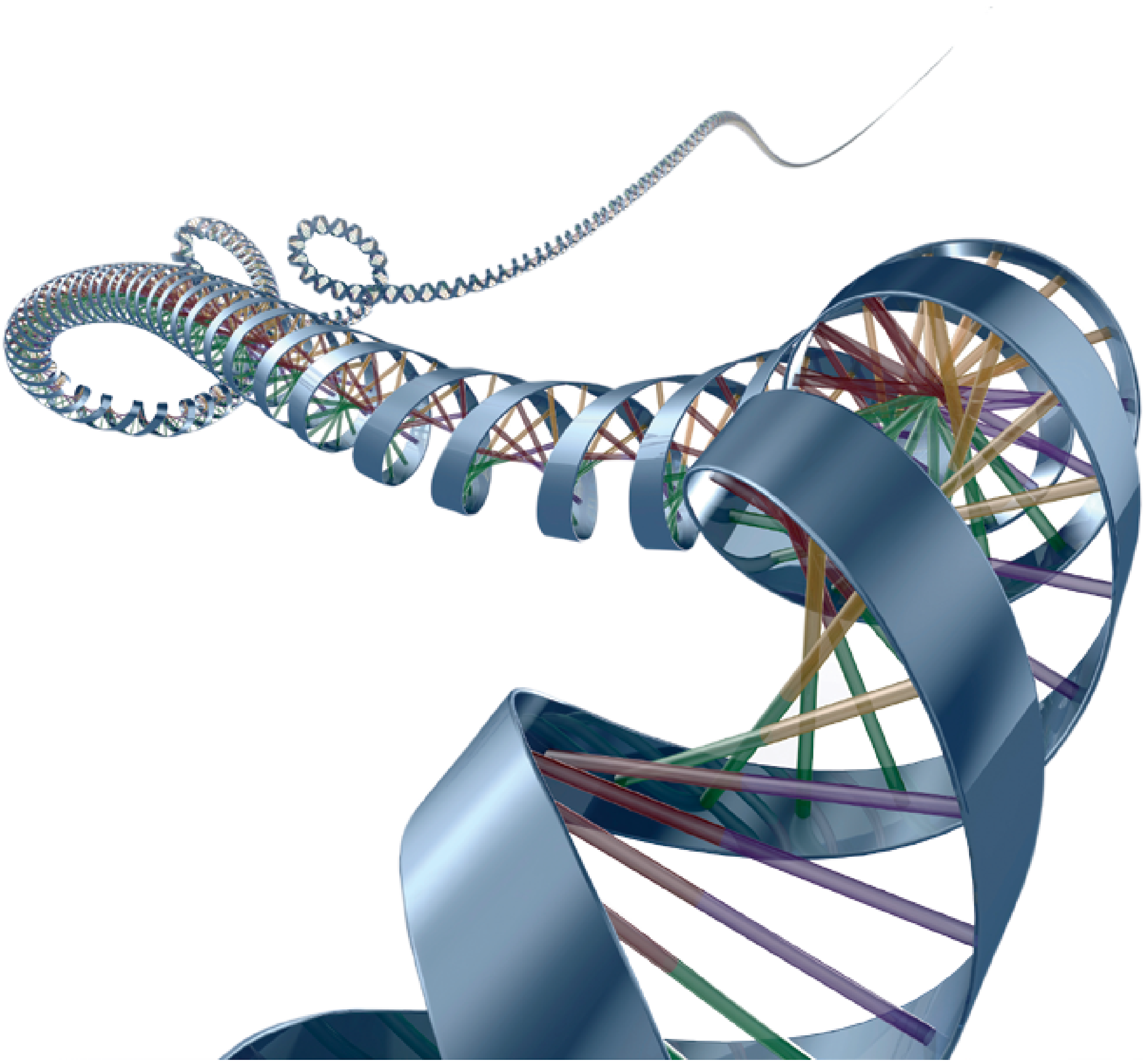

HARD FACTS ABOUT SALES LOGICS

MERCURI international

RESEARCH

HARD FACTS ABOUT SALES LOGICS

Studies conducted on sales have traditionally focussed on successful salespeople, which has limited our knowledge of sales to what distinguishes successful salespeople from less successful ones (with no distinction of sales to consumers and sales to business, to boot). This is a serious limitation.

Prosales' research can now conclude that companies engaged in business-to-business sales (B2B) can benefit from organising their sales according to the purchase complexity of their business deals. Business deals that are low in purchase complexity demand entirely different sales strategies and steering compared to ones with high levels of purchase complexity. Companies that organise, steer and manage their sales in a manner that is adequate for the purchase complexity of their business deals, have better profitability and higher levels of growth, in comparison to companies who fail to account for the purchase complexity of their business deals.

Successful B2B sales aren't about the salesperson, they're about sales management – how the sales operation is organized.

