KPMG Customer Advisory

Driving revenue growth in an uncertain economy

Sales spend optimization is a critical component in your success

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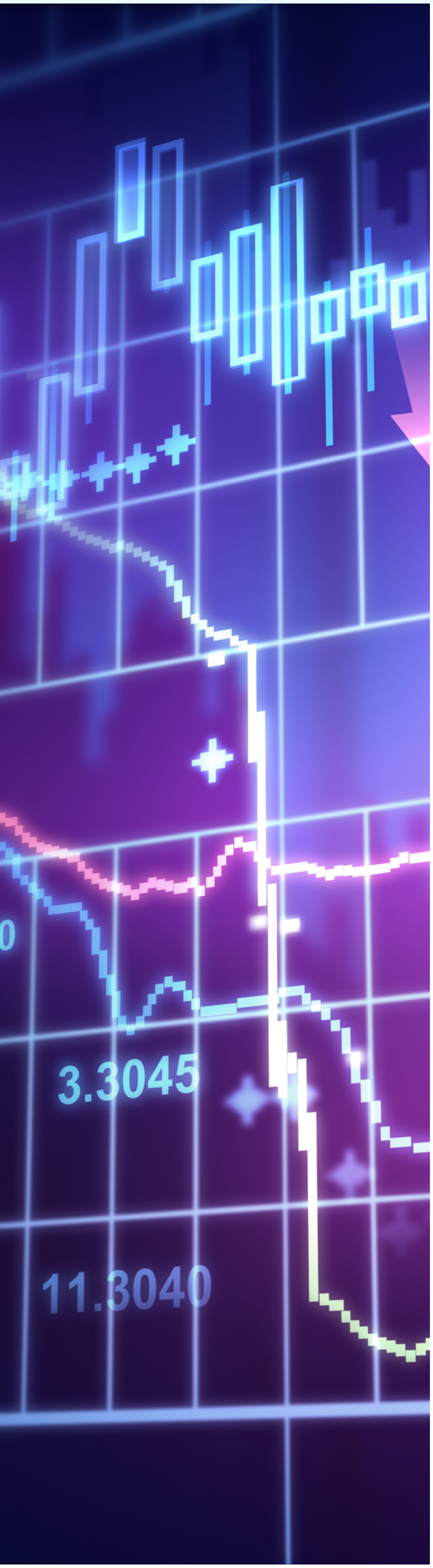

Weathering a strained economy

The challenges in today's business, political, and economic environments are unpredictable. Sales teams must adapt or risk losing ground to competitors.

Uncertainty looms around the 2024 US election, turbulence in the economy, and tightening business budgets. Diane Swonk, Chief Economist at KPMG, has stated that "What was a tailwind for growth in 2023—reduced policy uncertainty—could become a headwind in 2024 and 2025. Heightened policy uncertainty acts as a tax on the economy. Firms and households hunker down, save, and hold back on making big spending decisions."(KPMG, 2024[1])

What does this mean for sales teams?
They must become more agile in how they:

Deploy sellers

Engage customers and prospects

Manage performance

If businesses fail to address the current environment, their top and bottom lines will suffer. They could over-invest in low-value customers, miss cross-sell and upsell opportunities, or overpay for the wrong performance.

In this article, we'll explore these key issues and outline how some organizations are successfully mitigating them. We'll examine how to overcome sales capacity constraints, explore innovative ways to stretch limited sales budgets, and provide recommendations on how businesses can pivot their approach to meet the changing demands of consumers.

[1] KPMG. (February 2024). Economic Compass: Navigating the Path Ahead. Retrieved from https://kpmg.com/us/en/articles/2024/february-2024-economic-compass.html

How can you drive revenue performance?

Many sales organizations are adjusting their strategies in response to uncertain economic outlooks. In the face of ongoing budget constraints and limited sales capacity, sales leaders are being more thoughtful about where they place their bets. For example, some organizations are doubling down on customer loyalty and retention knowing that the cost of sales to retain and grow revenue from existing customers is much lower than growing with new logos. Others are shifting investments in some customer segments to lower cost-of-sales channels and reallocating savings toward higher-value customers.

These are just a few strategies that can help you optimize sales spend, and during times of uncertainty, spend optimization is at the heart of driving efficiency. It guides the amount of sales investment in various customer segments, aligns limited sales capacity across high- to low-touch channels, and directs incentive toward the most profitable outcomes.

KPMG believes organizations can drive more profitable growth with five key practices:

1 Optimize sales capacity

2 Approach discounting as an investment

3 Improve sales performance management

4 Improve customer and revenue retention programs

5 Reorient sales operations

Optimize sales capacity

For most sales organizations, the single largest spend is on direct sellers. When those resources are not efficiently deployed across various sales channels and customer segments sales teams experience missed opportunities, slower sales cycles, and increased costs. To be fair, getting it right is not easy, nor is it a one-time exercise.

