Wholesaler Seminar
MODERN Brewery Age
The Business Magazine for the Beer Industry

Using Inside Sales to Drive Distributor Value

By Lamont Seckman

It is truly unfortunate that someone coined the term "Tel-Sell" and that it stuck. The title of this article notwithstanding, I am on a personal crusade to convert this industry into using the term, "Inside Sales" instead of "*Tel*-Sell". The development of an effective Inside Sales (**IS**) function is a legitimate – and smart - means of re-allocating resources within your sales department to more adequately match perceived account base opportunities. Such a resource re-allocation can be an important tool for growing the value of a distributor operation.

To me, **Tel-sell has a negative connotation**. Many distributor sales managers wrongly view the assignment of an account to a Tel-Sell route as roughly akin to banishing the retail owner to a life in Siberia. In fact, the development of an Inside Sales function should be viewed as a strengthening of the distributor sales effort. Overall sales efforts are improved when they are provided with more focus and a properly implemented Inside Sales function adds to this focus.

There is, in fact, a little-known secret about the Inside Sales system: it is more than just an *efficient* method for handling certain accounts. In fact, properly implemented, it is also a more *effective* system for accounts meeting the right criteria.

That's right, let's just state it again because this is a key point: Inside Sales is a more *efficient* <u>and</u> *effective* system for certain accounts.

Most have only viewed Inside Sales in the perspective of cost reduction. But **companies have actually grown volume in accounts sold via Inside Sales** functions in addition to reducing the attendant cost of doing so. Such results are indicative of two strong arguments in favor of an Inside Sales capability.

Economic Argument for Inside Sales

There is a relatively straightforward economic argument for Inside Sales and it goes right to the very nature of distribution economics and to the determination of which retail accounts are profitable for a wholesaler – and which retail accounts are actually serviced at a loss. What is perhaps surprising is the relatively large percentage of accounts which are arguably economic losers when applying reasonable cost accounting analyses.

In theory, for a retail account to be economically profitable, it should generate gross profits that more than offset the direct costs of selling, merchandising, and servicing the account – as well as contributing to a portion of the overhead costs associated with the overall distributor operation. Believe it or not, **the accounts actually achieving all this are in the minority in most distributor environments**. Because cost accounting exercises can be more art than science in some respects, this article will avoid the arcane details of various methods of allocating overhead. Instead, let us focus on the lower-volume portion of the account base – and the identification of accounts that do not even cover just the direct costs of sales and service.

First, the concept of "direct cost" should be defined. A direct cost is any expense directly associated with daily "in-account" activities. Generally, direct costs include the labor and labor-related expenses for selling and delivering the account [assuming smaller-volume accounts do not generally receive merchandising calls]. In addition to direct labor and labor-related charges, certain non-labor charges should also be included such as uniforms expense, cell phones, gas, vehicle maintenance and depreciation, etc. **It is a useful exercise to calculate all such expenses and estimate what they cost a distributor on a per-minute basis**. Then it is easy to estimate the total direct cost associated with any account according to the average number of minutes it takes to sell and service the account. This cost can be compared to the average gross profits received from the account and – bada boom, bada bing - you can tell if the account is an economic winner or an economic loser [on a direct cost basis only].

In analyzing the customer files of five client distributors, I discovered the number of retail accounts defined as "economic losers" [i.e. accounts with average gross profits that do not even cover reasonable allocations of direct costs only] to be in the range of 22%-37% of the entire account base.

Similarly, it is interesting that wholesalers actively utilizing an Inside Sales strategy indicate that the number of accounts on such a system is generally in the range of 20%-40% of the total. This is no coincidence. Astute managers realize that many low-volume accounts are not providing an economic return and most would remain unprofitable even if grown at relatively high percentages.

Indeed, for one wholesaler I calculated the lower quadrant of volume accounts [i.e. the lowest-ranking 25% of accounts in a volume ranking] contribute only 1.5% of total volume [See Figure 1]. Arguably, such low-volume accounts are serviced with relatively less frequency and therefore do not occupy one-quarter of that wholesaler's entire sales and delivery resources. However, such a disparity clearly indicates the resources expended in these accounts are far in excess of the volume contribution received.

