Why Every CEO Should Focus on Sales

Danielle Fugazy | September 12, 2018

Michael Sala is a managing director at private equity firm LLR Partners, where he looks for ways to drive value creation across LLR's portfolio companies. Prior to joining LLR in 2015, Michael was a managing director with iLEVEL, a SaaS company. While there he led worldwide sales, sales development, marketing, and client retention efforts. He was also a sales leader at SunGard Investran. Michael recently wrote an article, "4 Sales Pipeline Metrics Growth-Oriented CEOs Must Know" on the most important sales pipeline metrics every CEO should be aware of.

CEOs who prioritize sales management outstrip their peers by as much as 80% in terms of revenue and profitability, according to McKinsey & Co. MMR sat down with Michael to get his take on why monitoring the sales channel is so important.

MMR: At a minimum, what are three metrics a CEO must know about their sales?

Michael: CEOs must know their average deal size, average sales cycle, sales conversion rate from lead to close.

MMR: How did you decide on these three metrics?

Michael: These metrics are 101 for scaling your sales organization. Putting together these metrics gives potential buyers confidence that the price point you are asking aligns with the future potential growth of your business from a top-line, revenue growth perspective and it gives buyers confidence that your revenue is predictable.

MMR: In what way do CEOs need to be engaged? It's a little surprising to think they aren't.

Michael: Most often CEOs are involved in selling, but they aren't setting their companies up for scale and that's what private equity firms want to see. They want to see these metrics and the corresponding data points to understand the success of your sales efforts in the past. These will be deciding factors when private equity firms are looking at your sales pipeline. Private equity firms will be more comfortable moving ahead with an investment or acquisition if the CEO can answer these basic questions with confidence. These numbers will give a private equity firm a level of comfort that the company can scale.

If a CEO can't tell me their average cycle that's a red flag. Now, most CEOs will say they know, but hearing six to nine months versus 265 days is and sounds different. As an investor, I am trying to figure out how predictable the future revenue of the business is. A definitive number is very different than a range of months. Similarly, a CEO saying the average deal size is $40,000 to $60,000 is much different than heading $45,500. I am more intrigued by the definitive answer.

The thing is the CEO has to be right. If he or she puts numbers out, will they hold up as the private equity firm goes into diligence? If a CEO says the average deal size is 50,000 and then the private equity firm finds out it's 30,000 the CEO will lose his credibility.

MMR: Why is understanding these three metrics in particular so important?

Michael: It's really about understanding the predictability of the business. If you know the company is targeting $1.2 million of bookings and the average annual contract value is $100,000 then you know you need 12 deals to close and as of January the company has 12 months to do it. It's linear and easy to understand. However, if the average sales cycle is 12 months and it's September and you haven't closed a deal, the private equity firm will have no confidence in the company's ability to close on $1.2 million by year end. CEOs have to be buttoned up. The story has to be a good one supported by precise data.

MMR: What is the consequence of a CEO not paying enough attention to these metrics?

Michael: If you are a founder-owned business there is an additional level of questions you will go through while trying to get the highest valuation during diligence. We, as buyers, are trying to make sure that value is justified. We are focused on the price point as a value representing what has been created to date, and then we compare that to where we believe we can realistically exit. We must know that the company can scale to get to that level. Understanding the predictability of revenue goes a long way in getting us there.

MMR: What's the most important takeaway?

Michael: It's not black and white. If the CEO doesn't have conviction and belief in the numbers there will be challenges keeping private equity buyers engaged. A CEO's confidence in the metrics will also tell us how entrenched he or she is and we will get a sense if we can believe in you. These are indicators for us and give us an investors a greater degree of conviction to get to the valuation a company is targeting.