

## Value-Based Selling: Building a Best-in-Class Capability for Sales Effectiveness

With the global economy showing mixed signals regarding the long-term strength of the business environment, corporate sales leaders are frequently tasked with increasing overall operational effectiveness without always having the benefit of additional resources. With a finite number of eager buyers in hand, and yet being accountable for continued top-line growth, the best performers among today's sales leaders recognize the need for value-based selling as a crucial element to building long-term, profitable customer relationships. This Research Brief explores the processes and technologies that the most successful companies are deploying, in using value-based selling as a crucial element for building long-term, profitable customer relationships. Ultimately, we will see that industry leaders consistently use elements of a value-based selling approach at a far greater rate than underperforming organizations.

### Overview

In June and July 2011, Aberdeen surveyed 214 organizations to learn more about their value-based selling practices. Using the standard PACE methodology (sidebar), the Best-in-Class designation was defined based on three key metrics (Table 1). The following elements will be discussed in more detail with the Best-in-Class context:

- Customer insight and segmentation
- Value proposition
- Channels and sales force structure
- Sales process
- Best-in-Class enablers

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class: Top 20%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 91% customer retention rate</li> <li>▪ 16.0% average year-over-year growth in overall company gross profit; 91% showed improvement</li> <li>▪ 11.7% average year-over-year increase in average closed deal size or annual contract value; 84% showed improvement</li> </ul>

### Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.

### Aberdeen's PACE Methodology

Aberdeen applies a methodology to benchmark research that evaluates the business Pressures, Actions, Capabilities, and Enablers (PACE) that indicate corporate behavior in specific business processes:

- √ Pressures — external forces that impact an organization's market position, competitiveness, or business operations.
- √ Actions — the strategic approaches that an organization takes in response to industry pressures.
- √ Capabilities — the business process competencies (process, organization, performance and knowledge management) required to execute corporate strategy.
- √ Enablers — the key functionality of technology solutions required to support the organization's enabling business practices.

Definition of Maturity Class	Mean Class Performance
<b>Industry Average: Middle 50%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>42% customer retention rate</li> <li>1.8% average year-over year growth in overall company gross profit; 42% showed improvement</li> <li>1.7% average year-over-year increase in average closed deal size or annual contract value; 36% showed improvement</li> </ul>
<b>Laggard: Bottom 30%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>31% customer retention rate</li> <li>1.9% average year-over year <b>decrease</b> in overall company gross profit; 31% showed improvement</li> <li>3.7% average year-over-year <b>decrease</b> in average closed deal size or annual contract value; 22% showed improvement</li> </ul>

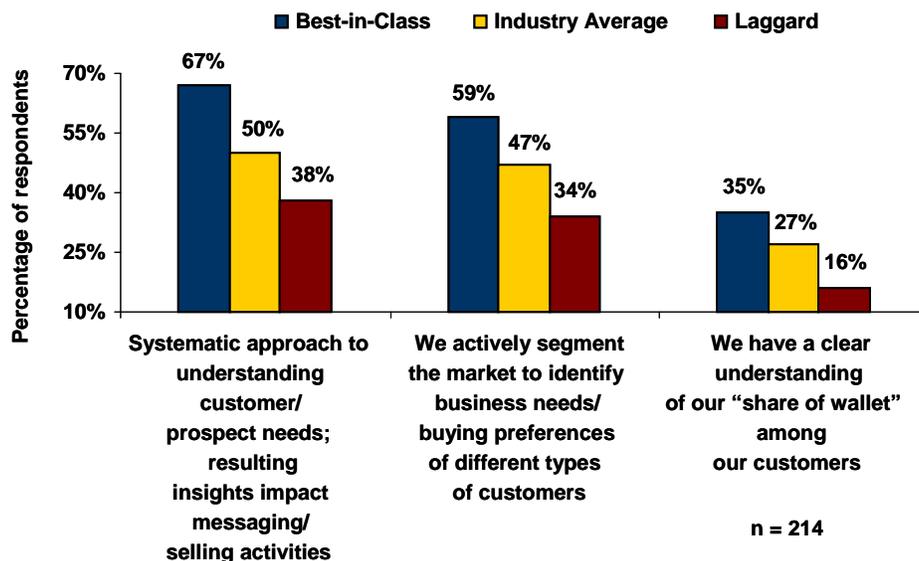
Source: Aberdeen Group, September 2011

By examining how the strongest performers within this sample have achieved Best-in-Class business results, other end-user companies – who are not able to deliver equivalent customer retention, profit growth and average deal size increases – stand to gain significant ground on their own performance gaps by emulating the capabilities and enablers most frequently deployed by the Best-in-Class.

