DEATH OF THE SALESMAN

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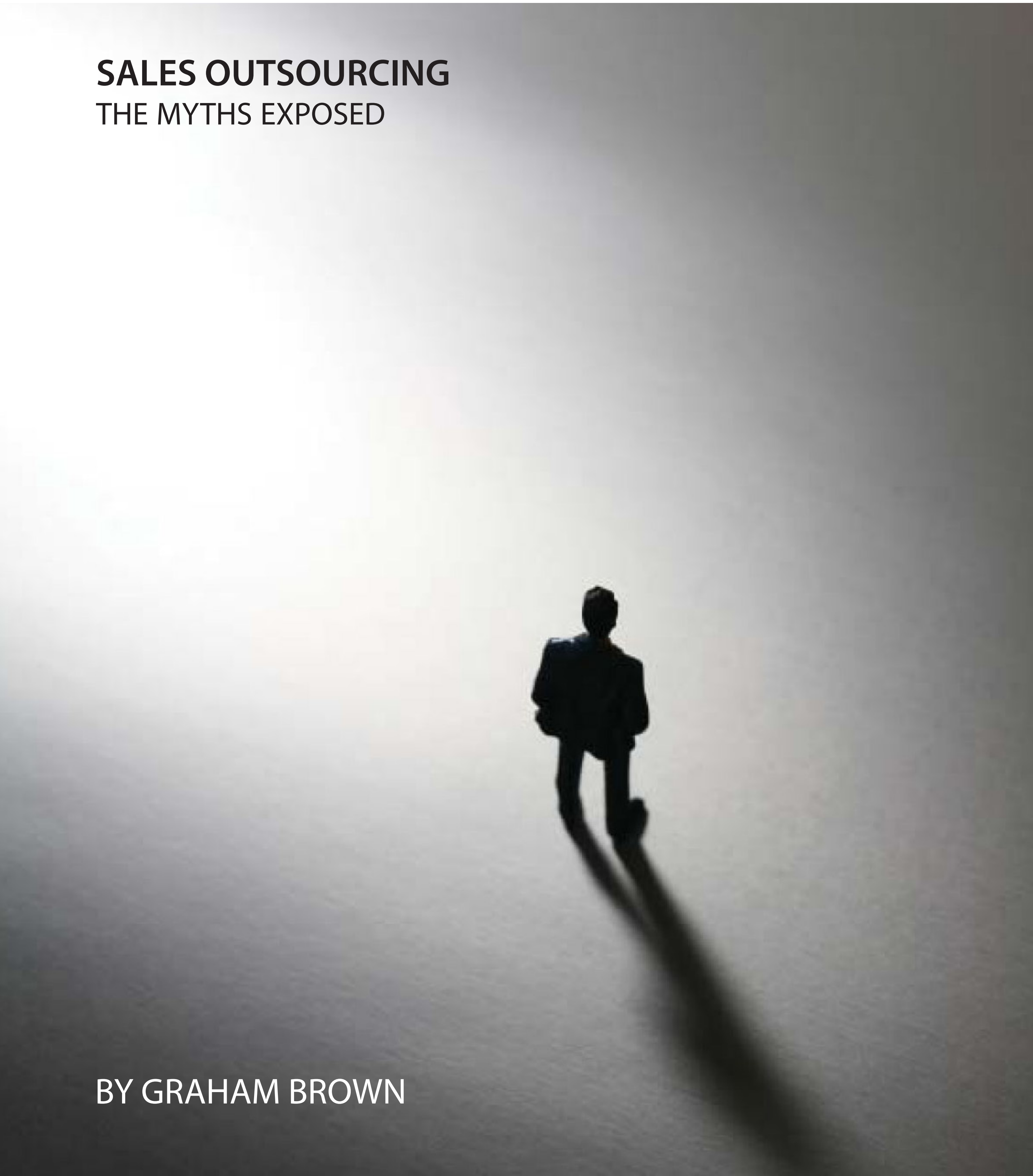
THE MYTHS EXPOSED



BY GRAHAM BROWN

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Outsourcing is no longer a 'nice to have' - it's an imperative! Against a backdrop of increased competition and the need for competitive advantage, outsourcing has become a critical business strategy in the unrelenting pursuit of improved performance and profits - through reduced costs, specialized service delivery, improved efficiencies and sales.

