

Navigating the Sales Funnel: Understanding How Customers Buy

Ask sales managers how satisfied they are with their sales representatives' ability to forecast sales, and you're likely to get the same reply from all of them: not very satisfied. Forecasting is one of the most vexing problems sales organizations face. Companies need reliable estimates of new business in order to hit their financial targets and manage delivery resources. Salespeople need to know how likely they are to meet their sales goals, and how they should spend their time to maximize their performance. But predicting sales is easier said than done.

The purpose of this research project was to learn more about the buying process, from the vantage point of the customer, and to identify factors that increase or decrease the probability of a purchase. The results of the study can help salespeople and managers to better predict and influence the customer's buying decisions by putting themselves in the customer's shoes, rather than focusing only on their own sales processes.

Methodology

Forum conducted electronic surveys of 73 salespeople and 138 customers in June of 2005. The customers were responsible for making business-to-business purchases for large North American companies. Eighty (80) percent of the customer companies exceeded \$500 million in annual sales. The customer companies' industries included business and professional services, energy, financial services, government, health-care, high-tech, hospitality, pharmaceuticals, and utilities.

The customer respondents represented a range of corporate units (especially purchasing departments, and information systems and operations groups) and functions such as customer service, engineering, marketing, and sales. The products and services they purchased included computer hardware and software, consulting services, diagnostic equipment, hotel space, and even helicopters. The purchases, while diverse, all were products of a common buying process that involved multiple stakeholders and direct contact with a salesperson; none were Internet or catalogue purchases.

The salespeople we surveyed typically called on corporate managers, line managers, and executives, as well as purchasing agents. The median value of their sales, at \$81,000, was lower than the median value of our customer sample's typical purchase (\$184,000). While the median value of the sales differed for our two respondent groups, we expect that the dynamics of the sales process were similar for both groups.

Why Are Forecasts Inaccurate?

When we asked salespeople why their forecasts are often wrong, more than 80 percent of them cited factors largely beyond their control, such as changes in the customer's needs, budget, or decision-making process (40 percent); changes in the environment, market, and competition (31 percent); and their own company's actions, such as setting targets too high or failing to stock sufficient inventory (10 percent). Only 19 percent of the salespeople cited their own behavior (failing to acquire sufficient information about the account or failing to engage in sufficient sales activity, for example) as a factor.

Four out of five salespeople said their forecasts become inaccurate because of factors beyond their control.

How can salespeople increase their accuracy in predicting sales in an uncertain and constantly changing business environment? The best starting place is understanding more clearly how customers view the buying process and what factors influence their buying decisions.

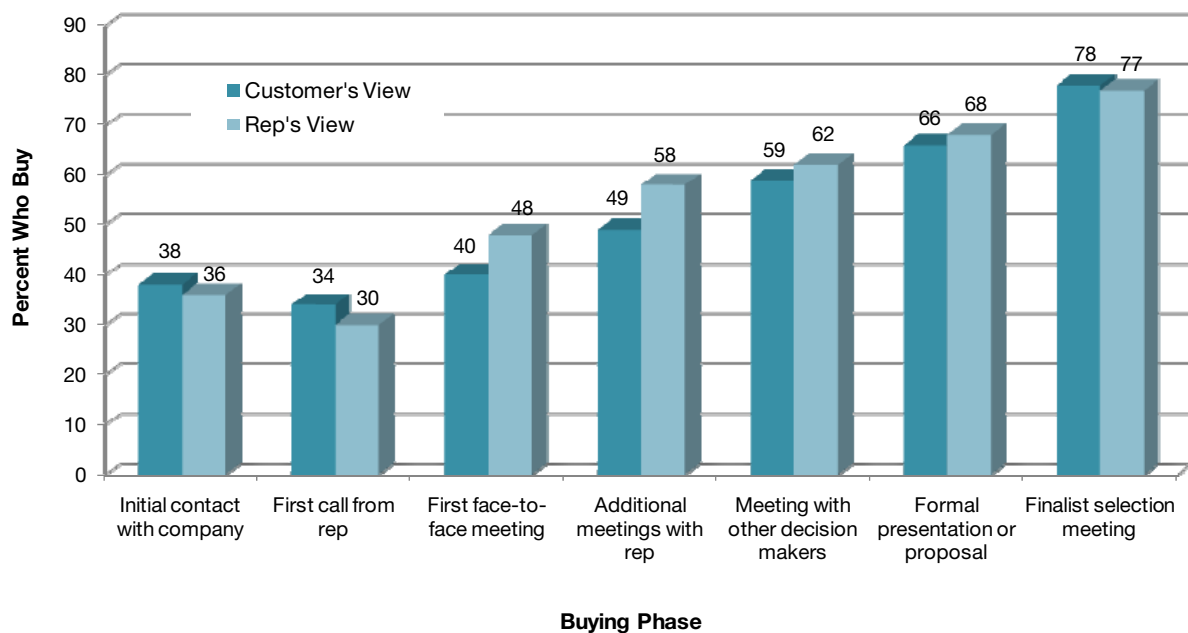
How Likely Are Customers to Buy?

