



Identifying Inhibitors to Revenue & Value Growth

The ROBB Group LLC
Executive Briefing

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Revenue and Value Growth

A company's ability to produce sustainable revenue and profit is directly dependent on its overall understanding and ability to identify and overcome revenue and growth inhibitors within its marketplace, organizational strategy, structure and culture.

Without a detailed understanding of inhibitors within the marketplace and your company's strategy, operational structure and culture, your organization has only a slight probability of growing sustainable revenue and profit.

Organizations that under perform or have been struggling to grow and generate sustainable revenues often recognize that something is wrong but many times revert to placing blame on executives or revenue generating personnel instead of diagnosing the root cause for failure within the market and organization.

Prescribing before Diagnosis

With hundreds of thousands of MBAs distributed over the last 10 years and excessive amounts of consulting and training resources available to CEOs, Sales – Marketing executives and personnel, the following factors still have not been addressed:

- Business failure rate
- Debt within organizations under 500 employees
- Turnover within C, VP levels
- Sales and Marketing Turnover

Organizations have been trying to resolve critical revenue and profit growth issues through tactical fixes such as training and outsourcing. Many organizations have invested in sales methodologies and retraining entire organizations without identifying true inhibitors to their revenue and value growth issues.

Microsoft is reported to have invested over 14 Million dollars in retraining their sales and marketing teams on solution selling with having very little impact and adoption internally. Failure to audit or identify true inhibitors creates liabilities and loss of training and consulting investments.

Sales Training / Consulting

Based on a current search on Google, there are over 25 million web sites for sales training and 13 million web sites promoting marketing consultants.

In 2002 the institute of Sales and Marketing Management reported "90% of high tech sales people failed to achieve quota in 2001." This report is intriguing because the high tech market place is known for training and educating sales and marketing professionals on a variety of sales methodologies such as spin selling, strategic selling, solution selling, targeted account selling and a variety of other tactics and methodologies.

In 2002 the Institute of Sales and Marketing Management reported "90% of high tech sales people failed to achieve quota in 2001."

Sales effectiveness can be addressed through enhanced sales and communication skills and an optimized sales process and methodology. Unfortunately sales training, sales methodology vendors and consultants often fail to provide adequate tools, documents, templates, and guidelines needed to enforce behavior changes as suggested within the methods and ideologies.

The cost associated with rolling out a new sales methodology is typically 3X- 5X the actual cost of the training because the organization must now invest in documenting, creating or updating internal processes, practices, sales and marketing tools and resources such as presentations, collateral, web sites, etc.

Replacing Employees - Heavy Turnover Cost and Lost Opportunity

According to [Culpepper](#), sales and marketing turn over averages within the high tech sector in 2002 was above 70% creating lost momentum and revenue opportunities.

Table 1: Employee Turnover Rates (including both voluntary and involuntary terminations.)			
Department	2000	2001	2002
Technical	26%	25%	20%
Marketing	38%	39%	38%
Sales	36%	37%	34%
Finance, Admin, Legal & HR	27%	28%	26%
Data Source: High-Tech Global Compensation Survey - Pay Practices.			

Board of Directors and stockholders are beginning to apply additional pressure and scrutiny to CEOs as recent studies from [Spencer Stuart](#) show that the average duration of a S&P CEO is only 4 years. A 2003 report from Booz Allen Hamilton showed the high tech market sector as having nearly the highest turnover ratios for CEOs.

Federal regulations and revenue compliancy demands are forcing more CFOs to consider retiring as 10-K Wizard reported that CFO turn over has spiked between December 1st 2004 to January 31st 2005; up nearly 200% from the same time last year.

Cornell University studies show that the hard cost of employee turnover is between 50% - 150% of the employee's salary. This does not include lost revenue opportunities or reduced momentum and market penetration due to turnover.

