

# Managing Sales Effectively in Tough Times

Improve sales performance while keeping costs low,  
mitigating risks and retaining customers





In the current tough economic climate, corporations are asking the million-dollar question: “How can I grow sales while keeping costs low, mitigating risks and maintaining customer satisfaction?” The answer is to increase sales effectiveness. Companies that demonstrate leadership in changing the sales function will be positioned for success. Your business partners are expecting it and your organization is demanding it.

Whether a company’s products are branded or unbranded; whether it has a highly fragmented distributor base or sells through a limited number of flagship stores; or whether its customers are residential or business; in every case, sales effectiveness is critical to success. True sales effectiveness requires optimizing the sales channel and product mix for each customer segment at every stage of the customer experience (*see figure 1 on page 2*). Because sales effectiveness can erode over time, it is important to revisit your performance to ensure it remains effective.

While improving the sales function presents some challenges, it is possible to do it in a way that protects revenues and mitigates risk. We have developed a three-pronged approach to sales effectiveness composed of a clear **sales strategy** that maximizes a company’s value proposition, a **go-to-market approach** for successful execution, and **support capabilities** that align the rest of the organization to sales’ goals, allowing the sales

force to focus on what they do best—sell (*see figure 2 on page 2*).

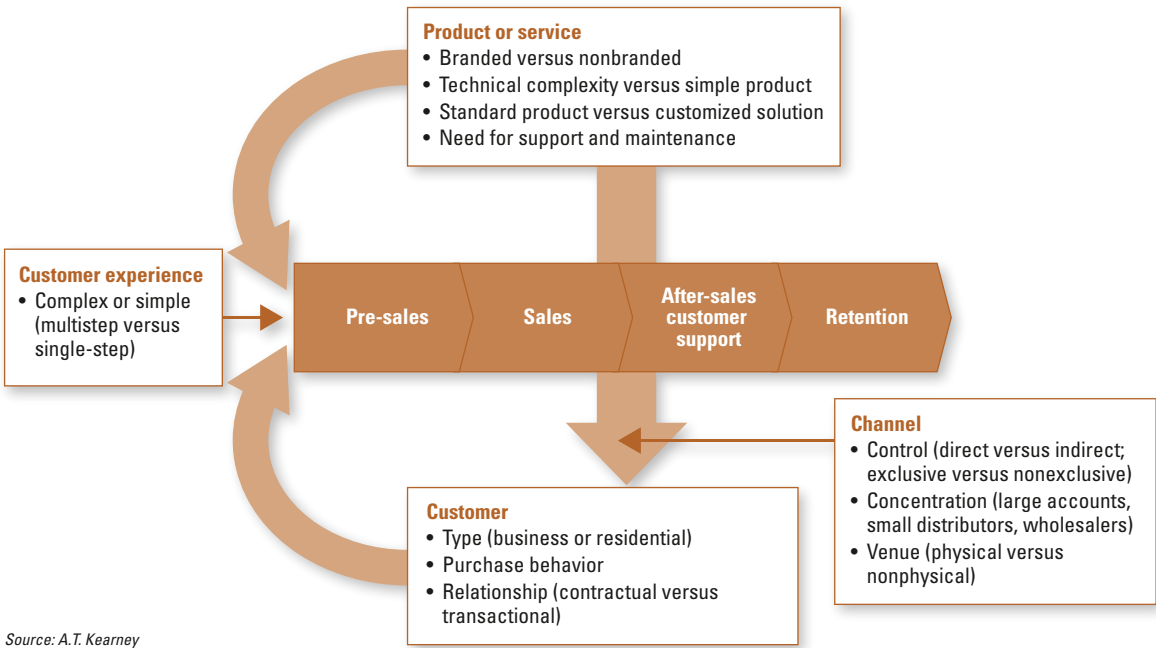
Using this approach, businesses have reported significant top- and bottom-line improvements, ranging from 10 to 30 percent increases in revenue to double-digit earnings growth. It is possible to reduce costs from 20 to 30 percent without losing market share or your top salespeople, and without sacrificing customer loyalty. If your company is facing falling revenues, high costs, shrinking profits, declining customer loyalty or a combination of these, the approach we describe will not only lead to improved sales effectiveness and help to weather the current storm, but also help position the company for future success.