In the twenty-plus years since the concept of outsourcing entered the consciousness of corporations and governments alike, outsourcing has grown in popularity to such an extent that organisations like the Pentagon are now willing, on a regular basis, to hand responsibility for some of their most critical functions to external specialists.

Sales outsourcing – a missed opportunity

But here's the irony: while outsourcing in the corporate sector has grown in popularity over the last two decades and is now used as a legitimate strategy by over 70% of companies, its application remains predominantly restricted to a select group of 'traditionally' outsourced business functions - including information technology, maintenance and logistics.

At the other end of the scale, according to a major research study in a new book 'Death of the Salesman', only 12% of businesses outsource any of their sales function. Sales, it seems, is sacrosanct – not to be meddled with.

The book, written by former executives of CPM Australia, draws extensively on independent research conducted in the Asia Pacific and Europe, as well as real-life case studies. They argue that this reluctance to outsource sales activities in favour of 'in-house' control is a large opportunity going begging, with many organisations held back by a rigid adherence to a 'sales is core' mentality. While outsourcing is clearly popular, its uptake in the sales arena is still largely conservative.

The problem with the conservative approach to outsourcing – both by organisations which use it and those who don't – is that the world has changed. What was 'core' in the 1980s is not, in a global and technology-driven 21st century economy, really so anymore. In fact in today's business world, the concepts of 'core' and 'non-core' have become anachronisms. Two decades ago it would have been unthinkable for a pharmaceutical company to outsource their product development – today it's fairly commonplace. It would have been similarly unbelievable for a defence department to outsource its recruiting and provisioning, let alone some of its frontline fighting.

Over time, the benefits of outsourcing have been appreciated and pursued as companies have grappled with the challenge of maintaining competitive advantage in an increasingly competitive world. And yet despite the many proven benefits, outsourcing in the sales environment still lags far behind other critical business sectors. Why?

The barriers to outsourcing – perception or fact?

In 'Death of the Salesman', the authors wanted to delve deeper into this question. Two major research studies were commissioned to understand this reluctance and to explore other attitudes to outsourcing.

The studies were sponsored by CPM and conducted by the Australian Centre for Retail Studies at Monash University and the University of Portsmouth Business School in the UK. The book also drew on research by leading organisations like Ernst and Young and Deloitte, as well as personal experience covering both international and national markets over the past 20 plus years.

The results of the research, combined with the experience of the authors, confirmed what they suspected – that the perceived barriers to outsourcing are just that: perceived.

The key myths and rebuttals are as follows:

Myth 1: Outsourcing results in loss of control

Losing control over critical parts of a business is, understandably, a significant fear of those who have not outsourced. However, the actual experience of most businesses which choose to outsource is that they retain the same levels of control or even increase their control (as the above quote indicates).

The fact is there is no inherent reason why control should be lost in an outsource relationship. With a strong and transparent partnership between the parties, both contractually and culturally, there should be very little difference in control over a similar internal relationship. In the end, an efficient, well managed and robust sales function is the goal – whether internal or external or a combination of both.

Clear communication across all levels makes a big difference, just as it does with in-house situations. At the outset, there should be clarity about how the two organisations will interact. This will include specifying who has day-to-day responsibility for every aspect of the shared function. Once a partnership is underway regular communication should include daily or weekly updates with sales management, field staff and team leaders, regular business reviews and senior management interaction on strategy. All of these will help keep the communication flowing and the right behaviours and outcomes will follow.

Myth 2: No-one can be as loyal as our own in-house staff

This commonly held view about outsourcing the sales function is based on an equally common misconception: that permanent, full-time sales staff are somehow 'automatically' loyal to the employer and brand.

