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JV/M, Inc.
Need Sales?

How to Prosper in a Recession: Fire Your Low-Performing Salespeople!

by Jeffrey L. Josephson
President, JV/M, Inc.

Executive Summary

Every sales team with three or more salespeople has, almost by definition, at least three levels of performers: high performers, mid-level performers, and low performers. By analyzing the performance levels and contribution of each of your company's salespeople, firing the low performers and investing some of the savings in outsourced business-to-business telemarketing, you can immediately increase your company's revenue and near-term profitability, and significantly increase its chances of surviving – and prospering in – the recession.

While the short term benefit doing this is survival, the long-term benefit (depending on how you re-focus your resources,) is that you can also greatly increase your market share so that, when the economy turns around, you are positioned for even larger increases in sales and profitability – as companies with the greatest market share coming out of a recession tend to have the highest profitability during boom times.

But just as important as the positive potential of firing your low performing salespeople is the certainty of the negative consequences of not doing so. The continuing drain on profits caused by carrying underperforming salespeople will only accelerate the decline of the company, making it significantly more vulnerable to the destructive potential of the recession.

Background

The basic economic advantage of firing your low performing salespeople is illustrated with a model¹ developed by JV/M in working with a number of mid-sized clients. The key inputs are:

- The number of salespeople of different performance levels
- The average loaded compensation (salary, benefits, commissions, administration and sales expense,) for each performance-type
- The amount of time (expressed as a percentage,) each performance-type spends prospecting for new sales
- The average annual sales that can be attributed to a salesperson of each performance-type (expressed as dollars per salesperson per year)
- The amount of that revenue that is “secure” (i.e. repeat business and expected new business,) for each performance-type.

These factors can be used to calculate the cost and contribution to profitability of each type of performer, as shown in the example below, for a typical mid-sized company or division with sales of around \$12 million per year². Table 1 shows the assumptions.

¹ An interactive version of this model, which you can use with your own assumptions, is available at www.jvminc.com/Impact.cfm.

	Top Performers	Mid-Level Performers	Low Performers
Headcount	3	4	3
Average Loaded Compensation per Person	\$150,000	\$110,000	\$80,000
Percent of Time Spent Prospecting	30%	40%	60%
Average Annual Attributable Sales	\$2,000,000	\$1,300,000	\$500,000
Average Secure Base of Business	\$1,000,000	\$400,000	\$100,000

Table 1: Assumptions

These inputs enable you to calculate, using a simple spreadsheet, what it costs the company to generate sales, and ultimately new sales, from each quality of salesperson, as shown below. Table 2 shows you how to calculate the basic revenue-to-expense ratio for each type:

	Top Performers	Mid-Level Performers	Low Performers
Aggregate Attributable Sales for the Group	\$6,000,000	\$5,200,000	\$1,500,000
Aggregate Compensation for the Group	\$450,000	\$440,000	\$240,000
Revenue-to-Expense	\$13.33	\$11.82	\$6.25

Table 2: Calculating the Basic Revenue-to-Expense Ratio

The “Aggregate Attributable Sales for the Group” is simply the “Average Annual Attributable Sales” multiplied by the number of salespeople in the group. Thus, if the average sales attributed to high performers is \$2M, and there are three high performers, then the aggregate sales attributable to the company’s high performers is \$6M. Three low performers generating an average of \$500K per year produce a total of \$1.5M in revenue.

Likewise, the “Aggregate Compensation for the Group” is the “Average Loaded Compensation” for an individual salesperson of the performance-type multiplied by the number of salespeople of the type. In this case, an average high performer costs the company \$150,000 per year in salary, benefits, administration, commissions and field expense, while the average low performer costs the company around \$80,000. Three high performers, therefore, cost \$450,000 per year, while the three low performers cost \$240,000.

You can now calculate the “Revenue-to-Expense Ratio” for each type of performer by dividing the “Aggregate Attributable Sales for the Group” by the “Aggregate Compensation for the Group.” In this case, which shows a typical distribution, the top performers generate \$13.33 in revenue for every dollar of expense, the mid-level performers generate \$11.82 in revenue for every dollar of expense, and the low performers generate \$6.25 in revenue for every dollar of expense. Not surprisingly, high performers tend to generate more sales per dollar “invested” than low performers, with a cost-of-sales of around 7.5% for the high performers, versus a cost-of-sales for low performers of 16%.

² The data in this example is a composite of several companies.