The following offers a brief discussion of the three elements in our sales effectiveness approach.

### Develop a Clear Sales Strategy

An effective sales strategy starts with integrating the ideas of the marketing department with the

**Figure 1**  
Main variables in the product-channel-customer equation



Source: A.T. Kearney

on-the-ground insights from the sales force. The strategy is twofold: focusing on the customer experience and identifying the right channels to deliver the experience.

**Customer experience.** Given today's complex business environment, it is increasingly necessary to move beyond traditional customer segmentation strategies. Rather than segmenting customers only by sales potential, competitive position and geography, more customized segmentation approaches prove more appropriate, essentially microsegmenting customers based on understanding their value, meeting their needs and improving their overall experience. Indeed, the combination of marketing ideas and sales insights allows for the further microsegmentation of customers.

**Figure 2**  
Key dimensions of sales effectiveness



Source: A.T. Kearney

Figure 3 illustrates the key elements of a value- and needs-based microsegmentation. It revolves around multiple variables that combine the customer's value—volume, profitability, growth potential and probable life of the relationship—with the company's intimate understanding of its customers' needs. These needs are then matched against strategic objectives.

Hotels and airlines are well known for microsegmenting their most profitable corporate customers and then offering them “perks” such as free upgrades, F&B credits and special treatment at check in. A hotel might cater to a family microsegment by offering free babysitting or kids' movies on Friday nights at the pool, allowing parents a night out.

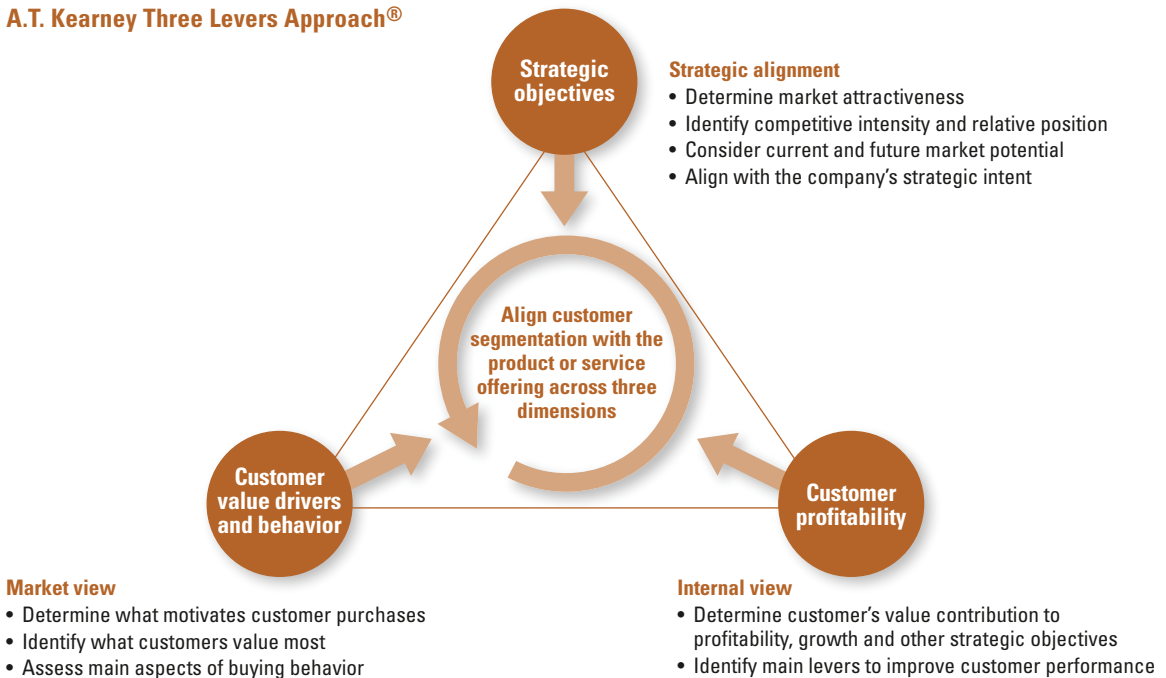
When the microsegment is fully understood, sales resources can be distributed appropriately and supported as necessary. For instance, sales resources dedicated to a high-value customer microsegment can be bolstered with differentiated propositions such as incentives, channel compensation and trade marketing.