Any business which expects blind loyalty from employees today has its head in the sand. Employees no longer expect to work for a single company all their lives – in fact they probably don't expect to work for longer than a few years in any one place.

Among younger 'Gen Y' employees in particular, there is a level of cynicism about the idea of loyalty to organisations. The modern employee wants to learn something from the company they work for and in return expect that the company will get something from them. This doesn't mean they're not committed, but it does mean that emotional and 'lifelong' attachment to an organisation – something quite common among the older generation – is not quite as strong as it used to be.

Loyalty to a brand is a different issue. As something that is much bigger than the organisation and its constituent parts, a brand provides a corporate identity tag that employees are generally more open to embracing. But in this, the reality is that outsourced staff, especially those operating in fully dedicated roles, can become just as attached to a brand as their in-house counterparts.

Myth 3: There is little point in outsourcing because the cost savings aren't significant

In the majority of cases the reason that organisations engage outsource providers is to reduce costs. The numbers vary, but studies suggest around 70% of companies that enter outsourcing arrangements do so with a view to making cost savings.

Quite often in early negotiations, the level of direct cost savings on offer is not as great as expected, which creates a misconception that there aren't significant savings to be made. What is happening here is twofold: a misunderstanding of the true in-house cost of the sales function and a failure to recognise the full value of the benefits of outsourcing.

On the 'true cost' side, many businesses – especially larger corporates – tend to see an outsourced sales function as a straight like-for-like swap: salesperson for salesperson. Left out of the equation are the existing on-costs associated with employing an internal sales force – costs which will be reduced or removed on outsourcing. These costs include recruitment and training and the associated impact on HR, finance, legal and other internal departments. In addition, an in-house sales team adds to the cost of transport and other equipment, floor space, technology support and even social activities.

While these costs are also incurred by an outsourced sales partner, they tend to be significantly lower because of the flexibility and variable cost structure of the outsource partner. When it is all toted up, various consultants and academics who have looked at this report that outsourced sales options are generally less, not more, expensive than in-house alternatives. The difference is becoming more pronounced as the cost of employing permanent salespeople rises. According to one estimate, the average in-house salesperson's real cost to a business is around 2.6 times that person's salary. That estimate does not include the legal risks associated with direct employment.

One client of sales organization CPM discovered the extended cost advantages available from outsourcing. The firm, a market leader in a telecommunications sub-sector, operates in both consumer and business markets with multiple sales channels – field sales, telesales and retail stores, with a mixture of in-house and outsourced staff in every channel. When they initially explored sales outsourcing they did so by outsourcing a single channel. Later they scaled up this strategy by outsourcing further channels as they recognised the cost-saving potential. A major driver was the removal of both fixed overheads in the business and the hidden costs of employing people, such as human resources administration.

Myth 4: They won't have the skills and expertise to deliver as well as we do

In recent years there has been a recognition that looking outside an organisation's own walls can provide ready access to skills and experience that would otherwise be difficult or impossible to find. In fact access to capabilities – skills, processes and physical resources – is now seen as almost more important a driver of outsourcing than cost reduction.

This is one of those areas in which those who do not outsource their sales function have a preconception which is virtually the opposite of the actual experience of those who do outsource. According to one of the studies in 'Death of the Salesman' the delivery of 'inferior' services was rated a major barrier to outsourcing, yet 'access to specialist skills' was perceived as a major potential benefit.

The reality is that specialisation deepens competence. By focusing on sales alone, but working across a wide range of customers and sectors, outsource partners are able to continually improve their service models and develop their range of specialist sales skills. And it's not just selling skills but sales analysis which comes into play. Any creditable sales outsource organisation will spend significant time with a new client upfront, gaining an in-depth understanding of their business and key challenges. This process includes market audits, looking at global best practice, local research and discussions with primary stakeholders.

