

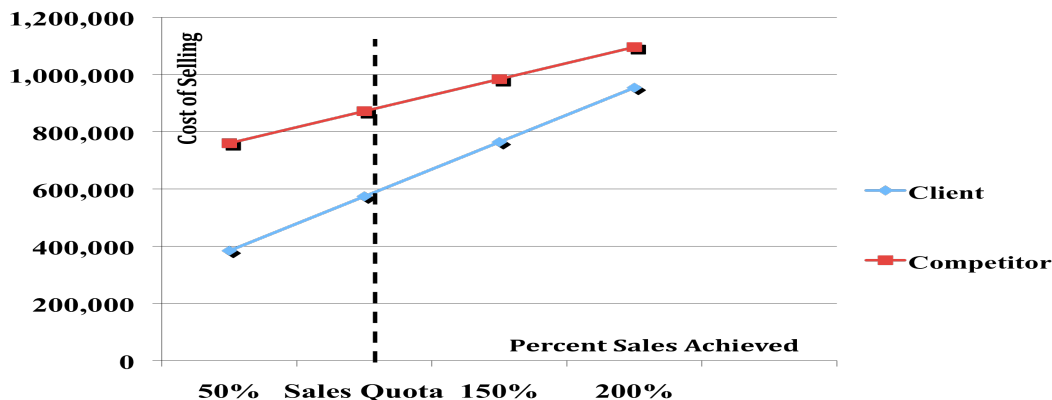
Reduce Cost of Selling - Grow Sales

Road Warrior Group (RWG) Whitepaper by Jeff Weigel

Abstract: A way to structure your North American sales operation for both lower cost and better sales results is explored. Several actual cases are used to illustrate cost comparisons, structure and some of secrets of success.

Case study: In the current worldwide economic downturn many companies are looking at ways to reduce their cost of selling. Reducing direct employee sales costs while increasing the use of independent sales representatives is a viable cost reduction approach. But will the cost reduction be overshadowed by reductions in sales?

First let's look at potential cost differentiations. The following chart was done for a European client, comparing the client's cost for a 50 person independent sales representative network managed by a technical sales manager working out of a home office compared to his main competitor. His competitor, a German firm, had hired a three person North American sales team and an administrator, requiring two executive suites and travel costs for three people. The question was, should our client mimic his competitor or use a representative structure?



This chart shows cost of selling compared to sales for our client and his competitor. We used very conservative costs for the competitor and still showed very significant savings.

More important than the cost control was the sales performance. When we started North America was our client's smallest major market with exactly one customer who had found them. Two years after launching an independent sales representative team North America was both our client's largest and fastest growing market. Based largely on North American success the company was acquired for a very favorable price and the company's President built a very nice home in Spain.

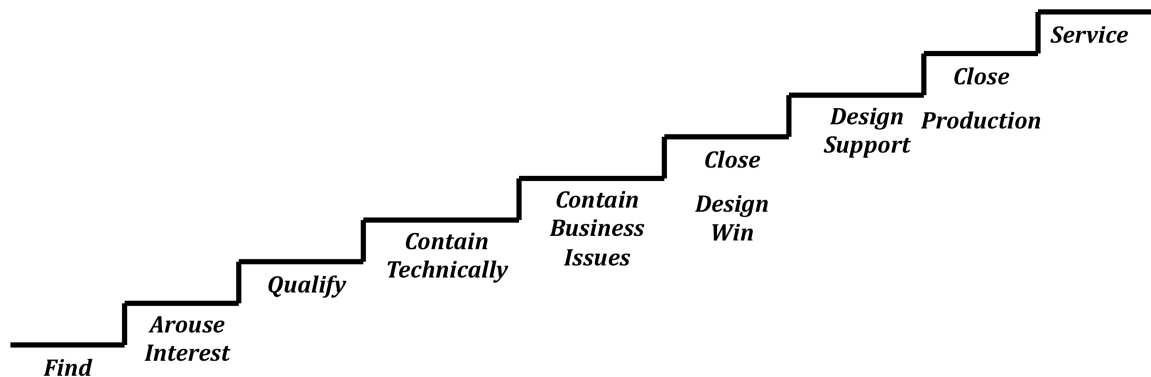
Trust is the key - the devil is in the detail: Independent sales representative companies are small businesses with incomes derived from the commissions on sales of its principal's products. Representatives apply their long-term customer relationships to generate sales for their principals and they do this under short-term cancellation agreements. Their survival depends on trust:

- Trust that their principal will meet obligations and be responsive to their customers needs
- Trust that the product can efficiently generate sales and commissions.
- Trust that their sales performance will be rewarded by continuing on-time commission payments.