Prosales has conducted several research projects to develop knowledge and models for how to manage effective and profitable B2B-sales. The fundamental implication is that companies must understand the basic difference between traditional and complex sales. The differences are so big that it has vital significance on profitability and growth if you organize the sales based on the different conditions that are valid for the different kind of sales. The traditional and the complex sales are essentially different in their nature. They are different sales logics.

Prosales research shows that:

Companies that organise their sales according to Prosales' sales logics model have better operating margins than companies who don't.

- When the proportion of semi-complex business deals increases by 10 percentage points (all else being equal i.e. that the values for the other independent variables are held constant), operating margins decrease by at least 1.5 percentage points.
- An improvement in Prosales' index for division of responsibilities by 10 percentage points within complex sales results in an increase to operating margins by at least 3 percentage points, all else being equal.

Companies that organise their sales according to Prosales' sales logics model have higher growth than companies who don't.

- Sales development oriented companies have at least 10 percentage points higher annual growth than other companies, all else being equal.
- Companies with high levels of purchase complexity in their business deals that steer towards customer value, have at least 8 percentage points higher levels of annual growth compared to other companies, all else being equal.

ORGANISING ACCORDING TO PROSALES' SALES LOGICS MODEL INCREASES PROFITABILITY

Prosales' sales logics model states that companies that have a mix of traditional and complex business deals and that lack logic-appropriate steering (or attempt to apply one steering model to all business deals regardless of purchase complexity) will have a higher proportion of semi-complex business deals (i.e. business deals that cannot be classified as either traditional or complex). Being successful in traditional sales is about doing many but smaller business deals. Without any clear steering on the level of activity and length of the business deal, the volume of business deals is going to be smaller and each deal more time-consuming than it should ordinarily be. Being successful in complex sales involves doing larger but fewer business deals. Without any clear steering of customer value, the deals are going to be smaller than they probably should be. A lack of logic-appropriate steering will therefore result in business deals that are neither clearly traditional nor complex – what Prosales terms semi-complex business deals. Thus, companies with a high proportion of semi-complex business deals should be less profitable than companies with a low proportion of semi-complex business deals. This is exactly what the analysis shows – when the proportion of the company's business deals that are semi-complex increase by 10 percentage points (and the values for the other descriptive variables, including the median complexity of the company's average business deal, are held constant) operating margins decrease by at least 1.5 percentage points.

The regression on the operating margin also shows that companies with higher ratio of personnel to sales reps or higher average purchase complexity in their business deals have lower operating margins. A higher ratio of personnel to sales reps means that the company's order values need to be higher to cope with the costs associated with e.g. production, procurement, R&D and service. Companies in industries where the deals are institutionally larger than in other industries tend to have lower operating margins. It is self-evident that it is more difficult to achieve profitability in an operation where costs and expenditure are large. That profitability decreases when the average purchase complexity of a business deal increases isn't strange either when considering that complex sales are more difficult to succeed in compared to traditional sales; especially when everyone involved has been primed on traditional sales. The more complex the sales are, the more difficult it is to keep your operating margins up. One way to maintain the level of your operating margins is to allow the salespeople involved in the complex sales to focus on identifying and creating customer value – companies with an adequate division of responsibilities for complex and distributed sales have higher operating margins than companies who don't, all else being equal. An improvement of 10 percentage points on Prosales' index for division of responsibilities within complex sales results in an increase in operating margins of at least 3 percentage points.

"MOST COMPANIES SEEM TO STEER THEIR SALES OPERATIONS WITH A SINGLE STEERING MODEL IRRESPECTIVE OF WHAT FORM THE MIX OF THEIR TRADITIONAL AND COMPLEX BUSINESS DEALS TAKE."

These results show that companies that organize their sales operations in accordance with Prosales' sales logics model maintain their level of operating margins with greater ease than companies who don't follow the sales logics model. Whilst organising sales in line with Prosales' model doesn't guarantee high operating margins (since profitability is dependent on many factors beyond the sales organisation's control), the regression analysis demonstrates that Prosales' sales-logics model is a way to improve profitability. There are, in fact, no companies in the study that are good at separating business deals that should be managed as traditional sales from business deals that should be managed as complex sales. Most companies seem to steer their sales operations with a single steering model irrespective of what form the mix of their traditional and complex business deals take. Some companies seem to have no explicit steering model at all for their sales operations. But there are no companies that seem to use separate steering models for traditional and complex business deals. This implies that most companies are not organised according to Prosales' model and for this very reason have problems with profitability. The upside of this fact is that they have huge potential to improve both profitability and growth.

