Redefine Selling to Create Customer Value

RETHINKING THE SALES FORCE

By Neil Rackham and John De Vincentis

THE SUMMARY IN BRIEF

What is the purpose of a sales force?
When authors Neil Rackham and John De Vincentis asked sales people, sales managers and sales vice presidents this question, they received (in various phrases) the same answer, over and over: A sales force “communicates the value of your offering.”

In other words, according to these professionals, the job of a sales person is to explain the features and use of a product or service. Or to use a common image, salespeople are little more than “talking brochures.”

Rackham and De Vincentis disagree. A sales force should not, and must not, be limited to communicating value. It must create value.

No organization can survive, the authors argue, if it doesn’t find a way through its products and services to create value for customers. Every function in the organization, from product design to after-sales service, must be focused on giving customers what they want and need.

And that includes the sales force. For, as Rackham and De Vincentis explain on the following page, customers don’t need talking brochures.

This summary shows you how to transform your sales force from value communicators to value creators.
Specifically you’ll learn

• How all customers fall into one of three customer categories:
• How to match a specific selling strategy—“transactional,” “consultative,” or what the authors call “enterprise” selling—to the category that fits your customer;
• How to create value for your customers within each selling strategy

And there’s more. How to redesign the sales process depending on the type of customers you have. How to make changes to your sales force when they are pursuing the wrong strategy. How to rethink the sales channels to your customers.

But the first step is to understand why the era of the talking brochure is over. Turn the page to find out.
Don’t Communicate Value, Create It

The traditional role of the sales forces is to communicate the value of the product or service it is selling. The sales force explains the different features of the product and how it will help the customer.

**We Have the Information**

In the past this was valuable. Salespeople were a source of information that the customer could get nowhere else.

But this is the information age. Easy and accessible forms of data are now available to everyone.

Consumers can consult Consumer Reports: product research companies, such as J.D. Power. Special interest magazines, such as PC World or Road and Track: and the Internet.

Business buyers are also better informed than in the past. They don’t wait for suppliers to inform them about what’s new in the field.

In sum, forget the product info, say the buyers. We know all about it. What else can you do for us?

**Commodity Products: So What?**

Another problem with communicating value as a central purpose is that there is less value to communicate. Perhaps twenty or thirty years ago, a salesperson could argue “My product is much better than my competitor’s and here’s why.”

But today, every market is crowded with competitors, each striving to build the ultimate mousetrap. As a result, products and services are becoming commoditized. Your mousetrap might have some interesting and unique features, but so do ten competing mousetraps.

So the buyers speak up again. Forget the pitch. We’re not impressed. What else can you do for us?

**Give Us Real Value**

What the sales force must do is create value.

One way is to reduce the cost of the product. Businesses are under intense pressure to lower their costs (see column at right). Suppliers must find a way to help.

But there are many other value-creating opportunities in business-to-business sales. How easy is the product to acquire? Can it be customized to the customer’s needs? What support comes with the product? Will it help customers reduce lead time or inventory requirements?

The goal of a sales force is to discover these and other value-creating opportunities that best fit the needs of its customers. *

### Business Buyers Are Watching the Costs

Globalization and deregulation are creating a host of new competitors from around the world and from different industries. To remain competitive, businesses need to bring their costs down.

Financial restructuring is also having a major impact. The rash of leverages buyouts and mergers and acquisitions created massive debt, which also pushes companies to focus on lowering costs.

The result: Businesses are more price sensitive and value conscious in their purchasing.

For example, business purchasers now look at the lifetime cost of a product or service, not just the initial cost. A machine part that is cheap initially but that requires higher maintenance or higher operator skills is more expensive in the long run.

Buyers are also segmenting suppliers, for example, by strategic importance or cost of the product. They are ready to invest time and money in developing partnerships with suppliers of key components --- but shop around for the best price on standard parts.
Different Customers Want Different Value

How can your sales force create value for its customers?
Start with the standard definition of value:

\[ \text{Value} = \text{Benefits} - \text{Costs} \]

The equation shows that value can be created in two ways: increasing the benefits of what you’re offering or, as mentioned on page two, reducing the costs of current benefits.

If your sales force gathers the information needed to customize a product, it increases value by offering benefits beyond the product.

