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Marketing

Cutting **sales costs,** not revenues

Courageous companies can use the downturn to make their sales operations not only less expensive but also more effective.

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There's a reason companies fear experimenting with the sales force: it is the engine that drives revenue. No matter how patched up or spluttering that engine may be, the thought of overhauling it fills senior executives with dread. To keep sales flowing, companies will make piecemeal ongoing repairs as long as they can.

Yet extraordinary economic times force companies to take every opportunity to cut costs and arrest declining revenues and margins. Unfortunately, fear and the belief that it isn't possible to be both fast and precise often result in two common mistakes: trimming only back-office staff and functions or instituting across-the-board cost cuts that include frontline sales reps. While both mistakes are understandable, they're likely to yield disappointing results.

Reducing back-office sales staff and functions in the belief that this will hurt revenues less than reducing the number of frontline sales reps may have worked in the past, but greater complexity has made support functions essential to effectiveness. Also, not all sales efforts are equal, especially in a downturn. It's crucial to determine where cuts will hurt customer perceptions and adversely affect their buying behavior; otherwise, important investments will be eliminated while low-value ones survive.

To avoid these mistakes, companies should consider a fundamentally different approach. First, examine the customer portfolio. How much effort really

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goes into each customer and transaction? Which services does each of them need? What are their real profit margins? Which customers and markets are growing and which are shrinking? Understanding customers allows companies to focus sales resources where they are needed and to cut waste, not value. In fact, the sales force can become better *and* less expensive if organizations reject some traditional practices, such as assuming that big customers need or want big sales coverage, and embrace opportunities to become more efficient by sharing knowledge and resources.

This approach presents a change-management challenge, but economic times make it essential. In our experience, it helps companies to address most sales-related costs quickly and carefully, to cut them sustainably by 10 to 30 percent, and to minimize the risk of jeopardizing future growth.

Common pitfalls

A major telecom company wanted both to reduce sales force costs and to maintain its revenue. It decided to cut back-office support and protect the frontline sales staff—after all, executives reasoned, salespeople make sales. Unfortunately, while costs did fall, frontline sales reps began undertaking support tasks, such as creating reports, tracking orders, and developing sales materials. These additional duties, which reduced the amount of time that reps could spend with customers, weakened revenues. When managers realized what was happening, they began to circumvent the back-office hiring freeze by employing junior frontline sales staff to do back-office work.

Since even junior sales reps are on average more expensive than support staff, the result was the worst of both worlds: a less efficient yet more expensive support organization. What's more, embedding support roles within each region's frontline sales force meant that economies of scale were lost and best practices weren't shared. A few years later, the telco rethought its cost position and support infrastructure, essentially abandoning its sales force strategy. This was a tough lesson—and one that many companies should learn, for the telco was far from alone in thinking that it makes sense to insulate the frontline sales force from cost cuts.

The other common mistake is to cut sales force costs across the board, on the theory that if frontline and back-office resources decline equally, the result will simply be to increase the work burden on the remaining employees. But that isn't the only result. Cost cutting without regard to the profiles, importance, or potential of customers risks losing not only low-margin ones (which may be dispensable from an economic standpoint) but also their high-value counterparts. Meanwhile, the sales force may be left without the resources needed to capitalize on opportunities once the economy recovers.

Focus resources where they make a difference

There's a simple, overriding principle for companies to follow when they reduce their sales costs: do no harm. Small changes can have large unintended consequences, so companies must walk a fine line between reducing expenses and maintaining resources sufficient to protect current revenue and future growth. The key to these cuts is to be systematic—identify the effective sales channels; and promote efficiency in the sales organization.

Match sales resources with customers

Most companies base their allocation of sales resources on the size of the customer: big accounts generally get more coverage than little ones, though a few small, high-potential accounts get extra coverage. But imagine a different approach—one that takes into account the real profitability of each customer and the opportunity (size *and* growth) it represents and that distinguishes between highly complex, competitive transactions and simple ones. The reason to take this approach is straightforward: in most industries, the move that has the single biggest impact on sales force costs is adopting a sales model that makes desirable customers profitable to serve.

