FOUNDATIONAL ELEMENTS OF RECURRING REVENUE SALES PLANS

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INTRODUCTION

NOTE: Value-added resellers (VARS), IT Solution Providers (ITSPs) and Managed Service Providers (MSPs) throughout this paper will be referred to as "organizations."

The right sales plan plays a vital role in achieving sustainable and growing revenue for any business. As an organization transitions to a recurring revenue approach, the right sales compensation program becomes even more crucial. Without a solid cloud recurring revenue sales plan, it will be hard to keep your sales professionals focused on creating and producing sustainable and consistent results over time. This paper outlines the critical information you need to accomplish this goal, including addressing the:

· Struggles organizations face when moving from a transactional-based selling model to that of a recurring revenue-centric or blended business model

· Problems associated with creating and applying a sales plan to drive cloud and recurring revenue services opportunities

· Role sales plans play in the success or failure of a transition

· Common pitfalls to avoid that may be holding your organization back

The information and views outlined here are the result of two years of analyzing hundreds of sales plans, identifying the underlying issues that, if avoided, can lead to functional, recurring services sales plans.

CONSIDERATIONS

Implementing a recurring revenue sales compensation plan has the same core dependencies as any sales plan including:

- Acknowledging that sales planning does not sit as a standalone activity

- Ensuring that the plan is integrated into the business framework

- Supporting the organization's revenue objectives

- Creating and adding new products and solutions that align with the sales behavior you want to drive

- Avoiding initiatives that distract sales professionals

It is important to recognize that transforming to a cloud-based recurring business model does not need to be a seismic shift. With the proper attitude, approach and planning, this transition can be a natural process.

There are three components of your business that must be assessed before any change occurs: business model, sales model, and how products and solutions are packaged and priced. Let's take a look at how each will impact the development of a recurring revenue sales plan.

Business Model

Shifting your business to a recurring revenue model will put pressure on your revenue, gross profit and cash flow. You must develop your business plan to ensure that cloud and recurring revenue are vital elements of your strategic priorities. To accomplish this goal, it is important that you have the answers to the following question:

Will your strategy be focused on deriving recurring revenue from your existing customer base or will you secure net-new customers to ensure you don't inadvertently corrupt your core pipeline?

Adopting a strategy that focuses on net-new customers is preferred; however, in the end it is more important that you are committed and serious about adding a significant recurring revenue component to your business mix verses which strategic approach you adopt.

Sales Model

With your business model set and aligned, you need to assess your sales model. Many times an organization's existing sales model becomes an impediment to growing and sustaining cloud and recurring revenue services sales.

Although there are many reasons why you need to alter your sales model, a sales organization consistently focused on generating transactional revenue will not change their behavior and approach in a way that will allow recurring revenue sales to flourish.

Sales management, sales professionals and sales support will not be interested in anything that distracts them from achieving their income objectives. Our analysis confirms — do not distract your performers; keep them focused on driving legacy transaction-based revenue.

The most important considerations that need to be factored into your approach include:

Our analysis confirms — do not distract your performers; keep them focused on driving legacy transaction-based revenue.

01

Accepting that a dedicated team focused on recurring revenue will significantly outperform a team that is responsible for selling all offerings

02

Acknowledging that having two distinct sales teams will ultimately take far less management cycles than trying to drive sales from a singular group that are content with their current selling approach

03

Understanding that the regimen required to consistently grow recurring revenue is dramatically different than that of a transactional-focused sales team

For more information concerning sales model approaches, please refer to the LinkedIn post entitled "Your Sales Model Needs to Progress".

> **Although many organizations generally have gross margin objectives identified, they tend to deviate from them when crafting cloud and recurring revenue services solutions.**

> **Organizations must create solution sets that include their core services to ensure the desired blended gross margin is achieved.**

Packaging and Pricing

If you do not create a cloud services packaging and pricing approach and methodology that is meaningful and impactful, you will not derive the blended gross margins you require to support your business model and plan.

Packaging and pricing for solutions emanate from your value proposition, market needs and your expertise in profitably meeting these needs.

Our findings show that although many organizations generally have gross margin objectives identified, they tend to deviate from them when crafting cloud and recurring revenue services solutions.

The underlying factor that can typically cause organizations to deviate from their blended gross margin targets is entering the space in an opportunistic, rather than a strategic manner. When we say "opportunistic" we mean using a sales opportunity to resell an offering without looking to create a true sustainable solution and repeating the resale as a reflex.

As such, many times the pricing model is approached in an ad-hoc manner without proper analysis or financial modeling.

It is imperative that your organization create solutions that are priced and packaged to ensure you achieve your financial goals. The underlying cloud component (i.e. cloud storage) is only a piece of your solution, not the solution. Organizations must create solution sets that include their core services (architecture, design, implementation, migration, support and operations) to ensure the desired blended gross margin is achieved.

CHALLENGES

The reasons why so many cloud and recurring revenue service sales plans fail are diverse in nature. Our research reveals six predominant problems to avoid.

01 Adding "cloud quota" to an existing sales plan

02 Only slightly modifying a transaction-centric sales plan

03 Not changing or altering your existing sales model

04 Not aligning the sales plan with your organization's business goals

05 Creating a sales plan that does not generate sufficient income

06 Allowing sales professionals to achieve income objectives without delivering cloud and recurring revenue service numbers

Avoiding these pitfalls dramatically improves results and provides a roadmap to follow in crafting a successful sales plan that will focus the organization on generating sustainable and consistent recurring revenue results.