## Customer Insight and Segmentation

As Aberdeen recently reported in [Analytics for the CMO: How Best-in-Class Marketers Use Customer Insights to Drive More Revenue](#) (September 2011), the ability to formalize the understanding of a business customer or prospect’s

**Figure 1: Understanding and Isolating Customer Needs**



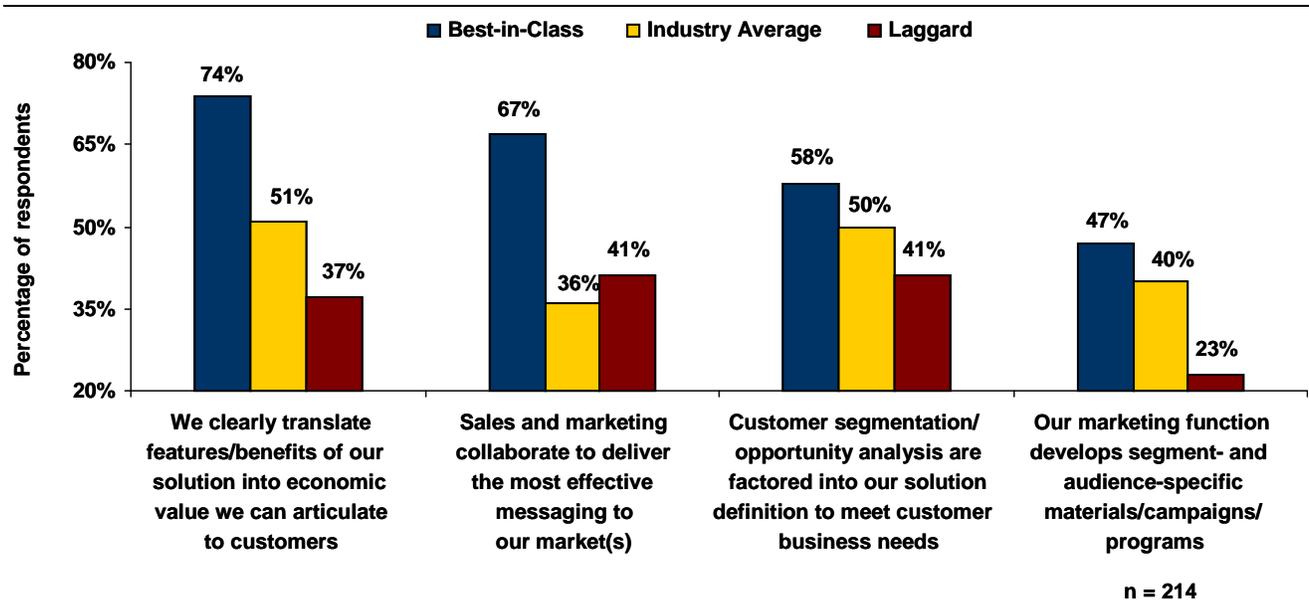
Source: Aberdeen Group, September 2011

needs plays a highly significant role in leveraging that knowledge to provide more accurate marketing and selling messages. For example, 64% of this study’s Best-in-Class (defined by the strongest performance in marketing contribution to the sales pipeline and customer retention rates) deploy a specific process to test the effectiveness of marketing campaign content with representative prospects/customers, compared with 42% of Industry Average and only 25% of the Laggards. We see support for this in the current value-based selling research (Figure 1), wherein two-thirds of the Best-in-Class take the time to understand their marketplace, in order to add customer-specific value to their relationship; fewer than half of under-performing companies do so. This activity also allows the Best-in-Class to adopt best practices in market segmentation more aggressively than other firms, as well as more diligently acknowledge what business they currently are not receiving from their accounts. Achieving higher customer retention rates, and growing their average deal sizes and company profits, are the dividends reaped by the top-performing firms that go to these lengths to understand the needs of their customer.