To gain a deep understanding of the needs and economic value of customers, companies must analyze the size, service costs, and true profitability of deals, not just their gross margins.[1] Some customers buy big, for example, but the cost of serving them leaves little room for profit. Others make small orders but are inexpensive to service and thus highly profitable. In addition, the trajectory of all customers is unique: you would usually prefer a growing to a shrinking one, and in these economic times you can't assume that any company is financially secure. Knowing how to find stable, profitable customers through micromarket targeting can help determine the appropriate sales channel and coverage model.[2]

Consider the case of a business-to-business (B2B) wholesale company, which found that as a result of its high-cost, face-to-face model for prospecting and managing accounts, only 45 percent of them were profitable. What's more, even its most profitable accounts could have been more so if it had invested in contract compliance and in efforts to make frequent contact with the people actually placing orders.

The company's response to this discovery was twofold. First, it moved all prospecting and account-management activities for smaller customers to telephone sales, with strong Web-based transaction support. That cut

[1] For more on establishing service levels, see Thomas Baumgartner, Roland H. John, and Tomas Nauclér, "Transforming sales and service," mckinseyquarterly.com, November 2005.

[2] For more on matching resources to micromarket opportunities, see David Court, "The downturn's new rules for marketers," mckinseyquarterly.com, December 2008.

total sales costs by more than half and doubled the number of profitable customers in this segment, to 90 percent. Second, for larger customers, the company assigned a team of telephone sales reps to contact the purchasing staffers who control individual orders. This move ensured that the people who actually make the daily buying decisions receive intensive service and reduced the senior managers' need for expensive face-to-face contact with procurement managers (Exhibit 1).

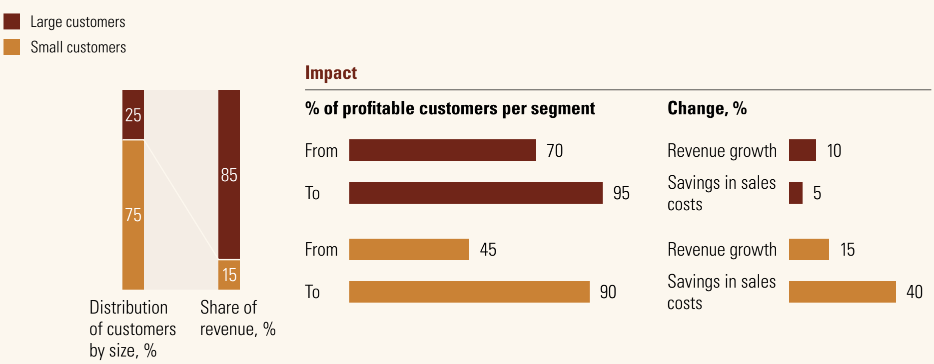
This story has two lessons. First, many customers don't want or need expensive face-to-face interaction. In fact, a shift to telesales may actually increase satisfaction and renewal rates for certain customers, which may otherwise have difficulty coping with inconsistent levels of face-to-face contact from sales reps preoccupied by larger accounts. For this B2B, the switch meant that the company not only got in touch with smaller customers more frequently but also understood their buying histories, which were immediately available on the desktops of telesales reps.

Second, the same customer may need more than one service channel. Winning a large account often requires the efforts of a senior manager supported by product specialists. But telesales reps may be better at maintaining accounts and driving penetration—an approach that both lowers service costs and improves customer satisfaction. For this wholesaler, the switch to telesales made local purchasers the primary point of contact and lessened the burden on procurement managers who negotiate big deals.