We asked customers and salespeople to rate the probability of a buying decision at each point in the sales process, including initial contact (while the customer is obtaining information about the vendor, for example); first contact with the sales rep (on a phone call, for example); first face-to-face meeting with the rep; additional meetings with the rep; the formal presentation or proposal; and, finally, the vendor selection meeting.

A remarkable degree of alignment between customers and salespeople appeared in the way they viewed each point in the sales process. Not surprisingly, a buying decision was much more likely in the latter stages of the sales process than in the early stages; customers estimated their likelihood of buying at the proposal stage at about twice as great as at first contact (66 percent versus 34 percent).

We noted with interest, though, that the likelihood of a sale decreased when customers received their first call from a rep. A 38 percent chance of buying at the point of initial contact (visiting a website or reading a brochure, for example) dropped to 34 percent after the first call from the rep. We speculate that the reason is the first call from the rep introduces uncertainty; the customer loses the sense of control implicit in navigating a website, for example, and now must interact with a live human being—which may be positive or negative. Cold calls are often uncomfortable for seller and buyer alike. The messages for salespeople are: Be especially sensitive to the customer’s natural wariness in the first call; begin establishing a relationship; don’t expect a quick sale.

Exhibit 1: Customer’s Likelihood of Making a Buying Decision



Sales reps and customers rated each successive step, from first face-to-face meeting onward, as increasing the likelihood of a buying decision, although sales reps tended to be more optimistic than customers about the effectiveness of sales calls in boosting the chance of a sale. Salespeople rated the probability of a sale—even at the first meeting—at 48 percent (about 50:50).

The good news is that customers tended to agree on the relatively strong likelihood (40 percent) of their buying at the first meeting. (They didn't consider the likelihood 50:50 until subsequent meetings.) Apparently salespeople's eagerness to close a sale makes them think that they are farther along in the customer's buying process than they really are.