If your product is offered at a cheaper price through the Internet, your sales function adds value by reducing costs.

Different customers want different types of value. Some are only interested in low costs. Others want the additional benefits, such as technical support in using the products.

Therefore, the first step in developing a sales strategy based on creating value is to segment customers based on their value requirements.

Three Customer Types

Customers fall into one of three distinct types:

- **Intrinsic value customers** know the product and know how to use it. They don’t need or want any additional help from the sales force. For them all value is *intrinsic* in the product --- value starts and ends with the product.

- **Extrinsic value customers** believe their supplier’s sales force can be valuable if it fully understands the needs of their customers. These customers want the sales force to focus on understanding the customer’s needs.

- **Strategic value customers** demand more than advice from the supplier sales force. They want to leverage the core competencies of the supplier itself.

Three Sales Strategies

The three types of customers have vastly different expectations of the value they can receive from a supplier’s sales force. Fulfilling their expectations, therefore, requires different selling skills.

- **Transaction selling** offers the best set of selling strategies and skills for intrinsic value customers who treat suppliers as a commodity and are mainly interested in price and convenience. Transaction selling is focused on cost reduction --- reducing the cost of the process and making the transaction hassle free for the customer.

The Car Max chain of used car dealerships has automated kiosks giving information on what’s available and at what price. Customers avoid completed the bothersome negotiations with salespeople.

- **Consultative selling** fits the extrinsic value buyer who wants more than just the product. As the name suggests, consultative selling involves giving advice to buyers --- for example, helping customers understand their problems and issues.

Microsoft’s sales force once sold bulk software to corporate accounts. Now Microsoft products are often sold through independent solution providers such as systems specialists.

- **Enterprise selling** is required for strategic value customers. In enterprise selling, both the product and the sales force are secondary. The entire supplier organization, usually through cross-functional teams, is involved in contributing to the customer’s success.

Applied Materials designs and produces chip-making machines. More than one hundred Applied Materials employees --- from engineers to accountants --- work with customer Intel on a daily basis to meet Intel’s needs.

The following pages look at these three strategies in more detail.*
Add Services, Cut Costs, or Give Up

As the chart above shows, sellers can add value in a number of ways during the buying process, such as helping customers define their needs or consider solutions they might not have thought of.

In transactional selling, however, all of these value-added paths are blind alleys. Products are commodities—undifferentiated products available from scores of suppliers. As a result, buyers already know what they are and how to use them. And commodities aren’t customized.

So what can you do?

Faced with a sales transaction, Sellers can take one of four different sales strategies to succeed.

Create New Value

The first strategy is to escape the transactional sale by finding a way to differentiate your product.

One way is to add special services.

American Express’s charge card service could have devolved into a transactional environment. To avoid this, American Express offers a number of special services that differentiate the care from others. For example, customers are automatically insured when they use the card to rent a car, it guarantees hotel rooms even if they arrive late, and the card can be replaced within twenty-four hours no matter where on earth customers lost it.

A note of warning: Some escape attempts can destroy value instead of creating it. For example, don’t beef up your technical support staff for commodity products. Customers still won’t need your help. Instead of breaking free of the transactional sale, you’ve only added to your costs and made matters worse.

Adapt to Transactional Sale

You don’t necessarily have to escape. As the bottom chart shows there is one value adding path open in transactional sales:

A third option: Reduce the cost of the sales force. For example, culminate non value-adding activities, such as frequent sales meetings and time consuming administrative reports.

Make the Market

The transaction is the means to move products. One innovative way to increase value in a transaction sale is to turn the transaction into a product in its own right.

American Airlines developed a computerized reservation system called SABRE to help sell flights. The idea was ingenious: When travel agents used SABRE, American Airlines flights appeared first.

Regulators judged the device unfair. However, SABRE did such an excellent job facilitating the buying process that it became a standard travel agency tool --- giving American Airlines parent company AMR profits on flights of every company, not just American. In 1996 AMR made more money from SABRE than from the airline.

Exit

Some companies have managed to make transaction selling profitable. In most cases, however, transaction sales offer the least advantage to sellers. Buyers who can easily take their business to competitors are in the driver’s seat. Some companies are finding that the best strategy is to cut their losses and refocus their resources on sales situation in which they have a better chance of success.

