a fresh look at sales planning

Improved sales planning can yield dramatic gains. It is time for a revamp.

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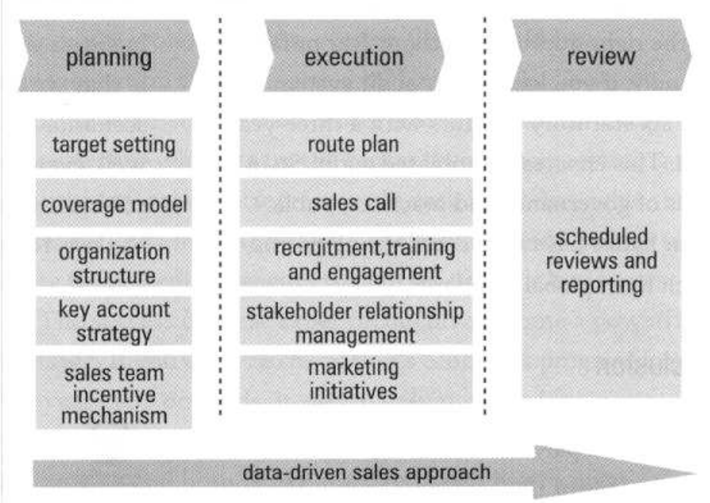
At most times, sales problems appear never ending and insurmountable. This stems partly from the nature of the function itself. Sales teams are typically large and geographically dispersed. Sales practices, once developed, tend to be replicated across the organization. Once imbibed, these practices are seldom questioned. Distance from the headquarters also prevents a meaningful appreciation of the sales role and the local challenges involved. On many occasions, the frontline sales force fails to identify with the company's strategic requirements and tends to operate with a lag effect. Lack of a robust sales planning process can result in further reinforcement of these problems and cause systemic inefficiencies and non-performance.

Some of the common issues we observe are:

- significant loss of share in once-strong territories for no apparent product reasons
- vast differences between the top- and bottom-quartile sales performers
- lack of a segmented sales strategy; all customers treated (or mistreated!) alike
- incentives at the frontline having little bearing on organizational goals
- sales focus restricted to the top line and not the bottom line
- constant battles between sales and delivery and sales and marketing

One would do well to understand that these are just the symptoms that show up and not the actual problems. Any attempt to solve these issues outright

exhibit 01: critical elements of a successful sales mechanism



many ORGANIZATIONS, especially MID-SIZED ones, start their ANNUAL target setting process with their current sales as the BASE

without further analysis would lead to superficial solutions, which address just the symptoms. And the unaddressed underlying problems would find other ways to manifest themselves.

In the framework that follows, we cover the root causes of most sales problems and provide a general guide to solve these problems effectively.

Successful sales organizations follow a simple and disciplined process of planning, execution and reviews. The critical but often overlooked part is that of sales planning. Too many companies see planning as being limited to the target setting process. However, there is a lot more that goes into it. In this article, we outline some of the key planning pitfalls and how a company may overcome them.

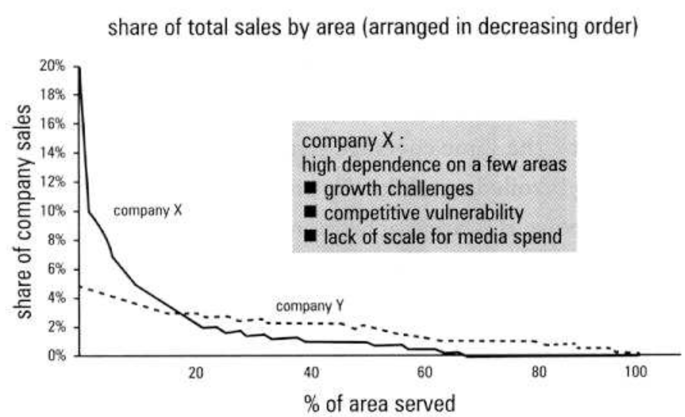
address both scale and diversity through your target setting process

Many organizations, especially mid-sized ones, start their annual target setting process with their current sales as the base. By doing so, companies not only over-burden their star performers but also create several weak spots. As sales investment budgets are normally linked to targets, the company continues to become stronger in its dominant territories and lose ground in weak territories. This leads to a vicious cycle of increasing dependence on a few markets, pushing itself into a sales niche and creating several risks for the organization. Not only do such companies fail to broad base their market presence, they also become highly vulnerable to any focused competitive activity in their core markets.