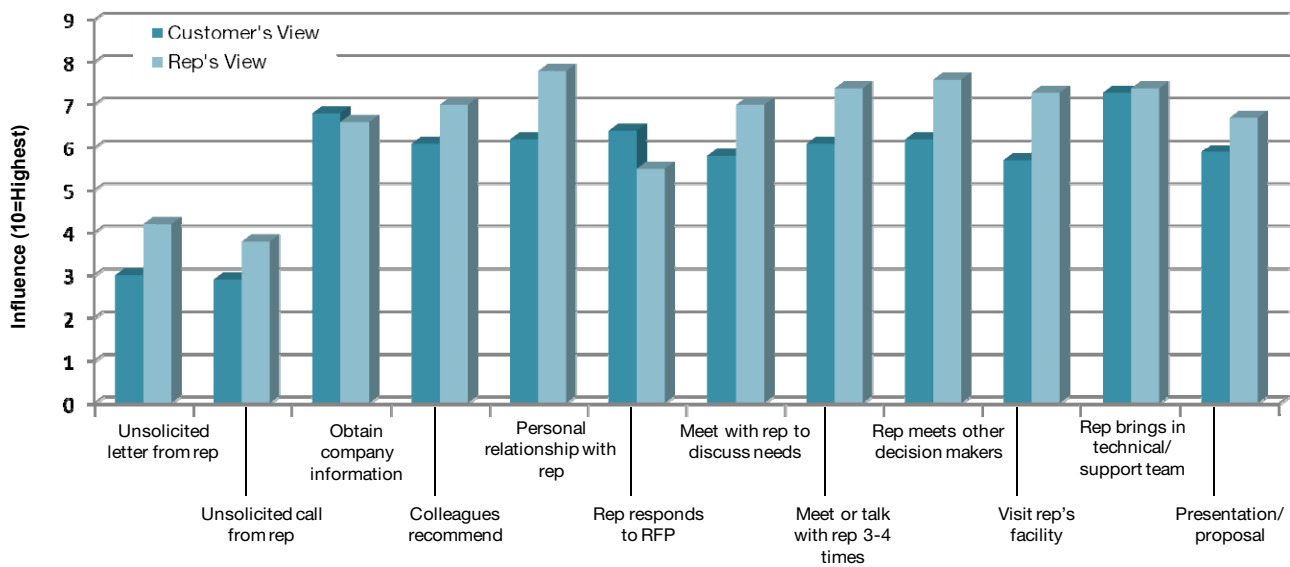
The bad news is that these ratings represent customers' and sales reps' perceptions of the likelihood of making buying decisions; they don't reflect actual behavior. It would be nice to think that salespeople might close one of every two opportunities; the reality is the hit rate is much lower. Even if a customer is enthusiastic about a solution and eager to buy, many other factors affect whether and when a sale takes place. Most corporate purchases involve multiple stakeholders (senior management, purchasing departments, technical experts, legal staff, and so on), all of whom must align before the company can make a commitment to purchase.

We also noted that, even at the end of the sales process, when a vendor is selected, customers and salespeople rated the likelihood of a sale at less than 80 percent. The implication for salespeople is that they must never be complacent—even when a sale appears certain—since the customer's situation and needs often shift quickly.

What Actions Facilitate Sales?

We studied 12 actions that facilitate sales to determine the degree to which each one affected the customer's likelihood of deciding to buy. Customers considered 10 of the 12 as influential (higher than 5 on a 10-point scale): especially the rep bringing in technical and support staff; the rep responding to an RFP; and the rep obtaining information about their company and its products or services. On the other hand, customers viewed unsolicited calls or letters as ineffective (lower than 3 on a 10-point scale).

Exhibit 2: Activities That Facilitate Sales



Sales reps' ratings followed the same general pattern, although they tended to view each individual item as more influential than did customers. The greatest gaps between customers' and salespeople's perceptions appeared in the value of building a personal relationship, the rep inviting the customer to tour the rep's facility, and the rep meeting with other decision makers.

One conclusion that might be drawn from the customer survey is that customers value activities in which they remain in control (collecting information, reviewing RFPs, gaining confidence in the solution by meeting with technical or support reps other than the salesperson, for example). They view sales calls and follow-up meetings as influential in the decision-making process, but they do not put the same importance on them as did salespeople. The implication for salespeople is that they must find ways to meet the customers' need for information and confidence in their (the salespeople's) company and its solutions, bringing in a technical and support team, for example, instead of relying too heavily on one-to-one sales calls.

These findings are consistent with previous Forum's research¹ that found that customers differ in the types of value they expect from salespeople; some value personal relationships, some value information, some value a combination of relationships and information, and some value neither. A common error salespeople make is assuming that all customers are relationship-oriented, when in reality many are more highly motivated by other factors.

What Are the Do's and Don'ts for Salespeople?

