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[SALES TECHNICS – PHILIPPE BIANCHI]

An analysis of the sales techniques employed by Michael McCafferty in three different sales roles in his handling of his product and company

Abstract

On 17th March, 1983, Michael McCafferty bounced back from professional fallout and started his own consulting firm – a small venture with no clients and limited resources. However, almost ten years later the company had in its legacy the creation of TeleMagic (the first commercial telemarketing and sales software) which had sold more than 200,000 copies – something that was topped off with its sale to Sage Group for a multimillion dollar price tag in 1992. This paper explores how Michael McCafferty was able to use a multi-faceted sales approach to achieve these objectives including: first approach that offered a solution to positive respondents and creative cognitive dissonance in negative ones, a customer-induced Cube Law where customers create sale value for themselves, predictable irrationality linking to an increase in price, and a detailed sales process model of the negotiation with the Sage Group as various sales and argumentation techniques were employed to gain the most from the negotiation.

Introduction

The following is an extract taken from a personal account given by Michael McCafferty regarding how he used sales acumen to make a positive business impact with his product TeleMagic.

"St. Patrick's Day 1983 is a date I'll never forget. That day I filed for bankruptcy and started my consulting firm.

I enjoyed good success in the computer industry, having started and operated several successful businesses. My most recent venture had been my new invention, the world's first electronic yellow pages! It was a great idea, yet when I brought in some outsiders in order to raise some badly needed capital, I lost control of my own company!

A period of political infighting left me on the outside of my own company. For the next year, I lived on credit cards in a state of depression. Then the personal bankruptcy took away my plastic.

Not too long afterward, I found myself sleeping on a used mattress in a studio apartment. I didn't have a car and had to borrow a friend's in order to make a sales call.

So what did I do? I became a consultant, just like a million other broke, unemployed guys. My office furniture was a wooden folding chair and a door laid across a couple of two-drawer files.

I had to find some clients, pronto! But how could I, with no money to advertise and no car?

Without the financial resources, I knew that I had to come up with an idea to drum up some business that didn't require a bundle of cash.

…Using credit, I convinced a local printer to print a total of 200 copies of the list on a 17" x 11" cardboard poster, with "Michael McCafferty & Associates" and my phone number on the bottom.

Next, I hired Marianne, a friend's girlfriend -- a pretty girl with a lovely smile -- to work for me on a commission basis. I promised to give her a percentage of my profits derived from anyone who became a client as a result of her work. Marianne was a full-time waitress who relied on tips, so working on commission for me suited her fine. Thank heavens. Because I didn't have the money to pay her up front.

I instructed her to stop at every business in a large industrial park in Sorrento Valley on the north side of San Diego. Her job was to give a poster to every businessperson in the area.

Knowing I had a computer background, Marianne said to me, "I know nothing about computers. What am I supposed to say to people?"

"Just one word," I coached her. "Computers."

"Computers? That's it?" she asked.

"And say it as if you are asking a question. You know: 'Computers?' I want you to have a question mark in your voice. Also, don't forget to give 'em your beautiful smile."

I wanted to keep it simple, realizing that there would be a problem if any business owners *asked her questions since she knew nothing about computers.*

"What do I do next?" Marianne questioned.

"Don't say a single word after you say, 'Computers?' Wait for them to reply. If somebody says 'Yes,' point down at the bottom of the poster and say 'Call this number if you have any questions,' and then turn around and leave."

"What if they say 'No'?" she asked.

"Point to my name and phone number and say 'Call this number if you have any questions.' Then get out. Don't say another word."

It took her about two days to pass out the 200 posters, and then the phone started to ring. A few people called only because they wanted another poster, but 25 genuine prospects also responded -- enough to get me started in my consulting business. And Marianne received about $2000 in commissions for her two-day job. From that point on, I never had to go out and make cold calls for new clients. From the business my 10 commandments posters generated, and the referrals and repeat business that followed, it didn't take long before I was making a decent living as a computer consultant.

