Driving New Revenue – A Two Pronged Approach
By Jason Bader

Although a majority of my clients are still riding the wave of a very strong economy, a few of them are seeing a flattening of the growth curve. One could argue that the industries they serve are experiencing more sophisticated competitive pressure. While this may be a contributing factor, I would like to suggest that there is a bit of internal complacency occurring in the sales staff. Don't get me wrong, these folks are still working at a furious pace; but I think that their efforts need to be channeled into more productive activities – bringing in new accounts and expanding the product categories being purchased by existing customers.

You all might be thinking, "Captain Obvious strikes again". I would agree that these suggestions are not new or novel. Let's face it, new and novel are not the key drivers in wholesale distribution. Recycle and refine might be better descriptions of how our segment functions. In this vein, I would like to give you some thoughts that have been dominating my private client coaching as of late.

We can all agree that new accounts are the lifeblood of the organization. We will lose several accounts due to natural attrition, competitive pressure and just plain firing customers. The latter is fairly rare in most organizations. Adding new accounts must be an integral part of the sales strategy. In times of prosperity, this is often overlooked in favor of servicing existing business. As the economy cools, those who have failed to add accounts will find themselves at the mercy of their existing base. Over my 30 years of experience, I have seen a couple of these valleys. Putting too few eggs in the basket has proven to be a very scary proposition.

Renewed focus on new account generation often comes down to financial motivation. Many of my contemporaries find sales management and motivation to be a pain in the backside to say the least. Yes, sales people can have a tendency to buck conformity and often have a highly excitable nature; but that is what makes them so great. They are the tornado that spins the turbine. Without this highly charged presence, we would be dead in the water. Directing this force of nature can often be achieved by modifying their financial compensation to better align with organizational goals. In other words, grab them by the wallet and tell them what you want them to do.

A couple of years ago, a client of mine was struggling with new account generation. His sales team was spending a great deal of time servicing accounts rather than looking for new business. In fact, the team was over-servicing accounts by taking orders, delivering and sourcing product for their customers. These were all activities that should have been delegated to the internal operating team. My client was frustrated that his investment in vehicles, technology and internal staff training was not being fully utilized. Telling the outside sales team to change their behavior fell on deaf ears. In order to get their full attention, he proposed a radical shift to their variable compensation plan.

In this new plan, the commission on a new account would receive a high commission for a period 12 months. After the 12 months, the commission would reduce to a more modest percentage. The theory behind the timing was fairly simple. In the early part of the relationship with a new account, the outside sales person would need to spend a great deal of time understanding the company, managing service expectations and driving product category participation. After 12 months, the new account should be well versed in the service and product offering. The majority of account servicing should have been transferred to the internal operating machine.

The spread between the two commission rates had to be significant enough to provoke a change in behavior. The new account commission was 25% of the gross profit. Then it reduced to 10% after the 12 month period. I understand that these are fairly large percentages and you should adjust to better fit your environment. There was the usual grumbling by the team which is common with any compensation change. Fortunately, the program has had the desired effect. The sales people slowly shifted over new account generation activities. I must admit that we were both confused by the slow conversion; but ultimately it had resulted in more customer credit applications.

As I mentioned at the beginning of the article, I see the change in compensation as a part of the overall strategy to drive sales. As any good sales professional knows, it is easier to expand sales with existing customers rather than acquiring new accounts. Hence, the bump in pay for the more challenging strategy. Driving deeper sales is more of technology discussion than a behavior modification exercise. Reporting is the key to discovering opportunities in the existing account base.

I have written on this before, so I won't go into lengthy detail this time. Essentially, the company must mine the data trapped in their distribution software package to produce a category participation report by customer. This type of report will make it easier for sales people to identify opportunities within their existing relationships.

I have introduced this concept to several clients over the years. Frankly, the more tech-savvy organizations have been best suited to capitalize on the idea. The report breakdown should be fairly simple. Show the sales dollars per product category, or any other logical product breakdown, for an individual customer. This should give you a rough idea where the customer is placing the bulk of their orders. Having reviewed these reports in several companies, it can be very apparent where the opportunities exist. Let's face facts, our customers rarely know all of the products that we put on the shelf. The is especially true if you have a fairly diverse product mix.

Some of the clients have refined their reporting to use transactions, or hits, in each product category. This removes the bias toward product categories dominated by high dollar items. The number of transactions seems to level the playing field and provide a better look at buying patterns. Armed with this data, sales people can spend time re-introducing dormant categories to their existing customers.

Another byproduct of this type of reporting is the evaluation of product knowledge in the team. For example, this same type of report can be generated to compare the transactions per category by an individual salesperson. We are looking for patterns where a category is particularly weak or nonexistent. As a sales manager, I would interpret this as a lack of comfort with a particular category of product. Some additional training effort, through the use of manufacturer resources, should help this person fill in the category.

I will freely admit that these two strategies seem to be in conflict, but they don't have to be. I want the sales people to focus on opening new accounts. This is why I am advocating a higher compensation for this activity. Once the account is established, it is in the sales person's financial best interest to drive category participation. Although there is a residual commission after the first 12 months, I would expect that selling deeper into the account will wane. This is a perfect time for strong inside sales people to pick up the ball and continue to drive category participation. In fact, I would encourage this behavior by implementing a modest bonus; but that discussion is best saved for another article. Good luck and know that I am always here to help.

About the Author:

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