



QoR³

THE QUALITY OF REVENUE OPERATIONS

A comprehensive, practical and actionable framework to help investors, managers and accountants to better assess, quantify, measure, and manage the future organic growth potential of a privately held B2B business.



SLATE POINT
PARTNERS

A meta-analysis of the core intangible assets and interdisciplinary commercial competencies that generate future revenues, cashflows and firm value

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I. ABSTRACT: AN EMPIRICAL ANALYSIS OF THE INTANGIBLE, INTERDISCIPLINARY AND INVISIBLE DRIVERS OF REVENUE GROWTH

This analysis seeks to provide the large audience of investors and managers that buy, own and manage privately held business assets a more financially valid and actionable means for valuing, measuring, protecting and growing the value of small, privately held firms.

The problem is that private equity investors and portfolio company managers are largely unable to take advantage of the vast and growing body of academic research on the marketing-finance interface. These allocators and manager of capital lack exposure to the research, find it difficult to put into practice, and need a way to reconcile how marketing assets and actions interact with other functions, stakeholder, systems and assets within the business to create firm value.

This paper presents a practical and actionable framework – the Quality of Revenue Operations – which can help investors, owners, accountants, and managers leverage research on the marketing-finance interface to understand the sixteen operational levers and forty six specific drivers of firm value in their business to improve their ability to value business assets, report performance, allocate capital and resources, and govern commercial assets, processes and fiduciary risks.

A primary outcome we seek is to significantly expand the adoption and impact of the vast body of research created on the marketing-finance interface to a much larger and vested audience private investors and analyst and the management and accounting teams within the businesses they invest in. In addition, we hope this framework will help scholars, accountants and practitioners to contribute or direct new research that fill key gaps in knowledge and practice, develop operational benchmarks, and structure “test and learn” experiments that continuously improve the return on commercial assets and investments. This analysis does not seek to recommend better ways to value commercial assets or advocate for changes in financial, managerial and acquisition accounting standards.

The objective of this analysis is to provide a comprehensive, practical and actionable framework to help investors, owners, boards and managers better forecast, predict, quantify, assess, benchmark the future growth potential of a privately held business and direct and inform future research that connects commercial assets, investments and actions to firm value and financial performance. The research seeks to build upon and communicate the growing body of academic and commercial research in the field and increases the use of more accurate models and methods of assessing in industry. This research paper:

- Aggregates, affirms and builds on the increasingly intangible nature of commercial assets over the last forty years – and the gaps in management and accounting practices across financial, managerial and post transaction accounting in quantifying the true value of a business assets (brand, internal software development, R&D, New Product Development, Design, Training, Process know how).
- Incorporates new research on the increasingly interdisciplinary (marketing, sales, success and finance) and asset intensive (commercial data, brand, and digital channel assets) nature of revenue growth from research conducted in the book Revenue Operations.
- Informs investors, owners and managers of the gaps in accounting, due diligence, management reporting, and governance practices currently in use in quantifying the true value of the commercial assets and growth capabilities (brand, internal software development, R&D, New Product Development, Design, Training, Process know how) within the firms they are buying, governing, protecting or growing - particularly given the lagging nature of traditional due diligence (quality of earnings) and the inadequacies of current accounting (GAAP and FASB) practices and reporting standards.
- Catalogs and contextualizes the different approaches, models and methods developed in academic and commercial research for better assessing the impact of commercial actions, assets and investments on firm value in the proper context (value based, customer equity based, asset based and revenue attribution based).
- It suggests a practical and actionable (conceptual, theoretical) framework (The Quality of Revenue Assessment) - that will allow (private company) investors, boards, and owners of businesses to use the growing body of academic research on the impacts of commercial actions and assets on firm value in their investment, fiduciary and capital allocation decisions. (Other options are too slow, expensive, theoretical, and subjective)

The ultimate goal of this analysis is to provide private company owners, investors and boards an alternative evaluation model - a Quality of Revenue Operations framework - that better reflects the true drivers of value and growth after decades of an entrenched reliance on Financial Engineering and Quality of Earnings analysis in firm valuation. And it seizes on the rising focus on revenue engineering in the private equity and investment field, as the traditional financial engineering playbook used by Private Equity for decades has run out of steam as interest rates rise, and markets start to finally understand that organic revenue growth is the primary driver of firm value.

QUALITY OF REVENUE OPERATIONS DRIVERS OF FUTURE CASH REVENUE AND VALUE GROWTH

| Brand Equity | Customer Equity | Perceptions of Product Quality and Innovation | Return On Digital Channel Assets |
|---|---|--|--|
| <ol style="list-style-type: none"> 1. Brand preference 2. Brand safety and risk management | <ol style="list-style-type: none"> 1. Effectiveness of customer onboarding 2. Customer engagement and feedback process 3. Quality of customer success and service operations 4. Process for managing customer retention 5. Commercialization of account management | <ol style="list-style-type: none"> 1. Product development process 2. Product management process | <ol style="list-style-type: none"> 3. Optimizing the return on marketing channel infrastructure assets 4. Enabling "4D" digital selling channels |
| Return on Customer Data Assets | Return On Commercial Technology Assets | Return on Growth Investment | Commercial Resource Optimization |
| <ul style="list-style-type: none"> • Customer data capture and value realization • Customer data and analytics infrastructure | <ul style="list-style-type: none"> • Commercial technology optimization to simplify and augment the seller workflow • Commercial technology utilization by customer facing teams | <ul style="list-style-type: none"> • Funnel management process performance • Marketing channel optimization and orchestration • Content management and monetization | <ul style="list-style-type: none"> • Sales force design effectiveness and alignment • Sales and marketing resource and plan alignment • Goal and compensation alignment |
| Organizational Alignment | Operational Alignment | Customer Lifecycle Management | Organizational Knowledge Sharing |
| <ol style="list-style-type: none"> 1. Organization chart aligned with value creation 2. KPI and goal alignment with value creation 3. Go To Market functions aligned with value creation 4. Commercial leadership alignment | <ol style="list-style-type: none"> 5. Alignment between operations with strategy 6. Alignment across commercial operations 7. Operational performance risk to strategy | <ol style="list-style-type: none"> 1. Technology alignment with the customer lifecycle 2. Functional alignment with the customer lifecycle 3. Value management along the customer lifecycle | <ol style="list-style-type: none"> 1. Cross functional communication 2. Interdepartmental Connectedness |
| Pricing Structure and Governance | Talent Acquisition and Development | Growth Culture | Commercial Consistency and Reliability |
| <ul style="list-style-type: none"> • Pricing structure • Pricing discipline and governance • Process to Determine Pricing Optimization | <ul style="list-style-type: none"> • Rep recruiting, ramp and retention process • Employee engagement and feedback process | <ul style="list-style-type: none"> • Capability to innovate and grow • Ability and willingness to change • Cultural alignment with strategy • Right to win | <ul style="list-style-type: none"> • Revenue goal achievement reliability • Forecast process and consistency • Sales rep capacity and reliability • Go-to-Market focus, attainment and reliability |

■ INTANGIBLE ASSET ■ INTERDISCIPLINARY COMPETENCY ■ FOUNDATIONAL CAPABILITY

II. ABOUT THE RESEARCH

This research initiative was developed in collaboration with over 25 academics and experts in science of growth. To define and execute this meta-analysis, our research team examined 96 academic and commercial research papers that quantify the causal impact of market based intangible assets and interdisciplinary commercial competencies on future revenue growth, cash flow and firm value. These experts lent their research and decades of research and practical experience to make the key operational driver future revenue growth and the math of that makes those value drivers more visible and understandable to the investors, owners and leaders of growth oriented businesses. The authors of this analysis include:



Stephen Diorio, Stephen Diorio is a Board Advisor to Slate Point Partners, and a Senior Fellow at the Wharton Customer Analytics Initiative. A leading authority in go-to-market transformation, sales and marketing performance management, and revenue operations, Stephen has helped over 100 organizations to reengineer their revenue operations to accelerate growth and become more data-driven, digital, and accountable. He has authored several books on commercial transformation including *Revenue Operations: A New Way to Align Sales & Marketing*, *Monetize Data*.



Steven Busby, Steven Busby is the Managing Director and Founder of Slate Point Partners. Steve has over 30 years of experience operating and advising small and mid-sized companies to help them achieve transformational growth. Before founding Slate Point Advisors, Steve was CEO & President of Greenwich Associates, a \$90 million analytics and advisory firm that pioneered the concept of quantifying and benchmarking relationship quality in B2B financial services.

This steering committee was supported by contributions from academics and subject matter experts in the marketing-finance interface including Professor Dominique Hanssens of UCLA, Professor David Reibstein of Wharton, Professor Neil Bendle at the University of Georgia, and Bob Kelly the CEO of the Sales Management Association.

III. THE DRIVERS OF FUTURE REVENUE GROWTH ARE INTANGIBLE, INTERDISCIPLINARY AND LARGELY INVISIBLE TO FINANCIAL INVESTORS

Private investors are increasingly flying blind as they try to value, protect, and grow the value of privately held firms in a modern economy

The ability to reliably and accurately assess a company's capacity to generate sustainable revenue growth and hit financial targets is critical to investors, owners, and managers. Why? Because organic revenue growth – the increase in a company's sales over time – is the primary basis for creating business value. What investors are buying - and managers are trying to generate – are future cash flows.

The ability to generate consistent and scalable growth, and the commercial assets that create it, have become essential to value creation in every business – from a publicly traded S&P500 enterprise to hyper-growth SaaS businesses, businesses attempting business transformation to a recurring revenue model, or a businesses looking to unlock more organic growth from existing clients and assets. The more sustainable and scalable revenue growth is, the more valuable a business becomes. In fact, the ability to grow revenues organically has created more firm value than all efforts to reduce costs, expand earnings multiples, and improve free cash flow combined according to an analysis of total shareholder return over a twenty year span by the Boston Consulting Group.⁴²

This makes the ability to understand and maximize a company's core underlying ability to generate these future cash flows a critical business discipline – especially in a marketplace where rising interest rates, inflation, and competition for deals take the teeth out of financial leverage, engineering, and multiple arbitrage.

The core problem addressed by this paper is that it is inherently difficult to predict and forecast future revenue growth – and becoming increasingly more difficult as the nature of the digital economy and the commercial models businesses use for generating revenue growth evolve. These inherent difficulties make equity investing both risky and lucrative. But the traditional approaches to forecasting and assessing the future growth potential of a business by both investors and executive leaders are fundamentally flawed, impaired by accounting rules and common management practice make the problem much worse than it needs to be. For example, despite the importance of organic revenue growth to value, the “science and math of growth” are not very well understood by investors, owners and managers. Compounding the problem is the fact that the commercial assets that generate growth are hard to measure, manage, and report since they are largely “intangible.” Furthermore, the disjointed and siloed way most organizations manage their growth resources, assets and processes mean finance, marketing, sales, technology and customer service are deficient at sharing the information along the revenue cycle that can provide a better picture of pipeline health, customer value and the long-term revenue picture.

This means that the traditional tools investors and managers use to assess the ability of a business to generate revenues and hit its targets in the future – revenue forecasts, financial analysis, and customer intelligence - fail to provide a complete or reliable picture. Conventional approaches to forecasting, recognizing, and realizing future revenues are fragmented and flawed. Traditional financially based Quality of Earnings analysis can miss up to three quarters of the future earnings picture because they only look at historically based financial statements. As a consequence, this inability to reliably assess the future revenue generating ability of a business adds risk and costs while depressing return on invested capital.

The situation is only getting worse because a confluence of many secular trends confound, impair, and limit the ability of scholars and practitioners (investors, owners, boards and leadership teams) to effectively evaluate the potential of a firm to generate future revenue, margin and cash flows in order to properly value, protect, and grow the value of the firms they acquire and govern. Several factors render traditional financial and managerial accounting, management reporting and measurement systems and investment evaluation criteria less effective. These factors impact the ability of private investors to find, value, price and monetize their investments in privately held businesses. They include:

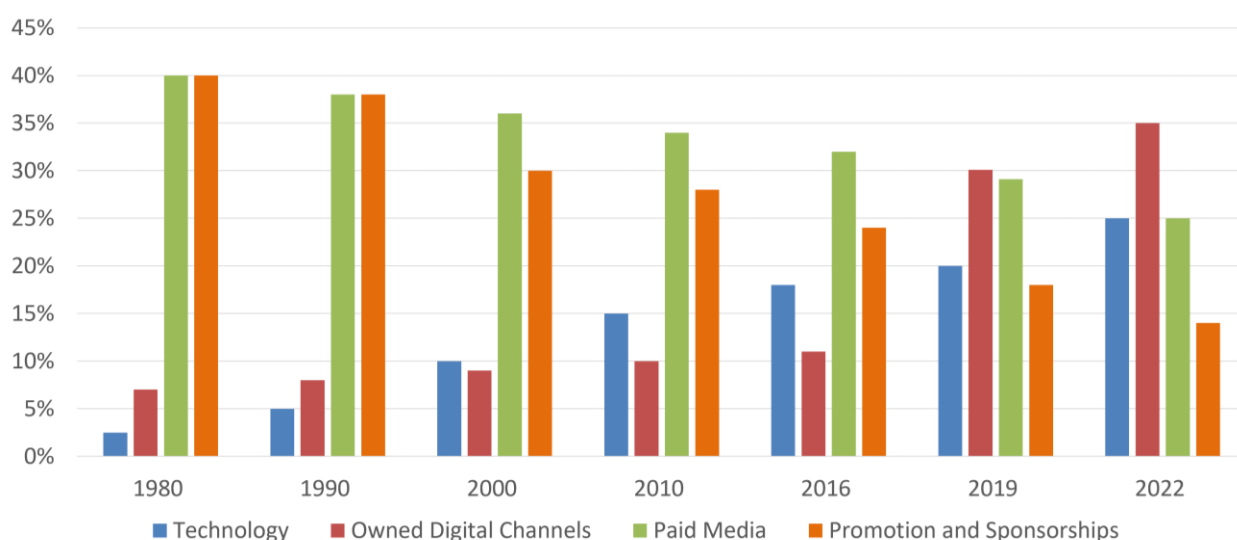
1. **The growing role of intangible assets in firm value:** The majority of the value in firms is intangible commercial assets – including market-based assets, knowledge assets, computerized information, innovative property, and economic competencies. When properly measured and accounted for, these intangible assets can represent up to 80% or more of the value of a business.^{7, 36, 5, 9}

2. **The changing nature of the commercial model:** The commercial model has become more capital (asset) intensive, digital, data-driven team sport – making the primary drivers of firm value and future growth intangible, interdisciplinary and “invisible” in financial reporting and accounting. Growth has become more capital intensive as two thirds of growth budgets are investments in commercial information, commercial technology, channel infrastructure and brands aimed at creating assets that accelerate revenues and grow firm value in the long term. Growth is more digital because 83% of buyers journey happens in digital channels through a mix of 20 or more digital channel that require and create large amounts of customer information.¹¹ And growth has become more interdisciplinary as over 90% of organizations are combining marketing, sales and customer success functions and aligning the management of commercial operations, technology, information, and IP assets around the customer journey. Business to business commercial growth processes entail higher degrees of orchestration across over 20 channels, 20 commercial systems, and a growing number of data repositories to generate, realize and retain revenues.²⁹
3. **Lack of transparency in private investing:** The vast majority (over 89%) of firms are now privately held (27 million privately held vs. 5 thousand publicly listed US firms) and lack the financial reporting, transaction frequency and analyst scrutiny of publicly listed businesses. There are over 27 million privately held while only 5 thousand firms are publicly listed in US markets.⁶⁷
4. **A greater emphasis on recurring and expansion revenues in valuation.** The majority of business-to-business firms (in a post-industrial information-based economy) rely more heavily on recurring revenue and customer expansion via cross selling platforms as the basis of their value (due to subscription, platform, cross sell and “as a service models”). This raised the bar for the quality of revenue growth (e.g. the Rule of 40) required to IPO or exit at a high multiple has increased which puts even greater pressure on PE funds to provide more active support to their portfolio companies.
5. **The emergence of revenue engineering as an investment thesis.** In the face of rising interest, longer holding periods, and a higher bar for company performance, private investors (PE firms) are spending 75% of their effort on looking beyond their traditional focus on financial engineering and beefing up their operations and systems for driving organic revenue growth.

The primary reason evaluating and unlocking the growth potential of a business is difficult because the assets and capabilities that drive growth are intangible, interdisciplinary and invisible. A variety of secular trends limit the ability of investors and managers to value, protect and grow the value of privately held firms.

Over the last forty years, growing a business has evolved to become a capital intensive, digital, and data-driven team sport. In that time the weight of sales and marketing investment has shifted from media and field sales to owned digital channels and the systems, data, and processes that support them. Today, we have reached a tipping point where growing a business is so capital intensive and interdisciplinary it has broken the back of traditional models for managing the customer cycle and the teams, operations, systems and commercial assets that support it.

THE EVOLUTION OF MARKETING BUDGET ALLOCATION (1980 TO 2022)



- **Selling has become more capital intensive.** The allocation of operating and capital funds to support growth has shifted dramatically from paid media and field sellers to technology enabled owned digital selling channels. The digital marketing tech stack has exploded to included thousands of potential solutions that engage customers through email, digital and mobile touch points. In the middle of the funnel, sales teams use an average of 10 tools just to close deals in the lead to booking phase of the revenue cycle according to research by Salesforce. Deeper in the customer journey Finance and product teams are investing in tools to help get control over proposals, pricing, contracts and forecasts to give them better visibility and control over the revenue cycle and manage revenue leakage. This commands an astounding two thirds of operating budgets. These tools are getting very expensive. In all, the average business to business organization uses over 30 digitally enabled marketing, sales and service channels to engage prospects and customers over the revenue cycle. Some operations leaders report as many as 100 tools are in use.
- **Selling has become more digital.** The broad adoption of “4D” digital, data-driven, distributed, and dynamic selling networks has transformed the go-to-market approach of almost every (97%) organization according to a survey of 352 business leaders by Wharton.²³ When humans are involved, digital technology offers the potential to double the speed, visibility, productivity and engagement of front line sellers. As transactions move to self-directed digital channels, businesses are under pressure to meet the growing customer desire for more compelling, personalized, and friction free digital experiences. Today the business to business customer journey happens almost entirely online.

SECULAR TRENDS THAT IMPAIR THE ABILITY OF INVESTORS TO QUANTIFY, PROTECT AND GROW THE VALUE OF PRIVATELY HELD FIRMS

| | |
|-------------------------------------|---|
| ASSET INTENSIVE COMMERCIAL MODELS | The commercial model has become more asset intensive with the emergence of complex and expensive commercial technology ecosystems as the engine of growth and marketing-based intangible (brand, customer) assets making up over 25% of firm value. |
| DIGITAL CHANNEL INFRASTRUCTURE | The commercial model has become far more digital as more firms pivot to “4D” (digital, data driven, diverse and distributed) selling channels as 83% of the B2B buyers' journey is now conducted online in more than 20 digital sales, marketing and customer success channels |
| DATA-DRIVEN AND ALGORITHMIC SELLING | The commercial model has become more data driven as digital channels and revolution in advanced analytics and AI is driving improvements in all aspects of the commercial model and creating large and valuable customer engagement data assets |
| RETURN ON COMMERCIAL ASSETS | Investors and managers demand greater accountability for financial returns on commercial assets and actions as they adopt investment strategies based on the ability to generate scalable and sustainable organic revenue growth and acceleration |
| REVENUE OPERATIONS | The commercial model has become far more interdisciplinary and cross functional as changing buying behavior puts pressure on marketing, sales and success to work together and business model transformation drives greater focus on the customer |
| REVENUE ENGINEERING | Private Equity strategies and investment teams now focus much more energy on finding ways to better ways to accelerate revenue growth, monetize the revenue generating assets and unlock the latent growth potential in a firm as market efficiency, high interest rates, better transparency, higher multiples and too much capital alter the economics of PE investing. |

- **Selling has become more data- driven.** The maturation of advanced analytics, AI, and Machine Learning (ML) – and the massive new sales engagement data sets to support them – represents the most significant opportunity to accelerate sales growth since the scale adoption of call centers (40 years ago), CRM (30 years ago), and digital

- **Selling has become a team sport.** “It takes collaboration between finance, operations and sales to generate predictable and scalable revenues,” says Tim Brackney, President, and Chief Operating Officer of RGP.¹⁵ “Doing this right is a team sport. So, I work very closely with my sales, account management teams and finance teams to ensure we have the information we need to allocate resources, monitor rollout logistics and project timelines so we can recognize, adjust resources and revenues to reflect the reality in the moment.”

These dynamics have fundamentally reshaped the allocation of growth resources, operating budgets and capital investment. Owned digital sales and marketing channels and the systems, data, content and operations that support them now command two thirds of operating budgets, displacing paid media and the overhead that supports field sales. And capital investment in the digital selling infrastructure, customer databases, and enabling technologies that support these digital channels and “4D” selling teams has created some of the biggest financial assets on the balance sheet. In some cases, the customer data within a business can be more valuable than the business itself.

“Investors, boards, owners and leaders have not adapted to the fact that selling has become an asset-intensive and data-driven and team sport”

They also have more and more business leaders paying more serious attention to the notion of being data driven, digital, agile, aligned and customer focused as a basis for competitive advantage. While they understand these things are strategically important, in most cases they don’t have a basis for evaluating, investing in or effectively managing these strategic value drivers despite the fact that they are the primary causal factors that determine the financial value of the enterprise. Without more credible and financially robust ways to evaluate the assets, investments, actions and competencies that impact future revenue generation the most, they will rely on past experience and increasingly outdated growth investment strategies and performance measures. Over time this will lead to lower return on growth investment, commercial assets.

