ZS ASSOCIATES

Should You Downsize Your Sales Force?

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The sales force is front and center in the challenge to meet or exceed business growth objectives. Given the broad downturn in the economy, many sales leaders are asking themselves if they should downsize their sales force. They are wondering if they should retrench, hold steady or go on the offensive, given the nature of the current recession. Although the economic realities facing sales organizations may be new, the keys to solving sales force sizing questions are not.

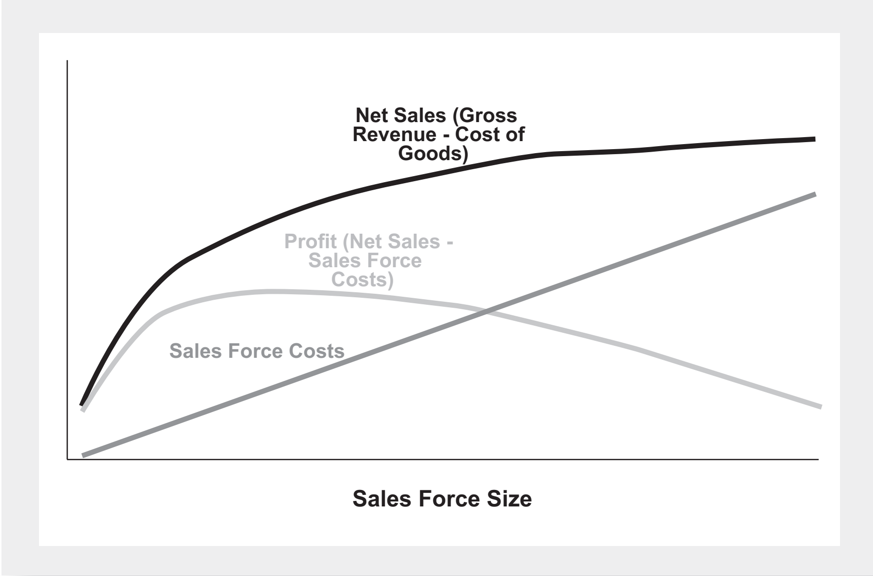
If the size of your sales force is too small, you will not serve your customers effectively and, therefore, will miss key opportunities. If the size of the sales force is too large, productivity is likely to be low and sales force costs too high. So how can you, as a sales executive, make the most-effective choices? Before we delve into what factors will influence your decision, it is important to consider some fundamental sales force sizing dynamics.

How to Evaluate the Size of the Sales Force

There are several dynamics involved in determining the optimal size of a sales force. The most significant drivers of revenue opportunity include the number of accounts in the marketplace (the universe), the sales opportunity for each of these accounts (a company's achievable share) and the relationship between sales force effort and sales (sales response).

As illustrated in Figure 1, there are diminishing returns to sales force effort. While the cost of the sales force has a roughly linear relationship to its size, sales per salesperson diminishes. Profits are greatest when the marginal return of the last salesperson hired is equal to the marginal cost of employing him or her.

Figure 1. Relationships Between Sales Force Size and Net Sales, Sales Force Costs and Profit



Reducing the sales force size delivers an immediate boost to profits. However, note that current-period sales may decline. Additionally, the loss of carryover sales in future periods (sales in future years due to current effort) will further diminish the positive profit impact of personnel cuts. It is, therefore, critical to take a multiyear perspective; only considering short time periods could result in undersizing the sales force.

What Happens in an Economic Downturn?

The general framework presented above can help evaluate the size of the sales force in a downturn. The fundamentals of any approach should be based on how revenue generation changes in your organization and industry during challenging times.

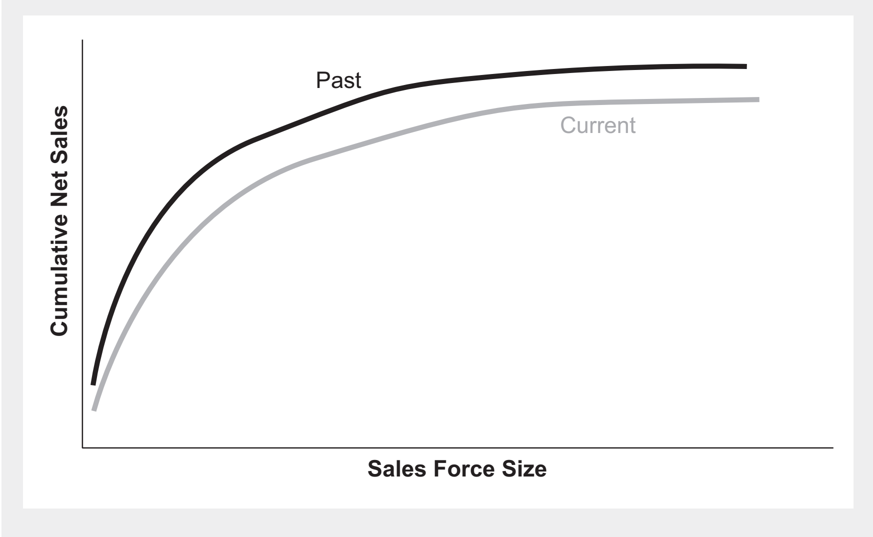
For instance, are there fewer customers and prospects for your organization in a downturn than during a stable economy? If the answer is yes, the overall opportunity in the market place has declined. For example, if your company has relied on electronics chains Circuit City and Tweeter as distribution partners in the past, your landscape has changed quite dramatically over the past six months.