However, there is an approach that can drive growth while maintaining or lowering costs. It requires a detailed understanding of the economics and behaviors of your customer segments. Knowing the size, growth rate, addressable market, and whitespace for each of your segments helps to differentiate the value each presents to your business. But economics are only part of the equation. Equally important is understanding how customers in each of the segments interact with your company and products. For example, which segments churn more frequently? Do customers buy one or many products? Do they require more—or less—customer support?

Segment economic and behavioral data provides actionable insights to help you make channel and coverage decisions. Once you have these insights, you can evaluate your sales performance in each segment to determine if you are over- or underinvesting across your channels and coverage.

Example

A service company that sold technology platforms into large, commercial, and small to mid-sized business (SMB) enterprise segments looked at its sales capacity. Without going into the nuances of each segment, a detailed analysis of its sales performance showed that they were overinvesting in SMB, which was churning at approximately 25 percent per year, and in commercial, where their coverage model was too heavy. At the same time, the enterprise segment, where there was more whitespace to cross-sell and upsell, was under-served from a coverage standpoint. Moving SMB customers to more self-serve channels with standard offers, and shifting sales capacity from commercial to enterprise customers, led to a double-digit increase in sales over an 18-month period.

Approach discounting as an investment

It's widely recognized that a one percent increase in price yields anywhere from 5 to 10 percent plus in operating margin. Yet, many companies, particularly those that are in or have recently experienced rapid growth, tend to be indiscriminate when it comes to discounting. Average discount levels across customer segments, regardless of customer value, are often similar. This behavior by the sales organization reflects a priority on revenue growth—whether that be through new customer acquisition, account penetration, or revenue retention. But, at what cost?

A better way to approach deal pricing, or discounting, is to recognize that the aggregate pool of discounts is actually an investment from which you should expect a return. Companies that do this well manage and measure the discounts allocated across customer segments, doling out more discounts (investment) toward higher-value customers.

An investment-led approach to discounting requires a value- and behavior-based customer segmentation model, effective pricing and discounting governance, streamlined and automated quoting processes, and properly aligned incentives for both sellers and sales management.

Example

A leading med-tech company in the diagnostic equipment, software, and solutions space was concerned about the impact of cumbersome configuration, pricing, and quoting (CPQ) processes and technology on its sales speed to market. A detailed opportunity-to-order seller assessment identified numerous opportunities to improve its CPQ value chain. It showed opportunities for product catalog simplification, process and governance modifications, and platform enhancements. On the other hand, a deep dive into discounting practices found a lack of differentiation across customer and deal types. With these two factors in mind, sales leadership determined that, while improving CPQ would improve seller and customer experience and accelerate deal velocity, it wouldn't change the underlying revenue economics. The company decided to rethink its pricing and discounting strategy in parallel with making improvements in CPQ.

Improve sales performance management

Companies spend billions of dollars on performance-based sales incentives. In good times, sales incentive plans seem to work like magic. There may be flaws, but they tend to go unnoticed during times of high growth. In periods of uncertainty, however, those same flaws can have a significant impact on overall performance against plan, and on the ROI of the investment in incentives. Improving the "bang for your buck" on incentives isn't simply about tweaking your plan designs. In addition to plan design, it's about realigning sales performance including territories and quotas.

Conducting a data-driven sales performance assessment can help to identify opportunities for improving territory design, quota-setting, and plan design. KPMG finds that it's best to approach these types of assessments in three "sprints:"

A rapid assessment of sales performance

A rapid assessment of sales performance across business-specific relevant dimensions such as products, sales roles, geographies and more. In this sprint, you should look for performance gaps, anomalies, or changes in both aggregate and specific sales roles. Most importantly, identify any areas where sales rep achievement (and payout) exceeded overall company performance. These areas represent situations where you may have overpaid for the performance achieved.

Explore the findings from Sprint 1 in detail

Explore the findings from Sprint 1 in detail. You'll not only want to examine how the plan design is performing, but also if there are any misalignments between territory assignments, quota levels, and incentive designs. If your company has already invested in sales performance management technology, you may be able to perform these analytics using that tool. If not, it will likely require bringing data from various sources together and crunching the numbers in spreadsheets.

Test a number of "what-if" analyses

Test a number of "what-if" analyses to project what could have happened under different scenarios around territories, quotas, and incentives. Not only will this provide insights into what could be adjusted going forward, but it can also provide insights into how sensitive your sales performance is to various levers. These simulations can be done much faster, and with greater reliability, in purpose-built sales performance management tools.

Example

A software-as-a-service company investigated whether its compensation plans accurately rewarded top performance. The first sprint focused on both qualitative and quantitative analysis of sales performance payouts. This revealed a hypothesis that the company was not adequately differentiating between high and average performers in terms of payouts. In the second sprint, a deeper investigation was conducted into the mechanics of the compensation plan and quota-setting practices. This sprint confirmed the hypothesis, revealing that the company was not properly compensating top performers and was overpaying average performers. In the third sprint, new compensation plan mechanics were proposed, along with Monte Carlo analysis, to compare the cost of implementing new compensation practices compared to the old ones. Also, a revised quota-setting method was introduced. The updated compensation mechanics and quota-setting methodology allowed the company to reward high performance with competitive compensation while reducing overall sales compensation costs.

