How High Tech CFOs Can Grow Company Revenues Through Metrics and Best Practices

4 Metrics That Need To Be Measured to Drive Scalable Growth

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The competitor to be feared is one who never bothers about you at all, but goes on making his own business better all the time. –Henry Ford

Executive Summary

The distinguishing characteristics between an entrepreneurially managed business process and a professionally managed business process are metrics, planning, and having all of your departments linked to a consistent method of revenue capture. This is not to say that an entrepreneurially managed business is not professional, but the process by which decisions are often made in this environment are more focused on experience than confirmed best practice metrics and planning.

To grow a business in today's economic environment, CFOs and executive teams need to have a planned process where each action step is linked to a sequential response made in a timely manner. This linked information needs to help executive management make timely decisions to proactively grow business.

Growing your firm's top line revenues is not a simplistic business model. Focusing on what the sales team is doing or having a sales distribution model (direct, reseller, internet, etc.) that is operationally efficient is just not enough.

Instead, growing your revenue must be a coordinated event where specific departments must work together in concert as an integrated effort to move the revenue capture needle.

Revenue capture is a company responsibility.

Focusing on the sales process as the primary path to business growth is a limited model that reduces business growth. The sales team (or process) you use does not operate individually but in conjunction with a collective group.

If you are a growth directed firm, you need to integrate sales, marketing, strategy and financial management into one outbound revenue capture method.

Each one of these four perspectives has a symbiotic relationship with the other. When managed separately as silos, they cause other perspectives to fail and the ultimate objective of revenue growth to be unsuccessful.

The Role of the CFO in Driving IT Business Growth

I once had a CFO say "revenue improvement cures all" and yes having an increase in sales can make this true, but it is also true that money hides mistakes. So, revenue capture must be a coordinated approach. When attempting to build a business model that is scalable and replicable, the executive management team must concentrate on integrating departments, collecting metrics, and implementing best practices and a planned process.

> ...it is also true that money hides mistakes.

Revenue growth is also tied to the executive teams' business knowledge on

why prospects buy and why they don't buy. Once that is understood, it must be integrated into a broader range of business drivers that accelerate business growth.

High Tech CFOs need to become proactive senior executives who drive other department heads (operations, sales, marketing, development) to greater metric-driven accountability for their department's performance and best practice implementations.

No business department operates in a vacuum. Having a low price, the best IT widget, or having a great sales team does not mean more prospects will buy—your strategy could be wrong. Having a great inbound lead generation program managed by your marketing department does not mean that revenues will increase—your pricing and financial model may force the targeted buyer to hesitate. Moreover, having a world-renowned brand does not automatically generate revenue— brand recognition does not mean brand acquisition.

In today's world economy, being an innovator means nothing if you can't

market and sell your offering against the me-too competitors who will steal your intellectual property or mass produce your widget in a third-world country at one-tenth your cost.

The business success secret to obtaining revenue growth consistently in any economic environment is using a planned process that is metric driven where the whole company works in tandem using a define methodology to drive revenue as a company in totality. And who better than the company CFO or senior financial executive to be the arbitrator and implementation manager of these key performance indicators (K.P.I.).

4 Metrics That Need To Be Managed

1. Monthly Sales Forecasting Accuracy Should Be 75% or Higher

High tech companies function as an assembly line machine shop—with multiple moving components working in tandem

to facilitate the production of a product or service that can be sold. The execution of installation, training, bench utilization, software development and marketing are symbiotic to the accuracy of the sales forecast. When the sales forecast is not accurate, the rest of the machine has to adjust its departmental execution. When sales forecasts are wrong, companies have to adjust their cash-flow projections, investments in marketing, labor allocation for projects, new hire timelines and potentially corporate G & A costs.

The perceptions of many sales executives is that sales forecasts are not viable business metrics that can be measured on a monthly basis due to the complexity of technology sales, but this is incorrect. All technology sales, regardless of their average sales cycle timeline (from one month to two years) have specific sales process indicators that can be aligned to determine the forecast accuracy of a given sales purchase.

The key driving mark to build an accurate sales prediction of when a client will buy is having a clear line of demarcation between the definition of what a *sales forecast* and *sales pipeline* are. Sales forecasts should only include prospect opportunities that will be received as a signed agreement in the corporate office within any 90-day period. All other prospect opportunities should be defined as a sales pipeline.

