SIZING YOUR SALES FORCE FOR LONG-TERM SUCCESS

By ANDRIS A. ZOLTNERS, PRABHAKANT SINHA, SALLY E. LORIMER

Excerpted from: Building a Winning Sales Force: Powerful Strategies for Driving High Performance

ISBN: 978-0-8144-1040-0

American Management Association
New York • Atlanta • Brussels • Chicago • Mexico City • San Francisco
Shanghai • Tokyo • Toronto • Washington, D.C.

© 2009 Andris A. Zoltners, Prabhakant Sinha, Sally E. Lorimer All rights reserved.
A vice president of sales wonders if her sales force is too small. Several years ago, when the sales force was established, she decided that each salesperson could handle a $2 million sales territory. Now that sales have grown to more than $3.5 million per territory, she senses that there is significant unrealized opportunity in many territories and wonders if the size of the current sales force is restricting the company’s continued growth.

The president of a business unit suspects that his sales force has grown too large. Two years ago, business was so brisk that the attitude throughout the industry was that sales forces should be bigger, always bigger. But the economy is now persistently sluggish, and the president feels pressure to cut costs, trim fat, and increase the productivity of salespeople.

The size of the sales force affects customers, salespeople, and the overall company. If the sales force is too small, it cannot serve the needs of customers effectively; salespeople are likely to be overworked, and the company will miss key sales opportunities. If the sales force is too large, salespeople can become an annoyance to customers; salespeople probably are not challenged, the costs of maintaining the sales force will be too high, and productivity will be low.
A sales force that is the right size connects with customers effectively. Salespeople are challenged, but not overworked. Sales are high, costs are reasonable, and profitability is strong.

**Matching Sales Force Size to the Business Life Cycle**

The size of the sales force needs to change as a company progresses through its life cycle. Over time, companies evolve their products and adapt to changing market conditions. A sizing strategy that works well for a new and growing business is different from one that works well for a mature business. Insights that help new and growing companies size their sales forces for maximum impact differ from those that help mature businesses.

**Sizing Strategies for New and Growing Businesses**

Having a sales force of the right size is critical for new and growing businesses. Aggressive investment in sales force resources during the start-up and growth stages allows companies to capitalize on early opportunities, increase sales and profits quickly, preempt competitors, and build a strong base of loyal customers who will buy for years into the future. However, because they are uncertain about what the future holds, many new and growing businesses are too conservative in staffing their sales forces. As a result, they leave significant amounts of money on the table.

Here are several guidelines for sales leaders in new and growing businesses to consider as they build a sales force.

**Do Not Undersize When Uncertainty Is Low.** A small U.S. company and a Japanese company entered into an agreement in which the U.S. company would sell the Japanese company’s product in the U.S. market. Everyone agreed that the product—which was patent-protected and had been launched successfully in other countries—was going to be a blockbuster. Yet the U.S. company’s cautious leadership team was unwilling to expand the sales force to support the launch. The U.S. company used the “earn-your-way” sizing strategy, shown in Part C of Figure 4-1, waiting to see how the product sold before adding salespeople over a three-year period. Hindsight analysis revealed that if the company had pursued
the “quick-build” sizing strategy (Part A of the figure) and added all the salespeople before the U.S. launch, profits would have been about $50 million higher over the three-year period.

We looked at data from 11 recent sales force sizing studies that our consulting firm, ZS Associates, conducted for start-up businesses. Each study determined an optimal sales force size based on data-driven analysis that projected the three- to five-year profit consequences of different levels of investment in the sales force. In 10 of the 11 studies, sales leaders launched their sales force at a size that averaged just 60 percent of the optimal size. The one company that sized its sales force at the optimal size went on to become the leader in a highly competitive market.

We do not fault organizations for investing cautiously when they have significant financial constraints, when the future is highly uncertain, or when the best selling process has yet to be discovered. But we often see companies using a cautious earn-your-way approach even when they are getting clear signals that a new product or venture will be a success.

Sales leaders typically view the consequences of hiring too many salespeople as being more serious than those of hiring too few. If they hire too many salespeople and the sales forecast is not realized, then at some point they must take the unpleasant step of reducing the size of the

![3-Year Sales Force Sizing Strategy](image)

**Figure 4-1.** Comparing the profit consequences of alternative sales force sizing strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Contribution +1 Year</th>
<th>Contribution 3-Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: “Quick build”</td>
<td>$83</td>
<td>$351</td>
</tr>
<tr>
<td>B: “Play it safe”</td>
<td>$84</td>
<td>$321</td>
</tr>
<tr>
<td>C: “Earn your way”</td>
<td>$87</td>
<td>$301</td>
</tr>
</tbody>
</table>

*Note: Contribution is in millions.*
sales force, perhaps leading to a loss of faith in the leadership team and a lowering of morale. If, on the other hand, they hire too few salespeople, sales leaders rarely recognize their failure to make the most of a significant opportunity. The business achieves its conservative sales and profit targets, sales force pay and morale are high, and the sales leaders walk around with smiles on their faces, giving little thought to what might have happened if the sales force had been larger. Yet sizing too conservatively can result in significant lost opportunity, a substantial forfeiture of sales and profits, and, in the long term, reduced business strength.

In the words of one sales leader, “You live with what you launch with.” The sales gap created when a company initially undersizes its sales force has a permanent impact on its ability to grow its sales and reach peak market share. Smart sales leaders escalate sales force investment as early success signals emerge.

**Size More Cautiously When Uncertainty Is High.**

Software Developer Evolves Its Sales Strategy as It Learns From Early Customers

In 2003, software developer Scalix launched a new e-mail software product that was designed to cut the cost of e-mail administration in large corporations by at least 50 percent. Hosted on the Linux operating system, the program had several unique advantages over traditional Windows-based e-mail programs, including superior reliability, security, scalability, and cost-effectiveness. Early market research had revealed a very positive response from CIOs to the software’s value proposition, so the company decided to expand its sales force quickly, hiring a number of people with enterprise experience to sell directly to CIOs at large companies. Unfortunately, after the product’s launch, the company encountered a serious problem with its marketing strategy. Many of the operations people one level down from the CIO, who were influential in the purchasing decision, were not comfortable with a Linux-based system, and so they were not receptive to the company’s value proposition. As a result, the sales strategy had to be revised. Sales efforts were redirected to a more focused audience of education and public-sector organizations, where acceptance of Linux was strong. Because much of the work required to sell to this audience could be handled by two in-house telesales people,
a large field sales organization was not needed. This new, more focused and cost-effective sales strategy worked well for Scalix. Yet the company could have saved a lot of money and gotten on the right track more quickly if it had delayed hiring a big sales force and instead hired a small number of salespeople to focus on learning about customer needs and refining the marketing strategy prior to a full-scale launch.

