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Match Your Sales Force Structure to Your Business Life Cycle

by Andris A. Zoltners, Prabhakant Sinha, and Sally E. Lorimer

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Smart bicycle-racing teams match their strategies to the stages of a race in order to win. In the flat stretches, team members take turns riding in front because it's easier for the team leader to pedal when someone ahead is cutting the wind. In the mountains, some riders make the task easier for the leader by setting the pace and by choosing the best line of ascent. In the time trials, a few team members maintain steady speeds over long distances to lower the team's average finishing time. Talent always matters, but in most races, the way teams deploy talent over time, in different formations in different contexts, makes the difference between winning and losing.

That's a lesson sales leaders must learn. Although 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. Specifically, companies must alter four factors

over time: the roles that the sales force and selling partners play; the size of the sales force; the sales force's degree of specialization; and how salespeople apportion their efforts among different customers, products, and activities. These variables are critical because they determine how quickly sales forces respond to market opportunities; they influence sales forces' performance; and they affect companies' revenues, costs, and profitability.

Admittedly, it isn't easy for a company to change the composition and activities of its sales force. Salespeople and customers resist change, often quite fiercely. If a company starts hiring specialists instead of general-purpose salespeople, for example, or reassigns accounts from sales reps in the field to telesales staff, existing salespeople will have to learn how to sell different products and will have to terminate some customer relationships. If they earn commissions or bonuses, their income may fall in the short run. Customers, too, will have to adjust to new processes and establish relationships with new salespeople. As a result, busi-

nesses tend to change their sales structures only when major events—such as the failure to meet targets, a change in rivals’ strategies, or mergers—force them to do so.

This conservatism doesn’t serve companies well. 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. The four life-cycle phases aren’t mutually exclusive; some companies display characteristics of more than one stage at the same time. Many businesses go through the four stages in turn, but when new technologies or markets emerge, companies can also move nonsequentially through the life cycle stages. These days, businesses tend to go through the four phases more quickly than they used to, which makes it even more important to have a flexible sales force.

Over the past 25 years, we and our colleagues at ZS Associates have studied the sales force structures of approximately 2,500 businesses in 68 countries. Our research shows that companies that change their sales force structures in ways that correspond loosely to the stages a product or business goes through in its life cycle are more successful than those that don’t.

During start-up, smart companies focus on whether they should depend on selling partners or create their own sales forces. If they decide to set up sales organizations, they pay a lot of attention to sizing them correctly. As companies grow, sizing issues become even more important. In addition, executives must decide when to invest in specialist sales forces. When businesses hit maturity, the emphasis shifts to making sales forces more effective by appointing account managers and better allocating salespeople’s resources, and making them more cost-efficient by using less expensive people such as telesales staff and sales assistants. Finally, as organizations go into decline, sales leaders’ attention shifts to reducing the size of sales forces and using even more cost-efficient ways to cover markets. In the following pages, we’ll explore in depth how companies can develop the best sales force structures for each of the four stages of the business life cycle. (See the exhibit “The Four Factors for a Successful Sales Force.”)

Start-Up: Making the Right Moves Early

Sales leaders of new companies and new divi-

sions of existing companies are eager to exploit opportunities in the marketplace and are under pressure to demonstrate success quickly. While a start-up has to worry constantly about selling costs, a new division can draw on some of the parent company’s financial and human resources. Still, since both their sales forces must create awareness about new products and generate quick sales, the organizations face the same structural dilemmas.

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. Although many entrepreneurs outsource the sales function, that may not always be the right decision.

To be sure, by tying up with other companies, new ventures save the costs of building and maintaining sales forces. 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 businesses can enter markets rapidly by working alongside companies that have sales expertise, influence over sales channels, and relationships with potential customers. For example, in the 1990s, Siebel Systems used systems integration consultants, such as Accenture, to build its enterprise software business quickly.

