Factors for a successful sales force during the corporate life cycle

Factorii care influenţează performanţele echipei de vânzări pe parcursul ciclului de viaţă al organizaţiei

Ph.D. Candidate Adrian Gelu LUPU
The Bucharest Academy of Economic Studies, Romania
e-mail: adrian_lupu06@yahoo.com

Ph.D. Candidate *Felicia Adriana LUPU*
The Bucharest Academy of Economic Studies, Romania
e-mail: lupu_feli@yahoo.com

Abstract

The organisations, like all living organisms, have a lifecycle and undergo very predictable and repetitive patterns of behaviour as they grow and develop. Although companies devote considerable time and money to managing their sales forces, few focus much on how the sale forces needs to change over the life cycle of an organisation. In this article, the authors explain how, at each stage, company can best tackle the relevant issues and get the most out of their sales forces, how to develop the best sales force structures for each of the four stages of the business life cycle. Specifically, companies must alter four factors over time: the roles that the sales force and selling partners play, the size of the sales force, the sales force's degree of specialization, and how salespeople apportion their efforts among different customers, products and activities.

Keywords: *corporate lifecycle, sales, sales force, efficiency*

Rezumat

Organizaţiile, asemenea tuturor fiinţelor vii, parcurg un ciclu de viaţă care se desfăşoară în moduri oarecum predictibile. Cu toate că, majoritatea companiilor acordă un timp îndelungat şi o sumă considerabilă de bani încercând să managerieze forţa de vânzări, doar câteva focusează cu adevarat pe modul în care forţa de vânzari trebuie abordată în fiecare din fazele din ciclul de viaţă al organizaţiei. În acest articol, autorii explică modul în care o echipă de management performantă, trebuie să abordeze *problemele relevante ale forței de vânzări coroborat cu faza în care se află organizația, pentru a atinge eficiența maximă. În opinia autorilor, companiile trebuie să acorde importanță următorilor factori: rolul pe care echipa de vânzări şi canalele de vînzări îl ocupă, mărimea echipei de vânzări, specializarea membrilor echipei, modul în care fiecare membru al echipei îşi aduce aportul în privința clienților, produselor şi activităților.*

Cuvinte-cheie: *ciclu de viață al firmei, vânzări, forța de vânzări, eficiență*

JEL Classification: D30, M10, M19

Corporate lifecycle

Is it a fundamental truth that all organizations, like all living organisms, have a lifecycle and undergo very predictable and repetitive patterns of behaviour as they grow and develop? The first challenge for leaders who wish to grow their organizations is to understand in what phase of the organizational life cycle it is.

Leading an organization through lifecycle transitions is not easy or obvious. The same methods that produce success in one stage can create failure in the next. Fundamental changes in leadership and management are all required, with an approach that delicately balances the amount of control and flexibility needed for each stage. Leaders who fail to understand what is needed (and not needed) can inhibit the development of their companies or plunge them into premature aging.

The challenges that every organization must overcome at each stage of development first manifest themselves as problems that arise from the growth and success of the company and from external changes in markets, competitors, technology and the general business and political environment. Problems are normal and desirable. Problems are the natural result of change. The only place on the lifecycle curve where there are no problems is the place where there is no change, which is Death.

Some practicians (Lupu A., 2008) agree that are five phases of the organizational life cycle as following:

- Start-up (or Birth)
- Growth. This is sometimes divided into an early growth phase (fast growth) and maturity phase (slow growth or no growth). However, maturity often leads to
- Decline. When in decline, an organization will either undergo
- Renewal or
- Death

In Ichak Adizes (2004) vision, the corporate life cycle has ten fazes: Courtship, Infancy, Go-Go, Adolescence, Prime, Maturity, Aristocracy, Early Bureaucracy, Death.

In Figure 1, the diagram illustrates the corporate lifecycle in Ichak Adizes vision. After the Prime stage the rate of improvement begins to decline and falter.

