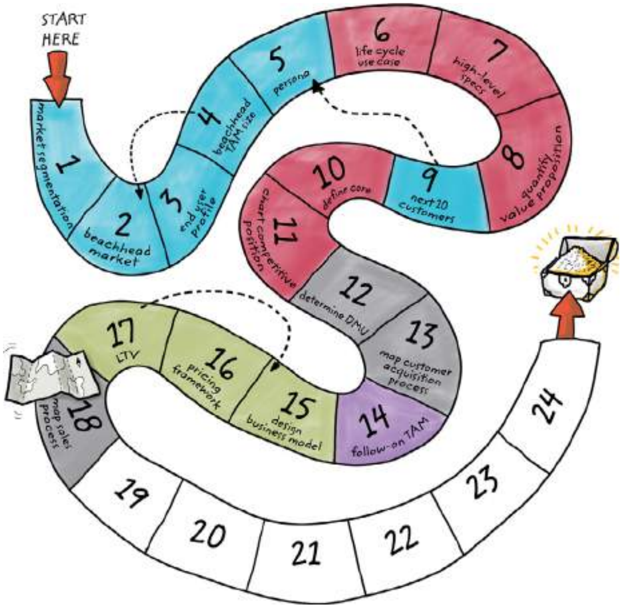
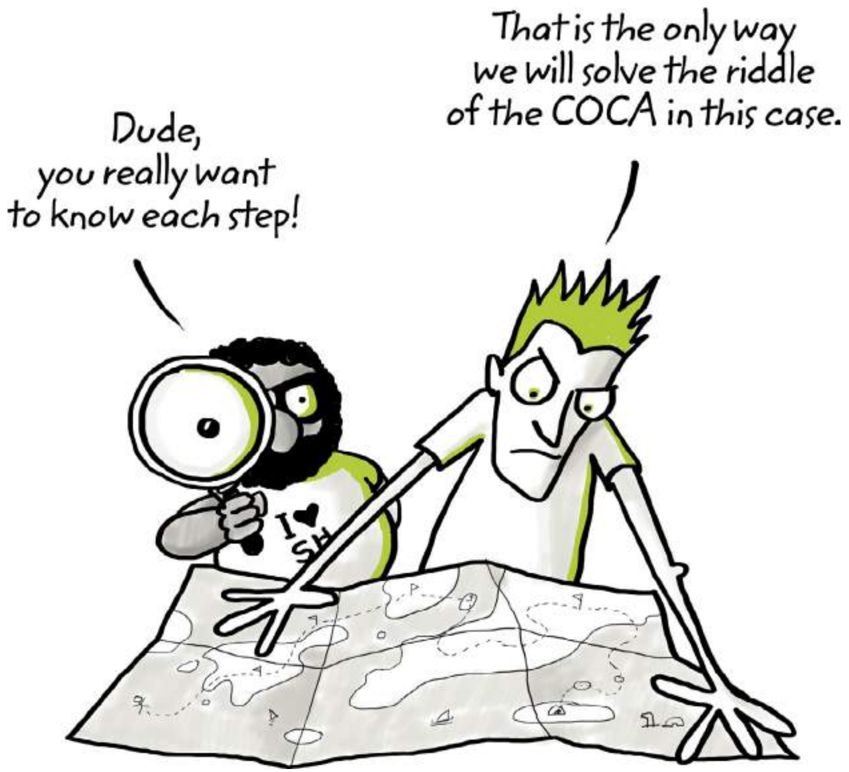
STEP 18

Map the Sales Process to Acquire a Customer



IN THIS STEP, YOU WILL:

- Develop short-term, medium-term, and long-term sales strategies for your product.



Understanding the details of customer acquisition will make clear to you the drivers of costs so that you will know over time how to make the sales process shorter and more cost-effective.

Now that you have done a first-pass estimate on the lifetime value each customer brings to your business, the question becomes "How much it will cost to bring a new customer to your product?" Determining the LTV might have seemed complicated, but the Cost of Customer Acquisition (COCA) is generally even more challenging and often much more grossly miscalculated.

The concept of COCA is relatively simple; but entrepreneurs (myself included) tend to dramatically underestimate how much it costs to gain a new customer when they first start.

To truly understand how much you will have to spend on your sales process in order to gain customers, you will conduct a rigorous, honest assessment based on facts, not hope, starting by mapping out your expected sales process.

Therefore, over the next two steps you will take a methodical approach to make a first-pass estimate of the COCA. You will not attach dollar amounts to the sales process at first so that the numbers do not distract you from being comprehensive about what your sales process will include.