ORGANISING ACCORDING TO PROSALES' SALES-LOGICS MODEL INCREASES GROWTH

Long-term success requires more than just profit; it also requires growth. SESIII has captured some of the various categories of activities that help to create growth. One such category is brand awareness activities and marketing, which is an expected result. Another category is development of the sales reps and the sales operation. The difference in annual growth rates between companies that are sales development oriented and companies that are not is at least 10 percentage points, all else being equal. Investing into sales development is thereby proven to be an effective strategy for organic growth. It is not the only strategy but it is nonetheless a strategy that has a statistically verified effect on growth. The proxy variables used for sales development orientation in the regression on growth are as follows: (1) the salespeople receive feedback and coaching at least two to three times per month and (2) training related to the company's products at least once per quarter and (3) the company works with improving its sales process at least once per quarter. These three represent the most important components in a collection of co-varying variables that capture different aspects of management's interest in and prioritization of sales development. This confirms one of the findings of Prosales' SES II study which showed that managers who are better at coaching also had better growth levels for their departments compared to other managers. The proxy variable only measures how often the activities occur. In all probability, one can assume that companies that regularly engage in coaching their salespeople and sales process development are also good at it. The frequencies themselves are, however, the most important element for sales development as it involves making sales development activities a part of the salesperson's daily routine as well as signalling that sales and their development is important for the company. The effect of sales development is independent of the purchase complexity: it is important to coach salespeople engaged in traditional sales (coaching them on the success factors for traditional sales).

The regression analysis on growth also shows that companies with high purchase complexity in their business deals that steer in line with customer value, which they should do according to Prosales' model, have higher rates of annual growth compared to other companies , all else being equal. Companies where the product of the median purchase complexity in their average business deal (a value between 1 and 4) and the percentage of salespeople that are steered according to customer satisfaction (a value between 0 and 1) are greater than 1, have 8 percentage points higher rates of annual growth than other companies, all else being equal. While there aren't any companies that are good at keeping traditional and complex sales separated, those companies that at least steer their complex sales towards customer value have higher rates of growth than other companies. Again, this is evidence that Prosales' sales logics model is a formula for both profitability and growth.

> **"ANOTHER EXPLANATION COULD BE THAT COMPETENCE DEVELOPMENT MUST BE CONTINUOUS, IN OTHER WORDS PART OF THE WORK-DAY ROUTINE, IN ORDER TO HAVE ANY EFFECT ON THE SALESPERSON AND THEIR SALES."**

An interesting detail in this context is that how often the salesperson receives sales training doesn't have any significant effect on growth, in contrast to, among other things, product training, project management training or leadership as well as how often the sales organisation works with analyzing business wins and losses or the customers' needs and market conditions. A possible explanation can be that the training must be adapted to the purchase complexity of the salesperson's business deals in order to affect the sales (not many companies have a good grasp of the purchase complexity of their business). Another explanation could be that competence development must be continuous, in other words part of the work-day routine, in order to have any effect on the salesperson and their sales. In any case, how often the salesperson receives sales training doesn't have any significant effect on operating margins and if it does have an effect on profitability, it is in fact negative. Sales training is not necessarily a completely wasted investment but it does indicate that it is not a particularly effective way to improve sales. 3 days worth of sales training once a year probably won't lead to any lasting sales effects if it is not supported by tools, processes and following up that incorporates the content of the training into part of the salesperson's daily routine.

SUCCESS FACTORS FOR TRADITIONAL AND COMPLEX SALES

Prosales' sales logics model is based on the purchase complexity of a business deal. The purchase complexity of a business deal determines how the sales should be carried out and how the sales operation should be organized to secure long-term success. The purchase complexity of a business deal is determined by (a) the customer's investments in terms of time, money and safeness (where "safeness" refers to the customer's sense of control, security, comfort and assuredness) in order to realize the full benefit of the salesperson's offering and (b) the risk of losing these investments (in other words, the risk of not realizing the expected value). The customer's loss of safeness is a major driver of complexity. More specifically, the customer's loss of safeness is the strongest indicator of the purchase complexity of the deal. Customer investments depend on how invasive the salesperson's offerings are in terms of a disruption to the customer's organisation, operations and personnel. The greater the impact of the salesperson's offering, the larger the amount of changes and efforts required for the customer to realize the full value of the offering and, consequently, the higher the customer's stakes in terms of time, money and safeness.

The more invasive and disruptive the salesperson's offerings are to the customer, the greater the amount of the customer's time, money and safeness that are at stake. Hence, the customer's doubts and demands will grow in both number and difficulty. Consequently, the salesperson's investment in order to be able to close the deal will increase in proportion with the purchase complexity of the deal. So when the purchase complexity of a business deal increases, the deal is going to; (1) take more time in terms of calendar days and the actual degree of effort, and (2) engage additional areas of competence, which requires coordination.

