



# The Phormion Philosophy:

## Straight Talk About ROI Sales Tools

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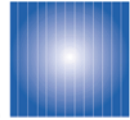
**Developed By:**

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**“Where the Facts Are Few,  
Experts are Many”**

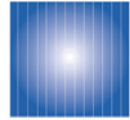
Although a relatively nascent and obscure field, one can't run a simple Google search without tripping over a dozen companies that claim to be experts in the development of ROI sales tools. Throw into the mix the big names in business consulting and research looking for some way to maintain their revenue in the face of a high-tech economic depression, and the list of ROI geniuses expands still further. Many of us will remember the comical (and politically devastating) video of then-presidential candidate Michael Dukakis riding in an M1 tank with an oversized helmet. That image drove home something we all knew full well: wearing a helmet doesn't make one a soldier. Likewise, claiming to be an expert in ROI and spending a few thousand dollars on a flashy website doesn't make one a competent ROI sales tool developer.

Conversely, this paper was developed by an organization that has been doing nothing but building all manner of ROI sales tools for all manner of large and small companies for the past 6 years. As the old saying goes, “we eat and breathe this stuff.” Over the course of those 6 years and dozens of ROI sales tool projects, we've developed (sometimes by

learning the hard way) a philosophy about the development and use of ROI analysis in the sales process. We don't pretend to be experts in other kinds of ROI analyses - for example marketing programs ROI, or the assessment of the ROI of internal corporate technology investments. We don't claim to be an “independent third party”, an assertion that is preposterous for any organization that accepts financial remuneration for its services. We are paid by our clients to build financially oriented tools that are designed to help their sales organizations close more business faster. Our tools are intellectually and mathematically honest, based on sound analysis, and highly credible, but we don't attempt to obfuscate the fact that we're on the side of our clients' sales team.



It is with those credentials and that foundation that we present our corporate philosophy in this paper. We hope you enjoy our entertaining, and at times sarcastic, presentation of “The Phormion Philosophy.”



## It's The Sale, Stupid

Perhaps the most obvious, yet least appreciated aspect of the ROI sales tool "business" is that the objective is to build a tool that sales people *will use* to help them accomplish their mission. The point isn't to impress your mathlete friends with the complexity of your calculations. It's not a college term paper that earns a passing grade if it exceeds 15 pages, thereby passing the "weight" test. And it's certainly not the final deliverable in a PhD thesis in finance designed to impress other finance or economics PhDs.

Simply put, the only reason a salesperson even considers presenting an ROI analysis to a prospect is to help him make the sale. It thus follows that the only reason to build an ROI sales tool is to help the salesperson. ROI sales tools need to be designed and built

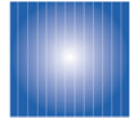
***The only reason a salesperson even considers presenting an ROI analysis to a prospect is to help him make the sale.***

with the salesperson as the exclusive focus. Sounds simple, but the point is often missed. Assuming that we all agree that an ROI sales tool should address the

needs and wants of the salesperson, let's think a bit about what the salesperson's environment looks like.

First, a salesperson's credibility with his/her prospect is paramount. If the prospect doesn't trust the salesperson, or if the salesperson oversells either themselves or their product, they'll fail. Second, every second with a key prospect decision maker is precious to the salesperson. They rarely enjoy the time and attention they would love to have with a prospect. Third, salespeople, especially those in large multi-product organizations, are constantly bombarded with largely uncoordinated, poorly communicated sales aids and tools. Many have perpetual stacks of unread information on their desks, and simply do not have the time to go through it all. Finally, to the best salespeople, any activity consuming time that could be otherwise spent in front of prospects is often considered a waste, and is clearly to be minimized. This includes sales meetings, training, and the time spent learning how to use and deploy the newest wiz-bang sales tools built by the brain surgeons in marketing.

Without question, these philosophies may vary from salesperson to salesperson, but



they largely represent the environment in which the salesperson lives and works. Given this, it is imperative that sales tools focus first, and above all, on credibility versus "accuracy". Even if a salesperson really is psychic, it is likely to hurt their case to say so publicly. And as any ROI sales tool introduced to the sales organization will compete for the salesperson's attention with all the other materials in those stacks of unread paper on their desks, the tool better make them feel comfortable, or the salesperson will send it to the bottom of the stack.

Just like the only effective diet is the one you can actually stick to,



the most ingeniously designed ROI sales tool in the world is worthless if never used. Finally, training is clearly critical to the successful introduction of an ROI sales tool to the sales organization, but if the tool is unnecessarily complex, or if a thick manual accompanies it, a great deal of the salesperson's time will be wasted; precious time that could have been spent selling - the original purpose of the tool in the first place.

