PRIVATE EQUITY PERFORMANCE IMPROVEMENT

SHOW ME THE MONEY, BUT THE RIGHT MONEY PLEASE!

PART 3: WHAT ARE MY SALES MANAGERS DOING TO MOVE THE NEEDLE?

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In Part II of our series, we examined how the sales force is sized, structured, and deployed to uncover and capture profitable growth opportunities.

In Part III of our series, we look at the sales management function within the organization and the importance of aligning incentives, systems, tools, and sales leadership to drive accountability and profitable growth.

A&M COMMERCIAL EXCELLENCE APPROACH

A&M's strength in execution drives a differentiated commercial excellence approach, divided into six key areas

We identify and drive end-to-end cross-functional change for sustainable EBITDA growth

Market Intelligence/ Commercial Due Diligence
Understand market trends, competitive dynamics, growth opportunities, and customer and end-user behavior and purchasing decisions

External Lens

Product Portfolio Optimization
Ensure the product portfolio and new product pipeline maximize profit opportunity

Price Optimization
Ensure that costs to serve are recovered and pricing captures maximum value

Sales Force and Market Coverage
Understand the market drivers, how to differentiate by segment/channel to optimize the sales organization design

Segmentation and Channel Optimization
Optimize the size and structure of the sales force and ensure it is properly incented to grow profitable business

Sales Operations & Customer Success
Ensure leads are efficiently generated and converted into profitable sales, and sales is held accountable to KPIs and metrics

Margin Transparency and Recovery
Determine where money is actually being made at the customer, market, Channel, category, and SKU level by unpeeling margins and cost-to-serve

Digital Enablement
Customer experience value acceleration, digital growth marketing, optimization, and loyalty, intelligent commerce, product innovation

IMPACT OF COMMERCIAL EXCELLENCE:

- **Performance Improvement Plan:** Identified, quantified, and prioritized opportunities to improve performance and cost structure
- **Execution Roadmap:** Action plan to execute on the restructuring, e.g., finalization of detailed structure, selection, seperation, etc.
- **Cost to Serve Model:** Repeatable tool for clients giving visibility into customer, SKU, and product category profitability

SALES MANAGEMENT: HOW DO YOU MEASURE WEEKLY SALES REP PRODUCTIVITY?

Successful sales organizations focus on key activities that drive profitable business, while eliminating distractions that stand in the way. For sales productivity specifically, the industry best practice is for outside reps to spend 70 percent of their time on selling activities.

Recently, a $3 billion company had a five-year plan to increase revenue by 15 percent and increase profitability by 40 percent, but were falling short. Moreover, the CEO was frustrated with inadequate line of sight on sales performance and marketing spend. After a comprehensive study of sales operations (including ride-alongs with field sales employees, and interviews with customers, sales managers, and sales reps), our firm discovered that only 23 percent of daily activity was spent selling. The rest of the time was consumed with non-sales activities such as invoicing, firefighting, and internal communications.

Furthermore, managers were spending only 29 percent of their time coaching sales reps or meeting with customers. To address the issue, our team expanded the role of the central Sales Operations department with clear control over sales and analysis, territory management, coverage models, training, on-boarding and recruiting. The result in the following quarter was roughly a 10 percent reduction in SG&A cost and over a 10 percent increase in profitable revenue.

The takeaway: Nonproductive time can add tremendous cost to your organization while strangling revenue growth. As you begin to reduce cost in other departments, this may add inefficiencies to your sales execution strategy as administrative tasks can end up back with sales, which is ultimately responsible for growing the business. You can address this issue after gaining an understanding of time thieves by creating a cross-functional leadership team to document roles and responsibilities for employees that support sales to free up capacity for your sales team.

Field Activity

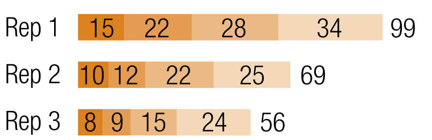
New Business Meetings Last 7 Days by Rep

Paper	Count
Rep 1	15
Rep 2	9
Rep 3	7

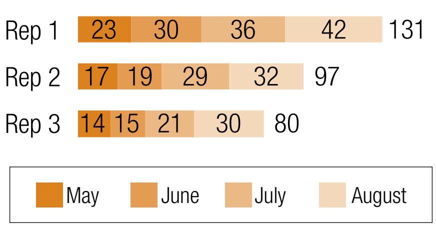
Proposals Last 7 Days by Rep

Corregating	Count
Rep 1	16
Rep 2	15
Rep 3	15

Call Report: Meetings Mostly Monthly by Rep



Call Report: All Types Monthy by Rep



Proposals / Opportunities

Proposal: In Development by customer Plant

National Account ABC	Budget
Tech company 1	$1.0m
Tech company 2	$0.9m
Education company 3	$0.4m

