Sales force effectiveness-
a competitive advantage

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1 The sales challenge

"How can I make my sales force more effective?" – this is one of the most burning topics of the paper value chain. Over the last decade much work has been done in cost optimization, very little in maximizing sales effectiveness. Sales appears to be the last bastion still resistant to change.

This is most surprising given the enormous leverage price has on profits. In our experience a 2% increase in price boosts operating profits from 20 to 50% - for merchants up to 150%.

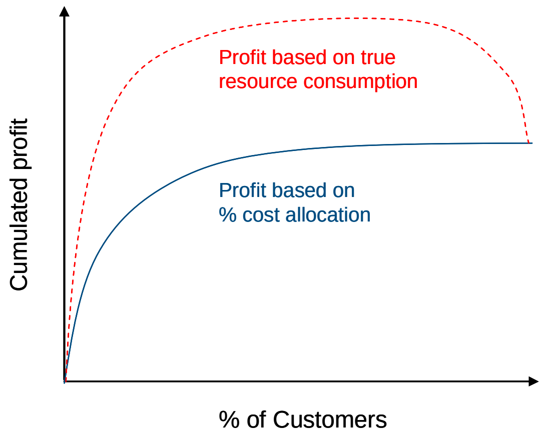
This article tackles common barriers to improved sales effectiveness and challenges frequently heard misconceptions.

- "Higher volume means higher profit"
- "The customer is king"
- "Prices are set by the market"
- "Sales owns the customer"
- "You can't teach an old dog new tricks"
- "You get what you measure"

2 Common sales misconceptions

2.1. "Higher volume means higher profit"

Harvard Business Review estimates that, on average, 15% of all customers are unprofitable. The book, *Angel Customers & Demon Customers*[1], estimates that, in most industries, the best 20% of customers account for 150% of profits. The worst 20% typically lose money equal to 75% of profits. This also holds for the pulp and paper industry.



Good sales practices dictate spending more time and resources on the profitable customers and cutting cost and services to the bad ones. The endemic problem to the industry is the lack of visibility of true customer and product profitability. It cannot differentiate the good from the bad with sufficient accuracy. "As a result company profit is what is left after angels have subsidized the demons".

Many cost accounting systems are still based on average costing. Costs for set-up, broke, logistical, technical service or sales are allocated as a percentage to each unit sold and not according to their true consumption. As a result the margin-killer deals are obscured through averages and often not discovered. This puts sales in a position of taking customer specific decisions while "flying blind" and therefore making sales a gamble.

A solution is activity based costing to deliver real cost-to-serve information. It provides the basis for pricing as well as cost reduction decisions. By truly knowing the profitable customers and correctly allocating resources a step change in sales performance can be achieved.

2.2. "The customer is king"

The customer needs to be at the heart of all entrepreneurial efforts, but not all customers are equal and deserve the same level of effort. Over-servicing is a major reason for profit-neutral or unprofitable customers.

Standard service packages including customer management, supply chain and financing are often provided indiscriminately. These standard services can be in excess of customer requirements and willingness-to-pay. As a result many services are provided for "free", i.e. subsidized by more profitable customers. This cost inefficiency is often masked by the claim "each customer is king".

[1] "Angel Customers & Demon Customers", by Larry Selden & Geoffrey Colvin, Copyright 2003 Reed Business Information, Inc.

A differentiated and consistent approach based on customer strategy and segmentation is the key to a more effective resource allocation.

The most important and largest customers should have specifically tailored product & service packages based on very detailed customer insights.

The strategy for the majority of customers should be based on creating customer segments with similar requirement portfolios and willingness-to-pay. Customer management, supply chain and financing services are then tailored towards each segment, which in turn defines resource allocation.

Distinguishing points can include frequency and type of sales contact, technical support, delivery performance, small order surcharges, service calls, payment terms or exceptions for pricing requests. New or high potential customers are usually dealt with by inclusion into a higher service segment and subject to clearly defined monitoring and revision process.

Along the paper value chain, services typically have been delivered in a very traditional way, with costly sales organizations. Reconsidering service models should also be viewed as a cost cutting and innovation opportunity with the aim to deliver better service with lower costs.

2.3. “Prices are set by the market”

“The price is set by the market – either we take it or lose the customer!” is commonly heard from sales personnel. Like all long-standing misconceptions, the statement is based on half-truths. It is true that the market gives a strong signal regarding the base price for the generic product. The net price, however, is determined by sales under the influence of base price, volume, quality and additional services, i.e. a differentiated package.

Sales force impact on price is confirmed through analysis of company sales data. Price variations of up to 20% for the same product are common and are often the result of discretionary decisions not backed by hard cost and/or customer value facts. The pricing is frequently inconsistent with volume, cross-selling justifications and additional services provided – some demons get better prices than angels and are not being charged for services.

This unstructured and inconsistent pricing approach results in the immediate margin loss and provides significant threat potential - an unjustifiable low price for one customer can have a knock on effect with other customers.

The classical negotiation process is typically driven by purchasing: taking the best price on offer to the next seller. The price is treated as an absolute and little attention is paid to understanding different service levels included. The skilled salesman uses his “relationship” to create this understanding and sensitivity. The deal is closed by applying situational pricing tactics based on detailed understanding of customer wants and the cost-to-serve.