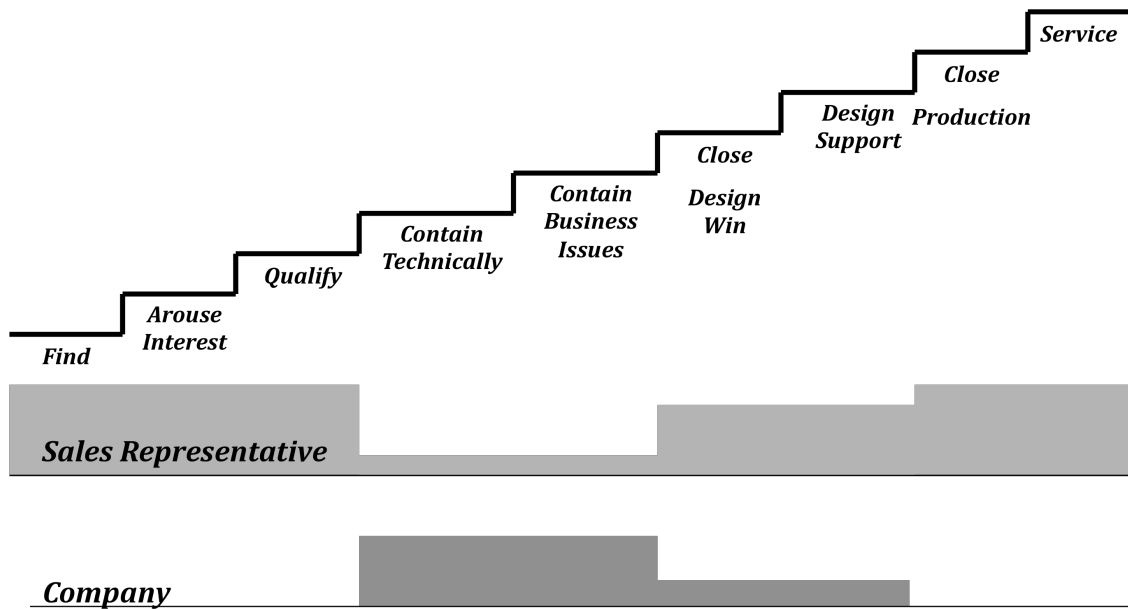
It might seem intuitive that companies that are most successful with representatives would be the ones that focus on establishing trust. It amazes me the number of companies that don't. Late commission payments, arbitrary terminations, inconsistent policies, constantly changing - poorly defined goals and poor communications are just a few of the sins that erode representative selling efforts.

Good representative selling teams often out perform direct sales organizations, and they do at less cost - costs that vary with success. They also offer better customer access and more capacity for growth.

Representative team selling: So what is good representative team selling? What are the roles of the principal and what are the roles of the representative? Let's first look at the steps involved in selling a technical product as a component to OEM customer. Much like in this example any sales situation can be broken into steps.



In teamed representative selling some steps are the primary responsibility of the principal sales management and factory team, some are the primary responsibility of the representative. In this case it breaks out like this:



Over the years I've worked with a variety of sales managers and representatives to understand the time allocation aspects of teamed selling. The consensus is the sales representative invests over 80% of the time required to close and service the deal, the sales manager and company team invests less than 20% of the time. The company team involvement, however, is critical to closing the order.

The selling process for any product can be broken into similar steps. Understanding the steps for selling your product, and who is responsible for which step, knowing step by step what is working and fixing what isn't, is fundamental to building an efficient selling organization. It also develops team confidence and trust.

Trust also comes when companies treat their representatives as part of their company. They demand performance, openly communicate and work to be consistent with how they are reviewed and judged. Here is a list of the kinds of policies you might try that foster this type of relationship.

- Perform semiannual bi-directional performance reviews (much like personnel reviews)
- Institute an open door policy - right up to the President and CEO
- At least once a year Company CEO needs to be in contact with every representative owner. A New Years letters, noting successes, disappointments and expectations is a nice touch.
- Notes of appreciation from the Vice President of Sales, inserted with commission payments, is also a nice touch.
- As a policy allow sales managers hire representatives, but only the CEO to terminate them.

- Supply Company business cards to representative sales people calling on key customers (to be used in special situations where principal recognition helps)
- Offer key representatives sales people stock option plans.
- Be sure commission payments are made on time. If there is ever a delay call and let them know.

Over the years I've seen interesting things done. A company with a computer software problem was 45 days late in making commission payments. All of the representatives were informed of the problem and estimated payment date. When checks finally arrived, to the surprise of the representatives, the checks included forty-five days of interest payment. It wasn't that expensive, but it drove a point and was discussed for years.

A company in the New England market once dropped its largest line in order to stay with a principal half its size. Trust was the issue. The smaller company had spent years driving the message that performing representative will reap rewards for a long time. The company CEO made it a point to meet and stay in contact with representative owners. Sales representatives had stock options. Policies were clear. Performance expectations were defined. The representative knew where he stood. He compared this to the detached, seemingly whimsical decisions from the much larger firm and the decision was clear.

These are the kinds of policies that generate trust, and trust, more than anything generates sales focus. It is important, however, not to confuse trust with not being demanding. If not establishing trust is the biggest representative sin not terminating non-performing representatives soon enough is the second biggest sin. Within three to six months of appointment companies should be in a position to decide if they selected the right representative. Problems should be remedied immediately. All other representatives should be made aware of the reasons for the termination and that it has occurred.

Economic downturns produce winners and losers: Bold moves and positioning may be critical to your survival. A move away from a captive sale organization to a representative teamed sales approach can save valuable cash. If done right, it can also improve the effectiveness of the sales organization.

It's an option worth consideration. Will this always work? There are a whole set of criteria that determine if teamed representative selling is the right approach for you. There is another set of criteria that defines the profile of the representative companies right for your organization. Recruiting the right companies and getting things started on the right foot is an art. These are areas where The Road Warrior Group can help.

About the Author: Jeff Weigel's experiences, prior to forming the Road Warrior Group in 2001, include Managing Director – Europe and Vice President of Strategic Customer Sales at Vitesse Semiconductor. Prior to Vitesse, Jeff was Vice President of GARCO, a subsidiary of National Semiconductor. He started his sales career at Motorola Semiconductor where he instituted a country-wide independent sales program for emerging systems products. He gained his engineering experience at Westinghouse and Vitro Labs.



Jeff has spoken to groups world-wide about penetrating North American markets, the evolution of product in start-ups, effective sales organization structure, recruiting and motivating independent sales representatives and the marks of excellence in sales management.

Jeff has a BSEE from Lafayette College and 30 years of Electronics industry experience.

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