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Sales Force Architecture Across the Business Life Cycle

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The sales force represents a significant investment for most businesses. By current estimates there are at least 20 million people involved in sales in the US. About 3.6 million salespeople are in the field selling for manufacturing and service companies, 4.3 million are involved in retail sales, and over 15 million participate in direct-to-consumer sales for organizations such as Avon and Amway. Decisions regarding sales force architecture, including the role of selling partners in promotion, as well as the size, structure, and product/market allocation of sales force resources, strongly influence both the efficiency and the effectiveness of the sales force investment and are directly linked to profitability. Sales force architecture has a major impact on marketing costs. Generally, a larger sales force comprised of salespeople who specialize by product or market costs more than a smaller, generalist sales force. The use of selling partners to promote products and services insures that costs do not exceed some fraction of sales, but outside selling partners may or may not be as effective as a business's own selling organization. In addition to its impact on costs, sales force architecture drives revenues. Salespeople are revenue creators. A larger, highly-specialized sales force will create higher revenues than a smaller, generalist force. In addition, sales force resource allocation decisions are directly linked to sales force effectiveness. A sales force that focuses its time and effort on the most appropriate products, markets, and selling activities creates more sales in the long-term than a sales force that deploys effort arbitrarily. Because sales force architecture is directly linked to sales, costs, and hence profitability, the role of selling partners, sales force size, sales force structure, and sales resource allocation are highly salient management decisions.

Sales force architecture decisions are also important because of their long-term impact on a business. Many of the consequences of sales force architecture decisions made today will not be realized for many years into the future. In addition, architecture changes are often difficult to implement and are not easily reversed. Adjustments to the role of selling partners and to sales force size, structure, and allocation that are in the business's best interest have personal and sometimes unfavorable impact on individual salespeople in terms of change in responsibilities and reduced earnings potential. As a result, such changes can be met with resistance by the sales force. For example, with the addition of salespeople or the restructuring of sales effort (for example, moving from field sales generalists to industry or product-line specialists or reassigning small accounts from field sales to telesales) many salespeople will see their workspace change. They will be expected to sell different products, give up old customer relationships or establish new ones, perform new selling activities, or work for a new manager. For sales forces that earn a large portion of their pay through incentives (such as commissions tied to sales achievement), such changes can directly affect each salesperson's earnings opportunity. As a result, overcoming sales force resistance to architecture changes can be difficult and such changes can sometimes result in considerable undesired sales force turnover and loss of sales. Changing the role of selling partners and altering sales force size, structure, and allocation are also challenging because of the direct effect on customers. Customers may have to adjust to a new sales process or to establish new relationships with a different salesperson or sales team. With the change comes risk of losing customers. Because of the impact on salespeople and customers, changes in sales force architecture can be difficult to make, and are typically very hard to reverse. Unlike advertising, a sales force cannot be turned on and off; unlike a web site, it cannot be expanded and upgraded overnight. Sales force architecture errors are likely to affect a business not just this year, but for many years to come.

The term *sales force architecture* within the context of this article refers to the design of a selling organization, including all the people whose primary mission is to interact with customers and prospects to promote the business's products and services. This includes all the field salespeople and telesales people who are employed by the business, as well as the individuals who work for outside partner organizations (such as agents, distributors, contract salespeople, manufacturer's reps, value-added resellers, and sales forces of other divisions within the same company) that are involved in promoting the business's products and services.

The emphasis of sales force architecture decisions changes throughout the life cycle of a business. The familiar product life cycle concept describes individual products moving through four stages—start-up, growth, maturity, and decline. These four stages can also characterize the stage in which an entire business might find itself based upon the life cycle orientation of its portfolio of products. This concept of the *product portfolio life cycle orientation* is illustrated through some examples in Figure 1.

Figure 1. Examples illustrating the concept of *product portfolio life cycle orientation*

Company Example	**Product portfolio life cycle orientation**	**Explanation**
Sirius Satellite Radio	Startup	Sirius launched its satellite radio service in 2002, and sales grew rapidly to over $242 million in 2005. Today, the company uses a mix of selling partners and direct salespeople and has made a transition from the startup to the growth stage.
Google	Growth	Google continues to find new ways to make Web advertising more effective. By adding AdWords and AdSense to its product line, Google continues to drive revenue growth. Sales grew from $440 million in 2002 to $6.1 billion in 2005.

Tribune Company	Maturity	Revenues at the Tribune Company have been flat (averaging around $5.6 billion) for the last several years, as the company fends off advertising sales losses to the Internet. Circulation revenues are in decline, and print, television, and radio advertising revenues have reached the maturity stage. Sales of interactive products are growing, but revenues in this category are dwarfed by sales of the company’s more traditional products.
Digital Equipment Corporation (DEC)	Decline	When DEC was acquired by Compaq in 1998 (which was subsequently acquired by HP in 2002), revenues were in decline. The company’s database products had reached maturity and its VAX computers and Alpha systems were losing sales to UNIX products from Sun, IBM and HP, as well as to PC-based products from numerous companies.

The four business life cycle stages are not distinct, and businesses often exhibit characteristics of two stages simultaneously as they transition from one stage to the next. Businesses can experience the four stages sequentially, but often move non-sequentially through the stages as new products and fresh business strategies lead to changes in the product portfolio life cycle orientation.

Earlier this decade, microprocessor maker Advanced Micro Devices (AMD) was in the decline stage, with a relatively undifferentiated product line and heavy competition from Intel. Annual revenues of $4.6 billion in 2000 had slipped to just $2.7 billion by 2002. Recent product innovations have enabled AMD to temporarily leapfrog Intel's technology. This rejuvenation of the product line has increased AMD’s market share and has driven robust top-line growth, hence moving the business back to the growth stage. Annual revenues for 2005 exceeded $5.8 billion. Looking forward, AMD faces the challenge that Intel is expected to launch significant new products, potentially leading to another round of maturity or decline for AMD. This type of cyclical movement between life cycle stages is a common phenomenon in innovation-driven high-technology markets.

Customer strategies change throughout the business life cycle. During the startup stage, the business is focused on creating awareness and generating quick uptake in high-potential market segments that are responsive to selling effort and are likely to become early adopters of the new product or service. As business takes off and enters the growth stage, customer strategies evolve to emphasize increased penetration of initial market segments and expansion into new segments. As growth slows and the business enters the maturity stage, customer strategies focus on retention and continued effective coverage of market segments developed during the growth stage, but with added emphasis on serving these segments efficiently and profitably. Finally during the decline stage, customer strategies take on an even stronger efficiency focus, as the business aims to protect the most profitable and retainable customer relationships while exiting unprofitable segments.

As customer strategies evolve throughout the business life cycle, the emphasis of management attention to critical sales force architecture issues such as the role of selling partners, sales force size, structure, and resource allocation, evolves as well. While all of these sales force architecture decisions are important during every stage of the life cycle, the decisions that receive the greatest attention at each stage are those that have high impact, have significant scope for error, and are particularly difficult to address effectively, given the customer strategy that the business is pursuing and the challenges that the business faces during that stage.

Figure 2 summarizes how customer strategies and therefore the emphasis of management attention to different sales force architecture issues varies throughout the four life cycle stages. The remainder of the paper discusses these critical sales force architecture decisions, highlighting the challenges that arise during each stage of the business life cycle, and suggesting ways that sales leaders can respond effectively to the challenges.

Figure 2. Customer strategy and the emphasis of management attention to key sales force architecture decisions throughout the business life cycle

	----- Business Life Cycle Stage -----			
Decision	**Startup**	**Growth**	**Maturity**	**Decline**
Customer strategy	Create awareness and generate quick uptake in high-potential market segments that are responsive to selling effort.	Penetrate initial market segments while developing new segments.	Focus on customer retention and serving existing market segments more efficiently.	Continue efficiency focus, protect key customer relationships, and exit unprofitable segments.
	Relative emphasis on key sales force architecture decisions*			
Role of selling partners in promotion	****	**	*	***
Sales force size	***	****	**	****
Sales force structure	*	****	***	**
Sales force resource allocation	**	*	****	*

*A large number of stars implies that the decision gets strong emphasis, while a small number implies that the decision gets less emphasis during that stage. The ratings are based on a general pattern that we have observed across most businesses; specific business situations can lead to other patterns of emphasis as well.

STARTUP

Description and summary

The startup stage of a business occurs when a new company launches its first product, or when an existing company launches a new division. In either case, leaders of startup businesses are eager to exploit opportunities and feel pressure to deliver results quickly. New company startups face some special challenges since leaders of new companies are often technology- or product-focused, and they may have little experience with selling and selling organizations. Without experience and foresight, mistakes with unforeseen long-term negative consequences are easy to make. Without revenues, new company startups are also very cost-focused. They are frequently committed to developing a selling organization but often on a small scale. Startup divisions of existing companies, on the other hand, can benefit from the resources of the larger company that they are a part of, and therefore often have access to more monetary resources and greater sales expertise.

During the startup stage, customer strategy focuses on creating awareness and generating quick uptake in high-potential market segments that are responsive to selling effort. The most salient sales force architecture decisions are first, defining what role selling partners should play, second, determining the best sales force size, and third, allocating limited resources effectively. These challenges, which are described in detail in this section, are summarized in the inset box.

The startup stage—role of selling partners challenge: Too often, startup businesses attempt to minimize costs and reduce risk by using selling partners to promote their products and services, rather than building their own sales organization. The use of outside selling partners is best limited to situations where such arrangements have compelling strategic advantage. When partners are used, considerable foresight is needed to assure that the startup does not get locked into a partnership that outlives its usefulness.

The startup stage—sales force sizing challenge: Startup businesses are challenged to grow the sales organization, yet often have limited funding and face considerable uncertainly about the future. Successful startup sales organizations will expand cautiously when there is significant uncertainty, but will move aggressively to add salespeople as the signals of future success become clear.

The startup stage—sales force resource allocation challenge: Startup businesses are often somewhat indiscriminant in deploying their sales force resources, investing opportunistically and without strategic focus. Startups that use their limited resources in the most productive way will get the greatest return for their sales force investment and can therefore afford to expand and succeed more quickly.

The issue of sales force structure is also important during startup, yet it typically gets less emphasis than in other life cycle stages. Most startup sales forces are comprised of a relatively small number of generalist salespeople who sell a narrow product line to a limited number of target market segments. Unless the initial product line is broad and complex, and/or the number of initial target markets is large and diverse, sales force structure issues do not become highly important until later in the business life cycle, when new products, new markets, and added selling activities begin to add complexity to the sales process.

Key sales force architecture decisions

Role of selling partners

The first architecture decision that a business needs to make in the startup stage is if the business should build its own selling organization to promote its products (sell directly) or if it should sell using partners (sell indirectly). Occasionally, startup organizations will rely excessively and for too long a time period on indirect selling partners to promote products and services.

When medical technology company SonoSite launched its initial product, the world's first all-digital, hand-carried ultrasound system, in 1999, it decided to use a national distributor to sell the product to private physicians, hospitals, imaging centers, and radiologists in the US. The distributor had strong customer relationships and access to the medical imaging market. Despite the distributor's excellent reputation, however, it was not successful selling SonoSite's product. The ultrasound device was new to the market and was technologically complex. Potential customers had to be educated and sold on its benefits. This required a multi-step selling process that was incompatible with the more transactional selling process that worked for the distributor's other products. Since the distributor had so many other profitable products to promote, the SonoSite product got very little selling time. After two years of disappointing sales, SonoSite dropped the distributor and replaced it with its own direct sales force. In the first year after implementing the strategy with a fully staffed sales force, US revenues were up 79 percent from the previous year and gross margin improved as well. The company attributed this improvement to the efforts of its direct sales force. Building on this success, the company has expanded its direct sales approach to the European market.

Inappropriate reliance on selling partners is usually the result of decisions that are short-term cost-based (selling indirectly is cheaper or involves low up-front costs) rather than long-term strategy-based (selling indirectly creates customer value through product bundling, expertise, and/or integration, or provides flexibility or market access and experience). From a cost perspective, indirect selling helps the business control costs. Commissions paid to a partner are usually negotiated to be a fraction of sales. Thus, if the product doesn't sell, costs are minimal. Using partners avoids the significant fixed capital costs and ongoing costs of building and running a direct sales force. Outsourcing the selling function limits risk exposure. However, from a long-term strategic perspective, outsourcing the selling function often lets the

destiny of a business get too far out of its hands. The business has incomplete control of selling activity, limited control of salesperson quality, and little ownership of customer relationships. As time passes, it becomes more and more difficult to remove underperforming selling partners who control customer relationships and have considerable channel power.

A packaged food company used several hundred independent contractors to sell and deliver its products to retailers. Each contractor had a defined geographic territory and was compensated by earning a percentage commission on sales. Since this business was quite lucrative, over time a market developed for the territories—a contractor leaving the business was free to sell his or her territory to anyone who wanted it. When some of the company's major customers (such as Wal-Mart) began to demand a more centrally- coordinated effort from suppliers, service coordination was difficult to achieve using an independent contractor model. The company considered buying the contractors and replacing them with its own direct sales force. However, the market had driven the cost to buy out the contractors to an unreasonably high level and the company could not possibly afford to buy out hundreds of contractors at the market price for their territories.

Successful relationships with indirect selling partners typically occur only when there is a compelling strategic advantage, in addition to a cost advantage, for the startup business. Several types of strategic advantage are possible. First, with some types of products and services, customers derive greater value if they buy from an indirect partner who can bundle the business's products with complementary products from other manufacturers. For example, a paper producer sells its products through an office supply seller who bundles multiple products into a customer offering. Second, some partners can provide expertise and integration of products into a total solution. For example, in the computer industry, VARs (value-added resellers) may create a total solution by combining computer hardware and software components from different manufacturers into a complete system. Third, working with a partner can provide flexibility to change the capacity of the selling organization quickly when demand is seasonal or lumpy.

An additional strategic advantage to working with selling partners is that a startup business can gain more rapid and effective market entry by working on a short-term basis with an indirect partner who has experience that the startup business cannot replicate quickly enough, such as established customer relationships or product and market expertise. The partner can also help leaders of the startup business learn about the market and about running a sales organization so that the startup can build its own direct sales organization successfully. Such arrangements are most effective when there is a plan upfront to transition customer relationships from the indirect partner to the startup business's own direct sales force over time. Without such a plan, startups can get tied into unfavorable long-term relationships with indirect selling partners.

As a general rule, outsource the selling function in a startup business to an indirect partner only when there is a compelling strategic reason to do so. Outsourcing decisions that are driven primarily by the need to minimize initial costs and mitigate risk carry their own long-term costs and risk to customer ownership. If a decision is made to outsource the selling activity, start by segmenting the market, developing a value proposition for each segment, and developing a sales process to meet each segment's needs. Select selling partners that are able to deliver the selling process in an effective way. Then on an ongoing basis, track indirect selling partner performance, quickly terminate partners who are underperforming, constantly appraise whether selling direct is a better alternative, and be prepared to move to direct selling right away if it is in the business's long-term best interest.

Sales force size

Startup businesses present some difficult sales force sizing challenges. Startups have no established customers and no sales base to build upon. Awareness has to be generated and customer buying processes may need to change before sales can commence. Every customer is new, and a sales force must work to make every sale and to gain momentum that will help to drive future sales. Many startups have significant upside opportunity that can be realized if a large sales force drives demand for the new product. However, startup businesses that are new companies usually have limited capital. Business leaders may be reluctant to go the venture capital markets for additional money, particularly if doing so will dilute their ownership

interest in the business. In addition, leaders may be risk averse, preferring to size conservatively (even if it means lower sales, profits, and market share), over sizing aggressively and risking a need to lay off salespeople. Sometimes, startup sales organizations find it challenging to find and attract good sales talent. All of these factors cause many startup businesses to use a "pay-as-you-go" sizing approach in which the business starts with a small sales force and adds salespeople only after enough sales have been generated to pay for additional salespeople. "Pay-as-you-go" sizing approaches frequently result in significant under-sizing of a sales organization and leave considerable amounts of money on the table.

