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

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Executive Summary

It's said that recessions are optional; but that doesn't mean it's easy to do the things you have to do to avoid them. Nor is it easy to avoid doing the things that make them inevitable. Certainly you should speed up invoicing, improve credit controls, clear out surplus inventory, develop strategic suppliers who will improve terms, and reduce your costs. But in sales, history has shown that the solution is clear: When faced with a recession, fire your low-performing salespeople, and increase your prospecting.

Background

While a rising tide raises all ships, a recession bares weaknesses. And companies will be affected by a reduction in demand for their products and services in ways well beyond their control. So while the natural instinct is to retract in the face of declining sales, it is actually critical to *increase* your sales efforts in order to gain market share during a recession. From the long-term perspective, assuming that your company survives, a higher market share will correlate with greater profitability as the economy recovers. Fortunately, increasing your market share (if not necessarily your sales,) in a down economy is not only possible, it's usually easier than increasing it in boom.

To be sure, while you can increase your market share in a recession, it may not be possible to increase your actual sales volume. There simply may not be as many sales to be had. But increasing your market share is always a more achievable goal in a recession, and ultimately far more important than increasing your actual sales. And, in fact, increasing your market share is something over which you have far more control. It is more achievable because the natural instincts of your competitors will be to reduce their marketing and sales efforts in response to their need to cut costs, just as yours will be. But if you know where and how to cut – and where to actually increase funding – you will be able to take advantage of your competitors' mistakes, and add customers to your book of business at your competitors' expense.

A simple analogy illustrates how, and why, this strategy works. As a professional business-to-business telemarketing company, JV/M's job is to find new business for our clients, uncovering needs, generating leads, and setting qualified appointments for their salespeople to go in and close the sale. As programs cycle through the year, some clients traditionally ask us to reduce or stop our calling, for example, during Christmas or summer vacation periods, expecting that decision makers will be unavailable, and not wanting to waste budget. Other clients, however, opt to keep calling, assuming that if we can make a contact, it's worth it. Five years of data, illustrated below, show that while the cost-per-lead does tend to rise a little during the holidays, the number of people who you actually have to talk to in order to get a lead actually goes *down*.

