

Chapter 12: Designing and Organizing the Salesforce

INTRODUCING THE CHAPTER

Salespeople greatly impact the satisfaction and long-term relationships their organizations have with their customers. To increase buyer satisfaction levels, firms must structure their salesforces so that their customers can purchase what they want, when they want it, and from the channel(s) that is (are) most convenient for them. Although many companies employ geographical, product, market, or functional salesforce structures to serve the marketplace, buyers also utilize electronic, multichannel, or hybrid supply chains. This chapter explains the myriad options firms must navigate between to successfully serve their customers.

It is important how you introduce the students to this chapter because, otherwise, it may seem abstract. One way to get their attention is to discuss selling a relatively simple product like toothpaste. Toothpaste is (was?) fairly simple to understand — it came in a tube and everyone used it daily to clean their teeth and mouth. Initially, consumers purchased toothpaste in grocery or drug stores. Thus, a salesperson for Procter & Gamble® was assigned a geographical territory to call on grocers, drug stores, and dentists. But with the advent of superstores, purchasing for large distributors of toothpaste was switched to their national headquarters (Example: Walmart in Bentonville, AR). The same is true now for large drug store chains like CVS, Walgreens, etc. This means it is more difficult to organize sales by geographical territory since purchase decisions are made at higher levels or by computer interfaces.

Next, ask the students where they buy their auto/truck tires (or any product you are familiar with). Again, consumers used to buy their tires at a local gas or repair shop, but today consumers purchase from specialty tire stores, via the web, at superstores like Sam's® and Costco®, in addition to gas, repair, auto dealers, etc. Thus, tire manufacturers like Michelin®, Goodyear®, and Firestone® must have different sales organizations to service large superstores, small repair shops, and national repair shops. Then, the sales situation becomes even more complicated when you add in large truck tires, off-the-road tires, etc. Based upon the different products and markets in the tire industry, it is easy to see that selling tires has become specialized. Each of these market segments have distinct needs and want to purchase their tires for resale differently. It is the sales organization's responsibility to meet those needs by correctly organizing their salesforce(s). When manufacturers want to open up new territories, it is often most economical to partner with a selling agent until the product is adopted and selling well in the new territory. This means manufacturers may have their own salesforce(s) as well as independent sales representatives. Lastly, as territories and customer needs change so must the organization of the salesforce.

Chapter Objectives

After completing this chapter, students should be able to:

- Explain the link between a firm's goals and the organization of its salesforce.
- Understand that a salesforce can be organized in multiple ways that match the way customers want to buy.
- Explain the advantages and disadvantages of different salesforce organizational structures.
- Describe the various reporting relationships salesforces typically have.
- Understand the advantages and disadvantages of outsourcing a firm's salesforce.

Chapter Outline

- I. How a Firm's Goals Affect the Design of Its Salesforce
- II. Organizing the Members of the Firm's Salesforce
 - A. The Size of the Salesforce
 - B. Specialists versus Generalists
 - C. Geographical, Product, and Market Structures
 - D. Key Account Structures
 1. Utilizing the Existing Salesforce Structure
 2. Assigning Company Executives
 3. Building a Separate Salesforce Division
 - E. Inside Sales
- III. Reporting Relationships within a Firm's Salesforce
 - A. Span of Control
 - B. Adding Independent Sales Representatives to the Sales Structure
 - C. Company Salesperson or Sales Agent?
- IV. Managing Your Career
- V. Summary

MANAGING YOUR CAREER

Students often think the focus of a salesperson is primarily on “making the sale,” “any” sale without much regard for sizing up the fit with the customer. This unit asks students to think beyond that perspective and take a closer look at what the ideal supplier would look like and how sales personnel work to serve buyers. For multiple reasons, some customers are really more valued than others.

SUPPLEMENTAL VIDEOS DISCUSSION SUGGESTIONS

The Definitive Guide to Sales Territory Management: This video is divided into 5 sections and it teaches how to understand, reevaluate and optimize your entire sales territory management strategy. The following topics are discussed:

1. Defining sales territory management
2. Evaluating your sales territory management
3. Sales territory goal setting
4. Territory sales cadence management
5. Tracking and managing sales territory performance

How to Use Salesforce.com to Plan Territories: This video reviews how to plan territories using Salesforce.com.

How to Manage Territories and Plan Sales Calls: This video provides advice on managing territories and planning sales calls.

QUESTIONS AND PROBLEMS

1. How is Fastenal's salesforce organized to best meet customer needs? Why would Fastenal choose not to hire independent sales representatives?

