

# Market Coverage & Sales Resource Optimization: Bringing Science to the Sales Force

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What increase in profitable revenue would your organization achieve if it consistently targeted the best sales opportunities with the right type and amount of sales resources? As many executives would expect, the potential upside is significant. Based on detailed studies over the last 10 years with more than 70 companies per year<sup>1</sup>, the average profitable revenue growth achieved by companies that optimize market coverage and sales resources is 2%–15%. Two-thirds of this upside typically comes from better allocation of sales resources across products, geographies, customers and activities. The other third typically comes from better sizing and structuring.

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Given the significant impact that sales resource optimization (SRO) has on performance, it might be expected that B2B organizations would have strong capabilities in this area. In fact, quite the opposite is true. The majority of Fortune 2000 B2B companies we evaluate are suffering substantial opportunity costs due to poor SRO capability. This holds true even for many of the most respected sales and marketing organizations.

This article highlights key challenges that have inhibited SRO at many organizations and introduces today's leading SRO practices and critical success factors for building SRO capabilities.

<sup>1</sup>: ZS Associates conducts more than 70 sales force design studies per year. Over the last 10 years these have included studies in more than 15 industries and 50 countries.

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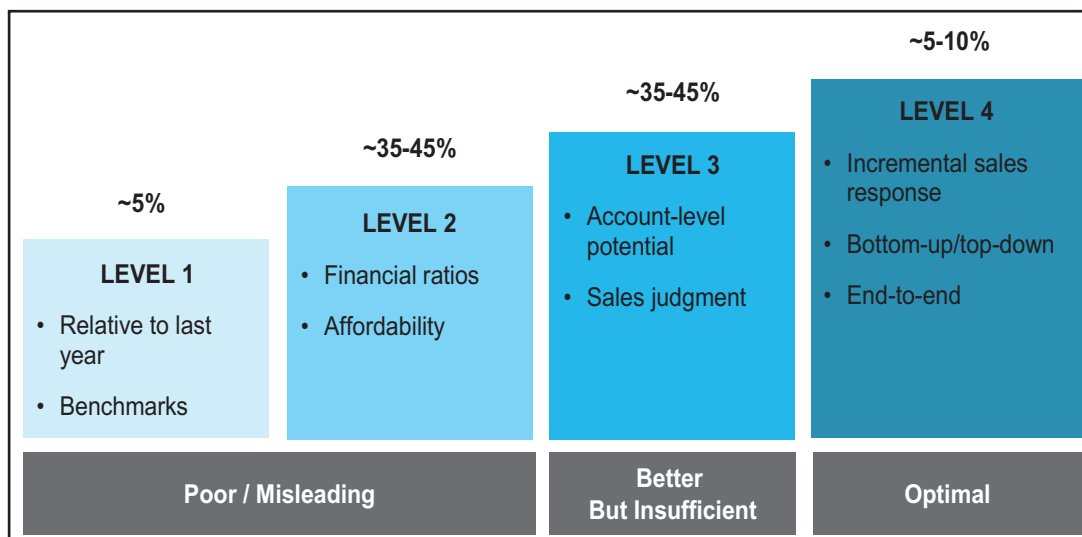
## Challenging the Current State

The science of sales resource optimization has advanced dramatically in the past 20 years. Achieving highly effective SRO capabilities requires a combination of leading business processes, analytical methodologies, dynamic modeling tools, and people knowledge and skills.

A number of compounding factors regularly inhibit SRO within many organizations. Some of the most prevalent include:

1. The move to hybrid sales channel strategies (e.g., combinations of GAM, SAM, KAM, field sales, specialists, telesales and/or business partners) has significantly increased the complexity of sales resource planning.
2. Key stakeholders at the line-of-business, product, geography and sales team levels look first to ensure their own business interests are addressed, versus those of the larger organization.
3. Maintaining internal expertise in the leading analytical methods and tools for evaluating account potential, estimating sales response to alternative sales coverage, and modeling optimal sales resources is difficult. Few external resources exist to support the development of such expertise.
4. Essential account, coverage and productivity data is fragmented within the organization and difficult to integrate and refine. Different data sources exist in different lines-of-business and countries.
5. Quality decisions and organizational buy-in require a careful balance between historical data and internal expert estimates (e.g., from sales managers) in the analysis process. Achieving the right balance requires strong facilitation processes, tools and validation methods.

