Gradient Works

Improving rep productivity and reducing CAC payback

A practical guide for thriving in a downturn

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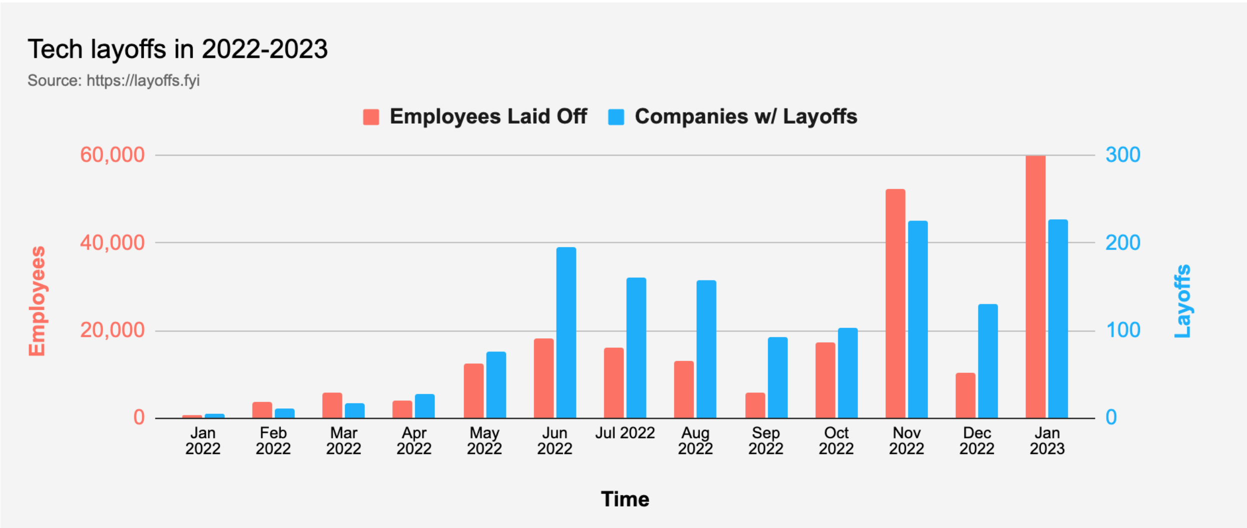
Improving rep productivity and reducing CAC payback: A practical guide to thriving in a downturn

It's tough out there for a SaaS sales team right now. Any of this sound familiar?

- The approved financial plan has fewer heads than you hoped for, maybe even fewer than last year.
- Growth targets aren't as aggressive as 2022, but they definitely aren't flat.
- Growth is supposed to come from new efficiencies that will result from a change in sales motion - going upmarket, focusing on a specific customer segment, leaning on install base expansions, doubling down on full-cycle reps in lieu of SDRs, relying on PLG.
- You've sold the new strategy at sales kickoff and convinced your team that this is a great opportunity for your company, how great sellers thrive in situations like, everyone is leaning into the new strategy, and you're going to crush it.



Tech layoffs for the past 12 months, data from layoffs.fyi

You need to make money, but you also have to spend less doing it. That means you simultaneously need to decrease the cost to acquire a customer and increase rep productivity. How?

CAC and why it matters

You've probably heard a lot of people talking about reducing their customer acquisition cost lately. But how can you reduce your CAC, aside from firing your sales team and eliminating your marketing spend? (Two drastic, terrible ideas.)

Customer acquisition cost, or CAC, is the total sales and marketing spend required to acquire a new customer. It's a measure of how efficient your GTM motion is.

And right now, when companies everywhere are tightening budgets and reducing headcount, CAC has become a huge topic of conversation. How can we reduce our CAC? And related, how can we reduce our CAC payback period?

The CAC payback period is how long it takes to make back the money you spent acquiring a customer. If you spend $1,000 to acquire a customer, then you want to know how long it takes to make $1,000 back from that customer.

So we're talking about a few different things here:

- **CAC (Customer acquisition cost):** How much it costs to acquire a customer across both marketing and sales
- **Payback:** How long it takes you to earn back your CAC
- **Gross margin adjusted:** This ensures you're not cheating, by offsetting your revenue with *all* costs associated with selling and servicing a customer

How do you calculate payback period? OpenView Partners calculates it like this:

CAC Payback = Sales & Marketing Expenses / (Net New MRR x Gross Margin)

A best-in-class CAC payback period typically ranges from less to a year up to 14 months or more. But it varies based on factors like your GTM motion (sales-led or PLG? field sales or inside sales? monthly or annual contracts?) and customer type (enterprise? SMB?), and needs to be contextualized alongside your retention metrics.