In short, drawing on the skills and resources of external specialists in order to drive real change can be a far more significant and sustainable reason for outsourcing than one-off improvements in cost structure, flexibility or market coverage.

Myth 5: Sales is a core competency and should not be outsourced

Conventional thinking over the past two or three decades has been that a business's core competencies should not be outsourced. And by and large the sales function is seen as a core competence.

This thinking needs challenging from two directions: first the idea that sales is necessarily a core competence, and second the idea that the 30-year-old theory of keeping core competencies entirely in-house is still relevant in a very different sales environment.

The frequent claim that 'sales is core' speaks more to a lack of clarity about what the business's true core competence is in the complex and often confusing modern environment, than it does about any validity to that claim.

The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that genuinely affect competitive advantage. Assuming that, say, sales is such a competency just because it has always been seen that way is to leave a business open to competitive exploitation.

Core competencies can become restrictive to growth and development if they are thought of as permanently fixed. Modification may be needed in order to meet changing market and business conditions. Internal business models, processes, cost structures and skill availabilities need to be balanced against what might be achieved with external parties.

The real issue is to look past 'the way we do things around here' and to have a willingness to question everything. The reality is that inside a firm it can be difficult, if not impossible, to gain the sort of broad perspective that an external organisation can offer. Organisations like CPM can call on experience across similar and different sectors for inspiration. They also have well developed (because this is a core competence) processes for analysing a current situation and mapping out a better way forward.

Myth 6: Lack of reactivity in responding to changing market, consumer and business conditions

This is another fallacy among firms which have never used outsourcing. The fact is that speed to market and flexibility are two of the major competitive advantages offered by outsource sales partners. Where most in-house sales teams cannot upscale quickly or for a short period, outsource organisations tend to plan for precisely these situations. They structure themselves to assist their clients with speed to market across broad geographic areas and by providing a virtually instant extension to a company's sales presence. They are often called on to assist with short-term product launches, product recalls or tactical campaigns.

True flexibility, especially in a retail environment, provides the ability to optimise 'cost to serve' in retail coverage. Working across multiple categories and brands gives an organisation the experience to develop optimum contact and call programs for merchandising and active selling.

Additional flexibility is provided by the fundamentally temporary nature of contract staff. Short-term and small-scale contracts enable sales managers to 'flex' their sales resource up and down as growth opportunities can emerge and dissipate very quickly.

Growing market share in an all but saturated market is increasingly difficult and costly, particularly when many economies are struggling to maintain significant growth over long periods. An outsource provider with multi-regional coverage and local management and contract staff on the ground in each market can present an excellent opportunity to extend market coverage.

Myth 7: Outsource providers don't add value – they just do what we ask them to do without offering new ideas and initiatives

For outsource providers, success and survival are inextricably linked to the success of their clients. As such, there is a continual need to innovate, refresh and apply new initiatives in order to stay ahead of the curve. Far from simply "doing what is asked", the successful outsource provider of today has to have strong insights into consumers, clients and channels and be constantly finding new ways of operating and creating client value at all points along the sales delivery chain.

As CPM Europe Managing Director, Mike Hughes, points out:

"Sales teams have a huge part to play in helping the winners win. Selling becomes even more important when times are tough. When the requirement to justify every dollar or pound spent on selling activities is limited, you cannot operate without the highest levels of insight and specialisation. In a sales context, insight requires a deep understanding of where to sell and what channels to use. This requires a structured 'field back' system as well as high-end data capture and analysis capabilities. Outsource partners can advise not only the sorts of campaigns and level of sales effort for specific products, but also highlight the attributes of stores and the local population profile to ensure best in class allocation of resources to get the best possible results."

One of the obvious benefits of outsource providers is their proximity to the sales 'coalface' to a much broader extent than the average in-house sales team. They are constantly interacting at field level with retailers, store staff and consumers, providing the potential for market insights to be channelled back to the client and incorporated in program improvements.

