Bay Networks
A & B

Combining Sales Forces
The Facts

- **Companies**
  - Wellfleet: East Coast
  - Synoptics: West Coast

- **Products**
  - **W**: Switches/Routers (20% share, #2)
  - **S**: Hubs (#1), Switches (not 1, or 2)

- **Sales Headcount**
  - **W**: 300
  - **S**: 200
Activity Triage

- What are the top 3-5 things you work in priority order if you were Gary Beach?

- What is your overarching objective?
  - Hit the number?
  - Maintain (best) customer relationships?
  - Create a new, balanced sales force?
My Priorities - Sales

1. Get my management team in place (by Day 30)
   - Determine which AVPs we want to keep (goal: balance, buy in)
   - Offer them retention packages
   - Outline territory and quota thinking
   - Sign them up or go to next best AVP
   - Let remainder go

2. Jointly set the go-forward coverage model (by Day 60)
   - Determine which reps we want to keep (goal: “best”)
   - Offer them retention packages
   - Describe territory and quota assignments
   - Sign them up or go to next best rep
   - Let remainder go

3. Hand out overall quota of (W+S)*130% (or 5+% > sales target)
   - One number ok here since relatively equal sizes

4. Cross-train on each other’s main products (by Day 90)
Suggest an Approach on Reps

1. Understand revenue profile
   - Last 3 years’ revenue pareto for each
   - 80/20 customer list for each
   - Create combined “Top 20%” List

2. Understand Top 20% coverage model
   - How much direct? Though channel?
   - Where coverage overlaps, identify best
     - Could be most $, could be best relationship

3. Develop list of “must retain” reps
My Priorities – Sales Support

1. Customer Support
   - Keep both and integrate slowly over course of first year
   - Don’t let anyone touch it significantly

2. Marketing
   - Ensure new VP Marketing understands the sales plan and coverage strategy
     - Especially direct vs. indirect split
   - Review and jointly work merged marketing plan to make certain it supports my goal
Big Question - Channel

- Channel use may vary significantly by product
  - Lower ASP, non-enterprise, solution vs component
- Channel use may vary significantly by geography
  - Fixed cost of direct office vs total opportunity
  - Start up vs mature business
- Do we approach any overlap the same way as we did with reps and managers?
Bay Networks B

One Year Later…
New Jersey: Garden State

Image is in the public domain.
Source: Wikimedia Commons.
New Jersey Territory

- What is the biggest problem?
  - Problem: Sales force inefficiency
  - Objective: Gain “sales leverage”
- What’s your healthiest region?

- 2012 Objectives:
  - 50% top-line revenue growth
  - 50% channel growth, (to 40% target)
  - 20% expense growth
The Numbers

- 2011
  - **Revenue:** $12.10M
    - Direct: $9.05M (75%)
    - Channel: $3.05M (25%)
  - **Expense:** $3.23M (27%)
    - Base: $1.5M
    - Commission: $1.73M

- 2012
  - **Revenue:** $18.15M
    - Channel: $4.58M (50% growth) - $7.2M (40% of total)
    - Direct: $13.6M (50% growth) - $10.9M (20% growth)
  - **Expense:** $3.87M (20% growth, $640k, 21% of revenue)

- Do you see any issues?
## Northern Region Observations

<table>
<thead>
<tr>
<th>Like</th>
<th>Don’t like</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered ½ F1000</td>
<td>Region did not make quota</td>
</tr>
<tr>
<td>One rep (Al) was 2&lt;sup&gt;nd&lt;/sup&gt; highest in all of New jersey</td>
<td>75% of reps did not make plan</td>
</tr>
<tr>
<td>Largest average deal size</td>
<td>Channel hardly exists</td>
</tr>
<tr>
<td>Wellfleet reps appear to be able to sell Synoptics product</td>
<td>Synoptics reps not able to sell Wellfleet</td>
</tr>
<tr>
<td></td>
<td>Dan seems problematic</td>
</tr>
</tbody>
</table>

**Key Takeaways:**
- Channel and training appear to be the biggest issues
- Too much focus on direct, based on legacy
## Central Region Observations

<table>
<thead>
<tr>
<th>Like</th>
<th>Don’t like</th>
</tr>
</thead>
<tbody>
<tr>
<td>High productivity channel</td>
<td>Did not make quota</td>
</tr>
<tr>
<td>Synoptics and new rep can do well</td>
<td>F1000 coverage (25%)</td>
</tr>
<tr>
<td>Channel partner training and selection</td>
<td>Temp agency to call accounts</td>
</tr>
<tr>
<td>Channel in region on “auto-pilot”</td>
<td></td>
</tr>
<tr>
<td>Optimism into next year</td>
<td></td>
</tr>
</tbody>
</table>

