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Value Creating Solutions in Private Equity

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Caveat Venditor

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Introduction

Selling is integral to corporate existence, much less growth. However, selling suffers from an image crisis—largely of its own making. Especially now, professional selling is an opportunity for market differentiation. One of my more recent reads on the subject is a Daniel Pink installment, *To Sell Is Human*. Many of Pink's points punctuate this article. First, the descriptors associated with the sales profession follow the 80-20 principle: 80 percent are negative. Part of this historical phenomenon is rooted in the absence of trust. Asymmetrical information fueled this fire. Vendors once controlled nearly all pertinent information. Consequently, caveat emptor, i.e., let the buyer beware, was the norm.

The displacement of asymmetrical commerce with symmetrical dynamics has flipped the customers' caveat emptor caution to the vendors' caveat venditor necessity.

Thanks to the information revolution, purchasers—both commercial and consumer—may not only Google themselves silly getting educated, i.e., symmetrical information, but they may get even in response to a bad experience. On the latter point, the restaurant principle of telling a few intimates that the service was lousy may easily mushroom toward telling the worldwide web on a blog that the product and or customer service is a dud. This new paradigm is caveat venditor, i.e., the seller must beware the consequences of unsatisfied customers.

Never before has it been more necessary and prudent to approach sales differently. Yet, one of the oddities of the sales profession is how little effort is invested in the strategies and tactics of effective selling. Indeed, the overwhelming majority of middle market sales people are untrained in professional selling techniques. Sales training should not be confused with product training. It does not matter how much sales

professionals know about their product if the product offers no solution to the customers' needs. In fact, more harm than benefit may result from this scenario.

The Recipe

Jeffrey Gitomer explains in his *Little Red Book of Selling* that the first thing sales professionals must comprehend is that our customers detest being sold. Rather, they want their problem solved. When they are convinced that they see a solution, they want to buy. Stated another way, customers will buy value. What is value? Value is perceived benefit beyond price. This is the surest strategy for avoiding commoditization. When competing products are perceived at par, price is the primary purchasing decision. The predictable casualty of this scenario is margins.

How do sales professionals learn to recognize value-providing opportunities for customers? The short answer is listening and observing. Sales professionals should reflect on the implied message in the Almighty's design of the human head. The ratio of ears to mouth—and eyes to mouth—are no coincidence. Collectively, this is a 4:1 ratio.

The contemporary sales recipe embraces Socratic Method to solve customer problems.

When empathetic dialogue describes the prospect engagement, real information is more likely to be exchanged. That is when the sales professional learns whether his product addresses the prospect's needs. If the solution resides within the sales

professional's toolbox, the proposal for solution is akin to the kanban pull in a Lean organization, i.e., the customer's need pulls the order. Essentially, this process mirrors guidance in the Hippocratic Oath and Socratic Method. First, do no harm, and second, ask questions until the need is clearly understood. Only then should a solution be proffered.

What if the prospect does not need what the sales person has? First, the customer need might be categorically compatible with the sales person's business model, but absent from the existing product line. This is an opportunity signal to the product development process for filling a product line gap. Most middle market companies regard marketing and sales as synonyms. However, strategic marketing addresses the five Ps—product, price, placement, promotion, and packaging—within the most efficient marketing channels so that the tactical sales effort may be more effective.

Second, sometimes there is not, nor will there ever be, a fit. This scenario relates to the discipline of triage. The sales professional should know that times at bat correlate to times on base. Even Hall of Famers are out more than safe. That's why pipeline management is so important. There are natural conversion rates for a company within an industry from suspect, to prospect, to customer, to repeat customer. Implied is an argument for metrics and analysis.

Even with qualified prospects whose needs fit the sales person's product line, there may be some obstacle to the first transaction. The temptation may be to push for closure. Generally, this is not a good idea because any trust built to that point may become collateral damage. The Glengarry Glen Ross movie depicted ruthless sharks. These sales people were ABC agents: "always be closing." Indeed, this is the image that the sales professional must shed.

Savvy sales professionals do not forfeit trust-building opportunities. Rather, consummate sales professionals continue to probe for problems to solve. Indeed, she might discover that the prospect's most pressing need is unrelated to her product line. If

*Trust is the foundation for
all relationship-building.*

her network is sufficient, she may be able to make introductions to other vendors to solve the more urgent problem. If the sales professional chooses to be a solution provider instead of a peddler, she may attain the preferred status of trusted advisor. This status has a high probability of eventual reward. The only question is timing. Why do sales people push their luck for near-term gratification instead of a long-term relationship? One of the answers may be that they have not developed enough qualified prospects within their pipeline.

Behavioral profiles are a hot topic. Traditional sales models promote the extroverted, gregarious, type-A personality. Interestingly, there is no statistical validation that extroverts make the best sales professionals. Indeed, the evidence leans in favor of ambiverts, i.e., professionals with sufficient emotional intelligence, or E.Q., to adjust relative to the prospect and situation. Even if leaders cannot shed the bias for type-A sales professionals, they should satisfy themselves that the new hire candidate knows when to throttle back.

Some of the most effective sales transactions are rooted in aligning the customer's decision makers with the would be vendor's problem-solvers. This doubles as a customer service demonstration. Indeed, Daniel Pink points out that typically 40 percent of a company's non-sales employee time is invested in some type of sales support. For example, a highly technical product might benefit more from placing the selling organization's design engineer in front of the prospect's manufacturing supervisor to observe how the product behaves in production. If the supervisor is persuaded that the design engineer understands how tight part specification tolerance improves the production process, that accomplishment may be sufficient to carry the day with the procurement leader. Instead of the Happy Bunny perversion of agency theory, i.e., "It's all about me," the sales professional enjoys success by a servant leadership approach.

Being a solution provider to the customer requires placing the customer's needs first to solve the problem. Not only does this brand the sales professional, but it also brands the company which the sales professional represents. The forefront of conscious

thought for the sales professional should be that a reputation may take a lifetime to build, but a minute to destroy. This is the essence of caveat venditor.

Summary

Effective selling is personified by conversations whose tenor is about problem solving—not pricing. Of course, ethical sales professionals do not gouge when they perceive that the prospect will buy the solution irrespective of price. Trust is the most valuable of all currencies. How does a sales professional know when she has earned trust with her prospect? Generally, it comes in the form of how openly the prospect communicates with the sales professional. The spectrum of possible interactions ranges from business to personal. “What do you think about . . . ?” is a clue.

*Hustle still
matters! Today
we call it passion.*

Another interesting manifestation of trust is the absence of contracts. Trust transcends contracts. Note: Earned trust from actions is entirely different from “trust me.” What idiot works without a contract? Me for one. The overwhelming majority of my relationships evolve into a memorialized discussion in an e-mail. This is where values enter the picture. If either party is unethical, a contract is merely a litigation exhibit.

Whatever sales methodology is employed, hustle is complementary to trust—and an admirable behavioral trait. Hustle need not be adulterated by overzealousness. Rather, hustle demonstrates a hunger for wanting to solve the customer problem better and quicker than competitors. I learned from the best salesman in the world, J. Ralph Stump. Whereas Woody Allen said 90 percent of winning is just showing up, Ralph taught me that the other 10 percent was rooted in accessibility and promptness, including being the first on the scene and the last to call it a day. Some years later, Jack Welch described the same hustle trait as passion. Thanks, Ralph, for mentoring me. I am paying forward your wisdom to the next generation.

Middle Market Methods™ offers a toolbox of growth and efficiency solutions for value creation to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother ride during the investment hold period, resulting in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.