15.387 – Entrepreneurial Sales

Case	**Bay Networks B**
Class	**Merger Problems**
Assignment	**Design a channel model, forecast, and quota system for the next year**

Overview:

The merger between Wellfleet and Synoptics is a year into the "new" Bay Networks. Over the past year you have been promoted to a Regional Sales Director for the state of New Jersey. The company performed quite well against the merger plans and now sales management is starting to plan for next year. They are asking you to help develop a detailed sales plan, forecast, quota and compensation plan, which will be used as a template for North America. Management has indicated that New Jersey is the best example of a territory that can be used as a proxy for all other regions in North America. New Jersey tends to be a "barbell" state with most of the business activity occurring in the north and south and little in the middle. For it's size, New Jersey has a substantial concentration of Fortune 1000 companies. There are 41 Fortune 1000 companies headquartered in the state, giving it seventh place on the list of Fortune 1000 companies by state.

The New Jersey territory has ten sales reps, four from Wellfleet, four from Synoptics and two new team members since the merger. The target quota per rep is $1.2M/year, of which 40% of the team made or exceeded quota. For the past year, the team came in at $12,100,000 (against a plan of $12,000,000), which is 101% of the regional target. The New Jersey territory is split into three geographies, north, central, south, with the rep allocation being 4, 2, and 4, respectively. See Exhibit 1 for a state map and territory allocation.

The base salary for each rep is $150,000/year with a leveraged commission plan provided above this base. At 100% quota, a rep would earn $300,000/year (OTE), with ½ coming from base pay and ½ coming from commission. Above 100%, reps earn accelerated compensation (see Exhibit 2 for commission structure).

Most of the Bay Networks product line is sold directly to large corporations, but increasingly there is the need to expand to the next tier of companies via a value-added reseller channel. Growth in key direct accounts around the world have reached a maturity point and growing at double-digit rates will be very difficult given the current course and speed. Further, the company has had limited success delivering through a VAR channel, mostly due to the sales force composition and focus over the past several years.

There appears to be substantial demand for the Bay Networks product line at both the Fortune 1000 and smaller companies.

Over the past year, there was no mandate from corporate on how products were to be sold, so it was largely left up to each rep to decide whether to go direct or use a channel. The result was that the channel was slow to develop, since the company's heritage (on both sides) was direct selling.

In response to a lagging and random channel program, management has asked you to follow the following forecasting goals for the next year:

- Increase sales by 50%
- Increase channel sales by at least 50%, with a target of 40% overall sales through the channel
- Increase overall budget by 20% or less

Your initial reaction is that this is impossible. You mumble to yourself:
"Just as we settle in from the merger, those bozos in corporate want to create havoc once again. The idea of increasing quota by 50%, but only increasing the budget by 20% seems freaking ridiculous. How are we going to continue to reward our heavy hitters? I'm going to have a damn mutiny on my hands and I'm really not sure if we can keep the team in-place. From what I can tell, they are all going to have real issues with the proposed changes.

And adding a channel model on top of our direct sales seems like insanity. Most of my team is selling direct to large companies and the VAR channel we currently have is not really ready for prime time."

You go out and grab a cup of coffee and come back to assess the current situation. You first take a snapshot of your overall revenue and expenses for the past year.

	actual	plan	reps	base salary	commision	2011 comp
North	$4,600,000	$4,800,000	4	$600,000*	$609,375	$1,209,375
Central	$2,300,000	$2,400,000	2	$300,000*	$271,875	$571,875
South	$5,200,000	$4,800,000	4	$600,000*	$843,750	$1,443,750
Total NJ	$12,100,000	$12,000,000	10	$1,500,000	$1,725,000	$3,225,000

* Total base salary paid for all reps; Base salary is $150,000/rep/year

Here's your overview by geography:

<u>Northern New Jersey</u>
With four reps in northern New Jersey, this region's quota for the past year was $4.8M. However, the region came in at only $4.6M, which was a disappointment to the sales team. They had been expecting better results and lost a few large deals in Q4. This team has been selling 90%-100% direct to the 21 Fortune 1000 companies located in this part of the state. Over the past year, the team had been encouraged to expand its channel

capability, but the team was always reluctant to move away from the direct concentration that had served them so well in year's past. The result, however, has been a very lumpy revenue line, with Q4 deals not materializing.

