difficulty Overcoming Objections Due to Drawbacks

You don't handle drawbacks effectively. You tend not to deal with the drawback directly and are unable to present offsetting benefits that outweigh the drawbacks.

Determine Cause(s)

Sales skills deficiency: You may not have mastered the strategy for handling drawbacks, or you may be unable to tailor the strategy to suit the personality type of the client. You may try to "explain it away" or handle the drawback directly by negating it. Sometimes this happens because you don't recognize the need as a drawback. When this happens, you are unsure how to support and continue to probe for ideas on how to support. From the customer's perspective, the probing seems to go nowhere, and they find themselves repeating information.

Technical knowledge: You may lack the knowledge of specific features and benefits of your company's products and services as well as the application of these benefits in different environments. Therefore, when presented with a financial drawback, you cannot use outweigh or redefine tactics. You may also not be very familiar with competitors' offerings and, therefore, cannot use the trade-off technique effectively. As a result of all the above, you are not able to apply any of the drawback handling techniques effectively or efficiently.

Account knowledge: You're not familiar enough with the client's company or environment to understand the client's specific problems or requirements. You, therefore, tend not to target their requirements for your sales call discussions, stay at the application level, and never focus on the specific account's situation. You also do not offer specific dollar value for the unique features and benefits of your solution. Therefore, you cannot use the outweigh tactic to handle drawbacks and must limit your tactics to trade-offs, which for non-technical customers is not very effective.

Improvement Actions

If deficient skills are the problem, review the materials on handling drawbacks. Select one or two calls that you made in the past where a drawback was not successfully handled and construct a list of benefits that could have been used to

minimize the importance of the drawback. Also, construct a list of sales lead probes that could have been used to remind the client of these benefits if the customer exhibits indifference to the benefits when using the outweigh or trade-off tactics. Review the lists with your sales manager and ask for feedback.

If deficient technical knowledge is the problem, follow the same improvement action for technical knowledge as described in problem 1. During your discussions with the domain expert, be sure to discuss:

- Why do clients in your region typically express drawbacks?
- For the products and services you sell in your region, which product and service features result in benefits that can logically outweigh various drawbacks?
- Ask them to review your sales support materials and provide examples what they have used as supporting materials.
- What are the sources and who are the experts they use to keep current with technical developments and applications?

During the discussion, be sure to construct a list of the most common drawbacks and reference the sales aids you can use to overcome the drawbacks, not how these be adopted for the different customer social profiles you serve.

If deficient account knowledge is the problem, follow the same improvement action for handling indifference as described above in problem 2. Analyze from an account perspective where a drawback has blocked progress in making a sale. Discuss these questions:

- Why is the client raising this drawback?
- What benefits might logically outweigh the importance of this drawback to the client?
- What probes might you use to remind the client of these benefits or to uncover opportunities that will lead to these benefits?

After this discussion, conduct a mini role-play with another person in which they, as the client, present you with commonly expressed drawbacks. As the sales representative, probe to handle the drawbacks. Ask the other person for feedback.

Sales Call Preparation for New Sales Personnel

For new sales representatives, in addition to the actions already discussed, this section may prove useful when you have difficulties handling customers' objections.

Understanding Requirements

When arranging the sales call meeting with the customer, as much as possible ask the customer to describe the main requirements for the opportunity that you are going to discuss during the sales call (open visualizing probe). Depending on which stage opportunities management process stage you are at, ensure that you use the client interview worksheets to guide your conversations with the customer. If you are qualifying an opportunity and in stage 2 "Qualifying the Compelling Event," use the project solution client interview worksheet; in early stage 3 "Evaluation of Options," use the request for proposal worksheet.

Completeness of Supporting Worksheet

Ensure that your sales call supporting worksheet addresses each requirement, and be prepared to support the requirements during the sales call and demonstrate capabilities. It is a good idea to review your sales call supporting worksheet with the domain expert before going on the call. Compile a list of the most common

negative customer reactions for each product or service and review it with the domain expert.

Domain Expert

Ask your sales manager for the domain experts for technical services, applications, and specific account knowledge. Discuss with the domain experts why clients express negative reactions and the most appropriate ways of handling them. Compare your library of different types of proof sources, references, and sales aids for each product or service with those the domain experts use. You may find they have a more complete library of sales tools, depending on the customer's social style and type of negative reaction.

Sales Library

As a standard practice, compare your sales aids with those of others selling the same products and services and share the proof sources among the sales team members in the region and globally. Over time, your team will have an ever-expanding library of support worksheets (features, benefits, and proofs) that can be used to customize new supports for future sales opportunities.

Level 1 and 2 Reviews

If possible, ask your manager or the domain expert to accompany you on one call a month or every other month and conduct a level 2 review as described in Chapter 7 "Sales Call Skills." Complete the pre- and post-call review and ask for feedback.

Modeling Coaching Calls

Ask your sales manager to recommend another competent salesperson in the region that you can accompany and observe on a sales call. Review the sales call preparation worksheet of the salesperson you will accompany. Closely review all parts of the sales call preparation worksheet and how they are prepared to support according to the type of possible rejections they expect for each feature and benefit.

Prior to going on the modeling sales call, discuss the importance of recognizing and handling drawbacks. During the sales call, use the level 2 review form to follow the salesperson's progression through the sales call and, in particular, how the salesperson handles the customer's negative reactions.

Role of the Purchasing Department

To conclude, this chapter explains the role of the purchasing department or the individual who has been assigned the responsibility of soliciting and evaluating a request for services (evaluator). Some salespeople believe that customers go out of their way to simplify the bidding process and make the selection of the preferred supplier a lowest bidder decision. This is not an accurate interpretation of the purchasing manager's role.

In procurement seminars, purchasing personnel are taught that they can never prove they got the best price; what they have to prove is that they tried to get the best price. They are taught that, to get the best price, they should have a well-defined procurement process that:

- Ensures that they (customer) have the correct technical requirements and a request for proposal that clearly describes the minimum bid specification for products and services, as agreed to by the operations staff.

- Has a list of qualified suppliers that is reviewed and updated regularly.
- Makes each new or significant procurement a competitive bid process that covers the most likely scenarios, with calculated costs for each scenario and costs for any products or services that may be required.
- Has an evaluation technique that is simple, consistent, quantitative, and reviewed.
- Transfers risks that don't increase their (customer) costs.
- Negotiate only with the preferred suppliers.
- Compare evaluated costs against invoices and challenges any variances.
- Uses their (customer viewpoint) terms and conditions for contracts and closely reviews and challenges any requests for changes.

Most procurement departments try to have three or more acceptable suppliers. If the operations or technical staff has verified the suppliers as having similar capabilities, the procurement decision becomes much simpler and can be made by comparing each supplier's quoted prices. In fact, many bid requirements today include a very well-defined spreadsheet in which prices are to be entered to facilitate bottom-line analysis.

Strange as it may seem, this is not at odds with what the salesperson is trying to do, which is to demonstrate value and then share in the value generation, which to the customer represents a premium over the competitor. As long as the value is proven or the customer's required operation staff validates the strengths of your solution, then most customers will pay a premium for value-creating products and services.

Closing Comment

Now you have seen the fundamental sales skills of the consultative selling approach and need-satisfaction process, including handling customers' objections. You should be equipped to successfully manager your opportunities.

Problems arise for mainly two reasons:

- You start too late in the opportunities management process to get your differentiated, value-added products and services included in the decision criteria. Therefore, if you begin to offer this only in the procurement process, the non-technical people will react negatively and have concerns such as those discussed in this chapter. There may not be time for you to address all the concerns the technical staff may have.
- You don't discover the customer's objections to your sales proposals until late in the opportunities management process or in the procurement phase after the proposals have been submitted.

Both issues can be resolved by applying the concepts of opportunities management and consultative selling approach following the need-satisfaction process and handling customers' objections.

The focus will turn to selling in a competitive environment specifically for large sales engaged in competitive bidding following the customers' procurement processes.



Summary of Chapter Objectives

Previous chapters discussed the consultative selling approach skills and the need-satisfaction process. With these sales skills and customer knowledge, you should be able to prepare proposals that are aligned to the customer's requirements and demonstrate your solution's value. Even with your best efforts, however, there will be situations when the customer will have concerns or will not accept your solution. Such responses are classified as customer objections.

1. Describe the most common customer objections encountered during the consultative selling approach process.

There are five typical types of objections. These are indifference: The customer is not motivated to support the selection of your company and sees no need to change their current mode of operating. Misunderstanding: this is when the customer incorrectly assumes that you cannot provide a feature and benefit they require. Many times the customer may express skepticism about your claims regarding features and benefits. The most common negative response is that of the drawback. Two drawbacks are common: A technical drawback, where your solution cannot provide a feature or benefit the customer needs or the solution includes a feature the customer does not want, or a financial drawback, which is the more common drawback. Often you will hear, "I would like to use you, but you're too expensive." The fifth objection is fear. The client had a bad experience in the past that causes them to minimize the benefits they could enjoy because the fear of a loss is greater. The fear objection is well known and studied by neuroscientists. The fear objection causes the customer to anchor, and the old brain's survival instincts will discount logical explanations to move forward.

2. Understand how to react and overcome common customer objections.

Each type of negative response by customers is best handled by following specific tactics for each type of response. Because the indifferent customer doesn't see the benefits of doing business with your company, the salesperson must first acknowledge the customer's point of view and then ask permission to probe to understand their circumstances. This is a delicate process, and you do not want to infer that the customer is uninformed. Your probing should be brief and efficient. The best technique to follow in this circumstance is the sales lead probing strategy. Once you confirm a need the customer has, you are in a position to support the need. If at any time during the probing sequence the customer does not confirm the need, then you drop the probing sequence and move to the next step in the sales call—either another probing sequence or concluding the meeting.

For the next three types of customers' negative reactions, you always begin by probing to ensure that you understand the nature of their reaction. Never assume that you do, and once you have a thorough understanding, acknowledge the customer's point of view before beginning to try to change the customer's position. For a misunderstanding, the most important aspect is that the customer perceives they have a need that is not being met by your solution. As a result, an important step in handling a misunderstanding is to first confirm the need before you begin to re-explain or support the assumed need. When the customer has expressed skepticism, you must identify what the customer would consider an acceptable proof in order to accept your claims. For the drawback, if it is technical, the tactic to use if you are unsure a solution exists or that their requests cannot be met, you should research the customer's requirement before you assume it is not possible and then treat drawback as a financial drawback. For the financial drawback, there are three tactics. The most successful is to outweigh the drawback with previously accepted benefits and value the customer has accepted or to trade off the financial difference between your company and the competitor. You do this by ensuring that the customer understands the features and benefits they will not get from the competitor's lesser offering or the additional costs or risks the competitor's solution has compared to yours. The last tactic for handling a drawback is to try to have the customer redefine the evaluation criteria so they more accurately evaluate the benefits of your solution.

When handling the fear objection, you must have the customer view the fear from a different perspective. You do this by connecting with the customer through stories, analogies, and metaphors to help the customer reframe the fear and allow them to move forward. Give the client options to choose from for next steps. In this situation, you also want to be readily available after you have closed the meeting in case the customer has any questions or clarifications in order to keep them committed to going forward.

The best strategy for handling customers' negative reactions is to prevent them from happening. This is achieved by having proactive marketing and a sales–customer–communication program that uses all aspects of the promotional tools available to the marketing and sales team—tools such as advertising, personal selling, direct marketing, and public relations. Successful programs create awareness in the target markets or customers about your company's benefits and help educate the customer about your company's offerings. These are the first two stages in the buyer-

readiness stages. The salesperson must guide the customer through these stages so that the final purchase decision is in your company's favor.

3. Prepare strategies to avoid customers' objections.

You discussed the opportunities management process by starting early to understand what negative reactions a customer may have to your solution. You can decide where you are vulnerable and define a competitive sales strategy that puts you in the strongest position to secure the project. This will drive your tactics, which eliminate predicted negative reactions among customers by leveraging your strengths. Included in the opportunities management process is the monitoring of the decision process all the way through to the end. You must fully analyze any decision to understand where you were not successful in handling customer concerns, why you were successful, and the value the customer gave you to justify their decisions. Also, when you execute tactics, competitors will react; as a result, a customer may develop negative reactions late in the procurement process. You have to be prepared to react to these late reactions.

By improving your sales call planning, execution, and analysis, you can also avoid many of the customer's negative reactions. The project supporting worksheet and eight-page document were designed to assist the salesperson in methodically planning, executing, and analyzing each sales call. In addition, the salesperson should use sales management and domain experts to help develop the skills and techniques for handling and preventing customers' negative reactions.

Lastly, a salesperson should not be upset or surprised when a customer seems to push the decision toward the low-cost bidder. If the customer has not given you the benefit of your added value, you first should examine whether you have effectively used the opportunity management process to prove your value or whether you waited too late in the process to introduce your value-added solution. You might also be discovering the customer's concerns too late in the opportunity management process, not leaving you many options to deal with them effectively. Remember the customer's procurement process is there to prove that the department or individual responsible for the procurement tried to get the best solution for their company. It is your job to demonstrate that your company has the best solution. Sometimes the customer will ignore or make unreasonable demands because they believe this is the best way to get the best deal. They believe they are being a good buyer for their company. The best way to effectively deal with these "good buyers" is for the salesperson to be a "good seller," to know and prove the added value your solution brings to the customer.



Applying the Concepts

1. What are the most common negative reactions that you experience in your day-to-day sales?
2. What are the best sales aids you use in your sales calls, particularly during the demonstration of capabilities?
3. What is the largest financial drawback that you have successfully overcome?
4. How can you ensure that there is a good exchange of success stories and sale support tools within and between regions?
5. How much of your time is spent handling customers' negative reactions?



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Appendix A

Handling Customer Objections

Indifference

1. Probe to understand indifference
2. Acknowledge customer's position
3. Ask permission to probe
4. Use Sales Lead probing sequence to build awareness:
   - Problem–need confirmed
   - Quantify–size of problem confirmed
   - Consequence–of not addressing issue confirmed
   - Look/listen–confirmed customer wants to:

     a. Support confirmed need

Misunderstanding

1. Probe to understand misunderstanding
2. Acknowledge customer's position
3. Acknowledge need not met
4. Support need as per supporting process

Skepticism

1. Probe to understand skepticism
2. Acknowledge customer's concern
3. Offer relevant proof
4. Check for acceptance

Drawback

1. Probe to understand drawback
2. Acknowledge customer's drawback
3. If technical, research
4. If financial, use one or combination of below:
   - Outweigh spreadsheet analysis. Cost of drawback compared to your proposal's value
   - Redefine definition of price to include other associated cost not include in price analysis
   - Tradeoff–review benefits customer will not be receiving if he or she chooses competitor
5. Check for acceptance

Fear

1. Probe to understand the real reason for the Anchor
2. Acknowledge the concern
3. Connect with the customer through a story, analogy, metaphor etc.
4. Recommend options to move forward
5. Check for acceptance

Appendix B

Communication Skills

Active Listening

1. Make eye contact
2. Sit straight or lean forward
3. Nod in agreement
4. Use facial and body language
5. Ask questions
6. Take notes
7. Classify the information as you hear it

Exploring for Ideas

1. When you invite a suggestion -> Give a reaction
2. When you make a suggestion -> Invite a reaction
3. When you use/build on the ideas of others -> Acknowledge the connection
4. When you need to be innovative or imaginative -> Temporarily alter restrictions

Crediting

1. Give a specific example of performance.
2. Mention personal qualities that contributed to performance.
3. Mention resulting benefits to the customer or and or you

Triangulating a Concern

1. Use neutral tone
2. Don't state your opinion
3. Refer to problem or concern as "It"

Managing Difference of Opinion

1. Define the difference
   - Probe to understand the customer's position
   - Confirm what is important to the customer
   - State what is important to you
2. Explore for ideas for an acceptable solution for both parties and or handle as drawback
3. Conclude the discussion
   - Summarize next steps
   - Check for acceptance
   - If difference of opinion remains
   - Acknowledge customer's point of view and state you still hope your solution has sufficient value even with difference of opinion and if not you understand why he or she has taken this position.
   - Thank them for their time.

Constructive Criticism

1. Introduce the subject in a neutral tone
2. Confirm your understanding of the situation
3. Give balanced feedback
   - Specify what you want to see retained.
   - Specify what you want changed.
4. Explore next steps.
   - Invite ideas; offer feedback.
   - Offer ideas; invite feedback
   - Acknowledge connection to others ideas
   - Temporarily alter restrictions
5. Summarize next steps you've agreed to

Sales Call Skills

Preliminaries

1. Greeting – business card
2. Rapport building
3. What preparation
4. Check timing
5. Permission to take notes

Opening

1. State agenda
2. Value Proposition
3. Check for acceptance
4. Check for customer's agenda

Probing–Customer Lead

1. Situation
2. Problem or Opportunities
3. Implication of problem or opportunity
4. Need payoff – Confirm your understanding of the problem or opportunity and implication

Probing–Sales Lead

1. Problem or opportunity confirm the issue exists for customer
2. Quantify the size of the issue
3. Consequences what would happen if the issue was not addressed
4. Look/Listen would the customer like to see or hear more on how we could assist them in addressing the issue

Supporting

1. Acknowledge the need
2. Describe feature and benefits
3. Demonstrate capabilities
4. Check for understanding
5. Test for value

Closing

1. Check for any other issues
2. Review accepted benefits
3. Ask customer for next steps or propose next steps
4. Check for acceptance
5. Thank the client

Customer Objections

Indifference

1. Probe to understand indifference
2. Acknowledge customer's position
3. Ask permission to probe
4. Use Sales Engineer Lead probing sequence to build awareness
   - Problem–need confirmed
   - Quantify–size of problem confirmed
   - Consequence–of not addressing issue confirmed
   - Look listen–confirmed customer wants to see or hear more
   - Support confirmed need

Misunderstanding

1. Probe to understand misunderstanding
2. Acknowledge customer's position
3. Acknowledge need not met
4. Support need as per supporting process.

Skepticism

1. Probe to understand skepticism
2. Acknowledge customer's concern
3. Offer relevant proof
4. Check for acceptance

Drawback

1. Probe to understand drawback
2. Acknowledge customer's drawback
3. If technical–research
4. If financial use one or combination of techniques below:
   - Outweigh spreadsheet analysis cost of drawback compared to your proposal's value
   - Redefine definition of price to include other associated cost not include in price analysis
   - Tradeoff – review benefits customer will not be receiving if he or she chooses competitor
5. Check for acceptance

Fear

1. Probe to understand the real reason for the Anchor
2. Acknowledge customer's position
3. Connect with the customer through a story, analogy, metaphor etc.
4. Recommend options to move forward
5. Check for acceptance

B2B PROFESSIONAL SALES

"This book achieves a rare feat of presenting the strategic intent AND the action plans for successful selling. While most books on selling are either too conceptual or too tactical, JP has assembled a masterpiece that integrates and balances both perspectives. Flip through this book, and you will find decades of insights and best practices, all presented in a logical and easily understood format. It is both comprehensive and actionable, making it an invaluable resource that will accelerate the career of any B2B salesperson."

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B2B PROFESSIONAL SALES VOLUME 2

FOREWORD BY ROBERT J. KELLY
CHAIRMAN, SALES MANAGEMENT ASSOCIATION



B2B PROFESSIONAL SALES VOLUME 2

THEORY | PROCESS | APPLICATION | TOOLS

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B2B PROFESSIONAL SALES VOLUME 2

THEORY | PROCESS | APPLICATION | TOOLS

Volume 1 and 2 Print-on-Demand (POD) Color Hardcover Editions

To accommodate the POD color hardcover services, the original B2B Sales textbook had to be split into two editions to meet the maximum of 550 page requirement for hardcover color books. Therefore, there are now two volumes available for purchase separately with the content as listed below:

VOLUME 1

SECTION ONE: Sales Fundamentals

Chapter 1: Understanding the Role of Marketing

Chapter 2: Value Drivers

Chapter 3: Account Corporate Profile

Chapter 4: Opportunities Management

Chapter 5: Communication Sales

Chapter 6: Sales Activities

SECTION TWO: Consultative Selling Skills

Chapter 7: Sales Call Skills

Chapter 8: Handling Customer Objections

VOLUME 2

SECTION THREE: Selling in Competitive Markets

Chapter 9: Strategic Sales Plan

Chapter 10: Competitive Bidding

Chapter 11: Pricing for Bidding

Chapter 12: Collaborative Negotiations

SECTION FOUR: Putting It All Together

Chapter 13: Pipeline Management

Chapter 14: Relationship Profiling

Chapter 15: Account and Territory Plans

People purchasing the POD color hardcover editions are invited to download a free copy of the entire textbook in color PDF format from **http://b2bprosales.com/txtbook_2021** and the complimentary resources folder from **http://b2bprofessionalsales.com/textbook/#textbook**

I hope you enjoy the book, and if you have any questions, please don't hesitate to contact me; thank you so much.

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Foreword

Salespeople are in the business of asking questions. The first two they're likely to ask are existential. They are "How did I get here?" and "How do I stay?"

The first question is trickier than it looks, as many salespeople arrive in the sales organization without knowing quite how, and perhaps even why. As college students, few plot a career trajectory by aiming for sales, though a whopping fraction of graduates land there—some after eliminating other options, some by rotational assignment, and many seemingly by serendipity alone. Sales managers' career paths aren't much more carefully chosen. Most are promoted for being a good salesperson, a qualification which, to the unfortunate surprise of many new managers, proves a fickle predictor of success.

These accidental salespeople and sales managers evoke Dirk Gently, the quirky investigator from Douglas Adams' comic detective novels. His "Zen" navigation technique involved simply finding "any car that looked like it knew where it was going and follow(ing) it." Dirk, like many salespeople and sales managers, discovers this technique results in outcomes more oft en surprising than successful, but is "worth it for the sake of the few occasions when it is both."[1]

However drawn to sales, whether through happy accident or some more purposeful route, many talented salespeople and sales managers find they want to stay. How they'll do so is a critical concern for them, and for their firms, who hope they'll not only stay but continue to thrive in the sales force. Staying requires finding a way to develop knowledge, skills, and ability in a field not well known for codifying its principles, or mapping the milestones for those traveling its route. There is no qualifying exam, no certification. Many will work for firms without meaningful training programs or with haphazard commitments to employee (let alone salesperson) development. And as if that weren't enough, they'll need to stay current in a field changing with breathless rapidity, adapting to the new models of buying and selling emerging in every industry.

This text is for them. Joe Amlin has assembled in this impressive book a sound foundation for professional sales development and an invaluable reference work useful to salespeople and sales managers at all career stages. It offers theory, processes, and specific applications of how professional salespeople manage their responsibilities. Practitioners will appreciate its focus on actionable techniques, including exercises that allow salespeople to apply concepts immediately after reading each chapter.

Joe's career in the oilfield services gives him unmatched experience in some of the most complex, challenging sales environments in any industry. That experience is evident in this text, with its focus on large opportunity management, competitive bidding and procurement, strategic sales messaging, and collaborative negotiation. Equally valuable for his readers is Joe's experience operating in seemingly every corner of the globe. A Canadian educated in Alaska (among other

places), Joe is a long-time resident of Bali and spent much of his career traveling the world for a firm headquartered in Paris. His global citizenship and easy fluency in many cultures stand apart from others in our field, who mistake their own parochial success for a license to assume what works for everyone else.

Joe's commitment to sales education represents another happy accident for our profession; his contributions are, in true Dirk Gently fashion, equal parts surprising and successful. I met Joe through my efforts to start the Sales Management Association seven years ago. His interest, energy, and support of our fledgling enterprise—as a founding board member, advisor, and frequent contributor—were in no small way responsible for its success (the Sales Management Association now has more than 10,000 enrolled members in 40 countries).

I continue to be astonished by Joe's enthusiasm for the sales and sales management professions, and, like many others who've benefitted from Joe's work, remain immensely grateful for it. This text is an artifact of Joe's commitment, energy, and industriousness in developing our profession and offers ample evidence that as a sales effectiveness "thought leader," Joe's willing to do what so many others eager to claim that title ignore—carefully assess the best ideas, craft actionable insights, and present ideas focused on helping others improve.

In your own pursuits, whether those involve beginning or advancing a sales career, expanding your sales leadership ability, or simply developing a better understanding of the sales organization, I believe you'll benefit from the insights cataloged in this text. I wish you a journey full of as much success as surprise.

Robert J. Kelly
Chairman, Sales Management Association
Atlanta, Georgia

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[1] Adams, D.: *The Long Dark Tea-Time of the Soul*

Preface

The cover represents a puzzle because this is how I viewed sales when I first started in 1983. As a young salesperson, I asked what I needed to do to be successful in sales. I got a lot of advice: some good, some not so good. To me, it was like putting together a puzzle. After some success and failures, I realized the best advice I received was from a very senior marketing manager. He told me "organize yourself for the task, look at all the pieces, set a strategy and execute. Do that and, like putting together a puzzle, all the pieces will come together to create a picture to be enjoyed." After that advice, I felt like I held the key to my success as a salesperson.

This textbook is my third book and, I believe, my best—not because the writing is better than before, but now the experiences are richer. I wrote my first book when still a young and keen mid-level manager thirsty for knowledge and looking for the pieces of the puzzle to manage a professional sales force in a B2B marketplace. My engineering degree did not provide me with the clues I needed. After earning my MBA, I realized there are a lot of very knowledgeable and generous people who were experts in the field of B2B professional sales. They have influenced my thinking and behavior as a professional salesperson. After many discussions with specialists in the B2B sales profession, teaching thousands of people on the sales skills and with the advice from my marketing manager now many years later, I believe I have a key. A key to being shared with today's sales professionals is wanting to be the best they can in their profession.

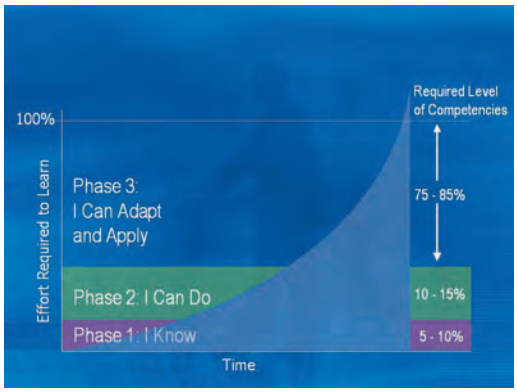
The structure of the textbook follows an academic model where each chapter begins with a list of learning objectives followed by the main text. As much as possible concepts start with a description of the theory to explain the concept, a process to be followed to apply the concept, applications of the process being applied to real sales examples, and tools that you can use to apply the concepts to your sales opportunities.

At the end of each chapter is a summary of the chapter objectives, which provides a method for readers to review and ensure that they have understood the main concepts presented in the chapter. There is also an "Applying the Concepts Section," for those who want to start using the tools that can be downloaded from www.b2bprofessionalsales.com. Finally, a reference section is included for each chapter , as is a suggested reading list for those who want to read more about B2B professional sales topics.

This textbook is not about shortcuts to sales success. The textbook is meant to be read from start to finish as each chapter builds on the previous chapter content. There are four sections in the textbook: Section 1: Sales Fundamentals, with nine chapters; Section 2: Consultative Selling Skills, with four chapters; Section 3: Selling in Competitive Markets, with four chapters and Section 4: Putting It All Together, with three chapters.

Not only is this textbook not a shortcut to sales success, but it is also not a guarantee of sales success. Rather, it is a starting point. The figure below is based on how adults learn and clearly shows that there are three phases in the process of learning as it pertains to achieving a desired level of competency.

The skills used to build the first puzzle add to your library of experience, making the next puzzle easier and faster. Like sales opportunities, everyone now and then there will be a puzzle that will challenge you and cause you to stop and work hard to see the picture and enjoy the success of winning.



Readers of this textbook can expect to gain the foundation, or Phase 1: "I know." By studying the chapter highlights and completing the applying the concepts exercises at the end of each chapter, readers will be able to enter the next level, or Phase 2: "I can do." Reaching the professional sales level, or Phase 3, "I can adapt and apply," requires your commitment to adopting and applying the concepts to your sales responsibilities. A five-year study showed that the average time it takes a salesperson who enters the sales force after having sales training to reach the desired proficiency level of a professional salesperson is eight months to a year.[1] Those who reach the professional sales level become more efficient and effective over time. Efficiency is measured not by taking shortcuts, but by being methodical and thorough in the daily sales lifestyle. Effectiveness is measured by bringing increased satisfaction and value to your customers, your company, and your sense of personal satisfaction from that success.

I hope you find this book useful and that it contributes to your development as a professional salesperson. If you have any questions or comments, please do not hesitate to contact me.

J.P. Amlin

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[1]JP Amlin "From Sales Rookie to Professional" MBA report on sales effectiveness. University of Alaska Anchorage, Anchorage, Alaska (1987).

Acknowledgments

No book is the work of only the author. This book represents experiences, thoughts and ideas shared with my many clients and colleagues. I am particularly thankful to the companies I have had the sincere pleasure to work for either as an employee or privilege to deliver a sales training program. These companies include Archer, Baker Hughes, BGP Marine CNPC, Cummins, OiLSERV, Nucleus Software, Richardson, Schlumberger, Task Frontera Geoscience, TGT, and many more.

It is impossible to acknowledge individually all the people who contributed to the development of this material, although my debt to them is considerable, and I sincerely value their input and extend my gratitude. In particular, I want to thank my colleagues Ken Feather and Carlos Calad, two of the best sales and marketing professionals I had the pleasure to work with while at Schlumberger. I also want to thank Jason Jordan for his contribution to the field of sales effectiveness and Robert Kelly for being a champion of the sales profession.

I especially want to thank the more than 2,000 participants who attended my sales training seminars. Their questions, comments, and suggestions for improving the seminars, the first books, and teaching materials have been a rich source of ideas for this textbook. I look forward to their comments on this book and further suggestions for improving future editions.

Finally, I extend a special thanks to:

- Nanette Day for editing the final print copy, and
- Laura Brown for laying out and making changes to the draft and final versions of the chapters.

I hope as you read this book you find it interesting and useful. Your comments and suggestions on how to improve the book are greatly appreciated.

J.P. Amlin

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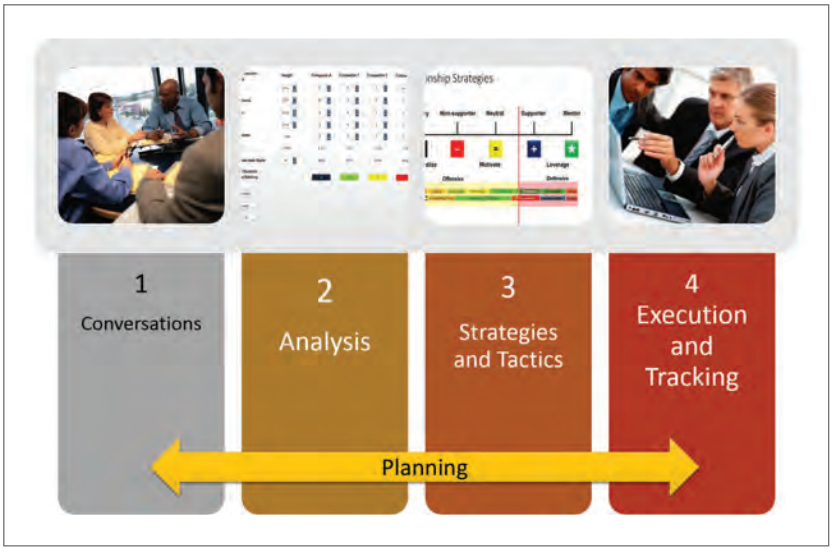


SECTION 3

SELLING IN COMPETITIVE MARKETS

In B2B sales, the trend for the last decade has continued to become more competitive. The primary factors are more sophisticated and better-informed buyers, as evident in today's procurement bidding processes. Additionally, there is less differentiation between competitors as well as a proliferation of selling skills training, sharing of best practices, and built-for-purpose sales optimization methods and tools.

The professional sales force must have a range of business skills to compete in today's marketplace. The first sections of the textbook are fundamental concepts for any professional salesperson regardless of whether the type of deals they compete for are small or large. In this section, the focus is largely sales driven according to the customer's project management and formal bidding processes. When selling in large sales and competitive markets, the size of the deals will make your competition more strategic. The military's definition of strategic is "being in the best position to engage the enemy in securing the position with minimal loss." In the competitive B2B sales world, this means taking actions with people in the customer's buying center so that, when you submit your bid, you win with the minimal resources required.



Being strategic requires you to plan before you commit. Knowing how to create a sales plan is discussed in Chapter 9 "Strategic Sales Plan." How to build a winning bid is covered in Chapter 10 "Competitive Bidding." Setting the correct price for your bid

is not easy. Submitting the wrong price can cause you not to make your profit targets or to lose the bid. How to set your bid price is described in Chapter 11 "Pricing for Bidding." And, as everyone knows today, if you want to win you must negotiate. Negotiation in B2B markets is standard business practice. How to negotiate to win the deal and strengthen the relationship between the customer and you is detailed in Chapter 12 "Collaborative Negotiations."

All the tools described in this section are available to you from the www.b2bprofessionalsales.com website.

Strategic Sales Plan



All Strategy Depends on the Competition

The strategic sales plan (SSP) is a planning, tracking, and communications tool to collect and organize the actions needed to successfully demonstrate the value proposition of a project to the customer better than the competition. Effective sales plans result in the opportunity for stakeholders to support the plan and assisting the service delivery team in meeting or exceeding the objectives of the project.

The sales plan provides a methodical, repeatable, and strategic approach to the challenge of identifying and understanding customer requirements, creating a differentiated solution that meets your company profit objectives, and communicating the differential value of your solution to the customer. A successful strategic sales plan is the first step toward your company winning the project and then exceeding customer expectations during implementation.

Chapter 7 "Sales Call Skills" showed how you use the total quality management (TQM) process of planning, execution, and analysis to ensure that the sales call process is effective and efficient. The same TQM process is followed for the sales plan as shown in **Fig. 9.1.** The sales plan starts with the planning process to organize what you know and do not know regarding the opportunity and to identify where your solution is strong and vulnerable in relation to the two key questions: Can you compete? and Can you win? The strategic sales plan assists the sales team in selecting the competitive sales strategy for the opportunity and in securing the opportunity by applying proven sales tactics. Part of the planning process is the periodic analysis of the plan. There are two levels of analysis for the strategic sales plan. The first analysis

Chapter Objectives

After reading this chapter, you will be able to:

- Build a strategic sales plan to organize, manage, and monitor the actions to secure an opportunity.
- Communicate the plan to the stakeholders in the customer's and your organizations.
- Capture the knowledge and promises made during the pursuit phase of the opportunities management process and deliver on those promises in the implementation phase.

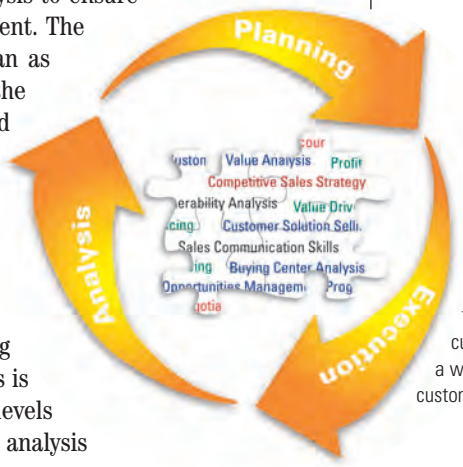


Fig. 9.1
The strategic sales planning process uses all the sales tools and skills to improve the chances of securing a customer project that creates a win-win environment for the customer and you.

is a level 1 review completed by the sales representative; the second analysis is a level 2 review, which is a test-and-improve process in the form of a peer review. Both types of analysis are discussed later in this chapter. Strategic sales planning is essential for sales success in competitive markets.

The strategic sales plan leverages all the analysis discussed in earlier chapters, such as the following:

- Account Corporate Profile
- Requirements Analysis
- Buying Center Analysis
- Customer Value Analysis
- Vulnerability Analysis
- Handling Customer Objections
- Competitive Sales Strategy Selection
- Opportunity Management

All the insight gained from the above factors is the result of having conversations with the customer. With this knowledge the sales team then creates a strategic plan to beat the competition, satisfy the customer, and make the targeted profit for the project.

The plan communicates what the sales team should be doing when, with whom, and why. After each tactic is executed, the results are reviewed and applied to the next tactic of the plan. The remaining tactics are either carried out as planned, modified, or dropped, or new tactics are added. Though most tactics are in the form of a sales call (as discussed in previous chapters), some tactics are also internal meetings held to make critical decisions regarding the opportunity and to collect information to complete a strengths, weaknesses, opportunities, and threats (SWOT) analysis, as discussed in Chapter 1 "Understanding the Role of Marketing & Sales." **Figure 9.2** highlights the key activities completed during the

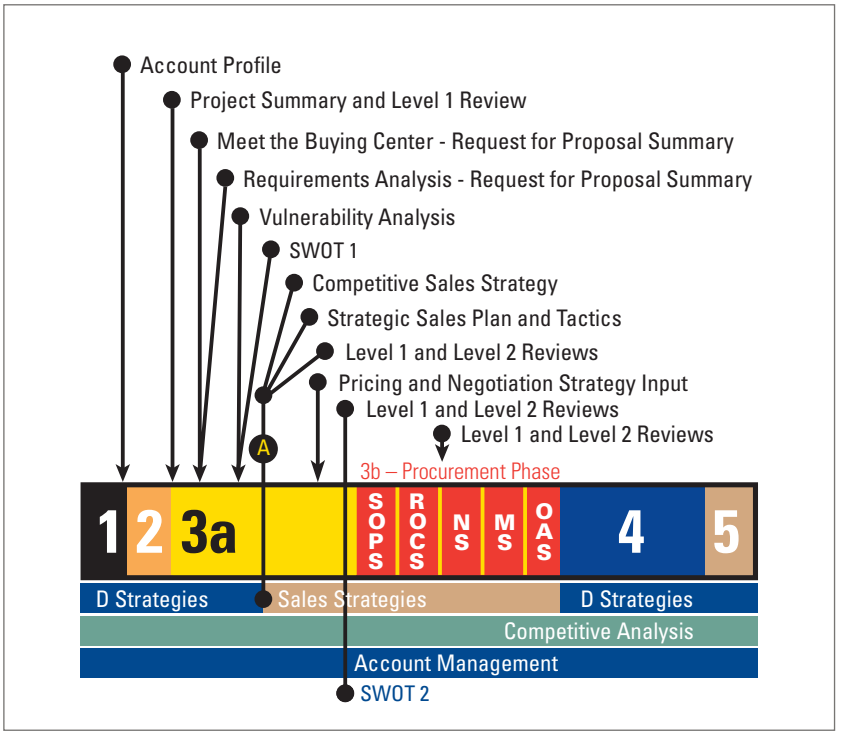


Fig. 9.2
Key activities during the opportunities management process that provide critical input into the strategic sales plan. Key activities during the opportunities management process phases for a competitive bidding process: 1. Account Profile, 2. Compelling Event, 3. Evaluation of Options, 3b. Submission of Proposal, 3c. Resolution of Concerns, 3d Negotiations, 3e. Monitor, 3f. Outcome Analysis, 4. Implementation, 5. Project Review. Point A on the chart represents the time when the pursuit decision is made. Up to this point most of the energy is directed toward retrieving information and estimating the probability of winning the opportunity. From point A on, the sales strategy is set and the appropriate sales tactics are taken, as identified in the strategic sales plan.

opportunities management process that provide critical input to the strategic sales plan. The steps taken to complete each section are described below.

The following discussion covers each section of the strategic sales plan and important factors to consider when completing each section. The strategic sales plan consists of these sections:

- Overview
- Milestones in the Customer's Project Management Process
- Buying Center Analysis
- Contact Analysis
- Competitive Analysis
- Proposed Solution
- Opportunity Assessment
- Competitive Sales Strategy
- Actions

In the appendix of this chapter is a strategic sales plan template that can be used to complete a strategic sales plan. The PowerPoint and Word files can be downloaded from the textbook website.[1]

Overview

The opportunity overview provides background information about the account and is largely information obtained as part of the account management process. This information will help brief anyone who will be involved in the opportunity, either as part of the bid team or service delivery team, to better understand why the account has decided to do the project. This information also helps you to understand how the opportunity fits into the account's overall business strategy. Each section of the overview is described below.

Customer Business Summary

The customer business summary is copied from the Account Corporate Profile–Executive Summary section as discussed in Chapter 3 "Account Corporate Profile." This is a one- or two-paragraph summary describing the account that provides a brief introduction to anyone who is new on the direct sales team, is involved in the opportunity review, or has been assigned to complete a tactic but who does not routinely deal with the account. For a more detailed discussion on preparing the summary see Chapter 3 "Account Corporate Profile."

Goal

Describe your desired, long-term position with the customer. Identify how a closer relationship with you will advance the attainment of their business goals. Also, include the long-term gain for your business, such as future revenue or strategic value, and the expected revenue and profit from this opportunity.

It must be emphasized that the purpose of the sales plan is to put you at a competitive advantage when you submit your proposal. In most scenarios, you will submit a bid as a part of a the customer's formal procurement process. The financial analysis for a sales plan, and what is presented at a "Level 2 Strategic Sales Plan Review" meeting, is not a detailed business case. The business case will be presented as part of a bid review after the customer has provided the firm with a

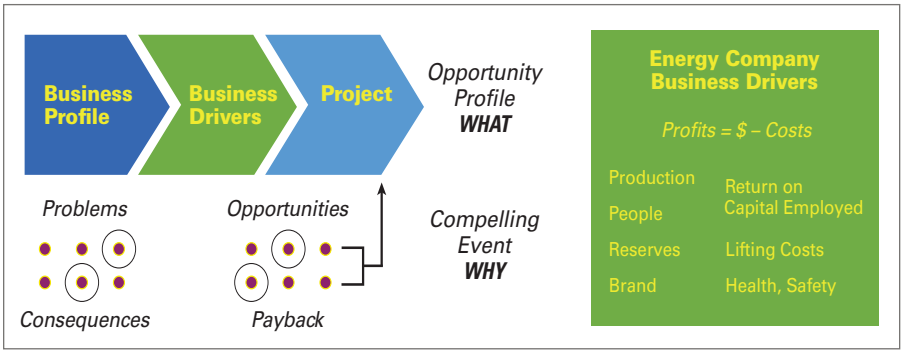


Fig. 9.3
The relationship between Opportunity Profile and Compelling Event. The customer's business profile is what the company does. The company management will want to grow the company and select key business drivers for which they manage. The green box lists some of the more common business drivers, including some non-financial drivers such as brand and health and safety. What compels companies to sanction projects is the need to either fix problems or capitalize on opportunities. Most companies will have a portfolio of problems and opportunities they are considering for sanctioning during any given year. What dictates which projects are approved is the size of the consequence if the problem is not addressed and the payback of the opportunity. The other factor that controls the number of projects at any one time is the amount of funding the company has available. Therefore the compelling event is the reason the company is spending their money either to fix a problem or benefit from an opportunity. The opportunity profile is the "what" the customer will buy for the project.

scope of work and will be discussed in Chapter 10 "Competitive Bidding" and Chapter 11 "Pricing for Bidding." The sales plan financial analysis is done using averages and estimates from previous bids.

Opportunity Profile

The opportunity profile describes what the opportunity is from the customer's perspective. It describes:

- The key project requirements;
- What will be included in the request for proposals; and
- The budget for the project.

The information for this section and the next section, the customer's compelling event, should have been collected during the early phases of the opportunities management process.

Compelling Event

The compelling event section describes why the customer has decided to carry out the project, by what date, and who has the responsibility for its successful completion. In the simplest form, the compelling event answers the question, "Why are they spending the money?" This section answers the following questions:

- What is the expected and specific outcome from the project, and what are the metrics used to determine whether the project is a success?
- What are the consequences if the project is not done or is delayed?
- What is the payback to the customer if the project can be completed ahead of schedule?
- What is the customer's budget for the project?

Compelling event information should be available from the initiator of the project early in the opportunity management process. These questions must be answered by the customer's organization to justify the expenditure for the project.

If the customer has not initiated the project, you can suggest the project to the customer. In such cases, you must clearly describe the compelling reasons and payback if the customer does the project. In effect, you have to help create a compelling event so the customer can see how the company will benefit. Sometimes salespeople can confuse the opportunity profile for the compelling event, and that is wrong. **Figure 9.3** shows the relationship among several factors relevant to having a better understanding of what is driving the compelling event. If you as the salesperson do not know the compelling event, then there will still be

a purchase, but this will limit how you can respond to the customer's request for proposal, making your bid more transactional. Sales professionals always want to know why the customer is spending the money. When customers do not have a real reason to buy, then the sales cycle could go on for a long time. See the sidebar "'Will This Deal Ever Close?' A Compelling Event."[2]

Customer Project Milestones

Customer project milestones describe when key decision points must be reached, from the point when the customer moves from the strategic planning phase until the customer finally completes and reviews the project. These milestones should include all events required by the customer in their project management and procurement schedule.

Many companies follow a standard decision-making process for planning, budgeting, and procurement with standard milestones established to control, monitor, and manage projects. Generic project milestones and required approvals can usually be determined early in the opportunities management process or as part of the account management effort. Once the customer initiates a project, more detailed information should be available for exact project milestones. Information about the customer's decision-making process for the project life cycle helps you effectively manage the opportunities life cycle and avoid having insufficient time to prepare the best solution possible.

Milestone information is best presented in a tabular format, with fields for completion or estimated completion dates, description of the milestone (activity or event), and the party responsible for completing each milestone. See the appendix for an example of a milestones section in the strategic sales plan. To facilitate gathering this information, the salesperson uses the Client Interview Request for Proposal form shown in **Fig. 9.4**.

▶ *"Will This Deal Ever Close?" A Compelling Event*

One of the most frustrating situations your sales teams can encounter is when customers fail to pull the trigger on a purchase decision. You know the situation: The buying signs are all positive and your solution is a perfect fit for their business problem. But nothing happens. You don't lose to the competition; you lose to "no decision." The team has brilliantly executed a sales process mapped to the customer's buying process, but they cannot move the ball across the goal line. What's wrong? The answer is the lack of a compelling event.

A compelling event has an economic owner and a defined date and is a direct response to a business pressure. The action is expected to deliver a significant business result (either improving opportunity/capability or reducing pain). The compelling event defines the reason for the economic owner to act.

Some, like sales transformation expert Lee Levitt, would argue that purchase decisions are sometimes made without compelling events. Others, like knowledge management consultant Eddie Geller, would argue that you can create an artificial compelling event. But neither of these means that you must simply wait for something to ignite your customer to execute the purchase. Your sales managers need to embed Compelling Event Assessments as a regular part of their opportunity coaching.

Assessing the Compelling Event

At the start of every stage of the sales process, each opportunity should be assessed to understand the compelling event. Should resources be added to the pursuit of this opportunity, or diverted away? What can be done to make the prospect more aware of their compelling event? A quick assessment answers these questions and shapes the next steps in the sales process.

Four Dimensions of Compelling Events:

Internal Pressure: Are there any forces within the prospect organization that are driving a decision to be made?

External Pressure: Is there pressure from shareholders, regulatory agencies, or other third parties that are creating a deadline?

Personal Impact: How does the purchase decision impact the individuals in the prospect organization? Does professional advancement depend on the outcome; or the opportunity to achieve a bonus?

Consequences of Inaction: Are there any negative consequences of doing nothing? Are careers at risk?

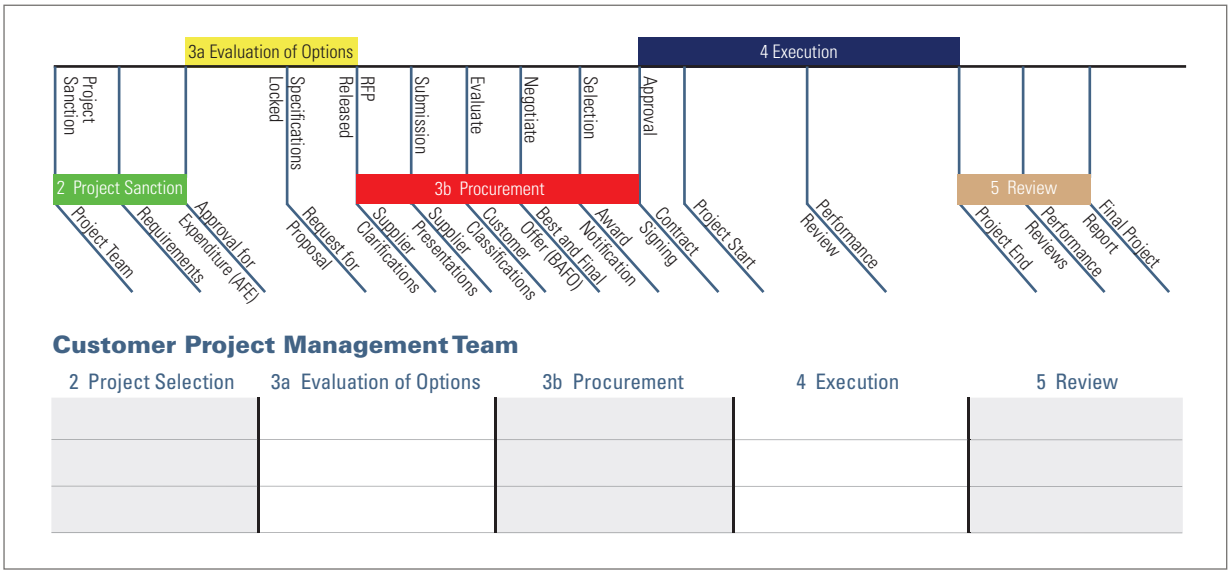


Fig. 9.4
The customer project milestones and customer project management team sections from the Client Interview Request for Proposal form.

Buying Center Analysis[3]

The buying center analysis is key for answering the question can you win the opportunity. As discussed earlier, this is significantly different from the question can you compete. To answer can you win is to determine if your company has sufficient supporters to argue in favor of your solution when the final decision is made. If there is not enough support, then you have ask if there is enough time to take the necessary actions to convince key buying center members of the benefits of selecting your solution. If there is, then you can win. If there is not, then your chances of winning are not very good.

To complete the buying center analysis with confidence, you must talk with the customer, and the best tool for doing this is the Client Interview form. Completing the buying center analysis consists of the following:

- Identifying which contacts in the account will participate in the buying center
- Identifying what role and level of influence each key buying center member has
- Determining the alignment between the buying center member and your company and the competitors
- Determining what is important to the individual buying center members
- Identifying any outstanding issues, concerns, or unresolved negative reactions

With this information, you consider how the competitors will be positioned and compared to you and then decide on the best relationship strategy and tactic to be taken with each key buying center member.

Figure 9.5 lists the buying center factors included in the buying center analysis. With the completed buyer center analysis, you can then decide on the appropriate tactics to take to better position your company in order to secure the project. In some opportunities, you might recognize that your company cannot win the project and avoid spending significant time and resources on pursuing the project.

Buying Center Factors				
Buyer Role	What is the official responsibility in the buying process?	Initiator Evaluator	Gatekeeper User	Decision-Maker Approver
Supplier Role	How does the supplier participate with the customer's buying center members during the five stages of the customer's project management process?	Trusted Advisor	Problem Solver	Vender
Influence	What level of influence does the individual have on the buying center members? These people may or may not be part of the critical buying center team.	High	Medium	Low
Alignment	What is the buying center member's opinion regarding your company?	Mentor Neutral	Supporter Enemy	Non-supporter
Coverage	What is the quality of your understanding of what is important to the contact?	In-depth None	General	Brief
Decision Orientation	What is the level of importance the contact gives to the common buying criteria? Percentage measurement.	Technical HSE	Financial Relationship	Service
Relationships	Are there any special relationships the contact has with other individuals in the buying center?	Business	Personal	Potential Conflict
Social Profile	How does the person like to conduct business relationships and make decisions?	Driver Amiable	Expressive	Analytical
Technology Adoption Profile	How quickly does the account adopt new technology?	Innovator Conservative	Visionary Laggard	Pragmatist
Objectives Requirements	What are the project objectives and requirements as stated by the contact?	Each item is described.		
Critical Success Factors	What are the critical success factors for the project as stated by the contact?	Each item is described.		
Concerns or Expectations	What are the individual's personal concerns, expectations?	Each item is described.		

Fig. 9.5
Buying center analysis summary.

Buying Center Participation[4]

The first step in the buying center analysis is to determine who in the customer's organization will be involved in the buying center. Sometimes the person can be identified by asking a contact within the account. Often, however, identifying that person can be a difficult task for several reasons:

- Sometimes the buying center member might be the key contact but could have little impact on the final decision or approval. These individuals may try to block a supplier's access to other buying center members.
- Some important buyers are not official members of the buying center yet might have significant influence on the decision-making process.
- In some opportunities, there could be many buyers who work as teams or committees within the buying center.

With a new project or customer, significant effort might be needed to avoid the risk of not contacting an important buying center member. When the opportunity is for an existing account or is a re-tender, identifying the buying center member is simpler and the previous opportunity outcome analysis can be used to prepare a contacting strategy. The best situation is when your company is in the implementation stage of a project and is working with the account daily.

Several actions can improve your understanding of buying center factors. The first is having an ongoing account management program in place, and the second is pursuing the opportunity long before the procurement process begins and before buying center members are required to restrict their discussions with suppliers. See the sidebar "It is Confidential" for a tip on how to ask for who is doing the buying.

Buying Center Roles[5]

In addition to project initiators and users of your products and services, there is usually a buying center team or individuals who:

- Evaluates options
- Defines requirements
- Evaluates offers
- Makes the final selection decision
- Negotiates
- Have the final approval

Advisors on Technical, Financial, and Legal Issues

Afterwards, the operations team implements and reviews the performance of the project. Buying center roles can be both official and unofficial. Typically, the procurement department of most large companies is responsible for evaluating and selecting suppliers from whom the company will purchase. This is common practice when a vendor list has been established for specific services or products. Your team should identify the specific role for each buying center member, as discussed below.

Initiator

The initiator is the high level person who sponsors the project. Typically, the initiator is an individual but can also be a group or committee. It is important to identify the initiator and maintain contact regularly as part of the account management process. It is good practice to contact initiators shortly after the account's annual planning process and discuss any changes to the company's goals and strategies and new initiatives. The initiator may not be part of the buying center, but if their support was needed to influence others in the buying center, you need to know what they believe is critical for the project to be successful.

Approver

The approver is the person or committee who approves the award of the contract to your company. In some public sectors or government-owned companies, the approver may be a person or department from a government agency who is responsible for the expenditure of government funds. In these situations, the final contract is signed by the department or company requesting the services only after government review and approval. The approver for large sales is typically a staff member or group from the senior levels of the company. Approvers should be contacted according to the following guidelines:

- By someone from your company's upper management who is not directly involved in day-to-day sales activities. This is necessary because, in some procurement processes, communication between suppliers and buying center members might be restricted. Restricted communication, however, typically does not apply to upper management. Contacting approver-level buying center members should also be part of the ongoing account management plan.
- Contacting should be planned to take place in the later stages of the procurement process. During the late procurement stages, your company is in the best position to address issues that might block the award of the contract to you.
- The person making the contact must ask whether the approver has any unresolved issues or concerns. The person making the contact should state the corporate commitment to the account's project and demonstrate management support.

▶ *It is Confidential!*

Unfortunately buying center roles are not listed at the front of the customer's offices or on their business cards. So how do you find out who is in the buying center? Many times students will say, "When I've asked that question, they tell me 'it's confidential!'" My comment is "Don't give up. You just need to ask the question differently." Here are some good tips for discovering who is in the buying center:

- Ask what process you have to follow to make the expenditure.
- Ask early in the opportunities management process and early in the "Evaluation of Options" stage.
- Use the Request for Proposal form. Have it on the desk; let the customer see what you are recording and offer them a copy at the start of the meeting. Once you have the process down, then ask who is involved in each stage.
- Then do your analysis, looking at rank, technical experience, and location. Fill in the boxes with the roles.
- Ask a mentor to validate your analysis for you.

Don't be surprised if they ask you for a copy, as they might not have anything like this.

- Preparation is essential before visiting with the approver. The executive making the contact should be fully briefed on the status of the sales strategy up to that point. An excellent tool for this briefing is the strategic sales plan.
- The sales team should prepare a one-page executive summary of the key issues and business value provided by your solution for the executive to use when making the contact. It is not unusual for the approver to express negative reactions when huge price differences exist between your company and competitor offers. Usually, approvers are not involved in the evaluation of options stage and, therefore, might not understand your value. It is also useful to provide the executive with a list of users and evaluators who have validated the offer in case the approver wants to confer with them.

As discussed in Chapter 6 "Sales Activities," it is important for the professional salesperson to stay focused on building relationships with their customers. The same is true for executives. There should be a managed program to ensure that this is an ongoing business relationship (OBR) program for the executives. This will be discussed in more detail in Chapter 13 "Account Management Plan." To ensure that your executives have access to initiators and approvers for an opportunity, don't wait too late in the opportunity for the first time your executive meets the customer's executive. The optimal contact occurs three times. The first time is during the customer's project sanction stage or once annually after the customer's annually planning process. At this time your executive should be able to obtain the information on the project solution worksheet and qualify the compelling event. For an example of how one sales team executed a flawless executive contact program in support of a B2B opportunity and an example of a real executive summary used in an executive visit, see the **Chapter Highlight 9.1: "But It Is Only One Piece of Paper!"**

Decision-Maker

This person or committee takes ultimate responsibility for the final selection of the preferred supplier and forwards a recommendation to the approver. The decision-maker can be one of the most important contacts in the buying center. Most decision-makers need information to justify their decision, and the best justification is a clear communication of your value and the benefits of your proposal.

Preparation is also key to a successful meeting with the decision-maker. In getting ready to contact the decision-maker, contact one of the lower-level buying center members described below. Depending on the preferred practices of the account, it might be wise for a high-level member of the sales team to contact the decision-maker. As with the approver, decision-makers can be higher level management and are best contacted by an account manager or by someone who has not been directly involved with lower-level contacts or buying center members. Always consider these options when determining who is the most appropriate person to contact key buying center members.

Evaluator

The evaluator is the person or team who evaluates competing offers from suppliers. Evaluators can also be users of the products or services under consideration. As discussed in Chapter 4 "Opportunities Management," evaluators should be contacted early in the evaluation of options phase to determine the evaluation criteria and model used to evaluate competing bids. The sales team must be sure the evaluator has enough information to be familiar with the technology to fairly compare your solution to competitor offerings. A completed vulnerability analysis is critical for planning effective strategies for contacting the evaluator.

Chapter Highlight 9.1: But It is Only One Piece of Paper!

It was a really important tender, and Company A was evaluated as being worth more than double the competitor. A mentor of Company A was confident due to the very expensive nature of the exploration program and the fact it was also a tight schedule and risky as this project was not about cutting cost, but getting the job done. Despite the best assurances from the mentor, Company A's management was still very nervous about losing the work. The competitor, after all, was also a very viable company; it was well-respected and had worked on projects elsewhere in the world for the customer.



What was done, however, was part of the on-going business relationship contact program. Each year, Company A's executive would meet after the customer's annual budgeting just to catch up over lunch and enjoy some golf after lunch. At this year's meeting, the customer's executive mentioned he was pretty happy that his major exploration program received funding from the head office and 2 rank wildcat wells would be drilled within 2-year's time. Immediately after lunch, Company A's executive passed the information on to the sales team.

One year went by quickly, but in that time, the sales team had met all the key buying center members and understood their requirements and critical success factors for the project. The sales team made their first sales meeting visits supporting the customer's key factors, and the feedback was excellent. Most of the buying center members liked what they heard and were supporters of the approach. When the bids were evaluated, the news of the more than double the worth was a shock. Company A recommended their very best solution, and the main competitor decided to go cheap. The sales team was confident the recommendation from everyone would be to go with their solution. However, the final approval would come from the customer's executive that Company A's executive had visited almost 18 months ago. What the sales team requested was for their executive to visit the customer's executive who would approve and ask him to review an executive summary they prepared (upper right). It listed the customer's compelling event on the front, the top two requirements (reduced rig costs, and information for the lease sale), and what everyone on the customer's team agreed was the critical success factor: advantage to make a leasing, sales strategy over their competitors. On the back for the executive summary was the unique business value for Company A. When the company received the summary, he looked at it and, while holding it like an accordion said, "But it is only one piece of paper." The sales manager who had been the sales lead for this project said, "The executive does not need to know all the details, just that his team's key issues are being addressed and, with our advanced technology, they will reduce their rig costs by 20% so they can pay our invoice from their savings." The Company A executive thought about it for a while and said, "I like it. I will call him now and set the appointment." At the meeting over lunch, Company A took out the executive summary from his pocket of his jacket and reviewed it with the customer executive. His feedback was, "This is great; looks like an excellent decision. I'll sign the request as soon as I see it." The executive then asked, "Do you have a few more copies? My headquarters staff will visit next week, and I'm sure the topic of who will be doing the project will come up. This would be nice to review with them."

This is a very powerful example of what happens when you apply the professional sales consultative selling approach. First the account team had an ongoing business relationship program in place, which meant Company A's executive discovered a compelling event early in the opportunity, as shown in the figure to the left; this represents Executive Contact No. 1. Then the sales team used this early advantage to uncover the requirements and critical success factors from the customer's buying center members and propose to them the best solution given their project challenges. Then by focusing on what was stated as important to the customer and the fact that Company A had a perfect solution after the proposal was submitted, the Company A executive was able to use the Pocket Executive Summary to review the benefits and unique value of his company's solution and review that with the customer executive during the resolution of concerns Executive Contact No. 2. The last visit for the executives was Executive Contact No. 3, as part of the project review. Company A's executive was correct—the executive summary was one page with what he called a fancy fold. However, you can make your own Pocket Executive Summary very easily using a PowerPoint template with the example shown here and instructions on how to fold. The file is available from the textbook website.



▶ *Who Are the Powerful Buyers?*

Psychologists R.P. French and Bertram Raven studied sources of power in organizations. In their report entitled "The Bases of Social Power," they identified five power bases:

- **Reward.** Ability to provide monetary, social, political, or psychological rewards to others for support of their ideas.
- **Coercive.** Ability to provide monetary or other punishments for not accepting their ideas.
- **Attraction.** Ability to elicit support for their opinions because people like them.
- **Expert.** Ability to elicit support because of technical expertise, either actual or reputed.
- **Status.** Ability to gain support derived from one's position of power in a company.

Rank or status is a good, but not perfect, indicator of power. Observed behaviors are better predictors of determining who has the power. Communications between buying center members can often identify the powerful members. When buying center members use rational arguments, they might be trying to influence those with more power. When communication is one-way, it could indicate that the information is going to the more powerful member. Commonly, the powerful member does not attend a presentation or negotiation because he or she is confident others will debrief him or her and will not make a final decision without his or her input.

Gatekeeper

The gatekeeper can play an unofficial role in the buying center and is typically considered an internal expert for the product or services under consideration. Gatekeepers are important because they can block any solution they consider unacceptable. Contacting gatekeepers early in the evaluation of options phase is critical, and if gatekeepers have official responsibility in that role, they should be included as part of the account management contacting program. Gatekeepers are good candidates for visits to your research and engineering centers in support of future projects.

User

The user actually uses the products or services under consideration. They might be selected to represent and communicate other users' requirements to the evaluators, and they typically provide the product or service specifications. Users are often forgotten when pursuing an opportunity. If users are not formally included in the buying center or bid committee, you must search for and identify the most authoritative users to understand their requirements.

Multiple and Other Roles

Buying center members have multiple roles. For example, the buying center member might be a user-evaluator. This designation should be captured into the SSP. Roles not included in this discussion should be added and a footnote included to explain the role.

The level of impact buying center members have on the final decision cannot be determined only by their role in the buying center. A number of factors determine the degree to which an individual buying center member can influence the final decision.

Influence

The level of influence is dependent on the individual buying center members' power base, as discussed in the "Who Are the Powerful Buyers?" sidebar, and the level of importance the specific project has on the buying center members' personal priorities (discussed below). Some buying center members might try to use their influence to actively achieve the decision they want. Others could not actively try to influence the decision but, by their participation or presence, may indirectly affect the decision of others around them. When the level of influence is considered with other factors, it can be used to determine the level of importance the individual buying center member has in the total sales strategy.[6]

Below are three options for describing the level of influence a buying center member can have:

- **High.** He or she can change outcomes and decision criteria, and others might try to ensure that high-level influence buying center members are satisfied with the outcome.
- **Medium.** He or she can affect decisions beyond the immediate organizational chain of command and department. Others might look to them for their opinion or leadership.
- **Low.** He or she must follow the organizational chain of command to pass along input regarding the purchase decision. These members do not affect a decision unless they are directly included in the buying center and will not affect other buying center members' opinions.

The level of influence of a specific buying center member can be both good and bad for your company, depending on the buying center member's alignment to your company. A decision-making member who is not favorable to your company and has a high level of influence can represent the single most significant threat to winning an opportunity if not addressed successfully. However, if the same buying center member prefers your company, your chances of winning the opportunity are much greater.

Alignment

There are many reasons why a buying center member might have a favorable or negative bias toward your company. That bias could be the result of past experiences with your company, experience with other suppliers, or perceptions regarding how well the proposed solution satisfies the customer's needs or requirements. It is not uncommon for a customer who has a favorable alignment toward one or more of your company divisions to have a negative bias against other divisions from your company. One responsibility of the sales representative is to be aware of the customer's alignment toward your company.

If the sales representative is uncertain about the alignment of a buying center member, he or she must not make an assumption about the alignment. It is best to leave this section blank or mark it with a question mark. Levels for customer alignment are listed below.

Mentor

A mentor is someone in the customer's organization who actively participates with your company to assist in securing the opportunity. A mentor's assistance can range from:

- Coaching and advising on appropriate contacting strategies,
- Validating your interpretation of other buying center members' alignments,
- Clearly specifying project requirements
- Explaining both formal and informal decision criteria
- Arranging introductions
- Advising about significant competitor actions, etc.

Your chances of winning greatly improve if you have a mentor inside the customer's organization.

Supporter

A buying center member who is convinced to use your company in the final purchase decision will support or recommend the selection of your company. A supporter pays a premium for your company without having to go through a detailed justification. For example, a customer might say, "Yes, we know your company is more expensive, but you are worth the premium." A supporter is someone who, late in the evaluation of options and procurement stages, has no unresolved issues and can be referenced to validate the value your solution provides. A "supporter" is a supporter of only one company for each procurement. However, the same person can also be a supporter of a different company for a different project or for different products or services.

Neutral

A buying center member who is not biased or has no specific preference toward one company will select the company that, in his or her opinion, makes the best business decision. A neutral buyer will pay a premium for a supplier only after

that supplier has motivated the neutral buyer to become a supporter by clearly demonstrating sufficient added value. Typically, a neutral buyer will not state a preference until the value of the solution offered has been proven. In a competitive bid procurement, very close contact must be maintained with the neutral buyer once the tender has been opened (early in the submission of proposal stage) to ensure that the solution costs have not created financial drawbacks that require resolution. Once the proposals have been analyzed, a neutral buying center member will become a supporter or non-supporter after analyzing the solutions offered.

If a buying center member shows indecision after the final proposals have been evaluated, the sales representative should probe for customer concerns regarding your solution. If the customer offers no concerns and maintains a neutral position, you cannot depend on this person to defend any challenges to selecting your company. In this case, the sales representative will need to solicit the support of a supporter or mentor.

A customer can also maintain a neutral position to prepare for a competitive negotiation. Methods of handling this situation are discussed in Chapter 12 "Collaborative Negotiations." A neutral buyer's buyer-readiness stage is either preference. A neutral buyer might even have a preference for two or more suppliers if two or more companies for the project are under consideration.

Non-Supporter

A non-supporter is a buying center member who is convinced to use one of the competitors instead of your company. This customer might believe the competitor has a better solution fit for the project requirements or the competitor has provided better products and services than your company in the past. The customer might have unresolved negative reactions to your proposed solution. A non-supporter should be identified early in the evaluation of options stage of the opportunities management process. The time between the evaluation of options and the procurement phase can be used to convert the non-supporter to a supporter.

Sometimes, however, you might choose to neutralize the non-supporter with a mentor or supporter of higher influence and role rather than invest the time and effort to convince the non-supporter. This is dependent on the:

- Level of influence the non-supporter has
- Number of issues that need to be resolved in order to secure his or her support
- Amount of time you have after you determine someone is a non-supporter

Non-supporters should be contacted again once the implementation stage begins in order to take steps to address their issues and gain their support.

When deciding how to approach the buyer, the sales representative must consider where the non-supporter is in relation to their buyer-readiness stage with the competitor. To be considered a non-supporter, he or she must be at least at the conviction stage for one a competitor.

Enemy

An enemy is a buying center member who actively tries to prevent your company from winning the contract. Their efforts are not focused on assisting a competitor, but only on blocking your company. A person can become an enemy for reasons such as a history of poor performance by your company, personal reasons, etc. The enemy label should only be used when there is no doubt that the customer has clearly taken actions in the past or with the current opportunity to cause your

Fig. 9.6
The buyer-readiness stage was introduced in the marketing module. The steps illustrate the progression of the buying-readiness stages as the customer makes a purchase decision. Considering the customer's buying stage helps to accurately classify the customer's alignment to your company and the competitor.



company to lose. Caution must be used before applying the enemy label because your approach is different than your approach to a non-supporter or neutral buying center member. By definition, a buying center member who is an enemy cannot be converted to a supporter; as such the strategy is not to spend resources and effort trying to convert the enemy, but to solicit the assistance of a higher-level buying center member to neutralize the enemy.

Figure 9.6 illustrates the relationship between alignment and the buyer-readiness stages. To summarize the alignment states of buyers:

- Supporter is someone who is convinced your company is the best company and will purchase from you.
- Non-supporter is convinced a competitor is best and will purchase from that competitor.
- Preference is a buyer who is neutral to buying from two or more companies.
- Mentor will try to help you to win.
- Enemy does not care who wins as long as it is not you or your company.

Contact alignment can change over time as a result of your positive influence by implementing a strategic sales plan. If the account is a first-time buyer from your company, many of the buying center attributes might be unknown early in the opportunities management process. As you pass into later stages of the evaluation of options phase, you should have identified most of the buyer profiles and should be executing tactics to better position your company and your solution with key buying center members. This should help move buying center members from the lower buyer-readiness stages to conviction by the onset of the procurement phase.

If the buyer is at the conviction stage at the start of the procurement process, chances are the buyer will make a purchase decision in your favor. Typically, the last hurdle between conviction and the purchase buyer-readiness stage is negotiation. A convinced buyer is much easier to negotiate with than a non-convinced buyer.

At the end of the procurement stage and after you have been notified of the outcome, the sales representative should complete the outcome analysis as described earlier in Chapter 4 "Opportunities Management" and Chapter 6 "Sales Activities." Part of this analysis should include the final determination of the buying center members' alignment to your company and the competitor.

Outcome analysis is a valuable tool for preparing the implementation strategy. If you are awarded the work, you should try to convert buying center members who

are non-supporters during the implementation stage. If your company was not awarded the work, you should determine why. Many customers will tell companies who are not selected for the contract why they were not selected and why they were not convinced. This is valuable information for preparing for the next opportunity as it tells you what you have to do to win support the next time.

Contact Priorities[7]

The contact priorities consist of two parts: Business priorities and personal priorities. Both are very important as the contact is motivated to achieve their priorities and they will be motivated to support you winning the work if they are convinced they have a better chance of achieving their priorities with you or your company than with a competitor. A complete understanding of the contact's business priorities and personal priorities provides the full picture of what is important to individual buying center members.

Business Priorities

The business priorities consists of the buyer's perception of:

- Objective
- Requirements
- Critical success factors
- Budget and contract holder

Objective

What does the contact state as the objective or the reason they are buying your products or services?

Requirements

The buyer's specific requirements for what they are purchasing from your company.

Critical Success Factors

What are the one or two factors the customer identifies as being most important in order to achieve the objective?

Budget and Contract Holder

What is the budget allocated for what they are going to buy from your company? Who will be the contract holder responsible for managing the budget and ensuring that the customer does not go over budget?

Personal Priorities

The personal priorities consists of three components, as follows:

- Buying factors
- Concerns
- Expectations

Miller and Heiman, in their book *The New Strategic Selling,* refer to this component as win-results. See the "Did Your Customer Win?" sidebar for further discussion of the win-result definition.[8] Examples of customers' concerns and expectations are:

▶ *Did Your Customer Win?*

Miller and Heiman, authors and consultants, strongly suggest that delivering corporate results to customers is not the entire measure of success and the only ingredient of successful strategic selling. They suggest that you have to deliver personal wins for key members of the buying center. They offer the following definitions to illustrate the difference among results, wins and win-results.

Selling is a professional, interactive process directed toward demonstrating to all your buying center members how your product or service serves their individual self-interests.

Deliverable is a product or service designed to improve or fix one or more of the customer's business processes.

Process is an activity or series of activities that converts what exists now into something else.

Result is the measurable impact a deliverable has on one or more of the customer's processes. Results are objective and affect many people at the same time.

Win is the fulfillment of a subjective, personal promise made to oneself to serve one's self-interest. Wins are always different for different people.

Win-result is an objective business result that gives one or more buying center members a subjective, personal win.

Buying Factors

The buying factors describe how the individual buyer evaluates competing alternatives. This is his or her personal business decision model. The most commonly stated buying factors expressed as a percentage are described on the next page.

Financial Aspects (%F)

How important are the financial aspects of the solution, such as price for the products or services used, contractual terms and conditions, maintenance costs, etc.? Buyers having a high %F factor tend to draw conclusions from quoted prices if they are not familiar enough with the solution to equate features and benefits into a quantifiable dollar value. For non-technical buyers with a high %F factor, the sales representative should prepare to address any financial drawbacks those buyers have. The best time to do this is early in the evaluation of options stage with planned marketing and sales communication programs that highlight features and benefits. Then during the evaluation of options stage, the sales representative uses support documents that are validated by supporters in the buyers' organization to gain the buyer's conviction to use your company. The sales representative might also have to use the outweigh method, as discussed in Chapter 8 "Handling Customer Objections."

Technical Aspects (%T)

How important are the technical aspects of the solution? The types of technical concerns are dependent upon the customer's technology adoption profile. A customer with a high %T factor might be concerned with the technical risks of a new solution, the user's acceptance of the solution, the quality of the solution, how restrictive the solution is, how dependent the solution makes the buyer on one supplier, and the complexity and effort required to keep the solution or products running. Buyers with high %T concerns need sufficient demonstration of capabilities and proofs of the solution, especially if the proposed technology is new. When using a flanking competitive strategy, buyers with high influence based on technical expertise most likely have to approve the alternative solution or have to be convinced of the benefits to support changing their scope of work. This type of proof should be provided early in the evaluation of options stage.

Service Aspects (%S)

How important are the service aspects of the solution? Buyers with high %S factors are typically concerned with issues such as experience of service delivery personnel and quality of the service if the scope of work increases. A buyer with a high %S factor might be concerned with the ability of your company to supply additional products or services at the same level of quality. You should expect a buyer to have a high %S when the cost of the products or services is minimal compared to the total costs, but the level of service could significantly impact the project budget or outcome. An example is a customer's concern for lost operating time due to equipment failures in a deepwater exploration environment where rig costs are much higher than the typical services your company provides. In such situations, the demonstration of capabilities with case histories, reference lists and letters, and operating statistics can play a very important role in preventing customer objections such as skepticism or misunderstanding.

Added Value (%V)

How concerned is the buyer about the impact the solution has on project objectives and total project costs? Buyers with a high concern for the added value of a solu-

tion typically consider all claimed benefits and value; however, they require a very good demonstration of capabilities. Additional value may be derived from more than product and service capabilities. All differentiating factors—such as service, organization, support personnel, and business models—must be considered.

Other Factors

The previously discussed factors are the most common considerations buyers have regarding proposed solutions. Other commonly considered factors are:

- Quality (%Q)
- Health, Safety, and Environment (%HSE)
- Relationship (%R)—how important the level of relationship is

The buying factors should be described and listed as percentages totaling 100%.

Concerns

Examples of customer concerns are:

- Concerns caused by previous bad experiences.
- Concerns the supplier is not treating specific aspects with enough importance.
- Concerns specific requirements might not be met, such as target completion dates.
- Concerns for how influential or powerful members of the buying center will view the outcomes and the impact they can have on the buying center member's career.

Expectations

Examples of customer expectations are:

- High expectations when individuals are behind on objectives and expect this project to make up for short falls, even though this could be unrealistic.
- Personal objectives for which bonuses are paid.
- Key success factors the buyer believes will contribute to job success and lead to a promotion or recognition. For example, no problems will be proof they are an excellent manager.

As discussed earlier in Chapter 6 "Sales Activities," relationship building is very important for the professional salesperson. An important part of building relationships with customers is the level of trust between you and them. Most buyers will tell respected suppliers their concerns and expectations.

If you do not know the personal priorities, you should not guess. Later in the implementation process, or as part of the account management activities, sales representatives should try to build relationships with the buying center members' and discover their concerns and expectations. These factors can be entered into the personal priorities section of the SSP. Even though this information will come after the award, it can become valuable the next time you have an opportunity for the same client. The completed SSP can be reviewed at the start of the opportunities management process for future opportunities and is an excellent way to capture important information about the buying center members and share the information with new sales team members or other salespeople in different divisions in your company.

The client interview form request for proposal worksheet is used to interview each buying center member to ask about their business and personal priorities. **Figure 9.7** highlights where this information is recorded on the form. The green area is for business priorities and the blue for personal priorities. For large sales you use the request for proposal form to interview the members of the buying center early

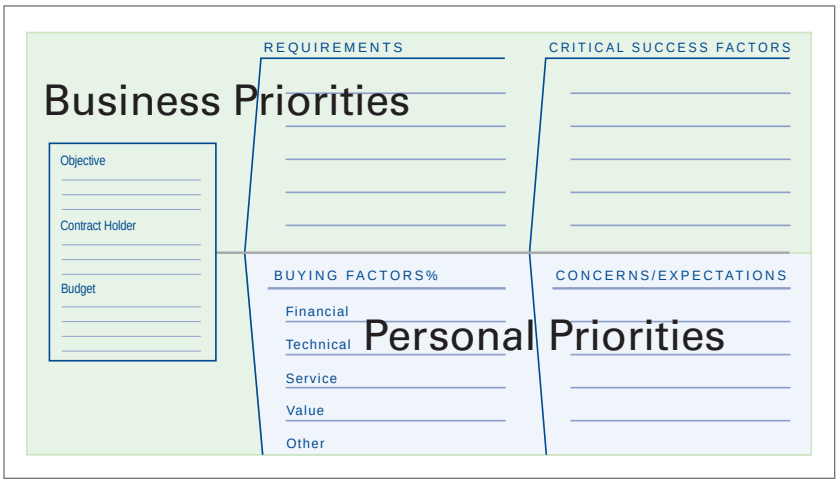


Fig. 9.7
The Request for Proposal worksheet is designed to assist the salesperson in having a focused and efficient discussion regarding the opportunity. Business priorities are included in the green area and personal priorities in the blue area.

in the "Evaluation of Options" and then return to hold sales meetings to show how your company can support their needs. Some salespeople report feeling uncomfortable asking customers about their priorities connected to an opportunity, but you should not. Refer back to Chapter 4 "Opportunities Management" Chapter Highlight 4.1: "Be Like Nike and Just Do It!" As mentioned earlier, the salesperson might feel uncomfortable because it is a new approach for them. The other reason is that they may feel like they should not ask such questions as a supplier. To see why some salespeople feel like this, see **Chapter Highlight 9.2: "Just Take My Order, Please."**

Adaptability and Social Style

The adaptability factor, as described by the contacts technology adoption profile and social style, are also included in the SSP. The technology adaptability factor was discussed in the Chapter 1 "Understanding the Role of Marketing & Sales," and social style was discussed in Chapter 5 "Communication Skills." These factors, in addition to role, influence, and alignment factors, assist you in determining the best way to approach the individual buying center member and help you to align effectively with the individual.

Coverage

The coverage factor is the level of contact made with the buying center member regarding the opportunity. This factor helps you decide whether the level of contact is sufficient. If it is determined to be insufficient, you must assign someone to contact the buyer and ensure that your representative has a well-prepared sales call plan, as discussed in Chapter 7 "Sales Call Skills." Later in the tactics section, this information is used to determine the highest priority tactics. Key contacts who have little or no contact with you are considered a weakness of the opportunity. Ideally, this lack of contact should be resolved before you select your competitive sales strategy and certainly by the time you enter into the procurement stage. Here are some options for the time-spent factor:

- **In-depth.** The contact has been contacted multiple times by your company representatives and you have an in-depth understanding of the contact's priorities for this opportunity, their alignment, and how they rank the formal decision criteria. There should be no unresolved issues with this contact. If in-depth contacting has been done and the buying center member remains neutral, you should consider asking a supporter or mentor to con-

Chapter Highlight 9.2: Just Take My Order, Please

Sometimes salespeople feel awkward asking the questions recommended when taking a consultative selling approach. They feel better if they just take the customer's order, give them a price and see who wins the work. Part of the awkward feeling comes from inexperience at having these types of conversations, and another factor is the perceived role that you have with the customer in this opportunity. To understand this, you need to know what the customer expects (or your perception of this expectation) from you and your company regarding your input into the purchasing decision. Sometimes you might hear people say it is who you know that counts to get things done. However, in the sales world, what is more important than who you know is how you are known to them?[9, 10, 11]

One way to determine what a customer perceives or expects from your company is to identify how you participate with that customer in the five stages of the project management process, as discussed in Chapter 2 "Value Drivers." In the figure at the bottom of this page, the supplier role is classified on three levels, as follows:

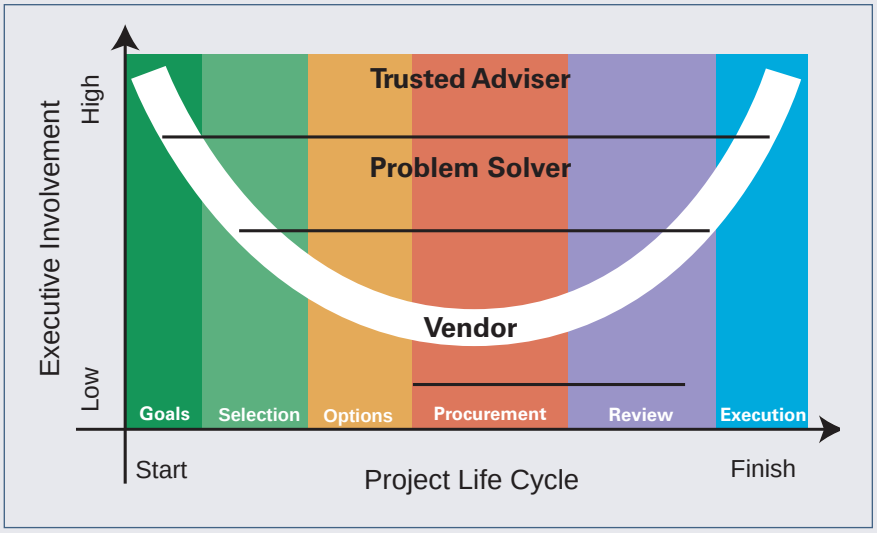
- Trusted adviser
- Problem solver (sometimes referred to as Technical Expert)
- Vendor

The black line under each role indicates in which stages in the project life cycle your company participates. The white curved line indicates the amount of your company's involvement with the customer's executive in each stage of the project life cycle. Typically, executive involvement in the project life cycle is high in earlier stages and then gradually decreases through each successive stage to procurement, when it is lowest. Executive involvement increases again once the project starts and is high again when the results are reviewed. Your company's contact with customer management during the project stages is a good indicator of your role in the account.

Trusted Adviser
If the customer considers you a trusted adviser, you are viewed as a stakeholder. At this level, the customer believes you are interested in optimizing the performance of their reservoirs. You have demonstrated your concern that they achieve their goals and objectives. When viewed as a trusted adviser, you will be involved in all five stages of the customer's project life cycle.

Problem Solver
If the customer considers you a problem solver, you are viewed as technical specialists. This perception can apply to specific products or services, or can apply only to a specific situation, such as your expertise in offshore development. When this is your role, you are involved in the later part of the project selection stage (2) and in the evaluation of options stage (3) as well as on through the review of results stage (5).

Vendor
The account considers your company as a vendor if the only time you become involved in a project is when you receive a tender to bid during the procurement process. If you win the contract, you participate in the execution. In this role the vendor does not have contact at the executive level. With such limited exposure to the customer's project life cycle, you cannot have much influence.



tact the individual to determine why he or she is still undecided. If the contact is a non-supporter after in-depth contact, you must have inside support to overcome the negative impact the non-supporter has at decision time. There may be unresolved issues you are not aware of, or the buying center member may be a solid supporter or mentor of the competition.

- **General.** Multiple contacts have been made with the individual you know from previous opportunities or are working with on the current project, but you have not talked to them specifically about this opportunity.
- **Brief.** Few contacts have been made, with no significant impact on the buying process. If the buying center member is important to the decision-making process, more contact is needed to determine the member's alignment toward your company and whether that member has any unresolved issues.
- **None.** No contacts have been made. This is not a good position to be in with anybody in the buying center. Changing this should be a priority for account management. If it is early in the opportunities management process, the first contact should be made to determine as many of the buying center factors as possible and plan the relationship strategy.

Decision Criteria

The formal decision is used by the evaluator, the person with the responsibility to evaluate the competitive offers. If this information is not included in the request for proposal, it needs to be requested as part of the customer interviews early in the opportunity management process. The Decision-Making Process section is included in the Request for Proposal worksheet and is shown in **Fig. 9.8.** The question the salesperson asks is how will they evaluate the offers from their suppliers and what is the evaluation model? The form has been designed so that after the meeting, the salesperson can complete a vulnerability analysis of how they believe they will be evaluated compared to their competitors. Two common challenges salespeople encounter when asking about the decision criteria are that the customer tells them this is confidential or that it will be only the price. To see how to respond to these types of customer replies, see the sidebar "Off the Record."

In addition to asking the evaluator about the formal decision criteria, the salesperson also wants to ask the other buying center members how they rank the formal decision factors from most to least important. It is useful to know who ranks those factors you are strong in as high in case you need to leverage them to secure the opportunity and to know who might support the competition for factors on which they are evaluated as strong.

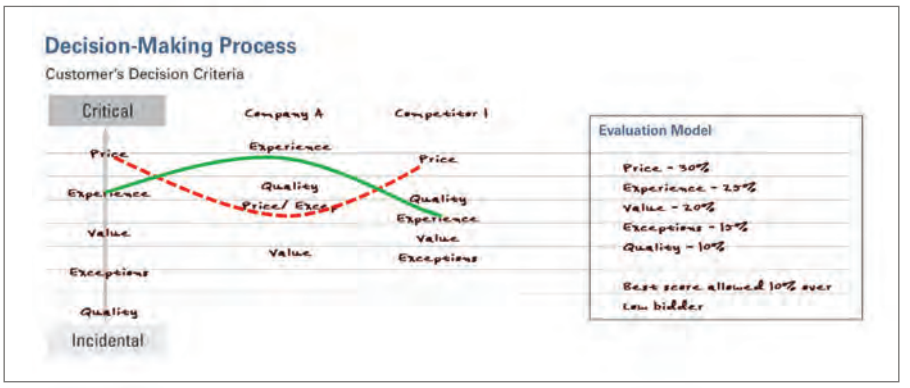


Fig. 9.8
The formal decision criteria used in the customer's decision-making process and how the factors are evaluated in an evaluation model. In this example Company A is vulnerable to Competitor 1 on the price factor. Company A will need to address this vulnerability as part of the actions in the strategic sales plan. See Chapter Highlight 9.3 for some options.

If the sales team finds they are vulnerable to the competition on any of the formal decision criteria shown in **Fig. 9.9**, they must decide what to do to address the vulnerability. For ideas on what to do, see **Chapter Highlight 9.3: "Vulnerabilities 1-2-3."**

Presenting the Buying Center Analysis

The buying center analysis consists of three parts:

- Buying center organizational analysis
- Decision criteria table
- Priorities table

Buying Center Organizational Analysis

The best practice for presenting a completed buying center analysis is to build an organizational analysis using a program such as PowerPoint, Excel, Visio, or your company's CRM system if this functionality is included. In the organizational analysis, show each factor from the contact profiling. **Figure 9.9** provides an example for a completed buying center analysis built in PowerPoint. In addition, add to your buying center analysis lines of influence that exist between the buying center members. Lines of influence are discussed below.

Lines of Influence

Lines of influence are relationships that exist between individual buying center members. Four types of influence relationships are identified on the buying center organizational analysis chart:

Direct Reporting

Direct reporting is shown according to the standard organizational chart.

Business Relationship

The business relationship describes a formal or informal relationship that exists between two buying center members. The following are examples of formal business relationships:

- Dual reporting or functional reporting, which is part of the formal reporting structure. This is a common in companies with a matrix structure. For example, a geologist located in Indonesia reports directly to the Indonesian asset manager and has a dual report to the exploration manager in Houston at headquarters.
- Temporary reporting lines, which apply to a specific project for the evaluator, who may belong to another department but for this project temporarily reports to the decision-maker or approver in another department.
- The decision-maker is actually a committee, but one person has been selected as the chairman so the other decision-makers have a business relationship with this person.

Examples of informal business relationships are:

- An approver may have worked many years with someone who is now at a lower level, but still seeks their opinion regarding issues in which they consider them an expert.

▶ *Off the Record*

Sometimes when salespeople try to apply the consultative selling approach, the cooperation from the customer can be less than encouraging; once you know how to handle this, it will not be an issue. Here are two common situations and two replies for uncooperative customers.

Scenario 1
The customer is asked how they will evaluate the proposals from you suppliers. The customer replies, "I'm sorry, that is confidential. I cannot tell you that." The salesperson's recommended reply: "I'm sorry to hear that as I do value your business and want to ensure that I do my best job possible to recommend a solution that is exactly what you need. If I know how you evaluate your proposals, then I know what is important to you. Can you give me some guidance on where I should focus?"

Scenario 2
The customer is asked the same question and replies, "That is easy. We look for the lowest price and award." The salesperson's recommended reply: "Of course price is always important. If you don't mind, I would like to ask you a hypothetical question." Customer: "Yes, go ahead." Salesperson: "How would you evaluate if the prices were all the same?" Customer: "That is a good question. I guess we would look at different factors." Salesperson: "Yes and those factors would be?"

At this point, the customer is talking about the other factors in addition to price.

Chapter Highlight 9.3: Vulnerabilities As Easy As 1-2-3



Discovering vulnerabilities in the sales world is not a bad thing provided you have time to address your vulnerabilities, which is the purpose of completing a strategic sales plan. Consolidate your conversations with your customer to analyze the buying center requirements and complete your vulnerability analysis to decide the action needed. If you are applying the professional sales processes, it is as easy as 1-2-3. The actions can be categorized into three strategies using the example from Fig 9.7 to illustrate. In this example, there is a vulnerability for Company A based on the price factor; however, Company A is rated better than Competitor 1 for experience.

Strategy No. 1
Change the Customer's Decision Criteria or Evaluation Model



By showing the requirements and critical success factors collected to understand the customer's needs, you can suggest other factors to be included in the decision criteria or have them change the relative ranking of the importance of the different factors. In this example from Fig. 9.7, the price and experience factors will balance out and the evaluation will be very close. In this case, it would be best to recommend to the customer that, to better assure achieving their objectives, they should include another factor. This can vary from opportunity to opportunity, which is why it is so important to interview the members of the buying center for every opportunity to understand their business and personal priorities connected with this opportunity. In this example, as the customer is very concerned about price, the sales team should look for factors that have a significant impact on costs. Perhaps in-country support or local content should be added, and now the analysis would show that. Company A has two significant strong evaluations compared to only one for the competitor.

Critical Success Factor for Strategy 1: This strategy in most cases will require that you have completed your strategic sales plan before the customer has locked their evaluation model. Therefore, it is an option if you have time.

Strategy No. 2
Improve Your Evaluation



In this strategy, you focus on improving your evaluation, which in most cases means that you believe there is a customer objection causing your evaluation to be lower than what it should be. In this example, the customer has evaluated your added value or benefits to be lower than the competitor, but you believe you have significantly more value than the competition. You believe this error is due to a misunderstanding. If you can handle the misunderstanding, then the evaluation would then look much better for your company.

Critical Success Factor for Strategy 2: In this strategy you need to recognize the error and be able to handle the customer's objection.

Strategy No. 3
Diminish Competitor's Evaluation

In this strategy you believe the competitor's evaluation is too good. In this example, you believe their price evaluation will appear cheap if the customer does not consider the extra mobilization time and costs as Competitor 1 is not in the country where the program will be executed.



Critical Success Factor for Strategy 3: For this strategy to be successful, you need to know your competition's capabilities and have better inside support or stronger relationships with the people in the buying center than the competitor. If not, the customer could call the competitor and tell the competitor they are very concerned about them not having operations in the country and the extra costs that will be created for the customer. The competition can now correct their vulnerability. The other issue with this strategy is that you are not talking about your company; rather you are talking about the competition, which may not be appealing to the customer. If you are going to use this strategy, it is done best through education of the customer and where you talk about issues such as mobilization costs and how your company addresses that issue for your customer.

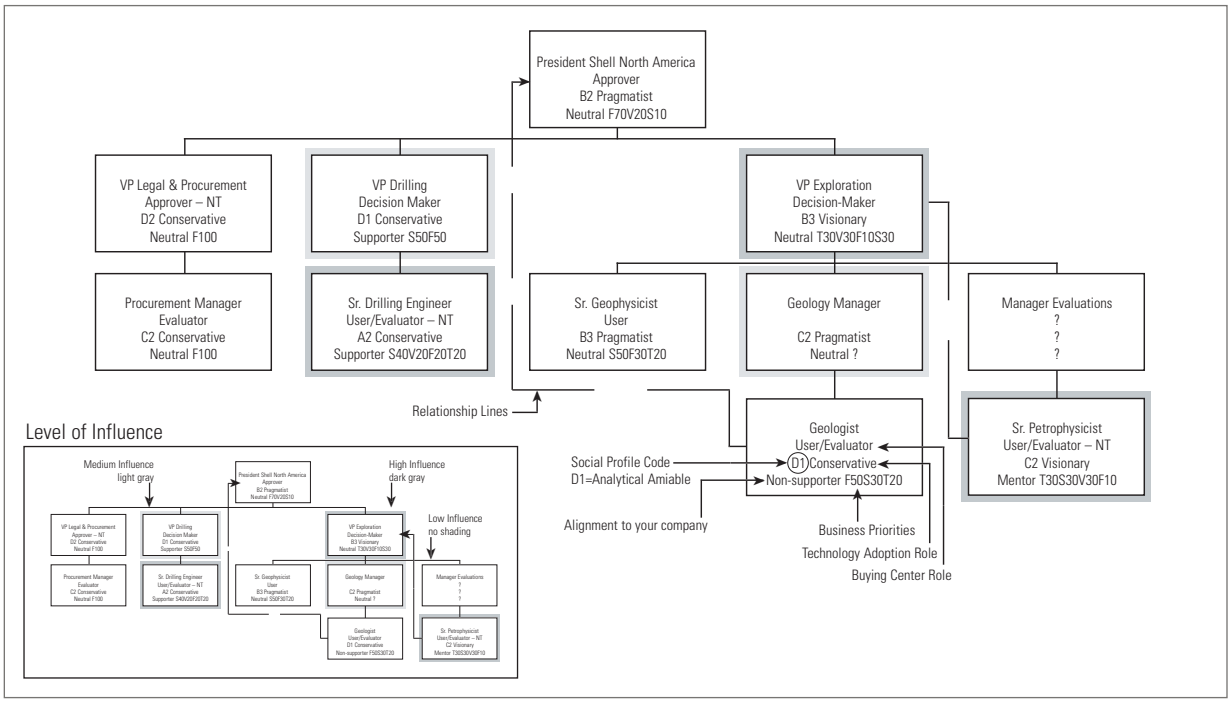


Fig. 9.9
A completed buying center organizational analysis with explanation of entries and level of influence.

- When multiple companies are involved in a project or there are government approvals required for a project to proceed, as in the case of production sharing contracts, there might be individuals who have informal relationships and have agreed to cooperate to ensure approval for the project.

Personal Relationship

Personal relationships identify the everyday relationships between people that are independent of business issues. Examples are spouses and friends who have similar interests and hobbies, such as golfing and scuba diving, etc.

Potential Conflict

Relationships with potential conflict can exist for many reasons. The individuals might be competing for a promotion and might not support each other because of this rivalry. Or there may be long-standing misunderstandings between two buying center individuals. Whatever the reason, you should record any knowledge of potential conflict and take it into consideration when dealing with these buying center members.

Decision Criteria Table

In this section, sales representatives should list the decision criteria used in the formal decision-making process. These criteria should be entered for buying center members who have high influence. Each decision criterion is ranked according to importance for the buying center member of high influence. It is useful to capture this information in order to prepare a focused discussion when meeting with the high influence buyers and ensuring that you discuss the issues and business and personal priorities that your company can impact with a successful project execution. **Fig. 9.10** on the next page is an example of how to present this information in a table format.

Decision Criteria

Criteria	Key Buying Center Members			
	Approver	Decision-Maker	Evaluator	User
Price	3	4	1	4
Experience	2	1	2	1
Value	1	2	4	3
Exceptions	5	3	3	5
Quality	4	5	5	2

Fig. 9.10
Decision criteria for high-influence buying center members, as presented in the Strategic Sales Plan report.

Priorities Tables

The priorities tables consist of two tables:

- **Contact business priorities**. (includes objective, budget, requirements, and critical success factors)
- **Contact personal priorities**. (includes buying factors, concerns, and expectations)

Both tables are completed by copying the information you recorded on the Request for Proposal worksheet during your interview with the client (see Fig. 9.7). Each table has one line for each buying center member. The tables are included in the Strategic Sales Plan template (page 5) in Appendix B. This information is very important for anyone who will contact the customers in support of securing the opportunity. The priorities information allows each sales call to be tailored to focus on the factors that are important to the contact. Making connections between your proposal and what is important to the contact is the best way to motivate someone to become a Supporter or Mentor.

Competitive Analysis

In the competitive assessment section of the SSP, you describe your competitive sales strategy. This description should include:

- **Competitors.** Your most significant competitors.
- **Competitive Sales Strategy**. The competitive sales strategies your competitors will choose.
- **Strategy description.** Briefly describe the competitor's strategy and whether this strategy has been used elsewhere in the world. Check your company CRM database for recent opportunities that involved the competitor for both the same account and similar projects.
- **Solution proposed.** What products and services will be included in the competitor's solution? Include any products or services considered to have exclusive features and benefits, as entered in the solution section products applet.
- **Strengths.** What are the strengths and unique business value of the competitor's solution? Strengths include technical factors, service, relationships, and experience. The financial aspects value is the proven financial benefit of any strength. This section should be a summary of the strengths and values entered in the individual buyer's personal priorities section.
- **Weaknesses.** These are the weaknesses from the buying center members' point of view.



Fig. 9.11
Key inputs for deciding on the solution to be proposed to the customer and described in the Proposed Solution section of the strategic sales plan.

- **Alignment.** List any supporters the customer has in the buying center.
- **Comments.** Add any comments regarding the overall competitor strategy.

The next part of the SSP describes your proposed solution.

Proposed Solution

Deciding on your solution starts with client interviews with the members of the customer's buying center. In these first visits, the sales team should determine the customer's business and personal priorities regarding the opportunity and what decision criteria and evaluation model will be used to select the winning solution. The initial solution that best satisfies the customer's requirements is then tested using a vulnerability analysis by considering competitive offerings and the unique strengths and value of your solution. The initial solution might be altered as a result of the vulnerability analysis. Each of the sections in this part of the strategic sales plan are described below. **Figure 9.11** shows the key inputs into the proposed solution decision.

Proposed Solution

In the proposed solution section, you describe the strategic and physical components of your solution and how this will contribute to the customer's project objective and help them meet their compelling event. The solution description should also include your expected revenues.

Solution Fit

A very important part of your competitive sales strategy is how your proposed solution will be evaluated against the formal decision criteria compared to your competitors. The analysis identifies the best to lowest overall evaluation scores for the customer's evaluation model. This analysis is one of the two required inputs when selecting your competitive sales strategy as discussed in Chapter 4 "Opportunities Management." **Figure 9.12** shows an example of the decision criteria analysis included in the SSP. The evaluation model shown in Fig. 9.8 is the multiple point criterion evaluation model as discussed in Chapter 4 "Opportunities Management." In this example, Company A would be awarded the work provided their offer price is within the acceptable premium range (normally 10%). Company A has a much better evaluation on the experience and quality factors.

Formal Decision Criteria	Weight	Company A	Competitor 1	Competitor 2	Competitor 3
Price	30%	5	8	9	10
Experience	25%	10	5	4	3
Quality	20%	8	6	5	2
Value	15%	3	4	3	3
Exceptions	10%	5	3	4	3
Totals	100%	6.55	5.75	5.55	4.9
Maximum Item Score	10	66%	57%	56%	49%
Formal Decision Criteria Ranking		1	2	3	4

Fig. 9.12
Formal decision criteria analysis chart presented in the Strategic Sales Plan report.

Strengths

Intangible benefits of your solution for the customer should be described in the strengths section. Each stated strength should be connected to one or more of the customer's project requirements and should have been discussed with and agreed to by the customer.

Weaknesses

The weaknesses section describes the vulnerabilities identified in the vulnerability analysis. It also contains weaknesses or risks not included in the vulnerability analysis, such as your management concerns, and sales and marketing issues associated with your solution. Tactics to minimize your weaknesses are discussed later in this chapter.

At this point in the planning process, you are now ready to evaluate your competitive position for your proposed solution and select your competitive sales strategy and tactics to execute your strategy. You will evaluate your position using the level 1 twenty-question assessment described in Chaper 6 "Sales Activities." A copy of the assessment questions are included in the appendix of this chapter.

The process of doing this evaluation has several benefits:

- It demonstrates that it is not enough to know the formal decision factors but you also need to know how these factors are measured and evaluated. Once you understand how these measured and evaluated then in your proposal should discuss those specifics to help convince your customer and make them confident in your proposed solution.
- In the case where your company is evaluated second or lower, you can show where you must focus in order to address your weaknesses by choosing one of the vulnerability strategies, as discussed in Chapter Highlight 9.3: Vulnerabilities As Easy As 1-2-3.
- For the example, in Fig. 9.9, if Company A were to lose even though the sales team evaluated themselves as the best, then they know they either made a mistake in their evaluation or the competitor chose a weak position competitive sales strategy (e.g., defend or fragment) and was successful in motivating one of the high-influence buying center members to have the award decision made in the competitor's favor. The benefit of this albeit bad situation is that now the sales team knows they have an error. They can use the outcome debrief with the customer to clarify why they lost and factor this into their next opportunity. It is bad to make a mistake, but even worse to make the same mistake twice.
- If Company A does win, then when doing the outcome debrief with the customer they can validate their analysis with feedback from the customer. Once they start the project or selling their products and services to the customer, they can use the factors from the analysis as metrics to confirm they are meeting the expectations of the customer.

Unique Business Value

The unique business value section states the total dollar value of the benefits to the customer derived from the differentiated benefits of your solution. The unique business value must be stated in terms of dollar benefits to the customer and must clearly differentiate your solution from the competitor's. Differential benefits result from leveraging your organization, unique products and services, superior

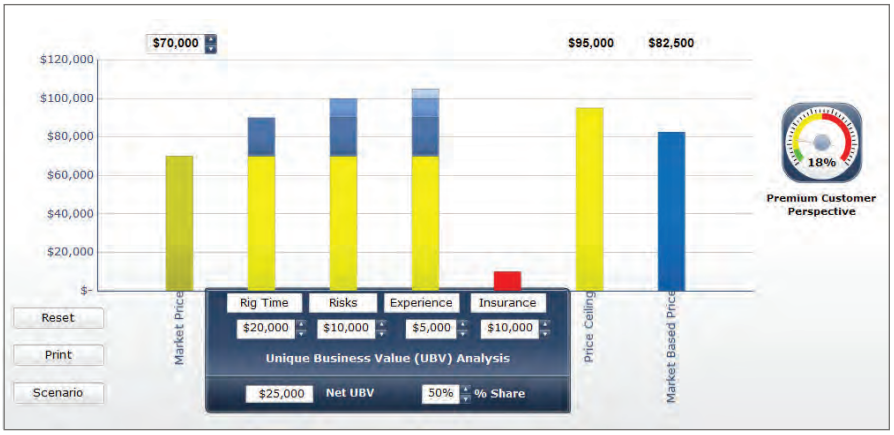


Fig. 9.13
Customer Value Analysis. The customer value analysis shows, starting on the left: market price for standard products or services (green bar), differential value components (blue bar), negative differential value, which is value the competitor provides but your solution does not (red bar), customer price ceiling, which is the maximum the customer would pay for your solution (yellow bar), market-based price, which is market rate plus your share of the differential value (blue bar), and on the far right is Premium Customer Perspective gauge, showing how much premium over the market price the market-based price is.

service, personnel expertise, and pricing (either lowest price or best value for money paid).

This section also includes the validated dollar amount for each differentiating value component and is presented with a customer value analysis spreadsheet. An example of a value analysis is shown in **Fig. 9.13,** and will be further described in Chapter 11 "Pricing for Bidding."

Your unique business value is what motivates the customer to pay a premium for you over the competition. This is critical in a bidding environment when the customer's procurement process awards the work to technically qualified bidders and, therefore, award is based on the lowest priced bid. In this case, the added value will be captured after the award. The specific strategy will be discussed later in this chapter.

Opportunity Assessment

This section provides the analysis of the opportunity assessment, as shown **Fig. 9.14.** Visually, the more blue color in your analysis, the stronger your competitive position. In the context of creating and presenting a strategic sales plan, there should be very few "?'s" in the assessment analysis at this time. If there are too

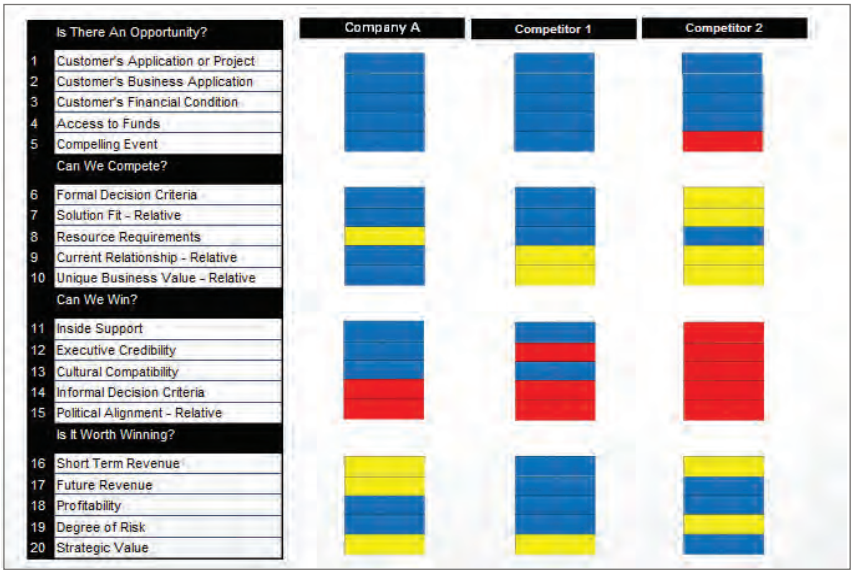


Fig. 9.14
Opportunity assessment analysis. Factors evaluated as "+" are color-coded blue, factors evaluated as "–" are color-coded yellow, and factors evaluated as "?" are color-coded red. The Excel worksheet to generate the assessment analysis can be downloaded from the textbook website.

Chapter Highlight 9.4: You Snooze, You Lose

Making Time Your Ally

Earlier you read the Chapter Highlight 9.1: "But it is Only One Piece of Paper!" which told the story of Company A winning a big opportunity at more than double the price of the competition. The fact is that the salesperson, as soon as they were told of the potential opportunity, immediately developed a client interview plan and contacted each person in the customer's buying center to determine their business and personal priorities. That took three months to complete and after that, the sales team completed their analysis and had their strategic sales plan reviewed and approved, which left them one year before the bid would be sent to bidders. In the twelve months before the bids were sent, Company A ran a demonstration job of their new technology on the customer's well in another field that was a success. This was six months before the bid was released. At the post-job review of the results, the chief geologist and decision-maker in the customer's buying center stated, "This is excellent. We will run this in our big exploration project."



The Opportunities Management Process looks like the hands of a clock. The sales team should focus on point A, Evaluation of Options. This is the time to hold a Level 2 Strategic Sales Plan Review—as soon as the key buying center members have been interviewed and the competition analysis completed.

In total, the Company A sales team made seven sales calls to the customer to support their proposed solution. The lead salesperson was in five of those sales meetings and, each time he would sign in to the customer's reception register for his meeting, he would check back to see if the competitor's salesperson had made a sales call to the customer since discovering the opportunity. The first time the competitor's salesperson visited was after receiving the bid. Although the competitor's salesperson was waiting for the bid to come out to go and talk to the customer, Company A's sales team was providing value. This is why the opportunities management process has been made to look like a clock. Time and customer's opportunity, waits for no one. If you snooze you lose! To quote T. J. Wilson, founder of IBM, one more time, "Make time your ally and time will make you."

Level 2 Strategic Sales Plan Review

The professional salesperson understands that there is a time pressure to start executing your competitive sales strategy as soon as possible. The best way to ensure that the sales team does the first client interviews as soon as possible is for the sales manager and sales team to commit to a date to have the Level 2 Strategic Sales Plan Review, which will be discussed later in this chapter. At the review, the sales team will present their completed strategic sales plan. This date should be well before the bid is received, so the time after the level 2 review can be used to execute the competitive sales strategy. In large sales, the amount of time typically needed before receiving the bid is six to twelve months. There are many factors that impact how much time is needed, such as:



- Other key opportunities for the sales team
- Other key projects for the customer that need to be scheduled around
- Holidays in between the review and receiving the bid
- Location of the customer's buying center members
- Availability of the customer's buying center members
- The level of complexity of the sales calls, such as whether demonstration jobs should be run to provide proofs (as in the example above)

As shown above in the magnifying glass, the sales team needs to focus on point A. This is the date to have the strategic sales plan reviewed and then begin to execute their competitive sales strategy. If the competition wants to wait till the bid comes out, then let them sleep.

many "?'s" then choosing your competitive sales strategy at this time is very risky as was described in Chapter 4 "Opportunity Management" and illustrated in Chapter Highlight 4.2: "Tell Me Doctor, Do I Have an Opportunity?" Ideally at this time the sales team will base their competitive strategy on the number of yellow and blue factors for them versus the competition. The quality and confidence in selecting the correct strategy is directly a function of making time your advantage and completing all the customer interviews as quickly as possible after an opportunity

has been qualified. See **Chapter Highlight 9.4: "You Snooze, You Lose"** for what happens when you are waiting for the bid to arrive.

Supporting Comments for Opportunity Assessment

In this section, you include any supporting comments that add insight into the assessment for any of the twenty questions that have not been covered in any of the sections of the plan to this point, such as:

- Other opportunities or projects that might affect this assessment, such as the competition losing a major bid that is currently in progress.
- Recent developments that could affect the customer's decision criteria. For example, a war in the country where the customer is planning operations or a merger of companies (either customers or competitors) and new government regulations could have negative or positive implications for the customer's opportunity.

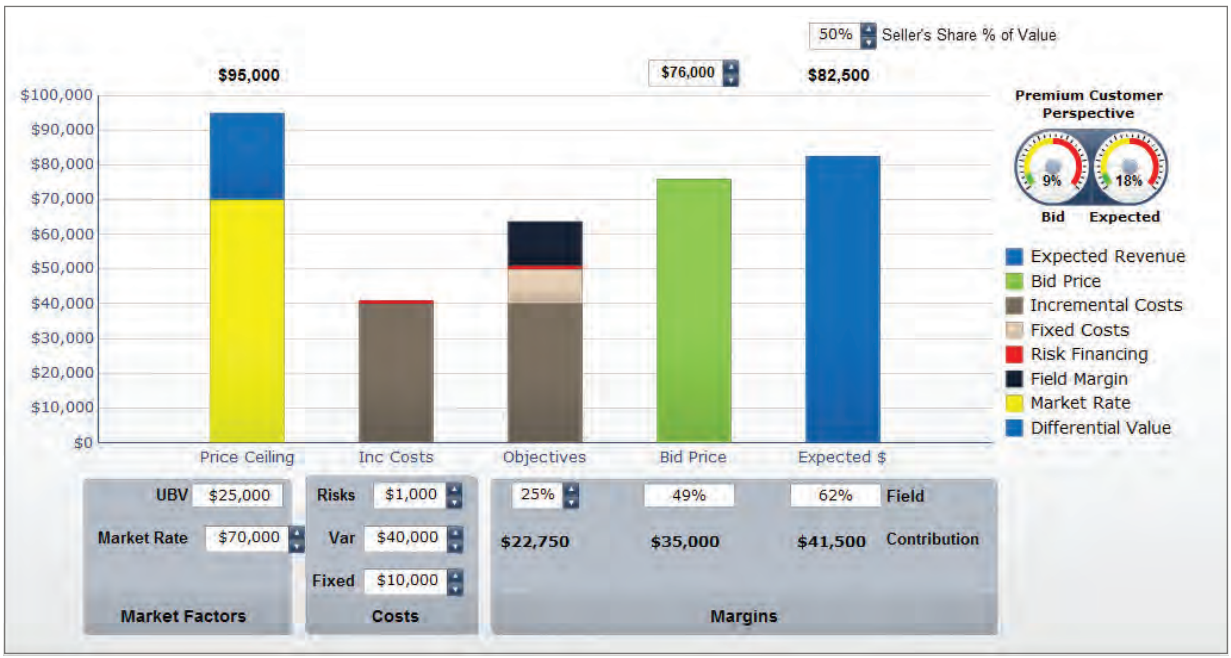
Is it Worth Winning

Each of the other three main assessment questions had supplementary information to give more confidence in the assessment. For the "Is It Worth Winning?" assessment question, you provide additional insight with the pricing strategy table and supporting comments for degree of risk and strategic value.

Pricing Strategy Table

The pricing strategy table is a summary, not a detailed analysis, using averages and ratios from past projects provided by the operational staff or salespeople with previous operations experience to develop a first estimate of the revenue, costs, and profitability. In Chapter 11 "Pricing for Bidding," a detailed discussion will expand how to complete a pricing strategy for large opportunities. An example of a pricing strategy table is shown in **Fig. 9.15.**

Fig. 9.15
The pricing strategy table: is an estimate of the opportunity revenue, costs, and profitability. It also gives an indication of the expected bid price and expected revenue depending on the final competitive sales strategy and bid analysis. The table contains three parts: chart input, table, and customer perspective gauges. The table can be generated in Excel and will be explained in detail in Chapter 11 "Pricing for Bidding." An Excel pricing strategy table can be downloaded from the textbook website.



Supporting Comments for Degree of Risks and Strategic Value

In this section provide any comments to support the assessment for the questions degree of risks and strategic value questions.

Degree of Risk

- What are the levels of technical financial and other risks associated with the project?
- What are the risks of the customer not fulfilling the work scope, ending the project early, or canceling the project?
- What could cause your solution to fail?
- What are the critical dependencies in delivering value to your customer?
- How could the customer cause your solution to fail?
- What is the impact on your business if the solution fails?
- How much of this investment is at risk?
- If the risk factor is high, what could be done to reduce it?

Strategic Value

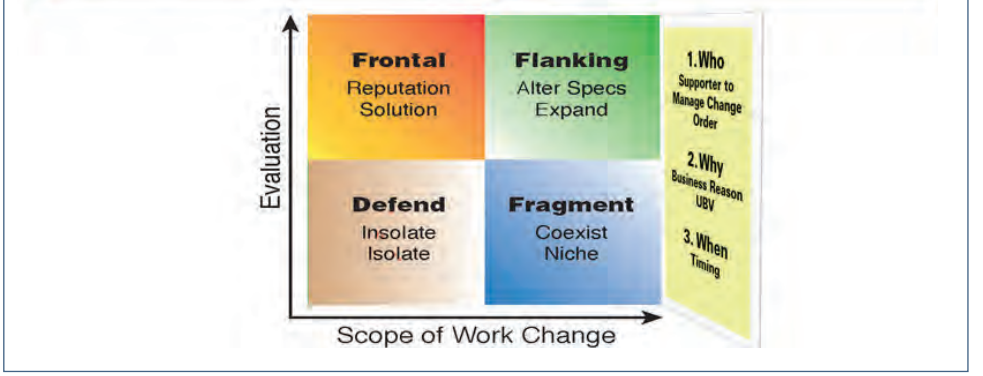
- To determine whether a project is strategic, you must determine whether the project is more profitable than other projects of the same contact period that use the same resources. If so, why? The strategic value of a project is best answered by upper management. In your additional comments, state which executive identified this opportunity as strategic.
- Do long-term account factors, such as product development or competitive issues, make winning this project strategic? To answer this question when resources are limited, it is advisable to obtain upper management input.

Competitive Sales Strategy

In this section, describe your competitive sales strategy based on your analysis to this point and then identify the tactics to you will use to execute your strategy. As

Fig. 9.16
Selection of the competitive sales strategy is one of the most important decisions in the strategic sales plan. It also represents the turning point where knowledge is translated into a winning strategy and actions.