Private investors are incorporating revenue engineering into their investment and value creation strategies

Another secular trend creating the need for better ways to value, govern and grow privately held businesses is the rise of growth equity and “revenue engineering” as a means for evaluating, managing, protecting and growing the value of private company investments.

The ability to sustainably grow future revenues is now essential to generating a return on capital in a Private Equity industry where rising interest rates, inflation, and competition for deals take the teeth out of financial leverage, engineering, and multiple arbitrage. With record levels of undeployed capital (\$3.7 Trillion globally), elevated interest rates, and a sustained slump in mergers, acquisitions and IPOs - Private Equity (PE) investors must contend with paying larger multiples for assets, at higher borrowing costs, and fewer short term liquidity options.^{58, 59} . These dynamics have intensified the operating pressure on PE investors to generate greater profits and future cash flow from the investments they make.

These dynamics have intensified the operating pressure on PE investors to generate greater profits and future cash flow from the investments they make. In response, PE firms are looking beyond their traditional profit levers of add-ons, financial management, financial leverage, and operational cost control and adding “revenue engineering” to their value creation toolbelt to augment or replace traditional financial arbitrage strategies that rely on low interest rates and financial engineering (e.g. tight financial management, high levels of financial leverage, overhead reduction synergies and draconian operational cost controls). Instead they are spending more time beefing up their operations and systems for driving organic revenue growth.

Revenue engineering is often defined as a systematic method for designing and implementing a repeatable revenue generation process that can be monitored, measured, and improved. It’s the ability to sustainably increase future revenues, while taking a holistic view of the entire revenue ecosystem. This includes considering factors such as product design, pricing, and distribution. In practice, this means that PE owners and operating partners are working more directly with the sales, marketing, customer success and operations leaders within their portfolio companies to drive more scalable, profitable and consistent growth. They’re finding ways to leverage data, systems, insights and process improvements to unlock more revenue growth from customer relationships, selling channels and markets they already have access to.

“Instead of pulling all the levers—leverage, multiple expansion, inorganic growth—PE suddenly found itself with one lever to pull,” according to Stephen Brennan, head of private wealth solutions at Hamilton Lane.⁴¹ The lever Brennan is referring to is organic growth. “There’s a flight to high-quality companies that will be able to grow organically despite a challenging

environment," adds Brennan. As evidence, growth equity deals that use operating leverage and expansion capital to accelerate and scale fast growing companies have grown to historic highs to represent over one in five deals, according to the Pitchbook Q32023 PE Breakdown.⁴⁰

Jim Howland, an Operating Partner at Morgan Stanley Private Equity, sees the role of the private equity investor evolving from pure financial engineering towards revenue engineering in the last several years to enable faster revenue growth and accelerate time to value. "What you do with an asset is as or more important as getting that asset at the right price," reports Howland. "The reality is that if you want to attract good deals and make a return in today's PE world, you need to have a plan for how you will add value over the entire ownership period and build it into the price you pay for the asset. And a big part of that value plan is built around marketing and growth capabilities."

As evidence of this trend, Private Equity Partners now spend 75% of their time on "revenue engineering" with a specific focus on pulling a set of "Operational Value Levers" to extract more growth from assets, and far less energy on traditional "financial engineering" according to a survey of 170 PE leaders by Accenture.³² PE investors now regard the inability to scale revenues quickly, and the lack of a plan to unlock value through deal integration and growth synergy realization, are regarded as the top obstacles to a successful deal according to the survey.³² This has more and more private investment professionals and a growing rank of Operating Partners looking for ways to leverage data, systems, insights and process improvements to unlock more revenue growth from customer relationships, selling channels and markets they already have access to. In parallel, formerly ignored "intangibles" such as cultural readiness (e.g. readiness to change) are now regarded as a bigger factor in the success or failure of a deal than technology, financial due diligence, strategy, or leadership. In an economy where intangible assets and interdisciplinary competencies are primary determinants of future revenue and cash flow, this renders traditional tools like Quality Or Earnings analysis and financial due diligence less and less effective in determining or forecasting the success or failure of a deal.

Private Equity Partners now spend 75% of their time on "revenue engineering" with a specific focus on pulling a set of "operational value levers" to extract more growth from assets, and far less energy on traditional "financial engineering"

"There is a flight to quality – with more PE dry powder than ever before (increased demand), and very few gold standard companies coming to the market (limited supply)," reports Ben Howe, the author of the AGC Partners Fall Tech Capital Markets Update.⁵⁶ "There is a much higher bar for 2023 and 2024 IPO hopefuls, which leaves the current herd of 809 technology sector unicorns on the outside looking in," he adds. "Many do not have the performance metrics that would meet today's IPO standard."

This makes the ability to reliably assess, improve, and maximize a company's core underlying ability to generate these future cash flows a very important business discipline. The challenge for both investors and operators is that growing a business in 2023 is complex, data-driven, capital intensive, and interdisciplinary. This makes it difficult to compare one commercial model to another and apply benchmarks and best practices from other businesses that can improve results.

For example, an analysis of the top 150 global public SaaS companies by AGC Partners found that while the best SaaS companies spend roughly the same amount on Sales and Marketing (about a third of revenues) - they get very different revenue outcomes in terms of revenue growth, revenue retention, and company value. For example, revenue growth across the 150 SaaS firms in the AGC SaaS index varied sixfold (between 4% and 35% CAGR). Company value as a multiple of those revenues varied eightfold (between 1.6x and 13.3x revenues).⁵⁶

That means other factors beyond effort and investment are impacting and confounding the ability of managers to improve the quality of their revenue generation. Achieving the type of consistent, profitable and scalable growth markets are demanding is a complex, interdisciplinary, technology enabled sport where the team that connects the most dots wins. Factors like teamwork, information sharing, the return on commercial assets, and the alignment of people, process and operations play a much bigger role in the growth formula than most managers realize. Revenue Operations is a systems-based approach to aligning the complex set of commercial systems, operations, and processes that support the revenue cycle in your business to accelerate growth and maximize company value. The principles of Revenue Operations can help any business to unlock more

growth potential and improve financial performance because they address the fractured and disjointed way every organization manages their growth resources, assets and commercial processes across traditional marketing, sales, service, and customer success functions which hampers the ability to generate reliable and scalable growth.

The fractured management of revenue generating resources, assets, systems and teams across functional silos represents a significant drag on future revenues and blinds managers to ways they can generate more revenue from their capital and operating budgets. For example, the fundamental lack of alignment of teams along the customer lifecycle causes revenue and margin to leak through “air gaps” and handoffs in the customer journey. It also means that the customer facing teams that generate revenues – and the operations, systems, data and processes that support them – are not sharing information, leads and data along the lead to cash cycle which leaves finance largely blind to many events that impact the revenue forecast. “Ultimately, the disjointed and functional management of growth resources is costing businesses millions of dollars in value because it depresses the return investors get on their investments in commercial assets and resources. This is why the discipline of Revenue Operations has emerged as such an important management tool to unlock and realize the full revenue potential in a business.

The drivers of future revenue growth are intangible, interdisciplinary and largely invisible to financial investors

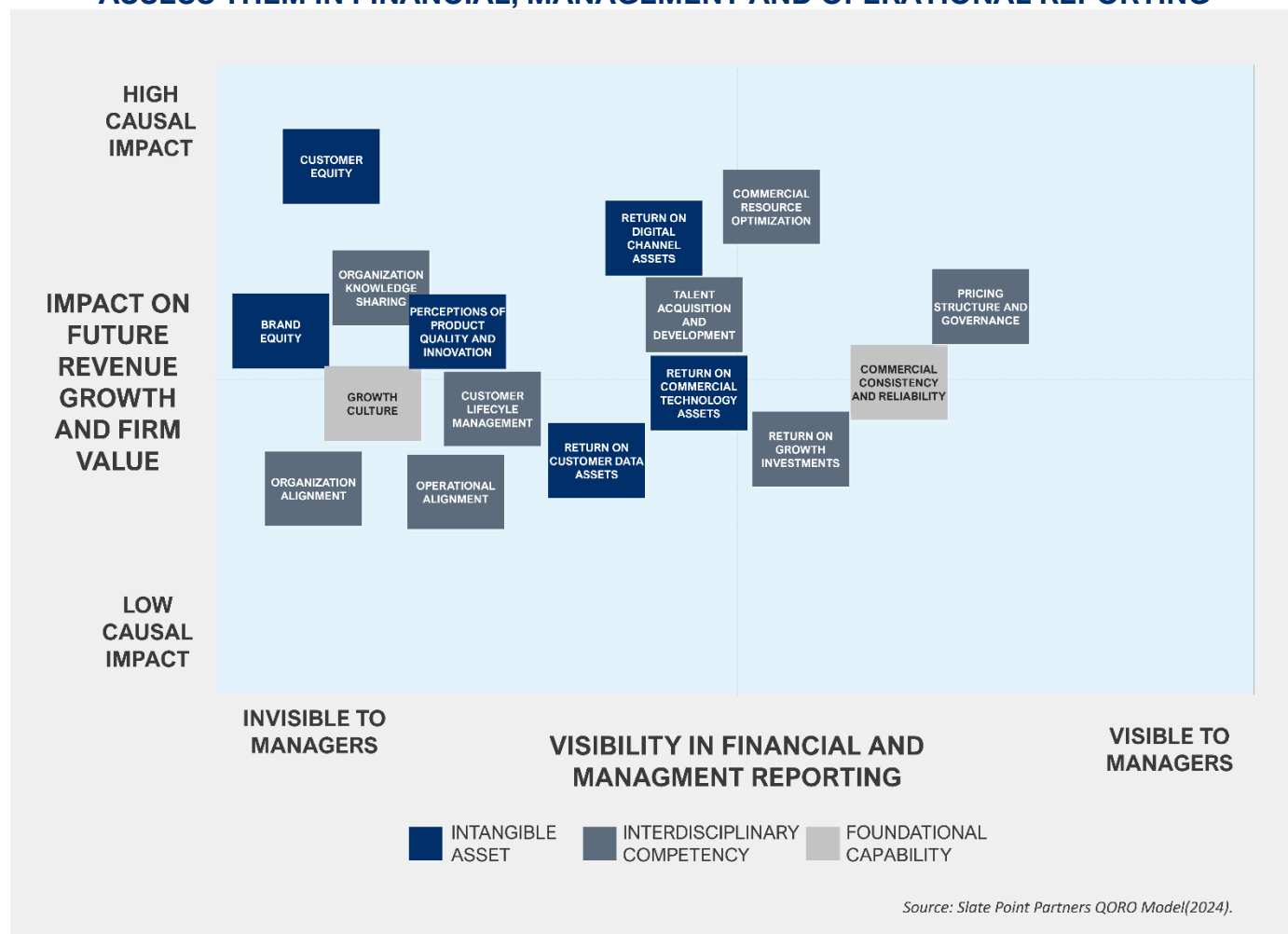
It is extremely difficult for investors to evaluate, quantify and unlock the full growth potential of a business because the growth assets, investments and capabilities that can generate more profitable, scalable and consistent growth are intangible, interdisciplinary and invisible. For example, this research found that Intangible growth assets – such as brand equity, customer equity, innovative IP and digital customer experience – are a primary driver of a third or more of future cash flow impact and firm value. In addition, the modern commercial model has become increasingly interdisciplinary in nature, as evidenced by efforts by over 80% of businesses to expand the remit of growth leaders, integrate the systems and data flows along the customer journey, and better align the revenue teams, processes, organizations and operations along the revenue cycle. And the majority of these value creating assets and interdisciplinary competencies are effectively “invisible” to investors, analysts and managers. This research found that traditional financial and managerial accounting, management reporting and measurement systems and investment evaluation criteria do not provide any visibility into 90% of the drivers of growth and value.

Today, the majority of firm value is built on intangible assets – customer relationship equity, brand preference, data and insights, process know-how, and digital channel infrastructure. A number of commercial and academic research studies have documented that, when properly measured and accounted for, these intangible assets can represent up to 80% or more of the value of a business.^{7, 36, 5, 9} For example, 72% of Microsoft’s market valuation is attributed to intangible assets such as computerized information (e.g. internal and external software development), innovative property (e.g. R&D, New Product Development), and economic competencies (e.g. market insights, brands, process “know how”) according to research by Haskel and Westlake in the book *Capitalism Without Capital: The Rise of the Invisible Economy*.³⁴ The ability of revenue teams to deploy these assets to grow future revenues and profits by building customer preference, conversion, loyalty, and usage while commanding price premiums are the primary drivers of firm value. As evidence of this, over two-thirds (68.1%) of Private Equity firms are pushing their portfolio companies to grow at faster than 10% a year to justify the price premiums they have paid.⁵⁸

Any business can unlock more growth and value by improving the return on their commercial assets. Revenue generating commercial assets – customer data, digital technology, digital channel infrastructure, customer relationship equity – make up most of the growth investment mix in B2B organizations according to an analysis by the Marketing Accountability Standards Board.¹ They also make up a significant portion of firm value. Most CEOs have a large opportunity to generate more revenue and profits from these commercial assets.

The growing importance of intangible assets to creating firm value is not lost on the owners and boards of high growth business. For example, several private equity firms like Rockbridge Growth Equity, Morgan Stanley Private Equity, Tengram Partners, and Vista Equity Partners have created a growth culture, operating model, and infrastructure to support accelerated growth at scale across their portfolio by creating centers of excellence in demand generation, call centers and digital marketing channels. For example, Rockbridge is the PE arm of the Quicken Loans group. They have been able to leverage their highly sophisticated marketing capability and focus on customer experiences that Quicken Loans used to become the #1 mortgage provider and launch of Rocket Mortgage into a major brand across the other firms in our portfolio.

THE CONTRIBUTION OF THE TWELVE QUALITY OF REVENUE OPERATIONS GROWTH LEVERS TO FIRM VALUE RELATIVE TO THE ABILITY OF MANAGERS AND INVESTORS TO ASSESS THEM IN FINANCIAL, MANAGEMENT AND OPERATIONAL REPORTING



A core issue is the fact that the majority of the value of, or derived from, these intangible commercial assets does not show up in financial, management and operational reporting. This is a problem for investors because the commercial assets that are fundamental to generate future revenue and margin growth are hard to measure, manage, and report because they are largely “intangible”. Revenue generating commercial assets include many intangible assets such as your brand, customer data, digital channels, commercial technology, and customer relationship equity. Similarly common sense factors like organizational information sharing, customer experience, and the quality of products, people and innovations that have been empirically proven to drive increases in firm value by academic research cannot be found in the financial, management and operational reports financial analysts use as the basis of their valuation research and investment due diligence efforts.¹ These assets now make up most of the growth investment mix in B2B organizations according to an analysis by the Marketing Accountability Standards Board.² They also comprise a significant portion of your firm’s balance sheet. But none of these important revenue drivers are typically assessed in financial reporting or a Quality of Earnings analysis. The accounting problem is these business assets that support growth are inherently “intangible” whereas factories, inventory materials, and trucks reported in financial statements are tangible. The Financial Accounting Standards Board (FASB) does not require management teams to report the value of the “intangible assets” that are so important to generating sustainable and consistent margins and revenues— despite the fact they now comprise the majority of firm value, depending on the business model.³⁴ And accounting investments in critical assets such as digital selling infrastructure, customer databases and brand are booked as expenses under managerial accounting principles – so instead of being managed and measured as an asset, they are viewed as a cost – and one that can easily be cut without consequences to the long term cash flow of the business. "The Original Sin of Accounting for Marketing is that all marketing investments are immediately expensed," says Professor Neil Bendle, co author of Marketing Metrics: The

Definitive Guide to Measuring Marketing Performance.⁷⁰ “The growing difference between market and accounting values of the business are due to intangible assets and flaws in Financial Accounting Rules,” according to Professor Roger Sinclair in his research on the Moribund Effect.⁹ This makes it extremely difficult for financial analysis to effectively and accurately value and assess the growth assets and potential within a business.

The primary reasons why growth is an interdisciplinary competency

The modern commercial model requires more orchestration of revenue teams, processes, operations, systems and data to grow consistently and scalably grow revenues and customer lifetime values. Management efforts to manage the increasingly interdisciplinary and asset intensive nature of the commercial model are reflected in the emergence of Revenue Operations - the alignment of revenue teams, processes, operations, systems and data - as a management discipline at most B2B organizations. As evidence, 85% of growth leaders are changing the way they lead and align revenue teams and the operations that support them to better support the revenue cycle, customer journey and customer lifetime value, according to a survey of 120 growth leaders in the book Revenue Operations.⁴ 90% of growth leaders are reconfiguring the roles, assignments, incentives and priorities of their revenue teams.⁴ And 94% of sales organizations plan to rationalize, connect, consolidate and optimize their commercial technology portfolio in the next 12 months in an effort to streamline, augment and digitize the day to day seller workflow, according to a survey of 7,700 sales leaders by Salesforce.com.³ All of this effort to connect the dots across commercial systems, roles, and silos has made Revenue Operations is the fastest growing job in North America.²

6 INTERDISCIPLINARY CAPABILITIES AND PROCESSES THAT GENERATE FUTURE REVENUE GROWTH AND INCREASE FIRM VALUE

- **Eliminate revenue leakage, shrinkage and slippage** - 1 to 5% of EBITDA flows unnoticed out of companies due to 11 points of failure in the product to cash cycle
- **Improve the economics of digital sales and marketing** - A “4D” sales model can improve sales productivity over 50% with cost reductions of 10% compared with traditional field sales.
- **Rep recruiting, ramp and retention** - A 5% increase in sales rep attrition can increase selling costs 4-6% and reduce total revenue attainment by 2-3% overall.
- **Optimize growth resource allocation** - Optimally aligning account priorities, coverage, engagement model, roles and territory assignments can improve performance 50% and contribute 5-10 points of profit contribution.
- **Pricing structure, governance, precision** - Data-driven pricing can yield profit margin expansion of 3-10% with existing resources via pricing optimization and innovation
- **Consolidate, simplify and optimize commercial tech stack** - Measuring, optimizing and connecting the commercial tech stack 50% improvement in performance and ROA.

Achieving the type of consistent, profitable and scalable growth markets are demanding is a complex, interdisciplinary, technology enabled sport where the team that connects the most dots wins. Factors like teamwork, information sharing, the return on commercial assets, and the alignment of people, process and operations play a much bigger role in the growth formula than most managers realize. Revenue Operations is a systems-based approach to aligning the complex set of commercial systems, operations, and processes that support the revenue cycle in your business to accelerate growth and maximize company value. PE firms are increasingly embracing Revenue Operations because it has the potential to generate more growth and value with existing resources and assets.⁶⁰ As evidence, there are seven ways any B2B organization can unlock more growth potential and improve financial performance by using the principles of Revenue Operations to engineer more revenue growth from their businesses.