Companies that decide to outsource the sales function should segment the market and develop sales processes that meet each segment’s needs. Then they should select a partner, or partners, that will implement those selling processes effectively. To succeed, a company needs its selling partners’ attention. Start-ups must develop partner management systems that include marketing programs and incentive schemes and appoint partner managers who provide selling partners with encouragement, process assistance, sales analytics, and end-user data. All too frequently, companies rely on money to motivate partners, not realizing that incentives aren’t a substitute for systems and supervision. Companies should track performance closely, quickly terminate agreements with partners that don’t perform well, and shift to selling directly when it’s in their long-term interest to do so.

In our experience, many businesses depend on their selling partners for too long. When companies outsource the sales function, they

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don't control the selling activity, have little power over salespeople, gain no channel power, and don't own customer relationships. As time goes by, it becomes more, not less, difficult to reduce dependence on selling partners. Many firms become stuck in partnerships that inhibit growth. Take the case of SonoSite. When it launched the world's first handheld ultrasound machine in 1999, the company decided to use a well-known distributor to sell the product in the United States. Since the ultrasound device was technologically complex, the distributor needed to educate potential customers. That required a multistep selling process, which the distributor didn't use for the other products it sold. After two years of disappointing sales, SonoSite dropped the distributor and started selling the device itself. A year after it had staffed its sales force fully, its revenues rose by 79%.

Although outsourcing is popular today, we're convinced that companies should use selling partners only if they stand to gain strategic advantages as well as cost benefits. Those advantages come in several flavors. Many partners turn products into solutions, which can greatly increase sales. For example, value-added resellers create systems that combine their own software with computer hardware from different manufacturers. Start-ups also

gain access to customers when their products become part of an assortment that a partner offers. For instance, a computer accessories manufacturer could benefit by tying up with distributor CDW, which delivers a range of computer-related equipment to companies in the United States. Only when partners provide strategic advantages are selling relationships likely to endure.

How big should the sales staff be? During the start-up phase, sales forces have to educate potential customers about products and change customers' buying processes before they can generate sales. Salespeople also must chase down and make every possible sale in order to drive business. That's a lot of work, but new ventures have limited capital to invest in attracting and developing good salespeople. As a result, many new businesses adopt an "earn your way" approach to sizing their sales forces—they start small and add more feet on the street after they have generated the money to pay for them.

This approach sounds eminently logical but often results in companies leaving money on the table (see the exhibit "How Sales Sizing Strategies Stack Up"). Between 1998 and 2004, we forecast the sales and profit implications of different sales force sizes for 11 start-ups in the health care industry. In ten of the

The Four Factors for a Successful Sales Force

A company must focus on different aspects of its sales force structure over the life cycle of the business, just as it matches customer strategy to the life cycle of a product.

	BUSINESS LIFE CYCLE STAGE			
	Start-Up	Growth	Maturity	Decline
	EMPHASIS			
ROLE OF SALES FORCE AND SELLING PARTNERS	★★★★	★★	★	★★★
SIZE OF SALES FORCE	★★★	★★★★	★★	★★★★
DEGREE OF SPECIALIZATION	★	★★★★	★★★	★★
SALES FORCE RESOURCE ALLOCATION	★★	★	★★★★	★
	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

companies, sales leaders chose to create teams that were smaller than the optimal size. In fact, the average size was just 64% of the optimal. By not hiring enough salespeople, each of those companies missed the opportunity to earn tens of millions of dollars in additional sales and profits in their first three years. Tellingly, only one business sized its sales force optimally during the start-up stage—and it went on to become the leader in an overcrowded market segment.

We don't fault sales leaders for investing cautiously when they are short of cash or if the future is uncertain. The trouble is, most companies don't increase their investments in sales forces even when the future becomes clear. The moment signs of success emerge, businesses should increase the size of their sales forces quickly and aggressively. Otherwise, they will forfeit sales and profits—and, perhaps, even their futures.

On the flip side, start-up divisions of existing companies often overinvest in salespeople. Their desire to be competitive results in sales forces that, given the nature of the business opportunity, are too big to be profitable.