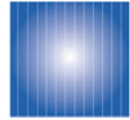
Although seemingly obvious, the designers of sales tools often

immerse themselves in their own little world when designing ROI sales tools - a world that bears little or no resemblance to the real one in which salespeople live and work. They either forget that sales tools are for the use of salespeople, or they have frighteningly little appreciation for the challenges that face those salespeople.

### **Off the Shelf is Off the Mark**

It happens thousands of times every weekend. A couple celebrating their 10<sup>th</sup> anniversary, a college graduation, mother's day, or a 40<sup>th</sup> birthday puts a new shine on their shoes, finds a babysitter, and heads out on Friday night for an off-the-shelf meal at McDonalds. Oh, it might cost less than a made-to-order dinner at Tavern on the Green, but you don't have to invest time and energy in thinking about exactly how you'd like your meal prepared, and you know you'll get your dinner within minutes. The best part is that you'll be able to season your own burger with as much ketchup as you like at the self-serve condiments stand; no need to depend on the whim of a Paris-trained chef.

Huh?



Sound ridiculous? It shouldn't if you've considered the purchase of any one of the many pre-packaged ROI sales tool software packages on the market today. The only difference in the two activities is that McDonalds is *less* expensive than Tavern on the Green, and McDonalds won't make you pay an on-going per-seat license or maintenance fee for the Big Mac you purchased at your anniversary dinner.

Granted, there are some similarities between all (or most) ROI sales tools: some kind of data collection section, a cost savings or revenue improvement calculation section, a cost of solution section, and an ROI (or financial measure) calculation area (IRR, NPV, etc.). This common "framework", however, represents about 1% of the overall value of the ROI sales tool (and that estimate is probably generous), and can be obtained for a few hundred dollars with the purchase of Microsoft Excel. The value of an ROI sales tool is not in the application, or even in the arithmetic behind the calculations, but rather in the content. The worst student in the freshman Business 101 class at any college knows that profit divided by investment equals the return on investment. It's understanding and quantifying what those profits may be derived from that makes ROI sales tool development

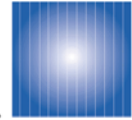
challenging; it's understanding the impact a solution will have on your business, your processes, your life.

An off-the-shelf solution might be more palatable if it was less expensive than custom-developed tools. A quick meal at McDonalds may not be as enjoyable as one at your favorite upscale Italian restaurant, but it'll

***The reality is that understanding that some methods of quantifying benefits are effective, while others aren't, and knowing the difference, is not a universal skill.***

cost you about 10% as much, making it a viable option. Oddly, just the opposite is often true when purchasing an ROI sales tool. The off-the-shelf ROI tool companies offer tools that can run double or more the price of a professionally developed, custom ROI sales tool researched and designed by an experienced company specifically for your organization - and built from the ground up. The price difference is magnified when on-going license and maintenance fees are included.

Certainly, an off-the-shelf framework can speed the



development of an ROI sales tool by enabling a fill-in-the-blanks approach to the development effort. This benefit is realizable, however, only if you already fully understand which of the many ways to quantify your specific value proposition is going to work



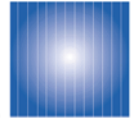
best with your prospects. It's not about laying down calculations, it's about telling a story – the right story. This of course begs the question: if you've done all that (the *real* work behind the development of an ROI sales tool), why pay a company for a framework that provides arguably no more capability than a blank Excel spreadsheet? The reality is that understanding that some methods of quantifying benefits are effective, while others aren't, and knowing the difference, is not a universal skill. Indeed, **how** you guide a prospect through the process is almost more important than the end result itself. Creating a sales tool is an art, and an inexperienced artist can easily lose his audience, or insult his audience with inflated claims, condescending points, or predictions that everyone knows just don't materialize in the real world.

Unfortunately, off-the-shelf frameworks are simply incapable of confronting these real challenges in ROI sales tool development and deployment.

Finally, the benefit of a sales tool is inherently its ability to help a salesperson differentiate his solution from that of competitors (external and internal competitors). This is realizable only if the off-the-shelf ROI tool "understands" and can quantify the individualized benefits and marketing statements that differentiate you from the pack.

***An off-the-shelf product will, by nature, be more generic, and therefore can apply equally well to a competitor, and used against you very quickly.***

You also want to guard against building a poorly designed sales tool that can be turned against the vendor using it. An off-the-shelf product will, by nature, be more generic, and therefore can apply equally well to a competitor, and used against you very quickly. A custom tool is designed so that you set the criteria for comparison, and highlight and drive home the strategic benefits that only your company can provide.