Strategy	Holes	Vulnerabilities	Strategy	Holes	Vulnerabilities
Frontal - Solution	0	1	Flanking - Expand	1	1
Frontal - Reputation	0	1	Flanking - Alter	1	1
Defend - Isolate	1	1	Fragment - Coexists	1	1
Defend - Insulate	2	1	Fragment - Niche	1	1



discussed in Chapter 4 "Opportunities Management," your competitive sales strategy is selected by considering your evaluation against the formal decision criteria and whether you can change the customer's scope of work. Before selecting your strategy, it is recommended that you review the Competitive Strategy Decision Process in Chapter 4. In this section, you present the competitive strategy table, competitive strategy description, and critical success factors of your plan. Each part is described below.

Competitive Strategy Table

The competitive strategy table is created using the assessment analysis worksheet available for download from the textbook website. Once the sales team has decided on their competitive sales strategy, they select the sales strategy for them and their competitors. Then the competitive strategy table is created. An example table is shown in **Fig. 9.16.**

Based on the assessment analysis, the spreadsheet using logical tests will identify:

- **Holes.** This is where an assessment question for the given competitive sales strategy should be "+" in your assessment but you have either a "?" or "-".
- **Vulnerabilities.** This is where an assessment question for a given sales strategy is "-" for you, but the competition for that assessment question has a "+"; therefore, you are vulnerable to the competition for that question. The specific detail for which of the twenty assessment questions have holes or vulnerabilities leads to another spreadsheet generated automatically that you can review.

At the bottom of the table is the competitive sales strategy matrix discussed in detail in Chapter 4 "Opportunities Management." The matrix has an added panel to emphasize the minimum requirements when selecting a flanking or fragment competitive sales strategy.

As shown in Fig 9.16, any time the salesperson picks a flanking or fragment competitive sales strategy, three questions must be answered:

1. Who will sign the change order?
2. Why will the customer sign a change order?
3. When will they sign the change order?

It is possible that these questions will be answered once the competitive sales strategy is confirmed. This is acceptable as long as specific tactics are assigned to someone on the sales team.

Competitive Strategy Description

In this section, you describe your competitive sales strategy. In addition, you highlight the following:

- Reasons why you have chosen this strategy rather than other strategies
- Priorities to execute the strategy
- Risks associated with the chosen strategy

Critical Success Factors

In this section, list the critical success factors for your plan to succeed. Evaluate the critical success factors from the point of view of the customer, your company, and the competitor. Address any significant customer concerns or issues that could prevent you from being awarded the work.

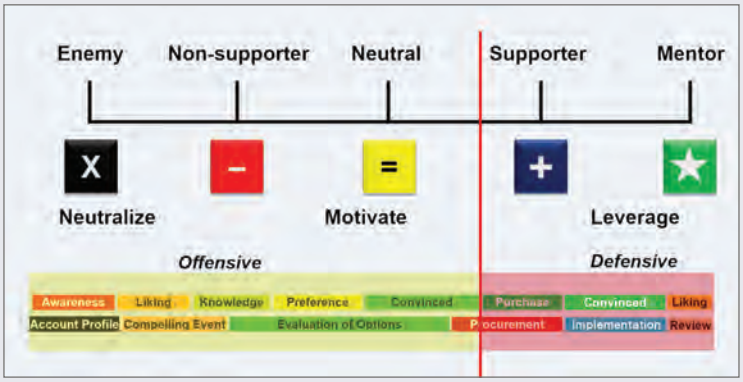
Chapter Highlight 9.5: The Best Defense is a Good Offense

Winning the Work through Competitive Sales Strategy Execution



The best defense is a good offense. There are a lot of people who believe this, and the same advice is also good for a strategic sales plan. There are five main sales tactics as described earlier throughout the textbook. Prove value, retrieve missing information, insulate against the competition, minimize weaknesses, and emphasize strengths are all very good tactics. However, the purpose of these tactics in large B2B sales is ultimately for the customer to make the award decision when you are not in their office. At that time, you want to be insulated against the competition—from their last-minute desperation attempts to secure the work or from a non-supporter or, worse yet, an enemy trying to have the work awarded to anyone but your company. To be insulated against the competition, you need to have proved value, minimized weakness, and emphasized strengths. If you are reading closely, you will have noticed that the tactics are now in the past tense.

Below is another illustration to explain an effective competitive sales strategy execution. In the diagram at the bottom are the opportunities management process and the buyer-readiness stages. As described before, by using the consultative selling approach and being engaged with the customer early in the process, you should be aligned to what they are trying to do. Early in the process (shown as the stages shaded in yellow), you should be on the offensive and meet with all the buying center members to understand what the enemy will use against you to stop you from being selected; you should also be trying to motivate the people who are non-supporters and neutral. But there comes a time when the selling stops, as shown by the red line. This happens after you have submitted your proposal and gone through the submission of proposal, resolution of concerns, and negotiations. At this point, you are in the monitoring stage and relying on your supporters and mentors to defend the decision to choose your company. This time is shaded in red on the diagram. The emphasis makes you contact all the people in the buying center regardless of their alignment. Too many salespeople tend to restrict their conversations to supporters and mentors who are already convinced your company is the best for their opportunity. The problem with this is you are not talking with the people who are not supporters; therefore, when it comes time to make the final buying decision you may not have sufficient materials for your supporters and mentors to defend your award.



The other point to make here is beware of the enemy; too often salespeople are scared to talk to someone who has been labeled as not liking your company or who prefers to use the competition or has never used your company. This information might be accurate, but it does not warrant not talking to these people. If this is their opinion, then it will take time to motivate them from enemy or non-supporter, so don't put off contacting them as you will need time to bring them to your side. A good tip for when you are transferred into a new sales territory or assigned a new account is to ensure that you discuss with the outgoing salesperson the alignment of current customers and prospects. For those identified as enemy, make it a point to schedule a visit with them at the very beginning of your assignment. The reason for this is to meet them and explain that from your discussion with the outgoing salesperson, you understand they prefer to use other suppliers; you would like to understand why so you can try improve future proposals to win their business. This achieves three results:

- It demonstrates to the customer that they are important.
- It allows the customer to express why they prefer the competitors.
- It builds rapport with the customer.

All the above are positive results and one of these might be enough to get you back on the road to securing future business from this customer. For a real example of this, review Chapter Highlight 4-6: "Making Incidental Decision Criteria Crucial."

The last part of the plan are the specific tactics that will be taken to execute the competitive sales strategy.

Actions

This section consist of two tables: relationship strategies and other actions.

Relationship Strategies

There are three relationship strategies chosen depending on the customer's buyer-readiness stage, alignment, his or her role in the buying center, the level of influence, and timing. For a more graphical explanation of these factors see **Chapter Highlight 9.5: "The Best Defense is a Good Offense."** The three relationship strategies[12] are:

- Leverage
- Motivate
- Neutralize

Leverage

A leverage relationship strategy means you want a buying center member to act on behalf of your company inside the buying center to improve your chances of securing the opportunity. To leverage a buyer, the buyer must:

- Be a supporter.
- Have medium or high influence.
- Be prepared to act on your behalf.
- Recognize that you can help him or her achieve business and personal priorities.
- Know that the position will not damage his or her internal reputation.

Examples of leverage relationship strategy tactics are:

- You ask the buying center member to act as a reference for your claims of value to other members in the buying center who may be skeptical.
- You need the assistance of the buying center member to neutralize another buying center member who is a non-supporter. This is typically done by defending your solution when the buying center convenes to make the final purchase decision.

Motivate

A motivate relationship strategy is used to try to convince buying center members who are neutral or non-supporters to become supporters. The strategy and tactics used to motivate the buying center member depend on factors such as buyer-readiness stage, alignment to your company, alignment to the competitor, role, influence, and reaction to your sales plan tactics. Motivation relationship actions use several tactics for proving value, minimizing weaknesses, and emphasizing strengths.

It is important to consider the role of the buying center member you are trying to motivate. If the buying center member is a decision-maker or approver, you must be sure you are aligned with the advisor positions (user, evaluator, and gate-keeper). In most cases, higher-level roles will validate any supplier claims to provide unique business benefits with their internal advisors. It is best to contact

▶ *Best Practice—Pre-Review Meeting Preparation*

If possible, the sales team leader should send out the SSP to the review team in advance of the level 2 review. This gives the review team time to read the plan and send clarification questions to the sales team leader. The sales team leader then addresses these questions in the presentation phase of the review.

▶ *Best Practice—Presentation Phase*

Before the presenting team gives the presentation, the reviewing team should review the level 2 strategic sales plan review form. On page 3 of the form is a brief overview of the level 2 review process. Before beginning the presentation, the moderator should briefly review the process and ask if there are any questions before moving to the next section. If there are no questions, both teams should take a few minutes to review the discussion skills that will be used during the review process, which are found on page 2.

During the presentation, the review team records all clarification questions on page 2 of the review form. A completed level 2 review form is the result of this section.

advisor roles first to motivate them to become supporters before trying to motivate higher-level buying center role positions.

Neutralize

When motivational relationship strategies fail to convert non-supporter buying center members or you have enemies in the buying center, you must defend against their negative influence in the buying center. To neutralize a buying center member, you must enlist someone inside the buying center to act on behalf of your company. Neutralizing relationship strategies should be used only after efforts to motivate the buying center have failed and your supporter or mentor considers the request reasonable. For example, sales representatives would not ask a supporter who is a user and a junior in the company to discuss the project with an approver who is several levels above. Neutralizing actions include:

- Supporters or mentors intervening with decision-makers and approvers
- Supporters or mentors arranging meetings with other buying center members who were blocked by non-supporters or enemies
- Getting feedback or information withheld by non-supporters or enemies
- Giving information to higher-level buying center members that was not passed on by non-supporters or enemies
- Correcting wrong information given out by non-supporters and enemies.

When deciding the relationship strategy, it must have the corresponding tactics that will be used to execute the relationship strategy. Relationship strategies and all tactics must be evaluated and prioritized according to the value of improving your chances of winning the opportunity compared to the amount of time and resources required to execute the tactic.

Relationship Strategy Table

This table lists near-term relationship strategies. Each entry has the following:

- Buying center member
- Relationship strategy
- Description or the tactics used to execute the strategy
- Person responsible to complete the tactic
- Target date for completion

Other Actions Table

In addition to the relationship strategies above, what other actions are needed for you to win this opportunity? Consider actions with company staff beyond the immediate sales team. Also consider any executive actions that must be made, such as prioritization of limited resources or funding of start-up costs.

The appendix in this chapter includes a table of three pages of possible actions that can be taken in every sales activity and stage of the opportunity management process.

The strategic sales plan is an excellent process to follow for your B2B large sales and the perfect tool to use to review your sales strategy. In the next section, the Level 2 Strategic Sales Plan Review Process will be described.

Level 2 Strategic Sales Plan Review Process

The formal structure of the level 2 sales plan is designed to:

- Leverage the account knowledge
- Determine where the plan is most vulnerable
- Reduce risk associated with the opportunity
- Modify the plan to improve the probability of success
- Ensure the tactics are agreed to and achievable by the responsible tactic owner

A level 2 review results in a more achievable strategic sales plan that has been presented, clarified, and critiqued from a strategic and tactical point of view. The first level 2 review should take place before the competitive sales strategy is set for the sales plan and after the initial coverage of the buying center and requirement analysis is completed (**Fig. 9.16**). Once the preliminary contact is finished, the first pass of the strategic sales plan and level 1 assessment is completed. Then, the strategic sales plan is distributed to the opportunity stakeholders in preparation for the level 2 review. The second level 2 review is held prior to the submission of the final proposal. In preparation for this level 2 review, the sales team should complete a level 1 review and SWOT analysis up to this point to ensure that there have been no significant changes in any area customer, competitor, or internally that could impact your sales strategy. The last level 2 review is completed as part of the negotiation strategy planning process.

Conducting a level 2 review requires a moderator (sales or marketing manager), the sales team, and a review team. The level 2 review is conducted in four phases, as described below. To facilitate the level 2 review process, use the strategic sales plan level 2 review form included in the Appendix. In this section, there are "Best Practice" sidebars for each one of the level 2 review steps collected from experts who participated in hundreds of level 2 reviews. The first one is for pre-review meeting preparation.

Presentation Phase

The sales team leader presents the highlights of the strategic sales plan. This can be done via a PowerPoint presentation for a large group or the Strategic Sales Plan report for a small group. For more ideas for reviewing the strategic sales plan, see **Chapter Highlight 9.6: "What Size Are You?"** The purpose of the presentation is to give everyone a chance to listen to and think about the plan strategically. Twenty-five minutes are allocated for the presentation, during which time the presenting team presents the opportunity. This is followed by a ten minute clarification question period. The moderator controls the timing and restricts all questions to clarification only.

Challenge Phase

After the clarification questions have been answered, the next phase of the level 2 review is the challenge phase, which consists of two parts. In the first part, the sales team leaves the meeting room and prepares for challenges expected from the review team. The review team prepares challenges for the sales team. This section lasts fifteen minutes. Challenges should be considered from three perspectives, as described below.

Challenges from the customer's perspective may include the following:

▶ *Best Practice—Challenge Phase*

After the questions have been clarified, the review and sales teams should review the challenges page of the review form found on the cover page. Once they have reviewed the more frequent challenges, they should reflect on the presentation from the sales team and record specific challenges on the challenge–test–improve page, which is on page 8 of the review form. The review team should classify each challenge from a customer, management, or strategic plan perspective in the appropriate column on the challenge page of the review form.

When the teams reconvene and the review team members present their challenges, someone from the sales team records the challenges and clarifies and confirms, as needed, to ensure that they completely understand the challenge.

When presenting challenges, use the skill of triangulating the concern. All challenges are directed at the plan, not the sales team, as you want to improve the plan.

If you are not clear on this point, note how the challenges are presented for the customer, your company's management, and strategic sales perspectives on the review form. All challenges are directed at the plan. Although this point may seem obvious, experience has proven it is a point often forgotten. The challenge session can become more combative than constructive if the triangulating skill is not used.

Chapter Highlight 9.6: What Size Are You?

One Size Does Not Fit All

The strategic sales plan does not come in one size fits all. There is actually a small, medium, and large size depending on your purpose and audience for the level 2 review.

- **Large:** A fully documented analysis of your client interview sheets entered into a Word document that allows you to add additional comments, as needed.
- **Medium:** A PowerPoint presentation created from the client interview sheets and answering questions on PowerPoint slides similar to the information contained in the Word document.
- **Small:** A discussion referring to the client interview sheets.



Each of the different formats of the strategic sales plan allow you the flexibility to choose the best format to have a fit-for-purpose review. The purpose of a level 2 review can be:

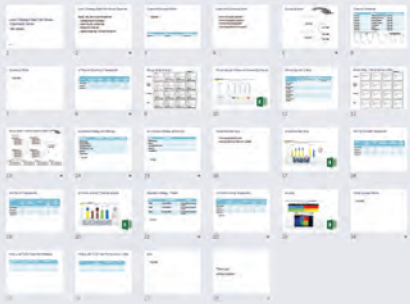
As a Coaching Tool. For new salespeople, the sales manager should review the salesperson's strategy for his or her opportunities on a regular basis and select one key opportunity from the salesperson's pipeline each month as part of the monthly pipeline review. For this purpose, reviewing the salesperson's strategy by reviewing the client interview sheets, vulnerability analysis, and level 1 assessment on paper provide for an efficient one-on-one level 2 review.





Sales Team Monthly Meeting. Every sales team should meet a minimum of once a month to share marketplace developments, competitor intelligence, customer developments, and insight about sales-related issues the team may like input on from other colleagues. At these team meetings, it is a good practice to pick the team's most important opportunity and have the opportunity owner talk through the review from a copy of the Strategic Sales Plan report, which can also be shared electronically before the day of the meeting.

Formal Level 2 Review. When the opportunity is considered strategic and requires an executive-level review, the Level 2 Review PowerPoint template is a good choice to present the plan following the Level 2 Review Process. To add the key tables and analysis as shown in this chapter, there is an Excel template that can be used to easily create and update the tables if needed. The structure of the presentation is made to answer the five strategic questions of the level 2 review:



> Is there an Opportunity? Can You Compete? Can You Win? Is it Worth Winning? and What Next?

There are two key points or cautions to make regarding level 2 reviews. Many companies will set specific criteria for when they will do a formal level 2 review, including an amount of revenue the opportunity is expected to make, opportunity for a key account, new technology or product introduction, or other strategic reasons why the opportunity is very visible.

These policies are excellent; however, the sales manager must make it very clear to their sales team that the criteria has been set for when a formal level 2 review needs to be held with upper management of the company for their approval. This does not mean the other opportunities that are not required to be reviewed with management are ignored. All the professional sales processes apply conversations with the customer, competitor analysis, and making the plan. The caution is salespeople may interpret the criteria level 2 reviews as the criteria for when they apply the professional sales processes, which is wrong. You apply the professional sales processes on any opportunity you are going to spend your time on.

The level 2 review is not a bid review; this is another process to be discussed later. The problem is sales teams get confused and only do the level 2 review when they receive the bid, which is too late. If an opportunity has to have a formal level 2 review with upper management, then be smart and welcome them to your sales team with their first responsibility to participate in the level 2 review to get their approval for your sales strategy and assign them one or two key actions to support your winning the opportunity.

▶ *Best Practice—Test and Improvement Phase*

After the challenges have been presented, the review team and sales team should review pages 5, 6, and 7 of the review form. These pages include the most common tactics for the different stages of the opportunity management process. Using these pages, they can compare which tactics the sales team has already included as part of their plan. On the same page where the reviewing team recorded their challenges, they can also add the suggested improvement tactic and classify it according to whether it is an addition to the plan, or modifies an existing tactic.

While preparing their own improvement actions, the sales team can also classify the presented challenges to the other category if they are not going to modify the plan.

- Has the plan convinced you that the solution is appropriate for the customer's technical requirements?
- Has the plan convinced you that the proposed solution makes good business sense?
- Does the solution align with the requirements and preferences of the users?
- Has the plan addressed the buying center's adaptability to change profile so the buying center is confident with the solution?
- Is the solution proven?
- Has the plan created confidence in the solution being proposed?
- Is the unique business value validated by key buying center members?
- Have the required buying center members in positions of authority and responsibility for project outcomes accepted the value proposition?
- Is the customer's effort justified to prove and implement the solution?
- Can the buying center members reasonably devote the time required to the solution?
- Have the consequences of a failed solution's impact on the project been addressed by the plan?
- Is there a better solution available?
- Has the plan convinced the buying center members they can be sure they are getting the best deal?
- Is the time line acceptable?
- Does the plan demonstrate that the solution will be ready in time and that you can meet the deadline?

Challenges from your management perspective may include the following:

- Has the plan tested short-term and long-term revenue projections with sensitivity analysis?
- Does the plan identify all risks, and have the risks been adequately addressed?
- Have the critical success factors been identified?
- Does the level of profitability justify the amount of resources required for the project?
- Does the plan have input from the service delivery team?
- Was the opportunity discovered early enough?
- Can the plan benefit from or expand the scope to include other segments, business lines or products and services?
- Does the plan under- or overestimate the competition's desire to win the project?
- Does the plan include all probable competitors in the competitive analysis?
- Does the plan adequately consider recent similar bids and current market conditions?
- If the plan identifies the opportunity as strategic, is this reflected in the tactics by leveraging your executives' high-level contacts?
- Does the plan represent a major shift in the normal way of doing business with the account currently?
- Can all plan tactics be realistically implemented?



Fig. 9.16 A completed buying center analysis with explanation of entries and level of influence.

▶ *Best Practice—Final Assessment Phase*

At the end of the review process, the individual reviewing team members remove the back page and give it to the sales team for their records. On this page are the challenges and improvement tactics as recommended by the individual review team members and the final assessment. When completing the final assessment, the review team members should make a final assessment of each of the four main questions and then give the opportunity sales plan an overall percentage chance of winning the opportunity.

Challenges from the strategic plan perspective may include the following:

- Does the plan describe the opportunity profile from the customer's perspective?
- Is the compelling event adequately described in the plan?
- Is the buying center description complete? Are all key roles identified in the plan?
- Does the plan reference an adequate SWOT and CRM database search for similar opportunities (scope, account, and competitor)?
- Do the plan tactics improve your chances of winning?
- Do the tactics extend into the late procurement, implementation, and review stages?
- Are the number of competitor's supporters accurate in the plan?
- Are the organizational charts in the plan complete? Are all roles present?
- Is there a tactic in the plan to address the unknowns in the assessment?
- Does the plan have a tactic for dealing with the negative assessment items?
- Does the plan adequately demonstrate that planned relationship strategies are achievable?
- Does the plan consider the risk to the individuals who are asked to act on behalf of your company?
- Have the plan's supporters and enemy alignments been validated with actions by that individual?
- Does the plan substantiate the alignment against the level of contacting that has been done for supporters, mentors, and enemies?
- Does the plan demonstrate you have a good understanding of the competition?
- Have the plan tactic due dates been checked against the calendar?

In the second part of the challenge session, the sales team is brought back into the meeting room, and the review team presents their challenges. They first present the customer challenges, followed by your management challenges, and finally the strategic sales plan challenges. The sales team clarifies and confirms, as necessary. This part of level 2 takes fifteen minutes.

Improvement Phase

The improvement phase consists of two sections. In the first section, the reviewing team and sales team work separately to test the challenges presented and then, for the more substantial challenges, recommend improvement tactics to address the challenge. Improvement actions should be restricted to:

- Adding a tactic to address the concern;
- Modifying a tactic to address the concern;
- Acknowledging the concern and explaining how an existing tactic already addresses the challenge; and
- Acknowledging the concern and confirming why it is important to the person suggesting it, including reasons for not taking additional action to address the challenge. Your decision not to address the challenge can be for reasons such as time constraints, priorities, or a belief that the challenge is not a significant vulnerability.

In the second section of the improvement phase, the sales team presents their improvement plan. This section is allotted ten minutes for the sales team to pres-

ent and five minutes for the reviewing team to add any constructive criticism in response to the sales team's improvement actions.

Decision Phase

In the final stage of the level 2 review process, the reviewing team members—after listening to the sales team—present their improvement actions and complete an opportunity assessment according to the level 1 strategic sales plan review discussed in Chapter 6 "Sales Activities" and included in the Appendix of this chapter. In addition, an the bottom of the assessments page (page 8 of the review form) the review team records what they believe is the sales team's probability of winning the opportunity.

Summary of Chapter Objectives

1. Build a strategic sales plan to organize, manage, and monitor the actions to secure an opportunity.

The strategic sales plan is used to guide the pursuit of an opportunity. The successful plan selects strategic actions resulting from studying the customer's project objectives, requirements, individual buying center members' needs, and competitive environment. The successful sales plan results in your company winning the project and exceeding the customer's expectation during the implementation stage. To develop the plan, follow the outline presented in this chapter and leverage the professional sales consultative selling approach, processes, and tools described throughout the textbook. The strategic sales plan is used to communicate the plan to the key opportunity stakeholders in your organization.

2. Communicate the plan to the stakeholders in the customer and your company organizations.

The strategic sales plan has a two-level review process similar to the review process used in the need-satisfaction selling process. The level 1 review is completed by the sales representative and sales team members several times throughout the opportunity life cycle. This review identifies information gaps early in the opportunity management process and later identifies where you are vulnerable to competitive threats. The level 1 review is meant to answer four important questions for any opportunity: Is there an opportunity? Can you compete? Can you win? and Is the opportunity worth winning? If any of these questions is answered "no," then seriously consider a disengage strategy for the opportunity. In most opportunities, the assessment clearly shows where you are vulnerable and which actions and tactics are needed to be executed to address the vulnerability.

In level 2 reviews, the strategic sales plan is reviewed by a review team and the plan is challenged, tested, and improved in a methodical five-stage process. To facilitate the level 2 strategic sales plan review, a level 2 review form guides the process. It assists the review team members in effectively applying discussion skills that focus the sales team on potential vulnerabilities and improvement actions. The level 2 review should be done at least two times. The first takes place prior to selecting the competitive sales strategy for the late stages of the opportunity, and the second occurs before the final sales proposal is submitted to the customer. It is suggested that for important opportunities, another level 2 review be done as part of the negotiation strategy-setting meeting.

3. Capture the knowledge and promises made during the pursuit phase of the opportunities management process and deliver on those promises in the implementation phase.

The added benefit of doing the strategic sales plan is that it provides the basis from which to start the outcome analysis after the purchase decision has been made by the buying center. Actions taken to achieve specific results can be measured for how effective they were and either used again in future opportunities if successful or modified if not successful. A completed strategic sales plan and supporting documents such as account corporate profiles and client interview forms are all pieces that, if done correctly and thoroughly, improve the salesperson's ability to create a win–win proposal that meets the business objectives of both your company and the customer, and can be used as a powerful training aid for a new salespeople.

Applying the Concepts

1. What is the difference between "Can you compete?" and "Can you win?" Give examples of where your company was able to compete but not win. Give an example of where your company was able to win but not compete.
2. Of all the assessment tools discussed in the textbook up to this point and used in creating the strategic sales plan, which are the most important and critical to a successful sales plan?
3. What guidelines should a sales representative follow when completing a strategic sales plan?
4. In your opinion, do you think the strategic sales planning process makes you a better salesperson?
5. Of all the aspects of the strategic sales planning processes, which two provide the most added value and which two could be dropped?

6. Discuss what a program would consist of that could be adopted for your sales team to implement the strategic sales planning process. What would be the vision of the program, objectives, resources required, potential incentives that could be offered, type of training required, and realistic completion schedule?
7. Complete a strategic sales plan Word document for an upcoming opportunity or a previous opportunity that was considered strategic. Analyze it from a strategic sales perspective. Follow this chapter and complete all the necessary documents. Once you complete the strategic sales plan, notify your tutor or ask your sales manager to do a level 2 review of the sales plan.
8. Participate in a level 2 strategic sales plan review using the level 2 review forms.



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Appendix A

Level 2 Strategic Sales Plan Review Form—Page 1

Level 2 Strategic Sales Plan Review

Customer Challenges

1. Has the plan convinced you the solution is appropriate for the customer technical requirements?
2. Has the plan convinced you that the proposed solution makes good business sense?
3. Does the solution align with the requirements and preferences of the users?
4. Has the plan addressed the buying center's adaptability to change profile so the buying center is confident with the solution?
5. Is the solution proven?
6. Has the plan created confidence in the solution being proposed?
7. Is the unique business value validated by key buying center members?
8. Have the required buying center members in positions of authority and responsibility for the project outcomes accepted the value proposition?
9. Is the customer's effort justified to prove and implement the solution?
10. Can the members in the buying center reasonably devote the time required to the solution?
11. Have the consequences of a failed solution's impact on the project been addressed by the plan?
12. Is there a better solution available?
13. Has the plan convinced the buying center members they can be sure they are getting the best deal?
14. Is the time line acceptable?
15. Does the plan demonstrate how the solution will be ready in time and how confident you are that you can meet the deadline?

Management Challenges

1. Has the plan tested short- and long-term revenue projections with sensitivity analysis?
2. Does the plan identify all the risks, and have the risks been adequately addressed?
3. Are the critical success factors identified?
4. Does the level of profitability justify the amount of resources required for the project?
5. Does the plan have input from the service delivery team?
6. Was the opportunity discovered early enough?
7. Can the plan benefit from or expand the scope to include other segments, business lines or products and services?
8. Does the plan underestimate or overestimate the competition's desire to win the project?
9. Does the plan include all the probable competitors in the competitive analysis?
10. Does the plan adequately consider recent, similar bids and current market conditions?
11. If the plan identifies the opportunity as strategic, is this reflected in the tactics by leveraging your executive's ability to do high-level contacting?
12. Does the plan represent a major shift in the normal way of doing business with the account currently?
13. How realistically can all the plan tactics be implemented?

Strategic Challenges

1. Does the plan describe the opportunity profile from the customer's perspective?
2. Is the compelling event adequately described in the plan?
3. Does the plan identify all the key roles in the buying center?
4. Does the plan reference an adequate SWOT and CRM database search for similar opportunities (scope, account, and competitor)?
5. Do the plan tactics improve your chances of winning?
6. Do the tactics extend into the late procurement, implementation and review stages?
7. Are the number of competitor's supporters accurate in the plan?
8. Are the plan's organizational charts complete with all roles present?
9. Is there a tactic in the plan to address the unknowns in the assessment?
10. Does the plan have a tactic for dealing with the negative assessment items?
11. Does the plan adequately demonstrate that the planned relationship strategies are achievable?
12. Does the plan consider the risk to individuals who are asked to act on behalf of your company?
13. Have the plan's supporters and enemy alignments been validated with actions by those individuals?
14. Does the plan substantiate the alignment against the level of contacting that has been done for supporters, mentors and enemies?
15. Does the plan demonstrate you have a good understanding of the competition?
16. Have the plan tactic due dates been checked against the calendar?

Checklist to Strategic Management

Level 2 Strategic Sales Plan Review Form—Page 2

Presentation Phase: Clarification Questions

Clarification

Discussion Skills

Exploring Ideas

When you invite a suggestion . . . give a reaction.

When you make a suggestion . . . invite a reaction.

When you use/build on the ideas of others . . . acknowledge the connection.

When you need to be innovative or imaginative . . . temporarily alter restrictions.

Triangulating

Use a neutral tone.

Do not express your opinion.

Refer to the problem as the PLAN.

Constructive Criticism

Introduce the subject.

Give balanced feedback.

Specify what you want to see retained.

Specify what you want changed.

Explore next steps:

- Invite ideas; offer responses.
- Offer ideas; invite responses.

Summarize next steps you've agreed to.

Managing Differences

Defining the Difference

You're not sure that a difference exists.

You don't fully understand the difference.

State what's important to you (what and why).

Clarify what's important to the other person (what and why).

Discussing the Difference

You fully understand the difference.

You can honestly consider alternatives.

Invite and respond to the customer's ideas.

Offer ideas and invite the customer's responses.

Concluding the Conversation—Agreement

When you have found an agreeable solution or follow-up action:

- Summarize the discussion.
- List the action items to be done.
- Check for feedback from the customer.

Concluding the Conversation—No Agreement

When there is a difference of opinion and you cannot honestly consider alternatives or you cannot find mutual agreement:

- Acknowledge the customer's right to differ.
- Explain what you've decided and why.

Appendix A

Level 2 Strategic Sales Plan Review Form—Page 3

Level 2 Strategic Sales Plan Review Process

A level 2 sales plan review process is a formal, structured review process designed to

- Leverage the account knowledge
- Determine where the plan is most vulnerable
- Reduce risk associated with the opportunity
- Modify the plan to improve the probability of success
- Ensure the tactics are agreed to and achievable by the tactic owner.

Presentation

Part 1, 15-min plan presentation
The purpose of the presentation phase is to give everyone a chance to listen and think about the plan strategically.

Part 2, 10-min clarification question period
The moderator controls the timing and types of questions, restricting all questions to clarification only.

Challenge

The challenge phase consists of two parts.

Part 1, 15-min challenge preparation
The sales team leaves the meeting room and prepares for challenges they expect from the reviewing team. The reviewing team prepares challenges for the sales team.

Part 2, 15-min challenge delivery
The sales team returns to the meeting room, and the reviewing team presents its challenges. The sales team clarifies and confirms, as necessary.

Test and Improve

Part 1, 15 min
In this section, the reviewing team and sales team work separately to prepare improvement tactics in response to the challenges presented.
Improvement actions should be restricted to

- Adding a tactic to address the concern
- Modifying a tactic to address the concern
- Acknowledging the concern and explaining how an existing tactic already addresses the challenge
- Acknowledging the concern, confirming why it is important to the person suggesting it, and stating any reasons for not adding tactics (such as time constraints and priorities) to address the challenge; alternatively, stating why the challenge is not believed to be a significant vulnerability.

Part 2, 10 min
The sales team presents an improvement plan.

Part 3, 5 min
The reviewing team provides feedback and constructive criticism in response to the sales team's improvement actions.

Best Practice

- The moderator enforces the timing and provides 2-min warnings as the end of each phase and section nears.
- Each work group appoints a spokesperson and a person to record challenges and tactics.
- When presenting challenges, the reviewing team uses the skill of triangulating the concern, as discussed in the Discussion Skills module. All challenges are directed at the plan and not at the sales team. It is the plan you want to improve since you are all on the same team. If unclear on this point, note how the challenges are presented above for the customer, your company's management and the strategic sales perspectives. All challenges are directed at the plan.
- If possible, the sales team leader sends the SSP to the reviewing team in advance of the level 2 reviews. By providing the plan, the reviewing team has a chance to read the plan and send clarification questions to the sales team leader. The sales team leader can then address these in the presentation phase as part of the Opportunity presentation.

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Appendix A

Level 2 Strategic Sales Plan Review Form—Page 4

Improve

REFERENCE	CUSTOMER	MANAGEMENT	STRATEGIC	Describe what did you like best about the plan. Consider such factors as completeness, insight, strategy, solution, competitive analysis, understanding of the customer organization or compelling event, planned actions, etc.:	ADD	MODIFY	OTHER
#		X		CHALLENGE Identify from which perspective the challenge is from in the left hand columns. Describe the challenge to the "PLAN." What did the plan not demonstrate or convince? P R I M E Describe what your recommendation is on how to best address this issue; select the appropriate action from the right-hand columns. Select which tactics should be used and describe the action. X	X		
1				CHALLENGE P R I M E			
2				CHALLENGE P R I M E			
3				CHALLENGE P R I M E			
4				CHALLENGE P R I M E			
5				CHALLENGE P R I M E			
6				CHALLENGE P R I M E			

Instructions

Appendix A

Level 2 Strategic Sales Plan Review Form—Page 5

#	Stage	Tactic	Specific Action	Description	Buyer-Readiness Stage
1	Account Management Profile	Retrieve information	Read annual report of customer	Understand the customer's corporate goals, vision, strategies and critical success factors	Awareness
2			Visit Website		
3			Read or attend corporate presentations and speeches		
4			Customer entertainment and public relations		
5			Annual customer visits with executive		Liking
6			Validate Account Corporate Profile with executive		
7		Emphasize strengths	Validate Account Relationship Profile with executive	Find areas of alignment and corporate culture match	Knowledge
8	Identification of Compelling Event	Retrieve information	Read press releases	Understand the customer's project selection criteria, objectives, time frame, milestones, paybacks, who is on the project team; look for areas of alignment with your company	Awareness
9			Customer entertainment		Liking
10			Annual or regularly scheduled customer visits with initiators of projects		Knowledge
11		Emphasize strengths	Create buying environment	Annual VIP seminars with initiators of projects and regularly scheduled information events with all buying center members and users	Preference
12		Insulate against competition	Regularly scheduled visits with approvers, decision-makers and high-influence buying center members	Understand personal agendas of key buying center personnel	
13		Retrieve information	Enter opportunity and draft sales plan into CRM	Customer has sanctioned project, or you believe there is a high-potential sales lead; opportunity and draft version of Strategic Sales Plan is entered into CRM database	
14	Evaluation of Options Early Stage	Retrieve information	Complete Solution Profile Worksheet; contact all key buying center members	Understand the customer's project requirements and decision criteria	Knowledge
15		Emphasize strengths	Complete vulnerability analysis		Preference
16			Have supporter or mentor validate project requirements, decision criteria and vulnerability analysis	Maximize perceived solution fit	
17			Site visits to Engineering, Locations, Research, etc.		
18		Prove value	Demonstrate and validate features, benefits and value for customer's project		Conviction
19			Run demonstration jobs	Demonstrate unique business value	
20			Deliver customer testimonials		
21		Minimize weaknesses	Improve your company's evaluation	Handle customer negative reactions; use appropriate technique for indifference, misunderstanding, skepticism and drawbacks	

Appendix A

Level 2 Strategic Sales Plan Review Form—Page 6

#	Stage	Tactic	Specific Action	Description	Buyer-Readiness Stage
22	**Evaluation of Options Early Stage**	Minimize weaknesses	Change customer decision criteria	Decision criteria do not adequately evaluate offerings to identify solution that best meets project requirements; will need buying center supporter	**Conviction**
23		Insulate against competition	Marketing and customer awareness programs	Create awareness and improve customer's knowledge of features and benefits; create buying environment	
24		Insulate against competition	Internal SWOT	Internal meeting with input from Region and HQ	
25		Insulate against competition	Validate vulnerability analysis with your supporters or mentors	Ensure complete understanding of competitor's value proposition and identify their supporters, non-supporters and enemies	
26		Insulate against competition	Select best competitive sales strategies	• Strong position (Frontal and Flanking) • Weak position (Defend, Fragment, Develop or Disengage) If using Flanking or Fragment strategy, need to change work scope and/or bid specification. Flanking and Fragment strategies should result in more value for the customer and make it more difficult for competition to match your company's value. Contact your supporters and mentors to validate strengths. Flanking and Fragment strategies need sponsor to authorize change of scope of work, and bid specs need approval from gatekeepers.	
27		Prove Value Emphasize strengths Minimize weaknesses Insulate against competition	Strategic Sales Plan is updated version 2	Strategic sales plan is completed and presented to reviewing team for level 2 review; all sales and bid team members agree to tactics and assignments for late-stage evaluation of options and procurement phases	
28	**Evaluation of Options Middle to Late Stage**	Prove Value Emphasize strengths Minimize weaknesses Insulate against competition	Make customer presentation with outside support to demonstrate value, emphasize strengths and minimize weaknesses	Based on competitive sales strategy, demonstrate your solution is the best; establish support at all levels of buying center	
29		Prove Value Emphasize strengths Minimize weaknesses Insulate against competition	Review Comparative Table Analysis with buying center members	Based on competitive sales strategy, make it clear to buying center the benefits of your solution via a comparative analysis; contact users followed by evaluators, then decision-makers; contact approvers as appropriate	
30		Insulate against competition	Follow up on any earlier efforts to prove value, emphasize strengths and minimize weaknesses	Reinforce any earlier messages so buying center does not forget	
31		Insulate against competition	Follow up on any earlier efforts to prove value; emphasize strengths and minimize weaknesses by handling any customer negative reactions	Identify non-supporters and prepare motivating strategies	
32		Insulate against competition	Late stage SWOT	Make go or no-go decision on competitive sales strategy; begin draft of technical and financial proposal	

Appendix A

Level 2 Strategic Sales Plan Review Form—Page 7

#	Stage	Tactic	Specific Action	Description	Buyer-Readiness Stage
33	Evaluation of Options Middle to Late Stage	Insulate against competition	Request supporters or mentors to neutralize influence of non-supporters	Neutralize the negative effects of non-supporters who have not changed position after motivational contacting	Conviction
34		Insulate against competition	Plan late procurement stage attack strategy	Be prepared and schedule high-level buying center member meeting with Region executive	
35	Procurement Stage Submission of Proposal	Prove value, emphasize strengths, minimize weaknesses	Final proposal submission	All bid team members to review and provide input for final proposal; receive management approval	Purchase
36		Prove value, emphasize strengths, minimize weaknesses	Present proposal to buying center	Present proposal to buying center; present solution to buying center last; leverage recency effect and educated buyer effect to impress buying center	
37	Resolution of Concerns	Prove value, emphasize strengths	Courtesy sales calls to key buying center members	Reinforce any earlier messages so buying center does not forget	
38		Insulate against competition	Your company management visit with appropriate high-level buying center member	Demonstrate corporate commitment and address any concerns or consequences	
39		Insulate against competition	Follow up on any earlier efforts to prove value, emphasize strengths and minimize weaknesses	Reinforce any earlier messages so buying center does not forget	
40			Strategic Sales Plan is updated to version 3	Strategic Sales Plan versus results is analyzed; negotiating strategy is prepared	
41	Negotiations	Prove value	Solicit supporters' assistance during negotiations	Defense against negotiating tactics of procurement staff during negotiations	
42		Emphasize strengths	Prepare value and strengths summary	In close evaluations, strengths may be needed to win the project award	
43		Minimize weaknesses	Handle financial drawbacks	Handle customer negative reactions by using appropriate technique for indifference, misunderstanding, skepticism and drawbacks	
44		Insulate against competition	Prepare inexpensive valuable trade-offs list; have validated by supporter or mentor	Know what is valuable to key buying center members	
45	Monitor	Insulate against competition	Make contact with buying center during procurement late stage	Keep in contact with mentors and supports	
46		Insulate against competition	Make high-level contact to make concession	Your company attack strategy	
47	Outcome Analysis	Retrieve information	Make buying center contacts to discuss decision	Understand final outcome from customer's perspective	
48	Implementation	Minimize weaknesses	Pre-implementation meeting	Final review of project specifications, commitments and value; promises reviewed; execution plans agreed upon; plan to handle implementation vulnerabilities	Conviction
49		Emphasize strengths			
50		Prove value	Ongoing service support meetings	Capture and document delivery of promises made during pursuit stage	
51	Review	Prove value	Hold regularly scheduled service quality review and end-of-project meetings	Ensure service quality review meetings capture customer service metrics; report major operating successes and failures in TQM spirit	
52		Insulate against competition	Reinitiate selling process	Discuss best practices and lessons learned; improvement actions for next project	
53		Insulate against competition	Client planned entertainment activity	Thank client for patronage	Liking

Appendix A

Level 2 Strategic Sales Plan Review Form—Page 8

Account:	Date:	Reviewed by:
Factors and Assessment Questions	Opportunity:	

Is there an opportunity? ❑ Yes ❑ No ❑ ?		Account
Account corporate profile	+ Completed – Not done	
1. Customer's appl. or project	+ Defined – Undefined	
2. Customer's business profile	+ Strong – Weak	
3. Customer's financial condition	+ Strong – Weak	
4. Access to funds	+ Yes – No	

The first four questions are assessed from the customer's point of view. The remaining level 1 factors and assessment questions are answered from the perspective of your company and your competitors.

Can we compete? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Requirements diagram Vulnerability analysis Customer value analysis	+ Completed – Not done			
5. Compelling event	+ Defined – Undefined			
6. Formal decision criteria	+ Defined – Undefined			
7. Solution fit	+ Strong – Weak			
8. Resource requirements	+ Low – High			
9. Current relationship	+ Strong – Weak			
10. Unique business value	+ Strong – Weak			

Can we win? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Buying center analysis	+ Completed – Not done			
11. Inside support	+ Strong – Weak			
12. Executive credibility	+ Strong – Weak			
13. Cultural compatibility	+ Good – Poor			
14. Informal decision criteria	+ Defined – Undefined			
15. Political alignment	+ Good – Poor			

Is it worth winning? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Business case?	+ Completed – Not done			
16. Short-term revenues	+ High – Low			
17. Future revenue	+ High – Low			
18. Profitability	+ High – Low			
19. Degree of risk	+ Low – High			
20. Strategic value	+ High – Low			

What next?

What has to happen for you to win this sales opportunity? The Action field identifies the sales tactic being used (e.g., retrieve information, emphasize strengths, minimize weakness, prove value, insultate against competition). Make sure to consider all opportunity management stages. If early in the evaluation of options phase, you should retrieve information from any level 1 factors that have "?'s". The last two actions are the most important actions for Competitor 1 and 2.

Action	Description of action, name of customer, contact from your company, and completion date.
1.	
2.	
3.	
Competitor 1	
Competitor 2	

Appendix B

Strategic Sales Plan–Page 1

Type here
ACCOUNT

Type here
SALES OPPORTUNITY

Type here
DATE

Type here
TEAM

Type here

Type here

CONFIDENTIAL WHEN COMPLETED

Appendix B

Strategic Sales Plan–Introduction–Page 2

Customer's Business Summary

Type here

Describe the customer's business conditions. Include finance, revenue, profit, and key performance indicators. Identify the customer's major lines of business, affiliations, products, and markets. Include information about recent mergers and acquisitions. If an Accout Profile has been completed, copy the Executive Summary section here.

REVENUE	PROFIT	PARENT ACCOUNT
Type here	Type here	Type here

Compelling Event

Type here

What business drivers are causing the customer to make a decision or change in the current situation of this project or initiative? Describe the customer's project or initiative. What is the payback or objectives for the project or initiative? What are the consequences if they do not act? What specific date is associated with the consequences/payback to ensure this data is relected in the customer's milestones section? What is the total cost and/or budget for the project? Who is responsible for the project?

Opportunity Profile

Type here

What are the key project requirements for your portion of the project? What will be the products and services included in the request for proposals as described by the customer? What is the budget for your portion of the project? What will be the type of tender (Type 1 Enterprise-Best Solution, Type 2 Consultative-Evaluation Model, Type 3 Transactional-L1 Low Price Wins. What are the key dates for us and your competitors.

Goal

Type here

Describe your desired, long-term position with the customer. Identify how a closer relationship with you will advance the attainment of their business goals. Also, include the long-term gain for your business; i.e., future revenue or strategic value.

Sales Objective

Type here

Describe your specific products and services. Identify the projected close date and total order amount.

Appendix B

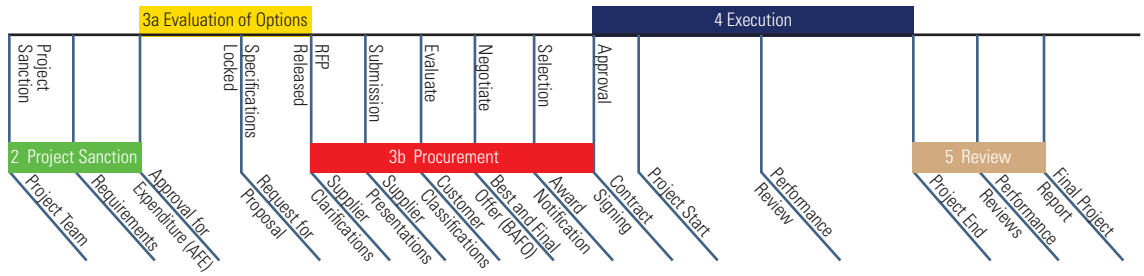
Strategic Sales Plan–Page 3

Milestones in the Buying Process

Identify completed and future steps in the customer's formal buying process. Include the evaluation activities as well as the approval, purchasing, legal, and implementation steps. Remember project start and project end **may not** be the same as your contact period.

Dates	Milestone Activity or Event	Customer Responsible (Name)
Type here	2 – Requirement gathering	Type here
Type here	3a – Evaluate offering(s)	Type here
Type here	3b – Specifications locked	Type here
Type here	3b – Submission of Proposal	Type here
Type here	3b – Award	Type here
Type here	4 – Project start	Type here
Type here	4 – Project end	Type here
Type here	5 – Project review	Type here

Customer Project Management Schedule



Appendix B

Strategic Sales Plan–Buying Center Analysis–Page 4

Approvers

Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy

Influencers

Decision-Makers

Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy

Evaluators

Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy

Users

Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy	Name Department Job Title Social Style Technology Adoption Decision Orientation Coverage Alignment Strategy

Level of influence: Add the following code to the name field: H-High; M-Medium; nothing for low. If you don't know, then add ?

The dotted line represents Lines of Influence.

Report structure is a solid line.

Alignment Colors

Enemy | Non-Supporter | Neutral | Supporter | Mentor

Legend

Role: Evaluator | User | Decision-Maker | Approver | Influencer

Social Style

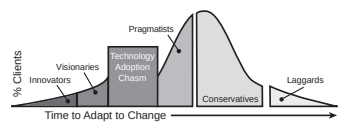
– Assertiveness +

Thinker/Analytical — Doer/Driver

– Responsiveness +

Relater/ Amiable — Socializer/ Expressive

Technology Adoption
Adaptability to Change



Alignment
Mentor
Supporter
Neutral
Enemy
Non-Supporter
Competitor Alignment

Alignment Strategy
Neutralize
Motivate
Leverage

Coverage
In-Depth
General
Brief
None

Appendix B

Strategic Sales Plan–Page 5

Formal Decision Criteria

List the formal decision criteria in the first column. The formal decision criteria is the factors the evaluator(s) will use to evaluate your and your competitors' proposals. Identify the most influential buying center members in the first row. Rank in order of importance for each formal decision criteria of each person below their name (1 for most important, 2 for second most important, etc.)

Buying Center Members / Decision Criteria	Buying Center Member 1	Buying Center Member 2	Buying Center Member 3	Buying Center Member 4	Buying Center Member 5
Decision Criteria 1	Type here	Type here	Type here	Type here	Type here
Decision Criteria 2					
Decision Criteria 3					
Decision Criteria 4					
Type here					
Type here					
Type here					

Contact Business Priorities

Enter the most influential buying center members in the first column and list their business priorities in the columns.

Buying Center Member	Objective	Budget	Requirements	Critical Success Factors
Buying Center Member 1	Type here	Type here	Type here	Type here
Buying Center Member 2				
Buying Center Member 3				
Buying Center Member 4				
Buying Center Member 5				
Buying Center Member 6				

Contact Personal Priorities

Enter the most influential buying center members in the first column and list their concerns and expectations in the columns and their personal buying factors analysis in the columns to the right.

		Buying Factors						
Buying Center Member	Concerns/Expectations	%F	%S	%Q	%T	%V	%R	%HSE
Buying Center Member 1	Type here	Type here	Type here	Type here	Type here	Type here	Type here	Type here
Buying Center Member 2								
Buying Center Member 3								
Buying Center Member 4								
Buying Center Member 5								
Buying Center Member 6								

Buying Factors Legend

Buying Factors	Finance	%F	Technical	%T	Service	%S	Added Value	%V
Enter as % total = 100	Quality	%Q	Relationship	%R	Health Safety Environment			%HSE

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Proposed Solution

Type here

Describe your solution. How will it work in the customer's environment? How does it meet their compelling event? Include any alliances or business partner solutions required to make it operational for the customer.

Unique Business Value

Type here

Define your unique business value with a value proposition that is specific to the customer, define a measurable business result and create credibility by proving your ability to deliver. Have you confirmed this with the customer? How does this differentiate yourself from your competitors?

Strengths & Weaknesses

Identify all of your strengths and weaknesses. Focus on the business, organizational and political issues.

Strengths	Weaknesses
Type here	Type here

Competitors

For each competitor describe their solution, including products, services, partners and price. Identify their alignment (who are their supporters and mentors) and their strengths and weaknesses. Determine their most likely strategy.

	COMPETITOR #1	COMPETITOR #2	COMPETITOR #3
Solution Proposed	Type here	Type here	Type here
Alignment			
Strengths			
Weaknesses			
Anticipated Strategy			

Competitive Strategy

Type here

Review your strengths and weaknesses. Compare your position to the competition. Determine your strategy (frontal, flanking, fragment, develop, or defend) and the variation that you will employ to win this opportunity.

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Criteria Success Factors

What has to happen for you to win this opportunity? Identify things the customer must do, things the competition must do and things you must do.

Type here

Actions Alignment Strategy

What has to happen for you to win this opportunity? Identify the alignment strategy (leverage, motivate, neutralize) that must be executed for you to win this opportunity. In the description field identify the sales tactic being used. Retrieve information, emphasize strengths, minimize weakness, prove value. Ensure to consider all opportunity management stages.

Buying Center Member	Alignment Strategy	Description (sales tactics)	Responsibility	Date
Buying Center Member 1	Type here	Type here		Type here
Buying Center Member 2				
Buying Center Member 3				
Buying Center Member 4				
Buying Center Member 5				
Buying Center Member 6				

Actions Other

In addition to the relationship strategies above what other Actions are needed for you to win this opportunity? Consider actions with internal company staff and external beyond the buying center members.

Action	Resources Required	Responsibility	Date
Type here	Type here	Type here	Type here

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Sales Opportunity Level 1 Review Form

Account:	Date:	Reviewed by:
Factors and Assessment Questions	Opportunity:	

Is there an opportunity? ❑ Yes ❑ No ❑ ?		Account
Account corporate profile	+ Completed – Not done	
1. Customer's appl. or project	+ Defined – Undefined	
2. Customer's business profile	+ Strong – Weak	
3. Customer's financial condition	+ Strong – Weak	
4. Access to funds	+ Yes – No	

The first four questions are assessed from the customer's point of view. The remaining level 1 factors and assessment questions are answered from the perspective of your company and your competitors.

Can we compete? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Requirements diagram Vulnerability analysis Customer value analysis	+ Completed – Not done			
5. Compelling event	+ Defined – Undefined			
6. Formal decision criteria	+ Defined – Undefined			
7. Solution fit	+ Strong – Weak			
8. Resource requirements	+ Low – High			
9. Current relationship	+ Strong – Weak			
10. Unique business value	+ Strong – Weak			

Can we win? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Buying center analysis	+ Completed – Not done			
11. Inside support	+ Strong – Weak			
12. Executive credibility	+ Strong – Weak			
13. Cultural compatibility	+ Good – Poor			
14. Informal decision criteria	+ Defined – Undefined			
15. Political alignment	+ Good – Poor			

Is it worth winning? ❑ Yes ❑ No ❑ ?		Our Company	Competitor 1	Competitor 2
Business case?	+ Completed – Not done			
16. Short-term revenues	+ High – Low			
17. Future revenue	+ High – Low			
18. Profitability	+ High – Low			
19. Degree of risk	+ Low – High			
20. Strategic value	+ High – Low			

What next?

What has to happen for you to win this sales opportunity? The Action field identifies the sales tactic being used (e.g., retrieve information, emphasize strengths, minimize weakness, prove value, insultate against competition). Make sure to consider all opportunity management stages. If early in the evaluation of options phase, you should retrieve information from any level 1 factors that have "?'s". The last two actions are the most important actions for Competitor 1 and 2.

Action	Description of action, name of customer, contact from your company, and completion date.
1.	
2.	
3.	
Competitor 1	
Competitor 2	

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Opportunity assessment is conducted by answering the following questions and assessing a negative -, question mark ?, or, positive + depending on the answer to the question.

Is There an Opportunity?

Question 1: Customer's Application of Project

- What is the objective of the customer's project?
- Do you understand the connection between the company's vision, goals, and objectives and requirements for the project?
- If you can answer these questions, evaluate this as + to indicate it has been defined by the customer.
- If the customer has not defined the requirements, select – for undefined. If you do not know or understand the requirements, select the ? .

Question 2: Customer's Business Profile

- What is the account condition, as described in the account corporate profile?
- If the account is in a strong position, select the + for strong. If not, select – for weak. If the business profile is unknown, select the ? .

Question 3: Customer's Financial Condition

- Customers in a strong financial condition are evaluated as +.
- For lesser known accounts, you should check with your controller for input on the customer's financial condition and payment practices. Your financial department will use credit ratings and other financial reports to determine the account's financial condition. If the financial condition is weak, select the – option; if it is unknown, select the ? .

Question 4: Access to Funds

- Have funds been allocated to this project, and if they have, what is the budget?
- If not, what is the approval process, and what are the chances of approval for this project?
- Are other competing projects more likely to be selected before this project for the current fiscal year?
- If funds have been approved and you know the budgeted amount, select +. If not, select – , and if you do not know the answer, select the ? .

Question 5: Compelling Event

- Why does the customer have to do the project and when will the customer do it?
- What are the expected outcomes and paybacks?
- What are the consequences if the project is delayed or accelerated?
- Who has the objective for implementing the project?
- Who is the sponsor of the project?

If you can answer these questions, the compelling event is defined as a +. If not defined, select – , and if you do not know the answer, select the ? .

Can We Compete?

Question 6: Formal Decision Criteria

- A fully defined formal decision criterion meets the requirements described in the vulnerability analysis described in Chapter 4. The customer must have a defined set of criteria ranked from critical to incidental and have an evaluation model by which to evaluate the competing offers. You should know who has created the decision criteria. If approval comes from departments outside the account (such as partners and government agencies), you must meet with them and determine whether they have the same decision criteria.

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- Do you know the process for approval in such situations? If you believe the customer (including external approvers) has well-defined decision criteria, select +. If not, choose –, and if you do not know, evaluate the question as ?.

Question 7: Solution Fit

- Will you be evaluated as strong or weak against the customer's decision criteria when compared to competitors?
- Can you do anything to improve your evaluation, such as redefining the decision criteria or addressing the customer's negative reactions, such as misunderstandings, skepticism, or drawbacks?
- How do the most influential buying center members rank our solution? If you believe you will be evaluated as strong, select + . If weak, choose – . If you do not know or have not validated your expected ranking with someone in the buying center, select ? .

Question 8: Resource Requirements

- For you to secure and implement the project, will it require additional resources and investment?
- Are there other projects that could use the resources if you do not do the project?
- Must you make significant modifications to your solution to qualify?
- Must you invest significant time and effort to sufficiently analyze the risk and build a complete proposal that makes a strong business case? Input from the business managers should be provided for large projects. If the resources required are low, select + . If high, select – , and if you do not know, select ? .

Question 9: Current Relationship

- What is the status of your current relationship?
- Do you have an ongoing business relationship, and are you working with the customer on other projects?
- How well do you know the key buying center members?
- When completing this question, compare your relationship relative to the competitors. To answer this question, only one company should be evaluated positively to reflect their competitive advantage. The company with a + will most likely have information in advance of their competitors and could also be the company the customer will speak to last before making their final decision. For the company with the strongest relationship, select + . For companies with weaker relationships, select – , and if you do not know, select ? .

Question 10: Unique Business Value

- What differential value does your solution bring to the customer's project? To answer this question, you should complete the customer value analysis and validate your differential value with appropriate buying center members.
- In which of the five common differentiating factors (product or services, service quality, company capabilities, service and support personnel, and price) do you provide differentiated value? Will your value be evaluated in the decision criteria?
- If you have significant differential value that will give you a competitive advantage, select +. If you do not have differential value, select – , and if your differential value has not been validated, select ? .

Can We Win?

Question 11: Inside Buying Center Support

- Do you have mentors and supporters inside the buying center?
- Can they influence the purchase decision, and will they act on your behalf?
- Do the competitors have more inside support?
- You should be able to reference specific actions of the mentors or supporters to prove their support. If you believe you have significant inside support that improves your chances of securing the opportunity over the competitor, select + for strong, – for weak, and ? if you do not know.

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Question 12: Executive Credibility

- Do you know which executives have an interest in the project? Do your executives have on-going business relationships with them?
- How do they know you if they are not a current account?
- Do the customer's executives consider you a vendor, problem-solver, or trusted advisor?
- Can your executive make contact with the account executives easily during the resolution of concerns and monitoring stages of the procurement phase? These factors were explained in Chapter 4 "Opportunities Management" in the procurement phase section. If you have an active account management program, you should be in a good position relative to our competitors. If you are in a strong position, select + ; if in a weaker position than the competitors, select – ; and if you do not know, select ? .

Question 13: Cultural Compatibility

- Does your account relationship profile indicate a good match between what the account wants from its suppliers and what you provide? (This is discussed in Chapter 13 "Account Management Plan.")
- Does your company have executive-to-executive level ongoing business relationships?
- Does the account consider you the best company to work on this project?
- If you are not well positioned, what would you have to do to gain a better position? Is there time? If corporate compatibility is good, select + ; if it is poor, select – ; if you do not know, select ? .

Question 14: Informal Decision Process

- What will be considered beyond the formal decision criteria, and who will contribute to the final purchase decision? If external departments or government agencies have to give final approval, do you understand their informal decision process?
- Do you have previous experience knowing what it takes to get approval beyond having a best-evaluated solution?
- Have you had a previous experience with the account where an award or loss was turned around in the late stages?
- What issues can be negotiated? If you are confident you understand the informal decision process and have a plan to manage it, select + ; if you are not capable or do not have the right contacts and supporters, select – ; if you do not know, select ? .

Question 15: Political Alignment

- How well aligned are you with the high-influence buying center members? Are they supporters of your company?
- Do you know their business and personal agendas? Can they change the decision criteria after the evaluator or decision-maker submits a recommendation?
- Will they act on your behalf?
- Do you have more influential supporters than the competitors?
- Who has the most powerful buying center member as their supporter?
- If external departments or government agencies have to give final approval, are you in alignment with their powerful approvers?

If you believe you have a stronger political alignment than your competitors, select + ; if you are weaker, select – ; if you do not know, select ? .

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Is It Worth Winning?

Question 16: Short-Term Revenue

- Is the short-term revenue for this calendar year high or low?
- Once the contract is awarded, can you sell additional services or expand the work scope?
- Will there be other projects coming in the short term that would enable you to leverage the resources allocated to this project?
- Will your equipment and staff be utilized at full capacity, or can you generate other revenue with the same resources from other projects unrelated to this opportunity?
- Is there anything you could do to improve short-term revenue? If the resources for this project have a reasonable probability of generating high short-term revenue, select + ; if low, select – ; and if you do not know, select ? .

Question 17: Future Revenue

- Ask the same questions as the short-term revenue questions but now from the long-term perspective.
- What kind of year-on-year growth might you expect in future revenue streams?
- If long-term revenue-generating prospects are high, select + ; if low, select – ; and if you do not know, select ?.

Question 18: Profitability

- Is the expected profitability high or low?
- What would have to happen to increase profitability?
- Could you negotiate items that would improve profitability or lower your costs?
- Does the level of expected profitability warrant the resources, or are there more profitable projects that could use the resources?
- Do you have contractual protection for the resources requested, but not used? If profitability prospects are good, select + ; if they are not or are low, select – ; if you do not know, select ? .

Question 19: Degree of Risk

- What are the levels of technical, financial, and other risks associated with the project?
- What are the risks of the customer not fulfilling the work scope, ending the project early, or canceling the project? How could you cause your solution to fail?
- What are the critical dependencies in delivering value to your customer?
- How could the customer cause your solution to fail?
- What is the impact on your business if the solution fails?
- How much investment do you need to make to start the project?
- How much of this investment is at risk? If the risk profile of the opportunity is low, select + ; if it is high, select – ; if you do not know, select ? . If the risk factor is high, what could you or the customer do to reduce it?

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Question 20: Strategic Value

- To determine whether a project is strategic, you must determine whether the project is more profitable than other projects of the same time period that use the same resources. If so, why?
- Do long-term account factors such as product development or competitive issues make winning this project strategic? To answer this question when resources are limited, it is advisable to obtain upper management input. The strategic value of a project is best answered by upper management (1. If the strategic value is high, select + ; if it is low, select – ; if you do not know, select ? .

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Notes:



Competitive Bidding



Smart Business People

One of the main differences between small and large sales is the size of the deal, as discussed in Chapter 7 "Sales Call Skills." Not surprising, when companies are making large financial commitments, they want to ensure that they get the best return for their money spent. In order for large organizations to control their expenditures and ensure that they are making the best choices, they create procurement procedures and departments. The procurement departments enforce all departments' use of a well-defined tendering process for large expenditures. Two underlying strategies of procurement are (1) the more you buy the better the price and (2) transfer as much of the risk to the supplier as possible. As such, most companies now tender or request multiple suppliers to submit competitive bids for large volumes of work with a well-defined scope of work, including contract terms and conditions.

In this competitive bidding, the professional salesperson must consider two things:

- Competitive bidding is a selections process in which you must beat the competition.
- There must be a plan for achieving the company's target profitability.

This chapter will describe the specifics of what the bidding team must do to beat the competition and make their targeted profitability. It will also describe antitrust laws applicable to bidding. Competitive bidding requires a lot of work and commitment from the bid team, but the prize makes it worth the effort. Success in this stage of the opportunity management process requires that the salesperson and their bid team be smart business people.

Chapter Objectives

After reading this chapter, you will be able to:

- Know how to manage the tender workflow.
- Perform a tender assessment.
- Know the components of a bid strategy.
- Understand the key factors for a comprehensive tender review.

In today's B2B marketplace, the professional salesperson must be very good at responding to tenders with a competitive bid. Fortunately for you, by applying the professional sales processes discussed in this textbook, you will be well positioned for the bidding stage. It is recommended before reading this chapter to review the "Phase 3b: Procurement-Submission of Proposal Stage" as it describes the fundamentals of competitive bidding from which this content will start from. As discussed in Chapter 4 "Opportunities Management," competitive bidding is a team effort consisting of people from sales, marketing, contracts, legal, and operations. The bid team will focus on six critical tasks, as follows:

- Pre-tender documentation and information gathering
- Management of the tender timeline
- Tender workflow management
- Tender document assessment
- Bid strategy creation and execution
- Post award contract handoff

Pre-Tender Documentation and Information Gathering

The documentation and information required to answer the customer's tender can be classified in two categories:

- Tender requirements
- Bid strategy information

Tender Requirements

Documentation required by the customer include documents that must be included in your tender response in order to be considered compliant by the customer. Examples of such documents are business licenses, permits, description of facilities, information on project personnel such as education and certifications, and company programs or standards such as health, safety, and environment as well as training. The best way to know what will be required is to review a previous tender to identify the required documents and then ask the person responsible for sending the tender to suppliers if there will be any additional requirements for this tender. See the sidebar "Hello, You're Here Early" for other questions to

▶ ***Hello, You're Here Early***



If you ever had the occasion of arriving early to a party or having your guests arrive early, the response "Hello, you're here early" is a little shock and surprise. You may get the same if you ask your customer about an upcoming bid. But that is okay; like arriving early to the party, you will get the best seat, first drink, and tastiest snacks.

Explain to them you want to ensure that you have all the needed documentation and information so nothing is left out. The key to getting useful information is to have specific questions. To prepare your questions, review the most recent tender and debrief with the operations team on how the project is going. If this is the first time working with the account, then ask the customer for a previous tender. A short list of questions to ask before you receive the tender are:

- What are the required documents?
- How much time will you have for submission after receipt of the tender?
- How will supplier clarifications be handled?
- How will customer clarifications be handled?
- Will alternative proposals be allowed?
- Will the terms and conditions be the same?
- Will you be able to present your proposal after submission?

By getting these administrative details taken care of before the tender arrives, you will have more time to focus on the other more strategic issues of preparing a winning bid.

Of course, like the party, if you arrive early you may be asked to help set the table. If the customer needs your help, be happy to oblige.

ask before you receive the tender. A best practice is to create a central database where this type of commonly required information for bidding can be shared, and kept up to date.

Bid Strategy Information

Information needed to support the bid strategy decision is critical to making the best decisions regarding how to respond to the bid. If this type of information is not organized before receiving the tender, then chances are decisions will be made without it. The information needed to make the best bid strategy can be categorized into:

- Market factors
- Pipeline factors
- Opportunity Analyses

This information will be used in a bid review worksheet discussed later in this chapter. All this information should have been collected during the evaluation of options stage of the opportunities management process. In general the market factors can be categorized as having a positive, negative or neutral impact on your chances of winning the tender. These first set of factors will be included with the tender assessment factors when you are ready to create a bid strategy. **Tables 10.1** and **10.2** lists each factor component, a description of the component, and the comments regarding the type of influence the factor can have on your bid strategy.

Managing the Tender Timeline

Proactive planning will help the bid team effectively manager the tender timeline. There are several key dates the bid team needs to consider, as listed below:

- Prequalification of bidders
- Receipt of tender
- Acknowledgment of tender
- Bidder clarifications
- Bid submission
- Bid bond
- Customer clarifications
- Bidders' presentations
- Negotiations
- Award notice
- Contract signing
- Bid validity
- Performance bond
- Job start
- Performance review
- Job end
- Project review

The bid team must ensure that someone on the bid team is assigned responsibility for each of the key dates and corresponds with the customer.

Dates such as bid submission, bid validity date, and job start can be strategic dates, and requesting changes can become a competitive advantage. For example,

	Factor	Description	Influence		
			Positive	Negative	Neutral
Market Factors	**Market Condition**	Is the current market condition under capacity, equilibrium or over capacity? Consider what suppliers have to service the current market with the number of people, equipment, and products. Do you have any data to support your estimate of the market condition?	Under Capacity	Over Capacity	Equilibrium
			You may need to share this information with the customer when negotiating if the market condition is under. Raise prices due to opportunity costs.	Be prepared to negotiate if the market is at excess capacity.	Nominal increases over the previous year due to inflation and other increased costs.
			Raise prices due to opportunity costs.	Drop prices to create cash flow.	Customer will expect nominal increases.
	Market Segment Profitability	Most regions or countries are divided into several market segments each having different pricing sensitivities and needs. The most common market segmentation is land and offshore. For the project for which you are bidding, in the market segment above, near, or below your profitability target for this opportunity?	Above	Below	Near
			Customer should expect normal market rates. For customers entering the market, you will need to make them aware of market pricing.	Customer will tend to be price sensitive. Need to adjust offering to meet profitability targets. Most likely will need to bid low and sell up or more after the bid.	If the market is in equilibrium, profitability should remain the same at excess capacity. It will most likely drop and in the limited capacity prices increase.
	Market Trend Pricing	What has the trend in pricing been over the near term: Has it been increasing, flat, or decreasing? What trend analysis can you show to support your conclusion?	Increasing	Decreasing	Flat
			Customer should expect prices to be higher. Need to review market trends with the customer especially if the customer wnats to negotiate.	Need to estimate the rate of fall in prices for this bid.	Need to have a good benchmark to establish pricing target.
	Recent Market Developments	Has there been any recent market developments that would have a positive or negative influence on the customer or is the current state of affairs neutral? Examples of recent market developments are the opening up of exploration acreages that were previously closed, an increase in taxes, new discoveries, significant economic developments, etc.	Positive	Negative	Neutral
			If activity is increasing, this can create a temporary limited market condition.	Need to understand the impact of negative market conditions. How does it affect cost and capacities? Ability to operate if changing laws or standards.	This normally means no changes which is good in most cases, but will not influence the bid. Other factors will be more important.
Pipeline Analysis	**Market Share**	Does your company have the majority of this account's work or does the account split the work or do you only have a low portion of the work?	Majority	Low to None	Split
			In most cases, this should be to your advantage except when the customer wants to keep a minimum number of suppliers working for them.	Customer will need a compelling reason to award to you. Maybe better options are to fragmemt to demonstrate your capabilities.	How does the customer split the work, the percentage share of revenue, geography, product or service, and the percentage share of activity metric?
	Market Performance	In the last six months has your win rate been above, below, or meeting your targets?	Above	Below	Meet
			This is a positive sign; however, ensure that the competition is not desperate to win as a result of your above target win rate.	Unless you have clearly identified why you are below your win rate target and corretive actions were taken. You may expect to lose this opportunity.	You are meeting your targets.
	Timing	What effect will this project's timing have on the bid? Is the start of the project good, poor, or neutral?	Good	Poor	Neutral
			Each bid is unique and has to consider: • Account's supplier management practices • Equipment availability • Recent competitor bid outcomes or awards		
	Incumbent	Who is currently working for the account? Is that positive, negative, or neutral effect of this bid?	Positive	Negative	Neutral
			If the project is a retender or if a mobilization is required, then switching costs and other start-up costs can have a positive effect on the bid depending on which company is the incumbent.		If there is no significant switching costs or mobization costs, or the companies being considered are already present, then this factor is considered to be neutral.

Table 10.1 Bid Strategy Information
Market and pipeline analysis.

asking for an extension of the bid validity date from the customer to the bidder means there has been a delay in their project timeline. If the competition does not have the resources available, agreeing to a later award date closer to the job start will put the competitor at a disadvantage and very possibly cause an increase in their costs.

The bid submission date is a key date; being late is not an option. You have to consider how the customer wants the bids submitted. Some are very complex, with a strict registration process you must be familiar with; some companies' bid documents are submitted online while others are less formal. Bids should never be submitted early. You want to treat your bid as confidential and maintain control

	Factor	Description	Influence		
			Positive	Negative	Neutral
Opportunity Analysis	**Customer's Preferred Relationship**	What is the importance of this project to the customer and what is the desired supplier relationship, as described in Chapter Highlight 10.12: You Are So Predictable.	The customer's preferred supplier relationship can be positive, negative, or neutral. The influence on your bid depends on your competitive and cost position relative to your competition.		
			Account considers the project important and wants an enterprise–supplier relationship.	Transactional relationship is sufficient. This will mean revenues will be at a minimum, and most likely the customer will want to negotiate after your bid is received.	Consultative relationship.
	Can You Compete?	Consider the solution you have proposed as evaluated by the customer's formal decision criteria, and what the competition is proposing: Are you in a strong, neutral, or weak position?	Strong	Weak	Neutral
			You have a significant, unique business value that has been communicated and accepted by members of the customer's buying center.	The competitor has a better technical solution than you, and you have not minimized your weaknesses.	You and the competition have equivalent technical solutions.
	Can You Win?	For the contacts in the buying center, what is their alignment? Does your solution address their business and personal priorities better than the competition? Do you have executive level relationships? Considering thse factors are you in a strong, weak or neutral position?	Strong	Weak	Neutral
			Are most of the buying centers supporters and do you have mentors?	The competitor is in a better position than you.	Your relationships are the same.
	Is it Worth Winning?	Some projects are more important than others from a financial and non-financial consideration. For this opportunity, is what you estimate the winning bid profitability above, at target, or below your financial targets?	Above	Below	Meets
			Your expected profitability is above your company's targets.	Your expected profitability is below your company's targets.	Your expected profitability meets your company's targets.
	Strategic	Strategic for your company: Strategic is considered from a company's executive-level perspective as a "must win."	Strategic	Strategic for Competition	Not Strategic
			If strategic, then your team should have taken strategic actions and engaged your executive to re-confirm your company's commitment to the project with the account executive during resolution of concerns.	Expet competition to be very aggressive. Ensure that you review with your mentors in the buying center members the reasons to choose your company so they can insulate you from the competition.	The opportunity is not strategic for you or the competition.

Table 10.2 Bid Strategy Information
Opportunity analysis.

over your bid as close as possible up to the deadline for submission. Once you have submitted your bid it is no longer in your control. There are a lot of tender timeline dates and with all the other responsibilities the bid team members have it is critical the tender timeline responsibilities are assigned as early as possible. One of the obstacles to managing the tender timeline is the preparation of the bid document. Successful bid teams and competitive tendering experts follow a very detailed tender workflow that will be discussed next.

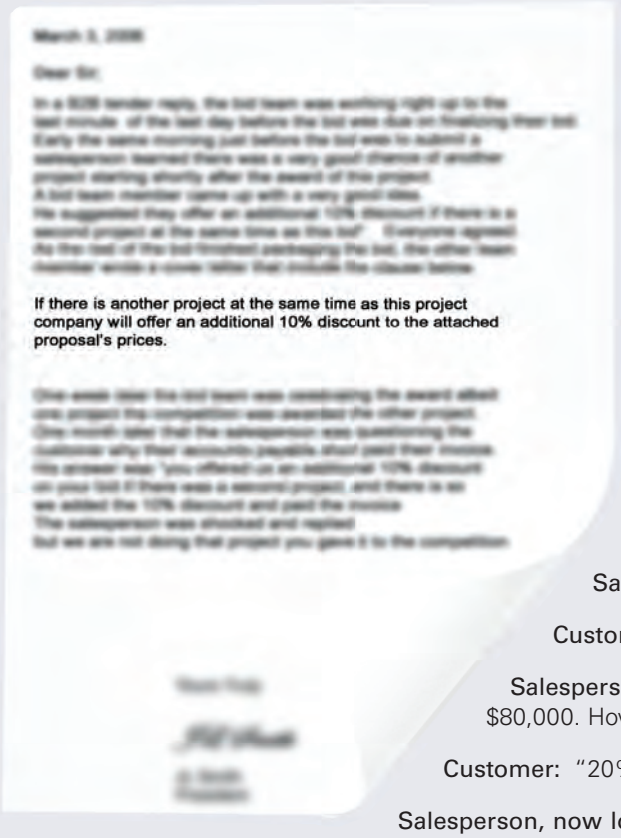
Tender Workflow Management

When salespeople who have not been trained on the sales processes are questioned about how they feel regarding bidding most reply "there is not enough time—it is utter chaos. I would rather go to the dentist." The good news is it does not have to be like that according to David Pugh, author of the "Bidder Dozen,"[1] a paper written for the Association of Proposal Management Professionals. The main issue for most people with the responsibility to reply to a tender is there is only one deadline, which is the date and time they must submit the proposal. According to Pugh, this is their first mistake. To get the most done within the timeframe, before the bid team receives the tender to submit their bid, additional deadlines must be established providing sufficient time for writing and reviewing the bid before being submitted. According to Pugh, not enough time is given to properly write the bid; as a result, bid teams too often are writing, editing, and re-writing up until the time the bid is due. For a real example of how one bid team suffered from poor tender workflow management, see **Chapter Highlight 10.1: You've Got To Be Joking!**

Chapter Highlight 10.1: You've Got to Be Joking!

Careful with the Wording

In a B2B tender reply, the bid team was working on finalizing their bid right up to the last minute of the last day before the bid was due. Early the same morning, just before the bid was to be submitted, a salesperson learned there was a very good chance of another project starting shortly after the award of this project. A bid team member came up with a very good idea. He suggested they offer an additional 10% discount if there was a second project at the same time as this bid. Everyone agreed. As the rest of the bid team finished packaging the bid, the other team member wrote a cover letter that included what is shown below.



If there is another project at the same time as this project company will offer an additional 10% disccunt to the attached proposal's prices.

One week later, the bid team was celebrating the award; although, they were awarded one project and the other project was awarded to the competition.

One month later, the salesperson was asking the customer why their accounts payable short paid their invoice. His answer was:

Customer: "You offered us an additional 10% discount on your bid if there was a second project, and there is, so we added the 10% discount and paid the invoice."

The salesperson was shocked and replied: "But we are not doing that project. You gave it to the competition."

Customer: "Your offer did not stipulate we had to give you the second project."

Salesperson: "You've got to be joking."

Customer: "No."

Salesperson: "Our invoice was $90,000, and you paid us $80,000. How did they arrive at that amount?"

Customer: "20% discount off $100,000 is $80,000."

Salesperson, now looking sick: "Our offer was an additional 10% discount. The original was 10, adding 10% to this is 11%, not 20%."

Customer: "Look, here is what I will do. But first let me tell you very honestly when we evaluated your offer we knew there was going to be a second project. You were not the low bidder with your initial offer; however, with your additional 10% discount, this made you the same as your competition, which is why we decided to split the work. But if you want us to evaluate your offer at 11%, we can do that, but you know the result may be different."

Salesperson: "Don't do anything now. Let me talk with my management."

Customer: "Okay. Let me know."

Most salespeople would probably say the customer is taking advantage of a poorly written offer. The issue is the bid team should never have put themselves in such an exposed position. It is accurate to say that, for this bid team, the only deadline was the bid submission. Had the cover letter been reviewed, the confusion of the offer would have been discovered. In the end, the supplier decided to honor the contract and not risk losing the work.

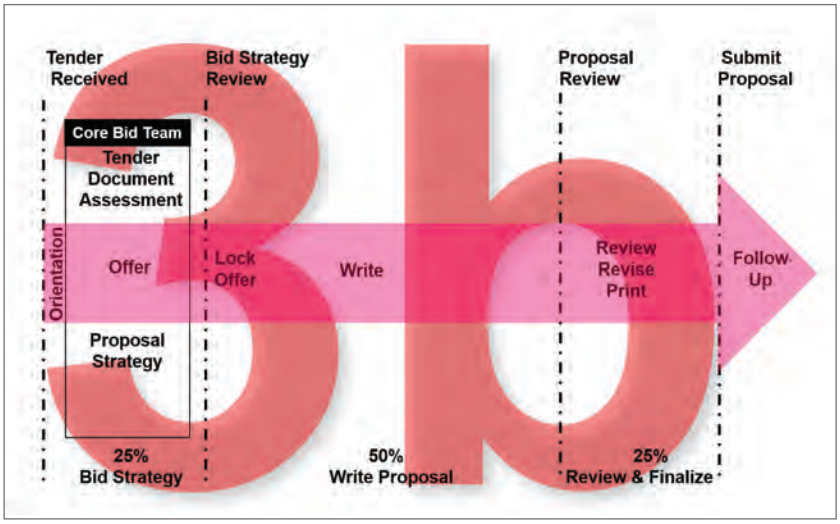


Fig. 10.1
Managing the Chaos! The bidding workflow. Most bid teams focus on one date: submission of proposal. This is a very important date, but when bid teams only focus on that date, a lot of stress and chaos can be created. The way to improve the workflow is to create two additional deadlines. The first deadline is bid strategy review, held after the bid team has used the first 25% of the workflow time to create the bid strategy. The bid strategy is reviewed and the offer is locked, leaving ideally 50% of the time for writing the proposal. After the proposal is written, the proposal is passed to the bid review team for review and their recommendations are passed to the bid team so they can finalize the bid and submit the proposal to the customer.

To fix this problem, Pugh recommends that the tender workflow be managed by dividing the time the bid team has from receipt of the tender to the time of submitting the proposal to the customer into three stages. Each stage is allotted a portion of the time in which specific tasks must be completed before deadlines in the workflow leading up to submission of the proposal. The workflow is shown in **Fig. 10.1** and has two additional deadlines.

The first deadline is the bid strategy review. During this review the core bid team will review their bid strategy, which will be discussed later in this chapter. The steps to be followed at the time of receiving a bid and orientation were explained in Chapter 4 "Opportunities Management." The tender document assessment creating the offer and proposal strategy will be discussed in detail later in this chapter.

The objective of the bid strategy meeting is to review the offer and proposal strategy and agree to any follow-up actions, for the bid team can lock the offer, leaving 50% of the remaining time to write the proposal. The proposal writing must be completed by the second deadline, proposal review, so the review team has 25% of the remaining time to review and make recommendations to the bid team for revising and printing the proposal in time for the proposal to be submitted according to the customer's instructions.

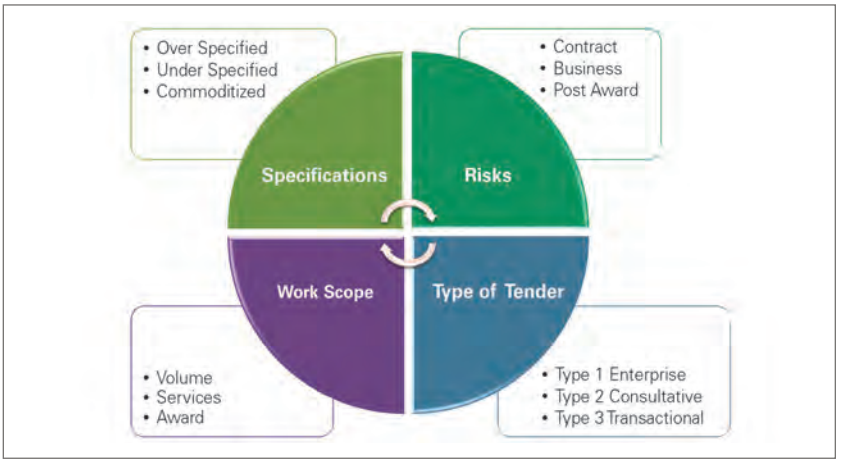
The highest level manager who approves the bid strategy is the person who sets the three deadlines not the bid team. The first two deadlines have to be viewed as important as the last deadline, submission of proposal. The date for completion of the final version of the proposal is when the approving manager receives a copy for his or her signature before submission.

Tender Document Assessment

As shown in Fig. 10.1, the tender assessment is done as soon as possible once the tender is received from the customer after the initial tender orientation process is completed. It is the job of the core bid team to assess the tender document in preparation for preparing a bid strategy to be presented to a reviewing team for approval and locking the offer.

Smart business people know the devil is in the details. Preparing a proposal for a large scope of work, for a long period of commitment, with many variables that impact your profitability demands that you pay attention to the details. Tender assessment is detailed work. To do it well, use a four-factor tender assessment model, as shown in **Fig. 10.2**.

Fig. 10.2
Four-Factor Tender Assessment Model.



During the tender assessment, answer questions about each factor to create a bid that:

- Is compliant
- Provides you with the best chances to win the tender,
- Achieves your targeted profit levels, and
- Minimizes your risks.

Each of the factors shown in Fig. 10.2 will now be discussed, highlighting key issues the bid team needs to be aware of and how to use the analysis to create a winning bid strategy.

Type of Tender

The type of tender will influence your options for handling tender assessment issues. Deciding on the type of tender is therefore the first step in the tender assessment. The customer's decision for which type of tender to use is influenced by what type of relationship the customer believes is needed for their project. Each of the types of relationships are explained in the **Chapter Highlight 10.2: You Are So Predictable**.

For each type of tender, several factors will be discussed:

- Supplier selection
- Tender requirements
- Customer buying behavior
- Competitive selling strategy
- Selling approach

For the purpose of this discussion, several key figures from earlier chapters are repeated to make it easy for you to review.

Type 1 Tender

Type 1 Tender: The customer is most concerned about selecting the best partner. Most often these types of tenders are evaluated using the most economically advantageous model, as described earlier in Chapter 4 "Opportunities Management." The key difference between this evaluation model and other models is the winning supplier can be more expensive than competitor alternatives as long as the difference is economically justified. In Chapter 8 "Handling Customer Objections" Highlight 8.2: "We Would Like to Use You But," there were three examples of the winning supplier

Chapter Highlight 10.2: You Are So Predictable

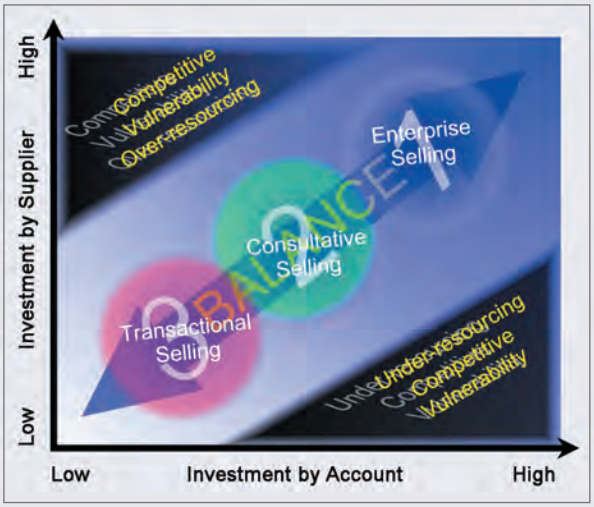


In the book *Rethinking the Sales Force*,[2] the authors suggest sellers today need multiple sales approaches and selling models to meet the demands of today's sophisticated customers. The key to applying multiple sales approaches starts with recognizing that customers have different needs for different projects. This is a message that has been emphasized throughout the consultative selling approach described in this textbook. There is no time when understanding the customers is more important than when preparing a bid strategy. The customer's needs will drive what type of relationship the customer will have between them and their suppliers, and the seller should match their selling approach to be aligned with the customer. Listed below are the three types of customer–seller relationships.

Enterprise Relationship: The project is strategic to the account. The planning horizon occurs well in advance of the project, and the customer looks at not only product and service features but also the supplier's corporate capabilities and commitment to their project. For an opportunity to be considered an enterprise, the customer's executives should be in discussions with your executives about the project.

Consultative Relationship: The level of importance of the project and concern of the account for meeting their objectives is high and the account searches for the best possible solution. This relationship is the most common type in B2B large sales opportunities. For sellers with a wide portfolio, this type of relationship leverages their differentiated products and services as well as specialized sales and support staff.

Transactional Relationship: For these projects, the main driver is to control costs and source the most cost-effective and efficient suppliers. Standardization and efficient purchasing strategies are other areas of focus for the account.



In the figure to the right, the account's willingness to invest in the relationship with their suppliers is plotted on the x-axis, and the y-axis is the supplier's willingness to invest in the relationship with their accounts. The figure in the center of the chart matches the best selling approach based on the levels of willingness to invest by the account and supplier as well as type of tender that should be used for each scenario. The bidirectional arrow highlights the seller's needs to adapt their selling approach based on the customer's level of willingness to invest in their supplier relationship for each project.

When there is a mismatch between the account's desired relationship and the seller's selling approach, the seller is vulnerable, as shown by the black areas in the corners of the figure. The level of relationship is project dependent. For one project, the customer may want a more transactional approach, and others more consultative or enterprise. For example, if the account has an ongoing field development that is considered a simple transactional project, but you take a consultative approach and recommend using more expensive, advanced products and services, you might be at risk of losing the project to a lower-cost transactional supplier because you are over-resourcing the project.

Alternatively, if the account is starting a major new offshore development, is looking for innovative ways to run the project, and wants an enterprise relationship with their suppliers, but you do not take an enterprise selling approach, you might be exposed to a competitor who recommends forming a strategic alliance.

For professional salespeople, and as discussed in this textbook, the consultative selling approach is always recommended in a B2B environment up to the time you select your competitive sales strategy. The objective is to determine what is the best selling approach and competitive sales strategy to best position you when you receive the customer's tender. If you do not have the correct type of selling, you are in the black areas of the above plot and will either lose the tender or win and not make your financial objectives. For establishing a competitive bidding strategy, this is critical. The good news is, if you are managing your opportunity and engaged with the customer in the early stages, then the correct approach is predictable.

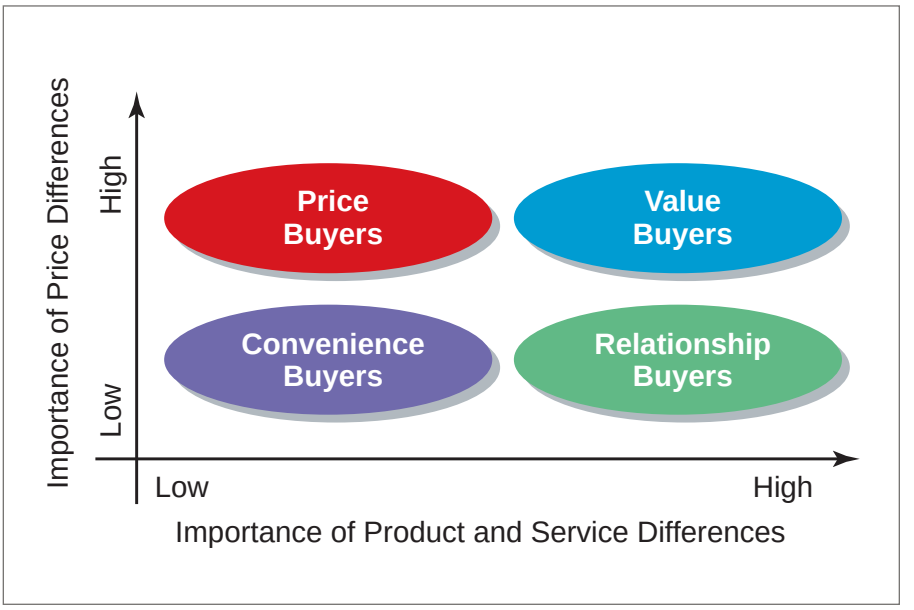


Fig. 10.3
Buyer Behavior.

being 150% to 200% more expensive than the competitor. These are examples of Type 1 Tenders using an economically justified evaluation model.

For a Type 1 Tender, the customer identifies qualified suppliers they prefer to work with. They describe what is required for their project to be successful. The supplier then has time to develop, present, and discuss their proposal. The customer does this with each of their preferred suppliers and awards the supplier they have most confidence in working with to make the project successful.

For this type of tender, the customer should exhibit a relationship buyer behavior relationship, as shown in **Fig. 10.3** (this was discussed in Chapter 1 "Understanding the Role of Marketing and Sales.") Your competitive sales strategy should be frontal, as shown in **Fig. 10.4** and discussed in Chapter 4 "Opportunities Management."

In a Type 1 Tender, the customer will want to discuss their requirements early in the opportunities management process, and you should take an enterprise selling approach as discussed earlier in Chapter Highlight 10.2: "You Are So Predictable." The main requirement for an enterprise relationship is the supplier must be at

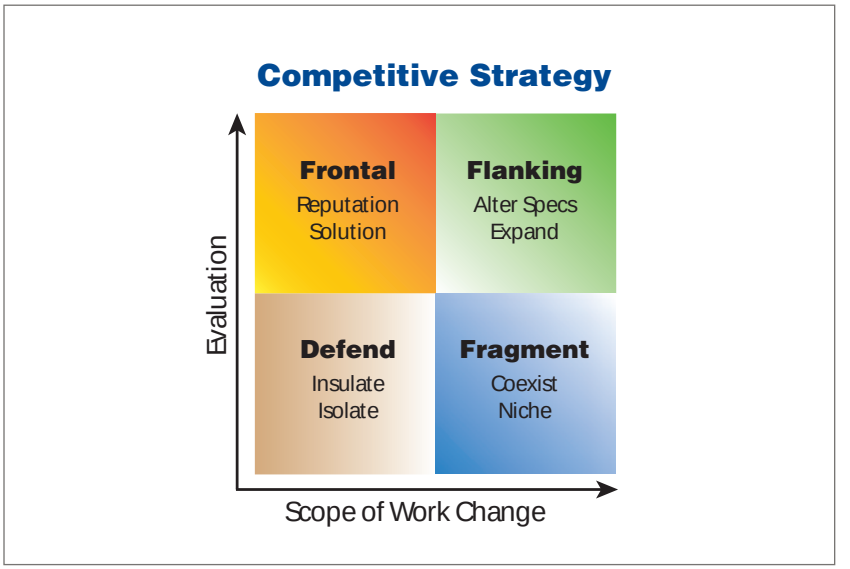


Fig. 10.4
Competitive Sales Strategy.

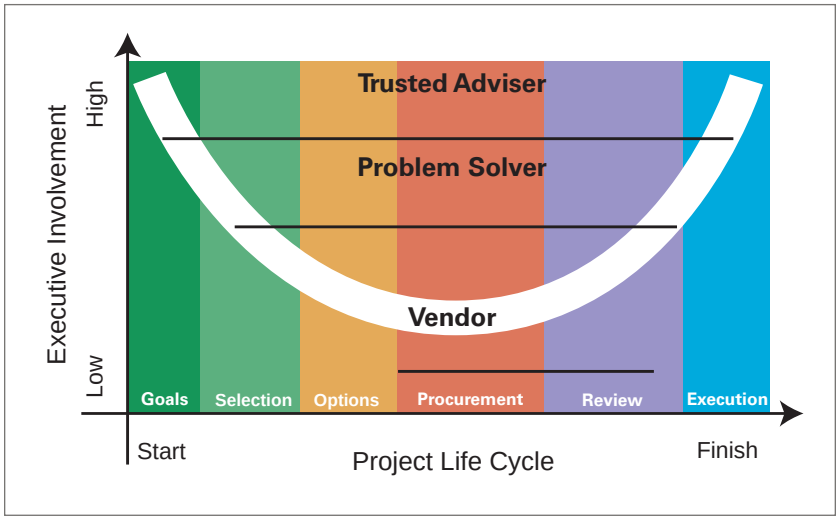


Fig. 10.5
Supplier roles in the customer's project life cycle.

the "trusted adviser" level, as shown in **Fig. 10.5**. This requires your company executive to have access to the account's executive throughout the account's project management process, as shown in Fig. 10.5 and discussed in Chapter 9 "Strategic Sales Plan."

What can happen is you might become engaged early with the customer and the customer might encourage you to bring your ideas and suggestions before receiving the tender. You might interpret this behavior as a relationship buyer and determine that an enterprise approach is appropriate. The end result would be a direct award or the tender being evaluated using the most advantageous model. But occasionally what happens to the disappointment of the salesperson is that the tender is sent out with all the suggestions made by the salesperson included, and the evaluation model is priced low. What this means is the salesperson has done a lot of free consulting for the customer. In a situation like this, when the salesperson believes it is Type 1 Tender, he or she should ask the executive to contact the customer's executive to confirm that this is a Type 1 Tender. Of course if your executive is contacting the customer's executive as recommended in Chapter 9 "Strategic Sales Plan," then the seller's executive should have confirmed what type of tender to expect early in the opportunity management process.

Depending on the competitive situation and which competitors are invited to submit a proposal, the above situation could be a serious misinterpretation. If you plot this scenario on the figure in Chapter Highlight 10.2: You Are So Predictable, it would show your proposal to be over-resourcing your solution, and you would be vulnerable and most likely would lose because you treated the project as a enterprise when the customer was looking for a transactional relationship.

Type 2 Tender

For a Type 2 Tender, the customer creates specifications, evaluates bidders technically and assigns a technical score, evaluates the financial package, and assigns a financial score. The best total score earned for the technical and financial packages is awarded the work. These types of tenders are evaluated using one of several models, such as multiple criterion points or inverse proportional as used by the World Bank. For this type of tender, the customer's buying center can choose the best offer provided the price is within a premium of the lowest priced acceptable competitor. The lowest priced acceptable offer is commonly referred to as L1. For example, the buying center can choose a more expensive preferred supplier provided their price is no more than 10% more expensive than the L1 offer.

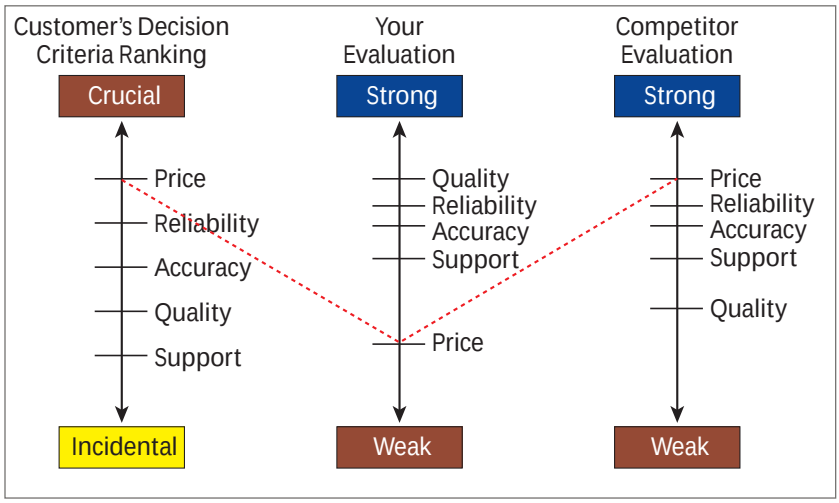


Fig. 10.6
Vulnerability Analysis. Customer's perceived fit of your offer compared to the competition using their formal decision criteria.

For this type of tender the customer should exhibit a value buyer behavior and your competitive sales strategy can be a frontal or flanking approach depending on the formal decision criteria and your ability to change the scope of work or submit an alternative proposal. These considerations were discussed in detail in Chapter 4 "Opportunities Management." In this type of tender, the most important consideration is knowing the formal decision criteria and having a completed vulnerability analysis, as shown in **Fig. 10.6** and discussed in Chapter 4 "Opportunities Management."

You do not have to be evaluated the lowest price for a Type 2 Tender. However, not submitting the lowest price and still winning means you must know the formal decision criteria and how you will be evaluated. You must know what premium the customer will pay and design your solution such that your price is within that pricing premium above L1. For a Type 2 Tender, the salesperson must balance the solution, the premium over L1, and the cost of their solution so that they win the tender and make their company's target margins.

The best selling approach for a Type 2 Tender, is consultative: engage early with the customer in the evaluation of options stage, and determine their project requirements, budget, and decision criteria to choose their suppliers. For a review of what you should do and ask during the early evaluation of options stage, see Chapter 4 "Opportunities Management."

Type 3 Tender

For a Type 3 Tender, the customer creates specifications, selects qualified bidders, and sends the request for proposal to qualified bidders. The work is awarded to the company evaluated L1. These types of tenders are most commonly evaluated using a two-envelope system as described in Chapter 4 "Opportunities Management."

Your competitive sales strategy should be frontal solution price. The most important decision factor for the customer is price.

For Type 3 Tender you must have the lowest price for the tendered scope of work. Therefore, the best sales approach is transactional. Your efforts are best focused on how to submit the lowest cost proposal (L1) and still make your targeted margins.

Table 10.3 is a summary of the critical factors for each type of tender. Regardsingto the figure in Chapter Highlight: 10.2: "You Are So Predictable," it is clear if you identify the type of tender as Type 3 Transactional but it is a Type 2 Consultative or Type 1 Enterprise, you are vulnerable to under-resourcing your proposal.

Type of Tender	Evaluation Model	Selling Approach	Critical Factor	Competitive Sales Strategy
Type 1	Most Economically Advantageous	Enterprise	Relationship Level	Frontal
Type 2	Multiple Point Criterion	Consultative	Formal Decision Criteria	Frontal or Flanking
Type 3	Two-Envelope Technical and Financial	Transactional	Price	Frontal

Table 10.3
Type of tender and critical factors.

As discussed in this section, interpreting the type of tender incorrectly will most certainly make you lose the tender. The best way to avoid this mistake is through early discussions during the opportunities management process with the key buying center members.

Another issue to be aware of is when the customer uses the tendering process as a way to ensure that they are getting the supplier's best prices by making the tender appear as a Type 3 when in fact it is Type 2 or Type 1. In this situation the customer is intending to purchase more expensive or value-added products or services but is attempting to use the tendering process to make price appear as the most important factor. When this is the situation the bid team must have a clear strategy of how to submit an L1 price but still achieve their targeted profitability when the customer requests the more costly higher level and value-added products and services. The key for this situation is knowing what the customer is going to do once the tender has been awarded and what is important to the customer. As mentioned earlier, the salesperson must realize the tendering process is a selection process; it does not commit the customer to what they will purchase during the implementation stage of the project.

A common question from salespeople is "If you have a tender and you're not sure what type of tender it is, what should you do?" In this situation you determine if the customer will accept an alternative proposal; if yes, then make your primary proposal compliant as per the customer's tender requirements and submit an alternative proposal that you believe is what they really want.

For example you're not sure if the tender is a Type 3 or Type 2. In this situation submit a Type 3 low price bid and submit an alternative with your more expensive valued-added solution you believe the customer will buy. In situations where the customer will not accept an alternative, you will need to submit a low price offer but at the same time have the ability to sell your value-added product and services after winning the work. How to do this is the topic of the next section and "Creating a Bid Strategy" section later in this chapter. Checking what the customer has done in previous similar tenders is a good indication of what the customer may do on this project.

The next sections will cover the analysis of the tender requirements. Terms that will be used frequently in this section are:

- Total Tender Value (TTV)—the total price the customer will evaluate for your offer.
- Expected Value (EV)—the total amount the supplier expects to sell.

- Market Rate—the TTV of lowest priced competitor that you must beat to win the tender.
- Price book—the full price of a product or service with 0 discount. Other terms that are used interchangeably are reference price catalog and book price.

In general for:

- Type 1 tenders: your TTV and EV should be the same as for this type of tender you are recommending to the customer what they should do.
- Type 2 tenders: you want to keep the TTV within the allowed pricing premium over the market rate and maximize your EV.
- Type 3 tenders: you want the TTV to be slightly lower than the market rate and maximize your EV.

You must do this like a smart business person and not have the customer believe that you tricked them. If the customer thinks you tricked them, you will find it very hard to sell again to that customer in the future or anyone they choose to tell as they will not trust you. The best way to ensure that the customer knows what your bid includes is always state explicitly in your offer what you are providing and everything else will be priced at price book. When the offer is not straightforward it is the responsibility of the bid team to ensure that they have documented bid notes. See the sidebar "Worth Their Weight in Gold."

Getting the Type of Tender correct will determine if you win a tender. The next three tender factors, if handled correctly, will determine if your company will make your profitability targets.

Work Scope

The work scope describes what the winning bidder will provide. The work scope includes the following:

- Volume of work
- Product or services requested
- How the work will be awarded

For each workscope factor there will be a short description and recommendations how to handle it to ensure that you win the tender and make your financial objectives.

Volume of Work

When assessing the volume of work, you consider a number of factors, including the following:

- What is stated in the tender
- What you believe is the real volume of work
- What has happened in past projects
- Other project information

With this information you determine if the volume of work is accurate, underestimated, or overestimated.

Accurate Work Volume

What is requested in the scope of work you believe will be the actual volumes or quantities purchased. Discounts and pricing formats are created and tested using the stated volume of work to win the work and achieve the targeted margins for the project.

▶ Worth Their Weight in Gold



As you review a tender document, the notes you make can be worth their weight in gold later.

In many cases the person or bid team who prepares the bid will not be one of the people invoicing. At the time of invoicing, if the customer questions any part of the invoice, there needs to be a logical explanation of why the item being questioned was invoiced in the way it was. Here are a few tips to help you keep your gold.

Once you receive the tender, if it is not in electronic format, have the document scanned into a PDF.

If you have a shared repository, have each of the people review and add their notes to the same document using the "Comments" function.

For each note, highlight where the note applies in the tender:

- Describe the rationale for the note.
- Provide an example of how the issue being highlighted has been handled before.

If the customer questions how an item is invoiced, then your company representative will be able to explain the rationale and give an example of how a similar issue was handled in the past. This should convince the customer to accept the invoice.

Later in this chapter, the contract handover process will be discussed and one of the key items in the handover are the bid notes.

▶ *Can't See the Forest for the Trees*

You would think in the sophisticated world of B2B marketing, when customers prepare tenders worth millions of dollars or more, the tender would be perfect in every aspect. But that is not the case many times. In this chapter, reasons why this occurs for each of the common issues have been listed. However, there are two other factors you might want to consider.

Like the idiom "can't see the forest for the trees," sometimes you might be looking at the tender so closely that you might miss the obvious.

First, maybe the bid team is wrong, and the customer is correct. This is one reason you try to collect as much information regarding the opportunity before receiving the tender. With the information in this chapter, you should now be able to ask better questions of your supporters and mentors, like what is the minimum, most likely, and maximum volumes they expect. The chance the bid team is wrong is why you always test your offer against the best case and worst case scenarios.



The other option might be that the competitor is coaching their mentors on how to write the bid so they win. This is why you need to consider your competition and the relationships they have with the customer's organization; maybe you cannot win.

If you see things wrong that you would not expect from the customer, then stop for a moment. Consider all the facts and ask yourself is there a chance you are wrong. Is it possible you are missing something? Or is the customer being coached by the competitor?

Underestimated Work Volume

What is requested in the scope of work, you believe will be less than the actual volumes or quantities that will be purchased. As mentioned earlier, none of the issues discussed in the remaining tender assessment section should apply Type 1 Tenders as you are having open discussions with the customer and making recommendations to address any inconsistencies you would discover in order to have the best solution to help the customer achieve their objectives.

When the customer creates a Type 2 and 3 tender, they do so after they have discussed it with their suppliers, as is the case for Type 2 tenders. Or they will create the tender document without any or minimal input from their suppliers for Type 3 tenders. There can be several reasons why the volume of work might be different from what will actually happen. It could be due to the customer:

- Being optimistic and believing they can do with less of the products and services than they will need from your company.
- Making incorrect calculations for what they need.
- Having insufficient budget to purchase all of what they need.
- Being sure how well your product or services will work and wanting to test them before making the full commitment.

There are two more reasons why the tender requirements could be wrong, and these apply to all the tender assessment factors discussed in this section. Go to the "Can't See the Forest for the Trees" sidebar to find out what these are.

During your customer interviews, before receiving the bid, you should have gained some insights to help you answer the reason why the work is underestimated. At this point in time, you now have the tender to bid and will use competitive bidding strategies to beat the competition. You will leverage any tender discrepancies to gain a competitive advantage to win the tender and make your financial objectives.

In Type 2 and 3 Tenders, there are three ways to handle the underestimated work volume scenario:

- Price book
- Rebate
- Package price

▶ Oh, What is the Price for That?

It is difficult and sometimes near impossible to price everything that will be needed for a project or purchase to be included in the request for proposal from the customer. You should always include a reference price catalogue for any product or services not requested in the scope of work. In your bid, there should be a pricing note that all out-of-scope products or services will be charged as per the attached reference price catalog included with your bid.

When quoting prices for products and services in the tender scope of work, you can state the prices in your bid document or state a discount that applies to the reference price catalogue.

Price Book

The discount level for volume of work stated in the tender is set to win the tender, and a lower discount is applied for the expected additional work typically charged as per the price book without a discount. See the sidebar "Oh, What is the Price for That?" This approach to pricing is effective when a specific item is underestimated and makes up a small portion of the total invoice in the TTV, but in the real scenario you believe there will be more of the product purchased. In **Table 10.4**, Product C is a small portion in the TTV but larger in the EV. By not discounting and charging the price book for Product C, the bidder benefits from the actual scenario when more of Product C is needed.

In this example, it might have been tempting and easier to offer a flat 10% discount across all products. But the impact on the EV would be 3% lower revenues, which can make a big impact on your profitability. The objective of the tender assessment for Type 2 and 3 Tenders is to determine your target TTV and then identify how to maximize your EV. There will be situations in which the target TTV will be below your target profitability. This is common when you have competitors that have lower costs than your company. However, in those situations, rather than bidding what you need to achieve your target profitability and losing the work, you can bid a winning TTV and depend on your pricing strategy addressing tender issues such as an underestimated scope of work to make an EV that will make your targeted profitability objective. Later, in the "Creating a Bid Strategy" section of this chapter, this will be discussed in more detail. As smart business people know, every penny in your pocket counts! These techniques will all add percentage points to your bottom line.

Rebates

The rebate technique applies when your charges consists of product and service charges and fixed charges, such as rentals or mobilization charges. To illustrate this option, first you will see the traditional method of discounting and then how to improve your EV by using a rebate. For example, the bid team expects the customer to do $50,000 more than what was stated in the scope of work in the tender. The bidder in this case included in their pricing $10,000 of monthly rentals. The bidder's target TTV to win the work was $100,000. Shown in **Table 10.5** is TTV and EV for this work using a flat 10% discount applied against the product and service charges to arrive at the winning TTV of $100,000, and the EV is $145,000.

This is good, but can be better by using a rebate rather than a flat discount, as shown in **Table 10.6.** In this scenario, the bidder offered a 10% rebate of product and service charges to be applied to the rental charges. In this offer, the net rental charge is $0 for the bid evaluation and the TTV is $100,000, which is needed to win the tender the same as in the TTV flat discount option. However, for the EV scenario, revenue for the flat discount was $145,000; in the rebate option, the revenue increases to $150,000 and the discount drops to 6.3%. In this situation, it

Table 10.4
Underestimated scope of work. Price book option.

Bid price	TTV				EV			
Description	Quantities	Price Catalogue Price	Discounted Price	Invoice	Quantities	Price Catalogue Price	Discounted Price	Invoice
Product A 10% Discount	10	$ 1,000	$ 900	$ 9,000	10	$ 1,000	$ 900	$ 9,000
Product B 10% Discount	10	$ 1,500	$ 1,350	$ 13,500	10	$ 1,500	$ 1,350	$ 13,500
Product C Price book	2	$ 2,000	$ 2,000	$ 4,000	5	$ 2,000	$ 2,000	$ 10,000
Total Invoice		$ 29,000		$ 26,500		$ 35,000		$ 32,500
Effective Discount %				9%				7%

Bid price	TTV Flat Discount 10%	EV Flat Discount 10%
Product and Service Charges	$ 100,000	$ 150,000
10% Discount	$ (10,000)	$ (15,000)
Net Product and Service Charges	$ 90,000	$ 135,000
Fixed Monthly Rental	$ 10,000	$ 10,000
Total Invoice	$ 100,000	$ 145,000
Effective Discount %	9.1%	9.4%

Table 10.5
Underestimated scope of work. Flat discount applied to product and service charges.

is important to add a pricing note that rental charges will have the 10% applied until the rental charge is $0 and rebates are applied only to the same month's rental charges; unused portions are not carried forward.

Package Price

The last option for the underestimated scope of work is a package price that states that any additional quantities or services will be charged as per the price book. This is a good option when the supplier can justify the package pricing based on efficiencies or one-time benefits to them, such as using up stock before it is has to be written off, and the timing of the project is very convenient, fitting well with the availability of equipment and personnel. For example, the customer's scope of work requests ten products and ten days of a technician's time to install the products. However, you believe the customer after completing the first ten installs will request an additional five. For the bid your target TTV is $100,000 for the package, which is a 10% discount off your book price. Your justification for offering this package price is the products the customer requested you have in country, which will not be manufactured again and you are glad to sell them. Also, the technician is currently in country, and you will not incur any additional travel costs as a result of having to fly in the technician for this bid. In your pricing notes, you add that any additional products or services will be as per the attached price book. When the customer does call to order the additional five installs, you will then invoice these at $110,000, which is according to the price book. This example raises a very good question: How should the next five products and services be invoiced, book or not? See the sidebar "To Book or Not to Book. That is the Question" for the answer.

Bid price	TTV Rebate	EV Rebate
Product and Service Charges	$ 100,000	$ 150,000
Fixed Monthly Rental	$ 10,000	$ 10,000
10% of Product and Service Charges applied as Rebate to Monthly Rental	$ (10,000)	$ (15,000)
Maximum Rebate		$ (10,000)
Net Rental Charge	$ -	$ -
Total Invoice	$ 100,000	$ 150,000
Effective Discount Calculation	10,000/100,000	10,000/160,000
Effective Discount %	9.1%	6.3%

Table 10.6
Underestimated scope of work. Rebate applied to fixed monthly rental charges.

▶ To Book or Not to Book. That is the Question.

This is the question you must answer. Do you charge price book/no discount or price book with the same discount or something different? The time to answer this question is when you prepare your bid and prepare a convincing rationale for why you are charging this way. It would seem from the customer's perspective that, if they ask you for a price for ten and then buy more, they should get the same or better price. You need to be prepared to explain why this is not the case.

In the example, the timing of this tender was near perfect. It allowed inventory that would soon be obsolete and the technician was already in the country, therefore, meaning no extra travel costs. These are great rationales for why the pricing was a package price.

By writing your bids well and including pricing notes to protect your position, you will have the confidence to submit a bid and know when the situation evolves as you predict you will be able to protect your margins.

In this example, you can offer the customer a small discount for the new products, provided they pay any duties and transportation to bring the next five items into the country and pay the travel costs to bring the technician back to the country.

By ensuring that you have a well-written offer and rationale, you keep the power to negotiate a good deal, like a smart business person would.

Overestimated Work Volume

In this scenario, what is requested in the scope of work is what you believe will be more than the actual volumes or quantities purchased. There can be several reasons why the work volume is overestimated. The customer:

- Wants to attract as many suppliers as possible with a bigger work volume.
- Attempts to get better prices by offering a large work volume.
- Is overly optimistic, thinking they can complete more work than possible.
- Has made an incorrect calculation.
- Wants to be certain they will have enough products and services.
- Is intending to split the work amongst two or more suppliers. Having a larger work volume helps them justify splitting the work.

As discussed in the underestimated work volume for Type 1 Tenders, if you discover this issue, discuss it with the customer. For Type 2 and 3 Tenders, the strategy is to offer a high discount on the overestimated volume and a low discount on the probable volume of work. For the overstated work volume, there are two options for pricing:

- Tiered discounts
- Single unit flat pricing

Tiered Discounts

This option makes discounts conditional or tiered. **Table 10.7** is an example from a real tender the author bid in Malaysia. In this tender, the TTV was computed for the standard flat discount and then the tiered discounts. Both calculate the same value shown in the red cell, $8,500. In the EV scenario, the bid team expects the customer to use 35 products, not 100 (shown in the orange cells). In this scenario with the tiered discount, the discount drops to 8% and results in additional revenue (shown in the yellow cells) of $3,220 – $2,975 = $245, or 8.2% more revenue.

Single Unit Flat Pricing

Single unit flat pricing is based on a invoicing per single measurable unit regardless of other volumes of work being provided or ordered. For example, a single unit could be per well, per month, per job, or other fixed amount that is relevant for the tender. This type of pricing is effective for tenders in which the incremental costs to deliver the work are low, as with service type tenders compared to products when a large portion of the costs are to produce each product. In the example in **Table 10.8**, the customer stated in the scope of work that they will drill ten wells per month, which they want evaluated.

In this tender, there are very little incremental costs. The bid team believes this volume is overestimated. Their EV is six wells per month. The target TTV to win is a 20% discount from the bidder's book price or $800,000 per month using the TTV scope of work. In this example, the bid team has made their offer a unit price per month good for up to ten wells per month. This offer from the supplier's point of view is the book price or 0% discount. The customer will evaluate the offer at $700,000 or an apparent 30% discount. This will be 8.75% lower than the market rate of $800,000 and should entice the customer to accept what will appear as a very good offer. In this type of offer, the bid team must state clearly what is included in their unit pricing. Everything else needed outside what is included in the unit pricing will be priced at the price book. In this example, the bid team stated which products and services were included in the unit pricing, and the price was good for a maximum of ten wells per month.

Bid price	TTV Flat Discount 15%	Bid price	TTV Tiered Discount	EV Flat Discount	EV Tiered Discount
Number of Products	100	Number of Products	100	35	35
Book Price	$ 100	Book Price	$ 100	$ 100	$ 100
Flat Discount	15%	Discount 1-50	8%	15%	8%
		Discount 51-100+	22%		22%
		Invoice 1-50	$ 4,600	$ 2,975	$ 3,220
		Invoice 51-100	$ 3,900		
Total Invoice	$ 8,500	Total Invoice	$ 8,500	$ 2,975	$ 3,220
		Effective Discount %	15%	15%	8%

Table 10.7
Overestimated scope of work. Tiered discount.

For all these recommendations, there are a number of questions the bid team must ask before committing to their strategy. One of the questions management always has is "How sure are you that you will make this revenue?" The best way to answer this question is shown in the **Chapter Highlight 10.3: I'm 90% Confident!**

Products and Services

For this factor, you analyze what is asked for in the tender and what you believe will actually be requested once you are awarded the work. Issues in this factor can create large pricing differences between TTV and EV. If you identify these issues and the competition does not, it will give you a significant competitive advantage. When assessing what product and services are requested, you assess the tender document to determine if there are:

- **Extraneous products or services.** These are items that are requested in the scope of work, but will not be purchased or required. In this situation, the customer may be uncertain if they need the item but, to minimize any risk of not having it if needed, they include the item in the tender. It could also be a case of the customer not knowing they do not need the item.
- **Omitted products or services.** These items will be required but have not been included in the scope of work. Most of the time when you discover missing items in the tender, it is the result of a customer error—possibly due to inexperience or a lack of attention when preparing the tender.
- **Implicit products or services.** These are items that are not requested in the scope of work but it is implied the bidder will provide at no cost to the customer. Of the three scenarios to be discussed in this section, the implicit scenario can be the most contentious as the customer assumes you will provide the product or service without charging. Unlike the omitted items

Bid price	TTV Flat Discount	EV Single Unit Flat Price Per Month
Number of Wells Per Month	10	6
Book Price Per Well	$100,000	$ 100,000
Flat Discount	20%	Book Price Apparent 30%
		Package Price
Total Invoice	$800,000	$ 700,000

Table 10.8
Overestimated scope of work. Single unit flat pricing.

Chapter Highlight 10.3: I'm 90% Confident!