When a high level of uncertainty surrounds the launch of a new product or service, it’s prudent for sales leaders to act conservatively as they size their sales force.

Companies that launch new products into markets that are new to them learn a lot as they acquire their first customers. Early sales experiences often reveal that some of the product features do not work exactly as described or that selling strategies are not as effective as market research may have predicted. As the sales force learns more about how customers acquire, use, and value the product, sales processes evolve, the value proposition is fine-tuned, and sales effort is refocused on the most valuable customer segments.

Smaller sales forces are more flexible than larger ones. When a sales force is small, salespeople can share the knowledge they acquire more readily and adapt to shifts in sales strategy more quickly. The faster the sales force learns and adapts, the sooner it becomes effective and efficient at selling, and the more rapidly a stable model of sales success will emerge. And, of course, in highly uncertain situations, a conservative approach to expanding a sales force puts the company’s finances at less risk.

In new and growing companies, it makes good sense to expand the sales force aggressively to capture early market opportunity when uncertainty is low, but to be conservative in order to provide flexibility when uncertainty is high.

---

The Sales Force Is a Long-Term Investment

New and growing businesses should size their sales forces based on at least a three-year time horizon of future sales aspirations. If sales are expected to rise quickly, but company leaders focus only on current-year sales when
deciding how many salespeople to hire, they are likely to undersize the force. Sales forces are not variable resources that can be switched off and on quickly, like an advertising budget. It takes many months to hire and train good salespeople, and it takes time for salespeople to build relationships with customers.

### Sizing Strategies for Mature Businesses

Typically, as a business matures, there is less focus on the size of the sales force. However, there are situations in which modest upsizing is appropriate, especially if the sales leaders were conservative during the growth stage. Other businesses may need to downsize slightly as pressure to deliver profitable sales intensifies, products mature, and markets become increasingly competitive.

In some cases, the current size of a sales force may be appropriate. Later in the chapter, we will describe several tests to help you determine if this is true for your company. First, though, we offer some background discussion and a series of observations about the dynamics of sizing a sales force.

### Gains from Working Smarter Can Exceed Gains from Increasing Size.

For mature businesses, smart sales effort allocation is actually a more significant profit enhancer than sales force sizing. Financially, it may make sense to improve the quality of the sales effort, not to increase the quantity of effort. When we analyzed a sample of data-driven, analytical sales force sizing studies that ZS Associates conducted for 50 companies, we discovered that, for mature businesses, smarter allocation of sales time across customers, products, and selling activities has an almost 2.5 times greater profit impact than an increase in the size of the sales force.

You can improve the allocation of effort across the sales force by enhancing several sales effectiveness drivers—for example, by providing the sales force with better targeting information, coaching salespeople to perform critical sales activities more effectively, or adjusting the compensation plan to encourage sales of the most profitable product lines.

### Downsize Strategically.

As a business moves from maturity into decline, downsizing of the sales force is inevitable. As the size of the sales force
is reduced, it is most effective to deploy direct salespeople to perform the most critical, high-value selling activities with the most profitable, retainable, and strategically important customers and product lines. Sales leaders can use more efficient sales resources, such as sales assistants, a telesales group, Internet channel partners, or other lower-cost selling partners, to reach other customer segments, sell less strategic product lines, and perform some selling activities.

---

**Lubricants Manufacturer Increases Reliance on Selling Partners as It Downsizes**

A lubricants manufacturer that was facing declining sales, with no turnaround in sight, needed to make cost reductions to preserve its profitability. The company revised its worldwide selling channel strategy, moving hundreds of thousands of customers that had formerly been covered by the company’s own direct sales force into coverage by lower-cost partner sales organizations. The partners were able to spread their overhead (such as office space and employee benefits) across a wider array of products than the manufacturer could and therefore were able to conduct the selling process much less expensively. The size of the manufacturer’s direct sales force was reduced substantially, and the much smaller group of direct salespeople that remained began to focus exclusively on value-based selling to large, strategically important customers.

---

**Activity Specialization Improves Efficiency for Grainger**

W. W. Grainger, a maintenance, repair, and operational (MRO) supply company, achieved efficiency gains by reassigning some selling tasks from expensive salespeople to a cheaper resource. Once a sale is made, the sales force turns many accounts over to an inside telesales group that handles postsales support, such as order placement and delivery.
Sales Force Sizing Dynamics

Smart sales leaders understand several dynamics about sales force size and its impact on performance. Figure 4-2 shows the relationship between sales force size and some commonly used performance metrics. The metrics represent activities and results over a year’s time. Following the three graphs, we offer several observations about the relationships they describe.

Observation 1: There Are Diminishing Returns to Sales Force Effort

The relationship between sales force size and either sales or gross contribution margin (sales less variable product costs) yields diminishing returns, as shown in Figure 4-2, Graph A. A division president overlooked this fact when he negotiated with his vice president of sales, who wanted to add 10 salespeople. The president asserted that in order to add headcount, the VP had to promise to deliver more sales. Since the average salesperson was generating $2 million in sales per year, the president proposed adding $20 million to the VP’s sales goal for next year.

Figure 4-2. The relationship between sales force size and several sales force performance metrics
The president was partly right—more salespeople should be expected to generate more sales. However, his assumption that additional salespeople could deliver the same average sales as existing salespeople was flawed. First, new salespeople need time to learn the company’s products, markets, and selling process and to establish effective customer relationships; thus, their effectiveness during the first year may be only 50 to 60 percent of that of a veteran.