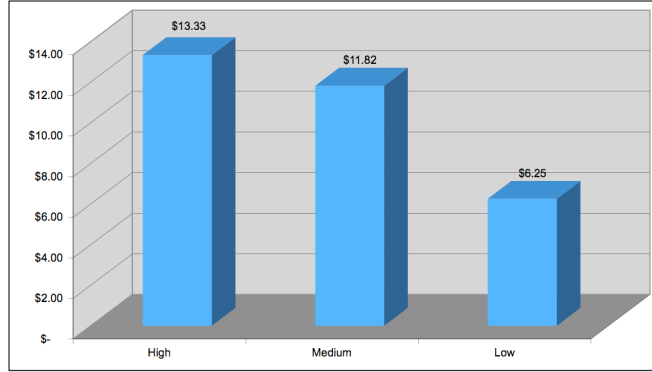


Chart 1: Revenue-to-Expense Ratio

The Revenue-to-Expense is a key metric in evaluating any asset for divestiture when things get tight, but in sales it is important to focus on positioning for growth, more than on just “playing defense,” so the analysis should also look at where the *new* business comes from, as well.

So you then need to calculate an analogous metric for new business, i.e. the amount of new business generated by each type of salesperson per hour. This is the critical variable for gaining market share, as improving sales efficiency, just like improving efficiency in any other area of the business, is crucial to competitiveness and survival. And new business is where the market share growth will come from that will lead to increased long term profitability.

	High Performers	Mid-level Performers	Low Performers
Annual New Business from the Group	\$3,000,000	\$3,600,000	\$1,200,000
Hours Spent Prospecting	1,800	3,200	3,600
New Business per Hour of Prospecting	\$1,666	\$1,125	\$333

Table 3: Calculating the “New Business per Hour of Prospecting”

“Annual New Business from the Group” can be calculated by subtracting the “Secure Base of Business” for a salesperson of each type - multiplied by the number of salespeople of each type - from the “Aggregate Attributable Sales for the Group.” You can then estimate the number of “Hours Spent Prospecting by the Group” by multiplying the “Percent of Time Spent Prospecting” by the average 2,000 hours per year. Finally, you can calculate the “New Business per Hour Prospecting by the Group” by dividing the “Annual New Business from the Group” by the number of “Hours Spent Prospecting by the Group.” As you can see, high performers in this case generate more than five times as much business per hour of prospecting than low performers – a not uncommon result.

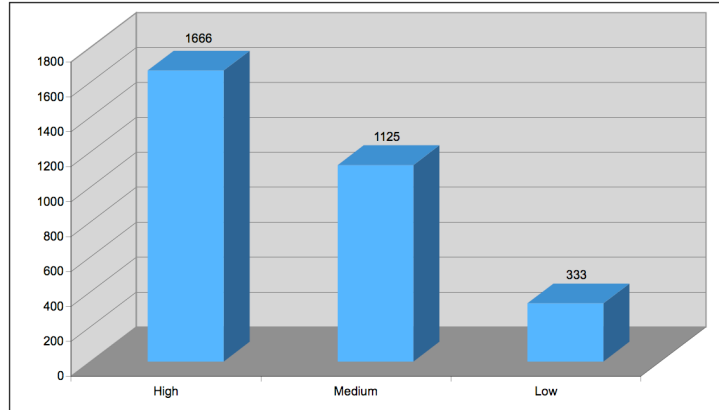


Chart 1: New Business Per Hour Prospecting

The results shown for the composite company should be typical, expected and startling. Most companies know intuitively that their best performers are more productive when it comes to generating new business, but they tend to be unaware of the magnitude of the difference between groups. More importantly, while one can accept a low, but positive, contribution of the low performers in a normal economy, in a recessionary economy such tolerance can be fatal. Most companies can't afford excessive costs in any area of their operation if they are to remain price competitive in a recession, and sales should not be immune to the analysis – which should lead to immediate action. Specifically, low performing salespeople, as measure by contribution in this manner, should be terminated.

To implement such a strategy, accounts that can be handled by Inside Sales should be converted to House Accounts. Accounts that need a sales presence should be given to the high and mid-level performers for coverage. This will have an immediate effect of reducing your cost of sales by an amount equal to the loaded salaries of the low performing salespeople, in this case \$240,000, and increasing profitability proportionately.

Investing in Growth

While firing your low performing salespeople can provide an instant savings, it is reasonable to ask where the new sales and market share are going to come from, especially if the high performers now have to cover more accounts. The answer is by outsourcing your lead generation.