A small US pharmaceutical company and a Japanese company entered into an agreement—the US company would sell the Japanese company's new product in the US market. This product had the potential to be a blockbuster, but the US company was willing to commit only a small sales force to support it. Management decided to wait and see how the product sold before approving a proposal to add more salespeople. With the benefit of hindsight, later analysis revealed that if the company had added salespeople right away instead of pursuing this conservative strategy, profits would have been at least $300 million higher over a 5-year period.

Figure 3 shows data from 11 recent sales force sizing studies that our consulting firm, ZS Associates, conducted for startup healthcare businesses. In these data-driven, analytical studies, we forecast the sales and profit consequences of different sales force sizes to help the management team at each startup discover a long-term optimal sales force sizing solution. The definition of "long-term optimal sales force sizing solution" varied across the studies. Some management teams considered a three-year profit maximizing size to be optimal, others used a five-year profit maximizing size, and still others used the ultimate long-term size of the sales force. In 10 of the 11 studies, sales leaders elected to launch their sales force at a size smaller than the long-term optimal sizing solution. Only the business in study #1 sized its sales force at the optimal size during the startup stage. The average across the studies was to size the sales force at just 64 percent of the long-term optimal size.

Figure 3. Long-term optimal size and actual size of several startup sales forces

Company #	Long-term optimal sales force sizing solution	Sales force size actually implemented at launch	Percent of optimal sales force size implemented
1	200	200	100%
2	52	45	87%
3	150	110	73%
4	75	50	67%
5	60	40	67%
6	45	30	67%
7	130	80	62%
8	80	48	60%
9	57	30	53%
10	780	405	52%
11	1500	250	17%
Average			**64%**

Interestingly, the business in study #1 that sized aggressively from the start went on to become the leader in a highly competitive market.

One can't fault organizations for investing cautiously when they are short of cash or when the future is uncertain. But we do see the "pay-as-you-go" cautious approach used to size sales forces even when the success signals are clear, particularly in organizations led by individuals who rely heavily on financial ratios as the key drivers of sales force investment decisions or who believe that the product will "sell itself." Organizations should escalate sales force investment as early success signals emerge. A business that keeps a pay-as-you-go philosophy in place in spite of diminished uncertainty risks forfeiting substantial sales and profits and long-term business strength.

At a very successful biotech startup company, there was considerable disagreement about how large the initial sales force size should be. Input for this decision was solicited from potential customers, as well as from the company's finance and sales leaders. Customer input suggested that only 15 salespeople would be enough—customers said that they could make a buying decision with only minimal help from a salesperson. The input of finance leaders, who relied on financial ratios to make investment decisions, suggested a sales force size of 40 was appropriate. The input of sales leaders, who felt that sales force effort would be a key driver of the company's success, suggested a sales force size of 300.

Interestingly, startup businesses that are divisions of existing companies with considerable resources (rather than new independent companies) sometimes have a very different sales force sizing problem—they over-invest in the sales forces of startup divisions. A reckless desire to be competitive in a new market can drive a decision to create a large sales force that cannot be profitable given the market opportunity. The best sales force sizing decisions are based on analysis of the market opportunity and the short- and long-term sales and profit consequences of alternative sales force sizing strategies.

A company invested over $100 million to create a sales force in a competitive market, even though its product had few advantages over competitive products and was forecasted to sell only $150 million by the fifth year. Management was determined that the company should be competitive in this market and was willing to sacrifice profits in order to achieve this goal.

Sales force resource allocation

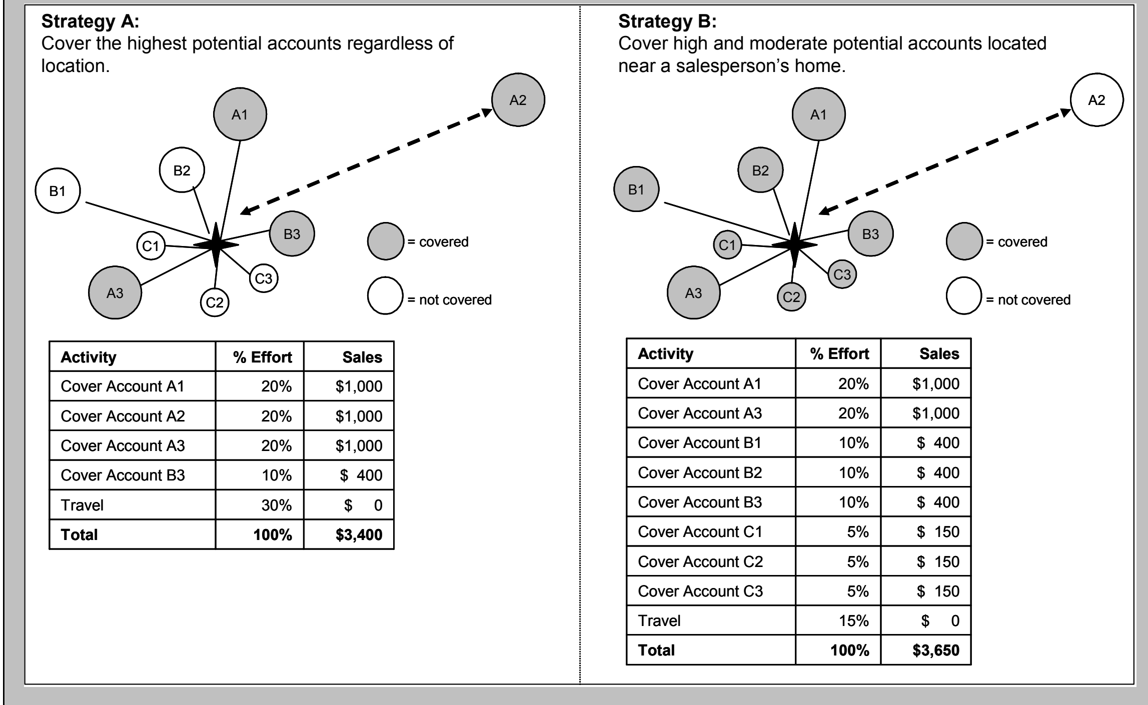
Resource allocation decisions during the startup stage focus on identifying early adopters who should be the focus of initial sales force effort, and on developing an effective selling proposition. Smart resource allocation is important for all startups with small sales forces. By focusing limited resources in the most productive areas, the business gets the greatest return for its sales force investment and can therefore afford to add additional salespeople to build success more quickly.

Too often, startup sales leaders make the mistake of hiring salespeople opportunistically who they think will be successful even though they live in locations that do not make sense from a business opportunity perspective. Even an excellent salesperson cannot produce strong results if a territory has too little potential or excessive travel. The opportunity cost of hiring in the wrong locations can be significant, as potentially lucrative markets may remain uncovered while headcount is "wasted" in locations that do not justify sales coverage.

A smart resource allocation strategy for under-sized startup sales forces is to concentrate salespeople in high opportunity geographic areas rather than trying to cover all high potential accounts across all geographies. That way, travel time does not become a major part of each salesperson's workload. An approach to sales force sizing and territory alignment that considers geography and travel dominates an approach that ignores such factors, particularly for small sales forces. Geographically-based market coverage approaches are particularly effective for US sales forces of up to 60 people in markets that are highly concentrated in metropolitan areas and of up to 150 people in markets that are more widely dispersed across rural and urban areas.

The example in Figure 4 contrasts a coverage approach in which the salesperson covers the highest potential accounts regardless of their geographic location (Strategy A) with an approach in which the salesperson covers the high and moderate potential accounts located closest to home. Strategy B results in less travel time, thus allowing the salesperson to cover more accounts and generate higher sales.

Figure 4. A comparison of coverage strategies that do and do not consider geography



Activity	% Effort	Sales
Cover Account A1	20%	$1,000
Cover Account A2	20%	$1,000
Cover Account A3	20%	$1,000
Cover Account B3	10%	$ 400
Travel	30%	$ 0
Total	**100%**	**$3,400**

Activity	% Effort	Sales
Cover Account A1	20%	$1,000
Cover Account A3	20%	$1,000
Cover Account B1	10%	$ 400
Cover Account B2	10%	$ 400
Cover Account B3	10%	$ 400
Cover Account C1	5%	$ 150
Cover Account C2	5%	$ 150
Cover Account C3	5%	$ 150
Travel	15%	$ 0
Total	**100%**	**$3,650**

Startup business leadership

Even though this paper focuses on sales force architecture, it is worth mentioning the critical role of sales force leadership during the startup stage. Though important in all life cycle stages, strong leadership is particularly critical, difficult, and therefore error-prone during the startup stage. Sales force creation tends to be sequential; the leader hires the top layer of sales managers who in turn will help to hire the next layer, and so on. Having the right person at the top of the organization helps to ensure that high quality people are hired throughout the sales organization.

When a startup financial services company hired the wrong person to lead its sales force, it took the company two years to recover from the mistake and remove the initial leader and many of his initial hires. Fortunately there was a regional manager who could move into the leadership role and get the company back on track. The poor initial selection put the company back several years in a new market that had tremendous opportunity.

Finding the right person to lead a startup sales organization can be difficult. A successful startup sales leader has a broader range of skills, a greater depth of vision, and a different personality profile than the typical profile of a leader who runs an existing sales organization successfully. An effective leader in the startup stage must accomplish three important objectives. First and foremost, the leader must *build* the team and create the sales force systems and processes that will encourage ongoing success. Second, the leader will play an important role in helping to *sell* important initial customers. Third, the leader will need to be able to *manage* a successful selling organization in later life cycle stages. It is critical that the startup sales leader is a successful *builder*, highly important that he or she is an effective *seller*, and only somewhat important that he or she is a good *manager*, since the ability to manage becomes much more important in

later life cycle stages. Frequently, a successful startup leader who is a strong builder and seller is unable to evolve successfully into the role of manager.

Successful leaders of startups must be flexible, ready to change the sales force architecture quickly if it is not working or to drop indirect selling partners if they are not delivering the required results. In addition, businesses in the startup stage should be willing to change the sales force leader if he or she is not building an effective selling team, implementing an appropriate selling process, or generating the desired level of sales. The startup can look to outside experts for providing experience and wisdom in the selection of a good sales force leader, as well as for the development of initial sales force systems and processes.

Startups present themselves with an opportunity to develop a new sales force culture, and the leader has an important influence on this culture. Many startup businesses strive for a culture with entrepreneurial spirit, characterized by autonomy and accountability, and where salespeople are influenced by strong values of integrity and hard work, rather than by strict rules and guidelines. Such cultures can be hard to maintain successfully as a business grows and more structure is needed to maintain sales force control. Sales leaders who think about and plan for this early on will have an easier time transitioning to a more disciplined culture as the business evolves and grows.

GROWTH

Description and summary

A sales force can enter the growth stage of the business life cycle in response to various events. Growth can follow the startup stage, but can also occur after other stages of the business life cycle as new products and services are introduced or new markets are developed, thus changing the life cycle orientation of the product portfolio. During growth, customer strategy focuses on penetrating initial market segments fully while at the same time attacking new segments. The sales force architecture decisions that are most challenging during the growth stage are sales force size and structure, followed by the role of selling partners. These challenges, which are described in detail in this section, are summarized in the inset box.

The growth stage—sales force sizing challenge: The growth stage requires expansion of the sales force to capitalize on market opportunity. Sales leaders often build sales force capacity too slowly, even as market success signals become clear. This tendency to slow growth is encouraged by a top management team that desires short-term results and by salespeople who want to protect their earning power. Sales leaders that undersize the sales force during critical growth years miss out on considerable opportunity. Sales forces are sized correctly during the growth stage when management evaluates sales force investment from a long-term perspective, and when sales force programs and processes are implemented to address sales force resistance to growth.

The growth stage—sales force structure challenge: As the sales job's complexity increases as new products, markets, and selling activities begin to challenge the sales force's capacity to perform the job, issues of sales force structure become highly salient. The development of sales force structures with specialized sales roles can help the business meet an increasingly diverse set of customer needs and enhance sales force effectiveness.

The growth stage—role of selling partners challenge: In some cases, customer needs can be met more effectively as sales job complexity increases through the addition of new selling partners that add customer value in unique ways. Partners may offer expertise and access to new markets, can provide flexibility as demand fluctuates, or can enhance customer value by providing product assortment or integration of products into a total solution.

The issue of sales force resource allocation, while important during the growth stage, tends to receive less attention than in other life cycle stages. The sales force is challenged to expand quickly and to maintain its effectiveness in order to take advantage of opportunities that are relatively easy to capture. The sales impact

of adding more resources during the growth stage dominates the impact of improving resource allocation. Resource allocation issues take on greater importance in the maturity stage, when smart use of existing sales resources can become a primary source of competitive advantage for a business.

Key sales force architecture decisions

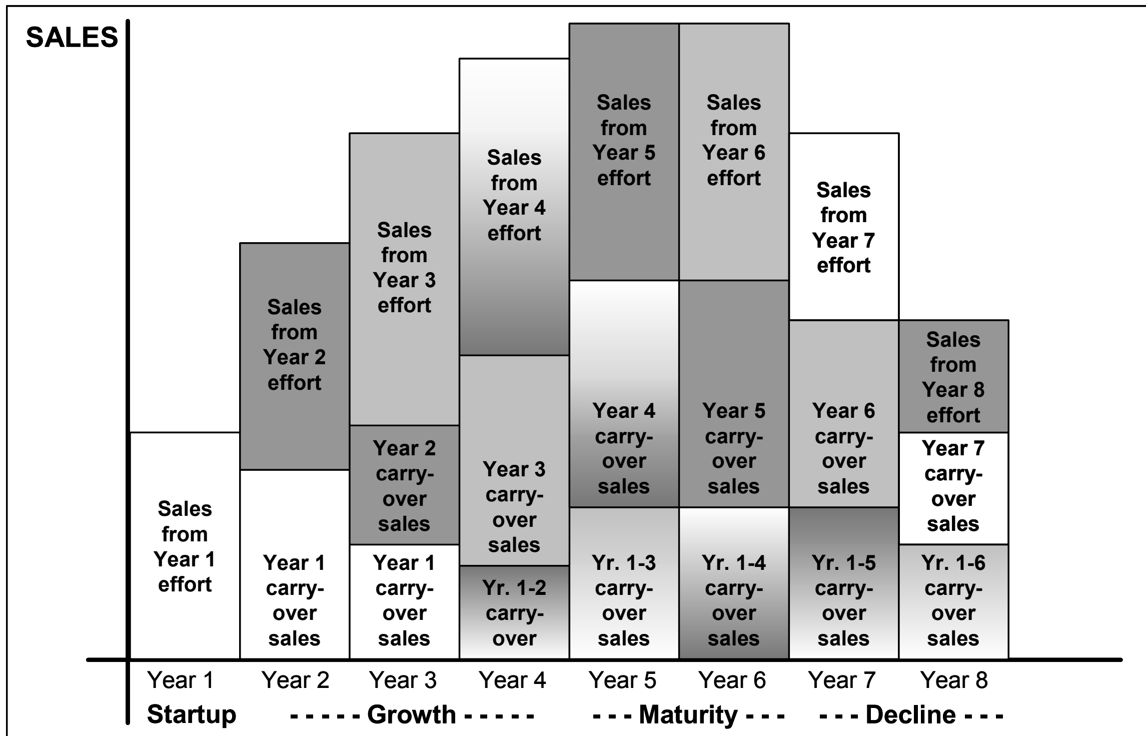
Sales force size

The growth stage is usually a happy time in the evolution of a business. Sales come in relatively easily, and the sales force is filled with optimism. Success can be intoxicating, and sales leaders may begin to feel that they can do nothing wrong. Yet sales leaders often make critical sales force sizing errors during the growth stage that will have significant impact on the business's future. There are several financial and behavioral pressures that can cause sales leaders to undersize the sales force during critical growth years. Awareness of these pressures, in addition to an assessment of the risk associated with different sizing strategies, helps sales leaders ensure that the sales force is sized appropriately to fully exploit the growth opportunity.

