

START - UPS



**A Systematic
Approach
to Growth**



*This thing all things devours:
Birds, beasts, trees, flowers;
Gnaws iron, bites steel;
Grinds hard stones to meal;
Slays king, ruins town,
And beats high mountain down.*

Fans of Tolkien's "The Hobbit" will instantly recognize the riddle as one that Gollum poses to Bilbo Baggins. The answer of course is "time."

In many ways, start-ups are just as much an enigma to salespeople as the riddle was to Bilbo. But in the case of salespeople, time isn't the answer. It's the core question.

One of the key characteristics that differentiates great selling organizations from lesser ones, and extraordinary salespeople from simply ordinary ones, is the ability to manage time, their most precious asset. Of course, continuing to cultivate and maintain major accounts is an obvious place to invest a significant amount of temporal capital. The problem is that in today's electronic industry, any major account is always one decision away from a merger, acquisition, outsourcing or offshoring, all of which could spell instant commission disaster for a rep firm. As a result, an effective sales organization must not only take care of current customers but also always be cultivating its potential future major accounts.

This of course leads us to the business of start-ups.

We are fortunate to truly live in a golden era of entrepreneurship. Innovative business models, highly scalable, free technology platforms, and the relatively newfound availability of funds through crowdsourcing platforms have made it easier than ever to be an entrepreneur. The good news is that this means that there are more start-ups than ever that could become a rep's next major account. The bad news is that there are far too many start-ups to focus on, making it imperative to pick the right ones to pursue.

The things that make start-ups so challenging for sales reps are exactly what make them start-ups.

By one definition, a start-up is a company working to solve a problem where the solution is not obvious and success is not guaranteed. This means that start-ups need help. Lots of it. In sales speak, start-ups almost always require an extremely significant investment in time to support.

By another definition, start-ups generate revenues below \$20 million, have less than 80 employees, and founders remain resolutely in control of the company they started. As a result, in addition to requiring a significant investment in time, start-ups will never pay a rep's bills. Ever. The second they start to pay your bills, by definition they are no longer a start-up. The good news is that start-ups do afford a salesperson access to their executive team, something that could prove extremely valuable if and when they are successful.

Finally, start-ups are for-profit enterprises intent on becoming big enough to take over the world. And that, of course, is the reason for this article. They require effort, investment and hard work, but one of them is bound to become either your or your chief competitor's next gorilla account.

The balancing act between servicing existing major customers and finding the next big account within a sea of start-ups may be the most important thing your company will have to manage over the next decade. You may be tempted to view start-ups as too high a risk and too big a time sink for you to afford as commission rates continue to shrink and competition increases. But you can't afford not to call on them. Your future growth depends on it. However, just like you actively try to manage risk in your business every day, why would you leave your start-up initiative to chance?

Do you want your salespeople calling on whatever start-up happens to hit their radar at random? Or perhaps the start-ups that tell the best story? Or would you rather they devote their limited time calling on the start-ups that are most likely to become their next major account? Clearly the need exists for a more systematic approach to this critical market segment.

What follows is a systematic approach I've had the opportunity to field test across several of the sales organizations I've managed over the course of my career. The approach is predicated on adopting a venture capital mindset to sales management and consists of five basic steps:

1. Determine fund size.
2. Set evaluation criteria.
3. Identify potential start-ups.
4. Score and invest.
5. Rebalance/manage investment portfolio.

Determine fund size

As discussed, your selling organization's primary form of capital is time. The first step to creating a systematic start-up development strategy is to determine how much capital you want to deploy, which in your case is time. Specifically, how much of your salespersons' time are you prepared to devote to developing start-ups? How much time can you afford to have them spend on this activity?

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About Alex Gabbi

Alex Gabbi is a professor of global entrepreneurship, marketing and international business operations at the McCombs School of Business of The University of Texas at Austin. He is also a published author (The Journey: A Family's Journey of Love, Loss and Restoration), creator of Founder, a business strategy game, and five-time start-up executive in the software, hardware and consulting space.

Most recently, he was a partner at Global Innovation Village, a consulting company focused on innovation management consulting and a 10-year veteran of Arrow Electronics, where he served as the general manager for South Texas.

