

January 2009

**“The Only Good Telemarketer
Is a Dead Telemarketer”**

Abstract:

The current recession is likely to impact businesses far more and far longer than the consensus forecasts expect. And companies in the B2B segment are far more likely to be impacted more severely than companies in the consumer segment, with sales declines of 25% - 50% possible for many companies over the next two years. A study done in Great Britain following the 1991 recession, however, identifies several key strategies that companies can take to assure their survival – including an “All Hands on Deck” approach to generating new sales and stealing market share from competitors. The current analysis discusses how recasting your business plan using zero-based budgeting in expectation of a significant sales drop, and firing your low performing salespeople and replacing them with professional B2B telemarketing, can enable companies to dramatically increase their revenues, market share and profitability – even in a recession – while greatly reducing the risk of failure.

I. January 2009 - The Economy Is In Recession.

The stock market is down 43% from its high of just over 14,000 fifteen months ago. And consumer confidence hit an all-time low last month. According to the Conference Board:

The Consumer Confidence Index™ now stands at 38.0 (1985=100), down from 44.7 in November. The Present Situation Index plummeted to 29.4 from 42.3 last month. The Expectations Index decreased to 43.8 from 46.2 in November.

And our new President has just told us that things are going to get worse.

According to the Bureau of Economic Analysis, Gross Domestic Product (GDP) decreased at an annual rate of 0.5% in the third quarter of 2008.

The decrease in real GDP in the third quarter primarily reflected negative contributions from personal consumption expenditures (PCE), residential fixed investment, and equipment and software that were partly offset by positive contributions from federal government spending, private inventory investment, exports, nonresidential structures, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

Notice that the only good news in the analysis is actually bad news for business owners. Because while the BEA views an increase in inventory investment as a good thing for GDP, a business owner of course, should recognize it as bad – simply the accumulation of work-in-process (WIP)

and unsold finished goods in the channel. And increased government spending only means an eventual increase in taxes.

But let's take it all in. Let's absorb what's happening around us. Are you sitting down?

- The recent US stock market crash vaporized \$7 trillion in wealth, out of roughly \$20 trillion in invested funds. Globally, the loss is over \$50 trillion!
- The average price of a home in the US declined 25% in value over the last year, taking with it \$5.3 trillion dollars in residential equity. If the average homeowner had a 20% equity stake, the average homeowner is now under water, eliminating almost all discretionary consumer spending. One in ten homeowners is either in foreclosure, or behind in their payments.
- Are you familiar with the “velocity of money”? It's a measure of how quickly money is turned over in the economy - such as when banks lend it out, an activity that has virtually stopped because of the credit crisis. This is a key determinant of how much money exists, and is available for purchases and lending. In the last year, M1 (a measure of the money supply,) dropped from 1.6 to 1.0. And may have actually fallen below 1.0 – to the point where we may be in a deflationary spiral.
- The Purchasing Managers Index (PMI) reached 32.4 – its lowest level in more than 15 years.
- Over 2,000,000 people lost their jobs last year. And unemployment is expected to reach 10% by the end of 2009.
- Retail sales ended the year more than 2.5% below a year ago. Thousands of retailers are in bankruptcy.
- Corporate profits decreased \$18.5B in 4Q08, after decreasing \$60.2B in 3Q08 – to the lowest level in years.

If you're old enough to remember 1987, this is worse. If you're old enough to remember 1981, this is worse. And if you're old enough to remember 1975, this is worse, too. In fact, you would have to be around 85 years old to have any memories of an economy worse than the one we're into now.

What does “worse” mean?

Let's assume that your company's market opportunity is a pie, as in a pie chart like the ones below. The B2B segment, (the smaller wedge,) is typically about 1/3 of the total expenditures in the US. If you're in B2B (that is, if your company sells products or services to other companies who, in turn, sell to consumers or other businesses,) your aggregate opportunity represented 1/3 of the \$14.5 trillion in economic output of this country in 2007, or around \$4.8 trillion.