Fastenal has 75% of their employees servicing customers, which demonstrates the firm's customer focus. The company sales effort is organized into regional centers overseen by a sales manager. Customer solutions experts are positioned at the next level to ensure buyer satisfaction. For national accounts located in a region, dedicated salespersons are assigned the account. Every company has a dedicated salesperson. Smaller accounts are serviced by inside sales. Due to the complexity of products and desire to provide outstanding service Fastenal prefers dedicated sales personnel, rather than independent sales reps, who receive needed training and provide the best service for their clients.

2. How does a business's strategic plan impact its sales structure?

Sales managers are responsible for organizing the salesforce so that company and sales goals are accomplished and the salesforce operates as efficiently as possible. Organizational sales structures serve a number of important purposes that include:

- Serving buyers effectively in ways they want to be served:
 - Contacting the buyer at preferred times
 - Allowing the customer to order when and in a way that best meets their needs
 - Providing high quality customer service levels
 - Developing an appropriate relationship level with different types of customers, based upon their value to the firm.
- Operating efficiently as measured by cost and customer satisfaction:
 - Achieving a competitive advantage as measured by the firm's market share, profits, and buyer feedback.
 - Offering customers stability and sales continuity over time as measured by customer retention levels.

3. Calculate how many sale representatives will be needed for ABC company to best serve its customers using the breakdown and workload computations. Forecasted sales for next year are \$115 million, and a typical salesperson sells \$10 million annually. ABC has categorized existing accounts into 43 "A," 111 "B," and 215 "C" customers. "A" accounts are visited weekly, "B" accounts monthly, and "C" accounts every other month. Salespersons are required to make four calls per day, and to be in the field four days per week. Because of vacation, training, and holidays, each salesperson works 48 weeks a year. In addition to calling on existing accounts, salespersons are assigned a 10 percent quota of calling on new accounts and devoting 5 percent of their time to information-gathering duties.

Breakdown Method: Divide forecasted sales \$115 million by Average Sales per SP or \$10 million:

$$115/10 = 11.5 \text{ salespersons}$$

This provides a rough estimate, but recalling the 80/20 rule about 20 percent of the salesforce will generate 80 percent of sales. Thus, average sales per salesperson can be misleading.

Workload Method:

Step 1: Determine the total workload to service existing accounts:

A = 43×48 weekly visits or 2064 calls on “A” accounts

B = 111×12 monthly visits or 1332 calls on “B” accounts

C = 215×6 bi-monthly visits or 1290 calls on “C” accounts

$2064 + 1332 + 1290 = 4686$ calls need to serve existing customers

Step 2: Compute total calls average SP can make annually:

Salesperson works 48 weeks a year, on the road 4 days each week, and makes 4 calls a day =

$48 \times 4 \times 4 = 768$ calls per year

Step 3: Divide total workload calls by annual calls made by SP:

$4686 \text{ total calls} / 768 \text{ calls per SP} = 6.101$ salespersons needed at this workload

Step 4: Factor in additional duties and responsibilities:

The SP is also expected to work 10% of their time on new account generation and five percent of their time gathering information for CRM. This equals 15% additional workload. To compute additional duties, divide 6.101 salespersons by .85 or $6.101 / .85 = 7.17$ salespersons needed to satisfy workload of 4686 calls to existing accounts and 15% additional work responsibilities. **The answer is: 7 salespersons needed in this workload situation.**

4. Why would a company want its salesforce to be specialized? What are the disadvantages of doing so?

A specialized salesforce can give the firm the advantage of selling expertise. For example, computer manufacturers organize their salesforces by consumer, B2B, and education markets because each market purchases and utilizes the products differently. Likewise, sales managers also understand that, based upon internal and external conditions, partnering with distributors, sales agents, and resellers can improve the effectiveness and profitability of their own sales organization. A specialized sales structure offers the firm expertise advantages over a generalist salesforce. That said, the sales manager must safeguard against a number of potential problems caused by over-specialization. First, all sales efforts must be coordinated and integrated to address and satisfy buyers’ needs. This is necessary because as firms increase the specialization of their salesforce, the addition of personnel both inside and outside of the company who interact with the buying firm increases the complexity of its operations. Second, the sales function must be integrated and coordinated with other company organizational functions.

5. Create a table with five rows and four columns. List the five potential ways to structure a salesforce in the lefthand column, and then identify advantages and disadvantages of each sales structure in the next two columns. Provide examples of each in the last column.