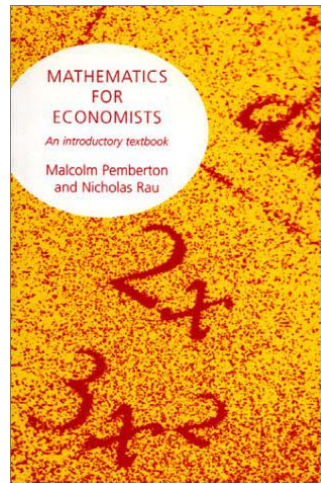


Not everyone has their suits custom-made, and not everyone lives in a house they designed and built from the ground up. If it were the same cost - or even less - to do so, however, very few people would choose the "off the rack" or "spec house" option. Why some companies make this choice when deciding on an approach to deploying ROI sales tools remains a mystery.

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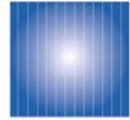
When we are young and relatively new to this world, everything seems complicated. After meandering through adolescence, however, we come to realize that the knowledge required to make macaroni and cheese really isn't limited to Mom or the other intellectual elite. At about the same time, we also learn to see through the exaggerations of others meant to manipulate our behavior. As Jerry Seinfeld noted in one of his routines, we really won't ruin our appetites if we eat two pieces of cake before dinner; no matter how much we eat, there will be another appetite right around the corner. Mom may have had our best interests in mind when admonishing us not to eat that cake, but let's face it, she wasn't entirely honest with us.

ROI sales tool companies like to play similar games with the truth in order to manipulate our behavior, often persuading us to overpay for their "expertise". Internal Rate of Return (IRR), Net Present Value (NPV), Discounted Cash Flow, Cost of Capital. Sounds like pretty complicated stuff, right? Well, that's exactly what many ROI sales tool companies would like you to believe. They'd also like you to pay for that false perception. They'd like you to believe that you need them to generate the calculations that CFOs want before making a purchasing decision. The truth, however, is that the knowledge required to develop these calculations is readily available for a few dollars in any college (or maybe even high school)



business textbook, and some of it is even done for you automatically by Microsoft Excel macros.

Believe it or not, you really don't need to spend tens of thousands of dollars on a "consultant" with an MBA and a really nice tie to tell you that your return on investment is:



$$\text{ROI} = \left[ \frac{\text{Profit}}{\text{Investment}} \right]$$

That high-priced consultant is also not necessary to break the "Profit" term down into the sum of Cost Savings and Revenue Increase minus the Total Investment:

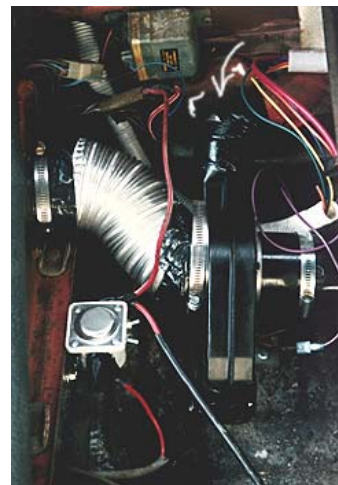
$$\text{Profit} = (\text{Sav} + \text{RevInc}) - \text{Inv}$$

Now, just fill in the blanks, show this equation to your prospect, and you're all set. The invoice for these "consulting services" should be in your inbox Monday morning. Completing this problem is left as an exercise for the reader.

Clearly, knowing the formula is not the hard part, and should not be considered a "feature" of any sales tool, just like extra-mayo doesn't cost extra in any self-respecting deli. Knowing how to fill in the blanks - **credibly and effectively** (to review, effectiveness is defined as whether or not the sales tool helped make a sale) - **is** the hard part. That's where a good ROI sales tool company can really help, and as we'll discuss in the next section, filling in the formula is more an art than a science.

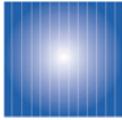
## First Step – Remove the Engine

A friend of mine told me in the late 80s that he was planning a weekend project to replace the clutch in his used compact car. A frugal sort, he chose to invest in the repair manual rather than hire a professional mechanic. He later told me that he turned to the *Replacing the Clutch* chapter for step-by-step instructions, and was



shocked, but highly amused, by the first line: "Step 1 – Remove the Engine." The story is true, and funny, but what does this little

memory have to do with ROI sales tools? In short, in any task that's difficult, there's always a *hard part*. My favorite example of this phenomenon is dieting. Every legitimate diet requires only one, very simple, guaranteed to work element: the dieter has to spend some time hungry. Chimpanzees can do the math required to count one's caloric intake during the day. The *hard part* is making it to bed when, by 1:00pm in the afternoon, you've already used up your allotted



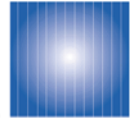
1,750 calories. Still, the diet “industry”, offering myriad products to complicate this painfully simple process, continues to thrive.

