

leveraging the cost of sales

A NEW LEARNING CURVE FOR THE FLAT WORLD

Recently, we shared our psychology on how smart companies attract, hire, train and retain the sales talent they need to grow their businesses. Today we focus on whether to stick with the traditional method of trying to develop these competencies in-house or to embrace a contrarian mindset of outsourcing.

In his best-selling book, *The World Is Flat*, Thomas Friedman analyzes the progress of globalization, and how companies worldwide are outsourcing just about every business function – from service representation to X-ray interpretation to component manufacturing. Lines of communication open up, geographical distances shrink and economic barriers fall, flattening the world. While his focus is on global outsourcing, we have found that the same key tenets hold true with local outsourcing, particularly in the area of sales.

Most people who start companies are masters of their craft. They apply their strategic competency to some need in the marketplace and focus on perfecting it. But most of these experts are not sales experts. Until they make sales a priority, their companies will not succeed. Those who are ready to take their businesses to the next level have two clear choices: hire full-time sales recruiters, managers, trainers and strategists – or contract out to the experts on an as-needed basis.

The biggest reason not to outsource is the perceived higher cost. True, it costs you more, in ready cash, to outsource than to in-source, but what are you currently paying for sales? To figure this out, look at the total cost of sales.

The cost of the sale is the number, usually represented as a percentage, of all the costs contributing to a company's ability to acquire business. So, if it costs \$1,500 to generate a \$10,000 sale, that's a 15 percent cost of sale. The typical range of cost of sale for healthy companies is 15-20 percent. Figuring into the cost of sales are such factors as:

Direct costs – Everything out-of-pocket, such as the cost of travel, entertainment, marketing material, and the creation of custom demos.

Indirect costs – Everything else. These are



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the multiple hidden costs slashing into your profits, causing “death by a thousand paper cuts.” They include:

Personnel costs – Salary and taxes, benefits, desk space, equipment for everyone involved in each sale, including sales support personnel, receptionists who route sales leads and contract managers who draw up the agreements. If one or more of these people are out of role or otherwise unable to succeed, your costs skyrocket.

Opportunity costs – Failing to put yourself and others to the highest and best use and losing productivity as a result. Opportunity costs can be incurred when you do not have a good system for placing, training, managing and strategizing in business development. As a result, you may make the common mistake of taking your best sales person out of sales, and “promoting” him or her to be sales recruiter, trainer and/or manager. Unfortunately, by doing so, you ruin his or her chance of success – because he or she is no longer selling – as well as ruining the chance of your new hire, who is struggling under a manager who doesn't know a thing about training or mentoring. If both become so frustrated by this arrangement



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that they quit, you are faced with another painful indirect cost.

The high cost of turnover – Making hiring mistakes and taking too long to correct them. This can cause sales teams to develop a losing mindset, which can negatively affect recruitment and prevent you from growing the company.

The high cost of inefficient structure – Do you reward activity instead of achievement? What is the difference? Achievement is behavior that is clear and consistent with the company's values. Activity is behavior without clarity, and can result in sales people spending too much time on non-revenue generating activities.

The high cost of hiring the wrong mindset – Are you hiring without the gift for recognizing sales talent or without a proven process to guide your decisions? You may end up with a team of sales people who were very good at selling themselves to you during the interview process but can't seem to sell much else.

The high cost of training the wrong mindset – Lacking the knowledge of what makes a sales culture of excellence. One example is being unable to understand the difference between principles and techniques. Most companies teach techniques, as opposed to the principles behind any given sales situation.

Consider the “feel-felt-found” approach. According to this technique, when you hear an objection, you're supposed to say, “I understand how you feel. Others have felt the same way. But what they've found is ... yada, yada, yada.”

With a full generation of sales people now exposed to these traditional techniques, it is unlikely that anyone will fall for them. I know how I'd react if someone hit me with that old “feel-felt-found” bromide. I would completely drop out of rapport. The sales

person has lost my trust. By contrast, when you understand the principle behind the technique, you are able to align with any objection. Rather than letting your prospect get off-track, you listen, then redirect him toward his larger goal, his “ends need,” which the two of you have discovered through the process of “peeling the onion.” (Both “ends needs” and “peeling the onion” were covered in last month’s article.) Prospects will see that you understand their deepest need – and if you can demonstrate that you have the solution that helps them reach it, you get the business.

Unfortunately, just becoming aware of the cost of sales may not be enough to help you grow your business. You need to know what can be fixed, and which parts need fixing. Consider an insurance company in the southeastern United States, a \$10 million company. They had such a gigantic rate of turnover – losing 92 percent of their staff after three years—that they thought their problem was recruiting. Acknowledging Einstein’s definition of insanity as doing the same thing over and over and expecting a different result, they were hungry for a new approach to finding people.

They decided to outsource. They brought in a strategic sales firm with a holistic approach. This firm discovered that the problem was not a recruiting issue but a structure issue. No system was in place for attracting the type of people they wanted, or for keeping them.

The firm worked the turnover rate into the total cost of sales, and discovered that the cost was at 43 percent. In other words, they lost almost half the value right up front, each time they got a sale.

Through working with the sales experts, the insurance company developed a new structure – one that started with mindset first, then processes. A strong sales culture was born. Turnover slowed. Before long the company was able to get their cost of sales down into the normal range (about 20 percent), putting an additional \$2.3 million in the owners’ pockets.

As Friedman points out, the world is only getting flatter. Outsourcing is becoming a critical component of every business model. Pay attention to the total cost of sales, and you can determine which positions you need to grow your business and what approach to filling those positions has the highest likelihood of success.