Territory Structure	Pros	Cons
<i>Geographical</i> (generalist approach)	<ul style="list-style-type: none"> » Simplicity » Efficiency » No duplication 	<ul style="list-style-type: none"> » Unbalanced territories » Product and market knowledge » More difficult for representatives to master broad product lines » Coordination issues
<i>Product</i> (specialist approach)	<ul style="list-style-type: none"> » Better representative product knowledge » Better representative product-application knowledge 	<ul style="list-style-type: none"> » Duplicate sales effort
<i>Market</i> (specialist approach)	<ul style="list-style-type: none"> » Better representative customer knowledge » Better representative product-application knowledge » Better representative market knowledge 	<ul style="list-style-type: none"> » Duplicate sales effort » More complex to work with product managers
<i>Functional</i> (specialist approach)	<ul style="list-style-type: none"> » Job expertise achieved by representatives 	<ul style="list-style-type: none"> » Coordination issues
<i>Combination</i> (specialist approach)	<ul style="list-style-type: none"> » Better representative customer knowledge » Better representative market knowledge 	<ul style="list-style-type: none"> » Economies of scale issues » More complex to manage duplicate sales effort

6. What options are available to manage national or key accounts? What is the best option for a smaller firm? For a large multidivisional firm?

Principal ways to manage key or national accounts include: (1) employing the existing salesforce structure, (2) assigning company executives, and/or (3) building a separate salesforce/division. Smaller firms often assign company executives to key accounts while larger multi-division firms are more likely to establish a separate salesforce/division.

7. Explain why an inside sales position is often where new salespeople begin their sales careers.

Firms may start a new salesperson inside, where they can be trained and coached, learn the product line, and get to know customers/buyers large and small. For example, inside sales will serve smaller accounts but they also assist outside or field salespeople with requests and larger customers who call for customer service. Inside positions also allow sales managers to better evaluate and advise prior to assigning to a distant sales territory.

8. What should sales managers coach their salespersons to do prior to sending blanket e-mail messages or texts to customers and potential customers?

It is advisable to seek permission of the recipient and only send essential e-mail to existing and potential customers. One important question to ask is: “will the e-mail further my current or potential relationship with this account.” Most “blanket” e-mails are sent to huge numbers of e-mails hoping for a response rate of 1–5% purchase. What salespersons may not see is that you are potentially alienating 95–99% of e-mail recipients!

9. What is spam? What conditions does the CAN-SPAM Act impose on the sender of e-mails and texts?

The word “SPAM” generally refers to unsolicited bulk e-mail. The CAN-SPAM Act was enacted in 2003 and sets four conditions for sending e-mail to current clients and potential buyers:

- The subject lines of e-mail should not be misleading
- The “From” line should contain a functioning e-mail address
- The body of the message should list a valid physical postal address
- There should be conspicuous instructions to opt out of future mailings

If these requirements are not followed, firms face penalties of up to \$2 million or more imposed by the U.S. Government.

10. You have been working for the ABC company, which specializes in furniture for campus classrooms and common areas. In your new position, you are responsible for forecasting. You know that your firm’s sales forecasts are inaccurate because the company has annually added 15 percent to the quotas assigned to the firm’s salespeople — which, collectively, they have always met or exceeded. But you need an accurate forecast for various purposes, including budgeting. How would you change the situation so that you get accurate forecasts? Why would a company follow a practice of simply adding 15 percent to the forecast to set the quota?

There are several ways to increase accuracy. Require the sales team to submit a forecast for the following year or period and to explain any changes. For example, IBM sales will decrease by 10% due to elimination of Product Y. Sales managers must spend time and discussing the forecasts with their sales team to ensure the salesperson is thinking logically and honestly. Lastly, firms can add a potential bonus for sales that are within 5% of their forecast.

Sales managers have been known to add a percentage to the forecasts in order to “stretch” the sales team’s efforts. Some managers feel the sales team might offer a lower forecast or “sandbag” their numbers to make their workload lighter! Salespersons, on the other hand, might forecast a lower number because they know their managers will increase the forecast regardless of the accuracy! Accurate forecasts are essential to help with hiring, budgets, and assignments.

11. In what situations would a company want to use an independent sales agent, and in what situations would the firm want to use a company salesforce?

