Vlerick Sales Centre Article Summary Series

Match your sales force structure to your business life cycle (by Andris A. Zoltners, Prabhakant Sinha and Sally E. Lorimer, Harvard Business Review, July-August 2006)

Summarized by Sander Lietaert and Deva Rangarajan, Vlerick Sales Centre

Introduction

Companies devote considerable time and money to managing their sales forces, few focus much thought on how the sales force needs to change over the life cycle of a product or a business. However, shifts in the sales force’s structure are essential if a company wants to keep winning the race for customers.

Admittedly, it isn’t easy for a company to change the composition and activities of its sales force. The sales force structure that works during start-up is different from what works when the business is growing, during its maturity and through its decline.

Start-up: Making the right moves early

Do it yourself, or outsource?
The central decision that a new business must make is whether it should sell its products directly to customers or sell them through partners. Partnerships can also help executives manage risk better since start-ups often pay only commissions on sales; if products don’t sell, their costs are minimal. Moreover, new business can enter markets rapidly by working alongside companies that have sales expertise, influence over sales channels, and relationships with potential customers.

Although many entrepreneurs outsource the sales function, that may not always be the right decision. Many business depend on their selling partners for too long. When companies outsource the sales function, they don’t control the selling activity, have little power over salespeople, gain no channel power, and don’t own customer relationships.

During the start-up phase, sales forces have to educate potential customers about products and change customers’ buying process before they can generate sales. Salespeople also must chase down and make every possible sale in order to drive business.

Growth: Building on success

As business grow, their product portfolios expand, and their sales forces have to call on prospects in a broader set of markets. This presents sales managers with two challenges: specialization and size.

The need to specialize
As repeat sales become a larger proportion of sales, customers will require service and support, adding to salespeople’s workloads. As tasks grow beyond the salespeople’s capacity to perform their jobs, they are likely to drop the customers, products, and selling activities that are most difficult to manage. Specialist sales teams can focus on products, markets or on customer segments. Sales forces can also specialize in certain activities: acquiring customers or servicing existing customers.
Companies must revisit sizing issues when they move from generalist sales forces to specialist ones. The transition is always tough. The work changes considerably, and customer relationships are disrupted. Sales forces may need to adopt team-based selling techniques, making coordination and collaboration vital.

**Getting the size right**
A company should determine the most appropriate size for its sales force by evaluating the probable size of the opportunity and assessing the potential risks of pursuing an aggressive or conservative approach. An aggressive strategy is appropriate when the business has a high likelihood of success and management has confidence in the sales projections. A more conservative strategy works when greater uncertainty surrounds the business’s success.

Two types of sizing errors are common. First, if sales force growth is aggressive, but the market opportunity is moderate, the company will end up having to reduce its sales force. Second, if sales force growth is conservative, but the market opportunity is large, a business may forfeit its best chance to become a market-leader. To make better decisions about sales force sizing, companies must invest in market research and in developing forecasting methods and sales response analytics.

**Maturity: The quest for effectiveness and efficiency**
At this stage, sales leaders must rely more on resourcefulness than on increasing the scale of the sales effort. Their strategy should emphasize retaining customers, servicing existing segments, and increasing the efficiency and effectiveness of the sales force.

**Optimizing resources**
A conducted study shows that mature companies boosted their gross margins by 4.5% when they resized their sales forces and allocated resource better. While 29% of those gains came because the companies corrected the size of their sales forces, 71% of the gains were the result of changes in resource utilization.

A company makes the greatest profits when its sales force spends its time with the most valuable subset of customers or with the most valuable products in its basket.

**The account manager’s emergence**
Account managers coordinate the sales effort and bring in product specialists when customers need expertise. In addition to increasing revenues, the appointment of account managers boosts customer satisfaction and often reduces selling costs.

Companies must also find the most inexpensive ways to get work done. They can use sales assistants and part-time salespeople to small or geographically dispersed customers and to sell easy-to-understand products. Businesses can also use telesales staff to perform activities that don’t require face-to-face contact with customers.

**Decline: Living to fight another day**

*When a turnaround is likely*
A smart company determines what kind of structure it will need for the sales force to achieve its new goals. Then it identifies and preserves elements of the current structure that are consistent with the one it will need. That’s critical; executives shouldn’t tear down the parts of the sales organization that will be valuable in the future.
When a turnaround isn’t likely

When further decline is inevitable, sales organizations can only ensure that companies remain profitable for as long as possible. Business should use their salespeople to service the most profitable, loyal and strategically important customers, and service other accounts through low-cost selling resources.

By using less-expensive selling resources, companies can continue selling to some segments. That entails moving the coverage of some customers from specialty salespeople to generalists, and shifting the coverage of other customers from field salespeople to telesales staff.

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UNDERLYING CUSTOMER STRATEGY

Create awareness and generate quick product uptake
Penetrate deeper into existing segments and develop new ones
Focus on efficiently serving and retaining existing customers
Emphasize efficiency, protect critical customer relationships, exit unprofitable segments

Conclusion

Sales leaders who try to match sales force structures with the business life cycle face different challenges at every stage. The common thread, though, is that they must overcome organizational resistance at each step and sacrifice short-term profits to secure their companies’ success over time.