Sales forecasts are living, breathing snapshots of time that are always changing. Prospects fall in and out of pipeline and forecast positions depending on the multiple changing variables that affect a sale (i.e., budget, decision maker availability, competition). Yet often, sales team members want to include prospect opportunities that are complex large ticket deals with multiple decision makers and are more than 90 days out in their sales forecasts to validate their work effort success. However, sales forecasts are not sales team productivity assessments. Instead, they are sales team selling success measurements and companywide operational tools which is diametrically different.

When sales leadership submits a monthly sales forecast, it should reach a minimum of 75% accuracy from projection to close. Anything less is an inaccurate calculation based on hope rather than reality.

For CFOs and VPs of Sales to correctly manage company revenue capture metrics, sales forecasts need to be accurate.

2. Sales Quotas Should Be Mathematically Calculated

Calculating accurate sales quotas is an important business driver for your firm to succeed. By implementing a sales quota based on market research, market gap size and definable business sales metrics, you can manage your firm profitably, satisfy your investor and funding sources, fund your growth, and capture sales at a lower cost.

When incorrectly calculated based on guesswork or industry estimates, your firm can fail.

Today, there are ten sales quota calculation methods currently in use by many high tech firms. These methods supplied by multiple executives use various foundations to determine assigned numbers. They include:

1. Using last year's territory sales numbers for this year's calculation model;

2. Cost of the salesperson times a multiplier (sales costs x 3);

3. Cost of corporate General Administrative (G & A) plus a gross margin;

4. Revenue goals committed to Wall Street or investors;

5. Total of the sales department's goals divided by the number of salespeople;

6. Salesperson's success the previous year;

7. An imaginary compensation number that was sold to the salesperson as their income potential if he/she hit 100% quota;

8. What the trade press says is the annual growth rate this year (up 12%, quotas are up 12%);

9. The VP of Sales' experiences at other companies; and/or

10. A percentage of what the top salesperson did in their territory.

The above ten techniques represent the vast of majority of sales calculation methods used today…and all of these methods are wrong.

These impractical and unscientific quota determination methods are used over and over in both public and private firms. More times than not, the sales quota number is created based on commitments to investors, bankers or Wall Street, combined with the perception of accounting regarding what the cost of sales should be.

The short-term losers are the sales reps as they struggle to make their monthly numbers. The long-term losers are the companies and the operating departments because business models have been budgeted on these inaccurate sales quota calculations.

What do these measurements have to do with the potential of a particular salesperson's territory? The fact is none of these methods are accurate. These quotas are based on outside influences and expenses not related to the sales potential of the salesperson's product or service in an assigned territory. When these quota determination models are used, more times than not, they just frustrate everybody.

The Operations Department is upset because their bench utilization is low and management is forced to reduce payroll.

The Accounting Department is upset because the company's business budgets are inaccurate causing operating expenses to be disproportionate to forecasted corporate revenues.

The Sales Department is frustrated because they can't hit their targeted numbers and no one is making their commissions.

Investors and stockholders become disenchanted, lowering their commitment to your senior management team.

Sales Quota Mathematical Calculation Formula

Here is a mathematical Sales Quota Calculation that CFOs can use with the sales team:

IT Sales Quota = territory potential (geography the salesperson sells in) ...

Divided by **your firm's average sale (or specific product or service) in dollars ...**

Divided by **number of leads needed to generate one proposal ...**

Times **the average sales team closing ratio...**

Times **the average value in dollars of one deal**

This mathematical model gives you an operating foundation to determine a target number for each sales territory which can be rolled up into a national number and can be massaged or adjusted as needed based on individual sales team member's performance, sales team goals and corporate objectives.

Is this mathematical model a panacea to give each salesperson the most accurate sales quota that will measure their skill efficiency and forecast revenue capabilities exactly? No, but it does give a starting point for the finance department that is metric driven.

3. Net New Sales Growth Ratio Calculation

Often high tech revenue improvement hides business model weaknesses. Rising revenues can often be segmented into categories of revenue increases, so gross revenue improvement does not always truly reflect overall business success. IT firms' top line revenue numbers can automatically improve year over year by having annual recurring software maintenance or SaaS agreements in place that have built-in cost of living clauses (COLAs) that rise each year. Alternatively, IT revenues can increase when one large existing client's ability to buy improves. To accurately assess a high tech firm's growth success potential, one metric the CFOs needs to measure is the *net new sales growth ratio* calculation.