1. Automating and optimizing the lead-to-cash cycle. 1 to 5% of EBITDA flows unnoticed out of companies due to 11 points of failure in the product to cash cycle, according to an analysis by the Revenue Enablement Institute.⁶⁹ Automating and optimizing the lead-to-cash cycle can grow revenues by 5%, reduce cost to sell by 5%, improve forecast accuracy by 34%, reduce billing errors and disputes on orders by 35%, and shrink the time it takes to collect cash by over 10% according to research by Salesforce.⁴³

2. Optimizing Selling and Resource Allocation Tuning your commercial architecture –the design of your sales force and they key incentives, quotas, and roles, coverage and engagement rules within in – to take better advantage of digital technology can double the speed, engagement and performance of your front line sellers, according to research in the book Revenue Operations. A properly designed and optimized commercial architecture can contribute five or more points of profit contribution to the bottom line because selling systems can generate vastly different outcomes in terms of rapid revenue growth and better profit contributions without adding resources and costs based on how variables like channel mix, customer treatment types, coverage ratios, selling effort, and product emphasis are set up. For example, a Pharmaceutical company was able to drive \$25 million in marginal sales contribution – an 8% increase – by changing the size, deployment, and product emphasis of their sales force, according to research conducted by Professor Leonard Lodish of Wharton.⁵⁴

3. Improve The Economics Of Field Selling – Moving to a more digital, data-driven, distributed and diverse (“4D”) sales model can improve sales productivity over 50% with cost reductions of 10% compared with traditional field sales.⁶⁴

4. Better Managing The Rep Recruiting, Ramp And Retention Process - A 5% increase in sales rep attrition can increase selling costs 4-6% and reduce total revenue attainment by 2-3% overall. Ten points of salesforce attrition can wipe out revenue plans and margins if nobody picks up the slack by increasing the cost of sales by over 20% and revenue attainment by 8% according to an analysis of the enterprise-wide Rep Recruiting, Ramp and Retention Process.⁷¹

5. Improving Pricing Structure, Governance, Precision - More disciplined and optimized pricing can expand margins by 3-10% with existing resources and improve earnings multiples with limited investment according to analysis by Wharton Business School. Data-driven pricing can yield even greater profit margin expansion by enabling pricing personalization and innovation.¹⁷

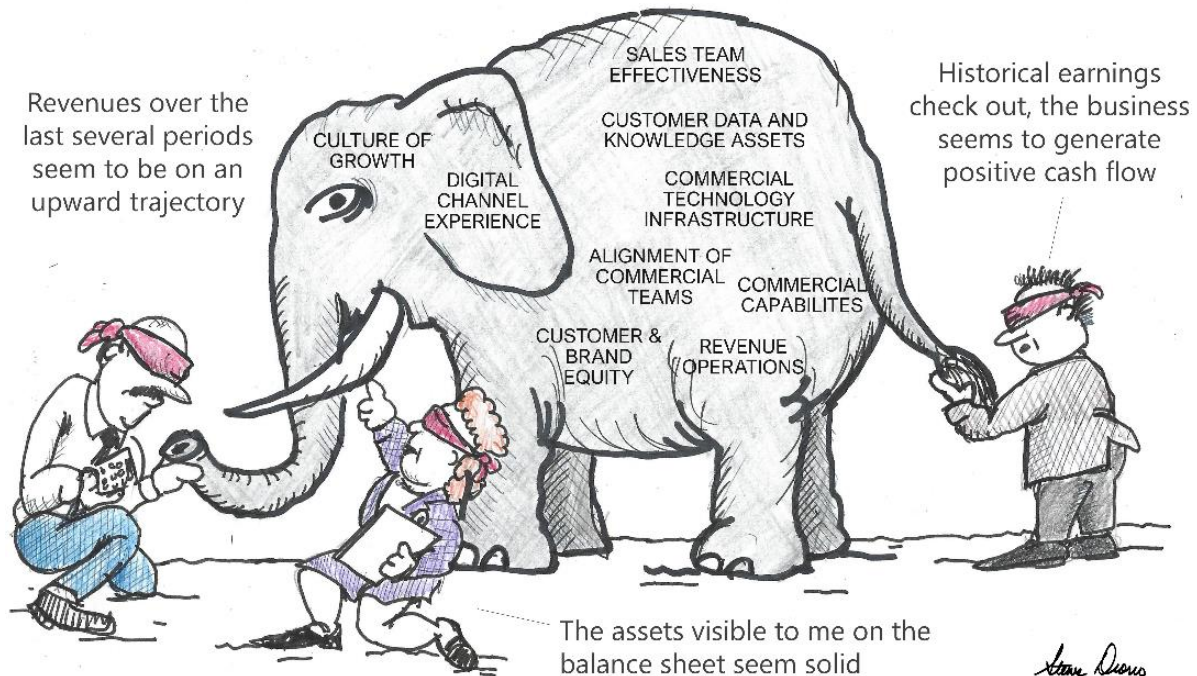
6. Consolidating, Simplifying and Optimizing the Commercial Tech Stack – 94% of B2B sales organizations are actively consolidating and simplifying their commercial technology portfolio as these investments start to exceed over \$10,000 per sales rep on an annual basis. Measuring, optimizing and connecting the commercial tech stack to simplify the seller workflow and augment seller value can yield a 50% improvement in performance and return on assets according to the Tuning the Growth Engine report.⁵²

7. Valuing, Managing And Monetizing Commercial Assets. A large and often ignored factor confounding the ability of managers to assess and manage growth is that the commercial assets that generate growth are hard to measure, manage, and report because they are largely regarded as “intangibles” – just like customer equity, “process know how”, and brand equity – by accountants. So they don’t show up on any balance sheet or management report. The financial reality is that most of the value of a modern business is in the form of intangible growth assets like customer relationship equity, brand preference, data and insights, process know-how, and digital channel infrastructure. Intangible assets are defined as assets that don't have a physical form, but are used to produce goods or services, rent to others, or for administrative purposes. Haskel and Westlake in their book *Capitalism Without Capital* a 2017 book that explores the growing importance of intangible assets in the economy.³⁴ In the context of growing revenues, these can include as computerized information (e.g. CRM software and customer databases), innovative property (e.g. new product innovations), and economic competencies (e.g. market insights, brands, or selling process “know how”) that help sales and marketing teams generate revenues. When properly measured and accounted for, these intangible assets can represent up to 80% or more of the value of a business.^{7, 36, 5, 9} The ability of revenue teams to deploy these assets to grow future revenues and profits by building customer preference, conversion, loyalty, and usage while commanding price premiums are the primary drivers of firm value.

Revenue Operations provides a framework to get investors and executives to focus in on the core drivers of future growth in ways that improve their visibility into their ability to hit revenue targets and quantify the untapped growth potential of their business assets. RevOps also helps create new value by identifying the root causes of poor or inconsistent revenue growth results, and objectively measuring that performance on a normalized and “apples-to-apples” basis. The best method for developing - and executing - the optimal revenue operations playbook is to benchmark current practices and compare performance to peer best- in-class. The resulting gaps can be prioritized by revenue impact and feasibility to ensure revenue operations efforts are focused on the right areas - and teams can get aligned on those areas. This benchmark approach works at all stages of the revenue operations lifecycle, whether companies are launching initial efforts or looking to master the discipline after several years.”

The primary reasons why the sources of growth are invisible in traditional financial and management reporting

USING FINANCIAL REPORTING TO ASSESS FUTURE GROWTH POTENTIAL



Most of the operational drivers of future revenue, cash flow and firm value growth are invisible to investors, boards and managers due to the limitations in traditional accounting and measurement systems. Traditional financial and managerial accounting, management reporting and measurement systems and investment evaluation criteria fail to capture or assess the value of the enterprise and provide visibility into future revenues and cash flow. There are several good reasons why the traditional financial and managerial accounting, management reporting and measurement systems used by investment analysts, CFOs and leadership team fail to provide visibility into the majority of the operational drivers of growth and value in a business. They include:

1. Privately held firms are not held to as many public financial accounting and reporting standards as public firms
2. There are no external (financial reporting standards) and internal (management accounting standards) accounting practices that provide visibility into the value, health and performance of intangible commercial assets (market-based assets, knowledge assets, computerized information, innovative property, and economic competencies)
3. Few board members and managers have the experience or acumen to effectively manage and measure a commercial model that combines marketing, sales and customer success functions and relies more heavily upon commercial technology, information and economic competencies to grow. (Right People, Right Seats)
4. There is very low awareness, understanding or application of the growing body of methods and models developed in both academic and commercial research that provide the ability to more effectively value, protect, and grow the value of the firms
5. There is little agreement (understanding, reporting, or consensus) among investors, owners, boards and managers about the contribution of commercial actions, assets and investment to firm value, financial performance or future cash flow.

A particular challenge facing private business investors is the fact that traditional Quality of Earnings analysis they use in the due diligence and valuation process are extremely limited in their ability to shed light on the key drivers of future revenue

growth. A Quality of Earnings (QofE) analysis is a financial accounting exercise whose primary purpose is to assess how a business accumulates revenues – such as cash or non-cash, recurring or nonrecurring revenues - from its core operations. This helps investors assess the future cash flow, revenue and earnings potential of the business – which are the basis of firm value and the price they will pay. Unfortunately a QofE analysis is missing a lot of critical information about future revenues. For example, the forward looking revenue pipeline and financial forecast, flawed as they are, are not included in the QofE analysis. The long term contracts are not handicapped to reflect the possibility of revenue expansion or leakage. And as pointed out above, FASB does not require businesses to report on the intangible commercial assets that drive growth, nor their utilization.



Compounding matters, a Quality of Earnings (QofE) analysis is primarily based on assessing historical financial documents, rather than a forward-looking examination of the core commercial processes, systems, assets and revenue plans that are aimed at generating revenue expansion, customer lifetime value, and the opportunity pipeline.

Unfortunately, financial statements do little to reveal the true and latent potential of a business to generate future revenues, margins and positive cash flow. FASB standards don't require accountants to reveal the inner workings of a company and any forward-looking revenue and margin forecasts are often uncertain estimates. So a QofE analysis will share little information about the key drivers and assets that generate future revenues using a rear view mirror history. This means companies can be missing up to 75% of the future earnings picture if they are not looking at quality of revenue generation

IV. AN EMPIRICAL ANALYSIS OF THE INTANGIBLE, INTERDISCIPLINARY AND INVISIBLE DRIVERS OF REVENUE GROWTH

A meta-analysis of academic, commercial and market research into the drives of revenue growth

To help the investors and executives that buy, own and manage privately held business assets develop a more financially valid and actionable means for valuing, measuring, protecting and growing the value of small, privately held firms, we conducted a meta-analysis of 96 academic and commercial research studies. The research focused on studies that attempted to quantify the causal impact of market based intangible assets and interdisciplinary commercial competencies on future revenue growth, cash flow and firm value.

At a high level, the research revealed that the majority of future revenue generating potential is directly attributable to intangible assets including digital selling infrastructure, brand equity, and customer equity, and perceptions of quality and innovation. The digital infrastructure including sales and marketing channels, the systems that enables their operations, and manages the customer data that they generate. Codified knowledge assets including R&D, internal and external software development, and unique IP (process and business “know how”). In the average business, a significant portion of the future revenue generating potential of a firm is explained by marketing-based intangible assets, including brand, customer equity, perceptions of innovation, and customer insights. In all the research identified six operational growth levers that involved the monetization and optimization of intangible assets. The studies also suggest that the role of intangible assets as a driver of revenue growth varies significantly across business model (B2C vs. B2B), industry type and commercial models.

Emerging research on Revenue Operations adds to this body of knowledge by describing and quantifying an additional eight of the sixteen operational value levers. This research revealed that eight interdisciplinary competencies that are causal of future revenue growth is interdisciplinary competencies notably in strategy and planning, human capital, sales process, commercial technology portfolio management and pricing governance and discipline.

The meta-analysis revealed knowledge gaps in research on operational levers that involve commonly accepted foundational capabilities in the areas of management competencies (ability to execute, product development) and process driven variables (like strategy, planning, and forecasting), as well as cultural factors that impact revenue growth.

In all the meta-analysis of academic, commercial and market research isolated sixteen operational value levers and forty six specific growth drivers that are causal of future revenue growth.

To isolate these revenue generating variables, the meta-analysis evaluated the ability of different methods and models to measure and report value across these twelve operational levers and forty six specific variables. The paper considered a variety of approaches used in academic and commercial research to evaluate the efficacy of evaluation methods that measure the effect of commercial variables on firm value, including:

1. **Customer Based Benchmarks** – Evaluation methods based on customer-based assets that use measures and benchmarks of customer equity (e.g. customer lifetime value, loyalty databases, relationship equity, accounts) and associated customer equity properties (customer loyalty databases, customer value, NPS) to quantify future cash flow and firm value. (e.g. Lemon, Rust). These evaluation approaches are relatively easy to measure and have the advantages of establishing practical management measures based on customer and prospect values and actions that impact customer lifetime value. They also represent an accurate means of establishing a value on customer assets for resource allocation, investment and risk management. However, they are incomplete as they do not factor in other marketing-based assets or interdisciplinary economics that reflect how many functions, systems and processes impact customer values. Nor are they linked to mainstream management KPI and key account incentives.
2. **Revenue attribution** - These approaches use value Chain based modeling and analysis (based on “flow variables”) that proves the casual chain of events that create a financially valid connection between commercial actions, investments and assets to revenue and cash flow outcomes (revenue effects) that drive firm value. – e.g. communications value chain (Edeling), marketing value chain (MASB), revenue value chain (Revenue Operations).

3. **Value elasticity** – These approaches include econometric studies that derive empirical generalizations that isolates the mean effect and size of impact (correlated and/or casual) a specific action or asset will have on firm value based on empirical academic. This approach has the advantage of placing a quantifiable value on a broader range of commercial competencies, KPI, and intangible assets (.g. market-based assets, knowledge assets, knowledge sharing, , computerized information, IP, perceptions of innovation, and training, “sales know how” . It also has the nuance to focus management on key interdisciplinary processes, capabilities, human capital, and assets within the business to manage, measure and optimize, and monetize. On a practical level the mean effect sizing Investors and analysts as reference values in their valuation models (Schulze, Skiera, Wiesel, 2021), and the stock variables derived from it allow managers to establish KPI, management metrics and incentives that more directly tie to firm value.⁵⁷ However these approaches have practical limitations in the valuation and management of private businesses as they require significant additional research, are difficult to operationalize, and are largely focused on marketing based variables using public company data in consumer oriented businesses.
4. **Revenue Operations** - The measurement of interdisciplinary and cross functional processes and capabilities that have a direct impact on commercial asset monetization, commercial process effectiveness, and return on growth investment. This new approach, while not financially validated nor academically proven, provides a practical framework for measuring interdisciplinary processes and shared commercial assets that underlie the revenue producing capacity of a modern business, such as organizational knowledge sharing, commercial technology assets, cross functional talent processes, revenue leakage across the lead to cash cycle, the core assumptions and design points underlying, pricing discipline and optimization at every stage of the revenue cycle. This approach also has the advantage of proving investors, owners and managers financially valid KPI for measuring resource utilization, revenue outcomes, cost to sell, and return on commercial assets as well as incentives for the key management competencies that create future firm value.

The evaluation of did not use traditional financial analysis used by investors and financial analysts in the due diligence and firm valuation processes, such as Quality of Revenues, because they are backwards looking and rely on financial accounting standards that do not accurately reflect the future growth assets and competencies in a business.

The analysis also evaluated the ability of internal and external financial reporting to identify, quantify and measure the financial impact of the range of intangible assets and interdisciplinary competencies can have on future revenue generation, cash flow and firm value. The meta-analysis explored the advantages and limitations of financial, managerial and acquisition accounting as a means of evaluating future cash flows and firm valuation. The analysis explored the ability to identify and benchmark the individual value drivers in financial and management reporting, as well as the Revenue Intelligence Systems that leverage customer engagement, CRM, pipeline and financial operations data to provide a more accurate picture of growth performance.

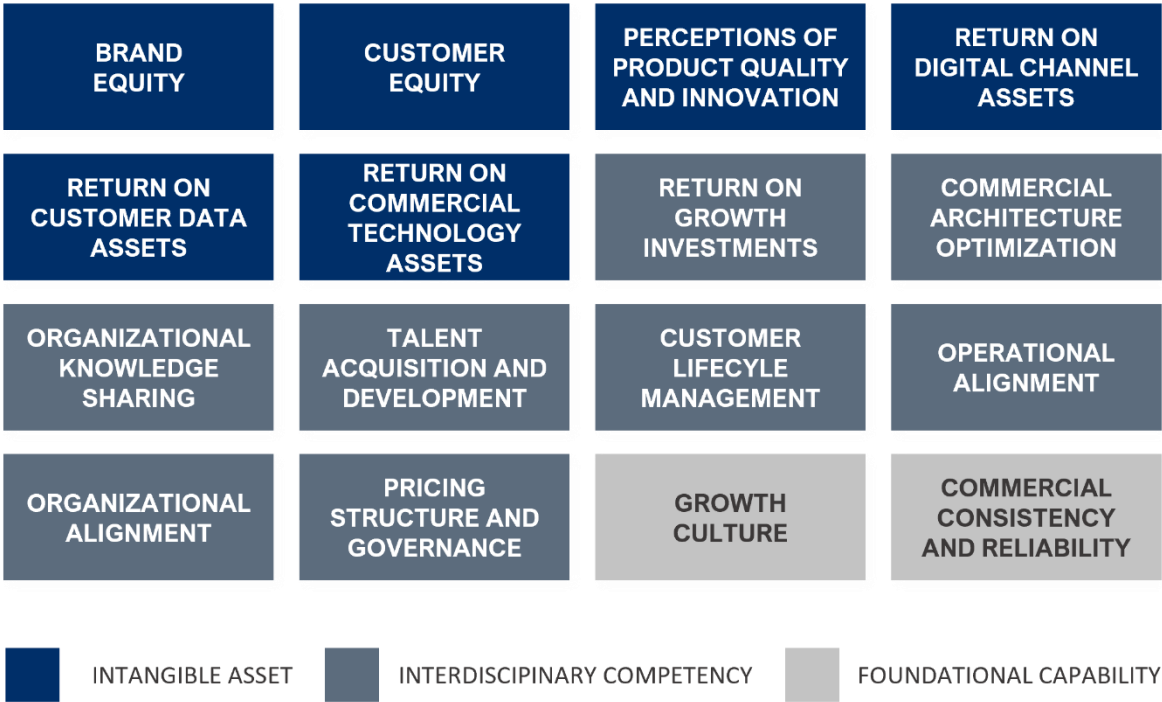
This assessment revealed that current financial and accounting reporting standards and practices provide investors and managers visibility into less than 20% of the forty-six drivers of value are visible to investors, owners and accountants through conventional financial and managerial accounting and forecasting and reporting practices.

Emerging Revenue Intelligence Systems that leverage customer engagement, CRM, pipeline and financial operations data have the potential to provide managers and investors greater visibility a far higher percentage of the forty six drivers of value if properly analyzed and refined performance metrics are used.

Sixteen operational value levers and forty six specific growth drivers identified to be causal of future revenue growth

As an output of this analysis, the research the **Quality Of Revenue Operations (QoR³)** framework that encompasses the sixteen operational growth levers the greatest demonstrated effect on future organic revenue. The framework embeds 46 discrete drivers with the greatest demonstrated effect on future organic revenue. These operational growth levers are outlined and defined below. Thee academic, commercial and capital markets research that provides evidence of the causal relationship between these growth drivers and future revenue growth, cash flow and firm value - are described more depth in the Appendix of this report.

16 QUALITY OF REVENUE OPERATIONS GROWTH LEVERS



16 QUALITY OF REVENUE OPERATIONS GROWTH LEVERS

| GROWTH LEVER | DEFINITION |
|--|--|
| BRAND EQUITY | Brand Equity is defined as a name, term, sign or symbol whose purpose is to identify and differentiate different products or services. ⁴⁶ Brand assets—including brand names, brand-affiliated vendors and partners, and branded products and services—have been shown to contribute significantly to enterprise value, particularly in a market driven by intangible assets. Brands are intangible assets that lack physical substance (like patents, copyrights, franchises, goodwill, trademarks and trade names), according to FASB Accounting Standard Code 350/ASC350. But in a world where most shareholder value is attributable to intangibles; they can be extremely valuable. This puts marketing and finance teams at a disadvantage for assessing investments in the brand such as media. |
| CUSTOMER EQUITY | Customer Equity is defined as the sum of the total combined Customer lifetime value (CLV), lifetime customer value (LCV), or user lifetime value (LTV) of all customers in a business. These customer benchmarks measure the dollar value of a customer relationship, based on the present value of the projected future cash flows from the customer relationship. Customer lifetime value encourages firms to shift their focus from quarterly profits to the long-term health of their customer relationships. Customer lifetime value is an important number because it represents an upper limit on spending to acquire new customers. |
| PERCEPTIONS OF PRODUCT QUALITY AND INNOVATION | Perceptions of product quality and innovation is defined as perceived product or service quality and firm innovativeness in the eyes of the customer. Firm innovativeness is defined by the initiation, development and commercialization of market innovations by a company. As such, the perception of innovation and quality in the eyes of the customer are marketing based assets and drivers of share price in an economy that values digital innovation, and in which the majority of company assets are intangible—such as intellectual property, patents, trade secrets and proprietary processes. |
| ORGANIZATIONAL KNOWLEDGE SHARING | Organizational knowledge sharing – also referred to as interdepartmental connectedness – is defined as collaboration and information sharing across functions is the practice of exchanging information, skills, and expertise within and across an organization or community. It involves collaborative learning and the dissemination of know-how, knowledge and insights among individuals, enabling revenue teams to benefit from each other's experiences and customer and market insights. |
| RETURN ON DIGITAL CHANNEL ASSETS | Generating a return on digital channel assets is defined as monetizing a firm's capital investments in digital sales and marketing channel infrastructure including digital marketing, e-commerce, mobile apps, self-directed web fulfillment channels. This “owned” channel infrastructure that supports sales and marketing channels now represent 25% of capital investment and 35% of operating spend respectively according to the Revenue Operating System report. Owned digital channel infrastructure and the resources that support them (i.e., data, data scientists, content marketers, bloggers) now make up almost two thirds of the marketing operating budget. The average organization goes to market with over a dozen digital sales and marketing channels. |
| RETURN ON CUSTOMER DATA ASSETS | The Return On Customer Data Assets is defined as the ability of an organization to generate, capture, curate and monetize the customer engagement, usage, and loyalty data from first party sales, marketing and customer success channels. Growth leaders are the unwitting caretakers of what may be their company's most valuable asset: its customer data. For example, customer data assets in the airline industry – which include revenue management, frequent flyer, and customer engagement databases – account at times for 100% or more of an airline's profitability and value. Yet they do not show up on any balance sheet or management report because these databases are regarded as “intangibles” – just like R&D, “process know how”, and brand equity– even though they are far larger and more strategic. |
| RETURN ON COMMERCIAL TECHNOLOGY ASSETS | The return on commercial technology assets is defined as efforts to consolidate, simplify, integrate and optimize the growing portfolio of CRM sales enablement, readiness, engagement and automation software asset to generate revenue, cost and customer value outcomes by simplifying and enhancing the day to day seller experience. The average B2B organization relies on over 20 technology platforms, tools and data services to support their customer facing employees. This capital investment in commercial technology on a per capita basis routinely exceeds \$5,000 per front line seller. The “owned” channel infrastructure that supports sales and marketing channels now represent 25% of operating budgets and 35% of growth capital investment. |
| RETURN ON GROWTH INVESTMENT | Generating a return on growth investment is defined as the ways a firm generate financial and business outcomes – in terms of revenue volume, share, lift, volatility, velocity, margin, customer lifetime value, cost and future option value – that generate future revenues, profits and cash flow from their growth operating investments. Growth operating budgets represent the operating budgets of sales and marketing and include the full mix of media, sponsorships, promotions and campaigns as well as the deployment of sales teams, effort and programs in markets and accounts. There is tremendous leverage in making marketing dollars work harder. The average organization spends 11.1% of revenue on growth investment. |