A good outsource provider will be looking at the sales function as a whole – not just as a group of salespeople or set of tasks and activities – and will be constantly looking for ways to optimise that function, even if that means 'dissecting, re-assessing and repacking' it from time to time.

Is outsourcing right for your business?

The walls of business and government are plastered with the stories of outsourcing relationships that ended in disaster because of poor initial planning followed by even poorer execution. Outsourcing is not the same as buying a new printer, renting a new building or even hiring a new employee. It is all of these and more. The term 'partnership' is used all too often in the current business context – it seems the vendors of everything from toilet paper to electricity supply want to 'partner' with their clients – but it can't be emphasised enough that in the case of sales outsourcing, effective partnership is crucial.

Sales outsourcing for the right reasons

Before even starting the process of finding a partner to work with, the organisation needs to take a look inside and think about two things: what it hopes to achieve from sales outsourcing, and how well placed it is to manage the outsource partnership once it is underway. It can't be emphasised enough that outsourcing does not mean simply handing off total responsibility for a task or process to someone else. Thinking along these lines will inevitably lead to an expensive disaster.

The vast majority of organisations are prompted to look at sales outsourcing for one reason: to reduce costs. But while most organisations will realise at least short-term cost and cash flow benefits with a new outsourcing initiative, there are at least three significant downsides to this thinking.

First, focusing on the cost-reduction goal alone is fundamentally short-term thinking, whereas the journey of sales outsourcing – given the costs, effort and structural change associated with taking that road – is necessarily a long term commitment. Companies which focus on short-term cost benefits fall into what has been called the 'near-term trap', whereby outsourcing decisions get made now which provide the desired benefits in the short term but, in the longer term, result in sub-optimal arrangements which, either directly or indirectly, have a 'net' negative impact on the business.

Second, targeting cost-reduction alone blinds many organisations to the wider potential of sales outsourcing, potential which – if recognised at the outset – may have resulted in different up-front decisions. The choice to outsource, as we have seen, can drive wide-ranging changes to the sales function – 'repacking the work' – with improvements in productivity, efficiency and quality. But maximising these benefits requires focus on them; simply expecting them as a side-effect usually means they aren't realised at all, or they are realised sub-optimally.

Third, any significant change to business strategy – and a decision to outsource any or all of the sales function is usually a significant change – should be made in line with the overall business plan and strategy. The potential of outsourcing, and in particular the selection of an outsource provider should be considered holistically, as an integral component of the implementation of strategy.

Cost reduction should not be seen as the only benefit, but as a 'given' – as something that will inevitably fall out of the structural changes which take place during an outsourcing project which is focused on productivity and value creation.

Cultural Fit

When outsourcing goes wrong, it is likely that people issues, more than anything else, are at the heart of the problem. One study quantified this point, with 60% of respondents reporting people-related issues as causing problems with their outsourcing arrangement, compared with only 12% reporting technology-related issues as causing problems. For this reason, it is important that as much or more effort be devoted to ensuring a cultural fit between the commissioning business and the outsource provider as is put into ensuring a good financial and technological fit.

Cultural fit is particularly important in sales outsourcing where there is front-line interaction between the outsource sales provider's staff and the client's customers (whether face-to-face or via a call centre). After all, from the customer point of view, the outsource partner's staff are employees of the client; the aim in these situations should be to present a single, seamless image to the customer base.

In summary, outsourcing provides an avenue for specialization and growth in an increasingly complex and competitive business environment. The decision to proactively collaborate partner with external specialists or 'go it alone' can have a profound impact on the future survival of any business. But it's a decision which has to be made sooner rather than later.

About the author

Graham Brown is a co-author of ‘Death of the Salesman’. He has held senior positions in sales and marketing for over 30 years, was a founding partner of the LAM Agency and former MD of CPM Australia. The book was written in collaboration with Alex McKay and Neale Skalberg, combining decades of global experience in sales and marketing.

Want to know more?

If you would like access to the sales outsourcing research and would like to get a copy of ‘Death of the Salesman’ book please contact Andrew Jacques at:

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