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CONSULTATIVE SELLING

Uncover Customer Problems and Issues

In transactional selling, the seller’s contribution to customer value was limited to providing information about the product and processing orders.

In consultative selling, you, as a seller, make a much greater contribution to customer value by:

• Helping your customers understand their problems, issues, and opportunities in a new or different way;
• Showing your customers new or better solutions to those problems;
• Acting as advocates for your customers within your organization.

Consultative selling requires different skills from transactional selling. Your sales force has to change from “tellers” who explain a product’s advantages to “seekers” who know how to ask the questions that help uncover customer problems and issues and create selling opportunities.

Your sales force must also invest the necessary time and effort to understand customer problems and issues. With transactional selling, the goal is to close the sale as quickly as possible. Move quickly in a consultative sales situation, however, and you’ll probably lose lucrative opportunities to create value.

Finally, your sales force must be ready to wait for the return on investment. In a transactional sale, you make the money immediately. In consultative selling, you have to invest up-front time, effort, and money in a relationship that leads to a series of sales. You start making money not with the first sale, but the fourth or fifth.

Note: What you measure is what you get. Performance measurements often discourage the sales force from making the required up-front investment of time and effort. For example, sales people will try to rush through a sales call because their performance is measured on the basis of the number of calls or contacts they make or on short-term sales results.

If you are using transactional performance measurements, you will get transactional selling.

Consultative selling does not work in every situation. If your product is the same as everyone else’s or the customer knows exactly the problems they have and the solutions they want, consultative selling does not add any value.

Rise of the Rainmakers

Many organizations find themselves dependent on “rainmakers” -- highly paid selling superstars who have the contacts, knowledge and skills to make consultative selling happen.

The problem with rainmakers is that they are scarce and they are fickle. Like all superstars who know their worth, rainmakers can be lured to a competitor for the right price, leaving your organization in a lurch.

A rainmaker’s contacts are hard to replace, but you don’t have to remain hostage to rainmakers if you develop value-creation capabilities in the rest of your salespeople.

You can transfer a rainmaker’s ability to help customers understand their needs and find solutions through:

• Coaching and training
• Support, tools, and information
• A guiding sales process

In other words, give your sales people the coaching to ask the right questions, access to a sophisticated database of

‘Dead’ Accounts Come Alive at Kodak

If you don’t take the time, you won’t make the sale.

Take what Kodak salespeople call their “dead accounts.” These are customers who have not bought anything in more than six months because, in the view of the Kodak salespeople, they have no needs to which Kodak can add value. The salespeople still made periodic visits to these dead accounts ---- usually a fifteen-minute sales call ---- to show the latest products. But they never expected a sale.

The authors asked a group of salespeople to visit five dead accounts but not to talk about Kodak products. Instead, the salespeople were just to ask questions to help them understand customers’ issues, problems, and needs.

To their surprise, these non selling calls uncovered a number of issues in which Kodak could help and resulted in more than a million dollars of new business.

Information to help customers find solutions, and a sales process as a guide to ensure that every task the customer will expect is covered.

If you just contribute an office and a telephone to the sales process expect to remain dependent on your rainmakers. But you can do much more. *.

Adding Value in a consultative Sale
Redesign Boundaries with Your Customers

In transactional selling, the customer buys the product. In consultative selling, the customer buys the product and a relationship based on advice from the seller.

In enterprise selling, the customer buys the entire value-creating ability of the enterprise.

For example, a consultative salesperson would meet with a customer, develop an understanding of his or her needs, and find the appropriate product to resolve those needs.

In an enterprise relationship, the customer’s R&D department would work with the seller’s R&D department on a new product to fulfill the customer’s needs.

**Stone and Baxter**

Stone Container supplies packaging for the pharmaceutical giant Baxter. Every Stone department and function is focused on finding ways to create value for Baxter.

For example, Stone’s R&D teams work with Baxter on product and package design. Engineers from both companies operate in each other’s plants to improve performance -- and to bring new thinking to each other’s problems. Stone’s trucks carry Baxter’s products.

In all, the two companies have worked on two hundred joint projects to reduce costs and create value.