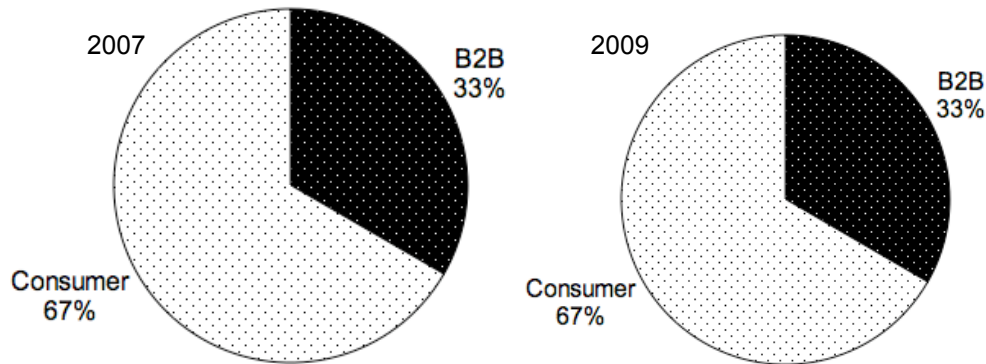


Figure 1: Recessionary Impact on GDP/Aggregate Demand

For 2009, assuming that GDP shrinks 2% (a very optimistic assumption,) and that the velocity of money declines by .6, then a good estimate for the reduction in demand on the B2B side will be around 5%. That may not seem like much, but it is, in fact, a huge decrease for most companies in the B2B market.

This is because first, while this is an aggregate estimate, it will not be evenly distributed. According to the rule that “People have to eat,” some companies will be somewhat more resistant to the recession because they sell things like electricity and milk that people have no choice about buying. But for a company that does not make or sell necessities (companies in the IT business, tech manufacturing, professional services, commercial products and services – a list that will expand as the recession deepens), the reduction in demand will be much greater than 10%. In fact, it could be 3-5 times as much for some segments.

Second is the downside of the axiom that “a rising tide raises all boats.” That is, when the economy is growing, businesses can grow simply by targeting the growth segments of their markets. Remember that the economy grows naturally at around 2.5% per year just based on births and immigration. If you throw in the natural attrition (e.g. based on entrepreneurs retiring,) and capacity limitations in the growth economy, in the B2B segment if you just show up you generally face a 5% growth in your addressable market.

But when the tide stops rising, when there are no growth segments to go after, opportunity doesn’t just flatten out; it goes negative, and markets actually shrink. A local market that was \$10M falls to \$5M. A national market that was \$500M falls to \$300M. Customers go out of business, budgets are slashed, and what was considered to be a necessity now becomes dispensable. People are laid off, and buyers disappear.

If you sell necessities, you’re likely to face a modest reduction in demand as illustrated on the left-hand graph, assuming there are no cheaper substitutes. If your product is discretionary, however, your market looks more like the right-hand graph – a wholesale collapse in demand.

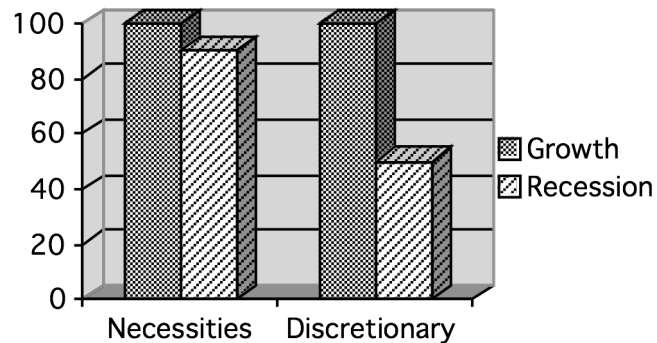


Figure 2: Change in Demand by Spending-Type

And what counts as a necessity will change, too. No longer – as we know already – is a new car a necessity; car repair shops will do better as new car dealers go out of business. Full service restaurants will fail as fast food chains will survive (although marginal locations will close). Companies will extend the life of their IT systems rather than replace them. Insurance will become a luxury, along with advertising, raises and expense accounts.

Given the excess capacity in the market, 2009 is shaping up to be a catastrophe.

Watch for significant layoffs (preceded by a massive reduction in work hours), a build-up of inventory, severe declines in corporate profits, an increase in bankruptcies (particularly among smaller companies,) a lack of investment money available, and everyone having to work much harder for much less. All the slack will come out of the market, and even the strongest, best financed and cleverest may not survive.