You detail the performance of the Northern New Jersey team and reveal the following:

	Actuals	**#deals**	**deal size**	**% channel**	**channel revenue**	**commission**	**from**	**F1000**	**Touch**
North									
Al	$1,500,000	14	$107,143	10%	$150,000	$300,000	WF*	5	2
Matt	$1,100,000	10	$110,000	5%	$55,000	$121,875	S*	5	3
Ed	$1,000,000	5	$200,000	5%	$50,000	$93,750	WF	6	3
Dan	$1,000,000	10	$100,000	5%	$50,000	$93,750	S	5	2
	$4,600,000					$609,375		21	10

Background on Wellfleet (WF) and Synoptics (S)

In looking at the numbers, you see that deal sizes were quite lumpy across the region and that the channel revenue was quite small, as expected. In addition you see that only 10 of the Fortune 1000 companies were touched, indicating that reps were also spending time selling to smaller accounts. The productivity in the channel was $15k/partner per year. Finally, you schedule a phone call with each of your reps to get their opinion of next year and the kinds of details occurring in their "patch of dirt". Their reports follow:
Al tells you: "It has been a phenomenal year. I absolutely crushed my number and feel that all the planning I did over the past few years has culminated in a great year. The merger has been great for my career and the accounts love the combined portfolio. My larger deals have been with the F1000, but I also sold to several smaller accounts. The channel in my region is building, but not where we want it to be. I'd love to see a telesales group help with smaller deals and channel recruitment. Our products are in demand and I'd like to spend more time with the larger accounts. Oh yeah, the Synoptics products are a piece of cake to sell."

From your conversation with Matt: "I'm kind of disappointed in my year, given that in all my years at Synoptics I never missed my number. Coming in $100k under quota, is just lousy. I did not do a great job forecasting but my most difficult problems are around getting traction in the channel and selling the Wellfleet products. I had expected to sell much more of the Wellfleet product portfolio, but infrastructure systems take a great deal of technical knowledge."

Ed: "On the one hand, my year sucked. On the other hand, I had some of the largest deals in the entire State of New Jersey and deeply penetrated a handful of large accounts. These accounts have massive opportunity next year. I missed my number because I spent too much time at too few accounts, thinking that I'd bag a few elephants and blow away the number. The channel was simply ineffective due to no marketing and no channel programs. My wife is going to kill me, now that we won't be going to club in the spring. Maybe next year (if I'm alive)."

Dan: "I worked myself to the bone this year and nothing seemed to work. The deals to the large F1000 did not pan out the way I thought, because I only got to two of the big five in my region, the smaller accounts wasted my time, and the channel was largely ineffective. And on top of it all, I just can't seem to find my way around selling the Wellfleet products. I spent the early part of the year trying to learn everything I could, but that too seemed to be a waste of time. I hope they don't raise the quota next year, otherwise I'm toast."

Central New Jersey

With two reps in central Jersey, the region's quota for the past year was $2.4M. The region came in at $2.3M, which was not entirely bad, given that one rep was new and a large portion of the overall business came through the VAR channel. With only four F1000 accounts in this geography, the sales team here must sell to smaller companies and rely on the channel to cover the territory. They mostly proved that selling through the channel could be done, though they still missed their overall number.
You detail the central Jersey numbers:

	Actuals	#deals	deal size	% channel	channel revenue	commission	from	F1000	Touch
Central									
Susan	$1,200,000	35	$34,286	60%	$720,000	$150,000	S	2	1
Fred	$1,100,000	37	$29,730	50%	$550,000	$121,875	new	2	0
	$2,300,000					$271,875		4	1

You see that the channel % is substantially higher and notice that the per deal size is much lower. You also see that the F1000 touch is very thin. Fred has been with the company for about nine months and he has come up to speed nicely. Both reps have leveraged the channel to where this region is producing $48k/partner through the channel. You want to understand a bit more detail to understand exactly how this team has worked and if it can become more effective. Your report:

In your conversation with Susan, she says: "I'm really happy to have made quota this year. I really struggled at the beginning of the year, but things sort of built on themselves as the year grew. I've been in this region for a few years with Synoptics and we've always had a channel focus, by necessity. I'd say that we're probably one of the most successful channel regions on the entire east coast, if not in the nation. Our model is one of training, training, training to the channel partners. We've implemented a temp agency to call accounts and then the channel fulfills. I have 15 channel partners in my geography and we are averaging $48k of business/partner per year. We've not had a major problem cross-selling products, because the channel is carefully selected and well-trained. My area is ramping nicely and is almost on auto-pilot for next year. I would expect the channel number to be able to grow by at least 50% next year. I'd like to see our channel partners get to $100k of business each, on average."

From Fred: "Given that I've only been at the company for nine months, I'm reasonably happy with my results. No quota, but a good start. I'd say my success was largely driven on the back of a channel that was well-trained and ready to deliver. I probably spent too much time worrying about the existing channel partners and not paying any attention to recruiting new players or spending any time at the F1000. Next year, I see my initial goal of signing at least 50% more channel partners in the first 6 months. From there, I expect to spend more time at the larger accounts and helping all partners become more successful."

Southern New Jersey

With four reps in southern New Jersey, this region's quota for the past year was $4.8M. The territory did quite well coming in at $5.2M. Two members of the team really blew away the number. This team has been selling 60-80% direct to the 15 Fortune 1000 companies located in this part of the state. The channel performed better here, though still was not performing at the ideal 40% level that corporate has targeted for next year. You are also a bit concerned that only two of the four reps made their number and you also learn that Joe and Maria generated $26k/partner by working together and Pete and Igor averaged only $15k/partner, similar to the North.

From the south:

	Actuals	#deals	deal size	% channel	channel revenue	commission	from	F1000	Touch
South									
Joe	$1,400,000	35	$40,000	40%	$560,000	$237,500	WF	4	2
Maria	$1,600,000	25	$64,000	30%	$480,000	$362,500	WF	4	1
Pete	$1,100,000	9	$122,222	20%	$220,000	$121,875	S	4	3
Igor	$1,100,000	25	$44,000	20%	$220,000	$121,875	new	3	1
	$5,200,000					$843,750		15	

You take a more detailed look and see that the reps that blew away their numbers were both from Wellfleet and had a relatively high deal count. The new rep, Igor, has been on-board for almost a year and seems to be doing reasonably well. He probably needs to touch a few more F1000 accounts. From the numbers, Pete spent a great deal of time with the F1000 and his numbers reflect this situation.

You get the details from each team member:
From Joe: "This year was awesome! Not only did I make club, but I also managed to exactly hit the new company targets for VAR attainment. We had a great year. My model was to leverage the heck out of the VARs and bring in our marketing and SEs to

train them. We also copied Susan's model from central by hiring (paid for 50-50 by the channel and us) a small telesales team that could call into the smaller accounts. It would be great to have this as a centralized function, since we get tremendous leverage from this team. Next year, we should have no problem expanding both the channel and direct business, if we have a leveraged model."

Maria: "It feels great to be the highest achieving rep in the entire state. Everything worked out exactly as planned. Joe and I worked together to leverage our resources to build out a telesales group. It cost us $20k/month for four telesales people who recruited and supported our 40 resellers, who generated about $26k/partner. As with Susan, we've also gotten the resellers to pay ½ the cost of telesales, so our real cost was only $10k/month for the four telesales reps. Even though we use the exact same telesales rep ratios as Susan, I suspect our lack of productivity was due to our channel program being started only this year."

Pete: "It was a bit of a tough year for me. I struggled with my channel number and spent too much of my time at the F1000. While we definitely closed some big deals, I did not have the benefit of knowing Joe and Maria from Wellfleet, so they kind of did their own channel thing and I was left to myself. I had always assumed that selling direct would work really well, given my background at Synoptics and the new product portfolio. However, the Wellfleet products are tough as shit to sell, especially when taking them direct. I had no idea of the close cycles or what it would take. Next year I'm going to do my own telesales team, just like Maria and Joe did this year."