We asked customers to identify what salespeople do that helps or hinders their buying process. Specifically, we asked what salespeople fail to do that would facilitate the sale, were they to do it. More than 80 percent of the responses mentioned four practices:

Exhibit 3: What Salespeople Should Do

Practice	Sample Quotes
Listen and respond to my needs (25%)	<i>Don't sell me your product. Solve my problem.</i>
Present solutions honestly (23%)	<i>Present your product in a simple manner. Don't try to dazzle me or make your product look better by putting down the competition.</i>
Follow up reliably (23%)	<i>Stay in contact; return phone calls and e-mails.</i>
Respect our buying process (10%)	<i>Get to know my company as well as you know your product.</i>

The theme that emerges from these responses is that customers value salespeople who focus on customers' needs and who act in a way that builds trust and credibility. This involves the salesperson listening carefully to the customer's problem and making an honest and direct link between the proposed solution and its benefits to the customer; and then following up with the customer and other stakeholders to ensure that commitments are kept.

Experienced and successful salespeople will not be surprised by these findings. We asked our salespeople to give advice to newer salespeople (see Exhibit 4); more than 70 percent of their responses related to listening (21 percent), persistence in following up (20 percent), honesty (18 percent), and demonstrating value (12 percent). In addition, the salespeople commented on the importance of building multiple relationships (14 percent).

Exhibit 4: Advice from Salespeople

Category	Sample Quotes
Understanding/Listening (21%)	<i>Listen to your customers and find their needs. Proceed only if you feel you can match them.</i>
Persistence/Regular contact (20%)	<i>Be persistent without being pushy.</i>
Honesty/Caring (18%)	<i>Be a straight shooter.</i>
Building multiple relationships (14%)	<i>Relationships and references mean everything.</i>
Demonstrating value (12%)	<i>Understand the difference between features and benefits in order to effectively demonstrate your product's value.</i>

Based on the customer survey, we would add to this advice by noting that “persistence” is different than continuously pursuing customers who have no interest in buying; and “building multiple relationships” must be done in a way that respects the customer’s buying process. (Customers resent salespeople who go over their head or who contact end users without approval.)

Mistakes Salespeople Make

While few salespeople would disagree with the importance assigned to the practices that appear in Exhibits 3 and 4, in reality customers do not perceive the practices as consistently applied. Salespeople have a clear opportunity to differentiate themselves by heeding the advice of customers and avoiding making common mistakes. We asked about the biggest mistakes salespeople make, on the initial sales call and at any point in the sales process. More than 80 percent of the responses involved six mistakes, shown in Exhibit 5.

These responses are a mirror image of those depicted in Exhibit 3: What Salespeople Should Do; they underscore the importance of focusing on the customer’s needs, respecting the customer and his or her organizational processes, and building trust by following through on commitments.

Exhibit 5: Biggest Mistakes Salespeople Make (According to Customers)

Mistake	Initial Contact	Throughout the Sales Process	Sample Quotes
Don't follow our buying process	15%	26%	<i>Not understanding who the decision makers are</i>
Don't listen	18%	18%	<i>Knowing what he has to sell and not relating that effectively to what I need to buy</i>
Don't follow up		17%	<i>Not focusing on after-sale service</i>
Act pushy/aggressive/disrespectful	30%	12%	<i>Fast-talking or fast-selling; pushing too hard for a sale</i>
Don't explain solutions adequately	4%	10%	<i>Inability to answer all questions</i>
Call too often	17%		<i>They harass me!</i>

The Warning Signs

We asked salespeople how they know when the customer's buying process goes off track. The responses of more than 80 percent of them related to these five red flags:

Exhibit 6: Red Flags

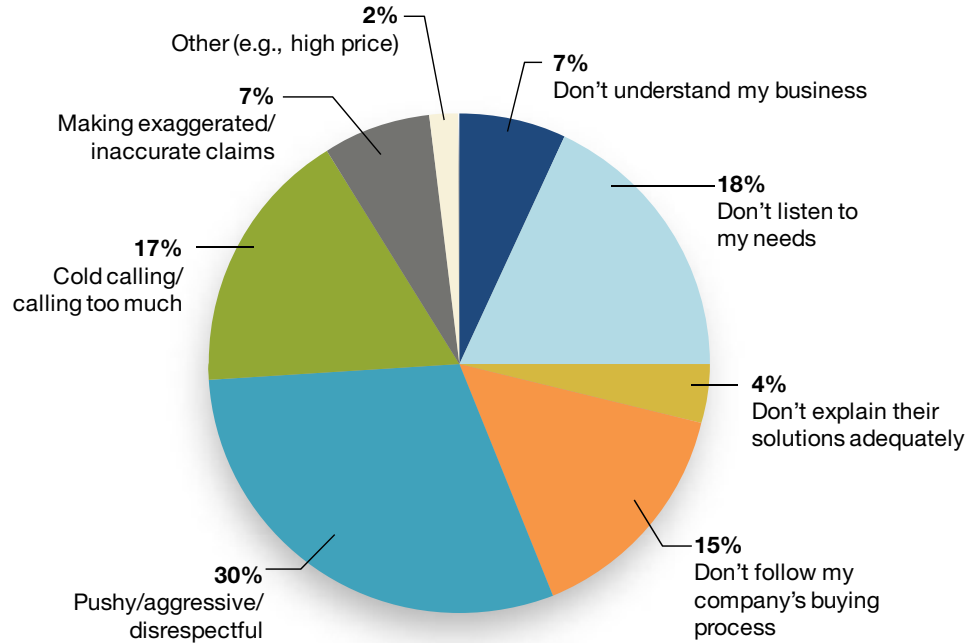
Red Flag	Example
Customer becomes disengaged (32%)	<i>Customer stops returning your calls.</i>
Competitive threats (14%)	<i>You find a competitor's literature in the customer's office.</i>
Unclear fit between solution and need (13%)	<i>It seems too good to be true.</i>
Price shopping (12%)	<i>The customer only wants to talk price, not value.</i>
Complex or disorganized buying process (10%)	<i>Unexpected new roadblocks appear, when everything was clear before.</i>

Conclusion

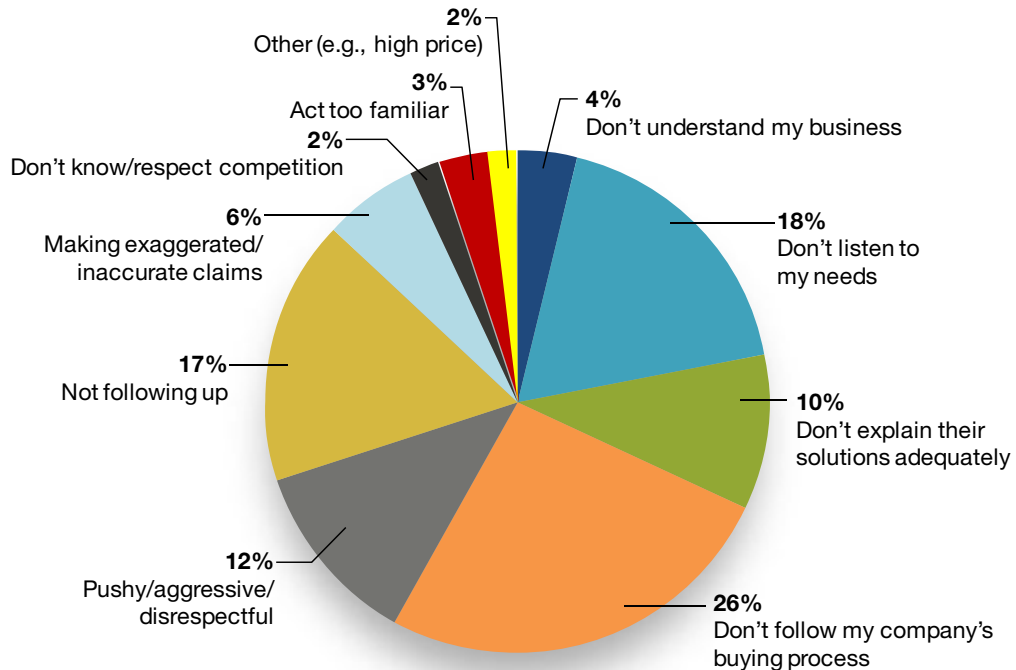
Salespeople work in a world of many factors beyond their control. However, they can increase their chances of success by better understanding their customer's buying processes and the factors that affect the customer's willingness to make buying decisions. Most importantly, they can differentiate themselves from competitors by focusing on doing things that the customer values—things that accelerate the customer's decision-making process. Foremost among these things are practices such as building trust and credibility by listening to the customer's needs, demonstrating value, understanding and respecting the customer's buying process, and delivering on commitments.