**Key Takeaways:**
- Channel and training are great
- Telesales model working, though ad-hoc
- Limited F1000 coverage
## Southern Region Observations

<table>
<thead>
<tr>
<th>Like</th>
<th>Don’t like</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeded their number</td>
<td>Two blew away the number and the others did not make quota</td>
</tr>
<tr>
<td>F1000 touch (almost 50%)</td>
<td>Not a team</td>
</tr>
<tr>
<td>Joe and Maria model and blended revenue</td>
<td>Wellfleet products difficult to sell by Synoptics rep</td>
</tr>
<tr>
<td>Highest earning rep (Maria) in NJ</td>
<td>Lack of training</td>
</tr>
<tr>
<td>Channel attempt by Joe and Maria</td>
<td>Reseller effectiveness ($5k)</td>
</tr>
</tbody>
</table>

**Key Takeaways:**
- Model works really well for two reps
- Not a team
- Difficult to scale
What were some channel models you envisioned?

- More reps/better reps, same model
  - What’s the problem with this?

- Fewer managers/less overhead
  - How do you do this?

- Shared “services”: Add NJ-wide telesales
  - Comp telesales team on channel revenue
  - Comp other reps on all revenue or direct revenue?

- Increase channel and channel productivity
Channel Leverage!

- Goal channel = 40%; means direct "only" needs to grow by $1.75M
  - 2011: $12.1M total
    - $3.1 channel, $9.05 direct
  - 2012: $18M total
    - $7.2 channel, $10.8 direct

- Is it possible to grow the channel by over 2x (138%)?
Let’s take a look

Assume:
- Low productivity channel is $15k/partner
- Medium productivity is $26k/partner
- High productivity is $48k/partner

By region:
- North (low): $305k -> 20 channel partners
- Central (high): $1,270k -> 26 partners
- South (medium and low):
  - $1040k (Joe, Maria) -> 40 partners
  - $440k (Pete, Igor) -> 29 partners
North Region

- Last Year (low productivity channel)
  - 20 partners @ 15k/yr = $300k

- Plan This Year
  - Increase existing to $48k
  - Recruit another 30 @ 26k (medium)
  - 20 * 48k = $960k
  - 30 * 26k = $780k
  - Total $1.74M
Central Region

- Last Year (High productivity channel)
  - 26 partners @ 48k = ~$1,270k

- Plan This Year
  - Existing resellers go to $100k, new at 26k
  - Recruit 15 more resellers
    - 26 * 100k = $2.6M
    - 15 * 26k = $0.39M
    - Total = $3.0M
South Region

- South (medium and low productivity)
  - 40 @ 26k = $1040k (medium)
  - 29 @ 15k = ~$440k (low)

- Plan
  - Increase medium to $48k (like central)
  - Increase low to $26k
  - 40 * 48k = $1920k
  - 29 * 26k = 754k
  - Total = $2.7M
Channel leverage is possible

- $1.7 + $3.0 + $2.7 = $7.4M ("only" need $7.2M)

But what does it take to get it, and can we afford it???
What Does It Take?

- Marketing Air Cover
- Training, Training, Training
- Channel enablement (incl. telesales)

- What it shouldn’t take
  - A Lot More Sales People

- When that happens, it’s because the channel partner is fulfilling business, not generating business
What Does It Cost?

- Create telesales for the entire state
- Capacity model for telesales
  - 1 person/10 resellers
  - # Resellers: 50 + 41 + 69 = 160
  - 16 people @ 60k each = $960k
  - Split 50-50 with channel = $480k expense
## The 2012 numbers

### 2012 objectives
- Increase sales by 50% to $18,000,000
- Budget increase of 20% to $3,870,000
- Create new telesales team
- Combine south and central

<table>
<thead>
<tr>
<th>Quota</th>
<th>$1,800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>cost/rep</td>
<td>$150,000 base</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>plan</th>
<th>reps</th>
<th>base salary</th>
<th>commision</th>
<th>2011 comp</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>$7,200,000</td>
<td>4</td>
<td>$600,000</td>
<td>$600,000</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>South + Central</td>
<td>$10,800,000</td>
<td>7</td>
<td>$1,050,000</td>
<td>$1,050,000</td>
<td>$2,100,000</td>
</tr>
<tr>
<td>Extra channel</td>
<td>$200,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total NJ | $18,200,000 | 11 | $1,650,000 | $1,650,000 | $3,300,000 |
| channel | $7,200,000 |
| direct | $11,100,000 |