In this step you will focus on the sales process, mapping out your short-term, medium-term, and long-term sales channels. In the next step, you will use this information to calculate what the cost of your sales and marketing initiatives are per customer. Once you calculate your COCA in the next step, you will likely go back and change your sales process to lower the COCA.

The COCA, in combination with the LTV, helps you understand the dynamics of your business and gives you enough data to make a meaningful first-pass analysis on the sustainability and profitability of your business.

FOUR FACTORS ENTREPRENEURS OFTEN OVERLOOK ABOUT CUSTOMER ACQUISITION COSTS

Entrepreneurs are inherently optimistic, and tend to remember only customers who responded positively to information about their products or offer to buy their products relatively quickly. They often fail to account for many factors and scenarios common to the customer acquisition process. The most commonly overlooked include:

- The cost behind all of the sales and marketing efforts required to reach their prospects. These may include the salaries of salespeople, printing of brochures, creation of websites, costs of trade show exhibits, advertising in industry publications, development of white papers, and so on.
- Long sales cycles that cost a lot of money. Entrepreneurs tend to remember only the shortest sales cycles.

- All the customers who did not buy their product, and the sales and marketing costs associated with reaching those customers. How many frogs did you kiss before you found your prince (i.e., your first customer)?
- Corporate shake-ups that affect the customer's Decision-Making Unit. New managers bring in new products and people to accomplish their goals, which can hamper the effectiveness of an entrepreneur's efforts to sell to the customer.

YOUR SALES PROCESS CHANGES OVER TIME

For almost all new ventures, the COCA will start very high and decrease over time. The sales process necessary to reach and close customers at the founding of a new business requires much more time and investment than the same process does once a business has matured and begins to scale.

The sales process is typically broken into three time periods for the sake of analysis. You will use different sales methods or combinations of methods in each period.

1. **Short Term:** In the short term, the primary focus of your sales process is to create demand for your product and to fulfill orders for the product. While your customer-centric focus means you have created a product the customer wants, your product is still new to the world, so you will need direct interaction with the customer to explain your value proposition and why your product is unique. The market will not be aware of your product otherwise. Another important reason for direct contact with initial customers is so that you can rapidly iterate to improve the product based on customer feedback, which is more difficult if you funnel sales through intermediaries such as distributors. This is the missionary sales stage and it ends when you start to see demand for your product that you did not directly generate.
   - Direct salespeople—often called "business development" people—are traditionally a wise and effective investment here. However, they are very expensive and they take time to get up to speed. Good ones are hard to retain, and identifying good versus mediocre salespeople is hard to do prior to hiring them. Be sure they are good at this stage, the missionary sales stage, not just the later stage when the company has more of a track record. Despite these challenges, they still might be your only and therefore your best option.
   - Web-based techniques such as inbound marketing, e-mail, social media marketing, and telemarketing can help lessen the need for direct salespeople, even at this stage. Some products, particularly web apps, can do well with a free trial and robust documentation rather than relying heavily on direct salespeople. One of the great benefits of this tool is that you can get extensive analytics on your customer that are not possible through the human channel.

2. **Medium Term:** At this point, focus shifts more from demand creation toward order fulfillment as word of mouth and distribution channels take on some of the demand creation burden. At this stage, you will also begin client management, which means ensuring you retain existing customers and creating additional sales opportunities for them. Distributors or value-added resellers (VARS) are often used, especially to serve more remote markets, or smaller customers who have a lower LTV. This way, your direct salespeople (who are more costly to you) can focus on larger customer opportunities with a higher LTV. Using distributors or VARS substantially lowers your cost of customer acquisition but requires you to give up some of your profit margin to the distributor—between 15 and 45 percent or higher depending on the industry. The decreased profit margin per unit is presumably more than offset by the reduction in COCA that results and the speed at which you can enter new markets through these already-existing distribution channels. When this happens will depend on the LTV of your product. The bigger the LTV, the longer it may take to reach this stage; but it is always best to move through these three stages as quickly as possible, especially if you have a low LTV.
3. **Long Term:** Your sales group focuses on fulfilling customer orders. Your business will do very little demand creation, and will continue client management where appropriate. Internet and telemarketing avenues are commonly employed in a long-term strategy. There will have to be adjustments made as competitors come into the market, which will affect your ability to get to this stage and what you do once you get there.

HOW TO MAP YOUR SALES PROCESS

To develop this short-term, medium-term, and long-term sales strategy, you must understand which sales channels you will use and how your use of sales channels will change over time. You can draw on the work you have already done in the Full Life Cycle Use Case.

Key questions that your sales process should address include:

- How does your target customer become aware that they have a problem or an opportunity?
- How will the target customer learn that there is a solution to this problem they have, or learn there is the opportunity they did not previously know about?
- Once the target customer knows about your business, what is the education process that allows them to make a well-informed analysis about whether to purchase your product?
- How do you make the sale?
- How do you collect the money?