Igor: "I'm the new guy in the south and I'm bummed I just missed my quota. My feeling is that my channel business is not where I want it to be and I just spent too much time at the smaller accounts. In reality, I should have done more with the channel, let them take the smaller deals, and I go after the larger accounts. I suppose we can grow my area, but I'll need training help and leverage to make it all go. Both Pete and I tried to build out channel, but we only did about 15k/partner, which was not very productive."

Questions:

1. What is not working in the New Jersey region?
2. What is working?
3. Where were most of the successful reps from? What do you do about this?
4. What does a lumpy deal size in a territory mean? How did you adjust for this?
5. How do you want to divide up channel versus direct for the new year? Any rules or keep things the same?
6. What is your assessment of the reps in each geography? Keep/fire? Who? How do you manage the hiring-to-productivity ramp in a year when revenue needs to grow by 50%
7. How are you going to gain channel leverage?
8. Your territory made its number, but only 40% of the reps did? Is that a problem? What % reps should make quota?
9. Do you want a telesales group? How would you set this up?
10. How are you going to allocate your 20% budget increase?

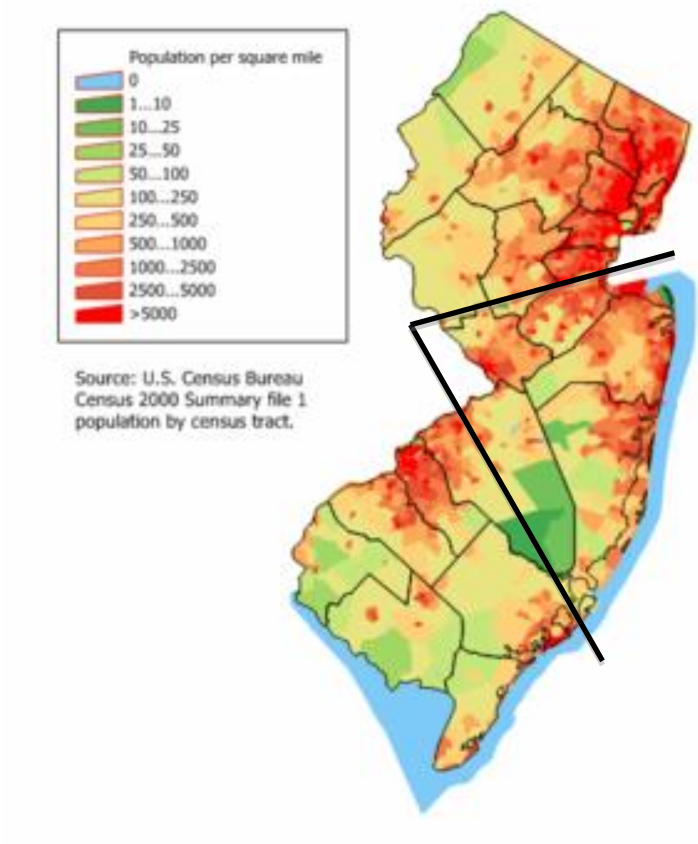
11. What will the new commission plan be?

Assignment:

Design a channel model, forecast, and quota system for the next year, specifically:

1. Develop a few possible channel models that might work.
2. Choose your recommended channel model.
3. Specify a resource allocation plan for your reps and the allocation of new expenses (new hires, other funding) for your channel model.
4. Develop a revenue target for each geography within the state.
5. Develop a compensation plan that is fair and delivers on the company objective.
6. Show the before and after productivity/rep in each geography.
7. Illustrate the channel versus direct (F1000) mix for each geography by rep and substantiate the model.

Exhibit 1: New Jersey Territory Map and F1000 distribution



North (21 F1000)

Central (4 F1000)

South (15 F1000)

Exhibit 2: Commission Plan Detail

Commission plan

Quota	$1,200,000
Commission	$150,000

up to…	commission	payout	per dollar
$600,000	0.5	$37,500	0.0625
$900,000	0.75	$28,125	0.09375
$1,200,000	2.25	$84,375	0.28125
		$150,000	
accelerators			
$1,300,000	3	$37,500	0.375
$1,400,000	4	$50,000	0.5
$1,500,000+	5	$62,500	0.625
		$150,000	