The sales learning curve (by Mark Leslie and Charles A. Holloway, Harvard Business Review, July-August 2006)

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Introduction

When a company launches a new product, the temptation exists to immediately ramp up sales capacity to acquire customers as quickly as possible. Yet this article states that hiring a full sales force to fast just leads the company to burn through cash and fail to meet revenue expectations. Before it can sell the product efficiently, the entire organization has to learn how the customer will acquire and use it; this process is called the sales learning curve.

Start-ups and existing companies launching new products follow a sales learning curve that unfolds by give-and-take between the company and its customers. As the customers adopt and use the product, the organization modifies both the offering and the processes associated with making and selling it. The sales learning curve involves all customer-facing parts of the organization: marketing, sales, product support, and product development.

The improvements in sales yield that result from this organizational learning process, affect all sales representatives, both new and experienced. This article looks at the sales learning curve as a framework for helping managers and investors develop thoughtful launch strategies and reduce both the time and money required to achieve a profit.

The new-product sales challenge

Because of the greater availability of subcomponents and robust development tools the product development cycle has become more predictable over time. The biggest risk for companies has shifted from ‘getting the product to work’ to ‘getting it to the market’. Conventional sales wisdom fails to address a number of challenges involved in creating markets for unfamiliar problems: the time required to educate customers about the offering and learning how they will use it, the inevitable design modifications needed to deliver a robust product that will fully satisfy customers, the identification and resolution of service issues, the development of a repeatable sales model, selection of appropriate market positioning, and the design of effective sales incentives.
Established companies often make many of the same mistakes in launching a new product that start-ups do. They hire experienced sales talent far enough in advance of the launch to allow them to come up to speed (based on conventional sales wisdom) and they sit back and wait for the sales team members to deliver their expected quotas.

What the organization needs to learn

Every business goes through a unique learning process, and each industry, company, and product has a different set of drivers. A launched product will probably not have exactly the right features at the outset. To traverse the learning curve a host of complicated questions must be resolved.

- Product developers: determine which features add value for the customer. They need to make it easy to use, reliable and efficient to service.
- Marketers: analyze the product’s position relative to its competition. They need to segment its market.
- Sales team: determine the number and type of distribution channels, develop a sales model and work up a sales pitch.

Gaining this knowledge is a gradual process: initial assumptions are modified iteratively as feedback comes in from early customers. This process cannot be short-circuited by sending out an army of salespeople in an effort to gather more feedback more quickly. Many problems are discovered sequentially, revealing themselves only after some preceding issue has been discovered and addressed.

The sales learning curve

The more a company learns about its product, market, and sales process, the more efficient it becomes at selling, and the higher the sales yield. Typically, sales yield for a new product starts out slowly, accelerates for a while, and then flattens out as the product matures, in a classic S-shape curve. The steepness of the curve, a measure of how rapidly product revenues reach the break-even point and then achieve targeted levels, varies substantially from product to product. In many new-product launches, the sales yield never reaches expected levels, or even break-even point, resulting in cash shortfalls and premature death for promising products.

Applying the concept of a sales learning curve allows you to understand where in the learning process your launch is, so that the sales force, marketing efforts, engineering support and management time can be deployed appropriately.

Sales force planning for launch

The way to reach break-even point more quickly is to track sales yield over time and adjust your go-to-market strategy as you move along the curve. The sales learning process consists of three distinct phases. Each phase needs a different size and kind of sales force. The gateways from one stage to the next correspond to two markers of profitability level: the break-even point and some targeted level of steady sales, which we call “traction point”.

The initiation phase

Begins when the product is ready to hit the market and lasts until break-even point and the revenue equals the fully loaded cost per sales rep. Typically, in this stage few customers will be willing to consider buying the product. It’s both unrealistic and potentially dysfunctional to assign large sales quotas in the initiation phase. The members of the sales team should be encouraged to focus on learning about how customers will use the product so they can support engineering, product marketing, and marketing communications in perfecting both the offering itself and the go-to-market strategy and programs. A small sales force keeps costs down and is more efficient in supporting other parts of the company.

- **Renaissance rep**: Skills to communicate with many parts of the organization, tolerance for ambiguity, interest in the product technology and a talent for bringing customers together with various functional teams within the organization.

The transition phase

A critical mass of customers is acquired and sales are beginning to accelerate. Sales management should focus on developing a repeatable sales model, refining market positioning, and adding sales capacity.

- **Enlightened rep**: should be comfortable contributing to a still evolving sales model but doesn’t need to have the analytical and communication skills of a renaissance rep.

The execution phase

Once the sales management is confident that the product has achieved traction, the execution phase begins. Traction varies from company to company and product to product. A useful rule of thumb is to consider a sales yield of twice the fully loaded cost per sales rep. In this phase sales reps can be hired as rapidly as the company will allow. The formula for success has been developed and all of the support requirements for sales reps are in place.

- **Coin-operated rep**: more traditional salespeople.

The Role of Marketing

Product marketing and marketing communications should ideally be the center of learning activities during the initiation phase. Marketing leadership is responsible for bridging the gap between customers, sales reps, and the engineering organization. Success in this role requires more than just understanding of the languages of these disparate groups. Substantial credibility is needed to convince customers, sales and engineering. Marketing must hold the product itself to high standards of completeness, correctness, and fit. A premature marketing campaign can set false expectations that will be difficult to correct. As the company tweaks the product and learns more about the ways customers use it in the first two stages, the positioning will evolve. Marketing communications must develop a nimble launch schedule that can adjust to the requirements of each stage by preparing collateral materials that can be easily modified so they can respond quickly once the product and sales strategies have been completed.
The Role of Engineering

Keeping the product development engineering team intact at least through the initiation phase is essential to the success of a new-product launch. This is a significant challenge for both company executives and engineering management. Cleaning up and making sure that existing products are complete is not the most glamorous phase of product development and the reward systems in most R&D organizations encourage engineers to go on to the next challenge. But when intimately knowledgeable about a new product move on, new engineers have to be trained, stretching out the time required to ramp up sales yield. Engineering management can take several steps to provide the right incentives and foster the right culture to support the learning curve. An organizational measure should be introduced that reflects the importance of staying focused during launch. For example engineers that stay involved throughout the entire process should be rewarded with an assignment to another big project.

The Role of General Management

During the first two phases, the whole management team should be focused on the customer frontier, the source of learning. Managers must direct the efforts of those who drive learning and participate in all crucial product and organizational decision concerning functionality, target markets, sales channels, and marketing strategy. It is during the early stages of the learning curve that top management can have maximum impact on the ultimate outcome of the venture. Executives need to take responsibility for projecting the shape of the sales learning curve based on realistic inputs and for insuring that all learning opportunities are identified. Then, the shape of the curve should drive the design of revenue, expense, and hiring plans across the entire organization. The longer the initiation phase, the longer the learning period and investment phase will be and the lower the revenue expectations should be set.

Conclusion

The sales learning curve permits you to see all the aspects of a set of activities – in this case, the go-to-market process – through a new lens and to plan appropriately. Applying the sales learning curve as a strategic construct allows management and investors to share a common language in understanding this phase of the business. And successful management of the sales learning curve allows companies to reduce the time to profitability and the cost of breaking even, increasing the success rate of start-ups and new-category product launches.