GUIDE:

THE DISTRIBUTOR’S REVENUE RECOVERY ROADMAP

ACTVANTAGE

REVENUE RECOVERY ROADMAP: 4 STEPS FOR TRANSITIONING YOUR SALES TEAM TO REMOTE SELLING

By Senthil Gunasekaran

As we entered the second month of lockdown in response to COVID-19, many scenarios were emerging that varied from contact tracing to recurring periodical stay-at-home orders to accelerated testing. The common denominator was that this would be an ongoing challenge, and that it's going to be here until an effective vaccine is developed and deployed. What does that mean for businesses today, as pandemic conditions continue? We need to look beyond the short-term response and start thinking about the long road to recovery on the other side. Distributors need to focus on required course corrections for the mid-term.

> "The pandemic has accelerated previous trends toward omnichannel selling, inside sales, tech-enabled selling and e-commerce. 79% of B2B companies said they're very or somewhat likely to sustain these shifts for 12+ months post-COVID."
>
> *– McKinsey B2B Decision-Maker Global Survey July 2020*

RETHINK THE TYPICAL RECESSIONARY RESPONSE

Distributors were facing revenue declines starting the second half of March across verticals, with a few exceptions like jan-san, healthcare and select chemical products. This abrupt fall forced many distributors to lay off or furlough employees based on the level of impact. Though it's painful, many distributors had to take this step to align cash flow with the reduced revenue levels as part of business survival. Demand has shrunk across many verticals, with some declines expected to remain in double digits for the final quarters of 2020. A typical recessionary response is to cut prices and extend terms to get orders. In these instances, unless the distributor proactively sets guidelines for the upcoming exceptions, revenue recovery will be rocky and could put customers' margin expectations at risk in the long term.

Further, this recessionary response may not be optimal due to the foundational constraint of this recession: social distancing. This factor affects face-to-face sales directly. The effective transition of sales teams is going to be the deciding factor for revenue recovery in this unique environment.

TRANSITION YOUR SALES TEAM BY ENABLING SKILL AND WILL

Let's understand how the sales team is affected in the first place. Though everyone is influenced emotionally during this crisis, the sales team faces challenges on two fronts: skill and will.

On the skill side, they are unable to do what they are trained to do professionally: influence customers through face-to-face meetings. For most of us, the environment (office to home) has changed, but we can deploy our skills, assuming we learn how to use the virtual tools.

However, when salespeople must perform their professional duties in a constrained environment, performance is going to suffer, at least in the short

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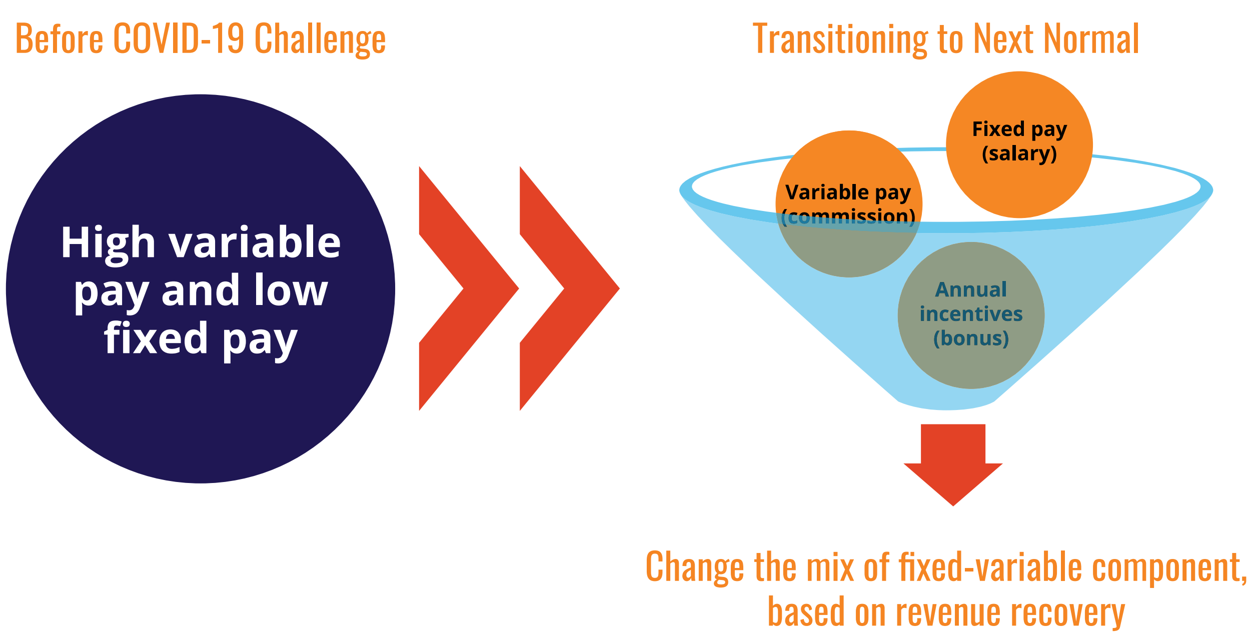
term. This causes significant concern for their compensation, leading to potential harm to their motivation – and will.