<table>
<thead>
<tr>
<th>Telesales plan</th>
<th>reps</th>
<th>salary</th>
<th>commission</th>
<th>Cost total</th>
<th>50-50 reseller</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,500,000</td>
<td>16</td>
<td>$60,000</td>
<td>$960,000</td>
<td>$480,000</td>
<td></td>
</tr>
<tr>
<td>Susan</td>
<td>$150,000</td>
<td>$300,000</td>
<td>$300,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

426 resellers

| Cost | $4,080,000 |
| Target | $3,870,000 |
| Over/Under | $210,000 |
| Add revenue | $200,000 |
| Adj exp. | $3,880,000 |
Summary (1)

- M&A often gets financially justified on synergies (post-merger cost savings)
  - A big source of those synergies often exists in the sales force ($12.5M here)

- Combining sales forces presents a very complex management challenge
  - You can’t miss in year 1 (yet many do)

- Key success factors revolve around creation of the best combined selling capability, minimizing distraction \textit{and getting productive fast}
Summary (2)

- Channel sales have significant benefits
  - More market coverage, faster, for less
  - It is a leverage model

- Channel sales *can* reduce sales process control and level of market engagement
  - Channel-committed organizations find ways to mitigate this potential issue

- It is very hard to balance both models in one company without setting very distinct boundaries for each
Bottom Line

- Don’t get caught in the middle between sales models!
  - Unclear boundaries creates conflict
  - Paying everyone on everything is expensive and ultimately unaffordable
  - Fulfillment vehicle instead of real business partners creates negative leverage
  - If you don’t train and market and enable, you won’t develop a true channel
  - If you don’t enable efficiently, you lose
## By Territory
*(combined south + central)*

<table>
<thead>
<tr>
<th>Territory</th>
<th>plan</th>
<th>% channel</th>
<th>revenue</th>
<th>resellers</th>
<th>productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Al</td>
<td>$1,800,000</td>
<td>24%</td>
<td>$435,000</td>
<td>12.5</td>
<td>$34,800</td>
</tr>
<tr>
<td>Matt</td>
<td>$1,800,000</td>
<td>24%</td>
<td>$435,000</td>
<td>12.5</td>
<td>$34,800</td>
</tr>
<tr>
<td>Ed</td>
<td>$1,800,000</td>
<td>24%</td>
<td>$435,000</td>
<td>12.5</td>
<td>$34,800</td>
</tr>
<tr>
<td>Dan</td>
<td>$1,800,000</td>
<td>24%</td>
<td>$435,000</td>
<td>12.5</td>
<td>$34,800</td>
</tr>
<tr>
<td></td>
<td>$7,200,000</td>
<td></td>
<td>$1,740,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>South + central</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joe (mgr)</td>
<td>$900,000</td>
<td>107%</td>
<td>$960,000</td>
<td>20</td>
<td>$48,000</td>
</tr>
<tr>
<td>Maria</td>
<td>$1,800,000</td>
<td>53%</td>
<td>$960,000</td>
<td>20</td>
<td>$48,000</td>
</tr>
<tr>
<td>Pete</td>
<td>$1,800,000</td>
<td>22%</td>
<td>$390,000</td>
<td>15</td>
<td>$26,000</td>
</tr>
<tr>
<td>Igor</td>
<td>$1,800,000</td>
<td>20%</td>
<td>$364,000</td>
<td>14</td>
<td>$26,000</td>
</tr>
<tr>
<td></td>
<td>$6,300,000</td>
<td></td>
<td>$2,674,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(Old Central)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New (Susan)</td>
<td>$1,800,000</td>
<td>72%</td>
<td>$1,300,000</td>
<td>13</td>
<td>$100,000</td>
</tr>
<tr>
<td>New (Joe)</td>
<td>$900,000</td>
<td>43%</td>
<td>$390,000</td>
<td>15</td>
<td>$26,000</td>
</tr>
<tr>
<td>Fred</td>
<td>$1,800,000</td>
<td>72%</td>
<td>$1,300,000</td>
<td>13</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>$4,500,000</td>
<td></td>
<td>$2,990,000</td>
<td></td>
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</tr>
</tbody>
</table>