The example below shows how this is manifested (see exhibit02). One FMCG company has 40% of its sales coming from 10% of the territories in its geography. The other company has a much more balanced distribution of sales, with no territory accounting for more than 5%. Concentrated competitive activity in barely 10% of the market could result in disproportionately high losses for the first company. However, the sales managers would continue to push for higher investments in the core sales areas while continuing to neglect the other areas. Several companies in the IT sector have been victims of this. While the going was good, few companies developed their sales presence in markets outside their core market. When the recession hit, they found that they were far behind those competitors who had invested in other markets. Unable to diversify their sales overnight, these companies have taken a significant hit in performance.

The reverse situation of unfettered geographic sales spread can be equally dangerous. In such situations, the company may fail to create scale in any one location and would achieve below average return on its sales investments. In multiple situations, we have seen that such companies create sub-optimal sales networks, with more than half the sales organization having marginal or negative contribution to

exhibit 02: high dependence on a few territories makes a company vulnerable



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the company's profitability (see exhibit03). This is particularly true of the Indian retail industry, where expansion strategies over the past few years have led to several under-performing outlets. It is also true of many public-sector organizations, where the objective of achieving penetration has traditionally dominated the need for profitability. In a free-market environment and in the absence of government protection, such a strategy is disastrous.

The fact is that most companies need to relentlessly pursue both diversification and scale in their sales operations. Today's markets are dynamic and highly competitive. It is imperative for companies to have a strong market-driven planning process and revisit their assumptions regularly. Targets should strike the right balance between the top-down and bottom-up approach. This would ensure that the strategic vision of the headquarters and the ground realities are aligned to create a more efficient and effective sales operation.

move away from 'one-size-fits-all' coverage models

For a long time, geographic coverage has been the first step to designing a coverage strategy. But in some organizations, this happens to be the last step as well. We come across many examples where companies treat different territories and customers alike. Whenever the company expands to a new territory, the same coverage structure and staffing is rolled out. Like the problem discussed above, this approach ignores the market reality. In one extreme instance, we observed that a beverage company had the same coverage model and staffing for territories that were more than seven times apart in terms of their retail density. Similarly, we have found that territorial distributions among managers are often skewed; varying as much as nine times in one instance of a retail financial services company.

A structured approach toward designing the coverage model can significantly improve the results of a sales team. From our work, we see six key factors, which should be considered while designing a coverage model (see exhibit04).

put a value on sales time – providing the right level of support:

If one believes that sales are the most critical point of leverage, it is imperative that the right support organization be created for it. In the absence of such a structure, sales managers may spend more time on operational issues than on selling.

The illustration shows an example of how a manager's time may be distributed (see exhibit05). We analyzed the time spent on various activities that the salespersons were typically required to do. The face-to-face time with the customer was less than 25% of the total sales time available—almost half the global average. Some of the common time-sinks that we observe are:

- basic lead qualification
- coordinating supply issues with the production/fulfillment teams
- post-purchase query management and complaint resolution
- collection of payments and reconciliation of accounts
- data collection and sales MIS preparation
- administrative activities (booking tickets, expense statements etc)

exhibit 03: the long tail of retail

all ORGANIZATIONS *appreciate the importance of a key* ACCOUNTS STRATEGY, *but few actually* COMMIT *to one*

This level of fragmentation is often seen in companies with B2B sales structures, like most IT companies. In such organizations, the sales person is expected to perform a wide variety of tasks and has significant linkages with operations and finance. As a result, the person is unable to spend the right amount of time on sales, leading to a reduction in sales efficiency.

While all of these activities are critical, the role of the sales team needs to be more sharply defined. Providing the right support structures can help address many of these issues. However, many companies seem to view sales support as an overhead and shirk from investments in this area. Unfortunately, they end up paying in the form of bloated and ineffective sales forces.