There are times when bid teams are questioned about how confident they are that their bid strategy will make the projected revenue. Bidding for tendered work does not have a guaranteed outcome. It is a business investment that has risk and uncertainty. To provide management with a complete picture of the uncertainties and risk for your bid strategy, use a Monte Carlo simulation to calculate the P90, P50, and P10 probabilities.

Modeling Risks and Uncertainty

A Monte Carlo simulation lets you see all the possible outcomes of your decisions and assess the impact of risk, allowing for better decision-making under uncertainty. The technique was first used by scientists working on the atom bomb; it was named for Monte Carlo, the Monaco resort town renowned for its casinos. Since its introduction in World War II, the Monte Carlo simulation has been used by professionals in widely disparate fields. Professionals in finance, project management, energy, manufacturing, engineering, research and development, insurance, oil and gas, transportation, and the environment have all used the Monte Carlo simulation to make better decisions.[3]

The Monte Carlo simulation is an alternative to both single-point (deterministic) estimation and the scenario approach that presents the worst, most likely, and best-case scenarios. The Monte Carlo simulation begins with a model (i.e., one or more equations, together with assumptions and logic relating the parameters in the equations). Risk analysis is beneficial because there is uncertainty in the estimates of sales volumes and costs and timing when bidding. Quantifying that uncertainty with ranges of possible values and associated probabilities (i.e., with probability distributions) helps everyone understand the risks involved.

With the power of personal computers, today and a multitude of plug-ins for programs such as Microsoft Excel, some of the most powerful modeling tools for modeling your offer can be easily applied.

Shown below is a simple revenue projection for a bid. In this tender, the request is for three products and a technician to install the products. The customer has asked for a proposal for the quantities shown below. The sales team has analyzed the bid and believes that products A and B are overestimated and product C and the technician days to do the install are underestimated. The bid team has analyzed tenders from the last twelve and found their range of winning prices. Using the average pricing, the team calculates the Total Tender Value (TTV) of $4,930,000, which they believe will be a winning bid as they estimated the competition would bid $5,000,000. Because of the scope of work issues, the bid team has calculated an Expected Value (EV) for the bid of $5,310,000 by using the most likely quantities and average pricing to calculate the EV. The risk here is that the EV could be a lot less or more. The best way to have a full understanding of all the possible outcomes is to run a Monte Carlo simulation.

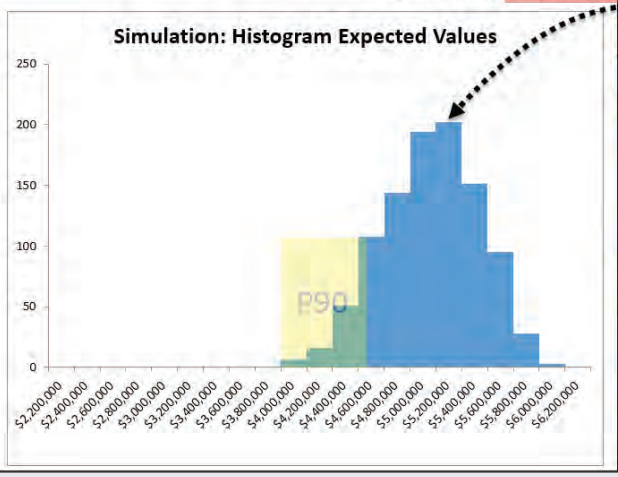
In the Monte Carlo simulation, the bid team builds a model, as shown below. A Monte Carlo plug-in for Excel was used to run the simulation. The key step was replacing the single point estimates in the model (average pricing) with a triangular value function. The triangular value function uses a random number generator to sample values from the distribution of possible values estimated made by the bid team as entered into the green shaded cells in the spreadsheet. These values are the minimum, most likely, and maximum quantities. This technique is called the "expert opinion" and is used to define the probability distribution when there is a lack of data to build the distribution model. The simulation is run 1,000 times. Each time the simulation is run, the plug-in randomly samples a value from the given range storing that value in the cell and then any subsequent calculations are completed. Selected cell values—in this case, the Expected Value Revenue—are stored

Requested Products and Services	Tender Quantities	Bid Team Assessment	Minimum Quantities	Most Likely Quantities	Maximum Quantities	Winning Bid Price Last 12 months Average Pricing	Tender Quantities Average Pricing TTV	Most Likely Quantities Average Pricing EV
Product A	1,000	Overestimated	400	800	900	$ 1,050	$ 1,050,000	$ 840,000
Product B	1,300	Overestimated	600	700	1,000	$ 900	$ 1,170,000	$ 630,000
Product C	5,000	Underestimated	4,000	6,000	7,000	$ 500	$ 2,500,000	$ 3,000,000
Technician Days	100	Underestimated	100	400	500	$ 2,100	$ 210,000	$ 840,000
							$ 4,930,000	$ 5,310,000

Chapter Highlight 10.3: I'm 90% Confident! (cont.)

Requested Products and Services	Tender Quantities	Bid Team Assessment	Minimum Quantities	Most Likely Quantities	Maximum Quantities	Winning Bid Price Last 12 months Average Pricing	Tender Quantities Average Pricing TTV	Most Likely Quantities Average Pricing EV	Monte Carlo Quantities Triangular Function	Monte Carlo Revenue Triangular Function Average Pricing
Product A	1,000	Overestimated	400	800	900	$ 1,050	$ 1,050,000	$ 840,000	755	$ 793,071.19
Product B	1,300	Overestimated	600	700	1,000	$ 900	$ 1,170,000	$ 630,000	710	$ 638,876.17
Product C	5,000	Underestimated	4,000	6,000	7,000	$ 500	$ 2,500,000	$ 3,000,000	5526	$ 2,762,798.81
Technician Days	100	Underestimated	100	400	500	$ 2,100	$ 210,000	$ 840,000	426	$ 895,542.14
							$ 4,930,000	$ 5,310,000		$ 5,090,288

Monte Carlo Simulation Statistics		
Mean	$	4,958,324
Number of Trials		1000
Standard error	$	11,950
Minimum	$	3,683,859
Maximum	$	5,994,062
Median	$	4,982,257
Range	$	2,310,203



Percentile Distribution Percentile	Value
0%	$ 3,683,859
5%	$ 4,291,410
10%	$ 4,443,274
15%	$ 4,544,355
20%	$ 4,628,846
25%	$ 4,703,342
30%	$ 4,755,990
35%	$ 4,821,016
40%	$ 4,880,523
45%	$ 4,933,032
50%	$ 4,982,257
55%	$ 5,025,532
60%	$ 5,064,441
65%	$ 5,119,339
70%	$ 5,176,217
75%	$ 5,228,582
80%	$ 5,295,710
85%	$ 5,364,446
90%	$ 5,438,277
95%	$ 5,534,091
100%	$ 5,994,062

and plotted in a histogram, and the outcomes are ordered and summed to build the Percentile Distribution table. From the outcomes, the bid team can then find the P90, P50, and P10 values from the percentile distribution shown in the lower right-hand side of the figure above.

The P90 value shown on the graph above is the value at which, out of the 1,000 times the model was run, there were 100 outcomes when 10% of the total were less than $4,443,274. From a business person's perspective, you can say you are 90% confident you will not make less than that value. The value shown above for the EV (expected value for revenue) is $5,310,000 (red shaded cell). The shaded area on the "Percentile Distribution" table shows approximately where the value occurred. You can then extrapolate the exact percentile, in this case, it was 84%, or 100–84 equals 16% of the values being equal to or greater than $5,310,000. If the bid team was only to report this number, then the expected revenue from the bid is very optimistic. Business people do not make financial decisions when there is only a 16% chance of an outcome occurring. Most business people want to be at least 90% confident they will achieve their financial targets. The same logic is applied to oil company reserves. Oil companies cannot book reserves (add to their balance sheet) unless the reserves are in the P90 area of the reserve estimates. Governing bodies, where the oil companies have been incorporated, ensure that reserve estimates pass a rigorous test using a Monte Carlo simulation.

The additional use of this type of analysis is to compare bids when a company must choose which tenders to pursue. Having the Monte Carlo estimates of revenue and net profit, the company's management can make the best decision and then select the most attractive as measured by revenue and profit from the P90 estimates.

most customers will accept that they have to pay for those items. However, for implicit items, they believe these are provided at no charge and to convince them you will need to have a good rationale and example of where you have charged for these items previously. There can be several reasons why the customer thinks this way. These items have been included on previous projects, so the customers assume this will continue. They might think it is industry practice to provide such items. This issue was discussed earlier in the sidebar "Worth Their Weight in Gold."

Extraneous Products and Services

For extraneous items, you apply a high discount on the extraneous items or include these as part of the package. If the extraneous items or services are not readily available, you will need to add a pricing note in the bid that a minimum amount of time is required for pre-notification when the extraneous items are needed.

Omitted Products and Services

These items are not included in your offer, and a pricing note is added that all products and services not in the scope of work will be charged as per the attached price book.

Implicit Products and Services

Services not specifically requested should be treated the same as omitted items. To avoid difficulties after awarding of the work, you must clearly state what is included in your bid.

Table 10.9 demonstrates how the bidder can use these differences to their advantage to submit a winning TTV with significantly better EV. In this example, there is $100,000 of undiscounted confirmed products and services shown in the red cell in the Flat Discount column. Using the flat discount method of pricing, these products and services are added with the extraneous, omitted, and implied services making the total $120,000. A discount of 17% is applied to bring the offer to the targeted TTV of $100,000. However, the actual invoice will be less $91,300 as the extraneous products and services will not be run.

The recommended way to handle this is shown in the EV Recommended column. In this pricing method, extraneous items are included (no charge) in the pricing. This is low risk to your profitability as the extraneous items will not be run. The omitted and implied items are not quoted as these are not specifically requested in the tender document and a pricing note must be added that all additional services will be charged as per the reference price catalogue. The comparison of the two techniques: flat discount and EV recommended, will earn the bidder 20% more revenue.

It is a best practice before committing to a discounted offer to always check your discounting method against best case and worst case scenarios. You want to be confident that your discounting model achieves the desired results in both best and worst cases. Too often salespeople forget to calculate the worst case scenario

Table 10.9
Overestimated scope of work. Single unit flat pricing.

Bid price	Flat Discount	EV Recommended
Book Price Confirmed Product and Services	$ 100,000	$ 100,000
Extraneous	10,000	Included in Package
Omitted	$ 5,000	Not Quoted
Implied	$ 5,000	Not Quoted
Total	$120,000	$ 100,000
Target TTV	$100,000	$ 100,000
Effective % Discount	17%	0%
Actual Invoice	$ 91,300	$ 110,000
		20%

until it happens, and then it is too late to make any changes. See the sidebar "Best Case, Worst Case" for another example of best case/worst case discounting.

Awards

The award factor is the simplest of the factors to analyze. For this factor, it is important to understand how the customer will award the work. You must look for the specific clause in the tender document that states how the customer will award the work. If the tender does not have a clause explaining how the work will be awarded, then you must state what commitment you require as a condition of your offer. The most common types of awards are as follows:

- Single supplier
- Split
- Second supplier
- Call-out or call-off

Single Supplier Award

The customer will award the work to a single supplier. Prices quoted are for the stated scope of work. You must clearly state that the prices are for 100% of the award.

Split Award

The work will be split among two or more companies. If you are bidding for a split award, you must confirm whether the split will be an even split or different sized packages of work will be awarded. In some tenders it is not unusual for the customer to award work split by geography or award specific products or services to one company and other products and services to another supplier. You need to decide which portion of the work is the most desirable and give your best offer for the desired package. Clearly state your pricing conditions for each package. Another tactic for ensuring that you win the specific package you want is to add conditions or extra charges to the packages you do not want, which will make the competitors' offer more attractive. An example is geographic surcharges.

Second Supplier Award

For this award, the preferred supplier will be called upon first to supply the products or services, but in situations where the preferred supplier cannot supply the products or services, the second supplier will be used.

If a second supplier award is an acceptable option, clearly state your pricing and conditions if you are awarded as the second supplier. Use tiered discounts to protect your margins.

Call-Out or Call-Off Award

A call-out or call-off award is when the customer awards the work to the supplier with no minimum commitment to purchase. This type of award can be used in conjunction with the single supplier award. In this scenario, the customer has a single supplier or split award contracts for a committed portion of the work and the remaining portion as a call-out contract. The concerns with these types of contracts is that there is no minimum commitment. These should be treated like

▶ Best Case, Worst Case



Always test your discount schemes against best case and worst case scenarios.

For example, if you offer the customer a 20% discount if they buy five products each time they place an order, the profitability of delivering five products at one time is much better than five deliveries of single products.

If the customer buys five products in each order, fantastic—this is the best case.

But what happens if the customer agrees, but only has you deliver one or two products at a time now? This is worst case. What is the discount?

These types of scenarios need to be considered and then include any conditions that protects your profitability. In this case, assuming the five products prices are close to the same, then one offer that would protect your profitability is when the customers buy five product in one delivery, with the fifth product being free. If the customer buys fewer than five, then the discount is zero and you protect your profitability. Other options could be a variable discount based on the number of products purchased per delivery. For example, 5% for two, 10% for three,15% for four, and 20% for five.

split and second supplier. For this type of award, you must ensure that there is no penalty if the supplier cannot provide the products or services at the time ordered.

For both the second supplier and call-out or call-off awards, you add a pricing note for a minimum time for prenotification to mobilize or order the products and services. You also include another pricing note for if the products or services are canceled. After being called out, a cancellation fee will apply.

There is another type of award called sole award, which at times can be confused with a single supplier award. To understand the difference, review the "Sole and Single Supplier. What is the Difference?" sidebar.

Specifications

Specification issues are when the customer requests products or services in the tender document that are not appropriate for their requirements as described in the tender. The most common issues are as follows:

- Under-specified
- Overspecified
- Unique products or services are considered commodities

Under-Specified

In most tenders you should not find under-specified specifications. If this is the case, however, it may be due to several reasons, such as:

- **Attract many suppliers.** By having the specifications under-specified, more companies will be able to bid. The customer hopes this will make the bidding more competitive.
- **Attempt to get the lowest price for value-added products and services.** Most suppliers will price value-added services based on the added value the customer receives and not based on the supplier's costs, which can be significantly more than standard products and services. From the customer's perspective, the supplier can therefore accept less for their value-added products and services and, as the customer in their tender are offering a specified volume of work, they will expect better prices. One way to do this by negotiating with the supplier. The first step to a planned negotiation is lowering the specification and having the prices for the lower specification products and services. Now the customer knows exactly what is the reference price from which to start the negotiations for the higher specification product and services they really need.
- **Copy–Paste.** Staff on the customer's tender team copy and paste specifications from a previous tender into the new tender that are not required. As unbelievable as this may be for large B2B procurement, such mistakes can happen. It is more likely when the customer is facing time pressure, such as when project start deadlines are approaching quickly and the customer has not sent out the tender document. Another example is when the customer's operations are shut down due to the lack of inventory of products and services; they need to run their business and start the tendering process quickly. This copy–paste type of mistake made recent headlines in the *Irish Examiner:* "The government procurement process was a shambles, with untrained staff copying and pasting tender documents with no real understanding of what they were doing, according to Paul Quinn, the new chief procurement officer."[5]

▶ Sole and Single Supplier. What is the Difference?

Below are the definitions of single source and sole source suppliers, taken from a procurement website.[4]

Single Source Procurement Definition

Single source purchasing refers to purchases from one selected supplier, even though there are other suppliers that provide similar products. If your company decides to buy only Dell computers, then that is single source purchasing. However, unlike sole source purchasing, you and your company have a choice to switch suppliers, but for strategic and possibly cost reasons the company decides to use only a specific supplier.

Sole Source Procurement Definition

Sole source procurement, however, refers to those purchases where there's only one supplier that provides the product. Usually these are unique products that you cannot find anywhere only through one supplier/manufacturer.

So before you do anything else when dealing and negotiating with a sole or single source supplier, understand exactly that—namely whether you're dealing with a sole source or single source.

- **Lack of attention.** Sometimes the differences between products and services requested in the scope of work are very negligible and the number of options for what the customer can request can be enormous. If the person from the customer's tender team does not proof their tender closely, this can result in the wrong specifications in the tender.

Guidelines of how to respond to an under specified scope of work depends on the type of tender.

Type 3–Transaction Tender. Treat the under-specified product or service as extraneous and handle as described in the extraneous product and service section, and the required products and services that have not been specified as omitted product and services. In this situation, you must clearly state the specifications of the products and services you are quoting in your bid and other products and services available as per the attached price catalogue.

Type 2–Consultative Tender. Provide what the customer really requires provided their evaluation criteria will give your solution a higher technical score and as long as the pricing for the higher specification product and services is within the premium allowed for the company with the best evaluated score. If the pricing for what the customer really needs makes your offer price too high, then price for what they need as you would in a Type 3–Transactional Tender and submit an alternative offer for what the customer really needs.

Type 1–Enterprise Tender. Discuss with the customer the specification discrepancies and make recommendations for what they should purchase based on their needs.

Overspecified

It is more common that a customer might overspecify their requirements. Typical reasons why customers overspecify are:

- They want to be confident that all situations they might encounter can be handled, regardless of how unlikely the situations. For example, for their project, there are no requirements for continuous user support seven-days a week 24, hours a day (7/24), but to be absolutely sure their users never have to wait for support until the next day, 7/24 support is part of the tender specifications.
- Previous bad experiences with suppliers not meeting specifications and incurring extra costs.
- A preference for a competitor. Overspecifying and requesting the preferred company's unique products or services allow the customer to technically disqualify competitors who do not have similar services.
- Familiarity with only one company. When the customer creates the tender, they use the specifications or nomenclature of the products and services of the company they are familiar with or from the current supplier.
- Unique products or services are considered commodities. This is another way the customer can use the tendering process to negotiate better pricing as described earlier in the under-specified section. In situations when only one company has the products or services meeting the specifications requested in the tender but the tender is sent to multiple bidders, the customer has overspecified the products or services. In this case, the customer might be attempting to negotiate a better price for the unique products or services. In this situation, the company with the unique product or services is called a sole supplier (see the sidebar "Sole and Single Supplier. What is the Difference?" Rather than make a sole award to that supplier,

the customer might still go through the tendering process to have the supplier with the unique services think their products or services are commodities that all companies on the bidder's list have and as a result will receive a better price by tendering.

Another way in which the customer might treat unique products or services as commodities is by asking for supplier's prices for a specific product or service where they use a company's nomenclature. For example, Apple receives a tender for cell phones from an international company asking for prices for iPhone 6+ and you as the salesperson for Apple know the tender has also been sent to several other companies. This is not uncommon when the customer is only familiar with one company. In this situation, the customer has commoditized the iPhone 6+.

Response to Overspecification

In a tender in which you have identified an overspecification issue, you must also consider:

- What type of tender is it? What tender response strategy will give you the best evaluation?
- What have you been able to achieve with your sales strategy? How many people in the customer's buying center are supporters and mentors?
- Can you sell up after awarded the work during the implementation phase?
- What will the competitor response be?

Once you have answered these questions, prepare your tender response. In general, there are three options for handling an overspecified tender. The bidder can choose one or more of the following options:

- Define
- Replace
- Version

Define

In a define response to an overspecification, you state what you will provide to satisfy the project requirements. Some examples of a define strategy response are:

- If a customer wants tools to be run over 350° F, but you know they will not need this, you state you will provide tools rated to temperatures up to 350° F.
- If a customer wants a delivery of pumps in two weeks, but you know that they do not need delivery for a month, state your prices are for one-month delivery once the order has been placed.
- If a customer wants dedicated people or equipment, but they do not require this level of service, state that you will provide services within 24 hours after notice has been given.

When you define that you will provide something less than requested, you must provide your rationale for doing so and the benefit to the customer.

Replace

A replace response is used when the specifications request services that are unique or that are not required. In this situation, offer a replacement product or service, providing "like for like" when compared to the offerings of other competitors. Some examples of replacement are:

- Older generation products for unique products.

- Lower level service options, such as a less experienced interpreter for a senior interpreter.

As with the define option, you must state your rationale for replacing the product or service and the benefit to the customer.

Versioning

Versioning refers to providing different levels of product capabilities or service levels to be delivered with the same product or service. This strategy allows your company to offer a lower version to be used in the customer's bid evaluation model, and provides your company with the opportunity to sell up to the higher value versions during the execution of the project. Smart companies selling in the B2B environment design their products and services using a technique called value subtraction.[6] See the sidebar "Doing Less with More. Does that Make Sense?"

Some examples of versioning include:

- Airline seats available in first, business or economy class. Everyone boards the same plane yet the airlines can charge more to passengers sitting in first and business than they can people in economy. They do this by versioning.
- IBM laser printer: One prints ten pages per minute (ppm) and another five ppm. The only difference between the two printers is the slower printer has an extra chip on the motherboard to slow down the printer.
- Answer Products, delivered in 24 hours or in one week: All the resources to produce the products are the same, but the supplier can charge much more for the 24-hour version by versioning with time. In a Type 3–Transactional Tender, for example, this could be used to provide a low price for one-week turnaround time and once the contract is awarded, sell the 24-hour turnaround when needed.

There are two other considerations when considering using versioning in B2B markets.

First, the bid team must prepare and coordinate with operations to provide the lower version when the customer orders the lower version. If the customer discovers the lower version only exists in the bid and is not operationally possible, then the first time the customer orders the lower version product or service and they receive the higher level version, it will be very difficult for you to sell the higher level version. The customer will continue to order the lower version knowing they will receive the higher level version.

Second, the creation of different versions must be controlled by headquarters. Every version adds an extra level of complexity, and there can also be added costs for modifications to be able to provide the lower level of products and services. By keeping these decisions at headquarters, they are in a better position to know what other locations have done and can ensure that versioning is manageable and profitable.

Guidelines of How to Respond

The general guidelines for responding to an overspecified scope of work are as follows:

Type 3–Transaction Tender. Offer only what is needed for the customer's real needs. You choose one of the options for responding to an overspecified issue (define, replace, or version). You should clearly describe what your company

▶ Doing Less with More. Does that Make Sense?



In most business situations doing less with more would be categorized as wasteful. But in the B2B environment, where there are difficulties comparing like-for-like products and services, having the ability to do less with more can be a strategy for victory.

University of California at Berkeley professors Carl Shapiro and Hal Varian explain how a "versioning" strategy can enable a company to distinguish its products from the competition and protect its prices from collapse. The technique is called value subtraction.

Most versions are created by subtracting value rather than by adding.

- The producer first invests in developing the most technologically advanced version in order to have a distinctive product that appeals to the most demanding and least price-sensitive customers
- The producer then removes features or capabilities to tailor the product for less demanding customers
- As the low-end users' needs advance, they can purchase the higher-end versions

will and will not be providing, your rationale, and the benefit to the customer of the version.

Type 2–Consultative Tender. Offer a solution that is optimized for the customer's evaluation model and requirements. Use one of the response options of the define, replace, or versioning strategy to address the particular specification issues. You might not need to match the competitor's specifications if a better specification will give you a better evaluation score and the premium for the better specification is within the allowable premium over an L1 competitor. In this situation you should discussed with your mentor's within the customer's buying center so they can leverage your better solution to select your company for the work.

Type 1–Enterprise Tender. Discuss with the customer the specification discrepancies and make recommendations for what they should purchase based on their needs.

Unique Product or Services are Considered Commodities. For the situation where the customer is trying to commoditize your products and services, you will need to take an extra step to validate your response to this overspecification issue. First, you will issue a clarification question, asking the customer if competitors do not have a product or service that meets the customer's tender specification, will the competitor be disqualified? In most cases, the customer will answer "no" because if the answer is "yes," the customer will lose any leverage to a receive a better price from your company and will have to enter into a sole source contract with your company. When they answer "no," ask "How can they bid?" The answer has to be "They are to bid a similar product or service." Now you can choose one of the overspecify options of define, replace, or version, whichever is best for your company and not be disqualified. When the customer opens your offer, they might challenge your offer and remind you that you were to price your unique product or service. At that time, your answer is that you were instructed to bid a similar product or service if your company did not have the exact product and service specified. So to be fairly evaluated, you gave them a like-for-like product or service. In this situation, you will need to make your mentors fully aware of your response so they can defend the decision to make a sole source contract.

Risks

Risk factors are grouped into two categories, as follows:

- Contract
- Business

Very few salespersons have legal training. Therefore, a good place to start to understand risk is to understand some of the risks-related legal terms you will find in contracts, and what these imply for the supplier. See **Chapter Highlight 10.4: "Explain This To Me One More Time."**

Contract Risks

The wording in a contract is an agreement between companies. How the contract is written and what is said in the contract is one of a company's most valued assets ;without a valid contract a company cannot invoice their customers. In B2B sales most tenders include the pro forma contract, which the winning bidder must sign. This section is meant to make the salesperson aware of the contract risks. Before responding to any tender, the salespeople must pass a copy of the tender and pro forma contract to the contracts manager. The remainder of this section will briefly discuss the following:

Chapter Highlight 10.4: Explain This To Me One More Time

Key Legal Terminology Explained

1. **Indemnity:** An indemnity is a contractual obligation to make good any loss, damage, or liability incurred by another. This is usually done in the form of reimbursement from one party to the party that incurred the liability.

2. **Knock-for-Knock:** Also known as the Mutual Hold Harmless principle. The client and your company are both responsible for their people and property even if the other party was responsible for a relevant death, injury, or damages.

3. **Deliberate Misconduct:** Intentionally or deliberately causing loss or damage (i.e., with malice). *Note:* When someone intends misconduct, use the term "deliberate misconduct." "Willfull misconduct" and "gross negligence" are a lot closer in meaning in some jurisdictions. You should be careful with these terms in contracts as you might intend to be agreeing to accept liability for deliberate misconduct only, but then end up agreeing to accept gross negligence. The danger is, if the court interprets the term in the context of your company's operations, deliberate misconduct is unlikely to occur in a work environment. An example of deliberate misconduct: I am driving my car in town, and I see the car of someone I have had an argument with in the past. I deliberately reverse my car into the driver's car.

4. **Gross Negligence:** Acting recklessly with complete disregard for the consequences. A person's conduct is either:

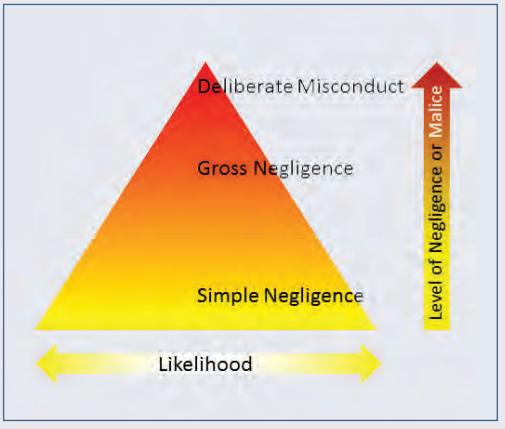
   i) Reckless in the sense of not caring whether or not he/she commits a breach of duty, or

   ii) Undertaken with an actual appreciation of the risks involved (i.e., a serious disregard or indifference to an obvious risk).

In the context of your company's operations, gross negligence is less likely to occur. For your company to accept liability for gross negligence, it should be i) be capped and ii) defined in the contract or by the governing law of the contract. An example of gross negligence: I am driving my car along a stretch of road that I know has a high number of pedestrians adjacent to it. The speed limit is 30 km/h. I decide to race a friend of mine, and I exceed the speed limit along this stretch of road and reach 70 km/h when I lose control around a tight bend in the road. As a result, I injure a pedestrian. I understood that if I lost control of the car I could injure pedestrians, yet I continued to speed with disregard for an obvious risk.

5. **Simple or Ordinary Negligence:** The court would objectively ascertain how a reasonable person would have acted in circumstances similar to the ones that gave rise to the injury, death, loss, or damages. In the context of your company's operations, the likelihood exists that such events could occur relatively easily. An example of simple or ordinary negligence: I am driving on an open stretch of road and check a text message that comes through on my phone while I am driving. As I look up, I see a deer standing in the middle of the road, and I swerve to avoid colliding with it. As a result, the vehicle rolls over, and my passenger is injured. The reasonable person would not be checking a text message while driving and might have been in a position to avoid the accident.

The figure to the right highlights each level of negligence in terms of the likelihood of occurring and the relative level of negligence. In plain English, if something bad happened and it was your fault, the company is not responsible unless you were deliberately negligent.



6. **Consequential Damages:** This is a loss arising from the results of damages rather than from the damage itself. The loss must not be remote—that is, it must be the natural and probable effect of the wrongful conduct. An example of consequential damages: I own a champion racehorse. While at the third-party racetrack stables, a piece of masonry from a poorly maintained stable roof comes loose and injures the horse to such an extent that its racing career is ended prematurely. Direct damages will be the vet's bills for treating the horse and nursing it back to health. Consequential damages are the loss of winnings that the racehorse would have generated over the course of its racing career.

- Acceptable risks
- Unacceptable risks
- Indemnities
- Contract termination
- Contract term of extension
- Validity of proposal

Acceptable Risks

Most companies accept reasonable contractual risks associated with their operations. However, onerous liability provisions proposed by clients cannot be accounted for by pricing or mitigated by risk financing programs. Such liabilities are disproportionate to the value of the contracts in question and might represent a material liability to your company and, in extreme cases, an unlimited liability. Most companies accepts risks that they can manage and control.

Unacceptable Risks

What risks are generally unacceptable? Unacceptable risk is defined as one that would do harm, fiscally or physically, to person(s), a business, or the environment. Unacceptable risks are well known for each industry. Using the oilfield services industry as an example, service companies work for the client who is the license or concession holder and owner of the well design. The oil company has direct care and control over the integrity of the well and its other contractors. The risks associated with the construction of a well cannot be accepted by a service company. The service company's gain for completing a job is the revenue from the job. Large jobs can earn up to a few million dollars. On the other hand, if the well blows out or even worse as in the case of BP Macondo, it can lead to the loss of lives, the rig, local industries, and costs in the tens of billions of dollars. It does not make sense for any service company to accept such huge liabilities.

Companies should have client contract standards (CCS) they enforce to keep and manage the contractual risks at acceptable levels. See the sidebar "No Way—I'm Not Taking That!" for the top ten unacceptable risks. Your company should insist on full indemnity from the client for any damages listed in the top ten resulting from your company's actions.

Indemnities

Based on the Mutual Hold Harmless principle, each party is responsible for their respective people and property even if the other party was at the cause of the damage, loss, injury or death.

This principle is traditionally applied irrespective of cause, with an exception for deliberate misconduct. See **Chapter Highlight 10.4: Explain This To Me One More Time** for more discussion on misconduct. Mutual hold harmless is a good business practice for both the customer and their suppliers. It lowers the cost of risk management as each party knows what they are providing and what is at risk.

Contract Termination

Typically referred to as the "mutual 30-day out" clause, it is essential that your company can exit from a non-profitable contract. Alternatively, it might be acceptable to not terminate the contract, but have the right to refuse work.

▶ *No Way—I'm Not Taking That*

The top ten contract risks your company should not accept (for good reason, because if they happen once, once it could be the end of the company):

1. Client's personnel
2. Client's property
3. Client's other contractors' personnel and property
4. Third parties, including rigs, platforms, production facilities, and pipelines
5. Reservoir damage
6. Blowouts, fires, and explosions
7. Pollution emanating from below the rotary table
8. Radioactive contamination
9. Inaccuracy of well or seismic data, or incorrect interpretations or recommendations related to such
10. Consequential damages

All the above risks are both disproportionate to your returns and outside your management and control.

Contract Term and Extension

Every contract should clearly reference the original term, along with extension provisions. Extension is always upon mutual agreement between you and the customer, and each party must have the contractual right to refuse an extension. Extensions should be subject to pricing renegotiations.

Validity of Proposal

A proposal valid for an unusually long time or a proposal with no validity date might oblige your company to accept an old pricing that was provided before and now is not the pricing you want to apply. Every proposal must have a duration for which it is valid; after that period, the offer can only be extended with written notice from the bidder.

Business Risks

Business risks are contract terms and conditions that your pricing structure does not account for; if these business risks are not addressed, they can result in poor profitability or losses. It is the responsibility of the manager with the profitability objectives to review all contracts along with their contracts department personnel. They review the commercial conditions present in each contract and mitigate any commercial risks or negotiate better terms with the client whenever possible. These types of business risks are referred to as revenue leakage that can have a significant negative affect on your revenue or costs once the work begins.

Operations and the sales group in conjunction with their contracts managers should create a business terms and conditions checklist. This should be used by the bid team to assess the business risks in a client contract. This saves valuable time during the tender assessment, and provides more to prepare the bid strategy review presentation.

Some of the more common contractual issues leading to revenue leakage are listed below, and a few things to watch out for when reviewing the tender are listed in the sidebar "Damn, that Hurts!"

Business risks are grouped into three categories:

- Revenue
- Costs
- Efficiencies

Revenue Risks

Pricing. Pricing should never be fixed for longer than twelve months from the start of contract. If client insists on longer, make sure that a commodity cost increase is included, along with scope of work adjustments, as per below.

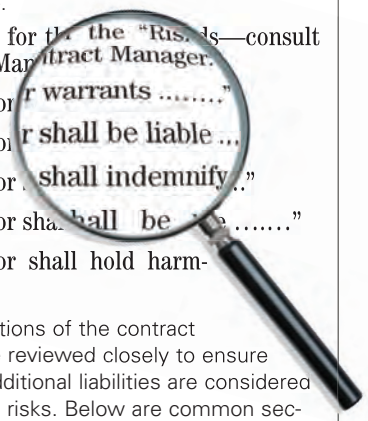
Price changes. Document how a price change will be implemented. It is best to state the timing for reviewing the pricing.

Pricing discount structure. The clearer the pricing and discount structure, the easier it will be to minimize errors at invoicing, and to prevent disputes.

Volume discounts. For large corporate accounts, always check with your headquarters team to determine if any volume discounts apply. If so, theirs will need to be explained in your bid so the customer includes there in their bid analysis. You also need to understand the impact that any corporate level discounts have on the overall profitability of the sale.

▶ ***Damn, that Hurts!***

A few small words like the ones below can cost your companies millions or more. Use a magnifying glass to make sure you don't miss these.



All the sections of the contract need to be reviewed closely to ensure that any additional liabilities are considered acceptable risks. Below are common sections making up a contract:

- Indemnities and warranties
- Environmental provisions
- Customs issues
- Pricing and payment terms
- Intercoms
- Penalties
- Liquidated damages
- Tax provisions
- Insurance
- Force majeure
- Suspension/Termination

Performance incentives. Performance incentives are mutually beneficial arrangements that promote efficiencies and savings for clients and your company. A generic clause can be included in the contract, and both parties agree to the key performance indicators once the work is awarded. The incentives must contain a description of the bonus and penalty scheme to motivate the supplier to provide exceptional service. The incentive scheme defines what will constitute penalties for service quality (SQ) problems and what constitutes bonuses for SQ successes. There should also be an agreement on the maximum penalty and bonus. Generally accepted maximums are a percentage of the invoice.

Costs Risks

Commodity price increases. Every contract should have a generic clause allowing for price discussions if commodities increase by more than 5%. Alternatively, a commodity cost indexation scheme or surcharges can be considered and agreed to by both parties regarding the details of the index or surcharges.

Extreme conditions. When extreme environmental or operations, conditions exist, such as in the oilfield services industry, there can be extreme wellbore conditions such as high temperatures and high pressures. These types of operations will raise the costs of equipment maintenance. In situations like this, when the conditions exist, there should be a surcharge applied. This can be in your standard price book or added as a pricing note.

Third-party charges. On average, third-party charges can amount to up to 3% of a business's total revenues. To reflect the financial costs and the risk that your company is taking, you need to ensure a fair recharge level. Therefore, the administration fee for reimbursables should be in line with your project's financial objectives.

Force majeure. State what rates will apply during force majeure such as standby or monthly rentals. Also ensure that the contract states what constitutes force majeure and what documentation is required for notification force majeure is declared and what notification is required to terminate force majeure status.

Efficiencies Risks

Late notices. Late notices or a lack of equipment might prevent your company from accepting a job. Your company should not incur any penalties or fees, unless the crew is dedicated with a financial commitment from client.

Standby charges. The rates for standby of crew and equipment should clearly be set, along with the free allowance when applicable. When possible, standby should not be discounted.

Delays. When caused by weather, client-related delays or inefficiencies, or other causes beyond your company's control, demurrage should be recharged, with the same administration fee as for reimbursables.

Volume of work changes. In a tender scope of work, the mention of an expected volume of work is not binding. Therefore, the discount structure should be tiered to allow for a reversal of high discounts conceded in exchange for large volumes of work or high market share as discussed earlier in the volume of work section.

Product and services changes. Similarly, effective product and service mixes might significantly differ from what was originally stated in the tender. To avoid margin erosion caused by a bias towards low-margin jobs, the pricing structure should allow for adjustment as necessary and discussed in the product and services section.

Minimum monthly based revenue. The provision of dedicated resources (equipment and/or personnel) that the client expects to be available on demand should be charged with a guaranteed minimum revenue per month.

Cancellations. Although present in the price catalogues, it is advisable to reemphasize in the contract the charges for cancellations.

Table 10.10 is a summary of the tender document assessment, which includes a brief description of each factor and what conditions will have positive, negative, or neutral effects on your bid strategy.

The customer will normally schedule a meeting for bidders to ask clarifications about the tender document after the bidders have had sufficient time to review the tender document. For this meeting it is absolutely critical the bid team has completed the tender document assessment. The clarification process allows the bid team a very good opportunity to position themselves competitively in preparation for submitting their bid. Clarifications are like a game of chess—if you play as described below.

Clarifications

In the tendering process, the customer will generally have two clarification meetings:

- The first occurs after the bidders receive the tender, normally after sufficient time to allow the bidders to review the tender and prepare questions regarding the tender document, award process, background information, and timing. These clarification meetings can be held in various formats: formal meetings, teleconferences, web casts, e-mails etc. In most cases, after the clarification phase has ended the customer will send a summary of the clarification questions and answers to all bidders.
- The second time is after the customer receives the bids back from the bidders and wants to clarify points in the bidders' submission. The customer's clarification typically relate to the technical aspects of the offer and to clarify the pricing applicability. These clarification meetings are in most cases held one-on-one with the individual bidders in person, via teleconferences, or by e-mail.

Bidder's Clarifications

There are three guidelines for bidder's clarifications.

- Do not ask a question you do not know the answer to.
- Clarify to position against the competition.
- If you must ask questions, ask last.

In general most bidding experts will say not to ask clarification questions[8] because the other competitors will either hear your question and answer or be sent a copy. Your hard work to carefully read and uncover ambiguity in the tender document should not be shared with competitors. In competitive bidding, your objective is to beat the competition.

Do Not Ask A Question in Which You Do Not Know The Answer To

As mentioned earlier, in preparation for receiving a tender you should engage with the customer's team well before the procurement phase. During the evaluation of options, you should review a previous tender and prepare clarification questions regarding that tender and if this tender will apply for the upcoming work. If you do have questions regarding the new tender, use the other means listed below to address your question.

Add a note to the bid. Rather than asking a clarification question, interpret the tender clause, add a note to your bid, and clarify your interpretation of the clause.

Factor			Description	Influence		
				Positive	Negative	Neutral
Tender Factors	Type of Tender		What is the type of tender and how will it be evaluated? Type 1 Enterprise: Most economically advantageous offer wins. Type 2 Consultative: Best evaluation wins. Type 3 Transactional: Cheapest price wins.	Depending on your competitive and cost position relative to your competition and the customer's preferred supplier relationship, the Type of Tender can be a positive, negative or neutral. Knowing the Type of Tender is required in order to know how to prepare a bid response when issues are discovered in the tender.		
				Type 1 Generally better for everyone involved as there is a much more open discussion and dialogue on how to ensure that both parties win. Type 1 will generally favor larger, more diversified companies.	Type 3 Is better for companies that have a cost advantage over their competitors. However, companies that compete on price must be aware competitors with wider product and service offerings may try to beat the low cost provider by using a 2-stage sales strategy of frontal price during tendering and flanking and selling up to their more profitable services during the implemetation stage of the project. Type 3 Tenders normally have the least margin of the three types of tenders.	Type 2 Is better if the supplier has unique value-added products or services. Strong inside customer support can play a significant role in Type 2 Tenders as mentors can argue the case to use suppliers they are aligned with.
	Scope of Work	Volume	How accurate is the volume of work the customer is describing in the tender? Is it over- or underestimated or accurate?	Underestimated Can provide the bidder an advantage over other competitors who do not discover the scope of work is underestimated.	Overestimated Is risky when responding, especially if one of the bidders does not recognize the situation and bids at very low margins, expecting the volume to create an acceptable cash flow.	Accurate The scope of work is neutral to all bidders. However, an accurate scope of work is rare.
		Services	For the products and services requested in the scope of work, are there any services that are extraneous, omitted, or implied?	Omitted Omitted products or services from a bidders' perspective are positive. This allows you to have lower costs for the scope of work, and you are confident the customer will run the omitted products or services once the project starts. Extraneous Extraneous products or services are also positive for the bidders. If you recognize this, you can include the extraneous items as part of the package at no cost. This allows you to charge more for the services that will be run but still keep the overall evaluated price the same.	Implied These are items that are not requested in the scope of work, but it is implied the bidder will provide at no cost to the customer. Of the three scenarios discussed in this section, the implicit scenario can be the most contentious as the customer assumes you will provide the product or service without charging.	Accurate Requested product and services are accurate and, therefore, neutral to all bidders. However, an accurate scope of work is rare.
		Awards	How will the customer award the work? Will it be a single supplier, split or call-off?	Single Supplier or 100% Award The best situation provided the bidder can execute all the scope of the work.	2nd Supplier or Call-Off Contract No commitment is made by the customer. Bid team must ensure minimum notice for mobilization or delivery of products and no penalties if available.	Split Award Bid team must ensure tiered pricing based on volume work. Must not assume 100% award.
	Specifications	Products or Services	What are the specifications of the products and services requested in the tender document? Are the specifications over, under or accurate?	Under-specified Can bid aggressively on the under-specified products and services sell up to better margin products and services during implementation of the project.	Overspecified Will need to use one of the overspecified responses of define, replace, or version. This is negative as there is always a chance of being disqualified for not pricing specifically what was in the tender.	Accurate Accurate specifications are neutral for all bidders provided they have offerings that meet the customer's specifications.
		Commoditization	Customer treast your added-value products and services as a commodity.	Clarification – Yes Use a clarification question to confirm suppliers not having an equivalent of your added-value product or service will be disqualified. The best situation is the customer replies yes, and then you make sole award contract.	Clarification – No The customer replies that the competitors will not be asked to provide a similar product or service. You then respond using one of the overspecified responses of define, replace, or version. This is negative as there is always a chance of being disqualified for not pricing specifically what was in the tender.	No Commoditization
	Risks	Contract	Most companies accept reasonable, contractual risks associated with its operations. However, onerous liability provisions proposed by clients cannot be accounted for by pricing levels or mitigated by risk financing programs. Such liabilities are disproportionate to the value of the contracts in question and may represent a material liability to your company and, in extreme cases, unlimited liability. Most companies accept risks that they can manage and control.	No Contract Risks Contract terms and conditions are compliant with suppliers' contracting standard.	High Contract Risks One or more clauses that will need management exemptions if your company is to continue with the contract. You will file an exception with your offer and re-word the non-compliant terms and risk being disqualified.	Acceptable Contract Risks Any risks can be mitigated or additional charges added to make the additional risk acceptable.
		Business	Business and post-award risks are commercial risks in client contracts that may affet your revenue flow, such as penalties, liquidated damages, standby charges, currency fluctuations and your costs.	No Business Risks Business terms and conditions are compliant with suppliers' contracting standard.	High Business Risks One or more clauses that will need management exemptions if your company is to continue with the contract. You will file an exception with your offer and re-word the non-compliant terms and risk being disqualified.	Acceptable Business Risks Any risks can be mitigated or additional charges added to make the additional risk acceptable.

Table 10.10
Tender document assessment summary.

Most common clarifications deal with the customer's specific requirements and how this affects pricing. In this case, add a note to your pricing tables. This is directly applicable for when you discover any of the tender assessment issues dealing with the following:

- Scope of work: overestimated, underestimated, and award
- Product and services: extraneous, omitted, and implied
- Specifications: under-specified and overspecified
- Risk: contract and business risks

Never clarify any of the issues you discover. The only exception to the above is if you believe that by asking the clarification question, you gain a competitive advantage, such as when certain products or services are implied in the tender but not specifically stated in the tender document. In this case you know your competitor cannot provide the products or services without incurring extra costs that you will not incur. For example, if it is implied the bidder will have back-up equipment for the main operation but you know the competition does not have the back-up equipment and you do, then you would clarify if back-up equipment is needed. The customer will answer that back-up is needed, and now the competition must provide the back-up equipment at an extra cost to the competition and customer.

Early in this chapter it was discussed how to use the clarification meeting to disqualify a competitor when the customer was treating your unique product or services as a commodity. In this situation, if the customer answers "no" or "yes," you are in a better position to respond to their tender.

Submit an alternative. In a situation where the tender is possibly poorly written, respond to the tender by ensuring that all ambiguities are covered with notes and prices have been adjusted to protect your profitability. Then submit an alternative and explain to the customer that your alternative is technically better and financially advantageous for them.

Review previous clarification minutes. Check to see if your question has been answered before or how your bid team members handled the issue in an earlier tender.

Ask a supporter or mentor privately. In most cases you will still have access to your supporters and mentors. You can ask them to clarify the tender issue for you.

Ask your question after the clarification meeting notes have been sent. If you must ask a clarification question, then ask it after the customer has sent out the minutes to the clarification meeting. The customer might not be happy, but it is still better than helping the competition. In this situation, wait until you receive the summary from the clarification meeting. You can always say the question came to you after you saw the list of clarification questions. If you ask immediately after the clarification meeting, then the customer most likely will include it in the minutes of the meeting sent to everyone.

Clarify to Position Against the Competition

Any clarification question should be analyzed as to how you want the competition to use the information. You can use clarification questions to mislead the competition and highlight their weaknesses. An example of misleading the competition is when you want the competition to think you do not have the required equipment in country for the tender. Your clarification question would be something like:

Salesperson: "Can the bidder have the company's customs department clear equipment into the country for the project?"

The expected answer from the customer will be:

Customer: "No. Bidders are responsible for custom's clearance of any equipment into the country."

The purpose of the question is to lead the competitors to believe you do not have equipment in country and, therefore, they will increase their prices, making it easier for you to win.

To highlight the competition's weakness, ask questions to clarify if the customer will give preference to advantages your company provides and the competition does not. For example, you might ask whether the customer will give preference to companies with operating or manufacturing facilities in country. In this case, you have a facility in country, but the competition does not. You know the customer will say no. This is what you want the customer to say so the competition will not be concerned and try to offset their apparent drawback by bidding lower. The objective of asking this question is that it will make the customer aware of your advantage and they will think about this afterwards. The benefit will be in evaluations that are close. It could be these added benefits that convince the customer to award the work to your company. If you do not know the answer or how the customer will reply, then do not ask the question before you find the answer outside of the clarification meeting.

If You Must Ask Questions, Ask Last

Ask your clarification questions last. There is a good chance other bidders will have the same question, and you can let them ask; by waiting until the end of the meeting, there is a good chance the answers to other clarification questions will answer your question.

If you do not ask any clarification questions, the customer will not know if everything is clear or you have not read the tender. You must ask several questions (e.g., on the meaning of abbreviations) to communicate to the customer that you have read their document very closely. These types of questions demonstrate that you have read the tender without passing any useful information to the competition. Ensure that you demonstrate to the customer that you are excited about having this opportunity to win their business.

The next clarification meeting will be after you have submitted the bid and the customer has had time to review your offer. The customer clarification meeting will discussed later in this chapter.

Bid Strategy Creation and Execution

Once the bid team has completed the review of the tender documents and considered what they learned from the clarification meeting they will build a bid strategy. The bid strategy considers what the sales team has been able to achieve with their competitive sales strategy, the level of alignment between the customer's buying center and your company, and the overall importance of this bid. **Fig. 10.7** shows the many factors influencing the bid strategy decision.

The bid team will present their bid strategy to management at the bid strategy review meeting for their feedback and approval. Once any remaining questions from the bid strategy meeting are answered, the offer is locked and the bid written.

The bid strategy to be reviewed at the bid strategy review meeting consists of the following:

- **Offer.** The offer includes tender assessment, proposed pricing, terms and conditions, operational plan, and any required investments.

- **Proposal Strategy.** What will be the key messages of the proposal? The proposal should tell the story of why to choose your company and not the competition.
- **Proposal Outline.** The purpose of the outline is to identify each part of the proposal, what is required, who is assigned the responsibility of writing, and the due date.

Offer

The offer is the critical part of the bid strategy. Influenced by all the factors shown in Fig. 10.7, the offer clearly defines what your company will commit to providing to the customer and at what price and terms and conditions. The offer meets the customer's tender requirements, beats the competition, and achieves your targeted financial objectives. The offer consists of three parts:

- **Deliverables.** What will you sell or provide to the customer and are any additional investments or other resource allocations needed?
- **Pricing.** What is the the winning TTV?
- **Cash flow.** When will the EV revenues occur?

Deliverables

The deliverables of the offer is what the company is committing to the customer. This part of the offer is established by working closely with the operations team. It is important to identify if the deliverables are standard products and services that can be provided by the current infrastructure or whether there will be additional investments needed or reallocation of resources.

Pricing

For many managers, this section is the most important decision to be made for the bid strategy. The first question the bid team must answer is what is the winning TTV and what was their benchmark to establish the TTV? Depending on the type of tender, the level capabilities of your competitors and level of rivalry

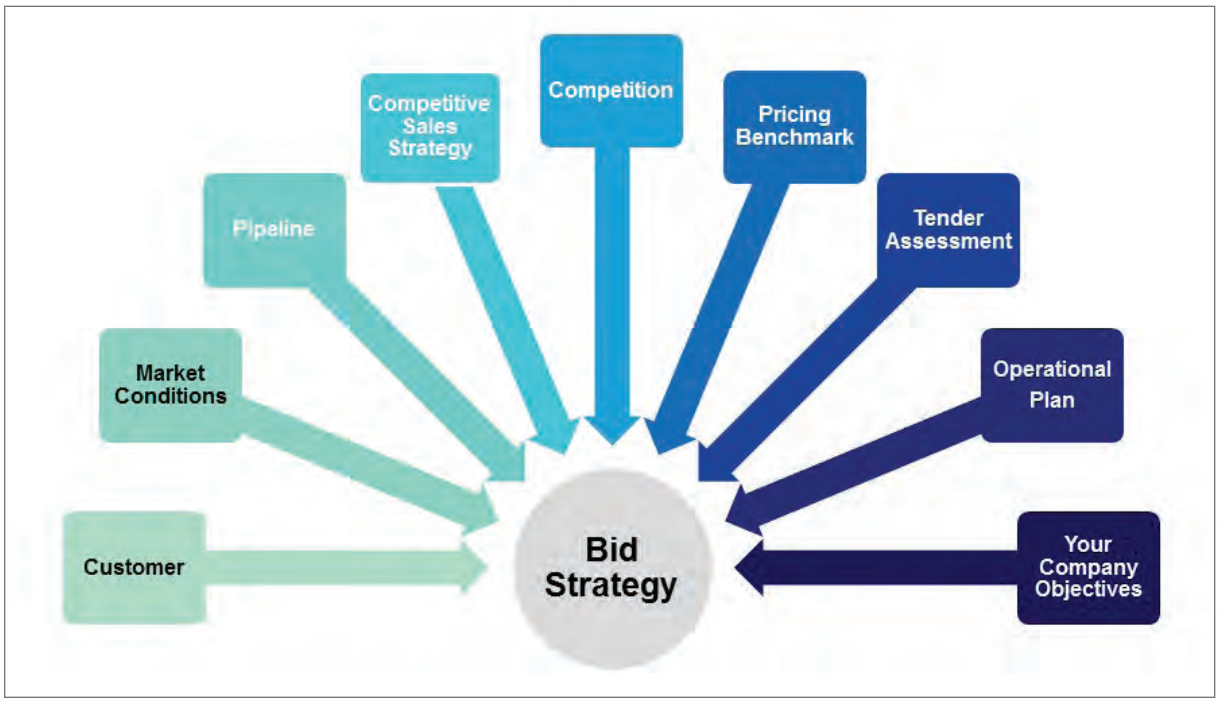


Fig. 10.7
The bid strategy is a key milestone in competitive bidding. There are many factors that are required inputs to create the best strategy.

between you and your competition will dictate where your pricing needs to be relative to the competition. In some situations, to win you may need to bid a lower price than your targeted margins and sell more once awarded the tender. The strategy of selling more is covered in the cash flow discussion of this section.

Your ability to identify correctly the level of pricing depends how accurate your pricing benchmark is. This will be discussed in more detail in Chapter 11 "Pricing for Bidding." The more confidence management has in the benchmark, the more confidence they will have in the bid team's strategy. When management is not confident in the pricing benchmark, then they will question the strategy and typically apply a safety factor to improve the chances of winning the work which in most cases results in larger discounts.

Cash Flow

The offer must clearly identify where and when the EV revenues will be realized and the associated costs. The cash flow must be completed in cooperation with operations management. The operations team needs to take this information to calculate the operating costs to provide the deliverables and calculate a financial statement for the bid.

The source of your revenue is from the expected sales:

- Products and services as requested in the tender scope of work and adjusted using the bid team's analysis of the tender document.
- Additional product and services not identified in the tender document analysis. For example, the salesperson believes the customer will buy a new product or higher level of service once the contract is awarded that was not requested in the tender document. Most companies have a name for this type of sales: up-selling or cross-selling. Many times the owner of the opportunity will identify this possibility during the opportunities management process and will execute a flanking competitive sales strategy. The various sales strategies and how these relate to the different types of tenders was discussed earlier in this chapter and in depth in Chapter 4 "Opportunities Management" and Chapter 9 "Strategic Sales Plan."

One of the key decisions for the offer is the level of discounting that will be required to beat the competition and secure the work while at the same time achieving your company's financial objectives. This one decision impacts both the TTV and EV. A tool to help you optimize your pricing is Solver, an add-in for Excel. With Solver, when there is a tender factor such as the scope of work that is overstated or understated, you can optimize discounting, leveraging the discrepancy between the actual scope of work and what you believe the real scope of work. By using Solver you will be able to identify the correct level of discounting to give you the lowest evaluated TTV and highest level of EV.

Table 10.11
Tender analysis with minimum and maximum pricing from winning tenders added for the requested products and services.

Using the example from Chapter Highlight 10.3: I'm 90% Confident shown in **Table 10.11**, the bid team for this example analyzed their pricing from the last twelve months of winning tenders and used the average of the lowest and highest prices

Requested Products and Services	Tender Quantities	Bid Team Assessment	Minimum Quantities	Most Likely Quantities	Maximum Quantities	Winning Bid Price Last 12 months Average Pricing	Tender Quantities Average Pricing TTV	Most Likely Quantities Average Pricing EV	Pricing Minimum	Pricing Maximum
Product A	1,000	Overestimated	400	800	900	$ 1,050	$ 1,050,000	$ 840,000	$ 800	$ 1,300
Product B	1,300	Overestimated	600	700	1,000	$ 900	$ 1,170,000	$ 630,000	$ 600	$ 1,200
Product C	5,000	Underestimated	4,000	6,000	7,000	$ 500	$ 2,500,000	$ 3,000,000	$ 300	$ 700
Technician Days	100	Underestimated	100	400	500	$ 2,100	$ 210,000	$ 840,000	$ 1,200	$ 3,000
							$ 4,930,000	$ 5,310,000		

(shown in the far right-hand side of the table) for products A, B, C, and technician days to calculate the following:

- TTV of $4,930,000
- EV of $5,310,000
- P90 value of $4,443,274

This level of pricing was satisfactory as the pricing achieves the targeted level of profit for this tender. The question is can the team do better by optimizing their pricing and discounting levels?

Figure 10.8 shows the settings using Solver. The Solver Parameters screen, on the far left of the figure, shows the constraints set by the bid team. In this case, the objective was set to maximize EV highlighted in green. The program will run many iterations to identify what values tested in the orange cells will give the highest value of EV. The values in orange cells changed within the constraints of the Solver price becoming greater than the minimum price but less than the maximum winning price, and the bid offer TTV must be equal to $4,930,000. The team could have chosen to make the Solver TTV less than $4,930,000, but that would not be recommended as the team's benchmarking analysis identified $4,930,000 as the winning TTV. In competitive bidding you want to be at the target but no lower than necessary, as the lower you go the riskier it is for you to achieve your targeted profitability levels. Once the constraints have been set, clicking the Solve button in Excel will provide the values for the orange cells that satisfy the constraints. In this example, the bid team was able to optimize the pricing to increase the revenue by $610,000 or 10.3%.

However, as discussed in the same Chapter Highlight 10.3: I'm 90% Confident, the EV of $5,310,000 is only one number out of many possible scenarios. Now that the revenue table and model are already built, it is easy to run the Monte Carlo analysis to have a more robust analysis of the optimized pricing. **Table 10.12** shows the EV of the optimized pricing P90 value increases from $4,443,274 to $4,834,463, or 8.1%, which is significant. As a professional salesperson, this should motivate you to analyze what the customer has requested in their tender. Discrepancies from the real scope of work indicate gaps where you can gain a competitive advantage. From a customer's perspective, they see nothing different from what you bid to what is charged during the project. Everyone is happy:

- Customer has a low TTV.
- You win the work and make your bonus.
- Your company management will make their revenue profit objectives.

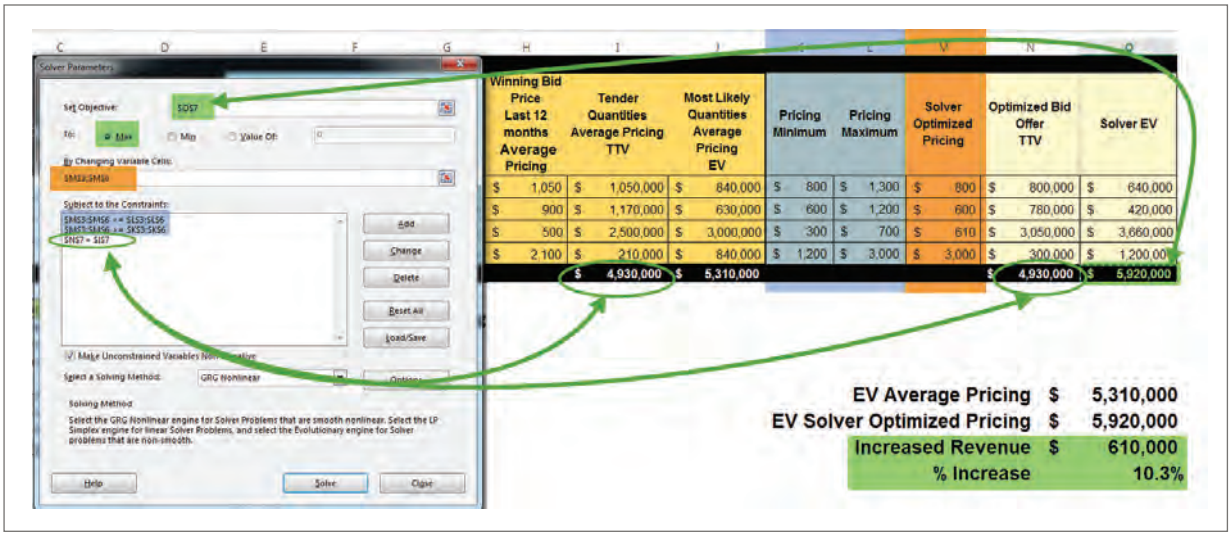


Fig. 10.8
Solver constraint settings to optimize pricing.

Average Pricing		Solver Optimized Pricing	
Percentile Distribution		Percentile Distribution	
Percentile	Value	Percentile	Value
0%	$ 3,683,859	0%	$ 4,006,062
5%	$ 4,291,410	5%	$ 4,655,154
10%	$ 4,443,274	10%	$ 4,834,463
15%	$ 4,544,355	15%	$ 4,967,899
20%	$ 4,628,846	20%	$ 5,084,446
25%	$ 4,703,342	25%	$ 5,174,574
30%	$ 4,755,990	30%	$ 5,233,325
35%	$ 4,821,016	35%	$ 5,299,046
40%	$ 4,880,523	40%	$ 5,361,955
45%	$ 4,933,032	45%	$ 5,426,595
50%	$ 4,982,257	50%	$ 5,485,712
55%	$ 5,025,532	55%	$ 5,546,565
60%	$ 5,064,441	60%	$ 5,626,133
65%	$ 5,119,339	65%	$ 5,689,121
70%	$ 5,176,217	70%	$ 5,742,203
75%	$ 5,228,582	75%	$ 5,823,914
80%	$ 5,295,710	80%	$ 5,903,975
85%	$ 5,364,446	85%	$ 5,981,166
90%	$ 5,438,277	90%	$ 6,088,316
95%	$ 5,534,091	95%	$ 6,208,985
100%	$ 5,994,062	100%	$ 6,605,573

EV Average Pricing	$ 4,443,274
EV Solver Optimized Pricing	$ 4,834,463
Increased Revenue	$ 391,189
% Increase	8.1%

Table 10.12
Monte Carlo results for average pricing and Solver optimized pricing.

All the tender assessment efforts and supporting actions will add percentage points to the bottom line. The sidebar, the "Power of One" demonstrates what the impact of reducing discounts by just 1% has on profitability. Every person on the bid team needs to understand how significant each pricing decision for a bid has on the company's success. You want each person on the bid team to be thinking like a smart business person.

Presenting Bid Strategy Information and Tender Document Assessment

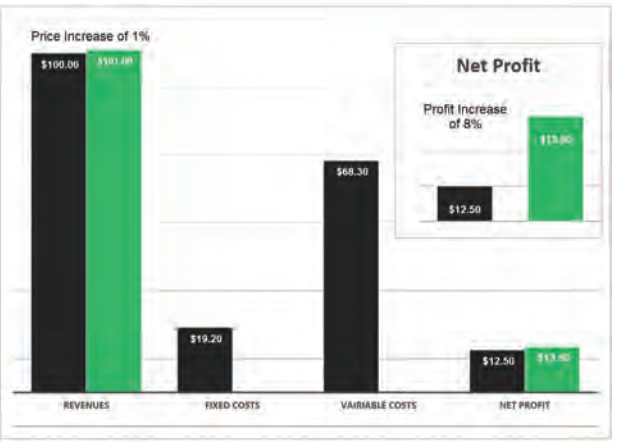
The tables containing the bid strategy information (market factors, pipeline analysis, and opportunity assessment) and Table 10.10 Tender Document Assessment Summary are presented in the bid strategy review meeting to support the bid strategy discussion. **Figure 10.9** is an example of how this information is presented.

The top left part of the page has a summary of the tender analysis, and the top right part shows the offer summary including the Monte Carlo analysis for reve-

▶ The Power of One[7]

Pricing right is the fastest and most effective way for managers to increase profits. Consider the average income statement of an S&P 1500 company: A price increase of 1%, if volumes remained stable, would generate an 8% increase in operating profits—an impact nearly 50% greater than that of a 1% fall in variable costs, such as materials and direct labor, and more than three times greater than the impact of a 1% increase in volume.

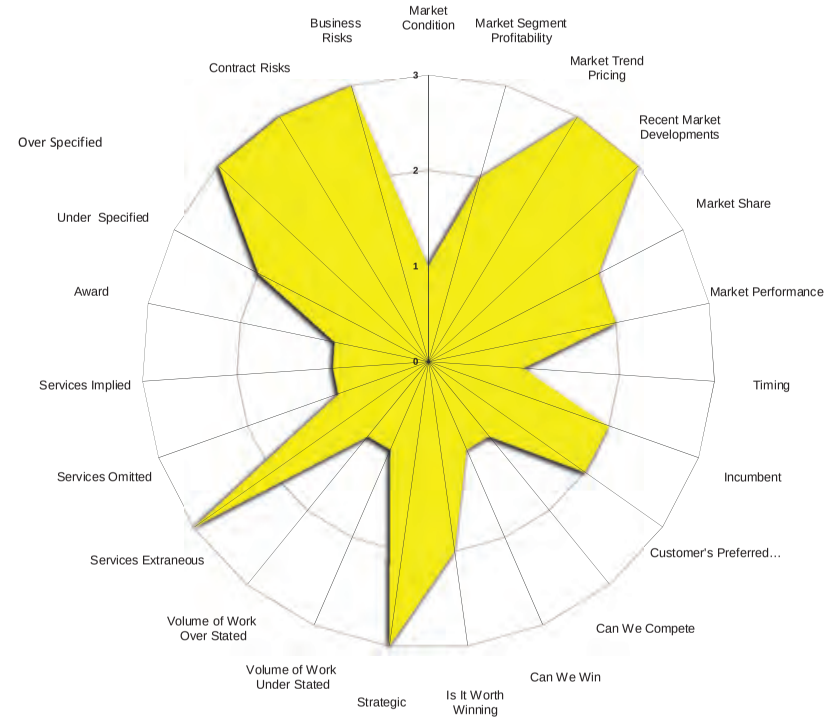
Unfortunately, the sword of pricing cuts both ways. A decrease of 1% in average prices has the opposite effect, bringing down operating profits by that same 8%, if other factors remain steady.



TENDER ANALYSIS AND OFFER SUMMARY: EXAMPLE

TENDER ANALYSIS

Categories	Factor			Analysis
Market Intelligence	Market Condition	1		Limited Capacity
	Market Segment Profitability	2		Near
	Market Trend Pricing	3		Decreasing
	Recent Market Developments	4		Negative
Pipeline Analysis	Market Share	5		Split
	Market Performance	6		Splitting
	Timing	7		Good
	Incumbent	8		Neutral
Opportunity Assessment	Customer's Preferred Relationship	9		Consultative
	Can We Compete	10		Strong
	Can We Win	11		Strong
	Is It Worth Winning	12		At Target
	Strategic	13		Competitor
Tender Analysis	Volume of Work Under Stated	14		>10%
	Volume of Work Over Stated	15		Accurate
	Services Extraneous	16		None
	Services Omitted	17		>10%
	Services Implied	18		>10%
	Award	19		Single
	Specification Under	20		<=10%
	Specification Over	21		>10%
	Contract Risks	22		Non-compliant
	Business Risks	23		High
Frequency	Green Level 1 MIS		9	
	Yellow Level 2 SBS		7	
	Red Level 3 DNI		7	



OFFER SUMMARY

	Parameter	Value		Monte Carlo Analysis
Revenue and Profit Projections	Market Rate for Scope of Work	$ 100,000		High Confidence Will Not Make Less / Low Confidence Highest Estimate
	Bid Evaluation Total Tender Value (TTV)	$ 99,000		
	TTV Relative to Market	Below		
	TTV Gross Profit $	$ 22,500		
	TTV Net Profit %	14%		P90 / P50 / P10
	Expected Value (EV) Revenue Target	$ 133,135		$ 120,000 / $ 160,000 / $ 180,000
	EV Gross Profit Target $	$ 48,135		
	EV Net Profit Target %	18%		16% / 22% / 25%
Strategy	Type of Tender	3		Comments
	Strategy Description	Flanking		
	Negotiation Position	Strong		
Critical Success Factors	Tactics	Prove	☐	Comments
		Retrieve		
		Insulate	☐	
		Minimize		
		Emphasize		
	Relationship Strategies	Leverage	☐	Comments
		Motivate	☐	
		Neutralize		
	Other	Partner		Comments
		Customer		
		Your Compan		
		Competition		
		Other		

Comments

Will treat as Type 3 tender and submit competitive tender for generic services, and sell up (Flank) during project execution starting with the 2nd well drilled on the edge of the field which we believe makes the tender understated and there will be several services run that are not in the tender. Must also word carefully what our proposal includes. Customer's expectations is influenced by competitor last project who gave a lot of services away. The tender has several Implied services. Need to address perception of below average service with Asset Manager possibly leveraging our executive level supporter. At the time of final decision need to review value add with our supporter as competitor has one high level supporter who is the other approver.

Fig. 10.9
Example tender analysis and offer summary presentation format..

Chapter Highlight 10.5: Made in the Shade

Presenting the tender analysis on one page can help immensely in understanding what the chances of securing the tender and achieving your targeted profitability are. The tender analysis worksheet has been designed to show the factors of market intelligence, pipeline analysis, opportunity assessment, and tender analysis. Each factor has three options when evaluating:

	TENDER ANALY			
Factor				
	Market Intelligence			
Sub-Factors	Market Condition	Market Segment Profitability	Market Trend Pricing	Recent Market Developments
Level 1 - MIS	Limited Capacity	Above	Increasing	Positive
Level 2 - SBS	Equilibrium	Near	Flat	Neutral
Level 3 - DNI	Excess Capacity	Below	Decreasing	Negative
Factor Analysis				
EXAMPLE	Limited Capacity	Near	Decreasing	Negative

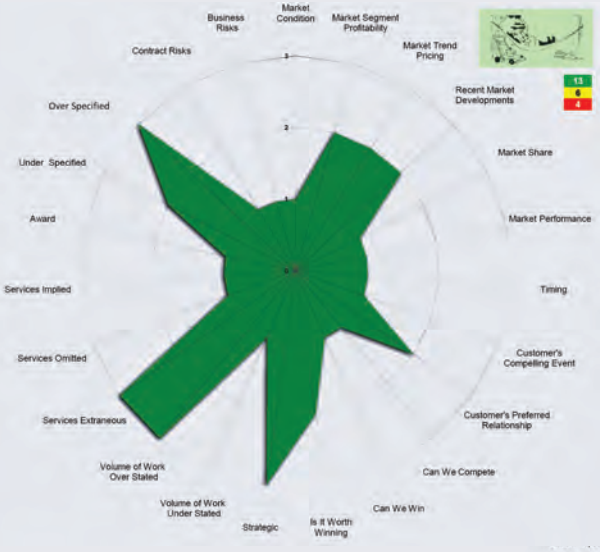
Level 1 Green Positive: "Made in the Shade." This tender is yours; go relax in the shade.

Level 2 Yellow Neutral: "Slowly But Surely." There a few things to done before you are a winner.

Level 3 Red Negative: "Damn Near Impossible." You feel like the guy in jail with the ice bag. Maybe this is a good time to disengage and let the competition win?

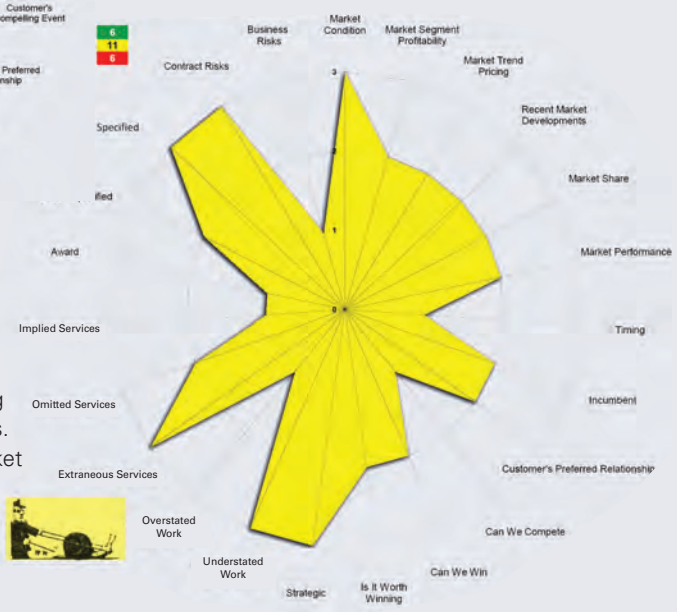


The results from the analysis worksheet are presented on one page as shown in Fig. 10.9, and the factors are listed in Tables 10.1. 10.2, and 10.8. The spider diagram plots all the factors according to the assessment; the more factors around the center, the more confident the team should be to win the tender at their targeted profit. Shown below are three real examples of spider diagrams for real tenders—from Thailand, Alaska, and Alberta. All were large B2B contracts for two years and worth more than $1 million each.



Alaska

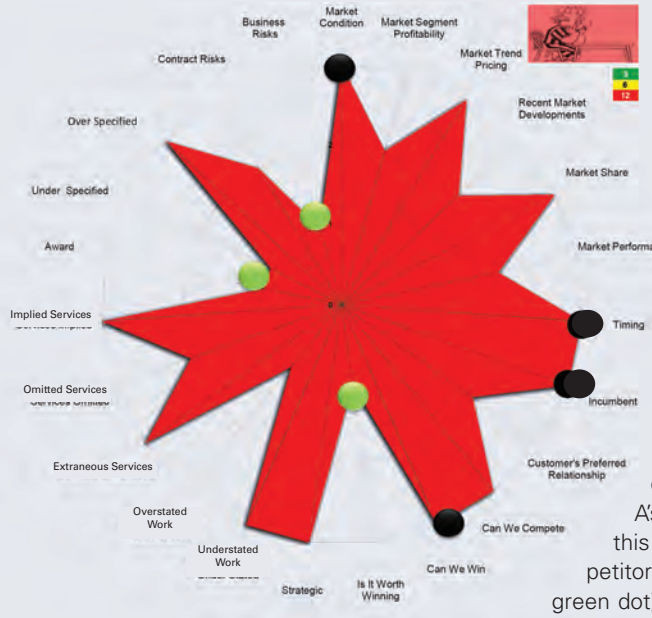
This analysis is for Company A and shows 13 of the 23 factors are at level 1 with only four at the level 3. This is truly a Level 1 "Made in the Shade" tender of which the bid team was able to secure even though it was strategic with for the competition. Because Company A was the incumbent, they had a very good understanding of the customer's business and strong relationships as shown by the "Can You Win" being assessed as "Strong."



Alberta

In this example, there are fewer level 1 factors and more level 2 factors. The sales team for Company A in this example did win. It was a very tough battle. What the bid team did was leverage that the timing was good, and the company had available resources. As a result, the bid team bid slightly less than market rate and secured the opportunity. They made their targeted profitability by not including the implied services in their offer price. This allowed them to bid slightly less than the competition and capture the work.

Chapter Highlight 10.5: Made in the Shade (cont.)



Thailand

In this situation, there are a lot more level 3 assessments (twelve level 3, six level 2, and five level 1) than the first two examples. This is "Damn Near Impossible." This analysis was reviewed at Company A's regional office in Kuala Lumpur. The black dots highlight some of the very critical factors. First, the timing was not good because immediately after this tender was another major tender, but next time it would be in Malaysia where Company A was incumbent. Next the competitor had very good inside support from the customer's buying center members. The other significant factor was the market condition's excess capacity, meaning if either Company A or the competitor lost the work their people and equipment would not be used elsewhere. Company A's management, however, was very eager to win this tender because the reported profitability the competitor was earning was very good (highlighted by the green dot). The award was to a single supplier and the business risks were low as the customer chose to work in a win–win approach with their contractors and the contracting policy was fair.

What happened was Company A tried to win by submitting a very low price, much lower than the market rate, so the customer would not say no to them. When the customer received the very low price, they were surprised. The customer asked the competitor to match Company A's price or they would be forced to award to Company A. The competitor did match Company A's price and awarded the work. Company A lost, but this is not the worst part. The competitor now believed the price they were shown was the new market rate and for the next bid in Malaysia they dropped their prices, not wanting to lose. In this case, Company A was asked to price match the much lower prices of the competitor and they did. The unfortunate part of this is both companies ended up with the same amount of work but now at much less profit. Company's A analysis confirmed they could win the first two and would lose the third tender. Their analysis told them to disengage from the third example, but they chose to "try to win," which was not very smart. Professional salespeople use these tools to make smart business people decisions.

nue and profitability. On the bottom of the summary is a radar graph that visually shows of how difficult it will be to win the tender. **Chapter Highlight 10.5: Made in the Shade** explains how to interpret the results. The worksheet to enter all the bid strategy factors and create the presentation format shown in **Fig. 10.9** is available for download from the textbook website.

Offer Summary—Revenue and Profit Projections

In this section of the analysis worksheet, you enter your revenue and profit analysis for the tender. This section is completed with input from the bid team member from operations.

Market Rate for Scope of Work. What is the market rate for the scope of work? What will your most serious competitor submit for their offer? This is based on your benchmark analysis and how the competitor will evaluate the tender. Will they make the same assessment as you? Do you think they will identify extraneous, omitted, and implied services? Will they interpret specifications differently from you? Will they expect to up-sell? What will their offer consist of for products, services, and other deliverables? The market rate of your most serious competi-

tor will not only depend on what they are going to sell, but also what their costs will be to service the work. All these factors need to considered as part of your competitive analysis and benchmarking exercise.

Bid Evaluation Target (TTV). Depending on the type of tender, what you submit as an offer and what you invoice can be different. In this cell, you enter what you expect the customer to evaluate as your total offer price. This value is extremely important if the customer wants to negotiate prices. Before starting the negotiation, you should first confirm what your offer was evaluated at. If it is not what you expected, then before starting to negotiate you need to understand where the difference is coming from. You discover this information in the "Resolution of Concerns" procurement stage after you submit your proposal. There will be more discussion on negotiations in Chapter 12 "Collaborative Negotiations."

TTV Relative to Market. Where is your TTV compared to the market rate above, the same or below. This cell is a visual flag. The color coding for above is red, same is yellow, and below is green. If a Type 3 Transactional Tender, the flag needs to be green. If not, you will need to negotiate to win the work. For a Type 2 Consultative Tender, it is okay to be more expensive as long as your offer is within the acceptable premium allowed by the customer's evaluation model. As a guideline for Type 2 Consultative Tenders, you need to be within 10% of L1; if more than 10%, you will need to negotiate after you submit your offer.

TTV Gross Profit $: Gross profit is a finance term used by management to determine the profitability of a tender. The gross profit margin is how much cash the opportunity will generate in the execution stage. To calculate the gross profit, you need to know the TTV gross sales and the incremental cost of goods or services sold.

TTV Gross Profit $ = TTV Sales – Incremental Costs

In Chapter 11 "Pricing for Bids," there will be much more detail on the financial indicators discussed in this section.

TTV Net Profit %: The net profit of a tender is the difference between TTV sales and total expenses divided by TTV sales. Total expenses includes in addition to incremental costs, overhead, interest payments, and taxes. The net profit margin is the amount of profit a business receives for each unit of sales. For example, if Net Profit % is 10%, it means for every dollar of sales the company has ten cents left over to grow the company or give a portion of the ten cents back to shareholders.

TTV Net Profit Target % = TTV Sales – TTV Total Expenses / TTV Sales

Expected Value (EV) Revenue Target: This is the bid teams estimate for the expected revenue. This should be supported with a summary analysis identifying the revenue components. Revenue components can vary from tender to tender, but should include as a minimum:

- **Base sales.** What the customer has clearly requested in the tender.
- **Additional sales.** Revenues resulting from identified tender issues such as underestimated scope of work, omitted or implied products and services, under-specified product and services.
- **Sell-ups.** Additional revenue not identified in the tender. The sales team believes they can sell higher level products and services based on the customer's needs.
- **Cross-selling.** Additional revenue from selling complimentary products and sales not included in the tender and not already included in the EV.

The bid team will also need to explain differences between TTV and EV when EV is lower than TTV due to such tender issues as overestimated scope of work, extraneous products and services, overspecified products and services, and

awards. As mentioned earlier, the timing of revenue flows is very important. Irregular revenue flows and how these impact cash flows need to be explained.

The EV revenue target factor has an associated Monte Carlo analysis, as discussed earlier in this chapter. The Monte Carlo analysis provides a measure of the risks and uncertainty for the tender. After completing the Monte Carlo analysis, enter the P90, P50, and P10 EV revenue projections. These factors will influence how management views the attractiveness of the opportunity compared to other opportunities.

EV Gross Profit Target $: This is the same calculation as TTV gross profit except for this factor you use the EV rather than the TTV revenues and the incremental costs associated with the EV sales. This is the gross profit the bid team is expecting from this tender.

EV Gross Profit Target $ = EV Sales – Incremental Costs.

EV Net Profit Target %: This is the same calculation as TTV net profit except for this factor you use the EV sales rather than the TTV sales and the total costs associated with the EV sales. This is the net profit the bid team is expecting from this tender.

EV Net Profit Target $ = EV Sales – EV Total Costs / EV Sales

The EV net profit target also has a Monte Carlo analysis values for P90, P50, and P10 EV net profit projections. The EV revenue and net profit are what most companies use when reviewing bids to decide to either disengage or continue and submit a winning bid. The final offer can be what the bid team recommends or it can be the bid team offer with adjustments from management.

Offer Summary–Strategy

In this section of the analysis worksheet, you enter your strategy summary.

Type of Tender: What approach and decision criteria will the people in the customer's buying center use to select their supplier? In particular, at this stage of the opportunity, you should be focusing on the decision-makers and approvers. Will they treat this tender like a:

- **Type 1 Enterprise Tender.** The best overall solution and support.
- **Type 2 Consultative Tender.** Best value for money spent and within their premium allowed over L1.
- **Type 3 Transaction Tender.** L1 wins.

To support your analysis, you should also be prepared to present the business and personal priorities of the people in the buying center and the formal decision criteria.

Strategy Description: What is your competitive sales strategy to secure this project?

- **Frontal.** Are you telling the buying center you have the absolute best solution given the formal decision criteria?
- **Flanking.** Are you going to sell something different either as an alternative proposal or after you win? This strategy is commonly known as "bid low and sell up." This is common in Type 3 Transaction Tenders.
- **Fragment.** Your offer is for only a portion of the project.
- **Defend.** You know you will be evaluated as weak using the formal decision criteria and are depending on the customers in the buying center who are your supporters and mentors to defend the decision to award to you. This is a common strategy for Type 3 Transactional Tenders when you are competing against low cost competitors who will be cheaper, but you have a portfolio of value-added products and services the customer needs.

It is important your competitive sales strategy and financial analysis match. For example if you are using a fragment strategy, then your TTV and EV estimates need to reflect the financial for the portion of the work that you are targeting and not the entire scope of work as described in the tender.

Negotiation Position. Overall, when all factors are considered how would rate your negotiation position. Do you have trades that will allow you to negotiate a win-win agreement. The options are:

- Strong. You have several trades the customer wants that you can use to close the deal.
- Limited. You have a few trades to close the deal, and
- Weak. You do not have sufficient trades or support within in the buying center to close the deal.

The topic of negotiations will be discussed in depth in Chapter 12 "Collaborative Negotiations."

Offer Summary—Critical Success Factors (CSF's)

In this section of the analysis worksheet, you enter CSFs grouped by tactics, relationship strategies, or other actions that need to happen in order to secure the project and achieve your financial objectives.

Tactics. What are your key tactics that are planned for this bid during the remaining procurement phases? If you expect to negotiate you must include tactics to support your negotiation strategy. If your strategy includes critical items that must occur in the implementation, these should also be presented. Such tactics might be needed in the implementation stage to:

- Sell omitted, implied, or services that were under specification in the tender.
- If your strategy to make your EV and EV net profit depend on you up-selling or cross-selling, then it is important this be identified.

Each tactic is a sales call and must have each of the SMART components as described in Chapter 7 "Sales Call Skills."

Relationship Strategies. If you have a tactic identified how would you categorize the relationship strategy for your tactics? Are you trying to leverage, motivate, or neutralize someone?

Other If there are other actions needed that are not a sales call then identify what the action is.

Comment Boxes. There are comment boxes for the offer summary and overall comments. This is where you can add additional details to describe or explain your analysis.

For a real examples of bid strategy presentations, see Chapter Highlight 10.4: Made in the Shade.

After the bid strategy review meeting, the offer is locked and the final phase of writing and reviews is completed as described in Chapter 6 "Sales Activities."

Present Proposals. Once the bid has been submitted most people in the customer's buying center will assign sections to different reviewers and evaluators. After the customer has had sufficient time to complete their reviews, then the salesperson visits the customer as per the opportunities management stage "Resolution of Concerns." At this time the salesperson wants to ensure that there are no questions or concerns regarding their bid submission. Also at this time the salesperson needs to confirm the price the customer evaluated for their offer. If there are any discrepancies between what the bid team expected to be evaluated

at and how the customer evaluated the offer, the salesperson needs to understand the discrepancy and try to resolve the differences. At this time or as part of a more formal tendering process of the customer, there can be a clarification meeting with the bidders.

Customer Clarifications

Customer clarifications happen after they have reviewed your bid. The main issue here is there are genuine clarification questions that you should be prepared to answer. However, in many situations the customer clarifications are the first round of negotiations. In some companies, the tender team will only bring to a clarification meeting the bidders being seriously considered (i.e., the "short list" companies, one of whom will be awarded the work). The difference between clarification questions from the customer and negotiations is, in a clarification question, you can answer without impacting your profitability or risk exposure. For example, a legitimate clarification question is:

Customer: "How many engineers are you including at the job site?"

Salesperson: "Two."

Keep your answers short, and answer only the question being asked. If the customer wants more information they will ask another clarification question. The same question as part of negotiations is, after your answer of "Two," the customer asks:

Customer: "Are these both senior engineers?"

Salesperson: "No, one senior and one junior."

Customer: "We need two senior engineers. The other companies are providing senior engineers, and you must also provide the same."

If the clarification question results in your profitability dropping or risk exposure increasing, then this is considered negotiations. If you discover you might lose the bid, this could be a time for you to negotiate or make an alternative offer. Both of these issues and negotiations will be discussed in depth in Chapter 12 "Collaborative Negotiations."

Clarification Meeting Best Practice

There are several best practices for both bidder and customer clarification meetings:[8]

- Always have two people at the clarification meeting: one person observing and taking notes, and the other asking the questions.
- Whenever the customer asks you a clarification question, probe to understand their question, acknowledge by paraphrasing their question, and then answer their question. After answering check with the customer to confirm that their question has been answered.
- Arrive early and depart last.
- After the clarification meeting, if in the customer's office, schedule a meeting with your mentor or supporter to update them about the meeting and ask for their feedback.
- If clarifications meetings are scheduled with companies individually, ask to go last. You will learn the most by going last, either for your bidder clarification meeting or the customer's clarification meeting.

Post-Award Contract Handoff

Once the work has been awarded and the contract signed, the bid team should hold a handoff meeting to pass the signed contract to the operations team who will execute and invoice the work. At this meeting, the bid team should clearly document and explain the bid strategy and details of how items and specific situations are to be invoiced. The handover meeting should include the person assigned as the contract owner, who will have the responsibility to manage and track the performance of the contract over the contract period and arrange a mid-project contract review to audit the contract performance. The purpose of these reviews is to compare actual invoiced revenues against expected revenues and understand any differences, both good and bad. At this review, there should be a detailed audit organized by the contract owner with people from the original bid team, operations, and accounts receivables staff. The deliverable should be a detailed report identifying best practices, revenue leakage, and recoverable actions for the unrecovered monies. For a real example of the value of mid-contract review audits, see the sidebar "That's Another Business Unit."

In the middle and end of the project, the contract owner should create a report, including:

- Actual performance total revenue and profitability.
- How much revenue was invoiced from sources identified in the tender assessment, such as scope of work being under stated, omitted, and implied and under-specified products and services?
- How much revenue was invoiced from up-selling and cross-selling and were the expected up-selling and cross-selling levels achieved?
- What percentage of the scope of work was completed?
- Were there any significant issues affecting revenue and profitability that were not identified during the tender assessment but were in the mid-contract review?

This analysis should be done and reviewed with members of the bid team and filed with the middle and end-of-project review described in Chapter 4 "Opportunities Management."

▶ That's Another Business Unit

A large multi-national company's Latin American division had annual revenues of approximately $3,000,000,000 per year. The executive, at the recommendation of the contracts manager, decided to complete detailed audits of the largest contracts from each country in its division. It was a huge undertaking with large commitments of people and time from the contracts department, sales, finance, and operations. At the end of the initiative, the company discovered some shocking numbers. The good news they found:

- $80,000,000 of recoverable revenues and third-party charges that had not been charged as per their contracts.
- Significant revenues that were not recoverable and were considered lost or what some companies refer to as red money.

Their recommendations were to change existing procedures and future contracts so that almost none of the red money would happen again. In the meantime, they began to collect $80,000,000.

When the president of the division received the report, he was thrilled with the impact that recovering $80,000,000 would have on his profitability because money was, as he called it, "pure profit." His division consisted of five major business units, and $80,000,000 profit in his words would be "another business unit."

Mid-contract reviews became a standard practice.

Summary of Chapter Objectives

In this chapter, you have seen the competitive bidding methodology, processes, and tools. These will allow you to manage effectively the tender workflow, assess a tender document, prepare a bid strategy, determine what to expect in the bid strategy review meeting, and identify post-award activities to manage the contract. The implications of this task are significant for every company. The result can range from making a profit to risking the very existence of the company.

1. Know how to manage the tender workflow.

Managing the tender workflow is the key activity in the opportunities management stage: 3b, submission of the proposal. A key to success is starting to prepare for this stage by collecting the information you need to during this stage. Information for the bid submission and competitive information about the market conditions, your pipeline, and what you have been able to achieve with your competitive sales strategy is required before receiving the tender. The tender assessment quality is significantly improved by leveraging the information gained from the earlier stages and understanding of the customer requirements. All this pre-tender preparation allows you to focus on the main task of completing the tender assessment. There are a lot of activities during this stage, and it is critical that the bid team be organized and assign a team member to each one of the key dates in the tender timeline. Once you have received the tender, there is a tender orientation with the core bid team. The time the bid team has to work on the bid has three stages. The first stage dedicated to creating the bid strategy and having the bid strategy approved is the bid strategy review meeting. After this meeting, the offer is locked, and the bid team writes the offer. Writing the offer is the bulk of the work for preparing a bid. Writing the offer needs to be completed by a specific date to give the proposal reviewers time to read the proposal like a customer and provide feedback to improve the proposal. Once the proposal is revised, it is then packaged and submitted to the customer. There are two clarification meetings. The bid team clarifies any issues they have with the customer's tender before they start to write the offer. The customer will have a clarification meeting with the bid team after the bid is submitted. An important part of managing the tender workflow is doing a midterm contract audit of the contract performance to ensure that all invoicing is done correctly, and additional sales are taking place as planned. If there are any post award issues, these are documented and reviewed with the bid team and management as part of the ongoing improvement process.

2. Perform a tender assessment.

To assess the tender in a thorough and complete manner, use a four-factor tender assessment model. The first factor is the type of tender. Next is the accuracy of the scope of work consisting of the volume of work, products and services, and how the contract is awarded. The third factor is specifications, and last is the risks both in contract terms and business risks.

3. Know the components of the bid strategy.

After the tender assessment, the bid team prepares their bid strategy, covering the offer, proposal strategy, and proposal outline. In the bid strategy, the bid team must provide the details of issues discovered during the tender assessment and how these will be addressed with the pricing strategy. The bidding strategy should also include the negotiation strategy and other key activities to manage the progress of the bid through the customer's procurement phase and post-award actions. The other key components of the bid strategy is the overall proposal strategy and the individual components of the proposal.

4. Understand the key factors for a comprehensive bid strategy review.

There is a lot of information to review at the bid strategy review meeting. As discussed in Chapter 9 "Strategic Sales Plan" this is not the first review for important opportunities. The first review was the Level 2 Strategic Sales Plan Review, where you become familiar with the opportunity for the reviewing managers to focus more on the specifics of the offer. The main tool for presenting this critical information is the bid strategy worksheet, which organizes the critical strategy information and creates a one-page review document. The review document includes all the tender assessment factors, bid strategy, and the P90, P50, P10 estimates of expected revenue and net profitability. Any documentation to support the bid strategy is also presented. This can be information to support how the bid team determined what a winning total tender value (TTV), is how the expected value (EV) revenues will be achieved, and support information for other critical tender assessment factors.

Applying the Concepts

For the example bid below, complete a bid assessment using the next page to record your analysis. Comment on any assumptions. Once you have completed your analysis, see note 4 in the references.

Request for Proposal (RFP-WS-SO-APG-DS0211)

Section 1: Instruction to Bidders

Star Oil requests a competitive offer for standard cementing services for the development phase of the Nirwana Gas Field, located five kilometers south of Cirebon, Indonesia. The requested cementing services are described in the technical specifications section of this RFP. Three companies, your company, Competitor B, and Competitor C, are being considered for this RFP. Proposals are to be returned via courier no later than 12:00 p.m. (noon) on January 4, 2011, to Star Oil's Houston office. Proposals received after this date and time will be considered non-compliant. This RFP includes five sections:

1. Instruction to bidders (this section)
2. Scope of work
3. Pricing
4. Terms and conditions
5. Quality, health, safety, and environment (QHS&E)

The services requested in the scope of work will be used to calculate a per-well cost. The costing spreadsheet is included in Section 3. Pricing. The bidder with the lowest evaluated costs and other considerations will be awarded the work. The selected bidders will be required to sign the contract included in Section 4. Terms and Conditions.

Section 2: Scope of the Work

The project has a possible scope of 100 wells to be drilled and completed, all to a TD of 3,000 meters, with maximum pay sections of 100 meters. Three cementing operations are required per well, as described in the costing worksheet. Bidders are expected to have cementing services available 24/7, including an assigned support and design engineer dedicated to the Nirwana project.

Section 3: Pricing

All bidders are to follow the requested pricing format below, and to provide a lump sum per cementing operation. Pricing is to include the stated discount to be applied to the bidder's 2010 cementing services catalog price. Note: The same discount will be used for services requested during the project, but not included in the scope of work. Bidders must include their 2010 cementing services catalog as part of their RFP submission.

Discount % to be applied to the 2010 cementing services catalog price __%

Costing Worksheet:

Operation 1

Cement 13 3/8" casing volume 450 barrels class G cement

Total cost per trip_____

Operation 2

Cement 9 5/8" casing volume 700 barrels class G cement

Total cost per trip_____

Operation 3

Cement 7" liner volume 100 barrels class G cement

Total cost per trip_____

Section 4: Terms and Conditions

After selection of a successful bidder, Star Oil and the selected bidder will sign the standard Star Oil Cementing Services contract SOCS-2002, together with Appendix A: Pricing to include the Pricing section of the bidder's offer.

Section 5: Quality, Health, Safety, and Environment (QHS&E)

Bidders are to include a full description of their QHS&E program.

Type of Bid

☐ Type 1 Company — Explain your selection: _____

☐ Type 2 Consultative _____

☐ Type 3 Transactional _____

Work-scope: Volume of Work

☐ Accurate — Notes: _____

☐ Underestimated _____

☐ Overestimated _____

Work-scope: Services

☐ Extraneous — Notes: _____

☐ Omitted _____

☐ Implicit _____

Work-scope: Awards

☐ Sole Supplier — Notes: _____

☐ Split _____

☐ 2nd Supplier _____

Specifications

☐ Accurate — Notes: _____

☐ Overspecified _____

☐ Under-specified _____

Risks

Contract Risks: _____

_____

Notes: _____

_____

Business and Post Award Risks: _____

_____

Notes: _____

_____



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Pricing for Bidding



The Moment of Truth

Pricing for bidding is the moment of truth as all the marketing and sales strategies come into focus during the pricing decision.[1] Calculating the price of your company's products and services is never simple. Rather, making a pricing decision derives from striking a strategic balance among winning, profit objectives, and the development of customer relationships in a competitive marketplace. This chapter examines the basic and advanced pricing models used to arrive at the best price for the products and services offered in your bids or sales proposals.

As mentioned at the start of Chapter 10 "Competitive Bidding," one of the main strategies of B2B purchasing is "the more you buy, the better the price." Your customer offers large scopes of work with the objective of securing better pricing than if they made many smaller purchases. One of the fundamentals of B2B pricing for large and small sales is if the customer wants the price for one item, they should pay as per your published price catalog. The inference is every B2B sales organization must have a published price catalog they can reference when offering a better price to the customer. The published price catalog must be adjusted annually to compensate for increasing costs, the introduction of new products and services, changes in market segmentation, and competitive pressures. All the discussions in this chapter are based upon having a reference price catalog from which you start the pricing decision. For the remainder of this chapter, when the term price is used, it is referring to the offer price for a competitive bid.

The pricing decision is a team effort led by the person responsible for the profit objective (usually the service delivery or operations manager), who is assisted by the core bid team members. However, the preparation for the pricing decision starts well before the receipt of the tender with the sales team collecting the market information and executing a competitive sales strategy to be in the best position to submit a winning offer. The team must choose which pricing model is

Chapter Objectives

After reading this chapter, you will be able to:

- Describe the basic pricing model.
- Understand when to use the different pricing strategies.
- Describe the advanced pricing model.
- Understand the selection process for selecting incentive models for the advanced pricing model.

most appropriate for the market condition to arrive at the bid-offer price, which is adjusted to fit the bid strategy and targeted total tender value (TTV). Typically, the bid price is part of an offer package, which encompasses deliverables, as well as terms and conditions based on a given set of circumstances, as described in the scope of work. Often, customers wish to negotiate parts of the offer, so in completing the analyses for preparing a pricing offer, the team must also prepare the foundation for a negotiations strategy, which is discussed in the next chapter.

Pricing Factors

The pricing decision carries significant consequences. With the ideal price, you can win the contract, meet the profit objectives set by the organization, and continue to develop the customer relationship. With the wrong price, several things can happen. If the customer perceives your price as too high, you lose the work. If the price is set too low, you might win the work but reduce your profit margin, weaken the customer relationship, and possibly impact your competitors' future pricing strategies.

Setting the right price begins with the high-level marketing decisions with regard to the 4 P's of the marketing mix, as discussed in Chapter 1 "Understanding the Role of Marketing and Sales." During the product development process, the marketing group selects the marketing mix after considering the market needs and segmentation analysis. In support of the marketing mix decision, the marketing groups provide a reference price and price list for use by the regional teams to create a published price catalog to be included in the bid submission (see the "Reference Price" sidebar).

Figure 11.1 shows the relationship among the reference price catalog, published price catalog, and the bid offer price. Many factors are considered in the pricing decision. These are grouped into five main areas for analysis:

▶ ***Reference Price***

The headquarters' marketing group sets the initial reference price for any new products and services and makes adjustments to the reference price catalog on an annual basis. This is required in order to maintain a consistent product and service line pricing and to remain competitive given the changing competitive environment. From the headquarters' reference price catalog, the regions then publish regional or country price catalogs to be distributed to customers.

- Product and service line pricing establishes price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors' prices. A typical product line offering is the multiple levels of technology of basic and advanced products and services.

Reference prices might also change as the products and services move along their product and service life cycle. Traditional new product pricing strategies follow two variations:

- Market-skimming pricing: Setting a high price for new offerings to skim maximum revenues layer by layer from the market segments willing to pay the higher price, such as the early adopters in visionary companies
- Market-penetration pricing: Setting a low price for a new product in order to gain a higher market share

At the same time as setting the reference price, the marketing group sets guidance for price-adjustment strategies in the regions. Such pricing strategies include:

- Cash discounts for companies who pay their bills promptly.
- Volume discounts for companies who buy large quantities or make long-term commitments. This is not the same as bidding, which will be discussed in this chapter.
- Segmented pricing where a product or service might be sold at different prices to different market segments, usually based on perceived value for example land pricing and offshore pricing.
- Bundling of products and services normally used with results and performance-based contracts.
- Promotional pricing used to encourage first-time use.
- Geographical pricing guidelines for establishing prices in the different regions.

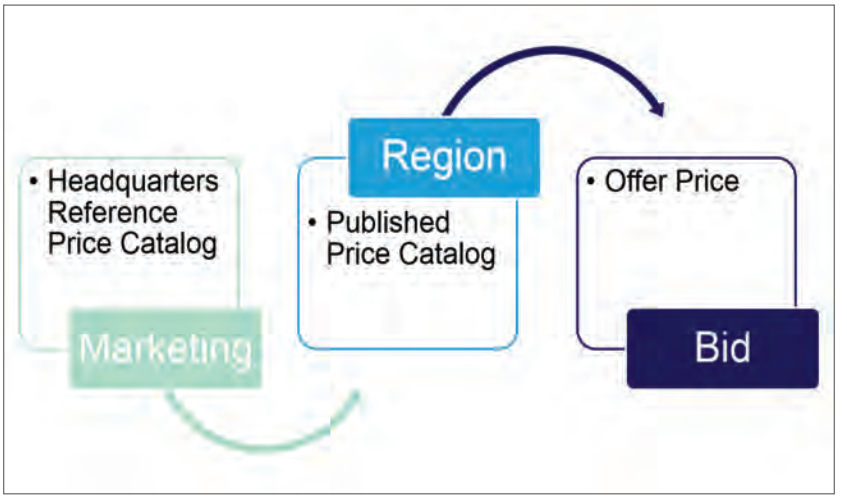


Fig. 11.1
Arriving at the offer price. Setting the offer price begins with the high-level marketing decision regarding the marketing mix and the reference price. In the region, the reference price catalog is adjusted for market segment conditions and a published price catalog is distributed to customers. The final offer price offered for each bid is a function of you the type of tender, tender analysis, market conditions, the customer's pricing sensitivity, and the costs of delivering the products and services at a targeted profit level.

- Type of tender and tender analysis
- Market factors
- Pricing sensitivity
- Pricing strategy
- Negotiation strategy

Chapter 10 "Competitive Bidding" discussed how to select the most appropriate selling approach based on the type of relationship the customer wants with their suppliers for each opportunity. This module discusses how the other factors are taken into account in the basic and advanced pricing models. Market shares and competitive offerings are included in the market factors analysis. The customer's pricing sensitivity is taken into account in the customer pricing sensitivity analysis. The costs, revenues and profit factors are analyzed in the pricing strategy. The contracted price typically comes after negotiations, which is discussed in the next chapter.

The bid team has two pricing models for how they can apply the published price catalog to arrive at their offer price. These are the basic and advanced pricing models, discussed next.

Pricing Models

The two pricing models—basic and advanced—can be used to set the offer price. The basic pricing model is more appropriate for standard contracts as shown in the first two levels of **Fig. 11.2**.[2] This model is the most commonly used in B2B bidding for Type 2 Consultative and Type 3 Transactional Tenders, where the customer pays per unit of product or service delivered.

	Business Model	Example	Value Realization: Base Value	Value Realization: Risked Value	Contract Model
Advanced	**Joint Value Enhancement (JVE)**	Field optimization services	NPV, $/barrel	Risk/reward over life of project	Value-based remuneration
Advanced	**Engineered Solutions**	Unique project design	Service fees at market or discounted	Risk/reward for a defined project scope	Results-based remuneration
Advanced	**Integrated Services & Processes**	Construction Business process outsourcing (BPO)	Service fees at market or discounted	Risk/reward for performance	Performance-based remuneration
Basic	**Services**	Single, bundled or consulting services	Price per unit of service	None	Standard service pricing
Basic	**Products**	Product or software sales	Price per unit of product	None	Cost-plus basis

Fig. 11.2
Basic and advanced pricing models.

The advanced pricing model is used in higher-level contract models on the value pyramid and includes additional incentive schemes to calculate your company's remuneration, not only for the amount of products and services delivered but also additional sums or discounts based on other factors, such as your company's performance, the customer's perception of results, or joint value enhancement. The use of higher-level contract models decreases as you move up the value pyramid from performance-based to results-based to value-based contract models. The advanced pricing model is used for Type 1 Enterprise Tenders. The advanced pricing model should never be used for Type 2 Consultative or Type 3 Transactional Tenders.

Basic Pricing Model[3]

The basic pricing model uses three analyses to arrive at an offer price: market analysis, pricing sensitivity, and pricing strategy. A pricing workbook created in Excel is used to demonstrate the basic pricing model and is available for download from the textbook website. The pricing workbook workflow is shown in **Fig. 11.3**, and each step is described and illustrated with pricing examples given in the following sections.



Fig. 11.3
Pricing workbook workflow. Each dotted box represents a worksheet in the pricing workbook. In box 1, Market Rate Analysis includes establishing the scope of work and your company's book price, and gathering market intelligence to establish the market rate. In box 2, the Pricing Sensitivity Analysis uses the market rate and customer pricing sensitivity analysis, which includes a customer value analysis to arrive at the market-based price. In box 3, the Pricing Strategy Worksheet is used to compare your market-based price against your internal financial and risk analyses to select one of three pricing strategies: long-term, short-term excess capacity, and short-term limited capacity. When the short-term limited capacity strategy applies, you first complete an Opportunity Costs analysis. The last worksheet of the pricing workbook is the Negotiating Strategy Worksheet. In this worksheet, you identify potential trades that maintain the value of the deal within an acceptable range should the customer wish to negotiate the final offer. After completing steps 2, 3, and 4, your team takes a specific pricing action to support the pricing and negotiating strategies.

Market Analysis

In the market analysis, you determine which benchmark you will use to decide your target TTV, as discussed in Chapter 10 "Competitive Bidding." The benchmark is what you believe will be the TTV of your most serious competitor from the customer's perspective. This rate is based on what you believe your competitors will offer based on historical data and market intelligence. The sales staff is responsible for completing a market analysis for each pricing proposal, and the market rate analysis should include a survey of their specific region and other applicable regions in which the customer and your competitors operate. The market rate analysis consists of the following:

- Establishing the scope of work and calculating your company's book price
- Reviewing market information
- Establishing the market rate

Scope of Work and Your Company's Book Price

In the first step of the market analysis, you must have a clear understanding of the scope of work after completing the tender assessment, as discussed in Chapter 10 "Competitive Bidding." Only then can you calculate your company's book price using the published price catalog.

Market Review

The best place to begin the market review is by searching your company's CRM opportunity database. From the CRM database, a global search should be done to select the most appropriate opportunities to include in the market rate analysis: historical, active, and future opportunities with the associated revenues and other information for each opportunity. The best way to search for information regarding the market rate analysis is to look for opportunities with similar scope of work and time frame, making it easy to compare opportunities on a revenue-per-month basis. The data should also be sorted by account and country and then exported into an Excel worksheet or printed.

The market rate information and any other market intelligence collected from other sources, such as other sales staff and HQ marketing staff, your company CRM competitor database, or customers, are analyzed.

The next step of the market review is to convert the pricing for similar projects to a comparable pricing metric, such as revenue per month, per job, or per seat. The comparable pricing metric should include only similar products and services, and adjustments may be needed to make relevant comparisons. The market rate information is then entered into a Market Analysis Worksheet.

Establishing the Market Rate–Competitor TTV Benchmark

Once the market survey is completed, the information is then analyzed. The first-level analysis looks for trends in the pricing behavior of your competitors and

Fig. 11.4
Market Rate Analysis Worksheet. For this analysis, the relevant market rate information was entered into the pricing workbook Market Rate Worksheet as per above, and appropriate comments were added. In this example, the market rate was estimated to be $50,000 per month (Competitor A's TTV). This information is then copied to the Pricing Sensitivity Analysis Worksheet, as discussed next.

Market Rate Analysis – Competitor TTV Benchmark

Factor	Price $/Mo.	Comments 1	Comments 2	Competitor Perspective	Customer Perspective	Competitive TTV Benchmark
Your Company Price Book – 0% Discount	**$ 100,000**	Assuming no mobilization costs as we have in contract				
Other Similar Competitor Contract	**$ 30,000**	Competitor A Bintang development – last year contract for Z4.	Another project would have to import more people and equipment, increasing costs by an estimated $20,000/mo.	Operations staff not happy with current pricing.	Drilling Manager says Competitor A service is o.k.	**Estimated Market Rate $/month** **$50,000**
Competitor Alternative	**$ 60,000**	Zee Exploration Competitor B5 month development.	Competitor B brought equipment in from West Africa.	After Zee will try to secure Bolivar since Zee will not finish in time for Nirwana re-tender.	No reported issues or successes.	Assume Competitor A will bid $50,000/mo. due to additional costs for mobilizing and higher salaries for international staff.
Other Similar Your Contract	**$ 70,000**	Current project last year bid.		Competitor B bid $80,000/mo. Competitor A did not bid.	Bid is FOB Jakarta dock.	**Discount Off Your Price Book**
Other Similar Customer Contract	**$ 30,000**	Competitor A for 1 year Bintang.				**50%**
Your Company Alternative	**$ 85,000**	Competitor A for 1 year Bintang.	Other regions can use people and equipment for another project of same duration.	Competitor has never worked for customer in this area.	Intention is to continue with Your Company if they can provide the equipment.	

▶ ***You're So Sensitive!***

Buyers are sensitive people, too. In one of the more popular books on pricing, *The Strategy and Tactics of Pricing,* [4] authors Hagel and Holden state that estimating economic value to the customer is fundamental to marketing in general and to pricing in particular, but it is just one facet of the role of price in customers' decision making. When dealing with knowledgeable and highly sophisticated purchasers, economic value analysis alone can describe and predict buyer behavior quite adequately. However, most customers do not make purchase decisions exactly as economic value analysis would predict. Although getting a good value is often one important purchase consideration, customers will not always choose the very best value for the price they pay. The pricing sensitivities the authors suggest that should be considered along with economic value are as follows:

- Perceived substitutes effect
- Unique value effect
- Switching cost effect
- Difficult comparison effect
- Price-quality effect
- Expenditure effect
- End-benefit effect
- Shared-cost effect
- Fairness effect
- Inventory effect

These and other factors affect the extent to which actual purchase decisions correspond to the model of economic value. Before attempting to determine the price a customer could be expected to pay for a product or service, sales personnel need to understand these factors. They are necessary if the salesperson wants to influence the way customers make their decisions and to anticipate responses to your pricing proposals.

estimates, given competitors' market share both locally and globally, and their asset utilization level. For example, are their prices going up or down? Do they have assets available in country? Based on these answers, the sales team must determine whether your competitors will use a long-term or short-term pricing strategy (pricing strategies are discussed in more detail later in this section).

Trends in customer behavior are also analyzed. For example, is there a split in the work system used by the customer? Does the customer award certain types of projects to specific suppliers?

Finally, the sales team must compare the scope of work for this project against other projects and then factor in any additional costs or discounts that may apply.

Based on this analysis, the sales team estimates the market rate the customer will use to compare your offer against other offers. **Figure 11.4** shows the market rate analysis for a real B2B tender for oilfield products and services in Indonesia, which will be referred to as Nirwana. The same tender will be used to illustrate how the pricing was established using the techniques described in this chapter. After analyzing all the market information, the sales team determined that Competitor A would tender the project at $50,000 per month, an increase of $20,000 per month due to additional costs incurred to mobilize people and equipment for the Nirwana project. With the market rate established, the sales team completed the pricing sensitivity analysis.

Pricing Sensitivity Analysis

Chapter 1 "Understanding the Role of Marketing and Sales" discussed the segmentation of buying groups in an effort to identify what was most important to a buyer (price, value, relationship, or convenience) in order to best manage the sales conversation.

This section takes the concept one step further by trying to understand your customers' reactions to price. Many factors impact the customer's final pricing decision, as described in the "You're So Sensitive!" sidebar. This section discusses the most common factors pertaining to pricing sensitivity in the B2B competitive bidding and illustrates how to capture this information on the Pricing Sensitivity Worksheet, which is used to arrive at a market-based priced.

The goal of pricing sensitivity analysis is twofold:

- To clearly identify what the customer will view as a fair and equitable price for products and services.
- To devise a winning strategy and tactics to justify your company's price.

The ongoing process of a pricing sensitivity analysis is the responsibility of the sales staff. The salesperson, working with the customer and your company's service delivery team, identifies the key buying center members and the most significant factors affecting their decisions. With this information, the salesperson devises a strategy and tactics to minimize negative pricing factors and leverage positive pricing factors to put your company in the most favorable position to secure the project.

Perceived Substitutes Effect

The perceived substitutes effect states that the higher the product's price relative to prices of the buyers' perceived substitutes, the more price sensitive the buyers. The key word here is "perceived." The perception of available substitutes differs widely among customers and across purchase situations. In your industry, sophisticated tendering procedures guarantee that your customers have access to alternative suppliers. The challenge for you as the salesperson is to consider how to best present your company's offer given the customer's price sensitivity. The perceived substitutes effect is the most significant negative pricing sensitivity a salesperson encounters. The most effective method of offsetting the perceived substitutes effect is discussed next.

Unique Value Effect

As the customer's perception of substitutes is such an important determinant of price sensitivity, much of the marketing effort must be directed toward reducing the effect of substitutes (the reference value) on the total economic value as described in the "What Value?" sidebar. The goal is to offer something unique—a "differentiation"—that buyers will pay for despite the existence of lower-priced alternatives. Buyers are less sensitive to a product's price the more they value any attributes that differentiate the offering from competing products. This unique value effect is the rationale behind companies' ongoing efforts to differentiate their products and services from those of their competitors. Some companies devotes enormous effort to creating unique attributes that customers value. Their motivation to excel in R&D is based on the understanding that the more customers value the unique attributes of a product and service, the less importance they will place on price when deciding whether to buy. Differentiation alone, however, does not produce this effect. Customers must first recognize a differentiation and then be convinced of its value. The most critical component of sensitivity analysis is getting the customer's agreement on the unique value your company provides and addressing any negative pricing sensitivities. Steps for completing a pricing sensitivity analysis are covered later in this section.

Switching Cost Effect

The greater the monetary and non-monetary costs of switching suppliers, the less sensitive the buyer is to price. This effect is also commonly referred to as "creating barriers to entry." Many products require the buyer to make supplier-specific investments in order to make use of them. If that investment does not have to be made on a repeat buy from a current supplier but would have to made with a new supplier, that difference is a switching cost that limits price sensitivity. For example, a customer may be unwilling to switch from the current supplier for an offshore exploration project because of the additional cost and risk of disrupting operations incurred with a new, cheaper supplier. Another example is once a company deploys a software or management system across the enterprise, it is very difficult to switch to another system because of the switching cost of retraining the staff and installing the new software.

Personal relationships also represent a significant investment that can limit the attractiveness of competing suppliers. For example, if your company provides customer support staff, such as engineers or support center personnel, the customer has probably made an additional investment in training staff in their processes and procedures. Developing such working relationships takes time and considerable effort. Once these investments are made, customers may be reluctant to repeat them simply because otherwise equally qualified suppliers offer a lower price.

▶ *What Value?*

Value, like so many terms, gets used often but can have many meanings, so it is best to define which value you are referring to in your pricing discussion. Listed below are some common value definitions used by scholars. Which do you think is appropriate for the pricing decision?

- User value = value to customer (Total $ Benefits) versus doing without
- Economic value = value to customer versus a competitive alternative
- Perceived value = value actually recognized by customer
- Expressed value = "price willing to pay" communicated as part of price negotiation demand

When you refer to value in the sales environment, you are referring to the economic value, as the customer has to decide if the premium or discount from the competitive alternative is justified.

Difficult Comparison Effect

The concept of economic value assumes that customers can actually compare what alternative suppliers have to offer. In fact, it is often difficult to determine the true attributes of a product or service prior to purchase. Buyers are less sensitive to the price of a known or reputable supplier when they have difficulty comparing alternatives. The difficult comparison effect is particularly important in business markets. Corporate buyers are commonly thought to seek many suppliers, whom they play against one another for lower prices. Corporate buyers usually follow such a policy only for those products whose quality and reliability they can easily evaluate at the time of purchase. For purchases that are particularly risky and difficult to evaluate (such as services for high-cost, high-risk projects), corporate buyers will often develop relationships with a list of approved suppliers with whom they have had previous satisfactory experience.[5] They will not even consider purchasing from an unknown supplier, even though that supplier claims to offer the same quality at a lower price.

Fairness Effect

The concept of a fair price has bedeviled marketers for centuries.[6] Buyers are more sensitive to a product's price when it is outside the range that they perceive as fair or reasonable given the purchase context. But what is fair? Sales staff should note that the concept of fairness has little to do with profitability. Oil companies are frequently accused of gouging, although their profits are below the average of most other global industries.[7] In the B2B sales environment, several factors appear to determine a buyer's perception of fairness in pricing:

- How the current price compares to prices previously encountered for the product or service. A common example is the price the customer paid for the product or service in the last tender.
- How large the price increases or decreases are relative to standard indices. Customers often compare price movements to changes in commodities and rates of inflation.
- Prices paid for similar products or services in similar purchase situations. Your customers have sophisticated purchasing systems that track the most recent prices paid for similar services on a global basis. For example, a customer who discovers that one of their subsidiaries operating in another country received a higher discount for the same services will expect the same level of pricing.
- Geographic adjustment. Customers expect to pay more or less depending on where they are operating and how developed and large the industry is in the specific country. For example, most customers expect to pay less in the Americas than they do in other parts of the world.

Your ability to anticipate and address the customer's pricing sensitivity as affected by the fairness effect can greatly reduce the customer's negative reactions to your pricing proposal when your company's offer is the most expensive. Two areas where the fairness effect can impact the customer's decision-making process is when you introduce new products and services and when you try to raise prices. In such cases, the salesperson must carefully plan the approach to the customer in order understand the customer's perception of fair. The "You Can't Be Serious!" sidebar offers several suggestions for avoiding a customer's "you can't be serious" reaction to a salesperson's proposal.

Your understanding of key buyer pricing sensitivities in the B2B sales environment is the foundation for completing the Pricing Sensitivity Analysis Worksheet. Sales

▶ ***You Can't be Serious!***

You have all heard this reaction in response to an offer. Such a reaction might be a negotiating tactic, but it also may be one of genuine surprise from the customer. The reason customers have these reactions is their expectations have been influenced by several of the pricing sensitivity factors. How do you avoid such defensive and negative reactions? Listed below are several strategies that can be used to avoid or reduce this type of reaction.