Are your customers and prospects buying less? If so, the opportunity for a particular customer might be reduced. This could be the result of slashed purchasing budgets and an increased emphasis on what is necessary versus optional. An employer may have offered life, health and disability insurance to its employees, for example, but now only offers health and disability coverage. This reduces the revenue opportunity for a group insurance company's selling organization.

Has the effort required to close a sale increased significantly? Customers may need greater flexibility in credit terms and payment schedules, or purchases may require approval from senior personnel, thereby making sales representatives' jobs more difficult and time-consuming for each customer.

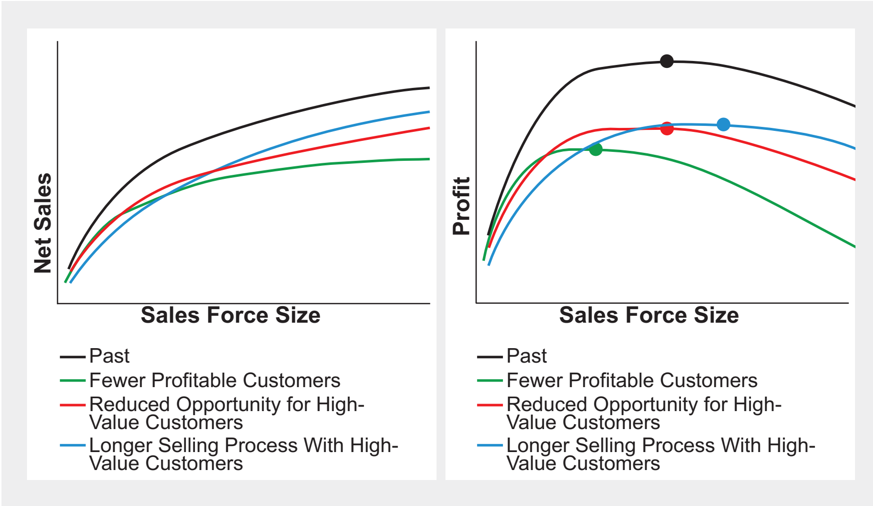
All of these changes are likely to result in decreased revenue opportunities for your company, as illustrated in Figure 2.

Figure 2. Past and Current Net Sales Versus Sales Force Size



A reduced revenue opportunity does not necessarily mean that downsizing makes sense. All scenarios—holding steady, downsizing or increasing the size of your sales force—are entirely feasible in response to the economic conditions. (As an illustration, see Figure 3.)

Figure 3. Net Sales by Sales Force Size and Profit by Sales Force Size



To illustrate how these different scenarios may arise, consider the following example. Suppose that account CBA Inc. has historically generated $5,000 in net revenue at a cost of $3,000 in sales force effort, but the recession has changed how the sales organization works with the client. Consider the following possibilities:

1. **CBA no longer exists.** In this case, the decision is obvious—reduce the sales effort.
2. **CBA may spend less money with you.** If the company is worth *less* than $3,000 in net revenue, then do not call on them, allowing you to reduce effort. If, however, CBA remains worth *more* than the required investment, then overall effort may not change.
3. **CBA requires additional investment.** It may take more investment to generate $5,000 in net revenue. If the required investment is doubled to $6,000, then CBA is no longer profitable to cover, and you may reduce effort. If the required investment increases to $4,000, then it makes sense to increase the sales effort.

A combination of these dynamics may affect your customers and prospects. Other factors such as the evolution of the product portfolio, your carryover rate, your company's current financial strength and how long you expect the downturn to last will influence your decision-making. In each case, the decision may be to reduce, maintain or increase your sales force investment.

Conclusion

A thorough understanding of the changes in your environment is key to evaluating your options and making the right sales force sizing decision. If you decide to upsize, do so rapidly, as pay-as-you-go strategies are rarely optimal. If you decide to downsize, consider that the process of downsizing damages sales force morale and risks hurting customer relationships, so do it rapidly but thoughtfully to protect your best accounts and retain your best salespeople.

About the Authors

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About ZS Associates

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As the largest global consulting firm focused on sales and marketing, ZS Associates has experience across a broad range of industries, including medical products and services, pharmaceuticals, biotechnology, high tech, telecommunications, transportation, consumer products and financial services.

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