Financial pressures that affect sales force sizing

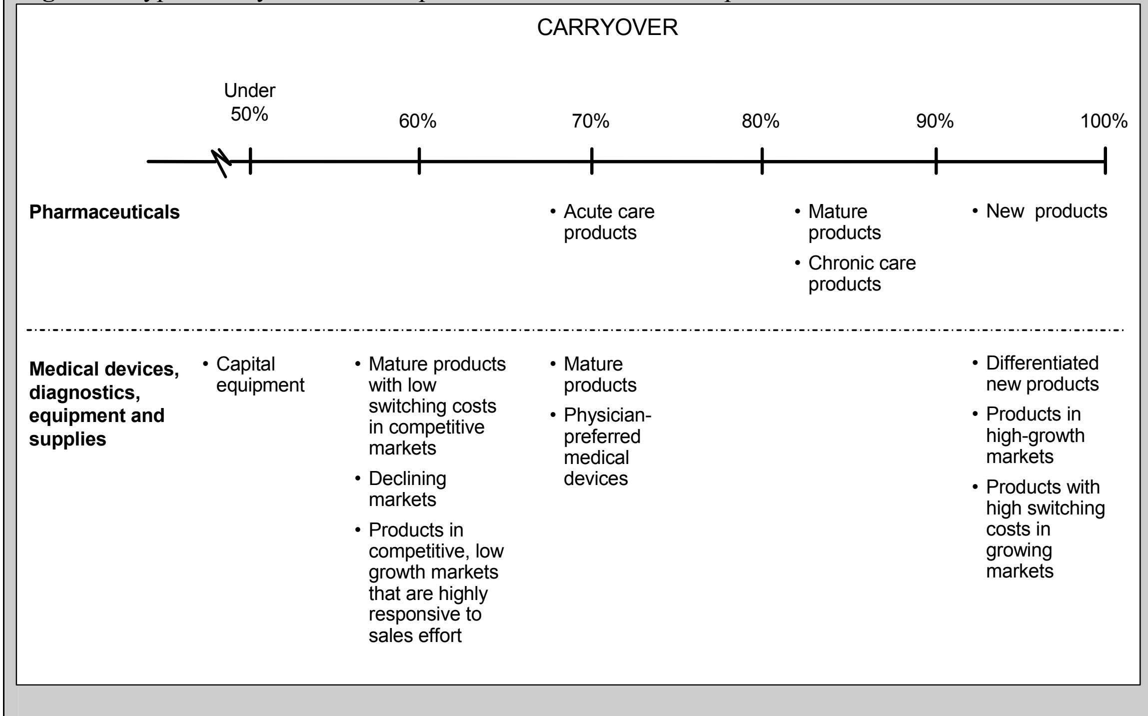
Sales force size increases have both short-term and long-term impact on sales and costs. While the cost impact is immediate, the sales impact is often much longer-term—sales increases are small at first and accelerate significantly in future years. This happens for two reasons. First, new salespeople are not as effective as veteran salespeople; they need time to learn the products, markets, and selling process and to establish effective customer relationships. Their effectiveness in the first year may only be 50 to 60 percent of that of a veteran. Second, in many markets only a small portion of the impact of sales force effort is immediate. In businesses with long selling cycles, it can take many months of selling effort before a sale is ultimately realized. Even in businesses with shorter selling cycles, *carryover sales,* or sales that will continue in the future even without sales force effort, can represent a large portion of total sales. Carryover sales occur when a product meets a customer's needs and therefore the customer continues to buy even if a salesperson is no longer involved in promoting it. Carryover is amplified if switching products is costly. The impact of carryover increases as a business moves through its life cycle. Figure 5 illustrates sales of a business across an eight year life cycle, showing how sales in each year are attributed to sales effort during that year and sales effort in prior years. In most cases, the first year carryover sales for new products are very high and subsequently the proportion of total sales attributed to carryover increases as the business moves through its life cycle.

Figure 5. Sales attributed to current year sales force effort and prior years' effort (carryover) across the business life cycle



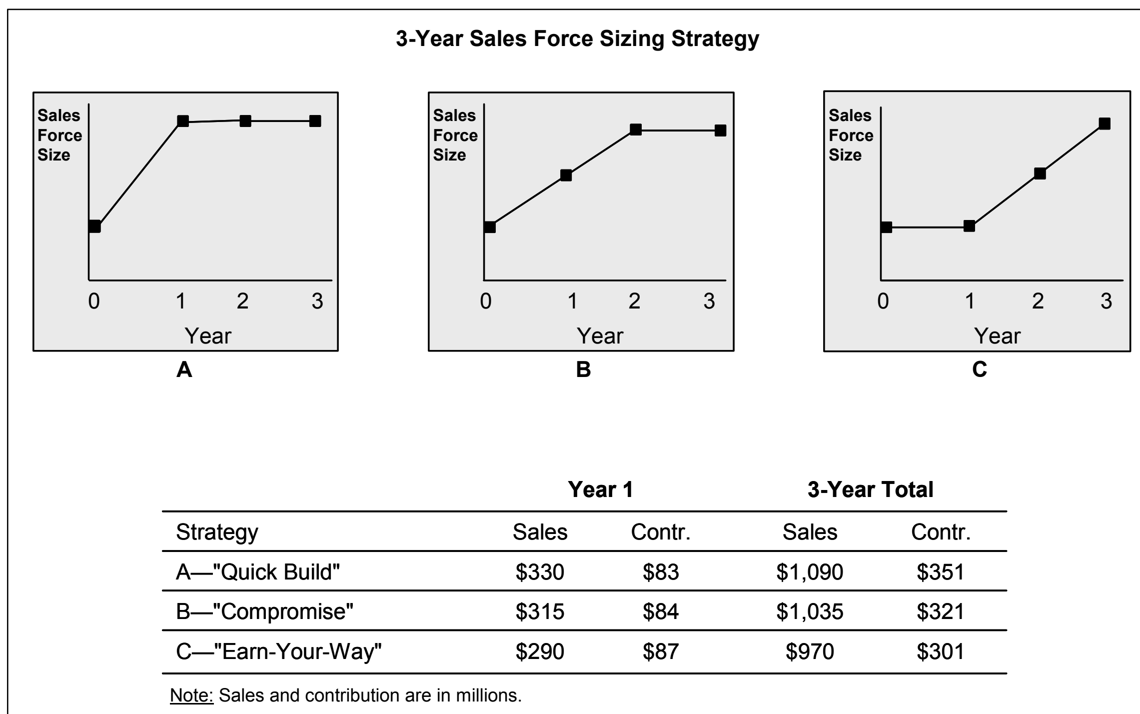
Carryover rates vary across products and markets as well as across life cycle stages. Figure 6 summarizes some carryover statistics from the healthcare industry. The carryover percentages reflect the percent of this year's sales that will be realized next year if there is no sales force effort next year. These statistics are based on analysis using longitudinal sales data for hundreds of different products and markets.

Figure 6. Typical carryover rates for pharmaceutical and medical products



Because of carryover, the multi-year sales impact of adding salespeople is much larger than the one year impact. Upsizing during the growth stage usually results in an incremental profit reduction in the first year. However, a significant profit improvement is possible over three, four, or five years. Figure 7 illustrates this phenomenon using a case from the healthcare industry. Sales and contribution (sales minus variable product costs minus sales force costs minus direct marketing costs) are compared across three different sales force sizing scenarios. The conservative "earn-your-way" growth strategy results in the highest first year contribution but the lowest three-year contribution. Three-year contribution is highest with the more aggressive "quick build" strategy.

Figure 7. Comparison of the sales and profit consequences of alternative sales force sizing strategies



	Year 1		3-Year Total	
Strategy	Sales	Contr.	Sales	Contr.
A—"Quick Build"	$330	$83	$1,090	$351
B—"Compromise"	$315	$84	$1,035	$321
C—"Earn-Your-Way"	$290	$87	$970	$301

Note: Sales and contribution are in millions.

In order to quantify several of the content insights presented in this paper, we analyzed a sample of recent sales force sizing studies that ZS Associates conducted called the ZSL sample. In these data-driven, analytical studies, we forecast the multi-year sales and profit consequences of different sales force sizes to discover a profit maximizing size. The sample includes data for 50 healthcare sales forces in six countries with sales forces ranging in size from 35 to several thousand. Analysis of the ZSL sample reveals that the sales force size that maximizes one-year profits is 18 percent smaller on average than the size that maximizes three-year profits. This considerable difference in the one-year versus three-year profit-maximizing size creates dissonance for sales leaders who recognize that three-year revenue streams are less predictable than one-year streams and who at the same time are under pressure to deliver short-term results. A short-term "earn your way" approach is understandable and justified if there is considerable uncertainty regarding three-year sales projections. However, too often sales leaders favor short-term over long-term profit-maximizing sales force sizing strategies even when the likelihood of long-term success is quite certain. A decision to undersize a sales force as a result of excessive short-term focus during the growth stage has important long-term financial consequences. Lower levels of sales force effort during the growth stage will result in lower sales momentum and a smaller base of carryover sales to build upon during later life cycle stages. Unless the long-term financial consequences of sales force sizing decisions are considered, the sales force is likely to be undersized during the growth stage.

Behavioral pressures that affect sales force sizing

In addition to the financial dynamics of upsizing the sales force, behavioral influences can create pressure on sales leaders to undersize the sales force during the growth stage of the business life cycle. Sales leaders often get resistance to sales force expansion from existing salespeople. This resistance is particularly strong if salespeople are paid a substantial portion of their earnings in the form of a commission on every sale. Salespeople feel that they have worked hard to develop their "book of business." They reap the benefits of their past efforts by earning commissions on repeat sales to current customers, even if those sales require only minimal sales effort. Salespeople strongly resist giving up any accounts to expansion territories because of the potentially adverse impact on their personal earnings. Salespeople (and sales managers) will argue that expansion territories are not justified and will do whatever they can to make sure that their will

prevails. If the labor market is tight, they may even threaten to leave for competitors (and take accounts with them) if management reduces their account base.

At a medical device company, when sales leaders set out to implement an expansion plan of 25 additional sales territories, salespeople and sales managers strongly resisted. The field put so much pressure on management that only 12 of the 25 proposed new territories were ultimately implemented. This dynamic is very common when sales force pay comes largely from sales commissions.

Sales leaders can reduce this type of sales force resistance to expansion by establishing programs and processes that encourage a culture of change. Expectations of future change can be established upfront (during the startup stage) so that salespeople anticipate ongoing territory and compensation changes in the growth stage. For example, some businesses change commission rates on product groups from year to year. Others set a commission rate on sales to an account in the first year, and a lower rate on repeat sales in subsequent years. Still others pay commissions on all sales to an account during the first year and commissions on sales above a specified percentage of territory goal attainment in future years. That way, territory goals can be adjusted appropriately downward as new salespeople are added and existing salespeople give up accounts to new people, thus giving management greater flexibility. By establishing a precedent of change early in the life of an incentive compensation plan, future changes are likely to be accepted more readily by the sales force. Creative sales incentive compensation plan design can insure consistent earnings for the sales force during startup and throughout the growth stage. As a last resort, guarantees and buy-back arrangements can be used to keep salespeople's compensation "whole" for a period following an expansion.

Sales force resistance to expansion can also be managed by controlling the expansion implementation process. If the process is based mostly on field management judgment, salespeople and sales managers tend to come up with countless reasons why new territories are not needed. Sales leaders should establish objective and quantifiable business criteria for determining the need for expansion territories (such as untapped market potential, number and size of key accounts, and a measure of the sales response to selling effort). Having reliable and consistent criteria helps to deal with field concerns and ensures that expansion decisions are uniformly fair across the sales force.

There is another behavioral influence that sometimes creates pressure on sales leaders to slow sales force growth. This influence is not linked to sales force compensation. Recruiting and training new salespeople is a difficult and time-consuming process. Sales managers in a rapidly growing business often struggle to keep up with their day-to-day coaching and selling responsibilities. They may complain to sales leaders that they lack sufficient time for hiring and training large numbers of new salespeople. Programs that assist sales managers with salesperson hiring and training can make these tasks less time consuming and thus help to reduce field manager resistance to expansion. For example, one company hired a recruiting/training manager and paid the individual incentives based on the second year performance of all new hires.

Another impediment to sales force expansion during the growth stage is a reluctance to disrupt the continuity of sales force relationships with customers. Sales force growth necessitates the realignment of accounts among salespeople. Particularly when a customer is reassigned to a salesperson with less experience, an ineffective transition can result in inadequate service of the customer and ultimately loss of business. A well thought out, comprehensive relationship transition program reduces lost sales due to disruption.

Evidence from an industrial distribution sales force supports the need for effective customer relationship transition following sales territory realignment (not only in the growth stage but in other life cycle stages as well). The sales force tracked monthly sales prior to and following a major realignment. Two groups of accounts were identified. The "test" group consisted of 4,500 accounts that were assigned to a different salesperson as a result of the realignment. The "control" group consisted of 44,800 accounts that were not impacted by the realignment; these accounts maintained a relationship with the same salesperson throughout the period of the study. During the pre-alignment period, the sales trend for test accounts was similar to the trend for control accounts. During the post-alignment period, however, some differences between the test and control groups emerged. Specifically, large accounts ($50,000 – $100,000 in annual purchases) in the test group purchased 20 percent less than those in the control group. For small- and medium-volume purchasers (under $50,000 per year), there was no significant difference in sales to control and test accounts in the post-alignment period. There was also no significant difference in sales to control and test accounts for the extra-large accounts (those with over $100,000 in annual sales) in the post-alignment period. A summary of these findings is presented in Figure 8.

Figure 8. Disruption impact study: results summary

	Small and medium volume accounts	Large volume accounts	Extra large volume accounts
Annual Purchasing Volume $(000)	$2 – 50	$50 – 100	$100+
Purchasing impacted by change in salesperson relationship?	No	Yes	No
Did strong salesperson relationships exist before realignment?	No	Yes	Yes
Was relationship transition program implemented?	No	Somewhat	Yes

Figure 8 also provides information regarding the nature of the salesperson's relationships with accounts in each segment. This information provides a possible explanation for the results. Salespeople did not have strong relationships with accounts purchasing under $50,000 prior to the realignment. A change in relationship, therefore, had little or no impact on sales to these accounts. At accounts purchasing in the $50,000 – $ 100,000 range, however, salesperson relationships before the realignment were much stronger. A change in relationship, therefore, had a significant impact. At the very largest accounts (purchasers of over $100,000), relationship transition was taken very seriously. Each customer who was transferred was introduced to the new salesperson by the former salesperson, teamwork between the former and new salespeople was encouraged, and commissions were shared for a brief period of time. Due to the special attention that test group accounts in this segment received, no sales loss occurred.

Risk assessment

A decision to pursue an aggressive expansion strategy (increase sales force size substantially and maximize projected multi-year profitability) or a conservative strategy ("earn your way" by waiting until sales results are realized before expanding) has important consequences for the sales force and the business. These consequences depend on how favorable the market opportunity turns out to be. Unfortunately, the size of this opportunity is not known with certainty at the time that sales force expansion decisions need to be made. Four possible scenarios are shown in Figure 9. In two of the scenarios (B and C), the business makes

the right sales force sizing decision for the market opportunity, while in the other two scenarios (A and D), the business makes the wrong decision and has to deal with the consequences.