### Value Proposition: What’s in it for the Customer?

Moving from customer insights to the actual conversations taking place between sellers and buyers, the research shows us how the Best-in-Class are far more likely than other firms to “take the high road” with more holistic, consultative and value-based selling approaches. In Figure 2 we see a wide array of best practices that support a paradigm shift in professional sales, away from the feature/friendship/price-based selling of old, to highly educated buyers seeking the best total solution and maximum long-term economic benefit for their own enterprise.

**Figure 2: Value Proposition Best Practices by Best-in-Class**



Source: Aberdeen Group, September 2011

Any seller who is unable to clearly articulate and prove the total value of their offering or solution in clear financial terms is highly vulnerable to competition and pressure to discount; and thus reduces the value-added element of their pitch. Highlighting a few of the elements of Figure 2, which are based on the current value-based selling research, we note a high degree of corroboration by additional Aberdeen research into sales and marketing effectiveness:

- In *Sales Training: Deploying Knowledge, Process and Technology to Consistently Hit Quota* (September 2010), Aberdeen research found that the leading strategic action taken by survey respondents, in the context of sales enablement, was to “create more meaningful sales conversations that address the buyer’s overall business needs.” This echoes the most popular strategic selling initiative in the current research, in which the Best-in-Class translate their solution’s features/benefits in clear economic value for customers, at a rate 45% higher than the Industry Average (74% vs. 51%) and exactly 100% more often than Laggards (74% vs. 37%).
- Aberdeen research conducted for *Sales and Marketing Alignment: Collaboration + Cooperation = Peak Performance* (September 2010) showcased how the Best-in-Class (sidebar) consistently drove these two corporate departments to work together on mutual goals, lead definitions and performance metrics. In the context of value-based selling, too, two-thirds of the current Best-in-Class conform to this gold standard, while fewer than two of five other firms comply.

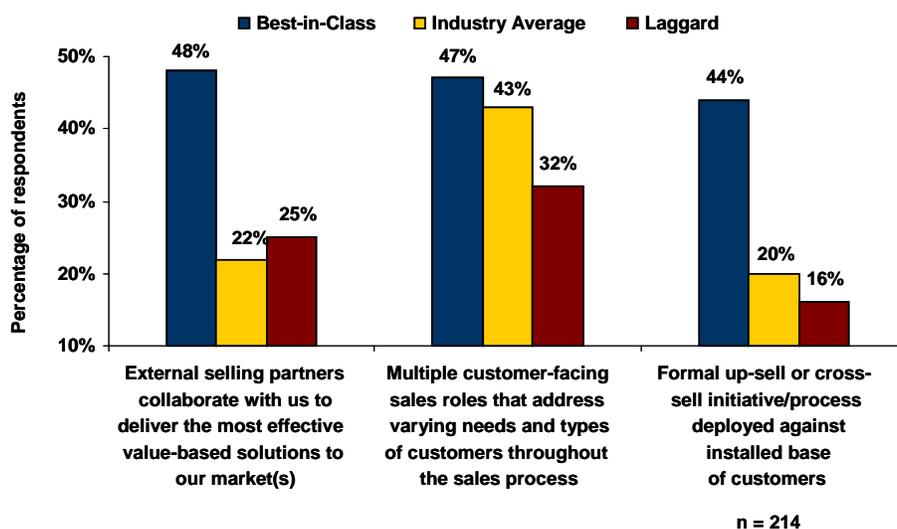
**The Sales/Marketing Alignment Best-in-Class**

The top 20% of companies in the *Sales and Marketing Alignment: Collaboration + Cooperation = Peak Performance* study achieved the following average performance metrics:

- √ 20% average growth (increase) in company annual revenue, as compared to a 4% average decrease among Laggard organizations
- √ 47% of sales forecasted pipeline is generated by marketing, as compared to an average 5% among Laggard organizations

**Channel and Sales Force Structure**

**Figure 3: Sales Team Visibility and Management**



Source: Aberdeen Group, September 2011

As we know from [Sales Forecasting: How Top Performers Leverage the Past, Visualize the Present, and Improve Their Future Revenue](#) (July 2011), companies put significant effort into understanding, with optimal accuracy, the value and timeframe of sales opportunities in their pipeline that they hope to close. Yet how many companies place an equal emphasis on the potential spend of their customers after the initial deal or contract has been signed? How do they effectively manage the service and long-term retention of these accounts if their sales force is predominantly de-centralized, i.e. channel-based? Understanding how much long-term value you can provide to your customer – and in turn the dollars they will eventually send your way – necessitates the kind of value-based selling strategies supported by the practices highlighted in Figure 3, which are highly applicable to both internal and partner-centric sales and service organizations.

Again, we see the current Best-in-Class companies – drivers of enviable customer retention, corporate profit and deal size metrics – outpacing other companies in supporting best practices in value-based selling. Initial data collected by Aberdeen for [Leveraging the 360 Degree Customer View to Maximize Up-Sell and Cross-Sell Potential](#) (September 2011) showcases Best-in-Class companies that firmly support gaining long-term client value by mirroring that trend with supportive, customer-friendly policies such as:

- Process to survey customers after interacting with the organization, to continuously measure and aggregate customer satisfaction results
- Customers have a clear understanding of whom to contact in the company for various needs
- Customer satisfaction is monitored on a regular basis
- Trends in customer spend (net client value) are monitored and measured consistently

Best practices in channel sales, explored in [The Extended Sales Enterprise: Channeling Better Results](#) (April 2011), included a 55% Best-in-Class (sidebar) adoption of external selling partners having access to “guided selling” or stage-by-stage sales process assistance from the producer or original equipment manufacturer (OEM) organization; 30% and 20% respectively of Industry Average and Laggard companies did so. With a value-based selling mindset, nearly half of the current Best-in-Class build this channel-based collaboration into their overall process, while less than one-fourth of underperforming companies have deployed the approach.

## Sales Process: A How-To Guide for Success

In Aberdeen research conducted for [Sales Performance Management: Getting Everyone on the Same Page](#) (August 2010), the kind of business competencies and technologies reported most frequently by the Best-in-Class revolve around skill development and career paths. In the context of value-based selling, the idea of supporting the selling professionals with a formal sales process that helps guide them through the various stages of

### The Channel Sales Best-in-Class

The top 20% of companies in [The Extended Sales Enterprise: Channeling Better Results](#) study achieved the following average performance metrics:

- √ 107% of overall corporate attainment of sales quota, compared with 74% and 36% for Industry Average and Laggard firms
- √ 5.4% average year-over-year increase in channel sales lead conversion rate, compared with 2.1% for Industry Average and a 0.9% decrease among Laggard firms
- √ 4.6% average year-over-year improvement in overall deal size, vs. 2.2% for Industry Average and a 2.6% decrease for Laggards

prospect/customer communication flows naturally from this managerial point of reference.

As we see in Figures 4 and 5, top performers within the current research show significantly higher adoption rates of a number of process best practices, in comparison to the Industry Average and Laggard survey respondents:

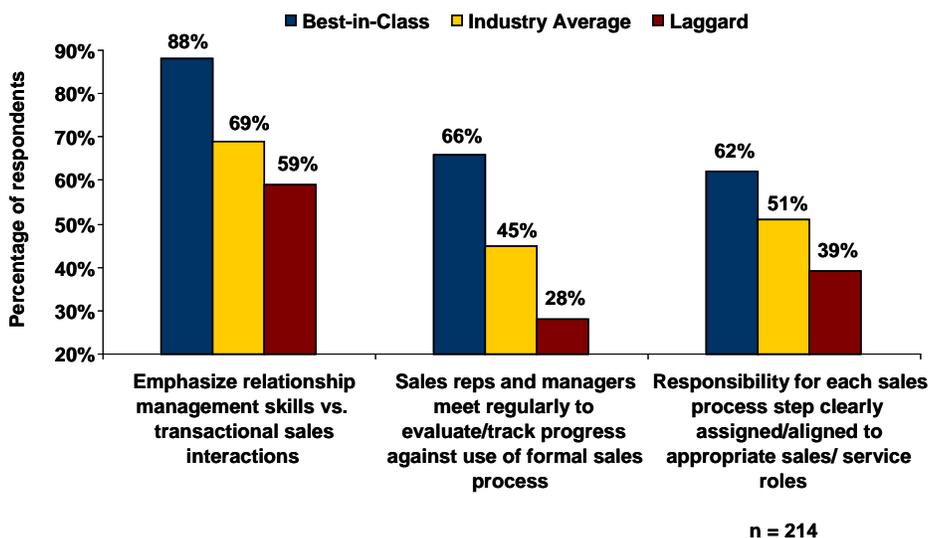
- **Relationship management skills** help sellers learn how to be more consultative in their prospect/customer interactions, which in turn create a value-add for themselves, in the eyes of their external counterparts. Treating a potential customer as a partner before they have signed the contact sends a strong, positive message about a sales rep's potential to provide superior service once the deal is done.
- **Rep/manager meetings** that track the use of these same sales processes are crucial to ensure that tried-and-true messaging, customer discovery and other best practices are directly linked to a rep's long-term development – and contribution – as they remain committed to adding value to their customers. With a 136% higher adoption rate (66% vs. 28%) of this practice by the Best-in-Class, as compared to Laggards, this approach is highly validated by the research.

**The Sales Performance Management Best-in-Class**

The top 20% of companies in the [Sales Performance Management: Getting Everyone on the Same Page](#) study achieved the following average performance metrics:

- ✓ An average 106% current overall team attainment of quota, compared to 76% for Industry Average and 22% among Laggard companies
- ✓ 5.3% year-over-year increase in average deal size or contract value, compared to an 0.2% increase and 2.9% decrease among Industry Average and Laggard companies, respectively
- ✓ An average 3.5% year-over-year improvement of (decrease in) sales cycle – the time from sales-accepted lead to a closed deal – compared to a 2.2% decline of (increase in) sales cycles for the Industry Average and a 7.1% decline for Laggards

**Figure 4: Sales Process Best Practices by Best-in-Class**

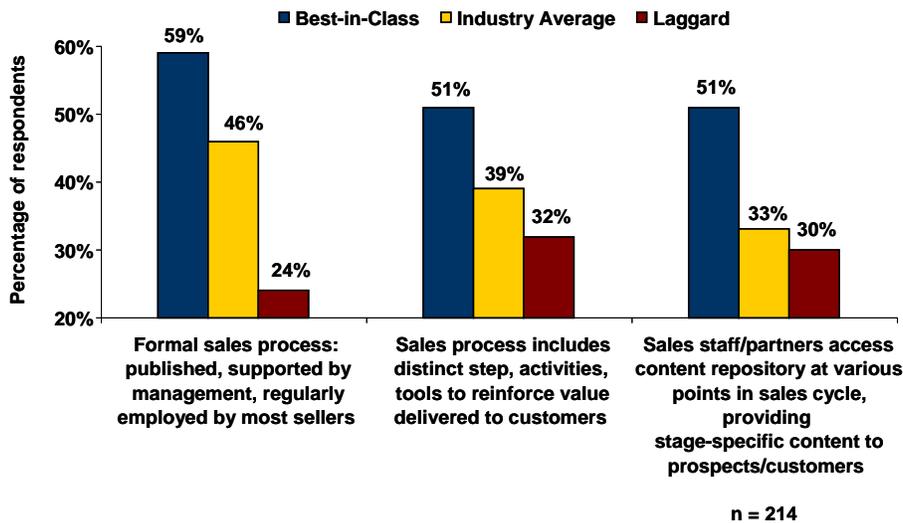


Source: Aberdeen Group, September 2011

- **Role-based process assignments** ensure that the right type of sales persona – inside, outside, hunter, farmer, partner, etc. – is held accountable for the most appropriate process-oriented responsibilities and tasks within the greater sales cycle. For example, an inside sales rep might be held accountable for identifying buying

criteria or individual “champions” within a prospect company, while a major-account manager is expected to maintain customer loyalty or up-sell/cross-sell revenue.

