

Selling for profit

Redesigning the sales effort to jumpstart growth

Senior managers have a limited number of levers they can pull to drive profitable growth, especially if growth is needed relatively quickly. One of the most accessible and potent levers is optimizing the sales effort, by targeting the right customers with the right offers and giving the sales force the time and tools that will raise productivity. This can be done without increasing headcount or budget, often in a matter of months. Examples from a range of industries illustrate the power of an approach based on solving customers' most pressing needs rather than simply trying to sell more product.

With growth on the agenda, what's a great first move?

After two years of cost-cutting, growth is front and center for many managers. The challenge is how to achieve *profitable* revenue growth through quick improvements in operations.

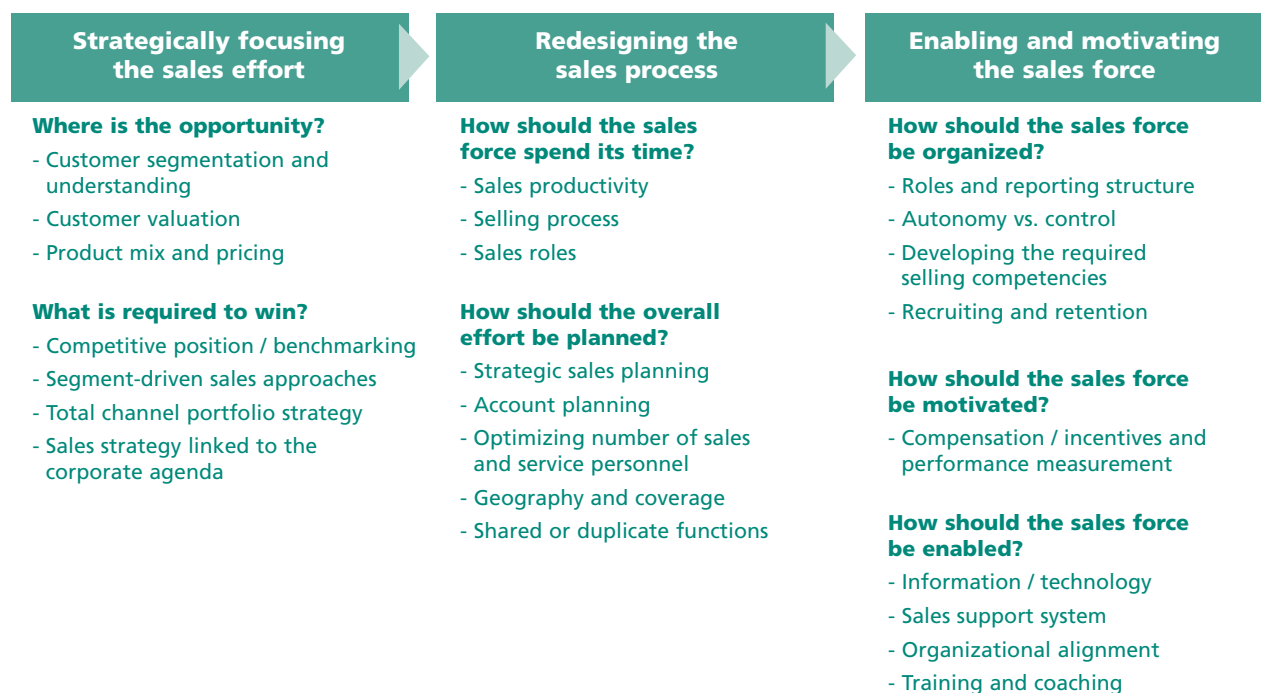
For most established companies, traditional growth tactics have run out of steam. The easy cost-cutting measures have all been done. Sustainable gains from product innovation are vanishing, foreign markets offer little new opportunity, and the track record of mergers and acquisitions has been dismal. Managers need to look elsewhere for new growth.

One of the most accessible and powerful levers at hand is optimizing the effectiveness of the overall sales effort. Some managers may be reluctant to examine their sales effort, thinking that it would be merely revisiting the same old sales force issues. "We've already changed their pay structure, reorganized them twice in the last five years, and given them more training than ever," a manager might respond. "But productivity is still lagging. What else can we do?" Sales representatives, for their part, may say that they're working harder than ever, doing too much paperwork, and not getting the right support in product quality, fulfillment, or pricing.