Independent businessmen should at least be skeptical of continuing service to accounts that are economic losers. While there is an entire discussion waiting to be had regarding the "small-account" issue, such a discussion likely revolves around two quick points.

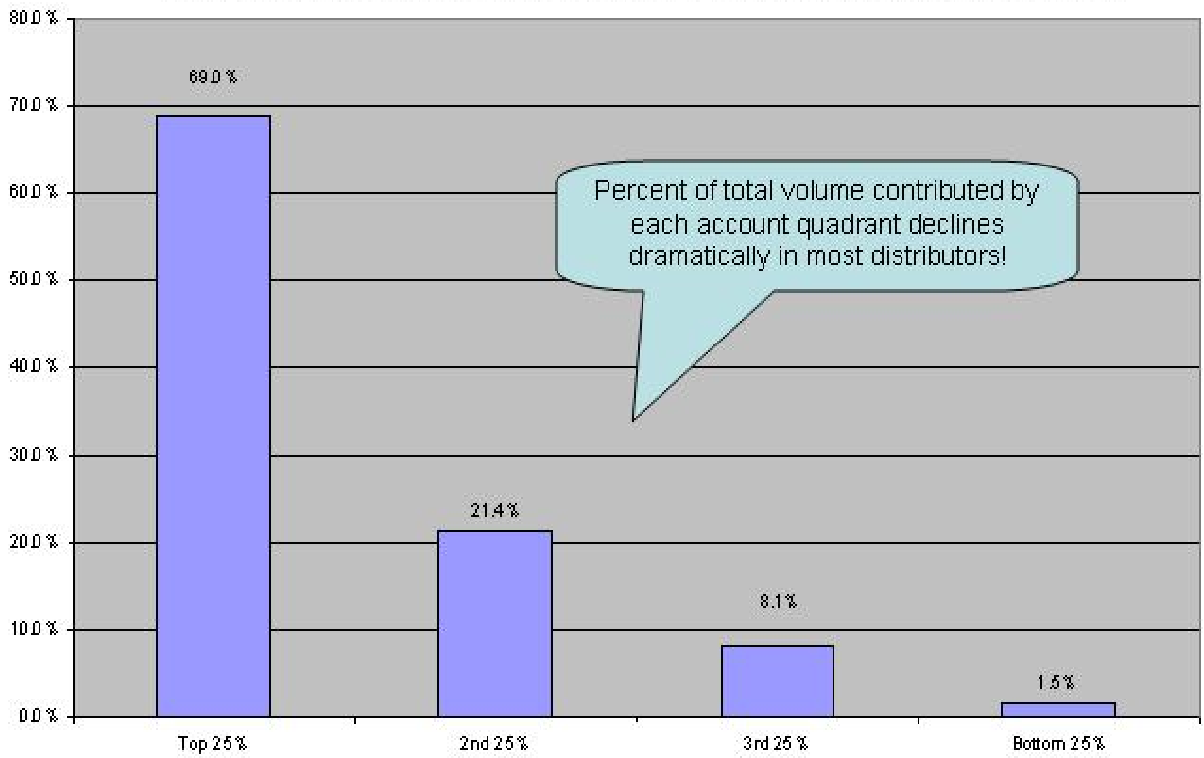
First and foremost, choices in this area are limited as brewer equity agreements demand continued service to such accounts. Second, such accounts arguably add something to the overall sales effort in the form of product distribution and presence in the market.

This undoubtedly creates a sampling environment and drives further volume through higher-volume, more profitable accounts.

The bottom-line is that "economic-loser" accounts cannot have service discontinued but arguably they subtract from overall business value due to the ongoing cost of service exceeding the gross profits generated. Therefore, it seems logical to assume that an appropriate strategy for such an account base would be to continue to provide service - but at a minimal cost to therefore minimize losses. For those with knee-jerk reactions to any suggestion of cost-reduction as it applies to account service, consider the following: in the example, assume a worst-case scenario of a 20% volume decline in the lower quadrant of the account base as a result of service changes [such a decline I have not seen happen by the way]. Because such a large decline occurs in such a small portion of the account base, it could be more than made up with just a half a percentage point increase in the top two quadrants of the account base.