Independent sales representatives offer firms a number of advantages, including:

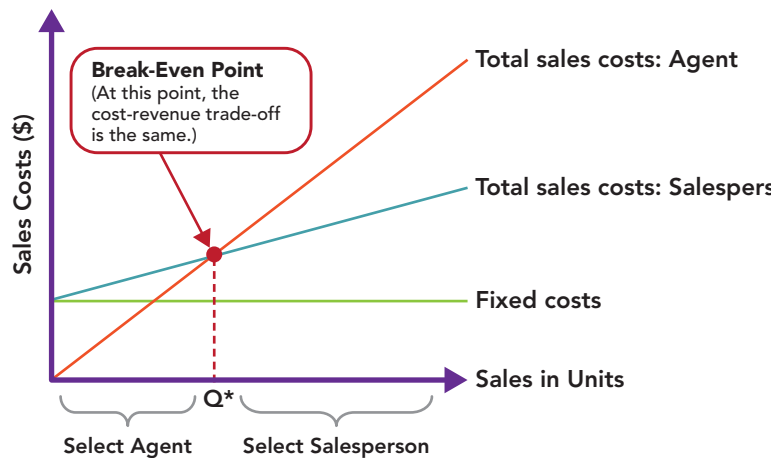
- An “in-place” or existing salesforce
- Established buyer relationships
- Little (or no) fixed costs
- Experienced sales personnel
- Lower costs per sales call
- Long-term stability in the territory

However, given all these benefits, firms that hire independent sales reps often complain they do not receive equal time for their products. Agents are also blamed for shifting their sales call focus to another product line when a buyer’s need is not easily identified. Independent sales reps are also criticized for: not opening new accounts, not following up on leads, representing too many manufacturers, and communicating poorly with the firms they represent. That said there’s a tendency for manufacturers to take credit for positive sales outcomes accomplished by their agents and assign blame for negative outcomes when they lack control over the outcomes. For example, if a sales agent is doing a super job the manufacturer will assume that an internal salesforce will work better at a lower cost and the agency will be dumped. This suggests that a sales agency will likely be criticized when its performance is either too high or too low.

12. What are some unique ethical issues of using independent sales agents that firms might face?

A company “partners” with independent sales agents to cost effectively increased their sales coverage and effort in the marketplace. Independent sales agents take on partners that they believe will increase their overall sales and commissions. Theoretically this is a win-win situation. Because firms will switch to a company salesforce once sales reach a profitable level, this means the independent rep will lose their business once the territory takes off! Thus, firms must have an ethical agreement for disengagement to prevent unethical behavior by both parties. For example, each party must give notice of dissolution within 90, 180, or 1 year. Also, what information will be shared and how the commissions will be handled for current and future sales initiated by the independent sales agents.

13. Draw a break-even analysis diagram and assume that Q^* is 500 units. If 450 units a month are forecasted for a territory, which sales structure — an independent agent or a company salesforce — would be most economical? What other factors, other than costs, might influence your decision?



ROLE PLAY

Big River Software: To Outsource or Insource?

Divide the class rooms into pairs. In each pair assign, a person to portray Jackson or Pat. Have the students list the options for ways to organize the sales and marketing function. Prior to the role play, students should consider the positives and negatives of each option:

1. Would the benefit from each option outweigh the option of changing nothing and selling the business for \$500 million one year later?
2. Would they be able to continue to make \$10 million in sales if they do nothing at all?

Jackson and Pat should agree to a plan, outlining the potential risks and benefits to each plan.

ANSWERS FOR CHAPTER CASELETS

Caselet 12.1: Should Givens Reorganize Its Salesforce?

Case Questions:

1. List the pros and cons of Marcus's options for organizing the salesforce.

Marcus might ask if Givens has a “dedicated” salesforce since they allow inside “specialists” to service customers. This situation is not unusual since the firm likely grew from a small company run by Mr. Givens and a few employees to become a \$50 million dollar business. That said, Jenny Givens has taken over and her goal is to double annual sales to \$100 million. The firm has, to date, used inside sales to handle customers so two important questions are: (1) Will a salesforce help increase sales? (2) How should the salesforce be structured?

The total number of customers is unknown, but most customers appear to be smaller needing or using Givens 2 times or less per year. Only 5% purchase three or more times! When we consider the 20/80 rule that 20% of customers purchase 80% of a product or service this relationship would not appear to hold true. Most customers are physically located close to the home office. Port traffic is growing faster on the West Coast from Asian shipping and Givens relies on agents to book their trucking service and adds a service charge. All facts must be considered when making a decision.

What are Marcus's options? First, inside vs. outside salesforces. Since the number of heavy users is small (5%), then outside sales might be appropriate for these companies. Marcus will need to tease out whether current customers are also using other logistics competitors. This can be done by calling these firms. If Marcus finds that most customers are small in size, a dedicated inside salesforce would work best for the least cost (value). A second option is the partner with an independent salesforce that represents Givens and receives a commission for each sale. This is an economical way to grow sales without having to hire, train, manage, and compensate a salesforce that may or may not bring in enough sales to pay their salary/expenses. Independent sales reps might work on the West Coast in the short-term and if sales become significant, then a company sales team could be put in place. A company salesforce allows more control but they are not cost-effective unless total sales/profits exceed the break-even point. Said differently, a company salesforce is not economically viable unless they generate profits!