But regardless of your exact GTM structure, the longer your CAC payback period is, the more brittle your company is right now. It’s time to get ruthless with your CAC payback efficiency.

Why do we suddenly care about CAC payback?

Money has recently gotten a lot more expensive thanks to higher interest rates, so now you can't just spend it like it's free. (There’s more to it than that, but this is not an economics paper.) And your CAC payback period is one of the best ways to see exactly how your GTM engine converts costs now into money in the future.

So how does this explain what we're seeing in SaaS sales right now? These are just a few of the more common (and sometimes short-sighted) reactions to a board saying it’s time to reduce CAC payback.

1. Layoffs
CAC is really high because of high sales and marketing headcount accumulated over the past few years when money was cheap. Improving payback means letting people go.

2. Reduced SDR:AE ratios
Same general idea as #1. Even in good times, SDRs are relatively inefficient. Now they're adding too much CAC. Just have AEs do more outbound instead.

3. Attempts to go up-market
Larger deals for the same CAC mean the payback period is much faster (as long as it doesn't massively increase sales cycles and servicing costs).

4. PLG
Product-led growth is so hot right now. No people in the sales process, and CAC goes down, while gross margin (probably) goes up even if the total revenue isn't as high to start with.

5. Focus on expansion
Hey these customers are already here and it doesn't take a bunch of money to get them (low CAC!) and they'll probably have short sales cycles. They should buy more.

6. Longer sales cycles with more buyer scrutiny
And since your customers are also dealing with the all of the above, it gets harder to sell to them. If your tech goes against gross margin or isn't actively reducing CAC by driving material efficiencies, they just don't care that much.

So not only is your company going through one or more of these changes, it's probably also happening with your customers and prospects right now. This is top of mind for your board, your CEO, and especially your CFO.

If you're selling in this market, make sure you've internalized all this. And, more importantly, make sure you can speak to it with prospects. It's going to be an essential survival skill for the next several quarters at least.

Reducing CAC payback

Okay, so how can you reduce that CAC payback period? Well first of all, this paper is not going to tell you to *do more with less*. Instead, it's going to tell you how to *do less better*. Your mantra should be ruthless execution and focus.

If you're like many companies right now, your board may have already decided to reduce CAC by having fewer sales reps. If you've been through a RIF recently, or even a hiring freeze, you're probably trying to figure out how to hit your number with a smaller team. Even if you haven't had to cut quota capacity yet, you're probably running into other challenges, like longer sales cycles, fewer inbound leads, and so on.

You need to invest in the productivity of your remaining reps because you still need to cover your entire market even with a reduced staff. How efficiently are you using the quota capacity you have? Let's talk about how you can increase each sales rep's productivity.

> ***Your mantra should be ruthless execution and focus.***

Improving sales rep productivity

Right now, you need to be sure *every single sales rep is as productive and efficient as possible*. Seller time is money. Don't waste either on accounts they can't work and activities that don't contribute to pipeline.

This means it may be time to deploy your reps differently. It starts with enabling your reps with the right offers and the right message, but it goes beyond that.

Right now, your quota capacity is more precious than it's ever been. This isn't the time to spray and pray. Make absolutely sure that your reps are engaging the highest potential accounts - the ones that can commit long-term or the ones with real growth potential. Otherwise, you're wasting everyone's time.

That may include moving from a static territory model to something more responsive to the particular challenges sales teams are facing now. Something like dynamic books, which ensure reps are focused on the best possible accounts at any time.

Other areas to explore include:

- Should you strategically apply sales capacity to your self-service base?
- Should you do more with PLG?
- Do you need to rethink your territory and account allocations?
- What else do your reps need to be focused and productive?
- How can you identify and assign the highest-potential accounts in your database?

Some companies are cutting their SDR teams and moving to a hybrid model where Account Executives are responsible for prospecting and closing new business. If you're doing this, be sure your AEs are equipped with what they need to prospect; some of them might be a little rusty.

If you are keeping an SDR team around, here are some ways to help SDRs increase their outbound opp creation.

This isn't the time to have reps do more activities - more calls and more emails aren't going to magically close more business. Instead, have reps focus on fewer, higher potential accounts. Have them do less better.

Here are some practical ways to increase rep productivity.

Review your account allocation process

In the fat years of our recent past, it may not have mattered too much which accounts your sellers focused on. Maybe you had plenty of inbound leads to feed reps, or large enough territories that even untargeted outreach found plenty of opportunities.

