



## **Breaking the Financial Justification Logjam**

By Don McNamara CMC

### **Executive Summary**

Does your sales force seem to be treading water on certain sales opportunities? Is the same information coming to you each month when you ask penetrating questions about prospects? Does it appear progress moving an account to closure is bogged down? You say ‘there must be a way to break this logjam’. You feel just as stymied as your sales representatives. You wonder what moves to make and how to do them. Maybe a new (or revisited) approach is in order and an additional step or two needs to be taken.

Try to remember how many proposals you have submitted that just seemed to go nowhere. They died a slow death. You know they were well received; yet they fell on the shoals of inaction. There is a reason that proposals get stuck somewhere in the approval cycle. Here’s why it happens and what you can do to break the logjam.

When times are good and capital is more readily available, we have a tendency to feel that the merit of the product alone was so overwhelming that our prospect would make a decision based on the sheer magnitude of the obvious. Like never before justification for any capital or expense purchase is under enormous scrutiny. Just like you, your accounts may be recognizing fewer orders with less revenue associated with them. Also, like you, they may be more cautious and judicious about where and when they spend their own monies.

Today decisions are being driven by financial impact on the business. A proposal that assists your prospect appreciating how and why the product not only pays for itself, but also actually pays dividends back to the purchaser, is what gets executive management attention in any market.

What you can do to break the logjam and make your proposal leap out from the rest is to do a Financial Justification and Return on Investment. You make them part of the sales process. You include them in the proposal.

The subtlety is in the quantification of the financial benefits to the firm – the benefits to them. These are stated in their language in their context and make it a fact-based discussion that leads to a logical conclusion. However, identifying and quantifying financial impact takes a set of skills that your sales force may not have been exposed to previously. It requires them to think like a financial person – not an easy concept, especially if they have come out of the technical ranks. This involves understanding how their prospect evaluates

buying decisions, what is the competition for these financial resources (the so called alternatives) and when monies are available for expenditure. They need to know if funding can be found to make the buying decision easier and faster, solidifying and validating the purchase.

Invariably creating interest and identifying need are accomplished with the beneficial user of the product. These may be the plant manager, operations director, manufacturing manager and safety officer, to name a few. Most likely your sales team has made calls on one of more of these people and come away confident the account will order the proposed product. When your sales team has come from the technical ranks they are quite comfortable calling on those most like themselves with engineering and manufacturing backgrounds where the representative does the traditional education of features, advantages and benefits. However features, advantage and benefits are not enough to carry the day anymore. Still to be accomplished is to have your sales team feel comfortable calling on and presenting their products to financial management.

Try this if you are currently stuck in an account and unsure of your next step; yet want to be proactive with your prospect. This process will help clarify where you are in any sales campaign and indicate if it makes any sense at all to even go forward presenting a proposal. It begins with an art that is slowly becoming extinct. It is the art of the analysis.

Here's how it works.

- Evaluate your prior sales calls. Determine who these were made on, what the objective of each call was at the time and if the objectives were accomplished.
- Get confirmation from the beneficial users that your product is a sound improvement over what they are currently using; that your product is a significant advancement over current capabilities. Clearly, by doing so, you have solidified their affirmation about your product
- Now openly admit you know how difficult it is to get any funding approved and that choices are constantly being weighed and alternatives examined for financial impact within every company. Openly ask your user if they are convinced of the improvements your offering gives them. If so would they introduce you to the financial authority in your prospective account? If the users indeed feel strongly about your proposal, they will assist in getting a meeting set up with the financial people. They are looking for ways to get their item approved too. The meeting with finance is crucial, as we will see.

You may need to coach the user with how to present information in a manner financial people will listen to and want to hear. In other words, help your user enough so they can be comfortable approaching a financial person and understand what to say once they have their audience with the intention of getting you yours. Admittedly, this can get tricky; it needs to be verbalized tactfully and with sincerity. Yet without knowing you can gain financial

approval, you may set yourself up for unrealistic expectations. If your relationship with the user is sound, they will be inclined to make this meeting happen.

- In your meeting with the financial people ask several questions. They might sound like the following: under the current conditions that exist in the company, what data is needed to support a favorable decision to purchase capital products? Ask which method of depreciation they use, is there any depreciation left on the product being replaced, if this item would be considered an expense item instead. Ask them what is the required rate of return, return on capital, return on assets and what other relevant financial factors are considered when evaluating financial alternatives. Is there a new award about to be given that requires updated and more productive products to return the profitability expected from the order? Be aware, however, this is just the starting list of questions that should be asked.

Knowing this in advance will help you decide if going forward with a proposal is even justified. Why? If the gains expected will not measure up to your prospect's criteria you will have gone through the effort of an analysis (and probably a proposal), yet never understood if the justification was high enough for approval.

- If the preliminary data suggests justification can be made, go forward and perform the actual analysis. In it you gather irrefutable evidence that you have compared the present capabilities with those expected of your product. These data could be efficiency gains, productivity improvement, scrap reduction, higher quality, less returns, fewer job reruns and improved safety, to name a few. The point is look for the impacts and implications your product affects because each and every one of the impacts and implications has a monetary value associated with it. Calculate the appropriate monetary value efficiency, productivity and safety gains make after installing your product. Contrast the present environment and monies with expected financial gains by quantifying these detailed improvements in financial terms.
- Once this comparative data is complete, do a preliminary review with your user before you commit to formal written pages. Why? If the numbers are not accurate, the justification not realistic, and do not pencil out for the user you can bet they will not in the financial ranks either. If the user acknowledges them, they will be more convinced than ever thus becoming a stronger advocate.
- Ideally the final written proposal should be presented to the financial people and your users at the same time. In doing so, the bulk of the questions that affect your proposal will be tendered in that meeting.

#### Benefits – Here's Why it Works

Creating interest and identifying need with the beneficial user may still be the strategy everyone else is using (and unfortunately for that matter) you still may be using. A revised strategy and set of tactics will identify you as the competition -for both product and funding.

Knowing how decisions about any expenditure are being made assists you in determining if a proposal is appropriate and defines what justification elements need to be in it to clear the financial hurdle.

Getting acceptance at several organizational levels is not only wise, for instance in selling large ticket items, it is essential. Without buy in from successive levels your proposal may never be forwarded up the organization. A sound financial justification/return on investment analysis uses your prospects data. You provide comparative information. That's what makes this process so powerful. It is the prospect's information fed back to them in a straightforward way compared to financial improvements your product gives them.

Taking the extra step by making timely and financially justified proposals establishes your professionalism and sets you apart from the competition. The effect is that your prospect views you as a consultant - assisting them in achieving the goals and objectives of **their** business.

#### Conclusion

Executives generally will not approve expenditures when those responsible for making the product successful are not totally invested in that success as well. To do otherwise courts having executive decisions sabotaged. That's why calling 'at the top' exclusively typically does not work. Today's executive makes final decisions based on fact, reasoning and logic, with emotion playing a small part in the overall scheme of things. They count on their staffs to supply the relevant information enabling them to form a conclusion. What is described herein is a way to get to the top in an orchestrated manner that avoids irritating all levels of management in the process while successfully gaining their approval.

So if up to this point your efforts were directed to the user, these probably were calls one and two. Now build preliminary justification with them. Get their buy in. Ask for their assistance in getting the justification information accurate. This will lead to a process that creates favorable acceptance all the way up the prospect decision chain culminating in successful proposal submission. And more orders for you.

© 2003 -2007 Don McNamara CMC