**Channel strategy.** Sales effectiveness requires reshaping the channel strategy to better connect with key customers while also considering the cost-to-serve of these customers, and, importantly, not jeopardizing major revenue and profit streams. A good channel strategy determines the optimal balance or mix of direct and indirect channels, structures the relationship with indirect channel partners, and rationalizes the channels.

### Figure 3

The main elements of a value- and needs-based microsegmentation

#### A.T. Kearney Three Levers Approach®



Source: A.T. Kearney

Let's discuss each of these in more detail.

**Determine the optimal balance in your channel mix.** Once key microsegments are identified, the focus turns to supporting your largest and most profitable customers in an effective way. What is interesting is that indirect sales channels can be just as effective as direct channels—thus reducing cost-to-serve. For example, a specialty chemicals company changed its channel mix

to the number of customers or customer sites, will indicate whether or not channels are properly balanced.

**Structure relationships with indirect channel partners.** Actively managing relationships with indirect partners will help maintain control over products and profit margins. The key is to have clear agreements regarding price, margins and volumes, and well-defined ways for the parties

to interact, especially in terms of sharing information and creating exclusivity arrangements. When negotiating these agreements, never underestimate the role a business plays in a distributor's portfolio and financials, including cash flow. The "extras" should also be included in the negotiations, such as access to an attractive customer segment and market, access to valuable brands, and superb

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approach by shifting more customers to an indirect channel (distributors and telesales). The new channel mix reduced complexity in serving customers, cut selling costs and improved efficiency of the sales force.

Deciding whether to go with direct or indirect channels, or finding a balance between the two, largely depends on geographic issues (including specific competitive situations), control over customer experience, capillarity requirements, product complexity and the availability of indirect channel alternatives. For example, direct channels often make sense for faster growth segments and indirect channels for mature or maintenance segments. Measuring the direct channel's sales and net profits, as opposed

supply-chain service. Companies often have more negotiating tools at their disposal than they realize.

**Rationalize channels.** After evaluating revenues and costs, it often makes financial sense to reduce the number of channel partners—rationalizing partners by evaluating alternatives while also keeping in mind geographical and product line coverage. In addition, it might make sense to invest in and help transform nonperforming distributors or dealers that have the potential to turn into valuable partners. Consider, for example, a high-tech company that reshaped its current indirect channel of 400 retail chains and independent dealers to align its footprint with market potential. Dealers were segmented by size and performance—leaving 200 high-value dealers—

and the rest were rationalized. The company reduced costs by 25 percent while maintaining its sales strength.

### Go-to-Market Approach

Having the right go-to-market approach will help implement the sales strategy. The approach requires adapting the organization to address changes in markets, demands, customers and channels, and allocating resources appropriately.

**Adapting the organization to new realities.** As time passes, local markets become global, new geographies (or products) acquire greater importance as others recede, and products and services get bundled or unbundled as the situation demands. Any of these changes can make existing sales structures outmoded or obsolete, so the best companies continually adapt their sales organizations to address on-the-ground realities.