Revenue Inhibitor Example

The following data was captured as part of a Corporate Revenue Audit designed to identify and quantify revenue and growth inhibitors within a organization's marketplace, strategy, operating structure and culture. The result of the audit was used to score the organization's overall probability of growing revenue under the current market and organizational conditions and to create a roadmap and blue print to overcome the inhibitors.

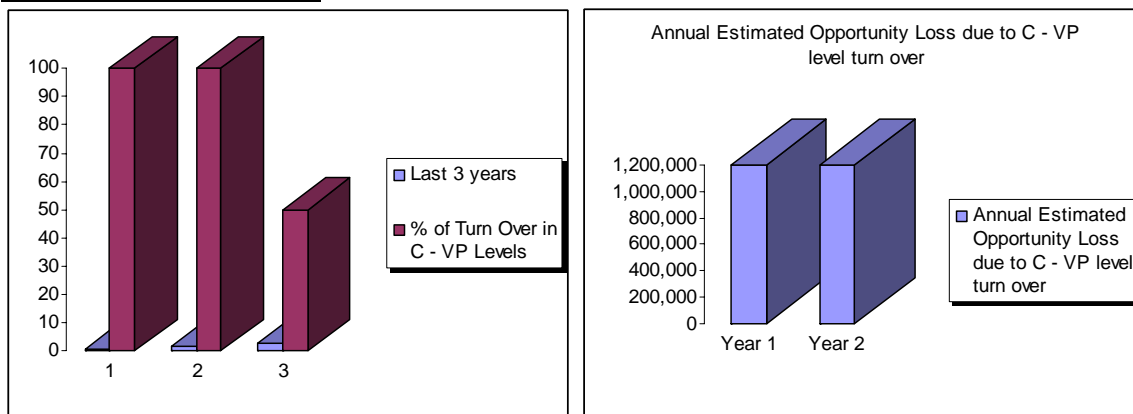
ABC Software Company

ABC Software has secured thousands of clients over the last 15 years, becoming a niche market leader in the manufacturing calibration market. Over the last few years, ABC Software has developed a variety of other software packages such as a CMMS Software Program. CMMS Software provides tracking and scheduling of employees, suppliers, tools, parts, procedures, budgets, and purchasing.

The goal of the organization was to enter into double-digit revenue and profit growth and after unsuccessfully accomplishing that goal over the last 30 months, engaged TRG to discover the inhibitors within the market, corporate strategy, operational structure and culture preventing revenue growth.

Below are series of graphs pointing out various revenue and growth inhibitors found during the audit showing the estimated hard and lost opportunity costs associated with the inhibitor:

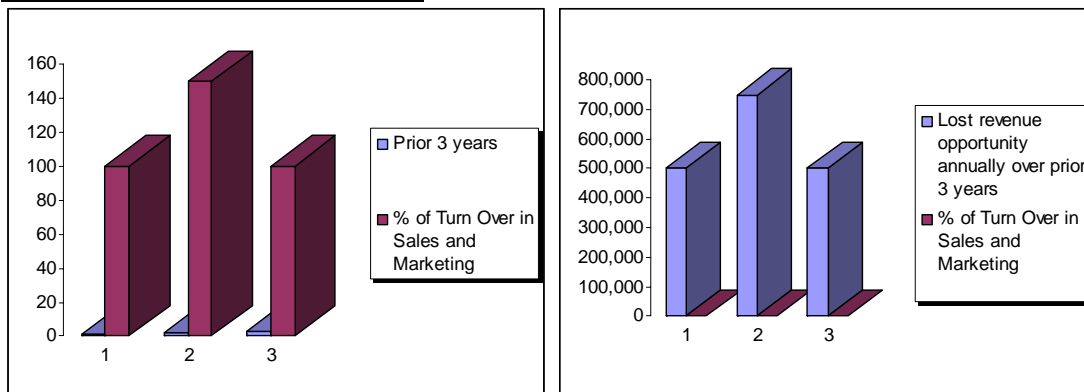
C – VP Level Turnover



B. C and VP Level turn over percent - 3 year period

C. Lost revenue due to C and VP Level turn over - 2 year period **\$2,400,000**

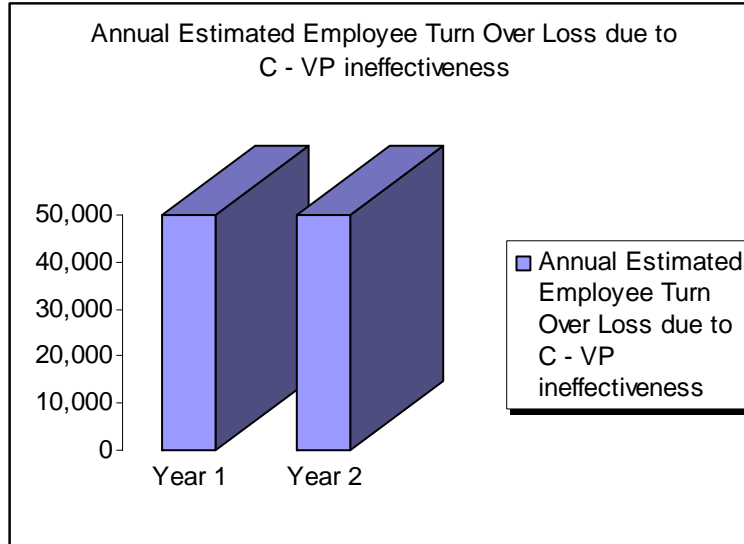
Sales and Marketing Turnover



D. Sales and Marketing turn over percent - 3 year period

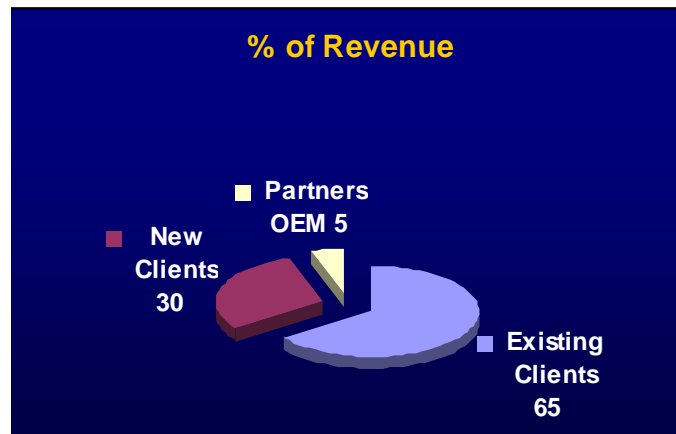
E. Lost revenue due to Sales and Marketing turn over - 3 year period **\$2,500,000**

Bad Hiring / Poor Management at C – VP Level



F. Employee turn over cost caused by C – VP level turn over and dysfunction **\$50,000 annually**

Revenue Balance – Highly dependent upon existing clients



A. 65% of revenue has been generated through existing clients buying maintenance, new modules or upgrades and only 30% of all revenues were generated through acquisition of new customers showing the organizations inability to generate new clients creating losses in revenue and a deterioration in market share.

Revenue Audit Detail

Strategy

- Founder is ultimate decision maker of organization
- Goal was to grow 300% over next 3 years
- No documented / validated business plan, exit strategy, management ideology
- C and VP Level Turn Over 200% over 2 years
- Lack of C level follow through has detrimentally impacted production and growth
- Lack of Empowerment at Management Level

- Lack of budgeting, funding and capitalization
- Lack of C level goals and objectives with deliverables impacting growth

Estimated Financial Impact

- Hard Cost of C and VP Level Turn Over - \$200,000 annually
- Soft Cost (lost opportunity) of C and VP Level Turn Over - \$1,200,000 annually
- Lack of C level follow-through annually - \$100,000 annually
- Lack of budgeting, funding and capitalization, empowerment at management Level - \$1,500,000 annually