If your company hasn't felt the impact of the recession yet, consider yourself lucky. (As harsh as it sounds, though, it is more likely that you're like Wiley Coyote and haven't figured out yet that you've already run past the edge of the cliff.) Most businesses will see a reduction in sales of anywhere from 10% to 50% as the effects of the crisis permeate through the economy. And there is nothing that can be done about it. The most that the government can do is prevent a total collapse of the economy (such as by eventually forcing banks to renegotiate mortgages), and maybe trim a few points off the decline with a stimulus package. But any impact will be "in the noise" as far as most companies are concerned.

How do we know this? How do we know how bad it's going to get?

First, the economic projection is, of course, out there. Economists like Nouriel Roubini of NYU have accurately predicted every phase of the decline thus far, and are predicting that things will get much worse. From an August 8, 2008, article in the New York Times:

On Sept. 7, 2006, Nouriel Roubini, an economics professor at New York University, stood before an audience of economists at the International Monetary Fund and announced that a crisis was brewing. In the coming months and years, he warned, the United States was likely to face a once-in-a-lifetime housing bust, an oil shock, sharply declining consumer confidence and, ultimately, a deep recession. He laid out a bleak sequence of events: homeowners defaulting on mortgages, trillions of dollars of mortgage-backed securities unraveling worldwide and the global financial system shuddering to a halt. These developments, he went on, could cripple or destroy hedge

funds, investment banks and other major financial institutions like Fannie Mae and Freddie Mac.

What part of what he said hasn't come true? So now his 1/13/09 forecast for 2009 is worth reading (read his updates at www.rgemonitor.com):

We forecast that the U.S. economy is only half way through a recession that will be the longest and most severe in the post war period. U.S. GDP will continue to contract throughout all of 2009 for a cumulative output loss of 5% and a recession that will thus last about two years. Our forecast is much worse than the current consensus forecast expecting a growth recovery in the second half of 2009; we also predict significantly weak growth recovery – well below potential - in 2010.

That's *2010* for a slow recovery, not 2009 - contrary to the consensus. And remember, if the overall reduction is 5% and you're in the B2B sector, and you're not selling necessities, the impact will be much greater. To get a sense of how big the aggregate problem is, imagine that most the growth of the last 10 years was financed by no-doc loans, Option ARMs, derivatives and CDOs. If that's the case, and the economy grew 20% in the last 10 years, all of that growth will have to be undone.

If your portfolio looks like it did 10 years ago, now you know why. We don't quite have to go back to the Stone Age, but 10 years at least, and maybe 15.

Looked at another way, with 3 million unsold homes, why would anyone build another? Therefore, why would anyone make another dishwasher, couch, refrigerator, carpet, or backyard swing? Therefore, who needs another conveyor system, metal press, loom or industrial saw? With car sales down 35%, why make another bumper, dashboard or car radio? Therefore, who needs another ERP system, thermo former, or robotic welder? And all of these effects will cascade through the supply chain until they hit your company.

In 1975, Western Electric Company (the manufacturing arm of the old Bell System,) laid off 65,000 of their 125,000 employees. And hundreds of suppliers went out of business.

Economists are feverishly trying to predict how bad things are going to get, but since we talk to hundreds of companies every week, we get up-to-date information on what many businesses are already doing, and how in particular they are coping with the current situation. And the one observation you should note is that almost 90% of companies we have talked to have cancelled all new spending for 2009. Of that, over 80% are actively cutting both discretionary and core expenses. We fully expect to see cuts of 25% or more in payroll and expenses across the board. And these companies are *your* potential customers.

Hang on tight. It's going to be a bumpy ride!

A. How to Survive a Recession

In mid-2007 when we first saw the recession coming, JV/M published a White Paper on "How to Survive the Coming Recession." Some of the material came from a study conducted in Great Britain after the 1991 recession about companies that did best in hard times. The full paper is still available on our Web site, but their recommendations were the following:

Recommendations	Commentary
Recessions are optional	The degree to which your company will be impacted can be minimized by specific actions you take to deal with the threats. Do nothing, and you will fail. Do the right things, and you can survive.
Set goals for profit	Work towards a monthly profit goal, and don't stop fixing things until you hit it – every month.
Have a plan	Have a plan to achieve your profit goals. Write it down. Make it realistic. Make sure everyone knows his role and does his job. Monitor it every day.
Work less	Leveraging the 80/20 rule means that 20% of the things you do account for 80% of your profit. Stop doing the 80% that generate only 20% of the profit; put half of that time into solving the problem, and take the other half off.
Have one effective day at a time.	If you keep getting closer to your goals every day, you will eventually get there. Make a To-Do list, prioritize the action items, and work your way down the list.
Keep selling	Never take your foot off the gas.
Your customers are a goldmine	Know their needs, and fulfill them. Ask for references, and follow them up.
Delegate	The more time you spend doing things that other people can do, the less time you have to think clearly about how to solve the problem.
Improve your business by 50%	Whether you do one thing that improves it by 50%, or five things that improve it by 10% each, just get it done. And if you don't know what to do? Ask your customers, prospects, employees, anyone!
Work <i>on</i> your business, not <i>in</i> it	Solving the recession problem requires perspective that you can't get if you're up to your elbows in day-to-day operations. If you need help getting perspective, call in a consultant.

We're going to focus on a few of the recommendations below (particularly the "Keep Selling" recommendation), but surprisingly (or perhaps not,) most of these recommendations relate to actions that individual owners, executives and managers can take, rather than prescriptions for the company as a whole. Their conclusion was that the most important adaptations are those that happen at your desk. It's what you do, and how you manage your time, that matters most in surviving the recession.

That said, they also included the following indicators and recommendations for the company as a whole:

Warning Signs	What to Do	Commentary
DEBTORS: increasing age, credit limits exceeded, increasing reliance on individual customers, increased bad debts and credit/debit notes.	Swifter invoicing, better credit control, reviewing credit periods offered, obtaining payments on delivery, factoring or invoice discounting, use collection agencies.	Even a small increase in age can mean the chickens have come home to roost. Do not die of a thousand cuts. Recognize the problem while it's small.
CREDITORS: increasing age, checks "in drawer", lack of long-standing relationships, final demands or writs, arrears to Inland Revenue or Customs and Excise	Negotiate longer credit periods, get the right balance without jeopardizing suppliers, know which are key, pay on pre-determined dates, meet regularly with suppliers	Cash is king. Keep as much of it as you can.
STOCK: increasing levels and static sales, deteriorating age profile, returns, delays in invoicing	Reduce stocks - continually clear out old/surplus lines, set minimum/maximum for each stock line, refuse to accept early deliveries, consider buying in	Don't let inventories rise. Better to be out of stock than have to write off investment.

	bulk, minimize level of buffer stocks	
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It's worth it to print out these two tables, tape them to your desk, and work their prescriptions as though your life depended in it – because it does, as the companies that followed these guidelines were the ones that survived, and the ones that didn't, didn't.

It's interesting to note also, by the way, that nowhere in their study did they recommend that companies cut their marketing or sales budgets. They talk about the importance of tightening up credit controls, stretching out payments, reducing stocks and managing your business very carefully. But if you make the obvious inference, the one place where the survivors dramatically *increased* their efforts and spending was in sales. The study showed that if you protect your customer base with improved service and attention (dropping unprofitable customers), and aggressively go after new business, you stand the best chance of surviving – almost regardless of what else you do.

B. Re-Write Your Business Plan

Several of the recommendations show that in confronting a new economic environment, particularly one with a high probability of a severe decline in sales, the first step you should take is to re-write your business plan. Most business plans are in the form of a spreadsheet or a database that contains historical and pro-forma P&L data. And, if you're like most companies, your 2009 budget contains a lot of projections based on prior years experience. So, for example, if you anticipated a 10% growth in sales for 2009, you might cascade that effect through to your costs to come up with a 2009 budget such as the one shown below:

	2008 Actual	2009 Projection
Sales	10,000,000	11,000,000
CGS	6,000,000	6,600,000
Overhead	3,000,000	3,300,000
Gross Profit	1,000,000	1,100,000

Trended Budget Projection

In most years, such a simplified view is understandable, and usually works out fine since you have a year to do your fine-tuning. However, with the recession upon us, most companies already anticipate a decline in sales, and reflect it with some form of across-the-board cuts, such as the following:

	2008 Actual	2009 Projection
Sales	10,000,000	9,000,000
CGS	6,000,000	5,400,000
Overhead	3,000,000	2,700,000
Gross Profit	1,000,000	900,000

Budget Projection Anticipating a 10% Decline in Sales

There are clearly many assumptions that show up in the details in a budget like this. For example, some costs are easier to reduce than others, and disproportionate choices need to be made. But there is a more fundamental assumption embedded in this approach that can result in catastrophe or, if made the other way, can result in significant growth.

