



Missed Your Revenue Target? How to Avoid Trade-Offs with a Knee-Jerk Reaction

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So, you missed your monthly or quarterly target and are now scrambling to come up with a quick discount or promotional incentive that will quickly close the gap?

Making up that revenue number is important....after all, a person's got to eat, right? But we must also recognize the trade-offs from a knee-jerk reaction, such as discounting or product bundling, and what these can do in damage to our value proposition over time. Let's review some examples of these knee-

jerk reactions and what you might consider for long-term strategies to improve.



Setting Discount Expectations: The trap of Month- or Quarter- End Discounting

You missed your quota or are so close to it you can taste it! The clock is ticking and you decide to forfeit a few discount percentage points to help you close the gap, where you might not otherwise have been willing to do so.

Let's use a hypothetical example of this scenario. It's month end and I am \$0.75 short of my quota. I have an apple and you have \$1. You want my apple but only want to pay \$0.50 for it, the standard rate of apples in the market. I know you can pay \$1 and I ask you to pay the full retail price for my apple. I believe my apple to be superior to that of all other apples - it is crisper, sweeter, and fresher than the other apples in the market.

You know that you can find another apple, that may not be as good as I say, but you don't need it right now. You sit tight with your \$1 and wait for me to come back to you; you know I will. As the minutes tick by, I realize you're my best chance to help me attain my quota, and so I offer you the apple in exchange for \$0.75. You get a \$1 retail price apple for \$0.75 and I make my quota, so we both win, right? Wrong.

The consequences: What happens the next time I come around and have an apple to sell you? You know I am willing to sell it at \$0.75 and you have cheaper alternatives, so why in heavens name would you be willing to pay \$1? The consequence of this situation is that I've timed my pricing based on my fiscal calendar, not based on the customer's need or demand. The ball is in the court of the customer. Not only that, but the apple may not even meet their actual demand and they've learned to wait for the month end and quarter end cycle to hear from you to get a good deal. Guess who has the power the next time you come around?

Lean concepts for you to consider:

- **Level the work** - if your sales quota designs and compensation plan allow your team to play catch-up at quarter-end and don't have any motivation to even the flow based on true demand, you will see a churn of activities creating discount spikes and month-end inventory loading of customers. Or for customized products, these month-end orders create a massive backlog of work for your manufacturing team, potential delivery delays, and dissatisfied customers. Bringing in a Lean expert who can put another set of eyes on your current process, identify your challenges, inject new ideas and create smoother level-loading processes to link sales orders to actual demand may help you. Your current model of linking artificial demand created through discounts can cause long-term damage to your value-proposition, making it incredibly difficult for you to forecast the future.
- **Create a continuous flow** - if your current transactional ordering process is based on one-off order negotiations, you are in trouble. Find a way for you to align your order patterns to a continuous flow based on the customer's true demand by also allowing them to gain a benefit where you can both win (i.e. volume-based standardized tiered discounts, rebates, contracts, exclusivity, co-sponsorship of client-

based revenue generating activities, inventory management, cash flow improvement). It will pay dividends as a long term strategy. You will create a more predictable, forecast-worthy continuous flow that will ultimately drive loyalty and value proposition for your customer.



A Penny Saved vs. A Penny Invested?

We often think that the customer will be happy to get a discount when we are willing to give it, but let's consider what is the difference between a penny saved and a penny invested? It's not a trick question - think about this one carefully.

Using a simple example, if we think from the standpoint of the customer's profit equation, **Profit = Revenue - Cost**, we can demonstrate this effect. My product retails for \$10 and I give my customer a \$1 discount. The customer's equation would now read as **(Profit + \$1) = Revenue - (Cost - \$1)** and your customer has achieved \$1 in profit gain.

The consequences: Your customer sees value in their savings of \$1, knows you are willing to give it (so your product/service can't be worth your full retail price), and they will become conditioned to it. Hey, they saved that \$1, didn't they?

What if, instead of giving a \$1 discount, I invest that \$1 into an activity that will increase the customer's business? Let's say, for every \$10 they spend, in return, I invest \$1 into a digital ad campaign or a buzz-generating activity to attract more business for this customer. Now we are looking at a potential multiple return on investment that would increase the customer's revenue. Let's say this activity resulted in \$4 revenue gain for your customer. Their equation would now read: **(Profit + \$4) = (Revenue + \$4) - Cost**. Instead of saving \$1, you helped your customer gain \$4.