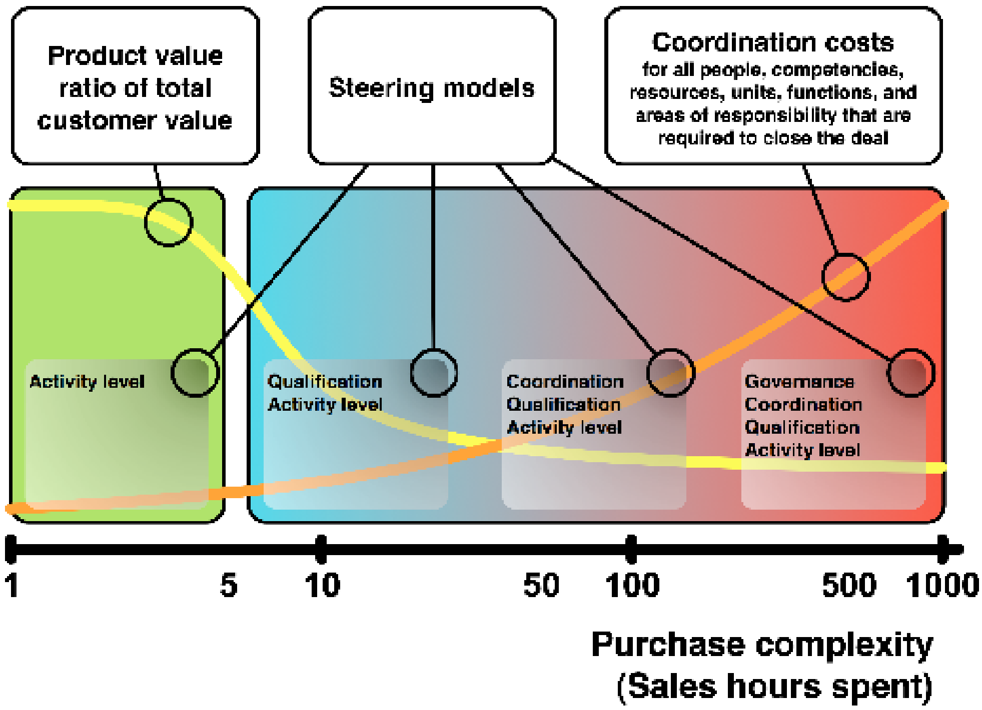

Figure 1-1. Prosales' three sales logics.

The figure shows the three sales logics represented as green (traditional sales), blue (complex sales) and red (distributed complex sales). The purchase complexity is measured on a logarithmic scale of the amount of hours the salesperson invests in the business deal. The gap between green and blue sales for a deal length of around 5 hours is the first step for a quantitative model for sales. Other quantifications to date constitute more or less well-grounded approximations. The yellow curve shows that the product value of the salesperson's offering in relation to the total value that the customer is willing to pay for, decreases when the business deal becomes more complex. The orange curve shows that the need for coordination and thereby coordination costs increase with complexity. The four steering models describe the steering components when complexity increases.

Figure 1-1 summarizes the central pillars in Prosales' sales logics model. One pillar is that the proportion of the total value that the customer is willing to pay for, that is constituted by the product, decreases when the purchase complexity increases. Another way of putting it is that as long as the salesperson can win business based solely (or mainly) on promoting product value, the sales should be managed as traditional sales. As soon as the salesperson is required to deal with how the products are to be used in and integrated with the customer's operations in order to win the business – i.e. deal with what problems it can solve and what problems it can create – the business deal should be managed as a complex sale, since the salesperson must identify and build an offering with a value that the customer is willing to pay for.

So, Prosales' sales logics model predicts that as the purchase complexity of a business deal increases, two things should happen. Firstly, the hours the salesperson has to invest to close the deal will increase. Secondly, the coordination and cooperation with co-workers, experts and specialists will increase.

Customer investments

The question relating to customer investments focuses on exactly what efforts the customer needs to make to realize the utility of the salesperson's offering, but does not account for the scope of the investments. This, paired with the fact that the salespeople must interpret customer efforts based on their own reference points, means that business deals with the same types of customer investments can have different purchase complexities. Furthermore, the customer investments list is limited, which means that the analysis underestimates the purchase complexity of a deal where a customer is required to do things that are not included on the list. Despite this distortion it is clear that the salesperson's hours spent on closing the deal and coordination activities on the deal increase with the purchase complexity of the deal.

The foundation pillar of Prosales' sales logics model is thereby validated beyond any reasonable doubt.

When you link what the salesperson has reported regarding customer investments in their average business deal with what they say about their average business deal in general, you can at least partially compensate for the inability of the questions about customer efforts to account for the range of the efforts. The question relating to how many days there are normally between the first discussion until the customer signs the contract, the number of times you need to interact with the customer in order to close the deal (discussions both in-person and over the phone), and how many people from the customer's side are normally driving the purchasing process by itself is an indication of the purchase complexity of the business deal, by indicating how much effort seller and buyer are spending on the deal. If the salesperson, for example, indicated that the customer needs to do many things and