Second, even after they have become fully effective, additional salespeople tend to bring down the average sales per salesperson. The existing sales force has gathered the low-hanging fruit; when the sales force expands, all the salespeople will have to dig deeper into the universe of customers and work harder to earn their sales. Only in very rapidly growing markets or when a sales force is significantly undersized is it reasonable to expect additional salespeople to match the average sales of current salespeople.

**Observation 2: Sales Force Size Affects Financial Ratios**

The relationships between sales force size, sales, and sales force costs have implications for the financial ratios that many companies use to manage their sales force investment. Graph B shows the relationship between sales force size and two commonly used financial ratios: sales per salesperson and sales force costs as a percentage of sales. Sales leaders like to have high sales per salesperson and a low sales force cost as a percentage of sales; they feel that these relationships imply high sales force effectiveness and productivity. Yet high sales per salesperson or low sales force cost as a percentage of sales can also be a sign that the sales force is undersized. Think about it this way: The best way to maximize sales per salesperson and minimize sales force cost as a percentage of sales would be to fire all but one salesperson!

**Observation 3: There Is a Sales Force Size That Maximizes Profits**

Graph C shows the relationship between sales force size and profits (gross contribution margin less sales force costs). Profits are highest when the size of the sales force is such that the incremental contribution of the last salesperson added is equal to the incremental cost of that salesperson. Compare Graphs B and C, and note that even when the
sales force is smaller than the profit-maximizing size, adding salespeople to increase profitability reduces sales per salesperson and increases sales force costs as a percentage of sales. These relationships tend to be a little counterintuitive, since many sales leaders view high sales per salesperson and low sales force cost ratios as surrogates for profitability.

**Consider Carryover When Sizing the Sales Force**
Changes in the size of a sales force have both short-term and long-term impacts on costs and sales. As salespeople are added, incremental sales increase slowly at first and accelerate over time as the new salespeople become acclimated to their jobs and the new customers that they acquire make repeat purchases. Sales increases appear more slowly in companies with long selling cycles—that is, when many months of selling effort are needed to close a sale.

On the other hand, when sales force size decreases, sales may not decline immediately, as repeat purchases by loyal customers continue to contribute to sales for a period of time despite reduced sales force coverage. Only over time does the impact of the size reduction become apparent as this repeat business gradually dwindles.

The long-term impact of changes in sales force sizing is clearer when sales leaders take into account *carryover sales*—sales that are attributable to this year’s effort and will continue in the future without further sales force effort. Carryover sales occur when a product meets the needs of a customer, and that customer continues to buy it even if a salesperson is no longer promoting it. Carryover is especially likely when switching products is costly. The impact of carryover increases as products mature. In some markets, carryover sales represent a large portion of total sales.

Because of carryover, the multiyear sales impact of adding or reducing salespeople is much larger than the one-year impact. Upsizing a sales force can result in an incremental profit reduction in the first year because sales force costs increase immediately, whereas sales increase slowly, but a significant profit improvement can be attained as the impact of carryover sales is fully realized over three, four, and five years. Similarly, reducing sales force size can have an immediate and positive profit impact because costs are reduced right away, but the positive profit impact will dwindle over time as carryover sales are lost.
When we analyzed a sample of sales force sizing studies that ZS Associates conducted for 50 sales forces, we discovered that the sales force size that maximizes one-year profits is 18 percent smaller, on average, than the size that maximizes three-year profits (see Figure 4-3). The considerable difference between the one-year and three-year profit-maximizing size creates a dilemma for sales leaders who recognize that three-year revenue streams are less predictable than one-year streams, and at the same time are under pressure to deliver short-term results.

Figure 4-3. Carryover and sales force sizing

Risk Aversion and Sales Force Size Changes

The uncertain and long-term sales impact of a sales force size change tends to make sales leaders cautious about making such changes. During periods of growth, leaders look for about a 50 percent incremental return on their investment when adding salespeople, and risk aversion causes them to stop adding people before they reach the long-term profit-maximizing size. Yet when they are downsizing, sales leaders require only a positive incremental return; they stop cutting when they reach the long-term profit-maximizing size. If sales leaders were to use consistent sales force sizing criteria when upsizing and downsizing, they would expand more in favorable circumstances and cut more in unfavorable circumstances. By using one of the market-based approaches we describe later in this chapter, companies can overcome the conservatism that leads to a sales force size that fails to maximize profits.
How to Size Your Sales Force for Success

Figure 4-4 shows the steps involved in a systematic process for sizing your sales force.

Assess the Current Size of Your Sales Force

You can quickly and easily perform five tests to help you decide whether your sales force is the right size. The different tests provide insights to different company stakeholders. Sales management is likely to care most about the results of the customer, sales force morale, and selling activity tests. Marketing leaders will be most interested in the competitive position test results, and finance leaders are likely to focus on the findings of the financial test.

Customer Test

Customer Reaction Plays a Role in Sales Force Reductions in the Pharmaceutical Industry

Physicians increasingly say that they are annoyed by the large number of pharmaceutical salespeople. In 2007, over 90 percent of physicians and other health-care professionals felt that drug companies spent too much money promoting their products. Some doctors are visited by more than 20 different pharmaceutical salespeople every day, many of whom sell the same products and provide only one-way communication. In other words, because of the high profit margins and aggressive competition in the industry, pharmaceutical sales forces have increased in size beyond what customers say they want or need. Between 2004 and 2007, Pfizer, Bristol-Myers Squibb, and Eli Lilly all cut the size of their field sales forces and sought better ways to leverage the smaller sales forces for improved interaction with physicians.
Because customers’ comments can provide important signals, consider using customer surveys to assess the size of your sales force. Figure 4-5 depicts customers’ reactions to a sales force that is either too large or too small.

If your company collects data that measure customer-level market sales and potential, you can complement qualitative input from customers with a quantitative look at your market coverage. You can gain insights about sales force size by comparing the percentage of your customers that contributes 80 percent of company sales to the percentage that accounts for 80 percent of the market’s sales (or potential). Company sales that are far more concentrated than the market’s may be an indication that your company is focusing on a small number of customers and leaving money on the table; you may need more salespeople to go after more customers. Company sales that are less concentrated than the market’s may indicate that too many salespeople are going after lower-potential customers; you can afford to reduce sales force size and focus more on valuable customers.