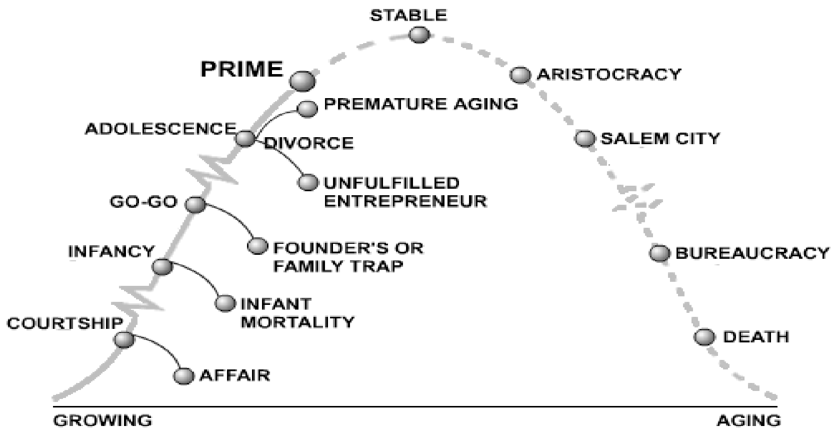

Figure 1. Corporate life cycle in Ichak Adisez vision

Studying the small and medium enterprises, Amedeo Istocescu (2008) presents the main specific criteria used for an appropriate understanding of small and medium sized organisation's life cycle. In his opinion there are eight phases of an organisation's life cycle: the foundation of the company, effectively getaway, growth, the consolidation of the company position on the market, expansion, maturity, decline, the back down from business.

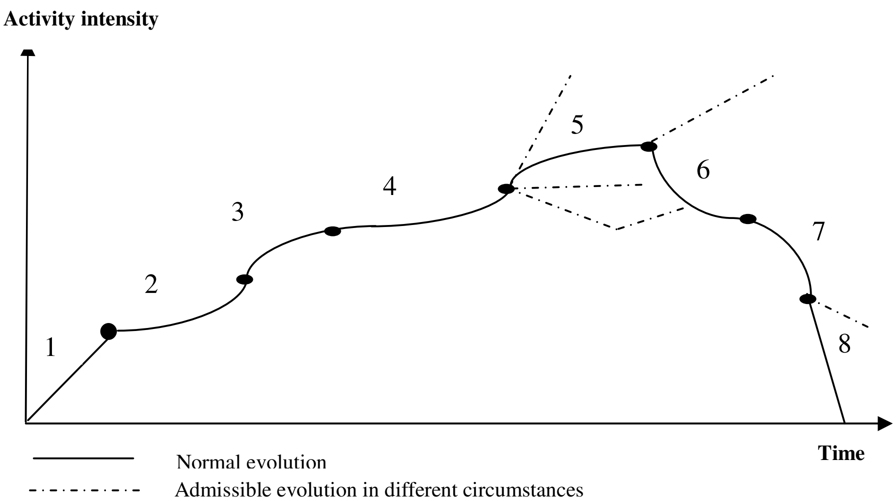

Figure 2. Corporate life cycle in Amedeo Istocescu vision

Designing the sales force

Sales personnel are the company's link to the customers. To the customer, sales person is the company. Salesperson gives information about the customer to the company. Any company's survival and existence depends on the market and hence the sales force which maintains that link deserves the deepest thought in terms of setting objectives for it, strategy for it and structuring it.

Typical objectives (Anderson, 1995) for sales force could be specified in customer coverage and product coverage. Sales persons spend 80% of their time with current customers and 20% with prospects. The objective in terms of products is that 85% of sales have to come from established products and 15% have to be from new products.

The company can use direct sales force or contractual sales force. Direct sales force consists of full or part-time paid employees who work for the company exclusively. Contract sales force consists of independent representatives, agents and brokers who are paid commission based on their sales.

The selling methods vary depending on the situation. In a simple case, sales occur through a sales person interacting with a buyer. In a more complicated way, a sales person may have to meet many persons to make a sale. In more complex way, sales team has to interact with a buyer group. Conference selling is involved when many complex things are to be explained to a large number of persons in the buying organization.

Strategy determines sales force structure. An appropriate strategy for the organization is arrived at first and then any changes required for the existing structure are carried out so that the structure is capable of executing the strategy.

If the company sells one product line to one end using industry with customers in many locations, the company would use a territorial sales force structure. If the company is selling many products to many types of customers, a product specialized or market specialized sales force structure may be more appropriate. The structure needs to be changed by established companies as they expand and economic conditions change.

To attract qualified and quality sales people, the company has to develop an attractive compensation package in comparison to the "going market price." The compensation will have four components, a fixed amount, a variable amount, expense allowances and benefits. A popular rule is to have 70% as fixed and 30% as the remaining portion (Anderson, 1995).

At the stage of recruiting the sales force, companies have to make sure they get the right persons that subscribe to the company's objectives and values.

According to Douglas J. Dalrymple (1994), a sales person have to be compulsive wooer, an individual who has a strong need to hold the affection of others and win them as friends, must have a high level of energy, abounding self confidence. Sales parsons have to be trained in effective presentations and interaction with customers, have to know the company's products, need to know customers' and competitors' characteristics, has to know the field procedures and responsibilities and most of all need to identify with the company.