Growth: Building on Success

During the start-up stage, many companies' product lines are narrow, and they operate in a small number of markets. As businesses 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. In the growth phase, it's not sufficient for many companies to maintain a sales force of generalists who sell the entire product line to all markets. Salespeople need to master multiple products, markets, and selling tasks at this stage. 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. Unfortunately, what they drop may be lucrative or strategic opportunities for the business. At this point, companies need to set up specialist sales forces.

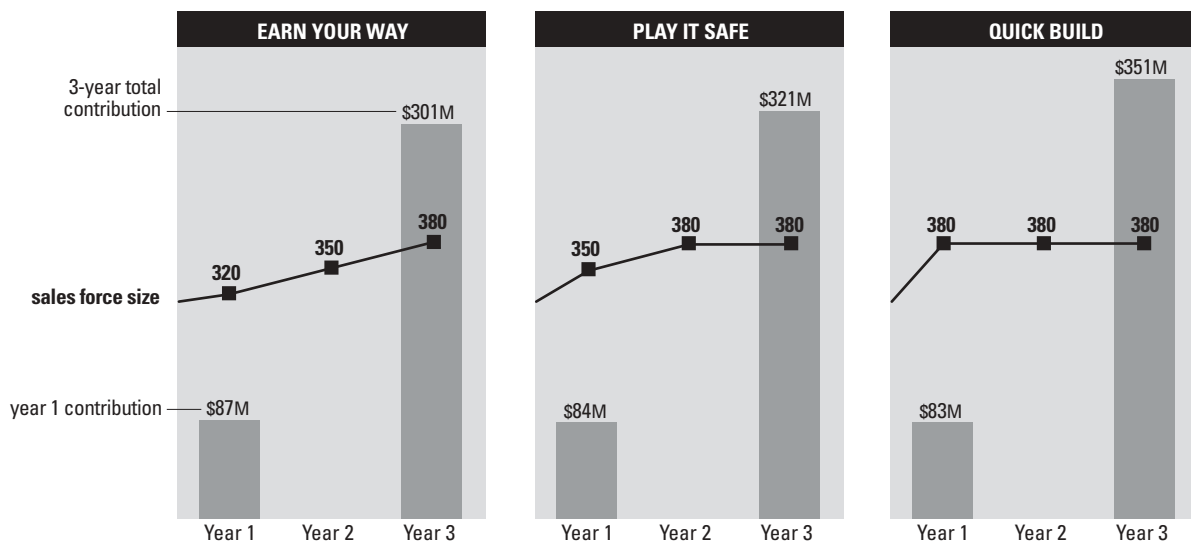
Some specialist sales teams focus on products, others on markets, and still others on cus-

How Sales Sizing Strategies Stack Up

In their infancy, companies often undersize sales forces. The charts show the impact of three different sizing scenarios on one pharmaceutical company's profits. The figures are projections based on mathematical models.

The pharmaceutical company, which started with 300 salespeople, found that an "earn your way" approach to staffing (increasing the sales force only as fast as revenues increase) resulted in the highest first-year con-

tribution, but it yielded the lowest three-year contribution. The longer-term contribution was highest with a "quick build" strategy (quickly ramping up the size of the sales force to the long-term optimal level).



The moment signs of success emerge, businesses should increase the size of their sales forces quickly and aggressively.

customer segments. Sales forces can also specialize in certain activities: Some salespeople concentrate on acquiring customers and others on servicing existing customers. Every kind of specialization has benefits and costs. For instance, specialization by markets reduces salespeople's focus on products, while product or activity specialization forces customers to deal with multiple salespeople. Many companies therefore create hybrid structures that include a mix of generalists as well as market, product, and activity specialists. One well-known software company has hired account managers to focus on all the needs of its major customers. The company's product specialists call on midsize clients that don't generate enough business to warrant account managers, and its generalist salespeople cover small companies whose needs don't justify visits by several product specialists.

The transition from a multipurpose sales force to a specialized one 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. The people who succeed in a team-based setting are likely to be different from the lone wolves who do well in a traditional sales force. Consequently, companies may have to recast parts of their sales forces.