**Figure 5: Additional Sales Process Best Practices**



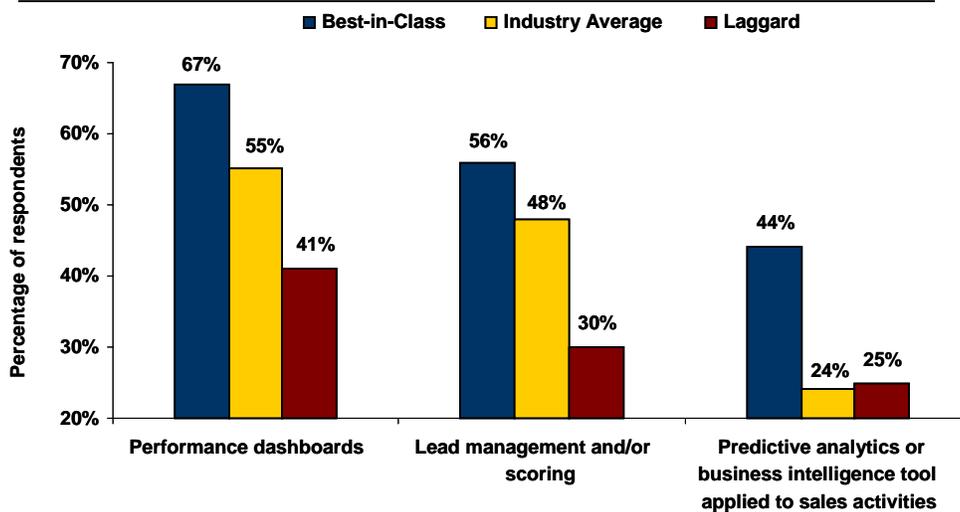
Source: Aberdeen Group, September 2011

- **Published and management-supported sales processes** enable companies to maintain an enterprise-wide commitment, especially from the top-down, which aids in understanding “what works and what doesn’t work” in a particular selling environment. While an authoritarian or rigid adherence to handling every prospect or customer in the same fashion is unnecessary, it is still highly valuable for companies to maintain the general integrity of proven processes. The fact that Best-in-Class companies adopt this approach more than twice as frequently as Laggards (Figure 2) speaks to the seller’s – and customer’s – value in doing so.
- **Linking specific sales process to customer value** is the fifth process-oriented practice deployed by more Best-in-Class firms than other. While the sales organization is ultimately responsible for driving maximum top-line revenue, companies interested in maintaining customer loyalty and long-term spend need to consider whether the messages, activities and milestones within their sales process are customer-driven or, as more frequently seen among Laggards, internally-motivated.

## Best-in-Class Enablers: Technologies That Work

Finally, let’s examine the technologies that the Best-in-Class deploy to support value-based selling at significantly higher levels than other firms (Figure 6.)