Organizations generally fall into one of four SRO capability levels, as shown in Figure 1. The shortcomings of levels two and three are particularly important given that approximately 70%–90% of companies fall within these two groups.



**Figure 1.** Market Coverage & Sales Resource Optimization Capability Levels

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In level two, organizations rely on financial ratios, such as sales-per-rep and affordability, as a primary driver in their sales resource decisions. While easy to administer, such methods almost always lead to poor sales resource decisions. Financial ratio and affordability methods completely fail to identify the account segments that will be most profitable to target, and the sales effort that will be required to cover the accounts in those segments. They are not able to estimate the amount or type of sales resource that will be optimal for the company. These methods create a false sense of security that sales resource decisions have been effectively linked to financial outcomes.

Sales-per-rep is an especially misused ratio. Sales-per-rep for a given product group can be high for several reasons:

1. Average sales person effectiveness is high.
2. The team or rep has an especially high concentration of large accounts (note: sales effort does not scale linearly with account size).
3. The sales force is undersized.

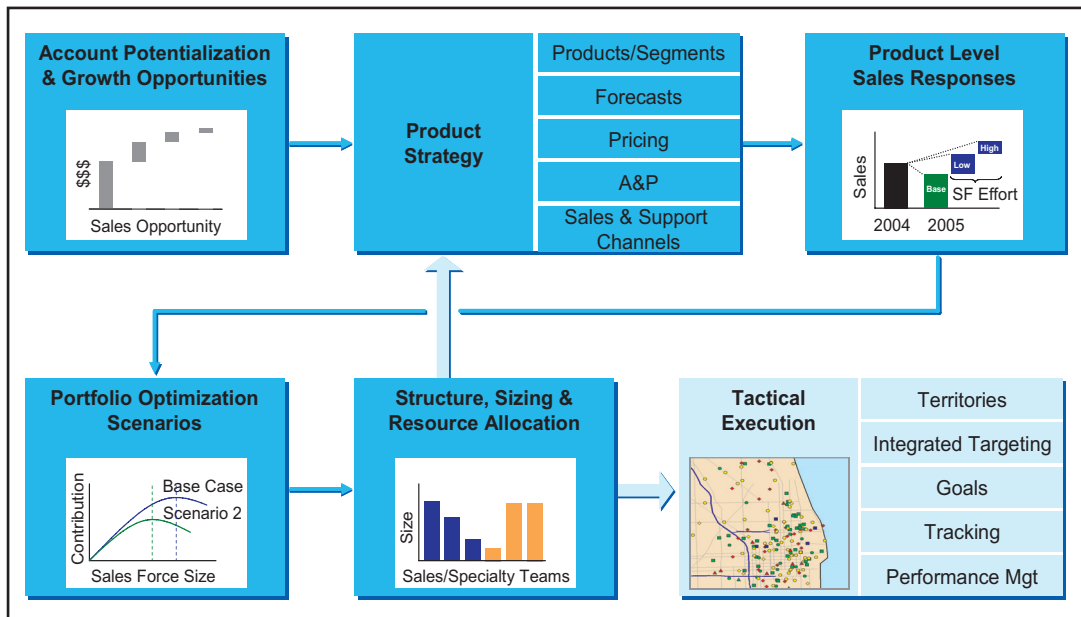
Comparing sales-per-rep between two groups can easily be misleading. Is the West Region's sales-per-rep higher than the East's because they are more effective, because they have a higher concentration of large accounts, because the sales team in the East is undersized, or because of some combination of these factors? Cautious, detailed analysis is required to understand causality for differences in sales-per-rep.

Level three organizations have taken a major step forward by estimating the potential for each existing and prospect account in their target universe. Methodologies for estimating and validating account potential have greatly improved and are a major contributor to SRO. Account potential however, while essential to SRO, is far from sufficient. Sales force effort does not scale proportionately with potential. For example, a \$10M account may not require 10 times the sales effort of a \$1M account. Methods that rely on local sales managers to estimate effort are subject to variability in manager skills, and often concentrate effort in those business areas with the “louder” or “more powerful” stakeholders—which are often not actually where the resources would maximize profitable sales for the company.

### **Today's Leading Approaches**

Sales resource optimization should be viewed as a business capability comprised of business processes, data and analytical methodologies, IT tools, and people skills and roles.