One of the reasons outsourced B2B telemarketing has been so successful is that the skills needed to make good cold calls, while one would like them to reside in the same salesperson that knows how to cover one's bases and close a deal, frequently don't. Some salespeople are better at prospecting than closing, while some are better at account management than at finding new business. Equally important is the fact that having to change modes from prospecting to closing (or covering ones bases,) and back again, is extremely taxing, often introducing an inefficiency on the order of 20% - 40% in sales productivity. Outsourcing your lead generation can enable a company to utilize salespeople who are skilled at prospecting to find new business, while off-loading an inefficiency-inducing task from your high performers. The impact of this move is illustrated by continuing the model.

Once you have decided to fire your low performing salespeople, money is freed up to invest in increasing new business and acquiring market share with B2B telemarketing. Assuming you

allocate 50% of the savings to outsourced B2B telemarketing, half of a \$240,000 savings, or \$120,000, would translate to approximately 3,000 hours of telemarketing.

To be sure, there are differences in outsourced B2B telemarketing companies, and it is critical to use one that does not use scripts, but rather uses traditional, professional selling techniques like Solution Selling, Consultative Selling, etc. But assuming that the skill set is adequate to the task, then 3,000 hours of professional telemarketing should produce at least as much new business as 3,000 hours of cold calling by your best performers³. If that's the case, then the following would occur: First, your base business would remain (in reality, it might become more secure because it would have better coverage,) with no negative impact from firing your low performers, or positive impact from adding telemarketing, as shown below.

	Top Performers	Mid-Level Performers	Low Performers	Total
Old Secure Base Business for the Group	\$3,000,000	\$1,600,000	\$300,000	\$4,900,000
Allocation of Low Performers' Accounts	\$195,652	\$104,347	\$0	\$300,000
New Secure Base Business	\$3,195,652	\$1,704,347	\$0	\$4,900,000

Table 4: Re-Allocation of Secure Base to Top and Mid-Level Performers

The real impact derives from investing some of the freed-up resources on professional B2B telemarketing, with the results as follows:

	Top Performers	Mid-Level Performers	Low Performers	Outsourced Telemarketing	Total
Old New Business from the Group	\$3,000,000	\$3,600,000	\$0	\$0	\$6,600,000
Hours Spent Prospecting	1,800	3,200	0	3,000	8,000
New Business from Telemarketing				\$3,960,000	
Total New Business with Telemarketing	\$4,697,142	\$5,862,857	\$0		\$10,560,000

Table 5: New Sales Calculation

First, "Old New Business from the Group" is simply the "Annual New Business for the Group" from Table 3, however now only the top and mid-level performers are producing it. "Hours Spent Prospecting" for the top and mid-level performers is the same as before (although one could adjust it to account for the work they have to do covering the low performers' accounts.) The growth, however, comes from the 3,000 hours allocated to professional B2B telemarketing, funded by firing the low performers, which should produce new business at a rate at least as well

³ The typical experience is that professional outsourced B2B telemarketing is at least 50% more productive than in-house telemarketing, but a conservative assumption was used here.

as your top performers – in this case *generating an additional \$3.9 million in new sales while saving \$120,000 in sales expense!*

Adding this to the secure base of business results in the summary view below:

	Top Performers	Mid-Level Performers	Company Total
Total Secure Base	\$3,195,652	\$1,704,347	\$4,900,000
Total New Business	\$4,697,142	\$5,862,857	\$10,560,000
Total Revenue	\$7,892,795	\$7,567,204	\$15,460,000

Table 6: Pro-Forma Revenue Distribution

Folding these numbers into the overall “P&L” shows the impact of retaining low performers, versus replacing them with a 50% investment in professional B2B telemarketing:

	With Low Performers	With Professional B2B Telemarketing	Percent Change
Revenue	\$12,700,000	\$15,460,000	+21.7%
Sales Expense	\$1,130,000	\$1,010,000	-10.6%
Gross Profit	\$11,570,000	\$14,450,000	+24.9%

Table 7: Pro-Forma P&L

The net result is a near-term increase in sales of 21.7%, an immediate decrease in sales expense of 10.6%, and an increase in gross (sales) profit of nearly 25% - clearly an enormous near-term impact. If the cost reduction is folded into the company’s pricing, the 10% reduction in the cost of sales could immediately translate into an increase in market share, and establish for the company a more profitable present, and future.