The most important factors for a successful sales force

The sales force structure that works during start-up is different from what works when the business is growing, during its maturity, and through its decline. If we consider the renewal and death as being a single phase, the four life-cycle phases aren't mutually exclusive because some companies display characteristics of more than one stage at the same time. Referring to nowadays society, when new technologies or markets emerge, companies can also move inconsequentially through the life cycle stages, businesses tend to go through these phases more quickly than they used to, which makes it even more important to have a flexible sales force.

During start-up, smart companies focus on whether they should depend on selling partners or create their own sales forces. If they decide to set up sales organizations, they pay a lot of attention to sizing them correctly. As companies grow, sizing issues become even more important. In addition, executives must decide when to invest in specialist sales forces. When businesses hit maturity, the emphasis shifts to making sales forces more effective by appointing account managers and better allocating salespeople's resources, and making them more cost-efficient by using less expensive people. Finally, as organizations go into decline, sales leaders' attention shifts to reducing the size of sales forces and using even more cost-efficient ways to cover markets.

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

In the opinion of some specialists (Zoltners, Sinha, Lorimer, 2007) there are four factors, (Figure 3), for a successful sales force: size of a sales force, role of sales force and selling partners, degree of specialization, sales force resource allocation.

The Start-Up Phase

In this phase, we see the entrepreneur thinking about the business, a management group formed, a business plan written. For entrepreneurs needing money to start the business, the company goes into the growth phase once the investor writes the check. For those which don't need outside funds, the start-up ends when you declare yourself open for business.

The central decision that a new business must make is whether it should sell its products directly to customers or sell them through partners. Although many entrepreneurs outsource the sales function, that may not always be the right decision.

	Business Life Cycle State			
	Start-Up	*Growth*	*Maturity*	*Decline*
Emphasis				
Role of sales force and selling partners	★★★★	★★	★	★★★
Size of sales force	★★★	★★★★	★★	★★★★
Degree of specialisation	★	★★★★	★★★	★★
Sales force resource allocation	★★	★	★★★★	★

Figure 3. Factors for a successful sales force in Business Life Cycle State

To be sure, by tying up with other companies, new ventures save the costs of building and maintaining sales forces. Partnerships can also help executives manage risk better since start-ups often pay only commissions on sales. If products don't sell, their costs are minimal.

Moreover, new businesses can enter markets rapidly by working alongside companies that have sales expertise, influence over sales channels, and relationships with potential customers.

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

Many businesses depend on their selling partners for too long. When companies outsource the sales function, they don't control the selling activity, have little power over salespeople, gain no channel power, and don't own customer relationships. As time goes by, it becomes more, not less, difficult to reduce dependence on selling partners. Many firms become stuck in partnerships that inhibit growth.

Although outsourcing is popular today, we're convinced that companies should use selling partners only if they stand to gain strategic advantages as well as cost benefits. Those advantages come in several flavors. Many partners turn products into solutions, which can greatly increase sales.

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

In our opinion we agree with that sales leaders who invest cautiously when they are short of cash or if the future is uncertain, but the trouble is that most companies don't increase their investments in sales forces even when the future becomes clear.

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

The Growth Phase (fast growth and maturity)

In the growth phase, one expects to see revenues climb, new services and products developed, more employees hired. The management textbooks tend to assume that sales grow each year. The reality is much different as a company can have both good and bad years depending on market conditions. That's why many companies have different types of programs relating to organizational development.

During the start-up stage, many companies' product lines are narrow, and they operate in a small number of markets. As businesses grow, their product portfolios expand, and their sales forces have to call on prospects in a broader set of markets. This presents sales managers with two challenges: specialization and size.

In the growth phase (fast growth), it's not sufficient for many companies to maintain a sales force of generalists who sell the entire product line to all markets. Salespeople need to master multiple products, markets, and selling tasks at this stage. As repeat sales become a larger proportion of sales, customers will require service and support, adding to salespeople's workloads. As tasks grow beyond the salespeople's capacity to perform their jobs, they are likely to drop the customers, products, and selling activities that are most difficult to manage. Unfortunately, what they drop may be lucrative or strategic opportunities for the business. At this point, companies need to set up specialist sales forces.

Some specialist sales teams focus on products, others on markets, and still others on customer segments. Sales forces can also specialize in certain activities: Some salespeople concentrate on acquiring customers and others on servicing existing customers. Every kind of specialization has benefits and costs. For instance, specialization by markets reduces salespeople's focus on products, while product or activity specialization forces customers to deal with multiple salespeople. Many companies therefore create hybrid structures that include a mix of generalists as well as market, product, and activity specialists.