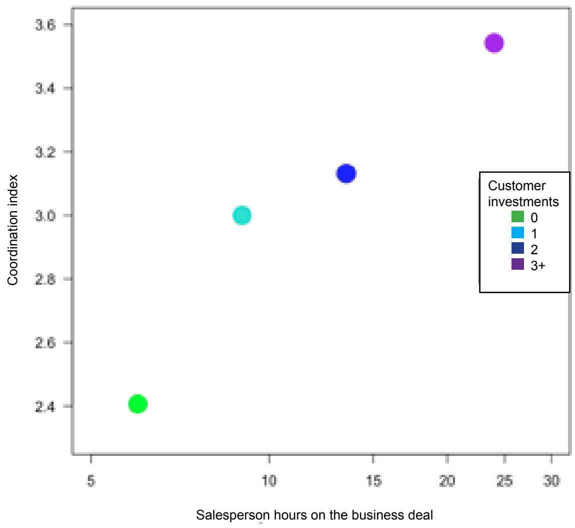

Figure 1-2. Customer investments, sales' hours and coordination. "Customer investments" is represented by the responses to the question "Continuing to relate to your average business deal, what does the customer need to do in order to realize the benefits of your offering?" The respondent can indicate the following statements: "In connection with delivery and installation of our solution, my customers need to..." (1) "nominate a steering group", (2) "take in experts and consultants", (3) "lay off or recruit staff", (4) "integrate the new and the old, e.g. systems, technology, work processes and processes" and (4) "create new positions with roles and areas of responsibility". The figure shows that when the number of required customer investments rises, there is also a rise in (a) the salesperson's sales hours on their average business and (b) the level of coordination with others. The coordination index is the median number of steps during a business deal process (8 different steps) where the salesperson indicates that they are not working alone.

expend a lot of effort in connection to the salesperson's business deal, while the salesperson nonetheless could close the deal in a relatively short time with a corresponding small number of customer contacts and without the need to involve any colleagues, the customer investments cannot be too extensive or burdensome. The figure below shows how the purchase complexity of a business deal determines the salesperson's hours and the coordination with co-workers when these complexity-indicating factors are taken into account.

Figure 1-3 shows that when you use the composite measure of purchase complexity, the width of the distribution of how many hours the salesperson needs to spend on the deal in order to win the business is much larger than before. It should be noted that the semi-complex business deals land in the middle of the region where the sales logics model calculates that the border between traditional and complex sales should be, specifically between 5 to 10-hour deals. On the other hand, there is no drastic change in the coordination index. But the coordination index does not measure the scope of the coordination. Not completing the various steps in the business process by themselves doesn't reflect the amount of time the salesperson's colleagues need to spend on the deal in order for the salesperson to close the deal.

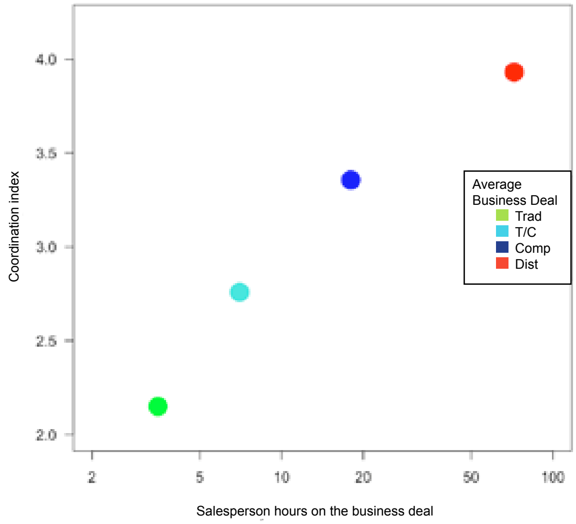

Figure 1-3. Complexity, Sales hours and coordination. 'Average business deal' represents Prosales' evaluation of the purchase complexity of the business deal through colour coding. The complexity category "T/K" captures average business deals that do not fulfil Prosales' criteria to be classified as a deal that should be managed as traditional or complex sales. Prosales' refers to these as semi-complex business deals. The distributed complex business deals (red) are a subset of the complex business deals that meet even higher requirements on the indicators for complexity.

Figure 1-4, to the right, shows how many hours co-workers invest into the salesperson's business average deal. As we have already seen, coordination between the salesperson and co-workers increases with purchase complexity. We can also see that the amount of time co-workers spend working on the salesperson's business deal increases with the purchase complexity of the business deal, which verifies that both the number of instances of coordination as well as the scope of the coordination increases with the purchase complexity of the business deal.

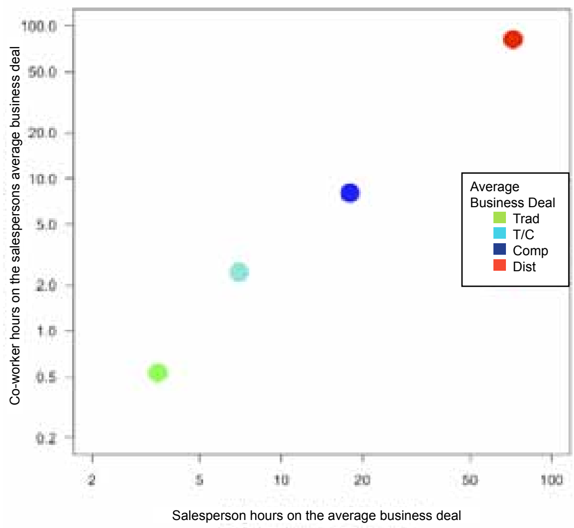

Figure 1-4. Salesperson and co-worker hours on the business deal. The figure is constructed exactly like figure1-3 and shows both the salesperson's and co-workers' hours dedicated to the salesperson's average business deal.