Figure 9. Consequences of an aggressive versus a conservative sales force growth strategy for different market opportunities

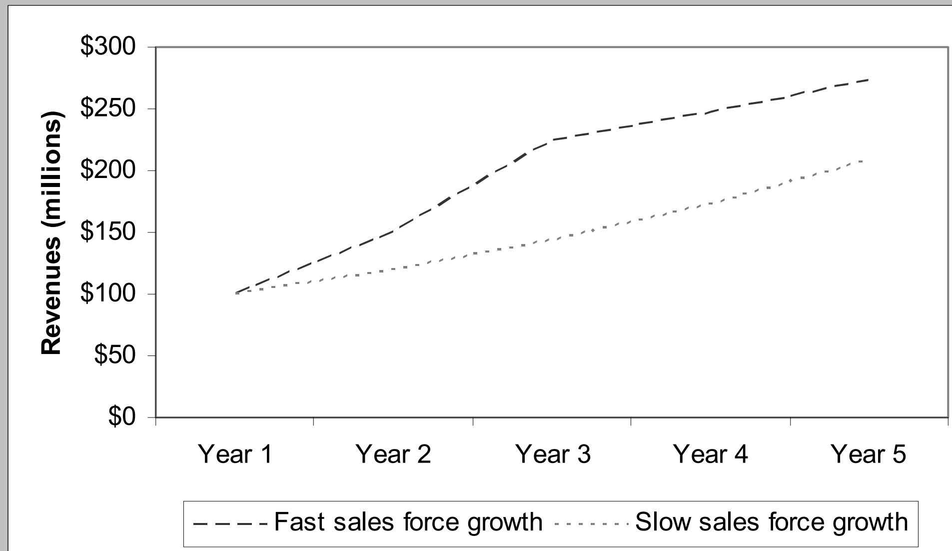
	Opportunity is Moderate	**Opportunity is Large**
Aggressive sales force growth	**(A)** Low morale Layoffs likely	**(B)** Right-sized Big payout
Conservative sales force growth	**(C)** Right-sized Small payout	**(D)** High morale, but money is left on the table

If the market opportunity turns out to be large, profits are maximized when an aggressive growth strategy is chosen (quadrant B of Figure 9). The sales force penetrates the considerable opportunity that exists, salespeople build relationships that create strong carryover sales, competitors are locked out, and there is a big payout. If the business chooses a conservative growth strategy in a large opportunity market (quadrant D of Figure 9) the opportunity loss is not seen since "what might have happened" is not observable. The business is likely to achieve its conservative sales and profit targets, sales force pay and morale are high, and sales leaders walk around with "smiles on their faces." Yet, the business leaves money on the table. The highest possible sales and profit potential is not realized since there are not enough salespeople to penetrate the customer base fully. Hence, the business has less money to invest in research and development of future products and markets than it could have had if a more aggressive growth strategy had been chosen. In addition, the business loses the carryover that could have been created by having a larger sales force. If the market is competitive and competitors pursue aggressive sales force sizing strategies, the sales force loses share of voice and therefore may gain sales less quickly and lose market share. If a multi-product business wants to introduce new products or reach new markets, it will be necessary to divert sales force effort away from inline products; this can have an unfavorable impact on total product portfolio profitability. Inline products seldom maintain their sales in the absence of sales force effort. When market opportunity turns out to be significant, conservative growth strategies are rarely profit maximizing, as is illustrated by the example in Figure 7.

While there are many negative potential consequences associated with a conservative growth/large opportunity scenario (quadrant D of Figure 9), there are some positive consequences as well. A conservative sizing strategy usually involves slow but steady sales force growth, while an aggressive strategy often calls for rapid growth followed by a period where the sales force size remains constant. Gradual sales force growth may be easier to implement, as salespeople are likely to accept consistent, slow expansion more readily than sudden, rapid expansion. Salespeople generally feel good about being part of an organization that grows consistently; they see constant opportunity and hence may be more motivated. In addition, financial markets reward steady sales and profit growth over lumpy growth. Dramatic growth can create expectations for future growth that the business cannot match. It is easier to maintain sales force quality with a slow growth strategy. Slow growth allows changes to be implemented on a small scale, so that proven processes can be developed and uncertainty reduced before change is implemented on a larger scale. Gradual sales force expansion is prudent when there are limits on capital and/or management capacity. Finally, a more cautious sales force expansion strategy reduces the chance that drastic sales force size reductions will be required if unforeseen events (such as a natural disaster or a significant economic downturn) adversely affect business. These advantages of slow sales force growth must be weighted against the significant opportunity loss that a slow growth strategy creates in a large opportunity market. Overly conservative sales force growth may cause the business to miss out on its best chance to become a market leader and provides less profit for the business to invest in product and market development that may drive its future success. The lost profit may very well end up in the pockets of a competitor.

Figure 10 provides an example of the projected growth stage revenue trend for one business for two different sales force sizing strategies. With the fast sizing growth strategy, 100 salespeople are added all at once at the beginning of the growth period. With the slow sizing growth strategy, 20 salespeople are added at the start of each year for five years. With the fast growth strategy, the business ends up with substantially higher revenues (and also more profit and greater market share) at the end of the five years; however the growth rate declines in the third year.

Figure 10. A comparison of projected revenues for a fast growth and a slow growth sales force sizing strategy



If the market opportunity turns out to be moderate, profits are maximized when a conservative growth strategy is selected (quadrant C of Figure 9). The payout is more modest than with the large opportunity scenarios, but the business remains profitable and the sales force is right-sized given the market opportunity. If the business chooses an aggressive growth strategy in a market opportunity that turns out to be only modest (quadrant A of Figure 9), the consequences can be quite serious. Likely, sales force size will need to be reduced. This can be a very painful process and creates a loss in faith for the sales leadership as well as low morale in the field. Most sales leaders will regret having to layoff people more than they will regret an opportunity loss associated with having too few salespeople. The opportunity loss is non-measurable—one can only guess what might have been if the sales force were larger. However, the pain associated with downsizing is real and the impact on morale can be devastating to a sales organization. Hence, most sales leaders will prefer to risk a quadrant D error (size too conservatively and leave money on the table) over a quadrant A error (size too aggressively and be forced to layoff salespeople).

Sales leaders should determine what sales force sizing strategy is most appropriate by evaluating the likely size of the opportunity and assessing the potential benefits and risks of pursuing an aggressive or conservative approach. Aggressive strategies are appropriate when the business has a very high likelihood of success and management has high confidence in the sales projections. A more conservative strategy is appropriate when there is greater uncertainty surrounding the potential success of the business. This is the time to be systematic and purposeful with developing accurate sales forecasts. Investments in market research, forecasting methods, and sales response analytics allow sales leaders to reduce the uncertainty surrounding forecasts considerably, and hence, encourage better sales force sizing decisions.

Too often sales leaders will under-invest in the sales force even when there is a high likelihood of success because they feel the pressure to maximize short-term earnings, anticipate sales force resistance to the expansion, and fear a quadrant (A) outcome. As in the startup stage, a business that invests too conservatively in spite of low uncertainty stands to lose substantial sales and profits.

As with the startup stage, the style and background of the business leader has an influence on sales force sizing strategy. Leaders with a risk-taking, competitive style are more likely to exhibit confidence in a decision to expand the sales force dramatically in order to beat out the competition. Leaders with a more conservative style and who rely heavily on financial ratios when making sizing decisions are usually more comfortable pursuing a slow growth, less risky approach.

Sales force structure

The issue of how to best structure the sales force becomes highly salient during the growth stage as the business evolves and becomes increasingly complex. During the startup stage, the product line is usually narrow and the number of markets is limited. Sales forces tend to be comprised of generalist salespeople who sell the entire product line to all markets. As the business evolves throughout the growth stage, the product portfolio expands and the sales force begins to call on customers and prospects in a broader set of markets with more diverse needs. In addition, as repeat sales become a larger proportion of total sales, customers require service and support, adding to salespeople's workload. As a result of all these factors, the sales job becomes more complex. The sales force must master multiple products, markets, and/or selling tasks in order to add customer value. Salespeople may lack the capacity and feel unable to acquire all the necessary skills and knowledge to do the job effectively. Their responsibilities may grow beyond their *bandwidth* or capacity to perform the job.

When a sales job grows beyond a sales force's bandwidth, salespeople are likely to drop the customers, products or selling activities that are most difficult or unpleasant for them. Unfortunately many of these customers, products, and activities may have strategic importance or large profit consequences for the business. A salesperson attempting to do a job that exceeds his or her bandwidth will no longer be able to meet customer needs successfully and as a result may fail to produce the desired results.

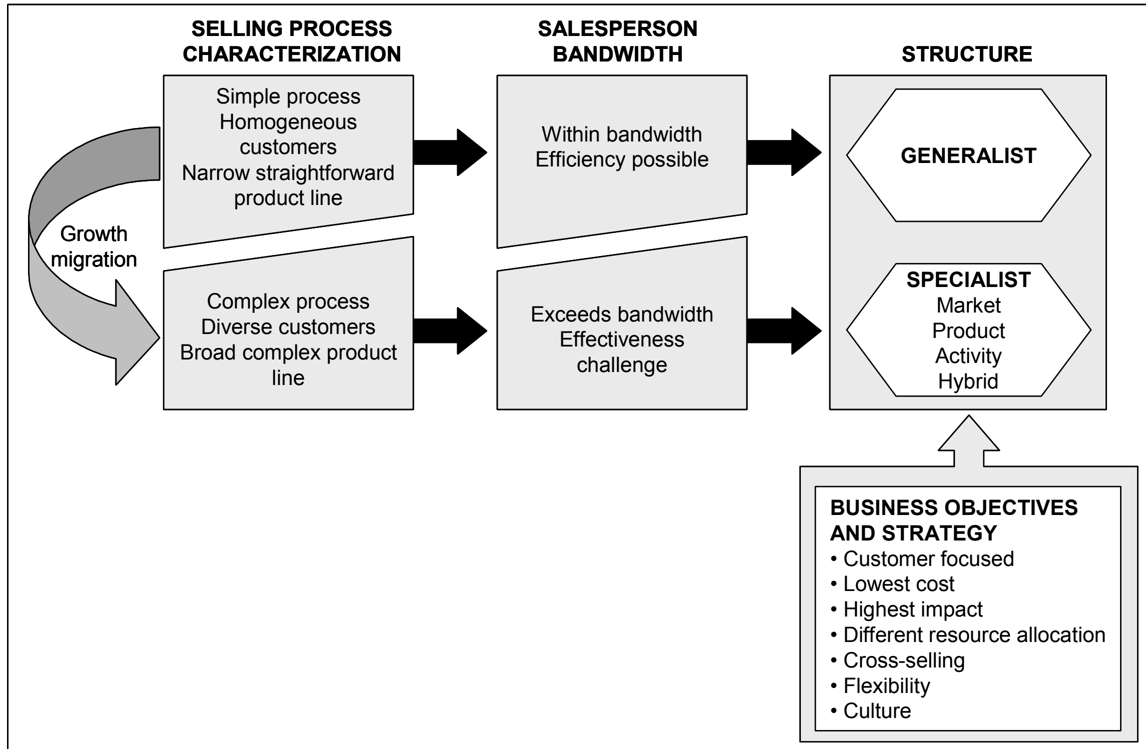
Sales force bandwidth concerns often first become apparent as a startup business moves through the growth stage of the business life cycle. Hence, a need for examining alternative sales force structures emerges. Specialized sales force roles may be required to cover all of the products and markets and to perform all of the necessary selling tasks effectively. Specialization can occur around products (a product-based structure)—for example, product specialists increase the sales force's technical proficiency. Specialization can also focus on markets or customers (a market-based structure)—for example, strategic account managers develop in-depth knowledge of important accounts. Finally, specialization can occur around selling activities (an activity-based structure)—for example, hunters become highly skilled at acquiring new customers, while farmers focus on current customer service and retention. Hybrid structures that include more than one type of specialization are also possible. All of these specialized sales roles help the sales force become more *effective* with customers and prospects.

A slightly different dynamic occurs for the rejuvenated growth business that is reentering the growth stage following maturity or decline. Quite often as a business migrates back to growth because of new product or service opportunities, the new offerings have a different value proposition and/or provide opportunity to reach new target market segments, hence creating a need for a new selling process. If the new selling process is significantly different from the existing process, the business may find that its existing sales force lacks the knowledge, skills, and capabilities to sell the new offerings effectively. Sales leaders must initiate change. As a first step, existing salespeople can be educated on the new selling process; however, education alone is not always sufficient to bring about the needed transformation. Some businesses will split the sales force into teams, asking one team to execute the old selling process and the other team to execute the new selling process. If neither education nor restructuring is sufficient to accomplish the transformation needed for successful growth, then the sales leadership team may need to consider replacing the existing team.

Figure 11 shows the various factors that determine the degree and type of sales force specialization that is appropriate for a business. During the growth stage, the selling process typically migrates from a simple process to a complex process. The specialization decision is driven largely by the complexity and diversity of the selling process, as compared to a salesperson's bandwidth. In addition to the selling process, business

objectives and strategy, including culture and need for flexibility, can also influence the sales force specialization decision.

Figure 11. A framework for determining sales force specialization



Five Common Sales Force Structures	
Structure	**Description**
Generalist	Each salesperson performs all the sales activities required to sell the full product-line to all markets. A generalist sales force is almost always the most *efficient* way to reach customers because salespeople will have smaller geographic sales territories and less travel time. Most businesses in the startup stage have generalist sales force structures.
Market-based	Each salesperson is responsible for selling the entire product line to a particular market segment or customer type. Common models of market-based specialization include industry-based specialization (for example, a sales specialist who covers the financial services industry and another who covers the healthcare industry), customer opportunity-based specialization (for example, strategic account managers who cover large accounts), and customer verticals (for example, a salesperson who calls on Wal-Mart stores and another who calls on Target stores).
Product-based	Each salesperson is responsible for selling a particular product or set of products to customers. More than one salesperson may call on each customer, with each salesperson representing a different product line.
Activity-based	Each salesperson is responsible for performing different parts of the sales process. More than one salesperson calls on each customer, with each salesperson performing a different function. For example, in technical sales, an account manager performs activities requiring salesmanship and a sales engineer performs activities requiring technical expertise.
Hybrid	Includes a mix of generalist, as well as product, market, and/or activity specialist sales roles. Hybrid structures often involve teams of salespeople working together to serve the needs of each customer.

No sales force structure has benefits without costs. A structure that helps a sales force accomplish certain objectives is likely to hinder the accomplishment of others. For example, consider the advantages and challenges created by market-based and product-based structures that are summarized in Figure 12.

Figure 12. Advantages and challenges of market-based and product-based sales force structures

	Advantages and Challenges of a …	
	Market-Based Structure	**Product-Based Structure**
Sales force effectiveness	Enhances customer knowledge and focus when customer complexity and diversity is high, but can compromise product expertise and focus.	Enhances product knowledge and focus when product line complexity and diversity is high, but can compromise customer focus.
Sales force manageability	Facilitates coordination at the customer level, but makes coordination with internal product-based business units more difficult.	Facilitates coordination with internal product-based business units, but requires customers to coordinate with multiple salespeople to get their needs met.
Sales effort control	Makes it easier to control sales force effort allocation across customers, but harder to control effort allocation across products.	Makes it easier to control sales force effort allocation across products, but harder to control effort allocation across customers.

In many ways sales force architecture is analogous to the architecture of a building—the "structure" supports certain parts of a building, but causes stress in others. Success is in finding an excellent sales force structure and creating effective mechanisms for dealing with the stresses. Hybrid sales force structures that include a mix of generalists as well as market, product, and activity specialists can help a business balance some of the advantages and stresses created by the different forms of specialization.

Hybrid sales force structures are essential to effectively align with the needs of large, strategically important customers. A sales force may have global account teams assigned to customers with presence in several countries with centralized or coordinated purchasing, national account teams for large customers with presence in several parts of the country with centralized purchasing, and key account teams for other large accounts. These teams are often organized around customers or industries and can include product and activity specialists to encourage focus and expertise. Businesses gain differential competitive advantage by creating such customer-focused strategic account teams. Sales leaders must create these selling teams early in the life cycle and adapt them as product lines and customer needs evolve.