<table>
<thead>
<tr>
<th>What would customers say about your sales force?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>If the sales force is too small</strong></td>
</tr>
<tr>
<td>• My salesperson is not available to meet my needs.</td>
</tr>
<tr>
<td>• I can’t reach my salesperson when I need him.</td>
</tr>
<tr>
<td>• I am considering switching to a supplier that will give me better service.</td>
</tr>
<tr>
<td>• I don’t know who my salesperson is.</td>
</tr>
<tr>
<td>• I can’t recall seeing my salesperson in a long time.</td>
</tr>
<tr>
<td><strong>If the sales force is too big</strong></td>
</tr>
<tr>
<td>• My salesperson is a pest.</td>
</tr>
<tr>
<td>• I avoid meeting with my salesperson, and I don’t return his phone calls.</td>
</tr>
<tr>
<td>• I prefer to get what I need through the company’s literature, web site, or telesales group.</td>
</tr>
<tr>
<td>• Is all the attention I’m getting showing up in my price?</td>
</tr>
</tbody>
</table>

**Figure 4-5.** The customer test of sales force size

**Sales Force Morale Test**

**Too Much Sales Force Travel Causes Morale Problems and Turnover**

A company had 28 salespeople covering the United States. Some territories encompassed several large states; the salespeople in these territories were almost never home and consequently suffered a great deal of stress. The
sales force had a high turnover rate (40 percent per year), which the company attributed to the heavy travel requirements. Because the company’s products were very complex and specialized, the cost of hiring and training new salespeople was significant. The company increased the number of salespeople and thus reduced each individual’s need to travel, funding the expansion in part through the reduced hiring and training costs as turnover decreased. Also, a reduction in territory vacancies translated into fewer lost sales.

The morale of your sales force can be linked to its size. When there are either too many or too few salespeople, morale suffers. While many salespeople have complaints whenever they speak to their managers, the frequency and strength of their complaints intensify when a sales force is not the right size, and high sales force turnover can be a signal that a sales force is not sized correctly. Effective sales leaders listen closely to the complaints of good salespeople.

If good salespeople are leaving your company, you must find out why. Figure 4-6 lays out some typical comments from salespeople that may be important indicators about the size of a sales force.

**Selling Activities Test.** To help determine if your sales force is the right size, use sales force surveys, call reporting data, and observations by sales managers to study how your salespeople are spending their time. Figure 4-7 provides some signs that the sales force is either too large or too small.

---

**What would your good salespeople say about their job?**

**If the sales force is too small**
- I barely have enough time to take orders, let alone determine how customer needs might be changing or provide solutions to these needs.
- I am overworked.
- I have too much travel, and I’m never home.
- My quota is too high—I’ll never achieve it, no matter how hard I work.

**If the sales force is too big**
- I don’t have enough customers to make good money in my territory.
- Opportunity is spread too thin.
- I am no longer stimulated by my work.

---

Figure 4-6. The sales force morale test of sales force size
**Competitive Position Test.** Another way to judge the size of your sales force is to compare your company’s investment in its sales force with that of your competitors. Market share often depends more on “share of voice” with customers than on the absolute amount of time the sales force spends with those customers. If your major competitors are reducing their sales staffs, you may be able to downsize your sales force as well without losing market share. Sales may decline if the entire market is declining, but a company often maintains or strengthens its competitive position by maintaining or increasing its share of voice. Similarly, if competitors are increasing their sales staff, your company’s sales force also needs to expand in order to maintain share of voice and thus preserve market share.

A competitive benchmarking analysis like the one shown in Figure 4-8 can help you determine a sales force size that ensures that you are not outshouted by your competitors. The analysis compares the estimated number of offices and salespeople that major competitors in the insurance industry have in the western region of the United States. The company that did the analysis has 14 salespeople in this region—more than Competitors A, B, and C, but less than half as many as Competitor D. If the company hopes to take market share from Competitor D, it needs to increase the size of its sales force.

**Financial Test.** A breakeven analysis can help determine whether your

---

### How do salespeople spend their time?

<table>
<thead>
<tr>
<th>If the sales force is too small</th>
<th>If the sales force is too big</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Salespeople struggle just to keep up with basic tasks like order taking.</td>
<td>• Salespeople spend too much time on noncritical activities (administrative tasks, internal meetings, paperwork).</td>
</tr>
<tr>
<td>• Salespeople rarely probe customers; they lack the time needed to develop complete solutions.</td>
<td>• Salespeople spend too much time on activities that should be performed by others within the company, such as handling customer service problems.</td>
</tr>
<tr>
<td>• Salespeople spend too little time with important customers.</td>
<td>• Salespeople spend too little time prospecting for new customers.</td>
</tr>
<tr>
<td>• Salespeople spend too little time prospecting for new customers.</td>
<td>• Sales territories are very large and salespeople spend too much time traveling.</td>
</tr>
</tbody>
</table>

---

**Figure 4-7.** The selling activities test of sales force size
sales force is too large, too small, or about the right size. Use the following seven steps to conduct this analysis.

1. **Estimate the annual cost of a salesperson.** Include all costs that vary with the number of salespeople, including salary, benefits, taxes, bonuses, automobiles, travel expenses, computers, call reporting, administrative support, and field support.

2. **Estimate the gross contribution margin rate.** This is the percentage of sales that the business keeps, after taking out variable product costs. Variable product costs include raw materials, manufacturing, royalties, freight to factory, and shipping to customers. Variable costs do not include allocations of fixed costs, such as factory overhead and R&D.

3. **Calculate breakeven sales.** This is the amount that a salesperson must sell in a year to cover his cost. Divide the annual cost of a salesperson by the gross contribution margin rate.

4. **Estimate the incremental sales that an additional salesperson could generate in a year.** The current average annual sales per salesperson provides a reference point for what this level of sales might be. Incremental annual sales per additional salesperson will be less than the average annual sales per current salesperson because of the diminishing returns on additional sales force effort and because of the lower effectiveness of new salespeople.