- **Anticipation.** By anticipating customers' reactions and putting ourselves in their position, you can prepare to address their negative pricing sensitivities to your pricing proposals. In many cases, you must do some upfront research to determine the pricing benchmarks the customer uses to compare your offer and then present your offer in a more favorable fashion by considering the customer's frame of reference.
- **Justification.** Always justify your pricing to yourself first and then to the customer. A well-rehearsed justification of your pricing is more convincing and easier for customers to repeat when challenged by their own organization. Justification can come from many perspectives, the easiest being differential value. The bottom line is know why you have the price you do.
- **Reverse Justification.** In special situations, ask the customer to justify why they want the product or service. If you have recently completed a field test for new products or services, take the new products or services out of the service area. Let the customer approach you to request the products or services, and ask the customer to explain why they want the new products or services. This is a much better starting point for the pricing discussion. However, even if you save the customer hundreds of thousands of dollars, don't be surprised if they still don't like your price (see additional discussion in Chapter 12 "Collaborative Negotiations").

staff deal with well-informed buying centers that use a well-defined project management process, as described in Chapter 4 "Opportunities Management." The customer's goal is to make a highly informed purchase decision. As most companies require a competitive tender for all major procurements, you as the salesperson must be well prepared to justify your pricing offer. The Pricing Sensitivity Analysis Worksheet is a key part of that preparation.

Pricing Sensitivity Analysis Worksheet

Several questions must be answered to complete the Pricing Sensitivity Analysis Worksheet:

- What is the market rate of the perceived substitute(s)?
- What are the positive pricing factors?
- What are the negative pricing factors?
- What is a fair and equitable price?

The sales team uses the completed Pricing Sensitivity Analysis to support your company's price and gain the customer's agreement. An example of a completed Pricing Sensitivity Analysis Worksheet for the Nirwana tender is shown in **Fig. 11.5**.

Market Rate of the Perceived Substitute

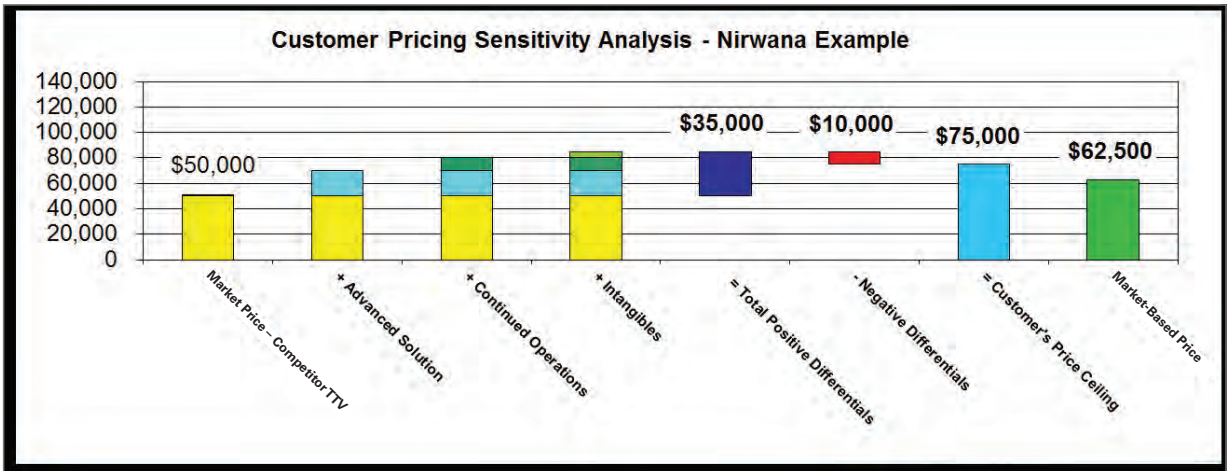
The market rate is the TTV of the perceived substitute, which in most cases will be that of a competitive alternative. Part of the market analysis is to determine which competitive alternatives are being seriously considered as a substitute to your company's solution or who is the preferred supplier. Often, the bidder's list may include many competing companies, only several of which have supporters in the buying center that can actually win the contract. Your team must determine who is on the list during the evaluation of options stage of the opportunities management process. When completing the Market Rate Analysis Worksheet, the estimated market rate is copied automatically into the market price cell of the Pricing Sensitivity Analysis Worksheet.

Positive Pricing Factors

To determine the positive pricing factors, identify the customer's value drivers for the project. The identification of value drivers was discussed in detail in Chapter 2 "Value Drivers." Most value drivers are direct, such as increased production and cost reduction. Indirect value drivers can also be key factors in the customer's decision-making process. Two types of positive pricing factors must be considered:

- Unique value factors
- Intangible factors

Once the positive pricing factors have been identified, you must quantify the differential impact of each factor on the customer's value drivers to make a comparison to the differential impact offered by competitors. The unique value effect is described in terms of the economic value of your solution.



Factors	Input	Comments	Pricing Actions: Supporters	Pricing Actions: Non-supporters
Market Price - Competitor TTV	$ 50,000	Assume Competitor A will bid $50,000 / month due to additional costs for mobilizing more equipment and higher salaries for international staff	Competitor A Operations Manager, Decision Maker	
+ Advanced Solution	$ 20,000	Reduced operating costs and fewer risks for customer's operations.	Drilling Manager, Decision Maker	
+ Continued Operations	$ 10,000	Drilling Manager said 10%; however, believes that they would actuallly pay a $10k premium per month to not have to switch out suppliers.	Production Engineer, User	Competitor A
+ Intangibles	$ 5,000	No value determined for excellent QHS&E; however, customer's QHS&E manager said he would give us a premium for our QHS&E record, assumed to be 10%.	QHS&E Manager, User	
= Total Positive Differentials	$ 35,000	Sum of above differentials.		
- Negative Differentials	$ 10,000	Cost of insurance premium for downhole risks Company A will not accept. Competitor A has accepted.	Drilling Engineer, Decision Maker	Procurement Manager, Evaluator
Total Differential Value	$ 25,000			
= Customer's Price Ceiling	$ 75,000			
% Your Share of Differential Value	50%			
Market-Based Price	$ 62,500			
Pricing Premium from Customer's Perspective	25%			

Fig. 11.5
Customer Pricing Sensitivity Analysis Worksheet for Nirwana tender. In this example, Company A's solution has positive differential value for rig time reduction by using the advanced solution and for the benefit of continued operations as the incumbent on the existing Nirwana operations (positive switching costs). Additional intangible benefits were added for Company A's QHS&E performance, estimated to be worth $5,000 per month. A negative differential was included for an insurance premium the customer would have to pay as a result of Company A not accepting downhole risk, which the competitor did. The total economic value to the customer is $75,000 per month, and Company A's total differential value is $25,000 per month ($35,000 positive less $10,000 negative). Company A's market-based price, which is based on a 50/50 sharing of Company A's differential value, is $62,500 per month. In this worksheet, the white cell values are entered directly into the worksheet, yellow cell values are computed from other cell entries, and the other shaded cells are copied from the Market Rate Worksheet.

Unique value factors. Some of the more common unique value factors are as follows:

- Total cost reduction
- Increased sales of the customer's product and services to their customers
- Improved performance
- Reduced risks
- Improved operating efficiency

The most convincing way to describe a unique value factor is in financial terms that make the connection between what your company provides and the economic value to the customer. The unique value factor must be explicit and easily understood by all buying center participants, and you do this by communicating within the receiver's field of experience as discussed in Chapter 5 "Communication Skills." The surest way to communicate in most people's field of experience is to relate the unique value in terms of dollar benefits. Each

unique value factor is identified and entered into the Customer Pricing Sensitivity Worksheet as a dollar amount. The benefits should be stated for the same reference period as the market rate; for example, total project costs should be compared to total project benefits, and monthly market rates should be compared to monthly benefits.

During the existing contract in the Nirwana example, Company A's team introduced the advanced solution and reduced the customer's operating costs and the risks associated with the operations. The customer saved approximately $20,000 of rig time per well. In addition, the drilling manager indicated that his company would prefer to continue the project with your company and would be willing to give your company a premium if the prices quoted by the competitors and your company were close in the upcoming tender. The salesperson estimated this to be worth $10,000 of differential value.

Intangibles. Intangibles are positive pricing factors that are not unique to your company, but the customer agrees your company is better than the competition in a specific area. Intangible benefits are commonly referred to as your company's strengths, as discussed in Chapter 6 "Sales Activities" and Chapter 7 "Sales Call Skills." Every effort should be made to quantify intangibles for each customer proposal. This can be done as part of your service review meetings during project implementation. Quantified intangibles make it easier for evaluators to compare tenders and become very important when the evaluation between your company and competitors is close. Your company's intangibles can even be the deciding factor in winning the bid. Examples of intangible positive pricing factors include the following:

- In-country support facilities.
- More experience in difficult environments.
- In-country technical experts.
- Back-up capabilities.
- Quality, Health, Safety, and Environment (QHS&E) performance.
- Existing relationships.

The "Intangibles" heading in the Customer Pricing Sensitivity Worksheet contains a dollar amount that represents the premium a customer would pay that is not included in the specific unique value factors. Under the "Intangibles" category in Fig. 11.5, the salesperson has estimated the value of no safety as $5,000 per month to the customer. The customer's QHS&E manager said this had real value, despite the inability to quantify it. However, this could be quantified by doing the research, as demonstrated by the Lake Maracaibo example described in Chapter Highlight 4.5: Performance That Can't Be Beat in Chapter 4 "Opportunities Management."

Negative Pricing Factors

Once each of the positive pricing factors is entered, the negative differential values are entered. Negative differential is when your company's solution for certain aspects of the project is not optimal and the customer will incur extra costs as a result of using your company rather than a competitor. All the positive pricing factors for your company can, under different circumstances, be negative differentials. Other examples of negative differential value are as follows:

- Switching costs, as described in the pricing sensitivity section
- Any competitor's unique value
- A strong relationship with a competitor, and supporters who would give the competitor a premium over your company

▶ ***Fair To You!***

"Fair and equitable" is a relative measurement. Sales personnel commonly ask what a fair and equitable share of the economic value you provide your customers really is. Here are some guidelines for making that determination:

- The more confident you are the customer is convinced they will receive the benefit, the larger the share of the value you should take.
- The sooner the benefit is realized by the customer the larger the share you should take.
- The more risk you are willing to take, the larger the share of the value you should take (i.e., you are paid based on delivered performance or customer results).

The next question is what is the maximum share of the economic value you should take. When using the basic pricing model, book price is the maximum. In one case where Company A was providing $2 million worth of reduced rig time for the operator, Company A took 50% of the savings, which represented a premium of over a 100%, compared to the competitor. See Case 4: Alaska example discussed Chapter Highlight 8.2: We Would Like to Use You, *BUT* in Chapter 8 "Handling Customer Objections."

When the book price for the product or service does not provide what you consider to be a fair and equitable share, be sure that you are not taking too narrow a view of book price. In many regions, crew rentals, mobilization, transportation costs, stand by charges, etc., are rarely charged. These are part of the book price and can be used to capture a larger share of the differential value you provide the customer. Of course, pricing actions would need to be taken to justify these charges to the customer prior to opening the tender.

If using the advanced pricing model, your share can be more than what would be charged for running the services as per the price book. The bonus is agreed to as part of the incentive mechanism. The downside to this in the advanced pricing model is that you assume more risk and, if you do not perform to an agreed benchmark, your rates can be discounted below the market rate. This is discussed in more detail in the advanced pricing model section.

- Enemies in the buying center who would discount your company's value
- Innovation risks that are inherent when introducing new products or services

Once the negative values are entered, the worksheet will calculate the total economic value of your company's solution compared to the alternative.

In the Nirwana example, a negative differential value of $10,000 per month was entered for an insurance premium the customer would pay if Company A did not accept the customer's downhole risk—a risk the competitors had accepted. Therefore, the total differential value of Company A's solution was $25,000 (total positive factors minus total negative factors).

Fair and Equitable Price Determination

With the market rate and positive and negative sensitivity factors entered into the worksheet, the total economic value is calculated. In the example, the value is $75,000 (total differential value + market rate). The last step in the customer pricing sensitivity analysis is to enter the share of the differential value the sales team believes would be viewed as fair and equitable by members of the buying center. As discussed in the fairness effect of the pricing sensitivity section, the sales team must determine which factors—such as other similar contracts or previous prices paid—impact buying center members' perceptions of fairness. For ideas on how to determine What is Fair?, see the sidebar "Fair to You!"

In the Nirwana cementing example, the sales team decided that a fair and equitable sharing of Company A's differential value was 50% as the benefits were fairly certain and the customer would recognize the benefits in the short term. This value was entered into the "% Your Company's Share of Differential Value" field, resulting in a calculated market-based price of $62,500. This number was then used for comparison against financial and risk metrics used in the pricing strategies worksheets; these metrics will be discussed in the next section. The last calculated field on the worksheet is the "Pricing Premium from Customer's Perspective," which is calculated by dividing the difference between the market price and Company A's Market Based Price by the market price. This calculation is done to ensure that you see your offer price from the customer's perspective.

Pricing Actions

The Pricing Sensitivity Analysis Worksheet is a powerful tool that should be used in the initial planning stages of a project, later in the selling phase, and finally as a follow-up to evaluate performance during the implementation stage. It helps ensure that you are delivering on your promises during the pursuit stages of the opportunities management process. It is used during customer review as a value scorecard that tracks the dollar benefits of your company's unique and intangible

Type of Tender	Evaluation Model	Selling Approach	Critical Factor	Ideal Competitive Sales Strategy	Critical Pricing Information	Pricing Models	Contract Models
Type 1	Most Economically Advantageous	Enterprise	Relationship Level	Frontal	Pricing Sensitivity	Advanced	Value Based Results Based Performance Based
Type 2	Multiple Point Criterion	Consultative	Formal Decision Criteria	Frontal or Flanking	Pricing Sensitivity	Basic	Standard Service Pricing Cost Plus Basis
Type 3	Two-Envelope Technical and Financial	Transactional	Price	Frontal	Market rate	Basic	Standard Service Pricing Cost Plus Basis

Table 11.1
Critical bidding information. Sections discussed in this chapter are highlighted in yellow.

factors. This worksheet is an integral part of the ongoing value-based communication, both with the customer and internally, so your team is aligned with the expectations the sales team established with the customer.

The worksheet can also be used to hold discussions with mentors in the buying center to gain agreement on the final total differential value. Each value component should be presented to buying center members to build support for your solution during the evaluation of options and procurement stages of the opportunity management process.

Each unique value should have a sales support document to demonstrate the differential value, and for negative differentials a drawback strategy should be prepared, as described in Chapter 8, "Handling Customer Objections." This same support document can also be used as part of the drawback strategy for overcoming the negative differential of the added insurance premium costs to cover downhole risks. The justification would be that the additional costs for the insurance premium are much less than the benefits the customer will receive from the advanced solution when compared to the competitor. Pricing actions for the Nirwana opportunity would have to include contacts with the buying center members, as identified in the supporters and non-supporters columns.

Pricing Examples

In terms of timing and the opportunity management process, the pricing steps of market rate analysis and pricing sensitivity analysis should are completed before the receipt of the tender. Ideally the market rate analysis is an ongoing activity as part of the competitor and market rate analysis. The pricing sensitivity should be completed after the sales team has completed their sales calls to execute their



Fig. 11.6
Type 3 Tender TTV and EV.

▶ *Just Enough*

Honestly, in a Type 2 or 3 Tender, anyone can win the tender by having a very low price. Of course, the sales team that does so might not generate enough revenue to make their targeted profit, if any profit at all. However, this is not the only bad outcome of bidding too low. The other equally bad outcomes are:

- In some companies and when government companies are bidding, if a bid is below a minimum TTV as set by the bid committee, the bid will be rejected.
- If the customer uses the TTV to create their budget, they will most likely run out of funds before the end of the project. A lack of funds will make it very difficult for the seller to exploit the issues in the tender to sell more than the customer's budget.
- The lower the price, the larger the differential between standard services included in the bid and added-value products and services the sales team is planning on selling to make additional revenue. The large differential can make it very difficult for the customer to justify the additional premium.

The bid team wants their price to be just enough to be slightly lower than the award criteria used by the customer's bid team to make the award decision. Just enough depends on the following:

- The customer's bid criteria
- How many supporters you have in the buying center
- Who the incumbent is

In a real example involving a government agency, a new tender was issued, meaning, no company gained any advantage from being the incumbent. The buying center was neutral to the final three companies they selected to send the RFP. The customer's buying center went through a very detailed and prolonged bidder qualification to identify the best companies for their project. It was a Type 3 Tender. All government agencies in this country had to follow a very strict tendering procedure. The buying center was required to set an engineering estimate; any bidder more than 15% above or below the engineering estimate would be disqualified. All bids were opened at a public opening, and the bid price announced and displayed. The winner was announced after the L1 bid was checked for compliance. The TTV's for the three bids were:

1. $1,856,000
2. $1,500,000
3. $1,489,000

These figures show just how slight a 1% differene is among bidders. Bidder 3 was 1% lower than Bidder 2 and awarded the work after the engineering estimate was disclosed as this was also the customer's budget for the project. The engineering estimate was $1,700,000. Bidder 3 was able to sell-up additional services to sell approximately $1,750,000 and easily meet their profit objectives and developed relationships during the project implementation. Bidder 3 in this situation received an A grade for an excellent bid. They beat the competition; they were within the customer's engineering estimate, and they were able to meet their profit objectives and strengthen the relationship between them and the customer. This is called the "3H World." In the 3H World, the:

- Customer is happy because they received good value for the money spent;
- Salesperson is happy because they won the tender;
- Operations are happy because they met their profit objectives.

When you bid too low, you may find yourself in this situation after the bid award. The good news is you won. The bad news is you won. Bid just enough and you will be happier!

competitive sales strategy using the tactics of "Prove Value," "Emphasize Strengths," and "Minimize Weaknesses." **Table 11.1** lists the critical pricing information for each type of tender. Highlighted in yellow in the table is the information discussed in this chapter. By completing this analysis before receiving the tender, the core bid team can focus on the tender analysis and build a bid strategy to beat the competition and achieve their financial targets during the implementation stage. After the bid team has completed the tender analysis, the bid team has to make several strategic decisions depending on the type of tender.

Type 3: From the benchmarking exercise in the market rate analysis, the TTV is set slightly lower than the market rate. How much is slight? See the sidebar "Just Enough" for the answer. Shown in **Fig. 11.6** is how the price for this strategy would appear on the pricing sensitivity graph shown in Chapter 9 "Strategic Sales Plan." For the Nirwana example discussed earlier, assuming this is a Type 3 Tender, the bid team would have bid a TTV of $49,500. This price is 1% less than the market rate as shown on the "Premium from Customer Perspective" gauge on the right of the figure. Also, the customer will benefit from receiving the "Strengths" items circled in green that, in this case, are included as part of the TTV price. The bid team will then include a discussion of these strengths as components in their written proposal. The team will not include the advanced solution in the offer and up-sell the solution once awarded the work. The revenue for the advanced solution is included in the EV of $70,000. In the Nirwana example, the tender scope of work was accurate, and there were not product or service specification issues. The only tender analysis issue was the customer including the downhole risks in the contract terms and conditions, which the bid team added a pricing note not accepting the downhole risks. The bid team considered the competitor's willingness to accept the risks as a negative differential. However, in reality, it is unlikely the customer would have added the costs for an insurance premium to the team's offer price. If there were additional tender issues, then the best way to present the bid strategy would be to use the Excel pricing worksheets and include

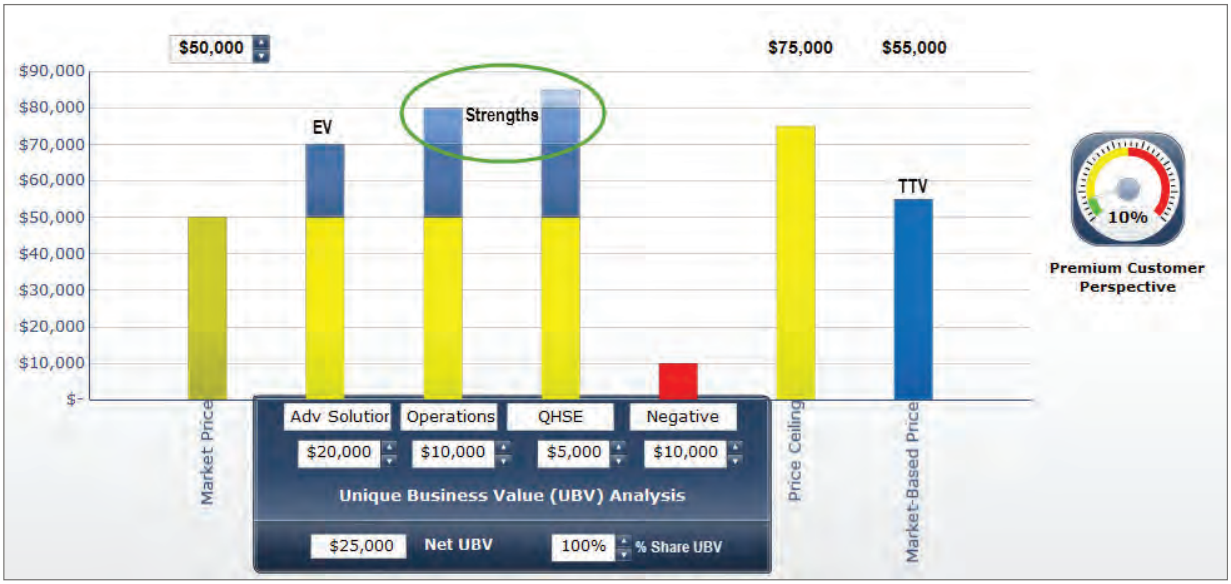


Fig. 11.7
Type 2 Tender TTV and EV.

the other items in the analysis. If there were extraneous items, the bid team would have to decide if the competition would include this in their offer. The best way to be confident what the competition will do is reviewing their pricing in recent tenders captured as part of the market rate benchmarking exercise.

Type 2: TTV is chosen using the customer's premium over market rate and pricing sensitivity analysis. In the case where your company has net positive differentials, you can have a premium over the competitor up to the maximum allowed. If the competitor has more net positive differentials, then your TTV will be set to force the competitor's expected pricing to fall outside of the pricing premium window. **Figure 11.7** shows how the price for this bidding strategy would appear on the pricing sensitivity graph. For the Nirwana example, assuming this is a Type 2 Tender, the bid team would have a TTV of $55,000. This price is 10% more than the market rate as shown on the "Premium from Customer Perspective" gauge on the right of the figure. For this premium, the customer will benefit from receiving the "Strengths" items circled in green that, in this case, are included as part of the TTV price. The bid team will then include these as components in their written proposal. This is important because it is the unique business value of the continued operations and better QHSE performance that justifies the customer choosing your bid team rather than the competitor. The team will not include the advanced solution in the offer and up-sell the solution once awarded the work. The revenue for the advanced solution is included in the EV of $70,000.

Type 1: TTV price is set using the market-based price and a perceived fair and equitable sharing of the value your solution provides. **Figure 11.8** on the next page shows how the price for this bidding strategy would appear on the pricing sensitivity graph. For the Nirwana example, assuming this is Type 1 Tender, the bid team would have set the TTV at $65,000. This price is 25% more than the market rate as shown on the "Premium from Customer Perspective" gauge on the right of the figure. For this premium, the customer will benefit from receiving the "Strengths" items circled in green and value from the advanced solution. In this case, TTV and EV prices are the same. The bid team will then include these as components in their written proposal.

As shown in Table 11.1 earlier, the Ideal Competitive Sales Strategy is frontal or flanking. These are strong position sales strategies that allow you to leverage a strong evaluation from the customer using their formal decision criteria. If you

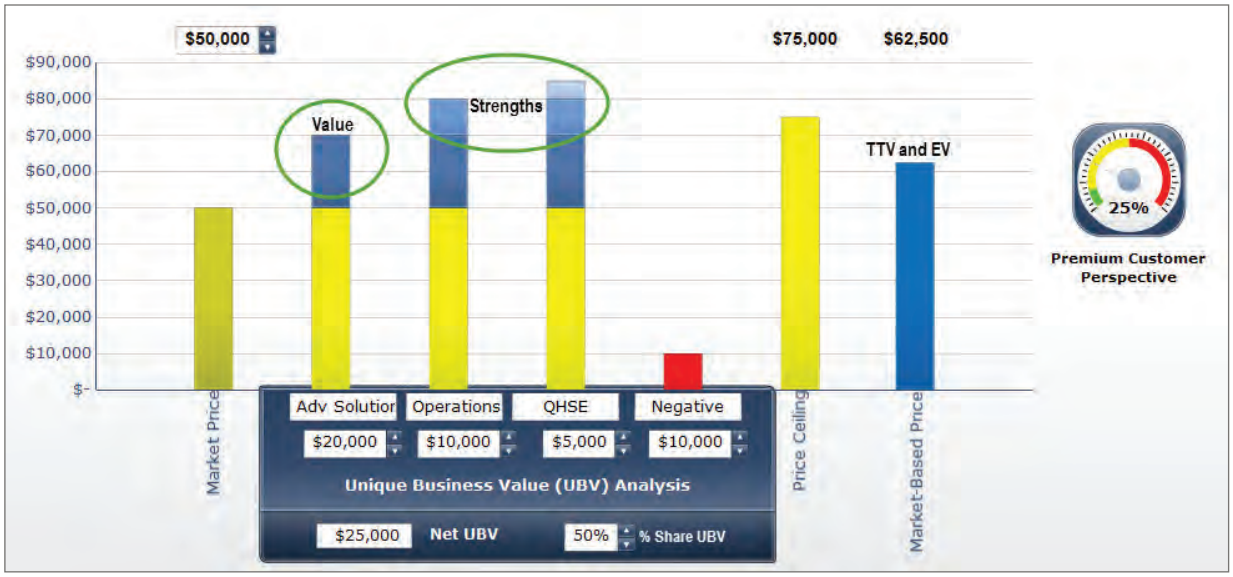


Fig. 11.8
Type 1 Tender TTV and EV.

discover you are in a weak position before you receive the tender, then the bid team would choose a weak position competitive sales strategy. The bid team would consider which of the weak position strategies would give them the best chances of winning defend or fragment as discussed in Chapter 9 "Strategic Sales Plan."

At this point of the pricing analysis, the main focus has been on identifying the winning TTV and future EV revenues. The next factor to consider is the pricing strategy to confirm the profitability objectives will be achieved using the TTV and EV prices.

Pricing Strategy

Once the market-based price has been established, the next step is to check the market-based price against the costs and targeted field margin for the location, which is responsible for delivering the products and services. This step is completed using the Pricing Strategy Worksheet for one of the three standard pricing strategies, which are discussed later in this section. The factors used on each of the Pricing Strategy Worksheets are as follows:

- Incremental costs
- Fixed costs
- Risk financing
- Field margin

Incremental Costs

Incremental costs are the direct out-of-pocket costs incurred when a product or service is provided. These are costs that would have been avoided if the product or service were not provided. The incremental costs are subtracted from the selling price to arrive at the contribution margin, also referred to as gross profit. The contribution margin is the amount of money that is made for each product or service sold. The contribution margin is the amount available to pay for fixed costs, profits, and taxes. When comparing two or more projects or pricing scenarios, the contribution margin for each project or pricing scenario should be computed and compared. All other factors being equal, the project or pricing scenario that produces the highest contribution margin should be selected.

Fixed Costs

Covering only incremental costs on a long-term basis does not produce excess funds necessary to replace assets or cover the costs of the other indirect support. Fixed costs are the long-term portion of the cost structure that must be recovered in order to continue to invest and grow the business. Fixed costs are made up of two parts: overhead and shared.

Overhead costs have two components: direct overhead costs, such as salaries of personnel, and depreciation of the assets dedicated to the project. These costs are absorbed completely by the project. The other portion of overhead is prorated according to the amount of revenue generated by the project. Examples of prorated overhead costs are a portion of location management, shop expenses, etc. Shared costs are all other costs used by more than one location, such as region, or your company's corporate headquarters, and research and engineering.

Field Margin

Like all companies, your company is in business to generate a profit and increase the wealth of shareholders. Profit is used to fund future growth and pay dividends to shareholders. Each location has a target field margin (revenue – incremental costs – fixed costs) / revenue), which represents the location's commitment to generating profit.

Risk Financing

Risk financing is the additional cost associated with securing additional insurance or hedging instruments to protect your company against the risks not accounted for in the basic pricing structure. Basic pricing model prices are based

▶ ***What Risks?***

The relationship among liability (especially for negligence), the various forms of indemnity commonly given, and risk allocation is often a cause of confusion. For most, risk is generally regarded as an adverse probability. The measure of a risk is the best estimate of the probability that one or more detrimental events will occur. The definitions below should help clear up some of confusion.

Indemnity

Agreement to compensate or the act of compensation for a loss or injury sustained by another. Sometimes known as a "hold harmless" clause, the essential element of an indemnity is a promise to underwrite the losses of another independently of any default by the indemnitor (the party giving the indemnity). A common example is the indemnity against legal liability incurred in the performance of duties given to a corporate officer by the company he serves.

Liability

Legal liability consists of an obligation to compensate an injured party and is the objective culpability borne by a person who is held to have caused (or contributed to causation of) the detrimental events that led to the injury or loss. Liability is normally determined by a court of law, or by reference to a hypothetical finding by a court. In other words, those making the assessment of liability form a view as to what a court would conclude about the matter under review.

Contractual liability is a form of legal liability. A party to a contract who breaks any of its terms acquires a contractual liability for the breach. Contractual liability arises out of a wrongful act, which is in the nature of a broken promise. Liability for negligence arises from breach of a duty of care independent of the existence of a contract (see below).

Negligence

A civil wrong that arises independently of any contract when the following three questions are answered affirmatively:

- Was there a duty of care?
- Was there a breach of that duty of care?
- Was there an injured party who suffered loss?

If the three elements are present, the tort of negligence is established and the wrongdoer (the negligent party) is liable to compensate the injured party.

on the usual liabilities your company agrees to assume under client contracts. For some risks, your company "self-insures." In each contract, your objective is to limit its liability as much as possible. Your liability policy, on which prices and operations are based, is based on the following principles: Each party should be liable for its own personnel and property and for its other contractors' and subcontractors' personnel and property.

As an exception, the client would be liable for your company's equipment under the following circumstances:

- While being transported by or on behalf of the client
- While located at the worksite and outside your company's custody and control

Your company should accept liability for third parties only to the extent of your company's fault or negligence, and if the client does not extend its indemnity to its other contractors, your company should have a fixed financial limit on third-party liability with the client indemnifying your company above the limit. Your company must be totally indemnified by the client against catastrophic risks. A mutual hold harmless clause should be put in place for incidental and consequential damages. For more clarification of such terms, see the "What Risks?" sidebar.

Risk financing is a critical part of the risk management process, which is part of the tendering process. Companies must make a calculated and economic assumption of risk when deciding whether to make contractual commitments. Risk financing comes at the end of the process, as follows:

- Identify and assess the risks to which your company is exposed
- Select and implement cost-effective risk control measures to avoid or reduce exposures to loss
- Arrange appropriate risk financing (including but not limited to insurance) to offset the effects of any losses that may occur, so that the lowest sustainable cost of risk is obtained over the long term
- Monitor and continuously improve the execution of the risk management process

Risks must be quantified to the extent possible, and the magnitude of the exposure analyzed in the context of factors such as the potentially hazardous nature of the work to be performed, the size of the contract, the anticipated profitability, and the general business relationship. The risk of loss must be limited through realistic and practical operating procedures, contractual indemnification and, ultimately, risk-financing mechanisms.

There are three basic forms of defense against identified risks:

- Transfer of the risk, as happens when liability is excluded, restricted, or avoided (for example, by contract), thus necessarily shifting it to another party.
- Hedging the risk, as happens in

▶ ***Insurance—Not So Fast***

Before moving too quickly to accept additional risks and expecting to cover the risks with insurance, consider the points below.

Insurance: A Risk Management Tool

Insurance is only one mechanism of risk financing and comes at the end of the risk management process. It should not be used as a criterion for accepting risk, as insurance does not diminish the risk; it transfers the financial exposure. Arranging insurance will not stop an event from happening, but it might cover some of the loss incurred. However, insurance does not offer a guarantee of certainty. Insurers may dispute large claims, policies have exclusions, or they may be rendered invalid or weakened in their effect ("vitiated") by actions of the insured. Many risks are, in fact, uninsurable. Premium charges for insurance are cyclical and follow the insurance market cycle. Thus, using insurance as a risk-funding mechanism should be an option compared to other options.

Insurance is not a remedy for a poor risk allocation accepted by your company. Insurance might not exist, or be available to your company (for example, consequential damages). Even if insurance exists, it might be so costly that it defeats the purpose of signing the contract with the client. Most liability insurances are self-insured up to a certain amount. However, the deductible can be a significant portion of the primary liability policy and is typically self-funded at the corporate level, so any risk assumption within this level can affect the bottom line, hence the importance of maintaining contractual indemnity protections.

Always have your contract checked by your contracts department before submitting your offer.

currency exchange situations when options are purchased to balance an exposure to fluctuation.

- Insuring against the risk (see the "Insurance—Not So Fast" sidebar for a cautionary note regarding insurance as a risk management tool).

The liability provisions in your contracts represent the reallocation of the liability or potential liability of the parties. Liabilities and indemnities are a complex issue. Often, changing a word or moving a phrase can shift the entire liability. **It is, therefore, a matter for experts, and the contracts department should be involved in all liability and indemnity negotiations and risk-financing decisions.** In commercial contracts, each party's ideal position is to put the liability for as much risk as possible on the other party, seeking all the benefits from the operations and no exposure.

Pricing Strategy Worksheet

The Pricing Strategy Worksheet organizes the factors required to arrive at a the offer price for the bid in one worksheet, as illustrated on the next page. The Pricing Factors Worksheet is part of the pricing workbook, which links the previous worksheets with the Pricing Strategy Worksheet and finally to the Negotiation Worksheet, which is discussed in the next chapter. Together, the salesperson and operations manager responsible for operations and field margin complete the Pricing Factors Worksheet. Each factor of the Pricing Strategy Worksheet is explained here.

Estimated Market Price. The estimated market price and comments are copied from the Pricing Sensitivity Worksheet. This represents the reference price for which the customer will compare your offer, as discussed in the pricing sensitivity section of this chapter.

Total Differential Value. This is the estimated market price and is copied from the Pricing Sensitivity Worksheet.

Customer Price Ceiling and your Company's Price Floor. A useful way to think about pricing is to first create a pricing window. The ceiling for the pricing window is the combination of market price plus the full value of the differential value. Clearly, the customer should not pay more than the total economic value of the services delivered. The window also has a pricing floor, which is valued at the incremental cost to do the project plus a mark-up. In the Nirwana example, the incremental cost mark-up is equal to 14%. This value should be discussed and agreed upon by the location manager responsible for the field margin of the location. In most cases, the pricing window as calculated above should dictate the highest to lowest prices charged unless there are other overriding factors, such as limited equipment availability. The price floor value is calculated after the cost components have been entered.

Offer Price. The initial offer price is copied from the market-based price cell of the Customer Pricing Sensitivity Analysis Worksheet. This value should be reviewed and adjusted if the entered value is too high or too low when the financial components are considered. In the example in **Fig. 11.9**, the sales team decided to tender a price of $70,000, which is the market price plus 80% of the differential value. The default offer price calculated in the Customer Pricing Sensitivity Analysis worksheet is equal to the market price plus 50% of the differential value, which for this example gave an offer price of $62,500 and an estimated field margin of 28%. With an offer price of $70,000, the estimated field margin is 36% compared to the location target field margin of 25%. After considering the current market conditions, the sales team decided to present an offer price of $70,000 because of the proven track record of the advanced solution, supporters in the buying center who wanted to use the supplier's solution, and the intangible benefit of the excellent QHS&E record. Also, the sales team was successful in addressing non-supporters by addressing their concerns and by demonstrating the economic value of Company A's solution.

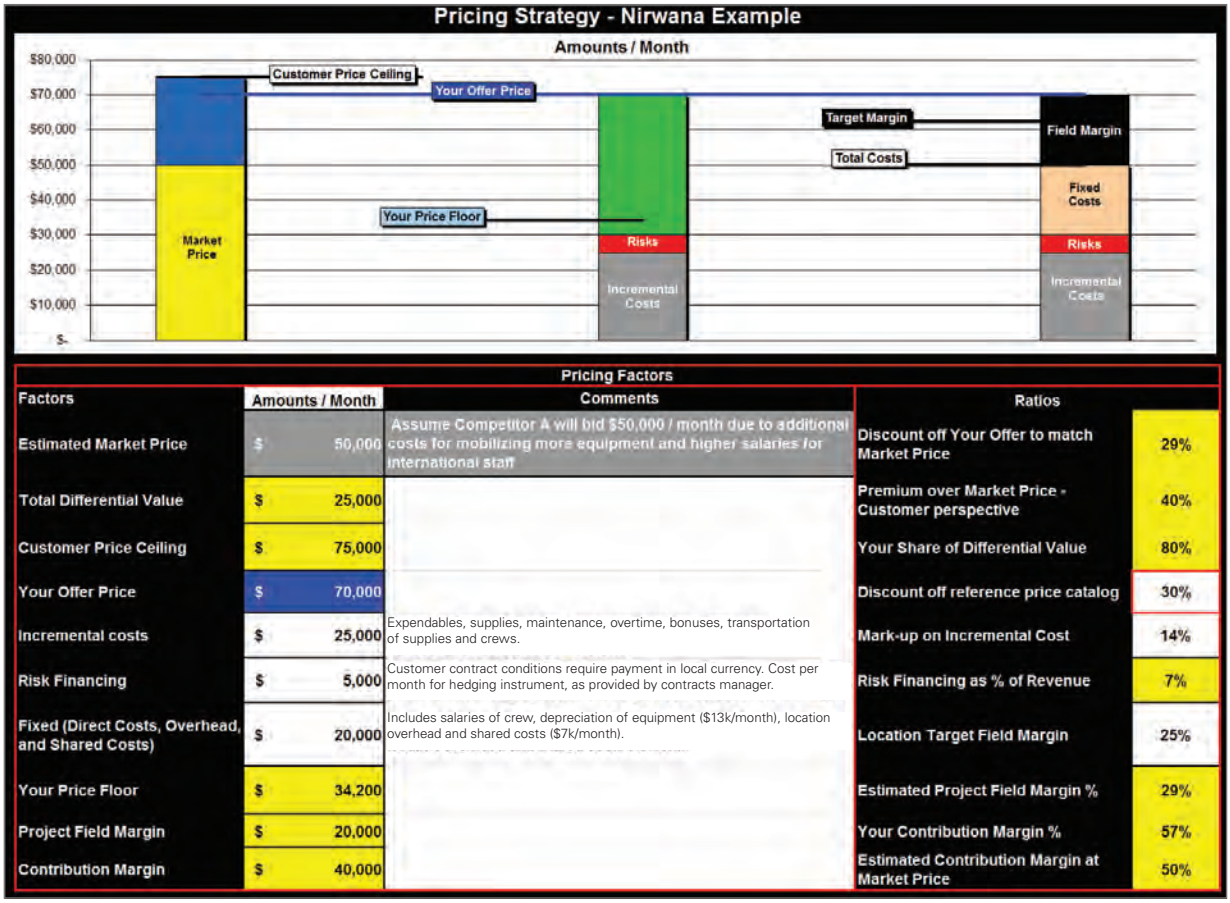


Fig. 11.9
Pricing Strategy Worksheet. This worksheet is used to develop a long-term pricing strategy. As with the other pricing worksheets, the white cells represent data input, and the yellow cells are calculated based on earlier inputs. The other shaded cells should be reviewed and the default values, which are calculated using general guidelines, should be overwritten if necessary. In this worksheet, the bar charts and labels are plotted automatically as the values are entered.

Incremental Costs. The incremental costs for the project are entered into this cell using the guidelines discussed above.

Risk Financing. Risk-financing costs for the project are entered into this cell using the guidelines discussed above and in Chapter 10 "Competitive Bidding." These costs could be included in the incremental costs as they adhere to the definition of incremental costs. In order to highlight the additional costs, however, these costs are entered separately in preparation for the negotiation strategy. They can be used to help the customer recognize the additional costs of increasing your liabilities and risks and thus convince the customer to agree to a price reduction and take back certain risks.

Fixed Costs. The fixed costs for the project are entered into this cell using the guidelines discussed above.

Project Field Margin. The project field margin is calculated by subtracting the incremental, risk financing and fixed costs from the offer price. In the example in Fig. 11.9, the computed monthly project field margin is $20,000.

Contribution Margin. The contribution margin is calculated by subtracting the incremental and risk-financing costs from the offer price. In the example in Fig. 11.69, the monthly contribution margin for this project is $40,000. This is one of the factors to use to compare projects whenever there is limited availability of resources and choices have to be made on which projects to pursue. The contribution margin is also used to compute the value of the proposed offer when entering negotiations. The goal of a negotiation is to create a win–win deal for both the customer and your company where the contribution margin of the proposal stays within an acceptable range. For the example project, the total contribution margin over the 12-month period is $480,000. Therefore, in a negotiation, trades are

made based on maintaining an equal or higher contribution margin over the 12-month period. Reducing incremental costs or increasing the scope of the project over the 12-month period would achieve this. This aspect is discussed further in Chapter 12 "Collaborative Negotiations."

Discounting Offer Price to Match Market Price. The discount percentage is calculated by subtracting the estimated market price from the offer price and then dividing by the offer price.

Premium Over Market Price—Customer Perspective. This premium is calculated by subtracting the estimated market price from the offer price and dividing by the market price. This percentage is used to evaluate the way the customer is expected to view the difference between the offer price and the market price.

Your Company's Share of Differential Value. The share of differential value is calculated by subtracting the customer's price ceiling from the offer price and dividing by the offer price.

Discount of Reference Price Catalog. The discount off the reference price catalog is entered in this cell. This parameter is useful for gauging the success of the pricing strategies and the degree of competitiveness among the markets in the various regions.

Mark-up on Incremental Costs. The mark-up for incremental costs, which is also applied to the risk-financing costs, is entered into this cell.

Risk Financing as % of Revenue. This value is calculated by dividing the risk-financing costs by the offer price. This percentage value is useful in negotiations.

Location Target Field Margin. The location target field margin is entered into this field. This value is used to compute the Target Field Margin, which is plotted on the pricing strategy chart.

Estimated Project Margin %. This percentage is calculated by dividing the project field margin by the offer price and can be compared against the location target field margin.

Your Company's Contribution Margin %. This percentage is calculated by dividing the contribution margin by the offer price.

Estimated Contribution Margin at Market Price. This margin is calculated by subtracting the incremental costs from the market price. It is used to determine whether the competitor would be generating positive cash flow if the market price seems too low.

Pricing Strategies

Three basic model-pricing strategies can be followed for any given opportunity depending on a number of factors:

- Long-term price
- Short-term price excess capacity
- Short-term price with limited capacity

Long-Term Price Strategy. The long-term price strategy is the most common pricing strategy used for preparing tenders. The long-term price strategy prices the product and services at the upper portion of the pricing window. The market price and a share of the differential value drive the long-term price strategy. The steps are:

- Establish market price of competitors.
- Determine and validate differential value with key buying center members.
- Add a share of differential value to market price.

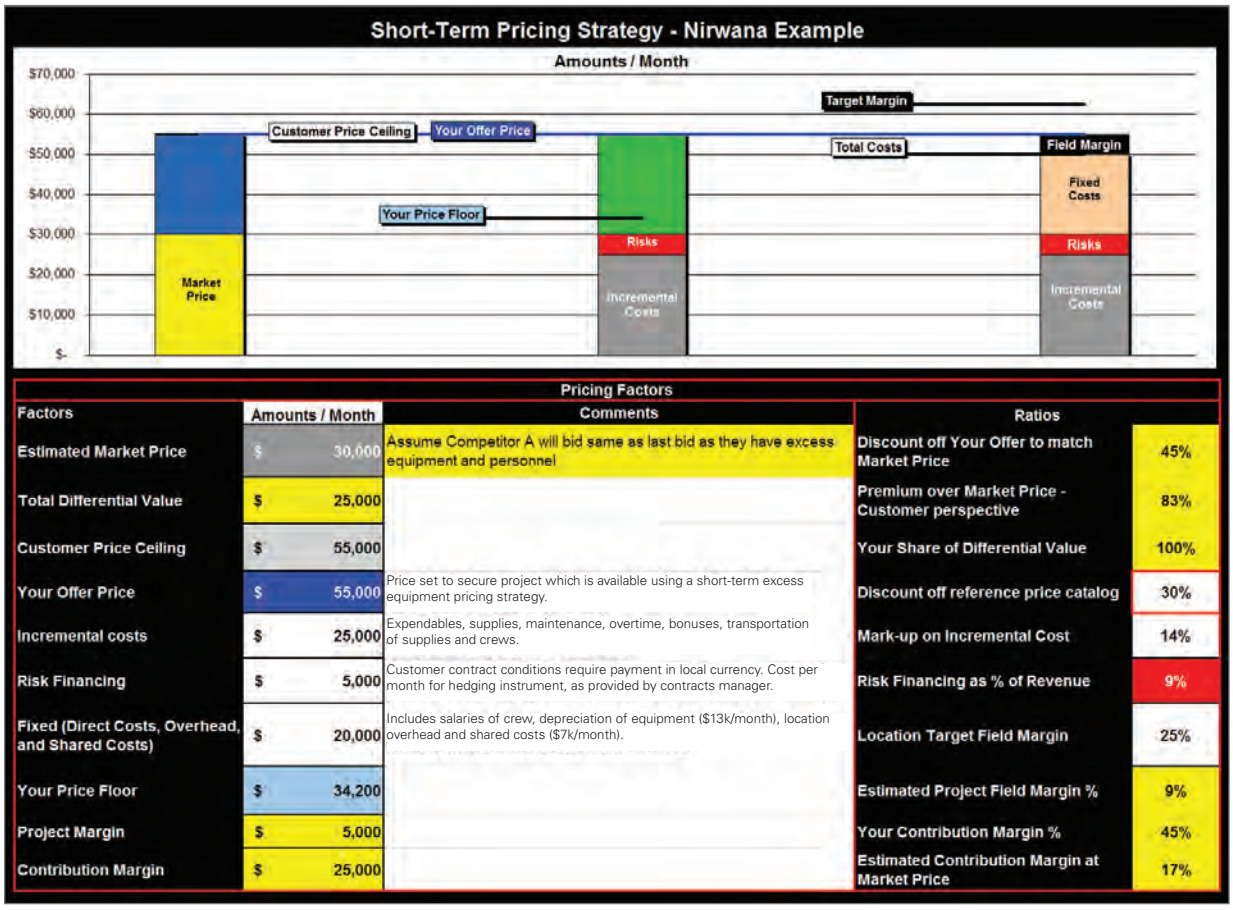


Fig. 11.10
Arriving at the offer price using a short-term pricing strategy with excess equipment. Even at these prices, the project contributes positive cash flow. If the situation were to persist, future investment decisions would have to be reviewed as, at these prices, the targeted field margins cannot be achieved and future investments or the cost structure would have to be reduced.

- Check final price to ensure that the targeted field margin is achieved and, if not, the prices are increased to meet the profit objective to result in your company taking a larger share of the value.
- Address buying center members' negative pricing sensitivities by justifying prices with added value of solution and emphasizing your company's strengths.

In cases where the differential value is not sufficient to justify the higher prices, perhaps due to depressed market prices (competitors taking a short-term pricing strategy or having significantly lower fixed costs), extra effort must be made to address buying center members' negative pricing sensitivities to justify the offer price. In such cases, it is critical that the salesperson begin early in the opportunity management process to discover additional value drivers and key buying center members' objectives that would benefit from the solution. The example in Fig. 11.9 illustrates arriving at the offer price using a long-term pricing strategy.

If the opportunity is determined to be strategic and the pricing differential between your company and the competitor cannot be overcome by demonstrating the value of the solution, a short-term pricing strategy should be considered.

Short-Term Pricing Strategy Excess Capacity. The short-term pricing strategy with excess capacity is used for very specific situations:

- When there is excess capacity for the amount of activity worldwide where long-term pricing strategies are used.

- The strategy can be defended by a rationale that does not send a signal to the competition that your company is starting a price war, which would deteriorate the long-term pricing strategy.
- The customer understands the restrictions of the pricing offer.
- Sufficient differential value does not exist to achieve the long-term pricing strategy.
- Management has accepted that the project is not expected to achieve the targeted field margin.
- There are strategic reasons as agreed upon by upper management not to warrant the risk of losing the opportunity using long-term pricing strategies.

The short-term pricing strategy sets the price in the lower portion of the pricing window. The offer price is set somewhere between the targeted field margin and price floor. By definition, short-term pricing strategies are better suited and more defendable for short-term, one-time projects. A possible situation where using a short-term pricing strategy is appropriate is when resources are idle between committed projects and the project does not need advanced services. In this case, the price could be set at the market rate or slightly higher, with the stipulation that the price applies only until the resources are needed for an upcoming project. **Figure 11.10** illustrates a situation where a short-term pricing strategy might be warranted.

In this situation, it is believed that Competitor A will not raise prices to cover the mobilization of additional resources and will offer to do the project for $30,000

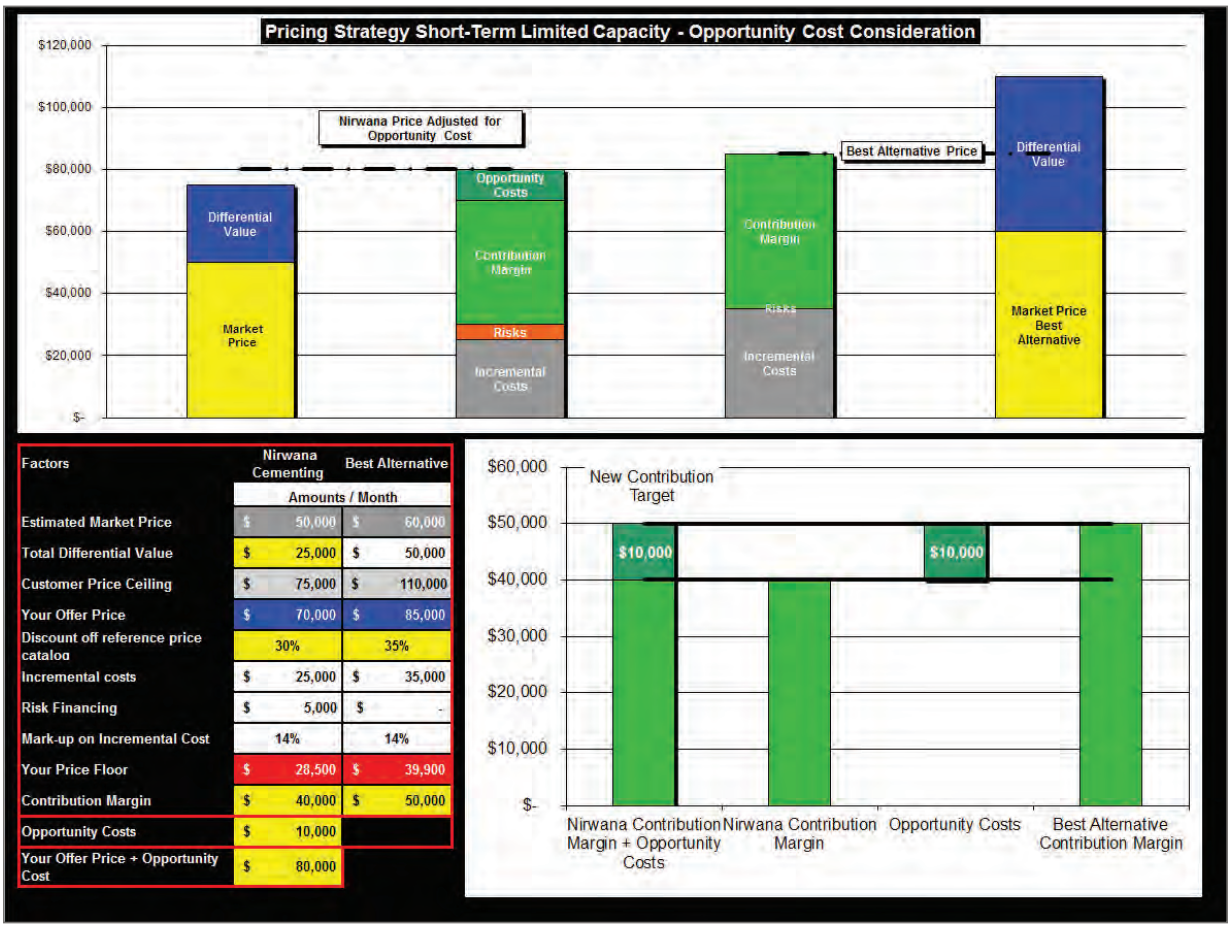


Fig. 11.11
Opportunity Costs Worksheet for short-term pricing strategy with limited capacity.

per month as excess equipment exists worldwide. In this scenario, the offer price is $55,000 per month, which results in a 9% field margin—much below the targeted field margin of 25%. At this price, however, the project would generate a contribution margin of $25,000 per month.

Management and the sales team must answer the following questions in order to choose the best course of action:

- Do you still have time in the opportunities management process to try to find more differential value to justify a higher price to achieve the target margin?
- Should you reduce the price as calculated on the short-term Pricing Strategy Worksheet and miss the targeted field margin but still generate the contribution margin during a period of reduced activity, or should you risk generating no revenue with the assets as they sit idle?
- Will the short-term pricing strategy negatively impact the long-term pricing strategy for future long-term contracts?

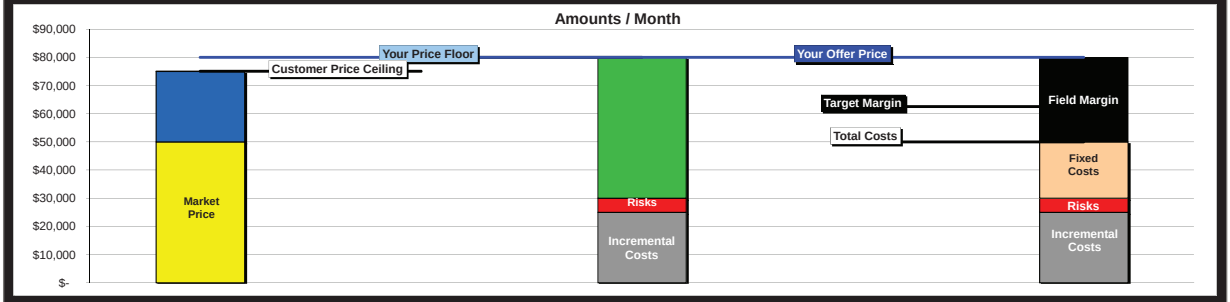
The last question is difficult to answer, but can be evaluated by considering the timing and competitive threat for the upcoming long-term tenders.

Short-term Pricing Strategy Limited Capacity. When the market condition is limited in capacity, there are more tenders than you have resources to handle. In this situation you want to ensure that the tenders you win achieve the highest contribution margins possible with the current resources. In the situations of limited capacity, the pricing floor is increased as a result of opportunity costs.

Opportunity Costs. Opportunity costs are the difference between the contribution margin of the best alternative and the contribution margin of the current opportunity you are trying to secure. **Figure 11.11** illustrates the process used to arrive

Fig. 11.12
Arriving at the offer price using a short-term pricing strategy with limited capacity. The main difference between this scenario and the one described in the long-term strategy (Fig. 11.9) is the shortage of equipment to cover the work. In this case, Company A's offer price adjusted for the opportunity costs is entered into the price floor cell, and this price would be used as the new offer price, which is $80,000.

SHORT TERM LIMITED CAPACITY PRICING STRATEGY WORKSHEET



Pricing Factors

Factors	Amounts / Month	Comments	Ratios	
Estimated Market Price	$ 50,000	Assume Competitor A will bid same as last bid as they have excess equipment and personnel	Discount off Your Offer to match Market Price	38%
Total Differential Value	$ 25,000		Premium over Market Price - Customer perspective	60%
Customer Price Ceiling	$ 75,000		Your Share of Differential Value	120%
Your Offer Price	$ 80,000	Price set to alternative project for which the equipment can be used in another Region. See Market Rate analysis	Discount off reference price catalog	30%
Incremental costs	$ 25,000	Expendables, supplies, maintenance, overtime, bonuses, transportation of supplies and crews	Mark-up on Incremental Cost	14%
Risk Financing	$ 5,000	Customer contract conditions require payment in local currency. Cost per month for hedging instrument as provided by Contracts manager.	Risk Financing as % of Revenue	6%
Fixed (Direct Costs, Overhead, and Shared Costs)	$ 20,000	Includes salaries of crew, depreciation of equipment 13K/month, location overhead and shared costs 7k/month.	Location Target Field Margin	25%
Your Price Floor	$ 80,000	Price increased to include opportunity costs of a highr contribution margin opportunity in another GeoMarket. See the opportunity costs worksheet for details.	Estimated Project Field Margin %	38%
Project Margin	$ 30,000		Your Contribution Margin %	63%
Contribution Margin	$ 50,000		Estimated Contribution Margin at Market Price	50%

at the opportunity costs adjustment. In the Nirwana example, the offer price using the long-term pricing strategy as described above was set to $70,000. The contribution margin at that price was $40,000 per month. In another opportunity in another region that is short on resources, however, there is another comparable project, which was discovered during the market rate analysis step in Fig. 11.4. The offer price for the best alternative was $85,000 and has a contribution margin of $50,000. The opportunity cost for the Nirwana project is $10,000 per month. This opportunity cost is then used to raise the Nirwana Company A offer price floor to $80,000 (long-term pricing strategy Company A offer price + opportunity costs), up from the previous price floor of $34,200 per month.

Therefore, for the Nirwana opportunity, the offer price now includes 120% of the differential value, which will make the sale more difficult. However, if you cannot win the Nirwana project at this price, you should pursue the other opportunity—all other factors being equal. The pricing workbook for the market condition is shown in **Fig. 11.12**.

As shown in the above examples, there are three different prices ranging from $55,000 to $80,000, depending on the different market conditions. Managing the customer's reactions to each pricing scenario is the responsibility of the salesperson, who must ensure that, by the time the prices are presented as part of a formal offer, the customer perceives the prices as fair and equitable and chooses to use Company A for the project. The best chance you have to ensure that the customer accepts your offer is to begin formulating the pricing strategy early in the opportunities management process and to keep in touch with the market pricing.

Advanced Pricing Model

The pricing discussion to this point has focused on the basic pricing model, whereby the offer price is a function of the type of tender, market price, customer's pricing sensitivity, and a chosen pricing strategy. In the advanced pricing model, the additional factor of incentives is included to arrive at the offer. However, greater importance is placed on the level of relationship you have with the customer and is typically used only for "Type 1 Enterprise Tenders." The advanced pricing model is a complex and involved process, and as the size of the project and length of commitment grow, so does the necessity to involve all members of the project team—from the sales staff to operations, contracts, finance, tax, and management review—before submitting an advanced pricing model (commonly referred to as an incentive contract).

The goal of this section is to create an awareness of the considerations that must be taken into account when using the advanced pricing model to make a proposal. This is becoming increasingly important within the B2B large sales environment when companies offer some form of performance, or results-based, proposal. The essential nature of an advanced pricing model is that the revenue received may vary in relation to factors of time, quality, volume of production, safety, cost control, engineering accomplishment, and management performance in any combination.

Advanced pricing models carry a greater risk to profit than a model based on unit rates (basic pricing model). Whereas a unit rate contract essentially means that the contractor is paid for a volume of usage, the incentive contract is based on performance of a specific service for a share of the revenue saved or generated by the supplier. If the risk is not properly calculated and defined, the contractor could ultimately incur losses on the contract.

When incorporating any type of incentive into a tender, it is critical that all aspects of the model be clearly worded in the contract. It is often helpful to include specific

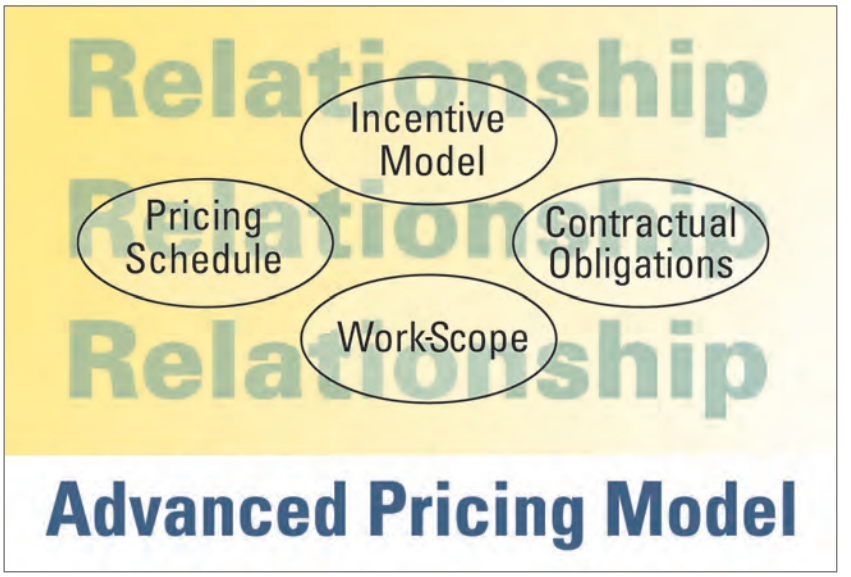


Fig. 11.13
Advanced pricing model components. The main difference between the basic pricing model and the advanced pricing model is that, in addition to the price schedule from which the basic pricing model offer is based, the advanced pricing model also includes an incentive model as part of the remuneration formula. In the advanced pricing model, much more effort is given to fully understanding the risk/reward implication of the incentives. You must accurately capture the intent of the risk/reward as part of the contractual obligations and fully agree on the scope of work and your control over the scope of work with the customer. As the figure suggests a relationship is crucial in deciding when to apply an advanced pricing model.

examples. Before beginning the discussion on the incentive model selection process, it is worth repeating that the customer relationship is a significant factor when choosing the advanced pricing model. Before investing significant effort into developing an advanced pricing model, the sales team must ensure the tender is a Type 1 Enterprise. As mentioned earlier to confirm a Type 1 Tender, the executives from the customer and your company should be discussing the customer's project and agreeing that an enterprise relationship is the best option for both companies. Only this type of tenders using an advanced pricing model has a good chance of success.

If you are going to pursue an advanced pricing model for type 2 or type 3 Tenders, then you must adopt the defend a competitive sales strategy and know which executives will defend awarding your company the work when you are not evaluated the strongest against their formal decision criteria. For this strategy, you must have proven value and show a direct impact of the business priorities the executive has for the project.

Incentive Model Selection Process

Experience has shown that careful selection of a suitable commercial framework is central to realistic and effective alignment at the project level when using advanced pricing models. The objective is for your company to benefit from the gains to be made through effective participation in a project. Customers sometimes prefer the advanced pricing model, as they view it as a method of motivating service providers to avoid the financial pain that flows from poor performance or poor service attitude.

An advanced pricing model (**Fig. 11.13**) represents a means by which the success or non-success of a project can be translated into financial terms. Along with a pricing schedule, the incentive model is applied to an agreed contractual scope of work under a legally binding agreement. You have to build a relevant model in order to achieve financial success. It is illogical to propose a quality model to clients whose primary goal is to limit financial risk or a lump sum model to clients whose highest priority is maximizing their operations. Both examples either misunderstand or ignore the main objectives of the project. A vital competitive advantage may be lost at the tendering stage, and even if the tender is awarded to your company, the potential value of the commercial schedule can be significantly reduced. A structured approach to selecting a suitable commercial framework and incentive model can identify many of the key factors of a project's success.

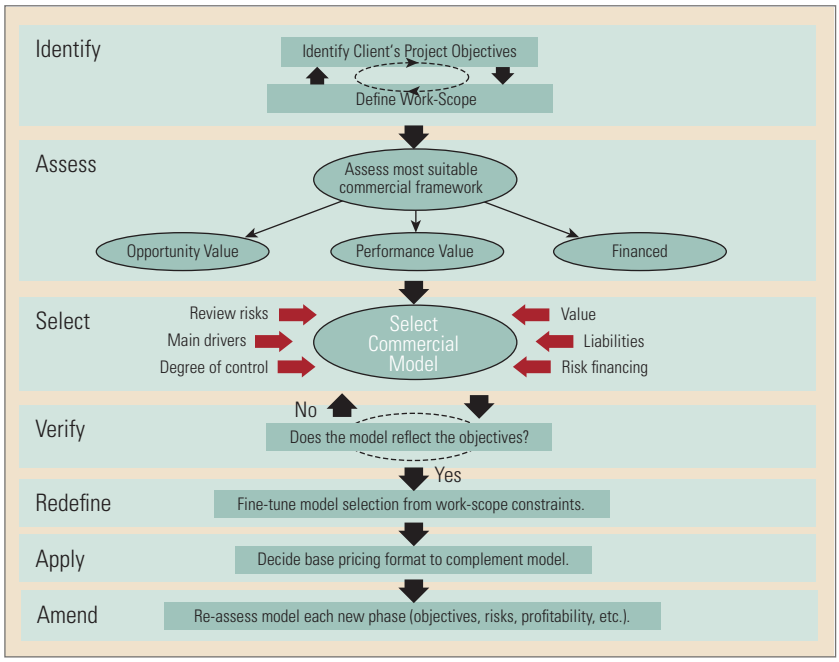


Fig. 11.14
Incentive Model Process, including the seven phases and each step in those phases.

Seven key steps are taken in the process of developing incentive schemes **(Fig. 11.14)**:

- Identify the key objectives and hence simplify the process of setting relevant performance benchmarks.
- Define the scope of work and hence the roles and responsibilities of participants in the project.
- Clarify what is expected of the supplier and clearly word this in the contract.
- Ensure that the incentive model for the project is achievable within the scope of work you are contracted to undertake.
- Align your commercial terms with your client's objectives within the area of your control.

Identification Phase[7]

The identification phase consists of three steps, as follows:

- Identify project objectives
- Define scope of work
- Identify the project's position in the hydrocarbon cycle

In this phase, you identify the top-level business drivers that will shape the way the selection process is conducted. All participants must have a clear understanding of the priorities for project delivery, not only for the commercial model but also for the overall success of a project. Information gathered in the identification phase determines the route of the rest of the steps.

Identify Project Objectives

This stage seeks to recognize the client's objectives. Broadly speaking, these objectives can be grouped into the elements described below. Although this list is by no means complete, it provides a path by which for conducting a review.

Desire to Minimize Participation. Does the client want to commit as few of their own people to the project as possible? For example, the client might be seeking to do business in a new country where they have no infrastructure and no resources,

yet the client does not wish to create one. Alternatively, the project economics may be such that the client cannot justify applying internal resources to the project, or the client might not have in-house expertise or access to technology.

Reduce Physical Risk. Is the client's main concern to limit overall risk? Is the client working on a fixed budget? For example, a client's main objective could be to stay within a spending budget given uncertainties about the area, field operations, etc. Typically, such a client would look for lump sum or turnkey arrangements. This objective could also be associated with operational uncertainty due to a lack of local experience.

Minimize Performance Risk. In the same way that a client may want to limit accidental or other risk, the same can apply to operational costs, either generally or in the particular area of the project.

Maximize Efficiency. This client wants to encourage operational efficiency by reducing time and costs through the project. Approval for expenditure (AFE) concerns encourage a risk/reward approach to ensure alignment and therefore increases that client's confidence that your company will supply efficient, cost-controlled services. For an example of an efficiency-based incentive model, see Chapter Highlight 11.2: Advanced Pricing Model Example, Case 2.

Value Enhancement Initiative. Adding value to a project can take many forms. Examples of this in the energy industry are:

- Production enhancement projects and delayed abandonment costs by extending the production output of mature oilfields.
- In well construction tenders, the objective could be to maximize horizontal drain exposure of the reservoir, thereby enhancing the relative value of the wellbore in production terms.

If value enhancement is recognized as a main objective, it should be further analyzed to understand the overriding reasons behind the value driver:

- Avoid additional cost
- Improve economics
- Improve performance against objectives

Understanding the reasons behind the desire to add value enables you to establish priorities and address the real issues.

Final Quality of the Delivered Product. In some situations, quality or environmental considerations take precedence over budgetary limitations, or are at least considered essential to overall project success. A program in an environmentally sensitive area cannot be considered a success if the price to pay for meeting financial targets is environmental damage.

Alternatively, in an exploration program where data acquisition is of significant importance, the operational budget may well be insignificant compared to the benefit of identifying greater reserves through an extended logging or testing program.

Funding Partnership. A growing number of clients look to suppliers as a non-equity partner to partially fund their projects, with payback in the form of a portion of their future revenues. Often, their main reason is to optimize cash flow, and if so, this must become a major component in the model.

Such proposals must be treated differently and include considerations such as non-equity issues, repayment risks, risk of accident, and financial loss probability. When financing is part of the tender, risk exposure in excess of your product and services revenue must be carefully analyzed. This dictates the form of the agreement and is significantly different from the basic pricing model. The basic pricing

model has a maximum liability that is the cost of your products and services, provided you have limited the contractual risks as recommended in Chapter 10 "Competitive Bidding."

Technical Application. If the project depends heavily upon the development and application of new technology, these drivers should be reflected in the incentive model in a similar way as the final quality considerations. The identification of the customer's value drivers is more easily done early in the opportunity management process, in the evaluation of options stage, and as part of the ongoing account management process.

By identifying broad groups of drivers in this way, the choice of relevant incentive model(s) becomes simpler. Above all, at this stage, it becomes easier to identify which type of incentive is unsuitable and should therefore be eliminated.

Scope of Work Definition

The aim of this process is to define and agree on contractual responsibility. This could be in the form of a list of as many predictable situations as possible, with clear agreement as to which responsibilities are within your scope of work. The scope of work definition is critical when considering any form of lump-sum contract and would include not only performance items, but also liability risks. The identification of potential liability exposure could lead to the need for risk financing or calculated provisions in your service charge to cover the eventuality of such occurrences. These considerations in turn influence the subsequent steps of the process.

Many commercial risks can be offset by a carefully worded scope of work and through the avoidance of ill-defined terminology. The price schedule should give a clear declaration of what is included within the proposed prices, such as mobilizations and maintenance. It might be necessary to add an assumptions addendum to the pricing schedule.

Assessment Phase

Once the objectives and scope of work have been identified and agreed upon the appropriate incentive scheme can be selected. This assessment assists in incentive model selection and, more importantly, determines your business approach. At this level you must assess which business strategy is likely to be the most effective in addressing the overriding objectives of your client. The aim of this process is more to eliminate options than to select them.

The incentive model would be one or more of the following:

- Performance oriented
- Engineering opportunities
- Financed

Performance Models

Performance models revolve around the cost of the operation. They can range from modified turnkey or lump sum projects where the operator's risk is lowest and your risk exposure highest, to a more conventional pricing schedule linked to a risk/reward scheme based upon cost performance against AFE. In performance incentive models, it must be realized that it will be difficult to demonstrate added value in non-cost efficiency terms. The ideal performance incentive model creates a win–win situation where bonus payments are neither so high that the operator feels abused, nor so low that the contractor is demotivated rather than incentivized. Customer risk limitation dominates this approach when subsea uncertainty is high or financial resources are limited.

Engineering Opportunity Models

Engineering opportunity models focus on quality and efficiency improvements. Engineering opportunity models recognize some value to your services beyond market prices. Although they may still need to be supported by a risk element, clients are more likely to accept the upside as a gainshare split on improved performance.

Continuous improvement would play a significant role in this type of model, and such arrangements promote the ability to build long-term technical and commercial relationships. Technology and its effective application would hold a high priority in reaching stretch targets in projects with considerable technical difficulty, such as deepwater projects, as well as efficiency-driven projects in mature fields, where a step change improvement could drive down overall costs. Although this might be the main driver, you should not forget the cost implications that any project must carry.

Financed Models

The financed models can occur in the form of risked service charges, upfront nonequity funding, or even acceptance of deferred payments, and as such must be treated differently from other proposals. The commercial considerations go beyond those of the basic pricing model provisions.

Selection Phase

The main criteria influencing the choice of a model are more or less the same for all three incentive models described above. However, the relative importance of each criterion discussed varies enormously. For example, in a quality-driven project where liabilities are totally accepted by the client, the relative importance of insurance constraints or physical risk liabilities is much lower than, say, a risk-dominated model where the client must remain within budget limits and has passed many risk issues to us, which you take some form of risk financing to cover. Equally, it will be more difficult to demonstrate added value to a client who is risk dominated than to a client looking for quality and efficiency improvements.

Risk Review

Steps taken in the risk review and mitigation stage are the same as those discussed in the basic pricing model. Except in advanced pricing models, the added factor of incentives puts additional emphasis on closely examining the performance and commercial risks associated with the project and financial model being developed.

The key aspect to consider when reviewing the risk and risk mitigation is the need to produce a risk evaluation matrix. To convert potential risk into actual financial exposure, you require historic probability of occurrence, multiplied by the maximum cost impact. This analysis is often in the form of a worksheet, from which all realistic eventualities can be assessed. Once the evaluation has been made, decisions on how to reduce the risks can be made. These can be in the form of insurances, exclusions from the scope of work, or scaled increases in rates if you decide to carry the risks.

When considering an advanced pricing model, the inclusion of incentives requires additional emphasis on evaluating performance and the resulting commercial risks. This is the form of risk most commonly referred to in commercial terms. However, this risk is often applied under a common misinterpretation. The purpose of accepting risk with a client is primarily to demonstrate a willingness to align with your client's objectives through financial pain in the event of failure.

The level of financial penalties applied to your services, which is necessary to encourage alignment, bears no direct relationship to the overall financial cost to your client.

For example, a 10% penalty on your services may represent $50,000, which is critical to your own profitability but has limited impact on a client's AFE budget of $5,000,000 (i.e., only 1%). Conversely, a positive result achieved due to good performance is commonly awarded to your client at a higher rate than to you (i.e., a 10% upside on your services may bring $50,000, but to your client a 10% savings on $5,000,000 will yields $500,000). This simple calculation shows that a ±10% risk/reward scheme does not automatically represent corresponding benefits and exposures for your company and client. Essentially, this type of risk should be largely within your sphere of control.

Performance risk, or more precisely the risk of poor performance, can result from the risk of accepting technical tasks beyond your capability. This might stem from an overly aggressive commercial proposal for the scope of work or as a consequence of overly ambitious technical targets. Effectively, the end result is reflected in commercial losses or penalties, limited contractually to a percentage of your service revenue.

Large-scale advanced pricing model projects demand much more careful risk identification and assessment than traditional basic pricing model well service contracts. Such projects may require a full project evaluation using input from all functions—operations, QHSE, legal, finance, contract management, and risk management.

Main Drivers

Identifying the main drivers for a project has been recognized as the essential first step in selecting a business framework. That same information should be used as a constraint in selecting the incentive model. For your clients to pay a bonus, success must be clearly defined. If the incentive model is not clearly aligned to this success, it will be more difficult to secure full and undisputed bonus payments.

Control

Although the incentive model should reflect the main drivers for a project, it is essential that it also be feasible within the agreed-upon scope of work. It is unwise to commit to penalties based on achieving targets over which you have limited or sometimes no realistic control, such as when the nature of the project requires your company to work closely with another contractor in whom you have little confidence or has no incentive to minimize costs. It would also be imprudent to commit to an incentive scheme if the project is very complex and you do not have sufficient experience in these types of operations. These situations should be avoided by a clearly defined scope of work beyond which the incentive is not valid.

Added Value

The purpose of an incentive-based model is to provide a mechanism by which performance can be awarded or penalized in financial terms. As such, it is an integral part of your pricing schedule and must therefore be compatible with this schedule. It is also a means by which you can assess the added value you bring to your clients through innovation or more effective planning, which is not directly related to your service or product charges.

As mentioned in the "Fair to You!" sidebar, the advanced pricing model is used when the applicable price schedule does not provide a pricing range sufficient to

capture a fair value for the product and services your company provides the customer given the level of risk the customer asks you to take. Thus, additional financial terms must be clearly written and added as part of the financial terms of the offer so that you have the opportunity to earn more revenue than if the products and services were invoiced using the price book. This could be in the form of added value incentives built around cash flow, net present value, or other value driver.

Lessons Learned

A successful incentive model must be flexible to adapt to the evolution of a project. It may work well initially, but if the model is static and does not include an expected and natural performance improvement, it could be open to various interpretations of your entitlement.

As processes are improved, the benchmarks that your performances are measured against are often changed to reflect the new standard, and opportunity to gain payments decrease with time. If, however, a mechanism is incorporated into the model to accommodate lessons learned, there will be less justification for step revisions. Such mechanisms result in an effective motivating model, as the continual improvement anticipated through the duration of the project is reflected in the bonus system.

Verification Phase

The verification phase is the first step in an iterative process to check that the incentive model proposed reflects the objectives and key drivers for the project. You must check the model to ensure that it promotes the intended behaviors needed from the customer, your company, and your partners on the project to achieve the goals and reap the reward if success is achieved.

Refine Phase

Similarly, the refining step scrutinizes the scope of work within your control. This process should satisfactorily answer the question, "Can your company achieve the incentive payments without exceeding your agreed-upon scope of work?"

Application Phase

The ultimate goal of following the approach described in these guidelines is to produce a coherent and relevant commercial framework that is competitive in a tendering environment and suitably reflects the project goals. An undisputed payment in the event of success is the tangible result.

Once a framework and suitable incentive model have been chosen, the strategic decision lies in determining to merge it into the pricing schedule, if at all. This can only be achieved in the process described in this section. The pricing approach and schedule take their form from a suitable incentive model. It is impossible to produce a coherent package if the components are assembled in the wrong order.

If, for example, you are confident that there are sources of an unidentified value to be captured through your incentive model, you can propose a highly competitive basic pricing model to achieve success in a competitive situation and add an incentive model to capture a share of the added value delivered in a combination of basic pricing and advanced pricing. In many cases, a combined basic and advanced pricing model can result in a successful and relevant approach. If, however, the process shows that there is little realistic incentive bonus, it is not considered unsuccessful; rather, it has identified that for this opportunity the basic pricing model is the most appropriate.

Amendment Phase

The final step of the process is that of periodic reality checks. Rarely does one model remain unchanged throughout the life of any but the shortest of projects. Indeed, it is best to anticipate changing objectives within the model by making the initial version valid for only a defined phase of operation or time. In this way, the model coincides with the progression from the initial project phase, toward full operations and management priorities. The timeframe on such advanced pricing models is rarely less than one year and more commonly lasts five years or more on larger projects.

The purpose of using the advanced pricing model is to motivate better performance and sustain it throughout the project. Also, performance risk is often included as an alignment mechanism to discourage poor service or inadequate cooperation through financial penalties. If the existing contractual model fails to achieve these goals over time, due to either the evolution of the project or changing circumstances, there must be provision for its modification. Ideally, this should be built into the contract. An agreed-upon mechanism can be of great benefit later in the project when circumstances or personnel may change.

Incentive Contract Examples

There is no standard advanced incentive model: The guiding principle is that the efforts of your company to improve the benefit to the client are rewarded by reference to a predetermined mechanism. Usually, the structure of the mechanism is bonus based, but sometimes it involves a "malus" or penalty for overruns in time or costs.

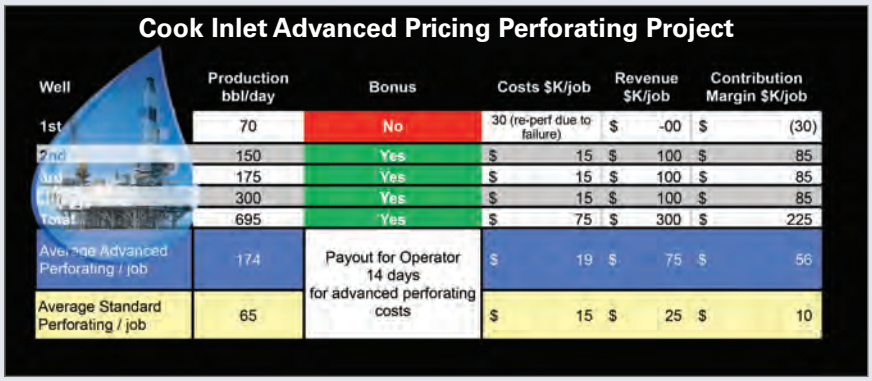
The different types of incentive contracts can be categorized as follows:

- Lump sum payment (LSP) models
- Day-rate plus performance bonus models
- Gainshare, risk/reward models
- Reservoir development models
- Field development and production models
- Project management models
- Performance benchmarking models

Chapter Highlights 11.1 and 1.2: Advanced Pricing Model Examples, two examples of advanced pricing models. The first is a basic application of the advanced pricing models, "Double or Nothing," and the second is the "Beat the Budget" incentive scheme used by a North Sea operator.

Calculating the correct bid price to win the work is not easy. There are levels of uncertainty and risk with the projected TTV and EV revenues. The measure of correctness is not purely whether you won or lost the work. The correct price achieves your long-term profit objectives while at the same time improves your competitiveness within your market and contributes to the customer's success. Calculating the correct bid price is a complex interaction of many factors. These factors include market strategies, profitability, the customer's perception of your value, market share, competitors and, perhaps as important as any factor, your relationship with the customer. It is possible to price correctly by considering these factors and splitting the pricing decision into processes that carefully analyze each of the factors. This work is part of the professional salesperson's and bid team's due diligence in bidding. Completing your due diligence will give your management confidence in your bid strategy and TTV and your customer the confidence that what you submit is your best price for their scope of work and terms and conditions.

Chapter Highlight 11.1: Advanced Pricing Model Example, Case 1



Cook Inlet Advanced Pricing Perforating Project

Well	Production bbl/day	Bonus	Costs $K/job	Revenue $K/job	Contribution Margin $K/job
1st	70	No	30 (re-perf due to failure)	$ -00	$ (30)
2nd	150	Yes	$ 15	$ 100	$ 85
3rd	175	Yes	$ 15	$ 100	$ 85
4th	300	Yes	$ 15	$ 100	$ 85
Total	695	Yes	$ 75	$ 300	$ 225
Average Advanced Perforating / job	174	Payout for Operator 14 days for advanced perforating costs	$ 19	$ 75	$ 56
Average Standard Perforating / job	65		$ 15	$ 25	$ 10

Double or Nothing!

In the Cook Inlet of Alaska, Operator A was operating several offshore production platforms. On several of the platforms the producing wells had a scaling problem. As the oil was produced, heavy precipitates were also produced; over time, a period time the production levels would drop off to less than the economic production rate, as the precipitates would plug the perforation tunnels. When this happened, the Operator A production engineer would send out a competitive tender. He would send this to Company A, Competitor 1, and Competitor 2 for through-tubing reperforating for a package of four wells in order to bring the wells back up to acceptable production levels. This procedure was done on a regular basis, and typically the work was split among the three service companies over a period of a year.

At this time Company A introduced an advanced perforating gun; the sales engineer for Company A ran a perforating analysis. She was convinced that the advanced guns would more than double the production Operator A was achieving with the standard perforating guns provided by Company A and the other service companies. It was decided to offer the advanced guns using an advanced pricing model that included a double-or-nothing incentive clause. The offer was for a commitment to perforate four wells with the advanced guns at no charge if the reperforating with the advanced guns did not double production. If they doubled the average production of 65 bbl/well, Operator A would pay Company A $100,000 instead of the average revenue of $25,000 per well using standard guns. The results of the four-well program are listed above.

In the end, Operator A almost tripled the average production from the four wells. The payout for the extra perforating expense was 14 days. After the four-well project, Operator A asked for a bid for a one-year contract for all the reperforating work. Operator A asked for a standard price per well and agreed to accept the risks for normal operating failures. The agreed price was $50,000 per well. In this case, the willingness of Company A and the engineering work of Company A's sales engineer resulted in a win–win agreement. Company A secured 100% of the re-perforating work at double the price, and Operator A realized triple the production.

In this example, the project began as a competitive bid using a basic pricing model, then moved to an advanced pricing model using a results-based incentive contract. Once the technology was proven, the project finished with a basic pricing model as Operator A was willing to assume the risks for a lower price. However, once the value had been proven, Operator A was satisfied with the new pricing, despite the 100% increase over what it had been paying—little surprise when the added value of extra production was so explicit. The secret formula? Company A's value, people dedicated to trying something better, and a solid Level 2 Consultative relationship with the client.

However, there are times when the customer will come back to you and claim that the offer is not good enough. Even after all the hard work and time spent getting the numbers correct and knowing you submitted a winning offer, the customer will ask for more. Now it is time to negotiate in a collaborative approach. The next chapter, "Collaborative Negotiations," will explain how.

Chapter Highlight 11.2: Advanced Pricing Model Example, Case 2

Beat the Budget

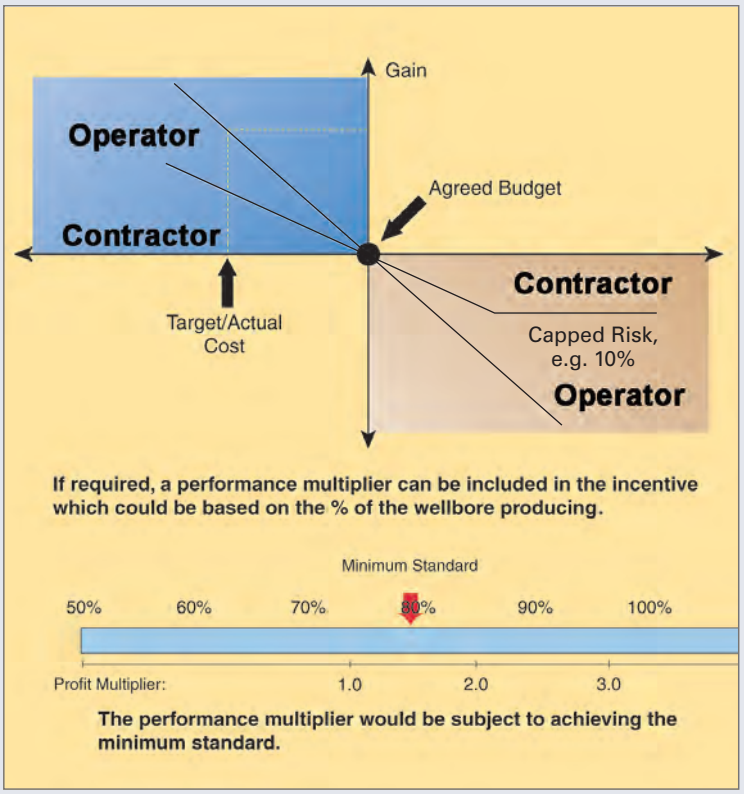
Beat the budget is an advanced pricing model based on performance and results. The incentive scheme is based on beating the targeted cost for a project as budgeted. The actual well construction cost versus budget is used to split the savings between the North Sea operator and the contractors on a sliding scale of additional discounts, which is capped if the wells are over budget.

The diagram on the right graphically illustrates how the incentive model works. In addition, another incentive quality multiplier for the contractor's profit can be included.

In the case of two projects for the North Sea operator, a percentage of the wellbore multiplier was used.

The benefits of this model are that it:

- Can be applied to single or multiple wells;
- Is simple to administer;
- Promotes alignment and reinforces teamwork.



The model works best for integrated services contracts with multiple company business line= participation. It also requires active participation of all the key contractors.

The weaknesses of the model are that it:

- Is heavily dependent on drilling efficiency;
- Has effectively no scope of work limitation;
- Does not take into account the operator's upsides;
- Has limited upside potential.



Summary of Chapter Objectives

1. Describe the basic pricing model.

The basic pricing model is used for the majority of bids. This model uses three analyses to identify the offer price: market rate analysis, price sensitivity analysis, and pricing strategy analysis. Each analysis provides a critical price determination for the preceding analysis. The market rate establishes the competitor's TTV for the tender, which is the benchmark you will use to establish your TTV. The market rate is used in the price sensitivity analysis to establish the market-based price for your added-value product and services. The pricing sensitivity analysis groups the customer's price sensitivities into positive and negative factors and quantifies each in order to establish your company's differential value compared to the market or reference price. The sum of your company's differential value and the market rate is the total economic value of the solution. The final step of the pricing sensitivity analysis is to decide what is a fair and equitable sharing of the differential value to identify the market-based price. The market-based price is compared to the financial aspects of delivering the products and services. The financial aspects are the incremental, fixed, risk-financing costs, and field margin targets. The final output is the offer price. The type of tender will determine exactly what you enter in your bid for the customer to evaluate. Type 3 Transactional Tender you will make your TTV slightly less than market rate. Type 2 Consultative Tender, depending on how your offer is positioned against your competition, may be at or below market rate. If you are considered better than your competition, you are allowed to have a premium price. If you are not better than your competition, then the competition is allowed to have a premium price and your bid must be priced low enough compared to your competitors so their price is outside the allowed premium and you win. For Type 1 Enterprise Tenders, you will present your market-based price adjusted for market conditions and your pricing strategy. The final offer price is then presented to the customer supported by the published price book as part of your bid submission. Many times, however, the customer's acceptance is conditional upon acceptance of the offer price after negotiations. In the basic pricing model, the analysis is organized into a pricing workbook to simplify the process. Included in the workbook is the Negotiation Worksheet that takes input from all three of the basic model analyses to prepare a negotiation strategy.

2. Understand when to use the different pricing strategies.

Part of the market rate analysis involves assisting your team in selecting a pricing strategy for arriving at your offer price. There are three pricing strategies. The first and most common pricing strategy is the long-term pricing strategy, which is driven by the differential value and field margin objectives. The market-based price is compared to the target field margin of the location servicing the project. If the market-based price does not meet the targeted field margin, it is adjusted by taking a larger share of the differential value. The second strategy is the short-term excess capacity pricing strategy. Anyone with more than a few years of B2B sales experience will have gone through a downturn in activity resulting in excess capacity. In such market situations, pricing pressures are intense among industry competitors. The short-term excess capacity strategy focuses more on the contribution margin calculated by subtracting the incremental costs from the offer price. It is possible to have a positive contribution margin and a negative field margin. The question in a period of excess is "Does it make better sense to secure the project at a lower price than to lose the project and risk not only a negative field margin but also a negative cash flow?" The third pricing strategy is the short-term limited capacity pricing strategy. This pricing strategy adds opportunity costs for other projects that your company could secure at a better contribution margin than the project being pursued. The opportunity costs act as a hurdle. If the current project cannot be secured at the prices with the adjustment for opportunity costs, your company is better off to do the alternative project.

3. Describe the advanced pricing model.

The advanced pricing model includes all the parts of the basic pricing model plus incentives. Incentives are included as part of the financial framework. The advanced pricing model is to be used with Type 1 Enterprise Tenders only. The advanced pricing model is typically used to motivate partners in a project to higher levels of performance by compensating the higher levels of performance above a target with incentives; if the target is not achieved, the partners suffer penalties.

The advanced pricing model offers greater financial reward than the basic pricing model; however, the greater financial reward is typically attached to greater risk, which is why the advanced pricing model requires the full participation of the project team and management's commitment and review. The first step in deciding whether an advanced pricing model is appropriate is to decide if the relationship between your company and the customer is strong enough to ensure a win–win outcome. As the advanced pricing model requires much more effort, it is only appropriate for Type 1 Enterprise Tenders.

4. Understand the process for selecting incentive models for the advanced pricing model.

The selection process of the incentive model in the advanced pricing model consists of seven phases. The identify phase consists of two steps: First, identify the customer's project objectives and have a clear understanding of the scope of work. The better and more complete this phase, the easier the following phases. Assess the most suitable commercial framework and incentive scheme given the project's objectives and scope of work. There are three main types of incentive schemes, based on one or a combination of performance, efficiency, or financing. After assessing each potential incentive scheme, one or a combination of schemes are selected in the select phase. In the select phase, the potential scheme is put through a rigorous check for risks, drivers, degree of control, and value. In the verify phase, the incentive model is verified as part of an iterative approach. The main question to be answered in this phase is "whether the model reflects the project objectives. After the verify phase, the model is fine-tuned for the scope of work in the redefine phase. The incentive model is then added to the commercial framework along with a pricing schedule to describe how the remuneration procedure will be implemented in the Apply phase. The last phase is carried out over the life of the project. The amend phase reassesses the model as each new phase during the project is entered. As a project progresses over the years, the original objectives, risks, profitability, etc., change, and the initial advanced pricing model financial framework or even incentive model may have to be amended.



Applying the Concepts

1. In your location today, how does your pricing process compare to the basic pricing model processes described in the chapter?
2. How much time do you spend today on the pricing decision, and who has the ultimate responsibility for setting the offer price?
3. What percentage of your opportunities are priced using the basic pricing model?
4. What percentage could be possible candidates for an advanced pricing model?
5. On average, what portion of the differential value do you share?
6. What is the typical amount of differential value the customer acknowledges that your company has over the competitor?
7. For an upcoming opportunity, complete the basic pricing model workbook worksheets 1–3. Consider how the price changes as you identify the market rate, the market-based price, and the offer price. For the same opportunity, identify an incentive model that could be applied. Which of the three models or combination of models makes the most sense: performance, efficiency, or financing? Does the relationship as it exists today support an advanced pricing model?



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2. Amlin, J.P.: *Schlumberger Sales: Theory, Process and Applications* (1st ed.), Hong Kong, Carl Printing (2010).
3. Ibid.
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5. Jackson, B: *Winning and Keeping Industrial Customers: The Dynamics of Customer Relationships,* Lexington, MA: D. D. Heath Co. (1985); and "Build Customer Relationships that Last," *Harvard Business Review (*Nov.-Dec. 1985), 120–128.
6. In the Dark Ages, merchants were put to death for exceeding public norms regarding the "just price." In the more recent dark history of communism, those who "profiteered" by charging more than the official prices—at which the state was unable to meet demand—were regarded as criminals. Even in modern market economies, "price gougers" are often criticized in the press, hassled by regulators, and boycotted by the public. Consequently, it is well worth your time to understand this phenomenon.
7. Walford, M: *Procedures For Preparation Of Incentivised Commercial Proposals.* London (1998).



Collaborative Negotiations



Successful Negotiations

"The only place success comes before work is in the dictionary."[1] Successful negotiations, as measured by a win–win agreement, require that your team invest time and effort in managing your opportunity from start to finish. It is a lot of work, but as mentioned many times already, it is worth the effort needed to win in competitive environments. This chapter references many concepts, processes, and tools discussed earlier in the textbook particularly in the section "Selling in Competitive Environments." The earlier content forms the foundation and preparation for a collaborative negotiation.

Negotiations are a normal part of an ongoing business relationship with your customers. The goal of this chapter is to provide you with the skills needed to conduct a successful negotiation while strengthening the relationship between you and the customer. It is not unusual, even after preparing a detailed scope of work, that the customer wishes to change your offer. Your customers should never feel your submitted offer is final, so in a spirit of collaborative negotiation, it is your responsibility to work with the customer to better satisfy the customer's needs and still maintain the value of your initial offer. This is achieved by taking a flexible approach to finding mutually beneficial trades to modify the offer. This chapter describes the processes you can follow to prepare and skillfully manage the negotiation meeting to arrive at a win–win agreement.

Finally, you know that not all negotiators will come to a negotiation with the principled approach described above. Customers may use pressuring tactics to obtain a concession from you in an effort to secure a better deal for their company. The last part of this chapter discusses how to effectively handle competitive negotiators in an effort to get them back on track to finding a win–win agreement.

Chapter Objectives

After reading this chapter, you will be able to:

- Describe the process of collaborative negotiations.
- Understand the planning stages and know how to use the negotiation planning tools.
- Be able to deliver and negotiate an agreement in a negotiation meeting.
- Know how to react to competitive negotiators and their tactics.

Types of Negotiations

Negotiators generally adopt one of two types of negotiating strategies:

- Competitive or zero-sum negotiation, in which the parties compete over the distribution of the benefits of an agreement.

- Collaborative or win–win negotiation, in which the parties cooperate to achieve maximum benefits by integrating their interests into an agreement.

Most, if not all, negotiations combine elements of each type. There will be some direct competition between the parties' interests and goals as well as some opportunities to integrate the parties' interests and preferences. The negotiator's dilemma is to determine whether the other party is acting collaboratively or competitively. See "The Negotiator's Dilemma" sidebar for a more complete description.[2]

The best business relationship-building negotiating strategy is one of collaboration. Collaborative negotiations improve the value to both parties and create stronger business relationships. When confronted with competitive negotiators, your strategy is to persuade the other negotiator to adopt a collaborative approach and share in the value of a better negotiated agreement.

> ▶ ***The Negotiator's Dilemma***
>
> Most business negotiations are neither pure zero-sum or pure win–win situations; rather, competitive and cooperative elements are intertwined. The resulting tension, known as "the negotiator's dilemma," requires difficult strategic choices. It means balancing competitive strategies that make it hard to cooperate and create value effectively, with cooperative strategies that make it hard to compete and claim value effectively. Knowing whether to compete where interests conflict—claiming more instead of less—or to create value by exchanging information that leads to mutually advantageous options is at the core of the negotiator's art.
>
> One should also know the possible outcomes of a negotiation before sitting down at the negotiation table. There are four possible outcomes to a negotiation:
>
> - **Lose-–lose:** Both parties lose with this result. It happens when you and your customer are indifferent to the outcome of the negotiation.
> - **Lose–win:** This is a concession for the customer. It happens when you are not prepared to negotiate, when you are trying to avoid conflicts, or when you are not aware of the value creation your proposal brings to the table. This is a zero-sum negotiation.
> - **Win–lose:** This is a positional result for you. It happens when you are not considering the long-term relationship with your customer. This is a short-sighted and short-lived type of deal, a zero-sum negotiation.
> - **Win–win:** This is a principled result for all. Both parties cooperate to achieve maximum benefits by integrating their interests into an agreement. It happens when you are prepared and when you know the value that you bring to the table.
>
> As you are in a business environment and need to maintain a customer relationship over time, the win–win result should be your goal.

Negotiation and Value

Successful negotiations are a process that adds value. This is the context in which negotiations are discussed in this chapter. Negotiation is defined as the process by which:

- Two sides review and explore the trades for the technical, service, and financial aspects of an offer. A trade is the process of submitting offsetting counterproposals in response to customer issues.[3]
- A key element of a negotiation is that neither side is forced to make concessions. A concession is a unilateral giving up of a proposal component (price reduction, performance guarantee, scope of work increase, etc.) without an offsetting benefit from the other side. Instead of making concessions, the negotiating process focuses on setting up and gaining agreement on trades.
- The goal is to develop a mutually satisfactory agreement that addresses the needs of both sides.

The trades are based on an analysis of negotiable components and how much can be traded in return for something of equal value from the customer. A good trade protects the overall value of the proposal to you while meeting the needs of the customer.

A successful negotiation maintains or improves the value of a sale going into the negotiation while at the same time strengthening the relationship between the customer and you. An efficient negotiation wastes little time with negotiating tactics and self-interests; rather, it moves to implement an agreement with a minimum amount of effort and maintenance.

Negotiations happen for many reasons:

- As a formal part of the opportunities management process, some companies before the final award must, as defined by their procurement process, complete a negotiation meeting with the short-listed suppliers.
- In other cases, customers wish to modify one or more components of your offer.

- Competitive negotiators believe they must always negotiate to get a better deal.
- Negotiations can take place internally as part of the determination of what is a fair and equitable sharing of the economic value provided by your solution. It is a compliment to your team when, after reviewing your offer, the customer decides there is no need to negotiate.
- You initiate a negotiation in an effort to increase the value of your solution after the offer has been submitted. Often, you must submit an offer according to the customer's request for proposal format. Often, too, you can make a better offer that gives the customer and you more value, and this would be made in the form of a negotiation.

Negotiating can be a simple or complex procedure, depending upon the situation, and can involve short-term or long-term objectives. Whatever the specifics of the situation, the process and the goal should remain the same. **Figure 12.1** illustrates the ideal negotiation as described by "pareto optimality."[4] In an ideal situation, negotiators can maximize the total value derived from an initial offer by presenting trades that move the value of the agreement closer to the efficient limit. An agreement is said to be pareto optimal when none of its terms can be changed to the benefit of one side without diminishing its value to the other. In your environment, it is your goal to aim for the efficient agreement by improving your initial offer through trades that make the agreement more valuable to both you and your customer. The remaining sections of this chapter describe the processes you use to reach an efficient agreement.

Negotiation Process

To assist your team in preparing for the negotiation meeting, follow a four-stage negotiation process:

- **Situation analysis:** A comprehensive method for reviewing the key factors involved in a negotiation.
- **Proposal analysis:** Building a proposal with specific components for discussion in the negotiation meeting and preparing a trades and negotiation strategy.
- **Negotiation meeting:** Specific techniques and skills for presenting a negotiation proposal.

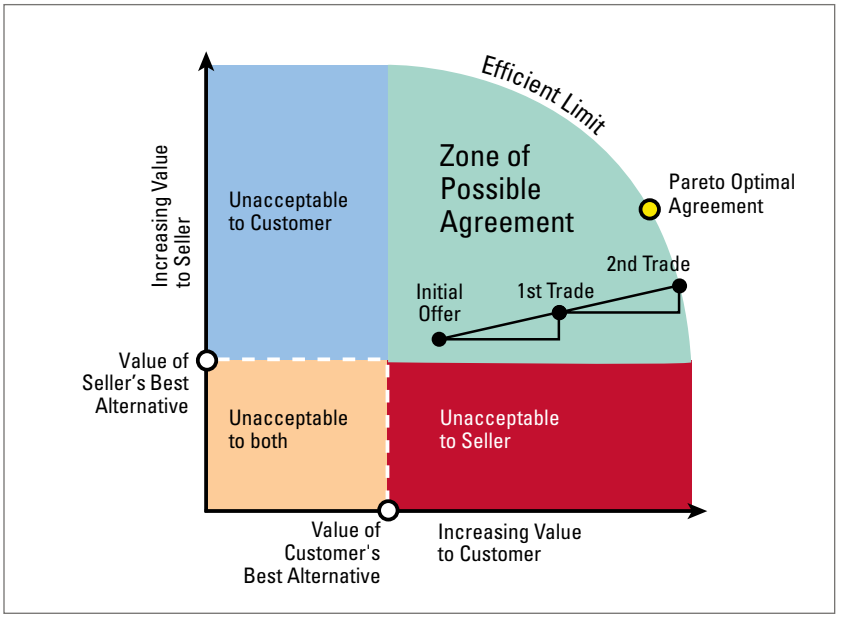


Fig. 12.1
The ideal negotiation. The diagram represents the ideal negotiation. In the ideal negotiation, each party makes trades that improve the value to the other party in an effort to reach the most efficient limit of the agreement. The pareto optimal agreement point is where there is an equal sharing of the value of the agreement between the two parties. In the B2B sales environment, you submit an initial offer, which is the starting point for negotiations, and then attempts to improve upon the initial offer by trading components of the offer that are valuable to you but do not cost the customer a lot as well as components that are valuable to the customer but do not cost you a lot. These are called high-quality trades and are discussed later in this module. An example of a high-quality trade is where the customer agrees to use their air charter to move people and equipment (this does not cost the customer a lot as they pay for the charter anyway), and in return you will not charge crew standby charges. This is illustrated with the first trade point. You would then continue to trade until you reach the efficient limit for the agreement or you run out of trades.

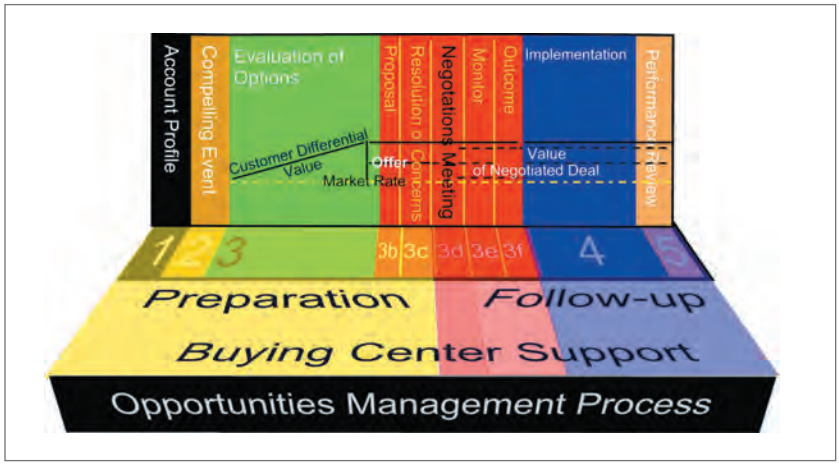


Fig. 12.2
Preparation is the key to negotiation success. Negotiations are part of the normal business relationship and procurement process stages 3b through 3f. You use the opportunities management process to be better prepared for negotiations. In stage 3—the evaluation of options—you identify the optimal solution based on the customer's requirements and amount of differential value your solution provides. You then decide on a fair and equitable sharing of the value to arrive at an offer. The sharing of the value is affected by the "Type of Tender." Throughout the opportunity management process, you try to build buying center support for your company and your solution. Once you arrive at the negotiation meeting, your focus turns to maintaining or improving the value of your offer for both the customer and your company. Immediately after the negotiation meeting, you follow up with key buying center members to ensure that the contract is signed and to prepare for any last-minute negotiations resulting from competitors' maneuvers or competitive negotiators' late-stage tactics. Once you begin the implementation (4) and performance review (5) stages, you follow up to ensure that the expected value levels of the agreement were provided as promised for both the customer and you.

- **Competitive negotiators:** A process for handling competitive negotiators and dealing with their tactics

Each component is discussed in more detail below. It is important to realize that preparing for negotiations is a constant process that benefits from following through on each stage of the opportunity management process. The negotiation process described in this chapter is only as effective as your management of the opportunity. **Figure 12.2** represents how the opportunities management process facilitates preparing for a negotiation. It also demonstrates that, after the negotiated agreement is signed, you must follow up with the service delivery team during the implementation (4) and performance review (5) stages to track your performance. This ensures that the value of the win–win agreement is realized and that the customer has followed through on their end of the agreement.

Situational Analysis

A situational analysis is a review of what you have learned and accomplished throughout the opportunities management process up to the point in time of the negotiation meeting. As shown in **Fig. 12.3**, the situational analysis reviews the key inputs used to develop your initial offer. By completing a thorough review of all the factors affecting the outcome of a negotiation, you place your team in a position of power in the negotiation meeting. See the "Negotiating Power" sidebar for more ideas on how to increase your negotiating power.

The situational analysis, is done by completing a Level 1 assessment review prior to the negotiation meeting to establish your relative strength in the four strategic questions:

- Is there an opportunity?
- Can you compete?
- Can you win?
- Is it worth winning?

If a strategic sales plan was created for the opportunity, it is a simple process to update the most recent Level 1 assessment to reflect any changes in the assessment since the last assessment date. For large and strategically important negotiations, it is a good practice to complete a Level 2 peer review to fully assess the situation prior to negotiation. If a strategic sales plan was not created for the opportunity, an assessment can be completed as described in Chapter 9 "Strategic Sales Plan."

▶ *Negotiating Power*

Negotiating power is not to be confused with negotiating authority. Power has several aspects:

- The ability to persuade.
- The ability to motivate a competitive negotiator to negotiate in a collaborative fashion.
- Credibility equal to that of the other negotiating party, which gives the other party confidence that you can carry through on your trades.

Power can come from different sources. Any area in which you can improve your power may be the difference between being able to negotiate a win–win agreement and not being able to negotiate at all. Consider the following power sources before your next negotiation.

- **Knowledge of the other negotiator(s).** Power that comes from learning as much as you can about the other negotiator before the negotiation, including information such as types of negotiation style and tactics used and business and personal agendas. You can find this information from others who have negotiated with the person and in the CRM database.
- **Situational.** Power inherent in the situation. Examples are deadlines, risks, and the customer's best alternatives. This information can be gained from mentors and supporters in the customer's organization, previous experiences, and your knowledge about competitors' capabilities and capacity.
- **Personal.** Your own reputation within the customer's organization of delivering on your commitments; your ability to negotiate effectively and to build trust and relationships. You can improve your own ability to negotiate effectively by gaining experience, doing role-plays prior to the negotiation, and having very good sales communication skills. Improvements in personal power can be achieved by attending negotiation seminars. Building your reputation and relationships comes with a proven track record.
- **Information.** Knowledge about the negotiation issues and customer position as well as circumstances such as possible barriers to accepting trades. The best source for information is the work invested in the opportunities management process, discussion with contacts in the customer's organization, and your team.
- **Preparation.** Having a well-developed negotiation strategy with high-quality trades. Time invested in preparation produces the greatest returns. If you go into a negotiation with a blank sheet of paper, you will probably leave the negotiation unsuccessful.

Strategic Questions

Of the four strategic questions, it is assumed that "Is there an opportunity?" has been answered as part of the pursuit decision discussed in Chapter 4, "Opportunities Management." For your situational analysis, focus on the other three questions in more depth.

Can You Compete?

To answer, "Can you compete?," as described in Chapter 9 "Strategic Sales Plan," you must have completed the vulnerability analysis and customer pricing sensitivity analysis. At this point, it is critical that you establish your validated differential value and have clear strategies for handling any drawbacks your solution may have compared to competitors' solutions.

If you are dealing with a competitive negotiator, you must be prepared to deflect the negotiator's attempts to leverage your drawbacks to gain price concessions. The best strategy is to outweigh the drawback with your differential value and intangible benefits.



Fig. 12.3
A situational analysis reviews the key factors considered when deciding on your initial offer and the reaction to the offer from the buying center and, in particular, members of the negotiating team. The more thorough the analysis of the key factors, the stronger your position in the negotiating meeting.

If you do not have sufficient value to overcome any weaknesses in your offer, then you must have a longer list of trades to make the offer more attractive.

The bottom line to knowing whether you can compete is determining how much differential value your solution brings to the negotia-

▶ *You Can Offer 5%, But You Do Not*

A major oil company was soon to enter the next phase of a costly exploration program and had made a decision to purchase a more sophisticated surface seismic interpretation workstation. Company A and a competitor were short listed as the preferred systems. The exploration manager was personally involved in the negotiation to select the winner. In the negotiation meeting with Company A, the exploration manager stated that they preferred to use Company A's system but he could not justify the 35% higher prices between Company A's and Competitor A's systems. He asked if anything could be done to reduce the gap.

The salesperson responded that the best he could offer was another 5%, but Company A's team decided not to do that. What they would offer is their top geophysicist and data loader for the first three months of the agreement if the exploration manager would agree to a three-license agreement instead of the two requested.

The exploration manager said he could not commit at that moment, but would let Company A team know in the next few days. He also said he was hoping for more.

The next day, the exploration manager called to award the work to Company A.

What Company A's salesperson knew was that the exploration manager and his team had significant personal incentives based upon completing the seismic interpretation to decide on the next drilling locations by the end of the year (the negotiation took place in September).

Company A's geophysicist, who had been committed to the project, was well respected in the industry as an excellent interpreter and was well known to the exploration manager's team.

The competition was shocked as they thought they had made the exploration manager an offer he could not refuse.

tion table. Without knowing this, you are in a weak negotiating position.

Can You Win?

To answer "Can you win?" you must have completed the buying center analysis described in Chapter 9 "Strategic Sales Plan." At this late stage in the opportunity, you must determine the following:

- Who will be on the customer's negotiation team? It is critical to know this before entering the negotiation meeting. Every contact you have in the buying center is one less variable in the negotiating meeting.
- Have your non-supporters and enemies been neutralized? If not, will they try to block or prevent you from negotiating an acceptable agreement?
- Who are the mentors and supporters you can leverage during the negotiation process? Can they assist in getting trades accepted if resisted by the non-supporters and enemies? If so, what type of support and documentation will they need from you? You may also need assistance from your mentors and supporters if the negotiations span several days, weeks, or months. If your supporters are not directly involved in the negotiations, you may need to contact them between meetings to update them on the progress of the negotiations or to ask for their support. As part of your negotiation strategy, you must include a contacting strategy to pass information to or request information from your supporters.
- For the influential buying center members, are there any businesses and personal priority items for which you can build trades? By understanding what is important to the influential members, you can focus your attention on developing trades that address their needs. Knowing what they consider to be personal wins, as discussed in the buying center profile section of Chapter 9, "Strategic Sales Plan," you can fine-tune your trades to have the maximum impact. See the "You Can Offer 5%, But You Do Not" sidebar for an example of how trading on a personal objective secured a contract.

If it is determined that you cannot win, you want to adopt a disengage strategy, as described in the competitive sales strategy section of Chapter 4 "Opportunities Management," and use the negotiation meeting to defend your offer.

Is it Worth Winning?

To answer "Is it worth winning?" you must have completed the pricing strategy, as described in Chapter 11 "Pricing for Bidding," to ensure that you have identified the financial objective of the negotiation and the account development plans to identify the strategic objective of the negotiation. Any negative areas in the assessment can be possible areas to focus on in the negotiation. If during the negotiation the weak areas can be improved, suitable trades can be prepared. For example, you may want to increase the scope to improve short- or long-term revenue potential. If there are areas that represent additional risks, your team should explore trades that address these areas.

For any important opportunity, you complete a strategic sales plan as part of the opportunities management process in preparation for the negotiation. By completing this task, the Level 1 assessment can be easily updated and, as a good practice, you must always conduct a Level 2 peer review as part of the situational analysis for the upcoming negotiation.

Ideally, you should begin strategic planning as early as possible in the opportunity management process. By starting early, time becomes your team's advantage, and any negative areas of the assessment can be addressed prior to the negotiations.

If the completed situational analysis turns up numerous negative areas, your offer is likely in a weak position. The project is probably at risk of being turned over to a competitor or, at the very least, the offer is vulnerable to competitive negotiators. When dealing with competitive negotiators, the upfront work gives negotiators confidence and places them in a position of power from which to negotiate.

With the completed situational analysis, you are ready to complete the proposal analysis.

Proposal Analysis

In a situational analysis, you determine how strong or weak your position is likely to be in the negotiation meeting. Using this information, you can build a negotiation proposal, identify trades, and create a negotiation strategy that leverages your strengths and minimizes your weaknesses. The goal is to build a win–win proposal that improves your initial offer and secures an agreement beneficial for you and the customer. The following steps go into completing a proposal analysis:

- Set objectives
- Determine negotiable and non-negotiable points
- Build trades for both you and the customer
- Build a negotiation strategy
- Review the negotiation proposal

Negotiation Objective

To determine what you have to offer, you must know what you want to accomplish. The first step in determining the negotiation range is to set an objective. The objective consists of two parts:

- Strategic objective
- Financial objective

Strategic Objective

As described in the strategic sales plan, each opportunity should describe how the opportunity is going to be used to develop your position in the account, such as to improve or expand your current relationship or to establish a relationship. Other strategic objectives might include marketing issues such as establishing a presence in an area, introducing a new product, or gaining experience in a particular environment. With the strategic objectives identified, your team then decides the value associated with each strategic objective to establish appropriate trades as part of the negotiation strategy. For example, your team may agree that the customer can release data for a case study in support of marketing a new technology included in the scope of work in exchange for eliminating rental charges for the specific technology.

Financial Objective

The financial objective is the targeted contribution margin as identified in the pricing strategy. The targeted contribution margin becomes the benchmark for building financial trades. For example, if the customer has indicated they need another 15% discount, you may agree as long as they increase the scope of work to include two rigs instead of one, giving you a 50% larger contribution margin over the same period due to increased activity and efficiencies gained from two rigs sharing equipment and personnel.

Determine Negotiable and Non-Negotiable Points

With the financial objectives set, you then classify the expected or stated customer issues and demands as negotiable and non-negotiable.

Negotiable

Negotiable means that business movement from your viewpoint is possible. For instance, a price adjustment of a few percentage points may be negotiable in a specific situation, as described in the financial objective example. For each negotiable item, you prepare trades.

Non-Negotiable

Not everything is negotiable. The safety of your employees, your business and moral ethics, and certain liabilities (formation damage or reservoir damage) are examples of non-negotiable aspects of an agreement. Non-negotiable issues are items that are not traded in the negotiation. These non-negotiable items are also known as "deal breakers."

You must probe and confirm to build as completely as possible your understanding of a customer's request before labeling it as non-negotiable. You must understand why and what benefits the customer may derive from a non-negotiable item. You must not assume that the issue is non-negotiable on the grounds that the customer might not be willing to pay for all the costs of implementing a request. You must always present all aspects of an issue so the customer can fully understand the implications of a request and the additional costs required to meet that request.

For example, the customer might request that equipment and crew be on standby 24/7. You cannot label this item as non-negotiable just because you assume the customer would not want to pay for a dedicated crew. Instead, the salesperson must inform the customer of the cost of a dedicated crew so the customer can decide whether a dedicated crew is that important.

In a different scenario, however, the same request made by a customer in an area where you have only enough crews and equipment to cover committed work is a non-negotiable item. Handling a non-negotiable issue is covered in the presentation plan section of this chapter.

With the negotiable and non-negotiable items identified, you then build trades for negotiable items.

Build Trades

Your ability to build trades or your lack of trades can mean the difference between a successful or failed negotiation—a failure not only in the case of losing the work, but also a failure when the value of the negotiated agreement is much less than the value of the offer initially given to the customer.

Increasing the number of trades is important as the more options you have to offer, the greater your options and the better your chances of closing the deal. In any negotiation, a key objective is to avoid take-it-or-leave-it situations by having a well-developed list of trades.