Typically, however, sales productivity problems are misdiagnosed or mistreated. For example, companies often find that after implementing a new quota and bonus system, sales reps work harder without showing progress, as they are still selling the same product mix to the same customers. When the new bonus system doesn't work, companies sometimes hire expensive rainmakers. Sales spike for a brief period, but profits do not and productivity continues to slide.

Traditional sales force fixes tend to fizzle because the selling environment is continually changing, both on the sales side and the customer side. A fluid situation requires more holistic change across the whole sales effort—not just in how the sales force approaches various customer segments, but also in how the organization is structured, what skills need to be developed, and how performance is rewarded (Exhibit 1). For instance, the sales force may need to move from a trans-

Exhibit 1 Elements of a more effective sales effort



actional to a consultative approach with some customers. Or the company may need to offer more services in the sales bundle.

In today's environment, where customers are more demanding and competition is fierce, managers cannot afford to ignore these issues. Fortunately, there are proven tools for tuning the sales effort along several dimensions. Based on Mercer's research and extensive experience in the area, we have identified the most common problems that impede selling efforts, and we offer five principles to guide managers in optimizing their sales efforts:

- Make segmentation work by emphasizing customer value and customer priorities.
- Tailor the selling approach to suit customer needs.
- Free up the sales force to spend its time actually selling.
- Close the capability gap with the right skills and the right tools.
- Structure incentives to reward profit and new value, not volume.

Make segmentation work by emphasizing customer value and customer priorities.

Many companies have segmented their customers based on demographics and customer perceptions of company products or services. Such research on occasion has led to product improvements tailored to a demographic type. However, few companies develop segmentation schemes based on customer needs, and they therefore get trapped in a product-centered approach. They cannot move to a higher-value approach that is focused on solving customers' problems.

Exhibit 2 **Common triggers for a review of the sales effort**

Stalled revenue growth or lost market share	<ul style="list-style-type: none"> • Increase in lost sales opportunities • Slowing growth rates
Change in corporate strategy	<ul style="list-style-type: none"> • Value migrating to different markets • Need to shift or expand scope of activities
Change in sales approach	<ul style="list-style-type: none"> • Change from a product-focused to consultative sales approach • Need for more "hunters" vs. "farmers"
Changing customer priorities	<ul style="list-style-type: none"> • Frequent customer requests for services not offered • Customers lost to competitors who offer a different product / service mix
Significant increase in sales targets	<ul style="list-style-type: none"> • Senior management mandate • Investor dissatisfaction
High or growing sales costs	<ul style="list-style-type: none"> • High sales expenses as a % of revenues • Low average sales representative productivity
Competitor moves	<ul style="list-style-type: none"> • Entry of a new player or competitor making an acquisition • Increased competitive intensity
Merger or acquisition	<ul style="list-style-type: none"> • New acquisition requires combining sales forces
Downsizing / cost-cutting	<ul style="list-style-type: none"> • Sales force or company-wide downsizing
Change in leadership	<ul style="list-style-type: none"> • New sales or business unit head seeks new vehicle for growth

Good segmentation and value proposition analysis will reveal both significant opportunities and wasted efforts. Often, only a small fraction of customers generate the lion's share of a company's profit, while the largest share of customers add little to the bottom line; many customers are even unprofitable to serve. Smart segmentation determines who are the most profitable customers and then reaches an understanding of what makes them tick, from their decision-making processes to the economic drivers across their broader competitive landscape. That knowledge forms the foundation on which to build tailored value propositions and selling approaches.

Segmenting by value can yield dramatic results. Recently, we worked with a broad-based medical products company and discovered that more than 40% of the selling effort was dedicated to customer segments that accounted for only 20% of revenues. The company realigned the sales force effort more appropriately to each segment (Exhibit 3). Through this straightforward reallocation (along with a tailored selling approach described on the next page) the manufacturer achieved an incremental annual sales growth of 6% while reducing costs.