Man-hours and steering models.

Customer investments for realizing the value of the salesperson's offering determine the scope of the actions and initiatives necessary for the salesperson. The purchase complexity determines how many hours the salesperson is required to dedicate, at a minimum, to win the business. Now, the salesperson's hours per business deal is something measurable, a quantifiable resource. Since a salesperson works a finite number of hours per year, there's a simple mathematical and financial model of what happens when business deal takes 50 sales-hours instead of 5: the salesperson can only manage to complete a tenth of the number of deals in a year. This has profound effects on how to manage sales. The longer the business deals takes, the greater the importance that the business deals (that the salesperson can actually manage to complete) are selected carefully to ensure that the value for both their own and the customer's company is as high as possible. When complexity increases, and therefore the length of the deal in sales-hours increases, the company's revenues are going to be broken up into fewer but larger chunks; an individual business deal becomes an increasingly important contribution to the company's continued survival.

When the business deal is so complex that it should be managed according to complex sales, the salespeople must be steered by customer value whilst management must have processes in place to prioritize and qualify the customers and business deals both before and after they meet with the customer. This is necessary not only to increase the potential in the salesperson's prospecting meetings, but also to reject business opportunities with zero or minor potential. When the business deal becomes so complex that the salesperson is unable to address all of the customer's demands and concerns on their own and as such must drive the deal together with experts and specialists, the steering of the coordination becomes central to the sale. Further increasing the purchase complexity means that every individual business deal needs to involve the salesperson's entire company. This furthermore requires management to build a matrix organisation for sales in order to balance the value of the deal for the customer with the value for their own company. Project management, project commercial viability and resource allocation are not the responsibility of the salesperson – that responsibility lands a few tiers up the hierarchy. The salesperson's responsibility in complex sales starts and ends with identifying and building a value for the customer that the customer is willing to pay for.

The fact that sales are normally measured in terms of the sales cycle (how many calendar days it takes to close a deal from first contact) as opposed to the number of sales-hours spent on the deal is an indication of the institutionalisation of traditional sales and a failure to grasp the purchase complexity of sales. When a company's sales are complex, the sales cycle is of little or no interest; it is in fact, the number of hours that the salesperson needs to spend on a deal that is important, since it governs how many business discussions the salesperson can manage. The fact that the length of the business deal is not a common concept or measurement within sales is a clear indication of the lack of awareness of their economic conditions and their different sales logics.

REVENUE PRINCIPLES

Net sales – the sum of orders taken – has two components: the number of orders and their respective values. When the purchase complexity is low, the salesperson wins business primarily through promoting the value of the product itself. When the salesperson is selling a specific product, a competitively bundled and priced offering, they cannot affect the order value to any greater extent regardless of effort. Success depends more on minimizing the salesperson's hours spent per business deal and maximizing the number of business deals instead. Traditional sales, therefore, is about prospecting as much as possible in order to win as many business deals as possible.

Price is a highly competitive factor within traditional sales, which means that there isn't a lot one can do about the deal's order-value. Competition ensures that margins for any product are kept low and therefore relatively independent of the salesperson's efforts. The salesperson needs to allocate enough time to promote the product's value and to respond to the customer's uncertainties and doubts. However, with a more effective presentation and improved bundling, the salesperson can reduce the amount of time spent on this and be able to increase the number of business deals. The salesperson can be lucky and find a customer that places a large order, and in such cases it is important that the salesperson and entire sales organisation invest the time and resources required to win the business. But if it is company strategy to aim for large business deals, sales should be managed according to complex sales logics.

When the purchase complexity is high, it is the salesperson's job to identify and build a value for the customer that the customer is willing to pay for (and that the salesperson's company can deliver). This value is therefore directly proportional to the salesperson's efforts on the deal, in contrast to traditional sales. Since the salesperson doesn't manage to win so many deals, success demands that the value the customer is willing to pay for is maximized. Complex sales thereby involve doing larger but fewer business deals. Furthermore, choosing the right business opportunities becomes important; the sales operation needs to pursue the opportunities that have the biggest potential for both the buyer and the seller and to reject opportunities with small potential for either the buyer or the seller.

SUCCESS FACTORS FOR TRADITIONAL AND COMPLEX SALES

Traditional sales should be about the level of activity and, more to the point, prospecting, while complex sales should be about building customer value. Salespeople involved in complex sales should be oriented towards customer value, whereas salespeople involved in traditional sales should exhibit a strong drive to perform and to succeed.