In the end, the \$1 is the same to you BUT you've shown the customer an important value-message that will keep them coming back in the long run. It's not a one-and-done deal and it's not for the faint of heart. This is a long-term play that will pay-off dividends over the long run, just as any strategy that requires, time, nurturing and diligence.

Lean Concepts for you to consider:

How do you manage this today? If your answer is "I let each sales person manage it however they want to manage it" then you may need to rethink your strategy. You can gain a lot of insight by identifying things your sales team is doing well and not doing well, learning from their best practices, and applying due diligence across your team through a comprehensive strategy. A sale is a process; it can be a long or short process depending on the nature of your business but it is a process, nonetheless. How are you managing your process today? Do you have eyes to where your team is falling short or getting stalled in its process?

- **Standardized Work for Sales** - Identifying a clear standardized sales process paired with the tools and skills needed to apply it will help your team with clear direction, aligning your sales strategy and reducing variation, and creating improved predictability in your long-term sales

forecasting. If you don't have a person focused on driving your sales operations today, now's a good day to start.

- **Funnel Management** - The growth tool of "Funnel Management" would apply well here, which would allow you to map out your customer's buying journey against your critical sales journey. Let's understand the process, let's understand how we can nurture your customers into a bigger play than just a straight discount deal, and let's get them to a place where they can win...and you win as a result. Win-win together. But you need eyes and visibility to both journeys and align the two.



Made your number and think you're in the clear? Think Again!

How often do people look backwards at what was done to make sure they achieved their number the RIGHT way? Do they know what was sacrificed to get there, making tomorrow's target more and more impossible along the way?

If we trace back our revenue data to see how it was achieved, it can tell you a lot about how well your sales generation engine is operating. Think of yourself like a forensic specialist or a Crime-Scene Investigator and take a close look at what your data, not your gut feeling, is telling you. Strip away your preconceived notions and simply put the facts on the table.

At month end, do you see a difference between the start of a month vs. the end of a month if we were to compare the ASP (average selling price), usage of discounts/rebates/promotions, or negotiated terms that are different than the norm? In order to hit the top line, are you making sacrifices that would perhaps otherwise not have been made? Are you seeing sales pattern spikes that correspond to quota achievement vs. actual seasonal and cyclical customer demand? If you answered yes to these questions, then you may not be set up for long-term success. The same recommendations for the challenges above would also apply here.

Don't let every month be a new test in knee-jerk reactions. Plan for the long-term, stay the course, and level the flow. While urgent countermeasures and actions may be needed, identify your long-term strategy and stick to it in the long run.

How could your organization benefit from applying lean concepts to your sales strategy?

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BACKGROUND

April has a hands-on approach to Commercial Strategy, with extensive experience in Sales and Marketing Operations. She has spent her career developing commercial strategy, working with small- to Fortune 200-size companies and has over 9 years experience in driving CRM (Customer Relationship Management) system deployment and end user adoption.

As Director of DBS, April led the Danaher Dental OpCo, Nobel Biocare, through a full Danaher Business System cultural immersion (700+ associates; North America). Over a period of two years, she led the team to a +7 point associate engagement score improvement and secured 'Danaher Best of the Best' status across 2 of 4 engagement variables (2016). As a Sales Operations Director, April achieved 'Danaher Best of the Best' associate engagement status across 24 out of 27 possible parameters (2015).

April has earned Danaher Master Black Belt status in Transactional Process Improvement and Certified Trainer status in Problem Solving Process. She has facilitated over 60+ kaizen events for major corporations. April holds an MBA from the University of California, Irvine (UCI) and a Bachelor of Arts in Economics (minor in Policy Studies) from the University of California, Los Angeles (UCLA).

INDUSTRY EXPERIENCE

Dental, Medical Device, Pharmaceuticals, Furniture Manufacturing, Food & Beverage Distribution, and Television Programming.

LEAN EXPERIENCE

Building/Installing Problem Solving & Kaizen Cultures, Compliance, Strategic Planning & Policy Deployment, Sales Force Efficiency & Effectiveness Tools, Funnel Management, Transformative Marketing, Voice of Customer, Value Selling, Inside Sales, Transactional Kaizen, 5S & Visual Management, Standardized Work, Daily Management Processes, & Leader Standard Work.

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1