Exhibit 3 A medical products company segmented its hospital customers...

		High-value segments			Low-value segments	
		Large care centers	Managed for profit centers	Network facilities	Well-managed survivors	Rural facilities
Average customer size	Rooms per facility	1092	612	370	195	98
Complexity of needs	Number of services	80	71	63	48	36
Ability to pay	Occupancy rate	70%	69%	48%	53%	25%
	Avg. annual capital expenditures	\$59M	\$25M	\$13M	\$5M	\$2M
	Operating profit margin	5%	2%	8%	2%	-10%

... and realigned its sales force to serve high-value segments

	Low-value segments Sales costs (\$millions)	High-value account segments Sales costs (\$millions)		Low-value segments Sales costs (\$millions)	High-value account segments Sales costs (\$millions)
"Before" sales position			"After" sales position		
Sales rep	21	74	Sales rep	0	110
Specialist A	19	46	Specialist A	0	57
Sales engineer	12	17	Sales engineer	4	6
Specialist B	7	10	Specialist G	7	10
Specialist C	4	6	Specialist C	4	6
Specialist D	7	10	Specialist F	43	0
Specialist E	34	1	Relationship manager	3	0
Relationship manager	9	0	Sales associate	20	0
			Inside sales	2	5
Cost of sales by segment	113	164	Cost of sales by segment	83	194
Cost of sales mix	40%	60%	Cost of sales mix	30%	70%
Cost of sales (% of revenue)		9%	Cost of sales (% of revenue)		8%

Tailor the selling approach to suit customer needs.

Acquiring a detailed understanding of the most attractive customer segments and developing the right value propositions for each group is just the first step. You also have to devise an effective sales approach for each segment. Not all customers justify or even desire the same type and level of sales support. Some customers require sales reps to be more consultative and oriented toward solutions, while others care mostly about getting the best price.

Treating every customer the same leads a company to devote a disproportionate amount of resources to customer groups that yield low financial returns. Worse, it deters sales reps from addressing the needs of those customers who really drive profitability, now or in the future.

The more effective tack is to match the sales approach, as well as the product offering and pricing, to the specific profit contribution, preferences, and competitive environment of each customer group. And that mix must change as customer needs evolve. This approach represents a departure for many companies, to be sure, and it requires discipline and consistency among independent-minded salespeople.

When done right, however, it can generate significant financial rewards as well as mitigate the risk of losing clients when the sales force turns over. Personal relationships still matter, of course. But consistent, tailored approaches to distinct customer segments ultimately give managers more flexibility with their sales force and more control over revenue generation.

Returning to the case of the medical products company, our findings revealed that the company did not need nearly as many reps to serve the lower-value segments, where costs had been three times that of the high-value segment. After adjusting the sales force to line up with customer segment needs, the company was able to lower its selling costs.

The medical products company developed various product offerings and selling approaches for their highest-value customers. Our findings had revealed that senior managers within the high-value segment had been charged with developing additional revenue streams and improved patient outcomes. So the company tailored comprehensive product/service packages to help these managers improve their health care processes based on case mix and services offered. The company also helped demonstrate improved outcomes through live trials and data tracking. The result for the company was higher revenues per account and higher close rates in this critical customer segment.