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COVER STORY: Start-ups

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The percentage of salesperson time you are willing to allocate to the activity, translated into hours, represents your fund size.

As a business leader, you can choose how to allocate this time capital across your salespeople. Having tried most combinations, I've found that giving all of your salespeople an opportunity to call on start-ups tends to work best for a few reasons:

- It's a welcome break from the daily stress and grind of servicing major accounts.
- It provides great experience dealing with higher level executives and develops general business acumen, both of which represent skills that are highly transferable to major accounts.

Set evaluation criteria

Don't overdo the evaluation criteria. Generally, I look for strength in six overall categories (the

sidebar on page 18 provides some ideas for metrics):

1. Customer - unmet need with a large market and access to customers;
2. Product - customer focused solution with a clear value proposition and low barriers to adoption;
3. Timing - established demand with no signs of commoditization;
4. Competition - differentiable position solving a clear market inefficiency;
5. Finance - strong financing and working capital with good potential economies of scale;
6. Team - with functional competence, a track record, strong subject matter expertise, and key relationships.

Identify potential startups

Of course, there are some markets like San Jose, Austin and Boston, that are renowned for being start-up hot beds. However, every market has a rich ecosystem of emerging companies that rep firms can and should tap into. There are a variety of ways to access these ecosystems and identify opportunities ahead of your competition, but it will require time and effort.

For starters, do your homework. Look at the websites and press releases for local venture capitalists. Who are they funding? Become active on crowdfunding sites like Kickstarter. What campaigns in your local market are having success? Would you fund them? Use services like askwonder.com to do research on high-growth verticals and start-ups in your region. Finally, identify incubators, accelerators, co-location facilities and entrepreneurial organizations that are active in your area.

Next, start networking. Partner with distributors to get their lead lists. Research LinkedIn to develop an understanding of who the "players" are in the start-up space and work to build relationships with them. Develop a strategy to forge relationships with local incubators and accelerators. Find ways to add value to them (and by extension their start-up clients) and they will reciprocate. Some techniques to do so could include free samples, seminars or on-site office hours.

Score and invest

Have your salespeople score each of the evaluation criteria for their target startups on a scale from one to five (where one is very poor and five is outstanding). Set an active management threshold point target. When we had six categories, I set the threshold at 18 for my team. Start-ups that met the target point value or above would be actively called on and tracked closely.

As your salespeople start calling on start-ups, you will find that they will quickly realize they don't have all of the information they need to give a score in each of your criteria categories. The



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SIDEBAR

Financial Metrics

- Monthly Revenue Growth
- Revenue Run Rate

User Metrics

- K-Value
- Cohort Analysis

Marketing Metrics

- Customer Acquisition Cost and Payback Period
- Net Promoter Score

Sales Metrics

- Basket Size and Order Velocity
- Customer Lifetime Value

Market Metrics

- Total Addressable Market
- Average Wallet Size

process of working through the evaluation affords them the opportunity to call on their account, learn more, meet with executives outside of engineering and develop their business acumen. It will push them out of their comfort zone, but they will be better off for it.

Rebalance/manage investment portfolio

Your start-up strategy should not be static. Every quarter, as a leadership team, reevaluate your fund size to ensure market dynamics haven't shifted. Once you've reached a decision in that regard, reevaluate the scoring for each of your salesperson's start-up accounts. Typically, this occurs in conjunction with account reviews. Don't be afraid to elevate new start-ups to "active" status and demote others. Just as an investor would think, you should never put "good money after bad."

Conclusion

Start-ups represent both the biggest risk and opportunity to grow your business. As such, with the rapid change in market dynamics that continues to occur in our industry, it is imperative that all selling organizations have a start-up strategy. This strategy should be systematic and based on objective, rather than subjective, criteria.

One effective start-up strategy is to emulate the management of a venture portfolio. Providing a rigorous approach to your sales team will allow the team to focus on the right activities and enrich their expertise in business, developing skills that are transferable to their major accounts as well. This will put you in the best position to maximize your odds of picking winners and having the right relationships with the next major accounts in your territory. Happy selling! ■



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