



When Execution Matters

Re-thinking Sales Coverage Models in the Current Economic Environment May 29, 2009 – 1:18 pm by Jason Shamas

During these difficult economic times, companies are facing the challenge of balancing two competing goals: minimizing costs while encouraging revenue growth. Nowhere is this challenge more apparent than within a company's sales organization. It is responsible for maximizing revenue in an environment in which customers are aggressively reducing expenditures and delaying buying decisions. However, the sales organization is expected to do so with fewer resources, given that companies often cut SG&A expenses during economic downturns.

One approach for balancing these competing goals is to consider adjusting different levers that make up an overall sales strategy. This article examines how companies can adjust their sales coverage models to better manage the impact of the economic downturn. It focuses on five elements of the sales coverage model: Go-To-Market (GTM) Models, Account Coverage, Use of Overlays, Product and Customer Mix, and Operational Support.

Go-To-Market Models

Selecting the GTM model that is best aligned with the purchasing behavior of its customers is the first way that sales organizations can make significant cost reductions. Three common GTM models are:

- **Direct Sales Model** supports frequent interaction with customers and is therefore most appropriate for high-touch accounts and customers that purchase complex solutions requiring extensive sales team support, despite its high cost.
- **2-Tier (Channel) Model** is a relatively inexpensive method for reaching a high volume of customers. A network of VARs and distributors can cover a far larger number of accounts than can a company's direct sales force, and it can be supported by relatively small channel sales team, keeping the cost per customer interaction low. It is most appropriate for low-touch accounts and customers who are purchasing simple or mature products and services, where control of customer interactions lies primarily with the channel partner
- **OxM (Original Equipment/Service Manufacturer) Model** has low customer transaction costs and is able to expand the size of the market for existing products and services. However, the administrative processes required to support OxM sales can be complex.

Given the strengths and weaknesses of each model, the sales organization should consider the following factors and risks to implement the optimal GTM model:

- *High touch vs. low touch accounts* – Companies should analyze the buying habits and purchases of each account managed by the direct sales force. If they are not high-touch accounts or purchasing sophisticated technologies / complex solutions, then they should be supported by the 2-Tier Model, which has a lower cost per customer transaction. This will also give the direct sales team more time to provide quality service to the remaining high-touch accounts.
 - *Risk* – While utilizing the 2-Tier Model reduces costs, it can also result in a drop in sales for certain accounts. The sales organization should consider transferring accounts to the direct sales team if the channel partner is not providing sufficient support, but only if doing so is likely to result in a gain in revenue to justify the higher cost of the direct touch model.
 - *Risk* – Channel partners may be reluctant to relinquish control of profitable accounts in which they have heavily invested; insisting that they do so can damage the relationship that sales organization has developed with the partner. This risk may be mitigated by transferring low-touch direct accounts to the channel partner or, in select cases, having the direct team work with the channel partner to manage accounts.
- *Identify new approaches to increase sales* – Consider utilizing an alternative GTM model such as the OxM model. While the cost of supporting a relatively small number of OEM and OSM partners is quite low, these partners may have access to new markets and customers which the sales organization is unable to penetrate, offering an cost-effective method of generating new sales.
 - *Risk* – The biggest risk of this approach is brand recognition, since the products are sold as part of OEM's product offering. Also, additional sales operations resources may be required to address sales

crediting, commissioning and revenue recognition processes associated with OxM transactions.

In addition to selecting the best GTM model, it is also critical that the sales organization manage the overlap when a customer is being supported by both the Direct and 2-Tier Models. Keep in mind, however, that in some instances, utilizing both models to service an account may be an optimal strategy. For example, a large account might utilize a channel partner to fulfill the procurement of lower-value replacement products and support services, and leverage the direct sales team to sell emerging technologies or large-scale solutions.

Account Coverage

The second lever that sales operations can adjust to control costs is account coverage, which refers to how accounts are distributed across the sales team. By reducing the size of the sales team and increasing the number of accounts managed by each remaining member, organizations can maximize the value of every dollar spent on sales operations activities. However, simply reducing the size of the sales force to reduce costs is potentially detrimental because of the risk of a drop in the level of service provided to each account.

In order to mitigate this risk, the sales organization should follow a two-part account coverage strategy. First, accounts should be transferred to the members of the sales team that are best suited to managing them. Following the account transfers, targeted reorganization can be made to the sales team. The sales organization should consider taking the following actions when transferring accounts:

- Transfer accounts that are currently managed by direct field sales to the inside sales team when possible. The inside sales team can contact a high volume of customers from a remote location, resulting in a much lower cost per customer interaction and a wide geographic reach, without a significant drop-off in service quality. It is particularly well-suited to the following types of accounts:
 - Low volume customers
 - Low touch customers
 - Customers who primarily purchase mature, less-complex products and services
 - Prospects which do not have an established relationship with the direct field sales team
- Consolidate ownership of related accounts with a single account manager. For example, large, geographically dispersed accounts are frequently managed by several sales representatives. In cases in which a single account manager is managing the relationship with the primary decision-making unit of the customer, or is responsible for the vast majority of sales to the customer, then it may make sense to transfer responsibility for the entire account to him or her. The overall account manager is provided a support team of lower cost than multiple account managers supporting the large account.