The segmentation strategies described earlier are a good starting point for adapting the sales organization to such changes, especially in terms of sales and technical skills. Obviously, segments that demand sophisticated selling or market, product or technological knowledge should be served by experts or specialists, at least if their value justifies this special attention. Segments that require relatively lower skill levels and knowledge, or those that contribute less value to the company, can be bundled together and served by generalists to reduce cost-to-serve. These generalists should be assigned based on geographic proximity to the customer, thus reducing travel time and expenses. This approach gives businesses a leaner but by no means less effective sales force.

**Allocating resources appropriately.** Companies allocate budgets based on many of the decisions discussed earlier, such as the channel strategy. Budget allocation decisions also hinge on whether the focus is on acquiring new customers, or developing deeper, more loyal relationships with current customers. And there is always the somewhat touchy issue of how much to spend on customers managed by distributors, based on the value proposition of a particular channel partner.

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Beyond these issues, the most important allocation decisions are about the frequency and quality of direct customer visits (or calls) and using the sales force's time in the most efficient way possible. Naturally, the frequency of calls depends on strategic objectives, and on what the customer needs and values. The most direct sales attention is reserved for customers with the most value to the company, and the best sales calls are those that focus on selling or building relationships, rather than dealing with supply-chain issues or troubleshooting problems.

Clearly, it makes sense to focus on highly profitable customers from high-growth segments more than less profitable customers, especially those that are more price sensitive. However, this

does not necessarily mean that higher-value customers warrant more calls. Instead, whether or not these customers actually need the visits and how much value they place on them must be balanced against the corresponding cost-to-serve. For example, we helped a consumer goods manufacturer reduce its face-to-face customer visits by 40 percent following a detailed cost-to-serve analysis. The company replaced in-person visits with telesales calls, and made 80,000 telesales calls to ensure that customers affected by the change still had their sales touch points. The result was a more effective direct sales force focused on key customers and no loss of revenues or market share.

Finally, creating a small but effective administrative sales support team to handle bureaucratic nonsales duties will free up sales force time to focus on the customer.

### Support Capabilities

Sales effectiveness is unleashed not only by eliminating non-value-adding processes and transferring administrative tasks to the back office, but also by investing in automation. For example, IT systems that provide sales reps with a comprehensive view of customers across all channels can increase win rates, reduce claims, and allow sales staff to assess potential up-selling and cross-selling opportunities. These systems also create a powerful body of customer intelligence (based on empirical data) to build future account strategies.

Identifying best practices in sales will go a long way to improving sales performance. This includes developing sales rep profiles to better meet target customers' needs. Developing target profiles is only the beginning. Top companies take their hiring and training responsibilities seriously by defining training requirements, coaching pro-

grams and career management strategies for the entire sales organization. Coaching by sales supervisors can be very effective. We have found correlations of up to 0.8 between revenue generated by the sales force and time spent on coaching.

Increasing the proportion of overall variable pay and aligning incentives to specific business objectives are also strategies for building an effective sales organization. Simple is better. The most successful programs are based on relatively simple formulas that the sales force can easily calculate, with variables they have some control over. For example, a large telecommunications operator migrated from a complex sales force incentive process with more than 10 performance indicators linked to sales volume of different products and services, to a simpler one consisting of only four indicators linked to profit margin for product categories. The result: a more motivated sales force and a 5 percent increase in sales in a mature market.

Finally, career management and development can help reduce sales force turnover, a *bête noire* for sales given its pernicious effect on productivity. Shared, transparent and continual mentoring and feedback will help manage sales reps' expectations and progress within the organization.

### Selling for Success

Sales organizations are a linchpin of business success. An approach that puts the customer at the center of the sales strategy, designs a best-in-class go-to-market approach, and arms the sales organization with appropriate support can yield impressive results. The time is ripe for companies to revisit and renegotiate many of the levers that underpin their relationships with indirect channels. The key is combining the urgent actions demanded in the short term with a vision that is sustainable in the long term.

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