The transitions from a multipurpose sales force to a specialized one are always tough. The work changes considerably, and customer relationships are disrupted. Sales forces may need to adopt team-based selling techniques, making coordination and collaboration vital. The people who succeed in a team-based setting are likely to be different from the lone wolves who do well in a traditional sales force. Consequently, companies may have to recast parts of their sales forces.

Rejuvenated businesses face a slightly different predicament. When a company goes back into growth gear after a period of maturity or decline, its new offerings will have different value propositions and will open up new markets. Salespeople will need to sell differently, and they'll need retraining to do so. Companies may consider splitting their sales forces into groups that specialize in selling old and new products. If neither education not restructuring delivers results, the company may have to replace the sales force.

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

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

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

When a company increases the size of its sales force, it doesn't maximize sales or profits at first. Over time, however, the company will make more profits than if it had started with a smaller sales force.

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

A company should determine the most appropriate size for its sales force by evaluating the probable size of the opportunity and assessing the potential risks of pursuing an aggressive or conservative approach. An aggressive strategy is appropriate when the business has a high likelihood of success and management has confidence in the sales projections. A more conservative strategy works when greater uncertainty surrounds the business's success.

Two types of sizing errors are common. First, if sales force growth is aggressive, but the market opportunity is moderate, the company will end up having to reduce its sales force. Second, if sales force growth is conservative, but the market opportunity is large, a business may forfeit its best chance to become a market leader. To make better decisions about sales force sizing, companies must invest in market research and in developing forecasting methods and sales response analytics.

In the growth phase (maturity), products and services start to lose their advantage, competition intensifies, and margins erode.

At this stage, sales leaders must rely more on resourcefulness than on increasing the scale of the sales effort.

Their strategy should emphasize retaining customers, serving existing segments, and increasing the efficiency and effectiveness of the sales force.

In the maturity phase, companies must focus on optimizing the sales force's effectiveness.

Companies often don't optimize the allocation of their sales resources for several reasons. First, they use the wrong rules. For instance, executives often target customers with the highest potential even though these customers prefer to buy from competitors. Smart companies allocate more resources to products and markets that respond well to salespeople. Second, businesses frequently don't have data on the sales potential of accounts and territories or the responsiveness of potential customers to sales efforts.

There are no shortcuts on the road to effectiveness. Organizations can allocate resources best if they measure how responsive different products and markets are to sales efforts. Executives can do that by comparing sales result among similar-sized customers to whom they allotted different levels of effort.

That analysis allows a company to evaluate the financial implications of different allocation scenarios. The company can then manage its sales force, even offering incentives on occasion, so that salespeople expend effort in the most productive ways.

Many a business discovers in the maturity stage that the use of product specialists is posing coordination problems and confusing customers that must deal with several salespeople. Smart companies appoint managers for the largest accounts. These account managers coordinate the sales effort and bring in product specialists when customers need expertise. In addition to increasing revenues, the appointment of account managers boosts customer satisfaction and often reduces selling costs.

Companies must also find the most inexpensive ways to get work done. They can use sales assistants and part-time salespeople to woo small or geographically dispersed customers and to sell easy-to-understand products.

The Decline Phase

Many organizations will enter the decline phase unless there is in place a rigorous program of transformational leadership development. If senior leaders detect the symptoms of decline early, they will be able to deal with it more easily. Some of the most obvious signs include: declining sales relative to competitors, disappearing profit margins and debt loads which continue to grow year after year.

However, by the time the accountants figure out that the organization is in trouble, it takes tremendous leadership to get the organization to change course.

Reasons For Decline(Zoltners, Sinha, Lorimer, 2007) that resulted from a study made over 1900 company which were in trouble: too much debt(28%), inadequate leadership(17%), poor planning(14%), failure to change(11%), inexperienced management(9%), not enough revenue(8%).

Some businesses know their decline is temporary. They plan to boost revenues and profits in the not-too-distant future by launching new products or by merging with other companies. However, turnarounds often demand different sales force structures than the ones companies have. A smart company therefore determines what kind of structure it will need for the sales force to achieve its new goals. Then it identifies and preserves elements of the current structure that are consistent with the one it will need. Companies often downsize sales forces to save costs in the short run, although they may need more, not fewer, salespeople to implement new strategies.

Many sales leaders take advantage of temporary declines to eliminate mediocrity in their sales forces. Once the turnaround starts, they hire salespeople who are more qualified than the ones they let go. Sometimes what looks like a misallocation of resources is really mediocre performance.