EXHIBIT 1

Customizing customer service

Business-to-business wholesale company (disguised example), %



Initiatives

Large customers
- Moved transactional interactions (eg, order taking) to low-cost telesales, Web channels
- Reduced senior managers' face-to-face contact with customers' procurement managers by moving this coverage to telesales

Small customers
- Moved small-account coverage to telesales with Web-based transactional support
  – Lower cost per transaction
  – Higher closing rates for previously underserved accounts

Stop wasting your sales reps' time

The primary task for any sales organization is to maximize the amount of time reps spend selling while ensuring that they sell the right products to the right customers. That's even more important during difficult economic times, when customers resist committing themselves and sales reps must pursue renewals and new business aggressively.

Freeing up the time of sales reps is easier said than done, however. The solution is to identify, understand, and eliminate anything that makes them less efficient. Most reps spend lots of time on non-revenue-generating activities, from customer service to administrative tasks such as travel and expense reporting. Many companies try to relieve that burden by hiring back-office staff—only to see back-office costs rise and sales productivity remain flat.

One retail power company took a different approach, creating a back office deliberately proportioned to undertake specific support activities and reviewing it every six months to ensure that it didn't become a sacred cow. The company also increased its sales quotas and coverage ratios—each sales rep's territory—to ensure that freed-up time was devoted to selling.

Making sure that sales reps sell isn't the only important thing. A less well-understood problem is focusing them on activities likely to drive results. Consider the experience of another B2B wholesaler that wanted to eliminate waste, variability, inflexibility, and other problems that diminish the revenues a sales force can generate. First, the company made its sales process and reps more efficient by creating a model to predict the needs and spending of customers. Using information such as their size, industries, and previous buying histories, the model ranked them by opportunity. It also provided reps with weekly reports to ensure that they focused on products clients were likely to buy.

Meanwhile, the company sought to make the performance of its sales reps less variable by improving the productivity of low performers through the sharing of best practices. Sales reps were now encouraged to follow a standard operating model, including weekly schedules for interacting with customers, pocket guides and tools, and sales call templates. For many salespeople, adopting such practices required a significant change in mind-set and behavior, so the transformation included efforts to identify role models and comprehensive training in communications to reinforce systems and processes (see sidebar, "Managing sales force change in tough times"). As a result of these changes, the company reduced the number of sales reps by 12 percent and is on track to increase revenue by as much as 30 percent.

Ensure that presales support delivers "best thinking" consistently

Most companies provide some level of bid and pricing support, but few treat it strategically. As a result, small groups of decentralized sales support staffers—or even sales reps themselves—prepare for initial discussions with prospective customers or fill out responses to bids and requests for proposals. This is hardly the most effective approach: because individual reps and teams see only a small fraction of a company's interactions, they may fail to use its best thinking.

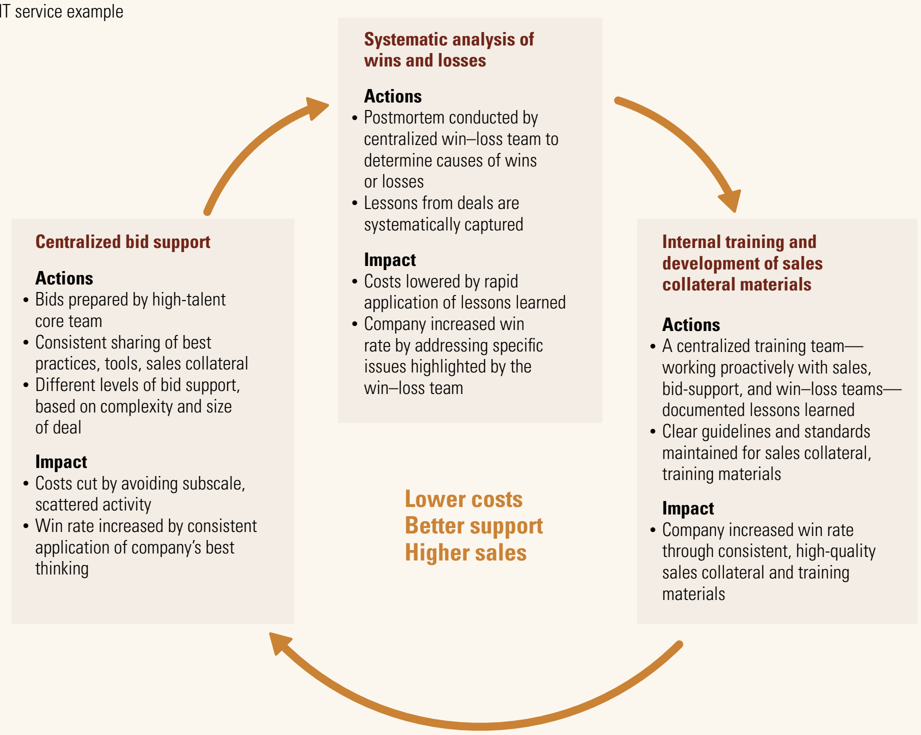
A large IT service provider tackled this problem by creating a centralized group to drive costs down and effectiveness up. A small, highly skilled team within the group prepared key bids and monitored conversion rates. Another part of it conducted win–loss reviews to understand why bids did or didn't work, how competitors positioned themselves against the company, and how customers responded to that positioning. Using insights from the review process, yet another team in the centralized group prepared highly effective, simple-to-use internal training and marketing materials (Exhibit 2).