But those days are gone, and you likely need to find a better way of allocating accounts for reps to work. The territories you used last year probably won't work this year.

You now need to think more about hitting quota in the most sustainable way, so you're not burning out your accounts. How are you covering your TAM holistically? You need an approach to rep book composition that's more maintainable, more consistent, and more predictable than in years past. Account allocation drives efficiency.

You should consider a territory or account allocation model more responsive to the particular challenges sales teams are facing now. Something like dynamic books, which ensure reps are focused on the best possible accounts at any time. Instead of assigning each rep a territory at the beginning of the year, a dynamic books approach rotates the highest potential accounts at any given time to reps with availability to work them.

That means reps are always engaging the highest potential accounts at all times, and they're not wasting time on accounts that aren't ready to buy or aren't a good fit right now. It also keeps your pool of addressable accounts from getting overworked.

Account allocation drives efficiency.

Static (geo, vertical, named) territories aren't really static. Things happen: reps come and go, exceptions happen, mistakes happen. Even if you've opted for static territories over dynamic books for your territory design, dynamic books principles provide a framework for dealing with the reality of rep productivity:

1. The accounts reps work impact attainment just as much as activity levels and skill
2. Each rep has a limited capacity to work accounts
3. Prospect lifecycle stage is just as important as ICP fit for prioritizing engagement
4. Quota capacity should be fungible so you can move it to the areas where it's most effective

This takes us back to book composition. Book composition is the quantity and types of accounts that your reps have in their name or territory at any given time. Because of principles 1-3 above, book composition massively impacts rep performance and, therefore, your CAC.

If you don’t pay attention to book composition, you can run into issues like this:

- **Uneven book sizes.** Even reps with the same role often are responsible for wildly variable numbers of accounts. We've seen books vary by as much as 4x from smallest to largest.
- **Incorrect account types.** This seems simple but we constantly see SMB reps holding enterprise accounts and vice versa.
- **Unequal quality.** Whatever method the company uses to measure prospect value (e.g. revenue, employees, scores, tiers, industry, etc), books invariably contain variable concentrations of quality accounts.
- **Unequal intent.** When there's intent information (such as 6Sense buying stage), some books are filled with high intent accounts and others have nothing. Intent's even less likely to be evenly distributed geographically or vertically than ICP fit.

These issues show up in absolute terms (number of accounts) and relative terms (% of accounts). In short, some reps simply get a bad deal no matter how much work you put into territory design.

What can you do?

1. Look at book composition across a range of factors (fit, intent, segmentation).
2. Review book composition on a monthly basis to spot imbalances.
3. Consider book composition before moving accounts at manager discretion.
4. If you have the ability to rebalance/reassign accounts, do it. Dynamic books principle #4 is your friend: Quota capacity should be fungible so you can move it to the areas where it's most effective.

Regardless of how you do it, be sure reps are focused on accounts that are ready to buy, that are a good fit for your ICP and product, or that look similar to accounts that have converted in the past.

Incentivize the rep behaviors you want to see

You can tell sellers what to do, or you can create processes that motivate them to do those things.

First, what behaviors do you want to encourage? Does picking up the phone work better with your market? Do you get higher reply rates on email cadences of a certain length? Are there product features reps should always include in a pitch? Are there segments of your market they should be working more? Figure out what your highest-value activities are, and then provide some kind of incentive to reps who do those things.

For example, let's say you want reps to find more self-sourced opportunities. But most Account Executives haven't had to spend much time prospecting the past few years (not to mention most of them probably don't really want to). So how can you convince them to do more outbounding? You could say, for example, that if an AE self-sources 10 opps every month, they get distributed more high-intent inbound leads.

Incentives don't need to be directly monetary, though of course spiffs have their place and may work for your team. Think about what other options you have available to you and get creative.

But whatever you do, don't screw with rep compensation. Because you need to retain your best-performing reps, and they may be thinking about leaving...

Do more to increase rep satisfaction

As teams cut headcount, reps are being asked to do more. Specialists are being replaced with utility players, who need to do everything from outbound prospecting to qualification to demos to closing.

So it's probably no coincidence that [Gartner] reports that 89% of sellers feel burnt out and 54% are actively looking for a new opportunity.

Two of the main contributors to "seller drag" (again, per Gartner) are vague, unactionable manager feedback and the burden of admin tasks that don't contribute to pipeline. W'd also suggest that perceptions of unfairness and imbalance are contributing to that drag.

What can you do to better support your reps?