INTANGIBLE ASSET



INTERDISCIPLINARY COMPETENCY



FOUNDATIONAL CAPABILITY

16 QUALITY OF REVENUE OPERATIONS GROWTH LEVERS

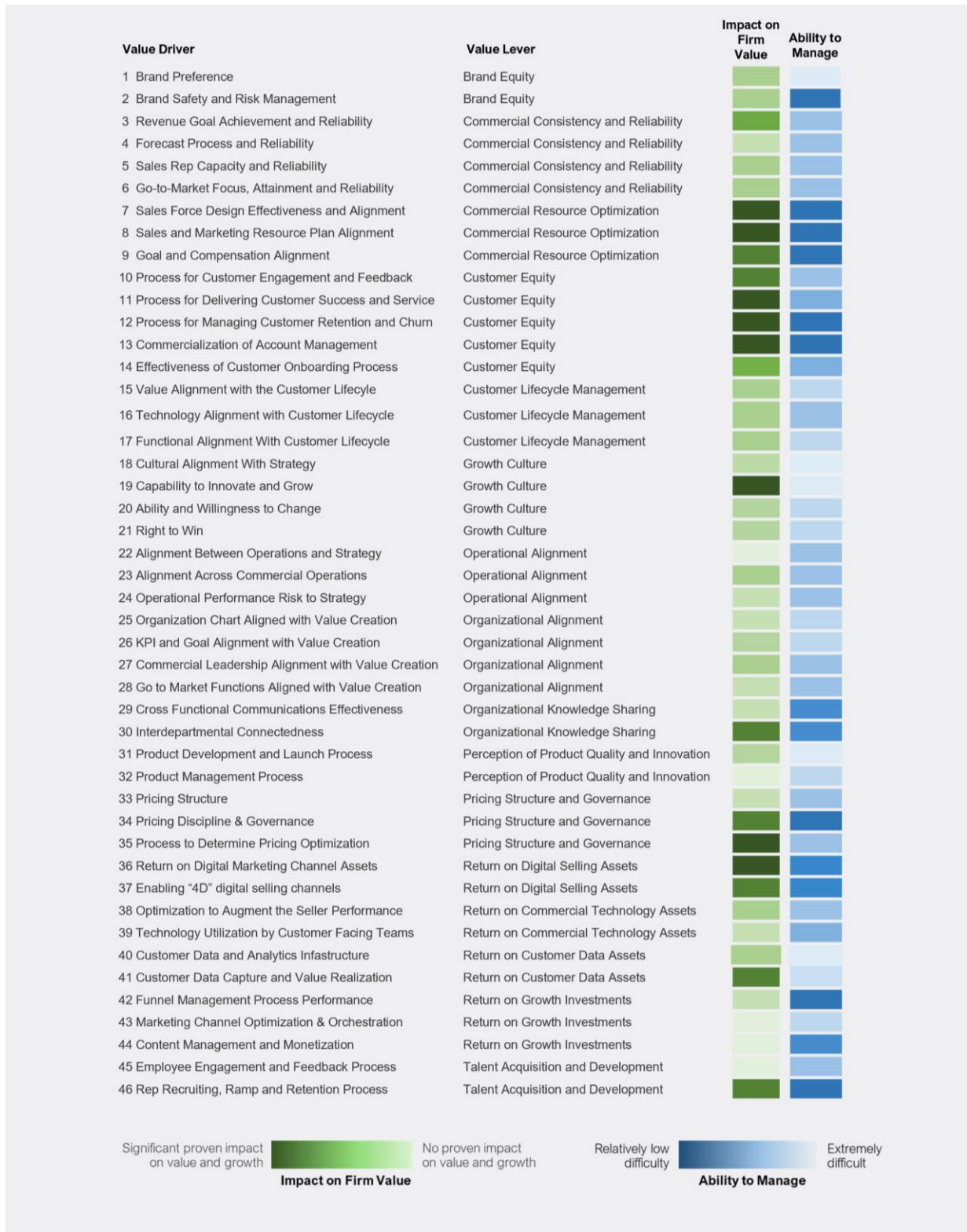
| GROWTH LEVER | DEFINITION |
|--|--|
| COMMERCIAL RESOURCE OPTIMIZATION | Commercial Resource Optimization is defined simply as the alignment, location and optimization of growth resources across the entire revenue plan – spanning top down strategy, sales force design, go-to-market strategy, and sales incentives, territory and quota assignments. Selling systems can generate vastly different outcomes based on how variables like channel mix, customer treatment types, coverage ratios, selling effort, and product emphasis are set up. Organizations can dramatically adjust the revenue, profit and cost to sell performance of their revenue teams by shifting the key parameters such as calling patterns, customer targeting, and product emphasis. |
| PRICING STRUCTURE, GOVERNANCE AND PRECISION | Pricing Structure, Governance And Precision is defined as the cross functional process of ensuring pricing decisions and actions are consistent, accurate and optimal at every stage of the revenue cycle – from offering design to proposal development to contract and booking through the revenue recognition and realization stages of the lead to cash cycle. |
| TALENT ACQUISITION AND DEVELOPMENT | Talent Acquisition And Development is defined as the systems and processes for recruiting, developing, and retaining high quality and consistently performing customer facing employees. A growing body of commercial and stock market analysis indicates that better managing the rep recruiting, ramp and retention process is an interdisciplinary process competency that can have a significant impact on revenue attainment, reliability, cost to sell and future revenue growth. |
| ORGANIZATIONAL ALIGNMENT | Organizational Alignment is defined as the alignment of revenue teams, and the organizations that support them – around processes and incentives that generate greater customer lifetime value and firm value. Organizational alignment has become synonymous with the emerging management discipline of Revenue Operations. Revenue Operations is an interdisciplinary competency that better aligns of the teams, organizations, systems, operations and processes that support the revenue cycle to grow customer lifetime value can have an even greater impact on sustainable and scalable growth. |
| CUSTOMER LIFECYCLE MANAGEMENT | Customer Lifecycle Management is defined as the alignment of revenue teams, and the systems, operations, and organizations that support them – around processes and incentives that support the revenue cycle, from demand generation to sales, to loyalty and customer expansion. In many organizations, there are a dozen or more organizations that engage with the customer as they pass through the phases of the customer journey, and no “single throat to choke” accountable for all the points of failure, abrasion or revenue leakage along the cycle. |
| OPERATIONAL ALIGNMENT | Operational alignment is defined as the alignment of the operations that support customer facing teams at every stage of the revenue cycle, from demand generation (marketing operations) through sales and business development (Sales Operations) to customer success and service (CX Operations) support them. The business benefit of aligning operations is to better manage the systems, data flows and processes that support the customer journey and lead to cash cycle. Operational alignment is an interdisciplinary competency generates more consistent and scalable revenue growth by eliminating the key points of failure, revenue leakage, and margin erosion between functional silos and supports a more uniform digital customer experience. |
| GROWTH CULTURE | A growth culture is defined as the internal belief of the commercial leadership and the entire revenue team regarding their focus (market orientation, customer centricity), willingness to change, capacity to innovate, and confidence in their ability to win in the market. The notion that culture of growth is essential is common sense to most executives, but until recently has proven difficult to quantify, prove and measure. There is an emerging body of academic, commercial, and stock market research into growth culture has demonstrated impact of growth culture on future revenues, cash flow and firm value. |
| COMMERCIAL CONSISTENCY AND RELIABILITY | Commercial Consistency and Reliability is defined as the consistency of an organizations ability to achieve revenue targets, and the reliability of the underlying selling resources to contribute to those targets, and the integrity of the processes and methods used to measure and report on their commercial performance. There is an emerging body of academic, commercial, and stock market research into the reliability and scalability of commercial teams and processes has demonstrated impact on future revenues, cash flow and firm value. |
| <div> <div></div> INTANGIBLE ASSET <div></div> INTERDISCIPLINARY COMPETENCY <div></div> FOUNDATIONAL CAPABILITY </div> | |

The meta-analysis of 96 academic, commercial and capital markets research studies provides evidence that all 46 growth drivers in the Quality of Revenue Operations (QoR³) model are proven to be causal of future revenue growth – but only a small fraction are visible in financial, management and operational reporting.

The QOR³ model connects growth assets and actions to customer behavior changes and business outcomes that impact firm value and financial performance. Using a value chain analysis, it provides managers a financially valid basis for both quantifying the value of specific commercial assets as well as assessing the financial impact of growth actions, investments and decisions on firm value and financial performance. The framework provides private company investors, owners, boards and growth leaders to more comprehensive and financially valid way to prove the contribution of commercial assets, systems and capabilities. It provides the math to more accurately quantify the value of a business. The framework also provides a basis for evaluating, measuring and benchmarking the growth potential and performance of a business. It also arms managers with best practices to improve and manage revenue generation performance.

By using the QoR³ assessment to inform their investment thesis, evaluate the potential of deals and identify actionable ways to accelerate growth within their investment portfolio companies. The QOR³ framework helps leadership teams to understand and agree upon the financial impact and their ability to affect changes that generate the most scalable and consistent growth. It helps to establish a financially valid basis assessing impact of actions and decisions, and zero in on the top 5-10 opportunities, investments, actions and plans and to start the process of continuous improvement

THE FINANCIAL CONTRIBUTION OF 46 QUALITY OF REVENUE OPERATIONS GROWTH DRIVERS RELATIVE TO THE ABILITY OF MANAGERS TO MANAGE AND ENHANCE THEIR IMPACT ON THE BUSINESS



THE FINANCIAL CONTRIBUTION OF 46 QUALITY OF REVENUE OPERATIONS GROWTH DRIVERS RELATIVE TO THE ABILITY OF MANAGERS TO MANAGE AND ENHANCE THEIR IMPACT ON THE BUSINESS



V. HOW A QUALITY OF REVENUE OPERATIONS ASSESSMENT CAN BETTER DETERMINE A COMPANY'S ABILITY TO GENERATE FUTURE GROWTH

How investors can use the Quality of Revenue Operations framework to help find, value, evaluate, protect and grow high quality businesses

This analysis proposes the refinement and validation of a **Quality Of Revenue Operations (QOR³)** assessment as a tool to help investors, owners and managers of privately held businesses to better determine a company's ability to generate future growth. A Quality of Revenue Operations assessment is a superior better way for investors, CEOs and their management teams to assess a company's ability to generate sustainable revenue growth and hit financial targets than traditional financial analysis of the quality of earnings. A Quality of Revenue Operations (QOR³) assessment is a forward-looking analysis that objectively grades a company based on its capabilities in forty six operational and functional drivers of future revenue growth potential areas that are key to sustainable revenue generation and hitting revenue growth targets. They include:

- The alignment of the commercial teams, systems, processes and operations that support the full revenue cycle across people, product, process, and technology;
- The robustness of the core functional capabilities in marketing, product and revenue cycle management;
- The strength of growth leadership and the growth strategy, planning process, and culture they have instilled;
- The maturity of core operational capabilities in pricing, analytics, performance measurement, and customer experience management.

The meta-analysis of academic, commercial and market research provides evidence in varying degrees that these 46 operational drivers have all been proven to be causal of future revenue growth. A focus on the core drivers proven to be causal of future growth can help investors and executives to get better visibility into their ability to hit revenue targets and quantify the untapped growth potential of their business assets. The QOR³ analysis can also help owners identify ways to create new value by identifying the root causes of poor or inconsistent revenue growth results, and objectively measuring performance on a normalized and "apples-to-apples" basis.

A QUALITY OF REVENUE OPERATIONS ANALYSIS

A Quality of Revenue Operations (QOR³) assessment is an objective, empirical and forward-looking analysis of the ability of a business to generate consistent, predictable and scalable growth in revenues, margins and future cash flow which are the foundations of firm value. The QOR³ analysis scores and benchmarks a company in the 9 core functional and operational drivers of growth, including: strategy, culture, processes, revenue operations, customer analytics, marketing, product, pricing and revenue management. The resulting scores provide investors, leadership, and operators a fact-based assessment of the probability of hitting future revenue targets plus identify the root cause issues holding them back. In addition to scores, the QOR³ analysis provides specific action steps that have the greatest potential to improve performance and realize the full growth potential in their business assets.

The QOR³ assessment framework will also help investors, CEOs and their management teams evaluate and understand and make investment decisions related to the key assets and capabilities that impact a company's ability to generate future revenues that are missed by financial analysis. This approach can significantly reduce the risks, price and costs of their

investments. It also provides CEOs and executives a prioritized roadmap for unlocking more growth from existing commercial assets by better allocating resources, aligning sales and marketing, optimizing pricing, and eliminating revenue leakage along the revenue cycle. PE investors can use this framework to help find, value, evaluate, protect and grow high quality businesses at every stage of the buy side and sell side lifecycle. Potential use cases include:

- **Portfolio Performance:** For company's not achieving desired revenue growth objectives, QofR provides an objective assessment and blueprint of tangible action steps to improve. Plus the QofR score provides a normalized apples to apples comparison of portfolio companies that can be tracked over time.
- **Due diligence:** Better understand the future revenue generating capacity of a business asset and its latent growth potential. A QofR analysis gives investors visibility into 75% of variables that drive future revenue generation that are not covered in a Quality of Earnings analysis.
- **Risk Management:** Identify and quantify the risk – and root causes of these risks – in revenue forecast plans. A QofR analysis will identify the points of failure, leverage and scale that can achieve desired revenue synergies. This empirical approach provides a measurable and actionable assessment of a company's probability of hitting its future revenue growth targets.

Add on Acquisitions: Assess compatibility of core people, process, product and technology elements between entities: Identify the points of failure, leverage and scale that can achieve desired revenue synergies. A Quality of Revenue Operations (QOR³) framework is different from and superior to a quality of earnings Quality of Earnings (QoE) in several specific ways. First, a Quality of Earnings analysis looks at outcomes, whereas a Quality of Revenue Operations assessment looks at the underlying enablers of these outcomes. While both are important, a Quality of Revenue Operations assessment simply expands on the qualitative factors in a Quality of Earnings analysis. It's the 'why' behind the 'what'.

A QofE analysis is primarily based on historical analysis of financial documents, rather than a forward-looking examination of the core commercial processes, systems, assets and revenue plans that are aimed at generating revenue expansion, customer lifetime value, and the opportunity pipeline. Unfortunately, financial statements do little to reveal the true and latent potential of a business to generate future revenues, margins and positive cash flow. FASB standards don't require accountants to reveal the inner workings of a company and any forward-looking revenue and margin forecasts are often uncertain estimates.

HOW QUALITY OF REVENUE OPERATIONS DIFFERS FROM QUALITY OF EARNINGS ANALYSIS

| QUALITY OF EARNINGS | QUALITY OF REVENUE GENERATION |
|--|--|
| <ul style="list-style-type: none"> ● Cash Flow Analysis ● Financial Statement Analysis ● Nwc Analysis ● Revenue Recognition ● Expense Recognition ● Non-Recurring Items ● Accounting Policies ● Related Party Transactions ● Accounting Quality ● Compliance | <ul style="list-style-type: none"> ● Alignment Of Revenue Teams, Systems and Processes ● Brand Preference And The Right To Win ● Growth Strategy, Planning, And Resource Allocation ● Revenue Generation Culture ● Willingness And Ability To Change ● Customer Relationship And Expansion Management ● Revenue Funnel Management ● Pricing Power, Structure, And Governance ● Product Development Methods & Effectiveness ● Utilization Of CRM And Customer Analytics |

With additional research, validation and benchmarks, the QOR³ has the potential to become an industry standard approach to evaluating, managing, improving and measuring revenue generation performance in a private company.

QUALITY OF REVENUE OPERATIONS DRIVERS OF FUTURE CASH REVENUE AND VALUE GROWTH

| | | | |
|---|---|--|--|
| Brand Equity <ul style="list-style-type: none"> Brand preference Brand safety and risk management | Customer Equity <ul style="list-style-type: none"> Effectiveness of customer onboarding Customer engagement and feedback process Quality of customer success and service operations Process for managing customer retention Commercialization of account management | Perceptions of Product Quality and Innovation <ul style="list-style-type: none"> Product development process Product management process | Return On Digital Channel Assets <ul style="list-style-type: none"> Optimizing the return on digital marketing channel infrastructure assets Enabling “4D” digital selling channels |
| Return on Customer Data Assets <ul style="list-style-type: none"> Customer data capture and value realization Customer data and analytics infrastructure | Return On Commercial Technology Assets <ul style="list-style-type: none"> Commercial technology optimization to simplify and augment the seller workflow Commercial technology utilization by customer facing teams | Return on Growth Investment <ul style="list-style-type: none"> Funnel management process performance Marketing channel optimization and orchestration Content management and monetization | Commercial Resource Optimization <ul style="list-style-type: none"> Sales force design effectiveness and alignment Sales and marketing resource and plan alignment Goal and compensation alignment |
| Organizational Alignment <ul style="list-style-type: none"> Organization chart aligned with value creation KPI and goal alignment with value creation Go To Market functions aligned with value creation Commercial leadership alignment | Operational Alignment <ul style="list-style-type: none"> Alignment between operations with strategy Alignment across commercial operations Operational performance risk to strategy | Customer Lifecycle Management <ul style="list-style-type: none"> Technology alignment with the customer lifecycle Functional alignment with the customer lifecycle Value management along the customer lifecycle | Organizational Knowledge Sharing <ul style="list-style-type: none"> Cross functional communications Interdepartmental Connectedness |
| Pricing Structure and Governance <ul style="list-style-type: none"> Pricing structure Pricing discipline and governance Process to Determine Pricing Optimization | Talent Acquisition and Development <ul style="list-style-type: none"> Rep recruiting, ramp and retention process Employee engagement and feedback process | Growth Culture <ul style="list-style-type: none"> Capability to innovate and grow Ability and willingness to change Cultural alignment with strategy Right to win | Commercial Consistency and Reliability <ul style="list-style-type: none"> Revenue goal achievement reliability Forecast process and consistency Sales rep capacity and reliability Go-to-Market focus, attainment and reliability |

INTANGIBLE ASSET
 INTERDISCIPLINARY COMPETENCY
 FOUNDATIONAL CAPABILITY

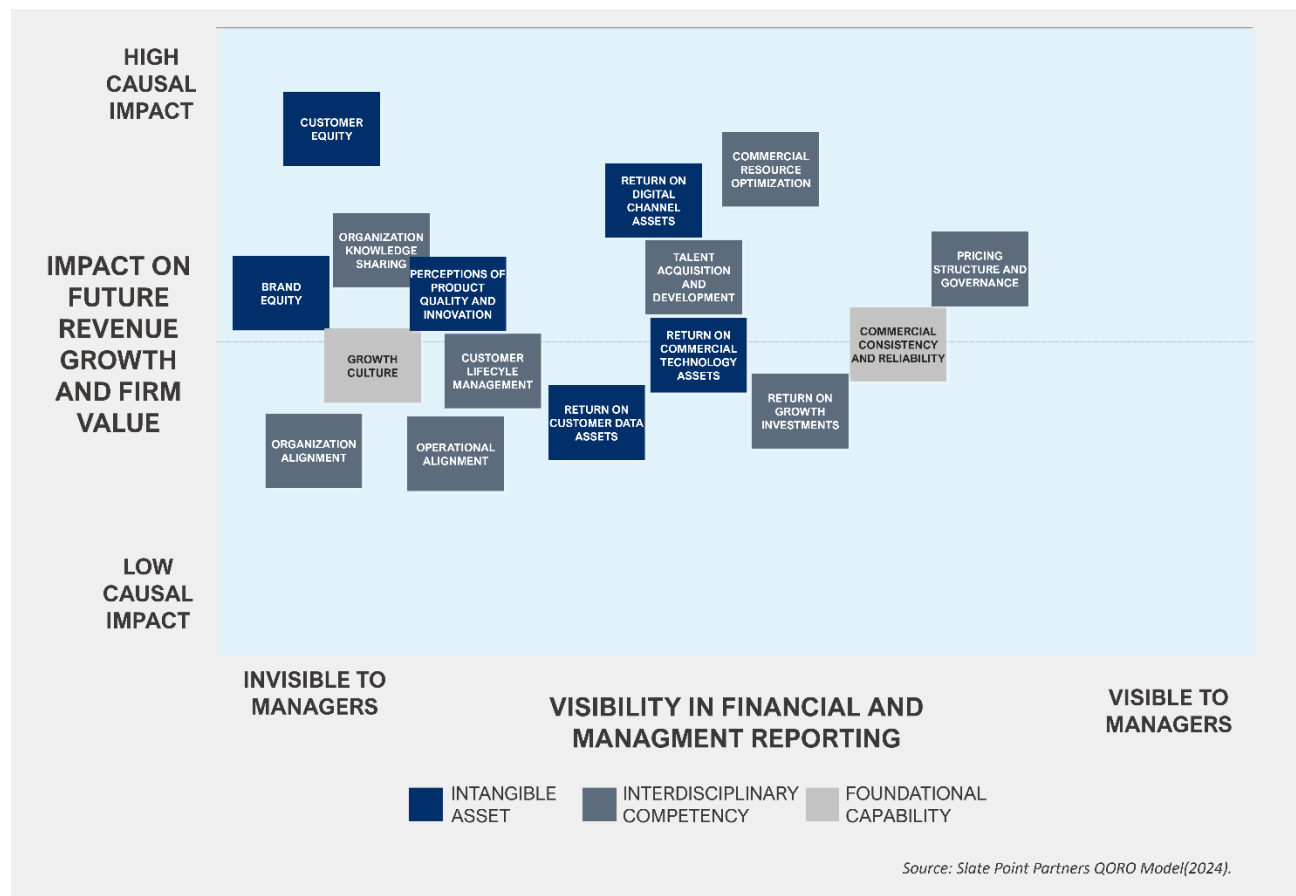
VI. APPENDIX: SUMMARY OF EXISTING VALUE DRIVER RESEARCH

To identify the operational levers and value drivers in this analysis, our team conducted a meta-analysis of 96 academic and commercial research papers that quantify the causal impact of market based intangible assets and interdisciplinary commercial competencies on future revenue growth, cash flow, and firm value. The analysis identified eighteen operational value levers that have been causal of firm value. These include

- Eight intangible assets that have been substantively proven to be core drivers of future revenue growth and firm value in a modern commercial model based on academic studies, commercial research, and market analysis
- In addition, the meta-analysis revealed newer research into a set of ten interdisciplinary competencies that have been demonstrated to generate more scalable and consistent growth using the principles of Revenue Operations. These operational value levers would benefit from additional validation and study in academic and business benchmarking efforts.
- The analysis also revealed two commonly agreed upon capabilities that are regarded as foundational to generating future revenues, margins and cash flow, notably establishing a culture for growth and the ability to achieve higher degree of reliability and consistency in commercial teams.