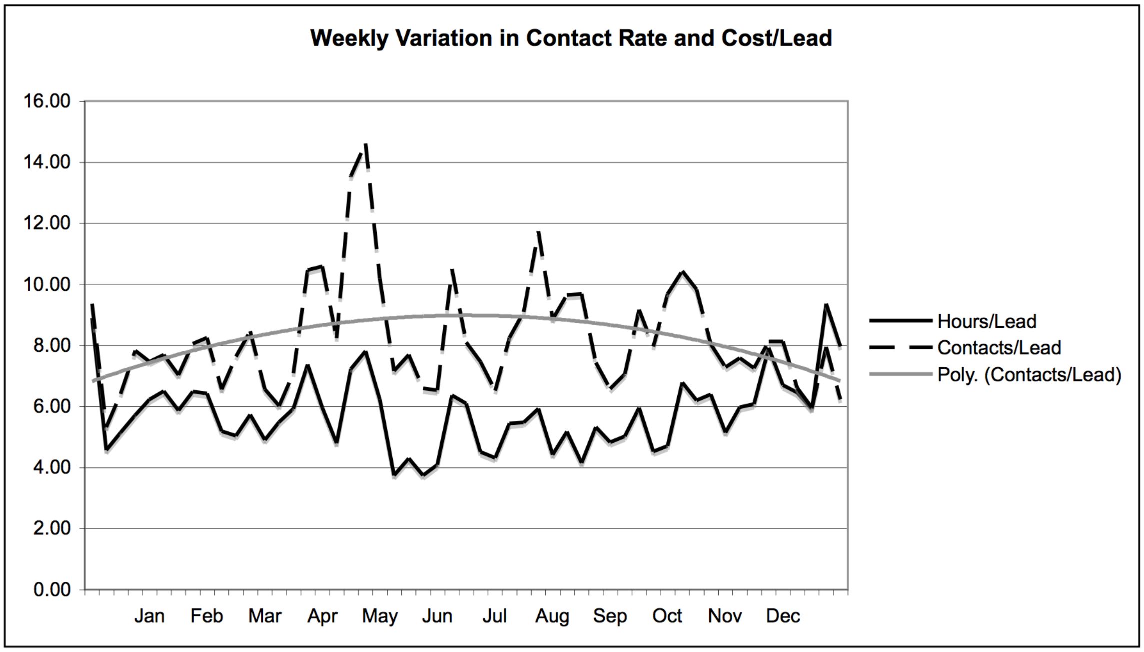

Figure 1 – Year-End Improvement in Contact Rate

In other words, if you can get someone on the phone, you are more likely to end up doing business with them when things are slow. Whether it is because competition is failing to protect its turf, or because people have nothing else to do during the holidays, is irrelevant. The fact is that, when things are slow, the cost-per-lead does not jump to infinity. It increases, but only marginally; while the market share gains (i.e. your market penetration, or, in this case, the appointment rate,) more than compensate for the increased cost.

Or, in the words of Woody Allen, “Half of the secret of success in life is just showing up.”

If applied to the recession problem, the message is clear: When everyone else is pulling back, it’s time to re-double your sales efforts.

How to Cut Costs *and* Increase Your Market Share Simultaneously

Given that, when things are slow, you should re-double your sales efforts, the question then becomes: How do you cut costs, including sales costs – which is necessary to survive – while simultaneously increasing your sales efforts? The answer is to cut underperformers, and then re-allocate some of the savings to increasing your prospecting activities.

The key is to recognize that, by definition, every sales team with three or more salespeople has at least three levels of performers: high performers, mid-level performers, and low performers. By analyzing the performance levels and financial contribution of each of your company’s salespeople, firing the low performers and investing some of the savings in telemarketing[1], you can save money and immediately increase your company’s revenue and near-term profitability, significantly increasing its chances of surviving – and prospering in – a recession.

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[1] For reasons discussed elsewhere, we advocate outsourcing the telemarketing program because it is far less expensive, and has a much higher probability of success, when outsourced.

The economic advantage of firing your low performing salespeople is illustrated with a simple model[2] developed by JV/M in working with a number of mid-sized clients. The model takes as inputs the amount of revenue attributable to each salesperson, and the loaded cost of each salesperson. For the revenue portion, you need to differentiate between new revenue that they generate (or are expected to generate,) each year, and their "base" business (i.e. repeat business that they are responsible for covering.) You also need to factor in each person's approximate cost (salary, benefits, commissions, etc.,) to give you a basic P&L for each salesperson. But this alone doesn't tell you whom to cut, since any salesperson with a positive contribution, under ordinary circumstances, logically ought to be retained.

To know who and how to cut, you need to consider two other factors. The first step is to group your salespeople by their performance levels, as measured by their Revenue-to-Expense (or R/E,) ratio, which can be calculated on the P&L you just created. High performers will have a high Revenue-to-Expense ratio, low performers will have a low Revenue-to-Expense ratio, and there will be some people in the middle. Simply put each salesperson into one of the three groups (i.e. columns on your spreadsheet,) based on their R/E ratio. As shown in the example below in Figure 2, this tells you whom to cut: terminate the salespeople with the lowest Revenue/Expense ratio.