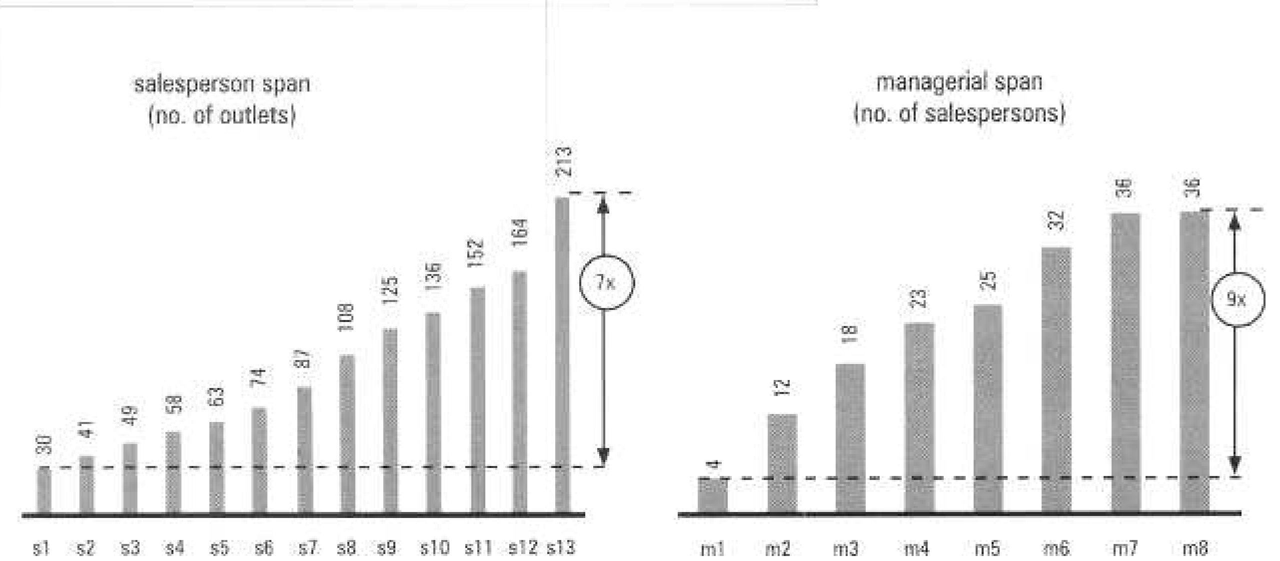
A good organization structure helps maximize the sales managers' time in front of the customers while reducing the management's distance from the customers, effectively aiding the organization become more nimble. Realizing this, leading FMCG companies provide handheld devices to their frontline sales people eliminating duplication of work in terms of taking orders, system entry, and verification.

all customers are not the same

Though we are only at the initial stages of organized retail in India, almost no sales organization can do without a key accounts strategy. Even in industries where 'modern' retail is in its infancy, there are several players having disproportionate influence over the retail trade. In the liquor industry, for instance, we have found situations where more than 30% of the retail trade is directly or indirectly controlled by individuals or other organized retail players. It is critical to have a differentiated strategy for such accounts.

All organizations appreciate the importance of a key accounts strategy, but few actually commit to one. There is an underlying fear that having a key account strategy equates to providing monetary benefits. While monetary benefits may form an important part of a key accounts strategy, there are

exhibit 04: many companies have unbalanced coverage models



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the INCENTIVE *mechanism* ALWAYS *has a big* ROLE *in ensuring sales* SUCCESS