Short Term

- Direct Sales (100%) → All end customers w/focus on strategic accounts in target market

This would continue until Word of Mouth becomes significant and product is matured and proven. Then as move from demand creation to demand fulfillment . . .

Medium Term

- Direct Sales (50%) → Largest customers
- Selected Regional Exclusive VARS (50%) → Medium and small accounts in target market

This would eventually evolve to more of an online commerce as the product becomes the standard and the product line expands and new markets are tested—estimated in year 3

Long Term

- Direct Sales (25%) → Top 50 accounts & new market
- Selected Regional Exclusive VARS (40%) → Accounts below Top 50 & non-core markets
- Through Web Site & Direct Telemarketing (35%) → All customers in core market (with commission to VARS & Direct Sales)

Figure 18.1 Example map of sales process.

Once you have developed the sales process, vet it with experienced professionals in the industry. Figure 18.1 shows a pretty typical traditional sales and distribution strategy for B2B companies.

SALES PROCESS COMPARISONS: ZYNGA, GROUPON, LINKEDIN, FACEBOOK

Looking at web companies, you can see that a variety of strategies can be employed to reach customers, ranging from fully involved salespeople to no salespeople at all. FarmVille maker Zynga chose a viral approach to greatly reduce the need for salespeople. Groupon's model, by contrast, required heavy direct sales involvement to acquire merchants as customers, resulting in a high and steady COCA that affected the company's profit margin; however, on the other side of its two-sided market, Groupon has had its daily deals spread virally by effectively incenting consumers to spread word of deals to their friends.

LinkedIn has a more refined model. They started with highly selective online ads and some direct salespeople (to sell their recruiting package). Once they got market traction and a reasonable critical mass, they started to rely much more heavily on users recruiting their colleagues to join the site through a well-developed system of easy-to-send invitations, coupled with an effective algorithm suggesting possible new connections. This system quickly started sending e-mails to people outside the network to join if they were not already in. Once the company achieved high levels of market penetration, it focused its algorithm on making recommendations of people already on the site, to encourage more connections the user can make, keeping the user coming back and more deeply invested in the site so that switching would be more and more difficult. Facebook has similarly been able to leverage a network effect to bring in new users at very little cost, then increasingly tie them to their network with a similar algorithm to suggest likely people the user would like to be linked to.

EXAMPLE

LARK Technologies

Silent alarm-clock manufacturer Lark Technologies realized in mapping out its sales process that it would need to educate users about what a silent alarm clock and sleep-coaching product was all about (Figure 18.2). It would take some hard work to get the market moving. CEO Julia Hu developed the following short-term, medium-term, and long-term plans.

Short Term: With no alternative, Julia started by engaging in one-on-one selling to potential customers, even setting up a table on the MIT campus on Commencement day to explain her product and its value. Julia also sought and won lots of public speaking opportunities to create awareness of her product. This strategy had a significant cost associated with it because it pulled her away from the core operations aspects of her business.

Many of the first units were sold to family and friends who could spread the word about the product. Julia also engaged her Persona's primary influencers, such as the website *Urban Daddy*, a daily e-mail newsletter specifically targeted at wealthy young urban professionals.

The company created a website where customers could purchase the product. They also experimented with the search engine optimization (SEO) to help drive traffic to the site. It also started to experiment with social media like Twitter, though with marginal results.

Medium Term: The company signed a deal with Apple to distribute its product in the Apple Store without requiring exclusivity. The strategy gave the Lark product instant credibility, in that it had been approved for sale in the Apple stores by Apple itself, as well as much broader exposure; but the company had to give up a lot of margin. Since the product sold in the store was the hardware component and the store had to carry inventory, LARK's gross margin was significantly affected.

Figure 18.2 LARK's display.

However, Julia no longer had to do one-on-one sales, instead focusing on recruiting distributors and improving LARK's website.

Long Term: The website is the key place to get info about the product and purchase it. Julia expects 40 percent of her orders to come through the website (and other direct online channels), 50 percent from the retail distribution channel, and 10 percent from other channels.[1]

SUMMARY

Mapping the sales process is a thoughtful first pass at how you will enter the market, refine your sales strategy over time, and ultimately establish an inexpensive long-term strategy for customer acquisition. The sales process includes creating awareness, educating the customer, and handling and processing the sale. The sales process drives the COCA, one of the variables—along with the Lifetime Value of an Acquired Customer—that shows your business's profitability.

[1] These numbers were changed to illustrate the point and are not Julia's actual long-term projections.