5. **Divide incremental annual sales per additional salesperson by breakeven sales to get the breakeven ratio.** This ratio reflects the

### Table 4-8

<table>
<thead>
<tr>
<th>State</th>
<th>Our Company (Offices, Salespeople)</th>
<th>Competitor A (Offices, Salespeople)</th>
<th>Competitor B (Offices, Salespeople)</th>
<th>Competitor C (Offices, Salespeople)</th>
<th>Competitor D (Offices, Salespeople)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>Los Angeles 5</td>
<td>Los Angeles 4</td>
<td>Los Angeles 3</td>
<td>Orange County 4</td>
<td>Los Angeles 13</td>
</tr>
<tr>
<td></td>
<td>Orange County 3</td>
<td>San Francisco 4</td>
<td>Santa Ana 1</td>
<td></td>
<td>San Diego 3</td>
</tr>
<tr>
<td></td>
<td>Sacramento 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>San Francisco 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hawaii</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oregon</td>
<td>Seattle 2</td>
<td>Portland, OR 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington</td>
<td></td>
<td></td>
<td>Portland, OR 3</td>
<td>Seattle 2</td>
<td></td>
</tr>
<tr>
<td>Alaska</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>5 offices</td>
<td>4 offices</td>
<td>4 offices</td>
<td>3 offices</td>
<td>5 offices</td>
</tr>
</tbody>
</table>

**Figure 4-8.** Competitive benchmarking of sales force size at an insurance company.
extent to which the sales generated by an additional salesperson will cover her costs. For example, a ratio of 2.00 implies that on average, a new salesperson will generate gross margin equal to twice her cost within a year.

6. Estimate the percentage of this year’s sales that will be maintained next year without any sales force effort next year. This is the carry-over rate.

7. Use the table in Figure 4-9 to find out what the breakeven ratio and the carryover rate imply about sales force size. The numbers in each cell of the table represent a three-year ROI on incremental sales force investment. The sizing recommendations are based on the following ROI targets:

- ROI of less than 50 percent: The sales force is too large.
- ROI of 50 to 150 percent: The sales force is the right size.
- ROI of more than 150 percent: The sales force is too small.

These ROI targets are consistent with those commonly used by the sales organizations we have worked with; however, the ROI targets can be adjusted to a specific situation and the sizing recommendation adjusted accordingly.

For a given breakeven ratio, the ROI (and therefore the sales force sizing recommendation) varies depending on the carryover rate. For example, a ratio of 1.00 implies that in a low-carryover environment (that is, less than 40 percent of sales would be maintained next year without effort), the sales force may be too large. In a moderate-carryover environment (more than 40 percent but less than 90 percent of sales maintained next year without effort), the sales force is about the right size. In a high-carryover environment (90 percent or more of sales would be retained next year without effort), the sales force may be too small.

Figure 4-10 shows an example of the financial test calculations for one sales organization.

Assessment Summary. The analysis in Figure 4-11 summarizes the results of the five sales force sizing tests for one company. Notice that the tests produce conflicting conclusions. The sales force morale test suggests that
the sales force size should be reduced, while the competitive position and financial tests suggest that it should be maintained or increased. The customer and selling activities tests reveal more effective ways for salespeople to spend their time; further evaluation is needed to determine the impact of this reallocation of effort on sales force size. A synthesis of all the tests is required in order to make a final sales force sizing assessment.

**Determine a Better, New Size**

If the five quick tests suggest that your sales force size needs to change, you can examine several possible approaches for determining the best size.

**Several Common Sales Force Sizing Decision Rules Can Sacrifice Profitability.** Companies frequently employ one or more of the following six decision rules to size their sales forces. However, because these rules ignore market needs, they can lead to poor decisions. The first three are cost-focused decision processes that emphasize affordability.
If a company follows any of these practices, its sales force may not be sized correctly to maximize profit.

### Test Step | Example Calculation
--- | ---
1. Estimate the annual cost of a salesperson. | $75,000 salary and bonus (total compensation) + 22,500 benefits (30% of total compensation) + 11,250 field support (15% of total compensation) + 9,250 T&E, automobile, computer, phone, etc. $118,000 total annual cost of a salesperson
2. Estimate gross contribution margin rate. | ($900 MM sales − $300 MM variable product costs) / ($900 MM annual sales) = 66.7% gross contribution margin rate.
3. Calculate breakeven sales. | $118,000 cost of a salesperson / 0.667 gross contribution margin rate = $176,912 breakeven sales.
4. Estimate annual incremental sales revenue that an additional salesperson could generate. | $525,000 incremental sales revenue per year per salesperson, according to management estimate.
5. Calculate the breakeven ratio. | $525,000 incremental sales / $176,912 breakeven sales = 2.97 breakeven ratio.
6. Estimate the carryover rate. | 60% carryover according to management estimate.
7. Use the table in Figure 4−9 to find out what the estimates imply about sales force size. | The three-year ROI on incremental sales force investment is about 488%. According to the criteria used in most sales organizations, the sales force is undersized.

**Figure 4-10.** Financial test calculation example

<table>
<thead>
<tr>
<th>Test Step</th>
<th>Main Findings</th>
<th>Implications for Sales Force Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer test</td>
<td>Customers want less frequent but more in-depth interactions with salespeople.</td>
<td>Reevaluate sales force size assuming that salespeople make longer but less frequent calls on customers.</td>
</tr>
<tr>
<td>Selling activities test</td>
<td>Salespeople spend similar amounts of time with all customers, even though business is fairly concentrated.</td>
<td>Reevaluate sales force size assuming that salespeople reallocate some time from small customers to large customers.</td>
</tr>
<tr>
<td>Sales force morale test</td>
<td>Salespeople are frustrated that many customers will not see them as often as they’d like.</td>
<td>Reduce sales force size to reflect customer restrictions on salespeople’s face time.</td>
</tr>
<tr>
<td>Competitive position test</td>
<td>Main competitors show no sign of pulling back effort.</td>
<td>Maintain or grow sales force size to maintain or grow share of voice.</td>
</tr>
<tr>
<td>Financial test</td>
<td>Current sales force size is producing a 50 percent marginal ROI, but new products are coming.</td>
<td>Grow sales force size to support the new products, but continue to size to 50 percent marginal ROI, reflecting the moderately aggressive company stance on investment.</td>
</tr>
</tbody>
</table>