Improve customer and revenue retention programs

The cost of sales for acquiring a new customer can be anywhere from five to 25 times the cost of increasing revenue with existing customers, depending on the industry and revenue model. This makes it crucial in times of uncertainty to have the right levels of investment across marketing, sales, service, and customer care. These investments are often made across various sales motions, including account expansion, cross-selling and upselling, renewals, or even customer win-back. For most companies, it's not a question of whether to put these motions in place, but rather measuring how effective they are and how much investment is required.

Across these account growth and revenue retention sales motions, we see leading companies investing in a set of common tools to increase effectiveness and ROI. These include:

- Customer insights to inform the sales play and its timing
- Better orchestration of activities across marketing, sales, service, and success metrics
- Process and role design to drive greater focus and accountability
- Alignment of incentives to drive desired behaviors

Example

A software company was concerned with revenue retention during its renewal process. A rapid assessment identified several significant areas for potential improvement to their current process, including basic analytics that would create an opportunity in their Customer Relationship Management (CRM) system tagged to the assigned sales rep 45 days prior to the renewal date. The rep was then responsible for pursuing and advancing the opportunity to close, working with the relevant individuals from the company's service and success teams. The redesigned process:

Opened the renewal opportunity six months prior to renewal date

Engaged marketing to run targeted account-based campaigns

Notified a renewal sales specialist who would either run the opportunity or work with the account team, depending on the customer

Provided the sales team with more insights on customer usage of their product

Offered recommendations on how to structure the renewal offer based on advanced analytics

Although this is a simplified description of the redesigned process, it demonstrates how customer insights, role design, orchestration of activities, and incentives are key to improving the effectiveness of targeted account growth and revenue retention programs.

Reorient sales operations

Although the amount can vary greatly by industry, company size, and go-to-market complexity, companies typically spend 10 to 20 percent of their overall sales budget on sales operations. But how much of that investment is going toward activities that drive revenue performance versus supporting routine transactional or administrative tasks associated with "running the business?"

In the Fourth Edition of the Salesforce "State of Sales Report," 85 percent of sales reps indicated that sales operations is becoming more strategic. The report notes increasing operations involvement in sales planning, sales performance management, and sales strategy coordination. In that same report, nearly half (48 percent) of sales ops organizations indicated that they are increasing their involvement in orchestrating activities across revenue-generating functions. Yet, for many sales organizations, a disproportionate amount of spending continues to focus on administrative sales activities such as bid management, quote generation, order management, incentive compensation management, and sales technology management.

To become a more strategic partner to the business, and to get more from the investment in sales operations, leading companies are freeing up sales operations from repetitive back-office activities. They are reinvesting in capabilities focused on informing and transforming, as opposed to running the business. Common areas of opportunity include simplifying the sales tech stack and rationalizing the processes and policies governing high workload areas, such as bid and order management. They are also automating routine tasks, and experimenting with GenAI to realize gains in productivity.

Example

A global insurance and services company sought to restructure sales operations across its businesses after a merger. Its goal was to drive greater efficiency and scalability to unlock dollars to invest in increasing adoption of its CRM platform and maturing customer analytics capabilities. After taking inventory of all its sales operations activities, many of which were fragmented and siloed across businesses and geographies, the company put a new global sales operations operating model in place. It consolidated select activities into a Center of Excellence model, increased governance over other regional or business-specific activities, and created greater accountability for activities that would not be performed or governed globally. The company then invested in capabilities to proactively provide data and insights to business and sales leaders aimed at increasing revenue performance.

Emerging stronger by prioritizing efficiency

To thrive during periods of economic uncertainty, sales organizations must prioritize revenue performance and efficiency. This is done by identifying and acting on opportunities that improve the ROI on their sales spend. Elevating revenue performance can be achieved with a data-driven approach to investing in sales capacity, discounts, and performance-based incentives based on customer economics and behaviors. Revenue efficiency should be driven through sales tech rationalization, process simplification, automation, and AI. By using these techniques, you can position your sales team to weather the turbulence in today's economy and prepare for profitable growth.

The KPMG Sales Transformation team can help you unlock the full revenue potential of your sales organization. Our experienced professionals specialize in providing insights gained from working with many sales organizations to define winning strategies, simplify processes and seller experiences, modernize sales operations, and drive measurable value from technology investments.

Take the first step toward achieving your sales goals by contacting our team today.

KPMG Customer Advisory

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About KPMG Customer Advisory

KPMG Customer Advisory helps some of the world's leading marketing, sales, and service professionals make the right investments that deliver meaningful, sustained growth. At every step, we deliver insights that help you make decisions with precision and confidence. Together, we'll turn opportunities into tangible, transformative results. Let's start the conversation.

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