**Figure 6: Enabling Technologies by Best-in-Class**

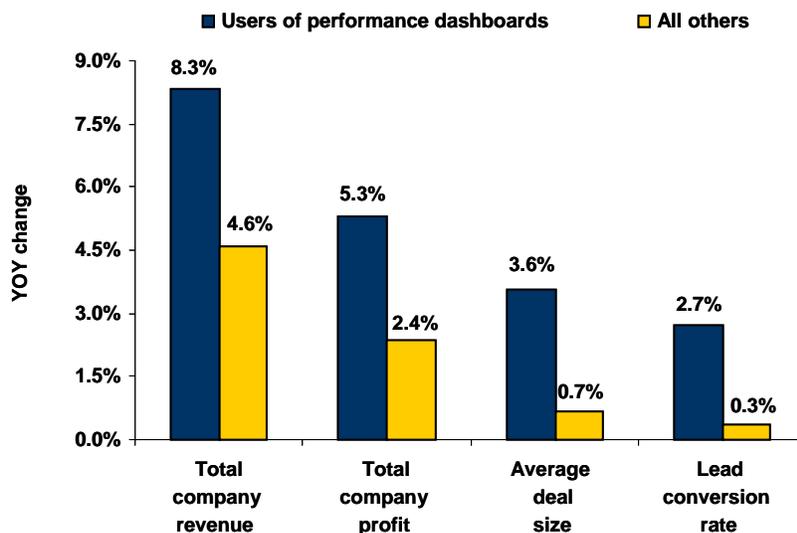


n = 214

Source: Aberdeen Group, September 2011

**Performance dashboards** allow end-users at all levels, from sales rep to manager to senior executive, to quickly ascertain how they or their team are performing against goal, and often what specific activities/results need to be achieved before the end of the selling cycle in order to meet or beat expectations. When we compare the performance of all companies in the current research indicating the use of such dashboards against those that don't deploy this technology enabler, the gaps in quota attainment and customer retention growth support the value of this vital tool (Figure 7).

**Figure 7: Performance Dashboards Make a Difference**



n = 214

Source: Aberdeen Group, September 2011

Aberdeen research conducted for [Lead Scoring and Prioritization: The Path to Higher Conversion](#) (May, 2008) showed that 85% of the Best-in-Class (ranked by revenue and lead conversion rate growth, and reduction in cost-per-lead) prioritized leads based on their propensity to purchase, compared to 66% of Industry Average and 35% of Laggard companies. This focus on a clearly defined process for **lead management and scoring** on an overall corporate basis is echoed by the value-based selling audience, among whom the top performers continue to understand the value of providing their front-line sellers with the most opportunities available in the "sweet spot."

Finally, by a two-times factor compared to other survey respondents (48% vs. 24%), Best-in-Class companies in [Sales Forecasting: How Top Performers Leverage the Past, Visualize the Present, and Improve Their Future Revenue](#) (July 2011), took the strategic action of replacing "gut" feelings with **predictive analytics** that take the guesswork and emotion out of determining which opportunities deserve the support of critical sales resource allocation. As any given selling period draws to a close, there are inevitably more sales rep-proclaimed cases of deals that are "right at the goal line" than are likely to close and, in reality, no one can blame commissioned professionals for clamoring loudly for last-minute executive support. Which request, however, should senior sales or C-level leadership personnel grant, by providing extra incentives such as price reductions, executive-level involvement, or more forgiving customer payment terms – all in the interest of sealing the deal? By using analytical processes, and technology solutions discussed below, these Best-in-Class organizations were more likely to hit their numbers by more intelligently allocating extraordinary resources to the most appropriate opportunities, and thus removing emotion from the calculus of sales forecasting.

## Case Study: Oakwood

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Consider the case of Oakwood, a temporary corporate housing company with 25,000 locations worldwide. According to Ken Revenaugh, VP of Sales Operations, the 50-year-old firm enjoyed a significantly high market share for a long stretch of time, growing into a 1700-employee industry leader by the early 2000's. With the advent of the Internet, however, Revenaugh explains, "virtually everything changed in our sector, with our corporate and relocation specialist buyers suddenly able to access inventory around the world, with a few mouse-clicks." At almost the same time, Oakwood's customer base reached a new level of purchasing maturity. Revenaugh notes, "Corporate procurement departments became far more sophisticated in making centralized, cost-effective and margin-reducing purchasing decisions for products such as ours."

The sales organization at Oakwood had long worked hard to maintain key customer relationships, though Revenaugh acknowledges the sustenance of these accounts was increasingly being carried out by very long-term, seasoned reps who were less likely to adapt to 21st-century business practices offering buyers more power and information. When he joined the firm in 2008, Oakwood hired a sales and marketing consultancy for an 18-

month program to define and implement a completely new and more effective model for structuring sales operations. Revenaugh said, “The first step was essentially a customer listening tour, where we learned surprising details about how our customers wanted to change their buying experiences.” They preferred to collaborate as partners, rather than engaging in more traditional, one-way communication about products, prices and contract terms.