We'll address vague manager feedback in the next section on analytics. The burden of administrative tasks can be relieved by removing some of those tasks from sellers' hands. What you can automate? What you can eliminate? You may not know the true impact of manual tasks on your reps' time, so now would be a good time to check in with them, and better understand how they spend their time. If a rep is spending an hour a day prospecting, is there a way you can help them focus in on the right accounts or get updated contact info more quickly? Figure out what tasks are costing them the most time, and tackle each one.

Perceptions of unfairness and imbalance are a little trickier. Depending on what your team has been through the past few months, sellers may be on edge - worried their jobs may be cut, their workload may increase, and most importantly, their compensation will change. They may be dealing with new processes or messaging. How can you reassure and empower your reps to work through these changes?

Get better with analytics

You may think your sales managers are data-driven. You probably have tons of dashboards and reports to track pipeline. You definitely know what "good" performance looks like, and have benchmarks for different stages in your pipeline. But no matter how smart your sales metrics were before, there's never been a better time to fix and focus your reporting. A lot has changed.

Figure out where to spend your (and your sales managers') limited time. Stop wasting time and effort on big bulky dashboards, and focus in on a few key metrics that tell you exactly how deals are moving through your pipeline now. Make sure they're actionable metrics that help you pinpoint issues before they become show up in your attainment numbers, or help you identify quick areas for improvement.

This pertains to individual rep coaching in particular. We all know that sales coaching can be hit or miss, so spend some time making sure you have both the tools and the data to help managers customize coaching for each rep. Instead of a blanket application of best practices, the right metrics allow you to customize feedback on a rep-by-rep basis. This will have outsized returns in improvements in individual rep performance and satisfaction. (Note that this may require some additional training for sales managers to become more effective coaches. Sales coaching coaching, if you will. More on this in a minute.)

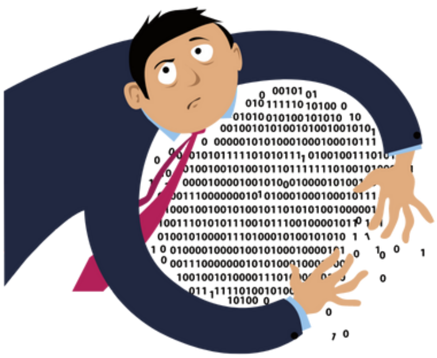
Don't do more with less - do less better

The answer to a sales productivity crisis is not to blindly have reps do more activities. More calls and more emails aren't going to magically create more pipeline. Instead, have reps focus on fewer, higher potential accounts, with the most efficient outreach. How do you decide what a full-cycle rep can actually do? How much can they handle? At what point are there diminishing returns?

Again, this is all about ruthless focus and execution. Figure out what's most important to pipeline creation and closing business, and do those well. Do less, but do it better.

The six types of B2B sellers

How can you be sure you're getting to most from your sales team? As we've said, you can drive rep productivity through account allocation. But different reps will respond to different things. Here are the 6 types of sellers you'll meet on a B2B sales team, and how you can help each one be more productive.



Henry Hoarder

The account hoarder collects accounts, saving them for a rainy day. They probably have 2-3x more accounts in their name than anyone else.

Productivity Tips
Analyze the size of your reps' books. Look for imbalances, and redistribute some of Henry's extra accounts to reps with smaller books. Institute a use-it-or-lose-it policy, where reps don't get to keep accounts they're not actively working.

Spray and Pray Sam

This rep touches a lot of accounts every month, but they average just a few touches per account. They're doing a lot of activity across a lot of accounts, hoping for any kind of response.

Productivity Tips
Give reps a smaller, focused book of high-potential accounts to work, so they can spend more time with each account. It typically takes 8-18 touches to get a response.

Chloe Closer

This is your most consistent performer. They hit quota just about every month, they know how to prospect quickly and intelligently, how (and how much) to follow up, and how to reach out to multiple contacts per account. If all sellers worked like Chloe, you'd hit your number early every quarter.

Productivity Tips

Don't get in your best sellers' way. Make sure you equip them with the tools and data they need to research and engage with accounts. Use the lessons learned from these reps to train other sellers on best practices.

Low Effort Lee

This rep puts in the bare minimum, doing just enough not to get yelled at. If you set an activity guideline, they hit it, but don't go beyond it. They may get close to or even hit their targets, but never exceed their goal. They're not bad employees (usually), just not intrinsically motivated.

Productivity Tips

Find ways to incentivize reps to do the activities that lead to success. Create processes that encourage reps to get creative and engage more with accounts. Look for underlying issues that may be preventing reps from performing better, like low satisfaction, concerns about layoffs, book composition, and more.