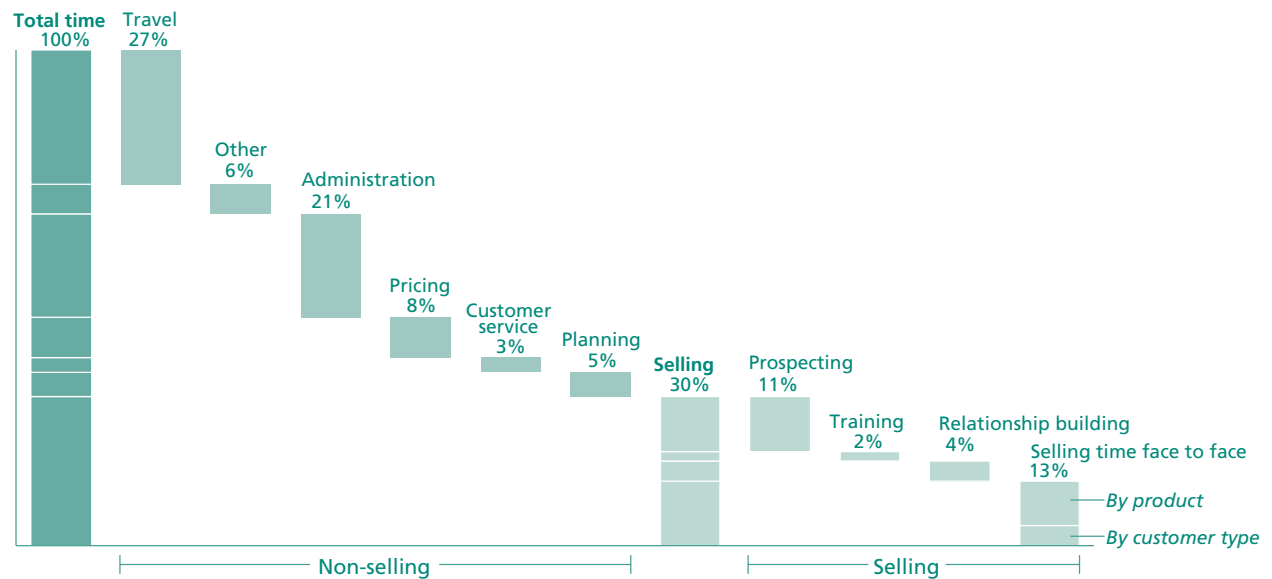
Free up the sales force to spend its time actually selling.

We often see salespeople devote large amounts of time to tasks that contribute little to their main objective of driving revenue through sales (Exhibit 4). This predicament is rarely caused by a lack of motivation. Instead, salespeople often do not have access to support staff and processes that help them manage their time effectively.

Redesigning the account planning and back-office processes can liberate the sales reps to spend ample time face to face with highly valued customers. At one company, streamlining and reassigning order-entry, lead-qualification, and appointment-setting processes gave sales reps an additional nine hours of productive time per week. Reps averaged \$3 million in annual sales by spending almost one-third of their time, or 12 hours per week, actually selling. With their existing productivity levels, the additional time translated into three hours of new face-to-face selling time—an opportunity to grow sales by 25%.

Exhibit 4 How do sales reps spend their time?

Business-to-business example



Source: Mercer Management Consulting client

In most cases, this kind of time improvement can be done without having to add new resources, as staff can be reassigned from existing roles. And even if new support staff are hired, they can be paid for by the extra revenues that the salespeople generate or their cost can be offset by requiring fewer, more productive sales reps. Alternatively, a company can outsource to third-party vendors for lead generation or to distributors for after-sales service activities.

