

It's a risky business

Analysing poor closing rates could reveal a mishandling of customer risk perception

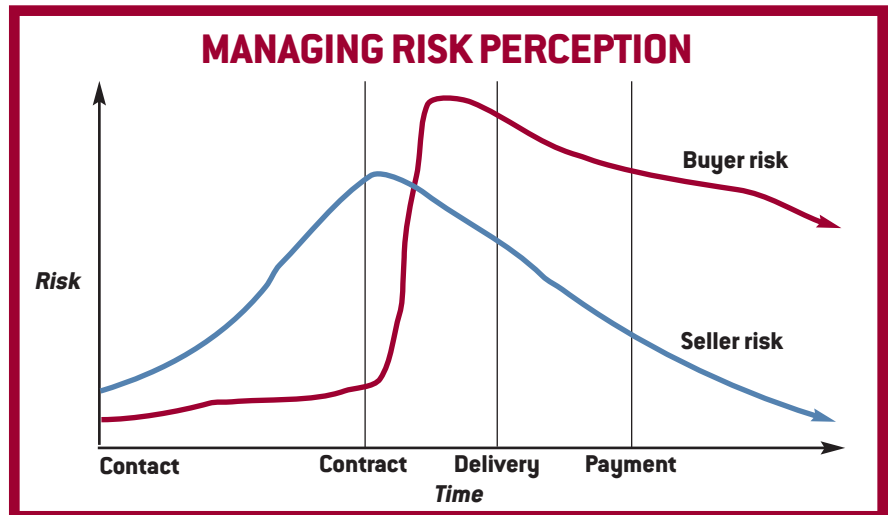
A colleague recently asked me to get involved with his client, a managed service provider, whose win rate in closing new business was very low. We had been asked to propose training or coaching on “closing skills”, but we discovered that it was not closing skills that were the problem, but a combination of not approaching potential deals properly, together with the company wide strategy towards closing business.

I've said that closing is just another, albeit very important, step in a major sale. Ideally the close will have been planned a long time in advance, and the customer decision making and criteria for choosing vendors shaped towards an advantageous position for us. With this firm we found that most of the sales team were good consultative salespeople, who were talking in the customers' language about solving real problems. There was also a lot of evidence that they had successfully changed the prospects' buying criteria. This firm believes it has innovative per-user pricing models, and we even came across one salesperson who in most cases had managed to get this model written into final requests for tenders or proposals.

We then started investigating the company's overall strategy towards gaining new business. It sensibly followed a more or less vertical focus, with lead generation activities carried out by an energetic marketing department that yielded a reasonable number of good quality suspects. Qualification was good, and the company did not fall into the trap of only looking for immediate business, but had developed its salespeople to be adept at generating strong medium-term demand from the slimmest possibilities.

Lightbulb moment

Our “ah ha” moment came when we discovered that practically all prospects were forecast to be closed in the last week of any month. This is always strange, because customers don't place orders all at the same time. It turns out that we had discovered what is known as the “monthly market”. In fact, all major deals were reviewed on one day at the start of the third week of the month, when all sales and business management get together for a lengthy and exhaustive business review meeting. The outcome of these sessions was that salespeople were put under a lot of pressure to close



business on the immediate horizon (ie within two weeks) and if any incentives were needed for the customer (better pricing, non-standard contract terms) or for the salesperson (additions to the remuneration plan) then they would be agreed at this monthly review.

On the face of it, this looks very reasonable, but in this case concentrating everything into one day, which became well known, encouraged salespeople to hold off closing business until the review, and then to put a lot of pressure on the customer to place orders in a short time.

We all know that pressuring the customer is never a good idea when trying to get a final commitment. I've been trying to understand this better and looked into psychological studies, focusing especially on the perception of risk and how this varies over time. With colleagues I've developed a model that tries to help predict where buyers and sellers perceive risk. The graphic shows the model in its simplest form, where we are working a single project sale, with a single decision being made by one person.

It appears that “emotional risk” is at its highest with a salesperson in the short period leading up to the final decision. Sure, it's been risky from the outset as you spend time on a project, forecast it to your boss and start using scarce resources to progress a qualified opportunity. Having got commitment our emotional risk profile drops as a salesperson, and depending on the size and type of opportunity we can lose interest very quickly as we move on to the next one.

For our customers, the risk profile is quite different. In the period leading up

to making the final commitment, the customer is quite relaxed, and is probably enjoying the process; after all, they are calling the shots. But, the moment the customer makes a final irreversible decision, their perception of risk rockets. After signing the order, the customer realises they are no longer in control, and actually their career is now in the hands of the vendor. This is not a good position to be in from a customer's perspective, and as the time draws closer when they have to make a final decision they can do some very strange things, mostly about how they can manage and reduce risk.

Risk perception needs managing in all situations, and is especially important in new business sales where you are trying to take projects away from an existing incumbent, and when the customer may decide at the last minute that it is better to “go with the devil that they know”.

The good news is that there are things that can be done to help customers through their risk cycle; these are mostly about giving extraordinary attention to their personal positions and generating lots of care. In the case of my colleague's client they had unwittingly set up an environment which encouraged sales people to put pressure on customers, and around particular dates, which is very unproductive and actually has the reverse consequence of that intended. Fortunately a little re-education and minor re-engineering of their processes enabled us to help them solve the issue. **SF**

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