Heroic Harley

This rep consistently uses heroics to save deals. They may be one of your best closers, but you don't know why or how they succeed. They haven't updated Salesforce in 6 months and are known to go rogue.

Productivity Tips

Stress the importance of a repeatable sales process all reps can reproduce, including proper CRM hygiene. Limit the heroic reps' exposure to your full account base.

Frankie Fisher

Also known as the Salesforce Surfer, this rep seems to ignore your rules of engagement and their assigned accounts, and instead spends their time cherry-picking the best accounts from your CRM. They may get results, but they're impacting the account pool for the rest of the team.

Productivity Tips

Use account scoring based on fit and timing signals to surface the highest potential accounts in your CRM. Distribute a set of new accounts to reps every week, and hold reps accountable for working what they own and owning what they work.

Finding ways to incentivize reps to do the activities that lead to success will help with productivity and retention.

The new role of the frontline sales manager

All of this leads us to the new role of frontline sales managers. They've always been the canaries in your sales coal mines, but now they play an even more critical role. They can spot issues before they become problems, help keep reps motivated, provide helpful coaching, and more. That includes:

- Identify areas of improvement for rep performance
- Ensure reps execute new strategies and sales motions
- Find and distribute target accounts, request ownership changes
- Identify issues to escalate to sales leadership and ops
- Uncover imbalances in account books, like account hoarders

Now is the time to invest in your frontline managers, to be sure they have the tools and resources they need to help sellers be more effective. Help them provide concrete, customized feedback to reps. Here are a few ways your frontline managers can impact productivity across your sales team.

Find quick opportunities for improvement

Don't wait for Q2 to tweak your new processes. Pay attention to major and minor KPIs now, so you can find issues as they happen - and before they show up in your attainment numbers. Sales managers may even know about issues before they are represented in dashboards, so check in with them regularly. Also think about:

Focus. Are your reps focused on the right accounts, the right activities? Are they motivated and excited?

Coverage. Are you covering your market the way your territory plan intended? Are you over- or under-indexing in any areas?

Effectiveness. Are your early outreach tactics working? What kind of responses are you getting? Are you creating opportunities at an acceptable rate? How does inbound look so far this year?

Get serious about coaching

If you haven't yet, be sure your frontline managers get a coaching refresher. Equip them with the data and tools they need to provide actionable and customized feedback to each rep. You need to do better than blind, one-size-fits-all coaching, and make it easier for managers to know where to spend their limited time. A few areas to consider:

Accounts. Just because an account is in a rep's territory or book, it doesn't mean that account is actually being covered. And just because you coach reps to focus on specific areas, it doesn't mean they are. Teach managers to identify gaps and opportunities in reps' territory coverage.

Activities. Make sure you can see where reps are spending their time and how that impacts the number of accounts they're contacting, and the depth of that engagement. Review it weekly with your team and coach to it. You should have some idea about how much and what kinds of activities are most highly correlated to success; be sure managers know that too and are coaching reps on how to do those activities.

Messages. If you've updated your messaging or talking points for 2023, be sure managers are fluent in the new messaging and they're prepared to work with reps on it. It can take some time for new positioning to really sink in, so you'll need to work on this again and again.

Make room for creativity

We know that creativity flourishes under constraint. If you're like many sales teams, you're probably facing a number of new constraints this year. Use these as an opportunity to get creative. Focus on a few areas where managers can help reps really creative in their outreach, like these.

Compelling. It's going to be harder to sell right now. So your outreach needs to be as directly connected to positive, compelling outcomes as you can get it. Build a persuasive argument with data, testimonials, direct language, and more.

Relevant. As always, it's important to personalize sales outreach. If that means reps need to focus on fewer accounts to spend more time crafting relevant messages, that's okay. 10 highly targeted emails are probably better than 20 generic ones.

Unique. Make your outreach stand out. What can set your outreach apart from everything else prospects are getting right now? This is a great opportunity for sellers to flex their creative muscles and find interesting and new ways to make contact.

Do less to do better and thrive in 2023

The next few quarters could make or break your sales team. But tough teams make it through time times. So concentrate on doing less better. Get ruthless with your focus and execution. Make sure you can see where reps are spending their time and how that impacts coverage of your target accounts. Review it weekly with your team and coach to it.

And remember, that all of these things are happening with your customers and prospects right now, too. This is going to be top of mind for *their* board, their CEO and their CFO. If you're selling in this market, make sure you've internalized all this. And, more importantly, make sure you can speak to it with prospects. Those who can will get executive attention and a good shot at a deal. Those who can't might not survive the year.