

Lowering Cost of Sale - Create or Wait

Posted At : November 6, 2012 9:18 AM | Posted By : AMZ

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As regular readers know, I'm writing a book focused on how to create rather than wait for opportunity. Granted that is much easier said than done. Creating an opportunity takes more upfront planning, more time, more energy, more persistence and more creativity than responding to a customer's stated need in the form of an RFI or RFP.

But does it cost more?

A client of mine recently closed an opportunity my team and I helped them create from scratch. The customer didn't know it was possible to solve their particular problem. It wasn't even on their radar screen. Definitely no budget or executive champion when we started.

It took over a year to close the deal. Along the way, the client had to conduct a discovery workshop. They had to pay fairly significant retainers for influencers and subject matter expert consultants. They had to engage with analysts to validate their best practices. There was a significant travel budget. The seller also missed his quota for 5 quarters chasing this opportunity.

His sales leaders deserve a great deal of credit. They demonstrated incredible fortitude and faith in the Seller. His direct manager insulated him from internal pressures and politics. His VP gave him air cover and fought for budget. There were more than a few times when everyone considered walking away. But then the dam broke and the project rocketed to a close. It was one of the largest sales the company ever closed.

In spite of that, when the deal was done upper management started grouching about the cost of sale. They were convinced it was the most expensive sale the company ever closed. But was it?

The long story short answer is: not by a long shot. In fact, when the analysis was completed they learned that the cost of sale for creating that opportunity from scratch was two-thirds less than their average cost of sale.

The reason for the perception of a much more costly sale was that the expenditures were different. It required a higher proportion of external rather than internal resources. The Seller was the only internal resource working the opportunity for over a year. Normally, the client had a team 8-10 of internal resources supporting a seller for a deal of that size. The team would travel together, spending weeks on site with the customer at tremendous expense, both actual and in lost opportunity costs. Also important to note that the average close ratio of these team-pursued opportunities was only 20%. But companies tend not to recognize the cost of internal resources when they emotionally evaluate the cost of sale.

High margin growth requires a shift toward creating rather than waiting for opportunities. While all companies won't experience such a dramatic difference in the cost of sale, most will find creating opportunities, with the right planning and resources, is significantly less expensive than responding to RFI/RFPs.