As they say, the “devil is in the details,” and looking at the line items of the typical budget – even one that anticipates a decline in sales – can reveal where the fatal errors lie. And – typically, when anticipating a recession – there are two.

First, a trended budget, by definition, is not a “zero-based” budget; so the pre-existing line items bias the strategic alternatives under consideration. If you are not doing a “zero-based” budget, with each cost having to be justified from the ground up, then you will spend more money than you really have to on things that you don’t need to survive. This limits your options, wastes money, and greatly increases the risks of failure. When faced with a recession, zero-based budgeting is mandatory.

The other critical assumption that this approach makes regards the degree to which sales could decline. Most companies find it impossible to contemplate a 25%, 50% or greater decline in sales. So they don’t scale for it. And when it happens, they are caught short – with not enough cash to operate. Our sample company, for example, would look like this at the end of 2009 if one were to experience a 25% decline in sales, having only anticipated a 10% decline in sales:

	2008 Actual	2009 Projection
Sales	10,000,000	7,500,000
CGS	6,000,000	5,400,000
Overhead	3,000,000	2,700,000
Gross Profit	1,000,000	-600,000

Effect of An Unexpected and Severe Decline in Sales

As you can see, the loss occurred despite the reduction in both direct and overhead costs, demonstrating the fatal flaw in trended budgeting in a recession. So the question is, how do you avoid the loss?

The answer, from a process perspective, is to use zero-based budgeting. Rather than ask department managers to justify increases over the previous year’s budget (or defend smaller decreases,) require each departmental budget to be justified in complete detail starting from a zero base. In this way, you will have the opportunity to challenge expenses that you would otherwise not have the chance to. And it is this pushback that will reveal the greatest savings.

From the perspective of how to set priorities, the key is to keep selling. That is, every effort should be made to increase sales and market share. And every penny not spent on sales and marketing should be challenged as a threat to the company’s future.

C. Keep Selling

When you use zero-based budgeting, and marry it with a high probability of a significant decline in sales (e.g. on the order of 25% or more,) it will become clear where your priorities need to be. And the one that will jump out is the importance of *redoubling your sales and marketing efforts*. In fact, rather than imposing a spending cap, spreading an across-the-board cut, or eliminating all outside expenses, it will become clear that the most important *increased* investment you can make is in generating new sales in an “All Hands on Deck!” effort to turn things around. Because, to be sure, there is such a thing as being too late to this dance.

The admonition to “keep selling” from the British study is its most important recommendation, not only because it can compensate for the inevitable reduction in revenue and enable you to

survive, but by “stealing” market share from your competitors it positions you for increased future profitability – as companies with the highest market share coming out of a recession tend to have the highest profitability in boom times.

Prior work done by JV/M has demonstrated that it is actually possible to *increase* your sales and market share at the same time as you *reduce* your costs – particularly your cost-of-sales. The methodology that is described below therefore can achieve your two main objectives: Increasing sales and reducing costs. And it is particularly effective in a recession.

II. Professional B2B Telemarketing

JV/M provides professional telemarketing, lead generation and executive appointment-setting services on an outsourced basis to businesses that want to increase their sales, market share and profitability in the B2B market. As a method for generating sales, professional B2B telemarketing is not only generally the most effective technique, it is also generally the least expensive technique – this according to a recent study by The Aberdeen Research Group available on their Web site.

Unlike traditional marketing activities¹, professional B2B telemarketing is not designed simply to create awareness in the hope of stimulating inquiries. Rather, it is designed to proactively find or create specific selling opportunities that your sales staff can close. As a result, professional B2B telemarketing can provide a positive return on investment in a matter of weeks – the kind of payback that is needed in these critical times.

Many companies view professional B2B telemarketing as paying someone to do the cold calling that their in-house sales staff can't or won't do; a not unreasonable view. But a brief framework can help understand why it works and how it fits into a recession-countering strategy.

