Stanford eCorner

Metrics Driven Sales Model

Tien Tzuo, *Salesforce.com*

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Video URL: http://ecorner.stanford.edu/videos/1670/Metrics-Driven-Sales-Model

Tzuo believes that as a company grows in revenue and complexity, it is important to have a metrics driven sales model. Factors such as the number of people visiting the company's website, effectiveness of search engine marketing, qualification rates, close rates and average size of deals are all important metrics which help in building a baseline. Tweaking these metrics can improve results and lead to a deeper understanding of the market, he adds.

Transcript

So, the question is, do we use metrics to drive sales organizations in this new model? And absolutely that's one of the greatest benefits of it. In the old model, you spend X amount of money for producing a product. It's got to have a certain level of complexity, all right? And so, you invest a lot more effort upfront to create that product and then you hire sales reps and you are kind of hoping that they can bring in a million dollars, right? And we had quarters across worlds where we're flying high because we just brought in $10 million and we had quarters where we had $0. And that creates a really hard environment to manage. Contrast that, there's another company that have a software model. They wanted to move to this on-demand model if you will. And they decided to just want to test, they hired no sales reps. They basically said, "Look, we'll build a product. We'll have a website. We'll spend some money on internet search." In total they spent about $90,000.

They spend about four months to walk through the cycle. I think the CEO or somebody called every customer up. And within four months, they had a perfect picture of what all the metrics were like. Like how many people have come to their website, how many coming from search engine marketing, what are the qualifications rates, what are the close rates, what are the average deal sizes, and they can model out their entire business with a lot of certainty. And then you can start tweaking these numbers and try to get it better and better by ratio of the baseline to work with. What we found is become a much, much more predictable model that had to build the sales organization. It's critical to have a metrics-based way of thinking about it.