The second part of the account coverage strategy is to manage the size of the sales team and make reductions if necessary. To do so, the sales organization should consider taking the following actions:

- Analyze the impact of account transfers on individual account managers. If the majority of an account manager's customers can be transferred to the inside sales team or a channel partner, then he or she may be a candidate for being cut.
- Take into consideration the attainment and attrition rate, as there may be certain profiles of sales team members that are not aligned with the new GTM strategy and may not be suitable to use moving forward.
- Consider cases where new a patch / territory could be given to the inside sales team due to the high cost or lack of expertise in the field sales team. This may also call for action in terms of sales force retention decisions.

Use of Overlays

Strategic management of the overlay team is the third lever that the sales organization can exploit to control costs. The overlay team supports the sales efforts of account managers by providing technical expertise in areas such as solution implementation and new product information.

Although the overlay team does play an important role in sales process, it has no direct responsibility for booking orders or managing relationships with accounts and adds an indirect cost to a sales transaction. In order to make the best use of the overlay team, consider the following guidelines:

- Ensure the overlay team participates only in transactions where its expertise can be leveraged and strongly influence the customer's purchasing decision. For instance, systems / sales engineers provide expertise such as understanding the technical requirements of customers and creating plans to address them. However, there are numerous cases in which sales engineers participate in sales transactions where their expertise plays no significant role. For example, while sales engineers would not make a significant contribution to the sale of a standard pre-configured product bundle, they would be able to add great value to a sales opportunity for a large and complex solution, such as designing and setting up a data-center for an enterprise-level customer.
- The overlay team's role should evolve as the company's product offerings and customers mature. Product

specialists have extensive knowledge of new products and advanced technologies. They play an important role in driving the sales of these products, since both account managers and customers may be unfamiliar with their features and benefits. However, as these products mature, and account managers and customers become more familiar with them, the need to utilize product specialists in the sales of these items decreases. Sales management should ensure that product specialists focus only on supporting the sale of new and emerging technologies. For example, while sales of disk drives sold by data management companies may have benefited from the assistance of product specialists when they were first introduced, they are now a mature product which can be sold without the participation of the overlay team.

- Compensation for the overlay team should be primarily based on the sales orders in which they played a significant role. For example, sales engineers are frequently commissioned for bookings made by the account manager with whom they are teamed, or for bookings which take place in their territory, even if they played no role in the transaction. The sales organization may want to increase compensation to overlay team members for transactions in which they play a significant and relevant role, and decrease or eliminate it for transactions in which they play little or no role. This will both reduce redundant costs and incentivize optimal behavior from the overlay team.
- Balance the size of the overlay team with the opportunities available. For example, the sales team may want to reduce the number of sales engineers if relatively few opportunities for sales of complex solutions or advanced products are forecasted, or if relatively few transactions. However, cuts to the overlay team should only be made if the sales organization is confident that the remaining members of the team can manage the resulting increase in workload.
- Implement detailed documentation requirements and devise KPIs and metrics to assess overlay performance on a transactional basis. Since it has no responsibility for bookings, it is difficult to measure the contribution of the overlay team to a given sales order. While trending analysis may measure overlay team performance over the span of several quarters, it is not an effective method for measuring it on a transactional basis.

The relative importance of the different attributes listed above also varies given the nature of current economic conditions. In a recessionary economy where cost containment and resource optimization are a top priority, tolerance for sales forecast errors are lower. A high degree of forecast accuracy is required to ensure inventory control, optimize sales team allocation and plan channel flow. In such times, there is also a greater focus on longer forecast horizons that can guide long term strategy and decision making, unlike in a growth economy where management is rarely worried about forecasting beyond the upcoming quarter. Forecasting in recessionary times also presents another problem; historical trends are not as relevant and may not be indicative of the numerous unknown variables sure to be present in times to come.

To conclude, in current economic conditions, sales forecasting forces a business to look at the future objectively and can make the difference between just surviving and being a highly successful business. However, there is no denying that it is a tricky job because so many different factors can affect future sales.

Product and Customer Mix

The fourth coverage model lever sales organizations can consider is re-examining their product and customer mix to determine if it is consistent with the current economic conditions.