Sales force sizing decisions should always be revisited whenever specialized sales roles are created. Two dynamics create a need to increase sales force size as the number of specialists increases, while a third dynamic creates an opportunity to decrease size. The net effect of the three dynamics is usually an increase in the need for salespeople (though not always). First, in order to achieve comparable coverage, specialists must cover larger geographic territories than generalists. The increased travel means that more salespeople are required to cover the same customer base. Second, the increase in effectiveness created by specialization makes sales calls more powerful. Average sales per call increase, making it possible to reach more customers profitably than before (sales per call exceed the cost per call at more accounts) and hence more salespeople are profitable. Third, the increased effectiveness of sales calls can make it possible to meet the needs of some customers in less time. This allows the same customer base to be covered with fewer salespeople. The impact of the first two dynamics (which create need for more salespeople) usually dominates the effect of the third (which creates need for fewer salespeople). Thus, most specialized sales force structures will require more salespeople than a generalist structure requires.

The transition from a generalist to a specialized structure can be challenging. In a move to market-based specialization, the workspace of salespeople changes considerably and many customer relationships can be disrupted. For example, a salesperson may change from covering a small geographic territory with a wide variety of customer types to calling on customers in a single industry that are geographically disperse. Sometimes in a move to specialization by product and activity, more than one salesperson begins to call on

the same customer contact. Hence, the sales force must adapt to an environment of team-based selling as issues of internal coordination and collaboration among salespeople become important. The skills and personality of salespeople likely to be successful in a team-based structure may be different from those of salespeople who were successful in a generalist structure.

Specialization also creates some risk for a business. If the markets in which a specialist focuses weaken or get depleted, or if the product that a specialist sells is pulled from the market or gets dominated by a competitive launch, specialists may be left with too little to do, and it may be very difficult to adapt the sales force structure quickly. Generalist sales force structures usually provide greater flexibility than do specialized structures. Since generalist salespeople are familiar with all the products, markets, and selling tasks, their effort can be redeployed more quickly as markets and business strategies evolve. The need for flexibility should always be considered when evaluating the potential benefits and risks of sales force specialization.

Two examples illustrate the reduction in flexibility that is created by sales force specialization. First, a developer and manufacturer of defibrillators and other medical devices was challenged to adapt to a change in status of a major account in the Houston area. The company's sales force was specialized by market. Salespeople sold to one of three markets: pre-hospitals (including police, fire, and EMT units), hospitals, and commercial enterprises (such as large corporations, stadiums, and health clubs). When the company signed a major contract to supply the entire Houston police force with its defibrillators, the workload for pre-hospital salespeople in Houston was substantially reduced. Once this major account was sold, pre-hospital salespeople did not have enough other accounts to keep fully busy. The company had to eliminate several pre-hospital sales positions in Houston and had to retrain salespeople to sell into the commercial and hospital markets, where they could be more productive and successful.

A second example comes from the consumer products industry. A packaged goods company established a customer vertical selling team for a major mass merchandising account. Several members of this team were dedicated to visiting individual stores, to help store managers determine the optimal arrangement of shelf space for the company's products, and to take orders for product replenishment. After some time, the mass merchandiser decided to centralize and internalize the shelf planning and reordering functions. It created an internal group at headquarters to develop and disseminate store-level shelf plan-o-grams and to handle all re-orders. The customer no longer required shelf planning assistance or product reordering from the packaged goods company, and hence, members of the customer vertical team were left with too little work, necessitating costly retraining and redeployment of sales force resources as well as some downsizing.

Role of selling partners

In some industries, the increased use of selling partners is a critical component of sales force architecture during the growth stage. As sales job complexity grows, the addition of new selling partners (instead of or along with the addition of direct salespeople and specialty sales roles) can help a business expand more quickly and effectively. As in the startup stage, the use of selling partners should be driven by the ability of partners to provide compelling strategic advantage to the business. Several types of strategic advantage are possible. First, partners may have access to and expertise in specific vertical markets, thus allowing the business to gain rapid access to these markets. Second, selling partners can provide product assortment that enhances customer value by bundling the business's products with complementary products from other manufacturers. Third, partners can provide expertise and integration of products into a total solution, as in the case of value added resellers (VARs) in the computer industry. Finally, partners can provide flexibility to change sales force capacity quickly when demand is seasonal or lumpy.

Increased emphasis on VARs was a critical element of the growth stage marketing strategy for computer security vendor McAfee. In 2003, sales of network management and help-desk offerings at McAfee (then called Network Associates) were flat and the company's security offerings were losing share to market leader Symantec. Many VARs avoided working with McAfee because of its partner unfriendly culture and because McAfee's direct sales force often competed with VARs for business. After divesting its low-growth network management and help-desk offerings in 2004, McAfee totally revamped its sales approach in order to grow its security business. McAfee recognized that successful VAR relationships would be critical if it hoped to succeed as industry giants like Cisco Systems and Microsoft entered the market. The company restructured its sales department and IT systems, aligning them better with partner needs. McAfee doubled its staff dedicated to supporting partners, reduced its direct-sales force by 90 percent, and cut the number of direct accounts from hundreds to just 10. The company added nearly 1,000 new partners in less than a year and sales through partners moved from about 60 percent in 2002 to more than 90 percent in 2005. Revenues (excluding the divested product lines) during this same period grew by over 40 percent.

A business that uses selling partners has entrusted its most important asset, the customer, to another organization. It is this other organization that decides how to use its sales time and other assets to support the business's products. The business needs the partner's attention in order to succeed. An effective partner management system enhances the success of any selling partnership. Partner management includes incentive programs, marketing programs, and a partner manager who is skilled at providing encouragement, sales process assistance, sales analytics, and end user pull-through. Too frequently companies rely excessively on partner incentives. Incentives for partners are not a substitute for a comprehensive partner management system and a strong partner manager who spends valuable time with the partner and encourages achievement of results.

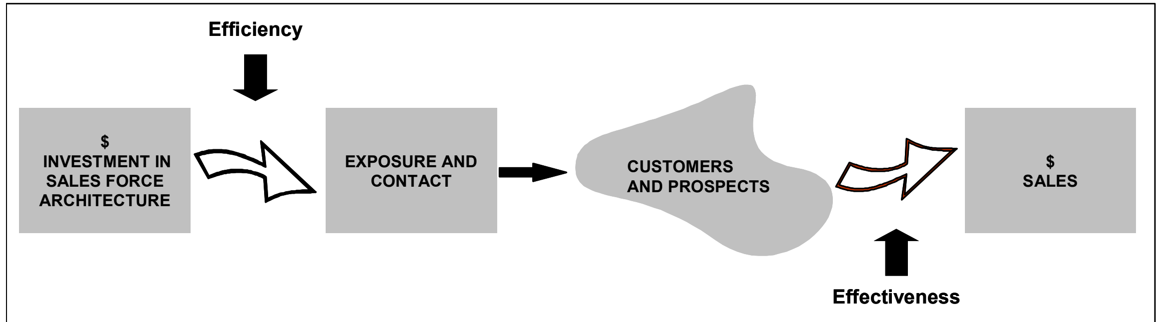
MATURITY

Description and summary

Business growth subsides in the maturity stage. Products and services begin to lose their differential advantage and competition intensifies. Margins erode. The focus of management attention shifts considerably from that of the growth stage. During growth, the sales force is in an expansion mood; sales leaders are occupied with answering the questions of "How do I capture the opportunities?" "How many people do I need?" and "How do I structure the selling effort as the job's complexity increases?" During maturity, sales leaders rely more on resourcefulness than on increasing scale. Customer strategy focuses on retaining customers, serving existing market segments, and seeking creative ways to get both efficiency and effectiveness gains from the sales force.

A framework for understanding the concepts of *efficiency* and *effectiveness* within the context of sales force architecture appears in Figure 13.

Figure 13. Efficiency and effectiveness of sales force architecture



A business invests money in sales force architecture to promote its products and services to customers and prospects. The money it spends generates selling exposure or contacts with customers and prospects who respond by buying the business's products and services. *Efficiency* reflects the rate at which the sales force architecture converts its investment into exposure and contact. A highly efficient sales force architecture has a high level of customer exposure to promotion for its investment. Effectiveness represents the buyer's response to the exposure. A highly effective sales force architecture has high impact and a high sales conversion rate per exposure. To illustrate the concepts of efficiency and effectiveness, compare the dynamics of contacting customers face-to-face using specialized field salespeople with contacting customers over the telephone using telesales representatives. The telesales approach is likely to be more efficient; a telesales representative can contact many customers at relatively low cost. However, the specialized field sales approach is likely to be more effective; a face-to-face sales call is more likely to result in a sale than is a telephone call. During the growth stage, sales leaders are usually focused on being as *effective* as possible with customers and prospects. During maturity, an additional emphasis of sales leadership attention is on being *efficient* by generating the right customer contact less expensively.

The top priority of sales force architecture decision making during the maturity stage is sales force effort allocation and how to make the most productive use of available resources. A second sales force architecture priority is structuring the sales force for efficiency. Third, sales leaders should re-examine sales force sizing for enhanced profitability. These challenges, which are described in detail in this section, are summarized in the inset box.

The maturity stage—resource allocation challenge: As the product and service offering begins to lose its differential advantage, sales leaders who employed the "go get it" strategy during the growth stage need to deploy sales resources better across products, markets, and activities in the maturity stage.

The maturity stage—sales force structure challenge: The sales force structures that evolved during the growth stage may be too expensive to maintain as management becomes more cost and profitability focused during the maturity stage. Sales leaders must seek creative ways to reduce the cost of making customer contact through more efficient sales force structures.

The maturity stage—sales force sizing challenge: The sales force size emerging from the growth stage is not always the right size for the maturity stage. As growth subsides, sales force size should be re-evaluated and fine-tuned as necessary for enhanced profitability.

During the maturity stage, while the role of selling partners remains important, there is usually less emphasis on this issue than there is during other life cycle stages. By maturity, partnerships have been established. Partner management, including appropriate incentives, marketing programs, and a strong partner manager should continue to be emphasized. In addition, partnership decisions may require some fine-tuning. For example, relationships with non-performing partners should be severed, as the business seeks efficiency and effectiveness gains that will drive profitability. Partnership strategies will once again become more salient in the decline stage, when finding lower-cost selling channels often becomes essential to the business's survival.

Key sales force architecture decisions

Sales force resource allocation

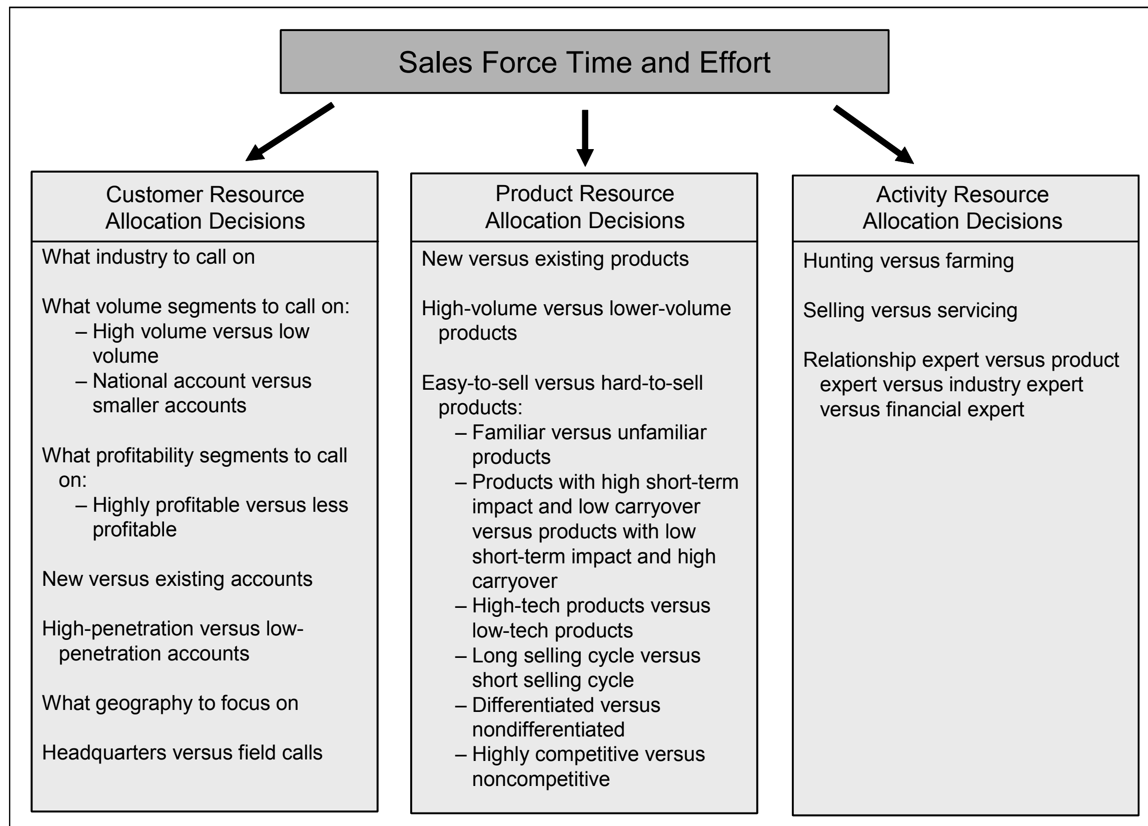
During the maturity stage, sales leaders strive to find creative ways to continue to increase sales force effectiveness, despite pressures to increase efficiency and cut costs. The sales force has gathered the "low hanging fruit" in the startup and growth stages. Its ability to continue to thrive and grow profitability in the maturity stage requires a more focused approach to sales resource utilization. Financially, it no longer makes sense to increase the *quantity* of sales effort; now is the time to improve the *quality* of effort.

Sales effort deployment or resource allocation is a very powerful way to enhance effectiveness. In the ZSL sample, the average improvement in contribution margin due to combined better sales force sizing and

smarter resource allocation was 4.5 percent – 29 percent of this improvement was due to better sizing and a dominant 71 percent was attributed to smarter resource allocation.

The sales force is a resource allocation machine. Figure 14 shows the numerous ways in which the effort of a selling organization can be deployed.

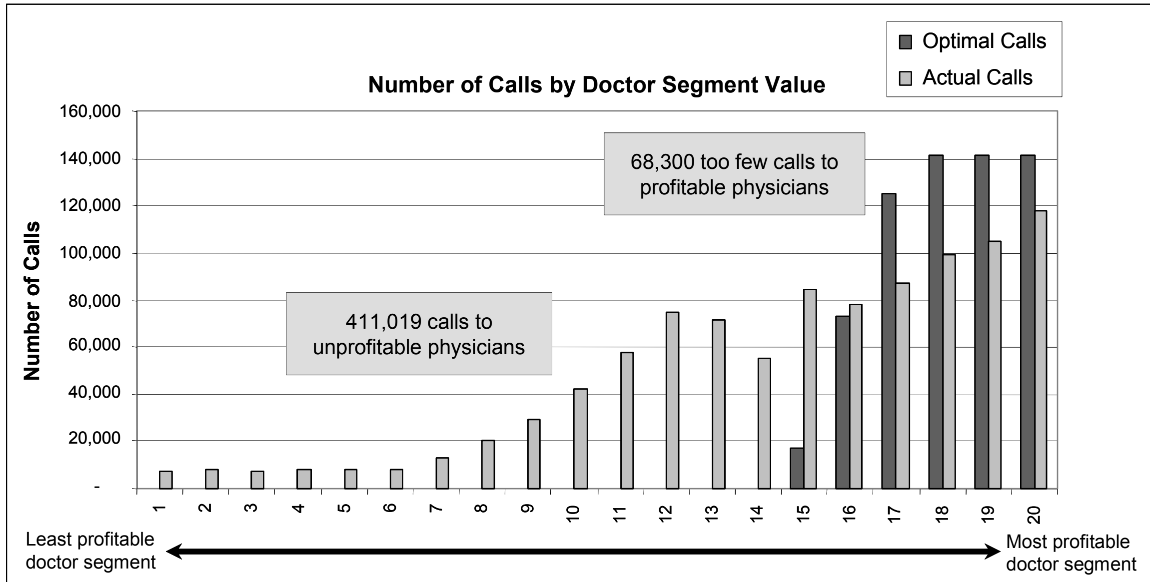
Figure 14. The sales force: a resource allocation machine



Optimal sales force effort allocation is hard to achieve for four reasons. First, sometimes businesses are not aware of the best effort allocation strategy because they lack data that measure account or territory potential. Second, even when account potential data are available, sometimes businesses and salespeople use the wrong rules for effort allocation. For example, they will target customers and market segments with high potential or sales; however, customers and prospects in these segments are not always very responsive to selling effort. The best allocation rule is to allocate resources to products and markets that have high sales (and profit) responsiveness to sales force effort. Third, salespeople often implement non-optimal resource allocation strategies because they tend do what is easy, such as calling on "friends and family" or selling the products that they are most comfortable with. Finally, if a large portion of sales force pay comes in the form of incentives tied to performance, salespeople will engage in the activities that will maximize their own personal earnings, sometimes sacrificing what is best for the business or customer.