Effective SRO requires a business process that is “bottom-up/top-down” and “end-to-end.” Figure 2 illustrates the business process adopted by level four organizations.



**Figure 2.** The Bottom-Up/Top-Down, End-to-End SRO Business Process

The SRO business process begins with account level potential and growth analysis. These inputs support analysis of product-specific resource requirements. Product level requirements are then integrated into a portfolio-wide view to enable resource optimization at the company level. Once national level sales resource decisions have been determined, the same account data and analysis directly drive optimal allocation of resources to regions, territory design, account targeting and goals setting. The approach is bottom-up/top-down and end-to-end.

The SRO business process integrates marketing and sales planning. It overcomes local advocacy through a fact-based, objective approach, and provides senior leadership with assurance that the organization is managing sales resource levels and allocation in a way that maximizes overall performance for the company.

The analytical approach essential for SRO is based on “incremental sales response.” Not all sales that an organization achieves in a given year are the result of the sales force investment in that year. Some sales are “carryover” from prior years and will be realized regardless of sales resource investment. To maximize profitable sales, the sales force investment must be based on the incremental sales that will be achieved due specifically to the sales force effort. The future cash flow from these incremental sales must also be considered or the sales force will be undersized.

Effective SRO establishes the relationship between sales force effort and the incremental sales and profit that will likely result. This relationship can vary by account segment, product group, geography and sales channel utilized. By understanding these relationships, sales resource planners can then, and only then, determine which segments are profitable to cover, and what type and amount of sales resource will be optimal (Figure 3). Such methods are essential to SRO and represent a dramatic advancement in SRO capabilities over other approaches.

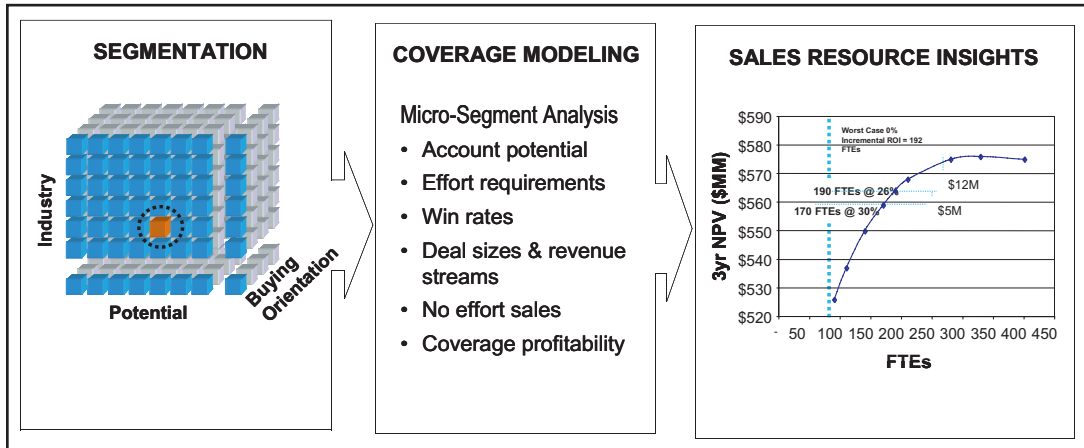


Figure 3. Sales Resource Optimization Modeling

The tools that now exist to enable SRO have likewise advanced dramatically. Today's SRO tools allow sales resource strategists to dynamically model optimal sales resourcing. They facilitate the collection of inputs from key stakeholders and experts, and evaluate alternative sales resource scenarios under varying business constraints. Outputs from these models provide executive decision makers with essential insights, including revenue and profitability impact at the line-of-business, product and geographic levels associated with different sales resource options.

The tools to optimize regional and territory deployments have also advanced greatly (Figure 4). Today's best deployment design tools directly incorporate account-level data and outputs from SRO sizing and allocation models. By doing so, they enable design of account and geo-