I primarily consulted with small business owners on computer programs and software that would serve their needs. Sean Curtis was one of the first people to receive a 10 commandments poster. A man in his mid-twenties, Sean had a couple of salespeople working for his small, growing company, which provided coffee service to offices and warehouses. I recommended a software program for his company that kept records on his customers, including such things as inventory and billing information. Six months later, Sean informed me that while the program had done wonders for his business, and his company expanded, there were some things the software couldn't handle.

I studied his needs and understood his problem. It wasn't the first time I'd come across the limitations of this program. You see, every software program has certain drawbacks. Many can't be integrated with other software. Some companies lacked good customer support. Others didn't have a network version. The list went on and on, and I realized nothing in the marketplace would do the complete job for Sean.

Why should I put my customers into these software programs, when none of the programs was doing a superior job? By the time Sean approached me, I had already said to myself, "If just one more customer comes to me with these requirements, I am going to do whatever it takes to get the job done for them -- even if I have to write the software program myself."

After reviewing Sean's problems, I decided to design a software program that not only would fit Sean's needs, but would also work for other small business owners. Since I knew exactly what entrepreneurial clientele needed, by George, I'd be the one to design a program for them!

I said to Sean, "I want you to pay me to write this program for you. But I need to own it, so I can sell it to others too. If you agree to that, I'll give you free upgrades as I continually improve it. Okay?"

Sean gave me the go-ahead.

I worked on the program for about six months, and Sean ended up paying me $5000 in fees. As a direct result of the program, his business, Coffee Ambassador, started to expand by leaps and bounds, and Sean is the first to say that he got more than his money's worth out of it.

For me, it was the beginning of a new life. The software program, which I named TeleMagic, was the most practical, simple, user-friendly software program ever devised for its market. It was designed so that people without computer skills could easily learn it.

When TeleMagic was first introduced, I sold it through advertising in telemarketing magazines. The program retailed for $95. That was a revolutionary price when some telemarketing software sold for tens of thousands of dollars. At the time, personal computers were being introduced, which meant people could get into telemarketing for relatively little money.

Later I started distributing the program through dealers, and, believe it or not, I got complaints from them. "Your software is really terrific," *they'd tell me. "The only problem is people don't believe it will do all it does for only $95. You have to raise your price."*

"Look, if I charge more, you'd have to pay more."

"That's okay," they told me, "because we'll make more."

I thought to myself, "What a great business I'm in. People are telling me to raise my price!" I raised the price to $195, then to $295, $495, and later on, $695. We began selling network versions of the software which retailed for $795 and later sold for $1295, $1500, and $1995. We even sold TeleMagic corporate licenses to Fortune 500 corporations for sums in excess of $100,000 each.

All in all, we sold more than 200,000 TeleMagic programs. My business was booming. But it was killing me! It was eating me alive. In the beginning I enjoyed it, because I'm basically a creative person and can work comfortably in a company with 10 or so employees. But I am not good at the administrative end of a business. And as the business grew, I had to hire more people and pour more money into the company to keep it going. The company couldn't stand still. It had to go either forward or backward.

It's like playing in a poker game in which you buy in with a nickel. Then you start winning thousands and it runs into millions, and you're playing for eight years. Every time you get a hand, you push the entire pot of millions back in. But you're only winning one nickel at a time. That's the way my business was. I felt as though I risked everything, every day I was in business. At the same time, my competitors were getting bigger and stronger, and more and more of them came at me. When I first started TeleMagic, I had no competitors; now there were more than 600 software programs that had come out in the marketplace. As the saying goes, "Success breeds competition."

I felt enormous pressure, and I was getting a pain in my side that just wouldn't go away. I finally went to a doctor, who said there was nothing wrong with me. It was stress.

In early 1992, I met with a business broker and instructed him to find a buyer for my business. "This business is killing me," I said. "I want out."

I had studied my business and hired an independent analyst to determine its worth. "I want X million for it," I told the broker, "all in cash."

"Maybe I can get you $X million," he said, "but you may have to take some stock certificates instead of cash."