ROI sales tool development is similar in that there are easy parts, *really* easy parts, hard parts, and *really* hard parts. Not surprisingly, the hard parts require a high level of expertise and accumulated experience, and the easy parts require just the opposite.

***Like dieting, engine repair, or any other activity, in ROI sales tool development, there are easy parts, really easy parts, hard parts, and really hard parts.***

The following table provides a snapshot of the subtasks required to develop a credible and effective ROI sales tool, and a comment on the difficulty associated with each. Note that the tasks are listed in order of difficulty, not by sequence in a typical ROI tool project.

<b>SubTask</b>	<b>Difficulty</b>	<b>Experience Required</b>
Doing the Math (NPV, IRR, etc.)	Easy	Very Low
Determining the Inputs & Assumptions	Easy	Low
Training Sales	Easy	High
Developing Supplemental Material	Medium	Medium
Developing Help Text	Medium	Medium
Determining Default Values for Inputs	Medium	High
Performing Targeted Research	Medium	High
Determining Default Values for Assumptions	Difficult	High
Translating Value Benefits into Calculations	Difficult	High
Developing a Credible, Effective ROI Report Layout	Difficult	High
Testing and Refining the Model/Tool	Difficult	High



The table provides some useful insight into the various degrees of difficulty inherent in the development of an ROI sales tool, but it is admittedly abstract, so let's take a look at a specific example in an effort to identify "the hard part".

First, we'll need a product. Now, since the subject of this tome is ROI sales tools, why not talk about making the business case for an investment in ROI sales tools. Next, we'll need to select a value benefit (space and respect for the reader preclude addressing all the value benefits). That is, the identification of a benefit a company should experience if they invest in an ROI sales tool. There are many, but for the purpose of this exercise, we'll select the following one: less discounting of price. In short (and in theory), if your sales organization can avail themselves of a tool that justifies the price they're asking for, they should not be forced to lower their price as often, and even when they do discount, they'll do so by a lower percentage. That brings revenue increases, margin increases, and everyone lives happily ever after. Let's look at how we might predict what this savings might be.

First, we'll need to calculate what discounting costs the company:

- C** = Cost of Discounting
- N** = Number of Deals
- P** = Average Initial Price Per Deal
- D** = % of Deals Discounted
- PER** = Ave. % of Each Discount

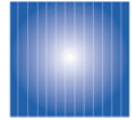
$$C = N \times P \times D \times PER$$

Assuming the company deploys - and the salespeople use - an effective ROI sales tool, they should experience *Y* percent *less* discounting per deal and *Z* percent *fewer* deals discounted. The financial benefit of an ROI sales tool attributable to the discounting value benefit can then be calculated very easily by applying the following equation:

- B** = Benefit of Discounting

$$B = C \times Y \times Z$$

No problem, right? Obtaining the information necessary to calculate "C", the cost of discounting, might take some effort, but at a minimum, estimates should be available from the sales management team of the prospect's organization. All we have to do is come up with numbers for *Y* and *Z*, find a bright third-grader to do the multiplication, and we're all set. The challenge, of course, is developing and substantiating credible values for *Y* and *Z*...



... the equivalent of removing the engine.

Indeed, in one sense, building values for Y and Z is even more difficult than removing the engine from an '85 Datsun. Although removing an engine is laborious, requires expertise, special equipment, and is fraught with risk, it can probably be done by adhering to a step-by-step, repeatable process - "by the numbers", if you will. In contrast, developing values for Y and Z, and credibly presenting Y and Z in the context of a sales discussion is a



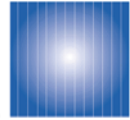
task much more akin to an art than a science. And, as you would not ask Monet to list the steps required to create a new painting, it is similarly

impossible to list, in order and with any degree of certitude, the steps an ROI sales tool company takes to develop and present Y and Z effectively. Experienced ROI sales tool companies, however, have been confronted by this challenge over and over, and can bring that experience to the task. Some initial thoughts on how to handle

the development of Y and Z include:

- ❑ External Research – 3<sup>rd</sup> party studies, conference proceedings, trade journals
- ❑ Interviews with customers
- ❑ Internal Research – case studies, empirical data collected over time; salesperson, product manager, and other internal interviews
- ❑ Best Guess – assume values for Y and Z and augment those with in-depth background information in help text
- ❑ Evaluate Different Logic - less dependent on Y and Z values - to build the business case
- ❑ Use a database to collect best guesses as tool is deployed; building evidence over time and refine the model to reflect gathered data

The order or way in which each of these approaches (and others) is used in this effort varies from project to project, as well as within each project ... so does the efficacy of each. In one sales tool project, case studies might be just the trick, while in another, a 3<sup>rd</sup> party statistic might go a long way to help the effort. Having a sense for the options available, when



each makes the most sense to use, and how to apply them, is the essence of experience; it is not provided in any textbook, and it is one of the primary reasons companies pay ROI sales tool companies to build their tools.