Discussion

The example used above represents a composite of several industrial manufacturers and commercial service providers, and are typical of the kind of improvements that can be gained by firing your low performers and investing some of the savings in outsourced B2B telemarketing. But there are several issues that need to be addressed.

Who are the Low Performers?

For many companies, performance assessments have become laden with personality tests, skills assessments, and performance against quota. Worse, in particular when measuring performance against quota, bias inevitably creeps in. For example, historically, many companies allocate quota on the basis of what a particular rep can bear, territory structure, management preferences and precedent. While these are important factors in being fair in boom times, recessions create an urgency that obviates fairness as much as the formal structures underpinning account executive development.

Since the problem is to fix things quickly, it is often better simply to either identify low performers using historical ratings, or management judgment, or to calculate the “revenue-to-expense ratio” and “New Business per Hour” for each salesperson, and fire on that basis. It is a rare sales manager who does not know who his low performers are; they should simply be fired before the bleeding gets any worse.

Why B2B Telemarketing?

Professional business-to-business telemarketing is the most effective, and cost effective, way to find new business. The firms, like JV/M, who specialize in professional B2B telemarketing, lead generation and executive appointment-setting use the same types of people, and the same sales techniques, that their clients use. The only difference is that they isolate the role from the other functions normally performed by salespeople, and leave the field sales component to someone who is already out on the road. Eliminating the breakage that occurs when coming in out of the field to make cold calls, or putting down the phone to go visit a prospect, immediately increases productivity (revenue per dollar spent,) by 15%-25%. The remaining improvement derives from management focus on the lead generation function (as opposed to covering bases, closing, or administration), skills specialization and experience.

What are the Risks?

As in any major change, firing low performers creates a risk, although when described as such it seems counterintuitive. At many companies, the low performers are often new employees, and are low performers because they haven't had time to reach their potential. To be clear, a recession – where the consequence of inaction can be bankruptcy – does not allow the luxury of developing talent for the long term. And while new people can be added as things ease up a little, one can be reassured that the experienced staff will be less likely to leave during a recession, and that the company will be better able to afford to add talent by virtue of having survived the downturn.

The major practical risk of firing low performers, besides thinning the bench, is in reducing account coverage. This can be especially problematic in a recession, as companies are desperate to hold onto their accounts when things get bad – otherwise known as “playing defense.” The assumption is that it is better to hold onto your base business than to go after new business.

But there are two problems with that assumption. First, even if you play defense with all your resources, you are still going to lose some business by attrition. Your customers are just as vulnerable to the economic downturn, and if they fail, you will not have new accounts to replace them. Second, if your competitors are also playing defense, their customer base is vulnerable to your attack only if you can change your pricing structure – enabled only if you reduce your costs. By firing your low performers and implementing a B2B telemarketing program, you reduce your cost, while increasing your ability to go after and win new business.

Of course, another risk is in the selection of a B2B telemarketing firm. There are many differences between firms, but one can minimize the risk by following the guidelines described in the recent report by the Aberdeen Research Group on the industry (May, 2008.)

But the biggest risk is the perceptual one: Firing your low performing salespeople is patently offensive to a manager or executive who has invested in an organization and its people. The experience of the recession of 1974-5, however, which is a clear analog to today's situation (rising oil prices, falling dollar, pent up inflation, tight credit, high deficit,) showed that mass layoffs are the only way for companies to survive, and reestablish their competitiveness. Managers who do not work the problem now will not be around to work it later, so it is critical to put the survival of the company over the survival of any given relationship.

Coming out the Other Side

Positioning your company to prosper in the recession is the only way to survive it, since attrition alone will take with it the companies that do nothing. Prospering in the recession is all about increasing your market share in a down market. By increasing your market share – i.e. your base of business, or the fraction of the market that buys from you – you will get whatever business there is, and you will be in an ideal position to grow exponentially when the economy rebounds. That is not to say that the products you sell will be the same, or even that you will be in the same business, but because you focused on “making new friends” when things were bad, you’ll have more friends when they turn around.

That is when you can start adding marginal salespeople again, and worry about A/E development. Until then, there are only, in the words of Carter Schelling of 3655, “the Quick and the Dead.”

Conclusion

While it may seem cruel, firing your low performing salespeople and investing in outsourced B2B telemarketing are the first things to do when facing a recession. Not only will it enable you to reduce your costs quickly, it will also deliver increased revenue and profits quickly, and position you to survive it, and thrive as the economy rebounds.