Figure 1

In a typical distributor, an account ranking by volume indicates…



…that even if the lowest quadrant of accounts were moved to an Inside Sales System and then lost 20% of volume – only a 0.5% improvement in the top half of the account base would more than offset the loss!

Experiences with Inside Sales functions vary but generally companies report being able to generate 60-80 orders per day for each full-time Inside Sales representative. This provides obvious leverage compared to an Outside Sales rep that generates more in the neighborhood of 15. [*Its pretty simple math: the higher the orders per day per sales rep, the lower the overall direct costs per account*.] This fundamental math can be used to reduce the overall sales headcount to cover an account base, or to reduce call ratios for the outside sales force. Reduced call ratios of course provides Outside Sales reps with more time to spend in accounts that can really drive distributor volume growth and profitability.

Non-Economic Argument for Inside Sales

Most often, I have found the resistance to an Inside Sales strategy is greater within distributors' own rank-and-file than what is actually experienced in the retail account base. In fact, many times retailers actually report that service improved for them after the implementation of IS. Believe it or not, there are a fair number of small-volume accounts that actually view ongoing sales calls from distributor representatives as a hassle. These accounts view IS as being less of a hassle factor for them and, importantly, perceive that overall attention from the distributor actually increased.

How could retailers possibly perceive increasing service levels in an Inside Sales system? Let's face it, pre-sell representatives make choices in the market and tend to "fish where the fish are". They understand that small volume accounts have little impact on overall company performance – and likely even less impact on their own compensation. Because of this, many small volume accounts experience unpredictable sales calls – or are actually called on the phone by sales representatives trying to shave time off their day. I like to call this an informal Tel-sell operation. Many distributors have an informal Tel-Sell operation and are not even aware of it – or least aware of the extent to which it is happening.

And to distributor owners discovering this in their operation I say…"go with it". Your people are actually trying to tell you something and in this case they may be right. These accounts likely do not justify face-to-face sales calls. And your sales people are likely right in making that choice. Instead of trying to cease such activity, formalize it, plan for it, and then implement it correctly. The result should be a more efficient and effective sales system that reallocates precious sales resources – away from accounts that do not need them or will not yield adequate payback, and to accounts that can provide an improved return-on-investment.

Summary

Using the telephone as a medium to facilitate the sales process should not be viewed narrowly as a cost-saving strategy that simply relegates accounts to a sort of retail "dumping ground". In fact, a properly developed Inside Sales function is really a key component of a larger specialized selling strategy that better aligns actual retail profit opportunities with appropriate distributor sales resources. The secret of Inside Sales is that it is more efficient, but also more effective. Companies that have properly planned and implemented such systems have grown volume in the account base while reducing attendant costs.

Proper implementation begins with top management having the right philosophy: that Inside Sales is just another – and legitimate - sales method and is to be treated as such. Inside Sales positions should be managed by the sales department with personnel attending sales meetings, working with outside sales personnel, and driven to grow their account base.

Inside Sales can be used to reduce overall sales cost, or simply to re-allocate precious sales resources within the organization to better capitalize on market opportunities. By leveraging the higher call ratios, and by using the function to further segment and provide focus on the account base, Inside Sales is a legitimate strategy to use in building overall distributor value.

Key Recommendations for a Successful Inside Sales (IS) Implementation:

1. View IS as a Legitimate Sales Method – Just a Different Method.

2. IS should report to the Sales Department – not Customer Service, or Operations.

3. Employees in IS should be adequately trained on products and company services.

4. Employees in IS should attend sales meetings.

5. "*Plus*-selling" methods should be used…do not let IS slide into "order-taking".

6. Employees in IS should have a variable pay component to their compensation.

7. Employees in IS should spend a portion of their time in the market.

8. IS should be viewed as an extension of the pre-sales [or Outside Sales] effort. Don't let IS become its own "island".

9. Specific performance objectives should be set for IS with results monitored just as with any other sales route.

10. Careful consideration should be given to the type of person hired for such a position. Companies often mistakenly have such a function performed by a part-time administrative person.

11. An IS position can be viewed as excellent training ground for future pre-sell [Outside Sales] employees.