**Players and Roles**

Unlike transactional or consultative selling, the enterprise relationship is not under the control of a salesperson or even a sales team. There are many more people and many more types of people who participate.

The Baxter-Stone case involved sales, purchasing, and sales support staff, but also production staff, plant engineers, materials managers, and many other functions.

Another characteristic of enterprise selling is the equality of the two companies in the relationship. In a transactional sale especially, vendors are often seen as inferior to the buyer and mercy of their customers. Consultative salespeople get more respect but they are still not equals.

In enterprise selling, the seller and buyer are equal partners creating customer value.

**Creating Value**

How do the two partners create value? In simple terms, they create value by redesigning the boundary between customer and supplier.

The traditional boundary between customer and supplier is a wall of indifference. After all, the two companies are separate. What each company does on its side of the wall is of no concern to the other as long as contractual expectations are met.

The customer only cares that the supplier delivers the part on time and the supplier only cares that the customer pays on time. The problem with this boundary is that it creates inefficiencies. Some examples:

- The supplier’s production schedule doesn’t match the customer’s requirements schedule. Thus the supplier is either overproducing, leading to excess inventory, or underproducing, leading to loss of sales.
- Each company has its own logistics systems, including separate but often duplicate paperwork, transportation, and warehousing.
- The customer is doing things internally that the supplier could do better.

Eliminate the boundary wall between supplier and customer and each of these issues can be addressed. For example, a utility reduced the types of cables it used from twenty-seven to nine in order to allow its cable supplier to optimize its production schedule and reduce excess inventory.

In another example, Wal-Mart and Procter & Gamble worked together to eliminate duplication in their logistics process, allowing P&G goods to reach Wal-Mart stores at a much lower cost. *
Enterprise Sales: Erase Functional Walls

The key to successful enterprise selling is to eliminate the inefficiencies and waste that exist at the boundary between the customer and the selling organization.

Boundary problems, however, exist not only between companies but also between functions or other departments within a company.

The guiding principle of process thinking is to break down these barriers by organizing work around cross-functional core processes instead of separate functional departments.

The strength of this approach is most evident in enterprise selling, which depends on cross-functional teams in both the selling and customer organizations. If the functions on your side of the partnership are at war, you are less likely to successfully create the company-to-company relationship required for enterprise selling.

IBM Comes Together

IBM established an enterprise relationship with McDonald’s Covering operations in ninety countries. But with different processes for each country, IBM could not respond to McDonald’s requirement for consistent solutions offered worldwide.

In 1994 IBM shifted to process thinking, developing a “customer relationship management process” that created cross-functional customer solutions. Thus, IBM established a cross-functional global team that operates in partnership with McDonald’s global headquarters – a unified enterprise arrangement that creates much greater customer value than the splintered relationship of the past.*

Consultative Sales: Put Up Boundaries

One of the major sins of an inefficient sales process is the length of the selling cycle. A salesperson who consistently takes twice as long as another salesperson to close the sale of a product is somehow wasting time and effort – which, in the end, costs both customer and seller.

An ineffective sales process is one which, for the time and money invested, yields little value for the customer or seller.

With enterprise sales, you can improve the efficiency and effectiveness of the process by resolving hand-off problems at the boundaries between functions.

In the consultative sales process however, there are no hand-offs. The entire process is usually managed by a single salesperson or a single sales team.

So how do you improve the performance of a salesperson or team that is inefficient, ineffective, and adds little value to the customer?

The answer: Break down the consultative sales process into separate steps – what we call “milestones”

Breaking Up the Process

Milestones are steps within the process that can be measured objectively. Establishing and comparing the milestones of effective, efficient sales with ineffective or inefficient sales reveals the areas that need improvement.

At one Xerox division, for example, high performers could sell a printing system in six months while most other salespeople took twice as long.

Xerox examined the high-performing processes to establish certain success criteria, such as the level of customer contacts, the point at which product solutions were introduced, and the involvement of other Xerox resources. Based on these criteria, Xerox and the authors established a series of milestones to guide underperforming salespeople during the sales process.

Improving Transactions: Process Without People

A smooth cross-functional process adds value in enterprise selling. In transactional selling, add value by designing a process that reduces the cost of increases the convenience of the transaction.

The way most transactional processes are improved is by designing out the sales person.

