Mastering Technical Sales
2037 Trowbridge Drive
Newtown, PA 18940
Phone +1-215-431-1552
John@masteringtechnicalsales.com
www.masteringtechnicalsales.com
John Care, Managing Director

How Much Is An SE Worth?

What's Your ROI?

"How Do I Justify Incremental SE Headcount?"
"What's the ROI for an SE?"
"How Do I Calculate Presales Effectiveness?"

Have you ever heard one of those questions? Have you ever been put in the position of having to justify your business impact (or that of an entire presales organization) to a sales leader, sales operations, or to someone in finance or even HR?

It's a topic I've wrestled with over the years, and with the help of Michael Lohr, Sean Cullen and Jim Sargent from out there in the SE community we'll look at the costs, the benefits and a few ways to calculate the ROI of a presales engineer.

The Costs. So let's look at the basic costs associated with an SE. These are all approximations based on an average SE salary in the software business in the US. So your mileage will vary depending upon location and industry – but the basic structure remains the same.

Base Salary and Commissions	$150,000	Average SE ; 5-7 years
Overhead/Burden	$ 60,000	40% for Benefits and Overhead Expense
Training	$ 14,000	External Training/Certifications etc
Travel	$ 36,000	$3k/month
Approximate Overhead	$250,000	

So – figure that even a 40 person SE organization is going to cost you $10m if you get them travelling. From a financial point of view, only 10-15% of that $10m budget is variable – the rest is fixed no matter what happens to sales quota.

The Direct Benefits: The first obvious benefit is that the SE team drives a massive proportion of new product revenue – where product is defined as what you are selling. If your product is renewable in terms of being software, hardware or other goods that require ongoing support – then there is an annual support or maintenance payment stream as a result of the sale too. In most industries the sales force is credited for at least the first year of such support. There may also, for example in the Telecommunications space, be recurring annual revenues instead of an upfront-payment. Plus, your product may require installation, setup, education or configuration services – which is also revenue driven directly by the sale.

So, at least for a first approximation, you can count all this revenue as SE-driven revenue. For accuracy you can factor out upgrades and increased customer use due to natural growth and expansion (i.e "more seats"). This applies only to the current solution set. For example if you are selling medical supplies/pharmaceuticals and a new indication is approved which causes additional sales – someone still has to "push" that.

The Indirect Benefits: There are a number of these softer benefits so I'll focus on three common examples.

1. Post-implementation visits. A typical presales organization spends 5-8% of its time in post-sales activity fixing something that is broken – either in support or services. Happy customers buy more products and this is an area we can influence outside of the traditional role. You can also include planned post-implementation visits such as performing a "health check" with the goal of making some recommendations to improve the product usage as well as explore other opportunities in accounts. This is very hard to measure because these visits are not always attributed to another sale but I'm certain they contribute to these deals.

2. Enhancement requests. In general, SEs are the foot soldiers who know what customers want and where they want to go. Product Managers would be very blind to the market without the SEs input. Hiring one more SE does not necessarily increase this feedback but this information cannot be underestimated.

3. Collateral. As the typical organization of last resort – if a piece of collateral, training or general infrastructure is required then presales will usually create the content when no-one else does. This also extends to covering marketing events, partner training, trade shows and so on.

The Extreme ROI. Having looked at the SE-driven revenue, it's important to understand that sales is primarily driven and rewarded for generating revenue. Just as it's easy to say that if there were no SE organization then revenue would plummet, the same could be said for sales. An extreme and simple ROI would be – using our 40 person SE organization and an overall sales quota of $100m. (So even though most SE's do not have a personal quota, for the purpose of the calculations Quota = (100m/40 = 2.5m per SE)

$$\frac{\text{Quota}}{\text{Salary}} = \text{ROI} \qquad \frac{2{,}500{,}000}{250{,}000} = 1{,}000\%$$

Clearly not a credible calculation for many reasons.

Alternate Views. There are now two approaches to the ROI calculation. The first is the overall ROI on the entire pre-sales organization. I personally find this is almost impossible to calculate and is not a feasible business number anyway – what is more important is <u>the ROI of the next SE hired</u>. So let's look at that instead.