Cost / Loss	Amount
Annual	\$3,000,000
3 Year	\$9,000,000

Financial Impact Estimate Logic

*Turn over cost average of \$100,000 per person (Cornell University method)

**Lost opportunity cost using only quota number of employee that left

*** Projected annual employee turn over due to frustration

**** Slowed time to market of new products by 12-18 months

Structure

- Lack of manager and employee hierarchy and defined roles / responsibilities / empowerment is preventing effectiveness
- Lack of mid management goals, objectives, process, procedure with deliverables impacting growth
- Flat Revenue Growth for 8 Years - under 5%
- Sales Team is selling on discount - not value giving up nearly 20% of sales annually over the previous 3 years
- Lack of buying and sales cycle understanding / process / skills has inhibited forecasting ability
- Shipping delays were impacting revenues / customer support
- Department Leaders and key personnel have a resource dilution issue - too many hats being worn is impacting effectiveness
- Development has no methodology, standards and practices and has historically missed release dates impacting revenue and growth
- CMMS Software Vendor spent less than 5% in marketing annually over the last 7 years
- Cash accounting has created a cyclical cash flow problem inhibiting growth
- Decentralized development is reducing collaboration and slowing productivity

Estimated Financial Impact

- Sales Team selling on discounts not value - \$600,000 annually
- Shipping delays impacting revenues - \$140,000 annually
- Development missed release dates impacting revenue - \$750,000 annually

Cost / Loss	Amount
Annual	\$1,490,000
3 Year	\$4,470,000

Financial Impact Estimate Logic

- * Discount loss = average discounting was 20% of annual sales of \$3M
- ** Monthly average of \$10,000 in orders not shipped due to flawed order process
- *** Development impact on lost revenue due to slowed time to market for new products

Culture / Execution

- Sales and Marketing Turn Over 400% over 3 years
- Sales Compensation was based on group bonus not individual contribution
- Lack of organizational ideology, management philosophy and process has created a lackadaisical atmosphere
- Lack of individual ownership / responsibilities decreasing productivity
- Lack of advanced business operations and management skills inhibiting growth
- Lack of clear direction and roadmap is reducing employee confidence
- Lack of communication between dept heads is creating conflict between departments impacting efficiency and morale
- Lack of employee incentive plans is inhibiting employee engagement and production
- Lack of employee education is prohibiting success and growth

Estimated Financial Impact

Hard Cost of Sales and Marketing Turn Over (100%) – \$500,000
 Lost Opportunity of Sales and Marketing Turn Over (100%) - \$2,000,000

Cost / Loss	Amount
Annual	\$2,500,000
3 Year	\$7,500,000

Financial Impact Estimate Logic

- *Turn over cost average of \$50,000 per person (Cornell University method)
- **Lost opportunity cost using only quota number of employee that left

Total Estimated Financial Cost and Loss due to Existing ABC Software Inhibitors within Marketplace, Strategy, Structure, Culture

Cost / Loss	Amount
Annual	\$4,740,000
3 Year	\$14,220,000

Summary

There were many revenue and growth inhibitors within ABC Software's market segment and strategy, operational structure and culture that were preventing or slowing revenue growth and deteriorating profitability.

Revenue inhibitors are often overlooked and under analyzed clearly exposing that all failure to accomplish revenue targets does not fall on sales or marketing's failure to execute and should disprove the theory that failure to accomplish revenue and profitability goals rests primarily within the leadership or employee base.

In order to help organizations diagnose inhibitors within their market and corporate strategy, structure and culture TRG has created a diagnostic methodology and process called the Corporate Revenue Audit.

Using the Corporate Revenue Audit, TRG can help organizations identify revenue dependencies across organizational departments and within the target marketplace. Once these dependencies are documented, TRG utilizes the Corporate Revenue Audit to identify areas within the market and organization's strategy, structure and culture that are inhibiting revenue generation and growth.

To learn more about how TRG can help prepare your organization for high growth, merger or acquisition, visit:

www.therobbgroup.com