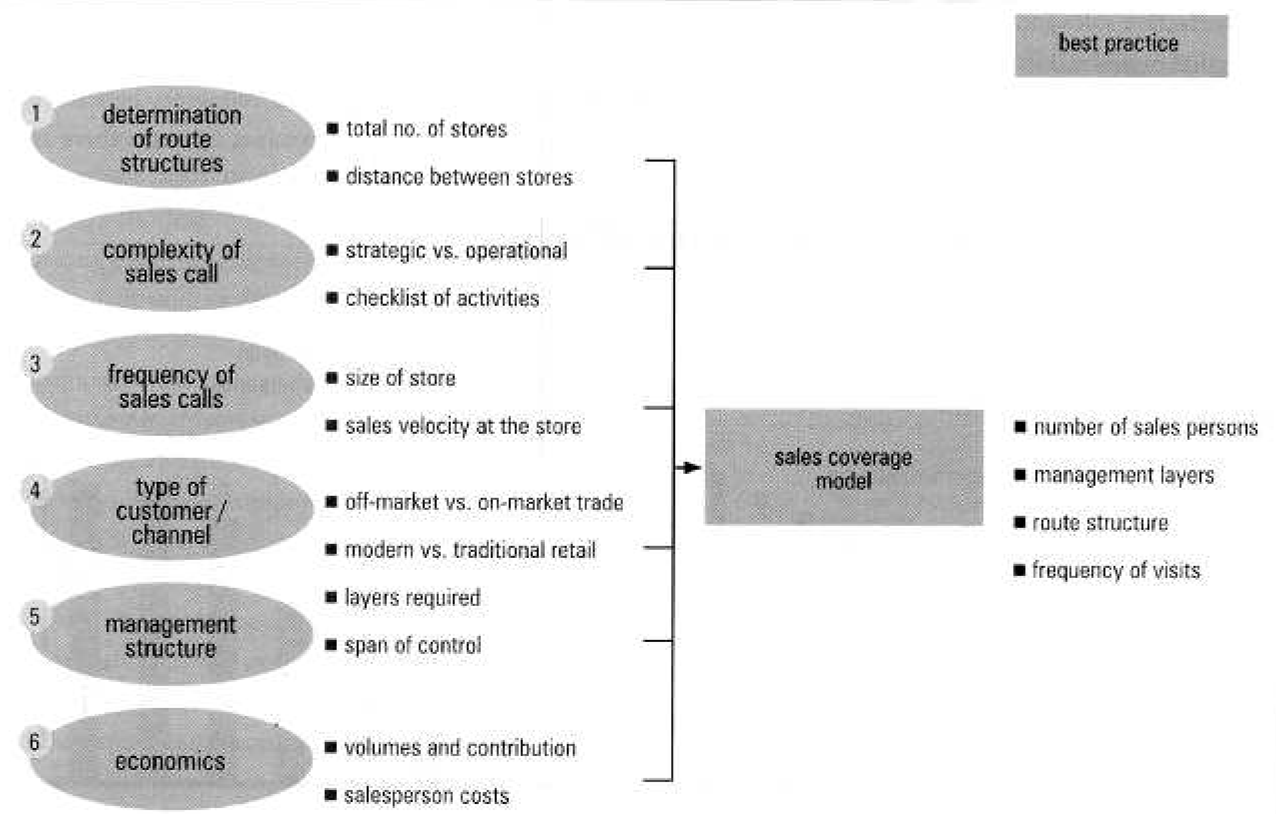
several other equally important components. Senior personnel contacts, differentiated and higher service levels, better marketing support and co-creation of new products and services can also be used to good effect in handling key accounts. Financial services organizations, like Citibank, have been among the fastest to adopt this model and have clearly segmented their sales force to handle different types of accounts. On the retail side, companies like P&G have clearly developed a key accounts management structure. In the garments industry, many regional brands have achieved scale and national presence by developing a specific accounts strategy for large format stores across the country.

align incentives to deliver the right results

A disciplined and structured approach toward sales can be brought about by a comprehensive and consistent review processes. But the incentive mechanism always has a big role in ensuring sales success. At the same time, misaligned incentives have existed as long as incentives have. The biggest trap many organizations face is that incentives do not remain linked to performance but are increasingly viewed as a part of the fixed pay. In such a case, it is best to scrap the existing system and restart the process after taking the learning on board.

A simple check for alignment is to see if the performance

exhibit 05: companies use multiple variables while designing a coverage model



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metrics cascade smoothly from the bottom to the top of the organization. Whenever there is cross-linkage of incentive structures, there is a high chance of misalignment. This is particularly common in the case of matrix organizations, where multiple objectives need to be balanced.