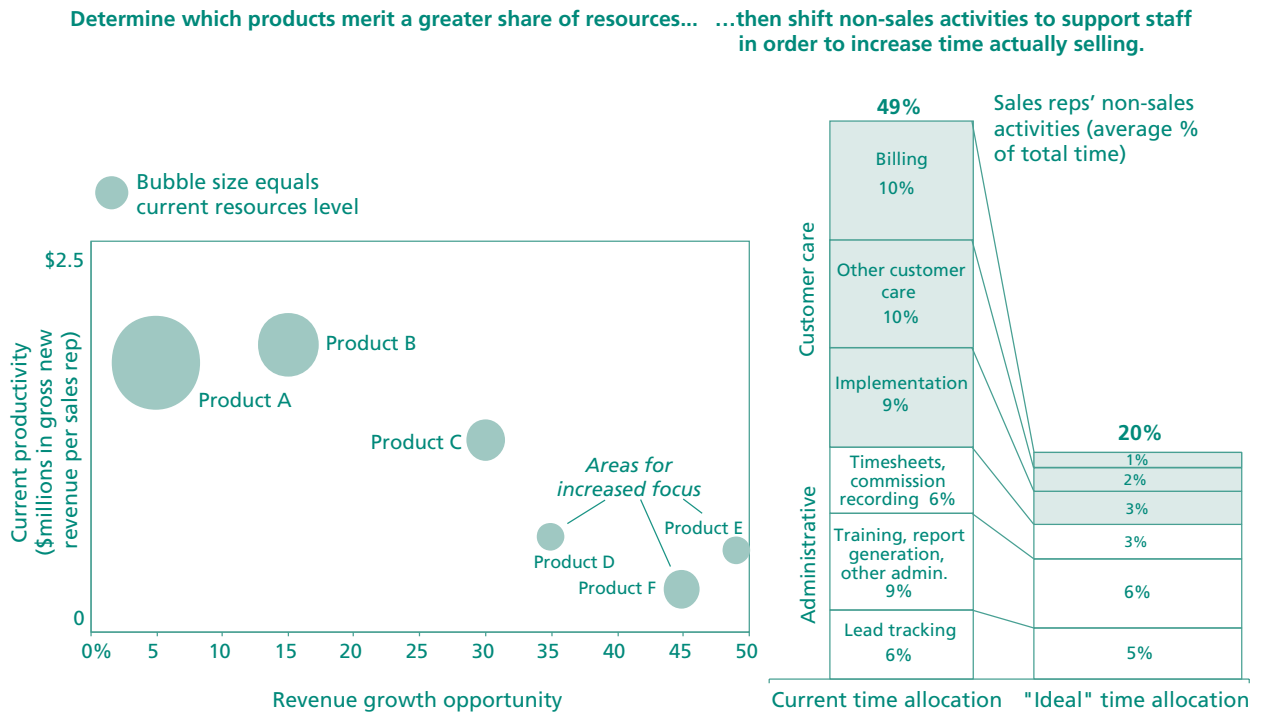
A division of a global provider of telecommunications services was planning on hiring an additional 300 full-time sales reps in order to achieve its sales goals. After a thorough productivity and process analysis by branch office and by sales rep, we were able to recommend and put in place a more efficient selling process that included better bundling of products according to customer type, reallocating a portion of generalist sales reps to product specialists, as well as shifting some of the sales support work to a new staff position (Exhibit 5). Not only did the telecom firm achieve 10% sales growth without adding any heads (new staff were offset by attrition and transfers), but the new position also provided a good training ground for future sales reps.

Close the capability gap with the right skills and the right tools.

Plenty of time and money is spent on sales training. But in our experience, many training sessions are sporadically or unenthusiastically attended, for good reason. The exercises tend to focus on administrative activities and goal setting rather than on answering the need to drive quick results. Training needs to add real value, and that's most often achieved by focusing on specific and tangible challenges.

Recently, a global provider of insurance services was struggling to achieve price increases in what should have been an attractive market. The sales force, talented and expert in the subject matter, traditionally handled renewals with an emphasis on retaining the business and servicing the client. Sales reps lacked the skill set to negotiate prices based on the value that the customer received from the firm. Because individual products and services had widely different value to different customers, they needed to be priced accordingly.

Exhibit 5 Achieving revenue goals without adding headcount



We developed a training exercise, pricing model, and planning tool that allowed the firm's sales reps to think more strategically about each account as well as have the skills and confidence to negotiate better pricing. Within weeks, accounts began seeing renewal price increases of between 5% and 25%.