The research demonstrating the impact of these operational value levers, and the 46 underlying value drivers embedded within them, is summarized in this appendix, and referenced in the citations.

THE FINANCIAL IMPACT OF QOR³ VALUE LEVERS VS. VISIBILITY IN FINANCIAL REPORTING



INTANGIBLE ASSETS

MARKET BASED ASSETS THAT ARE PROVEN TO BE CORE DRIVERS OF FUTURE REVENUE GROWTH AND FIRM VALUE IN A MODERN COMMERCIAL MODEL

BRAND EQUITY

Brand Equity is defined as a name, term, sign or symbol whose purpose is to identify and differentiate different products or services.⁴⁶ Brand assets—including brand names, brand-affiliated vendors and partners, and branded products and services—have been shown to contribute significantly to enterprise value, particularly in a market driven by intangible assets. While technically correct, this definition creates the perception of a brand as a “logo” or piece of art. Brands are intangible assets that lack physical substance (like patents, copyrights, franchises, goodwill, trademarks and trade names), according to FASB Accounting Standard Code 350/ASC350. But in a world where most shareholder value is attributable to intangibles; they can be extremely valuable. “The ‘brand’ is one of the largest assets that a company owns,” according to Frank Findley, executive director of the Marketing Accountability Standards Board. “But unlike tangible assets like factories, the brand's financial value often goes unrecognized. This puts marketing and finance teams at a disadvantage for assessing investments in the brand such as media.”

The Brand Equity value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Brand Preference**
2. **Brand Safety and Risk Management**

An established body of academic, commercial, and stock market research into Brand Equity has demonstrated both its value as a financial asset and its impact of brand on future revenues, margins, cash flow and firm value.

The brand is a financial asset (like a factory or supply chain) which generates value by changing customer behavior in (9) ways—buy more, buy faster, use more, respond more, choose more, pay more, refer more and stay longer - that generate future financial outcomes – that directly cause future cash flow.⁴⁷ From a finance and investment perspective, the Brand is one of the largest financial assets on a firm balance sheet. These assets can make up as much as half the value of a powerful consumer brand like Unilever or Kraft Heinz. According to commercial research from Forbes, the top 100 brands in the world are worth almost \$2 trillion. Under new FASB guidelines on intangibles reporting, prominent companies such as Kraft Heinz and MillerCoors have both disclosed that their collections of brand assets are substantially more valuable than goodwill in M&A transactions. Over 70% of MillerCoors’ corporate value was made up of brands in the transaction (as long-term indefinite assets). And over 50% of Kraft Heinz’s market capitalization is made up of its brand portfolio as a result of its merger vs. 18% for goodwill. As such, investors, boards, owners, CEOs and financial leaders have a fiduciary responsibility to understand, quantify, measure, protect and grow the value of the brand.

A number of academic research studies that explore the marketing–finance interface have established empirical generalizations on the impact of marketing-based intangible assets such as brand on firm value. Using a meta-analysis of 488 elasticities drawn from 83 studies prior econometric elasticity estimates of the stock market impact of marketing actions and marketing assets, the research reveals a mean elasticity of 0.33 for customer related asset variables, such as customer equity. A 10% increase in brand related assets (such as brand equity) will drive a 3.3% increase in firm value (or stock price).² While the meta-analysis does not fully control for certain variables (e.g., the type of firm value metric used, the omission of control variables, or not accounting for endogeneity) the findings validate the causal relationship between customer equity and firm value.

According to research by the Marketing Accountability Standards Board (MASB), emerging global and financial standards for valuing the economic contribution of brand demonstrate that brand equity contributes on average 19% of enterprise value in

consumer businesses, and 10% of value in business to business organizations—in many cases higher. The CMO of Cisco Systems estimates the contribution of brand value to enterprise value at 30%.

In another study, brand image was identified as a high-level strategic marketing driver that influences customer decision making and is empirically proven to have a direct financial impact on enterprise value by improving brand equity, customer equity and growth, according to the analysis.³⁰

A significant part of the financial value of a brand is derived from brand preference. For example, an analysis of 220 consumer products by the Marketing Science Institute (MSI) found that a superior brand preference or reputation commanded price premiums of 26% on average, even when brand quality is the same—due to the brand-building impact of advertising and other marketing investments.

Academic research shows that in similar goods categories, brand preference for the top brands in a given category correlates to category profitability. And brand tracking studies conducted by MASB and the MSI across over 100 brands have demonstrated that brand preference is highly correlated to predicting cash flow and market share. This finding is validated in the marketplace by the fact that the dominant phone brands—Apple and Samsung—capture the lion's share of profits in the mobile handset category.

Commercial Research also provides evidence of the impact and value of the brand. For example, a poll of board members by RSR Research, a board recruiting firm, revealed three-quarters of them believe brand equity significantly contributes to enterprise value. Most CMOs agree, according to a survey by Forbes. "Thirty percent of your shareholder value is your brand," says Karen Walker, Cisco's former CMO.

Many organizations fail to make optimal investment allocation decisions because their leaders can agree upon the size and nature of the contribution that marketing makes to a company's growth, profits and value, according to Mike Marcellin, the former CMO of Juniper Networks. "Organizations need a better understanding of both the value and economics of the brand. CFOs don't understand what a brand is, how it creates value and all that goes into creating that value. The goal needs to be to get the executive team to think differently about shareholder value by demonstrating that high P/E ratios are the result of marketing investments and actions. Ultimately, marketing accountability is a belief system that creates a common view of where the company is going in the future."

The brand's impact on firm value is not fully (fairly) reflected in the valuation of public firms using the efficient marketing hypothesis (and five other financial valuation modeling approaches) because information about the brand asset is "invisible" to investors, CFOs, and analysts in financial statements and management reporting because they are not systematically included in current financial, managerial, and acquisition accounting and poorly understood by finance managers.^{19 31} From a historical financial analysis used by analysts to value firms, brands are only "visible" during mergers and acquisitions transactions after the fact, and then only when the brand is purchased vs. built. From a forward looking perspective, current FASB and financial reporting standards only reflect marketing spending to support the brand (e.g. advertising) as a lump sum expense rather than set of investments in an asset that generates value (like a factory, new product or innovation, or supply chain).

Financial transaction analysis is a particularly relevant way to demonstrate the impact of the brand on future revenues, cash flow and firm value, since customer equity is an intangible marketing based asset - it can only be visible in financial accounting and reporting upon the acquisition of the firm, when the purchase price must be reconciled with the balance sheet. Given the intangible nature of customer equity, this is generally a component of "good will" and rarely broken out. An analysis of 6,000 M&A transactions over a decade reinforces the value of the brand, finding that on average brand equity, as defined by the brands, trademarks, trade names, product names, publishing titles, domains, represented over 10% of enterprise value in the transaction.³³

This lack of clarity on the role of brand preference in enterprise value has caused a wave of activist investors to challenge how well organizations are leveraging these assets, and is muddling mergers and acquisition transactions. The capital markets are putting pressure on finance to better operational measures and reporting of brand-value markets. Recent mergers and acquisitions reveal that the leadership of brands like Unilever do not have solid understanding or consensus on the value of their branded assets. And activist investors are exploiting this confusion by acquiring well-known brands like Kate Spade and Joe Boxer to better monetize and leverage these valuable assets in global markets.

CUSTOMER EQUITY

Customer Equity is defined as the sum of the total combined Customer lifetime value (CLV), lifetime customer value (LCV), or user lifetime value (LTV) of all customers in a business. These customer benchmarks measure the dollar value of a customer relationship, based on the present value of the projected future cash flows from the customer relationship. Customer lifetime value encourages firms to shift their focus from quarterly profits to the long-term health of their customer relationships. Customer lifetime value is an important number because it represents an upper limit on spending to acquire new customers.⁴⁶

The Customer Equity value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Effectiveness of customer onboarding**
2. **The process for managing customer retention and churn**
3. **The process for customer engagement and feedback**
4. **The quality of customer success and service operations**
5. **The commercialization of account management**

An established body of academic, commercial, and stock market research has demonstrated impact of Customer Equity on future revenues, cash flow and firm value. In particular, academic research has identified a causal relationship between investments in customer satisfaction, a superior customer experience and customer networks and enterprise value at legacy businesses. This academic research correlates high levels of customer satisfaction, trust and online service innovations with enhanced margins, sales growth and enterprise value.

For example, a number of academic research studies that explore the marketing–finance interface have established empirical generalizations on the impact of marketing-based intangible assets such as customer equity on firm value. Using a meta-analysis of 488 elasticities drawn from 83 studies prior econometric elasticity estimates of the stock market impact of marketing actions and marketing assets, the research reveals a mean elasticity of 0.72 for customer related asset variables, such as customer equity. A 10% increase in customer equity will drive a 7.2% increase in firm value (or stock price).⁷ While the meta-analysis does not fully control for certain variables (e.g., the type of firm value metric used, the omission of control variables, or not accounting for endogeneity) the findings validate the causal relationship between customer equity and firm value.

A comprehensive analysis of academic research by the Marketing Science Institute (MSI) reinforces this with research that shows improvements in customer satisfaction boosted firm performance by enhancing sales growth, margins and enterprise value. According to academic research in the book *Empirical Realizations about Marketing Performance*, achieving high levels of customer satisfaction has significant financial payoffs in terms of accounting-based measures of financial performance and financial market-based measures of shareholder value.¹⁴

A market study by Claes Fornell et al presents convincing empirical evidence that stock returns on customer satisfaction do beat the market. A portfolio of publicly traded stocks screened for superior customer satisfaction recorded cumulative returns were 518% over the years studied (2000-2014), compared with a 31% increase for the S&P 500. Similar results using back-tested instead of real returns were found in the United Kingdom. While it is possible to argue that public markets can factor in customer satisfaction excellence using the efficient market theory, private investors lack access to similar information and effects. (5)

Customer recognition, trust, preferential treatment and loyalty programs were all identified as high-level strategic marketing drivers that influence customer decision making and are empirically proven to have a direct financial impact on enterprise value by improving brand equity, customer equity and growth, according to an analysis in the paper “Return on Marketing: Using Customer Equity to Focus Marketing Strategy.”³⁰

Academic research also provides tools to quantify the value of strong customer relationships and understand how they directly link to and drive enterprise value. According to a seminal analysis of return on marketing found that strong customer relationships influence customer decision making and are empirically proven to have a direct financial impact on enterprise value by improving brand equity, customer equity and growth. According to the author, Kay Lemon, “Marketing theory and practice have become increasingly customer-centered over the past 40 years. This has led to a decreased emphasis on short-

term transactions and an increased focus on long-term customer relationships, and a shift from product-centered thinking to customer-centered thinking. This creates the need to shift from product-based to customer-based strategies.”

The study demonstrated how customer lifetime value (CLV) should be used as a practical and widely applicable measure of marketing performance and a reasonable proxy for enterprise value. For example, an analysis of American Airlines’ average customer lifetime value of \$167 across their passengers adds up to \$7.3B, which aligns with a market capitalization of \$9.7B. Using customer lifetime value can help executives make trade-off decisions across competing strategic growth initiatives. In the case of American Airlines, this CLV metric makes it possible to compare expanding leg room in the passenger compartment with improving loyalty programs or on-time performance on an apples-to-apples basis.²³

Commercial Research reinforces the growing importance of customer equity in creating firm value. For example, 89% of marketers are making the customer experience the focal point of the branding, design, delivery and differentiation of their products and services.¹⁰

Financial transaction analysis is a particularly relevant way to demonstrate the impact of Customer Equity on future revenues, cash flow and firm value, since customer equity is an intangible marketing based asset. As an intangible, it can only be visible in financial accounting and reporting upon the acquisition of the firm, when the purchase price must be reconciled with the balance sheet. Given the intangible nature of customer equity, this is generally a component of “good will” and rarely broken out. When it is, it proves to be a significant, and growing component of the value of a company. For example, an analysis of 6,000 M&A Transactions found that customer value, as defined by the worth of existing repeat customers who are known in person, represented 17% of enterprise value in the transaction.³³

PERCEPTIONS OF PRODUCT QUALITY AND INNOVATION

Perceptions of product quality and innovation is defined as perceived product or service quality and firm innovativeness in the eyes of the customer. Firm innovativeness is defined by the initiation, development and commercialization of market innovations by a company. As such, the perception of innovation and quality in the eyes of the customer are marketing based assets and drivers of share price in an economy that values digital innovation, and in which the majority of company assets are intangible—such as intellectual property, patents, trade secrets and proprietary processes.

The Perceptions Of Product Quality And Innovation value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Product development processes**
2. **Product management capabilities**

A growing body of academic, commercial, and stock market research has demonstrated impact of Perceptions Of Product Quality And Innovation on future revenues, cash flow and firm value.

For example, a number of academic research studies that explore the marketing–finance interface have established empirical generalizations on the impact of marketing-based intangible assets such as perceptions of innovation and product quality on firm value. Using a meta-analysis of 488 elasticities drawn from 83 studies prior econometric elasticity estimates of the stock market impact of marketing actions and marketing assets, the research reveals a mean elasticity of 0.30 for asset variables related to product or service quality. This suggests that a 10% increase in customer perceptions of product quality will drive a 3.0% increase in firm value (or stock price).⁷ While the meta-analysis does not fully control for certain variables (e.g., the type of firm value metric used, the omission of control variables, or not accounting for endogeneity) the findings validate the causal relationship between customer equity and firm value.

Product and service quality were identified in academic research as high-level drivers that influence customer decision making and are empirically proven to have a direct financial impact on enterprise value by improving brand equity, customer equity and growth, according to an analysis of return on marketing.³⁰

In a separate study, a comprehensive analysis of 241 products over 12 years compiled by the Marketing Science Institute (MSI) found that a firm's investments in product quality will pay off in the long term—over six years. The research found the effect was faster for high-reputation brands or brands suffering a significant decrease in quality.¹⁴

Perceived product or service quality is a marketing based asset, according to Hanssens, Srinivasan, et al.³² Likewise, academic research aggregated by the Marketing Science Institute has demonstrated that customer perceptions of innovativeness have a direct positive effect on financial position and firm value. The research shows the short- and long-term effects of innovation on stock market value is significantly positive and is even stronger for firms that invest more in advertising, firms in the high-tech industries and firms that pursue radical innovations. The majority of organizations are pursuing digital transformation and innovation investments to boost share price and drive growth according to a survey of 600 executives by Prophet.⁵³

A meta-analysis of prior academic research studies by the Marketing Science Institute (MSI) found that firm innovativeness—as defined by the initiation, development and commercialization of market innovations—had a positive effect on both financial performance and enterprise value. According to the research—which examined 399 innovations introduced by six automotive firms and 22,532 innovations introduced by 153 consumer packaged goods firms—the short- and long-term effects of innovation on stock market value is significantly positive and greater for radical rather than incremental innovations.

In terms of investment spending of firms, innovation has the greatest positive impact on sales growth. This effect is amplified when combined with communications (through advertising). The long-term effect of innovation on enterprise value is significantly positive, and is greater for radical innovations than incremental innovation.¹⁴

Stock market data tend to support the notion that investor perceptions of innovation matter more than reality in terms of stock market performance. For example, Samsung Electronics was awarded a total of 6,165 United States patents in 2023, almost five times more than Apple. Using patents as a measure of innovation prowess would lead us to believe that Samsung is almost 5 times as “innovative” as Apple. However, the financial value of Apples Brand exceeds its revenues, while Samsung brand valuation is less than half of revenues – which implies Apple receives a far greater “innovation premium” in the eyes of customers and investors, according to the most recent brand valuation benchmarks.

ORGANIZATIONAL KNOWLEDGE SHARING

Organizational knowledge sharing – also referred to as interdepartmental connectedness – is defined as collaboration and information sharing across functions is the practice of exchanging information, skills, and expertise within and across an organization or community. It involves collaborative learning and the dissemination of know-how, knowledge and insights among individuals, enabling revenue teams to benefit from each other's experiences and customer and market insights.

The Organizational knowledge sharing value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. Cross functional communications
2. Interdepartmental Connectedness

A growing body of academic, commercial, and stock market research has demonstrated impact of Organizational knowledge sharing on future revenues, cash flow and firm value

Academic research has identified organizational knowledge sharing as a key enabler of revenue growth and a driver of enterprise value. For example, a comprehensive analysis of 114 academic research studies by the Marketing Science Institute (MSI) found that the generation of, dissemination of and responsiveness to marketing intelligence across the company is highly correlated with increases in enterprise value—as measured by profits, sales and market share.²²

An ongoing analysis by the Marketing Accountability Standards Board (MASB) identified the documentation and sharing of learnings across the organization as a key driver of continuous organizational improvement.

A survey of 380 CMOs by Forbes and MASB reinforces the importance of organizational knowledge sharing as a driver of superior marketing performance. For example, the highest-performing marketers in the sample are much more confident in their ability to understand how well all aspects of the marketing investment portfolio are performing today, and to build a world-class marketing measurement capability over the next three years (over 20% more confident than the average respondent).

– the collaboration and information sharing across functions - is increasingly important to creating financially meaningful outcomes from sales and marketing investments and efforts. For example, 54% of CFOs surveyed by EY report greater collaboration with the CMO in the last three years—driven by changes in marketing strategy, the deployment of direct-to-customer (DTC) channels, new (SaaS) offerings, commoditization and transparency issues.⁶⁴ And 63% of CFOs by making it a priority to leverage analytics and improve data management to improve visibility into recurring revenues originated in sales channels and drive insights about future revenue performance according to a survey of 300 CFOs.⁶ A big reason the finance function is becoming more data-driven is that modern revenue streams are more and more impacted by information and events that occur after the revenue is booked.

The interviews 120 marketing leaders in the book Revenue Operations made it overwhelmingly clear that growth is a “team sport” and that cross-functional collaboration, decision making and consensus on collective goals are essential to efficient growth. This assertion is supported by a survey of 380 CMOs by Forbes and MASB found that organizations investing in data-driven measurement processes, competencies and systems were achieving significantly higher levels of marketing effectiveness and business outcomes. “Today growth requires teamwork,” according to Thomas White, CMO, TIAA Institutional Financial Services. “There are multiple drivers of growth in a hybrid sales and marketing system—live sales, customer service, digital marketing and retail. And delivering a superior customer experience is a team sport. Not all of these capabilities are under my control as a CMO. So, marketing cannot do it alone. We need to partner with distribution, the CFO, product, compliance and IT. An effective partnership requires a lot of education about what is required to accelerate growth and why it’s necessary to work together towards collective outcomes.”

Another primary way knowledge sharing creates value is to help monetize the large and growing volume of customer engagement data that is generated by modern marketing.. Sharing this data across functions and channels allows marketers to identify trigger events that signal buying intent, flag inquiries from important influencers within accounts, and make decisions about next best actions based on past customer behavior. However, the window of time your organization has to act on that data is small – gated by customer time, attention and expectations for response. This makes speeding data and decisions about an opportunity from the source (e.g. a web site, an algorithm in marketing) to a customer facing employee who can act on it (e.g. a relationship manager or customer service rep) a critical value driver. Gaining access into information that provides greater visibility into seller activity, customer engagement, forecast accuracy, and account health represent the top four ways to improve the effectiveness of selling teams. The lack of visibility into pipeline activity, seller actions, buyer engagement and account health have emerged as critical issue as sellers struggle to measure and manage the productivity of increasingly dispersed selling teams in remote work-at-home settings in a survey of 150 sales leaders, managers and effectiveness professionals.⁵¹

RETURN ON DIGITAL CHANNEL ASSETS

Generating a return on digital channel assets is defined as monetizing a firms capital investments in digital sales and marketing channel infrastructure including but not limited to digital marketing, e-commerce, mobile apps, self-directed web fulfillment channels. This “owned” channel infrastructure that supports sales and marketing channels now represent 25% of capital investment and 35% of operating spend respectively according to the Revenue Operating System report. Owned digital channel infrastructure and the resources that support them (i.e., data, data scientists, content marketers, bloggers) now make up almost two thirds of the marketing operating budget.⁵² in all the average organization goes to market with over a dozen digital sales and marketing channels according to a survey of 380 CMOS by Forbes Marketing Accountability.