The net new sales growth ratio is calculated by counting in units the number of existing customers you have at the beginning of your fiscal year, adding any new customers in units you have sold by the end of that fiscal period, and subtracting in units, lost customers during the same timeline (i.e.,

existing customers, plus new customers, minus lost customers).

This metric gives you a definitive measurement of your firm's ability to organically capture new business from new prospects and your company's current capacity to maintain existing customer satisfaction at high levels. If you are losing in units (customers) more than you are selling in units, it identifies business areas that need correction.

4. Cash Management Through Sales Cycle Selling Time Measurement

For growth directed IT firms, cash management and revenue recognition are financial operating models that must be managed tightly to help facilitate appropriate governance and operational funding. One subliminal cash management driver that can be improved and monitored is the sales team's sales cycle selling time. Calculating and managing sales team average prospect selling time helps forecast accurate cash flow projections, improves revenue recognition dates and helps accelerate top line revenue growth. Selling

software and professional services is a time management business model.

High tech companies need to treat technology and professional service sales as an inventory turn business, much like a retail store. The more inventory (software unit sales) and staff placement (bench utilization) you can sell (turn inventory) within a fiscal year, the higher your revenue capture. Selling 100 units in twelve months is not the same as selling 100 units in thirty-six months. One operational action step that finance executives can implement is helping the sales team understand selling timelines from the prospect first contact to contract signing date. Once average timelines are identified, it should become a company-wide, collaborative effort to shorten prospect buying cycles by 25%, through adjustments of your sales, marketing and strategy techniques to potentially increase annual revenue correspondingly.

When used tactically, sales cycle selling time measurement can dramatically increase cash flow and business growth, and help build a replicable and scalable revenue capture process.

CFOs and senior financial executives of high tech firms need to take control of organizational operations company-wide and implement metric models to establish coherent success programs that drive performance.

Conclusion

In IT, revenue capture is a company responsibility. To turn strategy into action, financial executives need to be the senior leader to institutionalize metrics, to provide a success process that is self-perpetuated and ultimately self-governed. By deploying metric models, and understanding the business processes in your firm that produces results, high tech revenue growth can become premeditated.

About The Author

Paul DiModica is the founder and CEO of Value Forward Group, a high tech revenue capture specialist advisment and management consulting firm. Paul is also editor of the world's largest IT sales, strategy and marketing strategy newsletter called *HighTechSuccess* (hightechsuccess.com)

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Additainlly, he is the author of the books *High Tech CEO Business Success Strategies*, *How to Sell Technology*® and his new book being published this year called the *Revenue Capture Scorecard*®.

Prior to launching the Value Forward Group in 2001, Paul spent over 20 years in high tech businesses as a Senior Vice President of Sales and Marketing, Vice President of Strategy Worldwide (Renaissance Worldwide Inc.), Vice President of Operations, Chief Operating Officer and company Founder in private, family-run and public IT companies with annual revenues up to $900 million.

Paul has been featured or interviewed in hundreds of media outlets including the *New York Times, Investors Daily, Fox News, Selling Power Magazine, Sales and Marketing Magazine, CIO Magazine, CFO Magazine, Entrepreneur Magazine, Training Magazine, Marketing Magazine, Computer World Magazine, Entrepreneur Radio, Chicago Tribune, Executive Travel Magazine, Value Added Partners* and many others.

About Value Forward Group

The Value Forward Group is one of the largest high tech business success advisement consulting firms in North America. They focus on helping CEOs, company founders and senior executive team members of technology, software and professional service companies maximize revenue, increase marketing success, reduce operating expenses and build a replicable and scalable revenue capture process that gives them a competitive edge using a revenue capture scorecard approach. For more information about Value Forward programs and services, please contact:

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Our programs and services include:

- Message Communication
- Keynote and conference speaking
- 360° High Tech Business Success Assessment and Recommendations Program
- Team sales training
- Sales and marketing strategy development
- Operations department best practices design
- Strategic Planning
- Merger and acquisition advisement

For more information on our programs and services, contact Paul DiModica at 770-632-7647.