

VENTURE START-UP / EMERGING TECH?

3 Benefits to Outsourcing Your Early-Stage Business Development!

In an earlier smart paper, “7 Situations Where Start-Ups Hire Full-Time Biz Dev Teams Too Early,” we challenged you to properly gauge whether your business operation is, indeed, ready to properly leverage a full-time sales and marketing function. A recap of the risks to pre-mature recruitment include:

SUMMARY RISKS of RECRUITING A FULL-TIME SALES & MARKETING FUNCTION PRE: LIFT-OFF:

In short, there are a number of key scenarios that will lead to unwanted costs and complications if you recruit a full-time Sales & Marketing function too early into your venture plans:

- > You haven’t proven your product/market model.
- > You don’t have an anchor base of clients to inform and replicate.
- > You don’t know what kind of market expertise you really need to hire.
- > You risk too much time and money recruiting, training, managing, and compensating a motivated S&M professional, only to realize you made the wrong choice.
- > You can’t afford the right talent given limited finances. And so you settle.
- > You recruit too early, without having adequate strategic direction/work hours to justify your investment. Or enough leads to sustain an active pipeline.
- > You recruit a “closer,” when you need to generate leads and build a pipeline first.
- > You recruit a costly senior sales manager at a time when it’s still strategically imperative that the Founder/CEO remain involved in the sales cycle.
- > You recruit a proven “senior” sales professional who is accustomed to building, managing, and coaching operations of scale, but no longer has the appetite to “smile and dial” in the trenches.

YES – BUT HOW DO I GET CUSTOMERS?

Let’s be clear. You need customers. And you absolutely need business development expertise. But you may not know quite yet what customers you should be hunting, or how.

Outsourcing early-stage business development to a closely integrated team of hands-on, part-time contractors, who have past experience, proven expertise, and are compensated to deliver results, can help guarantee you reduce unnecessary burn, mitigate risk, improve performance, and accelerate outcomes. This option is especially important to consider during the pre-launch and even early lift-off phases of your company’s development.

Let’s take a look at a few of the advantages:

Expertise - The type of expertise you require, and the nature of the work you need to get done, to test and refine your value proposition, investigate lead sources, nurture your initial pipeline, and build a book of anchor clients, does not necessarily match the sort of skill-sets you will find in a conventional, full-time Sales & Marketing function. You need individuals who are analytically adept, cross-disciplinary, pragmatic, and quick to adapt. They need to be flexible, and even experimental, in their approach. And they need to be comfortable enough to address a broad range of markets while the company is still determining which segments are best to go deep. Oftentimes, they need to “evangelize” – a very specific type of sales approach that is well suited for early-stage start-up. Evangelical sales are quite different from the more engineered approach that a mature venture requires once the hunting ground has been proven, and it’s time to harvest in scale. A “Sr. Sales Manager” is someone you will eventually want to hire full-time, possibly as a “Vice President.” But, again, you need to determine whether you have enough market inputs to administer and engineer a full-scale process. Which is why it’s best to start out with incremental engagements using contracted sales strategists.

Cost – Hiring full-time Sales & Marketing personnel represents a major fixed cost for the organization. Yes – sales representatives are motivated by a generous commission structure. And perhaps even equity. But all sales personnel require a base salary. Veteran talent expects that base to be at least \$50,000-\$75,000 (market dependent), especially

if they're working in a major urban centre. Traditional/digital marketing coordinators are likewise compensated in the form of base salaries, perhaps with a modest bonus incentive. Now you've introduced significant burn without confirming your exact needs. ("Nonsense," you say? "We'll recruit younger talent at a lower base, and motivate them with a higher commission / equity scheme." Absolute worse decision you could make. You won't get the expertise you need. You'll be spending your time coaching when you're the one who needs strategic insight. You'll eventually dismiss some of your early-stage Sales & Marketing recruits. And 6 months later, your book of business will still be floundering.)

Still not entirely convinced? Take a look at the comparative (hypothetical) chart below to understand the cost-benefit implications of contracting vs. hiring **seasoned** professionals with genuine strategic insight during your early phases of growth and development - most especially when certain Sales & Marketing activities may not justify full-time engagement:

| FUNCTION | Actual Hrs Required / Month | FTE Monthly Burn * | Contract Costs* |
|---------------------------------|--|----------------------------|---------------------------|
| Marketing (1 staff) | 25-40 hrs (vs. 165 hrs FTE) | \$5,250 - \$7,000 | \$3,000 - \$5,500 |
| Sales (1 staff) | 40-60 hrs (vs. 165 hrs FTE) | \$5,500 - \$8,000 (+) | \$3,000 - \$5,500 (+) |
| Systems (1 staff) | 20-25 hrs (vs. 165 hrs FTE) | \$4,000 - \$5,000 | \$2,000 - \$3,500 |
| | | | |
| Totals | 85-125 hrs (vs. 495 hrs FTE with 3 staff) | \$11,750 - \$20,000 | \$6,000 - \$14,500 |
| Actual Hourly Equivalent | n/a | \$138 - \$160 / hr | \$70 - \$115 / hr |

* Rates vary depending on market. Proportionate comparatives still hold the same.

[Note: There is a critical assumption in this scenario specific to the sales function. Contracted sales representatives can be encouraged to accept a lower fixed compensation, thereby alleviating the monthly burn, in return for a higher commission rate on early sales than would otherwise be convention. Some business development contractors will even reduce or waive the monthly retainer after building operation infrastructure and validating market demand. These terms are typically pegged to critical milestones, such as the completion of the inaugural 12-month sales cycle, at which time they may be revisited.]

In short, early-stage start-ups should not hire full-time personnel to deliver 165+ hrs/month of business development services when they may require far less real effort in the early validation and pipeline development phases of their operations. Even if you managed to find a single individual who could expertly fulfill all of your marketing, sales, and systems deliverables (which is highly unlikely), hiring that person into a full-time position may still result in you paying for more hours of effort in your early months than you actually need. (In this scenario, 125 hrs vs. 165 hrs for a single, all-purpose business development professional... or roughly 33% more than required.) Every scenario will vary. But be sure to track your requirements closely and weigh the costs carefully. In many cases, simply contracting part-time veteran support will prove more prudent in the first 6-24 months of growth development.

Risk Mitigation – Contracting well-vetted Sales & Marketing strategists minimizes your risk on multiple fronts. You should be able to negotiate a more cost-effective compensation model at a time when cash is limited. Commissions and equity can still serve as means to motivate and reward positive outcomes. But there are no risks associated with benefits, workers compensation, taxes, etc. Moreover, arms-length service agreements can be terminated on short-notice at minimal cost and minimal risk to the company. You can build into this agreement a schedule of anticipated milestone outcomes. These milestones (e.g. quarterly) can serve as benchmarks with which to measure a contractor's performance and success rate. If performance is lacking, you can end the engagement.

Whatever your stage in development, when you're thinking about further sales and marketing hires, be sure to gauge your "readiness" for growth. By asking yourself our seven fundamental "readiness" questions, you'll not only gain a more astute sense of timing, you'll be reminded of your mission critical sales and marketing priorities.

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