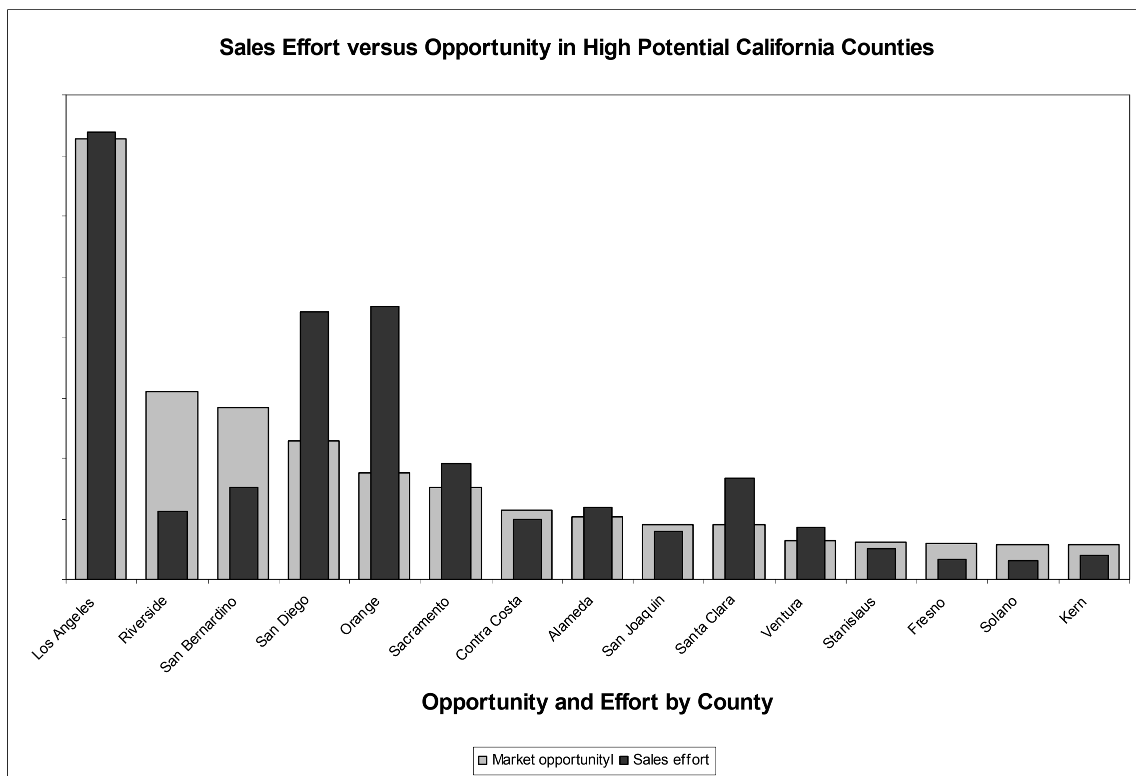
Sales force effort misallocation examples are plentiful. The data in Figure 15 from a pharmaceutical company show misallocation of sales force effort across doctor segments. The optimal calls show how the sales force should spend its time in order to maximize profitability. Currently, the sales force is wasting approximately half of its time calling on unprofitable segments.

Figure 15. Example of misallocation of effort across customers



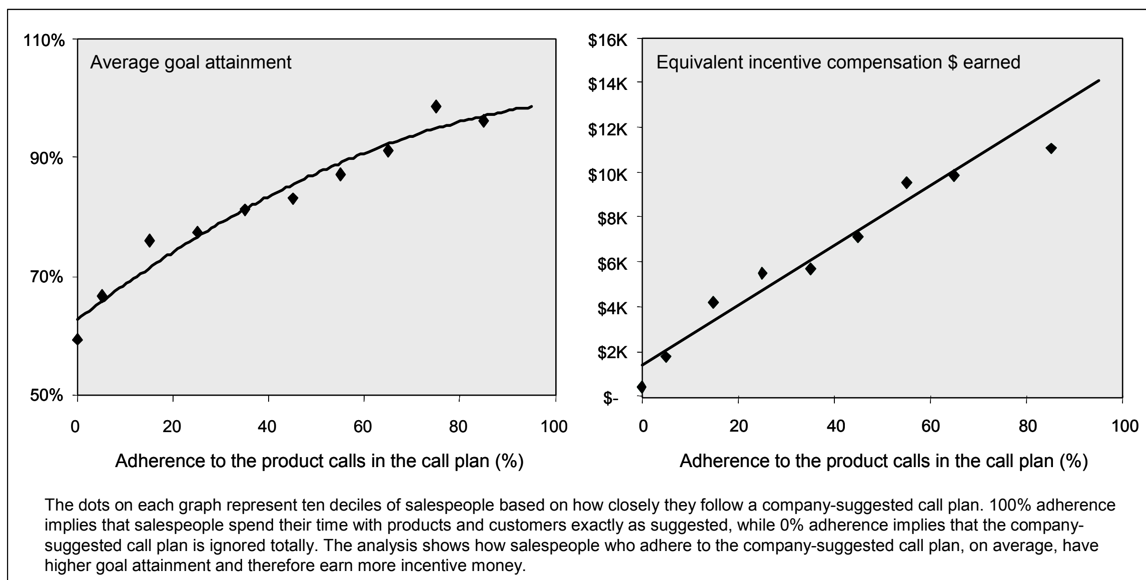
The data in Figure 16 from a financing company show effort misallocation across several high potential California counties. By reallocating effort so that it was better matched to market opportunity, the company was able to achieve a dramatic improvement in results.

Figure 16. Example of misallocation of effort across geographic areas



Very powerful approaches to deriving effective sales force effort allocation strategies are possible when the data and analytical capability exist to measure how responsive different products and markets are to sales effort. Sales response analysis allows sales leaders to evaluate the sales and profit consequences of alternative effort allocation strategies across products and/or market segments and to determine a profit maximizing strategy. Based on the findings of the analysis, salespeople can be educated on what effort allocation strategies work and don't work and the incentive plan can be aligned with the desired strategies. Figure 17 shows how one company shared this type of information with its sales force. The left hand side of Figure 17 shows salespeople the value of proper effort allocation and the right-hand side of Figure 17 shows salespeople how much more incentive money they can make if they follow the suggested effort allocation strategy. The company provided this information to every salesperson and empowered the sales force to make the right decisions about how to spend its time.

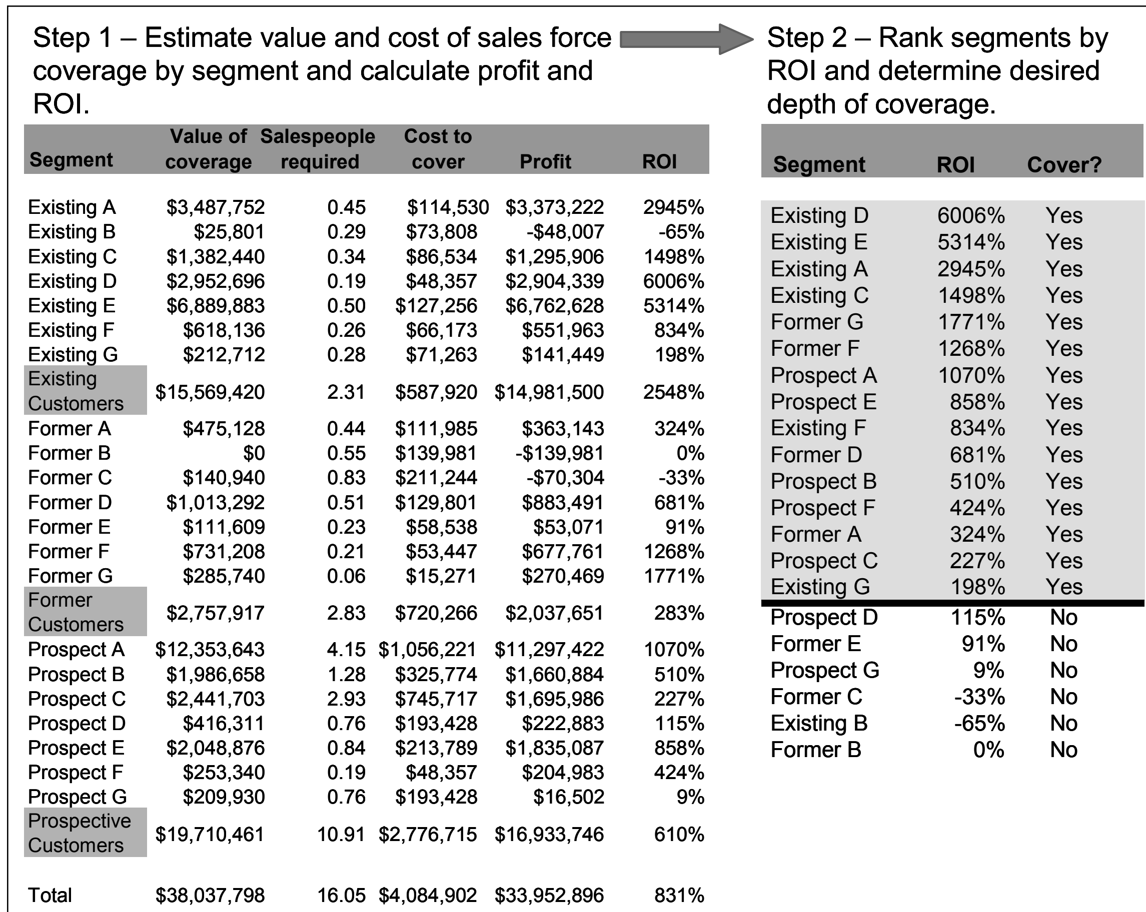
Figure 17. The value of effective sales force effort allocation and the impact on incentive compensation



The dots on each graph represent ten deciles of salespeople based on how closely they follow a company-suggested call plan. 100% adherence implies that salespeople spend their time with products and customers exactly as suggested, while 0% adherence implies that the company-suggested call plan is ignored totally. The analysis shows how salespeople who adhere to the company-suggested call plan, on average, have higher goal attainment and therefore earn more incentive money.

Businesses that do not have the data and/or analytical capability to measure sales responsiveness to effort can still make dramatic improvements in their sales effort allocation strategies by investing in the development of measures of account potential or opportunity and sharing this information with the sales force. Figure 18 shows how a large not-for-profit organization analyzed its markets in order to provide guidance to its sales force on how to spend its time. The organization had reached a plateau in sponsorship revenues, yet could only afford a small sales organization. There were hundreds of thousands of potential customers, and salespeople received little direction from management about which customers to call on. To change this, existing accounts, former accounts, and prospective accounts were subdivided into seven segments each, based on company size and contribution history. The value of covering each segment with the sales force was estimated, based on analysis of segment growth potential and the likelihood of sales success. These estimates incorporated historical trends, primary market research, and sales management input. Then, the cost of covering each segment with the sales force was estimated (based on the number of salespeople required to complete all the steps of the selling process for the accounts in the segment), the value of coverage was compared to the cost, and a segment ROI was calculated. Segments were ranked according to ROI, and the appropriate depth of coverage was determined (management had set a target ROI of 200 percent). The sales force was asked to focus its attention on the top 15 customer segments, thus making more effective use of the company's limited resources.

Figure 18. Market segmentation analysis used to determine sales force resource allocation at a non-for-profit organization



Step 1 – Estimate value and cost of sales force coverage by segment and calculate profit and ROI.

Segment	Value of coverage	Salespeople required	Cost to cover	Profit	ROI
Existing A	$3,487,752	0.45	$114,530	$3,373,222	2945%
Existing B	$25,801	0.29	$73,808	-$48,007	-65%
Existing C	$1,382,440	0.34	$86,534	$1,295,906	1498%
Existing D	$2,952,696	0.19	$48,357	$2,904,339	6006%
Existing E	$6,889,883	0.50	$127,256	$6,762,628	5314%
Existing F	$618,136	0.26	$66,173	$551,963	834%
Existing G	$212,712	0.28	$71,263	$141,449	198%
Existing Customers	$15,569,420	2.31	$587,920	$14,981,500	2548%
Former A	$475,128	0.44	$111,985	$363,143	324%
Former B	$0	0.55	$139,981	-$139,981	0%
Former C	$140,940	0.83	$211,244	-$70,304	-33%
Former D	$1,013,292	0.51	$129,801	$883,491	681%
Former E	$111,609	0.23	$58,538	$53,071	91%
Former F	$731,208	0.21	$53,447	$677,761	1268%
Former G	$285,740	0.06	$15,271	$270,469	1771%
Former Customers	$2,757,917	2.83	$720,266	$2,037,651	283%
Prospect A	$12,353,643	4.15	$1,056,221	$11,297,422	1070%
Prospect B	$1,986,658	1.28	$325,774	$1,660,884	510%
Prospect C	$2,441,703	2.93	$745,717	$1,695,986	227%
Prospect D	$416,311	0.76	$193,428	$222,883	115%
Prospect E	$2,048,876	0.84	$213,789	$1,835,087	858%
Prospect F	$253,340	0.19	$48,357	$204,983	424%
Prospect G	$209,930	0.76	$193,428	$16,502	9%
Prospective Customers	$19,710,461	10.91	$2,776,715	$16,933,746	610%
Total	$38,037,798	16.05	$4,084,902	$33,952,896	831%

Step 2 – Rank segments by ROI and determine desired depth of coverage.

Segment	ROI	Cover?
Existing D	6006%	Yes
Existing E	5314%	Yes
Existing A	2945%	Yes
Existing C	1498%	Yes
Former G	1771%	Yes
Former F	1268%	Yes
Prospect A	1070%	Yes
Prospect E	858%	Yes
Existing F	834%	Yes
Former D	681%	Yes
Prospect B	510%	Yes
Prospect F	424%	Yes
Former A	324%	Yes
Prospect C	227%	Yes
Existing G	198%	Yes
Prospect D	115%	No
Former E	91%	No
Prospect G	9%	No
Former C	-33%	No
Existing B	-65%	No
Former B	0%	No

Businesses that sell a broad product-line can also see effort misallocated across products. Some salespeople may decide that they need to sell "everything in the bag." Other salespeople may spend too much time with familiar or easy-to-sell products. In addition, product managers who support secondary products may use short-term contests and incentives to motivate the sales force to sell these products, hence distracting the sales force from spending enough time with strategic products.

Data from the ZSL study show that businesses are not very effective at allocating sales resources across multiple products. The allocation of sales effort that maximizes long-term profits occurs when incremental long-term returns to sales force effort are equal across all products. Yet in the ZSL study, the average ratio of the largest incremental return to the smallest incremental return was eight to one. This reveals a serious misallocation of selling effort across products.

> One company's sales plan called for its 100 salespeople to spend time selling all of its 37 products—"sell everything in the bag." This meant that each product would receive, on average, just 2.7 percent of the sales force's time—hardly enough to make a difference. Analysis revealed that profits could be dramatically improved if the sales force focused on just 8 of the 37 products.