Break-Even Analysis				Base Case Input		
Base Case				Revenue Per Job	$	5,000
Sales		200	jobs	Incremental Costs		30%
Revenue/Job	$	5,000		Fixed – Direct		13%
Revenue	$	1,000,000		Fixed – Overhead		10%
Incremental Costs	$	300,000		Fixed – Shared		10%
Contribution Margin/Job	$	3,500		FM		37%
Contribution Margin Total	$	700,000		Total		100%
Total Fixed Costs	$	330,000		Tax		35%
Pretax Profit	$	370,000		Market Share		100%
Tax	$	129,500		Total Jobs		200
Net Profit	$	240,500				
Incremental Costs/Job	$	1,500				
Contribution Margin %		70%				
Price Change of			**-10%**			
% BE Sales Changes			16.67%			
BE Sales Jobs			33			
New Market Share						
Change in Incremental Costs			**$ –**			
% BE Sales Changes			16.67%			
BE Sales Jobs			33			
Change in Market Share						
Change in Fixed Costs						
% BE Sales Changes			16.67%			
BE Sales Jobs			33			
Change in Market Share						

Fig. 12.4 Break-even analysis. In this worksheet, the negotiating team has built a financial model to calculate the break-even point for changes in volume, price, incremental costs, and fixed costs for the specific tender. The base case for the calculations is shown on the right. Each change in one of the factors is input into the appropriate factors in the appropriate break-even calculation boxes. Beneath the cell is the break-even change in number of jobs or volume required to maintain the total contribution margin for the project at the same value as computed for the base case. For this example, the targeted project contribution margin is $700,000. Therefore, the goal of any trades should be to maintain or improve the contribution margin at or above $700,000. In this example, the customer has requested an additional 10% discount; this would be acceptable provided the customer commits to increasing the volume by 16.67%, or 33 jobs. In the actual case, the customer agreed to increase the scope of work by 50 jobs, which were pulled from a competitor's project.

The benchmark you use to measure success is the targeted contribution margin for the project as decided by the team during the pricing strategy session described in Chapter 11 "Pricing for Bidding." Trades must maintain the targeted contribution margin.[5] Without using the targeted contribution margin as the benchmark, there can be no negotiating strategy. For example, you can agree to a lower price (customer's interest) if you have a larger scope of work (your interest) because the value (your initial offer contribution margin) is the same or better. The key to developing trades is a break-even analysis.

Break-Even Analysis[6]

A break-even analysis is calculated to determine what changes would have to be made in an offer to maintain or improve the contribution margin as a result of an anticipated customer negotiation issue or demand. A break-even analysis can be calculated from the same spreadsheet used for the financial analysis for a specific offer. The financial analysis (profit and loss calculations) should be done by the operations manager responsible for the field margin of the location. A break-even analysis is used to determine the changes in the contribution margin (increase or decrease) from the base case (initial offer). A break-even should be done to support the possible trades, which would involve changes in the following:

Break-Even Analysis				Base Case Input		
Base Case				Revenue Per Job	$	5,000
Sales		200	jobs	Incremental Costs		30%
Revenue/Job	$	5,000		Fixed – Direct		13%
Revenue	$	1,000,000		Fixed – Overhead		10%
Incremental Costs	$	300,000		Fixed – Shared		10%
Contribution Margin/Job	$	3,500		FM		37%
Contribution Margin Total	$	700,000		Total		100%
Total Fixed Costs	$	330,000		Tax		35%
Pretax Profit	$	370,000		Market Share		100%
Tax	$	129,500		Total Jobs		200
Net Profit	$	240,500				
Incremental Costs/Job	$	1,500				
Contribution Margin %		70%				
Price Change of			**-10%**			
% BE Sales Changes			16.67%			
BE Sales Jobs			33			
New Market Share						
Change in Incremental Costs			**$ (500)**			
% BE Sales Changes			0%			
Change in Market Share			100%			
% BE Sales Changes			0.00%			
BE Sales Jobs			–			
Change in Market Share			100%			

Fig. 12.5
A break-even analysis for a price decrease of 10% offset by a decrease in incremental costs achieved by using a lesser perforating charge. When the "Change in Market Share" box shows the 100% value, it indicates that the targeted contribution margin has been maintained. Therefore, any improvement in any of the factors results in an improved contribution margin for the project. For example, if the lesser charge reduces the incremental costs by more than $500 per job, the project contribution margin would be more than $700,000.

- Price
- Volume
- Incremental costs
- Fixed costs

Changes can be made for one variable at a time or a combination of variables, depending on the complexity of the trades. In **Fig. 12.4**, a break-even analysis was used for a perforating tender in which the customer made a negotiation demand for an additional 10% discount from your initial offer. The break-even analysis shows that, to maintain the contribution margin of $700,000, a possible trade would be to increase the scope of work by 33 jobs. In this case, the customer bid out two separate packages each for 200 perforating jobs, as input in the base case, and requested separate bids. The customer originally intended to award one package each to two companies. In this case, the salesperson agreed to the additional discount if the customer increased the package by 50 jobs—a win–win trade.

Another trade that could have been offered would have been to decrease the incremental costs per job as shown in **Fig. 12.5**. In this tender, the base case contribution margin was calculated using a specific perforating charge. This perforating charge used in the base case (initial offer) could have been substituted for a lesser charge that cost less. The break-even analysis shows that, if the lesser charge reduces the costs by $500 or more per job, this would also be an acceptable trade.

Figure 12.6 illustrates yet another possible trade, where the customer agrees to pay for transportation costs into the country and to allow you to do the project with one truck instead of two, as requested in the original scope of work, thereby

Break-Even Analysis				Base Case Input		
Base Case				Revenue Per Job	$	5,000
Sales		200	jobs	Incremental Costs		30%
Revenue/Job	$	5,000		Fixed – Direct		13%
Revenue	$	1,000,000		Fixed – Overhead		10%
Incremental Costs	$	300,000		Fixed – Shared		10%
Contribution Margin/Job	$	3,500		FM		37%
Contribution Margin Total	$	700,000		Total		100%
Total Fixed Costs	$	330,000		Tax		35%
Pretax Profit	$	370,000		Market Share		100%
Tax	$	129,500		Total Jobs		200
Net Profit	$	240,500				
Incremental Costs/Job	$	1,500				
Contribution Margin %		70%				
Price Change of			**-10%**			
% BE Sales Changes			16.67%			
BE Sales Jobs			33			
New Market Share						
Change in Incremental Costs			**$ (100)**			
% BE Sales Changes			12.90%			
BE Sales Jobs			26			
Change in Market Share						
Change in Fixed Costs			**$ (80,000)**			
% BE Sales Changes			0.00%			
BE Sales Jobs			–			
Change in Market Share			100%			

Fig. 12.6
A break-even analysis showing a 10% price decrease traded for the customer paying for transportation costs of perforating charges ($100 per job cost reduction for Company A) and agreeing to allow Company A to use one truck to do the project instead of two, resulting in a fixed cost reduction of $80,000 for the project.

reducing the incremental costs by $100/job. By using one truck instead of two, the fixed costs are reduced by $80,000. The combination of the reduced transportation charges and reduced fixed costs are equivalent to the 10% decrease in price, which would be an acceptable trade. However, this trade is less desirable than the other trades as the field margin is maintained but not improved.[7]

This example illustrates what could have been interpreted as a take-it-or-leave-it demand for a 10% price decrease from the customer that was negotiated by using a trade that improved the project contribution margin. The break-even analysis for several trade scenarios enabled your team to identify the best and most feasible trade.

If the customer did not like the trade offer or was working under a restriction that prevented them from increasing the scope of work, other trades could have been offered. Of course, not all trades are as easy to evaluate as the examples above. Your team may have to assume a value for some trades. For example, in such a situation, the marketing manager could recommend giving the 10% discount provided the customer agrees to release the production results as part of a case study and to act as a reference for other customers to validate the new charge performance. Without any additional trade components, however, this trade would cost Company A $100,000 in the contribution margin if no other trade components or conditions are added. The marketing manager may want to re-evaluate the value of the case study. In the actual negotiation, the value of this trade was reevaluated to be worth $50,000 to Company A, but it was never offered. It was a last resort trade to be used only if the other trades were not accepted.

Quality of Trades

The previous examples illustrate that not all trades are of the same quality or value. Higher quality trades cost one of the negotiating parties little, yet have significant value for the other negotiating party. The higher quality the trade, the greater the chance of concluding a successful negotiation. It is a good practice to reassess the trades and make adjustments to make the trade higher quality, as in the case of the previously described field study trade.

Your negotiating team should prepare a list of trades for both your company and the customer to identify the costs and value of each trade and then prioritize the trades in terms of preferred trading order. The trade order is typically decided by the quality of the trades so that the trade with the highest value is offered first. **Figure 12.7** shows the trade section from the Negotiations Preparation Worksheet. The worksheet helps your team develop trades and then rank the trades based on value to identify the trading order. It is a good practice to have more trades than you expect to use in case the customer rejects the first trade offered.

The more you learn about your customer's circumstances and requirements, the better your ability to develop high quality trades that bring value to the customer and your company in the spirit of a collaborative negotiation. **Chapter Highlight 12.1: "That Sounds Reasonable"** lists high-quality trades that sales teams have

Fig. 12.7
Trades section of the Negotiations Preparation Worksheet. For each negotiation prior to the negotiation meeting and as part of the presentation plan, the negotiating team should prepare a trading list and rank the trades based on their value. In the above case, only the first trade could be offered as a stand-alone trade as its value more than offsets the customer's request for the additional 10% discount. The other trades would have to be combined in order to maintain or improve the targeted contribution margin.

Negotiations Preparation Worksheet	Cost	Value	Trade Order
Negotiation Issue: Customer wants 10% additional discount.	$100k		
Increase jobs by 50 or 25%	0	$175k	1
Pay for transportation of explosives	$10k	$20k	3
Do job with one truck	0	$50k	2
Release data for case-study reference	0	$50k	5
1% early payment (expected revenue $1,000,000)	$10k	$10k	4

Trades

used in successful negotiations. This list can be used as part of a brainstorming session to develop trades in preparation for a negotiation.

With a list of possible trades for which you can negotiate a win–win agreement, you are ready to prepare a negotiation strategy. The negotiation strategy uses the earlier analysis of the negotiation processes and serves as the roadmap for presenting the negotiation to both the customer and management.

Negotiation Strategy

A well-prepared negotiation strategy improves your chances of obtaining a win–win agreement for you and the customer. The negotiating strategy creates a trading plan by which you introduce trades in response to customer's negotiation issues. The goal of the negotiation strategy is to maintain the value of the initial

offer submitted to the customer as identified in the pricing strategy and to achieve any strategic objectives set by the negotiating team, as described in the objectives section in this chapter. To achieve this, the negotiating strategy defines the negotiating range for you and the customer. To assist in constructing a negotiating strategy, use the Negotiating Worksheet.

Negotiating Worksheet

The Negotiating Worksheet is part of the pricing workbook discussed in Chapter 11 "Pricing for Bidding." The Negotiating Worksheet guides the negotiating team through the six steps of completing a negotiation strategy. Parts of the Negotiating Worksheet are from other pricing worksheets or computed automatically. Copied or computed cells are shaded yellow. Values that should be reviewed and overwritten, if necessary, are shaded a different color. White cells have values entered as described below. The Nirwana example analysis proposal developed in Chapter 11 "Pricing for Bidding" is used to illustrate the use of the Negotiating Worksheet. The six areas of the Negotiating Worksheet are as follows:

- Objectives
- Market factors
- Initial positions
- Trades
- Negotiating ranges and zones of possible agreement
- Negotiating factors chart

Objectives

The objectives fields list the financial and strategic objectives as identified by your negotiating team.

Financial Objective: This value is copied from the Pricing Strategy Worksheet's project contribution cell. The goal of the negotiation strategy is to maintain the value of the offer as measured by the contribution margin.

Strategic Objective: Enter the strategic objective or objectives the team has identified for the negotiation as described in the objectives section of this chapter.

For the Nirwana negotiation, the team established a target contribution margin of $40,000 per month and a strategic objective of securing a two-year contract period instead of the one-year contract period offered in the scope of work by the customer.

Market Analysis

All values are copied from the Market Analysis Worksheet and are explained in the market analysis section of Chapter 11, "Pricing for Bidding."

Initial Positions

The initial positions area of the Negotiating Worksheet lists your and the customer's expected starting points for negotiation.

Market Price: The market price value is copied from the specific Pricing Strategy Worksheet is selected by your team. In the Nirwana example, using the long-term pricing strategy, the estimated market price was $50,000 per month.

Supplier Premium from Customer: This is the premium you estimate the customer will pay for your company over a competitor or the discount that would apply if your company is not the preferred supplier.

Chapter Highlight 12.1: That Sounds Reasonable

Inexpensive Valuable Trades



The trades listed below are of high quality as measured by the cost given by one party of the negotiation and the value received by the other party. The specific value varies for each negotiation. The test for inexpensiveness is the incremental cost the customer or your company must incur as a result of making the trade, and the value is the amount that affects the profitability or other value driver of the project or the individual making the decision. This is a good starting point when drafting possible trades for a negotiation.

Increased Scope of Work: This is probably the most frequently used trade. By expanding the scope of work to include additional volume over the same period, your contribution margin dollars increase proportionately. This typically costs the customer little but makes a significant impact for your company, especially if there are efficiencies to be realized as the volume of work increases, such as one set of equipment for one rig project versus one set shared between two rigs or two sets between three rigs. Increasing the scope of work is not the same as extending the contract period, which from a contribution margin perspective does not increase if the contract period is extended. Therefore, the trade for an extended contract period should be much smaller than an increased scope of work unless strategic considerations dictate otherwise.

Exclusivity: Most suppliers work on a call-out basis with many customers, and many customers value having exclusive use of your equipment and personnel. In many cases, you assign crews and equipment to specific projects, and in times of decreased activity this trade costs you little but has value in terms of the added insurance of getting the customer's work done as planned. Exclusivity has been traded for a decrease in discounts or agreements that the customer pays for transportation costs. When considering exclusivity for limited availability equipment, you must be sure to factor in the opportunity costs for potential lost revenue if jobs will be missed as a result of assigning the equipment to one customer.

Payment Terms—Days Sales Outstanding (DSO): This is a standard trade in most parts of the world. In this situation the supplier trades one or two points of additional discount for early payment. The costs of paying early are minimal compared to getting an additional discount. The value to the supplier is a better management of cash flow.

At Your Convenience: When activity is high, this trade can be very valuable to a supplier. When the appropriate situation exists, having the added convenience of scheduling jobs can result in the more efficient use of your resources and fewer missed jobs. The costs to a customer are minimal if the work only has to be advanced or delayed by a day or two. For example, customers will typically agree to installing products or providing services at suppliers' convenience in trade for an additional discount.

Technical Support: Your company has many recognized experts in your organization. Dedicated technical support can be invaluable to a customer given the right set of conditions, such as start-up operations in a new area or in an operating environment. Technical support can be traded for lesser discounts, increased scope of work, etc. The incremental cost to your company is minimal as you keep your technical experts as part of your organizational structure. If the technical support does generate revenue, however, you must ensure that by committing your expert to a project, you do not risk losing other revenue. In such cases, the trade must be associated with opportunity costs (as discussed in Chapter 11 "Pricing for Bidding").

Released Data: How many times would a released case study have helped convince an indifferent or skeptical customer to choose your company? What would it be worth for a customer to act as a reference for other customers to get a second opinion of how well a product or service worked? This trade costs the customer little or nothing. For your company, it may be a trade worth an extra percentage point discount or waiver of some indirect charges. The most effective way to present the released data trade is to use the data in a technical paper and to get the customer's commitment to coauthor the paper.

Logistics Costs: Often, contracts stipulate that the contractor must pay their own logistical support costs, such as charters, broker's fees to clear customs, and work permits. These can add significantly to incremental costs. However, the customer often has ongoing operations in place to support your operations, so the cost to include your personnel within their logistical support structure is minimal. Once these costs are established, you can trade them for improved contract conditions for the customer.

In the Nirwana example, the customer was expected to give Company A a 10% premium for not having to disrupt operations to switch to a new supplier, and in fact, this is what the customer stated during the negotiations.[8]

Customer's Initial Offer: The customer's offer is their response to your initial offer and is commonly known as the opening or counter-proposal. Typically, the customer compares your offer to the best alternative (competitive offer) received. The best alternative offer may not be the cheapest; it might be considered the best for other reasons, such as technical or operational factors.

Sometimes, the customer demands a discount off your offer to match or come within an acceptable range of a cheaper competitor offer. Or the customer may request that you match specific components of the competitor's offer that were not included in your initial offer. For example, a competitor has chosen to waive mobilization charges, and the customer has asked you to do the same.

Commonly, a competitive negotiator, no matter how good your offer, always makes a counter-offer or asks for an additional discount, because it doesn't cost the customer anything to ask. The competitive negotiator may even describe your offer as ridiculous. Handling these counter-offers is discussed later in the competitive negotiators section of this chapter.

In the Nirwana example, it was estimated that the market rate or best alternative for the customer was approximately $50,000 per month—a gap of $20,000, which was justified by Company A's differential value and described as part of their initial offer. The customer was expected to ask for a price reduction, which Company A was prepared to do with the high quality trades the team had identified. The customer's initial offer was predicted to be at or near $55,000 per month, which was based on the 10% premium discussed above.

Supplier Share of the Differential Value: This is the percentage share of the differential value that your team has decided is a fair and equitable sharing of the differential value, as discussed in Chapter 11 "Pricing for Bidding." This percentage is copied from the appropriate Pricing Strategy Worksheet. It is included in the initial offers section to remind your negotiators of how much your offer is priced above the market rate.

Supplier Initial Offer: Your initial offer, the starting point of your negotiation range, is based on one of the three basic pricing strategies: long-term, short-term excess capacity, and short-term limited capacity, as discussed in Chapter 11 "Pricing for Bidding." Your offer is the formal offer made to the customer in response to their defined scope of work. In the Nirwana example below, Company A's offer was $70,000 per month. The initial offer is copied from the supplier offer cell in the Long-Term Pricing Strategy Worksheet.

Trades

The trades area is where your team enters the prioritized trades that will be introduced during the negotiation meeting. Each trade appears in the order in which it will be used along with a brief description of the trade, cost to the customer, and the price adjustment to your offer. The negotiated offer is automatically calculated by subtracting the price adjustment from your initial offer in the initial positions area.

First Trade: The first trade is the offer made in response to the customer's initial request. This trade is based on the highest quality trade developed during the trading analysis. The highest quality trade should address the interests of the most influential parties involved in the negotiation meeting. The first trade should be the most significant movement as measured in percentage terms off the initial offer that you plan to make during the negotiation.

In preparation for the Nirwana negotiation, Company A's team decided to make their first trade a $7,000-per-month price reduction provided the customer paid for transporting the cement, which added $15,000 per month in incremental costs to the project. Company A's team believed the customer could add the cement to their regular shipments of mud, tubing, etc., with additional costs of no more than $5,000 per month.

Second Trade: Second trades are dependent on the scope of work and ability of the negotiating team to develop additional trades. If there is more than one trade, it is important to make clear to the customer whether the second trade is conditional upon accepting the terms of the first trade, or if the second trade is independent of the first trade. In most cases trades are cumulative, and the second trade should satisfy the negotiation issues under discussion. Generally, the second trade should be of lower value than the first trade, as this strategy communicates that the first trade was the best you could offer for the negotiation point under discussion.

In the example in **Fig. 12.8**, Company A's second trade was in anticipation that the customer would agree to an extension of the contract period for one year and would offer an additional price reduction of $3,000 per month.

Final Offer: The final offer is typically the third trade.[9] The final offer in terms of percentage movement should be the smallest as it will also signal to the customer that you have no further trades, given that each trade decreases in value as you move from the first trade to the final offer.

In the Nirwana example, the final offer was an early payment discount worth 1% or $1,000 per month with no associated cost to the customer other than the cost of capital, which was negligible. In larger projects, however, this cost could be significant.

Negotiating Ranges and Zone of Possible Agreement[10]

All the fields in this area are computed from the other values copied or entered into the worksheet. These fields represent the negotiation range for the supplier and the customer. These values are plotted in the negotiating factors chart to illustrate the zone of possible agreement that may or may not exist depending on the estimated values your team made for the customer's initial offer, as explained below.

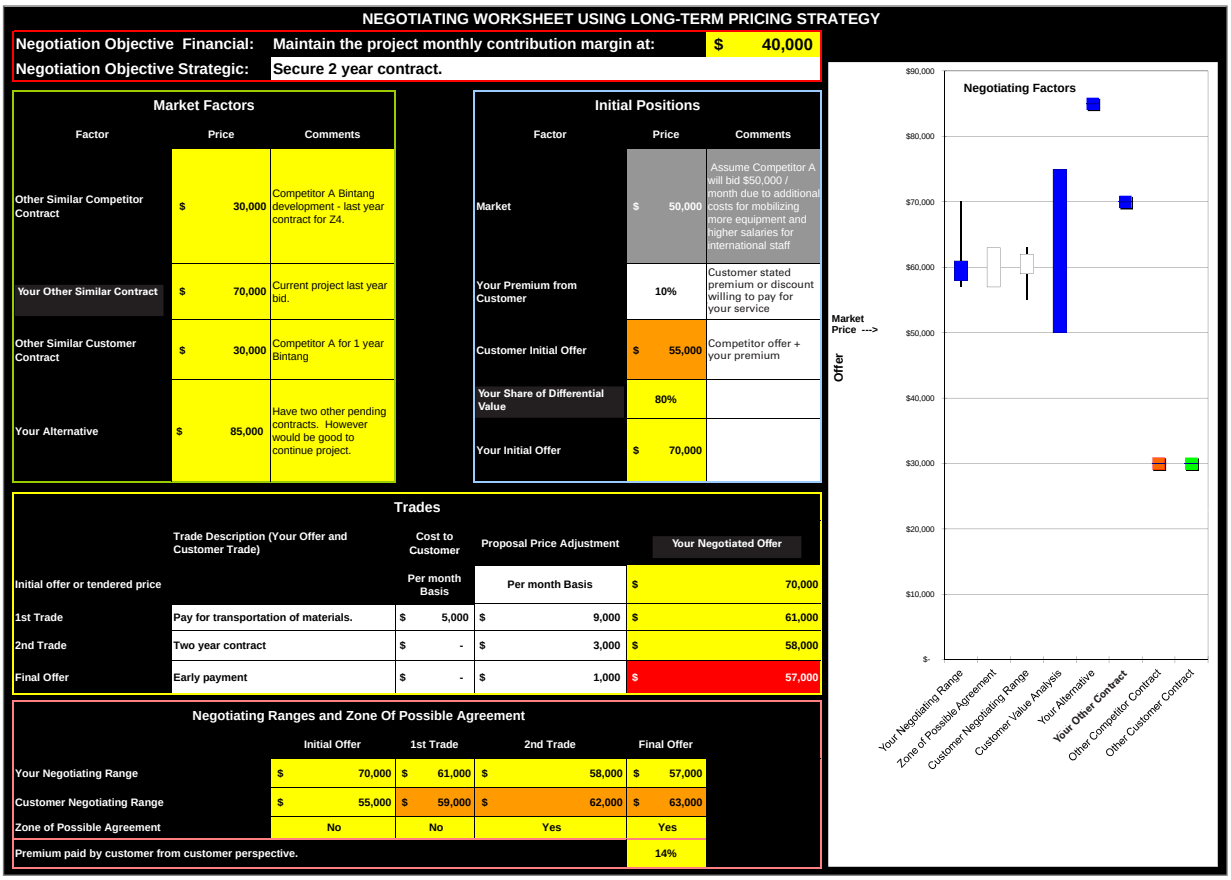
Supplier Negotiating Range: Your negotiating range values are copied from the above trade area cells for the initial offer, first trade, second trade, and final offer, as described above.

Customer Negotiating Range: The customer negotiating range values are calculated based on values input from other cells on the Negotiating Worksheet, as explained on the next page.

Customer Initial Offer: This value is copied from the customer initial offer cell in the initial position area. The cell value is computed based on the above description. The customer's initial offer is heavily influenced by what they consider to be their best alternative.

In the Nirwana negotiation, the customer stated that the price difference between Company A and the competitor was too great for them to accept Supplier A's offer. If they wanted to continue the project, they would have to move closer to $55,000 per month compared to Company A's initial offer of $70,000.

Customer First Trade: In most negotiations, your customers do not invest time and energy into developing a negotiation strategy as described in this chapter. Usually, the customer's negotiation strategy is based on what you offer for trades, and as such, the condition you ask them to accept becomes their first trade. This fact highlights the importance of preparing trades that clearly



NEGOTIATING WORKSHEET USING LONG-TERM PRICING STRATEGY

Negotiation Objective Financial:	Maintain the project monthly contribution margin at:	$ 40,000
Negotiation Objective Strategic:	Secure 2 year contract.	

Market Factors

Factor	Price	Comments
Other Similar Competitor Contract	$ 30,000	Competitor A Bintang development - last year contract for Z4.
Your Other Similar Contract	$ 70,000	Current project last year bid.
Other Similar Customer Contract	$ 30,000	Competitor A for 1 year Bintang
Your Alternative	$ 85,000	Have two other pending contracts. However would be good to continue project.

Initial Positions

Factor	Price	Comments
Market	$ 50,000	Assume Competitor A will bid $50,000 / month due to additional costs for mobilizing more equipment and higher salaries for international staff
Your Premium from Customer	10%	Customer stated premium or discount willing to pay for your service
Customer Initial Offer	$ 55,000	Competitor offer + your premium
Your Share of Differential Value	80%	
Your Initial Offer	$ 70,000	

Trades

	Trade Description (Your Offer and Customer Trade)	Cost to Customer	Proposal Price Adjustment	Your Negotiated Offer
Initial offer or tendered price		Per month Basis	Per month Basis	$ 70,000
1st Trade	Pay for transportation of materials.	$ 5,000	$ 9,000	$ 61,000
2nd Trade	Two year contract	$ -	$ 3,000	$ 58,000
Final Offer	Early payment	$ -	$ 1,000	$ 57,000

Negotiating Ranges and Zone Of Possible Agreement

	Initial Offer	1st Trade	2nd Trade	Final Offer
Your Negotiating Range	$ 70,000	$ 61,000	$ 58,000	$ 57,000
Customer Negotiating Range	$ 55,000	$ 59,000	$ 62,000	$ 63,000
Zone of Possible Agreement	No	No	Yes	Yes
Premium paid by customer from customer perspective.				14%

Fig. 12.8
Negotiating Worksheet for the Nirwana opportunity with a long-term pricing strategy.

describe what you expect in return from the customer, because you are, in fact, preparing their negotiation range. As long as your trades are of high quality, the customer should agree unless there are reasons they cannot accept the terms or they are using a competitive negotiation tactic to extract the best price. If the customer does not accept your first trade, you should try to find alternative trades they can agree to. If the customer has prepared trades, you must evaluate their impact on your contribution margin before accepting, making a counter-offer, or rejecting the trade.

The default value in the customer's first trade cell is computed by adding to the customer's initial offer the value of your first trade less any additional costs the customer would incur for agreeing to the trade. In the Nirwana example, the customer's first trade is computed as $59,000, which represents the value of Company A's first trade ($9,000) less the $5,000 cost to the customer of providing transportation of the supplier's materials. The default value must be reassessed based on how well you know the customer's negotiation team and adjusted up or down to meet your expectations.

If the negotiation meeting proceeds as predicted from the default trade values, you will know after the first trades are made that you probably cannot reach an agreement as your first trade point is above the customer's first trade point. In this case, discussion on the second trade should be initiated by you.

In the Nirwana example, the customer accepted in principle the trade of transporting materials for the work from the supplier's storage facilities to the job site. However, the customer asked for a $9,000-per-month reduction in price and would not commit to awarding Company A the contract as their price was still too high. The customer then asked for a $10,000-per-month reduction in order to award the contract, but they were unable to accept that price.

Customer Second Trade: If the customer does not accept the first trade (most strategic competitive negotiators as a part of their negotiating strategy will never accept the first trade), the customer's second trade point is usually a modification of your first trade—either a reduction in their commitment or an addition to your commitments as part of the trade. This is what happened in the Nirwana example.

The default value in the customer's second trade cell is computed by adding to the customer's first trade the value of your second trade less any additional costs the customer would incur for agreeing to the trade.

In the Nirwana example, the customer's second trade is computed as $62,000. If the negotiation meeting proceeded as predicted from the default trade values, after the second trades were made, you could possibly reach an agreement as Company A's second trade point is below the customer's second trade point.

In the Nirwana negotiation, the salesperson asked the customer for suggestions on how to improve the scope of work. The customer offered a two-year contract instead of one if Company A would reduce the monthly charges by another $5,000 per month. This became the customer's second trade point, which brought Company A's offer closer to their best alternative offer. Company A then accepted in principle the value of a two-year contract but modified the trade to better reflect the true value of a contract extension at a $3,000-per-month reduction, as shown in Fig. 12.8.

Customer Final Offer: If at all possible, your negotiators should encourage the customer to state their final offer first, as they should respond to your second trade before making any other statements or trades. An important negotiating skill is to be silent after a trade has been offered. Once the customer responds to your second trade as part of their final offer, you can then accept or offer your final trade in an effort to reach agreement.

The default value in the customer's final offer is computed by adding to the customer's second trade the value of your final offer less any additional costs the customer would incur by agreeing to the trade. In the Nirwana example, the customer's default final offer is equal to $63,000, which is sufficiently above Company A's final offer. If the second trade did not close the deal, then in this case the final offer should. If the customer does not accept it at least in principle, it is a good indication they are still negotiating from a competitive position. In such situations, your team must leave the negotiation meeting without a commitment and depend on mentors or supporters in the buying center to influence the customer's negotiating team to accept your final offer.

In the Nirwana negotiation, the customer accepted the final offer and Company A was awarded the contract for two years.

The last fields on the Negotiating Workshop are zone of possible agreement flags and the premium paid by the customer.

Zone of Possible Agreement: These fields provide a "No" or "Yes" flag for each trade, indicating when your adjusted offer price after each trade is less than the customer's adjusted offer price after each trade. The sooner you reach the zone of possible agreement, the better your chances of reaching an agreement. Ideally, you should reach the zone of possible agreement after the first or second trade, reserving the third trade as a cushion for unexpected constraints the customer may have that reduces the value of your trades.

Premium Paid by Customer: This field calculates the percentage premium the customer would pay based on your final offer compared to the market rate. The purpose is to ensure that you look at the final outcome from the customer's perspective. In this case, the customer paid a 14% premium to continue with Com-

pany A compared to what they would have paid had they chosen the competitor at $50,000 per month. The 14% premium is 4% more than they anticipated to pay. This view is different than the view taken by most sales staff, who would look at the negotiation as having to offer an additional 19% discount to keep the project.

Negotiating Factors Chart

The negotiating factors chart graphically presents the data contained in the Negotiating Worksheet. The plot values are beneath the main worksheet area. The market price is plotted along the left axis. As it changes, the market price indicator moves to the appropriate value. The supplier's negotiation range is plotted using the Excel stock price chart function. The initial offer is the high value, the supplier's first trade is the close value, the supplier's second trade is the open value, and the final offer is the low value.

The next bar represents the zone of possible agreement. If the bar is white, it spans the zone of possible agreement, and if there is no zone of possible agreement, the bar is blue, spanning the gap between your final offer and the customer's final offer.

The next bar is the customer negotiation range, again plotted using the Excel stock price chart function. In this negotiation range, the customer's final offer is the high value, the customer's second trade is the close value, the customer's first trade is the open value, and the customer's initial offer is the low value.

The next bar is your differential value as computed in the pricing sensitivity analysis described in Chapter 11 "Pricing for Bidding." Your differential value is plotted starting at the market price. In this presentation, the top of your differential value bar represents the customer's theoretical price ceiling. It also visually shows how much differential value your team believes the customer is giving you when you compare the position of the customer's initial offer to the starting point of your differential value bar.

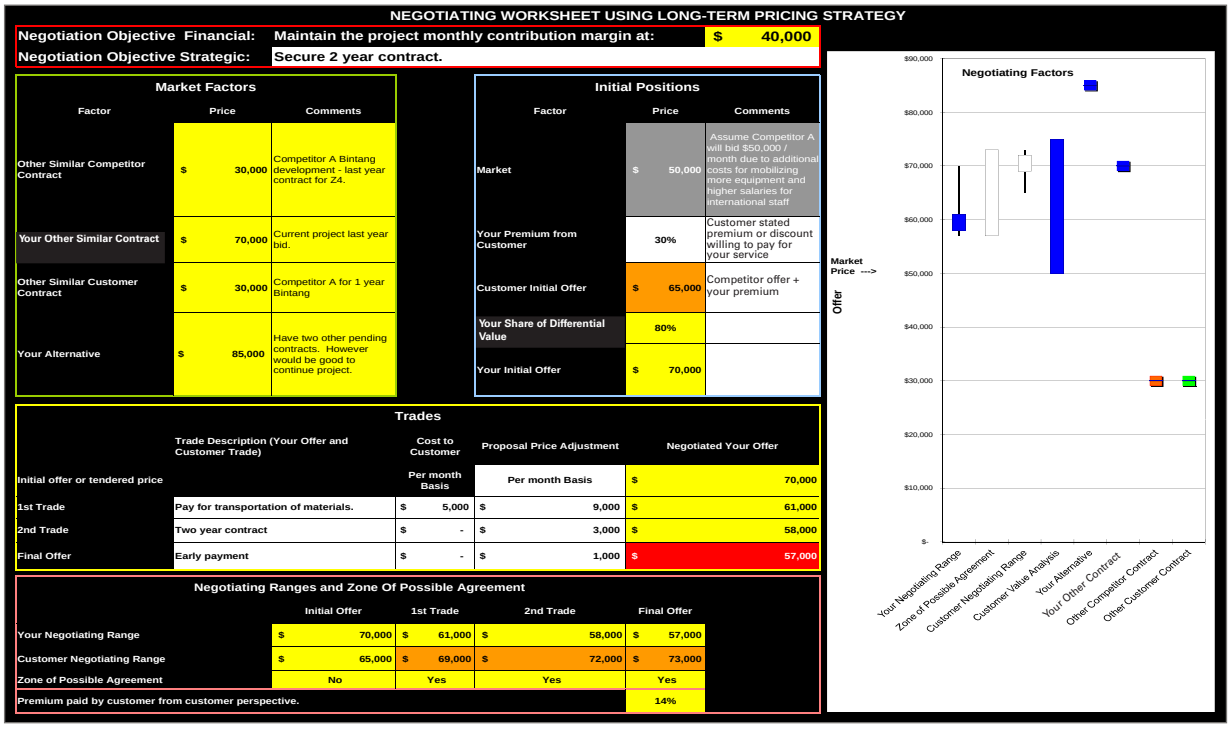
The next four points plotted on the chart are the estimated prices for the best supplier alternative opportunity and other existing contract prices for similar projects for other customers, suppliers, and the competitor. The last point on the graph is an existing contract price the customer may use as a reference point, as discussed in the market analysis section of Chapter 11, "Pricing for Bidding." These values are listed in the market analysis area.

The negotiating factors chart provides an effective format for presenting a negotiation strategy for review by other members of the negotiating team or management.

Analysis of the Nirwana Negotiation

The Nirwana deal was a successful negotiation. Company A was awarded the project for two years (strategic objective achieved), and the contribution margin was improved by $3,000 per month, or 7% (materials transportation costs of $15,000 per month were taken by the customer for a $9,000 price reduction, and a two-year contract was awarded for a $3,000 price reduction).

One area that should have been factored into the negotiation strategy was Company A's differential value of $25,000. As shown in Fig. 12.8, the customer's starting position was to give Company A a 10% premium over the competitor due to the switching costs incurred to replace Company A. However, there was still $20,000 of differential value for QHS&E performance and reduced costs by using the advanced product—points that were never discussed in the negotiation meeting. Had the negotiating team been able to get the customer's negotiation team to agree on the additional values, the zone of possible agreement would



NEGOTIATING WORKSHEET USING LONG-TERM PRICING STRATEGY

Negotiation Objective Financial:	Maintain the project monthly contribution margin at:	$ 40,000
Negotiation Objective Strategic:	Secure 2 year contract.	

Market Factors

Factor	Price	Comments
Other Similar Competitor Contract	$ 30,000	Competitor A Bintang development - last year contract for Z4.
Your Other Similar Contract	$ 70,000	Current project last year bid.
Other Similar Customer Contract	$ 30,000	Competitor A for 1 year Bintang
Your Alternative	$ 85,000	Have two other pending contracts. However would be good to continue project.

Initial Positions

Factor	Price	Comments
Market	$ 50,000	Assume Competitor A will bid $50,000 / month due to additional costs for mobilizing more equipment and higher salaries for international staff
Your Premium from Customer	30%	Customer stated premium or discount willing to pay for your service
Customer Initial Offer	$ 65,000	Competitor offer + your premium
Your Share of Differential Value	80%	
Your Initial Offer	$ 70,000	

Trades

	Trade Description (Your Offer and Customer Trade)	Cost to Customer	Proposal Price Adjustment	Negotiated Your Offer
Initial offer or tendered price		Per month Basis	Per month Basis	$ 70,000
1st Trade	Pay for transportation of materials.	$ 5,000	$ 9,000	$ 61,000
2nd Trade	Two year contract	$ -	$ 3,000	$ 58,000
Final Offer	Early payment	$ -	$ 1,000	$ 57,000

Negotiating Ranges and Zone Of Possible Agreement

	Initial Offer	1st Trade	2nd Trade	Final Offer
Your Negotiating Range	$ 70,000	$ 61,000	$ 58,000	$ 57,000
Customer Negotiating Range	$ 65,000	$ 69,000	$ 72,000	$ 73,000
Zone of Possible Agreement	No	Yes	Yes	Yes
Premium paid by customer from customer perspective.				14%

Fig. 12.9
Updated Nirwana Negotiating Worksheet increasing the premium 30%. In this scenario, the zone of possible agreement is reached after the first trade.

have been reached with first trade, as shown in the Nirwana Negotiating Worksheet in **Fig. 12.9**, which has been updated for a customer premium of 30%. This is calculated by assuming the customer agrees to $15,000 of differential value compared to the market price of $50,000 per month.

The benefit of including a discussion of your differential value as part of the negotiating meeting is that it justifies the initial offer, which is based on the market price plus your differential value. Your costs are higher due to investments, training, maintenance, etc., when providing the differential value. Often, these justifications can enlighten the customer's negotiating team of the added value from using Company A over a competitor. See the "Do You Know?" sidebar describing the a B2B sales

▶ *Do You Know?*

In the exchange described below, the salesperson uses a standard probe that is very effective in dealing with a competitive negotiator. This exchange is taken from the negotiation meeting for the exploration project (described in Chapter Highlight: 12.2: "Let's Review"). The lead customer negotiator began the meeting by asking, "Do you know you are 100% more expensive than your nearest competitor?"

It was obvious from the question that the negotiator was taking a competitive approach to the negotiation. After asking for clarification of what the customer meant by 100% more expensive, the salesperson then replied:

Salesperson: "Yes. This is where I expected them to be based on our last bid. I understand that your costs to complete this project are significant, and if you don't mind I would like to ask a few questions to ensure I understand the situation correctly."

Customer: "Go ahead, but you are going to have to reduce your prices if you want this project."

Salesperson: "Thank you. First, just to make sure we are on the same page, please tell me how much value you give our solution over the competitor in terms of reducing your rig time and reducing risks."

Customer: "None. You and your competitor are both acceptable suppliers."

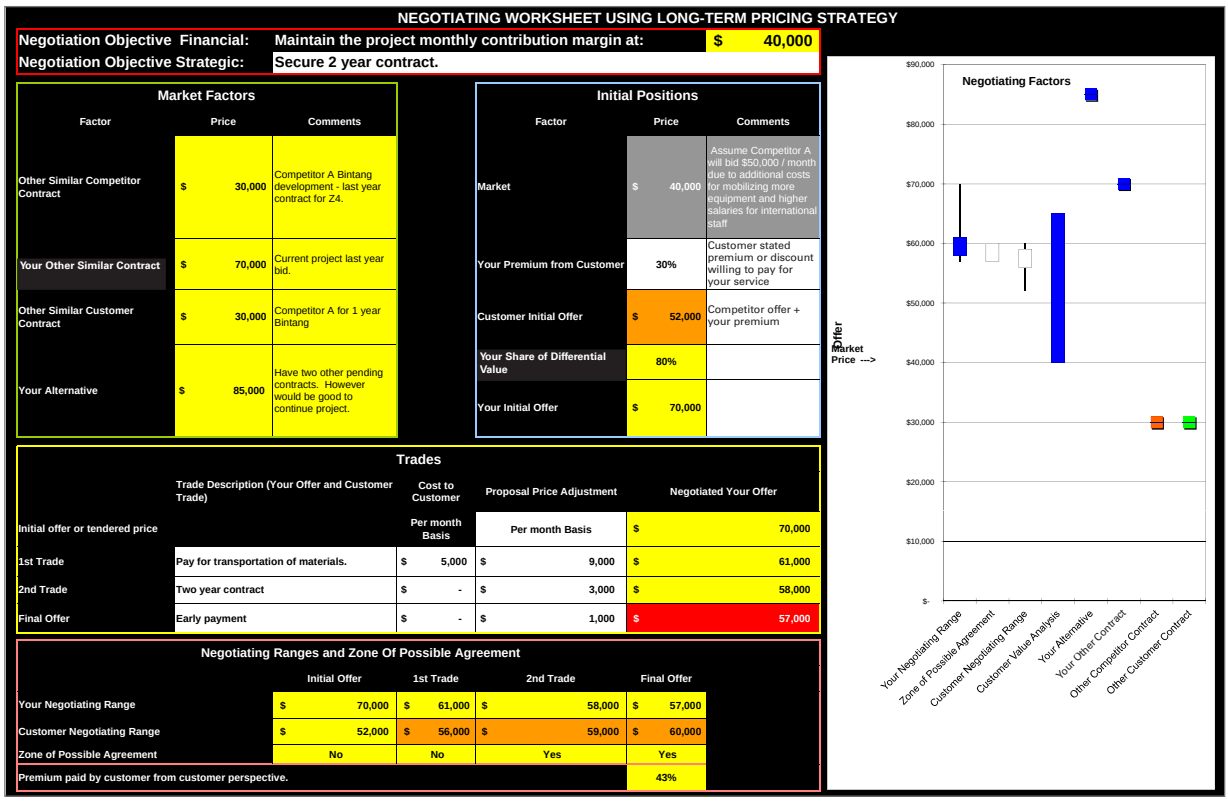
Salesperson: "Well then, I can see why you are surprised by our prices. The added costs of our proposal are due to the added services we provide that result in your being able to cut $2 million worth of rig time and reduce the chances of a bad hole."

Customer: "Is that right? Do our technical people agree with this?"

Salesperson: "Yes sir. In fact I have documented a demonstration job that we ran for you in another one of your wells to prove the system. Your technical people requested this be run on this project. So for the extra $800,000 you are paying for us, you are in fact reducing your total costs by $1.2 million compared to the cost of using the competitor."

Customer: "I will have to validate this with our people."

With this issue resolved, the customer's negotiator moved on to other less critical issues.



NEGOTIATING WORKSHEET USING LONG-TERM PRICING STRATEGY

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Initial Positions

Factor	Price	Comments
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Your Premium from Customer	30%	Customer stated premium or discount willing to pay for your service
Customer Initial Offer	$ 52,000	Competitor offer + your premium
Your Share of Differential Value	80%	
Your Initial Offer	$ 70,000	

Trades

	Trade Description (Your Offer and Customer Trade)	Cost to Customer	Proposal Price Adjustment	Negotiated Your Offer
		Per month Basis	Per month Basis	
Initial offer or tendered price				$ 70,000
1st Trade	Pay for transportation of materials.	$ 5,000	$ 9,000	$ 61,000
2nd Trade	Two year contract	$ -	$ 3,000	$ 58,000
Final Offer	Early payment	$ -	$ 1,000	$ 57,000

Negotiating Ranges and Zone Of Possible Agreement

	Initial Offer	1st Trade	2nd Trade	Final Offer
Your Negotiating Range	$ 70,000	$ 61,000	$ 58,000	$ 57,000
Customer Negotiating Range	$ 52,000	$ 56,000	$ 59,000	$ 60,000
Zone of Possible Agreement	No	No	Yes	Yes
Premium paid by customer from customer perspective.				43%

Fig. 12.10
Updated Nirwana Negotiating Worksheet for a new market rate of $40,000 and Company A's premium from the customer of 30%. In this scenario, the zone of possible agreement is reached after the second trade. Had the market rate in the first scenario been $40,000 and included only a 10% premium from the customer, none of the trades would have been in the zone of possible agreement, and most likely an agreement would not have been reached or the negotiating team would have had to make a concession to secure the project.

negotiation meeting in the competitive negotiators section at the end of this chapter for an example of a negotiation that begins with a review of differential value.

In the Nirwana example, having the first trade in the zone of possible agreement provides a safety margin for Supplier A's team. If there were factors the team did not identify or accurately estimate, and had the competitor submitted a price of $40,000 per month instead of $50,000 per month, the negotiating team would still have additional trades to reach the zone of possible agreement after the second trade. and win the deal. **Fig. 12.10** shows the updated market price and impact it has on the Negotiating Worksheet calculations. Had this been the case with only a 10% differential, Company A's negotiating team would not have had any trades in the zone of possible agreement and most likely would have lost the contract or made a concession to secure the project.

What this analysis highlights is the earlier the pricing and supporting negotiation strategy can be drafted, the more obvious it becomes where the team should focus to improve the chances of securing the project. In this case, Company A's team had $20,000 worth of differential value that did not impact the negotiations even though the team had factored it into their pricing decision. It would have helped to solicit the support of the buying center members who could validate the financial benefits of using this advanced solution to leverage the differential value in the negotiations.

There are two key points to take away from this section. Using the negotiation worksheet to prepare your negotiation strategy allows you to see if you are in the zone of possible agreement. **Chapter Highlight 12.2: "If You Want Them To Say Yes, Don't Make Them Say No,"** explains how to read the negotiation worksheet in more detail. This allows the negotiation team to work on a negotiation strategy and know they have a winning deal. From a management point of view, this also makes the coaching process much more productive because the coach now knows exactly what assumptions the negotiation team has made when building their strategy. For example, what is the market rate the team used?

The second very important takeaway is the team can test their negotiation strategy for different scenarios and determine if they would still win when using their strategy. The team can ask themselves "what if" questions to determine the limits for each of the factors and still win the deal. For example:

- What is the lowest market rate (competitor offer) at which Supplier A would win after using all three of their trades?
- What is the lowest pricing premium we could offer to the teams and still win with all the trades?
- How much differential value could the competitor have at the current market rate (this effectively lowers the net differential value of Supplier A's offer) and still win the deal after the second trade?

Each of the above scenarios are answered by changing the appropriate value in the negotiation worksheet until cells in the zone of possible agreement change to yes. For example, to answer the first scenario using the base case as shown in Fig. 12.8, the lowest market rate is $45,000 and the team still wins after using all three of their trades. **Figure 12.11** shows the final offer value is "Yes" while the other cells are "No." If the team is confident that the competitor will not go as low as $45,000, there is no need to change the strategy. If they believe there is a possibility of the competitor bidding $44,000 or lower then they must change their negotiation strategy, perhaps adjusting their initial offer of increasing the amount they will give for one or more of their trades. They need to be prepared to answer these types of questions. In the negotiation proposal review, these types of questions will be asked by the managers reviewing the negotiation.

With the negotiation strategy completed and all the most likely what if scenarios answered, the negotiation strategy is now ready to be reviewed. The next section discusses the negotiation proposal review.



Negotiating Ranges and Zone Of Possible Agreement				
	Initial Offer	1st Trade	2nd Trade	Final Offer
Your Negotiating Range	$ 70,000	$ 61,000	$ 58,000	$ 57,000
Customer Negotiating Range	$ 49,500	$ 53,500	$ 56,500	$ 57,500
Zone of Possible Agreement	No	No	No	Yes
Premium paid by customer from customer perspective.				27%

Fig. 12.11
Negotiating ranges and zone of possible agreement. Scenario: Market rate $45,000.

Negotiation Proposal Review

Once the negotiation proposal has been completed, it is reviewed following the same procedure as a level 2 strategic sales plan review. The negotiating team (selected from the bid team) presents to the reviewers the following:

- Negotiation situational analysis
- Negotiation strategy
- Negotiation proposal components

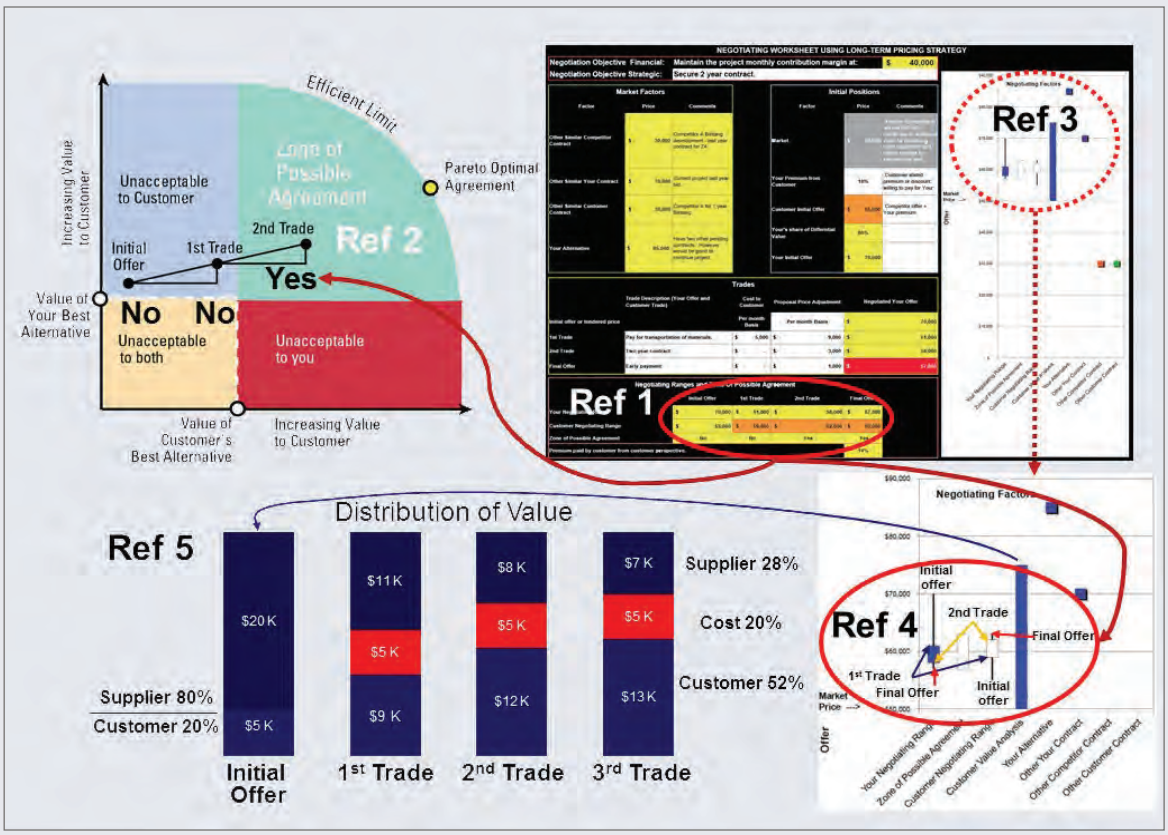
After the negotiating team presents their proposal, the reviewers ask clarification questions. For examples of clarification questions, see the sidebar "I Have a Question." After all the clarification questions have been answered, the reviewers will then prepare their feedback:

Chapter Highlight 12.2: If You Want Them To Say Yes, Don't Make Them Say No

I hope this advice was not the result of an expensive marketing study, but when it comes to negotiations, some salespeople could benefit from this advice. A lot of the problems started in the late 1970s and early 1980s, when negotiating occurred more frequently. In B2B sales at that time buyers became more sophisticated and competitors became less differentiated; with this came every buyer's dream of getting "their best price." To combat this increase in negotiating prices, sales consultants developed an easy solution (or what seemed easy): Bid high and when the customer wanted a greater discount, look devastated, give them 5%, and shake hands. Buyers quickly learned that, because the 5% came easy, they should ask for more. The consultant's recommendation was to give a smaller discount—in this case 2%—and shake hands, but if the customer asked for more, give them 1% and shake or walk away. This sounds like a game; indeed, it was. In this textbook, it is not recommended to play games with your customer when it comes to business. When you submit a bid, the customer should know they are getting your best price for their scope of work, terms, and conditions at the day's market conditions. They should know you have done your due diligence and have offered your best price the first time you submit your bid. If they want a better price, then you negotiate. The measure of a successful negotiation is if it:

- Maintains or improves the value of the deal for both the customer and you.
- Is a better deal than the customer's BATNA.
- Strengthens the relationship between the customer and you.
- Wastes little time with negotiating tactics for self-interest.
- Results in an efficient agreement with a minimum amount of effort and maintenance .

Successful negotiations are the hallmark of a professional salesperson's approach to bidding and negotiation in a competitive marketplace. Later in this chapter, it is acknowledged that not everyone will come to the negotiation table in this spirit of win–win. In managing competitive negotiators, the first step is to ensure that your first trade is a good faith trade that you believe puts your offer into the zone of possible of agreement. The negotiation worksheet lets you see when this is the case. The example below from the Nirwana case illustrates this point. This example was discussed earlier in this chapter, and the negotiation worksheet can be seen full size in Fig. 12.8. The negotiation worksheet is for the situation where the market rate is $50,000 and the customer premium is 10%.



Chapter Highlight 12.2: If You Want Them To Say Yes (cont.)

In the negotiating ranges and zone of possible agreement of the negotiating worksheet (Ref. 1), it can be seen that on the zone of possible agreement line the result is "No" for the initial offer, "No" for the first trade, "Yes" for the second trade, and "Yes" for the final offer. Earlier in this chapter, the ideal negotiation was presented in Fig. 12.1 (pareto chart). The pareto chart is shown in the Ref. 2 area of the figure with the negotiation values from this example. On the pareto chart, these points show the initial offer and first Trade are in the "Unacceptable to Customer" area of the pareto chart. The second trade is in the green zone of the zone of possible agreement. It should be obvious that, if you want your customer to say "Yes" to the deal, you need to make them an offer that is better than their best alternative (BATNA). This being the situation, then the salesperson's trading strategy would combine trades 1 and 2. The salesperson would ask the customer to use their trucks to move the materials to the job site and commit to a two-year contract. If the customer agrees to that, then the salesperson would discount their original offer $12,000 per month, making their negotiated offer $58,000 per month.

Plotting the pareto chart in Excel is difficult. However, it is possible to show a similar graph using the open-high-low-close stock price chart in Excel; see Ref. 3 on the negotiation worksheet. To make it easier to see, the Ref. 3 area has been enlarged and shown in Ref. 4. Whenever your price, as plotted, is higher than the customer's price, there is no deal. You are in the "Unacceptable to Customer" area of the pareto chart. From Ref. 4 it can be seen the initial offer of the supplier is $70,000 and customer's initial offer is $55,000 this no deal. After the first trade, the supplier drops their price to $61,000 in exchange for the customer transporting the materials to the job site. However, because it costs the customer $5,000 to transport the materials, their net gain is $4,000 ($9,000 price drop less the $5,000 to transport the materials). After the second trade, their price moves to $59,000, still lower than the $61,000 of the supplier, therefore, still no deal. The second trade states that in exchange for a two-year contract, the supplier will drop their price to $58,000. The customer gains another $3,000, and their price goes to $61,000. Now their offer is higher than the supplier's, and yes there is a deal. The offer is now in the green area of the pareto chart's zone of possible agreement.

At this point, some salespeople will question what the customer's motivation is for negotiating with you. Why not go to the competitors and ask them what discount will they give if the customer transports the materials and gives a two-year contract? This is an excellent question, and the answer is unique business value—the blue bar shown in Ref. 4 which is the result of the customer value analysis. The customer wants this value, which is a value they do not get if they give the work to the competitor. As a sales manager, one way to explain the job of the salesperson is that it is your job to make the customer want us. When the customer recognizes that your products or services have value (something worth money to them or other benefits), then they will want to negotiate with you when the competitor is offering a cheaper price.

Ref. 5 shows the "Distribution of Value"—namely, the $25,000 worth of net benefits the customer receives from the supplier's solution. This was discussed in the "Pricing Sensitivity Analysis Worksheet" section in Chapter 11 "Pricing for Bidding." In the initial offer, the supplier's price was $70,000 and the market rate was $50,000, indicating that $20,000 of the $25,000 of reduced costs was given back to the supplier while the customer kept $5,000 for themselves in the way of reduced costs. When the supplier dropped their price to $61,000, the customer still had the $25,000 in cost reduction, of which now only $11,000 of the savings was used to pay the supplier's price. $5,000 has to be spent to transport the supplier's materials to the job site. The customer has a net benefit of $9,000. For the second trade, because there were no costs associated with the customer agreeing to the two-year contract, the additional $3,000 benefit now makes their total net benefit $12,000. At this point, the customer has two options: Select the competitor and pay $50,000 plus an additional $25,000 of costs for a net cost of $75,000, or select the supplier and pay $58,000 and additional costs of $5,000 to transport the materials for a total of $63,000. The customer is now $12,000 better off when awarding to the supplier. The last trade was for an early payment where the supplier dropped their price to $57,000 and the customer received another $1,000 benefit. Now the customer is paying $62,000 versus net $75,000 to the competitor.

The reason the supplier was willing to offer the trades was because transporting the materials would cost the supplier $12,000 per month. The value of having a two-year contract was worth $5,000 to the supplier. The early payment cost them $1,000 per month, but the management considered this worth the expense of having more efficient receivables collections and better cash flow. Therefore, with their initial offer, the supplier was earning a $40,000 contribution margin or gross profit. Dropping their price to $57,000 reduced the contribution margin by $13,000 to $27,000. However, their costs were reduced by $12,000 plus $5,000 less $1,000; resulting in $16,000, reduction. Now the contribution margin is $27,000, plus $16,000 or $43,000. $3,000 better than when they started. This is a win–win negotiation.

▶ *I Have a Question*

At the negotiation strategy review meeting, managers will ask clarification questions. Below is a short list of the most common questions:

- Are you in the zone of possible agreement with your initial offer?
- What is the lowest market rate that you can have and still negotiate an agreement with all your current trades?
- How much more premium would you need to make your second trade good enough to close the deal at the lowest market rate?
- How much differential value and premium from the customer would you need to make your initial offer acceptable to the customer at the lowest market rate?
- Can you think of more trades?
- How confident are you that each trade will be accepted?
- Have you ever used these trades before?
- Could anyone in the customer's organization validate your trades for you?
- Have you asked anyone in the customer's organization what types of trades might be appealing to them?
- Are there any business or personal priorities of the decision maker, approver, or buying center members with high influence for whom you could build trades to motivate them to help close the deal?
- Are they negotiating with anyone else?

- What they like about the proposal.
- Challenges and recommendations to improve the proposal.

As the reviewers present their feedback, the negotiating team clarifies and confirms the challenge and recommendations. The objective of the review is approval for the negotiation strategy. This includes which trades are to be used and any conditions with the trades, which trades presented by the negotiating team are not to be used, and which issues are non-negotiable and how to handle them.

This review is supported with materials used in earlier reviews, as follows:

- Level 1 strategic sales plan review
- Bid strategy review
- Proposal review

By leveraging the earlier materials, the team the can focus on developing the negotiation strategy and proposal components.

Negotiation Situational Analysis

The purpose of presenting the negotiation situational analysis is to provide the background information for the review team not familiar with the opportunity. The best tool for this is the Negotiation Summary Worksheet, which is created by adding information for negotiation factors to the bid review worksheet (discussed in Chapter 10 "Competitive Bidding"). The negotiation factors are listed in **Table 12.1**. Each factor has a description and how to interpret the influence each factor has on a negotiation. Generated from this information is the negotiation summary handout shown in **Fig. 12.12**. The red box highlighted in the left-hand corner is the additional information regarding the negotiation factors, and the red circle on the radar plot shows where the negotiation factors are plotted. The other factors are the same as presented at the bid strategy review meeting. At this meeting, however, if there has been any additional information obtained since after submitting the bid, the bid factors are updated.

As required, the team can present parts of the level 2 strategic sales plan, bid strategy review, and proposal review depending on how familiar the reviewers are with the opportunity.

Negotiating Strategy

The negotiating team presents the negotiating worksheet discussed earlier in this chapter. The strategy will describe for each negotiating issue the trades and the rationale for each, the details of the trade, any conditions of the trade, and standards to be used when supporting the trade with the customer. A key decision is the order in which the negotiation issues will be discussed and if any of the trades are to be bundled. A sound negotiation strategy is to always have your first trade or combination of trades put the deal into the zone of possible agreement, as discussed in Chapter Highlight 12.2: "If You Want Them to Say Yes, Don't Make Them Say No."

Factor	Description	Influence		
		Positive	Negative	Neutral
Lead Negotiator	Who from the customer's organization is the lead negotiator?	Approver If the lead negotiator is the approver, then this is the best case as you are dealing with the person who can consider all trades immediately at the negotiation.	User/Evaluator If the lead negotiator is a user/evaluator, then any negotiated deal has to be approved by two or more levels and this is not a good situation. You will need to leverage other factors surrounding the negotiation to mitigate this factor.	Approver If the lead negotiator is the decision maker, this is considered neutral to the negotiation.
Lead Negotiator Alignment	What is the alignment of the lead negotiator towards your company?	Supporter/Mentor Negotiating with the lead negotiator who is a supporter/mentor has a very positive impace on the negotiator. It should create a negotiating environment that facilitates creating value and a win–win outcome for both parties.	Non-supporter If the lead negotiator is a non-supporter or enemy, then this will have a negative effect on the negotiation. If the lead negotiator is neutral, a non-supporter, or an enemy, this may require one of your mentors assisting you with having your negotiation proposal accepted.	Neutral Neutral is someone who has a preference for two or more companies to award the work. Since they are not yet convinced, the negotiation can be used to convince them to award the work to your company. However, this also applies to the other competitor. In this situation, the alignment factor will have a neutral effect on the negotiation.
Lead Negotiator Influence	This factor relates to the lead negotiator's influence as described in Chapter 9 "Strategic Sales Plan." This factor refers to the person's influence within the customer organization, and their ability to influence the decision beyond the consideration of the formal criteria used by the evaluator to identify the preferred offer.	High High influence is the best situation as it means the lead negotiator has the discretion to consider all trades that deliver value to the organization and all stakeholders' business and personal agendas.	Low The worst situation is when the lead negotiator has low influence, which indicates the lead negotiator must follow the formal decision criteria.	Medium Lead negotiators who have medium influence will also consider trades outside the formal decision criteria, but cannot change the decision criteria like the high influence lead negotiators.
BATNA Customer	What are the customer's best alternatives to a negotiated agreement with your company?	Worst If the customer does not accept your proposal, they will be worse off. This should never happen; however, there are times due to factors beyond the control of the customer's negotiating team that could crease a situation where the customer would accept the worst deal.	Better The customer has a better alternative to your offer. This is not good and you will need to look for other trades that have value for the customer that the alternative does not have to offer.	Same The customer's alternative is the same as your offer. This will have a neutral effect on the negotiation.
BATNA Your Company	What is your best alternative to a negotiated agreement with the customer?	Better In limited capacity markets, this can be the case that is good for the supplier. In situations like these when you are negotiating, you must know what the opportunity costs are.	Worst Need to ensure you close this deal. Ensure that you make the trades the best you can offer.	Same This has a neutral effect on the negotiation.
Negotiation Price Issues	Overall, what is your ability to reach an acceptable solution for the price issues?	Strong A strong negotiation position indicates that you have one of the more desirable trades for the price issues. You have a rationale and relevant standard to help convince the customer to accept your trade.	Non-negotiable A price non-negotiable negotiation position will need to be addressed in the negotiation meeting as per the guidelines discussed in Chapter 12 "Collaborative Negotiations" and does not put you in a negative position regarding the negotiation. Unresolved non-negotiable price issues will cause you to lose the work. Non-negotiable price issues are rarely true non-negotiables. This is more likely a negotiation tactic from the customer to have a better deal. You should consult your mentors in the customer organization for guidance.	Weak A weak price position indicates your trading strategy for this issue is most likely not sufficient to satisfy or find a totally acceptable solution. It is possible you can make some improvements regarding this negotiation price issue; however, it is most likely you will need to minimize your weak position on this issue with other strong position issues. You will need to handle an unresolved weak price position as a drawback. Overall, the effect on the negotiation will be neutral to your position and certainly not as negative as non-negotiable.
Negotiation Other Issues	Overall, what is your ability to reach an acceptable solution for the non-price issues?	Strong A strong negotiation position indicates that you have one of the more desirable trades for the non-price issues. You have a rational and relevant standard to help convince the customer to accept your trade. When you have price non-negotiable or weak price position, you will need to use these non-strong positions and have the customer consider the overall deal.	Non-negotiable A price non-negotiable negotiation position will need to be addressed in the negotiation meeting as per the guidelines discussed in Chapter 12 "Collaborative Negotiations" and does not put you in a negative position regarding the negotiation. You should consult your mentors in the customer organization for guidance.	Weak A weak non-price issue position indicates that your trading strategy for this issue is most likely not sufficient to satisfy or find a totally acceptable solution. It is possible you can make some improvements regarding this negotiation issue; however, it is most likely you will need to minimize your weak position on this issue with other strong position issues. You will need to handle an unresolved weak non-price position as a drawback. Overall, the effect on the negotiation will be neutral to your position, and certainly not as negative as non-negotiable.

Table 12.1
Negotiation factors and guidelines on how each can influence a negotiation.

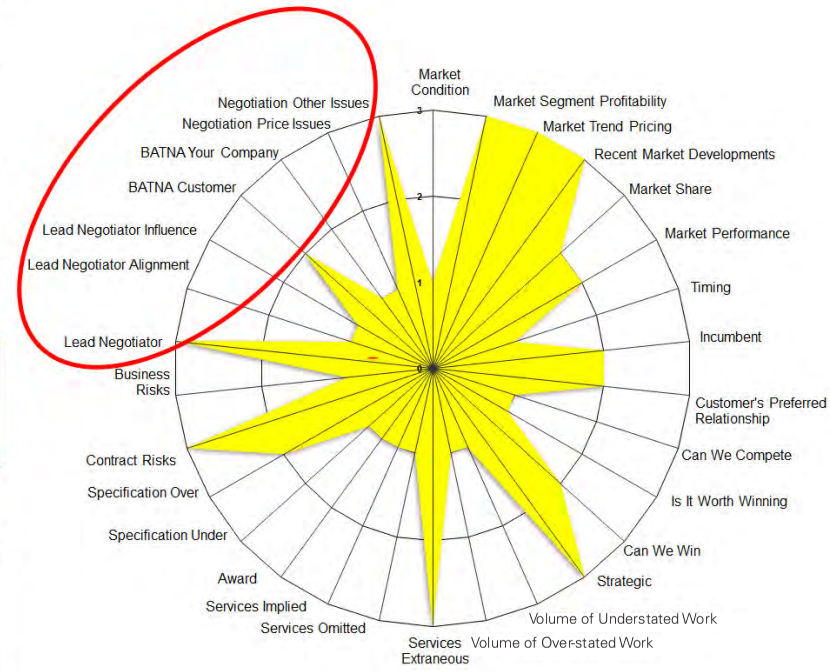
Fig. 12.12 Negotiation summary handout.

TENDER AND NEGOTIATION ANALYSIS AND OFFER SUMMARY: EXAMPLE

TENDER and NEGOTIATION ANALYSIS

Categories	Factor			Analysis
Market Intelligence	Market Condition	1		Limited Capacity
	Market Segment Profitability	3		Near
	Market Trend Pricing	3		Decreasing
	Recent Market Developments	3		Negative
Pipeline Analysis	Market Share	2		Split
	Market Performance	2		Splitting
	Timing	1		Good
	Incumbent	2		Neutral
Opportunity Assessment	Customer's Preferred Relationship	2		Consultative
	Can We Compete	1		Strong
	Can We Win	1		Strong
	Volume of Understated Work	2		At Target
	Volume of Over-stated Work	3		Competitor
Tender Analysis	Services Extraneous	1		>10%
	Services Omitted	1		Accurate
	Services Implied	2		None
	Services Omitted	1		>10%
	Services Implied	1		>10%
	Award	1		Single
	Specification Under	1		>10%
	Specification Over	2		<=10%
	Contract Risks	3		Non-compliant
	Business Risks	1		Low
NEGOTIATION SUMMARY	Lead Negotiator	3		User/Evaluator
	Lead Negotiator Alignment	1		Supporter/Mentor
	Lead Negotiator Influence	1		High
	BATNA Customer	2		Same
	BATNA Your Company	1		Better
	Negotiation Price Issues	1		Strong Position
	Negotiation Other Issues	3		Non-negotiable
Frequency	Green Level 1 MIS		15	
	Yellow Level 2 SBS		8	
	Red Level 3 DNI		7	

RADAR PLOT



OFFER SUMMARY

	Parameter	Value		Monte Carlo Analysis		
				High Confidence Will Not Make Less		Low Confidence Highest Estimate
Revenue and Profit Projections	Market Rate for Scope of Work	$ 100,000				
	Bid Evaluation Total Tender Value (TTV)	$ 99,000				
	TTV Relative to Market	Below				
	TTV Gross Profit $	$ 22,500				
	TTV Net Profit %	14%		P90	P50	P10
	Expected Value (EV) Revenue Target	$ 133,135		$ 120,000	$ 160,000	$ 180,000
	EV Gross Profit Target $	$ 48,135				
	EV Net Profit Target %	18%		16%	22%	25%
Strategy	Type of Tender	3		Comments		
	Strategy Description	Flanking				
	Negotiation Position	Strong				
Critical Success Factors	Tactics	Prove		Comments		
		Retrieve				
		Insulate	■			
		Minimize				
		Emphasize				
	Relationship Strategies	Leverage	■	Comments		
		Motivate	■			
		Neutralize				
	Other	Partner		Comments		
		Customer				
		Your Compar				
		Competition				
		Other				

Comments

Update
The bid is submitted. Only one other competitor, as expected, is being considered. Currently, the other bidders are evaluated at $90k. Expect they also identified the extraneous and omitted services and they most likely did not take exception to the uncapped liability clause. They had accepted this before and claimed to have insurance to cover this; however, this is very unlikely. We are the last company to go for the clarification meeting with the customer's tender team; that is a good sign. Will ask to see competitors' offer as the competitor does not believe customer has added in transportation costs and customs clearance costs as the competitor will have to immobilize from Singapore.

Negotiables - Price Issues - Strong
We have three good trades for getting us below competitors' offer.
1. If they agree to use existing inventory of supplies leftover from last project, we save $30k per job and will offer a $10k discount.
2. Volume: They have another project we can handle with same crews, only need to put basic set of equipment at the job site. If they commit, we will offer a $5k discount on 2nd project at the total price of $89k. Value to us is $12k per job (crew costs).
3. We can offer a senior interpreter to their project (very respected by their petrophysics manager) if they complete processing in the country. Our costs $0, additional revenue $20k per proeject.

Negotiables - Other Issues - Non-negotiable
1. Only issue is the uncapped liabilities. We have taken an exception; however, team believes they will accept our offer if final.

Negotiation Components

To review the negotiation proposal components, the negotiation team reviews the negotiation meeting planner, which will be discussed in the next section.

Negotiation Meeting

Before discussing specifics of the negotiation meeting, you must review the steps taken to this point. First, you used the opportunities management process to answer the four strategic questions:

- Is there an opportunity?
- Can you compete?
- Can you win?
- Is it worth winning?

From the effort invested in answering these questions, you construct a solution and offer that differentiate your company in your capability to:

- Assist the customer in meeting the project and team members' individual objectives in the most efficient and cost-effective manner.
- Provide the margin your company needs to ensure the level of commitment to excellence to deliver a value-differentiated solution at a high level of operational efficiency.

The time taken for you to get to this point in the opportunities management process may have taken weeks, months, or even years. The negotiation meeting is one of the last few hurdles to determining whether all your efforts will result in winning the project.

The commitment to the customer's and your company's objectives must be a critical part of the proposal presentation, and your negotiation strategy is your insurance that the customer's concerns with any aspect of your proposal do not create an obstacle that prevents you from winning the project. The more well developed your negotiation strategy, the better your chances for success. All that remains to be done is to present the negotiation proposal.

With the negotiation situation and proposal analysis completed, the next step of the negotiation process is to prepare for the negotiation meeting. The goal of the meeting is to:

- Build a perception of the proposal's value by explaining the rationale of the initial offer
- Introduce trades and ask for commitments back from the customer
- Address any of the customer's negative reactions to your proposal elements. Every differentiating element of the initial offer and each trade must be explained in terms of how they offer a benefit that satisfies the customer's need that drives the specific negotiation issue.
- Handle any non-negotiable issues. You can handle them as a drawback or difference of opinion depending on the nature of the non-negotiable item.

To facilitate planning for the negotiation meeting, you use the negotiating meeting model shown in **Fig. 12.13**. Specifically, the negotiation meeting stages are as follows:

- Opening
- Review of the initial offer
- Introduction of negotiating issues

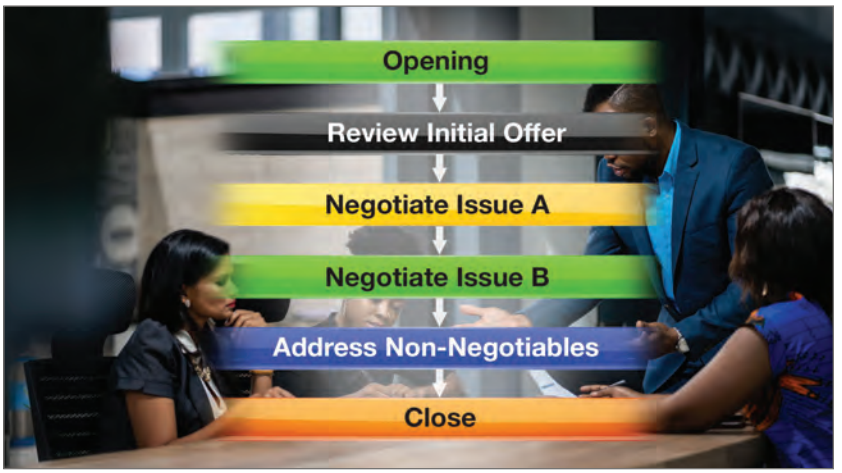


Fig. 12.13
The negotiation meeting.

- Address of non-negotiables
- Close

Each stage and the appropriate planning issues are discussed below.

Opening

The opening of the negotiation meeting follows the same process as a sales call:

- State the agenda
- Present the value proposition
- Check for acceptance
- Determine if the customer has any other issues to be discussed

State the Agenda

The agenda is an overview of the order in which you wish to introduce the proposal elements. This can be presented in the form of a flip chart, a handout, or verbally (if the number of items to be discussed is limited). The agenda is the presentation outline.

When preparing an agenda, you should know who from each side will attend the meeting. For important negotiations, it is recommended that at least three team members participate:

- One person in charge of the meeting and does most of the presenting.
- One person takes notes.
- One person has the negotiations support documents and can perform any calculations if the customer wishes to modify a trade or offer trades. The impact of each modification or new trade on the contribution margin should be considered before you accept.

The level of authority for each participant should be established. If the customer has a negotiator in the meeting who has authority to commit to an agreement, your company should also have someone present with same level of authority. See the "Okay, Who Signs?" sidebar for more about authority issues. It is also practical to have someone with expertise in each of the negotiation issues. For example, if operational issues will be discussed, include someone from operations and if contractual issues are on the agenda, someone from the contracts department.

▶ ***Okay, Who Signs?***

Authority—Theirs and Yours

Conventional wisdom says you should insist that the negotiator on the other side of the table have full authority. Otherwise, you fall victim to the escalating authority tactic described in the tactics section of this module. There are advantages to negotiating with the person who has the power to approve the agreement.

- You know that all your reasoning is heard directly by the approver, and if you have a good relationship with them, you are more likely to have a collaborative negotiation.
- You are less likely to have disputes or confusion about the interpretation of a particular provision.

As a practical matter, you may not always be able to negotiate with the individual (or committee) who retains final authority. This can sometimes be an advantage, as people without formal authority may be freer to discuss their company's interests and invent creative options. If you are dealing with someone who does not have full authority:

- Suggest using the opportunity to discuss your respective interests and to come up with creative options and packages.
- When negotiating dollar issues, only go as far as your second trade in case the final negotiator pushes harder in a second round.
- If you do make your final offer, strongly convey the message that this is your final offer unless they can offer something else.

Instead of insisting on full authority, it's more important that you determine the authority level of the person with whom you will negotiate so that you can plan accordingly.

If you learn that the negotiator has very little formal authority and is not respected or listened to by the decision-makers, try to get another representative to participate in the negotiations as well. One tactful way to do this is to suggest that you will be bringing a colleague (either with more formal authority or because your joint recommendation will carry more weight) and request that the other side do the same.

As for you, always know exactly how much authority you have in the negotiation. If you plan to be the one authority in the negotiation, then do not bring your manager or his or her superior to the negotiation, unless that is part of your strategy.

Value Proposition

The value proposition must be strong enough to stimulate the customer's interest and motivate the customer to participate in the meeting. Characteristics of a strong value proposition are that it is believable and achievable, raises the customer's listening level, and encourages participation in the meeting.

With the value proposition, you explain how all the issues can be addressed by one overall approach that meets the specific and interrelated need expressed by the customer. You accomplish this with a statement that reviews the general benefit addressed during preparation of the presentation analysis and strategy. Your value proposition should:

- Specify the main areas of need. For example, "Today, I'd like to review where you stand in resolving the issues raised at the last meeting. In terms of finances, you identified a need for cost savings. In terms of services, you identified a need for reduced risks in completing sour gas zones."
- Explain that each item covered contributes to the overall satisfaction. For example, "We will be reviewing a number of points, each of which addresses one aspect of these needs and combines with all the other points to build an overall solution to the issues we have identified." This statement emphasizes the fact that the proposal should be considered as a package and not as separate offers.
- Explain how the proposal addresses these needs. For example, "To meet these needs, we've come up with a comprehensive proposal designed to provide an integrated solution to your needs as well as additional costs savings."
- State your commitment. For example, "We believe you will find our proposal satisfactory and focused on your needs. However, we are still committed to including your suggestions on how to improve the offer and better meet your company's objectives." This encourages the customer to participate in the meeting.

Check for Acceptance

Two things happen when you check for acceptance:

- It recognizes that there are two negotiating parties in the meeting and that you want to ensure that the agenda and value proposition are complete.
- You can gauge the customer's enthusiasm for beginning. If your value proposition is motivating, you should hear a reply such as, "Now that sounds good. Let's get started." If you do not get such a response, your value proposition probably was not very effective.

Determine Whether the Customer Has Other Issues To Discuss

Unless the customer adds points during your check for acceptance, you should specifically ask to ensure that all issues can be addressed as part of the entire package. It is much better to discover any additional issues at the start of the meeting so you can demonstrate how the current proposal addresses the new issue. If a new issue is not addressed by the proposal components you have developed, you will need to agree on a time to discuss the issue.

Review the Initial Offer

The initial offer is the benchmark from which all negotiating trades are referenced, and it is dangerous to assume that each person in the room recognizes the benefits of your initial offer. In the initial offer review, you present a summary of the highlights and clarify how the initial offer's components address the negotiation issues about to be discussed. An effective way to present the review is in the form of bullet points, that clearly state the end benefit to the customer in financial terms as much as possible. **Chapter Highlight 12.3: "Let's Review"** is a real example of a review document used for a high stakes negotiation meeting.

Preparation of Negotiating Issues

After reviewing your initial offer, the first priority is to transition into a discussion of the first trades developed by your team. The following steps are taken in preparation of the negotiation issues:

- Develop a negotiation rationale
- Determine the sequence
- Develop a general benefit statement

Develop a Negotiation Rationale

Just because your team has decided that a particular negotiation strategy is a collaborative win–win proposal does not mean the customer shares in that perception. The customer may be completely focused on their demands and not the needs that drive that demand, as the demand from their perspective is a quick fix for their issues. Your team must translate your trades into benefits the customer can recognize and accept. You must build a perception of the proposal's value by explaining the rationale in terms of benefits. Every element of each first trade must be explained in terms of how it offers a benefit that satisfies the customer's need that drives the demand. Each negotiation rationale should include:

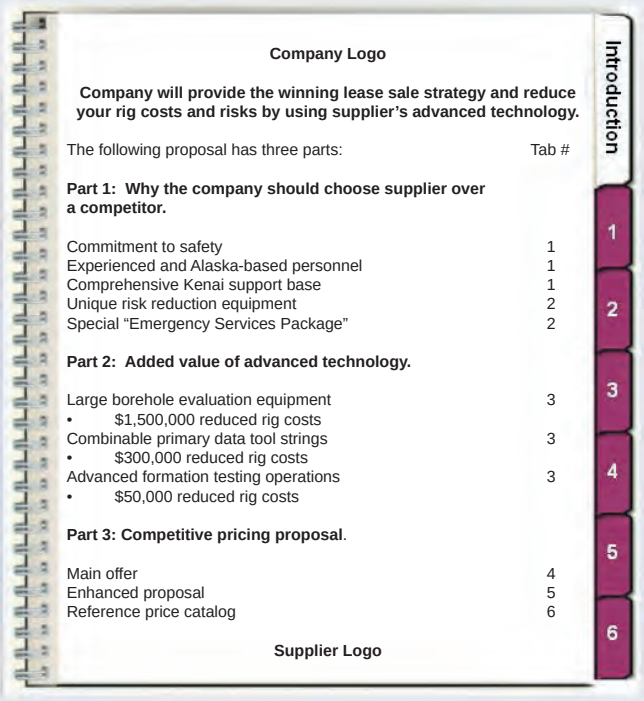
Chapter Highlight 12.3: Let's Review

The Starting Point

The starting point of all negotiations is your offer. Beginning a negotiation meeting without reviewing the initial offer is a bad practice. It assumes that all parties in the negotiation are familiar with the differential value your solution provides. Presenting a review provides an opportunity for the customer's negotiating team to include the differential value in the premium they assess to your proposal. The additional premium makes reaching the zone of possible agreement more likely.

At right is Company A's initial offer review that was presented to the customer's negotiating team. This summary was used to overcome an $1,300,000 (165%) price differential between Company A and Competitor 1.

The review was included at the start of the negotiation presentation document. The negotiation trading strategy was included in the "Enhanced Proposal" section. The enhanced proposal listed Company A's first trade for each of the main issues identified by the key buying center members, who were also present in the negotiation meeting.



Company Logo

Company will provide the winning lease sale strategy and reduce your rig costs and risks by using supplier's advanced technology.

The following proposal has three parts:	Tab #
Part 1: Why the company should choose supplier over a competitor.	
Commitment to safety	1
Experienced and Alaska-based personnel	1
Comprehensive Kenai support base	1
Unique risk reduction equipment	2
Special "Emergency Services Package"	2
Part 2: Added value of advanced technology.	
Large borehole evaluation equipment	3
• $1,500,000 reduced rig costs	
Combinable primary data tool strings	3
• $300,000 reduced rig costs	
Advanced formation testing operations	3
• $50,000 reduced rig costs	
Part 3: Competitive pricing proposal.	
Main offer	4
Enhanced proposal	5
Reference price catalog	6

Supplier Logo

This example was discussed in Chapter Highlight 8.2: "We Would Like to Use You, *But*." This is case four from Alaska, and the same example was also discussed in Chapter 9 "Strategic Sales Plan" Highlight 9.1: "But it is Only One Piece of Paper."

- A general benefit showing the value of the proposal as a whole.
- An explanation of how the technical benefits translate into business/financial benefits.
- A demonstration of the added value in dollars.

Each step allows you to justify your trades and position them in terms of:

- How they address the customer's concerns, which are driving the demands.
- How each trade and the proposal, as a whole, offer the customer valuable and relevant benefits.

Once the negotiation rationale has been developed, the next step is to determine the sequence in which the negotiation issues will be presented.

Determine Sequence

In determining the negotiation sequence, you must decide which demands and customer negotiating team members have the highest priority. The most important demand (expressed by the most important member) should be the first agenda item. This is critical because addressing the most important negotiating issue immediately shows you have made their priorities the key issue. Also, if you satis-

factorily resolve the most important demand, you gain a measure of buy-in to the lower priority demands addressed later. If there are any non-negotiables, these should be discussed after the negotiation issues as shown in Fig. 12.11. Agreement on negotiable issues can make the non-negotiables less important and easier to discuss and find solutions.

When beginning the discussion, you must be sure to identify to whom the trade is directed. If there are other issues that are addressed with a specific trade, you must include them as part of the discussion. This approach allows you to build an integrated case for each major area of need. It uses all the first trades as developed in your negotiating strategy and relates them to the overall logic and benefits of the proposal.

Develop a General Benefit

A well-developed negotiation proposal has value as an integrated whole, not just in terms of specific trades. The proposal reflects your overall negotiation strategy. In addition, each trade is weighted and balanced with the others to create an integrated whole. Since the proposal is an integrated whole, you should avoid allowing the negotiation to break down into a series of give-and-take exchanges that address only isolated elements. The more you keep the entire proposal in front of the customer as you discuss individual points, the better your chances of success, and because each trade in your proposal is related to all others, you use the various elements to support one another during the negotiation process.

When developing a general benefit, the first step is to determine which major areas of concern are reflected in the demands. This takes the focus away from the demands for concessions and shifts it to the benefits you plan to introduce.

Next, position the entire proposal in terms of how it satisfies all the customer's needs. This positioning provides an integrated approach that addresses all the implications of the needs and is not a random collection of individual and narrowly focused points.

Finally, explain that you wish to address each issue of concern (not each demand) individually. Then, show how each issue interacts with the others to provide overall benefits. For example:

Salesperson: "In reviewing the discussion we had at your last meeting, it became clear that the major area of concern is keeping costs down while maintaining the high level of quality and service you've come to expect. Our objective in developing today's proposal is to respond to these needs and provide a way for you to realize the maximum possible benefits. Each of the points that went into the proposal is designed to help build that overall approach to the needs you've expressed since we last met."

Negotiating Issues

This is now the main part of the negotiation meeting. In the discussion of the negotiation issues, you will:

- Describe the negotiation issue
- Explain the trade rationale
- Explain the trade
- Support the trade
- Check for acceptance
- Make transition statements to the next negotiation issue or non-negotiable

Describe the Negotiation Issue

The general benefit statement acts as the introduction to the entire negotiation proposal for each negotiation issue. When introducing each negotiation issue, you only need to refer back to your general benefit statement. However, for each negotiation issue, state the specific benefit for the negotiation issue being discussed. Translate each demand into the underlying need. If you are presenting a trade in which you offer a technical benefit in response to a financial demand, you must translate that technical benefit into a financial one. It is poor negotiating to offer a benefit that is not introduced in terms of an underlying need or demand. Otherwise, the customer may not see the relevance of the benefit, as discussed in Chapter 7 "Sales Call Skills."

For example, the demand for a 45% price reduction is translated into a need for cost containment. This takes the focus off the demand and puts it onto the need, which can then be addressed.

Explain the Trade Rationale

After you have introduced the negotiation issue, explain the trade rationale. The trade rationale introduces the trade. Introducing trades is very similar to offering supports in a sales call. You have a customer need, which is the negotiation issue, and you are using a feature and benefit (your trade) to address this need. You should introduce your first trade as a way to address this need. You could say: "As we have discussed earlier, cost containment is a key concern. We have reviewed the options that we can offer to provide the high level of quality you expect, while still ensuring that you minimize overall costs of the project.

Explain the Trade

Explain the details of the how the trade will work. For example:

Salesperson: "We've identified a way to achieve that objective by providing a 23% price adjustment in return for your agreement to give us your business on the next 15 wells."

Support the Trade

Just as you provide support for the customer's needs in a sales call, you should offer supports for the trade to illustrate how the trade will be implemented or has been used in other situations and, if possible, customer references. This addresses the customer's concerns and helps the customer accept the trade. For trades including discounts, it is best practice to show an example of how the discounts are applied to ensure that there is no misunderstanding. It is not uncommon for trades to be complex and difficult to understand for the customer who is seeing it for the first time. The example will allow you to make a direct connection of how the trade will apply to their project. You might say,

Salesperson: "As you can see, in this calculation this option gives you very significant dollar savings and locks up those savings for the next 15 wells, and my company benefits from the additional volume that allows us to maintain the required margin to give you the same high level of service. We have used this same discounting mechanism for your operations in Thailand."

Whenever possible, introduce a standard that can be used in support of your position. For example, the salesperson could have said that for the level of additional discount the customer was requesting your company only considers commitments based on a dollar volume described in your price schedule. The salesperson could

▶ ***That's Standard***

What do you do when you are trying to protect your position or persuade the customer to accept your trade as a reasonable offer, but your rationale is not convincing the customer? Try introducing a standard or searching for an independent standard that is agreeable to both parties and could be used to assess the offer. It is best if you prepare a list of standards to have as backup prior to the negotiation meeting.

Some useful standards in a negotiation are:

Example Calculation
Show an example calculation of the impact the trade will have for the customer.

Market Value or Going Rate
What is the average contract price for similar contracts? This is more convincing if the data are included in a report and even better if the report is part of a market analysis by an independent analyst.

Revenue Per Month
If significant resources are required for servicing a customer, in most industries there is a minimum revenue per month charge. This is a standard for small jobs. Explaining this standard might persuade the customer to accept your offer even though the price may seem high on a per-job basis.

Precedent
You can refer to what was done in the last contract or other previous contracts. There may even be a master agreement for the account you could refer to as the standard.

Industry Practice
Many industries have a list of industry practices to ensure continuous improvement and help newcomers to their industry. If there is an appropriate industry practice, this can be useful. When negotiating clauses in contracts for liabilities, insurance, etc.

Competing Contracts
What did recent agreements consist of?

Equal Treatment
Are there established volume discounts based on revenue per month, or market share commitments printed or included in the published price catalog? If printed, these appear to be more "standard."

then show the customer the volume rebate clause in the price schedule. This could convince the customer that the demand for a concession is unreasonable. For more discussion on using standards, see the "That's Standard" sidebar.[11]

Check for Acceptance

Confirm the customer's acceptance of the trade. For example, "Is this acceptable to you?" If the customer accepts the trade, introduce the next topic.

Below are some tactics you can use if the customer rejects the first trade.

Make Transition Statements to the Next Negotiation Issue

When moving from one negotiation issue to the next, you should relate the next negotiation issue back to the overall proposal benefit. You do this to build and reinforce the perception of the proposal as an overall solution, as well as the manner in which each trade satisfies the need. The transition statement is the verbal tool that allows you to do this. When making a transition statement:

- Review how the trade just discussed satisfies the overall need.
- Introduce the next trade.
- Preview how it satisfies a specific need or needs. For example:

Salesperson: "You've just seen how the price adjustment addresses the need for the cost savings. Now, I would like to review the next item in the proposal that also addresses the need for reducing risks when completing sour gas zones."

When doing so, refer to the agenda flip chart or handout to refocus the client's attention on the next item for negotiation.

Handling the Customer's Rejection of a First Trade

If the customer's rejects the first trade, follow the steps used to handle customer negative reactions as discussed in Chapter 8 "Handling Customers' Objections."

- Probe to understand the rejection. In this step you want to ensure that the rejection is not due to indifference, misunderstanding, skepticism, or a restriction the customer may have. For example, if you offer a 10% price reduction in exchange for the customer paying for transportation of materials needed for the work (as was the case in the Nirwana negotiation), the customer might reject the trade if the company policy prohibits accepting additional responsibilities for transporting suppliers' materials to and from the job site.
- Confirm your understanding of the rejection.

- Handle the rejection according to the type of objection, whether it is indifference toward the benefits of the trade, misunderstanding of the trade, or skepticism that the trade can be implemented.
- Check for acceptance. After resolving any of the negatives, the customer may now accept the trade. If the customer states that the first trade is insufficient for what you are asking them in return, you use the negotiating sequence described below.

Negotiation Sequence After Rejection of First Trade

If the customer has a restriction that prevents them from accepting the first trade or they are not satisfied with the trade given the commitments they must make in order to receive the benefits, adhere to the following negotiating sequence.

State the Concern: The more clearly you can state the concern, the more precisely you can introduce benefits/options to resolve the concern. When stating the concern:

- Phrase it in terms of needs rather than demands.
- Identify the obstacle to accepting the original trade.
- Express your willingness to consider alternatives. For example:

  Salesperson: "Just to put the issue into perspective, your position is that you need as great an up-front savings as possible and feel that our proposal is not good enough. We are more than willing to explore the situation further as we want to walk away from this session knowing we did all we can to arrive at a mutually acceptable agreement. I'm certain we can do that by working together."

- Confirm the customer's objectives and restrictions. By asking and confirming objectives and restrictions, you encourage the customer to clearly and directly express the negotiating range. By exploring the reasons behind these objectives and restrictions, you can better understand which aspects the customer is not satisfied with. For example:

  Salesperson: "The best way to resolve an apparent impasse is to see where you stand and why. Could you tell me what you want to accomplish on this point?"

  Customer: "That's obvious. I want to cut an agreement that will offer me the cost savings already offered by your competitor."

  Salesperson: "I see . . . now, in addition to the money, what level of service and quality are you willing to give up in return?" (confirming restrictions in an area in which the salesperson knows his or her company enjoys a competitive advantage)

  Customer: "Well . . . none. And I don't see that I would be giving up anything. After all, everyone's basic services are the same."

  Salesperson: "And if you had to sacrifice some of the quality you've come to expect, would that be acceptable?"

  Customer: "Not really. But I'm not convinced that I will not be losing anything."

During this interchange, the salesperson asked for and confirmed objectives and restrictions. The restriction being implied is a large price concession that could

mean a reduction in quality. However, the salesperson did not respond to the customer's unwillingness to accept this restriction as being pertinent, which is developed next when the salesperson states the objectives and restrictions.

State Your Objectives and Restrictions: When stating your objectives and restrictions, it is critical they be tied to added value and benefits. For example:

Stating objectives:

Salesperson: "The bottom line is we want your business, and we want to continue to provide you with the level of service we've provided in the past. And we want you to end up with a package that's satisfactory. We're willing to make as much of a price adjustment as we can to achieve that goal of mutual satisfaction."

Stating restrictions:

Salesperson: "As you realize, though, even with basic services, we provide additional support and resources to ensure that the level of service is maintained. For example, we offer highly trained field engineers and state-of-the-art technology. All these additional resources, which have a long-term dollar value to you and could cost you money in the future if you couldn't get them, cost my company money to maintain. So we can't adjust the price to the level you ask, and any price adjustment has to be tied into a commitment for services on additional wells that allows us to maintain our targeted margin to cover our costs."

At this point, the customer may respond by exploring the relevance of the additional resources offered, even on a basic service level. When this occurs, you use it as an opportunity to introduce additional benefits.

If possible, support the relevance of these added-value benefits by presenting a number of "what if" scenarios that could apply in the situation. "What if you had a technical question that couldn't be answered promptly and you had to make a decision? What influence could that have on costs?"

Ask for Alternatives: Rather than proceed with your second trade, ask the customer for alternatives that fall within the stated objectives and restrictions. This makes the negotiation an interactive process. It also lets you gauge how effectively your case has been made. Finally, it motivates the customer to think of solutions within specific and reasonable parameters. The result may be one that is satisfactory or even more beneficial to you than your own second trade. At this point, the customer may even agree to accept the original trade.

Offer Second Trade: If the customer cannot offer an acceptable alternative, you introduce your second trade and state it in terms of added value and benefits. For example:

Salesperson: "I have an alternative that addresses all the issues involved. My company is willing to adjust the price even further, to 29%, if you agree to give us all your business this year and pay your invoices within 30 days. This means you'll get the up-front cost savings you want. Plus, that adjustment will be locked in for the entire year. And we will be able to maintain that high level of quality service and additional support you have now. From our point of view, gaining agreement on the whole year's program justifies this volume pricing, and the 30-day payment ensures our cash flow."

Determine and Confirm Client Acceptance: Once you have offered your second trade, ask if it is acceptable. If it is, move to the next proposal topic. If it is the last topic to be discussed, conclude the session. If the alternative is not accept-

▶ ***One More Thing***

What do you do when a customer demands a concession you haven't anticipated or planned for? Following the steps below will put you in a better position to negotiate.

Define the demand by probing to determine:

- What the customer specifically wants.
- Needs driving the demand.
- Level of importance attached to the demand.

Determine the benefit the customer derives if the demand is met.

For example:

Salesperson: "When you say you want you to commit to having a crew on your rig at your discretion, can you tell me what that means?"

Customer: "It means I want your people at the rig the minute I'm ready for them, and I want that guarantee as part of the proposal. If they're not there, I want price reductions on the service. I had an experience with your people before. The truck was late, and you had already pulled pipe. I lost a half day of production."

Salesperson: "So, loss of production is the issue?"

Customer: "Yeah, that and the money it costs me to pay for an idle rig."

Salesperson: "Then, you're looking at the price reduction as a way of compensating for lost production?"

Customer: "Right, I'm not going to have my production schedule messed up because of a late truck. So if I do, you're going to pay for it."

In this exchange, the salesperson:

- Uncovered the specifics.
- Identified the need (maintaining productivity).
- Determined the level of importance (it was the productivity, not the price reduction, that was the real issue).

Based on this, the salesperson can begin to develop a strategy that addresses the real issues involved.

Ask for Time.

When you ask for time, you:

- Acknowledge the concern (don't agree with it).
- State that you will develop a solution to the problem.
- Indicate when you will be back with a specific response.

able, you must find out why and respond accordingly. Remember, whenever the customer rejects a trade or an element in a trade, your subsequent action cannot lead to a concession or offering more than the final offer you established.

If you have a third trade, you would then repeat the negotiation sequence as described for introducing the second trade. Once you have discussed all the negotiable issues, you can then focus on the non-negotiable issues. The non-negotiable issues are handled in one of two ways, depending on the type of non-negotiable, as discussed next.

Address Non-Negotiable Issues

Non-negotiable issues are treated as drawbacks, as described in Chapter 8, "Handling Customer Objections." If after searching for a solution or outweighing the drawback with previously accepted benefits the customer still does not accept your explanation, handle the non-negotiable as a difference of opinion, as described in Chapter 5 "Communication Skills."

If you have to treat the non-negotiable as a difference of opinion, you must be sure that when you conclude the discussion on that issue you reiterate your company's willingness to discuss any alternative solutions the customer may come up with later.

Closing

Once all the negotiation and non-negotiable issues have been discussed, the lead negotiator closes the meeting. Although this may seem obvious, you want to be sure to close the meeting in a positive fashion, especially when non-negotiable items were treated as a difference of opinion. Follow the same steps used in the sales call to close the meeting. In closing the meeting:

- Ask for any outstanding issues.
- Summarize the agreements.
- Review next steps (if any).
- Ask for customer commitment that will secure the project (if necessary, this commitment may be conditional).

Ask for Any Outstanding Issues

You must always ask about any outstanding issues the customer has. This ensures you do not miss any issues the customer might have thought of during the meeting. A competitive negotiator may seize this opportunity to introduce additional demands. When this happens, follow the steps outlined in the "One More Thing" sidebar. As disappointed as you may be to uncover new issues, it is better to have the issues raised with those who are responsible for reaching an agreement so the discussion of next steps can continue.

Summarize the Agreements

To summarize, review the accepted trades in terms of the following:

- Areas of concern the trades address
- Benefits provided

For example:

Salesperson: "We've covered a lot today. To briefly review, you've seen that, to provide you with maximum short-term and long-term cost savings, we've agreed to a 23% price adjustment locked in for the next 15 wells. We will continue to supply you with all the additional resources needed for completing your wells."

Review Next Steps

If there are next steps, you briefly review what they are, who will be involved, and when the steps will be taken. For example, assume that the customer demands a crew be on the rig 24 hours before needed, which is not a demand you previously planned on addressing. You might review this way: "And as far as the crew request is concerned, I'll get back to you by Friday to discuss what I find out regarding this issue."

Ask for Customer Commitment

The purpose of a negotiation is to reach a win–win agreement. The meeting is not over until you have the commitment for some action that will advance the sale or secure an agreement. During the meeting, your team must be alert to recognize the customer's comments or gestures that indicate they are satisfied with the meeting's progress and are ready to conclude the negotiation and make an agreement. This may occur before all issues have been discussed. It may also occur even if a trading range has been exhausted and no agreement was reached on some issues. As stated before, you must continually remind the customer of the benefits and value of the entire package—even if there is no commitment on some issues—so the customer views the overall package as reasonable.

For example, you might ask for commitment in this way:

Salesperson: "Since we're all in agreement and we've developed a proposal that addresses all the concerns on the table, let's finalize the proposal by drafting the contract with the updated clauses reflecting our discussion today. I can send you my summary of our discussion by tomorrow morning. How does that sound?"

If the customer has raised concerns or made demands that you cannot resolve during the session and that require additional steps, you should still ask for a commitment to advance the sale. You should consider this a conditional close, as described in Chapter 7 "Sales Call Skills."

Conditional Close: A conditional close requests customer commitment to the sales objective when the additional concerns are eventually resolved. During a conditional close, you say, "Then, once you resolve the question of the crew, you'll be in complete agreement on all the issues you're addressing. Based on that resolution, you can go forward with the contract (date of service, etc.), agreed?"

A conditional close is important because it:

- Builds a positive environment that results in closure.
- Reinforces in the customer's mind the important perception that eventual closure will be reached.
- Conditions the sale on the resolution of a specific point.

If the customer rejects either your request for commitment or conditional close, you should explore reasons for concern and respond accordingly. However, a negotiation does not always result in an either/or outcome. The customer does not always accept or reject the proposal. Frequently, there is a measure of acceptance but not total acceptance. When the customer shows some buy-in to the trade but does not accept the trade as it is, you may have to introduce your final offer following the same steps as introducing the second trade as previously discussed. But you do not make a concession. There is always the possibility that the customer is being competitive—trying to extract an even better deal than they already seemingly agreed to.

To help you prepare for the negotiation meeting, create a meeting plan using the "Negotiation Meeting Planner" found in Appendix 1 of this chapter.

Negotiation Meeting Planner

The negotiation meeting planner is used when preparing for the negotiation meeting with the other team members. The completed negotiation meeting planner is used to discuss the negotiation proposal components in the negotiation proposal review meeting. The planner helps you prepare for each part of the negotiation meeting as described in this section. Each person who will be in the meeting should have a copy for them to follow during the meeting. The planner can be used to review the meeting plan with non-team members and mentors in the customers' organization when seeking their feedback. The person who is assigned the observer role uses the planner to keep their meeting notes. The negotiation planner is completed in addition to the sales call preparation worksheet discussed in Chapter 7 "Sales Call Skills."

Competitive Negotiators

The recommended negotiating style to take with your customers is collaborative win–win approach where neither party is required to make a concession. As mentioned before, not all customers take a collaborative win-win approach to a negotiation. This section discusses how to recognize and deal with competitive negotiators. It is also addresses ensuring that your team members do not turn competitive and use tactics to force an agreement. There are two types of competitive negotiators:

- Reactive
- Strategic

Reactive Competitive Negotiators

Reactive competitive negotiators adopt a competitive negotiating style in reaction to your offer because the offer has not met their expectations, either because a comparable competitive offer was better than your offer; or your offer was not acceptable given one of the customer's key pricing sensitivities (such as the fairness effect). When it comes time to negotiate, a reactive competitive negotiator will do one of the following:

- Make a demand, which is a concession sought by the other negotiating party. In most cases the concession is a single negotiable, such as a discount, contract condition. For example, the customer may state a demand, as follows:

  Customer: "If you want the project, you are going to have to give an additional 20% discount. Do that and the project is yours."

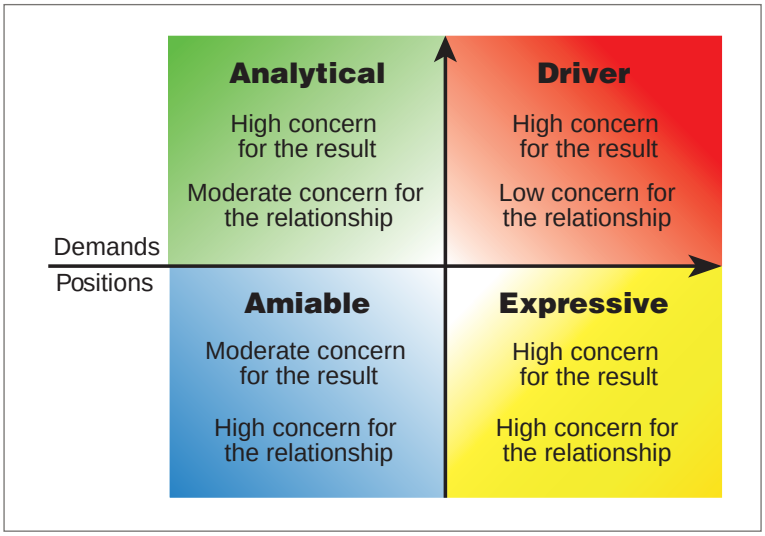


Fig. 12.14
Anticipating competitive negotiating styles based on social profile.

- Take a position. A position is a statement expressing disappointment over an aspect of the offer. For example,

  Customer: "We are not happy with the call-out package."

Social profiling, a communication skill discussed in Chapter 5 "Communication Skills," may help you anticipate a negotiator's competitive style. **Figure 12.14** shows that each social style tends to have different levels of concern for the task and relationship. The combination of a high concern for results and a moderate to low concern for relationship suggests that in competitive negotiations Drivers and Analyticals make more demands while Amiables and Expressives take positions. To help you prepare a focused negotiation strategy with competitive negotiators, review the negotiating party's social style as recorded in your CRM contact database. Another tool that has been developed by labor relations professionals is a negotiation style self-assessment. The assessment has been modified and created in Excel so the marking and analysis of the answers are automatic. To learn more about your negotiating style, see **Chapter Highlight 12.4: "I Knew You Had Style."**

When confronted with a competitive negotiator, your goal is to move the other negotiator from being competitive to being collaborative. To do this, you:

- Focus on the interest or needs behind the other negotiating party's demands or positions and do not let their demands or positions force you to make a concession. The key, as discussed in Chapter 8 "Handling Customer Objections," is to probe to fully understand the reason the customer is being competitive and the benefit the customer expects from the concession. For example, the customer demanding an additional 9% discount is concerned about costs, so you want to focus on controlling the costs rather than on deciding whether you can give an additional 9% discount.
- Make trades for demands. To encourage the competitive negotiator making a demand to adopt a more collaborative style, offer trades. For example, the customer demands an additional 5% discount. After probing to understand the need behind the demand, you may offer a first trade of an additional 3% discount for a commitment for all their work, based on the fact that this trade would maintain your margin at the same level over the same period and allow you to maintain the same level of service. After making this offer, you test the customer's willingness to give you something in return to offset the additional discount. In most situations, this

Chapter Highlight 12.4: I Knew You Had Style

Negotiating Style Self-Assessment Background

The negotiating style self-assessment is based on a book titled *The Labor Relations Process* in which the authors identify two distinct and very different approaches to bargaining.[12]

- Distributive bargaining approaches negotiation as a win–lose exercise, where the gains of one party must come at the expense of the other party. The sole focus of the negotiator is to maximize his/her own outcomes. In the negotiation literature, this orientation is referred to as assertiveness.
- Mutual gain bargaining approaches negotiation as a win–win exercise. The negotiators focus on fulfilling the mutual interests of both parties. In the negotiation literature, this orientation is referred to as cooperativeness.

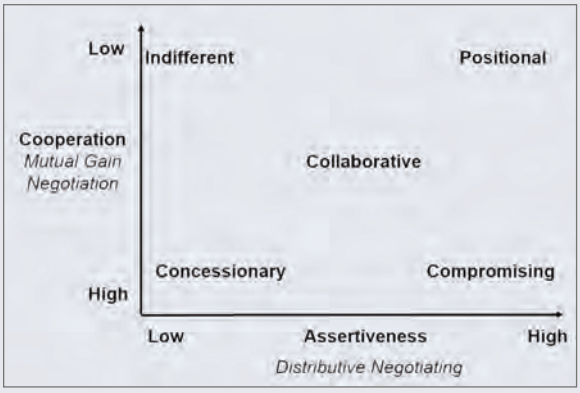
Negotiators that exhibit assertive tendencies are more likely to engage in distributive bargaining behavior while negotiators that are high in cooperativeness are more likely to use a mutual gain bargaining approach. Thus, this self-assessment will help you examine your levels of assertiveness versus cooperativeness.

According to the negotiation literature, the measurement of assertiveness and cooperativeness requires the consideration of five distinct negotiation styles:

- Positional – Negotiators that exhibit this style are very concerned with "winning the deal". They are results-oriented, self-confident, and assertive; are focused primarily on the bottom line; have a tendency to impose their views upon the other party; and in the extreme can become aggressive and domineering. This style is high in assertiveness and low in cooperativeness.
- Indifferent – Negotiators that exhibit this style are passive, prefer to avoid conflict, make attempts to withdraw from the situation or pass responsibility on to another party, and fail to show adequate concern or make an honest attempt to get to a solution. This style is low in both assertiveness and cooperativeness.
- Collaborative – Negotiators that exhibit this style use open and honest communication, focus on finding creative solutions that mutually satisfy both parties, are open to exploring new and novel solutions, and suggest many alternatives for consideration. This style is balanced in assertiveness and cooperativeness. This style will try to negotiate an agreement but not if better alternatives exist for either party.
- Accommodating – Negotiators that exhibit this style is very concerned about maintaining relationships with the other party, smooth over conflicts, downplay differences, and ensuring the needs of the other party are satisfied. This style is low in assertiveness but high in cooperativeness.
- Compromising – Negotiators that exhibit this style are very concerned that an agreement be reached, often split the difference between positions, frequently engage in give-and-take tradeoffs, and want satisfaction of both parties' needs. This style is high in assertiveness and high in cooperativeness.

The first figure below displays the relationship among these five negotiating styles and the dimensions of assertiveness versus cooperativeness.

The second figure places five negotiating styles based on the social styles grid. A salesperson can determine the other person's social behavior through their everyday interactions such as fallback behavior prior to a negotiation. Then social style can be used as a predictor of negotiating style.[13]





Chapter Highlight 12.4: I Knew You Had Style (cont.)

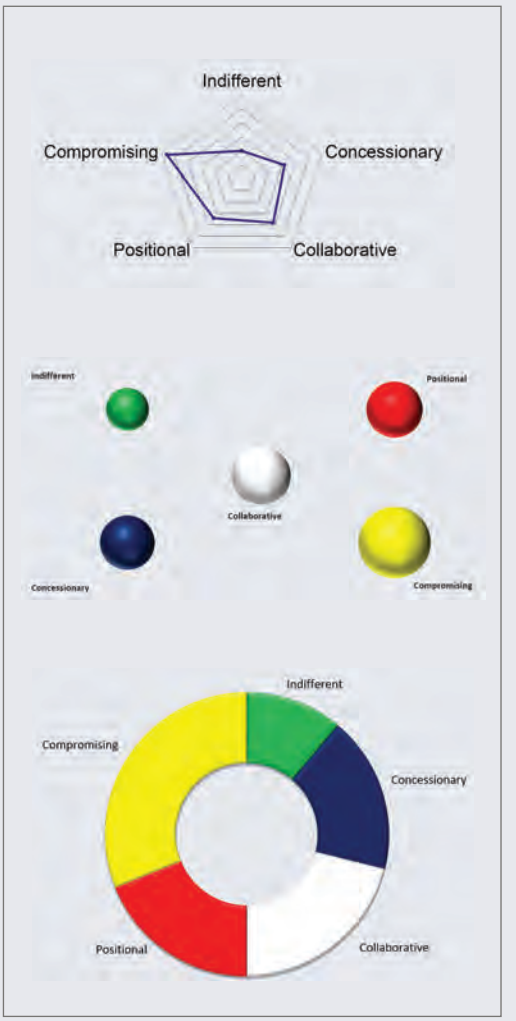
Below is the input for the Excel-based negotiating style analysis worksheet. The worksheet is designed to understand your preferred behavior regarding the five elements that affect negotiations. You read five sentences that describe a person's behavior for each of the five elements and rank the sentences as most to least "like you." The output is how much of each negotiation style you have based on your answers. The graphical analysis is the radar, bubble, and donut shown below. There are three reports; each one has the description of each negotiating style and one of the negotiating style graphs on the top of the report. Instructions for completing the worksheet are included in the file.

NEGOTIATING STYLE QUESTIONNAIRE

Read the five sentences in "Element 1: Decisions" below. After you have read the 5 sentences, consider each as a possible description of yourself.
RATE ONLY the first 4 sentences. The 5th sentence will be assigned a rating based on your first 4 answers. There can be no ties.
Put a "5" beside the sentence you think is *most like* yourself.
Put a "4" beside the sentence you think is the *next* most like yourself.
Continue ranking the other sentences with "3" for the third, "2" for the fourth, and "1" for *least* like yourself.
Follow the same procedure for Elements 2 thru 6.

Element 1: Decisions		
1.a)	I place high value on getting sound, creating decision that result in understanding and agreement.	5
1.b)	I accept the decision of customers and others.	1
1.c)	I place high value on maintaining good relations.	3
1.d)	I search for workable solutions, even though not perfect, agreed upon by customers and others, including myself.	4
1.e)	I place high value on getting a decision that sticks.	2
Element 2: Convictions		
2.a)	I prefer to accept opinions, attitudes, and ideas of customers and others rather than push my own.	1
2.b)	I stand up for my ideas, opinions and attitudes, even though it sometimes results in stepping on people's toes.	3
2.c)	I listen for, and seek out, ideas, opinions and attitudes different from my own. I have clear connections, but respond to sound ideas by changing my mind.	5
2.d)	When ideas, opinions, or attitudes differ from my own, I initiate middleground positions.	4
2.e)	I go along with opinions, attitudes, and ideas of customers and others to avoid taking sides.	2
Element 3: Energetic Enthusiasm		
3.a)	I am enthusiastic enough to get by.	1
3.b)	I offer positive suggestions to keep things moving along.	3
3.c)	I know what I am after and pressure others into accepting what I want.	2
3.d)	I direct my full energies into what I am doing and others respond enthusiastically.	5
3.e)	I support, encourage, and complement others on what they want to do.	4
Element 4: Conflict		
4.a)	When conflict arises, I try to be fair but firm and get an equitable solution.	4
4.b)	When conflict arises, I try to identify reasons for it and to resolve underlying causes.	5
4.c)	When conflict arises, I try to remain neutral or stay out of it.	1
4.d)	When conflict arises, I try to stop it or to win my position.	3
4.e)	I try to avoid generating conflict, but when it does appear, I try to soothe feelings and to keep people together.	2
Element 5: Temper		
5.a)	When things are not going right, I defend, resist, or come back with counter-arguments.	5
5.b)	Because of the disturbance that tensions can produce, I react in a warm and friendly way.	2
5.c)	When aroused, I contain myself, although my impatience is visible.	3
5.d)	Under tension, I feel unsure which way to turn or shift to avoid further pressure.	1
5.e)	By remaining neutral, I rarely get upset.	4
Element 6: Humor		
6.a)	My humor aims at maintaining friendly relations; when strains do arise, it shifts attention away from the serious side.	4
6.b)	My humor is intended to be persuassive in gaining acceptance for myself or my views.	3
6.c)	My humor is seen by others as rather pointless.	1
6.d)	My humor is hard-hitting.	2
6.e)	My humor fits the situation and gives perspective. I retain a sense of humor even under pressure.	5

Finished. Now you can review your profile.



Which Style Is Preferred?

People often ask, "which is the best negotiation style?" As with much management theory, there is no single "best" or "right" approach. All five profiles of dealing with negotiation are useful in different situations. Although people are capable of using all five, most of us tend to have one or two preferred negotiation conflict styles that we use unconsciously in most conflict situations. Why? Either because our preferred styles have worked for us in the past, or because of our temperament (nature) or upbringing (nurture)[14]

In B2B negotiations with customers with whom you want to build repeat business, it is suggested that a consistent application of the collaborative style is best. The collaborative style offers the greatest probability of producing negotiating results of the highest quality and most enduring satisfaction for the customer and you. If mutual need satisfaction is of paramount concern to the parties and problem-solving strategies are harnessed to satisfy these needs, then both the outcome of the negotiation and the relationship of the parties will benefit.



Fig. 12.15
In competitive negotiations, your customers may be focused only on their demands or positions, and your company may be focused only on your initial offer. You may forget the bigger picture where, like icebergs, the critical mass lies beneath the surface. Moving a competitive negotiator to a more collaborative style requires probing to move beyond the stated demands and positions to discover the common value drivers both negotiating parties share. These demands and positions—usually defined by the negotiator's personal interests, project requirements and corporate strategies, objectives, and goal—can be impacted by the other party. The common impact area is where options and trades can be made to build a win–win agreement

leads to the second trade developed in your negotiation strategy. At this point, you are negotiating rather than making concessions, and the customer is collaborating.

- Prepare options for positions. To work with the competitive negotiator who is taking a position, create options. For example, the customer states that your offer is not good enough and that they will not award you the contract given the current offer. The key here is to move the negotiator from the current position by uncovering the negotiator's interest and then exploring for options to make the offer more attractive to them. Once the negotiator takes a more collaborative approach, you can offer trades.

The key point for both types of competitive reactions (demands or positions) is to find common areas between the customer and you that can be impacted. The common impact area is where you can find options and trades to build a win–win environment. The strategy for moving the competitive negotiator to a collaborative position is to probe to discover the objectives and needs your company and the customer have in common, then use those to develop trades and options (see the "Tip of the Iceberg" analogy in **Fig. 12.15**).

Negotiating with reactive competitive negotiators is very possible as long as negotiators maintain an open, collaborative style during negotiations and leverage the up-front investment made to discover the value drivers of the project and individual interests of the negotiating parties. Armed with a negotiating strategy with trades that impact the forces driving the demands or positions of the competitive negotiator, your can probe to bring the customer's interests and needs to the surface.

Much like preparing for an indifferent customer in a sales call, your negotiating team should use the Sales Call Preparation Worksheet to prepare the salesperson to lead probing strategies that confirm the customer's needs so that you can demonstrate the impact of each of your trades, as discussed in Chapter 7 "Sales Call Skills." See the "Do You Know" sidebar (pg. 340) for a standard probe to use at the beginning of any negotiation meeting with a competitive negotiator.