Figure 1-5 shows precisely what the sales logics model predicts, namely that salespersons that do more complex deals have a higher customer value orientation and lower drive index, whereas salespersons that do more traditional deals have the opposite values. As already stated, the model also says that the order value of the complex business deal is dependent on the salesperson's ability to identify and create customer value.

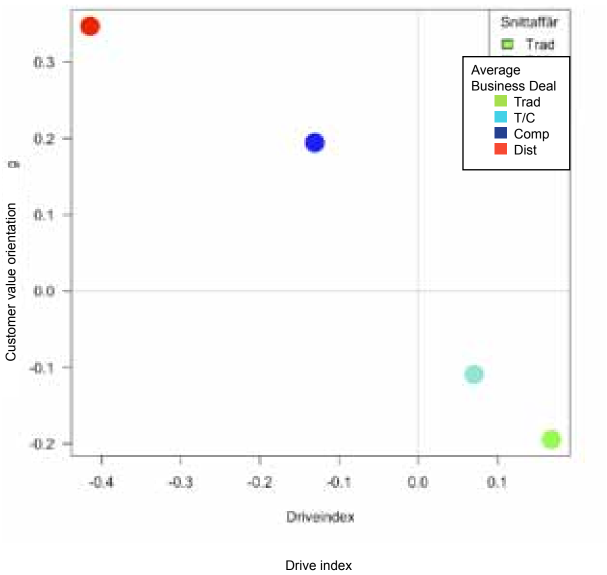

Figure 1-5. Complexity, customer value orientation and drive index.

The average business deal is the same as the preceding figures. The "Drive" index is the sum of an index for the need to perform minus an index for the need for experimentation (a compulsion to test new things regardless of the necessity for it). Customer value orientation is the sum of an index for 'consultativity' (putting the customer 1st in a business deal, helping the customer, identifying the customer needs and challenges) plus an index for the teamwork orientation minus an index for greed (reward orientation). The scales are standard deviations. The figure shows that when the purchase complexity of a salesperson's business deal increases, their drive index decreases, whilst their customer value orientation increases.

When regression analyses are carried out on the company's average order value, there are 3 factors that have a significant effect on company order values; namely the ratio of personnel to salespeople, average purchase complexity of the business deal and the sales force's customer value orientation. Controlling for average purchase complexity of the business deal and the ratio of personnel to salespeople, a difference of 0.5 standard deviations in customer value orientation (in figure 1-5 it is the same as the difference between the salesperson with traditional average business deals and salesperson's with distributed-complex average business deals) gives at least a doubling of the order value of the company's average business deal. This provides verification of the revenue principles for complex sales and also implies that it can be rather costly to have salespeople who lack appropriate attitudes and values for complex sales. It should also be noted that when a regression is carried out on the prospecting frequency, the difference in the drive index between salespersons with green and red business deals, gives a 50 percentage point increase in prospecting, all else being equal.

It is not the case that customer value orientation and drive index, respectively, create successful sales by themselves. Rather, it is the case that these two variables represent a cluster of co-varying success factors.

In traditional sales there are four correlated success factors, namely:
- A sales force with a high drive index
- A productivity-centred sales praxis (a.k.a. 'traditional sales culture')
- Steering of the level of activity
- Simplicity in the offering and sales process

The company's values for these 4 indexes tend to correlate; high values for an index are connected to high values for the other three. Combined, they form the success factors for traditional sales. The central KPI is the prospecting frequency.

Within complex sales there are also 4 correlated success factors, namely:
- A sales force with strong customer value orientation
- A customer-centred sales praxis
- Steering focussed on customer value and organised post-qualification
- Division of labour that lets the salesperson focus on identifying and building customer value

The company's values for these four indexes also have tendencies for co-variation. Combined they form the success factors for complex sales. The central KPI is the order value.

SUCCESS FACTORS THAT TRANSCEND LOGICS

Sales development orientation. As already mentioned, the sales development focus of the company and management is a growth factor. Since the sales development focus drives the company's organic growth, it is the most prominent success factor that is independent of sales logics. The parameters that best capture management's development focus are how often:
- Salespeople receive feedback and coaching
- The sales organisation works with improving the company's sales process
- The salespeople receive training related to the company's products
- The sales organisation analyzes won and lost business opportunities, the customer's needs and their market
- The salespeople receive other types of training/education (training in project management, leadership and other training; not including sales-specific training)

The parameters are listed according to priority; feedback and coaching is the single most important parameter for the development focus based on its effect on the company's growth. These parameters also co-vary, which, on its own, is a sign that it is specifically a question of the level of management's engagement in the sales operations and its development. Companies with high values in any of these therefore tend to have high values for the others. If they didn't share a covariance it wouldn't be a question of management's development focus but a question of what the salespeople had actually learnt. The covariance of the parameters means that they capture a cultural dimension of the sales organisation – what Prosales calls development focus.