Rejuvenated businesses face a slightly different predicament. When a company goes back into growth gear after a period of maturity or decline, its new offerings will have different value propositions and will open up new markets. Salespeople will need to sell differently, and they'll need retraining to do so. Companies may consider splitting their sales forces into groups that specialize in selling old and new products. If neither education nor restructuring delivers results, the company may have to replace the sales force.

Companies must revisit sizing issues when they move from generalist sales forces to specialist ones. On the one hand, specialists will have to cover larger distances than generalists did in order to call on the same number of customers; this means they'll lose time in travel. The company will therefore need more of them to cover its customer base. On the other hand, specialists are more effective than generalists are, so each sales call will be more profitable.

Getting the size right. Growth is usually a happy time in the evolution of a sales force. Sales come in relatively easily, and salespeople are full of optimism. Even so, companies often make critical errors in sizing their sales forces. They continue to understaff, and as a result, they're unable to capitalize on all the opportunities that exist.

Most companies invest conservatively in salespeople because they don't realize that increasing the size of the sales force has short-term and long-term consequences. When new salespeople come on board, they initially generate small revenue increases. As time goes by, their impact gets bigger. That happens for several reasons. First, new salespeople are not as effective as they will be when they become veterans. Second, in markets with long selling cycles, it takes months of effort before salespeople clinch sales. Third, many purchases, especially in business markets, are not onetime orders but multiyear contracts. Finally, carry-over sales—sales that accrue in the future but are the result of sales efforts in the present—vary across products and markets, but they represent a significant portion of every company's long-term revenues.

When a company increases the size of its sales force, it doesn't maximize sales or profits at first. Over time, however, the company will make more profits than if it had started with a smaller sales force. We analyzed data from sizing studies that ZS Associates conducted between 1998 and 2001 for 50 companies. We found that the sales force size that maximizes companies' three-year profits is 18% larger, on average, than the size that maximizes one-year profits. Such findings create competing priorities for sales leaders, who want long-term success but feel pressure to meet annual profit targets. Besides, they rightly believe that three-year projections are less accurate than one-year forecasts. A cautious approach is justified if there is considerable uncertainty over the future, but most sales leaders favor cost-minimizing tactics over profit-maximizing ones, even when the likelihood of success is high. Consequently, they don't hire enough salespeople to exploit the market fully.

Behavioral influences, too, exert pressure on executives to keep sales forces small. Most salespeople resist giving up accounts. They argue that new sales territories aren't justified; some threaten to join competitors if

Sizing the Sales Force by the Numbers

Every company in growth mode should conduct a break-even analysis to check if its sales force is the right size. That involves computing the break-even ratio (the ratio of the incremental sales revenue per additional salesperson to the break-even sales), estimating the carryover sales rates, and using those estimates to determine the three-year return on investment in sales staff.

To determine the break-even ratio:

1. Estimate the annual cost of a salesperson (C), the gross margin (M), which is the amount of sales revenue that the business keeps as profit after deducting variable costs, and the gross margin rate (M_R) which is gross margin expressed as a percentage of sales revenue.
2. Calculate break-even sales by dividing the cost of a salesperson by the gross margin rate. (C ÷ M_R = B). That's the amount a salesperson must sell in a year to cover his or her costs.
3. Estimate the incremental sales revenue that an additional salesperson could generate in a year. (I)
4. Divide the incremental sales revenue per

additional salesperson by the break-even sales to compute the break-even ratio (I ÷ B). A ratio of 2.00, for instance, implies that a new salesperson will generate gross margin equal to twice his or her cost in a year.

$$\text{Break-even} = \frac{I}{B}$$

To determine the carryover sales percentage:

5. Estimate the percentage, based on past trends, of this year's sales that the company will retain in future years without any sales force effort. Those are the carryover sales percentages (K₂ for next year and K₃ for the year after).

$$\text{Carryover} = \frac{K_2}{K_3}$$

To determine the three-year ROI on sales staff:

6. Take the sum of the gross margin on the in-

cremental sales revenue that an additional salesperson can generate in year 1, the incremental gross margin on carryover sales in year 2, and the incremental gross margin on carryover sales in year 3.