2. Pick one of the options. How would you go about determining the appropriate number of salespeople who should be hired?

A likely option is for Marcus to analyze/compare the inside/outside sales option. That is, use inside salespersons for smaller accounts. An inside salesforce could handle incoming orders and also make outgoing calls to push Givens products/services and gain a better understanding of customer needs and wants. Likewise hiring one or two local salespersons to call upon larger accounts and identify and penetrate other large accounts in the state of Virginia would generate higher sales. If further analysis indicates local sales will not allow Givens to reach sales of \$100 million over a specified time frame, then hiring an independent sales rep partner on the West Coast should be considered.

For inside salespeople, Marcus should current calls per day to Givens and add needed outgoing calls per day for inside sales. For example, 25 incoming calls per day + 25 outgoing calls per day x 220 workdays = 11,000 calls. Divide this number by average number of calls per year by inside salesperson: 30 calls per day x 220 workdays = 6,600 per year. Then divide 11,000/6,600 = approximately 1.75 salespersons to generate this workload. Marcus could recommend hiring one inside salesperson now with specialists handling the overload until business increases to justify a second inside salesperson. Likewise for the outside salesperson, compute the total number of sales calls and divide by reasonable number of sales calls made by outside salesperson. Then divide total number of sales calls by number made by salesperson.

Caselet 12.2: Palladium Manufacturing: It's Not Working

Case Questions:

1. What options does June have? What additional data should she gather to assess those options?

June has 3 options: switch to a different European sales partner, add an inside sales team, and/or establish their own European salesforce. June needs information on number of potential customers and cost per sale. June must realize that an independent rep seldom makes the same number of calls or the same level of sales as a dedicated, company salesforce! This is because an independent sales firm represents 8-12 companies and must give time to all. Whereas, a dedicated salesforce devotes 100% of their time to a company's single product line. If an independent rep partner performed the same as a company salesforce then no firm would employ a company salesforce!

2. June has decided that some form of inside sales is needed for the European operations. Should she hire a European firm? Add people to her U.S. call center and devote the early part of the day to outbound calls to Europe? How should she make that decision, and what are the factors she should consider?

A European inside sales firm would make the most sense because these individuals would better understand the language and culture(s) of potential customers. The main question is what is their product knowledge? Adding an inside sales team will need to be coordinated with Fournier SA if that firm's customers would be approached by the inside sales effort. Likely, Fournier would expect to receive full or part-commission for any sales made to existing customers and this agreement would inflate sales costs. A U.S. call center, likely located in Utah, might work — here the cost and knowledge of products would be major determinants.

3. While doing her research, she found that she could hire a call center in Ireland to replace her U.S. operations, which would result in a savings of nearly 25 percent. How does that change things in terms of the decision she should make?

Yes, June should consider the call center in Ireland, but a principal question is: Would the Irish call center sales team have knowledge of languages and cultures of Europe be sufficient (the countries to be called upon)? June must consider cost, but cost per sales dollar is a more important metric to consider.

OTHER IN-CLASS EXERCISES

These in-class exercises allow students to work in groups or by themselves to reinforce the criteria for organizing the sales effort by geography, product, market, functional, a combination approach, or use sales agents.

What type of salesforce organization would you recommend for the following sales environments?

1. WRT sells five distinct product lines that are different in their applications and technologies.
Product or Product/Market
2. White & White, Inc. sells basic office supplies.
Geographical
3. G&T offers customized software for physicians, dentists, and veterinarians.
Market
4. GE provides consumer appliances, aircraft parts, and medical equipment.
Product or combination depending upon the marketplace
5. Clean Clothes provides uniforms to garage mechanics, factory workers, and other potentially dirty work locations.
Functional

A second in-class exercise is listed below that can be used independently or combined with the five scenarios above.

Territory Management

How should the salesforce be organized under the following conditions?

1. The company wishes to expand into a new territory that has few existing customers and will take 3-5 years to establish a significant customer base.
Sales agent or manufacturer's representatives
2. A firm that just merged with another technical company. The combined product offering includes 150 products that fall loosely into four product categories.
Product or combination sales organization
3. A global firm that sells computers. Sales are highest in the Triad (U.S., EU, and Pacific Rim). How should sales be organized in the three primary areas? In all other areas?
Combination of product/market/geographical; sales agents in other areas
4. A high tech firm that sells to the military, automotive, aerospace, and telecommunications markets?
Market
5. A global firm, like Unilever or P&G, with 5-8 product lines that are sold in more than 100 nations
Combination salesforce organization (Example: baby products for large retailers in Europe)