Over the last two decades, digital commerce sales have grown to over \$6 Trillion in sales globally as more consumers and business buyers discover, shop, buy and consume products and services online. Even more revenues are generated deeper in the revenue cycle through digital customer success, loyalty and expansion transactions. Over that same span of time digital marketing, sales and ecommerce channels have taken over the lion’s share of marketing budgets, according to the Revenue Operating System Report. Today, almost half (45.1%) of CMOs report they rely exclusively on direct and digital selling channels, according to the Duke Fuqua CMO Survey. 20% of retail sales happen in owned ecommerce channels as more and more consumer-packaged goods, apparel, electronics, services, and hard goods are purchased online. In parallel, Direct to Customer (DTC) business sales have also grown as 83% of the B2B buyers journey happens in digital channels and B2B firms find ways to package and deliver goods, services and solutions online in the form of subscription and consumption based services.⁶² This

trend towards digital commerce is being propelled by three forces, according to Jaime Punishill, VP of Customer Experience and Activation at Met Life: the shift to “4D” and omnichannel selling, the rising share of customers who are digital natives, and the mainstream adoption of AI in marketing and sales.

The broad adoption of “4D” digital, data-driven, distributed, and dynamic selling networks has transformed the go-to-market approach of almost every (97%) organization according to a survey of 352 business leaders by Wharton.²⁵

The Return on Digital Channel Assets value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

- 1. The return on digital marketing channel infrastructure assets**
- 2. Quality of the digital customer experience**
- 3. Optimizing the performance of “4d” digital selling channels**

A growing body of academic, commercial, and stock market research has demonstrated impact that generating a return on digital channel assets can have on future revenues, cash flow and firm value

The capital markets are increasingly rewarding digital growth investments from legacy businesses like Walmart and Home Depot as the majority of new growth in most industries will come from digital platforms and “direct to customer” channels. And disruptive digital business models are creating and reallocating billions of dollars of value across industries as diverse as razor blades (Dollar Shave Club), eyeglasses (Warby Parker), recycling, investment banking, mattresses (Casper) and mortgages (Rocket Mortgage). IDC predicts that half of the Global 2000 will see the majority of their business depend on their ability to create digitally enhanced products, services and experiences by the end of the decade.¹⁰

Academic and commercial research confirms that organizations can create enterprise value by building digital networks and services that better leverage, delight and add value to customers. For example, digital innovators have moved beyond eliminating customer friction to redefine the customer experience as an economic model in an intangible and digitally driven economy. Digital innovators like Waze (\$1.3B), LinkedIn (\$26.2B), Tumbler (\$1B) and Airbnb (\$30B) are using digital platforms to create billions of dollars of value in a matter of months by developing customer networks that are valuable enterprise assets. According to Professor David Rogers of Columbia, customer networks like these create enterprise value by shifting from a “broadcast” distribution model to a networked model for engaging customers, which addresses their unmet need and desire for greater access, engagement, customization, collaboration and connections.⁸

Academic research also confirms the positive impact digital channels can have on share price. An analysis by Tilburg University and Catholic University of Leuven found that the addition of an internet channel to a firm’s channel portfolio has a favorable impact on stock market valuation when it expands market reach with little channel conflict.²²

A comprehensive analysis of 1,049 service innovations over five years by the Marketing Science Institute (MSI) found that e-service innovations—defined as the number of internet-based service innovations introduced by a firm—has a positive effect on firm performance because objective customer reviews help build online trust and develop electronic word of mouth.²²

Research conducted by Yan Wei, found that cumulative abnormal returns (CARs) increase when a firm releases E-commerce related announcements, indicating that investors believe that E-commerce-related activities boost the earning of the firms and benefit the industry that the firm belongs to.

Advances in technology and marketing science have armed marketers with an expanded palette of powerful digital, analytics and mobile tools to help them differentiate and enhance the customer experience and create new enterprise value. According to [Forrester Research’s Customer Experience Index](#), the best marketers are focusing their technology investment to more effectively identify and address customer needs and eliminate “friction” from their experience.²⁴

Progressive legacy businesses are following the lead of these digital innovators and developing new sources of value by facilitating collaboration in their networks of customers, partners and suppliers. Every business has well-developed relationships along the value chain to facilitate purchasing, producing, distributing and selling in its existing business model. In a digital world, these relationships can have greater value than the enterprise they support. Leaders like CNN and Comcast are harnessing the value in these networks by collaborating to co-create content, information and products. For example, CNN turns its audience into journalists. Comcast predicts outages using social listening with their customers.¹¹

According to Forrester Research, as customers and investors push brands into digital growth platforms, digital transformation budgets will edge up into the billions. The Home Depot is investing billions in operational transformation that has yielded \$1

billion in online sales. Unilever purchased Dollar Shave Club for \$1 billion to establish a direct-to-consumer product line. These are technology investments—but also investments in products, processes and people needed to develop a digital growth platform.

As a consequence, the capital markets increasingly reward digital growth investments. In parallel, this digital selling infrastructure is transforming the Economics Of Field Selling by reducing costs, improving reach, engagement and performance of human sellers. Commercial research indicates moving to a more digital, data-driven, distributed and diverse (“4D”) sales model can improve sales productivity over 50% with cost reductions of 10% compared with traditional field sales.⁶⁴ These “4D” selling channels have such compelling economic potential because the leverage technology in ways that augment and enable sales reps to deliver high value customer interactions faster and at lower cost than field sales reps.

In practice, digital technology improves seller performance in three ways: 1) by automating mundane sales tasks, 2) by migrating low value transactions to less costly digital and self-service channels, and 3) by augmenting the value sellers deliver in the “moments that matter” when they are engaging customer.

Augmenting selling channels by helping reps deliver more value in calls is the largest opportunity to accelerate sales. “The biggest opportunity for technology and systems to improve selling performance, by far, is enhancing the value of a sales interaction,” according to Marcus Jewell, the former Chief Revenue Officer of Juniper Networks. “Augmentation rules everything. That’s where we are seeing the biggest gains. We’re still a belly-to-belly selling system – we sell deals up to \$120mm – so you have to have human interaction. But there are many ways you can make those sellers better in ways that impact margins, total contract value, seller effectiveness, and can differentiate the buyer experience (which is our number one goal).”

Migrating high costs transaction to lower cost channels is another economic lever. It involves shifting low value transactions to low cost channels. The book was written on channel migration in the 1990s and early 2000s – when companies like Dell, IBM, GEICO, and Charles Schwab used the principle to dramatically reduce the cost of selling the computer, insurance, and financial advice. For example, IBM was able to migrate \$8.8 Billion-dollar in sales from field sales to a tele-web channel reps while lowering selling costs by 40%.⁶⁵ More recently, when Ryder gave small accounts (under three trucks) to inside sales, customer retention rose from 50% to 72%, the Customer Satisfaction Index went up 400 basis points, and cost dropped in half

Automation can also create value by streamlining the day to day seller experience and improve the time reps spend engaging with customers in more value added tasks. For example, 90% of organizations are using AI to improve their customer journeys, revolutionize how they interact with customers and deliver them more compelling experiences. Sales reps that use AI in selling are almost 5 times more productive.

A primary reason that CEOs are so focused on digital channels is because, without them, it will be very difficult to achieve their growth goals. In fact, IDC forecasts that half of the Global 2000 will see the majority of their business depend on their ability to create digitally enhanced products, services and experiences by the end of the decade.¹⁰ Over half of business leaders are looking at digital experiences and direct-to-consumer channels as a way of developing adjacent markets and new sources of growth.³⁸ Sixty-one percent of global business and IT leaders are adding new customer-facing digital channels as part of their digital transformation journey to reach new customers in new ways.³⁰

But in most organizations, the return on digital selling channel assets still falls below managers’ expectations, and even further below their potential to create firm value by any financially valid measure. For example, the most recent benchmarks from Salesforce show that time spent with customers (28% of rep time) and quota attainment (42% of all reps) have a lot of room for improvement. The current environment at most B2B sales organization is much more conducive than ever to move those numbers up. And fewer than half (46%) of sales reps currently have data insights on customers’ intent or propensity to buy to inform their selling actions.

To leverage digital selling channels to multiply the effort of sales teams, leaders are going to have to do a better job defining and measuring the performance and value of sellers, according to Bob Kelly, the Founder of the Sales Management Association. Conventional measures of seller performance need to evolve. For example, the amount of time a seller spends with a customer instead of preparing for and following up on those interactions is not clear. The volume of calling can be either annoying to customers or productive. How well a seller adheres to pricing, value selling and process guidelines is highly nuanced. Measuring outcomes instead of behavior is dubious. And trying to gauge how optimally sellers allocate their effort to high value tasks and clients is subjective when the value of that client and the response function are opaque. What makes things worse is that managers fail to look at the collective set of complex actions and behaviors involved in generating and expand customer

relationships and achieve quota targets. “Sales leaders make the mistake of treating sales productivity as a single solution problem, rather than an equilibrium problem,” adds Bob Kelly, Chairman of the Sales Management Association. “But measures of productivity and efficiency fail to capture the financial contribution of commercial technology to the business - three decades of CRM and sales automation, 72% of selling time is still not spent with the customer.”

RETURN ON CUSTOMER DATA ASSETS

The Return On Customer Data Assets is defined as the ability of an organization to generate, capture, curate and monetize the customer engagement, usage, and loyalty data from first party sales, marketing and customer success channels. Growth leaders are the unwitting caretakers of what may be their company’s most valuable asset: its customer data. For example, customer data assets in the airline industry – which include revenue management, frequent flyer, and customer engagement databases – account at times for 100% or more of an airline’s profitability and value. Yet they do not show up on any balance sheet or management report because these databases are regarded as “intangibles” – just like R&D, “process know how”, and brand equity – by accountants and don’t get measured, reported, and managed as closely as physical assets like inventory or real estate – even though they are far larger and more strategic.

The Return On Customer Data Assets value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Customer data capture and value realization**
2. **The quality of the customer data and analytics infrastructure**

A growing body of commercial and stock market research has demonstrated impact of generating a high return on customer data assets on future revenues, cash flow and firm value. As evidence of this, both United Airlines and American Airlines recently secured multi-billion dollar loans by collateralizing their MileagePlus and AAdvantage customer loyalty programs, respectively. The third-party appraisals of their data suggest that it is worth two to three times more than the market value of the companies themselves. United’s customer data was valued at \$20 billion while its market cap at the time was about \$9 billion. Similarly, American’s data was valued at a minimum of \$19.5 billion and up to a jaw-dropping \$31.5 billion, whereas its own market cap was hovering at less than \$8 billion. Unfortunately, most CEOs, CXOs, CIOs and their CFO counterparts don’t put a financial value on their customer data because nobody is responsible for the assets and accounting regulations and insurers say they don’t have to, according to Doug Laney, author of the book *Infonomics*.⁵⁰ These are not isolated cases. In recent years as investors clawed for scraps at Sports Authority’s and Radio Shack’s “going out of business” sales, the highest bidders were not interested in their inventories of jockstraps and joysticks, but rather in their customer data. And in Caesar Entertainment Operating Corp’s bankruptcy proceedings, creditors cashed in its Total Rewards customer loyalty database for over \$1 billion—more than any other Caesars property.

Customer engagement data like this has become a key strategic asset in every business because it creates the foundation of future growth, profitability, and competitive advantage. This data grows firm value by optimizing pricing, the probability of conversion, account priorities and the allocation of growth resources in every business in a modern commercial model. So it has become very important for business leaders to recognize, measure, and manage them as a real asset – including insisting on a financially viable return on asset (ROA).

The failure of finance teams to delineate, value, manage, protect and grow these as assets is fundamentally flawed in the way the commercial technology stack has evolved. “Business leaders who fail to measure the value of their customer data assets are ignoring the new business realities of the Data Economy and the economics of information in a 21st Century Commercial Model,” according to Doug Laney, the author of the book *Infonomics*. “Measuring a data asset’s contribution to income streams and expense savings can justify budgets for its care and feeding and establish a minimum for the business value to substantiate data investments to maintain and to monetize that data,” says Laney.

“Business leaders who fail to measure the value of their customer data assets are ignoring the new business realities of the Data Economy and the economics of information in a 21st Century Commercial Model,” according to Doug Laney, the author of

the book Infonomics. “Measuring a data asset’s contribution to income streams and expense savings can justify budgets for its care and feeding and establish a minimum for the business value to substantiate data investments to maintain and to monetize that data,” says Laney.

The market in general favors data-savvy companies. A recent study by Gartner found that on average the ratio of market value to tangible asset replacement cost (known as Tobin’s q), even for pre-digital companies, is nearly two times greater for those that demonstrate certain data-savvy behaviors. ‘A high priority for me [is] to get the right data infrastructure in place so that we can intelligently scale revenue growth. I believe that access into customer insights and to be able to automate action against the opportunity they reveal is going to be a key for us to be able to scale.’ Wade Burgess, the chief revenue officer (CRO) of Rev.com.

The most successful growth leaders are taking a “top down” approach to managing and monetizing their customer data asset. They are “connecting the dots” across their customer data sets to create value by enabling digital selling platforms, integrate learning and development into a closed-loop process, and using AI to provision algorithmic resource allocation, decision-making, and measurement models.

The book Revenue Operations proposes a Revenue Operating System framework as a blueprint for improving the utilization and return on the large customer engagement and loyalty data assets they have generated. Advanced analytics and AI lie at the center of the framework to create an “Engagement Data Hub” that collects and converts customer, sales, product, and transaction data into commercial insights that inform actions and decisions to create value and growth. The Revenue Operating System blueprint outlines six ways business leaders can monetize their customer engagement from first party systems and third-party data sources at scale and in real time. They include:

1. Revenue Intelligence: Managing and measuring the financial return on growth investments
2. Revenue Enhancement: Better packaging, pricing, and personalizing communications, campaigns and offerings
3. Resource Optimization: Optimally allocating people, time, and selling effort
4. Channel Optimization: Improving the engagement, productivity, cadence, and coverage of selling channels
5. Customer intelligence: Leveraging customer data to optimize campaigns, recommendations, answers and seller priorities
6. Talent Development: Integrating learning and development to better ramp, develop and retain top talent

This will help them prioritize efforts to connect the dots across their technology portfolios in ways they generate revenues, profits (EBIDTA) and firm value.

RETURN ON COMMERCIAL TECHNOLOGY ASSETS

The return on commercial technology assets is defined as efforts to consolidate, simplify, integrate and optimize the growing portfolio of CRM sales enablement, readiness, engagement and automation software asset to generate revenue, cost and customer value outcomes by simplifying and enhancing the day to day seller experience. The capital investment needed to support modern selling has grown to represent a significant commercial asset as the average B2B organization relies on over 20 technology platforms, tools and data services to support their customer facing employees. This capital investment in commercial technology on a per capita basis routinely exceeds \$10,000 per front line seller as commercial technology and the “owned” channel infrastructure that supports sales and marketing channels now represent 25% of operating budgets and 35% of growth capital investment.

The discipline of maximizing the return on commercial technology assets has become important because modern selling has become so capital intensive, content heavy, and data driven. These data, technology and content assets have become critical cogs in the modern growth engine. They include both capital investments (like CRM, digital selling infrastructure, sales enablement and training systems) and operating expenses (selling content, coaching time, third party data, owned media, and the operations teams that manage and curate them). Executives that are able to measure and improve the return on their marketing content, playbooks and thought leadership assets will grow faster.

Generating a higher return on commercial technology assets breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

- 1. Commercial technology optimization to simplify and augment the seller workflow**
- 2. Commercial technology utilization by customer facing teams**

A growing body of commercial research into maximizing the return and utilization of commercial technology infrastructure assets has demonstrated impact on seller performance, capacity, consistency and reliability of plan attainment, and therefore directly impacts the consistency and scalability of future revenues, cash flow and ultimately firm value.

Commercial research in the book Revenue Operations indicates that consolidating, simplifying and optimizing the commercial tech stack can yield 50% improvement in seller performance and ROA. Consequently most (94%) B2B sales organizations are actively consolidating and simplifying their commercial technology portfolio as these investments start to exceed over \$10,000 per sales rep on an annual basis. Measuring, optimizing and connecting the commercial tech stack to simplify the seller workflow and augment seller value can yield a 50% improvement in performance and return on assets according to the Tuning the Growth Engine report.⁵²

Today, almost every (94%) business to business organization plans to consolidate, simplify, and optimize their tech stack in the next 12 months to reduce this cost and complexity. This presents growth leaders and revenue operations executives with an unprecedented opportunity to unlock the vast potential of these technologies to generate more scalable and consistent growth.

Unfortunately, most organizations will not realize the full potential of commercial technology assets until their leaders understand the business case for commercial technology. The current basis for funding and measuring the return on commercial technology is full of false economics. For example, CFOs view all growth investment as discretionary operating expense rather than recognizing the commercial technology portfolio, the digital selling infrastructure – and the customer data it creates – is perhaps the largest financial asset in the business. “The business case for commercial technology is not well understood,” says Sugato Deb, a Customer Success Executive who runs Value Management programs at Ansys Software. “Business leaders lack a good understanding and consensus about the core drivers of value (e.g. win rate, time, to close, ABM) and the financial contribution of sales and marketing technology to firm value and financial performance and also to the customer value.”

“Understanding the ROI of our commercial enablement investments has really helped us unlock more growth potential from our data and technology investments while optimizing our enablement philosophy” - Christian Smith, Chief Revenue Officer, Splunk “You need to add up all the tools and services that support front line sellers. That includes home growth tools as well as solutions you license. And services that provide reps data and information are usually tracked differently than tools - but they can cost thousands of dollars per rep if you are not careful,” according to Tim McGee, VP Sales Operations at Elsevier.

INTERDISCIPLINARY COMPETENCIES

INTERDISCIPLINARY VALUE LEVERS THAT ARE EMERGING AS CORE DRIVERS OF FUTURE REVENUE GROWTH AND FIRM VALUE IN A MODERN COMMERCIAL MODEL

RETURN ON GROWTH INVESTMENT

Generating a return on growth investment is defined as the ways a firm generate financial and business outcomes – in terms of revenue volume, share, lift, volatility, velocity, margin, customer lifetime value, cost and future option value – that generate future revenues, profits and cash flow from their growth operating investments. Growth operating budgets represent the operating budgets of sales and marketing and include the full mix of media, sponsorships, promotions and campaigns as well as the deployment of sales teams, effort and programs in markets and accounts. There is tremendous leverage in making marketing dollars work harder. The average organization spends 11.1% of revenue on growth investment. That means, on average, every dollar of marketing investment should yield or influence \$9 of revenue, according to the most current CMO Survey from the Duke Fuqua School of Business.²⁷ So the greater the return on marketing and sales expenditures, the more valuable the business.

The return on growth investment value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Funnel Management Process Performance**
2. **Marketing Channel Optimization And Orchestration**
3. **Content Management And Optimization**

A growing body of academic, commercial, and stock market research has demonstrated impact of return on growth investment on future revenues, cash flow and firm value

A comprehensive analysis of 114 academic research studies by the Marketing Science Institute (MSI) found a linear relationship between marketing capability and firm performance. The studies revealed an investment in increasing marketing capability is associated with a stronger improvement in firm performance than increases in operations and R&D capabilities.²²

A survey of 380 CMOs by Forbes and MASB ranked reducing customer acquisition costs as the number one way marketing investments and activities contribute to shareholder value. The high-performing marketers (firms that exceeded their growth goals by 20% or more) were generating on average 5% higher levels of performance from their marketing investments across 11 marketing investment categories spanning digital and offline marketing investments.. Specifically, these high-performing CMOs were taking several steps to maximize their return on growth investment at every stage of the revenue cycle:

1. Prioritizing digital, social media and mobile marketing investments as their highest-performing investments—at every stage of the customer journey: awareness, engagement, demand generation and sales
2. Leveraging technology at every stage of the journey—over 98% were investing in data, analytics, marketing technology platforms and programmatic ad programs to improve marketing performance
3. Generating superior business outcomes at the front of the revenue cycle by building brand awareness with better social media performance, paid media performance and brand preference
4. Driving superior customer engagement in the middle of the revenue cycle in terms of campaign response, registrations, and sales and service calls
5. Delivering better activation outcomes— in terms of face-to-face meetings, offer response, leads and samples/demonstrations
6. Achieving superior sales outcomes in terms of ticket/basket size, usage, adoption and Net Promoter Scores (NPS)

COMMERCIAL RESOURCE OPTIMIZATION

Commercial Resource Optimization is defined simply as the alignment, location and optimization of growth resources across the entire revenue plan – spanning top down strategy, sales force design, go-to-market strategy, and sales incentives, territory and quota assignments. Selling systems can generate vastly different outcomes based on how variables like channel mix, customer treatment types, coverage ratios, selling effort, and product emphasis are set up. Organizations can dramatically adjust the revenue, profit and cost to sell performance of their revenue teams by shifting the key parameters such as calling patterns, customer targeting, and product emphasis. These efforts can result in rapid revenue growth and better profit contributions without adding resources and costs at the same rate.

The Commercial Resource Optimization value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Sales force design**
2. **Sales and marketing resource and plan alignment**
3. **Goal and compensation alignment**

A growing body of academic, commercial, and stock market research has demonstrated impact of Commercial Resource Optimization on future revenues, cash flow and firm value

Optimizing growth resource allocation by tuning your commercial architecture –the design of your sales force and they key incentives, quotas, and roles, coverage and engagement rules within in – to take better advantage of digital technology can double the speed, engagement and performance of your front line sellers, according to research in the book [Revenue Operations](#). A properly designed and optimized commercial architecture can contribute five or more points of profit contribution to the bottom line because selling systems can generate vastly different outcomes in terms of rapid revenue growth and better profit contributions without adding resources and costs based on how variables like channel mix, customer treatment types, coverage ratios, selling effort, and product emphasis are set up. For example, a Pharmaceutical company was able to drive \$25 million in marginal sales contribution – an 8% increase – by changing the size, deployment, and product emphasis of their sales force, according to research conducted by Professor Leonard Lodish of Wharton.⁵⁴

Optimally aligning account priorities, coverage, engagement model, roles and territory assignments can improve performance 50% and contribute 5-10 points of profit contribution.