SALES PLAN TENETS

There are several tenets that can strengthen your sales plan, including creating a program that:

- Supports and drives the business objectives

- Fits into and/or complements the organization's current business model

- Prevents the business from becoming a bank

- Drives the sales professional to build a book of business

- Incents the sales professional to stay client engaged

As always, it is important to remember that any sales plan should be straight forward, easy to understand and, most importantly, easy to track and manage.
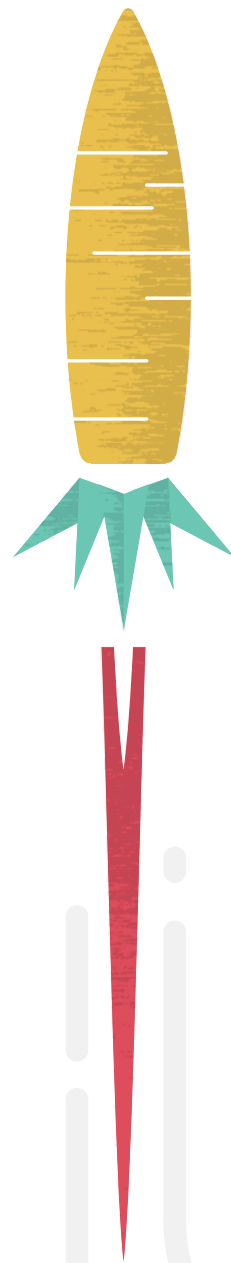
QUESTIONS TO ASK

Once you've outlined your business objectives and are ready to align the sales plan with a recurring revenue business model, you need to answer some important questions prior to finalizing your sales plan.

Will you pay your sales professionals on the lifetime value of the contract (LTV) or just Year 1?

Who manages and ensures the renewal is captured?

Will your plan include a commission kicker for upfront payments?

Do you have an automated system to track and manage sales compensation (transactional and recurring)?

Do you have the capability to pay sales professionals for monthly recurring revenue (MRR) increases in base contract value?

Can you provide accurate and transparent output so that you don't spend unproductive cycles providing or proving your sales commission calculations are correct?

Can your sales professionals obtain their on-target earnings (OTE) even if they don't produce or meet their recurring revenue services goal?

A great recurring revenue sales plan focuses the sales professional on consistently generating recurring revenue on a month-over-month basis.

APPROACH

As outlined in the previous section, the fundamental issue with most recurring revenue sales plans is that they are not totally focused on driving recurring revenue — the sales professional can generate their earnings, while not delivering on their recurring revenue commitment.

In order to produce solid month–over–month gains and build a truly sustainable recurring revenue services business, the approaches below are the most effective:

01

Pay entire Year 1 commission upfront as as though it were a transaction

02

Pay Month 1 revenue to sales professional as total commission

03

Pay a percentage of the deal (example = 25%) upfront and then the remainder monthly over the term of the contract

04

Pay commission on a monthly basis for the term of the contract*

Organizations willing to provide the sales professional a gradual ramp or bridge period, typically no less than six months, are today's winners.

This ensures the sales professional can adequately build a pipeline, convert opportunities and maintain their OTE once the ramp is concluded.

This approach, if consistently applied, is the most effective in terms of both month–over–month growth and long–term profitability.

* This is the predominant methodology that we've seen deliver the most consistent results.

CONCLUSION

The data, information and trends paint a very compelling picture. Following these principles will yield solid and steady results over time.

Provide a bridge that ensures the sales professional has at least a six month period to build an acceptable recurring revenue pipeline and runrate to ensure they hit their OTE threshold.
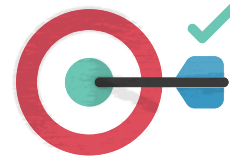
Once the sales professional has completed his/her ramp and is on target, commission should be paid monthly.
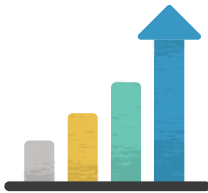
Pay your sales professional on the lifetime value (LTV) of the contract. You need him/her engaged and committed to growing the customer's monthly contract value. If not, ensure you create a team tasked with retaining and growing the customer.
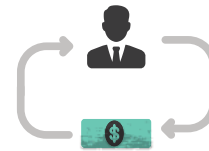
The tenets (page 10) and questions to ask (page 11) should be considered and applied to ensure the organization's recurring revenue service sales plan is fully vetted and aligns with a best-in-class approach.

Paying a sales professional over the course of multiple years on a contract will yield better results and incent the sales professional to grow his/her book of business over time. A best practice is to ratchet down the percentage of payout over time.

There is no perfect or one-size-fits-all approach, rather there is a framework, critical thinking, some hard work and commitment toward creating an effective sales plan. Utilizing a multi-pronged strategy that is executed with passion and conviction ensures you create a positive and pragmatic shift as you transform to a cloud and recurring revenue services business.

About the Author: George Mellor is the Founder and CEO of KloudReadiness, LLC. Prior to founding KloudReadiness, George cofounded VARcompliance, LLC (acquired by Netformx). George has spent his career working within the value-added reseller and solution provider marketplace driving innovative approaches that positively affected the growth and profitability of several businesses. He's held senior leadership roles at several solution providers including CBE Technologies, Netivity Solutions (now NWN Corporation) and Charter Systems. See more at: http://www.kloudreadiness.com/#!leadership-team/crao.

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