Strategic Competitive Negotiators

Unlike reactive competitive negotiators, strategic competitive negotiators not only use demands and positions to extract concessions from your negotiating team, they also consciously use negotiating tactics to get what they want. Strategic competitive negotiators believe the use of tactics is the best way to achieve their objectives.

▶ *I've Got a Secret*

How can someone tell if you are dealing with a reactive competitive negotiator or a strategic competitive negotiator? This is a very good question, and the answer is very important. After you discover, someone is strategic rather than reactive, you know they are not going to agree to a deal during your meeting in most situations. They will reject most or all of your trades. Their strategy is to discover all the trades you can offer and then force you to give them the trade, but they give back nothing in return. They know that if you say you have nothing left and walk away, they have seen your best offer and you can't offer anything more. In negotiation training in the 1970s and 80s, this was called the walk-away price. The consultant's advice was to establish a walk-away price at which, if the customer would not pay that price, you would walk away.

The secret is, when you offer your first trade ensure your trade brings your offer into the zone of possible agreement. This may require you to bundle one or more trades to make your offer their best alternative. After this good faith trade, you should expect a positive reaction from the customer. They may not accept the deal, but there should be a positive reaction. If this is the case, then more than likely you are dealing with a reactive negotiator and can come to an agreement by offering some additional trades.

If after your first trade the customer exhibits one of the tactics described in Chapter Highlight 12.5, then most likely they are strategic. If after you try to resolve their objections they continue to not accept your trade and use tactics, then treat their refusal to negotiate as a difference of opinion. In this situation you agree to disagree. Thank them for their time. Tell them you will leave your offer open for a certain period, after which your offer reverts to the original offer. Shake hands and tell them you are looking forward to working with them, then leave the meeting. By handling the situation like this, you leave the door open; do not be surprised when the customer calls you back the next day.

The good news is once a customer recognizes you know they are strategic, they will be less inclined to try this in the future as they know it is counter-productive.

A tactic is defined as a pressuring technique to secure a concession from the other negotiating party.

The strategy for your negotiating team is to recognize the tactic and respond by letting the other negotiator know that you are not going to be pressured into a concession. Once this has been communicated, you use the same techniques described earlier to move the other negotiator to a more collaborative negotiation style. **Chapter Highlight 12.5: "My Most Favorite Tactics"** lists some of the common negotiation tactics used by strategic competitive negotiators. Many strategic competitive negotiators consider tactics their secret weapons. The good news is the tactics are not really a secret, and techniques for reacting to them are well documented.

When a strategic competitive negotiator refuses to change to a collaborative style, you make your first trade offers on the condition that the customer agrees to their part of the trade. Your negotiating team should conclude the meeting by stating their disappointment that an agreement could not be reached but that the trades and conditions for the trades as offered remain in effect for a specified time period. You should also make it known that you would welcome the opportunity to discuss any aspects of the offer. If at all possible, you should get the customer to agree to meet again. After the meeting your team should determine whether mentors or supporters in the buying center could offer advice on next steps.

As discussed in the situational analysis section of this chapter, your team, in preparation for the negotiation meeting, should review the outcome analysis from previous opportunities for the customer, particularly the notes about previous negotiations. Strategic competitive negotiators generally use similar tactics in all their negotiations. The secret to discovering if someone is being reactive or strategic is explained in the sidebar "I've Got a Secret."

The next section is a brief discussion regarding pricing law as there is one law in particular that can be a very good defense against strategic competitive negotiators.

Pricing Law

Getting a driver's license in most countries requires the person to study, and take tests; then their performance is tracked closely. Too many mistakes can lead you to lose your license and possibly go to jail. Drive well and you can get lower insurance rates. In Chapter 6 "Sales Activities," a sidebar described how to stay out of sales jail to dramatize best practice for sales calls captured in the three laws of sales calls. This section has no humor. It is a serious business, and unfortunately too many professional salespeople are unaware of the laws of the country they are selling in and where their parent company is incorporated. As a professional salesperson, you need to be aware of the relevant pricing laws as they pertain to sales and know what you can and cannot do as governed by the law. This section is not meant to be an exhaustive review of the pricing law. The objective is to make you aware that it is your responsibil-

Chapter Highlight 12.5: My Most Favorite Tactics

Tactics—Secret Weapon of Strategic Competitive Negotiators



Strategic competitive negotiators use their favorite tactics during negotiations. Some tactics are even used before the negotiation meetings, while most are saved for the right moment during the negotiation meeting. The challenge for your negotiating team is to recognize the tactic and react to tit by letting the other negotiator know that you recognize their tactics and will not make a concession in response. You then use the negotiation sequence described earlier to continue to try to move the other negotiator to a more collaborative style toward a win–win agreement. Listed below are some commonly used tactics, grouped into categories, and suggested countermeasures.

Budget Based and Scope of Work Tactics

Budget Constraints or Company Policy: The customer says, "We want to work with you, but our budget for this work is only US$100,000" or "we want to work with you, but our company policy does not allow us to accept these charges." **Countermeasure:** You should change your offer by eliminating or changing components to reduce costs to fit their budget. You take the stand that it should not be up to you to address the customer's budget restrictions. You suggest that the stated budget restrictions can probably be dealt with if the customer thinks your position is reasonable, and the issue should be explained to the customer's boss or partners. Finally, you point out that neither budgets nor standard policies are cast in stone.

Budget Estimate: The customer gets you to make an estimate for budgeting purposes. They use this as the starting point for future negotiations if you treat it as bid. **Countermeasure:** Your response should be full price book for that work. Once customers have their budget approved internally, they will ask for a bid from all potential suppliers.

Exaggerated Scope of Work: You get interested, hooked, and mentally committed by being offered an attractive deal, which later becomes more and more unattractive. Examples: Negotiations are started on the basis of an attractive initial offer, which in the course of the negotiations is changed for the worse and referred to as a misunderstanding. The program calls for 20 wells, complete drilling, and completion programs. You give your best deal but end up with only 2 wells. **Countermeasure:** The best countermeasure to this tactic is to assume that the scope of work will not materialize and take steps to financially protect your proposal for that scenario. For example, you propose escalating discount tables. In the 20-well example, you might propose the following: 1 to 5 wells = 0 discount, 6 to 10 wells = 3% discount, 11 to 15 wells = 6% discount, 16 to 20 wells = 11% discount. Then, calculate the overall discount and emphasize that this is the discount the customer is getting if they complete the stated work scope.

Additions to Scope of Work: This is the reverse of the exaggerated scope of work. The customer tells you, "This is an easy job with plenty of competition. I just want an across-the-board discount." You accept and give the discount. Later, the client requests "add-ons:" "In this part of the field, you need your latest technology and state-of-the-art interpretation capability, etc." Meanwhile, you are thinking, "How can I possibly give him that at the earlier agreed-upon low prices?" **Countermeasure:** Before offering anything, you should precisely define the scope of work and state that any products or services requested outside the scope of work will be quoted separately at that time or will be charged as per the attached price catalog.

Pressuring Tactics

Competitive Negotiator/Compromise Negotiator: One negotiator is very competitive, rigid, unreasonable, and unpleasant. But an accompanying colleague is compromising, reasonable, and almost seems to side with you against the "competitive negotiator." After a while, you find it difficult to disagree with the "compromising negotiator." Feelings of gratitude and a desire to reciprocate start to undermine your bargaining effectiveness. The same person can use the two opposing negotiation styles: The customer has been very unpleasant and competitive but suddenly grows rather pleasant and reasonable. Often, the effect is to feel inclined to reward the person for the sudden, unexpected reasonableness, or to capitalize on the customer's good mood—by making concessions. **Countermeasure:** You must constantly keep in mind that both negotiators are on the same team and are actually conspiring against you.

Take It or Leave It: If the customer tells you it is a take-it-or-leave-it offer, you are typically inclined to accept a contract clause or reduce the price. **Countermeasure:** You should always test a take-it-or-leave-it position as most positions are still flexible. You should meet the negotiator's hurdle, but adjust your offer so your contribution margin is the same. For example, you can modify the deal toward larger or smaller quantities, different service levels, delivery periods or payments terms, etc. You can also take the position that you do not wish to negotiate a take-it-or-leave-it situation or create a deadlock. If you have to make your last trade and still do not have an agreement, you want to

end the discussion in such a way that you always leave the other party a way out of their tactic so they can resume negotiations without having any angry feelings.

Ridiculous Offer: The purpose of this tactic is to destabilize you in order to bring your expectations down. It is often a very low opening price given by the customer, such as, "I expect a 45% discount on this well." **Countermeasure:** You treat this tactic as a take it or leave it and keep on negotiating. The more confident you are in your market analysis, the more certain you can be that this is a negotiating tactic. When a customer describes your offer as ridiculous, you should ask to see the competitor's offer, as the competitor may have overlooked some charges. Some salespeople think it is unethical for the customer to show them the competitor's prices. In fact, it is just the opposite. In many countries, anti-trust legislation prevents suppliers from reducing their prices unless it is to meet a competitor's price.

Short Notice: The customer wants you to negotiate at the last minute by asking for your commitment or best offer within a day or less. The customer hopes to force you to your final offer immediately so they can begin negotiations at this point. **Countermeasure:** The main purpose of the opportunities management process is to make time your advantage and avoid such situations. Even if the customer does not reveal that a tender is coming out, you can expect a tender and prepare in advance if you have managed the opportunity early. Part of completing a reply to a request for tender is to also complete the Negotiating Worksheet as part of the pricing strategy. This helps you be prepared in the event of short notice. However, if the customer tries to use a competitive negotiating tactic by leveraging time, you ignore the time deadline, offer your first trade, and make no commitments to the customer's trade offer until you have fully evaluated the impact of the offer.

Silence: Silence is the easiest tactic to prepare for. The customer knows most people are uncomfortable with silence, so they will be silent when you make an offer in the hopes that you break the silence first. This tactic is especially effective against an inexperienced negotiator, as the inexperienced negotiator is inclined to offer another trade before the customer comments on the trade already under consideration. **Countermeasure:** The countermeasure for a negotiator who is silent after you make an offer is silence. You do not say anything until the other negotiator comments on your offer. If the silence becomes unbearable, you take a break and tell the negotiator you are prepared to give him or her more time to consider your trade.

You Have to Do Better than That: Strategic competitive negotiators are never satisfied. They keep saying that your proposal is not enough. Typically, they use phrases such as "you have to do significantly better than that," "you have to do better than that," "you are getting there," and/or "you are finally getting closer." In reality, you may have exceeded their expectations, although their strategy is to continue asking until you say no. **Countermeasure:** The customer has basically accepted your proposal, so you acknowledge their statement by saying that what you have offered is very good considering the scope of work. You can ask the customer for any ideas on what else could be done—for example, increase the scope of work or lower your costs. If not, you close the meeting by summarizing the benefits of your solution and express your willingness to discuss further proposals. You also remind them that your offer is valid for a limited time.

Emotional Outbursts or Irrationality: Some negotiators use emotional outbursts or irrationality as a premeditated tactic; others are really upset. It does not matter whether the emotion is genuine or tactical. What matters is how you react. How do you deal with a customer's rage and manage your own emotions at the same time? **Countermeasure: Against controlled/simulated emotional outburst:** You are not intimidated, and you make it clear that you are not impressed. Customers sometimes use emotion—usually anger—to rattle salespeople into making concessions they would not otherwise make. Salespeople use three different techniques for handling a customer who uses anger—wittingly or unwittingly—as a manipulative tactic: **You withdraw.** You ask for a recess, consult with the boss, or reschedule the meeting. A change in time and place can change the entire landscape of a negotiation. **You listen silently while the customer acts emotionally or irrationally.** You do not nod or agree. You maintain eye contact and a neutral expression but do not reinforce the customer's behavior. **When the outburst is over, you suggest a constructive agenda.** You react openly to the customer's outbursts. You say that you find it unproductive and suggest focusing on a specific, non-emotional issue. There are two keys to this technique. The first is timing. You don't rush the process or risk backing the customer into a corner from which there is no graceful escape. The second is to insist that the use of manipulative tactics is unacceptable and then suggest a constructive agenda. You can't be timid. The only way to pull this off is to be strong and assertive. For example: Imagine this response to a customer who just finished screaming: "This attack is not constructive. [Strong eye contact, assertive tone.] You've spent three hours working the issues and trying to arrive at a fair and reasonable solution. I suggest you go back to the question of payment terms and see if you can finalize those." The essence of negotiating effectively with aggressive customers is to sidestep their attacks and convince them that a common effort at problem solving is more profitable and productive. **Countermeasures: Against genuine emotional statement and irrationality:** You first try to determine what is making the other negotiator angry by listening very carefully. Then you apologize if you did something to cause the anger. Finally, reschedule if the tension is too high to continue and if you cannot negotiate in a collaborative manner. If necessary, you can also change one or more members of the negotiating team to complete the negotiation.

Research-Based Tactics

What If?: The customer presents various scenarios to encourage you to move from your position and calibrate how much of a concession they can push for. For example, "How much of a discount do you get if you go for a three-year contract?" or "How much of a discount if you also give your company the wireline and well testing work?" Countermeasure: You do not make any offer until you have time to evaluate the full impact of their offer on your contribution margin. You also probe for the underlying trade. For example, "Has the scope of work changed?"

Escalating Authority: When you think you have completed the negotiation, a higher authority person who should have been there before appears in the room, or the party you've been dealing with tells you, "You will now take it to their manager for approval." You have to restart the negotiation with the higher authority from the point already reached. The new authority considers this a fresh starting point; as a result, you may be pressured to make a concession. Countermeasure: When discussions with a customer first begin, you should clarify whether there is a person in authority at the negotiation table before engaging in the negotiation. If the person in authority is not present, you have two options: Postpone the negotiations until the higher authority is available, or offer only your first trade. Hold back on your offer so you have room to negotiate when the higher authority comes to negotitate.

Devious Tactics

Accidental Information: Seemingly by mistake, the negotiator leaves notes or documents in plain view on the table. The notes give you information on the competitor's offer or what seems to be the negotiator's alternative. This tactic was probably planned. Or during the negotiations, the customer makes notes in a way that you can read them. The customer might leave the room to take a phone call, asking you to wait briefly to resume the discussion. The left-behind notes may actually be a competitor's proposal. In both staged scenarios, the "information" may be real or staged. Obviously, the information is meant to encourage you to lower your offer. Countermeasure: When you obtain information in this dubious fashion, you must be extremely cautious. The planted notes should be viewed merely as an assumption. The information may or may not be true, but in any case it cannot be taken for fact. If the notes are valid, you should not be threatened by the competitor's lower prices. If you are confident about the value you bring to the customer's business with your proposal, you can treat the customer's reaction as a financial drawback and overcome the price difference with your differential value. If you think the competitors used a short-term pricing strategy and have made a much lower offer than your market analysis predicted, ask to see the competitor's offer to be sure they did not leave anything out. If your prices are based on a long-term pricing strategy, you may want to reduce your prices as long as target margins can still be met; in an extreme case, take a short-term pricing strategy. However, such decisions are not made in front of the customer; include your location management in the discussion and contact the segment headquarters marketing group to determine whether this pricing strategy has been used elsewhere by the competitor.

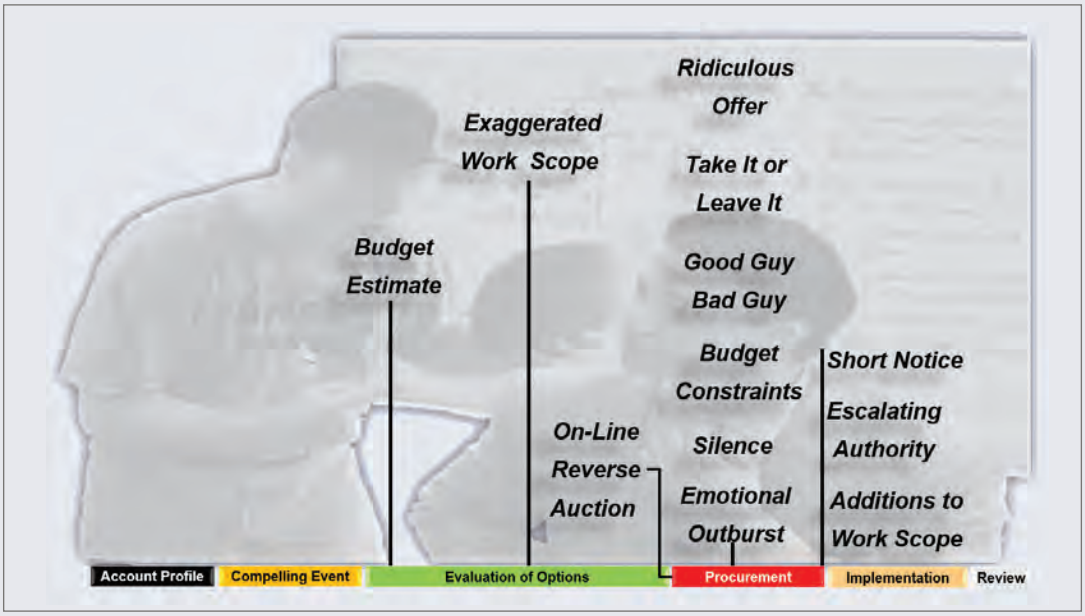
Last-Minute Changes: Customers may use this almost unethical tactic during the final stages of negotiation. The customer brings an updated, "signed" contract and asks you to sign the contract as soon as possible. They may also tell you that to save time they have updated a few of the standard clauses. Countermeasure: Never sign any contract that has not been fully reviewed or agree to any modified clauses that have not been discussed. Despite any urgencies, never succumb to this tactic.

One More Thing: After the deal is done, one party tries to change the deal to get a more favorable edge. It's generally just a little—enough to make it more beneficial for that party but not enough to make the other side cancel the offer. For example, customers might request that a certain item of your services (back-up equipment, data processing, support, etc.) be included at no cost to them. Sometimes, they may even ask for big concessions such as no "lost-in-hole" charges. Countermeasure: Do not accept any items added to the agreement. Politely calculate the cost of the additional items and add this to the cost of the previous offer.

Online Reverse Auction

A customer conducts an on line reverse auction where all bidders see the other bidders' prices and are allowed to change their prices based on the last bid. The objective is to get the suppliers to come down to their absolute lowest price. Countermeasure: There are several strategies that can be followed. One is submitting your offer price as determined by the information you gathered to complete your pricing strategy and not changing it. In most online reverse auctions the customer is not committed to taking the lowest bidder. If you believe that the customer will most likely take the lowest bidder and you cannot compete, use this opportunity to execute a disengage strategy and submit a very high price. This will establish a higher market rate for the next tender. Another option is not participating in the online reverse auction. Explain to the customer properly preparing a value-added solution and financial offer requires you to invest time and effort, which costs your company money. This information is contained in your offer price, and you do not want to give this to the competition. You will, however, submit a sealed offer for them to consider.

This concludes this discussion on tactics. Below is a summary the author prepared for a common question from students: "When do competitive strategic negotiators like to negotiate?" The answer is below the summary.



Always! Strategic negotiators always like to negotiate and use all the tactics to get the best price. The figure above shows the opportunities management stage in which you can expect to see a tactic from a competitive negotiator to secure new work. The above graphic does not have any tactics in the implementation stage, which is not to suggest that strategic negotiators do not use tactics in the implementation stage. The reality is they can use all the tactics in the implementation stage, but your countermeasure is still the same as described in this highlight.

Review this summary and see if you recognize a tactic perhaps one of your customers has used with you. If so, you can expect them to use it again in a future negotiation and, if they do, you can be prepared by using the countermeasure to move the negotiation back to a win–win collaborative negotiation.

ity to know the applicable laws for your company and where you sell and how this applies to negotiations. The laws that govern pricing and negotiations are referred to as antitrust law.

Antitrust Law

Antitrust law is the law of competition. The laws seek to promote fair competition on the merits and to protect consumers and wronged competitor businesses from anti-competitive business practices undertaken in an effort to undermine competitive commercial behavior in a given market or line of commerce. These laws were originally established to check the abuses threatened or imposed by the immense "trusts" that emerged in the late nineteenth century. These trusts controlled or threatened to control entire nationwide markets for rail transport, steel, petroleum, banking, and related lines of commerce. The antitrust laws were established to ensure that these trusts did not permanently undermine competition in these or other markets.

The antitrust laws, therefore, forbid the wrongful acquisition or preservation of a monopoly of power, the abuse of a monopoly of power in order to establish a new monopoly, and concerted restraints of trade (i.e., business practices undertaken by two or more firms that improperly stifle or suppress "competition on the mer-

its" in a given market). They also govern proposed mergers and acquisitions that are sufficiently large to constitute a threat to competition, and they address commercial practices that pose an arguable danger to competition on the merits in a properly defined antitrust market.[16] Virtually all of the world's antitrust regimes, including the U.S., Europe, the U.K., Japan, Brazil, and Australia, have laws that forbid the following:

- Bid rigging
- Market allocation
- Price fixing
- Price discrimination
- Bribery

The penalties for violation of the antitrust and bribery laws can be serious, both for the company and for individuals involved, and individual liability can extend to those involved in making and carrying out the terms of an anti-competitive agreement as well as to officers and directors of the company. Under U.S. federal law, for example, criminal penalties for individuals can include fines up to $1 million and ten years in prison for each offense. Criminal penalties for companies can reach $100 million per offense. In Europe, penalties for violation of E.C. competition law can be up to 10% of a company's global turnover in the prior business year. In the U.K., corporate penalties are also up to 10% of worldwide turnover, and the use of criminal charges against individuals is increasing. The U.K. saw its first criminal convictions of individuals for antitrust violations in 2008.[17] As a professional salesperson, you must discuss with the legal department in your company what are the laws you must be aware of. In general, you cannot have any discussions with your competition at any time about bidding, negotiations, pricing, or market share. If you do, you are in violation of most antitrust laws. The laws from the U.S. are often referred to, and the most relevant ones are listed below.[18]

Sherman Act. This statute is the premier article of federal law. It is the original, principal, and foremost antitrust statute in the United States, setting forth the broad statutory proscriptions that act as a "charter of the marketplace" and "constitution of competition law" in American jurisprudence. The Sherman Act codifies the principal antitrust offenses—conspiracies to restrain trade, monopolization, attempted monopolization, and conspiracies to monopolize. The Sherman Act is worded in broad, open-ended language, so that clever competitors cannot elude its provisions. The Sherman Act sets forth the fundamental standards, and it is for the courts to decide in each case whether the challenged conduct constitutes monopolization of a line of commerce or the concerted imposition of an improper restraint of a line of commerce.

Clayton Act. This law is another federal statute that imposes restrictions on proposed mergers and acquisitions. It also supplements the Sherman Act, prohibiting certain kinds of commercial practices that excessively stifle competition on the merits. It sets forth various civil remedies. Indeed, it was the Clayton Act that established a private right of redress for civil relief under the Sherman Act, awarding treble damages and attorneys' fees to a private plaintiff who prevails on a claim made under the antitrust laws of the United States. In addition, the Clayton Act usefully allows the courts to enjoin anti-competitive conduct before it actually causes harm.

Robinson–Patman Act. This statute forbids sellers from making sales of the same or similar products at the same time to commercial customers at different prices, if the practices causes harm to competitive processes in the seller's market, the buyers' markets, or further downstream markets.

Federal Trade Commission Act. This is another federal statute that established the Federal Trade Commission ("FTC"), which has regulatory authority to enforce the Sherman Act, the Clayton Act, and the Robinson–Patman Act. Significantly, Section 5 of the FTC Act confers additional authority on the FTC, allowing it to test the limits of antitrust policy. An aggrieved firm that concludes that it has no civil remedy under the Sherman Act or Clayton Act might decide that its best recourse is to complain to the FTC, asking that it invoke its authority under Section 5 of the FTC Act in order to investigate the matter and initiate administrative proceedings in order to enjoin the challenged conduct.[18]

The Bribery Act 2010.[19] This law is an Act of the Parliament of the United Kingdom that covers the criminal law relating to bribery. It is illegal to offer, promise, give, request, agree, receive, or accept bribes. Broadly, the act defines bribery as giving or receiving a financial or other advantage in connection with the "improper performance" of a position of trust, or a function that is expected to be performed impartially or in good faith. Bribery does not have to involve cash or an actual payment exchanging hands and can take many forms, such as a gift, lavish treatment during a business trip, or tickets to an event. Some simple examples of the types of bribery considered illegal follow:

- Secure or keep a contract.
- Secure an order.
- Gain any advantage over a competitor.
- Bribea local, national or foreign official to secure a contract.
- Bribe an official to ignore a health safety issue or poor performance or substitution of materials or false labor charges.
- Falsify an inspection report or obtain a certificate.

For negotiations, the law that can actually be a shield when dealing with competitive negotiators is the law against price discrimination covered by the Robson–Patman Act.

Price Discrimination

A seller is entitled to set prices as he or she chooses when dealing with different customers. Most sellers would resent any effort to restrict their discretion to set and vary their prices for different sales. In market economies, firms decide for themselves what to charge for their products and to whom they wish to make sales. It is contrary to the fundamental principles of market economics to regulate what sellers charge for their products or impose a rule that they cannot vary their prices for the same goods when selling them to different customers. Thus, the general rule is that a seller can practice price discrimination, except when doing so poses a substantial risk of injury to competition. A seller can therefore charge one customer $5 for a widget and another customer $10, unless this price discrimination is likely to limit competition in any market affected by the sales of the same or similar products to commercial customers at different prices. There are levels of harm at which competition can be affected.

- Primary-line harm, which occurs when the seller uses low prices to undermine its own direct competitors by underselling them until they are ruined.
- Secondary-line harm, which occurs when the seller's low prices to the favored customer allow this customer to undersell and thereby ruin its own direct competitors.
- Tertiary-line harm, which occurs in downstream markets when the seller's low prices to the favored customer allow the favored customer or its own customers to undersell and thereby ruin the disfavored customers.

In the event that each of the elements of a Robinson–Patman violation is proved, there are two important defenses which, if established, permit the defendant to prevail despite the injury to competition that may result: cost justification and meeting competition.

Cost justification. The statute expressly permits discriminations that "make only due allowance for differences in the cost of manufacture, sale or delivery resulting from the differing methods or quantities" sold or delivered to the purchasers. Cost justification is extraordinarily complex. Suffice it to say that a successful defense involves intricate accounting techniques hobbled by stringent rules.

Meeting competition. If the lower price was made in good faith to meet the equally low price of a competitor, the seller has an absolute defense to a Robinson–Patman charge even if every other element of a violation is proved. The key to the defense is the seller's good faith. The seller must obtain sufficient facts to justify a reasonable belief that the lower price is equal to—not lower than—that of the competitor. In other words, it is permissible to meet, but not to beat, the competitor's price. It is thus advisable to make a record of every available fact demonstrating the identity of the competitor and its price. To avoid Sherman Act problems, these facts should be sought from the customer, not the competitor.[20]

The specific clause from the Robinson–Patman act is shown below.

Clayton Act Section 2(b) [If a seller is found to have discriminated in his pricing, the seller can rebut the charge by] "showing that his lower price was made in good faith to meet an equally low price of a competitor. . . ."

What this means for you in a negotiation is, if a customer asks you to reduce your price to match a competitor, then according to the law you must review the competitor's offer. The Robinson–Patman Act can be used to protect your offer from customers who are being competitive. For a real example of how this was done, see **Chapter Highlight 12.6: "I'm Surprised to Hear You Say That."**

After the Negotiation

After the negotiation is completed, you are in the second-to-last stage of the opportunities management process of monitoring. Follow the recommended actions as described in Chapter 4 "Opportunities Management" for the monitor stage. The most important factor at this time is to be available for the customer and, in particular, your mentors inside the customer's buying center and organization. It is at this time that you need to be "insulated from the competition." The final decision will be made in most cases when you are not in the customer's office. You will need your supporters and mentors to defend the decision to choose your company for the tendered work.

As such, it is very important during this time that you:

- Record what the final negotiated offer? Ensure that any changes are added to the contract and communicated during the contract handover meeting between the bid team and contract owner for the implementation stage.
- Follow-up with your supporters and mentors to review with them the negotiated offer.
- Document who was on the customer's negotiation team.
- Identify their negotiation style.
- Identify the negotiation issues.
- Determine the tactics they used and how you responded?
- Update the pricing workbook.

- Identify the specifics of the competition's offer and negotiation strategy.
- Detail any other lessons learned.

Share all these notes with the bid and sales team and attach them to the opportunity in your company's CRM system.

In this chapter, there has been a total of eight processes and tools referred to that can help you become a better negotiator. The tools and processes are:

1. Opportunity Management Process
2. Strategic Sales Plan
3. Pricing Workbook
4. Tender and Negotiation Summary
5. Negotiation Meeting Model
6. Sales Call Skills and Handling Customer Negative Reactions
7. Negotiation Meeting Planner
8. Collaborative Negotiation Process

To help you apply these tools, use the "Collaborative Negotiations" summary card. You can refer to the card when you are preparing or waiting in the customer's reception before a negotiation. The card summarizes the sections discussed in this chapter onto two pages and can be printed double sided and added to your organizer discussed in Chapter 4 "Opportunities Management" in Chapter Highlight 4.4: "Get Organized." The card is in Appendix 2 of this chapter.

By applying and using these tools, you will improve your confidence and power that you will have when preparing and negotiating with your customers. **Table 12.2** is a summary of where the sources for building your confidence and negotiating power are from. Each of these were described at the start of this chapter in the sidebar "Negotiating Power." Of the different categories of power listed in the table, the most significant is personal power, which is your ability to build trusting relationships. It is much easier and more efficient to negotiate with someone you respect and trust than someone you do not know. See the sidebar "A Deal in 20 Minutes" for an example.

The other component of personal power is negotiating effectively by experience and role-playing prior to a negotiation meeting. Specifically, role-playing is like practicing. All true professionals practice their trade before they need to apply

Table 12.2
Negotiation confidence and power summary.

Type	Description	Example	Source
Knowledge of the other Negotiator(s)	• Power that comes from learning as much as you can about the other negotiator before the negotiation	• Negtiation strategy • Tactics used • Agenda	• Previous negotiation • CRM and strategic sales plan
Situational	• Power inherent in the situation	• Deadlines • Risks • Alternatives	• Supporters/mentors • Previous experiences • Competitor knowledge
Personal	• Ability to negotiate effectively • Ability to build trust and relationships	• Experience and role play prior to negotiation • Communication skills	• Experience • Training • Relationship building
Information	• Knowledge about the negotiation issues and the customer's position, circumstances, and questions	• Importance of project to corporation's objectives	• Account profile • Supporters/mentors
Planning	• Preparation of a negotiation strategy	• Trades • Negotiation rationale	• Opportunity management • Negotiation meeting planner

Chapter Highlight 12.6: I'm Surprised to Hear You Say That

Know the Law

Unfortunately, a lot of salespeople think it is against the law or unethical for the customer to show them the competitor's offer. In fact, as discussed earlier, if the customer asks you to drop your price to meet a competitor's offer you cannot match the offer unless you see the competitor's offer first.

The purpose of the review is to carry out your good faith effort to confirm that the competitor is offering like-for-like products and services with the same terms and conditions. The following examples are actual conversations between a customer and salesperson.

The first case is from North America. The customer was being strategic and used a competitive negotiation tactic to try and secure a better price from the salesperson.

Customer:	"You are 40% more expensive than your competition!"
Salesperson:	"Wow, I'm surprised to hear you say that. Can you explain where they are cheaper?"
Customer:	"Their prices for the same product and services are 40% less than yours."
Salesperson:	"I'm surprised to hear you say that. I know the prices for what I'm winning and losing work. What I submitted to you should have been a winning proposal. I suggest you let me review their offer to ensure they understood your requirements, and you get what you are expecting."
Customer:	"Nice try, but I cannot do that."
Salesperson:	"Why is that?"
Customer:	"It is against company policy."
Salesperson:	"I see. Well, then I cannot unilaterally reduce my price unless I confirm the competitor's offer is like-for-like products and services and terms and conditions."
Customer:	"What, don't you trust me?"
Salesperson:	"Yes I do trust you, but I cannot assign my due diligence to you. I must make a good faith effort to confirm the competitor's offer is the same as my offer. This is the law. If I don't, I could be guilty of price discrimination and fined, and I don't want that."
Customer:	"Sorry, I never heard of this. I cannot show you."
Salesperson:	"I understand and I hope you understand that I cannot move my price. But what I can do is if you agree to buy 200 parts rather than 100 parts in one order, then I can give you an additional 5%. How does that sound?"

The above negotiation concluded the following week. The customer committed to ordering 300 parts over a six-month period for a 7% additional discount—a win–win agreement.

What makes it easier for salespeople to be confident when a strategic negotiator is trying to get a better price is your due diligence. By doing your upfront work to know the market rate, your differential value, and the competition you and your team can prepare an offer that you know should be in the customer's zone of possible agreement. Should they suggest they are getting a better offer and they want you to match that price—don't. As in the conversation above, tell the customer you have done your homework and ask to see the competitor's offer to confirm like-for-like.

The example comes from a very senior manager coaching a new salesperson and explaining that, "If the customer wants you to drop your price, this is a good thing. It means they want you."

This second case is from Asia. The salesperson received a telephone call from the evaluator, who was also a supporter of the salesperson's company as they had always delivered on their promises during the execution of the customer's projects. For the current project, the salesperson's company was the incumbent. However, due to government regulations, the project had to be re-tendered every two years. The bid for this tender was submitted two weeks earlier. There were two other companies competing for the contract. During the telephone conversation, the customer told the salesperson that he was disappointed that the competition was being evaluated as much cheaper, and it was looking as if the salesperson would lose the work.

Chapter Highlight 12.6: I'm Surprised to Hear You Say That (cont.)

The salesperson asked what the customer meant by cheaper, and he said approximately 30% less than the salesperson's bid. The salesperson said he was very surprised because his company was the incumbent; his offer was the same as what he submitted, plus an adjustment of 11% for the increase in costs over the last two years since winning the work. The salesperson asked if he could come to the customer's office to discuss the situation in person; the customer agreed.

Customer: "I guess your competition really wants this work."

Salesperson: "I am very surprised. You know what their prices were two years ago and our costs like everything else has increased, not gone down. So I'm surprised to hear you say that. What I suggest is you let me look at their bid to make sure they have understood your requirements and you get what you expect."

Customer: "I can't let you take their bid but you can look at it. Do you have time now?"

Salesperson: "If you buy me a coffee (smile). Can I sit over here at the table?"

Customer: "Go ahead."

After 30 minutes, the salesperson asked the customer if he could have the competitor's last bid from two years ago. It took some time for the customer to find it, but he did and he gave it to the salesperson. After a couple of minutes, the salesperson was shaking his head in disbelief and said:

Salesperson: "I think I know what is happening."

Customer: "What?"

Salesperson: "You see here is this year's bid, theirs and our bid. The main services are the same, and they have offered a 30% discount from these prices. But per their pricing note, all out-of–scope work services priced per the attached price catalog. If you compare their price catalog prices to our price catalog for the services that were bid, these are almost the same. Now look at the previous bids: Their price book and ours are almost the same for the main services and for the out-of-scope work services. But if you look at their price book for this bid as I said for the main services, we are the same now."

The salesperson stopped talking and let the customer study the out-of-scope price book prices from the last bid price book and then again at this year's bid price book. As he studied it longer, it was obvious he was becoming very, very upset. What happened, and what is not unusual for this part of the world, was that suppliers would print individual price books for each contract. In this situation the competitor had doubled their prices for out-of-scope services. It was obvious they were trying to trick the customer.

The customer then announced to the salesperson that there had been a change to the scope of work and he sat down at his computer and added in out-of-scope services to his cost worksheets, using the salesperson's reference price book and the competitor's until the competitor became more expensive. With that done, the customer said:

Customer: "Well congratulations, you have won the work!"

Salesperson: "Thank you. I appreciate your business."

Customer: "Now let me thank you for being a true professional. I look forward to another two years of working you. I will never consider the competition again."

The benefits of this approach are numerous:

- The customer will know they are dealing with a sales professional and the original offer was your best offer.
- If they are being genuine, they will let you look at the competitor's offer afterwards so you can decide what to do depending on what you find. If you find the competitor is cheaper, then you can offer trades or bundled trades to make an offer that is in the customer's zone of possible agreement. If you find there is a misunderstanding, then you can handle the objection (see the sidebar "Did You Know" in this chapter for an example of how to handle a misunderstanding).
- If the customer is being strategic and trying to have you make a concession, they know it won't work; if they want a better deal, they will have to negotiate in good faith.

Chapter Highlight 12.6: I'm Surprised to Hear You Say That (cont.)

The other take-away from these two real cases is that, as a sales professional, one of your most valuable assets is your reputation. If you have a reputation of taking your customers' business seriously and being a professional who submits your best offer given their evaluation model, scope of work, and terms and conditions, you will be respected.

In the second example, the author was also good friends with the customer, who retired about five years after the incident described here. He never did business with the competitor after that day, and he made it a point to tell his peers to be very careful when dealing with that competitor. At the same time, he was a reference many times for the salesperson. The competitor created an enemy, and the salesperson earned a mentor.

Your due diligence to build a value-added solution that provides value for money spent will give you the confidence to defend your offer as being your best offer given the customer's scope and terms and conditions.

Below is a summary for two of the common price negotiation scenarios.

Type 1 or 2 Tender. You have submitted a price you believe is within the customer's allowed premium over the lowest price "L1" for a Type 2 Tender or price you believe is economically justified for a Type 1 Tender.

Customer: "You are double the price of the competition!"

You should:

- Probe to understand the difference.
- Acknowledge the difference.
- Ask how much added value the customer gives your solution.
- Handle as a misunderstanding.
- If customer is not satisfied, ask to see the competitor's offer to ensure like-for-like products and services and terms and conditions of offer.
- If the price difference is real, then begin the collaborative negotiation process.
- If the customer will not commit to the negotiated offer and wants you to lower your price, review the situation with your team to make a final determination if you will lower your price to match the competitive offer.
- For a real example, see the sidebar in this chapter "Do You Know."

Type 3 Tender. You have submitted a bid at market rate.

Customer: "You are 40% more than your competition!"

- Probe to understand the difference.
- Acknowledge the difference.
- State that you know what price you are winning, and losing contracts at, and what you submitted should have been a winning proposal.
- Ask to see the competitor's offer to ensure like-for-like products and services and terms and conditions of offer.
- If the price difference is real, then begin the collaborative negotiation process.
- If customer will not commit to negotiated offer and wants you to lower your price, review the situation with your team to make a final determination if you will lower your price to match the competitive offer.
- For real examples, see the examples in this chapter highlight.

To emphasize, in B2B bidding and negotiations, if the customer wants you to lower your price, your due diligence is to review the entire offer from the competitor. You cannot accept only seeing cover pages or summaries or what the customer says is the difference. You must review all their terms and conditions, pricing notes, and exceptions to any customer requirements or contract clauses.

Thank you Mr. Robinson and Mr. Patman.

▶ *A Deal in 20 Minutes*

A supplier submitted a large two year contract for a new business with their major customer. The marketing manager had recently transferred to this location and decided he would go with his account manager to review their bid with customer's vice president, who was the approver in the customer's buying center.

The marketing manager was very nervous about the thought of losing this important piece of business; this would not be a good way to start a new assignment. The account manager reassured him not to worry. The sales team and the account manager had submitted a very good offer and they had some trades just in case. The account manager said this was his insurance policy.

After the preliminaries and introductions at the meeting, the account manager asked the vice president for feedback on the team's bid. The vice president said that they were satisfied and pleased, but disappointed with the costs. The marketing manager at this point started to worry again. The account manager asked the customer to explain why he was disappointed. The customer said:

Customer: We like the new ideas. My team believes a new approach is what we need to make our objectives. But in my annual review at headquarters, I committed to reducing my costs by 7%, and your prices are a 15% increase from the current contract.

The account manager acknowledged the vice president's concern and explained the higher prices would result in overall benefits that would reduce his overall costs. The vice president agreed but still was not sure, given the current industry conditions, if the partners would approve increasing the budgets for the supplier's products and services. The account manager then explained that these were new products and services, and this was the first time these were being offered in this market. As a result, all the upfront costs of bringing support and maintenance equipment and the staff were to be recovered over the life of the two-year contract. He asked if the vice president could commit to a four-year contract as the supplier's team had already done the calculations and could offer the products and services with a 6% cost decrease. The vice president called in one of his accountants to discuss the offer and agreed. All four people in the meeting shook hands, and the vice president joined the account manager and marketing manager for lunch.

Over lunch, it became obvious the account manager and vice president had known each other for a long time—25 years in fact. They had started in the industry working for the same company 25 years ago. They were friends, and their families would enjoy doing many activities together. The bottom line was they trusted each other. Each knew in the short 20-minute meeting they were both there to make sure they had a win–win agreement.

their skills in a real situation. This can be sports, lawyers, making presentations, etc. The same is true for negotiations. Before you go into a negotiation, role play with your team. If you do the role play and the negotiation goes as you predicted, this is perfect, and it demonstrates you know your customer and the situation very well. If the role play and the real negotiation are significantly different, then this is also good in the long term because it demonstrates your understanding of either the client or situation (or both) is not very good. The reason this is good in the long term is now you know and you can correct it before future negotiations.

The author also provides consulting services for high stake sales calls and negotiations. For one assignment with a negotiation team, they wanted to negotiate a contract extension with a national oil company with whom they had an existing contract. The existing contract stated explicitly that the pricing was firm for the contract term that which at the time still had six months remaining. After completing the preparation as described in this chapter, the team had a sound negotiation strategy and negotiation meeting plan. It was now time for role-playing. One of the managers who knew the customer well but was not part of the negotiation team played the customer when role-playing. At the end of the first role play, there was no deal and, in fact, the person playing the customer said he was almost ready to throw the negotiation team out of his make- believe office. He said he was frustrated, and the negotiation team was not listening.

The negotiation team was by the end disorganized and lost. Each member had an assignment, such as lead negotiator or observer. However, by the end, everyone was talking and no one was listening or observing. The role play was recorded, and the consultant reviewed the recording with the team, highlighting strong points and areas for improvement. This one session lasted three hours. The team agreed to return the next day to do the role play one more time.

The second time was much better, although there were still some areas for improvement. After the review, the team agreed to do the role play one more time on the Sunday before the meeting with the customer on Monday. The role play, recording, and feedback were repeated one more time and, at the end of this session, there was a handshake and a deal struck. Now it was time to do it for real.

The real negotiation meeting was perfect. The team was confident in offering the customer a win–win proposal to extend the contract for another two years with a significant double-digit price increase. There was a lot of discussion throughout

the meeting, but always the momentum was going forward, addressing the customer's questions and concerns. The meeting ended after two hours with a handshake and commitment for the next two years of work. The author was present at the negotiation meeting as an observer for the sales team. Without any doubt in the author's opinion, there would not have been an agreement reached without the three role-playing experiences, which fixed many problems and gave the team the confidence to win the deal. In fact, the relationship between the supplier and the customer would have been strained as a result of the failed negotiation.

If you win the role play before going to see the customer, you will do it better the second time.

In conclusion, there are four important factors that create a successful collaborative negotiation:

- Preparation in knowing the customer who will be involved in the negotiation and which are their business and personal priorities are relevant to the negotiation.
- Preparation in knowing your value versus the competition and the customer's BATNA.
- Preparation in creating trades that are desirable and feasible.
- Preparation in creating a winning negotiation strategy that delivers a win–win result for the customer and your company.

This is the end of the chapter and the "Selling in Competitive Markets" section. The last section of the textbook, "Putting it All Together," is next.

Summary of Chapter Objectives

Once you reach the negotiation meeting, you are nearing the decision point that determines whether you are awarded the project you have worked to secure. You should be in a strong position to win the work if you have followed the opportunities management process. All the upfront investment in the earlier stages of the opportunities management pays off in the negotiation process. First, your preparation is thorough and complete, putting you in a position of power to reach a win–win agreement with the customer. Second, the intelligence gathered from your earlier efforts in the opportunities management process helps you build a solid negotiation strategy consisting of high-quality trades that make up the final agreement.

1. Describe the process of collaborative negotiations.

Collaborative negotiations seek to produce a win–win result for both you and the customer. In a collaborative negotiation, neither party is forced to make a concession to reach an agreement. The collaborative negotiation is conducted by starting with the initial offer and exchanging trades directed at concerns the customer has and that increase the value of the agreement for both you and the customer. A collaborative agreement is efficient as both parties negotiate in a cooperative spirit rather than wasting time with negotiating tactics. Collaboration improves the value of the agreement for both parties because it is win–win and executable with a minimum amount of effort.

2. Understand the planning stages and know how to use the negotiation planning tools.

Your negotiation planning process is broken into four stages to facilitate preparation for the negotiation meeting. The first stage is the **situation analysis,** which is a comprehensive method for reviewing the key factors involved in negotiation. The key tool used to complete the situation analysis opportunity assessment as a level 1 review, discussed in Chapter 9 "Strategic Sales Plan." The next process is the **proposal analysis.** This stage sets the negotiation objectives—both strategic as determined in the strategic sales plan process and financial as determined in the pricing strategy using the Pricing Strategy Worksheet. Next, you determine negotiable and non-negotiable points and then build trades using a break-even analysis and the Negotiating Worksheet to help you brainstorm possible trades and rank their quality. The next step in the proposal analysis is building the negotiation strategy using the Negotiating Worksheet, which is part of the pricing workbook and leverages the work done during the pricing decision processes. After the proposal analysis is complete, the negotiation strategy is reviewed using a test-and-improve process similar to the level 2 strategic sales plan review. The next stage is the **preparation for the negotiation meeting**, where you plan how to present your negotiation strategy in a negotiation meeting with the goal of reaching a mutually beneficial agreement. The negotiation meeting is very similar to a sales call, and to help you prepare for the negotiation meeting you can use the negotiation meeting planner. The last stage in your negotiation planning process is preparing to negotiate with **competitive negotiators.** Not all negotiators take a principled approach to negotiations, so you must be prepared to recognize the negotiating tactics of competitive negotiators in order to deal with them effectively and reach a win–win agreement.

3. Be able to negotiate an agreement in a negotiation meeting.

Negotiating effectively in a negotiation meeting requires the negotiator to be prepared and armed with a strong negotiation strategy. The negotiation strategy is built with the goal of improving the value of the agreement for both parties. Your negotiator must be able to deliver the proposal in a compelling and effective manner, which motivates the customer's negotiating team to participate in the collaborative negotiation process of reaching a win–win agreement. Key parts of the negotiation meeting are very similar to those of a sales call. The meeting consists of the **opening, value proposition, review of the initial offer, introduction of the negotiation issues, handling of the non-negotiable issues,** and **closing.** A skillful negotiator involves the customer's negotiating team in the collaborative negotiation process so as to build ownership of the final agreement. The skillful negotiator can demonstrate how the initial offer addresses many of the customer's key concerns and points out the differential value of the initial offer. When the customer rejects a trade proposal, the negotiator can gain an understanding of why the customer did not accept and can persuade the customer to offer alternative trades to reach a satisfactory result on a particular negotiation issue. The skillful negotiator also keeps the customer's negotiating team focused on the entire proposal as an offer that addresses all the customer's issues with more than one component. Even if there are issues for which the teams cannot find acceptable trades, the value of the entire proposal is still sufficient to reach an agreement and win the contract for your company. The skillful negotiator is also be able to present the non-negotiable issues in such a way as to demonstrate how they are important but not critical enough to prevent reaching an agreement. Once the customer indicates a readiness to close the negotiation and sign an agreement, the negotiation meeting is summarized in the closing and next steps are agreed to.

4. Know how to react to competitive negotiators and their tactics.
Reacting to competitive negotiators and their tactics can be difficult for inexperienced negotiators. Preparation is the key to dealing with competitive negotiators. You must be able to recognize a competitive negotiator and react accordingly. Competitive negotiators come in two flavors: reactive and strategic. Both prefer to make demands or take positions regarding your initial offer in order to gain concessions from you to improve the offer. When competitive negotiators make demands, you must move them to a more collaborative negotiation style so that you can make trades. For the competitive negotiator who takes a position, you invent options. Of the two types of competitive negotiators (reactive or strategic), the reactive competitive negotiator typically reacts more collaboratively once you make an effort to understand their demands or positions and then show them how you can work together in a collaborative approach where both parties win. The strategic competitive negotiator may intentionally use negotiation tactics to force an agreement by requiring you to make concessions. To deal with strategic competitive negotiators, you must recognize their negotiation tactics, react in such a way that demonstrates you recognize their tactics, and then move to take a more collaborative approach. There are some strategic competitive negotiators who never negotiate in a collaborative spirit. When dealing with this type of negotiator, you offer only your first trades and make clear the conditions associated with the trade. In such situations, you usually conclude the meeting without an agreement but may still be awarded the contract, although strategic competitive negotiators never agree easily to an agreement. You may have to solicit the assistance of your mentors and supporters to help persuade the customer's negotiating team to accept your offer.



Applying the Concepts

1. Make a list of high-quality trades that are specific to your customers. Complete a Negotiating Worksheet for an upcoming opportunity that will be tendered. Establish how large the zone of possible agreement is for you and the customer to reach an agreement. How much premium does the customer give you and how much differential value do you have? Is there anything you can do prior to submitting the tender that could enlarge the zone of possible agreement?
2. In your location today, how do your negotiating processes compare to the negotiation processes described in the chapter?
3. How much time do you spend today preparing for negotiations? Who has the responsibility for negotiating with the customer?
3. What percentage of your opportunities are negotiated?
4. What percentage of your negotiations are done in a collaborative spirit?
5. How many negotiation tactics described in the chapter have you seen?
6. Of the negotiation processes described in this chapter, which ones will bring the biggest improvement to your negotiation results?



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6. *Ibid*.
7. In this example, the location would have had to transfer another truck into the location to meet the two-truck requirement. Therefore, the additional fixed direct costs are considered incremental costs because they impact the contribution margin.
8. To see how the 10% premium was obtained, refer to the pricing sensitivity section of Chapter 11 "Pricing for Bidding."

9. If there are more than three trades, rows are inserted into the worksheet to accommodate additional trades.

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Appendix A

Negotiation Meeting Planner

Negotiation Opening

State the agenda. Describe the order of issues to be discussed:

Describe the order of issues to be discussed. Present the Value Proposition:

Determine whether customer has any other issues:

Present the Value Proposition:

1. Specify main areas of need
2. Explain that each item covered contributes to overall satisfaction
3. Explain how the proposal addresses these needs
4. State our commitment to come to an agreement

Review Initial Offer

Present each highlight to ensure that there are no negative reactions: indifference, misunderstanding, skepticism, or drawback:

Highlight 1:

Highlight 2:

Highlight 3:

Negotiation Issue 1

Describe the negotiation issue in terms of a need:

Explain the trade rationale:

Explain the trade:

Offer a standard:

Check for acceptance:

Negotiation Sequence Issue 1

Probe to understand the rejection of the first trade:

Confirm our understanding of the rejection and handle any negative reactions: indifference, misunderstanding, skepticism, or drawback:

Explore for ideas:

Offer 2nd trade:

Offer 3rd trade:

Offering Trades:

1. Rationale
2. Explain trade
3. Offer standard
4. Check for acceptance

Appendix A

Negotiation Meeting Planner

Negotiation Issue 2

Describe the negotiation issue in terms of a need:

Explain the trade rationale:

Explain the trade:

Offer a standard:

Check for Acceptance:

Negotiation Sequence

Probe to understand the rejection of the first trade:

Confirm our understanding of the rejection and handle any negative reactions: indifference, misunderstanding, skepticism, or drawback:

Explore for ideas:

Offer 2nd trade:

Offer 3rd trade:

Offering Trades:
1. Rationale
2. Explain trade
3. Offer standard
4. Check for acceptance

Negotiation Issue 3

Describe the negotiation issue in terms of a need:

Explain the trade rationale:

Explain the trade:

Offer a standard:

Check for acceptance:

Negotiation Sequence

Probe to understand the rejection of the first trade:

Confirm our understanding of the rejection and handle any negative reactions: indifference, misunderstanding, skepticism, or drawback:

Explore for ideas:

Offer 2nd trade:

Offer 3rd trade:

Offering Trades:
1. Rationale
2. Explain trade
3. Offer standard
4. Check for acceptance

Appendix B

Collaborative Negotiations

Preparation for Negotiations

Situation Analysis

Review of the key factors involved in a negotiation

- Use the 20 Question Opportunity Assessment.
- Answer the additional questions below for each assessment question.

(1) Can We Compete?

- What is our validated unique business value as calculated from our Pricing Sensitivity Analysis?
- What is our strategy for handling drawbacks?
- If we are above the customer's price ceiling, do we have sufficient trades for value gaps?

(2) Can We Win?

- Who are the mentors and supporters we can leverage during the negotiation process?
- Can they assist in getting trades accepted if resisted by nonsupporters and enemies?
- If so, what type of support and documentation will they need from us?
- Have our nonsupporters and enemies been neutralized?
- If not, will they try to block or prevent us from negotiating an acceptable agreement?
- For the influential buying center members, are there any business or personal agenda items for which we can build trades?

(3) Is it Worth Winning?

- Can weak areas be improved with trades?

Proposal Analysis

Establishing the components of the negotiation strategy

- Use the Pricing Workbook Negotiation Worksheet to prepare.

Potential Trades: Exclusivity, Payment Terms, Logistics Costs, Using On-Hand Inventory, Special Studies, At Our Convenience, Volume, Future Work, Technical Support, Released Data, Reduced Risks, Tying Multiple Projects

Presentation Plan

Specific techniques, skills, and tactics for presenting the predetermined preferred alternative by building a mutual perception of shared value that will lead to closure

- Use the Negotiation Presentation Worksheet to prepare.

Potential Standards:

- Market Value or Going Rate: what is the average contract price for similar contracts?
- Revenue Per Month: for small jobs might persuade the customer to accept your offer.
- Precedent: refer to what was done in the last contract or other previous contracts.
- Industry Practice: useful when negotiating clauses in contracts for liabilities, insurance, etc.
- Competing Contracts: recent agreements
- Equal Treatments: published discounts based on revenue per month, market share commitments.

Dealing with Competitive Negotiators

A process for handling competitive negotiators and dealing with their tactics

- Review outcome analysis for previous behavior
- Have trades
- Role play
- Be prepared to handle as negative reactions
- Know how to handle a difference of opinion
- Use the back side of this card to prepare your countermeasures and review Chapter Highlight 12.5.

Negotiation Meeting

Opening

State agenda.
Describe the order of issues to be discussed.

1. Specify main areas of need.
2. Explain that each item covered contributes to overall satisfaction.
3. Explain how propsal addresses these needs.
4. State our commitment to come to an agreement.

Check for acceptance.
Determine if the customer has any other issues to be discussed.

Review the Initial Offer

Summarise highlights.

Negotiation Issues

State customer demands in terms of underlying need.

1. Explain trade rationale.
2. Explain the trade.
3. Offer a standard.

Check for acceptance.

Rejection of Trade

Probe to understand rejection.
Confirm understanding.
Handle rejection as per negative reaction type

1. Indifference to the trade use Sales Engineer Lead Probing to build awareness.
2. Misunderstanding – confirm need not being met, then support need.
3. Skepticism – offer relevant proof.
4. Drawback – overcome with previously accepted benefits.

Check for acceptance; go to next negotiable issues or non-negotiables.
No acceptance, park issue and go onto next negotiable issue or if no other issues, go to non-negotiables.
If no negotiable or non-negotiable issues, begin negotiation process.

Negotiation Process for Rejection of Trade

Confirm rejection.
Explore for ideas.
Offer 2nd trade.

1. Explain trade rationale.
2. Explain trade (is the 2nd trade conditional on the first trade being accepted?).
3. Offer standard.

Check for acceptance.
No acceptance, repeat negotiation process for additional trades if appropriate.

Non-Negotiables

Handle as drawback.
Handle as difference of opinion.

Close

Check for any other issues.
Ask for commitment to secure project.
Summarise next steps.
Time stamp negotiated offer if necessary.

Appendix B

Collaborative Negotiations

Dealing with Competitive Negotiators

Competitive Negotiators

Reactive Negotiators

- React to your proposal out of disappointment.
- We are not in their zone of possible agreement.
- We probably did not due a good job of setting their expectations.
- Can use a competitive negotiation strategy and possibly tactics.
- Make a demand.
- A concession typically a single negotiable such as a discount, contract condition, etc.
- Take a position.
- A position is a statement expressing disappointment over an aspect of the offer .

Strategic Negotiators

- Always negotiate whether or not we are in their zone of possible agreement.
- Use a competitive strategy to negotiate and use tactics to pressure the other party to make a concession.
- You may not come to a deal and will have to leave with the door open.
- They have as much pressure to due a deal as you do!

Common Strategic Negotiator Tactics

Type 2 Tender and you have significant unique business value.
Customer: You are double the competition!

- Probe to understand.
- Acknowledge the difference.
- Ask how much added value does he or she give your solution compared to the competition?
- If customer answers none or less than what you have factored into your price then you have a mis-understanding.
- Handle as a negative reaction.

Type 3 Tender and you have submitted a bid price near market rate.
Customer: You are 40% more than the competition.

- Probe to understand.
- Acknowledge the difference.
- State we know what we winning and losing contracts at and what we have submitted we believe should have been a winning proposal.
- Suggest you should look at the competitors offer to see where the difference comes from.

Types of Power

Type	Description	Example	Source
Knowledge of Other Negotiators	Power which comes from learning as much about the other negotiator before negotiation	• Negotiation strategy • Tactics used • Agenda	• Previous negotiation • CRM/TAS
Situational	Power inherent in the situation	• Deadlines • Risks • Alternatives	• Supporters/mentors • Previous experience • Competitor knowledge
Personal	• Ability to negotiate effectively • Ability to build trust & relationships	• Experience & role play prior to negotiation	• Experience • Training • Relationship building
Information	Knowledge about negotiation issues, customter position, circumstances & questions	• Importance of project to corp.'s objectives	• Account profile • Supporters/mentors
Planning	Preparation of negotiation strategy	• Trades • Negotiation rationale	• Opportunity TAS • Negotiation worksheet

Dealing with Negotiation Tactics

Dealing with Tactics

General advice whenever challenged by the customer that your offer is good enough:

- Tactics the Secret Weapon Strategic Negotiator wants to improve the deal with a pressuring technique.
- Purpose is to influence the other party to make a concession.
- Counter by determining their tactics using countermeasures.
- Check previous negotiations for tactics used.
- Rehearse before the negotiation.
- Be prepared to leave with the door open – use the communication skill of handling a difference of opinion.
- Remember they have as much pressure to do the deal as you!

The table below lists the most commonly used tactics and recommended countermeasure.

Tactics – Countermeasures

Budget Based and Work Scope:

- Budget constraints or company policy – Take away offer components to meet constraints and/or build business case to justify spending more.
- Budget estimate – Quote book price.
- Exaggerated work scope – Always financially protect your offer.
- Additions to work scope – Define scope of work; quote all additions separately as per the price book.

Pressuring:

- Competitive negotiator/Collaborative negotiator – Remember they are both on the same team; no concessions.
- Take it or Leave it – Test it with a trade.
- Ridiculous offer – Remember you have done your due diligence in preparing your offer so it is not ridiculous; ask to see competitor's offer to ensure they are not hiding something.
- Short notice – Use the opportunity management process to prepare adequately; you know when approximately the tender will come, so prepare! Take your time to analyse and prepare! Take your time to analyse and prepare.
- Silence – Once you have offered trades, wait for the customer to respond. Go get the coffee.
- You have to do better than that! – Explain your trade; there might be a misunderstanding. Ask what they can offer to make the project more attractive. Remember, strategic competitive negotiators are never happy.
- Emotional outbursts or irrationality – Don't be intimidated. Remind them that you are here to work with them to do the deal that is win/win. If it continues, take a break.

Research-based Tactics:

- What if – Evaluate all trades thoroughly; ensure you understand the reason behind the question.
- Escalating authority – Keep some trades for the second round.

Devious Tactics:

- Accidental Information – Take a look, but don't take it at face value. Do your research with your peers and segment HQ to validate significant competitor moves.
- Last-Minute Changes – Never sign any contract that has not been fully reviewed. Never give into urgencies.
- One More Thing – Never throw in anything as an easy way to close the deal; you just gave away our margin. Calculate the additional costs and add it to the original offer.

Online Reverse Auction:

- Online Reverse Auction – three options:
  - Submit you winning price and do not change your price.
  - Submit a high price when you cannot compete.
  - Explain against company policy to participate in online reverse auction and request to submit a sealed offer.





SECTION 4

PUTTING IT ALL TOGETHER

The preface and on the cover of the textbook compared the many parts of the professional sales approach to a puzzle; when all the pieces come together, it makes for a beautiful picture. This section is about bringing all the pieces together and creating a well-thought-out and strategic plan.

In the last section selling in competitive markets, the focus was winning individual opportunities by selecting the best strategic sales, pricing, bid and negotiations strategies to win in a competitive B2B marketplace. In this section, the focus is on long-term planning for multiple opportunities over several years either in one account or a territory. This is the final section of the textbook because it builds on all the concepts presented in all earlier chapters. There are three chapters in this section:

- Pipeline Management
- Relationship Profiling
- Planning

The "Pipeline Management" chapter discusses how to analyze the salesperson's pipeline. The "Relationship Profiling" chapter shows how to determine what level a relationship is with specific customer groups. The "Planning" chapter shows how to create a multi-year account and territory plan to position you better to win more business. The account and territory plan is also used for briefings and decisions related to long-term sales strategies.

The pipeline management and profiling tools described in the chapters are available to you from the www.b2bprofessionalsales.com website.



Pipeline Management



The Sale's Balance Sheet

Pipeline management was introduced earlier in Chapter 6 "Sales Activities." This chapter will build on those earlier concepts to demonstrate how to use the value of pipeline management. Pipeline management is a visualization of the salesperson's business. The salesperson's pipeline consists of the opportunities the salesperson handles effectively to generate revenue.

A pipeline is a powerful tool that can be used by:

- The salesperson on a regular basis to prioritize and plan their specific sales activities.
- Operations people for resource planning.
- Sales management for coaching, planning, and reporting.
- Executives for reporting to company stakeholders and strategy setting.

When each salesperson's pipelines are added together, the consolidated pipelines form the company's pipeline. The company pipeline is very similar to a balance sheet in that it:

- Is a snapshot of the business at a specific time.
- Provides a picture of the financial health of the business in terms of its ability to generate revenue.
- Shows if the business is increasing or decreasing by comparing an earlier pipeline with the current pipeline.
- Shows how effective the marketing and sales strategies are by providing market share performance.

Chapter Objectives

After reading this chapter, you will:

- Understand the composition and how to create a sales pipeline.
- Know how to manage effectively a pipeline and use it to prioritize your daily sales activities.
- Use the sales pipeline to communicate with others important dates and activities to support the management of your pipeline.
- Know which reports can be created from a pipeline for input to management for reporting and planning.



Fig. 13.1
The sales pipeline. When the salesperson manages their assigned opportunities effectively, then a company asset revenue is generated.

The quality of the company pipeline will have a significant impact on the perceived current and future value of a company. The secret to having a quality company pipeline is that each salesperson manages their pipeline effectively.

Pipeline Creation

The sources of pipelines are the opportunities in the company's CRM database. Most sales organizations today have a CRM system. What is needed is to take the CRM opportunities and ensure that each opportunity can be mapped to a sales stage, activity, and expected revenue the opportunity will generate. It is very important the sales process discussed in Chapter 4 "Opportunities Management" and Chapter 6 "Sales Activities" is reflected in the pipeline. The salesperson manages the opportunities in the CRM. The pipeline creation does not require any other input from the salesperson. The pipeline creation needs to be automatic and available on demand. There are two main views: the pipeline management prioritization view and the pipeline revenue forecast summary, as shown in **Fig. 13.2**. Each view is discussed in detail below. Other valuable performance reports are also possible and discussed later in this chapter.

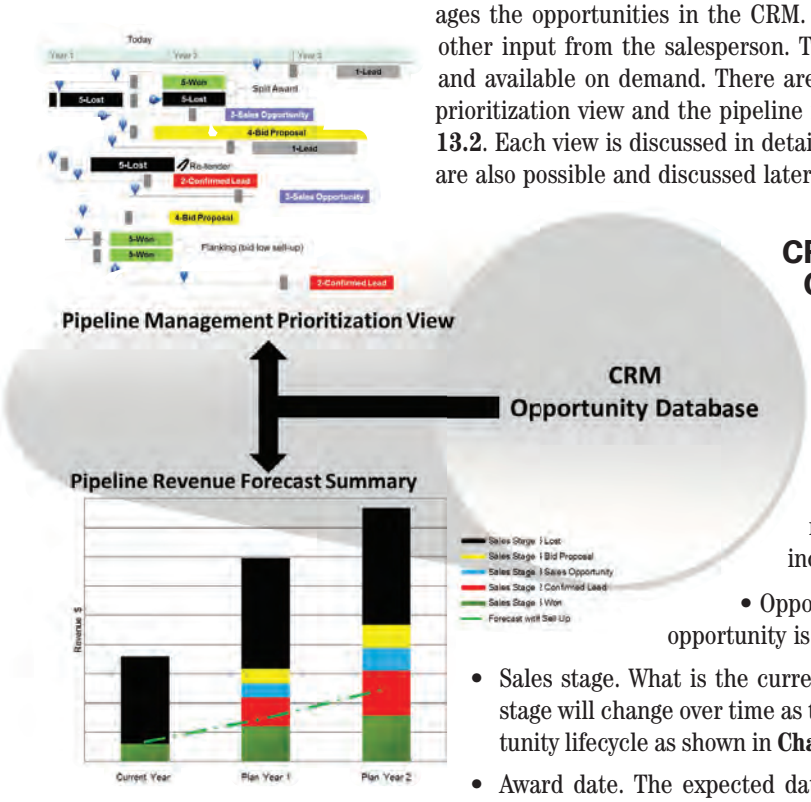


Fig. 13.2
Pipeline management information is created from the company's CRM opportunity database. Two of the key reports are the prioritization view shown on top and the summary forecast summary report. Other performance reports can also be generated from the same data.

CRM Opportunity Database Capture

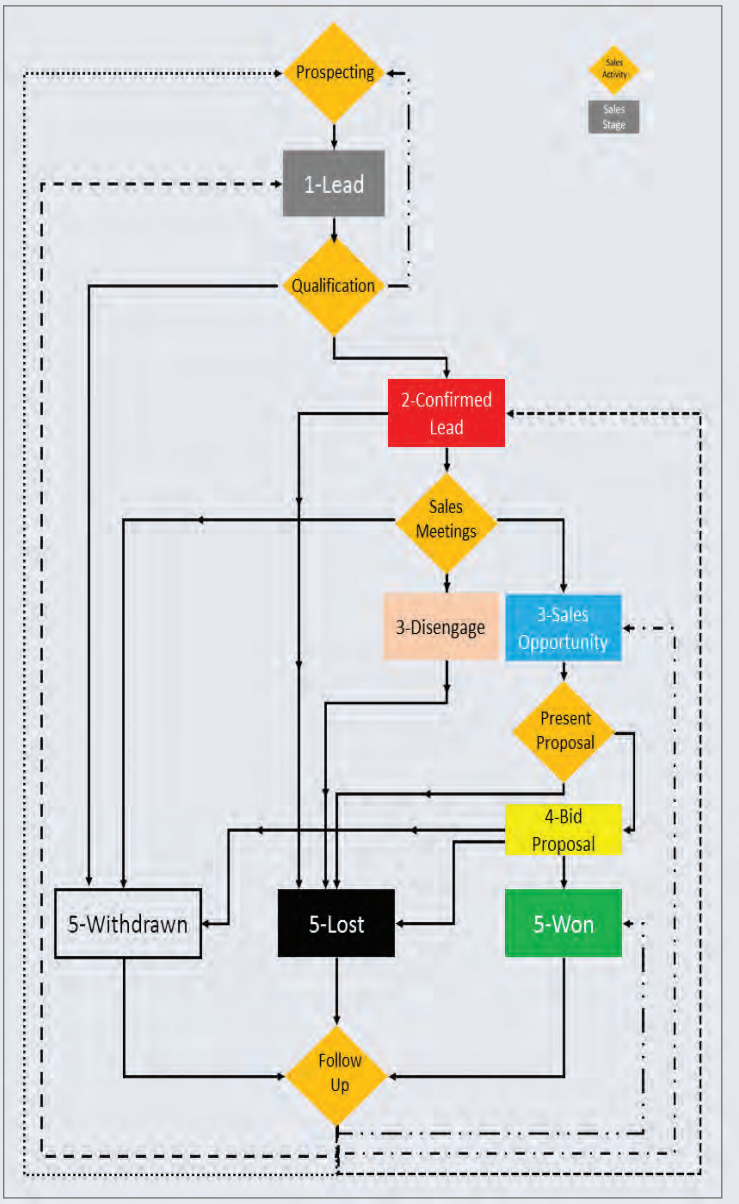
Your company's opportunity database is a subset of your CRM system. In the opportunity database, each opportunity is associated with a customer account and any activities made in support of the opportunity. At a minimum, for pipeline management purposes, the opportunity record must include:

- Opportunity creation date. The date at which the opportunity is entered into the CRM.
- Sales stage. What is the current sales stage of the opportunity? The sales stage will change over time as the opportunity progresses through its opportunity lifecycle as shown in **Chapter Highlight 13.1: Opportunity Lifecycle**.
- Award date. The expected date the customer will make the final buying decision.
- Job start and end dates. These dates are the start and end of the revenues earned over the life of the opportunity. In large B2B sales, it is not unusual for the revenue stream from an opportunity to span from a single invoice to revenue generated over months to years. When this is the scenario, the start and end dates of the revenue streams must be known, and the revenues distributed over the contract period. The distribution of revenues is an automatic calculation made when the opportunity's details are entered into the CRM. This technique of distributing revenues will make forecasts more accurate than any other revenue forecast methods.

Once the opportunity has been entered into the CRM, the salesperson responsible for the opportunity updates the opportunity sales stage as the opportunity progresses from one sales stage to the next sales stage as well as any changes in revenue projections. There is no single way of presenting this information; however, what will be discussed is a proven successful method used to manage a global salesforce for large B2B opportunities with an average sales cycle of 6 to 12 months.

Chapter Highlight 13.1: Opportunity Lifecycle

Each opportunity has a lifecycle lasting from the time it is born when it was discovered while prospecting and until it closes after it was lost to the competition, withdrawn by the customer, or won and the goods and services delivered, and a review completed. The opportunity lifecycle is shown in the figure on the right. The golden triangles represent each of the sales activities, and the colored boxes represent one of the sales stages introduced in Chapter 6 "Sales Activities." A pipeline consists of opportunities in one of the sales stages described below:



- 1-Leads. Potential opportunities that may or may not happen. Normally these are added to the pipeline as the result of successful prospecting activities. For example, a customer expresses interest in a product or service at a trade show and would like to discuss an application they have for your product.
- 2-Confirmed lead. The customer will buy the products or services your company and your competitors sell.
- 3-Sales opportunity. An opportunity the salesperson believes they can win and will submit a proposal.
- 3-Disengage. An opportunity the salesperson will not pursue and the competition will win.
- 4-Bid/Proposal. The bid or proposal has been submitted and the proposal will pass through each of the customer's procurement processes.
- 5-Won. Your bid proposal was accepted, and you have signed the contract.
- 5-Lost. Your competition has signed a contract.
- 5-Withdrawn. The customer has decided not to make a purchase. The customer can make this decision at any stage of the opportunity lifecycle.

The time required for an opportunity to progress from sales stage 1- Lead to sales stage 5-Won, Lost, or Withdrawn is described as the opportunity lifecycle or sales cycle. The sales cycle can last from days to years, depending on the customer's buying cycle. It is suggested that in today's B2B marketplace the sales cycle is more effective when aligned to the customer's buying cycle.[1] The sales organization should tailor their opportunity management process and sales activities to align with their customer's buying cycle. Chapter 4 described the opportunity management process designed to align with the Chevron project management process. This sales process is widely used in the oilfield services industry, where the majority of B2B purchases are made following a well-defined procurement process. The reason for having an opportunity management process tailored to fit the industry and the customer's buying cycles is that an average or model cycle time can be established. For example, in the oilfield services industry, the average sales cycle was:

Chapter Highlight 13.1: Opportunity Lifecycle (cont.)

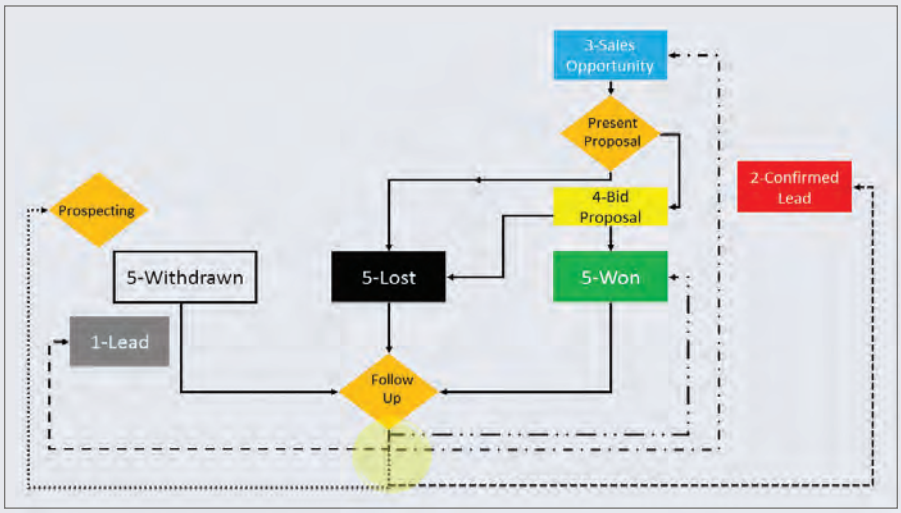
- 1-Lead to 2-Confirmed Lead. One month.
- 2-Confirmed Lead to 3-Sales Opportunity or 3-Disengage. One month and a minimum of six months before bid submission.
- 3-Sales Opportunity to 4-Bid Proposal. Set by customer's bid due date.
- 4-Bid Submission to 5-Won, 5-Lost, or 5-Withdrawn. Set by customer's award date. Average time taken by customer to make the award decision is one month.
- 5-Won, 5-Lost, 5-Withdrawn to follow-up with customer. Two weeks.
- Average contract period. One year.

With the average times established, direct comparisons can be made for a single opportunity, the salesperson's average sales cycle, or the sales manager's consolidated sales team's pipeline to identify if the opportunity sales cycle is:

- **Accelerated.** Shorter sales cycle than the average, which will generate revenue quicker.
- **Lagging.** Longer sales cycle than average-generating revenue slower.
- **Stalled.** Opportunities that have not changed sales stage for what is considered an excessive amount of time in the pipeline. Not generating revenue.

Depending on the flexibility of the customer's buying cycle, the salesperson may be able to accelerate or shorten the sales cycle. If this is the case, opportunities will move faster from lead to closed won, resulting in more revenue from the salesperson's pipeline. If the salesperson cannot accelerate the sales cycle because the customer's buying cycle will not allow that, then another way to improve the pipeline efficiency is making more effective contacts throughout the sales cycle. If a salesperson can move an opportunity from lead to closed won by making fewer customer contacts, the available time can be used to manage additional opportunities and generate more revenue from the salesperson's pipeline.

The follow-up activity after sales stage 5 is very important and too often not done. As shown below, no matter what sales stage 5 is (won, lost, or withdrawn) following up after the customer's buying decision can result in new opportunities.



5-Won: New business awarded to you under the same contract.

3-Sales Opportunity: New business you have to compete for to win.

2-Confirmed Lead: New business you will need to make additional customer contacts to determine if you will compete or disengage.

1-Lead Potential: New business for which you need to qualify.

If there are no opportunities resulting from this opportunity, then the salesperson will need to replace this opportunity by prospecting for more leads.

From the opportunity lifecycle it is possible to calculate how many opportunities of each sales stage an ideal pipeline must have to achieve a specific revenue objective.[2] The ideal pipeline will be based on the averages of deal size, days per sales stage, and conversion rates from each stage to the next stage. Examples of an ideal pipeline will be discussed in the coaching section of this chapter.

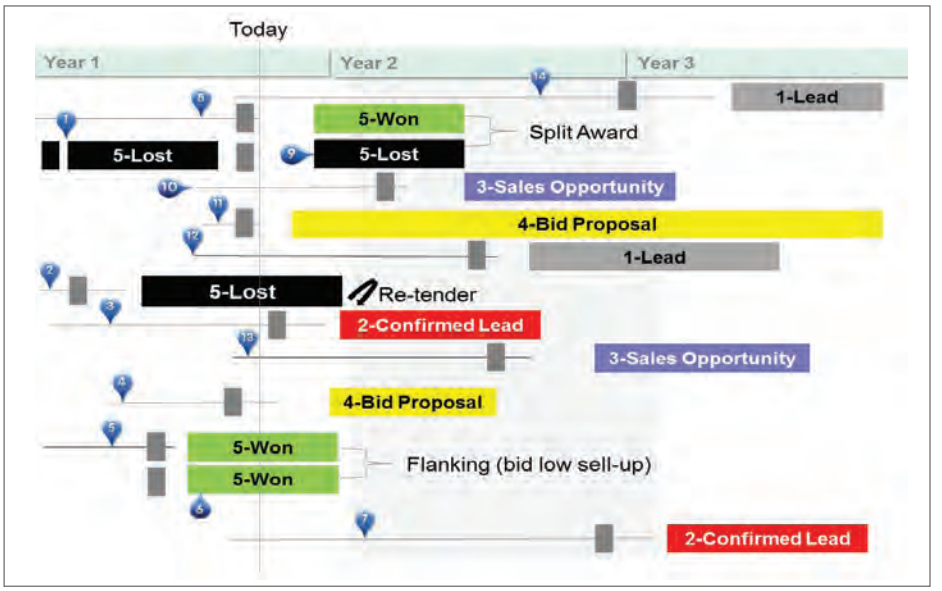


Fig. 13.3
Pipeline management prioritization view.

Pipeline Management Prioritization View (PMPV)

The purpose of the PMPV is to assist the salesperson in managing their pipeline. Each opportunity in the salesperson's pipeline is presented as shown in **Fig. 13.3**. The example shown is a real pipeline for a salesperson assigned to one large account in one territory that, in this example, is a single country. The pipeline has opportunities shown from the previous twelve months and for the next two years. The day at which the PMPV is generated is highlighted by the dashed lined labeled "Today." Each component of the opportunity as presented is explained in **Fig. 13.4**. Before reading further, take the time to familiarize yourself with the components. The next section will refer to the various components described in Fig. 13.3 and how to use this view to prioritize your sales activities.

The next section references the opportunities in **Fig. 13.4**. The opportunity reference number is shown in the blue bubble on the PMPV. For the purpose of this

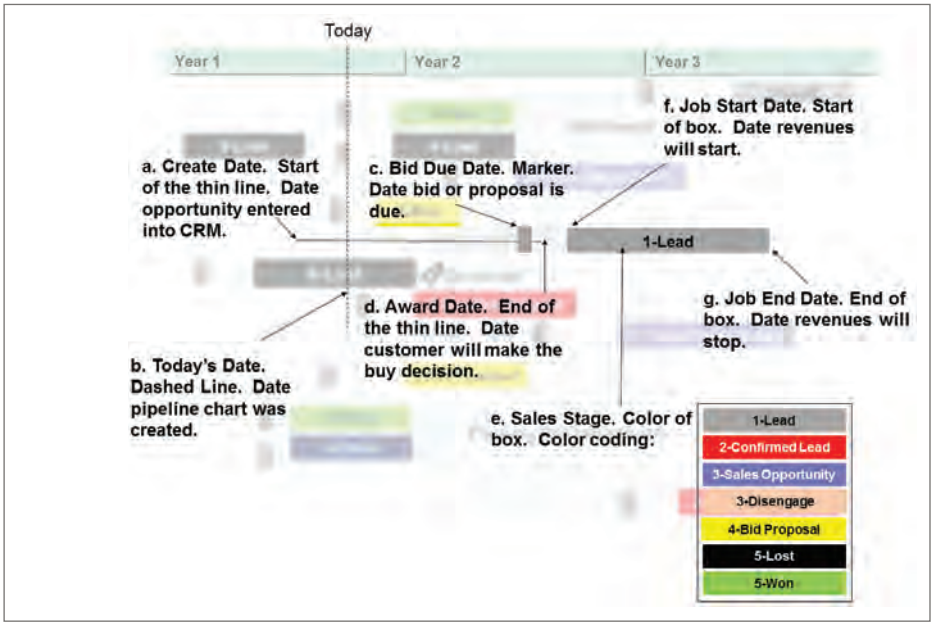


Fig. 13.4
Pipeline management prioritization view of single opportunity components.

▶ ***You're So Sensitive!***

The setting is an industrial complex in a large Southeast Asian city. Most of the suppliers had operational bases in the complex, but rarely did they see or speak to each other they were very competitive and did not want to break any antitrust laws. Immediately behind the complex was a golf driving range where it was not unusual to see the managers from the companies practicing after work. One evening, one of the managers from Competitor A saw the Competitor B manager and asked if he had received the major tender from the customer. The other manager answered, "Not yet. Hope to see it soon." These infrequent meetings happened once and sometimes twice a week over the next two months. Competitor A's manager always had the same question for Competitor B's manager, who always had the same answer, "Not yet. Hope to see it soon."

It was now in the third month, and again Competitor A's manager saw Competitor B's at the driving range. The same question, but this time as Competitor B's manager was putting away his clubs and walking away, he answered. "I heard they did a direct award. There will not be a tender this year." After hearing this, Competitor A's manager said to himself, "Oh no, this kills any chance of us making our budget."

What Competitor A's manager did not know was that, for the last six months (three months before the tender was to be sent and the following three months), Competitor B's sales team had been working continuously with their supporters and mentors inside the customer's buying center. The sales team was helping their customer build the justification and presentation to the customer's executive, recommending a direct award to Company B. Their efforts were successful, and the direct award was given.

The difference between losing and winning, in this case, was not better pricing or advanced technologies. The difference was one company choosing to engage with the customer while the other was waiting to engage after receiving the tender—which never happened.

discussion, the scenario is the salesperson wants to prioritize his or her activities from "Today" onward.

Priority 1. Opportunity 11 sales stage 4-Bid Proposal. The customer is expected to make the award decision within the next week. It is important to be available for your buying center supporters and mentors in case they need your assistance to answer questions or clarify your offer. This opportunity can be in any one of the following opportunities management procurement sub-stages:

- Resolution of concerns
- Negotiations
- Monitor

It depends on what contacts you have made up to this date in the opportunities management process. For recommended actions during these stages, review Chapter Highlight 4.9: "Opportunities Management Stages: Description, Objectives, and Issues." There is a list of recommended actions for each one of the opportunity management stage as in Chapter 9 "Strategic Sales Plan" Appendix A. A benefit of the prioritization view is that, visually, opportunity 11 stands out because the term of the contract is twice that (two years) of all the other opportunities. A contract in most cases will be very competitive and will take your best sales effort to secure.

Priority 2. Opportunities 8 and 9 sales stages 5-Won and 5-Lost. The customer has recently made the award decision. The peculiar thing about opportunity 9 is it does not have a thin line. This is because the salesperson did not realize the customer was going to make a split award. The salesperson only realized this after the customer announced the award. When the customer splits the award and the salesperson was not expecting this outcome, the original opportunity in the CRM database should be copied. The sales stage set to 5-Lost with the appropriate revenue amount assigned to the lost opportunity and the 5-Won opportunity revenue reduced. Because the opportunity create date and award date are the same, there is no line.

The outcome analysis needs to be done as soon as possible to understand why a split award was made. This is even more urgent if the pricing offered was for a 100% award. As the customer did not make an award, 100% of the new pricing will need to be clarified with the customer. If this is not done, there could be difficulties when it comes time for the customer to pay the invoices.

Priority 3. Opportunity 4 sales stage 4-Bid Proposal. The priority is similar to Priority 1, discussed earlier, except this opportunity is still in the early (resolution of concerns) to middle (negotiations) procurement sub-stages. This is a good time for an executive-level visit as discussed in Chapter Highlight 9.1: "But It Is Only One Piece of Paper."

Priority 4. Opportunity 2 sales stage 5-Lost and Opportunity 3 sales stage 3-Confirmed Lead. This is not an uncommon situation. B2B contracts are frequently awarded for a specific period—typically for one year when the customer's project will continue for multiple years. In this case, the first phase of the project

(opportunity 2) was lost to the competition, and the salesperson confirmed there will be a re-tender. The RFP is expected in approximately a month from today. The issues for the re-tender (opportunity 3) are that the RFP is expected soon and the sales team at this time does not know if this is an opportunity they can win. If the decision had been made to compete, then the sales stage would have been set to sales stage 3-Sales Opportunity. This decision needs to be made soon, and visits with the people in the customer's buying center must be made to ensure that the customer is going to re-tender.

Often customer's in B2B procurements will have the option to extend a current contract. The best way to ensure that the contract is not extended is to visit the customer and express your desire to win their business. One of the worst strategies in a B2B competitive marketplace is for the salesperson to wait for the RFP to be sent. Too often when one competitor is waiting for the tender to arrive, the other competitor is busy putting their company in a strong position to win the work. See the sidebar "Have You Seen the Tender Yet?" The salesperson may decide their company cannot compete for this opportunity. This can be due to high switching costs for the customer to replace the competitor or because the competitor has provided very good products and services and has significant support from within the customer's buying center. If this is the situation, the competitor's supporters will try to extend the contract so as not to have to change their current supplier. In this situation, the sales stage should be changed to 3-Disengage until the after the award has been made to the competitor, at which point the sales stage is changed to 5-Lost.

Priority 5. **Opportunity 5 and 6 sales stage 5-Won and 5-Won**. For this opportunity, the sales team took a flanking sales strategy. They bid a low price for generic products and services and planned to sell up once the contract was awarded. As it is now the middle of the project, there are two priorities for this opportunity at this time. First, compare what has happened to the original plan. Has the sales team been able to sell up as expected? If so, ensure that the successes are documented and references requested as appropriate. Handling successes was discussed in Chapter 6 "Sales Activities" in the follow-up section. If the sell up has not occurred, then now is the time to create a plan to achieve the sell ups. The second priority for this opportunity is to hold a middle-of-the-project review with the customer as discussed in Chapter Highlight 4.9: "This is as Good as it Gets?"

This example also illustrates how to enter the opportunity in the CRM when the sales team has a flanking sales strategy, such as bid low and sell up. When this is the situation, one opportunity is entered into the CRM database for the value of the opportunity without the sell up. Once the opportunity is won, the opportunity is copied. The copied opportunity name has the suffix SU (sell up) added to identify this opportunity as the sell up opportunity, and the initial revenue value for the opportunity is set to zero. As the sell ups occur, the value of the sell up opportunity can be edited to reflect the value of the total sell up achieved over the life of the opportunity. The benefit of this technique is that, with time and results from other opportunities, the sales team will have a very good understanding of how much they can sell up. This information can be used to make more accurate revenue forecasts and is discussed later in this chapter.

Priority 6. Of the remaining opportunities, two are in sales stage 3-Sales Opportunity (opportunities 10 and 13), one is sales stage 2-Confirmed Lead (opportunity 7), and two are sales stage 1-Lead (opportunities 12 and 14). From these opportunities, opportunity 10 is the next priority as it has the least amount of time before the bid is submitted, and it has been decided to try to win this opportunity. The salesperson must ensure they are making progress on executing their competitive sales strategy for this opportunity.

Priority 7. **Opportunity 7 sales stage 2-Confirmed Lead**. As discussed in Chapter 4 "Opportunities Management" and Chapter 9 "Strategic Sales Plan," the salesperson or team will need to be ready to complete a level 2 review of their strategic sales plan. The review takes place after the sales team has visited with all the people in the buying center and selected their competitive sales strategy. As discussed earlier for opportunity 3, the sales team may decide to take a disengage sales strategy if they believe they cannot win this opportunity.

Priority 8. **Opportunity 13 sales stage 3-Sales Opportunity**. As per priority 6, the salesperson must ensure that they are making progress on executing their competitive sales strategy for this opportunity and have started to prepare their bid.

Priorities 9 and 10. The two leads could be good candidates for some marketing or business development activities, such as lunch and learn, to make the customers aware of some of the options they can consider for possible projects. Opportunity 12 sales stage 1-Lead has only one year before a possible tender compared to 18 months before opportunity 14 is bid. Therefore, opportunity 12 should be a higher priority to qualify to a confirmed lead or take it out of the pipeline by changing the sales stage to 5-Withdrawn. The same action should then be taken for opportunity 14.

Opportunity Selection

In general, sales teams do not challenge themselves enough to consider seriously selecting a disengage sales opportunity over an attack sales strategy. Too often, a salesperson will try to win all their opportunities, which is, of course, impossible and consumes time and other valuable resources in such a strategic question, the PMPV is an excellent tool. With the PMPV shown in Fig. 13.4, the salesperson can identify the best opportunities to win given the value of the opportunity, timing, and competitive position. Even though the opportunity assessment is a very good tool for qualifying an opportunity, it does not take into account the timing and other factors, such as whether the customer manages the market share of their preferred suppliers. If the customer controls how they award or split their work, you must identify which opportunities you want to win and which ones you will

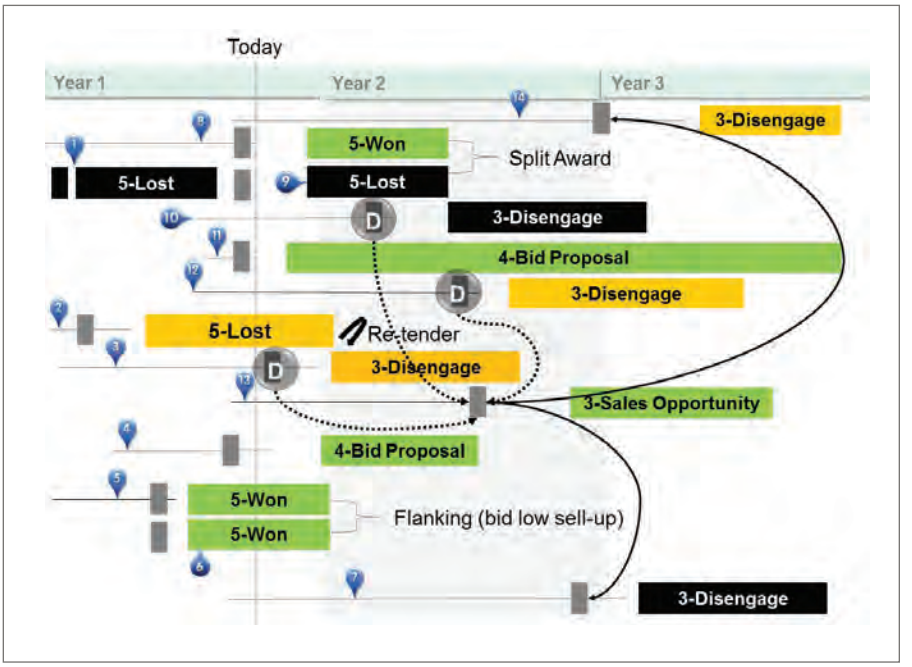


Fig. 13.5
Pipeline management prioritization view, with opportunities color coded by competitor assignment. Green: Company A, black: Competitor B, and orange: Competitor C.

disengage. But when you disengage, you must do so in a way that gains a competitive advantage on the opportunities you want to win, as discussed in Chapter 4 "Opportunities Management." Additional insights for making this decision can be provided from the PMPV. This is done by color coding the opportunities in the PMPV by a competitor who won an opportunity. With this view, a clear strategy starts to become obvious, as shown in **Fig. 13.5**, and the sales team can better identify which opportunities in the future are the best focus and use their resources to win.

With this view, it now becomes more apparent why opportunity 8 was split. When considering which companies had active contracts, both Company A and Competitor C had contracts while Competitor B had no work. The customer, in this case, split the contract for Company A as Company A already had one active project. If in this example the salesperson is convinced for whatever reasons (historical data, customer's procurement policy, etc.) that the customer will keep three companies for their business, then the salesperson for Company A targeted the green colored opportunities and uses attack sales strategies (defend, frontal, flanking, fragment) to win the work. The other opportunities the salesperson will disengage (orange and black colored opportunities). However, they will disengage in a way to gain a competitive advantage for their targeted win opportunities. The three grey colored circles with D's identify for which competitor opportunities the salesperson was planning to take a disengage sales strategy. Specifically, the salesperson for Company A executed a disengage strategy as described in the sidebar "What! I Thought They Were Going to Bid Low—Damn that Hurts."

The next two opportunities after opportunity 13 were identified as two more opportunities for which to take a disengage strategy. This decision is taken because the salesperson anticipates that the customer will want to award opportunity 7 to Competitor B and opportunity 14 to Company A. The timing fits perfectly as the pricing Company A will use to win Opportunity 13 will influence the competitor's pricing strategies for opportunities 7 and 14. If the competitors lose opportunity 13, they will drop their prices for opportunities 7 and 14 and Company A raisies their prices as part of their disengage strategy. If the strategy works as planned, then for the future opportunities after opportunities 7 and 14, Company A should be in a better competitive position. This is a very good illustration of how professional salespeople manage the competition.

This type of strategic opportunity selection is best supported with the PMPV. This approach is superior to trying to manage a pipeline with tables listing lots of data about the opportunities. The table view is what most CRM databases use for data input and list creation. It is not the best choice as a strategic management tool. The PMPV visualization is not a new technique. Project managers since the 1950's have been using

▶ ***What! I Thought They Were Going to Bid Low—Damn that Hurts!***



A disengage strategy leverages the concepts of game theory and a phenomenon called the winner's curse. Like the childhood game Rock Paper Scissors, sometimes in B2B bidding, salespeople have to guess what the competition will do. If Company A wants to win opportunity 13, what they should do to gain a competitive advantage is use opportunties 10 and 11 to condition their competitors. Company A wants the competitors to make the wrong market rate estimate when the companies bid for opportunity 13. By carefully studying their options, Company A concluded the customer that will use all three companies and will manage the suppliers' contracts. As shown in Fig. 13.5, Company A is convinced that if they win the two-year opportunity 11, then most likely the customer will not award them opportunity 10. Furthermore, since Project 9 will be ending just before opportunity 10, Competitor B will most likely be the winner. Competitor C, if awarded opportunity 3, will most likely want to win opportunity 12 due to the better timing.

In this situation, Company A should execute a disengage strategy on opportunities 10 and 12. Company A would make it appear as if they will try to win each of these opportunities, perhaps by holding several well-advertised lunch and learns or making high-level presentations. When Competitors B and C learn of Company A's sales efforts, game theory suggests Company A will bid low on these opportunities to win. However, Company A will bid higher than B and C to ensure they lose and have Company B or C feel the pain of the winner's curse, making them believe they bid too low. They will not want to make the same mistake when bidding for opportunity 13. As a result, the competitors will raise their prices, but this time Company A will bid aggressively, possibly using several of the bidding techniques discussed in Chapter 10 "Competitive Bidding" to secure the project.

▶ *Gantt and PERT: What is That?*

A Gantt chart, commonly used in project management, is one of the most popular and useful ways of showing activities (tasks or events) displayed against time. On the left of the chart is a list of the activities and along the top is a suitable time scale. Each activity is represented by a bar; the position and length of the bar reflects the start date, duration, and end date of the activity. This allows you to see the following at a glance:

- What the various activities are
- When each activity begins and ends
- How long each activity is scheduled to last
- Where activities overlap with other activities, and by how much
- The start and end date of the whole project

The first Gantt chart was devised in the mid 1890s by Karol Adamiecki, a Polish engineer who ran a steelworks in southern Poland and had become interested in management ideas and techniques. Some 15 years later, Henry Gantt, an American engineer and management consultant, devised his own version of the chart and it was this that became widely known and popular in western countries. Consequently, it was Henry Gantt whose name was to become associated with charts of this type.[3]

PERT, or Program Evaluation Review Technique, was developed by the United States Navy for the Polaris submarine missile program in the 1950s. A PERT chart is a graph that represents all of the tasks necessary to a project's completion, and the order in which they must be completed, along with the corresponding time requirements. A PERT chart is a project management tool that provides a graphical representation of a project's timeline.

Certain tasks are dependent on serial tasks, which must be completed in a certain sequence. Tasks that are not dependent on the completion of other tasks are called parallel or concurrent tasks and can generally be worked on simultaneously. PERT charts are preferable to Gantt charts because they more clearly identify task dependencies; however, the PERT chart is often more challenging to interpret. As such, project managers frequently employ both methodologies.[4]

Gantt and PERT charts to manage projects. See the sidebar "Gantt and PERT: What is That?" The PMPV is a sales Gantt chart and the color-coded competitor award, and the assignment view is a sales PERT chart. A salesperson who has mastered the sales skills described in this textbook armed with the PMPV, has made the step from a salesperson to professional sales. Professional salespeople use the PMPV to strategically select which opportunities to take an attack sales strategy on and when to use a disengage sales strategy. By executing the disengage sales strategy correctly, the salesperson gains a competitive advantage on the opportunities they want to win.

Another benefit of the PMPV is it can be used to create a pipeline plan. The plan includes specific actions such as relationship management, marketing, and business development activities to support the salesperson's efforts to effectively manage their pipeline. The creation of a pipeline plan is very similar to creating an account plan or territory plan, as discussed in Chapter 9 "Strategic Sales Plan."

Pipeline Revenue Forecast Summary (PRFS)

As mentioned earlier, opportunities are like assets on the balance sheet; when managed effectively, the company generates revenues from the pipeline. Using the pipeline revenue forecast to estimate future revenues in addition to using historical data gives management a much better estimate of what revenues will be in the future. Better pipeline management leads to better forecasts, and research by Aberdeen Group shows a clear link between forecasting best practices and better sales performance.[5]

How to forecast pipeline revenue effectively is a topic of many discussions in the professional sales community. Most people agree that using a weighted pipeline (opportunity revenue X probability to win) to forecast revenue is not a very accurate technique. One of the reasons why this technique is not very accurate is the salesforce provides the probabilities to win. The salesforce in most companies will provide the probability to win based on their intuition only. One study that tested B2B sales forecasting techniques showed this technique to be the second worst-performing technique of the eight techniques tested.[6] The best technique was to use historical data to weight each of the sales stages. The author, when in a sales operations position, used historical data and the weighted sales stage technique to forecast accurately future revenues and make better business decisions.

Historical Data

The historical data needed to accurately forecast from a sales pipeline includes the following:

- Market share
- Conversion of leads to confirmed leads
- Conversion of confirmed leads to sales opportunity
- Conversion of sales opportunity to bid proposal
- Conversion of bid proposal to closed won
- Percentage of sell up

With this data, forecasted revenue is accurately estimated from the sales pipeline.

Market share. Percentage of the total revenue in the salesperson's pipeline for opportunities in the sales stage 5-Won. Total revenue is sales stage 5-Lost plus 5-Won. The average is the last twelve months' rolling average. The length of the rolling average can be varied to give the most accurate results. Most B2B sales organizations use the last twelve months; however, some also use a quarterly rolling average while others use six months. The abbreviation for "market share" is MS%.

Conversion of leads to confirmed leads. Earlier in this chapter, it was recommended to track how many opportunities are determined at some point in the opportunity lifecycle not to be real opportunities and then change the sales stage to 5-Withdrawn. These are used to calculate the ratio of sales stage 5-Withdrawn to sales stage 2-Confirmed Lead for the same period as the market share ratio (twelve months, six monthgs, or quarterly rolling average). This ratio is used to determine what percentage of the revenue from future leads will be converted to revenue in confirmed leads. The abbreviation for "conversion of leads to confirmed leads" is L2CL%. In many B2B sales organizations, confirmed leads are passed to the sales organization from the marketing or business development groups. Therefore, the sales pipeline only has opportunities starting from the sales stage 2-Confirmed Lead and later. However, if it is the responsibility of the sales organization to prospect and generate leads, then the sales pipeline will include the sales stage 1-Lead, and L2CL% ratio will be used as described above.

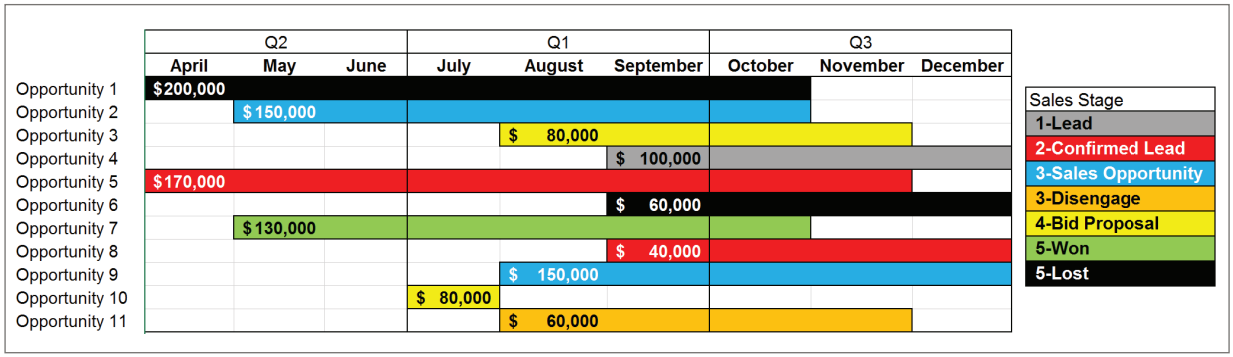
Conversion of confirmed leads to sales opportunity. The ratio at which confirmed leads are converted to sales opportunities for the same period as the market share ratio. The abbreviation for "conversion of confirmed leads to sales opportunity" is CL2SO%.

Conversion of sales opportunity to bid proposal. The ratio in which sales opportunities result in bids or proposals being submitted to the customer for the same period as the market share ratio. The abbreviation for "conversion of sales opportunity to bid proposal" is SO2BP%.

Conversion of sales stage bid proposal to closed won. Also referred to as the win rate and should not be confused with market share as discussed earlier. The win rate is the ratio of proposals or bids won sales stage 5-Won divided by the number of proposals or bids submitted sales stage 4-Bid Proposal. The abbreviation for "conversion of bid proposal to closed won" is BP2CW%.

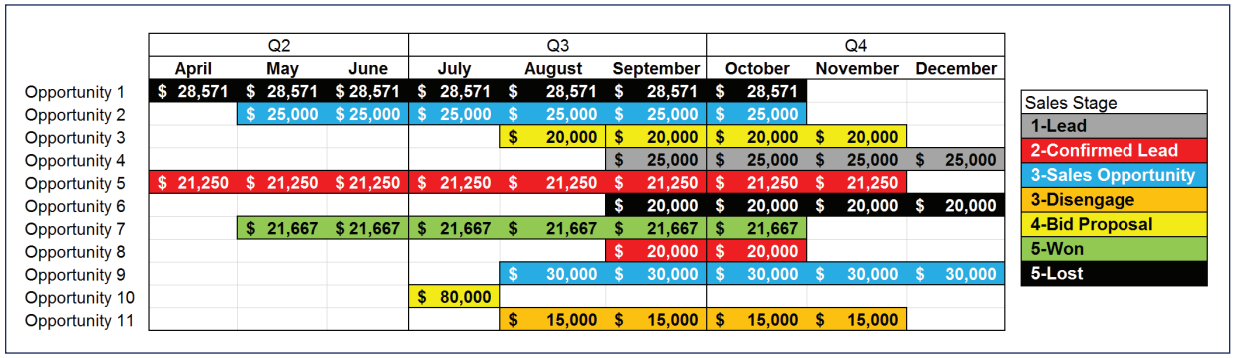
Percentage of sell-up. The additional revenue as measured by the sales not included in the revenue estimate for individual opportunities. The sell up can be from selling:

- More than the customer has included in their scope of work.
- Products or services not included in the scope of work. This revenue can be from omitted, implied, under-specified and unique product and services.



	Q2			Q1			Q3		
	April	May	June	July	August	September	October	November	December
Opportunity 1	$200,000								
Opportunity 2		$ 150,000							
Opportunity 3					$ 80,000				
Opportunity 4						$ 100,000			
Opportunity 5	$170,000								
Opportunity 6						$ 60,000			
Opportunity 7		$ 130,000							
Opportunity 8						$ 40,000			
Opportunity 9					$ 150,000				
Opportunity 10				$ 80,000					
Opportunity 11					$ 60,000				

Sales Stage
1-Lead
2-Confirmed Lead
3-Sales Opportunity
3-Disengage
4-Bid Proposal
5-Won
5-Lost



	Q2			Q3			Q4		
	April	May	June	July	August	September	October	November	December
Opportunity 1	$ 28,571	$ 28,571	$ 28,571	$ 28,571	$ 28,571	$ 28,571	$ 28,571		
Opportunity 2		$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000		
Opportunity 3					$ 20,000	$ 20,000	$ 20,000	$ 20,000	
Opportunity 4						$ 25,000	$ 25,000	$ 25,000	$ 25,000
Opportunity 5	$ 21,250	$ 21,250	$ 21,250	$ 21,250	$ 21,250	$ 21,250	$ 21,250	$ 21,250	
Opportunity 6						$ 20,000	$ 20,000	$ 20,000	$ 20,000
Opportunity 7		$ 21,667	$ 21,667	$ 21,667	$ 21,667	$ 21,667	$ 21,667		
Opportunity 8						$ 20,000	$ 20,000		
Opportunity 9					$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Opportunity 10				$ 80,000					
Opportunity 11					$ 15,000	$ 15,000	$ 15,000	$ 15,000	

Sales Stage
1-Lead
2-Confirmed Lead
3-Sales Opportunity
3-Disengage
4-Bid Proposal
5-Won
5-Lost

Fig. 13.6 (top)
Starting point for the Q2 revenue forecast. This is the pipeline showing the job start and job end over which the revenues will occur.

Fig. 13.7 (above)
Distribution of revenues. For the revenue forecast, the revenues are distributed evenly between the job start and job end dates on a monthly basis.

- Complimentary product or services.
- Bundling of other product and services your company provides, but not in the scope of work.

The abbreviation for "sell up" is SU%.

Revenue Forecast Calculation

Using the ratios from above, calculations can then be made to forecast sales revenue.

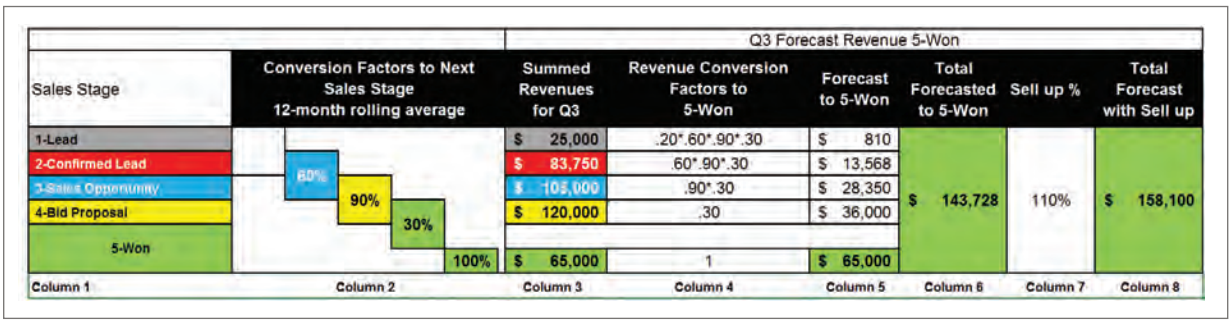
Step 1: Total the revenue from each sales stage for a specific period (most commonly, a month, or three months).

Step 2: Multiply each sales stage with the conversion factor to calculate equivalent 4-Bid Proposal revenue.

Step 3: Add together the revenues from Step 2 with opportunities currently in sales stages 4-Bid Proposal.

Step 4: Multiply the total revenues from step 3 by the win rate or BP2CW%.

Step 5: Multiply the total revenue from step 4 by (1 + SU %) to arrive at the forecasted revenue for the period.



		Q3 Forecast Revenue 5-Won					
Sales Stage	Conversion Factors to Next Sales Stage 12-month rolling average	Summed Revenues for Q3	Revenue Conversion Factors to 5-Won	Forecast to 5-Won	Total Forecasted to 5-Won	Sell up %	Total Forecast with Sell up
1-Lead	80%	$ 25,000	.20*.60*.90*.30	$ 810	$ 143,728	110%	$ 158,100
2-Confirmed Lead	90%	$ 83,750	.60*.90*.30	$ 13,568			
3-Sales Opportunity	30%	$ 105,000	.90*.30	$ 28,350			
4-Bid Proposal	100%	$ 120,000	.30	$ 36,000			
5-Won		$ 65,000	1	$ 65,000			
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8

Fig. 13.8
Q3 forecast revenue for sales stage 5-Won.

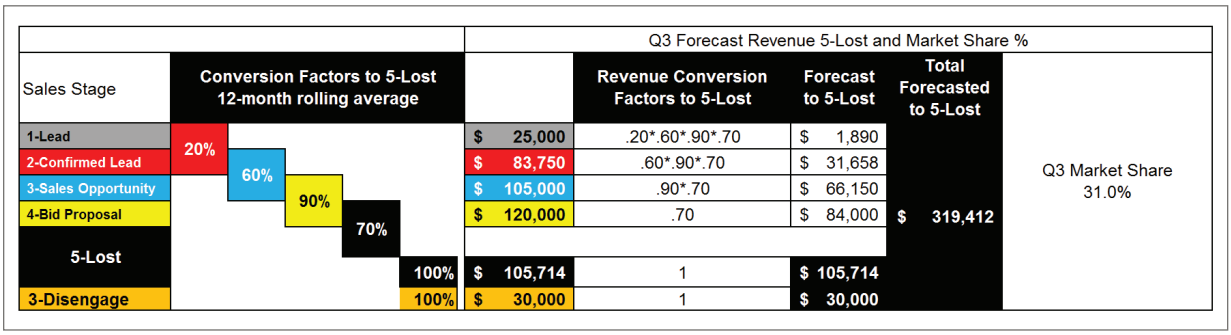


Fig. 13.9
Q3 forecast revenue for sales stage 5-Lost and market share %.

The figures on this page and the next provide an example of forecast calculation for Q2 revenues. The calculation is presented in the next four figures. **Fig. 13.6** is a pipeline showing the job start and end dates for each opportunity. The number on each bar is the total revenue. The color of the bar represents the sales stage of the opportunity at the time the forecast is being prepared. **Fig. 13.7** are the forecasted revenues.

Fig. 13.8, Column 2 shows the conversion factors to the next sales stage needed to make the forecasted revenue. For example, 20% of all leads entered into the pipeline are converted to confirmed leads, and 60% of all confirmed leads are converted into sales opportunities. The confirmed leads not converted to sales opportunities are changed to 5-Withdrawn or 3-Disengage. **Figure 13.9** shows the conversion factors used to convert the summed revenues for Q3 to an equivalent 5-Close Won revenue shown in Column 5. The forecasted total revenue is the sum of the revenues from Column 5. In this example, the forecasted total revenue is $143,738. Added to the forecast are the sell up revenues, making this salesperson's total forecast with sell up $158,100 for Q3.

For the same example, the market share for this salesperson is 31.0%. To calculate the market share, all that needs to be done is forecast the 5-Lost revenues. Market share is then calculated:

$$\text{Market Share} = \frac{\text{Forecast Revenue 5-Won}}{\text{Forecast Revenue 5-Won} + \text{Forecast Revenue 5-Lost}}$$

One of the key requirements of pipeline management is that the sales team should only have to enter their opportunities into the CRM. After the opportunities are in the CRM, it is the salesperson's responsibility to keep the sales stages and revenue estimates up to date. With that requirement met, the reports shown in this chapter are straightforward calculations and should be available on demand in real-time from the CRM system. Today there are several software providers of pipeline management tools, such as Pipedrive, SalesClic, and PipelineDeals, all of which integrate easily into the CRM systems from SalesForce, Microsoft Dynamics, SAP CRM, and Oracle CRM.

As mentioned earlier, the revenue forecast can be done for any period—monthly, quarterly, or annually. For annual budgeting and strategy setting the most often used forecast is one year to three years. **Figure 13.10** shows an example of an annual PRFS. In this example, the opportunities in the sales stage 1-Lead have not been included in the chart but are in the pipeline and can be seen in the CRM database and the PMPV discussed earlier. For the purpose of the forecast, some B2B sales teams only receive confirmed leads from their marketing team, who handles prospecting and capturing the leads. Confirmed leads not converted to sales stage 3-Sales Opportunities are changed to sales stage 3-Sales Disengage; once the opportunity has been awarded, the sales stage is then set to 5-Lost.

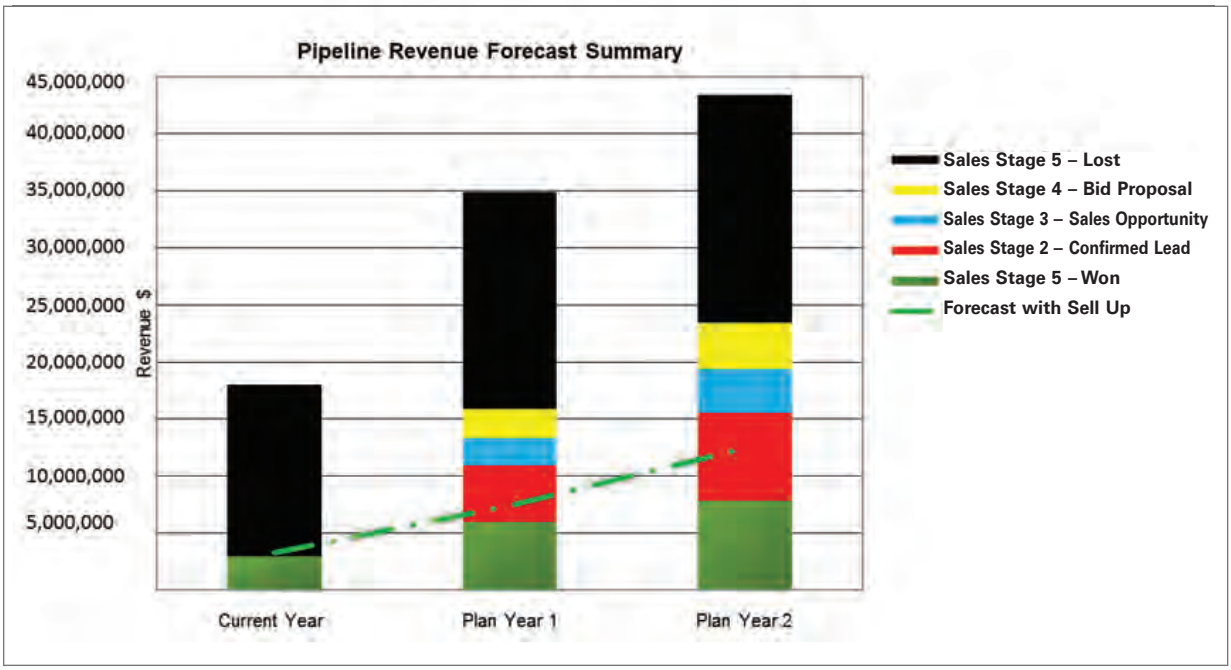


Fig. 13.10
Annual PRFS.

In Fig. 13.10, the revenue pipeline forecasts show an increase in revenue from the current year for Plan Years 1 and 2. There is also a significant portion of the forecasted revenue that is already won. The green colored bars indicate revenue coming from the secured opportunities sales stage 5-Won. The chart also shows a significant portion of opportunities already lost that will generate revenues in the next two years. The opportunities for which the company is competing are the red opportunities sales stage 2-Confirmed Lead, blue sales stage 3-Sales Opportunity, and yellow sales stage 4-Bid Proposal. The yellow bid proposal opportunities show that the sales team has already submitted bid and proposals to the customer and the revenue from those bids will occur in Plan Year 1 and 2. The total forecasted revenue for Plan Years 1 and 2 is the green dashed line. All this information is generated from conversion ratios calculated from historical data. The salespeople only need to keep their revenues and sales stages for their opportunities up to date to have an accurate sales forecast. This lets the sales team focus on strategy and sales activities with their customers. **Chapter Highlight 13.2: "That is My Pipeline!"** is about a student in a sales management seminar.

The pipeline revenue forecast creation should be flexible enough to allow the chart to be available on demand and with sufficient filters to provide the forecast view as required. For example, it should be available for a single salesperson to allow them to compare their personal revenue forecast against their quota. A consolidated view for an entire sales team covers single locations or an entire business unit. Once the initial set-up is completed, the reports should be accessable to the managers who need this information via corporate management dashboards. The information should be available to managers without having to go into the CRM system.