When a turnaround isn't likely and further decline is inevitable, sales organizations can only ensure that companies remain profitable for as long as possible. Businesses should use their salespeople to service the most profitable, loyal, and strategically important customers, and service other accounts through low-cost selling resources (external partners).

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

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

Rapid sales force reduction is the best course when the market is in a steep decline. Survivors will know they have some kind of job security, customers will have greater confidence about what the future holds, and sales leaders can start building a smaller, more focused sales organization. The risk with rapid sales force reduction, though, is that if the decline turns out to be less severe than expected, more people will lose their jobs than necessary. Although the business will remain profitable for a while, the rate of decline will be greater than if head count reductions had been modest. If there's a lot of uncertainty about the rate at which the market is shrinking, companies should consider downsizing the sales force in small but discrete steps.

Improving the efficiency of sales forces and searching for lower-cost selling channels are critical when companies are in decline. By using less-expensive selling resources, companies can continue selling to some segments. It's not easy, but a systematic cost-reduction program can help companies live to fight another day.

Priorities and plans

It is very important to understand the challenges sales leaders face during the company life cicle and how they are responding to these challenges, and what actions yield positive results.

Sales executives have to understand that the new selling context ha real implications for how they hire, train, manage, coach and retain sales people.

Among sales management priorities, revising the sales process isn’t far behind the top priority of generating more leads. Having a process is not the same using a process.

In Barry Trailer and Jim Dickie (2007) opinion, there are four levels of process prowess.

Level 1 companies may be perceived as being antiprocess, though what they really lack is a single standard process. Everyone does his own things his own way. Being Level 1 does not mean a company is unsuccessful, but does mean it is unpredictable.

Level 2 companies expect their sales people to follow a process, but used isn’t monitored or measured.

Level 3 companies typically enforce use a standard process, but because their monitoring strictly looks backward, they are still susceptible to miscues and missteps in a constantly changing market.

Level 4 companies dynamically monitor and provide feedback and reps’ use of a standard process. These organizations modify the process when they detect even minor changes in market conditions. These companies are rare, but they are formidable competitors.

Choosing the right network is also a priority for a sales executive.

Different configurations of networks produce different results, and the salesperson that develops a nuanced understanding of social networks will outshine competitors.

Tuba Ustuner and David Godes (2007) view the sales process as having four distinct stages: identifying prospects, gaining buy-in from potential customers, creating solutions, and closing the deal. In the earliest stage, a diverse marketplace network is best for identifying new leads. In the next stage, cultivating a prospect company network for access to the decision makers will help a salesperson gain buy-in. The third stage is all about coordination: Here the sales people need to forge ties among contacts in his intra-organizational network so they will work together to device solutions for his prospect’s unique problems. And to close the deal, the salespersons need contacts from his customer network that can vouch his good reputations. Companies looking for better results should help their sales their sales teams built better networks.

Conclusion

We can say that sales leaders who try to match sales force structures with the business life cycle face different challenges at every stage. The common thread, though, is that they must overcome organizational resistance at each step and sacrifice short-term profits to secure their companies' success over time.

Every company should conduct a break-even analysis to check if its sales force has the right size, revising permanently the sales process and built better networks according with the stage of the corporate life cycle.

Bibliography

Adisez, I. (2004). *Managimg Corporate Lifecycles*. New Jersey: Prentice Hall Press, 2nd Edition.

Anderson, R. (1995). *Essentials of Personal Selling: The New professionalism*. Englewood Cliffs:Prentice Hall.

Dalrymple, D. J. (1994).*Sales Management: Concepts and Cases*. New York: John Wiley.

Dickie, J.,& Trailler, B. (2007). Understanding What Your Sales Manager Is Up Against. In Harvard Business School publishing Corporation, *Harvard Business Review on Strategic Sales Managemen*t (pp. 77-96). Boston: A Harvard Business Review Paperback

Istocescu, A. (2008), The life cycle phases of a small or medium enterprises, *Economia seria Management*, 11(2), 59-80

Lupu, A., & Ursu, F. (2008). Corporate Life Cycle. *The Petroleum — Gas University of Ploiesti Bulletin - Economic Science*, 5B/2008, pp. 49-55

Uster, T., Godes, D. (2007). Better sales Networks. In *Harvard Business Review on Strategic Sales Management* (pp.97-121). Boston:A Harvard Business Review Paperback

Zoltners, A., & Sinha, P., & Lorimer, S. (2007). Match Your Sales Force Structure to Your Business Life Cycle. In Harvard Business School publishing Corporation, *Harvard Business Review on Strategic Sales Management* (pp. 49-75). Boston: A Harvard Business Review Paperback