In addition to alignment, a good incentive system should balance the twin objectives of encouraging the sales force to set higher targets and reducing the variability between targets and achievements. This is often a challenge. The former could lead to moral hazards and supply chain management issues, while the latter often prevents the sales force from achieving its full potential. There has to be a fine balance between the two, which can be attained through strategies to treat under-performance and over-performance. As organizations evolve, the base for incentives changes from revenue to profitability and then to predictability. Small organizations and startups would typically provide a greater reward for over-achievement in the expectation that the organization would stretch to deliver against sales. More mature organizations, and especially those that are listed on the capital markets, tend to prefer predictability in revenues. ■

Improved planning processes are critical to profitably scale in the current market environment. Most market leaders have developed sophisticated and mature sales planning processes. This has not been an overnight leap. Developing the required discipline and analytical capabilities takes time and perseverance.

As a self-test for assessing the maturity of your planning systems, we suggest asking the following questions:

- does your sales planning process include a realistic, data-driven market assessment of your target area? Or is it simply driven by last year's performance?
- is there a uniform sales model for all geographies? How large is the difference in customer coverage requirements across the sales team?
- do you have a differentiated process for dealing with key accounts across the company? How does the company fare in markets with higher levels of retail consolidation?
- do your sales teams have the right level of back-end support? Are they spending most of their time with customers or in administrative/co-ordination activities?
- does the incentive structure truly reflect the company's sales objectives? Are these incentives aligned across the organization?

If the answers to the above are ambivalent or negative, it may be time for you to revisit the role of planning in your sales organization. The opportunity is too large to ignore.

exhibit 06: large upside from improving sales efficiency

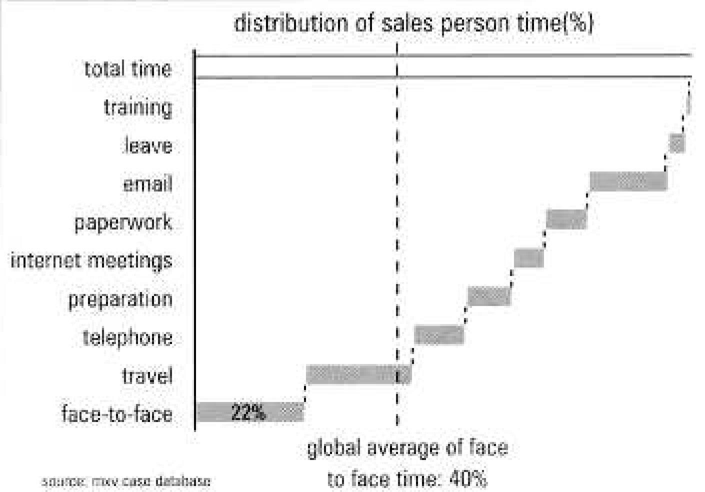

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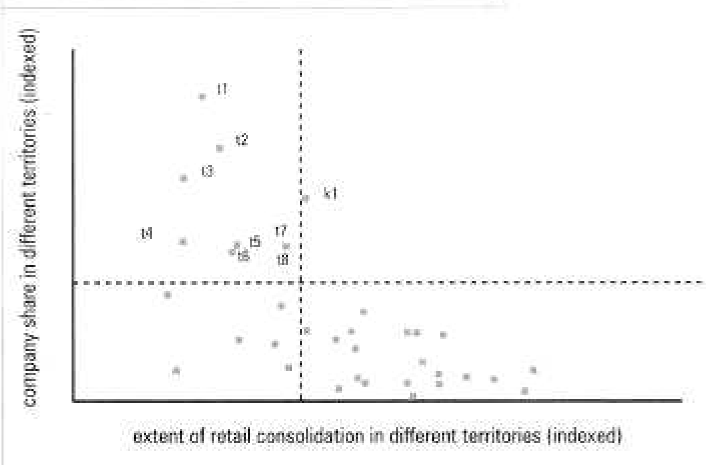
exhibit 07: impact of not having a key accounts strategy



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