**Figure 4-11.** Results of the five sales force sizing tests at one company
Decision Rule #1: Maintain a sales force size that keeps sales force costs at a constant percentage of sales. At an international sales force productivity workshop, a country general manager asserts that he maximizes profits. When asked how he does this, he responds that he “keeps sales force costs at 11 percent of sales.” Since sales are down this year, he’ll have to cut the sales force in order to contain costs, an approach that focuses on affordability, not profitability. This decision rule is based on logic that is backward thinking; it implies that sales should drive sales force effort. But the cause and effect are in the other direction—sales force effort drives sales. Maintaining the sales force cost-to-sales ratio is not the same thing as maximizing profits. While it may seem counterintuitive, when the sales force is undersized, adding salespeople increases the sales force cost-to-sales ratio, but at the same time increases profitability. The dynamics are more intuitive when the sales force is oversized—cutting headcount reduces the sales force cost-to-sales ratio and also increases profitability. It is always possible to reduce the sales force cost-to-sales ratio by cutting headcount, yet the impact on profitability can be either positive or negative. Figure 4-2 shows how this can happen. While companies sometimes strive to maintain an industry average cost-to-sales ratio, this practice can hurt small-share companies, which may need to maintain a higher sales force cost-to-sales ratio than that of their larger-share competitors in order to get an adequate share of voice with customers.

Decision Rule #2: Split a territory as soon as its sales hit a certain threshold level. At one company, as soon as a territory hits $3 million in sales, the sales leadership feels that it can afford another salesperson and gives part of the territory to the new salesperson. The veteran salesperson’s “reward” for working hard to build business is to have his territory reduced. As a result, over time, too many salespeople are placed in geographies where salespeople were successful initially and too few salespeople are placed in other geographies. The company does not consider how much sales potential there is in a given territory or how much of that potential remains untapped. Another downside to this decision rule: It gives salespeople who have a territory with sales that are approaching the threshold level an incentive to stop selling in order to keep their territory intact.
Decision Rule #3: Add salespeople when the current sales force generates enough sales to afford an increased investment. This rule is an "earn-your-way," risk-averse strategy, once again focusing on affordability rather than profitability. Many growing companies that follow this very conservative approach to managing sales force growth leave millions of dollars on the table. The approach may be necessary in markets with very high uncertainty or when a company is cash-strapped; however, when there is reasonable certainty of success and available financing, companies that take this risk-averse approach to sales force growth undersize their sales forces and miss out on considerable opportunity. The sales force should be viewed as an investment that drives sales, not as a cost item that needs to be justified by sales.

Three additional decision rules for sales force sizing reflect common thinking patterns. Many companies follow these practices and as a result may miss out on growth opportunities, give effectiveness priority over investment, or allow complacency to creep into their sales forces.

Decision Rule #4: It’s not necessary to increase sales force size to pursue new opportunities. A company plans to launch an exciting new product in the coming year. Since the product will be sold to many existing customers and requires selling skills that are similar to those for other company products, the vice president of sales decides to add the new product to the sales force’s portfolio. “This will be an exciting new challenge for the sales force and will give us something new to talk about with our customers,” she reasons. However, she downplays the fact that the new product will consume 50 to 60 percent of the sales force’s time during the launch phase, drastically curtailing the time available to sell other products. It’s dangerous to assume that existing products will maintain their rate of sales in the absence of sales force effort. Often companies pursue new opportunities that require considerable attention from the sales force, while still maintaining aggressive, history-based sales goals for existing products. But when new opportunities consume significant amounts of sales force time, existing products often fail to make their goals. Adding sales force capacity is the only way to give a significant new opportunity the attention it needs if it is to be successful and at the same time protect existing products and customers.
Decision Rule #5: Get more effective and reduce headcount. A company installs a new customer relationship management (CRM) system and implements an expensive new training program. The sales leaders’ reasoning goes like this: “These initiatives will increase sales force effectiveness by 10 percent. Therefore, we can reduce our sales force from 100 to 90, and the reduction will pay for the initiatives.” This reasoning fails to take into account that the effectiveness initiatives reduce selling costs and at the same time increase the effectiveness of each sales call by allowing salespeople to accomplish more in less time. A lower selling cost and higher sales per call enable the company to call on more accounts and prospects profitably. Customers who were too expensive to call on before are now profitable to visit. Hence, expanding the sales force upon the implementation of the new effectiveness-enhancing programs may actually increase profitability. In some cases, effectiveness enhancement means doing more with less, but at other times, the sales force actually becomes more effective when the company invests to do more with more.

Decision Rule #6: If the current sales force size worked last year, avoid disruption and keep the size the same this year. A vice president of sales is preparing his budget for the upcoming year. He reasons, “We had a sales force of 90 last year, and we made our numbers. Next year’s goal is a stretch, but why change anything? It’s working!” The vice president is satisfied because by staying at the same size, he doesn’t incur any reorganization costs and avoids disrupting customer relationships. However, the “same as last year” rule may have failed to consider that during the past year, the economy slowed down, the company canceled the launch of a new product, and major competitors decreased their sales force sizes by 30 percent. All these changes suggest that perhaps last year’s sales force size is too large for this year. While it’s tempting to avoid rocking the boat when things are working, most markets are fairly dynamic, and sales force size needs to be reevaluated annually. A nondecision to keep sales force size the same is in fact a decision that may not be the best option.

Market-Based Approaches: A Better Way to Make Sales Force Sizing Decisions. These six decision rules, which sales leaders commonly rely
on when considering whether to resize a sales force, can lead to nonproductive outcomes. The reason? They do not pay enough attention to market dynamics. Market-based approaches acknowledge that the size of the sales force determines how many customers the company can cover, how much time is spent with those customers, and how much sales effort various products can receive. Therefore, sales force size drives company sales and profits. Market-based approaches combine analysis with management input to create good, data-driven recommendations for sizing a sales force.

A market-based approach to sizing a sales force begins with a focus on the customer. Figure 4-12 outlines two necessary basic steps.