Typically businesses will discover that focused effort allocation strategies dominate scattered strategies. Figures 15 and 18 provide examples of the importance of focus on the right customers. In both examples, profits are higher when the sales force spends its time with a more valuable subset of the customer

universe. Focused product allocation strategies also dominate scattered strategies for businesses that sell a broad product line.

Territory realignment, or the assignment of accounts, prospects, or geography to salespeople, is also an allocation decision. Good territory alignment, in which sales territories are equitable from a workload and opportunity perspective, is a frequently overlooked productivity tool. To quantify the value of good territory alignment, we analyzed data from a sample of 36 sales force alignment studies that ZS Associates conducted in eight different industries in the US and Canada. The data-based analysis showed that 55 percent of all sales territories were either too large or too small. This represented a lost 2 to 7 percent revenue opportunity for these businesses. Further, good sales territory alignment is important for effective performance management, salesperson rankings, quota setting, and compensation. When businesses take an evolutionary and decentralized approach to territory design, the inevitable consequence is territories that do not match sales force effort effectively to customer needs and also inhibit fair sales force performance evaluation and reward systems. Businesses can develop and maintain good alignments by developing accurate measures of account workload and potential, auditing sales territory balance annually, and using structured processes and efficient tools to change alignments as necessary to support business needs.

Sales force structure

During the growth stage, sales force structure decisions are driven by a desire to increase sales force *effectiveness,* or the rate at which customer contact generates sales. As business complexity increases, the sales force develops greater expertise by specializing around products, markets, and/or selling activities. During the maturity stage, an additional focus of sales force structure decisions is on improving *efficiency,* or the cost of making customer contact. Sales leaders seek out ways to use less expensive selling resources to accomplish the required work. This can be accomplished in one of two ways. First, by having more generalist salespeople and fewer specialists, travel costs are reduced and flexibility to redeploy resources quickly is enhanced. Second, lower-cost sales force resources, such as sales assistants, telesales, and part-time salespeople, can begin to play a more prominent role in connecting with customers. Lower-cost selling channels that are complementary to the sales force, such as the Internet, can take on increased importance in the customer connection process.

Less-expensive sales resources can be deployed strategically against specific customers, products, or selling activities. Such resources can be used to reach small or geographically dispersed customers or to sell easy-to-understand products. Perhaps the most creative use of lower-cost selling resources during the maturity stage is to use these resources to perform some of the complementary activities in the selling process that do not require face-to-face contact with a salesperson. For example, at an enterprise software company, a sales assistant and a field salesperson are matched one-on-one and work together as a team to meet customer needs and achieve a territory sales goal. The lower-paid sales assistants are able to handle most of the administrative selling duties, thus freeing up the higher-paid salespeople’s time for high value-added selling activities. A newspaper company hired sales assistants to take over many of the non-selling tasks related to servicing accounts and completing administrative work. Figure 19 shows how salespeople at the company were spending their time prior to the sales assistants being hired; only 34.6 percent of the sales force’s time was spent selling. With the addition of the sales assistants, salespeople were freed up to spend more time selling, and since the sales assistants were paid less than the salespeople, efficiency improved dramatically.

Figure 19. How salespeople at a newspaper company spend their time

Type of Activity		Activity	Percent of Time
Selling	34.6%	1. Active selling to advertisers (face-to-face or phone)	22.8%
		2. Active selling to non-advertisers (face-to-face or phone)	10.7%
		3. Entertaining advertisers and non-advertisers	1.1%
Servicing	40.8%	4. Developing presentations and proposals	4.6%
		5. Account planning	4.4%
		6. Account maintenance and customer service	8.5%
		7. Insertion orders	8.4%
		8. Creative and layout work	4.9%
		9. Dealing with production problems	4.0%
		10. Dealing with credit, billing and collection problems	6.0%
Administration	16.8%	11. Meetings	3.0%
		12. Paperwork and administration	7.6%
		13. Training	2.0%
		14. Travel (to/from accounts)	4.2%
Other	7.8%	15. Other	7.8%
Total			100.0%

By the maturity stage, some businesses discover that their sales forces have become overspecialized, resulting in considerable inefficiency.

During the growth stage at one medical products company, a new specialty sales force was added with almost every major new product introduction. Eventually, some large hospitals had more than 30 company salespeople calling on them, with many of the sales specialists calling on the same customer contacts. Not only were travel costs excessive, but the numerous specialists were unable to coordinate their activities and many customers became confused and frustrated. The company changed its sales force structure, reducing the number of specialists and adding account managers at large accounts who could coordinate all customer-focused activities. In addition, the customer relationship management (CRM) system was improved to encourage more efficient customer information sharing and activity coordination.

In addition to efficiency enhancements, some effectiveness initiatives are also possible during the maturity stage. In a sales force with a product-based structure that has more than one product-specialist covering the same customer contact, it is possible to use cross-selling to leverage key customer relationships and enhance sales force effectiveness. A sales force structure that enhances cross-selling includes an account manager for large accounts who plays the role of a "quarterback" and brings in product specialists at the right time to meet customer needs. Smaller accounts that don't justify so many selling faces are covered only by the multiple product-line salespeople or by just account managers. Many businesses will establish account quarterbacks to enhance coordination of sales effort for important customers during the growth stage, and these structures can be leveraged during maturity to encourage cross-selling. If a sales force does not have account quarterbacks in place prior to maturity, it is difficult to establish them successfully so late in the game, since product specialists may be unwilling to give up any of their power with the customer to a quarterback. In this case, multiple product-line salespeople can be encouraged to cross-sell through sales force incentives, training, and culture, although usually such efforts produce unsatisfactory results if superimposed on a sales organization late in its structural evolution.

Sales force size

Sales force size is likely to remain fairly constant during the maturity stage. By this time, most businesses have built up substantial momentum, and carryover sales provide a sizable floor and contribute substantially to profits. Some businesses will experience a modest upsizing opportunity, especially if the sales leadership team has been conservative in the growth stage. Others will want to downsize slightly as pressure to deliver profitable sales intensifies.

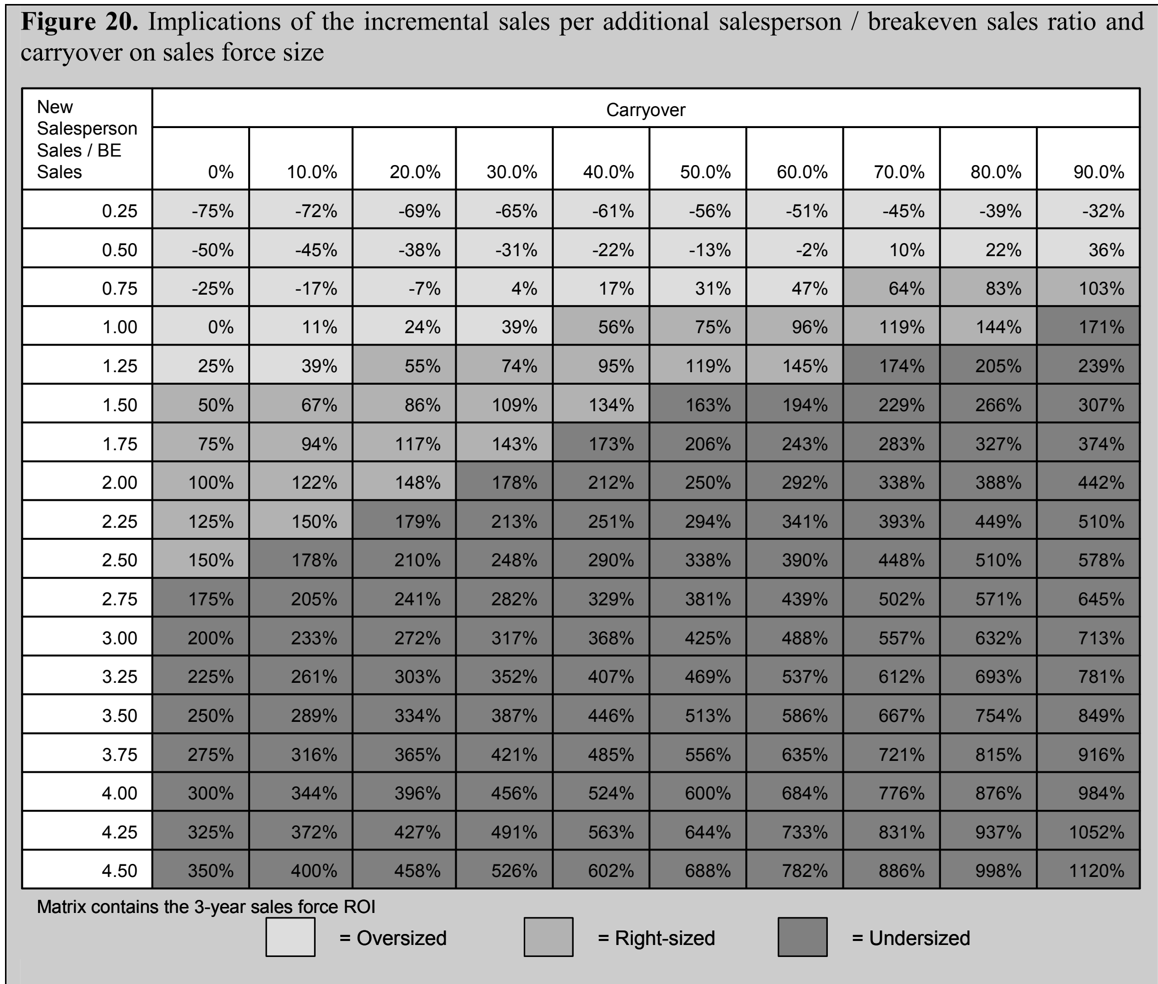
As management increases its focus on profitability, financial sales force sizing tests become important. Most leaders of mature businesses will begin to demand greater short-term ROI on any incremental sales force investment than they did during the startup and growth stages. Many businesses will benchmark their sales force costs against industry and company historical norms, striving to maintain a sales force size that keeps costs at a reasonable percentage of sales. Benchmarks for sales force costs as a percent of sales vary considerably across industries.

A breakeven analysis can help determine whether the sales force is too large, too small, or about the right size during the maturity stage. The analysis requires the following five steps.

1. **Estimate the annual cost of a salesperson.** Include all costs that vary with the number of salespeople, such as salary, benefits, taxes, bonuses, automobiles, travel expenses, computers, call reporting, administrative support, and field support.
2. **Estimate the gross contribution margin.** This is the percent of sales that the business keeps as profit, after taking out variable product costs. Variable product costs include raw materials, manufacturing, royalties, freight to factory, and shipping to customers. Variable costs do not include allocations of fixed costs, such as factory overhead and R&D.
3. **Calculate breakeven sales.** Divide the cost of a salesperson by the gross contribution margin. This is the amount a salesperson must sell in a year in order to cover his or her cost.
4. **Estimate the average annual sales that an additional salesperson could generate.** The current statistic of average annual sales per salesperson provides a reference point for what this level of sales might be. Average annual sales per additional salesperson will be less than average annual sales per current salesperson because of diminishing returns and because of the lower effectiveness of new salespeople.
5. **Compute the ratio of average sales per additional salesperson to breakeven sales.** The ratio reflects the extent to which an additional salesperson will generate sales to cover his or her costs. For example, a ratio of 2.00 implies that on average, a new salesperson will generate gross margin equal to twice his or her cost within a year.
6. **Estimate the percent of this year's sales that will be retained next year without any sales force effort next year.** This is the carryover sales percent.
7. **Use the table in Figure 20 to find out what the breakeven ratio and the carryover rate imply about sales force size.** The numbers in each cell of the table represent a 3-year ROI on incremental sales force investment. The sizing recommendations are based on the following ROI targets:
    - ROI of less than 50 percent: Sales force is too large
    - ROI of 50 to 150 percent: Sales force is right-sized
    - ROI of over 150 percent: Sales force is too small

    These ROI targets are consistent with those commonly used by sales organizations that we have worked with in the maturity stage, however, the ROI target can be adjusted appropriately to a specific situation and the sizing recommendation adjusted accordingly. Notice that for a given breakeven ratio, the ROI (and therefore the sales force sizing recommendation) varies depending upon the amount of carryover in the selling environment. For example, a ratio of 1.00 implies that in a low carryover environment (less than 40 percent of sales would be retained next year without effort) the sales force may be too large. In a moderate carryover environment (more than 40 percent but less than 90 percent of sales would be retained next year without effort) the sales force is about the right size. In a high carryover environment (90 percent or more of sales would be retained next year without effort) the sales force may be too small.

Figure 20. Implications of the incremental sales per additional salesperson / breakeven sales ratio and carryover on sales force size

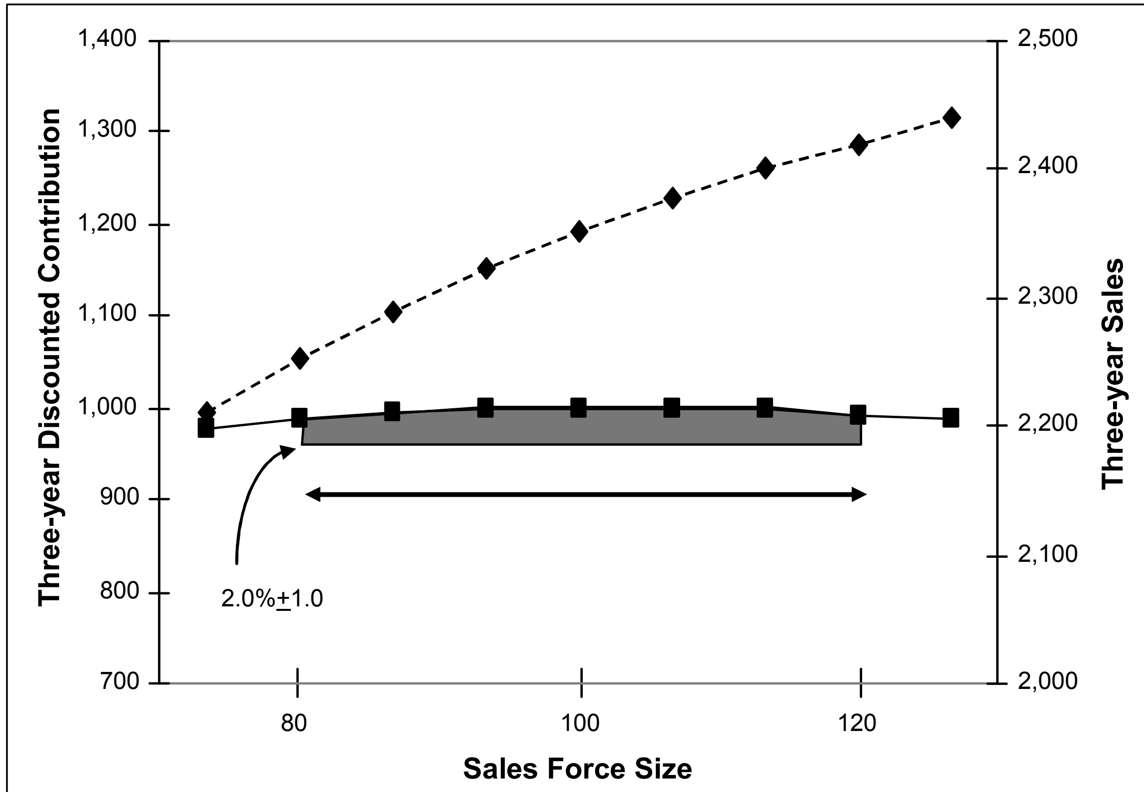


New Salesperson Sales / BE Sales	Carryover									
	0%	10.0%	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%
0.25	-75%	-72%	-69%	-65%	-61%	-56%	-51%	-45%	-39%	-32%
0.50	-50%	-45%	-38%	-31%	-22%	-13%	-2%	10%	22%	36%
0.75	-25%	-17%	-7%	4%	17%	31%	47%	64%	83%	103%
1.00	0%	11%	24%	39%	56%	75%	96%	119%	144%	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%
4.25	325%	372%	427%	491%	563%	644%	733%	831%	937%	1052%
4.50	350%	400%	458%	526%	602%	688%	782%	886%	998%	1120%

Matrix contains the 3-year sales force ROI

During maturity, profitability is almost always flat for a fairly wide range of sales force sizes around the profit-maximizing size. This means that it is not necessary to be extremely precise in achieving a profit-maximizing sales force size. Some data from the ZSL sample are shown in Figure 21. Three-year discounted contribution varied by just two percent for sales force sizes that varied plus or minus 20 percent from the profit maximizing sales force size. Hence, a sales force that is up to 20 percent above the profit-maximizing size during maturity will not reduce profitability significantly. Similarly, a sales force at up to 20 percent below the profit-maximizing size will not reduce profits appreciably.

