Why Traditional Enterprise Software Sales Fail

A careful balance of "volume" and "value" marketing strategies will help vendors avoid the three classic reasons for unsuccessful sales efforts.

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Traditional enterprise software sales efforts fail for three reasons: your solution does not meet its market's needs, your sales force fixates on "big deals," or your business model is flawed.

The recent economic downturn means software vendors can no longer afford to make classic mistakes. A closer look at these reasons for failure shows that software vendors can leverage diversified go-to-market strategies to find new levels of sales success.

Problem No. 1 – poor business model

Not surprisingly, nine out of ten product launches fail because of a flawed business model. Business models from conception often suffer basic flaws, including the following:

- Weak value proposition
- Poorly defined target market
- Disorganized distribution scheme
- Ill-conceived sales strategy
- Fragile customer relationships
- High cost structure

Enterprise software sales strategies often are based on the mistaken premise that a richly featured product will sell itself. This assumption drives enterprise software developers to devote inordinate resources to adding features without carefully considering whether they solve customer problems. At the very least, this produces "nice-to-have" products rather than "must-have" products. At its worst, failing to focus entirely on solving your customers' problems complicates a solution without fixing your users' biggest problems. Your solution is marginalized.

The lesson? Stay simple and address your customers' pain points.

Problem No. 2 – product does not meet market needs

When companies launch a new product, they notoriously rush to strengthen sales efforts before testing the solution with multiple clients. Products thus often lack key features customers want or they don't work the way customers expect.

Selling untested solutions obviously causes long-term problems. Cash is burned while generating disappointing revenues.

Mark Leslie and Charles Holloway, authors of The Sales Learning Curve , say your entire organization must learn how customers will acquire and use your solution, a process the authors call the "sales learning curve." Leslie and Holloway show how a "learn before burn" strategy pays off. The authors, who grew Veritas Software into a $1 billion business, provide examples of numerous once-promising offerings aborted due to premature inauguration.

The lesson? While the sales learning curve is often ignored during product launches, incorporating it is one of the elements that are essential to marketing success.

Problem No. 3 – "big deal" dependency and the "hockey stick" effect

Another factor undermining successful enterprise software sales efforts is the allure of "big deals." After landing one or two big deals, it's not uncommon for a company's most talented sales reps to be consumed with pursuing more such deals. Even the most experienced sales professionals and managers, often convince themselves they have a breakthrough solution. Anticipation runs through the company as sales executives fixate on landing more big deals while ignoring smaller opportunities that they could later use as a beachhead to expand within their accounts.

Dependency on big deals triggers a "hockey stick" effect. A big deal requires a long sales cycle. That extended time increases the possibility of "surprises." Your customer sponsor could be reassigned, customer requirements could change, or a new vendor could enter the competition. Make no mistake, on a big deal, your client knows that your fortunes hinge on their purchase decision. Procurement professionals – who are rewarded for driving down what your client pays you – use this knowledge against you in negotiations, lengthening your sales cycle.

Dependence on big deals also creates a distinct type of financial pressure on your company because each client relationship carries high stakes and revenues are not predictable.

The lesson? Develop volume and value strategies employing a range of licensing models to diversify away from a dependency on big deals.

The solution to enterprise software sales challenges

While the introduction above explains the key reasons for failure in simple terms, implementing real-world solutions in the current business environment is not so simple. There are many dynamics affecting the enterprise sales process in today's business landscape. Consider the following examples.

The customer development process

The high failure rate of traditional enterprise software sales makes it wise to bring customer needs to the forefront before the product is launched.

Software development, even before your product launch, should be centered on addressing the needs of customers—not adding features that software developers want. Concurrent with the software development process, vendors must create a way to collect customer feedback on the new product. This is crucial to gaining finding your target market and long-term client satisfaction.

The client communication process that must run in parallel with software development has been defined in The Four Steps to the Epiphany by Steven Gary Blank. Blank maintains that an enterprise software vendor's understanding of customer problems and needs – a process he calls "Customer Development"

- is driven by four factors:

- Customer discovery - drives understanding of customer problems and needs
- Customer validation – develops a sales model that can be replicated
- Customer creation - creates and drives end-user demand
- Company building - transforms an organization from mere earning to one designed for execution

Learning before burning

Companies ignore the sales learning curve at their own peril. They often rush to ramp up the sales force and burn cash, sometimes at the cost of survival. Here's an example of what can go wrong.

Typically, a CEO and CFO would calculate net revenue the company must generate to break even. In this instance, let's assume that's $12 million. They ask the VP of sales how many sales people are needed to generate $12 million in revenue. Based upon a quota of $2 million annually for each sales representative, the Sales VP advises hiring 20 new sales reps as soon as possible.

Here is the basis of his calculations, wherein "X" is the amount of sales required to break even and "R" is expected net revenue, "Total Costs per Rep"are estimated at $400K (on target earnings of

$300K plus $100K for expenses and other fees), “Gross Margins” are estimated at 90% and a “Ramp Up” period of 6 months…

X = R x 1/ (Quota – Total Costs) x Gross Margin x Ramp Up / 12 x 80%

With your new 20 sales people hired too early, your organization will be swamped and you will quickly burn into your cash. Instead, you want to ramp up the sales force progressively in order to learn before burning – and not burn before learning.