"No paper," I insisted. "Look, I've got paper now. I can sell this company only once, and if the stock goes down, I've just wasted eight years of my life." In view of my two past experiences of creating wealth only to lose it all, I wanted financial security that would last me a lifetime.

"We'll sell this business," he said "but don't get discouraged if I don't get you your number."

"If I don't get the number, I don't sell," I said.

After talking to a dozen or so buyers, six actually came in to look my company over. One potential buyer was Sage Group, a British company headquartered in Newcastle-Upon-Tyne. Sage owned a U.S. subsidiary, DacEasy, the largest accounting software company in the world, and TeleMagic looked like a good fit. After several meetings, an offer was made, but not at the price and terms I wanted. Sage offered me $Y million less than what I was asking.

I met with them and said: "I can do this only one time, isn't that right? Now you're going to want me to stay around for a while and help you with the business. In order for me to be able to properly help your company, I must have the right spirit. To have the right spirit, I've got to know I made the right deal. Only when I know I got the right number for this company will I feel as though I owe you my best effort.

"Now from your point of view, it's just money -- and you've got it," I continued. "What you really want is a company that will make you a lot of money. I'm the guy who'll make this $X million investment pale in comparison with what you'll make over the next several years.

"Look at it this way: We're only $Y million apart from making a deal. For a company your size, this amount of money is irrelevant. Mark my words, this is going to be one of the smartest moves you ever made. It would be very unfortunate for you to walk away from it because you're $Y million short of my asking price."

Evidently my logic made good sense to them. In October 1992, Sage bought my company for $X million, plus 15 percent of their sales for the next 27 months, which means what I was paid could potentially be worth a total of twice my asking price."

In preparation of this report, we contacted Michael McCafferty who was kind enough to help us with the preparation. This assistance proved vital as he told us that "*There is one particular element to the sale that has gone unreported, and one I feel contributed greatly to the value and the appeal of the company. That is the method of distribution of the software. At the time, most software was sold via big expensive advertisements in PC Magazine. I didn't have that kind of budget, so I had to find a different channel. I chose to do my own telemarketing directly to the computer dealers or "VARs" (Value Added Resellers) who were small one or two man businesses owned by tech-types who did a lot of programming, training, etc. Our telemarketing worked because we offered a money back guarantee, and because TeleMagic could be used by the VAR in the growing of his own business, as well as sold to virtually all of their prospects because every business has "Sales" and this is sales software. The sales pitch to the VAR is that this software would help them sell more computers! (and it did).*

So what we had was a very well-oiled machine for selling software over the phone to VARs thereby creating a proprietary network of dealers. Once they were using the software in their own business, it would be very difficult for another product to get them to give up TeleMagic and learn something else. Plus they had an ever growing investment in learning how the software works and how to sell it and install it, etc.

It was this proprietary network of VARs that was attractive for Sage because this network could also be enticed to sell Sage's other products. Of course it worked two ways: Sage could sell TeleMagic to their own very large customer base.

The real bonus that Sage saw was a little product I worked on for a couple of years that helped the VARs become successful in their businesses. These VARs are relatively inexperienced as business people, and because they are very tech savvy, they are therefore less likely to be sales and business oriented. So I put together a "Business Plan for Success" for the VARs, and even charged them for it after it got popular. But it was a big (giant) 3-ring binder that included all sorts of help to get new customers for them, including telemarketing scripts, direct mail letters, advertising, training, etc.

When Sage saw what we had done with the Business Plan for Success, they saw that this could help their VARs get more productive in a hurry, and just doing a little math, could easily pay for the cost to acquire my company. This is LEVERAGE!"

As illustrated above, the sales dimensions in this particular example can be divided into three distinct parts: (i) attracting customers to a startup (ii) selling product to prospective clients (iii) signing over the rights of the product to someone else (negotiation).

Analysis of the sales techniques used:

We will go about making a detailed analysis of the various sales techniques used in the three dimensions previously named to bring about an effective result in all three. How we will go about doing this is by analyzing these dimensions one by one, giving a detailed analysis of the techniques used in each one.