Appendix

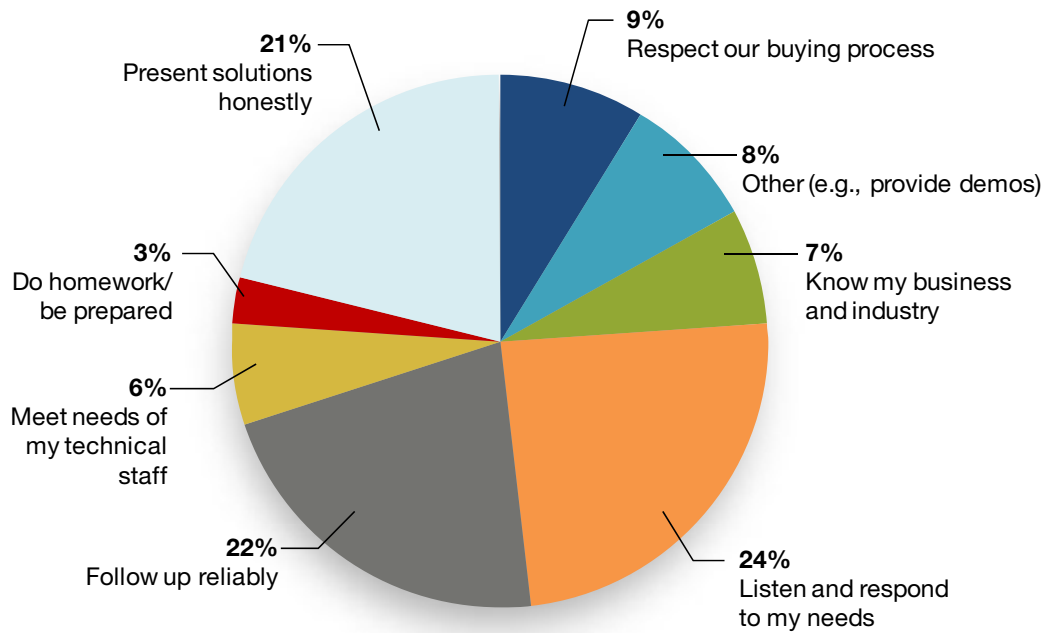
Sales Reps' Biggest Mistakes at Initial Contact (Survey of 138 Customers)