Figure 21. Profitability is flat over a large range of sales force sizes during maturity



Recall also that the ZSL research showed that smart sales effort allocation to products, markets, and selling activities is a more significant profit enhancer than is sales force sizing for mature businesses. Businesses can compensate for sub-optimal sales force sizing decisions by encouraging better effort allocation across the sales force. This can be accomplished by enhancing important sales force systems and processes, such as providing the sales force with better targeting information, coaching salespeople to perform critical sales activities more effectively, or adjusting the compensation plan to encourage selling of the most profitable product lines.

If financial analysis reveals that the sales force size is too large, sales leaders must begin to think about downsizing, particularly if the decline stage is imminent. Most sales forces have a huge aversion to letting people go. Downsizing is a painful process and can be devastating for sales force morale. Sales leadership teams that anticipate a need for future downsizing sometimes use attrition to downsize the sales force slowly to a desirable level. To be successful, attrition management programs need to be systematic. Too often, across-the-board hiring freezes result in the loss of top salespeople in important locations, leading to insufficient coverage of important customers. Intelligent attrition management programs consider territory opportunity, so that vacant territories in low potential areas are closed down but those in high opportunity areas are not. Selective hiring to fill some important vacancies dominates a hiring freeze.

A Canadian company had a mature product line and no major new products in the pipeline. Company sales leaders knew that the decline stage was imminent and that sales force layoffs would need to occur in the future. Sales leaders created a plan to help the sales force complete the impending downsize less painfully. The company currently had 100 salespeople and expected to reduce headcount down to 70 salespeople in approximately one year. Sales leaders laid out 70 sales territories right away for the post-downsized sales force and the top 70 salespeople based on performance rank were given a territory in the new configuration. Those ranked lower than the top 70 were put into "overlay" territories and were asked to assist the 70 salespeople by co-selling at important accounts. The salespeople in the overlay territories were told that they would be offered a territory according to their performance rank and location as attrition among the top 70 salespeople occurred over the next year. Planning ahead helped the company retain the best salespeople and transition to the new smaller organization successfully.

Value-based selling

Even though this paper focuses on sales force architecture, it is worth mentioning the role of value-based selling during the maturity stage. Many mature businesses will initiate value-based selling as a strategy for increasing sales effectiveness. The idea behind this approach is that the value of an offering in the eyes of customers can be increased (and therefore margins can be maintained) if solutions are tailored to customer-specific needs. Solutions often extend beyond the product itself, and can include added services (such as installation or training), programs (such as financing options or partnering programs), or systems (such as custom ordering or billing systems). Many businesses will pursue value-creation strategies as they reach maturity, as a means of creating competitive advantage. We have observed that such strategies more often than not have limited success. Unless the product being sold truly has measurable impact on a customer's business, value-creation strategies usually do little to create true customer value or generate sustainable competitive advantage. For products that do have measurable impact, and therefore are compatible with a value-based approach, value-based selling should be employed throughout the life cycle—starting in the maturity stage may be too late or may be just wishful thinking.

DECLINE

Description and summary

In the decline stage of the business life cycle, the product and service portfolio has lost its differential competitive advantage and customers are shifting to other products and technologies. The sales force is expected to help the business remain viable while business leaders seek a breakout strategy, such as a significant new product innovation or a merger or acquisition partner, or wait for a favorable environmental shift or competitive misfire. Sales leaders feel pressure to maintain or restore profitability in the face of declining revenues. Focus shifts to reducing sales force costs, while at the same time retaining customers and sales force talent within the organization.

During decline, customer strategy focuses on continuing to increase efficiency, while protecting business with key customers and exiting unprofitable segments. The most salient sales force architecture decisions are determining the right sales force size and seeking efficiency gains by re-defining the role of selling partners and continuing to structure the sales force for cost-effectiveness. These challenges, which are described in detail in this section, are summarized in the inset box.

The decline stage—sales force sizing challenge: Sales leaders sometimes reduce headcount too slowly or make across-the-board sales force cuts during the decline stage that simply accelerate the rate at which the business declines. Sales leaders are challenged to reduce sales force headcount strategically, while minimizing the pain to the organization and making it possible to retain a core group of salespeople who will maintain strong relationships with loyal customers.

The decline stage—role of selling partners and sales force structure challenge: Significant cost reductions are possible when less expensive selling partners are used in place of the direct sales force and when more efficient sales force structures are implemented. By leveraging lower-cost selling partners and sales force structures for some customer segments, products, and/or selling activities, a smaller direct sales force can focus its attention on the areas of greatest strategic importance.

The issue of sales resource allocation, while important, usually receives less management attention during decline than in other life cycle stages. Resource allocation during decline focuses on identifying those important accounts that are most likely to continue to buy the business's products; these customers should be the primary focus of sales force attention. By allocating the diminishing sales resources to the most valuable and retainable customers, sales leaders can help the business to remain viable for longer.

Businesses do not stay in the decline stage indefinitely. A business that cannot break out of decline eventually dies. The necessary sales force architecture decisions during the decline stage depend upon whether or not a breakout is imminent.

Key sales force architecture decisions if a breakout is not imminent

When no end to an erosion of a business's sales is in sight, a selling organization in the decline stage needs to manage the decline so that the business remains profitable for as long as possible. By reducing sales force size and leveraging lower cost sales force structures and selling partners, a business can try to reduce the speed of decline. The business should also focus on the best sales force practices that it evolved over its life cycle.

Sales force size

As sales decline, a smaller investment in expensive direct sales force resources is prudent. The responsibilities of direct salespeople are best limited to the most profitable, retainable, and strategically important customers. Downsizing the sales force is a difficult process. The inherent uncertainty causes intense anxiety among salespeople and managers. Frequently the sales force has a large fraction of very senior salespeople. Strong leadership is essential during downsizing, and timely and straightforward communication from sales leaders is required to minimize the pain and maintain a reasonable level of sales force morale and motivation. In addition, focusing on key customer relationships is critical as the sales force downsizes. Customers may worry about the financial health of the seller's business and may fear that the job of the salesperson assigned to their account will be eliminated, compelling them to consider competitive offerings. Protecting the best salespeople and largest, most loyal customers should be top priorities as sales force reduction is implemented. The relationships that the sales force has established may be one of the business's most valuable assets. Focus salesperson retention programs on the salespeople with the most valuable and retainable accounts, continuing to pay then competitively so that they are not lured away by other employers.

Determining how quickly to reduce sales force headcount requires an assessment of remaining market opportunity and of the risk to the business of different downsizing strategies. Risk assessment during the decline stage can be viewed as a mirror image of that of the growth stage. A decision to pursue a rapid reduction in sales force size versus a gradual reduction has important consequences for the sales force and the business. These consequences depend on how quickly the market opportunity declines. Unfortunately, the rate of opportunity decline is not known with certainty at the time that sales force downsizing decisions need to be made. Four possible scenarios are shown in Figure 22. In two of the scenarios (B and C), the business makes the right sales force sizing decision for the market opportunity, while in the other two scenarios (A and D), the business makes the wrong decision and has to deal with the consequences.

Figure 22. Consequences of a rapid versus a gradual reduction in sales force headcount for different market opportunities during the decline stage

	Opportunity Decline is Modest	**Opportunity Decline is Significant**
Rapid sales force reduction	**(A)** Business remains profitable but decline accelerates too quickly as opportunities are missed.	**(B)** Right-sized with significant sales force headcount reduction.
Gradual sales force reduction	**(C)** Right-sized with moderate sales force headcount reduction.	**(D)** Business becomes unprofitable very quickly and decline is painful for the sales force.

Gradual sales force reduction is the right strategy when the opportunity decline is modest, yet it is a very poor strategy when the decline is significant. Quadrant D errors are quite common. Businesses will downsize the sales force slowly, remaining hopeful between each wave of layoffs that a breakout will occur. When the opportunity decline turns out to be significant, the high sales force cost makes the business become unprofitable even quicker and it is extremely difficult to maintain sales force morale and motivation.

The ZSL research found that businesses tend to use different sales force sizing rules during different life cycle stages. During growth, sales leaders look for about a 50 percent incremental return on their investment when adding salespeople—risk aversion causes them to stop adding people before they reach the long-term profit maximizing size. Yet in the decline stage, sales leaders require only a positive incremental return—they stop cutting when they reach the long-term profit maximizing size. If sales leaders were to use consistent sales force sizing criteria across the life cycle, they would expand more in favorable circumstances and cut more in unfavorable circumstances.

A common gradual downsizing strategy is to institute a hiring freeze in hopes of avoiding massive layoffs. Hiring freezes are not an effective way to downsize a sales force when the opportunity decline is significant. Sales force attrition will not occur quickly enough, and if the best salespeople or salespeople in desirable locations who cover important accounts leave the business, a hiring freeze results in suboptimal coverage of the customer base. Attrition management programs are more appropriately used when the opportunity decline is modest or during the maturity stage, when the need to downsize is less urgent and immediate reduction in headcount is not required to protect profitability.

Rapid sales force reduction is the best strategy when the opportunity decline is significant. Survivors will know quickly that they have a job and some reasonable level of job security, customers will have greater confidence about what the future holds, and sales leaders can begin to rebuild a new, smaller, and more focused sales organization. The risk with rapid sales force reduction is that if the opportunity decline turns out to be less than expected, more people will lose their jobs than necessary, and even though the business remains profitable for a while, decline will accelerate more quickly than it would have had the headcount reductions been more modest.

If there is significant uncertainty about the rate of opportunity decline, consider downsizing the sales force in moderate but discreet steps, rather than downsizing very gradually or very suddenly. This helps the business hedge against the risks of a quadrant D error (the sales force is too large and unprofitable and continuous headcount reductions create serious sales force morale issues and customer uncertainty) and a quadrant A error (the sales force is reduced too much and too suddenly and opportunity is lost).

During the downsizing of a sales force for a telecommunications company, managers attended a one-day workshop on how to fire salespeople. Since this was the third (and they knew not the last) downsizing at the company, managers wondered, "I wonder if someone is being trained on how to fire me." Morale and motivation were at new lows, and had not hit bottom yet.

Role of selling partners and sales force structure

While the leveraging of efficient sales force structures and lower-cost selling partners begins for many businesses in the maturity stage, this is an absolute must in decline. Customer segments that the business can no longer afford to reach with its former sales force architecture can continue to receive coverage if less expensive selling resources are utilized. This may involve moving coverage of some customer segments from specialty salespeople to generalists, or moving coverage of other segments from field sales to telesales. In addition, the needs of some customer segments may be more appropriately served through the use of selling partners. Part of the direct sales force's responsibility may be to manage the business relationship with these partners. As in the maturity stage, the selling of easy-to-understand products and the completion of complementary selling activities (such as service or administration) can also be shifted to less expensive resources such as sales assistants, telesales, part-time salespeople, or the Internet to further enhance efficiency.

A lubricants manufacturer facing declining sales with no breakout in sight needed to make drastic cost reductions to preserve profitability. The company revised its world-wide selling channel strategy, moving hundreds of thousands of customers formerly covered by the company's own direct sales force into coverage by lower-cost partner sales organizations. The partners had substantially less overhead than the manufacturer (such as office space and employee benefits), and therefore were able to deliver the selling process much less expensively. The size of the manufacturer's direct sales force was reduced substantially, and the much smaller group of remaining direct salespeople began to focus exclusively on value-based selling to large, strategically important customers.

Key sales force architecture decisions if a breakout is imminent

Some businesses hit a state of revenue erosion that they know is temporary and will be reversed in the not-too-distant future with impending new product launches, a company reorganization involving mergers or acquisitions, an expected favorable environmental shift, or an anticipated competitive misfire. Breakout opportunities offer a chance for redirection. Business revitalization usually requires a different selling architecture than the one that the business had before. Two questions arise. First, how should the sales force architecture evolve prior to the anticipated breakout, while the business is still in decline? Second, what is the appropriate architecture to leverage the breakout once it occurs?

Several steps are appropriate. First, a vision should be developed of what the selling architecture should look like to achieve the goals of the revitalized business. Second, the current architectural elements that are consistent with the future vision need to be identified. This could include maintaining the current sales force size or keeping a specialty sales force that maintains its relationships with key accounts that are important to the business re-launch. A short-term strategy can easily tamper with, restructure, or downsize the very part of the organization that will be most valuable for the breakout in the future. Third, sales leaders need to summon the managerial courage to maintain these elements and give up profitability during the period in which the decline continues and before the turnaround commences. Finally, as revenues pick up the sales force can migrate toward the vision of its breakout architecture.

Temporary periods of decline can provide sales leaders with an opportunity to initiate bold changes. During decline, change may be anticipated and expected by the sales force, particularly if the declining business merges with or is acquired by another company. Many sales leaders have taken advantage of temporary decline periods to eliminate mediocrity within the sales organization, using decline as a reason to "get rid of the fat," "clean house," and "upgrade the organization" so that the sales force that emerges from decline is stronger and better positioned to exploit the new opportunities. As the breakout comes to fruition, new, more qualified salespeople are added and the quality of the entire sales organization is improved.

A software company had been in the decline stage for several years, as competitors were innovating while the company's products remained fairly stagnant. The company's sales process had evolved appropriately for the situation, as salespeople became very skilled at maintaining customer relationships and protecting current business, often times over-delivering just to keep important current customers happy. Fortunately, a breakout was imminent, as several significant new products were in the final stages of development and expected to be launched within the year. The impending breakout presented some difficult sales force challenges. New product success would require a totally different and much more proactive sales approach. Most of the current salespeople were excellent at maintaining current business, but few had the skills and personality required to aggressively pursue new business opportunities. In order to leverage the current sales force and at the same time build the new skills necessary for future success, the company restructured the sales force. Two specialized sales roles were defined: a "hunter" role for developing new business and a "farmer" role for servicing existing accounts. Most of the company's current salespeople became farmers (a role that was well-suited to their skills and capabilities), while most of the hunters were hired from outside the company. The new sales force structure helped the company transition successfully from the decline stage back to the growth stage.

CONCLUSION

Sales force architecture decisions, such as the role of selling partners and sales force size, structure, and resource allocation, are highly salient management decisions that have a significant impact on revenues, costs, and profits. While all of these decisions are important throughout the business life cycle, the emphasis of management attention varies across the different life cycle stages. During startup, customer strategy focuses on creating awareness and generating quick uptake in select market segments. The emphasis of sales force architecture decisions is on determining if selling partners add value or if the business's own direct sales force should be created, on finding the best sales force size (often in the face of capital constraints), and on using limited resources as effectively as possible. During the growth stage, customer strategy turns to penetrating initial segments while developing new segments. Sales force sizing issues remain highly prominent as the sales organization expands, and in addition sales leaders seek out effectiveness gains through well-designed sales force structures and/or relationships with new selling partners that add strategic value. During the maturity stage, customer strategy shifts to customer retention and serving existing market segments not only effectively but also efficiently. The emphasis of sales force architecture decisions is on increasing effectiveness through intelligent resource allocation, enhancing efficiency through sales force structure, and ensuring that the sales force is sized for profitability. Finally during the decline stage, attention shifts once again, as customer strategy seeks to protect key customer relationships and exit unprofitable segments. Sales force architecture emphasis is on downsizing the sales force to protect profitability while developing efficient sales force structures and utilizing selling partners to cover some market segments at less cost. ■

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