1. Attracting customers to a startup:

The ideal **approach** in sales is essential. It is particularly for this reason that he chose someone who was in his own words "*a pretty girl with a lovely smile*". Knowing full well that a technical product is difficult to communicate in a first approach and people would be put off by a wordy advertisement, McCafferty drafted a simple straightforward document that communicated the essential information through a medium that was not intrusive (esp. considering how the software industry at that time in particular was male dominated). This information was designed to bring about a call to action i.e. a potential customer contacting McCafferty for more information. Two things were paid special importance to by McCafferty – first, the importance of smiling so as to put the other person at ease; and second, not giving the potential customer the impression that the person would not be able to competently answer to their problems. Now this is where the next question arises… how exactly was this call to action brought about?

McCafferty's approach can very be ascribed to an effective yet unorthodox use of the **cube law** – effective because it created urgency, a stake and dependence within the consumers; and unorthodox because a large degree of the three factors were created within the customers by themselves – thus we can call it a customer self-induced cube law. When asked "Computers?" and nothing else, the customer himself was forced to think about why exactly computers were relevant to him and what problems he was facing – hence creating a stake. When being told to contact a number in response to the customer's answer, dependence was created – they now knew who they could turn to in order to have their problems addressed. The abruptness of the meeting between Marianne (the person making the approach) and potential customers created the urgency – here was someone who understood their problems, knew how to get them solved and was walking away – the customer had to find out more before it was too late and they lost the opportunity. As we know, the key to an effective cube law usage is to create a stake (why does the customer need the solution?), a dependence (why does the customer need you for the solution?) and an urgency (why does the customer need to hurry) for the customer – as illustrated above McCafferty was able to create a scenario in which all three targets were achieved – with some help of the consumers own psyche.

A final technique used by McCafferty in this particular dimension was that of **cognitive dissonance** – a state where a person holds two or more conflicting emotions. In cases where Marianne asked "Computers" and people responded "No", she proceeded to tell them to call the number on the paper – as if the 'no' was exactly the answer she was expecting. This created within the customer an interesting state of cognitive dissonance. The customer declared themselves as not wanting any solution to do with computers – then why were they being told to contact the number? This made them question that if the very problem was the fact that they said no – maybe a problem existed which they did not realize. Hence the cognitive dissonance – there was this preset notion that they did not need a computer solution , yet now there was also this new seed of doubt creeping in that maybe they did. When in a state of cognitive dissonance, a person undertakes action to reduce dissonance in favor of one of the emotions – in this case the only way to do this was getting more information – something they could do by calling the number provided on the paper.

2. <u>Selling the product to prospective customers:</u>

McCafferty's recollection of his meetings with Sean Curtis of Coffee Ambassador and the subsequent creation of TeleMagic, emphasizes the importance of one of the quintessential tools in a salesperson's belt: **listening.** When Sean brought forth his problems with the previous solution proposed by McCafferty, McCafferty did not jump into providing suggestions in the form of existing computer solutions. Instead he actually listened to the problems his client was facing; the issues brought about by them, and he was intuitive enough to recognize a sale opportunity that met what the client was looking for.

Another thing that was vital in understanding the sales approach adopted in this case is to appreciate the **understanding of the trade-off between short term and long term benefits**. In a sales scenario, one is mostly faced with the opportunity of maximizing the profit from a single deal or alternately sacrificing some margins on a sale in order to increase the likelihood of larger profits in the longer term. A good sales person always looks at the bigger picture – looking beyond the scope of one sale and client and figuring out what is the ideal way to serve the target market as a whole. This is exemplified in the way that McCafferty realized a need gap in the market similar to that of Coffee Ambassador and decided to focus on the longer term benefits. To capture value from a customer, one has to offer value in return and McCafferty did this with the promise of free upgrades and improvements – all on the basis of the realization that the broader benefits of having the to distribute the program commercially outweighed the relatively smaller scoped costs of giving Coffee Ambassador free service.