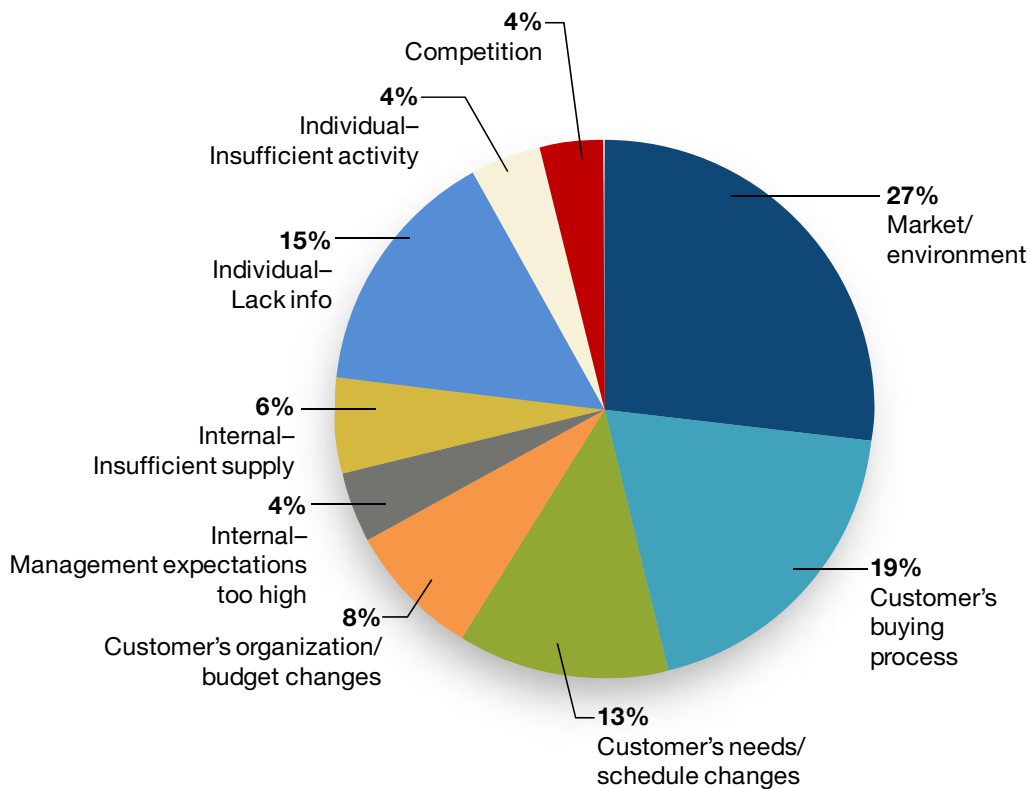
Sales Reps' Biggest Mistakes at Any Point



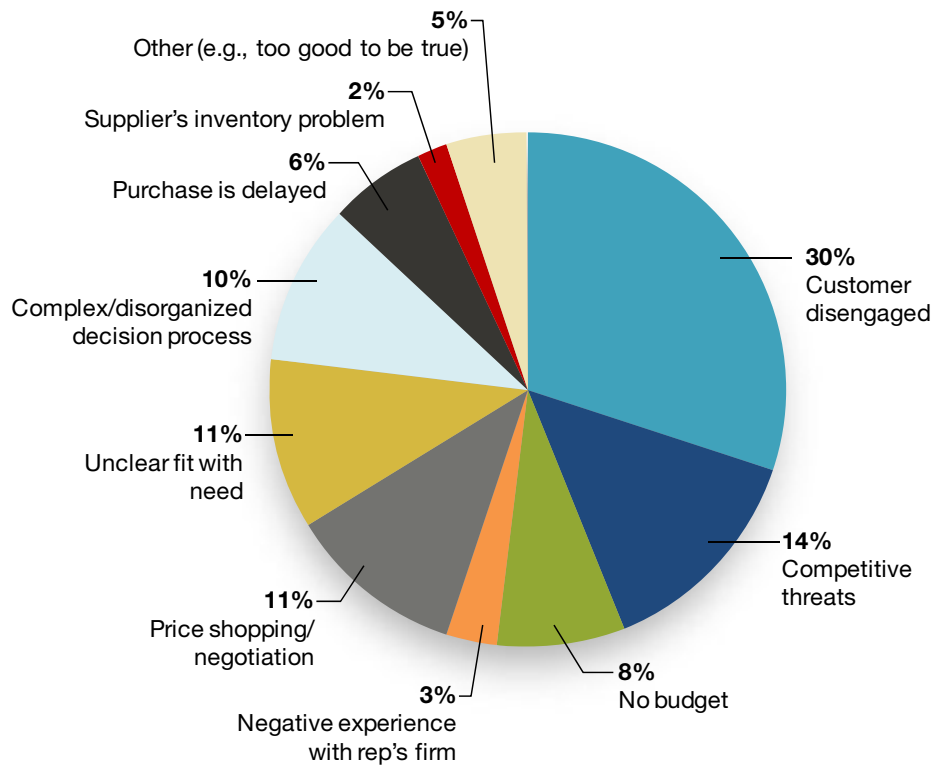
What Sales Reps' Should Do More (Survey of Customers)