Therefore, an effective transition should address both skill and will. Upon further research, we identified four critical actions (will: reassure and renew; skill: retool and retrain) for an effective transition of sales teams to this new environment. They are:

1. **Reassure:** Update sales force compensation to alleviate any concerns over income levels, freeing their mindshare for selling efforts.
2. **Renew:** Change the focus of sales management from exclusively digging into performance gaps to holistically addressing people (individual salesperson concerns), process (evolving sales process), and performance (resulting performance outcomes).
3. **Retool:** Help salespersons elevate the customer conversation by increasing the granularity of customer-specific information (past performance and future opportunity) provided for customer calls.
4. **Retrain:** Enable sales teams to grow (rather than just go) through the crisis by training them on customer invitation/access (becoming comfortable with virtual tools), customer interaction (connecting with customers emotionally), customer insight (leveraging customer analytics to grow revenue) and customer influence (reinforcing value creation through new lenses).

Let's take a closer look at each of these actions.

1. REASSURE:
What's the mix of fixed vs. variable pay in sales compensation?

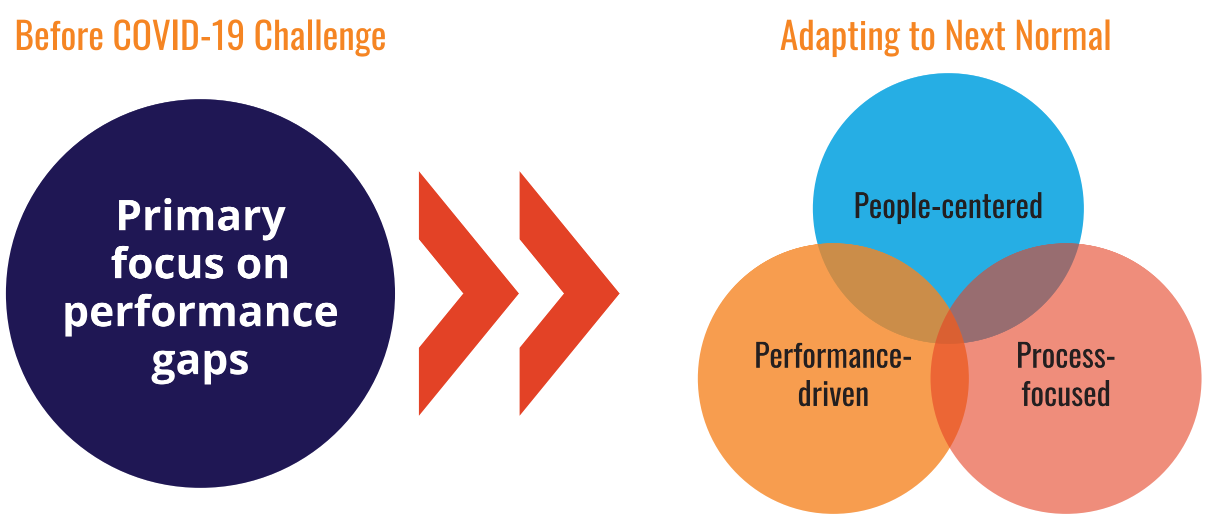


Most sales teams in the B2B industry have a higher variable component as part of their total sales compensation. That variable could come in the form of sales commissions, bonuses or other incentives based on sales and profit targets. Because sales teams are significantly handicapped in performing their usual tasks (in-person meetings and conversations), their ability to generate revenue is limited as well, leading to major concerns over their income levels for the rest of the year. If their compensation concerns dominate their thinking, their mindshare for virtual or remote sales efforts will be constrained as well. Your first step should be to perform a quick review of current sales compensation plans and adjust the mix of fixed (salary) and variable (commission) portions.

One industrial distributor's compensation plan had a mix of 74% (variable) and 26% (fixed). The distributor's sales were down by 14% after three weeks of lockdown. They surveyed their top 40 accounts to understand their operational level and the demand outlook. They also got input from their sales team. After a quick analysis forecasting the financial impact, they decided to increase the fixed component of their salesforce compensation to 66% for the remaining three quarters, contingent on a few KPIs and revised revenue targets. This action mitigated the risk for their sales team. Most importantly, the compensation revision reassured their team that management recognized their unique constraints and was willing to support them.

