Align Selling Resources to the Market

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For distributors who have had to implement reductions to their sales force, there is a legitimate concern that as the number of salespeople go down, so will revenues. This white paper outlines a three-step process exists to help mitigate these potential effects.

One question many distributors are asking is, How can I reduce costs without losing sales? The answer: "Align your selling resources more closely with the market."

Achieving this is not simple, but a proven three-step process for doing so does exist. The steps: Segment customers, utilize effective sales management practices, and ensure incentive structures are in alignment. This article will discuss the importance of each step and illustrate how the outcomes from each will enhance profitability.

Segment Customers

Customers ascribe different value to the services provided by wholesale distributors, yet oftentimes distributors offer the same level of service to everyone. Some customers are price-conscious and whichever source offers the lowest price will receive their business. Other customers assign value to product availability, extended credit terms, the ability to procure most of the products they need from a single source, frequent delivery, and so on.

The sales support provided by a distributor is no different when it comes to influencing customers' purchasing behavior. It has material impact on some customers and very little, if any, on others. Evaluating the customer base with a critical eye and understanding their economic drivers is essential. You can start by asking the following questions:

How much does a given customer rely on you to help select products or do they always know what they are going to buy? What is their ratio of purchases relative to quotes? How have the products purchased by the customer evolved over the last few years and how do you expect them to change in the immediate future? How much untapped opportunity exists within the customer? How many strong relationships exist with the customer, aside from the outside salesperson? (The inside relationship is key, if there is one.)

Is the customer significant enough to your business that having an outside salesperson call on him is necessary strictly from a defensive perspective? Do sales reps primarily fulfill demand that already exists or do they create demand by, for example, showing customers how a product or service can improve productivity?
The answers to these questions will identify what type of sales resource is appropriate for each customer based on a customer's needs. Customers that require assistance when selecting products clearly need active involvement while those that use internal capabilities to select products need passive involvement.

Customers that rarely purchase but are constantly asking for quotes likely make buying decisions based on price, and an operational fax machine is the only selling resource required to maintain or grow sales within these customers. Customers whose purchases have changed little may only require support from inside sales as fulfillment, not selling, is all that is required.

The objective of this analytical customer segmentation exercise is to identify how customers can be aligned with selling resources so that their needs are met at the lowest cost. Most companies that complete this analysis will find that more than 20 percent of the accounts assigned to an outside sales representative can have their needs met by a lower cost function. This translates to an opportunity to reduce outside sales staffing by an equivalent amount.

We have found that idle capacity exists within a sales force and that this capacity can be used productively through effective sales management practices.

Use Effective Sales Management Practices

Sales productivity is frequently measured by sales or gross profit per person. One of the reasons this metric is commonly used is because it is easy to measure. Companies have no difficulty obtaining sales information and the number of individuals employed, but it gives no insight into the activities that generate the results. It is similar to measuring how hard an engine is working by looking at the speedometer instead of the tachometer.

To understand sales productivity more, you must analyze activities rather than results to gain the insight needed. A helpful exercise is to look at the accounts in a sales territory and assign a required call frequency for each. Factors to consider would be account size, growth potential or likelihood of additional business, level of support required, and risk of business being lost. Accounts would typically be assigned a weekly, bi-weekly, monthly or quarterly call frequency.

When all the accounts are assigned a frequency, sum the required calls per quarter or year. Take the total required calls and divide by the number of available selling days. If you're like most companies we work with, you'll be surprised at how low the number required is. This by no means is an indictment of a sales force work ethic nor does it imply that 30 percent to 50 percent of their time is idle when call duration is figured into the equation.

Of course, calls are being made to prospects that have yet to be added to a rep's account base, and essential activities must be performed in addition to making sales calls. However, we have found that idle capacity exists within a sales force and that this capacity can be used productively through effective sales management practices.

In our book, *What's Your Plan: Smart Salesforce Compensation in Wholesale Distribution*, we describe effective sales management as, a structure for continuously improving sales force performance through focus, discipline and a coaching process built on a platform of accountability." For the sake of this article, we must presuppose that a "platform of accountability" already exists. (If not, we suggest you visit our Web site, www.ircg.com, where you will find many articles that are helpful on instilling a platform of accountability.)

Sales management is the piece that takes the analysis and makes it actionable.

Sales management is the piece that takes the analysis performed so far and makes it actionable. Sales managers should present sales reps with the required sales calls per day analysis. The information should be presented for discussion, not as a "gotcha'." The goal is not to accuse the sales rep of being lazy or unproductive. The discussion's context should be that the analysis conducted illustrates that internal or external obstacles may exist that prevent sales reps from maximizing their time growing sales.

Two areas should be explicitly addressed during this discussion. The first is the identification of internal obstacles that are consuming sales rep time and preventing them from growing sales. Once these areas are noted, management should consider whether the value of having sales reps undertake these activities is greater than the return that could be realized if the reps were working with customers and potential customers. Ask yourselves, what would happen, if reps stopped doing some of the reports required of them, or if someone else took responsibility for checking inventory or sourcing products for special orders? Being able to eliminate perceived low-value activities from sales reps will, by itself, increase productivity.

The second focus area should be around targeted growth. The overall point of this part of the discussion is increasing productivity. This step is about what the best use of a salesperson's time is. Selecting a handful of target accounts (3-5) and creating action plans for gaining sales is ideal.

Action plans including activities, dates for completion and the individual responsible. Generating $50,000 in new business is the outcome of an action plan; not a step in it." Considering the urgency that exists today for some companies, these action plans should be of no more than three months duration.

Target account action plans help reps to become more proactive and thoughtful about how they spend their time. Instead of helplessly fretting about the soft economy, reps can use targeting to take charge of the situation. You can read more about targeting and other sales management best practices in our book, 5 Fundamentals for the Wholesale Distribution Sales Manager. Once the action plans are created, the sales manager and rep should meet bi-weekly to review progress. There is nothing like a deadline to instill focus, discipline and create a sense of immediacy. Plan, act, and measure the results. In the near-term, the results likely won't be measured by the income statement but by the fact that a meeting occurred or an

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appointment was made. In the medium term, targeting opportunities is one of the best ways to maintain or grow overall revenues.

Ensure Incentive Structures Are in Alignment

To reinforce the importance of the initiatives derived from the process outlined thus far, it is a good idea to consider the structure of the sales forces' pay plan.

Based on the outcomes of the steps thus far, it is likely that fewer outside sales territories exist and accounts will have been absorbed by the remaining sales reps. Inside sales may have greater responsibilities than before, e.g. making calls to accounts when this is all that is necessary to meet account needs, and sales reps are likely to have action plans for growth with a handful of target accounts.

Consideration should be given to ensuring that incentives are aligned with the changes made.

Consideration should be given to ensuring that incentives are aligned with these changes. Structuring bonuses or commission rates to place a premium on target accounts is one possibility. Moving from a commission program to a salary and bonus program to account for significant shifting of accounts is another. Providing incentives to inside sales for retaining and growing business for accounts they are assigned would also be worth some thought.

At the end of the day, the No. 1 thing is to ensure that A players earn incomes necessary to endure a downturn, as these individuals will be critical to capturing market share when conditions improve.

Through the process outlined in this article, wholesale distributors can tackle the daunting task of changing their selling effort to deal with today's economic situation.

Reorganizing sales territories and roles, increasing sales productivity, and changing compensation programs are never easy. The silver lining is that when conditions improve, sales growth and profits are likely to be at levels above where they were historically because of these changes.

IMI can help you align selling resources to the markets with the most potential. To learn more, call us today at 877-224-9677 or email info@imidata.com.

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