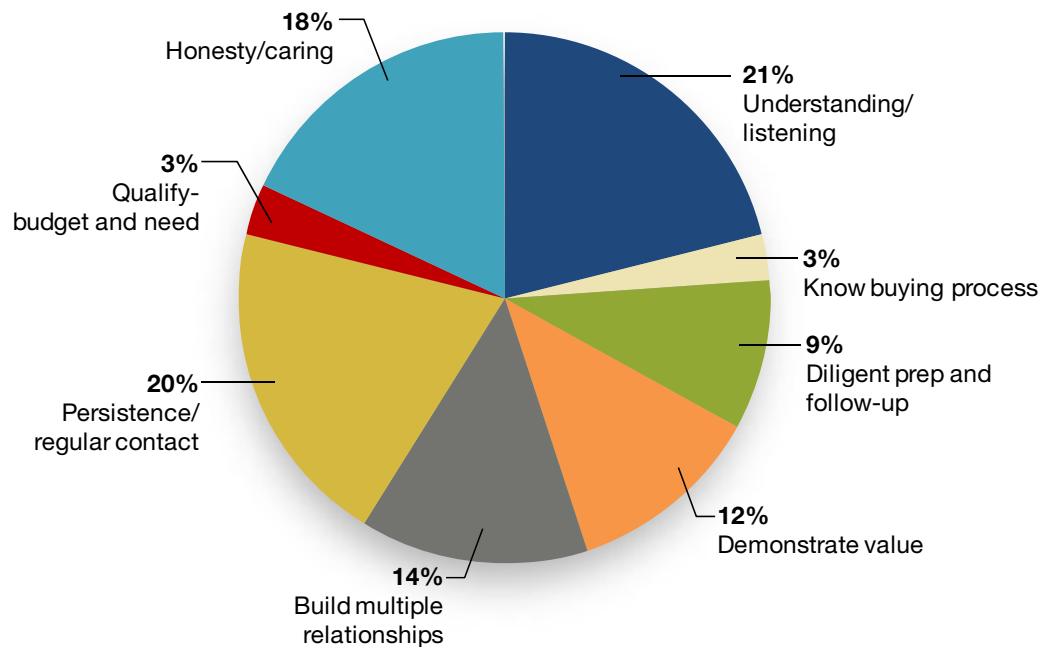
Why Forecasts Are Wrong (Survey of 73 Salespeople)



Biggest Red Flags (Survey of 73 Salespeople)



Advice to Sales Reps (Survey of Salespeople)



Customer Survey (138 Customers)

Customer's Annual Revenue

> \$1 billion.....	66%
\$500 million to \$1 billion	14%
\$250 million to \$499,999,999	7%
\$100,000 to \$249,999,999	5%
< \$1 million.....	8%

Customer Industry

High technology	29%
Health care/pharmaceutical.....	25%
Utilities/telecommunications.....	15%
Business/professional services	13%
Other (e.g., government, manufacturing).....	9%
Hospitality/retail	5%
Energy	2%
Financial services.....	2%

Customer's Function

Corporate.....	32%
Other/unspecified	30%
IT/Operations.....	18%
Sales	6%
Purchasing.....	4%
Marketing.....	4%
Customer Service	3%
Engineering.....	3%

Salesperson Survey (73 Salespeople)

Average Sales Price

> \$1 million	11%
\$500,000 to \$1 million	11%
\$250,000 to \$500,000.....	7%
\$100,000 to \$250,000.....	14%
\$50,000 to \$100,000.....	18%
\$10,000 to \$50,000.....	39%

Typical Customers

Line managers	18%
Line executives.....	11%
Corporate managers.....	27%
Corporate executives	32%
Purchasing agents.....	34%
Other (including retail).....	45%

Endnote

¹ *The Customer-Driven Sales Organization: Customers Describe How to Win, Keep, and Grow Their Business.* The Forum Corporation, 1993.

Authored by The Forum Corporation Research Team,
with special acknowledgement to Tom Atkinson

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