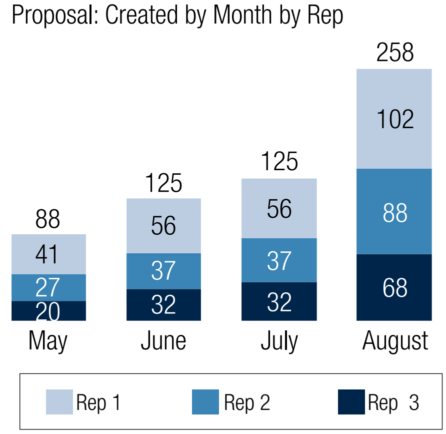
Proposal: Decision Due Next 7 Days

Plant 2	Budget
Tech Company 1	$0.4m
Government Company 1	$0.2m
Education Company 1	$0.2m

Proposal: Lost/Dead Last 7 Days

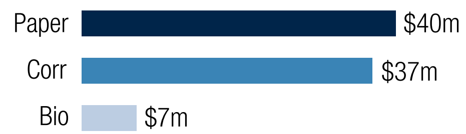
Plant 3	Budget
Tech Company 1	$0.3m
Tech Company 4	$0.2m
Education Company 3	$0.2m

Proposal: Created by Month by Rep



Forecast / Bookings

Forecast: Full Year All Stages (new business)



Forecast: Full Year Prorated

Forecast: Full Year by Rep

Paper	Forecast
Rep 1	$21.0m
Rep 2	$18.0m
Rep 3	$15.0m

Bookings: Booked vs. Goal Current Q

Online	Booked	Goal
Rep 1	$8.0m	$9.0m
Rep 2	$6.0m	$5.5m
Rep 3	$1.0m	$2.0m

Booking: Booked vs. Goal Current Q

Print	Booked	Goal
Rep 1	$3.0m	$4.0m
Rep 2	$2.0m	$3.0m
Rep 3	$0.5m	$2.5m

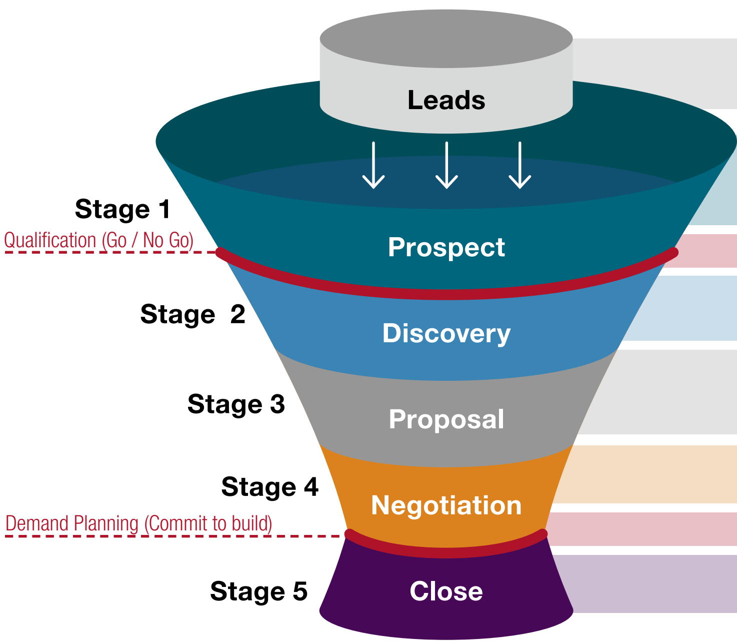
Tip: Create a project for your PMO and consider lean and digital strategies to redesign the process of pricing/RFP processing, order entry, customer issue resolution, and data entry. Begin tracking weekly customer activities in Customer Relationship Management (CRM) to exceed best practice of 70+ percent per rep per week. Typical results from increasing customer selling activities is an increase in customer lifetime value and an increase of average rep pipeline size.

CRM STRATEGY: WHAT GETS MEASURED, GETS DONE!

Many organizations struggling to exceed revenue or profitability goals don't hold sales personnel accountable for achieving weekly performance metrics. By focusing on just lag measures (financials) and not creating KPIs on weekly activities, sales leaders miss the opportunity to hold employees accountable for results. The key to solving this problem is creating leading indicators and metrics of the behaviors that drive profitability such as tracking sales proposals delivered, sales cyle win-rates, number of key executive meetings, or new logo pipeline growth. Leading measures linked to profitable growth are the best way to hold a salesperson accountable.

A strong Sales Operations function that builds and regularly distributes sales productivity dashboards is critical to optimizing the value of a CRM system. A good stage gate sales process should also be tracked in CRM to create a repeatable process that helps forecast the business. People often say that sales reps have, "happy ears," and have trouble forecasting, but this is no reason to abandon a sales forecasting strategy. Have you considered how much cost is added when you miss your production forecast and your cash is wrapped up in excess inventory?