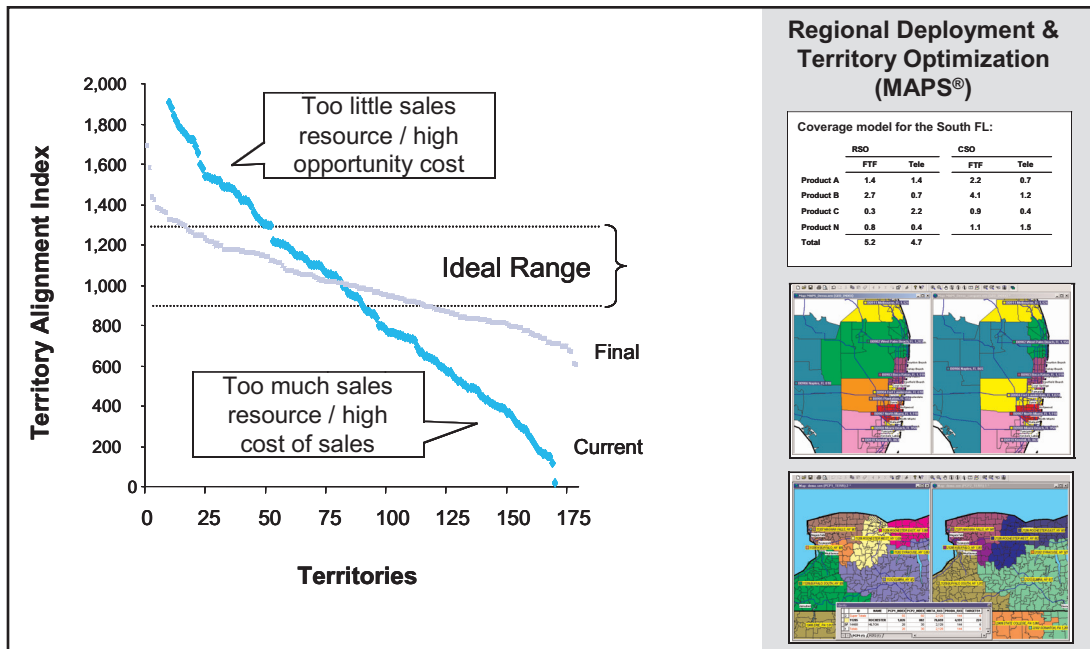


Figure 4. Territory Optimization Software Example

graphic based territory designs that directly align with the strategy for maximizing return on sales resource investment. In addition, these tools allow sales resource planners to work with local sales leaders to refine deployments based on their unique knowledge of local accounts and markets. Once territories are defined, opportunity-based account targeting and goals can then be determined for the territories.

Orchestrating the SRO business process and analytical modeling requires that the right stakeholders and experts have input at key points throughout the process. Such input is essential to both the quality of the answer and the organizational buy-in. SRO requires a central group that facilitates the process and brings deep expertise and support in modeling. An example of the people roles and engagement points for a large high-tech company is presented in Figure 5.

		Marketing & Sales Analytics	Brand Teams	Sales Force	Finance	Sales Operations	SRO Manager
SRO Process Steps	Account Potentialization & Growth Opportunities	Lead	Consult	Consult	Inform		Manage
	Product Strategy						
	Offerings	Consult	Lead	Consult	Sign-off		Manage
	Forecasts	Consult	Lead	Consult	Sign-off		Manage
	Pricing	Consult	Lead	Consult	Sign-off		Manage
	A&P	Consult	Lead	Consult	Sign-off		Manage
	Sales Coverage Needs	Consult	Lead	Consult			Manage
	Product Level Sales Response	Lead	Consult	Consult			Manage
	Portfolio Optimization Scenarios	Lead	Consult	Consult			Manage
	Structure, Sizing & Resource Allocation	Consult	Consult	Consult	Sign-off	Lead	Manage
	Rollout					Lead	Manage
	Territories	Consult		Consult		Lead	Manage
	Integrated Targeting & Call Planning	Consult	Consult	Consult		Lead	Manage
Goals	Consult	Inform	Consult		Lead	Manage	
Tracking	Inform	Inform	Inform	Inform	Lead	Manage	
Estimated Headcount	2	20%/Brand 20%/Cust. Seg	10% ea.	0.5	10%/Sector 10%/Cust. Seg.	1	

Figure 5. Example Roles at Each Stage in the SRO Business Process

In some cases organizations already have the essential meetings and interactions in place to appropriately engage key stakeholders and experts. In these cases, the focus moves more to what is happening during these interactions and to employing more effective modeling, analysis and decision-making techniques.

## Building SRO Capability

Investments in sales resource optimization capability have the potential to pay significant returns. For most organizations, sales resource optimization is typically achieved through an annual sales resource planning exercise and during major events such as sales effectiveness initiatives, mergers and integrations, new product launches, downsizings, and major restructurings within the customer universe.