**Step 1: Understand and segment customers.** To identify meaningful customer segments, study the customer universe; understand the product, service, and support needs of different customer types; and cluster customers with similar needs into market segments in order to tailor sales strategies to the needs of each segment. Approaches for segmenting customers and prospects are described in more detail in Chapter 3.

Customers differ in many ways. Some are large and some are small. Some want the best price; others want the best service. Some are early adopters, eager to try the latest innovation, while others prefer well-tested solutions. Some customers are interested in many of the products and services that the company has to offer, whereas others want only a select few of them. Customers also vary in their buying processes. Some make purchasing decisions centrally, while others delegate purchasing to individual departments or locations. Some have a single point of control for purchases, while for others, many people influence buying decisions.

![Figure 4-12. A market-based process for sizing the sales force](image-url)
Customer segmentation organizes a large universe of current and potential customers into groups with common characteristics so that companies can prioritize accounts and customize value propositions and sales processes. A company with a limited number of potential customers (for example, a first-tier supplier of gaskets to automobile manufacturers) is likely to develop a unique value proposition and sales process for each individual customer. However, if there are many possible customers with diverse needs, it is more practical to prioritize and plan at the segment level.

The best segment selling processes acknowledge the value that each segment can generate for the company. Companies typically use financial measures such as sales, unit volume, and profits to determine a segment’s value.

**Step 2: Determine sales force size.** Determine the number of salespeople needed to implement the desired sales strategy for each market segment. Market-based sizing methodologies vary in terms of their sophistication in measuring the link between the number of salespeople, their coverage of customers, and the value (such as sales or profits) that coverage generates.

Sales force size is determined by aggregating the coverage plans—in other words, the sales force time required to execute the sales process—for each customer segment. Increasing the size of the sales force increases costs, but also allows greater coverage of customers, which in turn creates more sales. Similarly, reducing the size of the sales force lowers costs but reduces customer coverage and results in lower sales. Determining the right sales force size and level of coverage is critical to maximizing profits.

Measuring the link between sales force size, segment coverage, and segment financial value is not easy. With the right data and analytical capabilities, some companies can measure the link directly; however, many rely on management input to develop estimates of these relationships.

Four market-based sizing methodologies, listed in increasing order of sophistication, are described in Figure 4-13. The activity-based and pipeline approaches rely on structured management input about the coverage needed in order to be successful with different market segments. The
**target-return-per-call** approach builds on these methods by adding management estimates of financial value to the calculations so that return on investment (ROI) can be used to evaluate sales force coverage options.

The *sales response* method relies on a combination of management input and analysis of historical data to measure the link between sales force size and financial value explicitly. The most sophisticated of the four approaches, sales response analysis suggests a sales force size that maximizes profit. Companies have successfully used all four of these approaches.

As shown in Figure 4-14, the four effective market-based approaches to sales force sizing vary in terms of their complexity, cost, and probability of determining the best size.

These four market-based sizing methodologies are examples from several frameworks and analytic approaches that exist to help sales leaders determine the right size for their sales force. A useful reference for anyone who wants to determine the most profitable sales force size is *Sales Force Design for Strategic Advantage* by Zoltners, Sinha, and Lorimer (Palgrave Macmillan, 2004).

---

**Is It Better to Be Vaguely Right or Precisely Wrong?**

The affordable approaches to sales force sizing described earlier (Decision Rules 1, 2, and 3) typically employ a precise logic in their calculus—for example, sales force expenditures will be 3 percent of sales. The market-based approaches are not as precise. They require an understanding of the marketplace and estimates of good coverage strategies and the financial value they will bring. Because sales force sizing decisions drive market outcomes, we believe that the affordable approaches are precise but invoke a wrong logic, while the market-based approaches are vague but use a compelling logic. As Len Lodish of Wharton Business School once said, “I would rather be vaguely right than precisely wrong.”

---

**Implement the New Size**

**Growing Your Sales Force.** You may face several challenges when you increase the size of your sales force. Two of the most significant are
Sizing method | Steps required for each customer segment | Simplified example for one customer segment
--- | --- | ---
Activity-based | • Develop a list of sales activities to be performed at accounts.  
• Estimate the time it takes to complete those activities (can be expressed as calls per year and time per call).  
• Calculate the total hours required to cover accounts in the segment.  
• Estimate the call capacity of a salesperson and calculate the number of salespeople required to cover the segment. | In a retail merchandising sales force:  
| Segment | # of Accounts | Calls / Year | Hours / Call | Total Hours | Salespeople Needed |
| Direct Retail Stores | Over $25K | 112 | 12 | 2.0 | 2,688 | 2.0 |
| | $12 – 25K | 784 | 6 | 20 | 9,408 | 7.1 |
| | $5 – 12K | 2,543 | 4 | 20 | 20,344 | 15.4 |
| | Under $5K | 6,659 | 3 | 1.0 | 19,677 | 14.9 |
| Total Direct Retail | 9,998 | — | — | 52,117 | 39.4 |
Hours per salesperson per year: 1,325

Pipeline | • Map the sales process stages.  
• Estimate the number of prospects entering the sales pipeline.  
• Estimate the sales time required at each stage and the success rate resulting from that effort.  
• Estimate the total sales time required and the number of accounts successfully sold.  
• Estimate the call capacity of a salesperson and calculate the number of salespeople required to cover the segment. | In a medical device sales force:  
Leads entering pipeline: 1240  
Qualify lead: .5 hr x 90% success rate  
Educate customer: 7.5 hrs. x 35% success rate  
Sell value proposition: 3.75 hrs. x 70% success rate  
Service and support: 10 hrs.  
Sales time required: 13,192 hours to get 273 accounts  
Hours per salesperson per year = 1,250  
Salespeople required: 10.6 for one year

Target-return-per-call | • Estimate the number of salespeople needed to cover the segment (could use the activity-based or pipeline method).  
• Estimate the cost of coverage (salespeople required x cost per salesperson).  
• Estimate the value of coverage (contribution generated).  
• Calculate a segment ROI.  
• Compare to a target ROI to determine if the segment should be covered. | In a not-for-profit sales force:  
| Segment | Salespeople needed to cover | Cost to cover | Value of sales force coverage | Segment ROI | Target ROI | Cover segment? |
| | | | | | | |
| Segment 1 | 4.2 | $1,050K | $8,423K | 70% | 200% | Yes |
| Segment 2 | 1.5 | $937K | $832K | 122% | 200% | No |