7. Subtract from that sum the annual cost of an additional salesperson.
8. Divide the total by the additional salesperson's annual cost. The result is expressed as a percentage. The formula looks like this: $[(M_R \times I) + (M_R \times I \times K_2) + (M_R \times I \times K_3) - C] \div C$

$$\text{ROI} = \frac{[(M_R \times I) + (M_R \times I \times K_2) + (M_R \times I \times K_3) - C] \div C}{C}$$

The break-even ratio and the first-year carryover rate can tell you how to size your sales force. In the table below, the numbers in each cell represent three-year returns on sales force investment. Businesses can set their own criteria, but in our experience, companies have sized their sales forces optimally when the ROI is between 50% and 150%. If the ROI is below 50%, the sales force is too large, and if it is over 150%, the force is too small.

NEW SALES- PERSON SALES / BREAK-EVEN SALES	CARRYOVER									
	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
0.25	-75%	-72%	-69%	-65%	-61%	-56%	-51%	-45%	-39%	-32%
0.50	-50%	-45%	-38%	-31%	-22%	-13%	-2%	10%	22%	36%
0.75	-25%	-17%	-7%	4%	17%	31%	47%	64%	83%	103%
1.00	0%	11%	24%	39%	56%	75%	96%	119%	144%	171%
1.25	25%	39%	55%	74%	95%	119%	145%	174%	205%	239%
1.50	50%	67%	86%	109%	134%	163%	194%	229%	266%	307%
1.75	75%	94%	117%	143%	173%	206%	243%	283%	327%	374%
2.00	100%	122%	148%	178%	212%	250%	292%	338%	388%	442%
2.25	125%	150%	179%	213%	251%	294%	341%	393%	449%	510%
2.50	150%	178%	210%	248%	290%	338%	390%	448%	510%	578%
2.75	175%	205%	241%	282%	329%	381%	439%	502%	571%	645%
3.00	200%	233%	272%	317%	368%	425%	488%	557%	632%	713%
3.25	225%	261%	303%	352%	407%	469%	537%	612%	693%	781%
3.50	250%	289%	334%	387%	446%	513%	586%	667%	754%	849%
3.75	275%	316%	365%	421%	485%	556%	635%	721%	815%	916%
4.00	300%	344%	396%	456%	524%	600%	684%	776%	876%	984%

Oversized Right size Undersized

management reduces their accounts bases. For instance, in 2005, when an American medical devices company set out to add 25 sales territories, salespeople and sales managers resisted. They exerted so much pressure that the company eventually created only 12 new territories, which resulted in lower sales and profits than the business could have generated by hiring more salespeople.

Sales leaders can reduce this kind of resistance by fostering a culture of change. They must set expectations early, so that salespeople realize from the outset that, as the business grows, there will be changes in territories and compensation. Some companies periodically reassign accounts between territories to maintain the right balance. Others set lower commission rates on repeat sales, or pay commissions, after the first year, only after a salesperson's revenues exceed a cer-

tain level. These tactics give companies the flexibility to expand territories and sales forces in the future.

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. (See the exhibit "Sizing the Sales Force by the Numbers.")

Maturity: The Quest for Effectiveness and Efficiency

Eventually, products and services start to lose their advantage, competition intensifies, and margins erode. 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, serving existing segments, and increasing the efficiency and effectiveness of the sales force.

Optimizing resources. In the maturity phase, companies must focus on optimizing the sales force's effectiveness. A study we conducted in 2001 shows that mature companies boosted their gross margins by 4.5% when they resized their sales forces and allocated resources 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.

Companies often don't optimize the allocation of their sales resources for several reasons. First, they use the wrong rules. For instance, executives often target customers with the highest potential even though these customers prefer to buy from competitors. Smart companies allocate more resources to products and mar-

Optimizing the Maturity Phase

Mature companies optimize their resources when sales forces focus on the customers, products, and selling activities that generate the highest response to their sales efforts. To do that, sales leaders must ask themselves the following questions:

Resource Allocation Decisions

Customer

What market segments should we focus on:

- High volume or low volume?
- Highly profitable or less profitable?
- National accounts or smaller accounts?
- New or old accounts?