One can also draw from this example how to **motivate a buying decision** in potential buyers. Firstly an <u>affinity</u> is created – a user friendly computerized solution to telemarketing appealed to the masses as this was something that was sorely missing and was convenient for the users. Then it plays on the <u>ambition</u> of people - telemarketers were made to envision the use of superior computerized technology to meet their needs. It was a <u>novelty</u> as TeleMagic entered the market as the first of its kind off the shelf software – something that immediately raised its stock in the eyes of the consumer. It is also important that prices are set so as to incur strong <u>economic</u> returns to scale – evident in the fact that the starting price for TeleMagic was as low as $95. Finally, having previous success stories and happy customers (such as Coffee Ambassador) is important as it gives potential new customers a sense of <u>security</u> which they can attach to your product.

Another lesson to take from this story is that customers have the tendency to be **predictably irrational**. Here we draw from a major component of the theory posed by Daniel Ariely – that of the ever-existent <u>power of price</u>. The fact that Michael McCafferty had to raise the price of his product to convince people of it's worth and boost sale volumes throws credibility to this theory. This was brought about by the fact that at a significantly lower price to market alternatives, people were skeptical that TeleMagic delivered on all that it promised to offer. In contrast, increasing the prices brought some parity between their perceived value and the price of the software hence leading to the predictably irrational behavior of sales increasing with price increase.

Lastly, attention needs to be paid the delivery channels used for sales purposes – these are vital as they will directly influence how successful or unsuccessful a sales effort is. In doing so, there are a number of considerations to be taken into account – most prominently the nature of the product, the nature of the market, and the resources available. By focusing on VARs – (Value Added Resellers), McCafferty was able to expand the scope of his market as well as benefit from the existing distribution network of these resellers. Furthermore, risk is central to any sales negotiation – the higher the risk for the client, the tougher it is to negotiate a successful deal. Therefore, by offering money back guarantees to the VARs, this risk was reduced. Furthermore, the need for TeleMagic was impressed upon the resellers as instead of a focusing on *why the product was good* in general, Michael McCafferty focused on *why the product was good for the people he was selling it to*. This is important to note because by avoiding the common mistake of focusing too much on the product rather than the needs of the customer, Michael McCafferty made the VARs realize how acquiring the product will be beneficial for their business and thus boost sales. Furthermore, these sales were dependence building i.e. upon completion of these sales to VARs; the VARs were compelled to make future purchases on subsequent systems as the switching costs to alternate software were very high both in terms of monetary terms as well as retraining requirements.

3. **Signing over rights to someone else (negotiation):**

The third and final aspect of this story – the sale of TeleMagic rights to the Sage Group can best be analyzed by the sales process – the follow through from the start of the sale process (i.e. pre-sales) till after the completion of the sale or post sale period. We will now analyze this particular sale in the context of the **Sales Process Model** presented below:

Qualify the leads

The first and foremost comment that should be made about Michael McCafferty's approach to the signing over of the rights to TeleMagic is that it tied in perfectly with the KISS principle i.e. Keep It Short & Simple. McCafferty's approach to the sale was simple – he wanted X amounts of dollars in return for the complete sign over of the product to someone else with no complications and complexity added to the transaction in the form of stock certificates etc. He took a simple hard-line approach where if the demand was not met, there would be no sale. In this sense he asked his broker to shortlist prospective clients who were (a) in the industry and (b) had enough money to meet the valuation.

Discover their needs:

After qualifying SAGE as a prospective buyer, McCafferty made a thorough analysis of a situation. In fact, when you negotiate, you have to know the object and your personal goal for the negotiation but also your opponent. This means that you have to answer the four "w + h" questions: who, what, when, where and how (some of those may change according to the situation) in advance, otherwise you may get confused or unveil some important facts which could put you in a difficult position for the end of the negotiation. In our case, McCafferty studied the market and knew perfectly what to expect from his business. He understood that the real stake for Sage in the negotiation was acquiring TeleMagic and expanding its market portfolio and reach rather than the cost. He did his homework on Sage and their healthy financial situation and was well prepared to use this in subsequent negotiation.