Sales-response method | • Measure the relationship between sales force effort and sales for each product, market, or product/market combination directly using historical and judgmental data.  
• Use the relationship to evaluate the short- and long-term sales and profit consequences of alternative sales force sizes. | A pharmaceutical sales force used data to derive the following response curves:

Figure 4-13. Four market-based methods of sales force sizing

<table>
<thead>
<tr>
<th>Approach</th>
<th>Understandability</th>
<th>Data</th>
<th>Analysis</th>
<th>Cost</th>
<th>Probability of Getting a Good Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity-based</td>
<td>Simple, easy to explain</td>
<td>Relatively easy to obtain</td>
<td>Straightforward</td>
<td>Low to moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Pipeline</td>
<td>Moderate</td>
<td>Relatively easy to obtain</td>
<td>Straightforward</td>
<td>Low to moderate</td>
<td>Moderate to high</td>
</tr>
<tr>
<td>Target-return-per-call</td>
<td>Complicated</td>
<td>Easy to obtain</td>
<td>Straightforward</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Sales-response</td>
<td>Complicated</td>
<td>Requires sales and activity data</td>
<td>Requires statistics</td>
<td>Moderate to high</td>
<td>Very high</td>
</tr>
</tbody>
</table>

Figure 4-14. Comparing the market-based approaches to sales force sizing
addressing the resistance of the sales force to expansion and establishing effective processes for assimilating new salespeople.

Salespeople Often Fight Sales Force Expansion

At a medical devices company, when sales leaders set out to implement an expansion plan involving 25 additional sales territories, the salespeople and sales managers strongly resisted. The salespeople, who were paid on commission, feared that the change would have an adverse impact on their earnings. They had worked hard to develop their “book of business,” and they felt that they deserved to reap the benefits of their past efforts by earning commissions on easy repeat sales to current customers. They argued that the new territories were not justified, and they did whatever they could to make sure that their will prevailed, including threatening to resign and go to work for competitors (taking their accounts with them) if their account base was reduced. Salespeople put so much pressure on management that only 12 of the 25 proposed new territories were ultimately implemented.

For sales forces that are paid largely on commission, several incentive compensation plan strategies can reduce the resistance to expansion. These strategies include establishing a precedent for change early in the life of an incentive compensation plan, designing a goal-based plan that does not penalize salespeople who give up accounts to expansion territories, and establishing temporary transition compensation plans that keep salespeople’s compensation “whole” for a period following expansion. Sales leadership can reduce the sales force’s resistance to expansion by managing the expansion carefully—for example, establishing objective and quantifiable business criteria for territory size, such as an ideal level of untapped market potential or a maximum number of key accounts per territory. Expansion decisions that are based on consistent criteria are more likely to be perceived as uniformly fair. If expansion decisions are based primarily on executive opinions rather than on data, salespeople will come up with countless reasons why new territories are not needed.
When the size of a sales force increases, recruiting and training new salespeople adds significantly to the workload of sales managers. Managers in rapidly growing businesses often struggle to keep up with their day-to-day coaching and selling responsibilities, and they may not have sufficient time to hire and train large numbers of new salespeople. One way to ease this stress is to keep the sales force span of control (the average number of people that report to each sales manager) at a reasonable level while the sales force is growing. This will ensure that managers have enough time to manage their people well and, at the same time, recruit and train effectively. Also, leverage external resources and build strong support programs to assist sales managers with their hiring and training responsibilities. One company hired a recruiting/training manager and paid him incentives based on the second-year performance of all new hires.

**Downsizing a Sales Force**

Multiple Waves of Downsizing Affect Sales Force Morale and Motivation

During the downsizing of the sales force for a telecommunications company, managers attended a one-day workshop on how to fire salespeople. Since this was the third (and they knew not the last) downsizing at the company, managers wondered, “Is someone being trained on how to fire me?” Morale and motivation were at new lows and had not hit bottom yet.

During downsizing—a painful process that can be devastating for sales force morale—sales leaders are challenged to reduce the sales force headcount strategically while minimizing the pain to the organization and keeping a core group of salespeople who will retain key customers.

Sometimes it is possible to avoid massive layoffs by anticipating a need for future downsizing and using attrition to slowly reduce the sales force to the desirable size. To be successful, attrition management programs need to be systematic. Too often, companies implement across-the-board hiring freezes that result in insufficient coverage of important customers when top salespeople in high-potential territories leave the company. Intelligent attrition management programs con-
sider “territory opportunity,” closing down vacant territories in low-potential areas but retaining those in high-opportunity areas. When the smartest companies implement hiring freezes, they evaluate the potential of every territory that becomes vacant and will transfer current salespeople or allow selective hiring to fill important vacancies.

A Canadian Company Uses Systematic Attrition Management to Downsize Its Sales Force

A company in Canada was selling a mature product line and had no major new products in the pipeline. Since sales leaders knew that the decline stage was imminent and that sales force layoffs were coming soon, they created a plan to make the impending downsizing less painful. The company had 100 salespeople and expected a reduction to 70 salespeople in about a year. Sales leaders laid out 70 sales territories for the downsized sales force, and the top 70 salespeople, based on performance rank, were each given a territory in the new configuration. Those who were ranked below the top 70 were put into “overlay” territories and were asked to assist the 70 salespeople by co-selling at important accounts. The salespeople in the overlay territories were told that as attrition among the top 70 salespeople occurred over the next year, they would be offered a territory based on their performance rank and location. Planning ahead helped the company retain the best salespeople and make the transition to the new, smaller organization successfully.

When a significant decline in sales opportunities is not anticipated far enough in advance, the only viable strategy is to reduce the sales force rapidly. Survivors will know quickly that they have a job and some reasonable level of job security, customers will have greater confidence about what the future holds, and sales leaders can begin to rebuild a new, smaller, and more focused sales organization.

Protecting the company’s top customers and best salespeople should be the highest priorities when a sales force must be downsized.