This approach has two compelling benefits. First, it increases win rates by using the whole company's best thinking, drawn from experience with similar offerings (and those of competitors) across the sales cycle. Second, it lowers costs by ensuring that key proposals and materials are prepared

EXHIBIT 2

A standard operating model

IT service example



centrally rather than forcing people in the field to reinvent them continually. Both benefits are now critical, for tight budgets make it even more important to focus sales resources on the best opportunities, and superior information can make all the difference.

Squeeze out inefficiencies after the sale

Companies shouldn't relax after winning business, when they undertake tasks such as provisioning and reporting orders. An inefficient postsales

Managing sales force change in tough times

Tough economic times make many workers uncomfortable; they crave stability, not upheaval. Salespeople are hardly different, and they present unique challenges that complicate change efforts even in the best of times. First, they're independent and entrepreneurial; they tend to act primarily in their own and their customers' best interests. Second, the decentralized nature of a sales organization makes it harder to communicate, coordinate, and adopt changes. Finally, companies must shepherd a number of stakeholders with divergent objectives—frontline reps, back-office support, customers, channel partners, and managers, for example—through any transformation. The companies that are most successful at overcoming these obstacles concentrate on a few tactics.

Articulate and communicate the value of change for everyone. A medical-product company, for example, wanted to underline the value created by shifting low-priority accounts to telesales and freeing up time for salespeople to pursue higher-priority accounts. It therefore changed the sales reps' compensation structure to emphasize those accounts.

Tailor the new sales strategy at the local level. Change imposed from above makes employees nervous. To avoid that outcome, a global high-tech manufacturer involved managers from more than 30 countries in adapting its strategy to local conditions and conducted workshops that clarified the strategy's relevance for sales reps in each region.

Create demand pull from the front line. The medical-product company generated enthusiasm through a pilot program assigning a telesales team to support sales reps. They soon had 30 percent more time to spend on high-potential accounts because of the burden picked up by the telesales team, which quickly achieved conversion rates equal to or higher than theirs. Within a few months, salespeople were clamoring to join the program. Although it was initially deployed across only 25 percent of the company, it accounted for a substantial increase in returns on sales and was rolled out to the rest of the organization within the year.

Measure and reward change. To alleviate the anxiety that can accompany change, companies must reassure employees that those who embrace change will be rewarded. Both the high-tech and medical-product companies carefully tracked the performance of the sales reps, tied their incentives to transition milestones, and aligned their compensation with clear targets. These companies also made sure that everyone knew—and celebrated—when the sales organization met critical goals.

Use the change process to upgrade capabilities. Not everyone can change. Another medical-product company found that about a third of its sales force had the ability and will to do so, another third was willing to try, and the remainder declined to participate. Over time, sales reps viewed the departure of their recalcitrant colleagues as a positive step that helped the company recruit new talent to make the organization stronger.