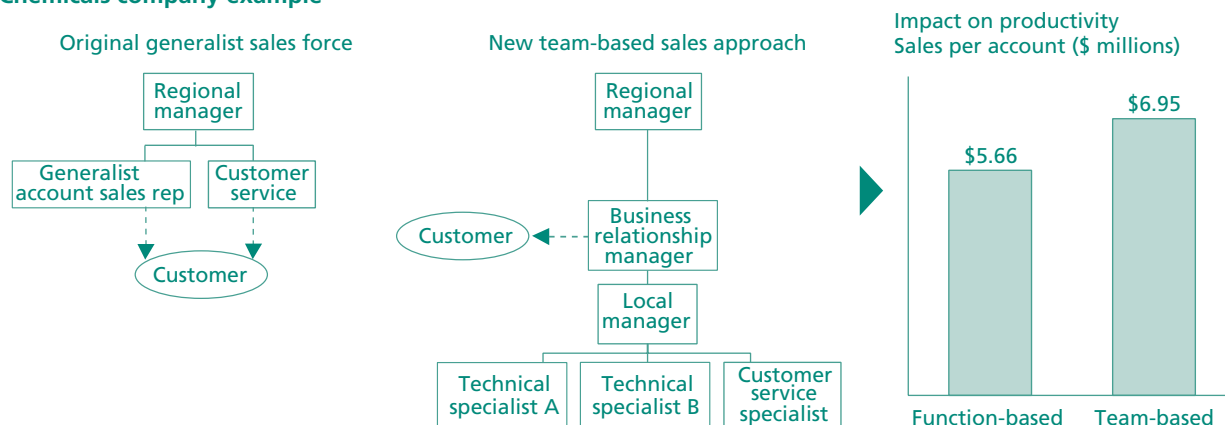
Beyond training, companies need to hire, retain, and organize sales reps with the right mix of skills for the specific customer group they serve. For instance, many of the skills required for a consultative sale are different from those required for a transactional approach. A consultative seller must have a deep understanding of the customer's business, technical knowledge of the products' application, and a broad view of other relevant products and services that the company can provide.

In conducting customer research to support a post-patent strategy, a global manufacturer of agricultural chemicals discovered that a high-value customer segment wanted higher levels of service and an account manager who was conversant in strategic, financial, and technical matters. Reviewing the capabilities of the sales force, managers determined that they had many individuals with either strong business skills or a strong biochemistry background, but few with both. The solution was to take a team sales approach: Account managers who were the most business-savvy were made the primary relationship manager. They were supported by a team of technical specialists and customer service specialists. While the technical specialist met with food scientists at a customer organization, the account manager could spend time building relationships with senior managers. The team model became a strong point of differentiation in the marketplace (Exhibit 6).

Even a sales force with the right skills needs access to the right information. Sales reps and managers often vent frustration over sales force automation and customer relationship management tools that don't deliver. The problem usually is not the software itself, but rather how it gets overlaid on cumbersome business processes or is implemented without proper training and communication.

Exhibit 6 Think team, not function

Chemicals company example



Companies often introduce several new technologies in a short period of time; each of the technologies could be powerful, but they become overwhelming when dumped on the sales team at the same time.

Successful software implementations tend to focus first on getting the process right, and only then on investing in IT to enable the process, eliminate low-value activities, and give sales reps more time to spend with customers. Most important, the sales reps should be able to provide functional input (such as their business requirements) during the IT design stage, as opposed to having the IT department or middle managers make those decisions. This ensures that the sales force will use the new tools.

A direct-marketing insurance carrier did just that. Sales executives directly contributed to the selection and design of a new data-driven marketing tool and invested the time to be thoroughly trained on its use. By using the new software effectively, they uncovered new customer cross-sell and retention opportunities. Among the initial benefits was a 30% increase in customer response rates.

Structure incentives to reward profit and new value, not volume.

The refrain from the most aggressive and motivated sales rep is almost always: "Show me the money!" Most compensation systems are set up to do that. But too often, they are based on metrics such as volume or revenue objectives, which may not be aligned with corporate financial targets.

Driving *profitable* growth may require shifting compensation to reward increased profit and retention of customers, or cross-selling by specific customer segment.

One major international courier was struggling to find future sources of sales growth. Our study of the firm's incentive program revealed that sales reps were focused solely on top-line growth even at the expense of profitability. Working with Mercer, the courier designed a new compensation scheme that emphasized the most profitable customers and products. As this program has rolled out across four continents, it has increased sales by 20% and has improved the profitability of the product mix. Structured properly, compensation is a potent force to prompt salespeople to act in the company's best interest and drive profitable growth.

More than the sum of the parts

Most customers no longer are satisfied with simply buying a product or service. Increasingly, they have higher-order needs that involve improving their overall economics in the use of a product. They want to improve operating efficiency, or reduce their risks, or help their own customers grow revenues.