New Brunswick Telephone, for example, created interactive phone stores. Customers can get billing details, make account inquiries, and buy a range of products and services through their touch-tone telephone or computer twenty-four hours a day ---- all without talking to a single sales person. With this new process the cost per transaction fell from eleven dollars to less than half that amount.

Traditional Selling Steps

Breaking the sales process into separate steps is not new. You may be familiar with the traditional process that begins with the prospecting phase and ends with closing. These steps, however, don’t add value to customers (who don’t care, for example, that you’ve achieved your goal of fifty cold calls in a week).

Make sure any milestones you create add customer value.

One consulting company replaced the prospecting and cold call phases with a “value identification process.”

Sales people first developed a “value hypothesis” that explained how the company would create customer value based on trends that affected selected industries or customer types.

They next identified specific prospects who might benefit from the value hypothesis. Finally, they met with those prospects to customize the hypothesis.*
CHANGING THE SALES FORCE

What You Can Do to Change Old Habits

Old habits and mindsets are hard to break. Pushing a sales force accustomed to transactional sales into consultative selling, for example, or introducing enterprise selling to an organization that’s never done it before will take some time and effort.

To make significant sales force changes, focus on the four change levers: vision, structure, capabilities and metrics.

Vision

You must start with a clear vision for your sales force. That is, they must clearly understand your organization’s customer type and the type of sales required for these customers.

Structure

The right sales strategy doesn’t work with the wrong structure. You must design a structure based on the needs of your customer type.

For example, in transactional sales you want cost-efficiency. One cost-efficient way to structure sales is by geographical area, in which each salesperson has responsibility for all products and accounts.

In consultative selling, which depends on more in-depth knowledge of customers, you might want to structure around accounts or customers. Thus, a global account team would supply the customer for its worldwide needs.

The same type of account structure is appropriate for enterprise sales, except that senior management must lead the account teams.

Capability Building

Establishing the appropriate skills or capabilities in your sales force is another major change lever.

A consultative sales force, for example, must have both extensive product and industry knowledge and the authority to build customized solutions for the customer. Developing this type of knowledge requires extensive coaching from experienced sales managers.

Enterprise selling requires even more substantial skills. One of the most important: the ability to work cross-functionally. A sales force must be able to work well with its own design,

In transactional sales, on the other hand, the knowledge and capabilities needed for the other types of sales are not necessary. You will find it more cost-efficient to put product knowledge in a database or other type of easily accessible electronic format rather than investing in training for each salesperson.

Metrics

Performance measurements and the rewards linked to them are also key. Traditional cost-based metrics, such as cost per transaction, make sense for transactional sales.

For consultative sales, they’re not good enough. Consultative selling can be a long process. Don’t wait for the final close of the sale to measure results. One earlier measurement, for example, would be in the needs assessment phase — for example, how much potential for creating value did the salesperson uncover.

Enterprise selling requires measurements — for example, return on investment — for both parties since both parties are investing in the process.

Don’t Forget the Sales Channel

No matter which selling model — transactional, consultative, or enterprise — is best for your customers, you’ll find opportunities to add customer value through your sales channels. How products get to customers plays a big part in the buying decision.

Thus, customers buy from catalogs because it’s easier than going to the store. In a business-to-business sale, a buyer chooses a supplier because it offers the easiest delivery options.

What steps can you take to add value through your channels?

Start by looking for ways to improve your current channel. For example, electronic data interchange (EDI) connects the computers of manufacturers and retail intermediaries so tasks such as order entry and billing are done automatically and more efficiently. Indirectly, the end customer benefits from this efficiency.

You can also add value directly to the end customer. Computer users no longer have to turn to computer store clerks for help with problems. They can call the manufacturer’s 800 line directly.

The final strategy for adding customer value is to add or shift to a better channel option.

One company, whose products were becoming more and more complex, switched to a specialty distributor with the technical support and expertise its traditional dealer network lacked.

Opportunities for adding new channels, including electronic channels such as the internet, seem to be exploding.

One innovative way to add to your channels is to share channels with another company. MCI offers frequent flyer miles, thus sharing an airline’s sales channel. In return, the airline gets fee income. And end customers get the value of earning miles without more travel or added expense.