Similarly, a manufacturer's demand planning process is a crucial part of the monthly S&OP process. Missed forecasts will lead to higher inventory costs or even worse, producing the wrong inventory that impairs customer fill rates, resulting in poor customer satisfaction. How often do you rush through fulfilling a one-off emergency order that leads to a costly change-over process or excess delivery charge to get that last-minute order out? The reason for these constant fire drills may be a flawed short-term forecasting process. Many companies use a top down process taking input from the Finance department and basing their answers on prior year run rates with limited data on current sales orders or pipelines. Using a weekly sales process to gauge customer sales cycle progress dramatically improves forecasting accuracy.



Probability %	Sales Stage Definition
Leads 0%	• Leads from marketing activites
Prospect 10%	• New Project Opportunity added to CRM
Qualification	• Go/no go decision made by Sales Rep and Manager
Discovery 20%	• Key meetings to uncover customer pain points
Proposal 50%	• Present quote & attach one page "Executive Summary"
Negotiation 70%	• Final negotiations in progress on pricing/terms and firm shipment date is requested
Commitment 75%	• Sales commits opportunity to S&OP forecast
Close 100%	• Shipment date confirmed & order placed

Tip: Add weekly sales pipeline input to your S&OP process by creating a bottom-up sales pipeline process validated by your sales staff by using a sound CRM strategy (i.e., documented sales process with opportunity stages) and ask that your managers own the forecast. Once you mandate that each manager commit a forecast each month, more time will be spent on scrutinizing pipeline opportunities; focusing on close dates; and concentrating on customer actions needed to meet these commitments.

LINKING PAY-WITH-PERFORMANCE: ARE YOU PAYING YOUR SALES TEAM FOR NO RESULTS?

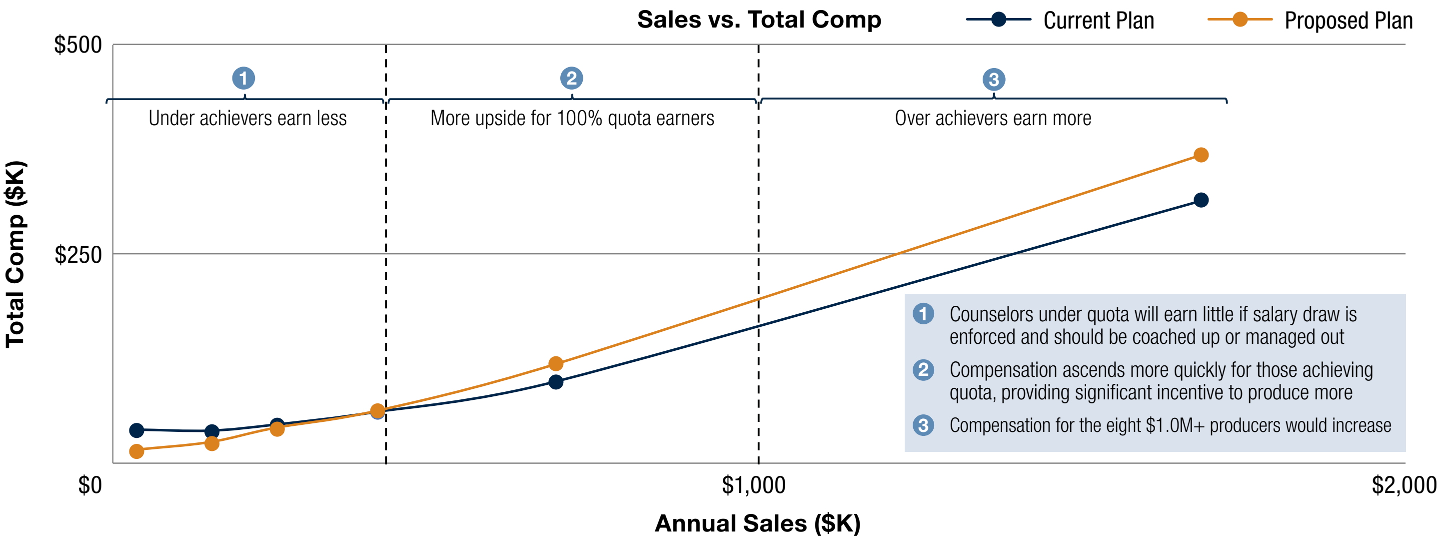
The key to any successful sales strategy is to align the incentives to the company's goals and priorities. The first question to ask your sales team is: "What is our company strategy?" Followed by: "Does the Sales department help the company achieve its strategic goals with a true pay-for-performance culture?"