What industries do we call on?

What geographic areas do we focus on: local, regional, national, or international?

Which accounts should headquarters staff call on, and which should field sales call on?

Product

What products should we focus on:

- Existing or new?
- High volume or relatively low volume?
- Easy to sell or hard to sell?
- Familiar or unfamiliar?
- Differentiated or nondifferentiated?
- Products with long selling cycles or short selling cycles?
- Products with high short-term impact and low carryover or with low short-term impact and high carryover?

Activity

What activities should we focus on:

- Hunting for new customers or retaining old customers?
- Selling or servicing?

How do we allocate relationship experts, product experts, and industry experts?

kets that respond well to salespeople. Second, businesses frequently don't have data on the sales potential of accounts and territories or the responsiveness of potential customers to sales efforts.

There are no shortcuts on the road to effectiveness, though. Organizations can allocate resources best if they measure how responsive different products and markets are to sales efforts. Executives can do that by comparing sales results among similar-sized customers to whom they allotted different levels of effort. That analysis allows a company to evaluate the financial implications of different allocation scenarios. The company can then manage its sales force, even offering incentives on occasion, so that salespeople expend effort in the most productive ways. (See the exhibit "Optimizing the Maturity Phase.")

Businesses often find sales effort wasted. Some salespeople try to sell everything in the bag; others spend too much time with familiar or easy-to-sell products. Product managers may dangle the wrong incentives, distracting salespeople from spending time with more profitable offerings. In mathematical terms, a company maximizes long-term profits from its sales force when the incremental return on sales force effort is equal across products. But according to a study ZS Associates conducted in 2001, the ratio of the largest incremental return to the smallest return often runs as high as 8:1. That suggests a serious misallocation of selling effort among products. For instance, one business we studied wanted 100 salespeople to sell 37 products. Each item would have received, on average, just 2.7% of the sales force's time. An analysis revealed that the company's profits would soar if the sales force concentrated on just eight products. In fact, our studies show that focused strategies usually deliver better results than across-the-board ones. Thus, 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.

Good territorial alignment—the assignment of accounts, prospects, or geographies to salespeople—is a frequently overlooked productivity tool. When businesses adopt unsystematic approaches to carving up territories, sales force effort will not match customer needs. To measure the extent of the problem, in 2000, we analyzed data from 36 territorial

alignment studies that we had conducted in eight industries in the United States and Canada. Our analysis showed that 55% of sales territories were either too large or too small. Because of the mismatches, businesses were passing up between 2% and 7% of revenues every year. Companies can create and maintain territorial alignment by measuring the time and effort necessary to service customers every year. They should take accounts away from salespeople who can't give them sufficient attention and transfer the accounts to those who don't have enough work.

The account manager's emergence. Many a business discovers in the maturity stage that the use of product specialists is posing coordination problems and confusing customers that must deal with several salespeople. Smart companies appoint managers for the largest accounts. These 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. During an American medical-products company's growth phase in the 1990s, it added a specialist sales force for almost every new product it launched. Eventually, some large hospitals had more than 30 salespeople from the company visiting them every week, many of whom called on the same contacts. Travel costs soared, and, worse, customers became confused by the large number of salespeople visiting them. Realizing the problem, the company reduced the number of specialist salespeople and added managers to coordinate selling activities at large accounts. That helped the company save costs and strengthen customer relationships.

Companies must also find the most inexpensive ways to get work done. They can use sales assistants and part-time salespeople to woo 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. For example, one newspaper company we consulted with hired sales assistants in 2005 to take over several nonselling and administrative tasks. Before the assistants arrived, salespeople spent only 35% of their time with prospects and customers. The assistants' arrival freed them to spend more time on sales-related tasks. In addition, since the assistants received

lower salaries than the salespeople did, the sales force's efficiency rose sharply.