### Where Have You Gone, Nostradamus...

A few years ago, an old physics professor discussing the limitations of mathematical prediction of the future offered the following thoughts: if everything about every molecule in every horse in the Kentucky Derby were known with certainty, and if everything about every element of the surrounding conditions were known with certainty, with the help of millions of differential equations and the world's greatest super computer, mathematicians could theoretically predict the winner of the race after eons of computer time and zillions of calculations. The point, of course, is that the future is mathematically predictable in theory, but only in a very limited sense, in reality.

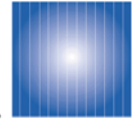
Extending this concept to the deployment of, for example, a new CRM system in a 1,000-person company, or to the decision to outsource a major portion of a company's HR services, or even to the purchase of a software/hardware product suite

that more effectively handles server redundancy, the example of a controlled horse race seems relatively simple by comparison, and it should. As impossible as it is to predict the future of a horse race, it's infinitely more difficult to account for the behavior of thousands of employees, customers, and others, and draw definitive conclusions about the future.

That, however, is exactly what ROI sales tools are supposed to do. A salesperson collects data, a tool performs calculations, and a potential, hypothetical future return on a known investment is calculated. That is, how the future will look - from a financial perspective - is presented to a sales prospect.

***Credible sales tools are inherently educational in nature, and function as much more than just collections of mathematical calculations.***

It sounds silly, but it happens everyday. Many ROI sales tools in use or in design today strongly imply, or even promise, that they can **accurately** predict this future. Indeed, they imply that these models can predict the future years down the road for a very complex enterprise that physicists know is



impossible to do for a 2-minute horserace. Even stock brokers are required by law to stipulate that “past performance is not a reflection of future returns”, but given that many of the ROI models developed by the big names in consulting are based primarily on past performance, perhaps their ROI tools should carry the same disclaimer.

Don’t let the fancy graphics, household research company name, or the 50 pages in the spreadsheet fool you; no ROI sales tool can predict the future with any degree of consistency or accuracy. What a good ROI sales tool **can** do,

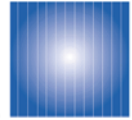


however, is help close the sale by providing a **credible**

version of what the future **might** hold. Although not as divinely-inspired as the “accurate” ROI sales tools floating around in the market, ROI sales tools designed to be credible can, without question, help salespeople educate the prospect, tell a coherent, reasonable sales story, speed the sales process, make their business case, and ultimately, close more business. The key is in the design of the tool, and its positioning by the salesperson.

Credible sales tools are inherently educational in nature, and function as much more than just collections of mathematical calculations. They include research and marketing material to supplement and support their calculations. They are designed to tell a story, with a coherent flow that is easy to understand and “makes sense” to the prospect. Good ROI sales tools are also open books; all calculations are 1) simple to understand, and 2) completely exposed to the prospect, so he/she knows exactly how the conclusions were drawn. They handle soft costs in a delicate manner, separating them from harder, more predictable costs, and not even attempting to quantify them if that effort negatively impacts the credibility of the tool. There are a number of other techniques that greatly improve the credibility of a typical ROI sales tool. Nevertheless, it is critical to understand the objective of the ROI sales tool design effort: is it to predict the future, or help a salesperson make a sale?

At Phormion, the answer to that question is never ambiguous: it’s about the sale, and that’s “The Phormion Philosophy” in a nutshell.



## **About Phormion Sales Tools, Inc.**

Phormion Sales Tools researches, designs, and develops interactive sales and marketing tools that use Return-On-Investment (ROI), Total Cost of Ownership (TCO), and other financial analyses to help high tech sales organizations quantify and explain their value propositions to their prospects. Phormion tools allow sales organizations to easily and clearly show their prospects how they can save money, time, and/or increase revenue using their products and services. We pride ourselves in transforming financial analyses into coherent, concise, value propositions and sales stories, and delivering the finished tools sales organizations need to communicate them. Phormion's clients include Siemens, Avaya, Microsoft, Cisco, IBM, HP, Network Associates, Intermec and Brother. For more information, please contact us at (908) 876-8700 or visit us on the web at [www.phormion.com](http://www.phormion.com).