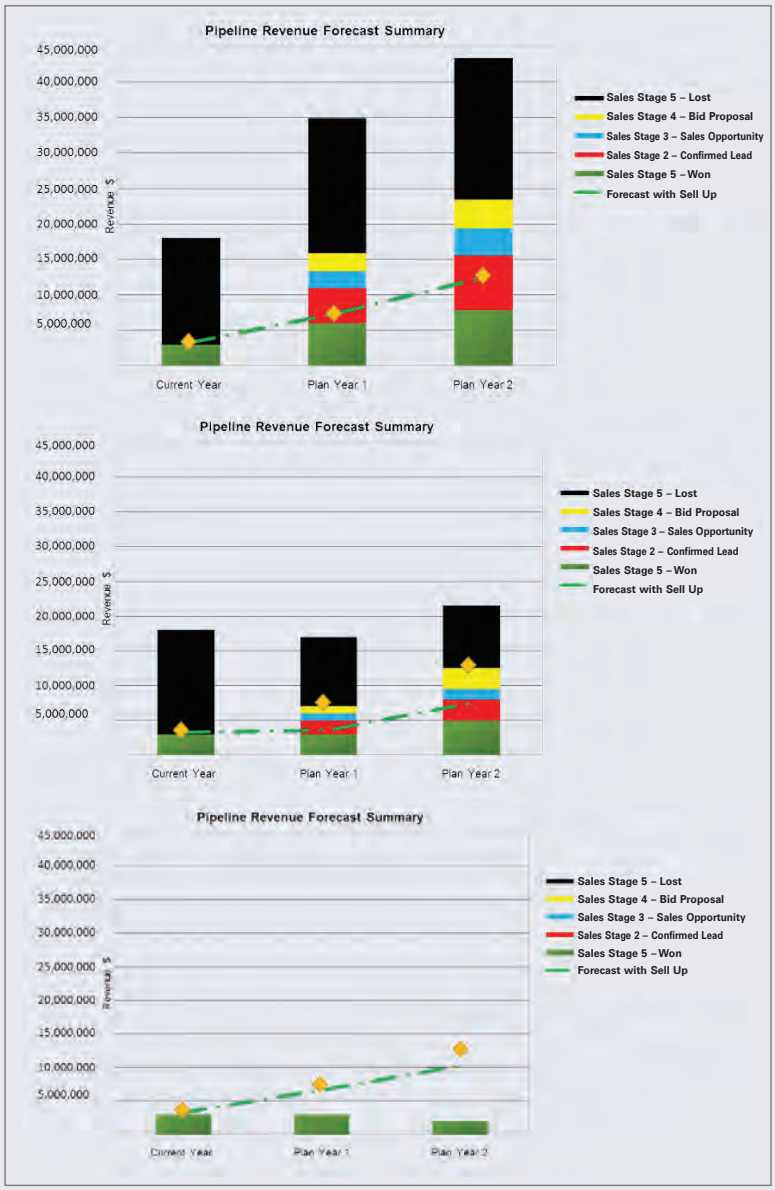
Sales Management

The pipeline is also a very powerful tool for the sales management. From the pipeline, sales management can:

- Prioritize and make strategic decisions regarding sales strategies.
- Use the pipeline to communicate with other company departments, such

Chapter Highlight 13.2: That is My Pipeline!

The author was delivering a five-day sales management seminar to a group of twelve sales managers from a single company in Paris, France. The topic was pipeline management principles for sales managers, and the sales trainer showed the three PRFS below. Each PRFS shows for the current year and the next two years. The revenue objectives are identified by the diamonds on each year's bar chart. In each scenario the sales stage 5-Won is the same and the objectives are the same. What is different is the health of the pipeline. The health of the pipeline refers to the confidence management has that the sales pipeline will achieve the revenue objectives.



The instructor described the first pipeline on the left as a healthy pipeline: A large portion of the revenue is already secured with sales stage 5-Won contracts. There are also sufficient opportunities in the other sales stages, and historical data can be used to determine conversion rates from leads to sales opportunities, market share, and average sell up revenue, indicating that the revenue forecast from the sales pipeline is healthy.

In contrast, the middle pipeline is not as healthy. The forecast shows for Plan Years 1 and 2 will not achieve the revenue objectives. This pipeline does not have the same level of secured contracts sales stage 5-Won as the first pipeline. That is the bad news. The good news is the sales manager has time to work with their teams to take actions to improve the pipeline's health. This can be done by more prospecting efforts to discover leads to add to the pipeline. It may be possible to develop new business to deliver additional revenue. Depending on the nature of the business and the future opportunities, the sales manager might try to capture a larger share of the future sales opportunities. This is not a great situation to be in, but it is still possible for the sales manager to meet the revenue objectives.

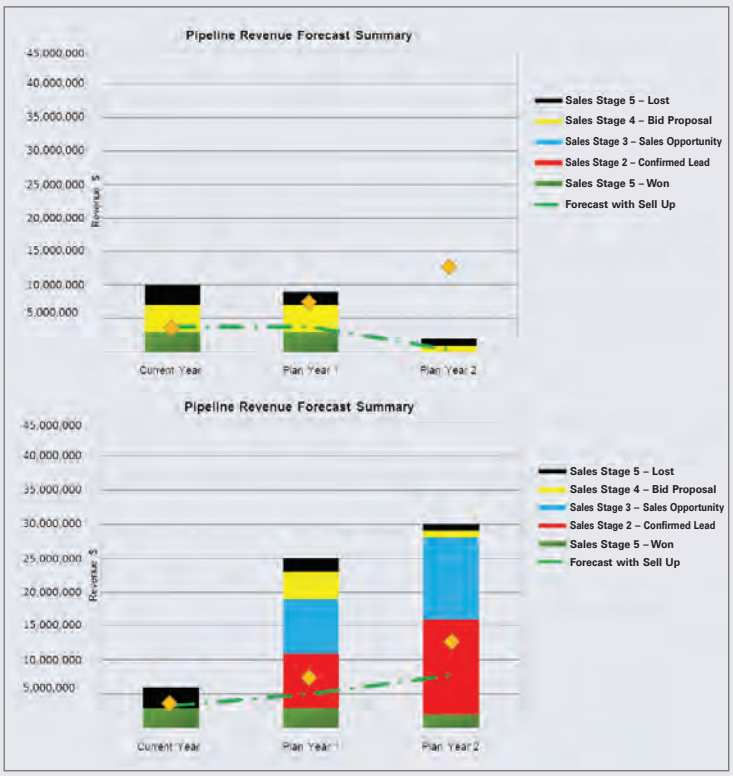
The instructor described the last pipeline as sick—at least that is how the sales manager would feel if they owned that pipeline. In this case, the sales organization does not manage their pipeline. They only capture what they win. They do not track what they lose or what is coming in the future. This pipeline does not have the same level of secured contracts sales stage 5-Won as the first two pipelines. The instructor said the strategy for the sales manager who owned this pipeline would be hope—namely, hope that they would be transferred before the end of next year. With that statement the class laughed, but then one sales manager said, "I hate to admit it, but that is my pipeline." The instructor asked him to explain. The sales manager said, "That is what my pipeline looks like. And what you said about it is true: My team is not doing pipeline management, but you know I'm going to change that when I return. You have shown me the value of pipeline management, and we are going to do it."

The sales instructor was pleased to hear such a commitment from his student and asked him to send in their pipeline when he got it healthy again. The sales manager did send the instructor two pipeline forecasts: one at the start of his initiative and another three months after the seminar. Both are shown on the next page.

Chapter Highlight 13.2: That is My Pipeline! (cont.)

The sales manager was correct: His current pipeline (top right) was not healthy. His team was capturing what they were winning, losing, and bidding. His team was using their CRM system as an administrative tool to record what they were bidding on and the results of the bids. This is not a professional sales process.

Once he returned to his location, the sales manager got his team together to explain what pipeline management was and the value of having a healthy and accurate pipeline. His team also got excited and, after three months, their pipeline looked much healthier, as shown in the lower right figure. There was still much work to be done if the team was to achieve the revenue objectives, but at least now the team could implement a strategy consisting of marketing, business development, key sales opportunities strategy reviews, and new product introductions. The good news is the team did make their objectives and the sales manager was promoted to take on more sales responsibilities.



as marketing, product development, operations, finance, and executive management.

- Make coaching of the salespeople focused and relevant.

Each of the above points will be discussed in more detail and referenced in **Fig. 13.11**, the sales management pyramid model. The sales management pyramid model is a representation of the sales manager's duties and responsibilities. At the top of the pyramid are business results that all company employees work together to achieve. Specifically, the contribution of the sales manager is to create a sales strategy that will result in generating the revenues necessary to achieve the business results.



Fig. 13.11
Sales management pyramid model.

To ensure that the sales strategy and business results are achieved, the sales manager will establish sales objectives shown as one of the cornerstones in the pyramid. These objectives are for his team and will include key metrics such as new product introduction, new business, revenue targets, and market share. The sales team must execute the required sales activities (the last cornerstone of the pyramid), as discussed in Chapter 6 "Sales Activities."

In addition to creating and managing the sales strategy, the sales manager must also complete his or her sales manager administration responsibilitiess such as monthly and quarterly reporting, forecasting revenues, and reviews. They must also participate in sales opportunities assuming a sales role typically for negotiations and executive-level contacting in support of their team's opportunities. As a sales manager, they should also be the main resource for sales domain expertise. Other functions such as finance also have domain experts. For example, when staff have finance-related questions, they will go to the controller for advice. Much of what is considered sales domain expertise is discussed in this textbook; however, the individual sales managers will add to this theory their company-specific sales standards and local market knowledge.

The other significant role of a sales manager is to coach their sales team. The sales manager is the main coach, but they also rely on others' participation. The sales manager identifies a team of qualified coaches for specific sales skills, such as technical staff, account managers, operations managers, and when required sales training.

On the outside of the sales management pyramid model are the key components for each one of the pyramid cornerstones:

- Pipeline. The company pipeline should be the key input when establishing business results.
- Rewards. To motivate the sales team to be committed to achieving the sales objectives, they receive rewards based on achievements of successful completion of specific sales activities. The rewards can be bonuses, promotions, and recognition.
- Sales Skills. Salespeople will be able to complete all their required sales activities when they have mastered the needed sales skills for each sales activity.

Sales managers bring all the pillars together like a strong structure with sales management. When salespeople receive sales management and coaching focused on their pipeline's relevant sales activities that help them achieve their sales objectives and rewards, they will fully engage with their managers and teams. For a much more in-depth discussion of the sales management concepts, read *Cracking the Sales Management Code* by Jason Jordan and Michelle Vazzana.[7]

Prioritizing and Strategic Decisions

As already discussed, the PMPV is an excellent tool for salespeople to prioritize and decide the best sales strategy for the opportunities in their pipeline. For the sales manager, this is also a tool to ensure that key opportunities are clearly communicated, for which there will be a:

- Qualification assessment
- Level 2 strategic sales plan review completed
- Bid strategy review
- Middle project review
- End-of-project review

Revenue Level	President	Sales VP	Regional VP	Regional Sales Manager	Operations Manager	Salesperson
Level 1 Opportunities > $1,000,000						
Negotiation Review	✔					
Lead Negotiator				✔		
Bid Strategy Review	✔					
Level 2 SSP Review		✔				
Customer Contact Post-Bid Submission	✔					
Customer Contact Pre-Bid Submission						✔
Level 2 Opportunities $500,000 to $1,000,000						
Negotiation Review			✔			
Lead Negotiator				✔		
Bid Strategy Review			✔			
Level 2 SSP		✔				
Customer Contact Post-Bid Submission		✔				
Customer Contact Pre-Bid Submission						✔
Level 3 Opportunities $100,000 to $500,000						
Negotiation Review			✔			
Lead Negotiator				✔		
Bid Strategy Review			✔			
Level 2 SSP			✔			
Customer Contact Post-Bid Submission			✔			
Customer Contact Pre-Bid Submission						✔
Level 4 Opportunities $50,000 to $100,000						
Negotiation Review	Not Required – Standard Trades					
Lead Negotiator				✔		
Bid Strategy Review					✔	
Level 2 SSP	Not Required					
Customer Contact Post-Bid Submission				✔		
Customer Contact Pre-Bid Submission						✔
Level 5 Opportunities < $50,000						
Negotiation Review	Not Required – Standard Trades					
Lead Negotiator				✔		
Bid Strategy Review	Not Required – Standard Pricing					
Level 2 SSP	Not Required					
Customer Contact Post-Bid Submission						✔
Customer Contact Pre-Bid Submission						✔

Strategic Opportunities
Region level key account opportunities, as identified by Regional VP and Sales Manager; classified same as Level 3 Opportunities.
Corporate level key account opportunities, as identified by President and Sales VP; classified same as Level 1 Opportunities.
Technology opportunities identified by Sales VP; classified as Level 1 Opportunities.
Strategic market opportunities identified by Sales VP; classified as Level 1 Opportunities.
Region level competitive response opportunities identified by Regional VP and Sales Manager; classified same as Level 3 Opportunities.
Corporate level competitive response opportunities identified by President and Sales VP; classified same as Level 1 Opportunities.

Timing	
Negotiation Review	Minimum day days before negotiation meeting. Prepared by lead negotiator and salesperson.
Bid Strategy Review	One week after RFP reception. Prepared by bid team. Presented by bid manager.
Level 2 SSP	Six months before bid submission date. Prepared by salesperson.
Customer Contact Post-Bid Submission	One week after bid submission or other date, recommended by salesperson. Contact to be made with one of the people who is either the decision-maker, approver or higher-level executive. If contract is awarded, follow-up contract to be made with the same person in the middle of the project and at the end of the project.
Customer Contact Pre-Bid Submission	One week after sales stage changed from confirmed lead to sales proposal. Contact to be made with the person responsible for evaluation to determine formal decision criteria. All buying center members to be contacted before Level 2 SSP.

Table 13.1
Approval matrix.

For each activity there should be clear guidelines established and communicated to the sales team to ensure that they are fully aware of the criteria established to trigger a review with management. Such criteria can include:

- **Sales stage change**. When opportunities are moved from one sales stage to the next, this is what must be done. See the sidebar "All In A Day's Work."
- **Revenue**. Opportunities with revenues greater than a threshold value are to be reviewed.
- **Strategic Opportunities**. There are several factors that can cause an opportunity to be considered strategic. As discussed in Chapter 6 "Sales Activi-

ties," strategic opportunities need to be identified by the company executive, who identifies the strategic opportunities as a must win. As such, must- win opportunities are given similar attention as high revenue opportunities. Some of the more common strategic opportunities are listed below:

- **Key accounts**. Opportunities for key or major accounts will be reviewed regardless of the revenue. The key accounts could be major accounts for which the company does not want to lose market share or possibly key accounts for which the company has targeted to establish a relationship.
- **Strategic markets**. Opportunities from specific markets in which the company wants to establish or increase their participation.
- **Technology**. Opportunities that require specific technology or are candidates for introducing new products or services.
- **Competitive response**. This can be triggered at any time the sales manager believes they must respond to specific marketplace developments. Competitive response can occur for a number of reasons, such as the company recently lost several major tenders and must defend its position to avoid further losses or there could be an increase in activity, triggering a shortage of people and equipment, so the company wants to raise prices.

Pipeline Review Alerts

Whenever an opportunity is entered into the CRM database, the majority of the criteria can be checked and notices can be sent for the reviews. For example, if the revenue is greater than $1,000,000, then the president must attend and approve the bid strategy. In addition to the criteria, who must review and approve the timing for reviews must also predetermined. For example, any opportunity requiring a level 2 sales plan review must be completed six months before tender submission. **Table 13.1** is depicts a sample approval matrix.

▶ *All in a Day's Work*

Not every part of the professional sales person's job will filled with thrills and excitement, but each step is value-added. Assessments, plans, and reviews are part of pipeline management and the salesperson's responsibility. When consistently completed, it becomes easier and better strategic decisions can be made; thus managing the pipeline effectively will become more efficient. It is the sales manager's responsibility to establish the standard procedures required for the salespeople to manage their pipelines. Here is a list requirements for when changing opportunity sales stages:

- 1-Lead to 2-Confirmed Lead. Customer contact and a level 1 opportunity assessment completed and reviewed.
- 2-Confirmed Lead to 3-Sales Opportunity or 3-Disengage. Level 2 strategic sales plan review.
- 3-Sales Opportunity to 4-Bid Proposal. Bid strategy review.
- 4-Bid Proposal to 5-Won, Lost, or Withdrawn. Outcome analysis completed with the customer.
- 5-Won. Contract handover to contract owner and operations team.
- 5-Won. Middle and project reviews completed with customer.

The time required for an opportunity to move from one stage to the next is a good indicator of the health of the opportunity and the skill level of the salesperson. If the opportunity is moving slower than average or stalled, it suggests a possible problem with the opportunity and needs to be investigated as part of the pipeline management daily work.

Communication to Other Company Departments

As discussed in this chapter, the pipeline is a visualization of the salesperson's and company's business. The visualization is based on the project management techniques originating from the popular use of Gantt charts used by project managers. The consolidated PMPV and the PRFC are fantastic tools for sales managers to use when communicating to other departments in the company. The consolidated pipeline is an invaluable resource planning tool to see when there will be peaks and lows in demand assisting:

- Operations will be able to better plan the utilization of people and assets.
- Production will be able to adjust production-optimizing inventory levels.
- Finance will be able to manage cash flows and receivables better.

As just discussed, for prior key opportunities, a certain revenue threshold, or issues identified as being strategic, management may also request that a specific department such as finance, human resources, or legal attend selected reviews. The pipeline review alerts can be easily forwarded to other staff members or a summary can be prepared on a monthly or quarterly basis summarizing the Level 1, 2 and 3 reviews and posted on the company management information portal.

When executives from headquarters are visiting the regions, the PMPV and revenue forecast chart are effective ways to present a high level view of the region's performance and activity. These can be used to highlight major sales successes and challenges. The summary list of the pipeline review alerts can be used to adjust the timing of visits to facilitate reviews and high level customer contacts.

Pipeline management should be one of the first priorities of sales management. It provides them with insights into their marketplace that allows prioritization and when building or expanding a sales organization, the pipeline revenue forecast can be used to justify the investment and expected return on the investment (ROI). It is common to make such requests at annual planning meetings. Too often, salespeople and sales management will claim they need more resources but do not commit to the revenue the investment will bring. Armed with the PMPV, pipeline revenue forecast, and a credible track record, the sales organization will be able to optimize their sales efforts and results.

Coaching

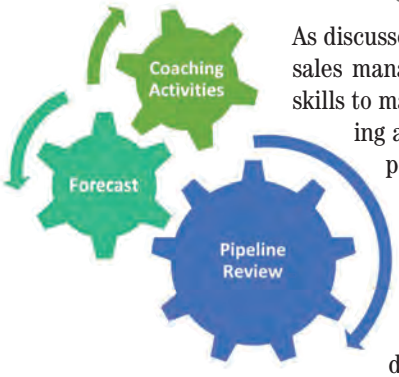


Fig. 13.12
Pipeline management coaching process.

As discussed at the start of this section, coaching is one of the key activities for a sales manager. All coaching must be focused on developing their salesperson's skills to manage their business. The most significant input for the tailored coaching activities are the salesperson's pipeline review and forecast. The salesperson's pipeline review, forecast, and coaching activities should all be connected, as shown in **Fig. 13.12**.

Pipeline Review

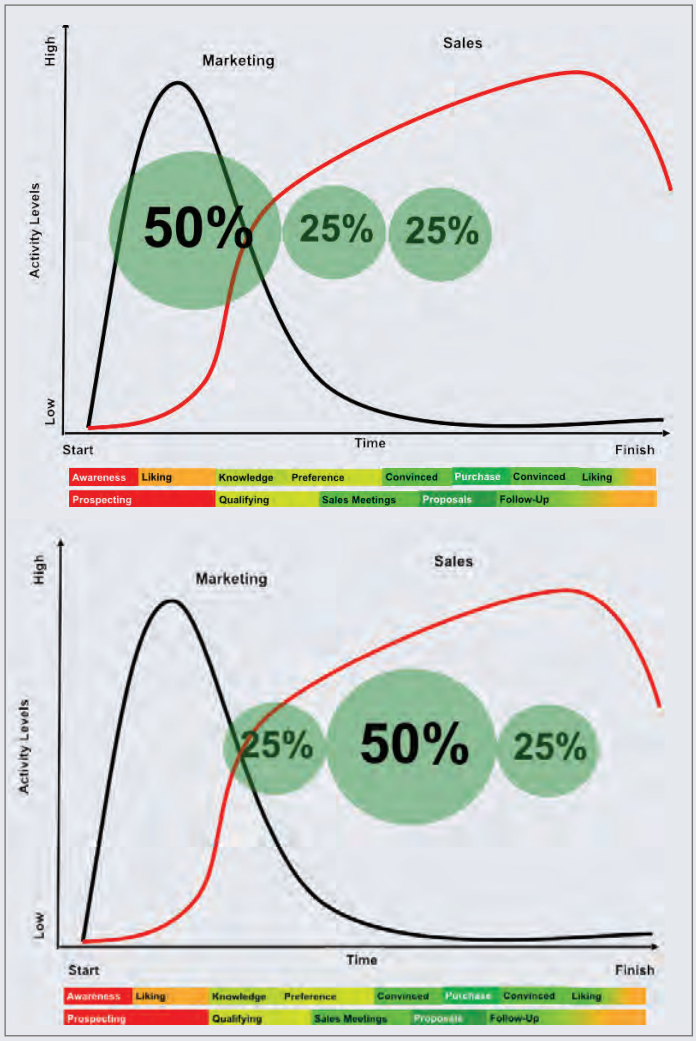
The pipeline review is a regularly scheduled event that takes place between the salesperson and their sales manager. The frequency depends on a number of factors; the minimum frequency should be once a month and even bimonthly for new salespeople. The pipeline review is a structured conversation between the sales manager and salesperson. Some sales managers will hold pipeline review and forecast meetings at the same time. This is an efficient way to accomplish both meetings, but is not effective and not recommended. The forecast review meeting will be discussed later in this section. The purpose of the pipeline review meeting is for the salesperson to:

- Update action items from the last pipeline review meeting.
- Discuss their prioritized pipeline sales activities for the next 30 days.
- Schedule reviews.
- Identify the support needed for their pipeline, which can be from the sales manager or other staff in departments outside of sales.
- Review their pipeline scorecard.
- Propose coaching events.

The centerpiece for the discussion is the PMPV chart. Each of the topics for discussion in the pipeline review meeting will be discussed next.

Chapter Highlight 13.3: It is How You Spend Your Time

Below are the results of a time study analysis of B2B salespeople. The study was part of a group project for an MBA program completed by the author. The title of the study was "From Sales Rookie to Professional."[8] The study was conducted by the study group team members, who followed their assigned salespeople for one week to determine how they spent their time. For each observed activity, the amount of time, sales stage of the opportunity, and type of activity were recorded. The activity was classified as either a marketing or sales activity. A marketing activity was defined as a meeting with an objective classified as building awareness, liking, and knowledge during the prospecting and qualification stages. Sales activities were classified as meetings that were building customer preference, conviction, closing (purchase), or liking during the sales meetings, presenting proposals, and following up on sales stages of an opportunity. If the salesperson had an objective to build awareness and knowledge in the sales meetings or later stages. it was classified as a marketing activity. The average deal size was $55,000, and the average sales cycle was 63 days. The industries were from the energy, heavy construction, and manufacturing fields. All the people were full-time salespeople. The average amount of time spent selling (all activity that was identified as related to selling) was 4.3 hours per day.



In the top chart is the time distribution of the group as identified as below-average performers—salespeople missing quota by more than 15%. It shows this group spent nearly 50% of their time doing marketing activities, 25% doing sales activities during the qualifying and sales meeting stages, and the remaining 25% of their time selling during the submission of proposals stage. Very little time was spent in the follow-up stage.

In the lower chart is the distribution of the group identified as above-average performers. This group was meeting or beating their quotas. They were only spending 25% of their time doing marketing activities, 50% selling during sales meetings and submission of proposals, and 25% during the follow-up stage, as measured by performance against quota.

What was discovered was that the salespeople in the top chart were having many one-on-one marketing meetings with potential customers. They would visit with one customer at a time to try to build awareness and a positive opinion of their company. Making these marketing calls took a lot of the salesperson's time.

In contrast, the above-average performers allowed their marketing department to identify leads; they spent 25% of their qualifying leads, 50% doing sales activities during the sales meetings, and 25% of their time in the follow-up stages, which the below-average performers did not do. It was during the follow-up stages that the above-average performers built relationships with their customers by ensuring that their company was delivering on the promises made during the pursuit stages of the opportunity. Also important was that when they captured the success stories and asked for references and leads. All of this added to their resources to sell again in the future. Earlier in this chapter, in Chapter Highlight 13.1: "Opportunity Lifecycle," the follow-up activities were emphasized as being a very important a source for new opportunities.

There were three conclusions from the study—nothing new, but certainly made a terrific learning activity for the study group. It was concluded:

1. Telling (marketing) is not selling. The below-average performers were not lazy. They spent a lot of time in front

Chapter Highlight 13.3: It is How You Spend Your Time (cont.)

of customers, coming in early and going home late, just like the above-average performers. The difference was how they spent their time. For the below-average performers, they fell into the trap or their comfort zone. Most the salespeople in this study came from technical backgrounds and were proud of their company and offerings. They were comfortable talking to their customers about their products and services rather than having a qualification or sales discussion with the customer. As such, very few opportunities were dropped from their pipeline. They did not have the time to create high quality proposals, instead submitting proposals that were only price quotes and did not differentiate their offer from the competition.

2. Sales managers cannot do their job completely from their office. The sales manager must go with the salesperson to see what the salesperson is doing during the sales call with the customer. This is a requirement for any coach. In sports, the coach does not sit in the team locker room while the team is playing. As discussed in Chapter 7 "Sales Call Skills," the sales manager should conduct a "Level 2 Sales Call Effectiveness Review" on a regular basis, targeting different sales activities and specific sales skills. Sales skills will be discussed in more detail later in this chapter. The sales managers for the salespeople in the study were interviewed and asked what they believed were the contributing factors to the salespersons' success or lack of thereof. It became obvious that the majority of the sales managers had not observed their salespeople in front of customers.
3. The follow-up stage is very important. Too many B2B salespeople consider the sales cycle to end once the order or contract has been signed. This is a very sales-related perspective. For the customer, the sales cycle is just the beginning. Their impression of your company and you will be formed by their experience of using your products and services. It is not suggested that the salesperson take responsibility for the operation portion of the product and service delivery, but they should follow up with the customer as described in Chapter 6 "Sales Activities."

Time for the salesperson is one of their most precious commodities. They must use time wisely and effectively in order to achieve their objectives in the competitive B2B marketplace. Pipeline management is a critical skill the professional salesperson must master in order to prioritize their activities to decide how to spend their time.

Updates on Action Items

This is a quick update on the previous pipeline review meeting action items. This can take the form of highlights and lowlights. This can cover items such as the results of any sales meetings, prospecting, new opportunities added to the pipeline, and sales stage changes.

Prioritized Sales Activities

As discussed earlier in this section, by using the PMPV chart the salesperson should brief the sales manager on the high priority activities planned for the next 15 or 30 days depending on the frequency of the review meeting.

Scheduled Reviews

Confirm all scheduled reviews for the month, such as level 2 strategic sales plan reviews, bid strategy reviews.

Support Needed

Any support from the sales manager, such as high level meetings, negotiations, or other departments such production, operations, finance, marketing, etc., should be discussed. One of the reasons for discussing this is that the sales manager will be aware of the support needed for other salespeople and can gain better efficiencies by organizing the support needed for multiple salespeople when possible.

Review of Pipeline Scorecard

The pipeline scorecard includes the key pipeline metrics that should reflect the health of the salesperson's pipeline and identify potential coaching activities. The

pipeline scorecard needs to be appropriate for the tsalesperson's specific types of assignment, whether it be inside or outside sales. If outside sales, the salesperson is assigned to accounts, territories, or a combination of the two. The scorecard described below is for outside sales with account assignments; many of the factors would be the same for the other types of assignments and can be used as a starting point to build the salesperson's pipeline scorecard. The scorecard factors should be automatically updated in real-time from the CRM database and include the factors discussed below.

Key performance areas for twelve month running average and last month's average. The key performance areas are:

- Sales stage count. This will show the composition of the pipeline by sales stage. The ideal pipeline can be calculated from historical data. By establishing a healthy pipeline, it is possible to determine how many opportunities in specific sales stages are needed to achieve a revenue target, as discussed earlier in the forecast section of this chapter.
- Number of days per stage and total sales cycle. This will show the sales cycle: Is it accelerating, flat, or slowing? If it is slowing, which sales stages are causing the sales cycle to increase.
- Number of sales calls per sales stage as measured by the number of client visit reports (CVR's) entered into the CRM. The salesperson's allocation of their time is a very important factor for their sales success, as concluded in one study on sales effectiveness. For more discussion about the study, see **Chapter Highlight 13.3: "It is How You Spend Your Time."**
- Number of calls per opportunity grouped by sales stage 5-Withdrawn, 5-Won, and 5-Lost.
- Average deal size.
- Average conversion rates from each sales stage.

By having this scorecard when holding the forecast meeting with your sales team, the salesperson will be prepared to state their strategy.

Major customer successes and failures. This can include reference letters, success stories, and major problems as perceived from the customer's perspective.

Market share analysis. This is computed from the CRM database showing the analysis of the revenue split between competitors for awarded revenue.

Competitor intelligence. Any significant observations the salesperson has observed regarding the competition. This can be changes to sales strategies, major efforts to secure specific accounts or markets segments, and changes to the level of resources in the salesperson's markets.

Revenue forecast summary. This is the monthly version of the revenue forecast for the salesperson's pipeline versus quota and actual. **Figure 13.13** is an example of a revenue forecast, showing that the first two quarters the salesperson will make quota, but the last two quarters will need some intervention.

Listing of opportunities. This a list generated from the CRM system showing information for each opportunity. In addition to the standard list of fields, such as company, opportunity name, revenue, and sales stage, the list should include:

- Last CVR. When the customer was last contacted.
- Total CVRs. How many visits made for this opportunity.
- Bid due date. When the bid is submitted. If not a bid, then the expected date for presenting the proposal.
- Job start and job end.

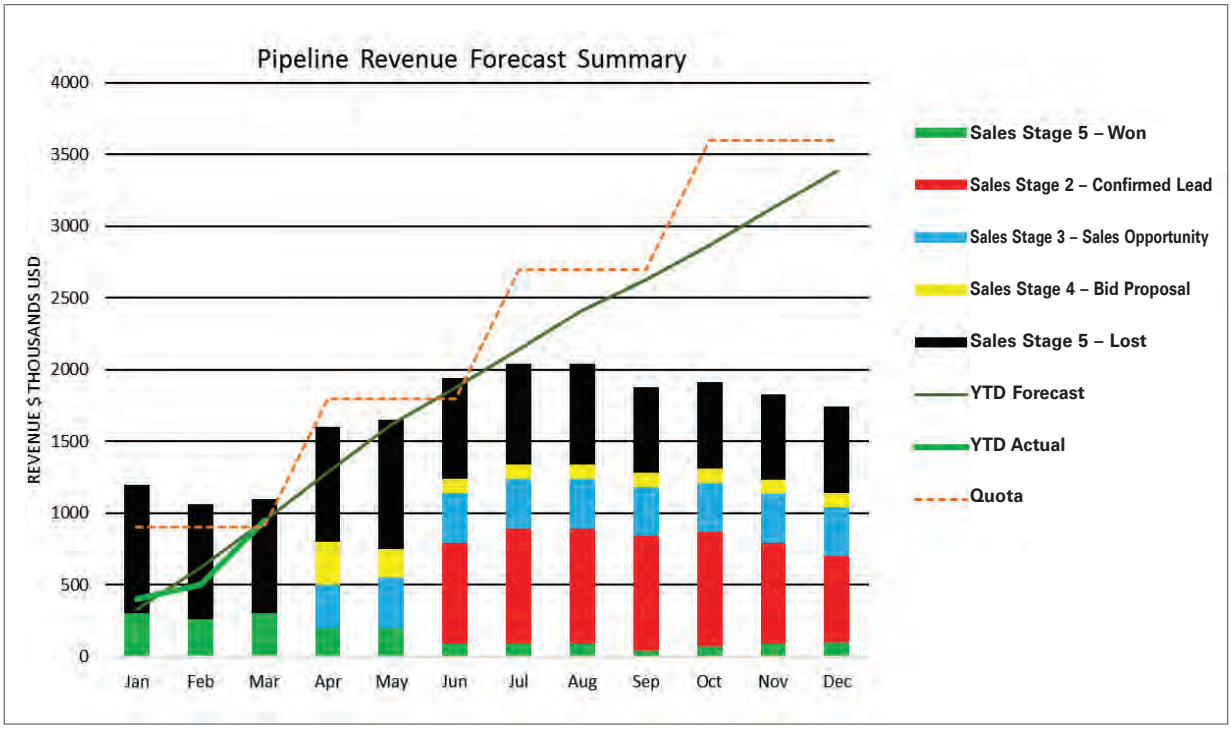


Fig. 13.13
Salesperson PRFS. In this example, the salesperson has made their Q1 quota and appears to be on track to make the Q2 quota. However, there will be a shortfall in Q3 and Q4 if the pipeline remains as it is now. The salesperson can use their historical data to determine their best strategy for increasing prospecting activity, market share, and the level of sell up per won opportunity or a combination of these.

- Level of opportunity (as discussed earlier in this chapter, this triggers what reviews must be done and who must approve the bid strategy).
- Number of days in each sales stage.

By having this structured and focused review, the salesperson's key issues, successes, problems, and challenges will be highlighted, which will assist in selecting coaching events that are value added for the salesperson.

Proposed Coaching Events

As part of the manager–salesperson relationship at the start of each year the salesperson should prepare a training and development plan for the next twelve months. In this plan they should target sales skills that are most relevant for them to achieve their objectives. A skill is a specific capability the salesperson is expected to master to certain level required for the assignments. The PMPV is an excellent tool for the salesperson to highlight proposed coaching and strategic pipeline activities with their manager. See **Chapter Highlight 13.4: "You Got Skills, But Are You Competent?"**

Revenue Forecast Meeting

It must be emphasized that the pipeline review meeting is not a revenue forecast meeting. Too many times sales managers will hold only a revenue forecast meeting and consider their job done for reviewing the pipeline. The pipeline review meeting is a tool to develop your salespeople's skills, help them prioritize sales activities, and be proactive when corrective actions are needed to ensure that the pipeline will deliver the salesperson's quota.

The revenue forecast meeting is equally for management as this forecast information is needed to run the company efficiently and plan cash management to run the company. The revenue forecast meeting is typically held at the end of the month to provide management with an estimate of the next month's revenue and end-of-quarter forecast so management can update stakeholders of the company

Chapter Highlight: 13.4: You Got Skills, But Are You Competent?

What does it take to be successful in sales? This is a question many salespeople ask their sales managers. Fortunately for some, their companyies have invested a significant effort to understand what skills their salesforce need to master to be successful with their customers in a competitive B2B marketplace. Each industry can require some unique skills specific for their industry, but most skill sets are composed of the same core skills.

A salesperson can learn core B2B sales skills by reading this textbook, attending training (there are many forms of training available today: classroom, web based, computer based, etc.), or on-the-job training. But this is only a part of what it takes to be successful. You also must be competent in your ability to apply the skill you have learned. Depending on your sales assignment, you may require a different set of sales skills. In this textbook, the core sales skills discussed are shown in the blue box. Within each skill there can be several elements or sub-skills. For example, the sales call skill has six elements based on the need-satisfaction process:

Marketing
Selling Business Value
Account Management
Opportunities Management
Communication
Prospecting
Sales Call
Handling Customer Objections
Strategic Sales Planning
Bidding
Pricing for Bids
Negotiations
Pipeline Management

- Opening skills
- Probing skills
- Supporting skills
- Closing skills
- Planning
- Evaluation

The level of competency a salesperson can have for each of these skills is based on the application of the skills called a behavior.[9] Behaviors are:

- Observable
- Measurable for a specific outcome or deliverable
- Linked to the salesperson's responsibilities
- Transferable
- Based on performance

There can be several competency levels, as follows:

- None
- Basic
- Advanced
- Expert

Most companies that have a defined sales competency model for the development of their staff will define what level a sales position will need to have. There can be specific sales training as a requirement in addition to the behavior. In too many companies, the sales manager may think that, because they have sent someone to sales training, that person is now competent, which is incorrect. After the training, the sales manager needs to validate that the salesperson can achieve a behavior using the skills they learned during training.

When approving a training and development plan, the best practice for a sales manager is to have the salesperson identify a specific opportunity in their pipeline and when for that opportunity will they apply the skills they will learn at the training session. Then in the monthly pipeline review for any upcoming training, the sales manager and salesperson agree on what opportunity they will use for their case study materials in the training and which specific deliverable the sales manager will review at the next coaching session after the training. On the next page is an example of a pipeline management skill competency grid.

As part of the coaching process, the salesperson should identify the coaching events on their PMPV chart at each pipeline review meeting. As a guideline, sales managers should target three to five hours of coaching per salesperson per month; this amount of time is based on a study completed by the Sales Executive Council.[10]

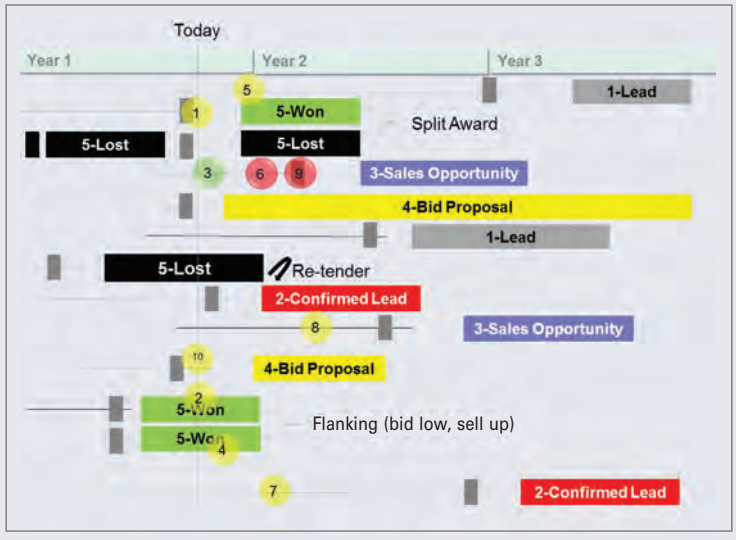
An example PMPV with coaching opportunities is shown below. The colored circles are the approximate time for the events. Yellow circles are level 2 sales call effectiveness reviews, green circles are training seminars, and red are reviews.

Chapter Highlight: 13.4: You Got Skills, But Are You Competent? (cont.)

Skill Unit	Skill Element & Definition	Basic	Advanced	Expert
Pipeline Management	**Pipeline Creation:** Identifies most valuable opportunities to pursue and which to remove from consideration.	Identifies opportunities using specific criteria as captured in the opportunity assessment during the qualification activity.	Keeps all opportunities stages up to date. Recognizes when an opportunity sales stage should be moved to 5-Withdrawn. Proactively takes steps to ensure that the next quarter has sufficient opportunities to achieve objectives.	Consistently identifies most worthwhile opportunities to pursue by following up consistently with customer and works effectively with marketing to identify industry events and conferences and market segments to target prospecting efforts.
	Required Training:	Sales School Level 1	Sales School Level 1	Attends one conference with sessions dedicated to pipeline management and demand creation.
	Required Deliverables:	Creates opportunity in CRM and attaches level 1 opportunity assessment.	Manages opportunity lifecycle metrics. No key metrics are flagged red for more than two quarters.	Assist marketing to prepare an annual prospecting plan. Delivers one lunch-and-learn pipeline creation module for new salespeople prior to them attending Sales School Level 1.
	Pipeline Forecasting: Maintains accurate forecasts-based opportunity stages and historical conversion and market share performance.	Manages forecasts consistently, including most critical information for opportunities.	Maintains a disciplined approach to forecasting, reflecting likelihood of closure accurately.	Ensures that key internal stakeholders maintain visibility into significant forecast changes/revisions (and drivers).
	Required Training:	Sales School Level 1	No additional training.	Attends advanced forecasting techniques seminar.
	Required Deliverables:	Prepares personal monthly forecast.	Opportunity pipeline maintained current year and next year.	Prepares recommendation to improve company forecasting procedure.
	Pipeline Management: Manages pipeline on a continuous basis, keeping each opportunity status up to date, and ensuring that information is added to the CRM database and activities are prioritized to maximize the pipeline value.	Maintains accurate and current opportunity status. Use prioritization of pipeline to proactively select next month's sales activities.	Pipeline reviews are well-prepared and completed regularly, as scheduled.	Reviews pipeline proactively with managers/peers to revisit pipeline quality and progress against plans.
	Required Training:	Sales School Level 1	No additional training.	Reads one book on the subject of pipeline management and presents summary to sales team.
	Required Deliverables:	Generates pipeline management prioritization view from CRM.	Completes all monthly pipeline reviews with the sales manager. All level 2 strategic sales plan and bid strategy reviews are completed.	Leads quarterly pipeline review for sales team. Mentors assigned junior salespeople in the area of pipeline management. Assists junior salesperson to create the 12-month pipeline.

In this case, the training coaching events identified by the salesperson are:

1. Manager to observe sales call skills during outcome analysis with customer.
2. Middle project review with customer. Observe salesperson's business acumen skills part of selling business value skill.
3. Advanced bidding workshop.
4. Selling up and handling customer objections. Selling business value.
5. Prospecting and qualification skills.
6. Review strategic sales plan.
7. Sales call skills using client interview forms.
8. Sales call skills using client interview forms.
9. Bid strategy review
10. Negotiation strategy review.



For each event, the salesperson and sales manager would agree on materials to be reviewed before the event and the objectives for the event. After each event, there is a post coaching feedback session.

When this approach to sales skills coaching is taken, the sales manager will have a salesperson who has the necessary skills and is competent using the skills.

on its quarterly performance. Once a year, this is also done as part of the annual planning process and every three years as part of the longer term strategy planning. A sales team that is competent with pipeline management is an invaluable input for management.

The tools discussed in this chapter forecast based on historical conversion rates of sales stages, average sales cycles, and market share performance will provide much more accurate forecasts than conventional probability-based forecasts. This combined with monthly pipeline review meetings following a standard meeting review structure with each salesperson before the forecast meeting will ensure that the forecasts are accurate and achievable.

There are, however, factors that can increase the risks of forecasts, as listed in the sidebar "These Can't Be Good."[11] Opportunities that fall outside these parameters should be flagged and investigated during the pipeline review meeting. As stated in the sidebar, certain factors should trigger flags that require an opportunity to be investigated by the salesperson. The time to have this discussion is during the pipeline review meeting so the salesperson can investigate before the forecast meeting.

Pick One Thing

Based on experiences from world-class sales managers, the most important factor for ensuring an accurate revenue forecast is early sales cycle qualification.[12] Why? As the old cliche goes "time is money," and wasted time on deals that will not

▶ ***These Can't Be Good***

- **Timing:** Time kills all deals. Look at the opportunity age versus your average sales cycle (i.e., win cycle). Also, if the opportunity is sitting longer in first two stages than your historical won cycles for those stages, then they are "stuck opportunities" and should be flagged as being at risk.
- **Average Deal Size ($):** Review the expected opportunity size versus your average won deal size. If your opportunity is 3x greater than your average, it should be treated differently than your regular opportunities. Larger deals have lower close rates and longer sales cycles than smaller deals, so if the sales rep is not treating the particular opportunity differently, then it's at risk. Also, if the expected deal size of a given opportunity dropped by more than 30% in later stages, then it may be at risk.
- **Slippage:** Opportunities that are often pushed or slip beyond the expected close date should be flagged as being at risk. If a deal's close date has been pushed more than three times, then it should be flagged as being at risk.
- **Stalled Engagement:** Opportunities that are forecasted to close soon should be actively engaged by reps. If an opportunity displays little to no rep activity over the past two weeks, it has likely stalled, diminishing the chances that this deal will close, so it should be flagged as being at risk.
- **Stage:** An opportunity in the first stage of the sales cycle does not belong in the sales forecast, even if the rep marked the expected close date in the current selling period. Additionally, make sure that for every opportunity (at any stage), your reps clearly know the next steps the contact will take. Otherwise, the opportunity must be flagged as being at risk.
- **Negative Velocity:** If there is negative velocity (or the deal is stalling for a longer period in the last few stages), then it should also be flagged as a deal at risk.
- **Title:** By the time the opportunity reaches the late stages, your reps should be talking to a contact who has the title of your typical buyers. If your mentor still has to ask for permission at this late stage from others with authority at his company, then the opportunity is at risk. If the rep is not already talking to these other executive sponsors at this late stage, then this opportunity must be flagged as being at risk.
- **Lead Source:** Figure out what your win rates are for each lead source. If an opportunity comes from your low-probability source, it should be flagged as being at risk.
- **No Competitor:** Typically, customers will shop around to compare products and prices. If, during late stages in the buying process, your sales rep is not aware of which competitors his contact has looked at, then that opportunity should be flagged being at risk.
- **Late Random Additions:** Look closely at any large deals (that are more than 2x the average deal size) that were randomly added at the last minute. These should be flagged as at risk.

close or you can't win is lost. Better qualification early in the sales process will eliminate opportunities that cannot be won. Therefore, the salesperson will have more quality time to spend working the opportunities they can win. That time is spent applying the professional sales approach. Have a high-quality discussion with the customers and prepare the best strategies to win more opportunities at better pricing, then deliver on your promises during the implementation stage of the opportunity. The key to ensuring better qualification is monthly pipeline review meeting. Not meeting the numbers too often is equated with the pipeline not being bid enough. In fact, the real issue is better pipeline management through individual opportunities management will result in better revenue generation from the opportunities already in the pipeline. As it is the customer who buys and the revenue comes from the most important activity, having the right conversation with the right customer about the right thing at the right time is critical. When the salesperson has a full pipeline, then the question is: "What are my priorities this month to make my forecast?" Answer the prioritization question using pipeline management.

Professional salespeople treat their pipeline like a company balance sheet. They manage it every day so that they can generate the best results. Keep your pipeline healthy.

This ends the discussion on pipeline management. The next chapter will discuss another visualization technique for another valuable sales asset in your relationship with your customers. The next chapter focuses on relationship profiling.



Summary of Chapter Objectives

Pipeline management done well is a significant differentiator between professional salespeople and sales staff. Pipeline management provides a visualization of the salesperson's business, and when all the sales team's pipelines are added together, the pipeline becomes the sale's balance sheet. Forecasted revenues from an accurate pipeline are a significant advantage for sales management and the company's executives.

1. Understand the composition and how to create a sales pipeline.
A pipeline consists of opportunities at specific sales stages. It is the responsibility of the salesperson to enter opportunities into the CRM and then keep the sales stages up to date as the opportunity goes through the opportunity life cycle. The pipeline is a visualization of the salesperson's business. To create this view, the minimum data required is the create date, bid due date, close date, and job start and job end dates. What is the expected revenue and what sales stage is the opportunity in?

2. Know how to manage a pipeline effectively and use it to prioritize your daily sales activities.
Pipeline management is a daily activity of the professional salesperson. It is the responsibility of the salesperson to keep the estimated revenues, sales stage, and dates accurate. It is then possible for the salesperson to review their pipeline and prioritize their sales activities following the opportunity management process. One of the keys to pipeline management success is opportunity qualification early in the sales cycle. Early qualification identifies which opportunities are confirmed, and then the salesperson has time to have discussions with the buying center members and decide if the sales team can secure the opportunity. If the sales team is weak in any of the four opportunity assessment questions: (Is there an opportunity? Can we compete? Can we win? Is it worth winning?), then the best sales strategy may be to disengage and use the opportunity to manage the competition and gain a competitive advantage on other opportunities. Strategic decisions regarding opportunity selection are risky when made without an accurate pipeline.

3. Use the sales pipeline to communicate to others important dates and activities to support the management of your pipeline.
The monthly pipeline review is a very important meeting for the salesperson and sales manager. The meeting is a focused and comprehensive review of the salesperson's sales responsibilities, progress, forecast, and development. The pipeline review provides the sales manager the time to compare the salesperson's performance against target's and skill development. The pipeline management prioritization view (PMPV) is a modified version of a Gantt chart a well known and popular tool for project managers. The PMPV is perfect for visualizing pipeline strategies, key opportunity dates, and revenue periods as well as highlighting key review dates' support activities.

4. Know which reports can be created from a pipeline for input to management for reporting and planning.
The PMPV is a great tool for management to see where the business and revenues were generated in the past and where the business and revenues will come from in the future. The pipeline scorecard is a report used determine the health of the pipeline and plan what corrective actions are needed to improve the pipeline before problems such as missed forecasts occur. Changes in the customer base, market segments, and demand for products and services can be determined from the PMPV. The pipeline revenue forecast chart (PRFC) is frequently used by management to prepare their updates to company stakeholders. The PRFC used in conjunction with other conventional forecasting techniques and intuition will provide the most thorough approach to revenue forecasting.

Applying the Concepts

1. Make a printout of your pipeline for the twelve months and identify six coaching opportunities. Use the skills listed in Chapter Highlight 13.4: You Got Skills, But Are You Competent? to help you select the skills most relevant to managing your pipeline.

2. On the same printout of your pipeline identify the key reviews for the next twelve months.

3. For your pipeline calculate the key pipeline metrics listed below and discuss with your sales manager how each of these factors could be improved.

Sales Stage	5-Won	5-Lost	5-Withdrawn	Total
Month Total Sales Calls (CVRs) Made Per Opportunity				
Month Average Deal Size				

Sales Stage	Opportunity Count	Sales Calls (CVR Count)
5-Won		
5-Closed Lost		
5-Withdrawn all stages		
4-Bid Proposal		
3-Sales Opportunity		
2-Confirmed Lead		
1-Lead		
Total		

Opportunity Flow (sales stage conversion rates)	Conversion Rates	Days in Sales Stage
Win rate (4-Bid Proposal to 5-Won)		
3-Sales Opportunities to 4-Bid Proposal conversion rate		
2-Confirmed Lead to 3-Disengage conversion rate		
2-Confirmed Lead to 3-Sales Opportunity conversion rate		
1-Leads to 2-Confirmed Lead conversion rate		
Total Sales Cycle (do not add confirmed lead to disengage)		
5-Withdrawn		
Total		

4. For your pipeline calculate your forecast using the technique described in this chapter to create the PRFS chart.
   - How does this forecast compare to the forecast you make using your current techniques?



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Relationship Profiling



What Matters Most…

What matters most is not who you know, but how you are known to them. Relationship profiling is a high-level snapshot of how groups of customers, such as an entire account or a department within a company, perceive the relationship with your company. The relationship profile also lists selected performance indicators. As the heading states above, salespeople must understand how your company is perceived by your customers.[1] In Chapter 13 "Pipeline Management," the pipeline was described as a visualization of the salesperson's responsibilities and a balance sheet showing the opportunities as assets capable of generating revenue. The relationship profile is very similar. It is a relationship balance sheet at a given point in time. When the profile is weak like a balance sheet, the salesperson or sales team can take actions to change the customer's perception of the supplier's company and improve the relationship over time. The relationship profile is updated periodically to determine if the relationship is improving with time.

Chapter Objectives

After reading this chapter, you will:

- Describe the steps in relationship profiling.
- Perform a relationship analysis for your key accounts, and identify actions to evolve, improve and/or maintain the relationship.

Relationship Profile

A relationship profile has two parts: the relationship profile parameters and your company's performance indicators for the customer. Each part and its measurement areas are listed below.

Relationship Profile Parameters:

- Customer's perception of your company's value provided to them.
- Pricing sensitivity of the customer.
- Supplier's role in the customer's organization.
- Customer's technology adoption profile.

- Customer's technical abilities to use your company's services and products.
- Customer's willingness to form external partnerships and share value.

Supplier's Performance Indicators:

- Current business and contract models used.
- Level of profitability for your company.
- Your company's market share.

The next section explains how to assess each relationship factor. A spreadsheet and workshop poster are available for download from the textbook website, and the poster is included in the appendix of this chapter. These resources should assist you and your team when completing a relationship profile.

Relationship Profile Parameters

Perception of Your Company's Value

Chapter 1 discussed the marketing strategies companies use to attain goals and objectives. Based on the work of M. Porter, a company model can have one or more of four strategies based on strategic target and advantage: broad cost, broad differentiation, focus differentiation, and focus cost, as shown in **Fig. 14.1**. Marketing strategy can also include the high-level value proposition the customer associates with the company.

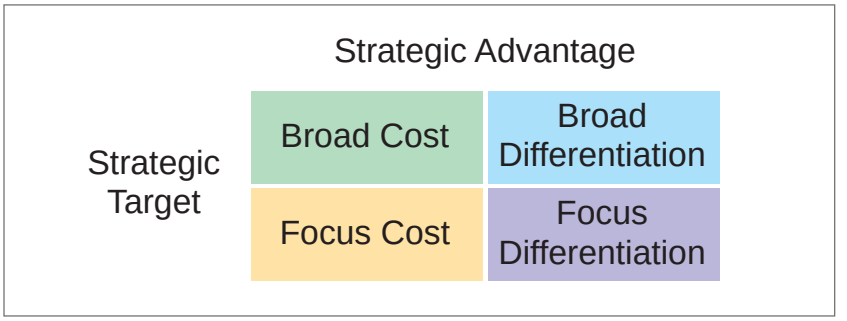


Fig. 14.1
Generic marketing strategies.

We can use a consumer example to illustrate. When the average consumer thinks of watches, different images come to mind. Typical perceptions are based on what the consumer expects from a watch, so one consumer may think of a Rolex watch in terms of value and prestige; another consumer may think of a Rolex watch as expensive. Rolex probably wants its customers to connect its watches with value and prestige—not with cost. So Rolex would have some work to do with those customers who think of its watches as expensive.

The same is true for your company. The customer's perceptions of your company are important for managing the relationship. You need to know why the customer purchases your products or services over your competitors's and how the customer perceives the value you deliver. Using Porter's model, select one of the market strategies to describe how the customer perceives your company[2]:

Broad differentiation. Total service provider with a global reach and having the resources needed to effectively satisfy multiple needs and requirements. The customer buys from your company because your broad differentiation provides them value.

Focused differentiation. Best provider. The customer buys from you because they see your company as the best for a specific product or service.

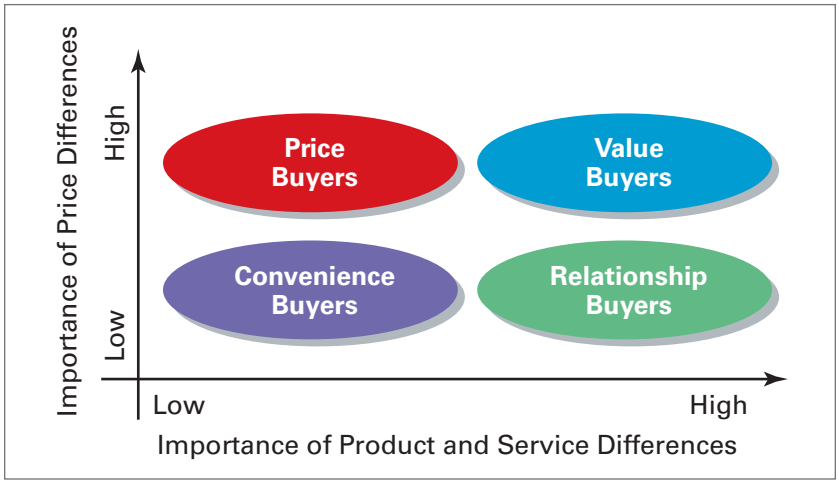


Fig. 14.2
Buyer price, product, and service sensitivity classification.

Focused cost. Low-cost provider of product or services the customer needs. The customer buys from you because they believe you provide what they need cheaper than anyone else.

Pricing Product Service Sensitivity

Buyer behavior was discussed earlier in Chapter 1 "Understanding the Role of Marketing and Sales." Buyer behavior can be classified into four buyer types, as shown in **Fig. 14.2.**[3] In the upper left-hand corner are buyers who seek to buy at the lowest price consistent with some minimum level of acceptable quality that several suppliers can meet. These **price buyers** do not make feature benefit trade-offs and cannot be convinced to pay more for the unique added value of superior features, service, or supplier reputation. Price buyers' perception of value is the lowest price, without hassles, and consistent products. These buyers know exactly what they are buying and do not want any surprises. **Figure 14.3** shows what each of the three main buyer groups perceives as value.[4]

In the lower right-hand corner of Fig. 14.2 are the **relationship buyers**, who already have a strong preference for one company, based on its unique reputation, its unique features, or past experience with that company. If the prices of purchasing from that company do not exceed what they are willing to pay, these buyers will purchase from that company even if there are cheaper alternatives. Their perception of value is to buy the best total solution for their needs. They want to deal with experts so they can focus on other issues. Although they know they are paying a premium, they are nonetheless convinced it is worth it.

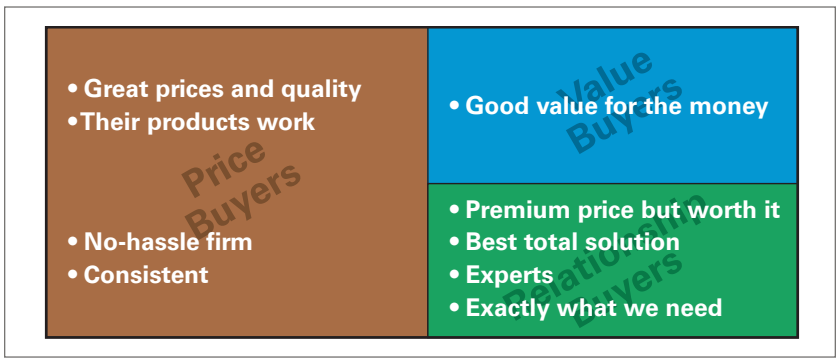


Fig. 14.3
What the three main buyer segments say about value.

Although these two segments are frequently considered the two ends of a price–quality continuum, Fig. 14.2 clearly reveals two other segments that do not fit within that linear view of buyers.

Many customers are price sensitive when they make large expenditures or have limited budgets, yet they are also sensitive to differences offered by various suppliers. These **value buyers**, shown in the upper right-hand corner of Fig. 14.2, may buy a relatively high-priced offering but will do so only after carefully checking the prices and features of the alternatives and concluding that the added value is worth the added cost.

Their opposites, represented in the lower left-hand corner, are **convenience buyers**. These buyers are not particularly concerned about the differences among brands. Any brand will do, but convenience buyers are also not particularly concerned about cost. Consequently, they buy whatever is most readily available, minimizing the search and evaluation of prices and features.[5]

The most common types of buyer behavior for most new B2B purchases are price, value, and relationship buyers. Convenience buyer behavior can be important in B2B repurchases or when a customer has several contracts in place with different suppliers and can buy from any supplier by simply placing an order to any of the approved suppliers.

Buyer Migration

Conventional economic theory suggests that, over time, natural market forces create a migration of buyer behavior from loyalty and value to price. This happens when products and services become more similar over time, differences between suppliers become less obvious, and the deciding purchasing factor becomes price. **Figure 14.4** illustrates this migration.[6]

This migration is observed as markets mature, even in markets where a company constantly introduces value-added products and services. In fact, some procurement departments would like you to believe that price is the only discriminating factor. Why does this happen in an industry that can benefit from more than just low prices?

Here are three common reasons:

- **Lack of customer focus.** This happens when a company's sales staff fail to explain the differentiating features and benefits that result in added value for the customer. Consequently, the customer views all or a selected group of companies and their offerings as the same. This lack of focus is particu-

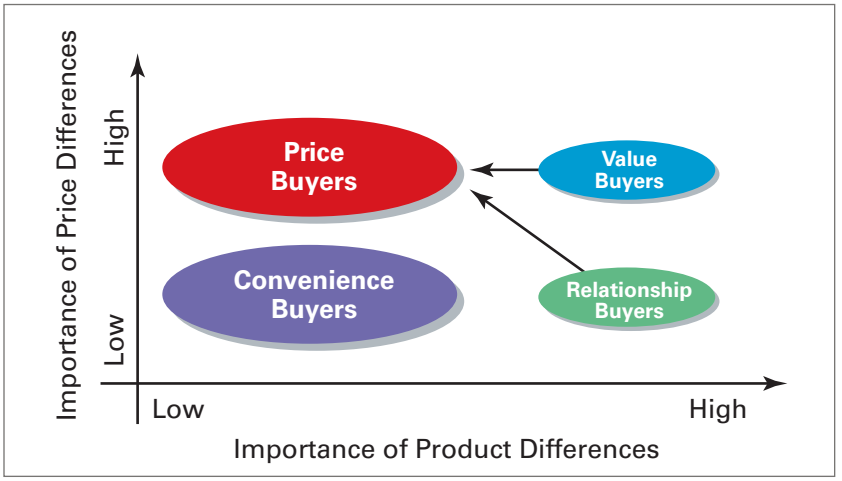


Fig. 14.4
Buyer migration over time.

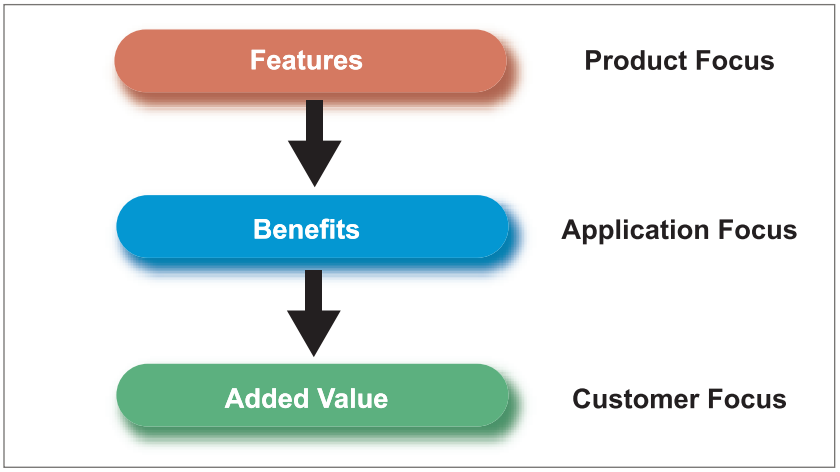


Fig. 14.5
Levels of focus.

larly true when the customer does not have the time or internal expertise to quantify the benefits of the added features. As a result, the customer sees all products and services as equal and uses price as the key purchasing factor. **Figure 14.5** shows three different levels of focus and the main focal points for each level. For example, when sales staff talk to the customer about product features, they show a strong product focus. When they discuss general benefits, they show an application focus; when they discuss added value as it pertains to the customer's specific environment, they use customer focus. Customer focus, discussed more fully in Chapter 7 "Sales Call Skills," is the ideal focus for most sales staff.

- **Service does not justify a price premium over a competitor.** See **Chapter Highlight 14.1 "Beware of Customer Satisfaction Surveys."** Many studies have demonstrated that customer loyalty is created by superior service, not just good service. When buyers select a supplier, they believe the purchase includes good service. Only total customer satisfaction gives a supplier an advantage over competitors. Later chapters discuss the importance of delivering on the promise during the execution stage of projects, which directly impacts total customer satisfaction.
- **Poor price management practices.** Such practices occur when a company has variable pricing policies that are not sufficiently justified based on the level of products or services offered, after-sales support, or size of the customer's commitment. As a result, the company rewards price buyers by giving them a better deal than the value or relationship buyers. Once the value and relationship buyers discover this, they ask for the same prices and behave like price buyers. This typically happens when companies try to increase market share by lowering prices.

Chapter Highlight 14.1: Beware of Customer Satisfaction Survey

The Satisfaction Trap[7]

Many companies that use satisfaction surveys to learn how happy their customers are with their products or services often mislead themselves. What matters is not what customers say about their level of satisfaction, but whether the value they feel they've received will keep them loyal. As tools for measuring the value a company delivers to its customers, satisfaction surveys are imperfect. As tools for predicting whether customers will purchase more of the company's products and services, they are grossly imperfect.



Satisfaction surveys have two principal problems. The first is that satisfaction scores have become an end in themselves at many companies, but scores mean nothing unless the satisfaction they purport to measure translates into purchases and profit. The second problem is that satisfaction surveys are often poorly conceived and conducted. They measure the wrong activity or the wrong customers; they are easy to manipulate; they encourage companies and employees to invest time and money unproductively.

In many organizations, good satisfaction scores are considered a higher goal than profits and have a more immediate effect on compensation. The automobile industry pioneered the use of satisfaction surveys and probably spends more money on them than any other industry. When General Motors committed itself to reversing the inroads of foreign competition by concentrating on customers, it tied a portion of management bonuses to improvements in satisfaction scores. In the 1980s, satisfaction scores went up, as do most measures included in management bonus calculations, but market share and profits continued to go down. Nevertheless, most automakers continue to track satisfaction scores with great statistical rigor and use them in incentive and recognition programs for a wide range of employees. Today, as a result, more than 90% of industry customers report that they are satisfied or very satisfied. But repurchase rates remain mired in the 30% to 40% range. How can that be? There are several reasons, all having to do with the second problem: the way satisfaction surveys are designed and carried out.

Whenever rewards are based on satisfaction scores decoupled from repurchase loyalty and profits, the result is unproductive behavior. Employees naturally seek the easiest ways to improve scores, not necessarily the most profitable ways. One car dealership offered free auto detailing to any customer who agreed to return a survey marked "very satisfied" in all categories. The dealer even provided a printed copy of the survey showing how to check it off. At another dealership, a salesman pleaded with a customer to fill the form with favorable responses. "I'll lose my job here if I don't get high scores," he said. Auto companies like to advertise high marks on J. D. Powers and Associates satisfaction surveys, so they've also learned how to manipulate the scores. Calling customers immediately after they've bought a car and asking about the experience is one way to keep scores high, but probably won't lead to increased loyalty.

A second reason surveys don't work is that they almost never provide the information that managers need to pick the investments that will maximize customer value and, in turn, cash flow. Early successes with satisfaction programs are often a matter of picking low-hanging fruit. A car company's surveys might identify easily remedied sources of dissatisfaction, such as mechanics wearing dirty uniforms or customers not getting their cars on time. Once a company has made the obvious improvements, however, it's likely to find that the next level of satisfaction enhancement requires a real investment. Is it worth $10 million to increase the average satisfaction score from 85% to 90%? Is it worth $100 million? These questions are basic to delivering the best value, but satisfaction surveys cannot answer them.

A third drawback is that surveys ignore critical distinctions among customer segments. Companies should pay less attention to what customers say and make a greater effort to track lifetime purchases. What makes this effort so important is that it forces a company to channel its consumer satisfaction investments toward

Chapter Highlight 14.1: Beware of Customer Satisfaction Surveys (cont.)

customers with the highest potential value, whereas satisfaction research conducted broadly across the entire customer base—the correct approach statistically—will necessarily show the influence of unprofitable customers. For example, a bank's branch manager might hear many complaints about long teller lines, but it's perfectly possible that the branch's most profitable customers do most of their business by phone, mail and/or ATM. Investing in more tellers may inflate satisfaction scores but actually deflate profits by improving service levels and increasing costs in areas that the best customers don't care about.

The Baby Bells are another example of companies using satisfaction surveys as they grope for the right management tools in an increasingly competitive environment. Most have developed surveys to help focus their organizations on customer service, but few have built systems to analyze lifetime purchases and profits from different types of customers. Those that do this analysis find that the top 10% of their customers are worth 5 to 10 times as much in potential lifetime profits as the bottom 10%. Telephone companies that try to manage through increasingly refined customer satisfaction systems are likely to suffer the automakers' fate. While they work at raising broad satisfaction scores, competitors will lure away their best customers by delivering outstanding value to precisely these most profitable segments. Diminished cash flows will then make it more difficult to deliver good value even to average customers.

Yet another weakness of satisfaction surveys is that an increasing number of customers are tired of being surveyed. A Cadillac dealer tells this story: "One of my customers cornered me at a charity board meeting and told me, 'I got a call after I picked up my car, asking if I was satisfied with the sales experience. Then I got a call after the car was serviced, asking if I was satisfied with the service experience. Finally, someone called to check if I was happy with the ownership experience. So when am I going to get a call asking if I'm satisfied with the satisfaction survey experience?'" One leading auto company admits that customers can get as many as six surveys in a year. Imagine how much this costs the company, to say nothing of customers' wasted time.

Companies serious about measuring the value they deliver to customers do not rely solely on satisfaction surveys. They recognize that satisfaction is an inherently unstable and temporary mental state and therefore is tricky to measure. Instead they track repurchase loyalty to determine the true value of their products and services relative to those of competitors. When customers don't return for service, or when they buy another brand—these are incontestable signs that they are unhappy with the value. In business after business, 60% to 80% of lost customers reported on a survey just prior to defecting that they were satisfied or very satisfied. Some companies respond by trying to increase the sophistication of their satisfaction measures. Most automakers have chosen this approach, but they still see 90% of their customers claiming to be satisfied and 40% coming back to buy again.

The exception is Lexus, a consistent winner of auto satisfaction awards, which refuses to consider surveys the best measure of satisfaction. In the words of Dave Illingworth, the first general manager of Lexus, "The only meaningful measure of satisfaction is repurchase loyalty." Illingworth knows that the gap between satisfaction scores and repurchase loyalty can be enormous. Drive by a Lexus dealership and you'll see a satellite dish on the roof. It keeps the dealer in constant touch with Lexus headquarters and maintains a steady flow of information in both directions about customers' auto and service purchases. Lexus knows which customers are coming back for more and which are not, and it can analyze the differences between dealers who are earning superior customer loyalty and those who are not.

In depending so heavily on broad-based satisfaction surveys, companies are letting too many defectors slip through the cracks. There is a better way. To know how much companies can afford to spend to satisfy specific customers, they need to measure the return on their investment. The only way to do that is to study lifetime purchase patterns. But since they have to track purchase patterns to determine customer profitability, why not simply use this information as their satisfaction index? Customers' repeat purchase loyalty must become the basic yardstick of success. Companies can avoid the satisfaction trap if they remember that what matters is not how satisfied you keep your customers, but how many satisfied and profitable customers you keep.

Supplier's Role

What matters most is not who you know but how you are known to them.[8] One way to determine how a customer perceives your company is to identify how you participate with that customer in the five stages of the project management process, as discussed in Chapter 2 "Value Drivers" and Chapter 9 "Strategic Sales Plan," Chapter Highlight 9.2: Just Take My Order, Please. In **Fig. 14.6**,[9] the supplier role is classified on three levels:

- Trusted adviser
- Problem solver
- Vendor

The black line under each role indicates in which stages in the project life cycle your company participates. The white curved line indicates the amount of executive involvement in each stage of the project life cycle. Typically, executive involvement in the project life cycle is high in earlier stages and then gradually decreases through each successive stage to procurement, when it is lowest. Executive involvement increases again once the project starts and is high again when the results are reviewed. Your company's contact with customer management during the project stages is a good indicator of your role in the account.

Trusted Adviser

If the customer considers you a trusted advisor, you are viewed as a stakeholder. At this level, the customer believes you are interested in optimizing the performance of their reservoirs. You have demonstrated your concern that they achieve their goals and objectives. When viewed as a trusted advisor, you will be involved in all five stages of the customer's project life cycle.

Problem Solver

If the customer considers you a problem solver, you are viewed as a specialist. This perception can apply to specific products or services, or only to a specific situation, such as your expertise in offshore development. When this is your role, you are involved in the later part of the project selection stage (2) and in the evaluation of options stage (3) as well as on through the review of results stage (5).

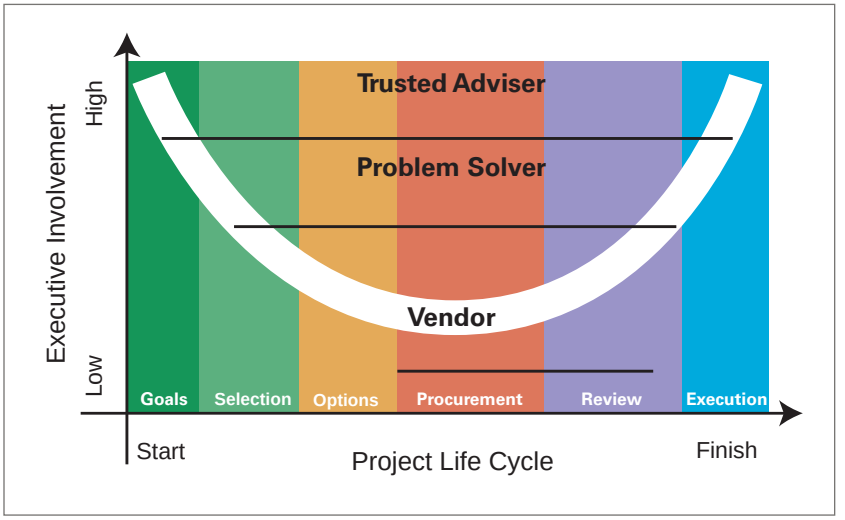


Fig. 14.6
Supplier roles in the customer's project life cycle.

Vendor

The account considers your company as a vendor if the only time you become involved in a project is when you receive a tender to bid during the procurement process. If you win the contract, you participate in the execution. In this role the vendor does not have contact at the executive level. With such limited exposure to the customer's project life cycle, you cannot have much influence.

Technology Adoption Profile

As discussed in Chapter 1 "Understanding the Role of Marketing and Sales," technology adoption is a measurement of the customer's willingness to adopt new technologies as shown in **Fig. 14.7.** The first group to adopt new products is described as **innovators**. They account for a small portion of the purchasing population. They buy new technology for the sake of wanting to test it. Some organizations have groups who are given the responsibility of testing any new technology before it becomes widely used in the companies' operations. These groups and individuals are sometimes called gatekeepers in the buying center. These groups are usually good targets for field-testing campaigns during the product development stage and in the market development stage of the product life cycle.

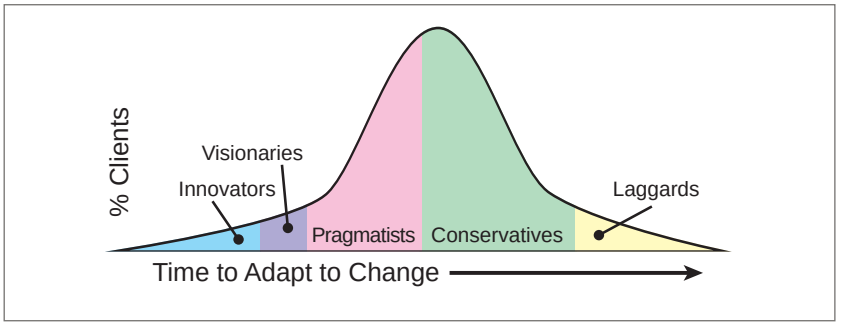


Fig. 14.7
New technology adoption life cycle. Pragmatists and conservatives represent the largest portion of the purchasing population and make up the majority of the purchases in stage two of the product life cycle.

After the new technology has been proven to work as advertised, the next group to adopt the technology is **visionaries**. Visionaries, like innovators, buy into new product concepts very early in their life cycle, but unlike innovators, they are not technologists. They are people who find it easy to imagine, understand, and appreciate the benefits of a new technology and to relate these potential benefits to their other concerns. Whenever they find a strong match, early adopters are willing to base their buying decisions upon it. Because visionaries do not rely on well-established references when making these buying decisions, preferring instead to rely on their own intuition and vision, they are key to opening up any high-tech market segment. Visionaries believe they will gain a competitive advantage by adopting new technology early. They believe they can gain a huge cost or revenue benefit from the new technology. These two groups—innovators and visionaries—are usually the ones who make purchases of new products during stage one, the market development stage.

The next group to purchase a new product is the **pragmatists**. Pragmatists share some of the visionaries' ability to relate to technology, but ultimately they are driven by a strong sense of practicality. They know that many new products may not prove viable or practicable, so they are content to wait and see whether other companies successfully integrate the new technology before buying it. They want to see well-established references before making substantial investments. Because this group is the largest—accounting for roughly one-third of the whole adoption

life cycle—winning their business is key to recovering investment and development costs of the new product.

The next group to purchase is the **conservatives**. Conservatives share all the concerns of the pragmatists, plus one major additional one. Whereas pragmatists are comfortable with their ability to handle a new technology product once they finally decide to purchase it, members of the conservatives are not. As a result, conservatives wait until the product has become an established standard or has gained widespread industry approval and support. Even then, conservatives require a lot of proof and, therefore, tend to buy from large, well-established companies. Like the pragmatists, this group comprises one-third of the total buying population in any given market segment. Securing a large portion of this group is required if high levels of profitability are to be achieved.

The last groups to adopt new technology is the **laggards**. Although small in size, the laggards are almost the same size as the innovators and visionaries percentage-wise. Laggards generally purchase new technology to protect investments and to replace worn-out products.

For relationship profiling, the choices are listed as "visionaries," "pragmatists," and "conservatives." Most companies have departments of innovators, or gatekeepers, whose responsibility is to test new technologies and approve their usage.

Technical Ability

Technical ability refers to the account's internal ability to use your products and services to their fullest potential—that is, whether the customer has the internal technical expertise to extract full value from your offerings. Technical ability is classified as strong, good, or weak. Strong technical ability describes companies with an advanced level of technical capability. Strong companies sometimes have specialists whose technical knowledge equals your own experts. Typically, visionary companies have strong technical ability. Good technical ability describes companies that have internal technical departments to assist end-users in adopting and applying your company's technologies in their operations. Weak companies do not have the resources necessary to stay abreast of available technologies and need assistance in using the products and services. For example, companies that have invested in the E&P industry but who do not have the traditional E&P experience or structure are often classified as weak.

Customer's Willingness to Form Advanced Business Relationships

This measurement area is used to identify accounts that are potential targets for participating in advanced business relationships. From an account management perspective, this factor helps to identify which accounts would be more receptive to value-added cross-selling proposals. There are three types of this profiling factor, as shown in **Fig. 14.8** on the next page.[10]

Standard

A standard account is one that will only consider the basic contractual supplier–customer relationship. For these accounts, the contractor provides a defined deliverable based on a cost plus contractual framework. In this type of relationship, the customer's main objective is to get what he asked for typically through a tendering process. Business drivers of the account include the quality of the service and cost reduction. Examples of delivery metrics for this type of the relationship are system availability and cost-reduction targets. After entering the procurement phase, procurement and contract departments largely handle the discussions. The key

Factor	Standard	Collaborative	Strategic
Relationship	Contractual	Part of team	Partner
Remuneration	Cost plus	Performance and/or results based	Value based
Control Mechanism	Contract review meetings for compliance	Review meetings for results and coordination	Review meetings for value delivered.
Deliverable	Defined product or service	Business need	Business value
Main Interface	Procurement	Management responsible for business need	Executive responsible for delivering business value
Contractor Risk	Minimum	Based on performance and/or results	Based on investment to achieve business value
Profitability	Factored into pricing	Based on performance	Based on accounts success
Example Metrics	% up time Time to answer call Number of failures Rejection rate	User satisfaction Cost per transaction Time to market Project costs	Revenue Revenue per employee Customer retention Market share
Business Drivers	Cost reduction	Process improvement	Improved performance

Fig. 14.8 Summary of relationship models.

control mechanism used by accounts for this type of relationship is the signed contract and service review meetings to ensure that deliverables have been satisfactorily delivered. For this type of business relationship, there is very minimum risk for the contractor and very little potential to earn more profit than factored into their contract for requested services.

Collaborative

A collaborative account is one that has already participated in a more cooperative business relationship or is actively discussing prospects to test this type of relationship. The collaborative business relationship is where the contractor engages the contractor to find the best solution to their business needs. The supplier is considered to be very much part of the project team. Decisions are taken after options have been openly discussed and evaluated between the business partners. It is not usual that the deliverable to the customer includes some form of management responsibility, typically of products or services provided in level 1.

Remuneration goes beyond the standard cost-based systems and includes the contractor risking a portion of his remuneration based on benchmarks for levels of performance and results. If benchmarks are achieved, then contractors receive bonuses; if they are missed, contractors will be assessed a penalty for not achieving benchmarks. The drivers for this type of business relationship in addition to level 1 drivers are additional business considerations, such as speed to market, access to the contractor's larger resource base of skills and resources, the need for commercial flexibility, scalability, and rapid response.

Metrics for this type of relationship in addition to level 1 metrics include improvements in performance, on-time project delivery, and user satisfaction. During the selection of the supplier, the procurement and legal departments play less of a role and the management initiating the collaborative approach will stay involved throughout the selection process. The key control process for this type of business relationship includes regular operating review meetings for results delivered and coordination issues.

Strategic

A strategic account is one that has already participated in a collaborative business relationship and is discussing projects to use a strategic partnership relationship or has already participated in a strategic partnership. In a strategic partnership, the partners are far more dependent on one another for the delivery of business value. Discussions revolve more around what the strategic partner will be responsible for in terms of processes and business needs, leaving the details of what and how this is done to the strategic partner.

In a strategic partnership, each partner works to ensure that the other is financially successful. Remuneration is based on agreed upon business results. Risks can be higher than the collaborative relationship depending on what the contractor wants to invest in the relationship to achieve better results for the account; however, the improved results should result in a significant benefit for the contractor. In this type of relationship, the service provider typically takes responsibility for completing the project of the business process. In this type of relationship, it is not usual to have the contractor's research and development focus on the customer's specific needs or to participate in joint research and development. The client utilizes the full resources of the partner to maximize the value to their business.

Metrics for this type of relationship are direct corporate value drivers, such as revenue, profit, and earnings per share. Strategic relationships are driven by business strategy; as such, in the selection of the strategic business partner, the executive of the business units who are dependent on the strategic partner will be very active throughout the selection processes. In most cases a strategic partner will not be a new provider, but a company that the account has worked with previously. In these types of strategic relationships, the main control process is a regular review meeting for value delivered.

Shown in **Fig. 14.9** are all the relationship profile parameters discussed. The interpretation of the results will be discussed later in this chapter. The next section will discuss the performance indicators.

Parameter	Relationship Profile Parameters					
	Value Enabler	Sensitivity	Supplier Role	Technology Adaption	Technical Depth	Business Relationship
Level 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic
Level 2	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative
Level 3	Focus Costs	Price	Vendor	Conservative	Weak	Standard
Account						
Account 1	Focus Differentiation	Value	Problem Solver	Pragmatist	Strong	Collaborative
Account 2	Focus Costs	Price	Vendor	Conservative	Weak	Standard
Account 3	Focus Differentiation	Price	Problem Solver	Pragmatist	Good	Standard
Account 4	Broad Differentiation	Relationship	Stake Holder	Visionary	Good	Strategic
Account 5	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic
Account 6	Focus Differentiation	Price	Vendor	Visionary	Strong	Collaborative
Account 7	Focus Differentiation	Price	Vendor	Conservative	Weak	Standard

Fig. 14.9
Relationship profile matrix.

Performance Indicators

Business and Contractual Model

Your company can offer customers a full range of business and contractual models for their various projects, and you classify the account according to their preferred business model. For this profile measurement area, you can use three business model classifications: **cost plus** for basic models and **performance based** or **results based** for advanced models. Each advanced model requires successively higher levels of cooperation, trust, and alignment of operator and supplier objectives. The ultimate goal for the advanced models is greater profitability for both the customer and your company. **Fig. 14.10** lists business and contractual models commonly used today.[11]

	Business Model	Example	Value Realization		Contract Model
			Base Value	Risked Value	
Advanced	**Joint Value Enhancement (JVE)**	Field optimization services	NPV, $/barrel	Risk/reward over life of project	Value-based remuneration
Advanced	**Engineered Solutions**	Unique project design	Service fees at market or discounted	Risk/reward for a defined project scope	Results-based remuneration
Advanced	**Integrated Services & Processes**	Construction Business process outsourcing (BPO)	Service fees at market or discounted	Risk/reward for performance	Performance-based remuneration
Basic	**Services**	Single, bundled or consulting services	Price per unit of service	None	Standard service pricing
Basic	**Products**	Product or software sales	Price per unit of product	None	Cost-plus basis

Fig. 14.10
Basic and advanced pricing models.

Basic Models

All basic models are classified as cost plus, and are used for products and services charged at cost plus a mark-up based on quantities used. Two common variations of the basic model are volume discounts and turnkeys.

Volume discounts recognize that, as volume efficiencies are gained, part of the cost saved is shared back with the account through volume discounts. Service bundling offered without a performance- or results-based remuneration component in the contract falls in the basic category under the volume discount scheme.

For turnkey or lump sum contracts, the operator sets specifications and jobs are bid by well or by project. The selected service company then executes the job on demand. The incentive is to complete the job as quickly as possible to earn the greatest profit. If the supplier has problems completing the job or project, the contractor earns no more than the turnkey price.

Advanced Models

Advanced models, in addition to the product and service fee, include a risk or reward component as an incentive portion of the remuneration. The risk or reward component can be based on the contractor's performance, project results, or asset value creation. The main difference among the various advanced models is the level of risk your company is willing to accept and the level of customer willingness to outsource and share value creation.

Performance-based contracts include integrated services and processes. These business models span a range of activities, from service execution—performing bundled services—at the basic end, to product delivery—such as providing a completed well or offshore platform—at the most sophisticated end. These types of projects usually include conceptual design, process planning, service execution, and evaluation.

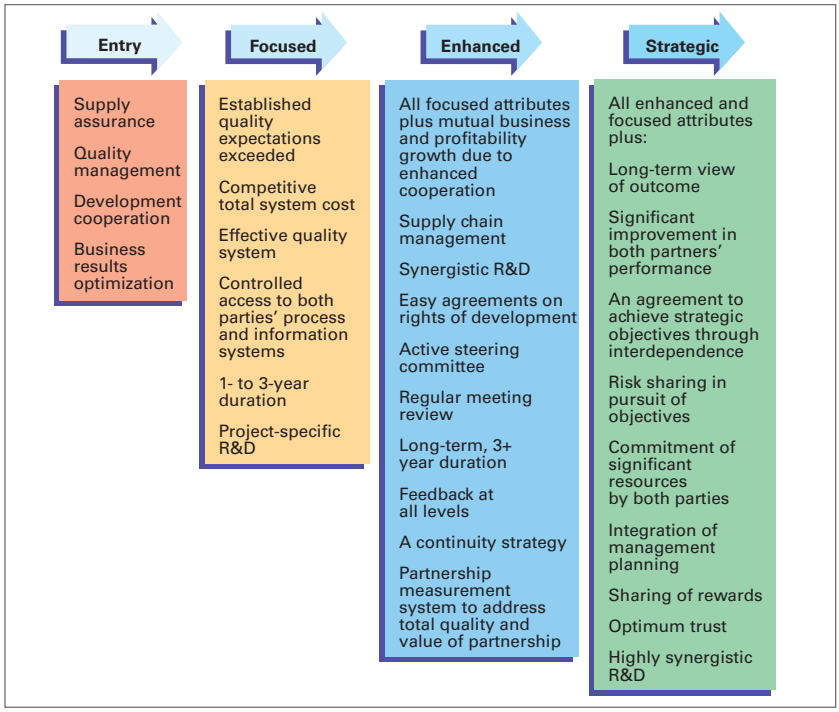


Fig. 14.11
Different levels of alliances.

Typically, results-based contracts include engineered solutions, with performance incentives when established benchmarks are bettered or surpassed, or discounts from the market's going rate when benchmarks are missed. Benchmarks may include days to drill a well, daily production rates, and unproductive time.

Value-based contracts include joint value enhancement projects. For these contracts, the benchmark is a base case value of an asset. Such base case value measurements are NPV or profit per barrel. Your company's exposure in these types of projects is limited, and profits are capped because your company should not take an equity position in any project.[13] Compared to other business models, the expected profit from a value-based contract is greater for both the customer and your company. One example of a successful value-based project was for an oil company and service company in Venezuela.[14]

The project is described as an alliance, which is a long-term relationship between two companies that furthers their common interests over a specific range of activities. Alliances differ from integrated services contracts. Under an integrated services contract, the client assigns responsibility to the supplier to reduce the client's costs. In an alliance, the supplier accepts responsibility for reducing the client's cost, and the client accepts responsibility for ensuring the supplier's profit, often by assuring future business and sharing gain with the supplier. The two sides work together to reduce costs and improve profitability for all involved.[15] **Chapter Highlight 14.2: "Impossible Improvement of Profits for Both Companies—It Doesn't Add Up!"** demonstrates how an alliance can improve profitability for both companies.

Integrated services and alliances are not mutually exclusive. An integrated services project may be offered to an alliance partner, or may evolve into an alliance. In fact, most alliances start out as tests for a certain period of time. If successful, alliances may become self-renewing, or "evergreen."[16]

Alliances can evolve over time from entry to focus to enhance to strategic levels. **Fig. 14.11** lists the features of each type of alliance. "Strategic alliance" often describes alliances that are part of the partner companies' strategies and implies

▶ *Alliances as a Marriage*

In French, "alliance" means "marriage." Indeed, many alliances seem to resemble marriages more than they do other business relationships. One study across 37 different industries found that relationships between companies grow or fail much like relationships between people. The report describes four phases of an alliance: courtship, engagement, marriage, and old marrieds. During courtship, each side checks out the other and compares them with others, looking for the most attractive, compatible partner. Compatibility is based on common values, principles, experiences, resources, and hopes for the future. After the engagement, plans are drawn and the wedding closes the deal. The agreement is given a name and made public. Executives from both sides are invited to "meet the family." The marriage phase begins as the partners set up housekeeping together and grow as a family. During this phase, differences are discovered—sometimes coming as a surprise to those who founded the alliance—and the partners must work out problems and develop techniques for getting along. Trust is crucial, and individual sacrifices are made for the good of the relationship. As partners enter the "old marrieds" phase, they can reflect back and recognize changes not anticipated at the start of the relationship. Collaborating becomes more effortless and routine. The study also outlines the eight essential "I"s in an alliance that make for a strong "you:"



Individual excellence: Each company is strong and has something of value to contribute. Motives for pursuing the relationships are positive: to pursue future opportunities, not mask weaknesses.

Importance: The alliance fits with major strategic objectives.

Interdependence: The partners need each other, have complementary skills, and could not achieve the same results alone.

Investment: Each side shows tangible signs of long-term commitment by devoting financial or other resources to the relationship.

Information: Partners share data required to make the alliance work. These include objectives, technical data and knowledge of conflict, trouble spots, or changes.

Integration: Partners develop linkages and shared ways of working together. They build broad connections among many people at different levels in the organization. They become both teachers and students.

Institutionalization: The alliance is given a formal status and extends beyond the people who formed it.

Integrity: The partners behave honorably in ways that justify and enhance mutual trust. They do not abuse information, nor do they undermine each other.

that the companies share their strategies openly. Few alliances between customers and suppliers have reached such a level of cooperation and openness, but that is the goal to which many aspire.[17] Selecting the right alliance partner takes careful consideration of all aspects of the relationship (see "Alliances as a Marriage" sidebar[18]).

Profitability

Profitability is a measure of profit made at the account level. Determining this is not always easy as account-level profitability is not readily available from financial reports unless the location has only one or two major accounts. This measurement includes both the direct operational costs and revenues generated from the account plus the servicing costs.

Servicing costs include a portion of the overhead that is dedicated to meeting an account's needs. This includes the costs of support personnel, such as dedicated in-house engineers, and interpretation and sales staff dedicated or shared among accounts. See **Chapter Highlight 14.3 "Dedicated Service Personnel"** for a real example. It also includes any ongoing and special carrying costs such as invoices open beyond the standard terms and conditions, holding of inventories for future work, etc. Profitability also depends upon the prevailing market conditions within the region.

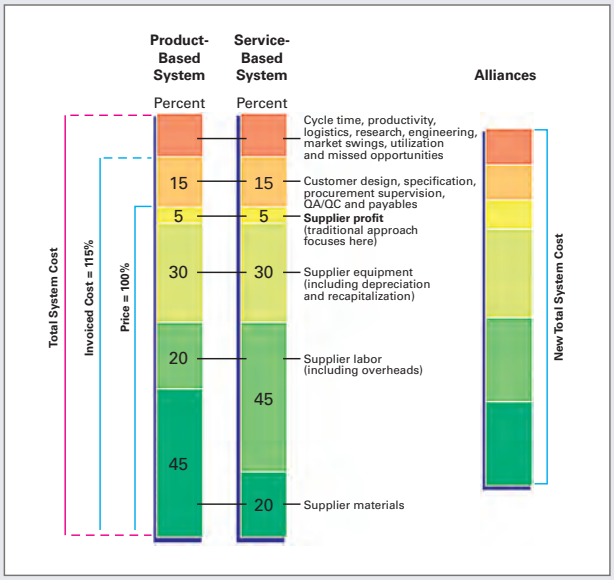
Here is the suggested classification scheme for account profitability:

- Level 1, the best profitability at the region level, is greater than 20%
- Level 2, average profitability at the region level, is between 10% and 19%
- Level 3, below average profitability at the region level, is 10% or less.

Chapter Highlight 14.2: Impossible Improvement of Profits for Both Companies—It Doesn't Add Up!

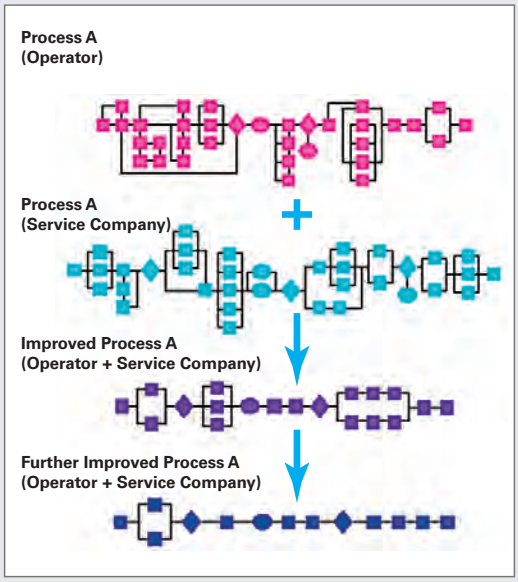
Cooperative Spirit of Alliance Changes the Way Problems Are Approached

The quest to cut costs means not dwelling on contractor profit but cutting total project cost (see diagram at right).[19] To uncover where cuts can be made, every process in the entire project must be analyzed and examined for inefficiencies. Alliance partners construct a description, called a process map, for each process. A process map may be a list of steps or a flowchart, as shown below. After the total project is analyzed, individual processes are retained only if they add value. Improvements are made to the remaining processes, or entirely new processes are developed, and the new processes are remapped, leading to continuous improvement.[20] Decisions on how to improve a process come from the alliance partners, and team members have the power to make the necessary changes. Where does an alliance begin cutting costs? An economics professor would advise to cut first where there are the easiest and biggest gains.



In today's development-oriented oilfield, pumping services can often account for the majority of the cost of a well. Pumping services have become the early targets of companies trying to increase efficiency. Process mapping can show where redundant efforts are undermining efficiency. For example, before one alliance, stimulation engineers from both sides spent time designing a fracturing job. Soon after the start of the alliance when engineers from both companies completed the exercise of mapping their fracture designs, results showed the two processes to be duplicates.

In the alliance, fracturing jobs are designed jointly and then modeled by the service company engineer, freeing the oil company engineer to spend time on other projects that add more value—in some cases, selection of other wells to be stimulated (candidate recognition). In other cases, an optimal division of labor may assign candidate recognition and job design to the service company engineer, leaving the oil company engineer free to develop future growth opportunities. In a growing number of alliances, the oil company no longer requires a representative on site for the job. The streamlined process is more efficient, but trust in the alliance partner is crucial to the success of such a scheme.



Two fracture-design process maps at left have been streamlined to create one, more efficient process. Through continuous improvement, the operator (pink) and service company (light blue) processes become a new single process (purple), and then the process undergoes further improvements (dark blue).

Chapter Highlight 14.3: Dedicated Service Personnel[21]

The Dedicated In-house Engineer Redefines Work: Success Depends on Building New Kinds of Working Relationships Between Oil and Service Companies

The operator's oil production was declining and needed to stimulate under-producing wells. This made candidate selection critical for improving production. With candidate well selection as the focus, a new contractor–operator relationship was used to improve the success of the workover program. In the old way of working, the client might say, "Here's my work schedule. Be ready to roll Tuesday morning at 5." Now the client might say, "Work with your team to develop a completion plan for this well that gives both companies the highest value." Oil companies realize there's a benefit in trusting suppliers to meet or exceed their criteria for job performance.



> ***"Historically, you placed a great deal of emphasis on the lowest possible bid. All that changed when you stopped focusing on price alone and placed more emphasis on the significant few oil and gas fields, technologies and relationships with key suppliers that contribute to performance."***
>
> *—Oil Company Manager*

Given the large scope of responsibilities the dedicated in-house program places on it's engineers, training had to rise to the challenge. The dedicated in-house program starts with engineers who have mastered the basics. Those picked for the program have typically had at least three years of experience in completion and fluids engineering and have demonstrated both entrepreneurial spirit and interpersonal skills. These skills are essential as the job requires technical proficiency, business acumen, and diplomacy. When first installed in the client office, the engineer must win the confidence of oil company colleagues and, to be most effective, must progress from being regarded as a guest to being one of the team. Foremost, the engineer must be able to work within the oil company culture to develop support for optimal solutions. One dedicated in-house engineer said, "When I first arrived at the oil company's office, the most skeptical production engineer was the first to let me design a fracturing job. When the job went off without a hitch, that went a long way to winning the trust of everyone."

Dedicated Service Personnel's Main Responsibilities:

- Work with the client on treatment design and evaluation.
- Collect and evaluate data for candidate recognition treatment design.
- Identify, coordinate, and implement treatment or design changes for improved well performance and economics.
- Collect and evaluate post-treatment data (performance versus expectations).
- Provide benchmarks for continuous improvement.
- Document results and supply benefits to the client and to supplier technical support and management.
- Enlist appropriate technical support when necessary.
- Identify and implement process improvements with the client.
- Develop general knowledge of your company's offerings outside their specific offerings.
- Identify, coordinate, and implement additional services from your company based on client needs.

Often, the after-sales costs are not included, which fails to provide a true picture of the account-level profitability. This issue is addressed in the "Managing Customers for Profits, Not Just for Sales" sidebar.[22]

Market Share

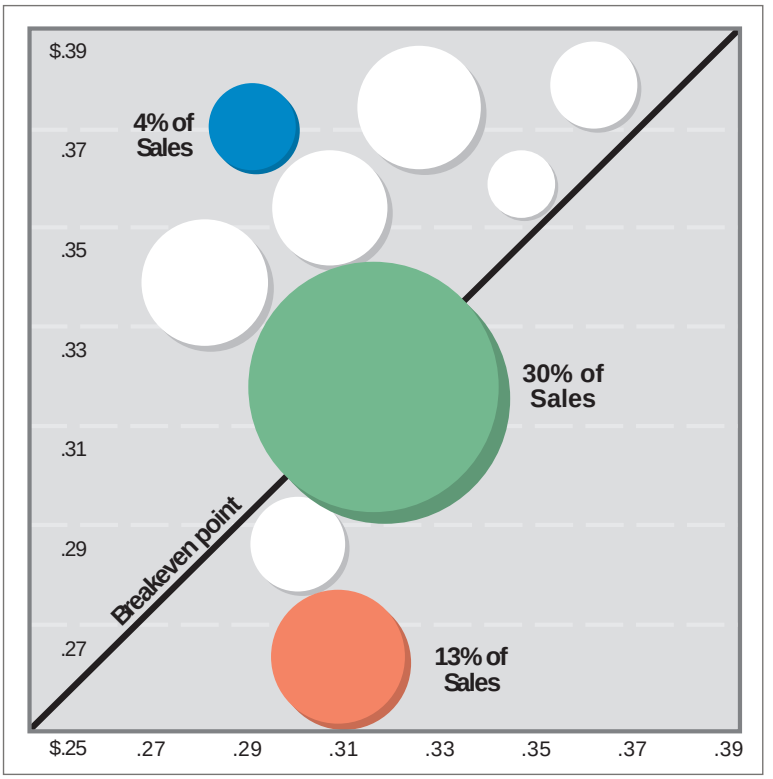
Market share is a measure of your portion of the total market available for an account. Categories are typically based on your company's share of the total dollars spent by the account for products and services you can provide by segment. However, this measure must be relevant for the account. In some instances, the measurement is your company's share of the total number of rigs, software licenses or seats, etc. Not an exact number, the measure is an estimation using one of three possible estimates: majority, split, or low market share, depending on how it is measured.

▶ *Managing Customers for Profits, Not Just for Sales*

With real cost-plus pricing, profitability could be uniform across customers despite wide variations in both costs and prices. But there is evidence that prices seldom reflect the actual costs in serving customers (though they may be somewhat related to production costs). In many businesses, the difference between the highest and lowest prices realized in similar transactions for the same product is as much as 30%, not including quantity discounts.

Consider, for example, the relationship between prices and total costs in one month's orders for a manufacturer of pipe resin (below). The diagonal line indicates a price level equal to costs. If gross margins were the same on all orders, the orders would all lie along a line parallel to the diagonal line. Instead, they are widely dispersed. Nearly 13% of sales volume resulted in losses of about a nickel a pound, while about 4% of volume generated an 8% profit. The rest fell somewhere in between.

This pattern is not unusual. In a wide variety of situations, you can consistently observe a lack of correlation between price and the cost to serve. Some orders and customers generate losses, and in general the dispersion of profitability is wide.



Analyzing the Relationship Profile

The previously discussed relationship measurement factors are presented in an Excel spreadsheet format (Fig. 14.12) that provides insight into the current relationship and acts as a basis for identifying gaps between the current relationship and the targeted relationship.[23]

Building an accurate relationship profile requires collaboration with everyone who works on an account. First, the "Performance Indicators" section is completed for each business unit working with the account; these indicators are then consolidated to arrive at a total relationship analysis. Each parameter has been color coded to highlight inconsistencies or gaps in the relationship with the account.

Relationship profiles are categorized as Level 1 (blue), Level 2 (green), or Level 3 (red). These levels represent the model relationships that allow you to discuss the relationship strategically and to build a plan for migrating or strengthening the relationship.

Relationship Migration Strategy

The relationship profile matrix is completed in preparation for planning a migration strategy, envisioning the type of relationship (Level 1, 2, or 3) you want to have with the account and identifying the benefits for both the account and your company. The next step in planning a migration strategy is to answer the questions:

- Management alignment
- Long-term advantage
- Sufficient resources: Budget, people, and equipment
- Competitive threats
- Additional costs

These questions must be answered for each of the accounts and then prioritized at the region level to ensure the best use of your limited resources to serve the market.

Management Alignment

Which relationship level does the account's management believe extracts the greatest amount of value for meeting their objectives (Level 1, 2, or 3)? Efforts to change the way companies interact require support from the account's management to avoid wasting resources on a strategy that is unlikely to succeed.

Long-Term Advantage

What is the future activity level of the customer? Does the customer warrant dedicating additional resources to migrate to a Level 1 or 2 relationship? Is there time to achieve what you want with the customer?

Sufficient Resources

Do you have the operational resources to commit to meeting the customer's expectations? Answers to resource questions include not only sufficient products or tools, but also people to service the account (field, sales, and other support personnel). If the required resources are brought into your region, does the region have a sufficient budget? Does the region have sufficient funds to purchase assets or make other required investments?

Competitive Threats

Competitive threats may require building barriers to entry to the account by migrating the account to a Level 2 or 1 relationship. New competitors to the region may focus on Level 3 accounts, as entry points to these accounts are easiest to penetrate. This is especially true in mature markets, such as in the oilfield service industry in mature oilfields where the technical challenges of producing hydrocarbons have already been addressed or the fields are in the decline stage. At this stage, asset management may focus heavily on reducing costs. In such an environment, customers may be persuaded to try new suppliers under the promise of lower costs.

Additional Costs

Customer relationship strategies involve investment from your company, which increases your costs. Migrating an account from a Level 3 relationship to a Level 2 relationship increases your costs as you provide value-added products and services at that level. Migrating an account from Level 2 to Level 1 increases your costs for support through increased operations costs (dedicated field support managers), additional sales support, or dedicated in-house engineers. Before migrating these accounts, you must be sure that the increased cost to your company is matched by a willingness from the account to compensate you for the increased investment—through improved efficiencies, volume of work, better pricing, or the use of an advanced-level business and contract model.

Salespeople must be careful not to assume that migrating all relationships to higher levels is always appropriate. As resources at the region level may be limited, it is unrealistic to assume that all accounts can be Level 1 relationships. But the above questions can assist in identifying which customers are the best candidates for higher-level relationships. In addition, you still want to provide excellent service to Level 3 accounts while keeping the costs of servicing those accounts as low as possible. This trade-off may require taking assets and other resources from Level 3 accounts and deploying them for Level 2 or 1 accounts that are willing to compensate you for the additional resources.

Migration Path

The migration path for an account moves from Level 3 to 2 to 1. For example, if your company wants an alliance-type relationship with a Level 3 account, you must first migrate the account from price buyer to value buyer (Level 2), then to relationship buyer (Level 1). You must also maintain all other relationship parameters at a level consistent with the level of the desired relationship. **Figure 14.11** illustrates the migration path.

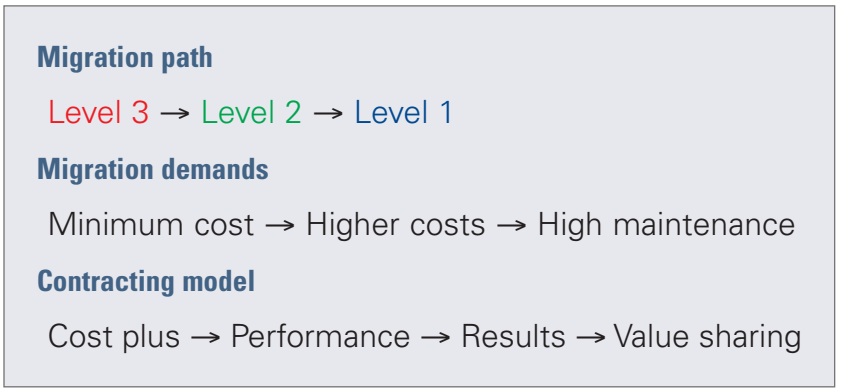


Fig. 14. 11
Account relationship migration path.

	Relationship Profile Parameters						Performance Indicators		
Parameter	**Value Enabler**	**Sensitivity**	**Supplier Role**	**Technology Adaption**	**Technology Depth**	**Business Relationship**	**Contract Model**	**Profitability**	**Market Share**
Level 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority
Level 2	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative	Performance	Average	Split
Level 3	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Low
Account									
Account 1	Focus Differentiation	Value	Problem Solver	Pragmatist	Strong	Collaborative	Cost Plus	Good	Majority
Account 2	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Majority
Account 3	Focus Differentiation	Price	Problem Solver	Pragmatist	Good	Standard	Cost Plus	Poor	Majority
Account 4	Broad Differentiation	Relationship	Stake Holder	Visionary	Good	Strategic	Cost Plus	Good	Low
Account 5	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority
Account 6	Focus Differentiation	Price	Vendor	Visionary	Strong	Collaborative	Cost Plus	Average	Split
Account 7	Focus Differentiation	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Average	Majority

Fig. 14.12
Example relationship analysis.

Interpretation of Example Relationship Profiles

This section provides an analysis for each of the accounts listed in **Fig. 14.12**. These are real relationship profile analyses for one supplier called Company A in one region for their top seven accounts, which generated 80% of the supplier's revenue. The analysis was used to make strategic decisions to improve Company A's competitive position in the region.

Account 1

This account buys from Company A because they believe they are the best-in-class provider of this service. They recognize value in a supplier who follows a focused differentiation strategy. The account is classified as a value buyer as they consider more than just price, and the account views Company A as a problem solver because of their high level of technical expertise. This account tends toward pragmatism when buying new technology—that is, they wait to buy proven integrated products and services even though they are strong technically. Company A has had discussions with this account about possibly entering into an advanced business relationship and using a results-based contractual framework; however, only bonus malice clauses were explored. A cost-plus contract is in place, and their profitability is at Level 1, or greater than 20%. In addition, Company A has the majority of this account's market share—all in all a pretty good scenario.

The account profile is consistent, as highlighted by the same color across most of the profile parameters. One strategy aimed to implement an advanced-level contractual arrangement, such as results-based pricing. Because of their in-house expertise, however, this account preferred to continue on a cost-plus basis.

The strategy followed with this account was to continue to support this customer's in-house experts with advanced technology seminars, VIP seminars highlighting successful applications of new technology in their operations, and examples of advanced business relationships from other accounts to create awareness of other options. Company A also held regular service quality review meetings to highlight major operating successes and how they would continue to repeat these successes, and to pinpoint major operating failures and what they were doing to prevent their recurrence.

Account 2

Very different from Account 1, Account 2 purchases only from the low-cost provider, which is consistent with their pricing sensitivity. As Account 2 views Company A as being equal to other suppliers, they respond only to tenders. Account 2

is conservative in its adoption of new technology, which it believes only complicates their operations. Their technical depth with regard to their services is weak. This account has stated it does not want to participate in advanced business model relationships. In general, this account falls under the cost-plus contractual model. Their profitability is not good (Level 3), yet they do the majority of their work. This account opens the work to tender every two years, and Company A has the contract.

Again, this account is consistent—red across all profile parameters. For this account, the strategy would be to use the current contract to demonstrate value—in other words, to migrate the account from a price buyer to a value buyer. The first step would be to conduct in-house training to raise the expertise of their users to a level where they can see the benefits of advanced technologies. If they do not succeed in changing their buying behavior, they may consider two options:

- **Raise prices for the next tender.** As they were the low bidder on this contract, there may be some gap between Company A and competitor pricing.
- **Reduce their costs to service this account** so they reach Level 2 profitability. This two-tier pricing strategy, discussed briefly in Chapter 1 "Understanding the Role of Marketing and Sales," is covered again in detail in Chapter 2 "Value Drivers."

This account is not a good candidate for advanced contractual models as it focuses only on cost and views Company A and other suppliers equally. Advanced-level contractual models are only appropriate for accounts that focus on value creation and relationship (Accounts 4 and 5 below).

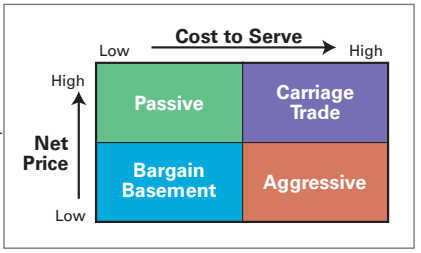
Account 3

Account 3 is interesting. This account views Company A as the best-in-class provider of the service—focused differentiation. Although this account tells them their selection rests on price, they view them as experts, and they participate in problem solving, developing bid specifications, etc. The account is pragmatic in the adoption of new technology, and its technical depth is good. They have never discussed other business models with this account. They have in place a cost-plus contractual model, their profitability is at Level 3, and they have the majority of this account's work.

This account's inconsistent profile represents a "Good Buyer" profile, or what "The Good, the Bad, the Ugly" sidebar refers to as an aggressive buyer.[24] Their profitability is low because the cost to service this account is high. Newly assigned sales representatives to this account quickly learn that prices must be tight if Company A wants the work, as this is what the account contacts tell them. The customer wants and uses value-added services and has the expertise to use it, but the customer also wants it as cheaply as possible. So who decides on prices? They do.

▶ ***The Good, the Bad, the Ugly***

It is useful to think of customers in terms of two dimensions: net price realized and cost to serve. To show graphically the dynamics of the interplay between seller and buyer, you can devise a simple matrix (below). The vertical axis is net price, low to high, and the horizontal axis is cost to serve, low to high. This categorization is useful for any marketer. The *carriage trade* costs a great deal to serve but is willing to pay top dollar. (This category would include the customers of your introductory example, who placed small orders for high-cost custom plumbing fixtures.) At the opposite extreme are *bargain basement* customers—sensitive to price and relatively insensitive to service and quality. They can be served more cheaply than the carriage trade.



Serving *passive* customers costs less too, but they are willing to accept high prices. These accounts generate highly profitable orders. There are various reasons for their attitude. In some cases the product is too insignificant to warrant a tough negotiating stance over price. Other customers are insensitive to price because the product is crucial to their operation. Still others stay with their current supplier, more or less regardless of price, because of the prohibitive cost of switching. As an example from another industry, many major aircraft components cannot be changed without recertifying the entire aircraft. And in some cases, vendor capability is so well matched to buyer needs that cost to serve is low though the customer is receiving (and paying for) fine service and quality.

Aggressive customers, on the other hand, demand (and often receive) the highest product quality, the best service, and low prices. Procter & Gamble, boasting an efficient procurement function, has a reputation among its suppliers for paying the least and getting the most. Aggressive buyers are usually powerful; their practice of buying in large quantities gives them leverage with suppliers in seeking price deals and more service. The national accounts described in the second example at the beginning of this article drove hard bargains with the capital equipment supplier.

For this account the strategy is to solicit support throughout the organization and clearly communicate the value generated by the team (account contacts and Company A staff). The next step in the strategy is to inform the supporters that their revenues for the services provided are too low. They share that they cannot continue to support this level of service at the current prices and that prices will increase in the next contract period. They discuss this first with their supporters to get their feedback on how to proceed with the price increase without losing the contract.

In addition, Company A begins to hold discussions with account management to determine their willingness to consider advanced-level business models, as performance- or results-based contracts could be one way to justify increased prices.

Accounts 4 and 5

Accounts 4 and 5 are loyal clients based on their account profile parameters (see the "Measures of Loyalty" sidebar[25]). These accounts believe they realize value by building strong relationships with a few key suppliers, so they buy from broadly differentiated companies such as Company A. As expected, these accounts are relationship buyers, and the role of Company A is that of stakeholder. These accounts are visionaries in their adoption of technology. Account 4 has good technical depth, and Account 5 is strong. Both have participated in integrated projects with performance- and results-based remuneration components.

▶ ***Measures of Loyalty***

Broadly speaking, customer loyalty is the feeling of attachment to or affection for a company's people, products, or services. These feelings manifest themselves in many forms of customer behavior. The ultimate measure of loyalty, of course, is share of purchases in the category. In the automobile business, it is share of garage. In the clothing industry, it is share of closet. And in the restaurant business, as Taco Bell president and CEO John Martin says, it is "share of stomach."

Unfortunately, such information is rarely available at the individual customer level, but there are alternative measurements, which can be grouped into three major categories.

Intent to Repurchase. At any time in the customer relationship, it is possible to ask customers about their future intentions to repurchase a given product or service. Although their responses are simply indications of future behavior and are not assurances, they have very important benefits. First, companies can capture this information when they measure satisfaction, making it relatively easy to link intentions and satisfaction for analytical purposes. The fact that intent to repurchase can be measured at any time in the customer relationship makes it especially valuable in industries with a long repurchase cycle. Finally, intent to repurchase is actually a very strong indicator of future behavior. Although this measure will generally overstate the probability of repurchase, the degree of exaggeration is usually fairly consistent, meaning that the future results can be predicted fairly accurately. For example, an average of 60% to 80% of automobile customers queried 90 days after buying a car say they intend to repurchase the same brand, and 35% to 40% actually do so three to four years later.

Primary Behavior. Depending on the industry, companies often have access to information on various transactions at the customer level and can measure five categories that show actual repurchasing behavior: recency, frequency, amount, retention, and longevity. Although they are important measures of actual behavior, they only provide a glimpse of overall share and are most useful as an indication of changes over time. Moreover, sometimes they can send the wrong message. For example, the credit card industry has traditionally measured the willingness of the consumer to pay the annual fee as its prime measure of retention. During the late 1980s and early 1990s, those same companies saw that willingness rise while actual "share of wallet"—the degree to which customers used their particular card for making purchases when they had the option of using a credit card—decreased. The consumer was willing to pay the fee to have the credit card available but often did not use it. Therefore, recency, frequency, and amount of purchase were significantly better measures of loyalty.

Secondary Behavior. Customer referrals, endorsements, and word of mouth are extremely important forms of consumer behavior for a company. In most product and service categories, word of mouth is one of the most important factors in acquiring new customers. Frequently, it is easier for a customer to respond honestly to a question about whether he or she would recommend the product or service to another, than to a question about whether he or she intended to repurchase the product or service. Such indications of loyalty, obtained through customer surveys, are frequently ignored because they are soft measures of behavior that are difficult to link to eventual purchasing behavior. However, as secondary behavior significantly leverages the positive experiences of a single customer, it is very important to understand what types of experiences create such behavior.

Although these accounts are alike in many ways, the performance indicators are very different. Account 4 has a cost-plus contractual agreement with Level 1 profitability. Company A's market share for this account is low because they do only their exploration work. For Account 5, however, they have an alliance in place that is based on reducing lifting costs. Company A holds the majority of this account's work.

The strategy for each of these accounts is to invest in the relationships. For Account 4, they would discuss with management whether they would be supportive of migrating to an advanced business and contractual model for their development work. But there are drawbacks for Company A in this example. Why?

Advanced models mean that Company A assumes more risk. With this account, local Company A's management was satisfied with the results and did not wish to change the relationship as they viewed this account's development work as low profit. In fact, management views any move as risky and as possibly making it easier for competitors to gain entry into the exploration work—the wrong approach for this relationship-focused account.

For Account 5, they would want to maintain the account at its current level in an effort to ensure that this customer would turn away their competitors.

These fairly secure accounts could easily be taken for granted if they do not continuously focus on satisfying the account and providing exceptional service in all areas of their business.

In this example, another strategy might be to take resources from Account 3 and move them to Accounts 4 and 5 to give them superior service. They would take resources from Account 3 rather than Account 2 as Account 3 uses higher-cost value-added services, and sales support is high for the level of revenue generated from their operations. These resources could be used to develop Account 4's market and further strengthen Account 5.

Account 6

Account 6 shows a profile typical of some large multinational accounts. Although the account buys from Company A because they view them as best in their field, the account is price sensitive and buys at only a small premium. Their role with Account 6 is that of vendor. The account is technically strong, as shown by its visionary technology adoption profile and strong technical depth. They have had brief discussions with this account regarding advanced-level business models and have participated in one integrated remote offshore project. Current contracts, however, are cost plus, profitability is at Level 2, and this account splits the work among vendors.

Some very good competitors try equally hard to win, earn, and increase their share of the market with Account 6. The account believes there are three leading oilfield service companies, and that Company A is one of those three. As long as this account buys from any of the three, price is the deciding factor. In fact, this account has developed a tendering strategy to accept bids from the three leading companies and then award a 50/50 split to two companies to obtain services at the lowest price.

Two strategies can be considered for managing Account 6:

- Change nothing. Account profitability is at Level 2, and it has been difficult to get involved in their project cycle before the procurement stage. Account 6 management does not believe Company A's staff or their competitors' staff offer any benefits, and they believe their in-house expertise is adequate. The strategy of not working to improve the relationship, however, may prove faulty, as at any time Account 6 may choose a competitor to do the work.