- Most salespeople don't like cold calling, or, at least, aren't very good at it. Professional B2B telemarketing takes the burden of cold calling off of the salesperson so that they have more time to close sales rather than waste time looking for them. It also enables you to get more sales out of a given salesperson.
- Advertising, direct mail, trade shows, SEO and other “passive” marketing efforts are designed to create awareness and attract prospects who are already looking; however in a recession fewer people are looking, and therefore aren't even reachable by traditional media. Professional B2B telemarketing, however, can reach people regardless of whether they're looking or not, and actually *create* needs, as well as find them.
- Staffing an effective in-house telemarketing department is very expensive and very risky. Fewer than 5% of telemarketers are qualified to make B2B calls (making recruiting a nightmare,) and unqualified telemarketers can actually damage your market; while the probability of success (measured as generating a positive ROI,) in a typical outsourced, professional B2B telemarketing program exceeds 70%.

Finding opportunities is the key to growth, and in a recession it is the key to survival. Putting people on the phones who know how to get past gatekeepers and voice mail, and engage a decision maker in an intelligent conversation about his needs and how you can help, is vital for countering the inevitable and significant decline in sales associated with a recession. It enables

¹ Many people view lead generation not as a marketing activity, but as the front end of the sales process – a more accurate description.

you to unhook your competition – who may have cut his marketing budget (to your advantage) – while finding every last piece of business out there so you can close it.

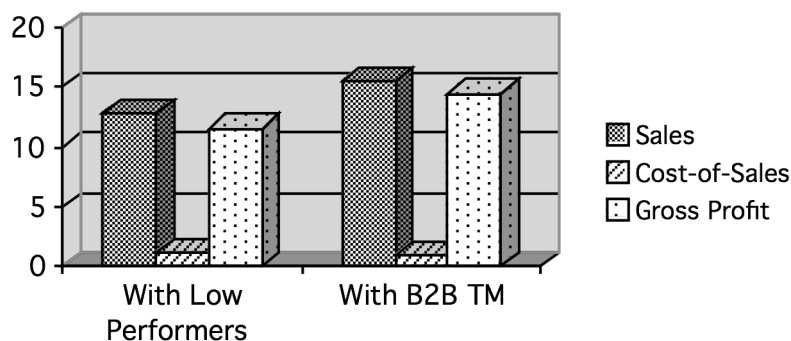
A. How to Increase Sales and Reduce Costs Simultaneously

An analysis of several campaigns² by JV/M revealed that firing your low performing salespeople and reallocating some of that budget to outsourced B2B telemarketing can result in a simultaneous increase in sales and reduction in costs – an ideal outcome in the current environment. A company with 10 salespeople, for example, might have a distribution of performers as follows:

Performance Level	Number of Salespeople
High Performers	3
Medium Performers	4
Low Performers	3
Total	10

Distribution of Sales Performance

Firing the three low performing salespeople and investing a portion of their compensation in professional outsourced B2B telemarketing would typically result in an increase in sales on the order of 20%, a decrease in the cost of sales of 10%, and an increase in gross profit of 25%



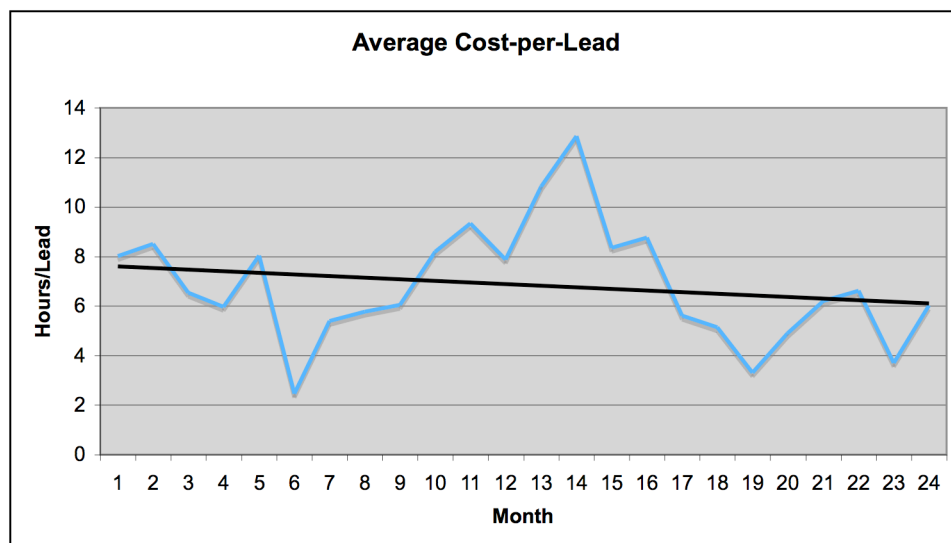
Impact of Replacing Low Performing Salespeople with Outsourced B2B Telemarketing