Software as a Service (SaaS)

We believe that elongated sales cycles associated with big ticket deals are essentially motivated by the ultimate necessity for the customer to mitigate the financial risk associated with the decision to buy your solution. Therefore if you lower or eliminate that financial risk then the sales cycle will be shorter.

With the subscription model, software vendors forfeit a large one-time license fee but gain steady, predictable revenue year after year. In many instances, the break-even point of the traditional versus SaaS model occurs after three to four years. During that period, the SaaS vendor may appear to lose money but actually makes it back by being able to take on new customers and providing add-ons to the customer over the life of the relationship.

The SaaS model also helps to penetrate new market segments, such as the SMBs that could never before afford a similar solution because of the upfront payments and maintenance burden associated with maintaining a locally installed system.

While the SaaS subscription model is a radical departure over the traditional perpetual license pricing regime, the SaaS model nonetheless requires recognition of the following:

SaaS is merely a delivery model. You still must ultimately deliver a relevant application!

- Telesales and online marketing may be the optimal ways to reach your market. However, direct sales— not channel sales— are paramount with SaaS.
- Choosing a subscription versus perpetual licenses pricing model is challenging, but you must make a choice. Select which works best for the five-year period ahead.
- Whatever is your direct sales model, when it reaches critical mass it is wise to separate —hunters from —farmers. Deploy hunters with new business opportunities and farmers with maintaining existing relationships.

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Value and volume go-to-market

With the hunt of the big deal, you don't have the certainty or predictable revenue, and you are held hostage to one or two deals a quarter because your buyer knows you are heavily dependent on his order. However, the hockey stick effect need not be avoided. It just needs to be managed.

A way to manage the hockey stick effect is by employing "volume" and "value" strategies.

A "value" strategy is best suited for vendors targeting large companies, while a "volume" strategy is best suited for vendors targeting small- or medium-size clients (see figure). To sustain growth, software companies must devise a selling strategy that balances value and volume.

For example, Microsoft is a volume business and its Office line of products is famously adopted by large enterprises. From the beginning, Microsoft devised licensing options that attracted big corporate clients. In contrast, SAP is a value business. To sustain growth, it has had to create new offerings to generate business from small- and medium-size clients. Depending on whether you are a volume or value vendor, consider the following strategies:

- Product segmentation - You can balance value and volume strategies by assigning one product line with a volume strategy while employing a value strategy with another product line. For example, a security single-sign-on product might be priced to serve large enterprises, while a solution for monitoring network infrastructure could employ a volume pricing strategy targeted to small- and mid-sized clients.
- Open source model - Open source refers to opening your source code to users. A basic version of your product can be provided for free and distributed via a volume strategy, while add-ons and customization are paid for and support a value strategy.
- OEMs, channel partners, and other integrations - There is a need for software firms to embed their products in larger solutions provided by Value Added Resellers (VARs), System Integrators (SIs) and others. There are also channel partners who help profitably expand your reach – but please do not expect these partners to figure out how to sell your product if you have not figured it out on your own! Consider the "Partner-Assist" approach where the partner makes the introduction, you handle the sales cycle and the partner takes the lead back during implementation.

Achieving improved results

Employing the solutions discussed above is likely to make enterprise software sales efforts more successful. It is worthwhile defining what success looks like.
Results you can expect include:

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- **Sustainable profitable growth** - Implementing at least 2 out of the 4 solutions listed above will help you balance growth and profitability in a predictable way. Trying to accelerate growth by throwing salespeople at the problem without accomplishing key milestones in the Customer Development Process will only generate frustration. You will be happy at the first sales acceleration but it won't be sustainable. Then you'll hire a new Sales VP hoping things will be different. It's like drinking salty water and expecting to calm your thirst.
- **Outstanding customer experience**- Going through the Customer Development Process will keep you close to your early adopters. They will help you develop appropriate support processes for when you"cross the chasm" and target the mainstream customer base. If you implement a SaaS delivery model – and you do it right – it is expected that all management burden (integration, updates, maintenance, etc.) will be on your shoulders – not the customer's shoulders. The usual finger pointing between software vendors will be limited and ultimately, you will sustain high customer satisfaction.
- **Market share growth**, improved brand and "de facto" choice – It is expected that your controlled approach will help you target meaningful market segments. Repeat wins in a specific segment will help you develop a brand name and appear as the "de facto" choice in that segment. This in turn will help you better lead your organization and raise the bar even higher. In the software business – more than in other businesses – that dynamic of success is a necessary condition for inspiring people to excel. This is probably due to the intangible nature of what is being sold.
- **Attract and retain top talent** - A winning company has a better chance of attracting better talent. People like success and the benefits that come with it.
- **Market value** - Ultimately, your board and your market recognize your solid and sustainable performance. This recognition will give you a "currency" that you can monetize while acquiring other companies or positioning your own company for sale. You know your foundations are sound and that you can grow revenue and realize cost synergies in all confidence. Other organizations will be happy to join forces with yours.

About the author:

Gad Tobaly is an International software executive with extensive experience growing sales and profits worldwide for U.S. and European technology companies. As Chief Operating Officer for Nastel Technologies, an application performance management (APM) software company, Gad repositioned the company on target markets with the highest revenue potential, reversing a three-year revenue decline to double digit profitable growth, leading the company to Gartner's Magic Quadrant and joining forces with one of the giant vendors in this space (CA Inc.) to create an alliance set to produce a paradigm change.

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