Chapter Highlight 14.4: Moving from Vendor to Stakeholder

When Low Bidder Isn't Good Enough



An oil company operator in Kalimantan believed the company was restricted by government tendering requirements to select the low bidder for servicing its offshore operations. The company believed it was receiving suboptimal service and lack of initiative from the service industry to deliver leading-edge technology. With a change in the operator's top management came a demand for more innovative and collaborative relationships with key suppliers. In their words, if suppliers were not willing to work as part of the operator's team they would find suppliers who were. They also wanted world-class performers in the field with the latest technologies to help them reduce their lifting costs per barrel.

After hearing this message, Company A's business units reevaluated their relationship and level of commitment with the operator. Although two of Company A's business units were already on the key supplier list, the operator was asking for significant changes in the way the company was doing business.

The results of the change were outstanding. The operator/Company A team pioneered SX drilling, and the Operator achieved world-record results using slimhole testing tools and an advanced reservoir pressure and sampling tool to slash testing costs. The operator credits these and other supplier innovations that reduced total well costs for revitalizing Indonesian oil and gas production in East Kalimantan. The graph below was part of a the operator's presentation given to Indonesian authorities to justify awarding multiyear contracts to Company A at significantly higher supplier costs per well. Despite higher supplier costs, the presentation demonstrates that the operator reduced total costs significantly over previous low-bidder win contracts.

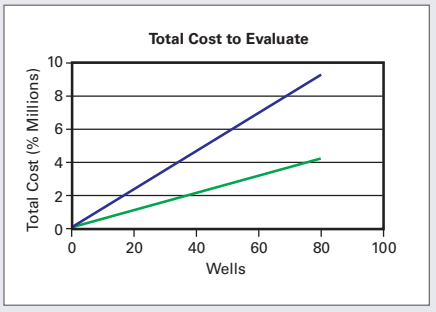
What happened?
First, the operator clearly explained the project objectives:

- Lifting costs per barrel of oil produced below $3
- Drilling time reduced by 20%
- Dependable world-class service with minimal downtime from their suppliers
- Open and direct communication on how to improve every aspect of the operation.

To meet these objectives, investments were made in technologies and product modifications, and one field service manager and one in-house engineer were added. Regular service quality review meetings were held to review major operating successes and failures and to document lessons learned. The operator was regularly updated on technology through visits to engineering centers.

What were the results?
The graph demonstrates the operator's success, and Company A's profitability improved 50% over previous contracts.

$5.1 Million in Reduced Rig Costs Using Advanced Program



- Work to understand Account 6's value drivers and determine where Company A can differentiate its value proposition from their competitors. Then, they would bring to the region a recognized Company A industry expert to participate in venues that raise this customer's awareness to create a buying environment. (Other techniques for creating a buying environment are discussed in Chapter 9 "Strategic Sales Plan.")

By adopting the second strategy, they would seek to migrate Account 6 to a value buyer after the account has recognized their differential value and begins to view their role as a problem solver. If this strategy is unsuccessful, this account should be treated as a Level 3 account, minimizing their costs to service the account and applying a two-tier pricing approach.

They may also want to try to understand why this account participated in one integrated project but has not expressed a desire to extend the arrangement to other projects. Salespersons may also want to spend time learning how to differentiate themselves from the competitor's representatives. A one- to two-year time period can be expected to implement the strategy for Account 6.

Account 7

Account 7 is similar to Account 6 in three key ways: Company A's position, pricing sensitivity, and the role of Company A in the account. However, Account 7 is conservative in the adoption of technology, and its technical depth is weak. This account does not wish to participate in advanced business models, as it views them as complicated and difficult to implement due to governmental requirements. Currently, Company A has basic contractual pricing agreements with this account, and profitability is at Level 2. Account 7 also believes there are only three acceptable service providers, but unlike Account 6, the low bidder gets all the work. In fact, Account 7's contracting procedures require that two suppliers be qualified for every major contract early in the project life cycle.

The best strategy for this account is similar to that used with Account 6: First focus on understanding their value drivers and then work on differentiating Company A's value proposition from competitors. In Account 7, however, the task may be easier as their technical depth is weak. Therefore, Company A account managers should target Account 7 end-users for training, if possible, and if not, concentrate on a program that creates a buying environment and demonstrates how Company A services can enable the account to better achieve their corporate or project objectives.

They would also take action to elevate their role to problem solver. For example, they would consider injecting their technical expertise by placing a dedicated in-house engineer in their organization to assist them in using their supplier services to full potential. Chapter Highlight 14.4 shows the results of a strategy that moved Company A from a vendor role to a stakeholder role.

In the appendix is a relationship profiling poster that can be used to facilitate a sales team or account team workshop to complete a relationship profile. A copy of the poster suitable for large format printing can be downloaded from www.b2bprofessionalsales.com

Customer relationship profiling is a valuable tool for assessing the status of the customer relationship. A completed profile provides a snapshot in time for planning account development. Accurate profiling and analysis are essential to deciding which actions are likely to better align the account and build a profitable relationship. Like a marriage, both parties must agree that advancing the relationship level will mutually benefit both companies. Where there is not management alignment or support for more advanced relationships, you must ensure that a basic relationship still delivers total customer satisfaction.



Summary of Chapter Objectives

1. Describe the steps in relationship profiling.

The relationship profile always stems from the customer's perspective relative to how the account views your company's individual business units. Ask several contacts in the account to gain a good understanding of the customer's perspective. Then, determine the seven account profile items and three performance indicators.

The seven account profile parameters are:

Market position. What is basis of the value your company brings to the account (see M. Porter's work on competitive marketing strategies)? Does the account perceive that your company delivers value because of a broad differentiation strategy (usually meaning the account prefers fewer suppliers and stronger relationships with a few suppliers)? Or are you viewed as a best-in-class provider of specific services because of a focus differentiation strategy? Do they see you as a provider of the lowest-cost services?

Pricing sensitivity. How do you classify the account (as a price buyer, value buyer, or relationship buyer)? The answer determines how sensitive this client is to price differences versus product differences.

Your company's role in the account. Does the account view your company as a stakeholder in its business? Have you demonstrated that you are a company that is genuinely interested in optimizing the performance of their reservoirs? Or do they consider you to be problem solvers with technical expertise? Are you treated as a vendor without differentiation from other suppliers, and does your first involvement with their projects occur at the bidding stage?

Technology adoption profile. How willingly does the account adopt new technology in its day-to-day operations?

Technical depth. Does the account have the internal expertise to get the full benefit from your company's products and services?

Willingness to form external partnerships and share value. How willing is the account to make the remuneration higher than cost-plus? Is the account willing to include risk or reward incentives targeted at such metrics as performance, results, or joint value creation? These more advanced business relationships can be part of a standard cost-plus contract or can take the form of an integrated services package. They can also be in the form of a specific engineered solution, designed to deliver optimal well construction.

The three performance indicators are:

Current business and contract models used. This indicator describes the most common contractual model used by the account today.

Profitability. This indicator measures total revenue minus the costs to deliver not only the services but also any additional support costs. Profitability ranges are classified as Level 1 (best), Level 2 (average), and Level 3 (below average) for the region.

Your company's market share. This indicator measures your company's share of total dollars spent for specific services or some other relevant market share indicator, such as percentage of rigs or software seats.

2. Complete a relationship profile for your key accounts.

Account relationship profiles should be completed periodically and compared to individual buying center contact profiles to measure progress toward the targeted relationship or desired rating in the account profile parameters and performance measures. After completing the relationship profile, make an account management plan for building or maintaining the relationship. Before deciding to invest in migrating an account relationship, answer questions regarding management alignment, long-term advantage, level of resources, competitive threats, and costs to migrate. Then follow the plan to migrate the account or maintain the current account relationship by minimizing your costs and using a two-tier pricing strategy, or in some cases, reallocating resources to another account that will benefit from the investment. Once completed, share your analysis with another one of your company's representatives who knows the account to see if they agree.



Applying the Concepts

1. **Complete a relationship profile for your key accounts.** The spreadsheet can be downloaded from http://www.b2bprofessionalsales.com
2. For any customer with whom you are involved that has a level of profitability at a Level 3, what should you (your company, at either the region or corporate level) be doing about it?
3. Do you have any accounts in the region that should ideally be at Level 1 who is not? If so, what should you be doing to migrate them?



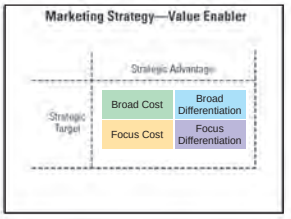
References

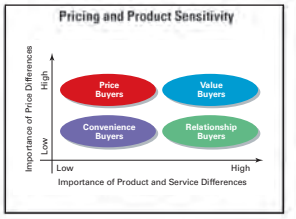
1. Levitt, T.: "After the Sale is Over," *Harvard Business Review* (September–October 1983).
2. You do not use the fourth strategy (broad costs) because it is applicable only in consumer markets.
3. Original source: Richard Harmer, Boston University. Segments have been modified to reclassify loyal buyers as relationship buyers, which is more appropriate for the E&P environment.
4. Treacy M. and Wiersema, F.: *Discipline of Market Leaders,* Cambridge, Massachusetts, Perseus Books (1995).
5. Convenience buyers are a significant group in consumer markets where price does not play a significant part of the buying decision. Small convenience stores sell to these types of buyers, who will pay a premium to make a quick stop. The premium they pay is worth the added convenience.
6. Nagle, T. and Holden, R.: *The Strategy and Tactics of Pricing: A Guide to Profitable Pricing*, Englewood Cliffs, New Jersey, Prentice Hall (1994).
7. Reichheld, F.: "Learning from Customer Defections," *Harvard Business Review* (March– April 1996).
8. Ibid., Levitt, T.
9. Figure 14.6 is adapted from material presented in the Seibel Sales Target Account Selling seminar.
10. The contractual models are taken from a presentation entitled "Value Pyramid."
11. Walford, M.: "Procedures for Preparation of Incentivized Commercial Proposals," (1998).
12. Grijalva, V.: "Teamwork and Technology: Success Factors for Creating Growth," Advanced Petroleum Conference, Stavanger, Norway (1997).
13. Another successful joint value enhancement project is the Waddell Ranch project, NW Hutton. Source: Ibid., K. Forbes and R. Nelson.
14. Austin, C. et. al.: "Alliances in the Oil Field," *Oilfield Review* (Summer 1995) 28–39.
15. Ibid.
16. Ibid.
17. Kanter, R.M.: "Collaborative Advantage: The Art of Alliances," *Harvard Business Review* (July–August 1994) 96–108.
18. Ibid., Austin, C. et al.
19. For a review of oilfield applications of quality control, assurance and management, see Burnett, N. et al.: "Quality," *Oilfield Review* (October 1993) 46–59.
20. This idea was quantified somewhat by Vilfredo Pareto, an Italian economist and founder of the "80-20 rule" (80% of the wealth is held by 20% of the people). Quality expert Joseph Juran extended this concept to the analysis of problems in general, which states that 80% of problems come from 20% of the possible causes.
21. Baltz, J. et al.: "The Dedicated In-house Engineer Redefines Work," *Oilfield Review* (Summer 1995) 40–49.
22. Shapiro, B. et al.: "Manage Your Customers for Profits, Not Just Sales," *Harvard Business Review* (September–October 1987).
23. The account profile spreadsheet can be requested from you instructor.
24. Ibid., Shapiro, B.et al.:
25. Jones, T. and Sasser, Jr., W.E.: "Why Satisfied Customers Defect," *Harvard Business Review* (November–December 1, 1995). For your top account, what is the level of the current relationship between the account and your segment? Is there any segment that has a higher or lower level relationship? If so, why? In your opinion, what should your company be trying to do?

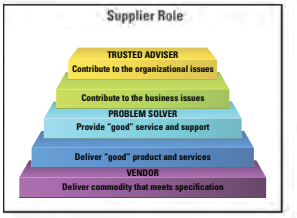
Appendix A

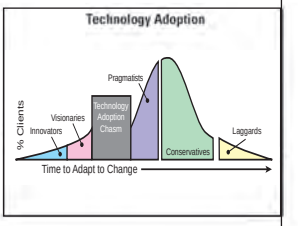
Account Relationship Profiling

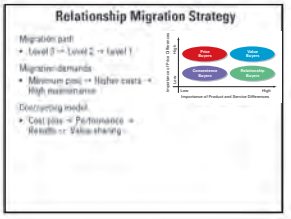
	Account Profile Parameters							Performance Indicators		
Description	Value Enabler	Sensitivity	Supplier Role	Technology Adaption	Technology Ability	Business Relationship	Contract Model	Profitability	Market $	Target Relationship
Chart Reference	1	2	3	4	5	6	7	7	7	8, 9, 10
Level 1 Enterprise	Broad Differentiation	Relationship	Trusted Adviser	Visionary	Strong	Strategic	Results	Good	Majority	Level 1 Enterprise
Level 2 Consultative	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative	Performance	Average	Split	Level 2 Consultative
Level 3 Transaction	Focus Cost	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Low	Level 3 Transaction
Account										Account



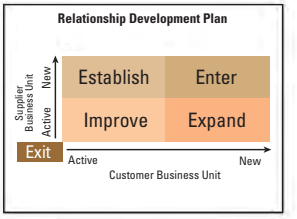






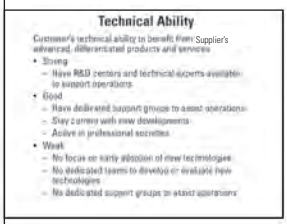


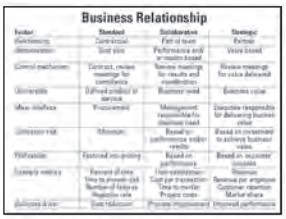


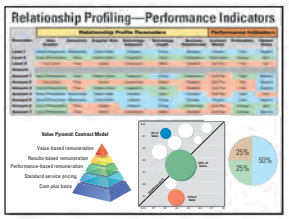


Account Relationship Profiling cont.

Account Development 11	Competitor	Competitive Assessment														
		Market Share	Role	Profit	Contract Model	Strengths					Weaknesses					
		Majority	Trusted Adviser	Good	Results	Relationship	Technology	Price	Service	Other	Relationship	Technology	Price	Service	Other
Establish		Split	Problem Solver	Average	Performance										
Expand		Low	Vendor	Poor	Cost Plus										
Improve															









Marketing Communication and Feedback Plan



Planning



The Last Piece

Chapter Objectives

After reading this chapter, you will:

- Describe the components of an account management and territory plans.
- Know the tools for creating and managing a plan.
- Create a sale plan for one of your key accounts or territories.

It may sound strange to call planning the last piece of the puzzle. Most people will tell you that is the first step—and they are correct in assuming that the salesperson has all the skills needed to compete effectively as a professional salesperson. From the perspective of this textbook, this is that last step in the development of your professional B2B salesperson's skills. After you have a solid grounding in the sales skills, then you are ready to build a plan in which you identify actions needed to compete more effectively. The first chapter of this section discusses pipeline management, which is a critical part of any account or territory plan. The second chapter examines relationship profiling. In B2B sales and especially in large B2B opportunities, the people involved in the buying decisions can be many, and the factors influencing their decisions complex. No sales plan is complete without a relationship strategy for your key customers. The execution of the plans depends on your ability to manage the individual opportunities and win your targeted opportunities using all the skills discussed in the first three sections of the textbook.

This chapter is about creating plans to support your sales efforts for your assigned responsibilities. Most assignments for salespeople are either, account or territory based or a combination of the two. The structure of this chapter will be to discuss the account plan first and then the territory plan.

Account Plan

For account assigned salespeople, account management is the foundation for all other activities in the customer relationship management process. The goal of account management is to make the account–supplier relationship more efficient and profitable for both companies and provide total customer satisfaction. The account plan has two specific objectives: 1) position your company to enhance your participation in future projects and 2) support your day-to-day activities with the account. A plan is a proactive tool used to document the specific actions you will take to accomplish your goals. You also use the plan to communicate responsibilities and coordinate account management activities with other company personnel and provide input into the resource planning process.

Account plans contain valuable information for all personnel involved with a particular account:

- Marketing management can use the plans as a means to prioritize decisions regarding all accounts and marketing programs at the local, regional and global levels.
- Operations management can use the plans to prioritize resource allocation and make budgetary decisions on future projects.
- Support and sales staff can prioritize their activities to bring the most value to both the account and your company.

The account plan has four main parts that direct your activities:

- Awareness
- Situation report
- Strategic plan
- Execution and tracking

The next sections discuss each account plan part and the tools available for the sales team in completing and managing the plan.

Account Awareness

Account awareness consists of two parts:

- Account Corporate Profile
- Account Organizational Information

The account awareness section of the report provides basic information about the account that can be used to improve the common understanding of the account. All company personnel involved with the account should review this section of the report. Each component is discussed in more detail below.

Account Corporate Profile

Corporate-level information about an account is used to create an account profile that contains specific information regarding the account business environment.

For instructions on completing the account corporate profile, review Chapter 3 "Account Corporate Profile." The account corporate profile should be updated annually, ideally after the account's annual planning meeting. The account corporate profile is then used as input for the account plan.

Account Organizational Information

As part of the annual account planning process, the primary focuses of this section of the plan are:

- Organizational structure
- Contact information
- Relationship building

Information about the account organization and reporting structure, as well as specific contact information, should be entered and updated in the company CRM database by the salesperson responsible for managing the account. It is the salesperson's responsibility to keep the account information up to date and accurate.

Organizational Structure

Organize information about each account according to the account's business and service unit structure, as described below:

- Business units: revenue-generating groups within the account that are responsible for generating profits for the company
- Service units: support functions within the company that are managed as cost centers.

The business and service units are an important part of the account planning process. Identifying account units is like segmenting a large market into smaller more manageable sub-segments that have similar needs and challenges that allow you to take a more focused approach to an individual unit in support of selling and servicing. The analysis section of the account plan compares your company's performance for different organizational units; the strategic plan section focuses on identifying future account projects that originate from either a business unit or service unit.

Having the account's structural information in place enables you to understand how the organizational units conduct their planning process. The account plan should answer the following questions:

- Are decisions made at the headquarters level or the business or service unit level?
- Who handles preparing plans, review and approval?
- What is the budget level authority for each unit?
- What is the decision-making process for selecting a service provider?

Understanding the account's internal planning processes enables you to identify the key contacts.

When deciding how to organize the account for your plan consider the points below:

- Business units are profit centers such as asset groups.
- Service units are cost centers such as drilling departments.

A unit consists of a minimum of three levels:

Executive: High-level managers with approval level authority for major new purchases, initiatives, or projects that significantly impact the account's business drivers. The executives are strongly concerned with making the best investments with the greatest return at an acceptable level of risk.

Management: Middle-level managers with the responsibility to execute company strategies and who are held accountable to achieve the company's stated objectives. Management is concerned with achieving annual objectives.

Operations: First-level managers and employees responsible for day-to-day operations. This level has a high concern for ensuring that budgets are not exceeded, and there are no major problems or delays in projects. Most buying center members will come from the operations levels—users, evaluators, and decision-makers. Approvers commonly come from management and executive levels.

The plan should include an organizational chart, starting with the headquarters office on top and each business and service unit in the account. For each organizational unit, include:

- Name of the highest level executive for each unit.
- City in which the unit is located.
- Culture for each unit. Corporate culture is very important to recognize and respect. See **Chapter Highlight 15.1: Corporate Culture: A Powerful Force**. At the end of the chapter highlight is a table summarizing what salespeople need to accommodate better the specific culture of each unit.

Each company is unique, and an accurate description of how the account is organized and its culture is an important part of the account plan. This information is used to brief anyone not familiar with the account who needs to contact people in the account or make decisions regarding the account. **Figure 15.1** is an example of an organizational chart for an oil and gas company.

Additional information in the account plan for each business and service unit are:

- **Business Drivers.** For those business drivers that are most important to the unit, in many cases the executives at the unit level will establish key performance indicators to monitor their key business drivers. Some of the more common business drivers for an energy company are profit, production, total costs, lifting costs per barrel, reserves, and reserves replacement ratio (RRR). The best and most direct way to determine the important business drivers is to research the account's publications, such as their annual report, and engage in discussions with the unit executives. It is important to emphasize that the completed account profile identifies which business drivers are important to the account. The business driver information identifies which business drivers are relevant for each unit. The business drivers identified in the account profile may not be relevant for a specific unit, and important business drivers at the unit level may not be part of the higher level account drivers identified in the account profile.
- **Business Initiatives.** Initiatives are the projects, programs, or plans a unit implements to address the business, drivers.
- **Critical Success Factors.** Critical success factors are the things that have to happen or resources that have to be in place to ensure the success of a business initiative.

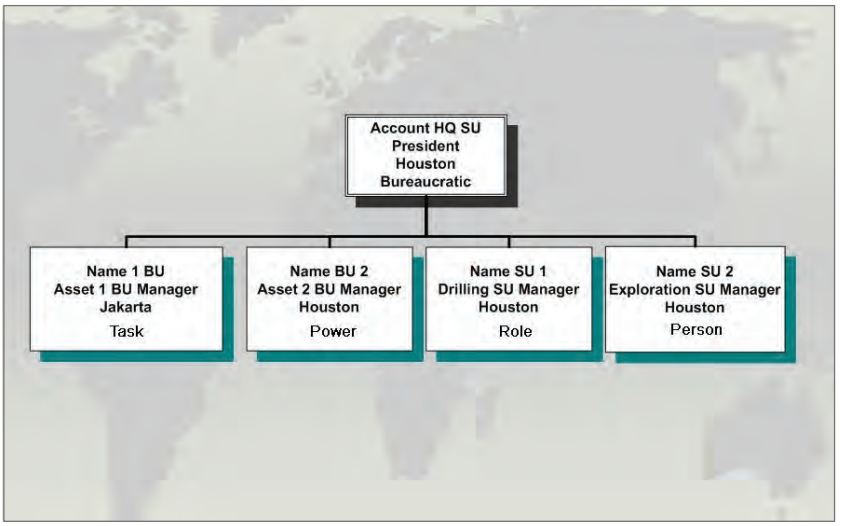


Fig. 15.1
Account organizational chart showing business and service units.

Chapter Highlight 15.1: Corporate Culture: A Powerful Force

Every organization has its unique style of working, which often contributes to its culture. The beliefs, ideologies, principles, and values of an organization form its culture. The culture of the workplace controls the way employees behave amongst themselves as well as with people outside the organization.[1] If a supplier wants to build a strong and lasting business relationship, they need to be seen by the account as aligned and respecting the company culture.

Several models have been proposed to explain organizational culture, one of them being the commonly used model know as the Charles Handy model.[2] Handy, born in 1932 in Ireland, is a well-known philosopher who has specialized in organizational culture. According to Handy's model, there are four types of culture that organizations follow. He linked these four cultures (power culture, role culture, task culture, and person culture) to four Greek gods:

Power = Zeus (supreme god of the Olympians)

Role = Apollo (the god of order and rules)

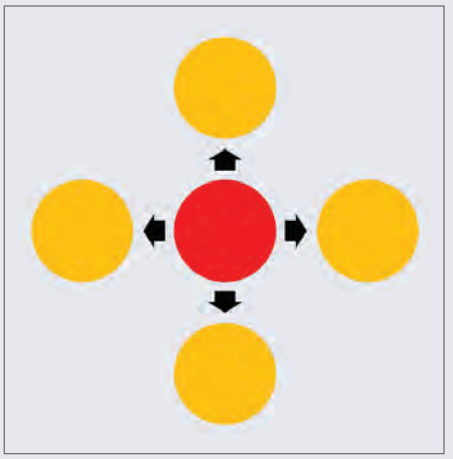
Task = Athena (the warrior goddess, patroness of Odysseus, arch problem solver of craftsmen and pioneering captains)

Person = Dionysus (the god of existential culture)

Power

In some organizations, the power remains in the hands of only a few people and only they are authorized to make decisions. They are the ones who enjoy special privileges at the workplace. They are the most important people at the workplace and are the major decision makers. These individuals further delegate responsibilities to the other employees. In such a culture the subordinates have no option but to strictly follow their superior's instructions. The employees do not have the liberty to express their views or share their ideas in an open forum and have to follow what their superior says. The managers in such a type of culture can sometimes be partial to someone or the other leading to major unrest among others. In summary:

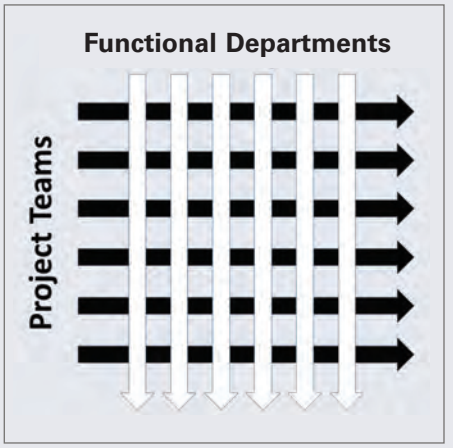
- Control radiates from the center.
- Power is concentrated among a few.
- Few rules and little bureaucracy are in place.



Task Culture

Organizations where teams are formed to achieve the targets or solve critical problems follow the task culture. In such organizations individuals with common interests and specializations come together to form a team. There are generally four to five members in each team. In such a culture every team member has to contribute equally and accomplish tasks in the most innovative way. In summary:

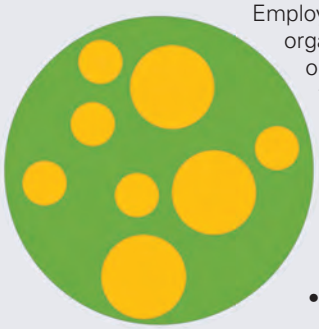
- People have clearly delegated authorities within a highly defined structure.
- Hierarchical bureaucracy is the norm.
- Power derives from a person's position.
- Little scope exists for expert power.



Chapter Highlight 15.1: Corporate Culture a Powerful Force (cont.)

Person Culture

In certain organizations, the employees feel that they are more important than their organization. Such organizations follow a culture known as person culture. In a person culture, individuals are more concerned about their own self rather than the organization. The organization in such a culture takes a back seat and eventually suffers. Employees just come to the office for the sake of money and never get attached to the organization. They are seldom loyal to the management and never decide in favor of the organization. In this culture, one should always remember that the organization comes first and everything else later.



In summary:

- People believe themselves to be superior to the business.
- The business is full of people with similar training, background, and expertise.
- This culture is common in firms of professionals (e.g., accountants and lawyers).
- Power lies in each group of individuals.

Role Culture

Role culture is a culture where every employee has delegated roles and responsibilities according to his specialization, educational qualification, and interest to extract the best out of him. In such a culture, employees decide what best they can do and willingly accept the challenge. Every individual is accountable for something or other and has to take ownership of the work assigned to him. Power comes with responsibility in such a work culture. In summary:

- People have clearly delegated authorities within a highly defined structure.
- Hierarchical bureaucracy is the norm.
- Power derives from a person's position.
- Little scope exists for expert power.



The table below lists what salespeople must do to ensure that they are accepted by the specific corporate culture.

Power	Task	Person	Role
• Focus on the top performers • Be prepared to build numerous relationships • Respect their time • Don't expect conformity • Bridge communication gaps	• Sell to the team • Cover all members of the team • Focus on common ground • Show respect for the team	• Act fast • Align with the visionary • Focus on projects easily connected to the vision • Be open and prepared for change	• Pay attention to details and rules • Learn the system • Look for people who can help you navigate the system • Use formal communication • Follow the chain of command

The business initiatives and associated critical success factors should include both current and future initiatives. It is with this information that the sales team can begin to consider and propose different types of business relationships best suited for each type of initiative. For example, in **Fig. 15.2** for the IT Service Unit it has two initiatives where the sales team will discuss a transactional relationship for the "Roll out new hardware platform" emphasizing the customer's main decision factors of costs and timing. And for the initiative "Introduce central call center" the sales team wants to suggest an enterprise relationship to the IT Director for the IT Service Unit. The different types of business relationships were discussed in Chapter 10 "Competitive Bidding" and will be reviewed later in this chapter again.

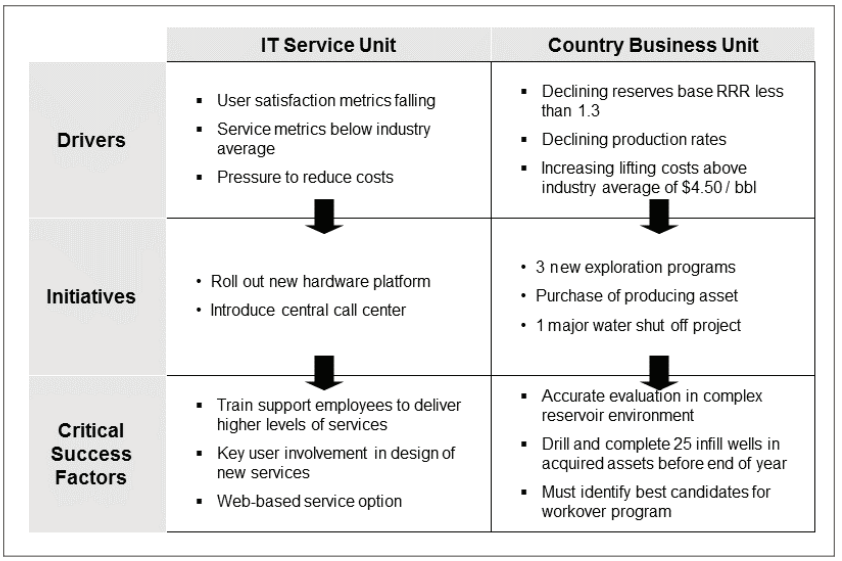


Fig. 15.2
Examples of unit drivers, initiatives, and critical success factors.

Contact Information

All interactions with your accounts take place with individual contacts or a group of contacts, whether in the pursuit of an opportunity, delivery of a service or product, or carrying out of other business and non-business activities. An important role of account management is to ensure that contact information is current. Detailed information is maintained for each account contact. The type of information includes contact details, alternate contact, position, education, manager (for preparing organizational charts), projects, and personal details such as nationality, marital status, and hobbies. This information makes it easier to target individuals for mail outs, invitations to seminars, and notices about upcoming events that are appropriate to their position or interests. Individual contact details in the modern CRM databases make it easy to manage relationship activities and share information with other staff. Two other factors in the CRM contact database are useful for conducting business with account contacts: social style and technology adoption profiles. Both factors are described in Chapter 5 "Communication Skills" and Chapter 1 "Understanding the Role of Marketing and Sales." The social and technology adoption profiles help you conduct business according to the account contact's preferences when making decisions.

Relationship Building

One of the goals of an account plan is to identify the people in the account that you want to improve business relationships with, maintaining regular contact and



▶ Guanxi: One Key to Business Success

In China, closing a deal often involves blending social pleasures with practical matters.

You hear about it all the time in Chinese business circles—"Guanxi," which is arguably the ingredient for business success in China. But just what is it?

Guanxi is a Mandarin Chinese term that describes the business relationship between two or more parties. "Guan" means "close together," and "Xi" means "relationship." Guanxi is always built on trust that has developed over time. It helps you keep loyal customers in the long run, maintain a profitable business, and compete successfully in a competitive marketplace. Almost all Chinese businesspeople consider Guanxi to be one of their most important sales and marketing tools. According to Asian e-business and marketing consultant Vivien Lee, you can create good Guanxi by following these simple rules:

1. Call your customers often to say "Hello," discuss their business, and understand their needs.
2. Provide professional advice and share your point of view regarding the industry.
3. Invite your customers to lunch, dinner, or a special event, establishing close personal ties with them.
4. Send them gifts on special occasions, such as New Year's Day or Christmas, just to remind them that you are thinking of them.
5. Follow up with e-mails or phone calls to update them on what's happening on your end of the business.
6. Treat your customers as good friends, with trust and sincerity.

This may sound complicated and time-consuming, but most experts agree that if you're doing business in China, you'd better get your Guanxi smokin' because without it, your business will fly no farther than a Peking duck.

developing personal relationships. Your goal is to improve your understanding of your key contacts and alignment with you and your company. In some societies, these activities are essential to business success (see the "Guanxi: One Key to Business Success" sidebar).[3]

Key High-Level Contacts

It is easy to maintain a good business relationship with those account members with whom you deal directly as part of providing products and services or members of the buying center. As part of your account plan, however, you must not forget to develop relationships with high-level managers—those with whom you may not have cause to interact with on a regular basis.

The account plan should identify key high-level contacts in the customer's organization. Key high-level contacts are those who:

- Initiate large projects.
- Have approval authority in the buying decision process.
- Have objectives that can be impacted by your company.

An active key high-level contact program (HLCP) is essential to managing any account, and an ongoing relationship with key high-level contacts makes for good business. For more discussion on the benefits of a high-level contact program, see the "Ongoing Business Relationships" sidebar.

Initiators of Large Projects

Large projects within any organization have a long planning period. Corporate strategies dictate how high-level managers sanction projects. To better understand how major projects impact high-level contact's objectives, you should contact them annually or semi-annually, and your meetings with them should be well planned to benefit both them and your company.

When a newly sanctioned project is revealed by an account, the salesperson enters the project into the CRM opportunity database either as a lead or confirmed lead. This information gives the sales team the earliest notification of a project so they may initiate the pursuit phase of the opportunities management process. Ideally, your company executive meets with the account's high-level initiator of the project to qualify the compelling event by getting answers to the following questions, as discussed in Chapter 6 "Sales Activities":

- Why does the account have to act?
- How does this project fit into the account's business strategy?
- What are the initiator's key issues and objectives for the project?
- What is the measurable impact on the account's business?
- What are the consequences if the project is delayed or tabled?
- What is the payback if the project is completed ahead of schedule?

- What is the priority for this project compared to others?
- What are the key milestones for the project?
- Who is responsible for implementing the project?
- What is the project budget?

An effective account management program constantly stays focused on identifying potential future projects and using lead time to better position your company to win the project.

Approvers in the Buying Decision Process

Initiators may or may not be the approvers of projects. Projects are commonly initiated at the headquarters level, then passed to a high-level manager in the business or service unit that has a budget for implementing the project. Identifying the approvers improves your ability to arrange a meeting to support your offer late in the procurement process. Chapter 9 "Strategic Sales Plan" discusses "executive credibility," which is part of the opportunity assessment to determine whether you can win the opportunity. The executive credibility factor considers the strength of your relationships with key high-level contacts and other influential contacts in the buying center. Having strong executive credibility improves your chances of securing opportunities.

High-Level Contacts Whose Objectives Your Company Can Impact

These are high-level contacts whose objectives you impact with your products and services. For projects that you have won, you should contact them as part of the project review stage if they do not participate in the formal operations review meetings. It is a good account management practice to find out the high-level manager's perception of your performance.

For opportunities in the pursuit stage, high-level contacts should be contacted early in the process—ideally at the start of the evaluation of options stage. By

▶ *Ongoing Business Relationships*

Ongoing business relationships make good business sense. In your day-to-day responsibilities as sales representatives, you are busy managing opportunities and supporting existing business with your accounts. Much of your contact is with the customers you deal with daily. However, there are times when you need to contact higher-level executives. This can be difficult for several reasons. First, your relationships revolve around the lower-level contacts who may feel you are going around them or avoiding them if you visit the higher levels. Second, from a practical point, it may be very difficult for sales staff to get appointments with higher-level contacts.

The solution is to establish ongoing business relationships between your company's management and the account's key high-level contacts. The quality of the relationship can be measured by how



easy it is for your management to arrange a meeting with a specific high-level contact. This is always easier if you have an ongoing relationship.

Some of the key objectives for high-level contacting are:

- Early identification of the customer's projects and the compelling event.
- Understanding of the account's goals, objectives, and strategies and how your company can participate.
- Reqeusts for assistance to apply influence in the buying center when your added-value products and services are not given proper consideration in the evaluation process.
- Contact during the resolution of concerns in the procurement process with the objective of demonstrating your company's commitment to the success of the project.
- The high-level contact program should also include invitations to social events that are of interest to the high-level contact in an effort to develop a relationship between the high-level contact and your company's management.

The purpose of the HLCP as part of the account plan is to ensure that the salesperson identifies from the account pipeline the strategic opportunities that require relationships between executives. Then schedule the meetings in advance and ensure that all the necessary preparations are completed in time for the visit. For an example of such planning, see Chapter Highlight 15.3: Account Plan Calendar.

contacting them at this time, you can establish their objectives for the project and align with their goals. Once the project is in implementation, you follow up again.

Often, the manager whose objectives are impacted most is not part of the buying center's decision-making process. For example, in an oil company the exploration vice president's team may provide specifications for products and services, and the procurement or drilling department makes the purchase. It is very important that you make the exploration team aware of your value-added product and services so they can apply influence on the drilling department during the procurement process.

As part of the account plan, you identify key high-level contacts in the CRM database. With this information, you generate an organizational chart that shows only the key high-level contacts, which is useful when discussing the HLCP in the account plan and briefing your company's managers before making high-level contacts.

Buying Center

Every major project an account undertakes goes through an assigned buying center to manage the selection of suppliers. Members of the buying center are affected by many factors, all of which must be carefully analyzed to win their support in the buying process. The buying center roles were described in the opportunities management process, and the many factors affecting the selection process are discussed in more detail in Chapter 9 "Strategic Sales Plan."

As part of the account planning process, you capture information about the buying center for the strategic opportunities you plan to pursue in the next calendar year. This information is entered into the opportunities organizational analysis in the CRM opportunities database. The analysis at this level, however, is very basic, with only the roles in the buying process being identified. The recommended procedure is to complete a strategic sales plan for major opportunities. The level of analysis is much more detailed than when a strategic sales plan is not completed. In the strategic sales, the plan has information covering important data about the buying center and other critical opportunity factors affecting your chances of securing the project.

Account plan activities require your team to have a detailed understanding of the factors that are critical to the influential buying center members when they choose one supplier over another. Often, these factors are not in the technical requirements described in tender specification documents. Individual buying center members are influenced by their business and personal agendas, which are unknown to you unless you make an effort to learn what they are. As part of the account plan, you must identify high-influence buying center members. Then you develop strong business relationships with them so that they are willing to share their agendas with you. When you provide your products and services, you must deliver not only the expected business results, but also win–win results for buying center members.[4]

Despite your best efforts to develop strong business relationships, some buying center members intentionally try to block the selection of your company for account projects. These buying center members are called "enemies." As it is difficult to neutralize an enemy's negative impact on the buying decision, you must rely on supporters and mentors within the account to overcome the enemy's negative influence. Such situations are best planned for in advance and should be included as an action in the account management strategic plan section.[5]

Situation Report

The situation report of the account plan should include the following:

- Account summary
- A consolidated list of the account relationship profiles for each of your company's business units active with the account
- Account-level competitive assessment
- Account pipeline

Account Summary

The account summary is a table listing the current full year and next two years of information for the factors below:

Account Spend Metric. How much does the account spend for your company's product and services and your competitors' products and services? If this is reported or budgeted separately, this is the best number to track. However, this type of information is not easy or is even impossible to know for some accounts. In those situations, the next best metric is either CapEx or OpEx. Most companies will report CapEx and OpEx in their annual reports and discuss future expenditure trends, giving the sales team a good indication of future spending with your company. See the sidebar "Where Do You Belong?"[6] to determine which spending category your company's product and services are part of. With the appropriate account spend metric, you can calculate an accurate market share capture for the current year and the next two years. For more examples of CapEx and OpEx, see Chapter 2 "Value Drivers."

Sales. Total sales to the account for the current year and your projected planned revenues for the next two years.

Total Market Share. Calculated by dividing your revenue by the account spend metric.

Coverage. What percentage of the account's business and service units do you have business with for the current year and your projection for the next two years?

Penetration. What percentage of your product and services lines have you sold to the account for the current year and your projection for the next two years?

The account summary acts as the introduction to the plan and sets the expectations for how ambitious the plan is in terms of revenue growth. It is the revenue growth that gives importance to the account plan. It is the execution of the plan that will turn the ambitions into reality. The next part of the plan is the account relationship profile and consolidated performance parameters.

▶ ***Where Do You Belong?***

CapEx and OpEx Definitions

Capital expenditures (CapEx) are expenditures creating future benefits. A capital expenditure is incurred when a business spends money either to buy fixed assets or to add to the value of an existing asset with a useful life that extends beyond the tax year.

Operational expenditures (OpEx) refer to expenses incurred in the course of ordinary business, such as sales and general and administrative expenses (and excluding cost of goods sold (COGS), taxes, depreciation, and interest).

CapEx and OpEx are also known as capital expenditure or capital expense, respectively and operating expense, operating expenditure, and revenue expenditure, respectively.

Accounting treatment: Cannot be fully deducted in the period when the expenditures were incurred. Tangible assets are depreciated and intangible assets are amortized over time. Operating expenses are fully deducted in the accounting period during which they were incurred.

In throughput accounting, money spent on inventory falls under CapEx. The money spent turning inventory into throughput is OpEx.

In real estate: Costs incurred for buying income-producing property. Costs associated with the operation and maintenance of an income-producing property.

Examples: Buying machinery and other equipment and acquiring intellectual property assets like patents; wages, maintenance and repair of machinery, utilities, rent, and SG&A expenses.

	Account Business and Service Unit Profile Parameters						Performance Indicators		
Parameter	**Position**	**Sensitivity**	**Supplier Role**	**Technology Adaption Profile**	**Technology Differentiation**	**Business Relationship**	**Contract Model**	**Profitability**	**Market Share**
Level 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority
Level 2	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative	Performance	Average	Split
Level 3	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Low
Account									
Headquarters	Focus Differentiation	Value	Problem Solver	Pragmatist	Strong	Collaborative	Cost Plus	Good	Majority
Bus. Unit 1	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Majority
Bus. Unit 2	Focus Differentiation	Price	Problem Solver	Pragmatist	Good	Standard	Cost Plus	Poor	Majority
Bus. Unit 3	Broad Differentiation	Relationship	Stake Holder	Visionary	Good	Strategic	Cost Plus	Good	Low
Service Unit 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority
Service Unit 2	Focus Differentiation	Price	Vendor	Visionary	Strong	Collaborative	Cost Plus	Average	Split
Service Unit 3	Focus Differentiation	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Average	Majority

Fig. 15.3
Consolidated account relationship profiles. The account relationship profiling process and actions to migrate the account to the target relationship level were explained in Chapter 14 "Relationship Profiling."

Account Relationship Profile and Consolidated Performance Parameters

The relationship profile was discussed in detail in Chapter 14 "Relationship Profiling." This profile describes how you are known to the account and your relationship with the customer. For the account plan, the individual business units relationship profiles are consolidated, as shown in **Fig. 15.3**.

Account-Level Competitive Assessment

The competitive assessment uses the four relationship parameters to evaluate the major competitors' position in the account's business and service units and includes a strengths and weaknesses analysis. The competitive assessment and account relationship analysis are completed at the same time. **Fig. 15.4** shows the competitive analysis section of the account relationship worksheet.

	Performance Indicators				Account Level Competitive Assessment															
Parameter	**Your Role**	**Contract Model**	**Profitability**	**Market Share**		**Competitor Role**	**Contract Model**	**Profitability**	**Market Share**	**Strengths**					**Weaknesses**					
Level 1	Stake Holder	Results	Good	Majority	**Major Competitor**	Stake Holder	Results	Good	Majority	RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER	RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER
Level 2	Problem Solver	Performance	Average	Split		Problem Solver	Performance	Average	Split										
Level 3	Vendor	Cost Plus	Poor	Low		Vendor	Cost Plus	Poor	Low										
Account																				
Headquarters	Problem Solver	Cost Plus	Good	Majority	Competitor 1	Vendor	Cost Plus	Good	Low	■		■						■	
Bus. Unit 1	Vendor	Cost Plus	Poor	Majority	Competitor 1	Vendor	Cost Plus	Poor	Low										■
Bus. Unit 2	Problem Solver	Cost Plus	Poor	Majority	Competitor 2	Problem Solver	Results	Average	Low	■		■				■			
Bus. Unit 3	Stake Holder	Cost Plus	Good	Low	Competitor 3	Vendor	Cost Plus	Poor	Majority			■				■			■
Service Unit 1	Stake Holder	Results	Good	Majority	Competitor 4	Problem Solver	Cost Plus	Poor	Low			■						■	■
Service Unit 2	Vendor	Cost Plus	Average	Split	Competitor 3	Problem Solver	Results	Good	Split	■	■		■						
Service Unit 3	Vendor	Cost Plus	Average	Majority	Customer Internal	Stake Holder	Performance	?	Low	■				■		■			

Fig. 15.4
Account-level competitive assessment section of the account relationship profile worksheet.

Account Pipeline

The next part of the situation report is the account pipeline. The pipeline is a key part of the account plan as it is the basis for establishing the objectives for the components of the strategic plan shown in **Fig. 15.5**. Included in the account pipeline are the following:

- Account PMPV
- Account Pipeline Revenue Forecast Summary

- Account Detailed Activity Analysis
  - Levels 1, 2, and 3 Classified Opportunities List

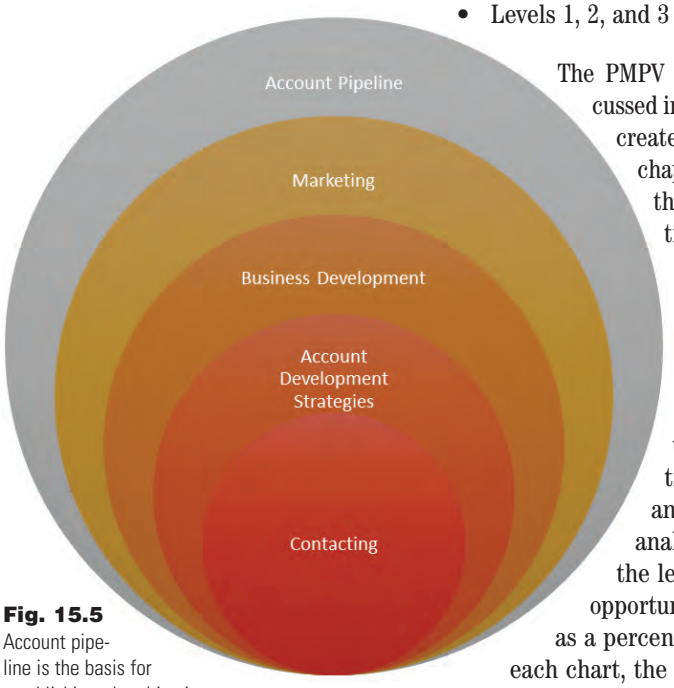


Fig. 15.5
Account pipeline is the basis for establishing the objectives of the plan for the categories shown in the figure.

The PMPV and "pipeline revenue forecast summary" were discussed in Chapter 13 "Pipeline Management." These charts are created using the same steps as explained in the pipeline chapter, except these charts only include opportunities for the account. The third part of the account pipeline section is the detailed account activity discussed next.

Account Detailed Activity Analyses

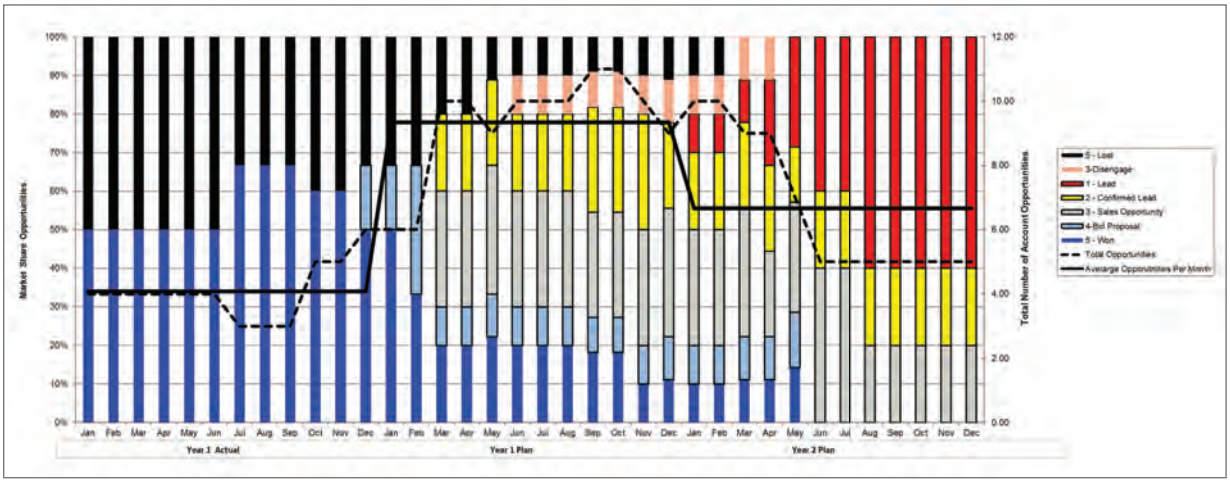
The account detailed activity analyses are used to understand the account's future activity presented in a monthly format for the current year and next two years. There are two charts included in this section. **Figure 15.6** is the account detailed opportunity analysis and **Fig. 15.7** the account detailed revenue analysis. When presented in this format (stacked bar), the left axis is market share as a percentage of the total opportunities for each month in Fig. 15.6 and market share as a percentage of the account's total revenue in Fig. 15.7. For each chart, the annual average for the current year, year one plan, and year two plan is shown by the solid line. These charts make it easy to see what the account's expected activity level and spending will be for the next two years, and the detail is shown behind for each month.

The two detailed analysis charts are used later in the strategic plan section to establish the account plan activities. The charts also provide input for operations management for their annual budgeting process.

Level 1, 2, and 3 Opportunities List

The last part of the account pipeline is the opportunities classified as Level 1, 2, and 3 opportunities as discussed in Chapter 13 "Pipeline Management." These are opportunities for the account that require executive-level approval for the strategic sales plan, bid, and negotiations strategies. The dates for each review and customer contact dates after bid submission should also be listed.

Fig. 15.6
Account detailed opportunity analysis chart.



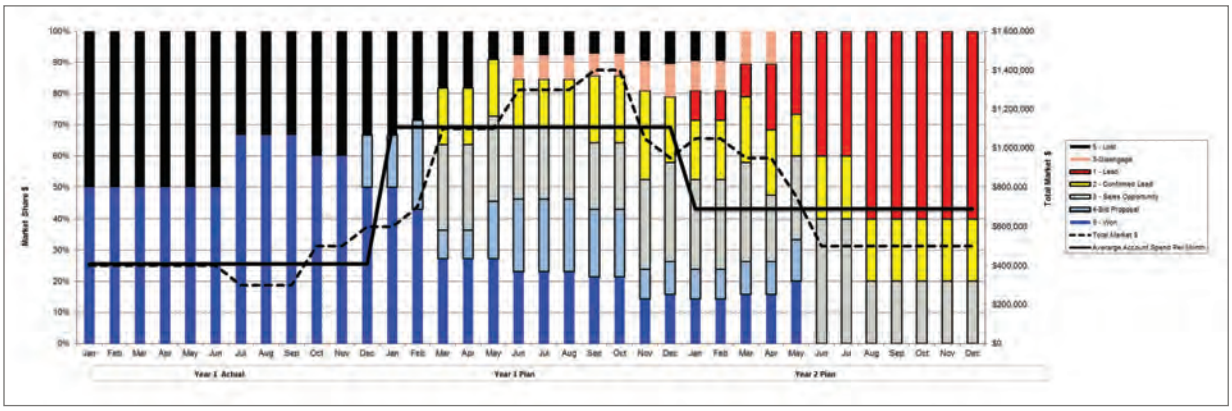


Fig. 15.7
Account detailed revenue analysis chart.

Strategic Plan

After completing the awareness and situation report sections, you are ready to complete the strategic plan, which includes the categories shown in Fig. 15.5. Each part of the strategic plan uses the previous parts of the report to develop a strategic approach to managing the account. The strategic plan section of the report is completed as described next.

Marketing Communications Plan

The marketing communications plan (MCP) is a very effective way to prospect for new opportunities in the account. The MCP and prospecting were both discussed in detail in Chapter 1 "Understanding the Role of Marketing and Sales" and Chapter 6 "Sales Activities." The MCP includes activities for managing the buyer's readiness stages and collecting feedback from the account. The purpose of the account marketing is to build awareness, knowledge, and liking within the account and identify early the need to do business development for confirmed opportunities.

As mentioned earlier, an effective marketing communications program with an effective feedback program, you establish links with your account. Effective communication links make it easier and more efficient for your customers in the account to discuss their business and plans. With a good understanding or the account's business and plans, you will be able to identify many high-quality leads that will result in confirmed leads and new business.

The main difference between a general MCP and an account-specific MCP is the account program is designed to complement the account's future business plans as identified in the account pipeline. A best practice is to identify a mentor in the account to help your create a marketing calendar. The marketing calendar includes:

- New product or service introductions. Before any investments are made to bring new products or services to a region, there should be a marketing event to announce and make the account aware of the new product or services about to launch. This will make the account aware and have knowledge of the application of the new product and services.
- Scheduled lunch and learns. Create a 12-month schedule for 30-minute presentations and lunch. The presentations should be on topics of interest as agreed upon with the mentor.
- Training sessions. Complimentary training sessions on topics delivered by you or someone in your company recognized as an expert on the topic. These types of sessions are normally ½ day to 2-days.

- Industry and professional society events. A reminder of high profile events and to ensure your in-house events for the account are not planned at the same time, thereby avoiding scheduling conflicts.
- Annual VIP seminars. These are courtesy meetings between the account's executive levels and your executives at which the goal is to make the executives aware of your company's solutions for their business issues. These types of "like-rank" meetings are very important to create connections between the account's executives and your executives. Then when "like-rank" selling is required, the business relationship already exists. See the sidebar "When Is 'Like-Rank' Selling Necessary?"[7]
- Public relations activities. As discussed in the earlier marketing sections of the textbook and in the networking section of Chapter 6 "Sales Activities," you and your company need to be seen to support community events. Such events should also be included in the marketing calendar to make people aware of the event and time.
- Account e-mail distribution. E-mail can be used to send items of interest to people in the account on the distribution list on a regular basis. The content can be success stories, new product introduction, articles of interest about your industry, etc. The key consideration is the materials must be relevant to the account. E-mail distribution lists were also discussed in the prospecting section of Chapter 6 "Sales Activities."

▶ ***When Is "Like-Rank" Selling Necessary?***

A study focused on selling to senior executives conducted by the Kenan-Flagler Business School at the University of North Carolina found "like-rank" selling to be an important factor when trying to build the seller's trust and credibility with senior executives in the buyer's account.

Sixty-eight percent of the respondents to the first study rated such a meeting a four or five, five being the highest level of importance. Only 4% rated executive-to-executive selling the least important. In meetings, respondents expect executives from the sales organization to know the buyer's business, industry, and current key projects, as well as the significance of the relationship in dollars and percentage of business.

Executives in both studies stated they do not want a "glad hand" meeting. An executive-to-executive sales meeting must reaffirm the seller's commitment and highlight the strategic fit for both companies. Executives favor suppliers with a similar business philosophy and culture, and prefer to meet with "like-rank" executives to affirm the value of the relationship.

On the other hand, more than one executive said, "If I need to meet with the salesperson's executive management, then something is probably wrong." In fact, sometimes the only reason a buying executive wants to meet with a seller's executive of similar rank is to address a problem.

One of the key factors for the marketing calendar, as discussed above, is to have input from the account. The calendar also needs to be published and have wide distribution within the account. The marketing calendar can be distributed as part of the account e-mail distribution list. Also, it is recommended to print the calendar on high-quality paper so the salesperson can distribute it when meeting new people in the account. This is a very effective way to engage people in the account you have not worked with before.

Business Development

Business development is a term widely used in the sales and marketing communities and can mean different things to many people. To avoid confusion, business development for the purpose of B2B professional sales is an activity by the seller with the customer discussing specific options for a customer's need not considered by the customer before. For the seller, this is new business; for the buyer it is a new approach. Something that is new always represents change, and with change comes risk. Business development is different from marketing. Marketing is meant to target the early stages of the buyer's readiness stages as discussed in Chapter 1 "Understanding the Role of Marketing and Sales" and as shown in **Fig. 15.8**. This figure is from Chapter Highlight 13.3: It is How You Spend Your Time, with the business development activity added. Business development is best suited to address sales opportunities that are early in the customer's project management process when the account is still considering options for their project or initiative. Business development is a bridge between marketing and sales in the early stages of a sales opportunity. Business development activities can occur:

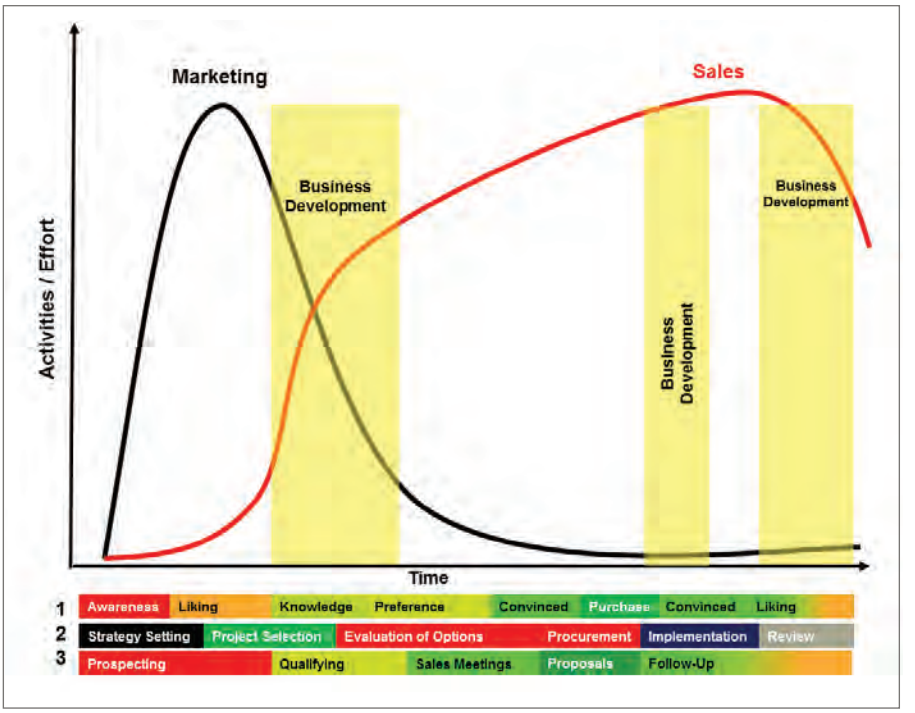


Fig. 15.8
Business development activities. Business development is not marketing and it supports sales. On the bottom of the chart: Line 1-Buyer readiness stages Line 2-Customer project management process Line 3-Sales activities.

- Early in the evaluation of options.
- Early in the implementation stage.
- At the end of a project as part of the project review stage when the seller makes recommendations for future projects.

Projects for which the account would consider an enterprise approach for their project are an excellent time to pursue business development. You can leverage the experts in your organization to engage in discussions regarding options for the customer to consider for their project. Business development must complement the competitive sales strategy. For example if the salesperson is expecting to use a flanking competitive sales strategy, it may require a business development activity during the customer's evaluation of options.

Examples of business development activities are:

- Product champions or product line managers discussing applications of new products or services for a customer's specific application.
- Customer's visiting the seller's engineering or research centers to discuss specific technologies or processes for their needs.
- Providing the customer with demonstrations using their examples or running pilots on the customer's projects. A caution, however, needs to be made whenever providing demonstrations or pilots. See the sidebar "How Will You Know?"

In some situations, companies will schedule product champions or experts at a location and ask for the sales staff to arrange meetings so the experts can fill their time talking to customers. This is not an effective way to do business development. A more effective and cost-efficient way to do business development is described next.

▶ *How Will You Know?*

When customers are ready to try a new product or service, they may ask the supplier to run a demonstration first so they can be confident the new product or service will work in their application. As discussed in Chapter 8 "Handling Customer Objections," the customer is expressing skepticism, and this should be handled following the steps for skepticism before agreeing to run demonstrations. If at the end the customer must have a demonstration, then ensure that you ask the question, "How will you know if the demonstration is successful?" Once that is discussed and agreed to, then tell the customer the price of the product or service if success is achieved; if success is not achieved, indicate the pricing terms. If the customer is not agreeable to paying for success, then you are gaining much by running the demonstration.

If you are in a situation where the customer is considering the new product or service and will be tendering the work for the project, you must decide first (before you begin the discussion) if you want to hold this conversation before or after the tender has been awarded. This is impacted by all the other factors that are considered before selecting your competitive sales strategy for an opportunity and the type of tender you expect the customer to issue.

If you decide to run the demonstration in a tendering scenario and the customer is providing you an opportunity to prove the product, service, or process so it can be included in the tender then in most cases the tender, must be a Type 1 Enterprise or Type 2 Consultative type of tender, where you gain a competitive advantage for the product or service. With Type 3 Transactional type tenders, you are in most cases better to wait until you are awarded the work and do the business development during the implementation of the project, as shown in Fig. 15.8.

In situations where it is a Type 1 or Type 2 tender, you still must have the customer define success and, at a minimum if success is achieved, ask the customer to provide a testimonial describing the success and benefits from the demonstration job.

Marketing before Business Development

Business development activities tend to be more costly and time consuming than marketing and sales activities. It is not unusual for companies to give an individual the title business development manager, making them responsible for supporting the introduction of new offerings internally and to the market. Marketing activities can be held for many customers at one time whereas business development is a one-to-one discussion about applying the products and services that the customer has not tried before. One effective way to hold a business development activity is to follow the process as detailed:

- Product or service expert or champion arrives at your location and hosts a marketing event (for example, lunch and learn or presentation at a conference).
- After-marketing event. Make it easy for customers to ask for additional information or time to discuss their specific project or need with the product expert while still at the location.
- Have customers complete a short form with their name, convenient time to meet, a short description of their project, and any issues or challenges.

The customer, by requesting time to visit with the expert, is seeking business development as the customer has invited your company to talk to them about your product and services. There is an old saying in sales: "Customers prefer to buy rather than being sold to."

Business development activities need to be scheduled to have the largest impact on the account pipeline. In many companies, several salespeople will be given one or two large account sales responsibilities. In those situations, management will typically set a day aside to have all the account plans presented so decisions regarding marketing calendars and business development activities can be optimized to have the largest impact on multiple key accounts.

The next section will examine how to maximize your position within the account's business and service units.

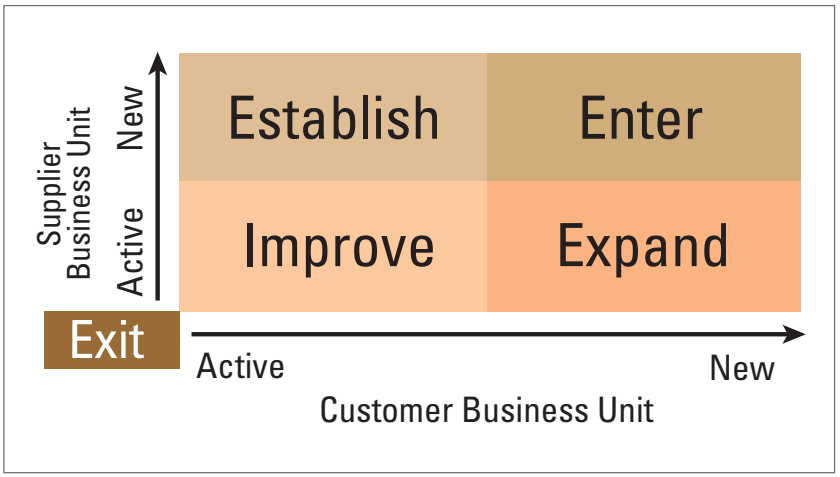


Fig. 15.9
Account development strategies.

Account Development Strategies

One of the main objectives of the account plan is to identify areas where you can develop or improve your position within the account. Account development strategies are shown in **Fig. 15.9**. The account development strategies are described by one or more of the following strategies:

- **Establish**: Leverage your existing relationships in the account to introduce additional company products and services to your current customers in the account.
- **Enter**: Use your existing relationships in the account to expand your relationships and establish new company products and services in areas of the account that you are not working currently.
- **Expand**: Leverage your existing relationships within the account to expand your current product and services to new business or service units within the account.
- **Improve**: Focus on your current business to improve your position and profitability with the account.
- **Exit**: Withdraw from a specific business unit or service unit when strategic or profitability targets cannot be achieved.

In some companies, account development is also called cross-selling of other product or service lines to the account.[8] However, cross-selling does not capture the situations when a company does not want to cross-sell but still improve its position with the account that is captured under the account development "Improve" strategy. Each of the four strategies will be described next.

Establish

To be better established for an account, leverage your current position in the account to increase the total market share by establishing a position from which you sell additional products and services to the account. To do this, you need to identify opportunities where the account would accept an integrated company approach. The integrated approach has been successful many times in establishing a presence in an account for a particular business line that previously had no business with the account. For the account to accept the proposal, there must be a clear advantage for the account to award multiple products and services to one company. These advantages can be better logistics, improved operating efficiencies, etc. The expand account development strategy requires marketing and business development activities be completed before the opportunity you have targeted to win and the advantages to be clearly described to the customer. The competitive sales strategy for the targeted opportunity in most cases should be frontal.

Expand

To expand, leverage your relationships from one account business or service unit to expand your current products and services to a new business or service unit within the account. If you have a project with the customer but your market share for the account's business is low, you may choose an expansion account development strategy. It is not unusual to have a large market share in one business unit but minimal or none in another. In this situation, leverage the strength of your relationships and service delivery to identify supporters who can act as references and generate leads to expanding your customer base within the account.

You should also use your presence in the account to gain a competitive advantage over competitors. The advantage comes from learning of opportunities early in the opportunities management process and working with the account to address a compelling event or participate in the evaluation of options. In this situation, use a frontal or flanking competitive sales strategy, as discussed in Chapter 4 "Opportunities Management" and Chapter 9 "Strategic Sales Plan."

Enter

There are two ways to execute an enter account development strategy. The first is to wait until there is an opportunity for the new account business or service unit needing products or services you are not currently selling them. This enter account development strategy has a higher degree of success when you learn of the opportunity early in the customer's project management process, and there is a degree of dissatisfaction with the incumbent supplier. This version of the enter strategy can take a long time to develop. Another option that can be faster is to use an enter strategy following a two-step approach:

- **Step 1 Expand Strategy**. Create a presence in the targeted account business or service unit following an expand strategy as described above. This is done for one of your company's products or services that is currently active in another account business or service unit. This first win in the new business unit or service unit is achieved by using a frontal or fragment strategy depending on how you are evaluated against the account's decision criteria.
- **Step 2 Establish Strategy**. Introduce the new product or service leveraging your position from inside the business or service unit as described earlier in the establish strategy.

From the account's perspective, the two-stage approach is less risky than bringing in a new supplier for a new service unless there is a problem with the current supplier.

Fig. 15.10
Account relationship strategies and account development strategies combined to form the account relationship and development strategy. For illustration purposes, Service Unit 3 has been chosen to execute an enter account development strategy. When this is the situation, it means there is no relationship or current business with this unit. There the "Your Role" and "Profitability" fields are blank and the "Market Share" field is "None." The other fields related to the specific unit are completed based on your research for that unit.

Account Profile Parameters							Performance Indicators				
Parameter	Value Enabler	Sensitivity	Your Role	Technology Adaption Profile	Technical Ability	Business Relationship	Contract Model	Profitability	Market Share	Target Relationship Level	Account Development Strategy
Level 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority	1	Establish
Level 2	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative	Performance	Average	Split	2	Expand
Level 3	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Low	3	Improve
Account											
Headquarters	Focus Differentiation	Value	Problem Solver	Pragmatist	Strong	Collaborative	Cost Plus	Good	Majority	1	Establish
Bus. Unit 1	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Majority	2	Improve
Bus. Unit 2	Focus Differentiation	Price	Problem Solver	Pragmatist	Good	Standard	Cost Plus	Poor	Majority	2	Improve
Bus. Unit 3	Broad Differentiation	Relationship	Stake Holder	Visionary	Good	Strategic	Cost Plus	Good	Low	2	Improve
Service Unit 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority	1	Establish
Service Unit 2	Focus Differentiation	Price	Vendor	Visionary	Strong	Collaborative	Cost Plus	Average	Split	2	Improve
Service Unit 3	Focus Differentiation	Price		Conservative	Weak	Standard	Cost Plus		None	2	Enter

Chapter Highlight 15.2: You Can Always Improve!



The professional salesperson should never be satisfied once business has been secured with an account. Like all professionals you should always be looking for ways to improve. There are four common ways to improve the relationship with a current business or service unit:

- Improving communication links
- Pursuing ong-term relationship strategies for key buying center members
- Improving profitability
- Matching relationship levels with selling approaches

Improving communication links: Improving your communication links focuses on both the marketing communications program and feedback systems. The salesperson's role in the improvement activities is to impact each of buyer-readiness stages, with the goal of reducing the customer's negative reactions to your sales proposals.

As new key high-level executives and key buying center members enter into the account, the account plan should have a contacting strategy that quickly introduces and moves the new contacts to the conviction stage of the buyer-readiness stage.

Communication improvement actions also include building better feedback systems between your company and the account contacts at all levels. Improved communications result in better-informed customers in the account and more accurate forecasts of the account's future requirements and activities. Good communications also help you learn what competitors are offering in terms of products, services, solutions, and prices, and how well competitors are meeting the account's needs. Through honest exchange between your company and the account, you can learn how well you are meeting their needs and whether you are fulfilling promises you made during the pursuit stages. Your level of confidence in this information is directly related to the level of trust in the relationship.

Pursing long-term strategy for key buying center members: The contacting plan is contained in the improve account development discussion—not in the contacting plan of the strategic plan—because this long-term strategy puts the emphasis on improving rather than just maintaining relationships. To improve relationships with buying centers, you have to focus on maintaining an ongoing business relationship with all the influential buying center members who are actively involved in the buying center. The contact you have with the buying center members during the pursuit phase of an opportunity is best described as brief, and there may be times when business is not being pursued from certain groups within the account. Therefore, it is imperative to develop and coordinate an ongoing business relationship with buying center members similar to the relationship you have with key high-level contacts.

Key buying center members can span the complete range of buying alignment as discussed in Chapter 9 "Strategic Sales Plan." There should be a coordinated effort among account team members to ensure that buying center members are included in your marketing communications and feedback programs. Special attention should be paid to:

- Non-supporters, to ensure that they are contacted after the pursuit stage to resolve any of their outstanding concerns.
- Long-term strategies for dealing with enemies.

Improving profitability: In addition to improving the relationship between the account contacts and your company, the salesperson should also include discussions to identify ways to improve profitability for both companies. This can happen by finding ways to improve efficiencies, sharing infrastructure when appropriate, increasing the account's performance, and increasing your company's revenues. The improved profitability effort should be an ongoing focus of the account plan. This is one of the goals of successful account management: improved profitability for both the customer and your company.

Another benefit of a continuous spotlight on improving profitability for both companies is the ability to focus on trades that bring value to both during negotiations. This is much easier when you have a well-developed list of high-quality trades, generated from your ideas on how to improve profitability for both companies. Trades were discussed in more detail in Chapter 12 "Collaborative Negotiations."

Improved profitability may require that you engage in discussions about changing the business relationship, as described in Chapter 14 "Relationship Profiling," and moving from lower-level to higher-level relationships or, in some cases, from a higher level to a lower level.

Matching relationship levels with selling approaches: Chapter 14 "Relationship Profiling" examined several ways to evaluate the account relationship. The consolidated business unit relationship profiles for the account were included in the situation report section of the account plan. The relationship levels range from Level 1, in which the relationship is between stakeholders, to Level 2, where the relationship is that of a problem solver, to Level 3, which is a standard vendor-customer relationship.

Chapter Highlight 15.2: You Can Always Improve! (cont.)

However, not every project the account undertakes requires the same type of relationship and selling approach during the pursuit phase of an opportunity. As the account project mix changes, you must adjust your selling approach, which requires that you stay informed of the customer's project objectives and strategies. As discussed in Chapter 14 "Relationship Profiling," each successive higher-level relationship requires a higher level of investment from both your company and the account. This concept was first introduced in the competitive bidding chapter and is included here for your ease of reference.

The Level 1, 2, and 3 relationships correspond to a preferred selling approach for any given account project:[9]

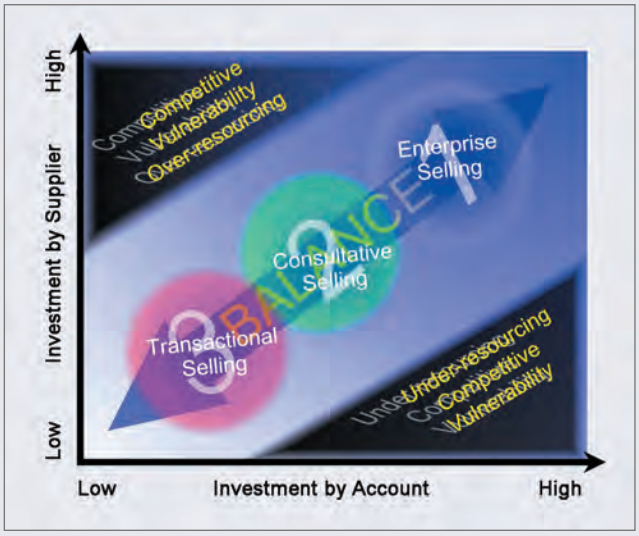
- Level 1–Enterprise Selling: The project is strategic to the account and your company. The planning horizon occurs well in advance of the project, and corporate capabilities are essential for delivering the results promised to the customer. The ability to meet your commitments is far beyond any individual salesperson and requires management's assistance to gain corporate commitment and look for opportunities to bring added value by leveraging more of your company's organization.
- Level 2–Consultative Selling: The level of importance of the project and concern of the account for meeting their objectives are high, and as such the account searches for the best possible solution. This relationship is the most common type. It leverages your differentiated products and services, and specialized sales and support staff. In this type of relationship the goal of account management is to have a well-defined account marketing communications program to build awareness and knowledge of your company's products and services.
- Level 3–Transactional Selling: For these projects the main driver is to control costs and source the most cost-effective suppliers. Standardization and efficient purchasing strategies are the main focus of the account. In these relationships, your objective is to avoid over-resourcing the project and driving up your costs and profits down. Your focus is on gaining efficiencies and reducing the cost of delivering your products and services.

When there is a mismatch between the relationship and your selling approach, you:

- Are at risk of wasting resources that are not wanted by the account, and
- Expose your company to competitive threats.

For example, if the account has an ongoing field development that they consider simple and straightforward but you recommend using more expensive, advanced products and services, you may be wasting additional support services needed for the advanced products and services if you win the project. You may also be at risk of losing the project to a lower-cost supplier.

Alternatively, if the account is starting a major new offshore development and is looking for innovative ways to gain efficiencies but you do not take a Level 1 approach, you may be exposed to a competitor who recommends forming a strategic alliance. The figure on the right illustrates that there is a region of balance where the relationship level and selling approach meet the customer's expectations for a given project. The bidirectional arrow suggests that you may have to adapt your selling approach based on the customer's level of investment in the project.



It is critical that the account plan identify the best selling approach and enable you to migrate from one approach to another as the relationship level changes. The plan must identify in advance that a repositioning from the current relationship and selling strategy is required. To reposition successfully and minimize competitive threats, you must be proactive well before the procurement stage of the opportunities management process, and ideally in the evaluation of options phase.

To do this, the salesperson must be well informed of the strategic importance and level of investment the account intends to make in upcoming projects.

All account development strategies should include components of the improve strategy in each of the expand, establish, and diversify strategies. The improve strategy can be a stand-alone strategy for a specific business unit, but components of the improve strategy should be shared across the organization, such as key high-level contact and communication links.

Improve

If none of the other account development strategies is applicable for securing more business in the account, then the plan must identify other ways to improve your position and market share with the improve strategy. The improve strategy is a very worthwhile strategy, and parts of the improve strategy are always applicable to every account and can result in significant revenue improvement. The improve strategy discussion is presented in the form of a chapter highlight. This will facilitate using the highlight as a handout when meeting with other account team members to discuss ways to improve the relationship with your accounts. See **Chapter Highlight 15.2: You Can Always Improve!**

Exit

Sometimes an exit strategy is the most desirable account development strategy. If the long-term prospects of an account are not sufficient to justify the resources dedicated to the account, it may warrant an exit strategy. It is common to use an exit strategy when long-term profitability objectives cannot be achieved. Obviously, an exit strategy should be closely analyzed and discussed to be sure it is the correct strategy. An exit strategy, when warranted, is targeted at specific business or service units. When an exit strategy is chosen, a competitive disengage strategy should be used, as discussed in Chapter 4 "Opportunities Management."

The final step of the account development strategy is to add the account development strategy for each of your company's business units to the account relationship profile, as shown in Fig. 15.10. When account development strategies are added to the account relationship profile, it becomes more obvious for the establish strategy that existing relationships can be leveraged to introduce the new customer business or service unit. When using an expand strategy, you should try to determine the impact it will have on market share for the account. Each account development strategy should also be tested against the competitors' position, as described in the situation report section.

Each account development strategy—improve, expand, and diversify—should be associated with specific opportunities from the account pipeline and incorporated into the selling strategy for the specific opportunity. Each selling strategy should be checked to be sure it is well balanced. When the account relationship strategies and account development strategies are combined, refer to them as the account relationship and development strategy.

Contacting and Actions Plan

The contacting and actions plan identifies contacts the salesperson requires other people to make, as listed below:

- Contacts made in support of opportunities won
- Contacts made in support of opportunities being pursued
- Contact made to determine the account's future plans
- Actions and events planned to support current projects and opportunities

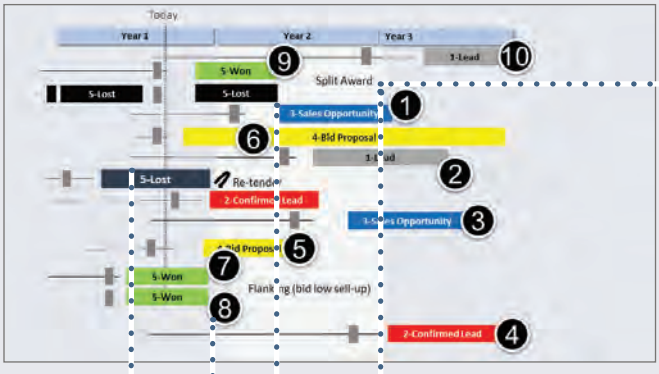
Contacts Made in Support of Opportunities Won

Projects are opportunities that are in the sales stage 5-Won and the account is in the implementation stage of their project management process. Contacts in this category are made with key high-level contacts in the account. The purpose can be to review your company's performance on current projects or to highlight your company's contribution to the project objectives. As discussed in Chapter 4 "Opportunities Management" and Chapter 6 "Sales Activities," you should document best practices used during the project implementation phase in order to:

Chapter Highlight 15.3: Account Plan Calendar

Planning Is the Key

All activities discussed in this chapter are directed toward developing an account plan that assists in day-to-day operations and in securing current opportunities and potential projects. With a proactive approach to account planning, the relationship between the account and your company is more beneficial for both companies. Listed below are just a few of the action items that would make up an account plan. With today's CRM software and tools, account planning is an efficient process. Account management activities should happen around key events in the customer's organization. The only way to ensure that the appropriate people from your company and required resources are available is to plan.



E **Review Account Plan**

Review end of year two results and update the year three plan after the account's annual strategy meeting. Plan a meeting with account president to discuss the focus of the year three plan. Date: December 10. Also present updated account corporate profile based on meeting with the president. Set date for business development activity. Research center visits in support of year three potential project number 10.

D **Year-End Client Appreciation Party**

Thank your clients for their business.

C **Performance Review**

Two projects nearing completion (5 and 9) and one active (6). Collect significant achievements and major operating successes from different divisions within Company A. Use material in support of client contacts and future VIP seminars. Also demonstrate delivering on promises made during evaluations and procurement stages. Leverage best practices for potential projects (2 and 10) in second half of year two and in year three.

B **High-Level Contact During Industry Conference**

Two very important multi-division opportunities in the procurement stage (numbers 5 and 6). Be prepared to resolve any concerns the account may have regarding your company's commitment to their projects or any other unresolved concerns. Present three papers at a national conference. Executives will also contact executives regarding the outcome of the recently finished project. Introduce new products and services as part of your business develop efforts and expand in the account (numbers 7 and 8).

A **VIP Seminar**

Four opportunities (numbers 1, 2, 3, and 4) early in the evaluation of options. Use VIP seminar to create awareness in client's organization for possible options for their projects and establish another business line in the account.

- Prevent failures from happening in the future, and
- Promote practices that result in major successes, as recognized by the customer.

Both actions demonstrated that your company takes a proactive approach in customer satisfaction and stays focused on the customer's expectations and objectives. This will create a favorable impression with key high-level contacts. Ideally, documents used during the high-level contact should be brief (one page) and validated by a member of the executive team.

Chapter Highlight 15.3: Account Plan Calendar item C illustrates a scenario where Company A has several active projects and high-level contacts will be made to review Company A's performance. This can be with any or all high-level contacts—initiators, approvers, or high-level contacts whose objectives are impacted by the projects.

Contacts Made In Support Of Opportunities Being Pursued

Opportunities being pursued are opportunities in the sales stage: 2-Confirmed Lead, 3-Sales Opportunity, or 4-Bid Proposal. Key high-level contacts should also be identified that support opportunities in the late stages of the pursuit phase, ideally in the resolution of concerns stage. This should happen after the buying center has reviewed your proposal and that of the competitors. One advantage of making a high-level contact at this stage is that, during the procurement process, some accounts impose restrictions on communications between buying center members and the sales team. These restrictions, however, rarely apply to upper management. By making a scheduled contact during this time, you can address any concerns regarding your proposal, emphasize your corporate commitment, and try to eliminate the concerns.

Contacts Made to Determine Account's Future Plans

Each plan should include a regularly scheduled high-level contact or contacts to determine the account's future plans. This is best done if the contact can be scheduled after the account's annual planning process.

For example, in Chapter Highlight 15.3: Account Plan Calendar, the salesperson realized the account team was aware of only a few leads, which indicate the account's activity was decreasing. The salesperson created a PMPV chart as shown in Chapter Highlight 15.3: Account Plan Calendar. A high-level contact would be appropriate and is planned (item E) to confirm your understanding of the account's future plans. The PMPV chart will be used to brief management before contacting the account's key high-level contacts.

Actions and Events Planned to Support Current Projects and Opportunities

In addition to the contacting plan, specific actions and events should be made for key buying center members to address opportunities in the pursuit phase. For example, in Chapter Highlight 15.3: Account Plan Calendar, item A, a scheduled VIP (executive level) seminar, targets four opportunities that are in the early part of the accounts evaluation of options phase. Other possible activities that should be considered are engineering center visits, technical presentations, and site visits to demonstrate your company's capabilities—all meant to make the account aware of the most appropriate solution for upcoming projects.

When required, contacts and events for buying center members can also be scheduled during the procurement stage. For example, it may be appropriate during the bid proposal presentation to have a technical expert from the HQ marketing or

engineering center present at the presentation. Such support should be identified as part of the account plan, and the technical expert's schedule should be checked to ensure his or her availability. In other cases, it might be desirable to ensure that specific company staff are available during negotiation meetings as part of the advance planning activities.

Completing the Account Plan

The final step of completing the account plan is to write an executive overview that:

- Describes the overall goal of the account plan in terms of the:
  - Next two years' revenue objectives.
  - Strategic business and account development objectives.
- Identifies the critical success factors for the plan to achieve the revenue objectives. This can include such factors as:
  - Must-win opportunities that represent a significant portion of the revenue objectives.
  - Establishment of a relationship with key buying center members or securing work for a key business or service unit.

The complete report should be stored in electronic format in the CRM database. The complete report should include:

- Executive Overview Account Summary
- Account Corporate Profile
- Account Organization Chart
- Account Business and Services Unit Summary Table (Drivers, Initiatives, and Critical Success Factors)
- Account Pipeline
- Consolidated Account Relationship, Account Development, and Competitive Analysis worksheet
- Account Plan Action Items, including:
  - Marketing calendar
  - Business development plan
  - Account development plan
  - Relationship building HCLP assignments. For each assignment include the requested contact, purpose, and dates to be completed.
  - List of Level 1, 2, and 3 Opportunities. For each opportunity include key contacts as discussed in the contact section of this chapter and the required review dates.

Execution and Tracking

The company's CRM system should be used to execute and track the plan. The e-mail function can be used to keep account team members informed on the progress of the plan. On a regular basis (normally quarterly), the salesperson should send a brief update on the plan's progress against objectives and include an updated PMPV and detailed revenue analysis chart for the account. Also, it should list on one page the key contacts and Level 1, 2, and 3 Opportunity reviews for the next quarter.

Table 15.1
Comparison of account and territory plans.

Plan Section	Plan Components	Account	Territory
Introduction	Executive Overview	Revenue Objectives	Revenue Objectives
		Strategic business and account development objectives	Strategic business and territory development objectives
	Plan Critical Success Factors	Must win opportunities	Must win opportunities
		Establishing key relationships	Establishing key relationships
		New product and service introductions	New product and service introductions
	Plan Summary	Account Summary	Territory Summary
Awareness	Profile	Account Corporate Profile	Territory Profile
	Organization Chart	Account Business Unit and Service Unit Structure	Territory Segmentation Map
	Customer Drivers Initiatives Critical Success Factors	Business and Service Unit	Territory Segments
Situation Report	Pipeline	Account	Territory
	Relationship Analysis	Business and Service Unit Level	Territory Segment Level
	Development Plan		
	Competitor Analysis		
Strategic Plan	Action Plan - Prospecting and Marketing Calendar	Account Level	Territory Level
	Action Plan - Business Development	Business and Service Unit Level	Territory Segment Level
	Action Plan - Relationship Building	Business and Service Unit Level	Territory Segment Level
	Level 1, 2, 3 Opportunities	Account Level	Territory Level
Execution and Tracking	Quarterly Updates	Account Level	Territory Level

All account plans should be reviewed annually at the headquarters or regional level. Typically one or two days are set aside each year to have account plans presented; such presentations are attended by the executive team and other salespeople presenting plans. This makes it more efficient for setting priorities and assigning resources. It also makes it easier to identify where resources for marketing events, entertainment, training, HLCP visits by company executives, etc., can be shared between accounts.

When several of your company business lines are working for a large account, the salespeople should meet to discuss their plans. They should look for ways to complement each other's plans to form a cohesive, integrated company approach to the account. An integrated approach will make the relationship more beneficial for both companies.

Also, key parts of the account plan should be reviewed with mentors and executives in the account to acquire their feedback and support for the plan. Parts of the plan to share with the account are the:

- Account profile
- Marketing calendar
- Business development plan
- Account development plan

Sharing the account plan with the account demonstrates to them that their business is important to you and that you are actively working to win more of their business. It is not unusual for the account to give very valuable feedback when you share the plan with them, and don't be surprised if they recommend other opportunities for you to grow your business with them.

This concludes this section on the account plan. The next section is the territory plan.

Territory Plan

In this planning chapter, the account plan was presented first as there are many similarities between the account plan and territory plan. **Table 15.1** lists the

similarities and differences between the two types of plans. In many situations when a salesperson is successful in a territory, it is the result of securing several key accounts. Knowing how to create an account plan will be very useful as the salesperson tries to grow their company business with the account.

The main question to answer before creating the territory plan is: "What is the best way to segment the territory to maximize your return on sales?" For the account plan, the account was segmented in its business and service unit structure. After you have your territory segmentation, then build your plan. Too many times territory plans according to one study do not have the correct segmentation.[10] The sidebar "Get Focused. Pick Your Segments" offers examples of common segmentation.[11]

The territory plan has the same four components as the account plan:

- Awareness
- Situation report
- Strategic plan
- Execution and tracking.

As in the account plan, the executive overview and plan critical success factors are completed last. The first part of the territory plan to be completed is the awareness sections, as described below.

Awareness

Territory awareness consists of three parts:

- Territory profile
- Territory segmentation map
- Segment drivers, initiatives, and critical success factors

Territory Profile

The territory profile is the basic research that either the salesperson or the marketing department has completed. It includes the most detailed information supporting the territory summary as well as a section describing:

▶ ***Get Focused. Pick Your Segments***



Segmentation by Size
B2B marketers sometimes choose to target potential business customers based on their size. Size might be measured in terms of the number of employees or annual sales. Larger companies may represent the potential for more significant sales, while smaller companies hold value by virtue of the fact that there will be many more of them to target as potential customers. Size will also become an issue in determining how to best connect with these organizations and which individuals within the organizations to target for communications. In small companies, for example, this task will be much more straight forward; in larger companies, it can be challenging to identify the key decision-makers accurately.

Segmentation by Industry
Industry segmentation may be used by marketers who are selling products with specific appeal in certain industry segments. For instance, companies that make specialized computer components will want to identify companies that use the components and then segment these companies into a targeted group for communications and outreach. Different industry segments may also have specific needs and challenges that can be addressed through key messaging in communications. Industry segmentation also holds an advantage in that there are a multitude of industry-specific trade associations that can be used to connect with these audiences.

Business Need Segmentation
Segmentation based on business need allows marketers to identify and connect with businesses that span geographies, sizes and industries, but share a common need addressed by the marketer's products or services. For example, virtually every business needs telephone systems and computers. Marketers may choose to combine segments to more narrowly identify their audience, such as businesses that need accounting software that are located within a certain radius and are part of the energy utility industry.

- Significant industry events and conferences
- Active professional organizations and local chapters
- Customer base information
- Historical territory information such as market size (revenue)

The territory profile is sent to attendees of the annual territory meeting. It is also used to brief and support personnel who will attend Level 1, 2, or 3 opportunity reviews and brief company personnel not familiar with the territory before contacting customers in the territory.

Territory Segmentation Map

The territory segmentation map is created to make a physical representation of the territory. This can be based on geography, industry, company size, etc. It can be either a graphic such as a map or a table listing. The segmentation map has to complement the method you have used to segment your territory.

Customer Drivers, Initiatives, and Critical Success Factors

With the segmentation map you can also show or list the common business drivers, major projects or initiatives, and critical success factors for the projects or initiatives in the same table for each territory segment. Fig. 15.2 showed two examples.

Situation Report

Situation report consists of three parts:

- Territory summary
- Territory pipeline
- Territory consolidated segment relationship and competitor assessment

Territory Summary

The territory summary was discussed in Chapter 6 "Sales Activities" and includes more than the account summary because of the added complexity a territory has compared to an account. The territory summary includes the consolidated statistics for all the territory segments for the current full year and next two years:

- Total territory size in terms of market expenditures and number of customers.
- Breakdown by territory segmentation expenditures and number of customers.
- Number of competitors by territory segment.
- Average sales size revenue, sales cycle days, and contract period by territory segment.
- Market share by territory segment.
- Coverage % of customers you do business with in each territory segment.
- Penetration % of your product and service lines you have sold in each territory segment.

Territory Pipeline

Much like in the account plan, the pipeline is a key component. With the segmentation set and your historical data collected and your territory pipeline, the rest of the plan will develop. What is critical is the revenue objectives or quota the salesperson has been assigned. The revenue objectives will define how aggressive your plan must be and on which territory segments you must focus. Equally impor-

tant is the competitor analysis for each territory segment and what to expect from the competition if your revenue growth occurs at the expense of a few competitors or many. Answering these questions can only come after the salesperson has analyzed their territory pipeline for each territory segment.

The revenue growth can come from several areas:

- Increase market share per territory segment. This can be achieved by winning more of the proposals you submit or submitting more proposals. The first option, winning more, will require a better value proposition. The second option requires either a shorter sales cycle or more efficient selling that results in spending less time per sale or the addition of more sales resources. The additional resources could be:
  - Doing more of any of the prospecting activities discussed in Chapter 6 "Sales Activities." Prospecting will be discussed later in this section.
  - Providin inside salespeople with responsibilities to free the outside salesperson to spend more time with clients. For example, the inside salespeople could write proposals and follow up with the customer, leaving more time for the outside salespeople to visit more confirmed leads.
  - Add more outside salespeople.
- Introduce new products or sell additional company product or service lines.
- Increase revenue per sale. This can be achieved by selling more volume or complimentary products and services or increasing prices.
- Gain more business from your current accounts by using the account development techniques described in the account plan section of this chapter.

The above techniques to increase market share also include reviewing the pipeline and ensuring that the salespeople are effectively managing their pipeline. For example, as discussed in Chapter 13 "Pipeline Management" if a salesperson is not qualifying properly, they could be chasing opportunities they cannot win; therefore, this is wasted effort. If the salesperson does a better job at qualifying they can spend more time pursuing more opportunities they can win. As a result the revenue increases. However, this sales effectiveness step is not part of a territory plan but part of the salesperson's professional development.

For each territory segment, know the critical pipeline factors, such as:

- Market size
- Average deal size
- Sales cycle by stage
- Conversion rate to the next sales cycle
- Market share

Developing the plan will be an iterative process and, by running different scenarios to decide on the best approach to achieve the plan revenue objectives based on effort, outcome, and confidence, the strategy will be successful. Each option must be evaluated in terms of risk and competitor response. The next section relationship analysis, development plan, and competitor analysis, all vital inputs for determining how confident you are in the various options you consider will succeed.

Parameter	Account Profile Parameters						Performance Indicators			Target Relationship Level
	Value Enabler	Sensitivity	Your Role	Technology Adaption Profile	Technical Ability	Business Relationship	Contract Model	Profitability	Market Share	
Level 1	Broad Differentiation	Relationship	Stake Holder	Visionary	Strong	Strategic	Results	Good	Majority	1
Level 2	Focus Differentiation	Value	Problem Solver	Pragmatist	Good	Collaborative	Performance	Average	Split	2
Level 3	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Low	3
Territory Segment										
Large Accts.	Focus Differentiation	Price	Problem Solver	Pragmatist	Strong	Collaborative	Cost Plus	Good	Low	1
Medium Accts.	Focus Costs	Price	Vendor	Conservative	Weak	Standard	Cost Plus	Poor	Majority	2
Small Business	Focus Differentiation	Price	Problem Solver	Pragmatist	Good	Standard	Cost Plus	Poor	Split	2
Government	Focus Differentiation	Value		Pragmatist	Good	Standard	Cost Plus	Average		2
Medium Accounts Account A	Broad Differentiation	Relationship	Problem Solver	Visionary	Strong	Collaborative	Cost Plus	Average	Split	2

Fig. 15.11
Territory plan relationship analysis, and development plan.

Relationship Analysis

In the account plan section, the relationship analysis was done on one spreadsheet for each business and service unit. For the territory plan, perform this analysis for each territory segment using your perceptions based on customer feedback for the relationship profile parameters as shown in **Fig. 15.11**. In this example, there are four territory segments:

- **Large Accounts**. Accounts with more than $1 billion annual sales.
- **Medium Accounts**. $500,000 to $1 billion annual sales.
- **Small Business**. Less than $500,000 annual sales.
- **Government**. Government departments run as non-profit entities.

Also in this example, the salesperson for the purpose of their territory plan has classified Account A as a major account and will treat the account as a standalone segment in the territory.

It is clear from the analysis in Fig. 15.11 that the salesperson wants to position their company in the territory as a value-added supplier. The salesperson is targeting a level 2 consultative selling relationship for all the territory segments except for the large accounts, for which they are targeting an enterprise selling relationship.

Fig. 15.12
Territory plan competitive assessment.

Parameter	Territory Relationship Profile Parameters						Performance Indicators	Target Relationship Level	Territory Competitive Assessment					Strengths					Weaknesses				
	Value Enabler	Sensitivity	Your Role	Contract Model	Profitability	Market Share			Major Competitor	Competitor Role	Market Share	Profitability	Contract Model	RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER	RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER
Level 1	Broad Differentiation	Relationship	Stake Holder	Results	Good	Majority		1		Stake Holder	Majority	Good	Results										
Level 2	Focus Differentiation	Value	Problem Solver	Performance	Average	Split		2		Problem Solver	Split	Average	Performance										
Level 3	Focus Costs	Price	Vendor	Cost Plus	Poor	Low		3		Vendor	Low	Poor	Cost Plus										
Large Accts.	Focus Differentiation	Focus Costs	Problem Solver	Cost Plus	Good	Low		1	Competitor 1	Vendor	Majority	Good	Cost Plus	■		■						■	
Medium Accts.	Focus Differentiation	Price	Vendor	Cost Plus	Poor	Majority		2	Competitor 1	Vendor	Low	Poor	Cost Plus										■
Small Business	Focus Differentiation	Price	Problem Solver	Cost Plus	Poor	Split		2	Competitor 1 Competitor 2 Competitor 3	Problem Solver Vendor Problem Solver	Low Split Low	Average Poor Poor	Results Cost Plus Cost Plus	■		■ ■				■ ■			■
Government	Focus Differentiation	Value		Cost Plus	Average			2	Competitor 1	Vendor	Majority	Good	Cost Plus	■		■						■	
Medium Accts. Account A	Broad Differentiation	Relationship	Problem Solver	Cost Plus	Average	Split		2	Competitor 2	Vendor	Split	Poor	Cost Plus			■						■	■

Competitor Analysis

The competitor analysis is completed the same way as described in the account plan section of this chapter. However in a territory plan it is not unusual to have two or more significant competitors with whom you are competing. In this situation, add the competition's information on additional lines in the competitive analysis section of the analysis, as shown in **Fig. 15.12**. In this example, the small business territory segment has Competitors 1, 2, and 3, and the large, medium accounts, government, and account A only have one main competitor each.

It is important to highlight that, when completing this competitive assessment, the salesperson must review the detailed competitor information and reports provided as part of the marketing department's competitor intelligence program. Competitor intelligence is not a one-time assessment, but an ongoing effort of monitoring your competitors. The entire sales and marketing organization must learn as much as possible about your competitors. There are many competitor information sources you can use, such as:

- Customers
- Competitor's pricing behavior and sales strategies they use in the territory and globally
- Competitor's websites
- Competitor's speeches and investor reports
- Competitor's presentation at conferences
- Competitor's annual report

The competitor analysis in the territory plan is used to compare the competitor's position in the territory segment to your company's position. With this analysis, you can determine if the competitor is better positioned than your company and how difficult it will be to execute your territory development strategy.

The next section of the territory plan is the strategic plan, which lists the details of how the revenue growth in the territory will be achieved by executing specific actions based on the revenue objective and situational analysis.

Strategic Plan

The strategic plan consists of:

- Territory prospecting plan
- Business development activities
- Territory development strategies
- Contacting plan

The territory strategic plan has the same components as the account plan and was shown earlier in Fig. 15.5. Each section of the strategic plan will be discussed below.

Territory Prospecting Plan

The territory prospecting plan follows the guidelines explained in Chapter 6 "Sales Activities" in the prospecting section. This is a very important part of the territory plan and should result in sufficient high-quality leads being added to the territory pipeline so that ultimately a sufficient portion will be converted to sales stage 5-Won opportunities. Specifically, the prospecting plan will consist of:

- **Corporate Marketing Communications Plan (MCP)**. Which parts of the corporate MCP will be leveraged in the territory? In addition to the corporate MCP, there is also a territory MCP.
- **Territory MCP**. As discussed in the account plan, the territory MCP includes a marketing calendar. The territory marketing calendar lists the specific territory marketing events the salesperson will conduct or for which they will request support from management for resources to hold a specific event. The types of events that make up a territory MCP are the same as described in the account plan "marketing calendar" section.
- **Current Accounts**. How much time or resources are planned for prospecting in current accounts from which you already have a business, as described in Chapter 6 "Sales Activities" prospecting in current accounts section?
- **Referrals**. What is the territory referrals program? Which prospecting activities produce the most referrals? Which territory segments and accounts provide the best referrals? These are referrals that result in confirmed leads and new business.
- **References**. What is the territory reference program? Are the references sufficient for the types support materials needed for successful sales calls? Is there an active program to capture successes and ask for releases from customers? This topic was discussed in Chapter 6 "Sales Activities" references and follow-up sections.
- **Networking**. What are the planned networking activities as described in Chapter 6 "Sales Activities" networking section?
- **Conferences**. How many conferences are in the territory? Of these conferences what are the dates and your company's participation?
- **Cold Calling**. What is the cold calling program? Who has the responsibility for cold calling? How many cold calls does it take to add a lead to the pipeline and what is the conversion of cold call leads compared to the other prospecting activities? For more discussion of cold calling, see Chapter 6 "Sales Activities" cold calling section.
- **E-mail Marketing**. This is the same as the e-mail distribution discussed in the account plan section and Chapter 6 "Sales Activities" e-mail marketing section.
- **Tracking**. For the purpose of the territory plan, the results from your tracking system are key. The tracking of the prospecting plan identifies which prospecting activities generate the most and best quality leads. It should also include a library in which referrals and references are stored and shared.

Territory Business Development Plan

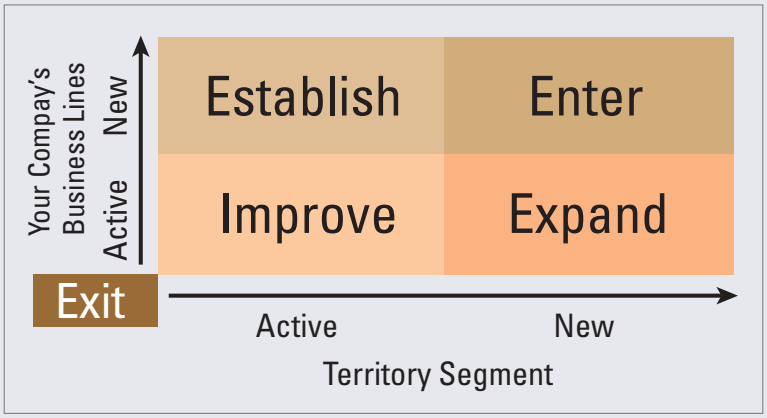
The territory business development plan creation process is the same as the account business development plan process. Each business development plan will target specific opportunities from the territory, such as opportunities:

- Early in the customer's planning process,
- After award and during the implementation phase, and
- In the review stage of the customer's project management process.

See Fig. 15.8 for information on business development activities.

Chapter Highlight 15.4: Developing the Territory

The idea of using a territory development strategy to improve revenues is based on leveraging the relationships you have with your current customers in the territory segments you are selling to now. Leveraging this means your current or active customers as shown in the figure on the right will provide you with referrals and references for new business. The new business can come from a new territory segment by selling company business lines that are not being sold currently or improving your position with your current customers. Or you can use a combination of the strategies called enter, when your strategy is to sell something new in a new territory segment. Each strategy is explained below.



Establish

To be more well-established within a territory segment, leverage your current position in the territory segment to increase total market share by establishing a position and selling additional products and services to current customers in the territory. To do this, you need to be proactive and identify opportunities where the accounts in the territory segment would accept an integrated company approach. The integrated approach has been successful many times in establishing a presence in a territory for a particular business line that previously had no business. For customers to accept the proposal, there must be a clear advantage for the customer to award multiple products and services to one company. These advantages can be better logistics, improved operating efficiencies, etc. The expand territory development strategy requires marketing and business development activities to be completed before you make a proposal for the opportunity you have targeted to win. You should also clearly describe the advantages to the customer. The competitive sales strategy for the targeted opportunity in most cases should be frontal.

Summary: Establish a territory strategy. Sell more of your company's offerings in the current territory segment.

Expand

Leverage your business relationships from one territory segment to expand your sales to territory segment you have no sales. If you have sales in one territory segment but your market share is low, you may choose an expand strategy. It is not unusual to have a large market share in one territory segment but none in another. In this situation, you leverage the strength of your relationships and service delivery to identify supporters in your current customers organizations who can act as references and generate leads to expand into other territory segments.

Summary: Expand territory strategy. Sell current offering to more territory segments.

Enter

There are two ways to execute an enter territory development strategy. The first is to wait until there is an opportunity in the new territory segment requesting the products or services you are not selling in the territory. This version of the enter development strategy has a higher degree of success when you learn of the opportunity early in the customer's project management process and there is a degree of dissatisfaction with the incumbent supplier. This version of the enter strategy can take a long time to develop. Another option that can be faster is to use an enter strategy following a two-step approach:

- Step 1 Expand Strategy. Create a presence in the targeted territory segment following an expand strategy as described above. This is done for one of your company's products or services that is currently being sold in a one or more of the territory segments. This first win in the new segment is achieved by using a frontal or fragment strategy depending on how you are evaluated against the customer's decision criteria.
- Step 2 Establish Strategy. Introduce the new product or service, leveraging your position from inside the territory segment as described earlier in the establish strategy.

From the customer's perspective, the two-stage approach is less risky than bringing in a new supplier for a new service unless there is a problem with the current supplier.

Summary: Sell a product you are not selling today to a territory segment you are not in.

Chapter Highlight 15.4: Developing the Territory (cont.)

Improve

If none of the other territory development strategies is applicable for securing more business in the territory, then the plan must address ways to improve your position and market share with the improve strategy. The improve strategy is a very worthwhile strategy, and parts of it are always applicable to every territory and can result in significant revenue improvement. The improve strategy discussion is presented in the form of a chapter highlight to facilitate using it as a handout when meeting with other sales team members when looking for ways to improve the relationship with your current accounts. See Chapter Highlight 15.2: You Can Always Improve!

Summary: Focus on your current customer's.

Exit

Sometimes an exit strategy is the only viable option. If the long-term prospects for a territory segment are not sufficient to justify the resources dedicated to the territory segment, it may warrant an exit strategy. It is common to use an exit strategy when long-term profitability objectives cannot be achieved. Obviously, an exit strategy should be closely analyzed and discussed to be sure it is the correct strategy. An exit strategy, when warranted, is targeted at specific territory segment. When an exit strategy is chosen, a competitive sales disengage strategy should be used, as discussed in Chapter 4 "Opportunities Management."

Summary: Disengage.

Bringing the Analysis Together

The territory development strategy is added to the to the territory relationship profile as shown in Fig. 15.13. When development strategies are added to the relationship profile, it becomes more obvious how much effort the development strategy will take to implement from a relationship aspect. This was discussed in detail in Chapter 14 "Relationship Profiling." Competitive assessment is also part of the relationship profile. Each territory development strategy should also be evaluated against the competitors' position to predict their reaction to your strategy.

Each territory development strategy should have a specific opportunity from the territory pipeline that will be used to execute the strategy. When the territory relationship strategies and development strategies are combined, you refer to it as the territory relationship and development strategy.

Territory Development Plan

In a territory, the development plan is a summary of how the salesperson is planning to increase market share. In a territory plan, the territory development strategies are labeled the same as in the account plan but with a slightly different meaning, as described below:

- Establish: Sell more of your company's offerings in the current territory segment.
- Enter: Sell a product you are not selling today to a territory segment you are not in.
- Expand: Sell current offering to more territory segments.

Fig. 15.13
Consolidated territory relationship analysis, competitive assessment and development plan.

	Territory Relationship Profile Parameters				Performance Indicators		Target Relationship Level	Territory Development Strategy	Territory Competitive Assessment													
Parameter	Value Enabler	Sensitivity	Your Role Model	Contract	Profitability	Market Share			Major Competitor	Competitor Role	Market Share	Profitability	Contract Model	Strengths					Weaknesses				
														RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER	RELATIONSHIP	TECHNOLOGY	PRICE	SERVICE	OTHER
Level 1	Broad Differentiation	Relationship	Stake Holder	Results	Good	Majority	1	Establish		Stake Holder	Majority	Good	Results										
Level 2	Focus Differentiation	Value	Problem Solver	Performance	Average	Split	2	Expand		Problem Solver	Split	Average	Performance										
Level 3	Focus Costs	Price	Vendor	Cost Plus	Poor	Low	3	Improve		Vendor	Low	Poor	Cost Plus										
Territory Segment																							
Large Accts.	Focus Differentiation	Focus Costs	Problem Solver	Cost Plus	Good	Low	1	Expand	Competitor 1	Vendor	Majority	Good	Cost Plus	■		■					■		
Medium Accts.	Focus Differentiation	Price	Vendor	Cost Plus	Poor	Majority	2	Improve	Competitor 1	Vendor	Low	Poor	Cost Plus										■
Small Business	Focus Differentiation	Price	Problem Solver	Cost Plus	Poor	Split	2	Improve	Competitor 1 Competitor 2 Competitor 3	Problem Solver Vendor Problem Solver	Low Split Low	Average Poor Poor	Results Cost Plus Cost Plus	■		■ ■				■ ■			■
Government	Focus Differentiation	Value		Cost Plus	Average		2	Enter	Competitor 1	Vendor	Majority	Good	Cost Plus	■		■					■		
Medium Accts. Account A	Broad Differentiation	Relationship	Problem Solver	Cost Plus	Average	Split	2	Establish	Competitor 2	Vendor	Split	Poor	Cost Plus			■						■	■

- Improve: Focus on your current customers.
- Exit: Disengage.

In the example in **Fig. 15.13**, the salesperson is planning to expand into more accounts in the large accounts segment, improve their position in the medium and small business accounts, and enter into the government segment. The salesperson has identified Account A from the medium accounts segment to be a key account and has chosen to create a separate development strategy. The salesperson believes they can leverage their current position in the account for whom they are selling a single product line. For the plan, they have identified a significant opportunity for which they can expand and introduce another one of their company's product lines.

The execution of the territory development strategies again are slightly different from the account development strategies and are presented in **Chapter Highlight 15.4: Developing the Territory**. When developing a specific account, such as Account A shown in Fig. 15-11, the account development strategies are executed the same way as described in the account plan section of this chapter.

The last section of the strategic plan is specific contacts to people in customer organizations in support of the strategic plan and the securing of strategic opportunities identified in the plan.

Contacting Plan

The contacting plan is prepared the same way as described in the account plan and consists of the requested contacts the salesperson requires other people to make.

The contacting and additional support plan identifies who and when support is needed for the following:

- Contacts made in support of opportunities won
- Contacts made in support of opportunities being pursued
- Contact made to determine the account's future plans
- Support at prospecting and business development activities

All contacting, CVR's, and scheduling of activities should be managed through the company's CRM system, making it easy to associate specific contacts and activities with the appropriate opportunity, account, and territory segment. With the contacting plan completed, the last step is to create the territory plan, as described below.

Completing the Territory Plan

The final step of completing the territory plan is to write an executive overview that:

- Describes the overall goal of the territory plan in terms of:
  - Next two years' revenue objectives.
  - Strategic business and account development objectives.
- Identifies the critical success factors for the plan to achieve the revenue objectives. This can include such factors as:
  - Must-win opportunities that represent a significant portion of the revenue objectives.
  - Establishment of a relationship with key buying center members or securing work for a key business or service unit.

The complete report should be stored in an electronic format in the CRM database. The complete report should include the following:

- Executive overview
- Territory summary
- Territory profile
- Territory segmentation map
- Customer drivers, initiatives, and critical success factors
- Territory pipeline
- Consolidated territory relationship, competitive analysis and development worksheet
- Territory plan action items, including:
  - Territory prospecting plan.
  - Business development plan.
  - Territory development plan.
  - Relationship-building HCLP assignments. For each assignment include the requested contact, purpose, and dates to be completed.
  - List of Level 1, 2, and 3 opportunities. For each opportunity include key contacts as discussed in the contact section of this chapter and the required review dates.

Execution and Tracking

The company's CRM system should be used to execute and track the plan. The e-mail function can be used to keep territory team members informed on the progress of the plan. On a regular basis (normally quarterly), the salesperson should send a brief update on the plan's progress against objectives and include an updated PMPV and territory detailed revenue analysis chart. Also, it should list on one page the key contacts and Level 1, 2, and 3 opportunity reviews for the next quarter.

All territory plans should be reviewed annually at the headquarters or regional level. Typically one or two days are set aside each year to have territory and account plans presented, and the presentations are attended by the executive team and other salespeople presenting plans. Having all the plans' requirements at one time makes it more efficient for setting priorities and assigning resources. It also makes it easier to identify where resources for marketing events, entertainment, training, HLCP visits by company executives, etc., can be shared between territories.

In addition, key parts of the territory plan should be reviewed with mentors and executives from key customers in the territory to gather their feedback and support for the plan. Parts of the plan to share with the key customers are the:

- Territory profile
- Prospecting plan
- Business development plan

Sharing the territory plan with the key customers demonstrates to the customer that their business is important to you and that you are actively working on how to win more of their business. It is not unusual for the customer to give valuable feedback when you share the plan with them. Don't be surprised if they recommend other opportunities for you to grow your business with them or in the territory.

This concludes this section of the territory plan and planning chapter. There were many previous chapters referenced in this chapter, which further highlights why the planning chapter is at the end of the textbook. Making the best plans to achieve your objectives requires understanding how all the pieces of the professional sales puzzle fit together for the complete picture of what it takes to be consistently successful in sales. The chapter summary is next.



Summary of Chapter Objectives

This chapter was about creating plans for key accounts and territories. Creating a successful plan in the competitive B2B environment requires the salesperson to master all the earlier sales skills discussed in this textbook. It is the execution of the plan that requires the salesperson and their teams to use all the B2B professional sales skills: sales call skills, strategic sales plans, bidding and negotiation skills. The other skill that is as important as any single factor is pipeline management. For any plan to be successful and focused, the sales team must have a well-defined pipeline from which to plan and prioritize their activities with their customers. When the salesperson shares parts of their plans with their customers, it also strengthens the relationship between your company and the account and customers in your territories. A completed plan is an investment made to support your sales efforts and identifies where you need the support of your company's management, support, and operations staff to be successful.

1. Describe the components of an account and territory plan.

The account and territory plans consist of four sections: awareness, situation report, strategic plan, and execution and tracking. The awareness section is the introduction to the plan and can be used to brief staff who support or review the plan or be part of the team reviewing Level 1, 2, or 3 opportunities from the plan. The first part of the awareness section is the account corporate or territory profile. Instructions for completing an account corporate profile were detailed in Chapter 3 "Account Corporate Profile," and the territory research was described in Chapter 6 "Sales Activities." The next part of the awareness section is the account organization information or territory segmentation map. The account organization includes how the account is organized in terms of business and service units and how decisions are made in the account. The territory segmentation is critical to establishing as it defines how the territory is organized and where the plan will focus. The organization section for both the account and territory plans also includes individual contact information, including information regarding key high-level contacts that you include in the high-level contact program as part of your ongoing business relationship effort. The last section is a discussion of the key buying centers that handle the selection of suppliers for the opportunities you are trying to secure. The focus of this section is to identify high-influence members of the buying center and select an appropriate relationship strategy for them.

The next component is the situation report, which has three parts: a relationship profile, competitor assessment, and pipeline at the heart of both plans. The consolidated relationship profile identifies where your company has strong relationships with the account or in the territory that can be leveraged to improve your market share. Instructions for completing a relationship profile were covered in Chapter 14 "Relationship Profiling." The competitive assessment is completed in a process similar to that used to complete the account relationship profile. In fact, the competitive assessment is part of the relationship profile, which makes it easier when deciding on account and territory development strategies in the strategic plan section of the report. In addition to market share, role, and profitability factors, the competitive assessment lists the key competitor for each account business and service unit or territory segment. The competitive assessment also lists the competitor's strengths and weaknesses.

One of the most important parts of the plan is the pipeline. The PMPV and revenue charts are powerful tools to be used to analyze and identify strategic opportunities for setting revenue objectives and can also be used to provide information needed for the annual budgeting process.

The next section of the plan is the strategic plan. This section includes the account marketing calendar or territory prospecting plan, business development plan, account development plan, and contacting plan.

The two goals of the account marketing calendar and territory prospecting plan are to create awareness and establish an effective feedback mechanism for customers. Ideally, the plans use all the marketing and prospecting tools to migrate users and buyers from the awareness level of the buyer-readiness stage to the preference level. The feedback mechanism completes the communication process. Without an effective listening system, you may never determine how the account perceives your product and services. Together, the marketing and prospecting plans and feedback mechanism form the communication links, and most relationships are only as good as their communications links.

In the account and territory development part of the strategic plan, you select one or more of the development strategies: improve, establish, expand, enter, or exit. The improve development strategy is typically part of all account and territory development strategies. The improve development strategy includes improving communication links, developing a long-term strategy for key buying center members, identifying a strategy for improving profitability for both your customers and your company, and matching relationship levels with preferred selling approaches. Your selling approach

must match the level of relationship, and there may be multiple levels active within any given account or territory and for different types of projects. You can use three selling approaches—transactional, consultative, and enterprise—as determined for each of the Level 3, Level 2, and Level 1 relationships, respectively. The plans help you recognize when to migrate from your current level of relationship, as identified in the relationship profile, to a higher- or lower-level relationship. Your chance of success when changing your selling approach improves if you are aware of needed changes for the best approach well in advance of the sales activities. Key to recognizing when this is the case is to be involved with your customers in the account and territory early in the opportunities management process. The account and territory development strategy combined with the relationship strategy forms the account and territory relationship and development strategy.

The last part of the account plan is the execution and tracking section. This part leverages the many features of the CRM database, which allows you to enter planned actions into the database, assign them to specific company staff, and track their progress. The ability to enter the account management action plans into the CRM database also allows the account team to avoid conflicts in planned account activities.

2. Know the tools for creating and managing the account plan.

The main tool for creating the account plan is your company's CRM account, contact, opportunity, and activities database. You use all the information when formulating your strategic plan based on the current and future account and territory projects and your competitive position by creating strategic sales plans. The relationship profile tool can be easily attached to the account attachments database and shared with other team members.

3. Create an account plan for key accounts.

The best way to learn is by doing. See the Applying the Concepts section.



Applying the Concepts

1. Following the guidelines provided in this chapter, prepare an account or territory plan for your area of responsibility. The Relationship and Account Development Strategy worksheets can be downloaded from the www.b2bprofessionalsales.com website.
2. What major marketing communications event have you planned for your account or territory? Should there be others?
3. For your key account or territory, what is the most frequently used development strategy?



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