Sales focus. Another logics-transcending success factor that is related to sales development orientation is the sales focus within the company culture. By which we mean a company culture where all parts of the company participate actively in the sales activities, the salespeople are highly regarded throughout the entire company and the sales activities are constantly communicated to everyone throughout the company. Sales focus is linked to most of the variables that contribute to sales (not least of all the development focus), which makes it nigh impossible to separate any specific effect the sales focus has on profitability, growth, prospecting or order value.

Organised pre-qualification. A third success factor that transcends logics is the organisation of the pre-qualification process. Pre-qualification is about increasing the likelihood that the customers the salesperson contacts are either interested in or are in need of what the company offers. The better the company's processes for identifying and prioritizing customer organisations with potential as well as down-prioritizing or entirely rejecting customer organisations with low potential already before the salesperson meets with them, the better the salesperson's conversion rate. The conversion rate is an important KPI for sales in general, including both traditional and complex sales. Pre-qualification is one of the few ways one can improve the conversion rate and thereby revenues.

APPENDIX

Prosales started its ongoing research project Sales Efficiency Study in 2006. The third round of the project was commenced in 2010, entitled Sales Efficiency Study III (SESIII). In this project, Prosales have collected data about sales organisations rather than salespersons, to enable us to quantify the effect sales management has on sales. When using the term 'sales' we are referring to B2B sales; SESIII has exclusively focussed on the B2B sales of the company.

Prosales' intention with the SESIII research project was also to go further than what an analysis of 'best practice' allows. To exemplify this; one of the goals of SESIII was to investigate what creates sales growth. There are many different factors that affect a company's growth, e.g. the offerings superiority compared with the competitor's, the scope and quality of the branding activities or management's willingness and ability to develop sales.

Analyzing 'best practice' involves looking at companies that have the best (or the worst) growth and seeing what they have in common. All the companies located at the top may well have achieved their growth in different ways – some through investing into product development, others via their branding, and some through sales development. Consequently, analysis of 'best practice' in this case will be inconclusive and, in all likelihood, pointless, since there is no single uniform 'practice' that is 'best'. Instead, a better approach would be to calculate how investments into areas such as product development, branding as well as sales development affect company growth. Which area of investment has the biggest effect? If we invest X Euro or X man-hours into sales development annually, how large will the growth be? The only method suitable for calculating such effects is regression analysis.

There are countless variants of regression models, each with their own features and limitations. The SESIII analysis is based on the standard for multiple linear regression, namely "ordinary least squares" (OLS).

The data material is comprised partly of survey responses from 1039 salespeople from 86 different sales organisations where the salespeople have responded to questions about them as individuals a nd about their organisation, and partly of data on the company's sales force and financial results (e.g. operating margins and turnover) for the company's B2B sales from 2005 and onward.

Just like growth, profitability is the result of many factors. Profitability is certainly influenced by sales but also by the company's ability to maintain various costs and expenditure, like purchasing, production, personnel, research and development, to name a few. Add to this the waste of resources that occurs when individuals, units and processes are coordinated less than optimally. "Sales" is not an entirely trivial concept. Apart from B2B sales, it can also involve B2C sales, which SESIII steers well clear of, and also reactive sales (i.e. customer initiated business, which is more of a marketing function than it is sales, since it merely involves receiving and processing orders). Since there are so many factors that can interfere with the links between the organisation of B2B sales on the one hand and growth and profitability on the other, it is exciting that SESIII provides clear and compelling evidence that Prosales' sales logics model is (a) validated and (b) hence a recipe for successful sales.

About the method

How reliable are these figures? Even if the number of companies is not so large, the coefficients are highly significant, well beyond the threshold for what qualifies as statistically valid. OLS-regression, which is the method used for the analysis, can never overestimate the effect of an independent variable on a dependent variable (i.e., the variable being explained). The poorer the quality of the data, the weaker the coefficient and the weaker the effect becomes. However, OLS regressions are sensitive to extreme values, which becomes an issue when the number of observations (in this case, the number of sales operations observed) is small. Observations with extreme values will have a significant impact on the analysis but are easily checked through a bootstrap procedure called "jackknifing". Put simply, the analysis is repeated but with one of the observations excluded and the results are compared with the results for all observations. This is repeated until all observations have been gone through. None of the significant correlations discovered in the Prosales' logics model are affected by the jackknife procedure. Since it shows that the effects are not dependent on any one observation but maintain their high significance throughout, the results can be considered stable and reliable.

Interesting but not significant

An interesting fact, within context, is that the gender distribution of the sales force has a significant effect on both profitability and growth – companies that can attract and retain both males and females in the sales force also have better profitability and higher growth than companies with a male-dominated sales force, all else being equal. The significance of the correlation, however, falls under the threshold for statistical validity when jackknifing individual observations. This certainly doesn't imply that the effect of gender distribution is not real; it can simply be the case that the correlation is too weak for the effect to be judged real and relevant with the limited material data. However, with the current observations, the results are not stable and therefore unreliable. The results are interesting, but inconclusive.

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