Through customer segmentation and targeting efforts, Oakwood realized that different market segments and verticals were likely to value their offering in different ways and for different reasons. Their customers tended to perceive proposed offerings that were tailored to their specific needs as having greater value. Further, perceived value was greater when it was effectively communicated, proven, and continuously reinforced. For these reasons, Oakwood believed it was necessary to update their value proposition to better address the needs of a more complex customer and prospect base.

Once Oakwood understood this customer-driven paradigm, they set about working with the consultant to support a market analysis that, Revenaugh explains, “completely changed how our sales team went to market, with almost entirely different roles and skill sets. For example, we now use more inside representatives and fewer legacy account managers.” The company also refreshed all of its sales-related human capital components, including recruiting, on-boarding and skills development. “As a result,” he continues, “our sales force as a whole has better direction, attainable goals, more productivity and, especially, happier long-term customers.” In fact, while the sales organization has grown by 50% in terms of headcount, the overall cost-of-sale is lower. Revenaugh adds, “Ironically, we implemented our sales transformation process just as the recession was settling in, while our competitors were scaling back. The investment has clearly paid off, with three consecutive quarters of double-digit revenue growth, and a great increase in our market share.”

“Working with ZS Associates, we completely changed how our sales team went to market, with almost entirely different roles and skill sets.”

~ Ken Revenaugh, VP Sales Operations, Oakwood

## Summary

Attaining peak sales effectiveness requires a complex blend of process and technology that allow Best-in-Class firms to:

- Create and communicate long-term value for their customers
- Adapt to the customer’s needs and buying processes
- Define roles and responsibilities for all relevant functions across the organization
- Commit to measuring success and making adjustments if goals are not met
- Reinforce best practices through intensive and ongoing coaching of sales reps by sales managers

- Deploy technology enablers that provide actionable insight for the sales force
- Deploy a formal sales process to enhance the value of each customer interaction

By following the lead of the Best-in-Class, other companies can bring their own customer retention, profit margins and deal sizes in line with the top performers of their peer group.

For more information on this or other research topics, please visit [www.aberdeen.com](http://www.aberdeen.com).

Related Research	
<p><a href="#"><u>Leveraging the 360 Degree Customer View to Maximize Up-Sell and Cross-Sell Potential</u></a> (September 2011)</p> <p><a href="#"><u>Sales Training 2011: Uncovering How the Best-in-Class Sustain, Reinforce and Leverage Best Selling Practices</u></a> (October 2011)</p> <p><a href="#"><u>"Chance Favors the Prepared Mind" - Understanding the Science of Sales Intelligence</u></a> (July 2011)</p> <p><a href="#"><u>Sales Forecasting: How Top Performers Leverage the Past, Visualize the Present, and Improve Their Future Revenue</u></a> (July 2011)</p> <p><a href="#"><u>The Extended Sales Enterprise: Channeling Better Results</u></a> (March 2011)</p>	<p><a href="#"><u>Streamlining the Top of the Funnel: How Inside Sales Teams Source, Qualify and Close Business</u></a> (February 2011)</p> <p><a href="#"><u>Sales Mobility: Quotas Untethered</u></a> (November 2010)</p> <p><a href="#"><u>Sales and Marketing Alignment: Collaboration + Cooperation = Peak Performance</u></a> (September 2010)</p> <p><a href="#"><u>Sales Performance Management: Getting Everyone on the Same Page</u></a>; August, 2010</p> <p><a href="#"><u>Optimizing Lead-To-Win: Shrinking the Sales Cycle and Focusing Closers on Sealing More Deals</u></a>; May 2010</p>
<p>Author: Peter Ostrow, Research Director, Sales Effectiveness (<a href="mailto:peter.ostrow@aberdeen.com">peter.ostrow@aberdeen.com</a>)</p>	

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