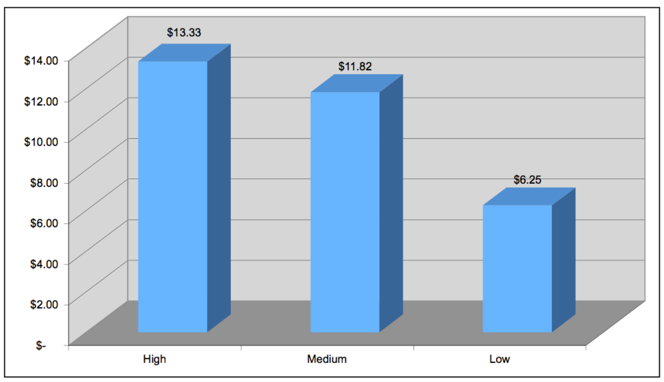

Figure 2 - Revenue-to-Expense Ratios, by Performance Level

By terminating the salespeople with the lowest Revenue/Expense ratio, you will immediately realize a savings equal to their loaded salaries, along with any management savings, resulting in an immediately improved cash flow[3]. But you can't stop there, since you will now be in a weaker position insofar as sales is concerned. You have to take some of that savings and re-apply it to growth.

In order to figure out how to re-allocate resources, you need to look at the amount of time each type of salesperson spends prospecting. You don't want to put your salespeople into performance groups on this basis, but you need to know what to do once you make the cuts, and how much it will impact sales and profitability. To do this, simply enter the amount of time each type of salesperson is expected to spend prospecting (i.e. cold-calling, or generating new sales,) as a percent of their month, and then translate that into a number of hours per year. You can then calculate the new-revenue-per-hour-of-prospecting expected from each type of salesperson. Low

[2] An interactive version of this model, which you can use with your own assumptions, is available at www.jvminc.com/Impact.cfm.
[3] This ignores any termination costs. But these can easily be factored in.

performers will tend to have the lowest revenue-per-hour, and high performers will tend to have the highest revenue-per-hour. (If it turns out not to be the case, don't worry; it doesn't change the definition of a high or low performer. It only impacts the re-allocation of accounts and expenses.) But a typical case is shown below in Figure 3.

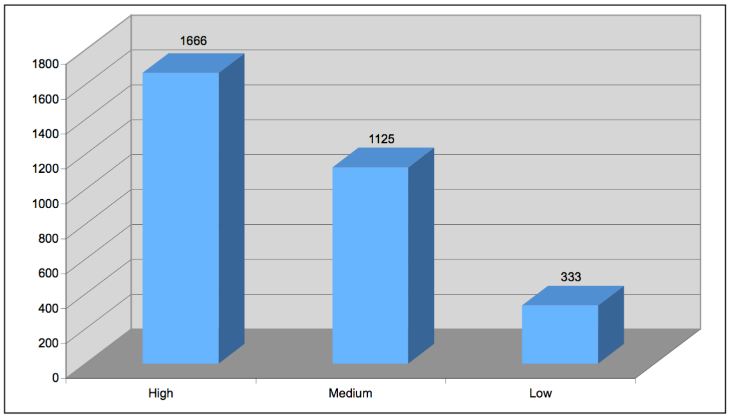

Figure 3 - New Revenue per Hour of Prospecting, by Performance Level

It is this statistic that should highlight the problem with low performers, that for any given resource, they have a lower ROI. But more importantly, it shows the value of putting qualified leads in the hands of the high performers – which is the key to prospering in a recession. Instead of relying on your low performers for growth, put marginal dollars in the hands of non-marginal players. Thus, while you may know intuitively that if you give high performers good leads, they'll turn more of them into sales (but most don't want to do prospecting because they have "better" things to do), this analysis will generally prove it. (If it turns out that low performers generate more revenue per hour of prospecting than high performers, you may want to reconsider your definition of a good performer.)

To re-allocate resources now, zero-out the expense line for your low performers, give their base of accounts (if any,) to Inside Sales to cover (if you have it,) or to your high and mid-level performers (if you don't,) and re-allocate the savings to lead generation.

How Lead Generation Increases Your Sales and Market Share

The fundamental theory behind lead generation is that most salespeople aren't very good at cold calling, and most of the rest don't like doing it, or don't have the time. Most salespeople prefer to work on warm leads, and feel that switching back and forth between cold calling and account management is distracting and inefficient. Whether such an attitude is justified when you consider the job description, it's an assumption that becomes deadly in a recession. You simply need more new business in a recession in order to make up for lost business. But the very people who you need to generate it have to protect their base business, not to mention the fact that they don't like to have to look for new business in the first place.