The critical success factors are detailed knowledge of the cost drivers and the “take and give principle”. The sales person needs to know what services he takes out of the base offer to give a better price. Services the customer values and is willing to pay for are then added. This fine tuning of the service scope becomes the alternative to blind price reductions.

The opportunity for many companies in the industry lies in this capability for “fine tuning”. The required investment needs to be targeted at:

- creating the necessary infrastructure for cost transparency and customer insights
- redesigning pricing processes
- sales training for understanding of situational pricing tactics and company cost structure
- performance management redesign

Given that 2% increase in price has double digit % impact on profit, it is high time that industry players focus on pricing tactics. Evidently, each Dollar spent on increasing professionalism in pricing process has a very high pay-back.

2.4. “Sales owns the customer”

A single point of responsibility for growing the profitability of a customer and coordinating all contact is in line with leading practice. Often, however, ownership is used as a defense mechanism to limit information flow and exclude access. Within this context, the question becomes apparent: “can sales be successful without the help of other departments?” The answer is “not nearly as successful”. It is departmental integration and teamwork that contributes to an effective sales force.

Buying decisions are based on different interests on the customer side - suppliers must adapt their sales teams accordingly. Unique selling points may include new supply chain concepts or technical parameters of the product. As a result the sales team needs to be augmented by the supply chain or technical skills respectively. Ultimately the client strategy is developed by sales but comprises input from all relevant departments.

Additional challenges are posed by international purchasing organizations which either require cross-regional account management or take advantage of localized inconsistencies.

It is anachronistic that sales is often organized as a silo, keeping information within departmental boundaries, not seamlessly integrating with other supply chain functions or international sales offices.

There are three key success factors that an effective sales organization needs to cover:

- Consistent and centrally available customer data to enable a coordinated customer approach and support the disclosure of up- and cross-selling potentials.
- A sales organization that mirrors customer processes and organizations and allows the right person to contact its client counterpart
- Margin driven sales people that are able to identify the true customer values and coordinate a cross functional team to deliver them.

3 <u>Where to find the perfect sales person?</u>

3.1. "You cannot teach an old dog new tricks"

The paper industry has a recruitment issue when attracting young talent and high performers. As a result, one would expect the industry to build its own talents by investing in sales excellence training. In reality, sales training has been neglected or been ineffective. Little attention is given to content development. Too often the focus is motivational and as a consequence met with cynicism.

The goal of sales excellence is to enable the sales force to generate value for the company and for the customer. Value based management needs to be applied to day-to-day activities of the sales force. Training should focus on providing a holistic picture including the impact of production-, supply chain- and finance value levers and cost factors. Communication, simulation and reiteration are the key to creating momentum and ensuring acceptance and adoption.

Even high performers can benefit from training. The status quo should never be the last stage of the journey. The performance management cycle of reviewing the previous period's performance and setting the targets for the following period provides a good platform to discuss training requirements. Training goes hand in hand with setting and achieving high performance targets.

3.2. "You get what you measure"

Simple targets based on volume or gross margin are frequently inconsistent or even incompatible with company goals. Other targets, such as number of visits per week, can be counter-productive or need to be linked with additional goals. New performance measures and compensation systems are needed to push sales force effectiveness forward and generate revenue growth

Few performance management systems generate the desired result of aligning the individual actions to the sales strategy and in turn to the company goals. The effectiveness of a performance management system depends largely on its measurability through key performance indicators (KPIs). Every salesperson needs to understand their KPIs, agree on their relevance and act accordingly. However, the performance management system will only show desired results, if the sales force can influence their performance against the KPIs through their actions and receive a sufficiently significant reward.

The selected key performance indicators vary over time and between companies. They are the levers to focus on specific areas which are the current burning platforms. This focus can change if the market changes and new sales behavior is required.

Typical value areas that need to be covered by sales KPIs are:

- New business generated
- New opportunities developed
- Existing business retained
- Level of accounts receivable
- Accuracy of demand forecasting
- Level of cost of sales

"You get what you measure and reward". Performance management is a key element of sales force effectiveness. It governs the way sales behave. Margin is lost or destroyed if used indifferently or badly. When used effectively, it serves to reinforce or institutionalize desired selling behavior. Alignment to company and sales strategy is essential.

4 Moving towards Sales Force Effectiveness

Consistent customer strategies and informed decisions by well-trained and motivated sales teams will provide an impact on company results, which is unrivalled by cost cutting initiatives.

INSTEP is the key to improved sales force effectiveness:

- **I**nsight into customers, products and profitability
- **N**on-unified approach to customers based on segmentation
- **S**ituational pricing capabilities
- **T**eam work in selling
- **E**nablement through training
- **P**erformance management

StepChange Consulting can partner with you to assess improvement opportunities in the sales area and build the foundation for an effective sales organization.

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About StepChange Consulting
StepChange is an industry focused and independent management consulting company with a proven track record in supporting clients to achieve sustainable value. StepChange provides support to top tier organizations in the industry from strategy development to implementation of operational improvements. With our international team of industry experts we hit the ground running. We provide innovative and yet pragmatic solutions, placing an emphasis on delivering measurable business results.

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