Companies that leverage analytics to optimize their territory alignment process increase revenue up to 15% through better resource allocation, tight alignment between sales territories and the go to market strategy, improved sales productivity, and goal attainment according to research by the SMA

Digitizing your processes is a win-win. It can help you improve sales achievement while reducing selling costs. Organizations that use automated technology for territory design have up to 20% higher sales achievement than the average.¹² B2B selling teams can achieve a 10–15% cost reductions by matching territory size with revenue and profit growth opportunities, reducing the number of territories and lowering cost channels.⁴

A survey of 280 CMOs by Forbes and MASB reinforces these findings by indicating high-performing marketers—who were exceeding growth goals by over 25%—were significantly more data-driven in their approach to measuring, optimizing and reallocating their offline and online marketing investments. Specifically, leaders were faster and more effective at shifting marketing resources and investments across media, channels and stages of the customer journey to optimize performance and adapt to the market and dedicated more staff and resources to the development of the data, analytics, external benchmarks and models needed to support world-class marketing performance measurement.

Professor Leonard Lodish and V "Paddy" Padmanabhan have taught the *“Leading the Effective Sales Force”* curriculum to a generation of growth leaders over the past decade at Wharton and INSEAD.²⁴ They believe it is no longer enough to rely on history or rules of thumb in making sales force allocation decisions. The precise historical data available to sales managers is increasingly able to help them rationally decide on sales force size, territory boundaries, and call frequencies for each account and prospect. “There are many high impact and simple to implement sale AI applications most organizations can be taking advantage of today. Organizations are dramatically improving sales performance by using algorithms to help with the basics of

account and lead prioritization and qualification, recommending the content or sales action that will lead to success, and reallocating sales resources to the places they can have the most impact.”

“Decision science has evolving beyond simple extrapolations of historic performance or management 'rules of thumb' about key TQP planning parameters, such as seller workload estimates, the sales response function, opportunity potential or seller productivity,” relates Cam Tipping, developer of the SABRE business simulation tool used worldwide in businesses and MBA programs. “Advanced models and business simulations are empowering sales managers and key stakeholders in product, marketing, and senior leadership to develop much more accurate and nuanced planning assumptions based on quantitative facts and qualitative management judgements that reflect the true drivers of sales performance and customer response based which yield much more effective planning outputs. This includes a better understanding about how sales assignments were derived, and why they are in the collective best interest all parties involved.”

Using advanced sales analytics and modeling techniques to derive more accurate and predictive planning parameters is an emerging best practice. Data inputs from many different data sources no longer solely rely on extrapolations of historical baseline data derived from simple assumptions. Some data inputs can be derived by modelling sales response functions, sales profitability, customer value modeling, signals of customer intent and readiness to buy, and “win probability.”

A fact-based business case for sales resource allocation is now possible. Investment in markets can be empirically determined by developing a sales response model for the markets you serve. Such a model looks at demand and supply information, competitive spending, and the relationship between sales staffing and revenue performance. Other models can calculate incremental profit and revenue contribution of incremental effort, as well as calling patterns and product emphasis.

The ability of analytics to make planning insights more predictive helps sales organizations unlock the potential in their go-to-market approach, which can drive growth, improve yields, and generate the greatest return on growth investment. “The most advanced organizations are using AI to find the predictive elements in their unique data to identify customer opportunities and seller performance issues. For example, it’s possible to identify and predict which sellers have the highest probability of hitting their quotas or churning, including the ability to drill down into the detail on the headwinds, tailwinds, traits, and behaviors that explain why they are at risk and what drives their performance. A leadership team can use this granular and predictive data to decide on the thresholds of revenue and thresholds of churn risk they can tolerate in their plan.

Seventy nine percent of sales teams currently use or are planning to use sales analytics technology.¹⁴ It is possible to calculate much more accurate inputs for several critical data inputs to the planning, management, and measurement of growth resources. Your growth strategy can be improved significantly with advanced modeling and analytics technique that use the following inputs:

- Estimates of market potential and opportunity - by incorporating internal sales baselines over three years or more with external measures of economic activity, demand, buying behavior, and market trends to more accurately quantify and forecast market opportunity or the total addressable market. Using estimates can greatly enhance the TQP process because fewer than 20% of selling organizations have a data-driven, quantified understanding of the total market opportunity and untapped customer potential.⁸ Most CMOs are not using data to support their growth strategy and resource allocation decisions, and two-thirds could not demonstrate the contribution of marketing to firm sales and profits with the data they have, according to a survey of 500 Global CMOs in the Forbes Marketing Accountability Report.¹⁵
- Seller profitability and performance - by correlating rep activities and outcomes with profit contribution, sales quota attainment, and productivity metrics such as calling volume and conversion rates.
- Customer and account priorities – by calculating account potential by combining internal sales baseline data with external firmographic, technographic, and demographic information as well as usage, adoption, and buying intent to determine customer buying potential, penetration, and lifetime value.
- Sales workload estimates – by building rep workload and capacity estimates using a wide range of scenarios based on different customer engagement models – the number, mix, nature and frequency of customer engagement, different levels of treatment by customer type, and the mix of products presented to those customers.

- Sales forecasts – by integrating pipeline health and opportunity metrics from CRM with customer engagement, intelligence, intent, and win-probability data from first-party data drawn from customer-facing systems and third-party data sources.
- The Sales Response function - A sales response function is the relationship between sales and marketing investments and actions and the contribution they generate in terms of revenues, profits, and business objectives. According to academic research, the optimization of all aspects of sales operations depends on the behavior of Response Functions, explicitly or implicitly.

In particular, understanding the sales response function is critical to all growth planning because it is management's ability to accurately estimate of the effects of the efforts of sales and marketing on business outcomes that underlies every decision a business makes about how to size, deploy and allocate growth resources.

This represents a big opportunity to leverage analytics to grow more. The science of sales response calibration has evolved from simple estimates of the response function (the relationship between effort and results) to far more sophisticated and accurate approaches based on advanced modeling techniques, according to research by Professor Lodish.⁵⁵ Most managers allocate their salespeople to markets based on their judgments or simplistic linear “extrapolations” or rules of thumb (e.g. if one rep generates \$1 million in new sales in a given market then two reps will generate \$2 million). Advanced analytics make it practical to create far more objective and complex data-based econometric techniques. These techniques are based on more sophisticated modeling approaches like regression analysis, maximum simulated likelihood, and hierarchical Bayesian analytics

PRICING STRUCTURE, GOVERNANCE AND PRECISION

Pricing Structure, Governance And Precision is defined as the cross functional process of ensuring pricing decisions and actions are consistent, accurate and optimal at every stage of the revenue cycle – from offering design to proposal development to contract and booking through the revenue recognition and realization stages of the lead to cash cycle.

The Pricing Structure, Governance And Precision value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Pricing structure**
2. **Pricing discipline and governance**
3. **Process to determine pricing optimization**

A growing body of academic, commercial, and stock market research has demonstrated impact of Pricing Structure, Governance And Precision on future revenues, margins, cash flow and firm value

There is strong body of academic and commercial research that demonstrate taking a more disciplined and optimized pricing can expand margins by 3-10% with existing resources and improve earnings multiples with limited investment according to analysis by Wharton Business School. Data-driven pricing can yield even greater profit margin expansion by enabling pricing personalization and innovation. Improving a firm's price by 1% effective price increase without changing anything else, this normally will increase profitability by over 10% - according to research by Wharton Research Data Services.¹⁷

In addition, pricing discipline and governance can materially impact future cash flows because both have been demonstrated to have a negative effect on brand equity, margins and future price elasticity. According to research by Pauwels, Hanssens, and Siddarth (2002), price promotions can have a fleeting negative effect on price elasticities, making them more negative.(23) This is because discounting policies draw consumers' attention to price-oriented cues. Likewise, price discounting are an example of a bad decision that can be rewarded in financial reports include excessive price promotions, passing up profitable marketing investments in customers, and long-term brand building, according to Professor Neil Bendle. Price promotions may often have negative long-term impact on firm value, while customer relationship strength and brand preference are associated with higher stock prices – they indicate long-term profit potential. From an investor standpoint, allowing your brand equity to decline can hurt long term cash flow forecasts by reducing share of wallet, margins, and generate greater price sensitivity.¹⁹

Commercial research demonstrates that taking advantage of advanced analytics and digitized processes to optimize and govern pricing can create additional value. A data-driven pricing strategy can yield profit margin expansion of 3-10% with existing resources through pricing optimization.¹⁵ For example, automating the systems that enable the configure, price and quote process can reduce errors in quotes and pricing by 38% according to research by Salesforce.

Pricing discipline and governance can create additional value because most (61%) of billing errors are not the customers fault according to commercial research by Salesforce. Using technologies, controls and processes to ensure sales teams avoid the primary sources of billing errors by delivering more consistent pricing, limiting rogue discounting, and avoiding inputting incorrect order information the front of the revenue cycle.¹⁵

TALENT ACQUISITION AND DEVELOPMENT

Talent Acquisition And Development is defined as the systems and processes for recruiting, developing, and retaining high quality and consistently performing customer facing employees.

The operational alignment value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **The enterprise wide process customer rep recruiting, ramp and retention process**
2. **The employee engagement and feedback process**

A growing body of commercial and stock market analysis indicates that better managing the rep recruiting, ramp and retention process is an interdisciplinary process competency that can have a significant impact on revenue attainment, reliability, cost to sell and future revenue growth.

At a high level, academic research has demonstrated that the perceived quality of customer facing employees is an intangible asset that has a positive impact of on future cash flow and firm value. However, commercial research further quantifies the relationship between the quality of customer facing employees and firm value, and presents many actionable options for managers to improve. A 5% increase in sales rep attrition can increase selling costs 4-6% and reduce total revenue attainment by 2-3% overall. Ten points of salesforce attrition can wipe out revenue plans and margins if nobody picks up the slack by increasing the cost of sales by over 20% and revenue attainment by 8% according to an [analysis by the Revenue Enablement Institute](#). The difference between a 5% attrition rate and 25% means cost an increase of over 50% in cost to sell and revenues drop by 20%.

Talent acquisition and development is an interdisciplinary competency because it spans the enterprise. In most organizations, no single executive owns, measures and manages the cost of acquiring/replacing a new rep, the mean time to ramp a new rep, the quota attainment of those reps, the skill levels of those reps, the retention of reps and their career path forward.

"I think of our sales machine as a growth asset, and we view our investments in developing and training our sales and channel resources as central to our go to market approach and delivering our value proposition to customers," says [Chris Downie](#), the Chief Executive Officer of Flexential - a data center and hybrid IT company.

Economic and stock market analysis reveals that an organization's culture, talent and leadership can have a positive impact on brand and enterprise value. According to Norm Smallwood—author of the book *Agile Talent*—a "leadership brand" is a company that has developed a marketplace expectation for the behavior of a company's representatives (like Nordstrom or Disney) and the organization's reputation as an innovator (like Tesla) or a "leader feeder" (such as GE). From a performance perspective, a leadership brand shows up not only in stable stock prices but in a higher market value. As the market value of a company is determined by its intangibles, enterprise value is determined by its ability to keep promises, design and deliver on a compelling strategy, ensure technical excellence, hire and retain smart people, build strong organizational capabilities and develop strong leadership. Intangible value grows as customers and investors gain greater confidence about the future fortunes of one firm over others in the same industry.

One way companies can evaluate the success of leadership brand efforts is by looking at how much confidence investors have in their future earnings. A publicly traded corporation's price/earnings ratio is a simple—though not a perfect—indicator of that confidence. Companies with strong leadership brands, we have found, tend to have above-average P/E ratios. For

example, leadership brands like GE, Disney and Nordstrom have had P/E ratios over 20% higher than their peer companies over the last decade.(32)

Managers can create value by focusing on improving six inter-related competencies that can improve their effectiveness acquiring new hires, accelerating their time to productivity, and keeping them producing at high levels for a longer time.

1. Treat the rep recruiting, ramp and retention cycle as a cross functional business process
2. Offer new sellers a strong value proposition and better balance
3. Offer a clear career path to sellers
4. Provide more coaching, training and mentoring
5. Reconfigure your day to day workflow to simplify and improve the seller experience
6. Create measures that close the loop between seller activity, training effectiveness, and customer outcomes

These steps will dramatically improve the speed of ramping sales reps, raising the overall level of readiness and skill across the entire revenue team, and reduce churn to retain top talent that performs at a high level.

“We view and treat our people as our biggest selling asset,” says [Frank Jules, President of Global Business at AT&T](#) who leads a global sales team that has the lowest attrition in the industry. “I’d say they’re our secret sauce. We invest in training, developing, and retaining our sales teams. They feel good about career advancement. We have great career-pathing. We say, “you own your career.” And we back it up. We’re very transparent on how to get from a level one, to a level two, to a level three—to keep it simple. Our jobs are advertised. We’re big on looking at a diverse set of candidates. To hire someone, the hiring manager first has to look at someone in our labs, our marketing, our finance teams, and even at our media business (Warner Media).”

Jules reinforces the importance of training and development as a critical factor in rep recruiting and retention. “We invest heavily in training, and people feel good about it,” says Jules. “We tell them to get the next job, here’s what it takes, here are the skills you need and the courses you need to complete. If you check these boxes, and demonstrate your proficiency, you’ll get an interview. As a consequence, our sales churn is low. It’s very low. If you don’t invest in training and enabling your people, you wind up spending a significant chunk of resources dealing with rep churn, finding new reps, and ramping them. In the end, very few of them will develop into the top talent you need to outperform the competition.”

Measures of seller experience, progressive quota attainment and adoption rates will give you early warnings on where to put extra training effort and where to apply a “bear hug” to retain key talent. “Ultimately, eNPS – employee satisfaction – is the key enabler for revenue growth, profits, value creation and customer success,” reports [Frank Jules](#). “You can’t generate revenues, profits, and enterprise value without engaged, motivated employees making it happen.”

ORGANIZATIONAL ALIGNMENT

Organizational Alignment is defined as the alignment of revenue teams, and the organizations that support them – around processes and incentives that generate greater customer lifetime value and firm value. Organizational alignment has become synonymous with the emerging management discipline of Revenue Operations. Revenue Operations is an interdisciplinary competency that better aligns of the teams, organizations, systems, operations and processes that support the revenue cycle to grow customer lifetime value can have an even greater impact on sustainable and scalable growth.

The organizational alignment value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Organization chart aligned with value creation**
2. **KPI and goal alignment with value creation**
3. **Go to Market functions aligned with value creation**
4. **Commercial leadership alignment**

A growing body of commercial research into is demonstrating the interdisciplinary impact of better aligning revenue generating teams and organizations, measures, and incentives with the revenue cycle, the lead to cash process, and the customer buying journey.

Growing a business is an interdisciplinary endeavor. A team sport. Any “go-to-market” strategy has dozens of functions to manage and many more disciplines to master. These functions include traditional growth disciplines like marketing, sales, and customer service. They also include brand management, product development, and the “4Ps” of pricing, promotion, product packaging and placement. New disciplines like sales enablement, customer analytics, earned media management, and content management have emerged as these budgets have grown to command 15% or more of business-to-business (B2B) growth budgets.

There are job descriptions for all of these individual disciplines. There are millions of experienced managers and experts in these functional disciplines. Universities offer master’s degrees and PhDs in most of these disciplines. Individually.

Organic growth requires all of these disciplines to work together in unison towards a common end – consistent, profitable and scalable growth. There is no curriculum for that. Few CEOs have direct experience in these disciplines. Less than 20% of CEOs have direct experience in sales. Few marketers become CEOs.

This is the underlying reason why few managers have been able to master the science of growth. “The root cause of this problem is that historically academic and business institutions have taught and managed the science of growth as a set of individual disciplines – branding, product management, marketing and analytics,” says Professor David Reibstein of the Wharton School of Business. “But the real-world problem of growing a business is interdisciplinary in nature. We as teachers need to do a better job of creating skills, structures, and leaders who can manage, coordinate, and align all these disciplines coherently around the customer. Being the captain that coordinates and leads all those functions in a business is a very big job. But an essential one

As a direct consequence, 85% of CXOs were actively reconfiguring the roles and assignments on their revenue teams to improve the customer experience and grow the value of their accounts. And over 9,000 businesses have introduced “CXO” roles with a broader span of control over sales and marketing and a CEO mandate to lead commercial operations, systems, and processes across the entire business. [Gartner](#) forecasts that most (75%) of the highest growth firms will have deployed a Revenue Operations model by 2025.^{[17](#)} An analysis of commercial research published by analysts, consultants and solutions providers strongly supports the shift to Revenue Operations as a way to improve sales rep productivity and firm financial performance. Aligning the revenue-centric teams in marketing, sales and service around a common workflow will also produce value in a variety of meaningful ways, including:

- **Productivity:** Rep productivity gains ranging from 10 to 60%.^{[26,47](#)}
- **Growth:** Revenue growth improvements ranging from 19 to 31%.^{[45,17,26](#)}
- **Ramp:** The speed of ramping new sales reps of up to 60%.^{[23](#)}
- **Churn:** Reducing rep churn by 75% or more.^{[23](#)}
- **Quota attainment:** Improvements in quota attainment.
- **Value:** Increases in firm value range of up to 71%.^{[21](#)}

While these are generalized business impact estimates, their collective bias suggests a significant and tangible opportunity.

One way functional alignment creates firm value is by making one executive and team responsible for the key points of failure, margin erosion and revenue leakage along the revenue cycle due to the fractured management of the different stages. As a consequence, It is estimated that 1 to 5% of EBITDA flows unnoticed out of companies because they do not have their contract management and payment follow-up processes completely in order, according to Nikolaas Vanderlinden, Executive Director Advisory (Risk) at EY.^{[44](#)} For example, CFOs are driving greater alignment and collaboration between the revenue team, finance, and operations. 81% of finance leaders believe they will benefit from improving the level of collaboration and communication between sales and finance about customers and contracts. Two-thirds believe that better alignment between finance and sales leadership will lead to improved revenue forecasting a 5% increase revenue growth while simultaneously lowering both finance and sales costs by 5% and giving them greater control and compliance.^{[15](#)}

In marketing, academic research in the field of Integrated Marketing Communications has long demonstrated that the functional coordination of marketing functions around a common customer, communications and business objective, can improve the impact of marketing effort, actions and resource investments. The concept of Integrated Marketing Communications (IMC) - the notion of delivering one voice throughout all messages and media through the integration and coordination of advertising with other supporting communications tools (sales promotions, PR, etc.) to better influence consumer behavior - has become a widely accepted norm in marketing academia in the last two decades according to Professors Lynn Sudbury-Riley and Muhammad Junaid Tariq in their paper *Modern Media Planning: An Exploratory Study into the Gap between Theory and Practice*. IMC has been hot topic in the academic community because it creates value by increasing sales growth, profitability, and cost savings according to research in the paper "Will agencies ever 'get' (or understand) IMC?" "In marketing functions, the notion of managing paid, earned, owned and shared media in a more coherent and coordinated manner is not new," says Frank Findley, the Research Director of the Marketing Accountability Standards Board (MASB). "In fact the unified management of media in an enterprise is one area where academic science is way out in front of marketing practice at most organizations. The notions of Integrated Marketing Communications and Integrated Account Planning have been studied and validated in academic research over twenty years ago."

CUSTOMER LIFECYCLE MANAGEMENT

Customer Lifecycle Management is defined as the alignment of revenue teams, and the systems, operations, and organizations that support them – around processes and incentives that support the revenue cycle, from demand generation to sales, to loyalty and customer expansion. In many organizations, there are a dozen or more organizations that engage with the customer as they pass through the phases of the customer journey, and no "single throat to choke" accountable for all the points of failure, abrasion or revenue leakage along the cycle.

The Customer Lifecycle Management value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Technology alignment with the customer lifecycle**
2. **Functional alignment with the customer lifecycle**
3. **Executive ownership of the customer lifecycle**
4. **Value alignment along the customer lifecycle**

A growing body of commercial and stock market research has demonstrated impact of better Customer Lifecycle Management on future revenues, cash flow and firm value.

For example, assigning executive ownership of the customer lifecycle can improve the consistency and reliability of revenue growth. For example, the majority of finance leaders are working to take greater ownership of the revenue cycle (or lead to cash process) to eliminate functional and data silos along the enterprise quote-to-cash processes and standardize the information and outputs of the process. 60% of financial planning and analysis (FP&A) organizations are driving global process ownership of end-to-end processes for booking, reporting and forecasting revenues by reducing process fragmentation across silos and standardizing and harmonizing the way information moves across the process.¹⁵

"My remit as COO is from opportunity to revenue recognition in that process," says Tim Brackney, the President and COO of consulting firm RGP. "I hold my account managers and leaders accountable for that as well. The booking or close is a fulcrum event in the process that can cause problems. At that point account managers tend to 'ring the bell', take it to the bank, and assume the job is over and the revenue will ultimately come in. My sales leaders hold account managers accountable for closely monitoring any changes or extensions that can impact what revenue is recognized. It's every account manager's job. Revenue means recognized revenue. And any write offs and AR is their responsibility. The reality is you need to constantly be 'reclosing' a deal and constantly managing supply (inventory) with demand (billable work) to recognize those revenues and manage your profitability and return on assets."