In the context of this discussion, the customer mix consists of two categories – existing customers and prospective customers. The sales organization must determine the optimal level of resources to allocate to each category. The cost of selling to existing customers is lower, since no resources are required to establish the initial relationship, and the probability of booking an order with an existing customer versus a prospective customer is higher. However, the slower economy also presents a strategic opportunity for the sales organization to develop relationships companies who are currently not customers. Specifically, it should target the customers of competitors who have been weakened by current economic environment. It may be far easier to “win-over” customers from competitors in this economic environment than in a stronger one.

Decisions regarding the optimal product mix should be based on how to best meet customer needs during the downturn, and not solely on how to minimize the cost of sales. The sales organization should consider three broad classes of products and service in determining the optimal product mix.

- *High Volume Products* – This class of products provides two benefits in this environment. The first is that since these products tend to be less complex, their selling costs are lower. The second is that since the prices of high volume products tend to be lower, they are likely to be more appealing to customers with constrained budgets. Since high volume products tend to have lower margins, the sales organization should primarily use its low-cost channel partners and inside sales team to sell them.
- *Services and Renewals* – The cost of selling service renewals is relatively low, because the relationship with the customer already exists, and the level of customer interaction required to make the sale is minimal, which means that it can be managed by the inside sales team. An additional benefit is that service margins

are usually much higher product margins. In addition to service renewals, the economic downturn has also provided an opportunity of sales of new services. Since many companies are being forced to delay IT upgrades, they will need to procure additional services to maintain their existing technology. For example, Oracle has extended support services for its current version of its software for those customers whose budget won't allow for an upgrade to the newest version.

- *Lower Volume, High Margin Products* – This class of products includes complex solutions and advanced technologies, and has both a higher selling price and selling cost. There are numerous companies who are taking advantage of the current downturn to make IT investments that will allow them to emerge stronger once the economy improves. According to Gartner, many CIOs are devoting sizable portions of their budget to advanced IT products and services which can help companies reduce expenses. For example, they are replacing their servers with newer, less expensive alternatives, such as virtualization software. The sales organization should therefore identify those customers who may be planning to make significant capital investments, and focus its efforts to sell complex solutions and advanced technologies to them. It should also develop innovative approaches to selling solutions. One method that has been gaining popularity is to sell unbundled versions of solutions which both meets the immediate needs of customers and creates the potential for additional future sales.

Operational Support

As our discussion has illustrated so far, a sound coverage model is essential to managing the sales team and its customer interactions in this environment. However, an effective sales operation support strategy is also necessary internally to succeed in this economy. While the scope of the operations support strategy is too great to discuss here, we will review some of its elements which have an impact on sales coverage models.

- *Sales Planning Horizon* – Companies usually prepare an annual plan for the sales organization which covers areas such as sales team staffing levels, territory design, account list creation, and goaling. Given the rapidly changing conditions of the economy, the sales organization may decide to create two six-month plans instead of an annual plan. If the economy grows significantly during the first half of the fiscal year, it might make sense to create a new plan for the second half which accurately reflects the changed conditions. However, it is possible that the cost of creating two plans in a single fiscal year is likely to exceed the benefits. It typically takes three to four months to create and implement the annual sales plan, and requires the sales organization to devote significant resources to non-selling activities. In addition, if members of the sales force know that their territories and goals will change after six months, it will impact their ability to develop and execute an effective sales plan for their accounts, hurting performance.
- *Sales Crediting and Claiming* – This process can be extremely manual and resource-intensive even in a strong economic environment, with account managers spending up to 30 percent of their time on crediting and claiming activities. The incentive for account managers to maximize the compensation by devoting their resources to crediting and claiming in this environment may be even greater. Therefore, it is critical that the crediting and claiming process is as automated, accurate, and transparent as possible. Factors that support a more effective process include end-to-end sales cycle visibility from opportunity to commission payout, clear named account and territory definitions, clear crediting rules and sales split information, and high quality transaction and customer data. While it may not be feasible for a company to overhaul its sales crediting processes in this environment, any improvement can have a positive impact on sales costs and performance
- *End-to-End Sales Cycle Visibility* – In addition to playing a key role in sales crediting, sales cycle visibility also is critical in the allocation of sales resources. Sales managers utilize sales forecasts to make decisions on how to allocate their sales resources. Forecasts in turn, are largely based on opportunity data. In addition, sales managers rely on accurate linkages between opportunities and booking data to measure the performance of their team. Therefore, it is imperative that the sales organization implements processes and controls to ensure that accurate opportunity data is entered into the CRM system, and accurate data linkages exist between opportunities and sales orders.

As this discussion has shown, companies can make strategic adjustments to their sales coverage models that will both help it survive the current economic environment, and emerge from it an even stronger competitor.