Vlerick Sales Center Article Summary Series

Breadth of a salesman: Salesforces will have to create value, not just communicate it. (by John R. DeVincentis and Neil Rackham, The McKinsey Quarterly, Autumn 1998)

Summarized By Ellen Croux and Deva Rangarajan, Vlerick Sales Center

Article At a Glance:
In this article, the authors suggest that sales managers need to realize that not all sales visits to the customers will necessarily create value for the customer. Sales managers need to realize that different sales processes exist when dealing with customers and the key factor determining the sales process is got to be based on how much value a salesperson can bring to the customer. The authors go on to identify three different types of sales processes and give reasons as to why value based segmentation is the best way to help your salespeople deliver value not just for their customers but also for themselves.

Defining the problem

As many authors warned us before, the environment in which sales forces operate is changing rapidly. Top executives of organizations feel the need to manage their organizations more efficiently, cutting all activities that lack added value for the customer. This strategy makes them wonder: ‘What is the added value of a sales force?’ According to estimates, half of today’s selling positions will vanish within five years. Too many salespeople remain oblivious to the fact that changes are profound, irreversible and continuously gathering speed. This is an age in which customers demand more value than ever before. The ever-growing access to information brings forth customers that are increasingly clear about the kind of value they look for. A sales force must align its values with the values of customers in order to survive. To meet customer expectations, there is a necessity for a change in strategy from communicating value to creating value.

What is the purpose of a sales force?

During recent years there has been a trend in the business environment to restructure and realign all functions within an organization to create more value for customers. New methods of continuous improvement, reengineering, Kaizen and self-directed working teams have been implemented to augment quality and efficiency and reduce costs. This is true for manufacturing, engineering, product development, even human resources; but not yet for sales. The sales department still operates by communicating the value of their offering, as opposed to creating the value a customer demands.
Because of new technologies, most customers know as much about the product offering as the people selling them. In addition, isomorphic pressures make it increasingly harder for companies to differentiate their products from a competitor. Which results in features of a product being perceived as less significant by a customer. As product offerings become commodities, clients attach more importance to the acquisition environment. The sales force will have to consider ways to create value instead of just communicating it.

**What is value?**  
**Value = Benefits - Costs**

The simplest way to create value in a sales department is either to create extra benefits or to reduce the costs of the benefits that are currently offered. Most companies immediately jump to the conclusion that adding benefits is the best strategy to pursue. However when the new benefits they introduce are not rewarded by the market because efforts are not considered valuable by customers, this strategy might be very costly and have a low or even no return on investment. Only the customer decides if a benefit is real. Different customers, even within the same industry, have very different notions of value. If customers are indifferent to additional benefits, the company may lose business. Traditional sales thinking fails to recognize this reality.

**Segmenting by size isn’t sufficient: matching strategy to customers.**

Many companies segment their customers by size, a traditional method that has been used for 30 years. This segmentation strategy may however, in the current environment, lead to wrong resource allocation. Sales forces may also fail to recognize that different approaches to selling may be needed for different customers, even if they are similar in size. This article advocates segmentation of customers according to the way they perceive value. Three distinct categories can be distinguished.

**Transactional sales** – Value is intrinsic to the product alone.

*Typical setting*  
“It better be fast and cheap, because there are plenty of other suppliers who will get your business if they beat you on speed and price.”

The customer considers the offering as a commodity. He is looking for favorable cost either by price or ease of acquisition. He doesn’t want – and certainly won’t pay for – expensive investments in selling time. This customer mind-set is no longer just the case for the traditional industrial commodity sector, but also for professional service providers such as: lawyers, accountants, consultants and doctors.

*Common mistakes:* Sales forces dedicated to serving large customers, will usually spend too many resources to enhance the sales experience. Value will be wasted or destroyed by putting unwarranted effort into these accounts.

*Transactional selling techniques:* risk-free, hassle-free and as efficient as possible.
CONSULTATIVE SALES – Value in extrinsic elements.

Typical setting “We need a lot of help, every one of our offices does things its own way. We are looking for a common set of procedures or common information system.”

These clients, even smaller customers, are prepared to pay handsomely if the right advice and help is offered. They are looking for someone who invests a lot of time and effort into a buyer-seller relationship, to get an intimate grasp of their business needs. These customers value understanding and empathy over persuasion and knowledge.

Common mistakes: Sales forces directed at smaller customers often presume their targeted customers don’t expect a lot of sales effort. This way they miss opportunities to create and capture value.

3 Primary techniques of consultative selling: the salesforce can:
- Help the customer understand their problems and opportunities in a new or different way.
- Provide better solutions than the customer would have discovered on his/her own.
- Act as an advocate in its own company to ensure that resources are allocated to the customer in a timely way and that solutions meet their particular needs.

Consultative selling is a very demanding task and good consultative selling people are hard to find. For these reasons consultative sales forces make use of diagnostic tools, sales processes and information systems to allow for a better selling performance.

ENTREPRISE SALES – Creating new value for both parties.

Typical setting “We look for a strategic partnership, a new way of doing business. We are interested in a different kind of relationship which would involve shared production activities and joint development of a radical new approach to a product or service.”

The customer demands an extraordinary level of value creation. They are looking for a strategic value relationship and are willing to transform their own organization and strategy to make full use of the core competencies of the products or advice a supplier offers. This way of selling redesigns and continuously improves the boundary between supplier and customer. It becomes difficult to tell where selling begins and ends.

Common mistakes: The selling effort mistakenly focuses on persuasion rather than understanding. The customer has no interest in the value the seller communicates. Salespeople spend their time explaining and differentiating products instead of bringing new insights and creating value.

Enterprise selling techniques: Both the sales force and the product become secondary. The primary function is to leverage all of the supplier’s corporate assets to contribute to the consumer’s strategic success. This enterprise relationship is initiated at high level in both the buyer as seller company, it is closely linked to the customer’s strategic direction and usually implemented by cross-functional teams on each side.
Why should a company integrate value segmentation?

Hundreds of cases have illustrated that it is fatal to adopt one sales model if the customer wants another. Unless a sales force’s approach to creating value closely reflects its customers’ needs and value perceptions, it is bound to fail. In other words, companies that refuse to adapt to the changing environment will ultimately go extinct. Too many sales forces still remain oblivious to this fact and find themselves stuck in the middle.

In the past, high energy to sell hard and the tactics to close deals paid off. In this new era sales forces will have to adapt and sell smart, understand and implement strategies for creating customer value.

Vlerick Food for Thought for Sales Executives

1. Here at Vlerick, we identify a fourth sales process that lies in between transactional and consultative sales process. We label this the functional sales process. The functional sales process refers to situations where customer is interested in more than just a transactional relationship with the salesperson, but does not go to the extent of wanting a consultative relationship. The focus of the customer is to continue a relationship of convenience with the supplier till things change. With the advent of e-commerce and other technological tools like EDI, this sales process is the bridge between transactional selling and consultative selling.

2. See the following short video to see how the sales processes are linked to your customer portfolio analysis:
https://www.youtube.com/watch?v=Wk8Iv3HdJ0k&feature=youtu.be