Decline: Living to Fight Another Day

Companies go into decline when products lose their edge and customers shift to rivals. As CEOs search for breakout strategies, sales forces must do everything they can to help businesses remain viable. The most vital decisions relate, as they did during the start-up stage, to the sales force's size and the role of selling partners, but executives' choices depend on whether or not they foresee a turnaround.

When a turnaround is likely. Some businesses know their decline is temporary. They plan to boost revenues and profits in the not-too-distant future by launching new products or by merging with other companies. However, turnarounds often demand different sales force structures than the ones companies have. A smart company therefore 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. For instance, companies often downsize sales forces to save costs in the short run, although they may need more, not fewer, salespeople to implement new strategies.

Many sales leaders take advantage of temporary declines to eliminate mediocrity in their sales forces. Once the turnaround starts, they hire salespeople who are more qualified than the ones they let go. Sometimes what looks like a misallocation of resources is really mediocre performance. Take the case of a Chicago-based software company that was in decline in the 1990s. The company's sales process evolved appropriately, with salespeople becoming skilled at protecting current business. When the firm launched some new products, it realized that few of its salespeople had the skills and appetite to pursue new customers and markets aggressively. Instead of sacking salespeople, the software firm created two roles: current account managers, or "farmers," and new business developers, or "hunters." The veterans continued to manage existing customers, which suited their capabilities, while sales leaders hired most of the new business developers from outside the organization. That

helped the software company move quickly from decline to growth.

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. Businesses should use their salespeople to service the most profitable, loyal, and strategically important customers, and service other accounts through low-cost selling resources such as telesales staff or external partners.

Protecting the most loyal customers and the best salespeople are top priorities. Companies need to focus loving attention on key customers that, fearing the salespeople managing their accounts will soon be gone, will entertain competitive offerings. They must reassure these critical accounts about the immediate future, particularly by retaining star salespeople. When the sales force starts to worry about downsizing, the best salespeople will be the first to leave. Even as companies prepare to let other people go, they must pay stars handsomely to keep them. In addition, strong leadership is essential during downsizing, and only timely and straightforward communication from sales leaders can maintain a reasonable level of morale and motivation.

To decide how quickly it should reduce head count, a company must assess the market opportunity that remains and the risks of different downsizing strategies. A gradual sales force reduction works well when the opportunity is declining at a modest rate, but it is a poor strategy when the market is disappearing quickly. Errors are common. Many businesses downsize the sales force slowly, remaining hopeful between each wave of layoffs that the trend will reverse. When it doesn't, the high cost of the sales force will render the company unprofitable faster. One common tactic for gradual downsizing is a hiring freeze. That isn't an effective way to downsize sales forces, particularly when the opportunity decline is significant. Sales force attrition usually doesn't occur quickly, and if salespeople who cover important accounts leave, a hiring freeze will result in suboptimal market coverage.

Rapid sales force reduction is the best course when the market is in a steep decline. Survivors will know they have some kind of job security, customers will have greater confidence about what the future holds, and sales leaders can start building a smaller, more focused sales

organization. The risk with rapid sales force reduction, though, is that if the decline turns out to be less severe than expected, more people will lose their jobs than necessary. Although the business will remain profitable for a while, the rate of decline will be greater than if head count reductions had been modest. If there's a lot of uncertainty about the rate at which the market is shrinking, companies should consider downsizing the sales force in small but discrete steps.

Improving the efficiency of sales forces and searching for lower-cost selling channels are critical when companies are in decline. 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. As in the maturity stage, companies can shift the selling of easy-to-understand products and the execution of administrative tasks to less expensive resources, such as sales assistants, telesales staff, part-time salespeople, and the Internet.

It's not easy, but a systematic cost-reduction program can help companies live to fight an-

other day. Take the case of an American lubricant manufacturer that in early 2005 needed to cut costs radically to preserve profitability. The company revised its channel strategy, moving the coverage of thousands of customers to selling partners. Those partners had less expensive overheads, such as office space and employee benefits, so their costs were lower than those of the manufacturer. The company shrank its sales force and got the remaining salespeople to focus on selling only to large customers. By the end of the year, the lubricant company had turned the corner.

•••

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.

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