The New Hire. The annual costs for a new hire using our same example are still around $250,000. Training and travel costs may be lower, balanced by a possible internal referral fee, cost of laptop and other equipment etc. In terms of potential quota contribution, industry guidelines are:

Years in Organization	Quota Contribution
1	40% (1,000,000)
2-4	100% (2,500,000)
5+	120% (3,000,000)

This takes the conservative approach that the first six months are pure ramp-up time spent in training and ride-alongs with other SE team members. The second six months the SE is placed in lower-value and lower-risk situations – typically smaller deals, RFPs, trade shows etc. thus freeing the more experienced members of the team to focus even more of their time on the high-value revenue targets.

Given the typical ramp-up time for an SE, there is also a case to be made for building bench strength for each of your major solution sets. Under no circumstances should activity in a vital geography or product line be single-threaded because there is only one SE who can cover the opportunities. Sometimes hiring needs to occur prior to a projected increase in activity, regardless of current ROI.

An Introduction to ROPE "Return On Presales Effort". The other assumption in the calculations that will follow is that a new-hire is placed in the optimum position to benefit the company. One way to assure this is by using an analysis of activity against revenue – hence the ROPE acronym. In essence you are checking that (a) sufficient demand (and pipeline) exists for an incremental head and (b) sufficient revenue is associated with that demand. ROPE examines revenue, utilization, time and win-rate broken down by geography, product line and activity. For example – by geography:

Geography	Revenue(m)	Heads	Rev/hc	Utilization (%)	Win-Rate
North	15	8	1.88	82	36
South	18	6	3.00	66	42
East	24	8	3.00	65	42
West	22	9	2.44	58	44
Strategic	12	4	3.00	54	53
Federal/Gov	20	5	4.00	74	56

There is a lot of analysis and definitions of terms that we'll skip over here, as you need to examine all three dimensions (and that's one of the things I consult upon), but looking through the data it seems the Federal/Government group is producing the most revenue per SE, has the highest win-rate and is heavily utilized. It is the logical place to add a head as there is both demand to satisfy and revenue to gain. The criteria for each parameter are highly dependent on each individual company, but in general the higher numbers win.

When dealing with sales you can also factor in the size of pipeline. Usually 3.5 to 4x quota in a pipeline is considered healthy enough to justify additional SE-power. Assuming the pipeline is large enough then none of the other geographies satisfy the ROPE criteria. There are two options – either hire a new SE directly into Federal or transfer from the North or West into Federal and then backfill.

New Hire Direct Into Federal	4.00m x 40% = **incremental revenue of 1.60m**
Transfer North to Federal and backfill	(4.00-1.88) = incremental 2.12m. Plus 1.88m x 40% = 0.75m Total **incremental revenue of 2.87m**

Based on this data you could incur the additional $250k cost of a new SE and recoup anywhere from $1.6 to $2.87 million in return – both a payback in way less than a quarter. It's important to realize that these calculations are based on the marginal rates of adding a small number of heads. Adding ten new SE's to Federal wouldn't return ten times these results. That said, what financial controller could turn down these numbers?

"Even if you are on the right track, you'll get run over if you just sit there."

Will Rogers – American cowboy, comedian and actor.

Have Feedback? Email me or post a comment on the MTS Blog.

Talking Points is a monthly column authored by *John Care*, Managing Director of Mastering Technical Sales. For more information on this and other Sales Engineering topics visit the website at www.masteringtechnicalsales.com.

***Sean Cullen* is a Director of Strategy & Operations for SAP's Global Presales team where he is responsible for field strategy, performance, productivity, and business operations. Prior to coming to SAP via acquisition of Business Objects, Sean has been in several critical sales operations and executive field support roles focused on Enterprise Sales and Services in the high-tech industry.**

***Jim Sargent* is a former Sales Engineering Manager for an internationally known systems management company, and is currently working as a Senior Software Consultant for BMC Software Inc. selling Business Service Management.**

***Mike Lohr* manages Tripwire's Eastern Region SE Organization. He puts his over 15 years of experience to work helping current and future Tripwire customers. Before joining Tripwire in 2004, Mike held Managerial and Sr. Systems Engineering positions at several leading companies in the Computer Software industry**

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