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In our experience working with hundreds of organizations to achieve effective SRO capabilities, we have found that:

1. SRO capabilities are best built step-wise rather than simultaneously across business units, geographies and sales teams.
2. A specific business unit and geography for which SRO will drive significant upside is typically the best starting point.
3. Methods should be kept as simple as possible without compromising the quality of decisions.
4. Key stakeholders and subject experts should be engaged throughout the process.
5. Rollout processes and account relationship hand-offs should be managed in a disciplined, proactive way to minimize transition costs.
6. Once the SRO business process, methods, tools and people roles have been piloted, the SRO capability should then be adapted and rapidly expanded to other parts of the business.

## Conclusions

The pressure to drive organic growth—often with fewer resources—necessitates that today’s sales and marketing executives ensure the most effective use of sales resources. Getting there will require that existing approaches be challenged and refined to incorporate leading business processes, analytical methods, tools, and people skills and roles. Leaders in complex organizations will need to carefully build SRO capability stepwise—starting with a defined, high opportunity component of the business and then expanding. The benefit realized will be an objective and disciplined approach that ensures the types, levels and allocations of sales resources maximize profitable revenue growth company-wide. ■

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## Case Studies

Sales resource optimization is a powerful sales effectiveness driver. The following case examples provide insight to the SRO process and impact.

### **A leading employee benefits insurance company**

The company sells life, disability and dental insurance products to employers and employees in small- to medium-size markets. The company has maintained two sales teams—one selling employer-paid products, the other selling employee-paid or voluntary products. New premium growth had been declining for two years.

SRO identified the need to add sales people in 10 markets and to redirect sales people from saturated markets toward markets and brokers with high sales potential. Each sales manager developed local market and segment strategies to drive growth. Finally, key performance metrics and a sales “dashboard” were created to track all levels of the sales organization.

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With more efficient market coverage, the company is on track to gain 25% quote activity per rep and to increase sales by 20% through deeper reach into markets. Sales rep retention is also expected to improve since the quality of territories and individual earning opportunity has been greatly improved.

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#### **A leading biotech manufacturer**

A leading multi-billion dollar biotech manufacturer was able to realize significant cost savings—without sacrificing sales results—by optimizing its sales resources. The need for change arose when the company learned that the development of new products, which were expected to generate more than 70% of future growth, was delayed by 18 to 24 months. To meet its profit goals, the company needed to cut more than \$300 million annually from its marketing and sales budget.

In an initial diagnostic to identify cost savings, SRO was identified as a significant opportunity. The new SRO model linked marketing and sales spend to sales results; cost-saving ideas were prioritized. Decisions were made to collapse some product and industry verticals and support them with fewer product specialists. They also were able to optimize the way resources were allocated against opportunity and to shift transaction customers to lower-cost channels.

The impact was dramatic. The company's share price increased more than 33% in the two years following adoption of SRO processes. They were able to cut more than \$40 million in future headcount and marketing program spend because of the SRO work stream. Product sales goals were exceeded by 5 to 50%.

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#### **A leading distributor of high-tech hardware and software products**

This Fortune 500 company sells high-tech hardware and software to large, medium and small account segments. The sales organization is comprised of thousands of face-to-face and inside sales persons organized by industry and company size. The organization had consistently achieved double digit growth rates for many years.

Recent slowdowns in growth led executive management to evaluate opportunities to reinvigorate growth. SRO was identified as a major opportunity. Historically, the sales organization had been sized and deployed based on sales manager "experience" and simple financial ratios. Furthermore, highly tenured sales representatives had accumulated large territories over the years that they closely guarded.

Sales resource levels, allocation by market segment, and territory assignments were not enabling maximum growth in profitable sales. The sales organization was significantly undersized. Current sales persons were consumed with servicing existing customer demands and had little time for proactive customer penetration and new account acquisition. The territories that tenured reps had built vastly exceeded their capacity—and highly valuable accounts were going under-covered.

The organization is now in the process of upsizing and redeploying the sales force. Because of relationship disruption and earning opportunity concerns, the transition from current to optimal has been mapped out in stages. The step-wise approach to SRO has proven to be an effective way to address customer needs and maintain senior sales rep morale, while aggressively moving the organization to the market coverage strategy that will maximize financial outcomes.



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