Shifting resources from low performing salespeople to outsourced B2B telemarketing can enable companies to counteract the inevitable decline in sales quickly and effectively. And, in fact, a case can often be made to *overfund* the function because of its potential to provide a high and positive ROI, drawing additional investment from areas that don't generate revenue.

III. Discussion

Several questions about the effectiveness of the B2B telemarketing in a recession have already been answered in the current environment, and suggest urgency in increasing the activity. For example, while response rates for traditional media have dropped over the last year, and sales performance for most companies has also fallen, that average cost-per-lead (the generally accepted performance metric for lead generation programs,) has actually improved slightly (i.e. increasing the ROI,) over the last 24 months, as shown below.

² For the details of this analysis, see www.jvminc.com/Impact.cfm.



24-Month Trend in Cost-per-Lead from B2B Telemarketing

This effect can be explained by the exiting of competitors from the markets in which the sample companies compete, and while the variance is clearly high, it further supports an aggressive posture with respect to B2B telemarketing.

In addition, results from recent programs suggest that, while there are clear declines in demand across the board, there is still much business to be found. For example, in just the past few weeks:

- JV/M found over \$3.5M in new business for an industrial supplier
- JV/M got a professional services company into 20 new, qualified prospects
- JV/M identified two dozen new opportunities for a marketing services company worth in excess of \$2M
- And JV/M got an energy solutions provider into more than 40 companies who had a near-term interest in their products

This success occurred despite the normal December response decline compounding the effect of the recession, and demonstrates that professional B2B telemarketing is an essential tool in combating the business cycle. In each of these cases the funding for the telemarketing program was drawn from other, less effective sales, marketing and operational initiatives, but – in three of the four cases thus far – the telemarketing program has already justified the addition of *new* resources to cover, close and fulfill the opportunities.

Nevertheless, the question of whether outsourced B2B telemarketing is worth considering must still be examined in the context of your overall situation. If you're like most companies, therefore, you need to ask:

- Are your sales down recently?
- How is 2009 shaping up?
- Are you looking at ways to reduce costs?
- Are you concerned about the potential impact of the recession on your business?

- If your sales were to fall by 25%, what impact would that have? Who would that effect? And how would it affect them?
- If you could increase your sales, market share and profitability in 2009, what would that mean for you?

If any of these questions point towards your having a recession problem, then professional B2B telemarketing should be considered as a primary response – regardless of whether you fire your low performing salespeople or not – but particularly as opposed to traditional media.

To be sure, B2B telemarketing is not always cost-effective. And, in fact, the most important factor in considering whether to implement a program is your company's gross margin. Considering an average cost-per-lead of \$100 - \$500 (depending on the target market), and a close rate of 20%, one would need a gross profit of \$500 - \$2,500 (not counting sales expense,) to afford a campaign. Plus, most programs have set-up costs of \$500 - \$2,500 (as opposed to several hundred thousand dollars for an in-house program). But if you have any margin greater than that, B2B telemarketing is virtually a pure profit play.

IV. Conclusion

Modest decreases in sales for companies in the B2B segment represent an unreasonable expectation based on past recessions. Instead, companies should implement an immediate and aggressive strategy with respect to finding new sales to replace large expected losses in revenue. The fastest and most cost effective method for generating new sales is professional, outsourced B2B telemarketing – which can be justified via a zero-based budget, funded by firing low performing salespeople and curtailing other non-performing marketing initiatives.

At the same time, stealing market share from more passive competitors increases the probability of survival through the recession, and positions the aggressive company for dramatically increased profitability when the inevitable turnaround occurs³.

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³ While obviously facetious, the title of this white paper was suggested by an early reader, and reflects the reaction of a typical low-performing salesperson who would be displaced under this strategy. The experience of high performing salespeople who have been helped by having effective lead generation, however, consistently demonstrates an outsized appreciation for it.