"Connecting the people, systems and processes involved in converting opportunities to cash is the key to effective revenue forecasting, recognition and management in a modern commercial model," says Scott Gehsmann, who serves on the board of partners at PwC, the world's second largest accounting firm. "From a functional standpoint, the most advanced businesses in the technology, biotech, and manufacturing industries are putting a C-level or near C-level executive in charge of the whole

prospect to cash cycle. In some industries these leaders are called Chief Revenue Officers. But the titles can vary. From a system standpoint, things are less sophisticated. In general, I see people are mostly using home grown systems that try to blend the contract data in CRM with the payment and fulfillment information from other areas of the company.” CRM with the payment and fulfillment information from other areas of the company.” As evidence of this, 60% of FP&A organizations are driving global process ownership of end-to-end processes – by reducing process fragmentation and standardizing and harmonizing end-to-end processes, according to a survey of 300 global CFOs and their direct reports by the Everest Group in 2022.⁶

“Revenue recognition has emerged as one of the more challenging audit issues because of the growing complexity of contracts, the nuances of client acceptance of delivery in a SaaS world, and the pace of change in business,” according to Scott Gehsmann, who serves on the board of partners at PwC, the world’s second largest accounting firm.” The root of the problem is that the revenue object – a contract or booking – moves along the customer journey and has to be handed off from the sales organization to accountants who recognize and record the information in their accounting and financial management systems. At the start, sales will own the contract before it is executed. In the middle, the goods or services need to be accepted by the client based on things being delivered and aspects of projects being completed. That’s where the gray area comes in. A lot of things can change in the “messy middle” between the time a contract is written, and the performance obligations in the contract are met and accepted by the customer.

Functional alignment with the customer lifecycle can contribute to higher revenues and lower selling costs,. For example, two thirds of CFOs believe that better alignment between finance and sales leadership along the customer lifecycle will lead to a 5% increase in revenue growth while simultaneously lowering both sales costs by 5% and giving them greater control and compliance over revenues.⁴³

Realigning sales resources, incentives, playbooks and roles to ensure your organization can communicate and deliver value at every stage of the revenue cycle is another way customer lifecycle management can create more consistent and profitable growth. Customer Value Management as a business discipline has been around for almost twenty years. It is highly effective at unlocking revenue and margin by improving conversion rates and moving sales conversations from value to price. Customer Value Management is a powerful commercial concept because it creates a system for consistently executing what was previously a fragmented set of disparate methodologies and principals that have traditionally been deployed in functional silos. These include value based pricing and value engineering in product design (first embraced in 1940 at GE), and the many value selling methods in sales (popularized in the 1960s). Commercial sales performance benchmarks show revenue teams that adopt a Customer Value Management system see improvements in both sales and customer success and productivity overall. Sales close rates increase over fifty percent and deal sizes more than double. Net Recurring Revenues grow in double digits. Retention by over 50%. “Almost every major sales organization has a value selling methodology,” “Overall, value selling as a principle can be very effective at turning sales business outcomes, financial impact and strategic alignment, regardless of the flavor your organization favors,” says Brent Adamson, the author of The Challenger Sale, a popular value selling methodology. “But historically, the challenge has always been how to apply those principles consistently in sales and reduce the manual labor and effort involved by already overburdened revenue teams.” *This is a particularly large problem with SaaS and recurring revenue businesses*, according to Lynne Doherty President, Worldwide Field Operations At Sumo Logic. “In a SaaS model, the sale is just the starting point of the relationship. So, we’ve redesigned roles and incentives to get our teams focused on customer education, customer experience and account development activities that drive loyalty and expansion of our recurring revenues.”

OPERATIONAL ALIGNMENT

Operational alignment is defined as the alignment of the operations that support customer facing teams at every stage of the revenue cycle, from demand generation (marketing operations) through sales and business development (Sales Operations) to customer success and service (CX Operations) support them. The business benefit of aligning operations is to better manage the systems, data flows and processes that support the customer journey and lead to cash cycle. Operational alignment is an interdisciplinary competency generates more consistent and scalable revenue growth by eliminating the key points of failure, revenue leakage, and margin erosion between functional silos and supports a more uniform digital customer experience.

The Operational Alignment value lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

- 1. Better alignment between operations and strategy**
- 2. Better alignment across commercial operations, including sales and marketing and CX operations.**

An emerging body of commercial and stock market research has begun to demonstrate and quantify the impact of Operational Alignment on future revenues, margins, cash flow and firm value. The lines between the functional marketing, sales, customer service, and product management teams that historically have generated growth have blurred as growth becomes a data driven and digital team sport anchored more on the customer journey than traditional market or business unit constructs of the past. And the systems and data that support them are becoming increasingly connected. The difference between the marketing and sales technology stack are disappearing. First party customer data from web sites needs to be merged with account data in CRM and customer inquiries from Customer Success. And the entire notion of a sales transaction has changed as businesses go from selling individual widgets to streams of consumable services and subscriptions.

The emergence of Revenue Operations as a management discipline for aligning the operations that support growth reflects the increasingly interdisciplinary and asset intensive nature of the commercial model. According to Interviews with 120 growth leaders from the book Revenue Operations:

- 85% of growth leaders are changing the way they lead and align revenue teams and the operations that support them.
- 94% of sales organizations plan to consolidate their tech stack in the next 12 months.
- 90% of growth leaders are reconfiguring the roles, assignments, incentives and priorities of their revenue teams.

As a direct result, Revenue Operations has emerged as the fastest growing job in North America according to job listings in Linked In. (999) An analysis of hundreds of RevOps job descriptions, and discussions with over seventy executives who carry the Revenue Operations moniker in their title found that no one job description is the same. Rather, Revenue Operations describes a conflation of a dozen or more historically fragmented functions and roles – Sales Operations, Sales Enablement, Marketing Operations, Customer Analytics, as well as Training and Development. That may sound random. But that’s the fundamental point of Revenue Operations.

At the highest level, the primary goal of a Revenue Operations leader is to unify and align the operations, systems, and data that support revenue teams along the entire revenue cycle to generate more consistent and scalable growth. That’s important because growing a business in 2023 is a digital, data-driven, and technology enabled team sport. B2B growth leaders are driving a machine that uses customer data as gasoline, selling content as oxygen, and digital technology to get traction with customers. The assets that support this growth machine – customer data, digital selling infrastructure, and brands – are the largest financial assets on the company balance sheet.

The role is constantly evolving as organizations consolidate the operations and systems that support the revenue cycle. “Revenue operations is the future evolution of sales operations,” says Mary Lee, Senior Director of Business Operations at Lionbridge, who manages CRM, analytics, financial reporting and advanced analytics in her role. “The industry is moving on a journey along a continuum from sales operations to revenue operations. Sales operations wasn’t even a function 15 years ago. It started as reporting. It expanded into technology with the administration of CRM. Then we had to connect selling measurements to financial measurements. Then we had to integrate marketing technology with sales technology. Then we had to change the behavior of the sales team. And we have to motivate them with incentives and quotas. The role keeps getting bigger and bigger.”

To achieve better alignment between operations and strategy, best in class organizations are connecting the dots across the operations and processes involved in converting growth plans to revenue opportunities to cash into a closed loop – data-driven system. For example, 31% of CFOs are making it a high priority to integrate their finance processes from back office to the front offices across organizational hierarchies. They are doing this by finding practical ways to aggregate customer interaction, transaction and engagement data from their customer facing systems to better inform their sales forecasts and ensure they reflect the work actually being delivered to clients over time. The smartest way to do this is to capture pre-booking, transaction and post booking data from customer facing systems and teams in the system most customer facing teams use – CRM.¹⁵

Operations leaders need to stay mindful of organizational and structural risks they face as they seek to connect the dots across the many systems that live in silos across their companies. This is because the typical operations leader charged with commercial technology consolidation lacks the span of control, mandate and influence to get other parts of the organization to

cooperate with their efforts. The senior leaders that have the ability to deploy capital, take risks, and control incentives across functions often push too much change management burden on more junior operations managers. But only they have the authority and span of control to establish the common purpose required to align the many stakeholders in finance, marketing, product, sales and technology required to pull off a commercial transformation project. Sugato Deb reinforces this point. “For a technology implementation to succeed, it has to deliver value at all three levels of the internal organization and extend the value all the way to the customer,” he emphasizes. “The C-level executives who direct growth strategy, the customer facing employees that execute it, and the operations team that activates them.”

FOUNDATIONAL VALUE LEVERS

FOUNDATIONAL VALUE LEVERS THAT REQUIRE ADDITIONAL RESEARCH AND FOCUS

GROWTH CULTURE

A growth culture is defined as the internal belief of the commercial leadership and the entire revenue team regarding their focus (market orientation, customer centricity), willingness to change, capacity to innovate, and confidence in their ability to win in the market.

Growth culture is a primary value lever that breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Capability to innovate and grow**
2. **Ability and willingness to change**
3. **Cultural alignment with strategy**
4. **Right to win**

The notion that culture of growth is essential is common sense to most executives, but until recently has proven difficult to quantify, prove and measure. There is an emerging body of academic, commercial, and stock market research into growth culture has demonstrated impact of growth culture on future revenues, cash flow and firm value. However, this is an operational lever of growth that will require more rigorous academic study and benchmarking.

For example, academic research suggests that the capability to innovate and the market orientation of a firm are cultural drivers that materially impact future revenue and margin growth. Academic research has highlighted the cultural and leadership aspects of driving growth through innovation. For example, a meta-analysis of 273 prior effect sizes from 187 studies from 1970 to 2007 found that innovation has a positive impact on firm performance overall. The components and drivers of innovation has value elasticity effect sizes include cultural factors such as a company's openness to change (effect size of 0.36), a past history of innovation (effect size 0.47), the presence of innovation champions within the business (effect size 0.36). This suggests that a 10% improvement in these areas can impact firm value materially – by 2 percent or more. (3)

In addition, McKinsey research suggests that cultural alignment with strategy can have a big impact a company's performance. According to McKinsey, companies with top quartile cultures have a 60% higher return on shareholders than median companies, and 200% higher than companies in the bottom quartile. McKinsey has also found that CEOs who measure and manage all cultural elements that drive performance more than double the odds that their strategies will be executed. The Organizational Health Index is a 15 question analysis designed to assess the four key elements of organizational health: leadership, culture, strategy, and operations. Based on our research of over 2,600 organizations that encompass more than three million individuals, those with top quartile cultures generate a return to shareholders 60 percent higher than median companies and 200 percent higher than those in the bottom quartile. (11)

The ability and willingness to change is another cultural factor that can either limit or accelerate the commercial agenda in a modern business, according to Bob Kelly, the Founder of the Sales Management Association. "Around 90% of companies we studied expected substantial change in their commercial organizations over the next three years. That was remarkable in my experience," says Bob Kelly. "What this means is that sales leaders now need to focus on what I call change leadership versus change management. The change going on goes beyond simply implementing a program and having people understand and adopt it. Now it's about changing the hearts and minds of the revenue team. A change leader has to help people understand why they have to adapt their behaviors, even their belief systems about what it means to be a salesperson in this organization.

Establishing a common purpose is important because it gives people in disparate sales, development, specialist, and customer success role the incentives to work together to grow revenue and customer lifetime value.”

COMMERCIAL CONSISTENCY AND RELIABILITY

Commercial Consistency and Reliability is defined as the consistency of an organizations ability to achieve revenue targets, and the reliability of the underlying selling resources to contribute to those targets, and the integrity of the processes and methods used to measure and report on their commercial performance.

The Commercial Consistency and Reliability lever breaks down into specific operational value drivers that have been proven to be causal of firm value but also can be measured, valued, and managed by investors, boards and managers.

1. **Revenue goal achievement reliability**
2. **Forecast process and consistency**
3. **Sales rep capacity and reliability**

There is an emerging body of academic, commercial, and stock market research into the reliability and scalability of commercial teams and processes has demonstrated impact on future revenues, cash flow and firm value. However, this is an operational lever of growth that will require more rigorous academic study and benchmarking. Further study would arm managers with tools to create more growth from existing resources, because more consistent performance, goal attainment and productivity can have a major impact on revenue performance because there is tremendous “slack” in the selling system in terms of people, assets, calling capacity and effort being applied to the wrong customers, actions, activities, and market opportunities. They are finding significant ways to improve the output, allocation, and return on these commercial assets. For example, approximately half of sales reps fail to achieve their quota assignments according to research by the Sales Management Association. When predictions about their performance are rolled up through territories, regions, geographics and business units – managers add “padding” to these numbers the revenue forecasts to ensure they hit their target. That is effectively trading hard dollar capacity for the predictability investors demand and reward. In the production world, that’s akin to a supplier keeping two to three times the needed inventory as “buffer stock” against the risk of delivery failure.

In addition, every resource and action along the revenue cycle is subject to statistical fluctuations. This means every step in the chain of activity along the revenue cycle can be measured, managed, and streamlined. The capacity, output, and performance of individual sellers, and the effectiveness of different sales actions all vary greatly around a known “mean” or proven best practice. So does the impact of different selling methods, the performance of different selling content, and the conversion of different demand creation campaigns. If half of your sellers miss their quota by over 20 percent, fail to adopt sales enablement, and fail to adhere to the sales playbook – the compounding effects can lead to large financial consequences. Conversely, small gains in quota attainment and pricing discipline can lead to vastly improved profitability. Managing consistency across all aspects and actions of selling pays off handsomely.

Establishing realistic resource and performance goals – from Territory and Quota Assignments to incentive designs, to rep productivity estimates to revenue forecasts, is a multi-variant analysis involving over 21 inputs across strategy, go to market, regional sales management, finance and sales operations. And the scenarios and judgments underlying those designs, and different performance outcomes they can create, can be near infinite. To improve the reliability and accuracy of those planning and allocation processes, 40% of organizations are moving beyond transactional process improvement to focus on transforming judgement-intensive processes by moving their analysts off spreadsheets and onto data platforms. This allows them to better manage the different run rate, expansion and new business time-based data streams from the field and allows finance teams to automate the forecasting process – saving time and making it more scalable and data driven. (25)

This is one of the primary reasons nearly two-thirds (65%) of senior financial executives report they are having operational problems establishing processes to track and manage and maximize revenues over the long term. One root cause is functional silos and incentives and processes. For example, two-thirds (67%) of the finance executives said finance leadership should better align with sales leadership to improve forecasting and maximize revenue growth. “It takes a great deal of diligence and detail to get operational forecasting right. But the costs of not doing it are huge to the business,” says Tim Brackney, the President and COO of consulting firm RGP. “You need to stay close to what is going on in accounts and constantly update your systems with information about potential delays, sequencing, change orders that can impact revenue recognition, forecasts and asset allocation. You need to look under a microscope and monitor the detailed logistics of rollout and timing and get a

handle on rollout, ramp and run rate of a given account. This is essential information we use to run the business. It helps me “see cliffs” and anticipate, explain and ideally avoid revenue shortfalls or under-utilized assets. It helps me redeploy assets to new projects and adjust my revenue forecasts.”

“Consistency may be boring, but it represents a manageable path to value creation,” says Steven Busby, Managing Director of Slate Point Partner, a firm developing operational benchmarks of commercial performance. “If businesses like Toyota, GE and countless others can create hundreds of billions of dollars of firm value by applying continuous process improvement to their operations and supply chains – why not take a similar approach to the customer-facing part of the business? Consistent, repeatable revenue growth would be the reward.” Consistency means programs generate predictable returns and outcomes. It means sellers perform the selling plays and motions they have been trained to execute. Being more consistent means the models that predict which accounts to call and which actions to take are accurate and effective most of the time. Kirsten Paust, the Vice President of the Business Systems Office at Fortive echoes this sentiment. “We believe that a process mindset and orientation can be applied to unlock more growth and innovative capacity in our teams and businesses.”

In addition, the constancy and reliability of revenue forecasting is an important causal factor, and a large management gap, for every organization. The conventional approaches finance teams use to forecast, recognize, and realize future revenues are fragmented across sales, customer service and finance are fundamentally unreliable by design. Warren Buffett’s warning that *“forecasts may tell you a great deal about the forecaster; they tell you nothing about the future,”* accurately describes the bespoke and inconsistent ways organizations produce long-term revenue forecasts and plans. One of the fundamental flaws in management conventions for forecasting that can impact future revenues is the way finance teams recognize and realize revenues over time don’t factor in the post booking variables that impact complex long term contracts and the recurring, SaaS and consumption based revenues that command modern revenue streams. And the challenges of generating an accurate operating and financial forecast is only growing as the complexity of long term contracts, cross selling, and consumption-based revenue recognition increases. Today 63% of finance executives believe the complexity of forecasting revenues and business performance has increased over the past year.⁶ And most (54%) agree it will only become more complex in the future. The traditional way most organizations generate forecasts is proving to be too slow and labor intensive to keep up with the complex and dynamic nature of modern revenue cycles. The lack of timely and accurate information in these forecasts make it nearly impossible for production, sales and success and finance teams to adjust operationally to gaps between client usage and expectations and the execution required to realize revenues. This can reduce the effective yield on committed revenue by over 25% due to lack of operational alignment.⁶ These dynamics are “breaking the back” of outdated forecasting processes that are based in silos, built on bookings data, managed on spreadsheets, use assumptions based on arbitrary growth targets, and are driven by the fiscal calendar. Inaccurate forecasting impacts future revenues because it leads to over or under utilization of production and selling capacity and lowers the return on assets.

VII. AN OVERVIEW OF EVALUATION METHODS USED TO DETERMINE THE EFFECTS OF COMMERCIAL VARIABLES ON FIRM VALUE

To isolate these revenue generating variables, the meta-analysis evaluated the ability of different methods and models to measure and report value across these twelve operational levers and forty six specific variables. The paper considered a variety of approaches used in academic and commercial research to evaluate the efficacy of evaluation methods that measure the effect of commercial variables on firm value, including:

| Method | Approach | Advantages | Limitations |
|----------------------------|--|---|--|
| Revenue Attribution | Value Chain based modeling and analysis (based on “flow variables”) that proves the casual chain of events that create a financially valid connection between commercial actions, investments and assets to revenue and cash flow outcomes (revenue effects) that drive firm value. – e.g. communications value chain (Edeling), marketing value chain (MASB), revenue value chain (Revenue Operations). | <ul style="list-style-type: none"> • Provides a financially valid basis for evaluating and measuring commercial actions, investments, assets and expenses • Provides a common vocabulary for managers across functions (marketing, sales, customer success, finance, and product management) to describe, debate, track and incorporate into business investment cases and KPI for governance, performance measurement and common incentives. • Allows managers to debate and test assumptions rather than the value • Defines the key variables and metrics that define the math of growth and are key to calculating, proving and improving the financial impact of commercial assets, investments, efforts and expenses. | <ul style="list-style-type: none"> • Not well understood by managers and CFOs • Requires interdisciplinary and cross functional collaboration and incentives to connect the actions, programs and investments that change customer behavior with channels and mechanisms to realize revenue. • Complex, multi step math that requires documentation of assumptions and tracking of variables and inputs • Requires advanced revenue intelligence and information systems to generate measures and operational KPI, and reporting • Subject to manipulation by ad hoc analysis, spreadsheets and misuses of models and metrics |
| Value Elasticity | Econometric studies that derive empirical generalizations that isolates the mean effect and size of impact (correlated and/or casual) a specific action or asset will have on firm value based on empirical academic | <ul style="list-style-type: none"> • Places a quantifiable value on a broader range of commercial competencies, KPI, and intangible assets (.g. market-based assets, knowledge assets, knowledge sharing, , computerized information, IP, perceptions of innovation, and training, “sales know how” • Focuses management on key interdisciplinary processes, capabilities, human capital, and assets within the business to manage, measure and optimize, and monetize. • Investors and analysts can use mean effect sizing as reference values in their valuation models (Schulze, Skiera, Wisel, 2021) • Stock variables allow managers to establish KPI, management metrics and incentives that more directly tie to firm value. | <ul style="list-style-type: none"> • Requires additional research • Difficult to operationalize • Based on public company data • Consumer business oriented • Marketing variable oriented |

| Method | Approach | Advantages | Limitations |
|----------------------------------|---|---|--|
| Customer Based Benchmarks | Methods based on customer-based assets that use measures and benchmarks of customer equity (e.g. customer lifetime value, loyalty databases, relationship equity, accounts) and associated customer equity properties (customer loyalty databases, customer value, NPS) to quantify future cash flow and firm value. (e.g. Lemon, Rust) | <ul style="list-style-type: none"> Establishes practical management measures based on customer and prospect values Measures impact of actions on customer lifetime value Establishes a value on customer assets for resource allocation, investment and risk management. Relatively easy to measure | <ul style="list-style-type: none"> Incomplete Does not factor in other marketing-based assets Does not factor in interdisciplinary economics Not tied to mainstream management KPI and key account incentives |
| Revenue Operations | The measurement of interdisciplinary and cross functional processes and capabilities that have a direct impact on commercial asset monetization, commercial process effectiveness, and return on growth investment. | <ul style="list-style-type: none"> Provides a practical framework for measuring interdisciplinary processes and shared commercial assets - Organizational knowledge sharing, Commercial technology assets, cross functional talent processes, revenue leakage across the lead to cash cycle, the core assumptions and design points underlying, pricing discipline and optimization at every stage of the revenue cycle. Provides financially valid KPI for measuring resource utilization, revenue outcomes, cost to sell, and return on commercial assets Supports KPI for management competencies | <ul style="list-style-type: none"> Poorly understood Requires teamwork Requires connected data Requires changes in organizational design and incentives Requires tracking new metrics Change management Complex |

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Slate Point Partners is a revenue operations benchmarking and advisory firm. Our proprietary Quality of Revenue assessment helps investors, CEOs, and their management teams evaluate and understand the key intangible assets that impact a company's ability to generate future revenues that are missed by financial analysis. This approach can significantly reduce the risks, price, and costs of their investments.