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back office not only diminishes the quality of customer service but is also costly, both directly and because it forces frontline reps to spend time correcting mistakes. Consider the experience of a large European telecom provider that expended about 3 days of actual work time on its order process, though it lasted about 47 days from end to end. The company's analysis revealed that less than 60 percent of the activities in the process added value.

Eliminating the waste called for two major changes. First, the company segmented its back office to separate high-value, high-complexity issues from low-value, low-complexity ones. That separation, allowing basic sales to flow through a less rigorous process, lowered the number of exceptions and other special requests. More-complex deals were handled appropriately, reducing error rates and rework. Second, the company minimized handoffs by cross-training people and reducing the number of single-function departments. Wait times between handoffs fell and the quality of the work improved as a feeling of ownership over the process increased. The bottom line was that operational metrics improved significantly: work-in-progress orders fell by 60 percent, the order backlog by 84 percent, and lead times by 29 percent; overall productivity rose by 295 percent (Exhibit 3).

Getting started

Sales teams typically resist change; they not only worry that it will imperil relationships with clients and revenue but also wonder why a company

EXHIBIT 3

Efficiencies after the sale

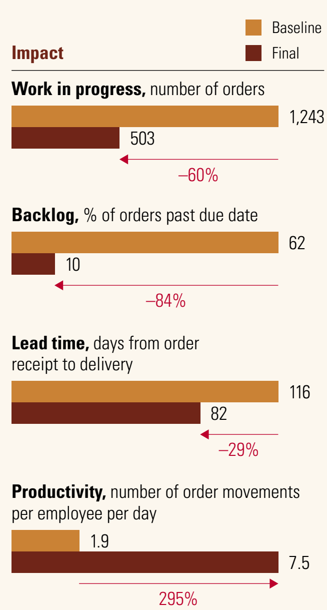
Telco example

Actions

Segment back office
- Create a separate channel for low-value, low-complexity orders:
  – Basic deals processed more quickly
  – Fewer exceptions reduce resource commitment and cost

Reconfigure operations
- Reorganize processes to minimize handoffs
- Clarify process definitions and standards
- Reduce non-value-added activities
- Improve load balancing

Modify mind-sets and behavior
- Conduct lean training
- Perform mind-sets survey and skill assessment



would risk tinkering with a sales force that gets the job done, even imperfectly. These teams fear the unknown rather than change itself. And the unknown is particularly frightening today: the order books of many sales reps are drying up, and their bonuses—and sometimes jobs—are on the line.

What if sales teams knew that change would improve customer satisfaction and retention or that profit margins would widen, sales costs fall, and compensation increase? Suppose they knew that frontline reps would get more time to sell, while back-office resources would be focused more appropriately? Most important, what if they realized that companies can make changes quickly yet thoughtfully? Speed is crucial during a downturn, but the pressure to act contributes to poor, rushed decisions.

Being thoughtful needn't mean being slow: many companies can identify cost-saving opportunities and settle on an implementation strategy in less than three months. In fact, a few things can happen immediately. They include testing to find telesales opportunities; having the sales force carry out a detailed time accounting for one to two weeks to learn where selling capacity is used; centralizing the preparation of bids (in particular, sharing successful bid information, a move that often quickly curbs unneeded price discounting); and investigating key postsales processes to determine the number of handoffs. Such moves have helped many companies find quick wins that make sales-improvement efforts self-funding within two quarters.

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This approach also helps focus near-term priorities. Not everything must be done at once, and some things may not have to be done at all. A company's specific actions depend on several factors, including its current state, as well as its need and capacity for change. Some companies may realize the bulk of their savings by matching sales resources with customers more appropriately. Others may already have finely tuned sales channels but benefit from centralizing support resources. In fact, there's perhaps only one universal truth: being smarter about the way a company cuts its sales force costs greatly improves the odds of success. Q

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