Present a Solution:

McCafferty had to make sure that the purchase of rights to TeleMagic seemed like a valuable option idea in the eyes of the Sage Group – something that seemed likely to be a solution to their company objectives. This objective was partially completed by the fact that Sage themselves had approached McCafferty – in part an admission of interest and a solid foundation to build sales efforts on. Sales effort is much harder if you are the one making the approach to people to convince them of the value in your product. Here again Michael McCafferty makes an effective use of the previously stated Cube Method. There is certain urgency to Sage's efforts to acquire TeleMagic as McCafferty is still open to offers from competing companies and may sell if an appropriate bid is not made in due time. The stake definitely exists – as the premier telemarketing commercial software, TeleMagic demanded a high market recognition and market value – something accentuated by the fact that it tied in well with the company vision of Sage. Furthermore, the VAR and customer network that the TeleMagic opportunity presented to the Sage Group made this deal a highly important one for them. This gave McCafferty a lot of leverage going into the negotiations. Lastly, the presented solution also creates dependence as Sage is made to realize that they need McCafferty on board in order to maximize any profit they can make from the potential purchase of TeleMagic. Having a solution posed in such a manner set Michael up really nicely for the negotiation phase of the business cycle.

Negotiate and close:

Michael McCafferty uses only three basic but striking and easy to get arguments: 1) the company needs him to help with the business takeover, 2) the product Michael McCafferty is selling represents a very good deal, 3) the financial aspect of the transaction is made irrelevant by the size of the Sage Group and the profitability of the deal.

This is backed by an arguing method which is very logical and makes sense to his potential buyer. He starts his argumentation putting himself in the middle of the deal and emphasizing his importance for the Group. That is an inductive method of arguing: as Michael McCafferty's involvement is vital to keep the business running for a whole, it is important to give him what he wants because poor morale will lead to less conviction in his work. Then he continues with an analytic method of argumentation: the basic fact is that the financial transaction is irrelevant for the Sage Group because it has the required money to close the deal (disintegration arguing technique). He argues that since the amount asked is relatively small when compared to the expected future income, consequently they should agree on the price proposed by McCafferty as the benefit of making this "*investment (will) pale in comparison with what* they*'ll make over the next several years"* (weakening argumentation technique).

Finally, Michael McCafferty uses feelings to convince the Group to make the deal. He concludes his neutral and rational argumentation with arguments related to the pathos. The words used in a negotiation can have a huge bearing on its result as they can induce both positive and negative feelings. McCafferty uses his words smartly and allows himself to give his own opinion about the deal: "*one of the **smartest moves you ever made**. It would be very **unfortunate** for you to walk away from it because you're $Y million short of my asking* *price."* These words tend to increase the perceived value of the product in the Sage group viewpoint, and help bring the price of the product to parity with the asking price.

Consequently the company was ready to buy the product at the price asked by Michael McCafferty and a deal was closed.

Build the relationship

It is important to say that the deal was very good for both sides. Michael McCafferty got his desired price plus a percentage of the future sales which conducted to a final amount potentially worth a total of twice the price he asked; and Sage Group, as can be deduced from the records in the following years, also ended up making *a lot of money.* As the negotiations were carried out in positive spirit and Michael McCafferty continued to provide assistance to Sage, it is safe to say that a positive relationship was built where Sage would have been more than willing to trust Michael in future endeavors.

Conclusion:

In a display of astute salesmanship, Michael McCafferty managed to start as a virtual unknown in the market and build his way up. Through relationships built with attracted customers and sheer innovation and realization of customer needs, he was able to create TeleMagic – a product that was unparalleled in its market and was able to make huge sales and profits due to marketing and sales panache. Displaying the importance of understanding your customer and the ability to logically structure his arguments, Michael McCafferty was ultimately able to sell of TeleMagic at a huge profit. The lessons that can be drawn from this story can be summed up in a nutshell – from beginning to end, sales metrics govern the success or failure of a business model and therefore properly executed sales techniques can bring about favorable results.