Lead generation, however, can bridge the gap. Lead generation – or outsourced B2B telemarketing – can generate *qualified* sales leads for your experienced salespeople (high- and mid-level performers,) to follow-up on, and close, instead of asking them to make cold calls and close their own leads. Providing leads gets you over their resistance to the extra workload, and puts opportunity into the hands of people who will actually close it. To fund it, as we said, simply re-allocate some of the savings from having terminated your low performers.

If done correctly, lead generation can generate at least as high a quality and quantity of sales leads as your mid-level performers would generate by working on their own, and often much better. So to make a projection, take the revenue-per-hour-of-prospecting that you calculated above, multiply it by the number of hours of cold calling that you purcased, and you have your growth.

Results

For a typical 10-person sales team generating $12.7M in annual sales, with $7.8M coming from repeat business and $4.9M coming from new sales, firing your three low-performing salespeople and investing 50% of the savings in lead generation can result in an overall increase of $2.7M (or 21%,) in sales, as shown below, along with a savings of $120K in sales expense.

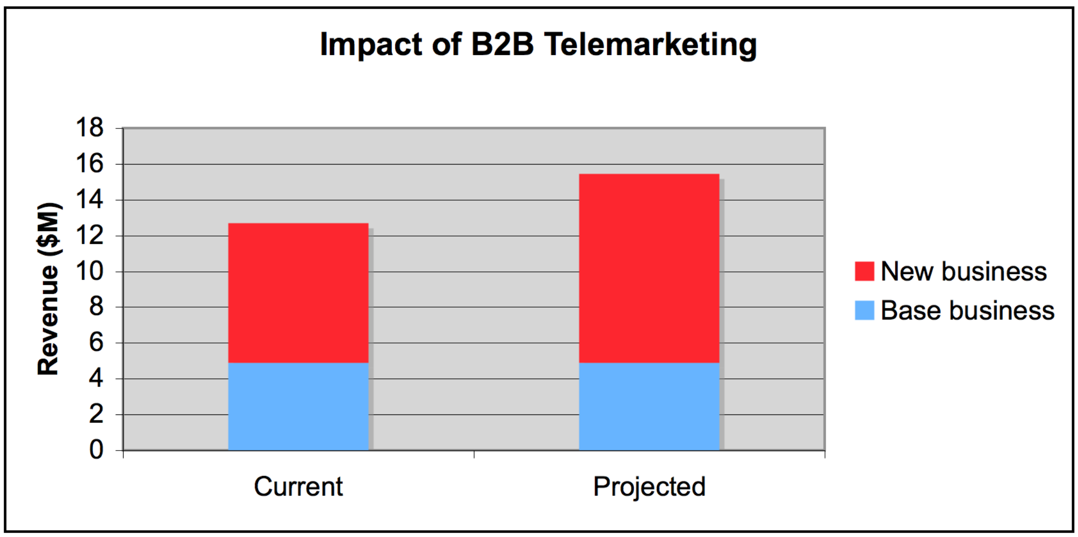

Figure 4 - Revenue Impact of Firing Low Performers

This translates into an increase of gross sales profit of nearly 100%. But even more important than the increase in sales and reduction in expenses is the overall impact on market share, which will correlate early and directly to increased price flexibility and profit. By focusing on acquiring new business, you will also protect yourself from the natural attrition of accounts that inevitably accompanies a downturn.

Conclusion

Firing your low-performers and investing some of the savings in generating new business with telemarketing is a critical survival strategy, since attrition alone will take with it the companies that do nothing – including your customers, your competitors and, potentially, you. Prospering in a recession is all about increasing your market share, which can only be achieved by ramping up your prospecting, while saving money and increasing your sales in the process.

By increasing your market share – i.e. the fraction of the market that buys from you – you will get whatever business remains, and be in an ideal position to grow in profits 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 finding new business when things were bad, you'll have a bigger base of business when they turn around.

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, and position you to survive, and thrive as the economy rebounds.