In many companies, the answers would disappoint the CEO. It is easy to tell if your sales team is focused on profitability or revenue – take a look at your current sales incentive plan. Linking pay and performance should be a top initiative for any good sales organization to drive the desired results. You may find that many of your sales reps are paid top dollar for acting as "order takers," which leads to a sales organization becoming passive, reactionary, and costly.

In today's business, customers are looking for salespeople to solve problems rather than to solely promote an existing product. If you are struggling to exceed revenue and profitability goals while paying out the same or more variable compensation year-over-year, your plan might not be built to incentivize the right behavior.

For a company that is looking to grow profitable top-line revenue, an incentive plan should support proactive cultivation of new and profitable business. Without this alignment, profitability and share suffer while your sales reps live comfortably earning commission without contributing to your bottom line. Many sales organizations fall short of creating accountability for a rep to deliver profitable growth, instead rewarding a rep for simply answering a phone call and negotiating a price. In some cases, we have seen incentive plans that pay top dollar for securing sales contracts that are a drag on company profitability. To solve this problem, consider adding margin and a new business accelerator to the plan, ensuring that you're paying out top dollar for profitable sales.

For example, a global energy company had experienced flat growth for several years. The CEO started asking difficult questions about sales rep performance and was disappointed in the answers. He had no visibility into sales performance metrics and the compensation plans had not been updated in over 10 years. When he dug deep, he discovered that the compensation plans were not driving desired selling behaviors and that in some cases were actually rewarding negative growth. After redesigning compensation plans and implementing a new coverage model that elevated strong producers and eliminated poor performers, the following quarter saw a 10 percent increase in revenue coupled with a 12 percent reduction in SG&A spend.



Tip: Commission plans and quotas should be reviewed annually to ensure they are aligned to fiscal corporate goals. A good strategy is to shift a percentage of the variable compensation paid to underperformers to the top tier of your incentive plan, rewarding your top reps who are bringing in new and profitable business.

MAKE IT STICK – THROUGH SALES AND OPS COOPERATION AND DECISIVE LEADERSHIP

Solving a company's commercial issues often starts with sales, but that's not the root of all problems. A cross-functional approach to operating procedure also provides checks and balances to ensure the company's go-to-market approach is aligned with corporate strategy. This means engaging other departments that contribute to the customer experience like marketing, manufacturing, and product development.

In one case, the Sales team was incentivized by top-line success, and was also approving discounts and offering customized SKUs to keep customers happy and achieve revenue targets. The Marketing and Innovation teams were approving customized SKUs without visibility into target gross margins, and the Supply Chain team was sourcing material without a clear view of what products were being phased in or phased out during a product portfolio refresh.

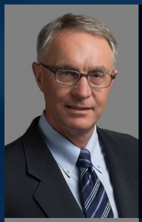
To fix this broken link, a cross functional team reengaged with the Sales team through a weekly S&OP meeting to ensure the go-to-market strategy was aligned to manufacturing targets. To do this, they first considered the possibility that red ink may not be flowing from the most obvious sources. Sales organizations have many sacrosanct beliefs and longstanding habits that were developed and nurtured over time to protect the revenue stream at all costs while counterintuitively pulling down overall profitability.

Ask the question, "Why do we offer a product that is difficult to manufacture, not strategic to our portfolio, and is losing money for the company?" Trying to gain market share at all costs will cause the company to "grow into disaster", severely impacting profitability as discussed Part I of A&M's Three-Part Series on Cost Optimization.

Tip: For the cross-functional management team to land on a proper go-to-market strategy, a cost-to-serve model needs to be built to uncover true net product and customer profitability. This new financial visibility into where you are making money and where you are losing money will help inform key tactics such as sales deployment, new product introductions, and product rationalization.

Breaking bad habits requires sales leadership willing to make tough decisions. To fix a department or company that has grown inefficiently, a revenue decline may be an outcome. But decisions that may initially decrease top-line sales will ultimately improve the bottom line by concentrating on higher margin sales. When a company has had success in the past, it can be among the last ones to make strategic and operational changes amid a market shake-up. It is company leadership's job to bring a fresh and unbiased set of eyes, not stuck in the status quo, and to use and trust objective analysis to help make difficult decisions.

KEY CONTACTS



CLIFF HALL
MANAGING DIRECTOR
PRIVATE EQUITY PERFORMANCE IMPROVEMENT
+1 917 291 6412
chall@alvarezandmarsal.com

BALA EKAMBARAM
MANAGING DIRECTOR
PRIVATE EQUITY PERFORMANCE IMPROVEMENT
+1 612 562 4345
bekambaram@alvarezandmarsal.com

PRASAD ADURI
SENIOR DIRECTOR
PRIVATE EQUITY PERFORMANCE IMPROVEMENT
+1 847 204 8444
paduri@alvarezandmarsal.com

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With over 9,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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