As customer needs grow more complex and demanding, sales programs cannot rely on incremental improvements to product quality, delivery time, and other basic competencies. Successful selling efforts are the result of smart moves on a number of fronts: tailoring the message, product mix, and price to the highest-value customer segments; delivering that message with an efficient sales process; developing the right tools for properly trained staff; and aligning incentives to drive value rather than volume. These moves can be rolled out as a combination of quick hits and longer-term actions (Exhibit 7).

Exhibit 7 Combine “quick hits” with longer, higher-value actions

Levers	Quick hits	Longer-term actions
Customer segmentation and value proposition	<ul style="list-style-type: none"> • Quick segmentation of profitable vs. unprofitable customers using existing data and value propositions 	<ul style="list-style-type: none"> • Identify high-growth and profitable segments through needs-based segmentation • Align value propositions to new customer segments
Channel selection	<ul style="list-style-type: none"> • Identify suboptimal channel usage under current channel design via select interviews and sales data analysis 	<ul style="list-style-type: none"> • Align and implement channel strategies with customer segments and value propositions
Account sales strategies	<ul style="list-style-type: none"> • Adapt existing best practices to currently unprofitable accounts with good potential 	<ul style="list-style-type: none"> • Optimize account strategies to exploit new segment and channel opportunities
Sales / service roles and processes	<ul style="list-style-type: none"> • Change in sales approach (e.g., hunter vs. farmer model) • Identify easy-to-implement best sales practices 	<ul style="list-style-type: none"> • Redesign time allocation model and product bundling activities; systematic reduction in low-value work
Sales coverage	<ul style="list-style-type: none"> • “SWAT team” realignment of resources to highest-value prospects based on current knowledge of customer profit • Resize sales team based on customer economics 	<ul style="list-style-type: none"> • Implement new sales coverage design (e.g., organization design, roles and responsibilities, account assignment)
Sales organization structure	<ul style="list-style-type: none"> • Assess the efficacy of the current sales organization structure in managing and supporting the the new model 	<ul style="list-style-type: none"> • Roll out new sales organization structure and support necessary retraining
Recruitment and education	<ul style="list-style-type: none"> • Best-practice sharing for underperforming reps • Support tools as reference guides 	<ul style="list-style-type: none"> • Develop training programs designed to drive sales to high-value customers • Develop tools to support and measure performance
Planning, measuring, and rewarding performance	<ul style="list-style-type: none"> • Design short-term sales incentives to reward desired behavior • Creating short-term measurement systems / rep profile 	<ul style="list-style-type: none"> • Full-scale design and roll-out of new measurement and compensation plan

Companies that address these areas holistically and comprehensively can deliver significant improvements to both revenues and profits, all the while enjoying higher rates of retention and satisfaction from customers and their own sales force on the front line. ❖

Questions for managers

- Do you know who your most profitable customers are and why? Or who the most valuable prospects are? Does your sales team spend the majority of their time focused on the highest-value targets?
- Is your value proposition compelling and relevant for the highest-value segments?
- Do you tailor your selling approach and offering only by customer size and geography, or also by customer value?
- Is your sales force coverage model organized to fully leverage your offerings?
- Do you have the right people with the right skills to deliver your value proposition?
- Are you maximizing the time that your sales force spends selling, versus the time it spends doing administrative tasks?
- Are your sales training sessions built around improving results? Does the sales force find them relevant?
- Does your sales force have the tools it needs to drive revenue and profit growth?
- Do your compensation system and evaluation metrics encourage behavior that is focused on value growth, not just on revenue growth?

For more information related to this Commentary, please contact one of the following partners:

From Mercer Management Consulting:

Mike Weissel, Boston, 1 781 674 3752, mike.weissel@mercercmc.com

Howard Lapsley, Boston, 1 781 674 3439, howard.lapsley@mercercmc.com

Stephen Finch, London, 44 207 915 9221, stephen.finch@mercercmc.com

Nathalie Nassar, Paris, 33 1 45023 226, nathalie.nassar@mercercmc.com

From Mercer Human Resource Consulting:

Michael Pekkarinen, Boston, 1 617 450 6506, michael.pekkarinen@mercer.com

Peter Ellermann, Chicago, 1 312 902 7724, peter.ellermann@mercer.com

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