> ***In managing the current scenario, distributors should pay more attention to sales management as a process. The sales manager needs to look beyond symptoms (performance gaps) and focus on the root causes (people and process) during this transition.***

2. RENEW:
What's the focus of sales management as a process?



Sales management processes come in different forms across the industry, ranging from informal weekly check-ins to highly structured coaching and guidance. Regardless of structure, most sales managers focus on performance gaps or quota variance during their periodic check-ins.

Why is sales management reduced to this narrow scope? The reasons are multifold, but two stand out. First, distributors rely on sales force compensation (with a high variable component) as a sales management tool. Second, most distributors don't have a full-time sales manager role. Instead, an experienced salesperson (designated as sales manager) checks in with the sales team while also managing their own accounts.

In managing the current scenario, distributors should pay more attention to sales management as a process. The sales manager needs to look beyond symptoms (performance gaps) and focus on the root causes (people and process) during this transition. As sales teams manage the challenge of virtual or remote selling, they are learning and experimenting with many new things: learning virtual technical tools, adjusting their value propositions, and accessing key decision-makers differently, to name a few. They need far more support and guidance both at the sales process level and on a personal level. The sales manager should be prepared to acknowledge and empathize with any individual salesperson's circumstances resulting from the public health challenge. Structured sales management – focusing on people and sales process – does not have to be an elaborate mechanism. Rather, it can be a simple mental routine.

A building materials distributor observed a wide variance in performance spread across its salespersons. The needs of each member in the sales team were - and are - so different, that a general training program was not effective in improving performance. So, they adopted a simple but proven coaching model – GROW – as guidance for sales managers. *GROW = Goal, Reality, Obstacles/ Options, Way Forward*

The GROW model prescribes four actions to help sales managers get to root causes systematically, starting with a symptom.

First: Reset goals for each salesperson's territory, accounting for customer closures and revised economic- and industry-level forecasts.

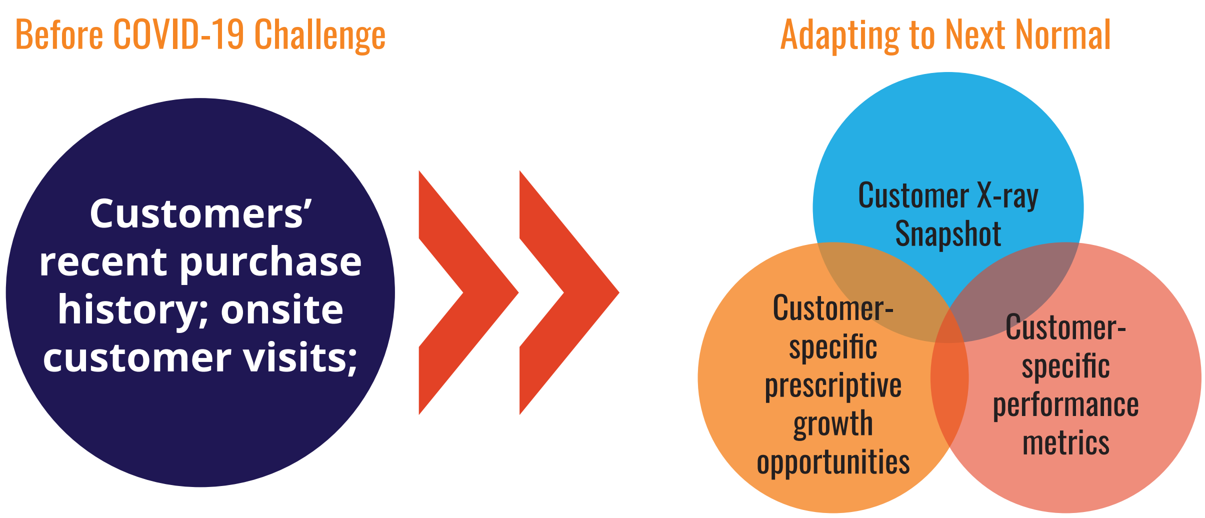
Second: Assess the reality of the current selling environment and identify obstacles in both process and skill level.

Third: Identify the options and priorities for improving or solving for those obstacles.

Fourth: Convert those options into action steps to provide a way forward for the salesperson.

It's a straightforward process, but the distributor created playbooks to help the sales manager apply the four actions, rather than get stuck on the first step in pre-crisis mode.

3. RETOOL:
What is the level of customer-specific information available to sales team?



How does remote or virtual selling handicap a salesperson? The biggest challenge is the loss of access to field data. When a salesperson visits a customer in their plant, job site, restaurant or medical facility, he or she usually assesses the site for field data like competitor items and stock level on the shelves. They now have to account for the lack of access to this crucial data in their remote customer calls.

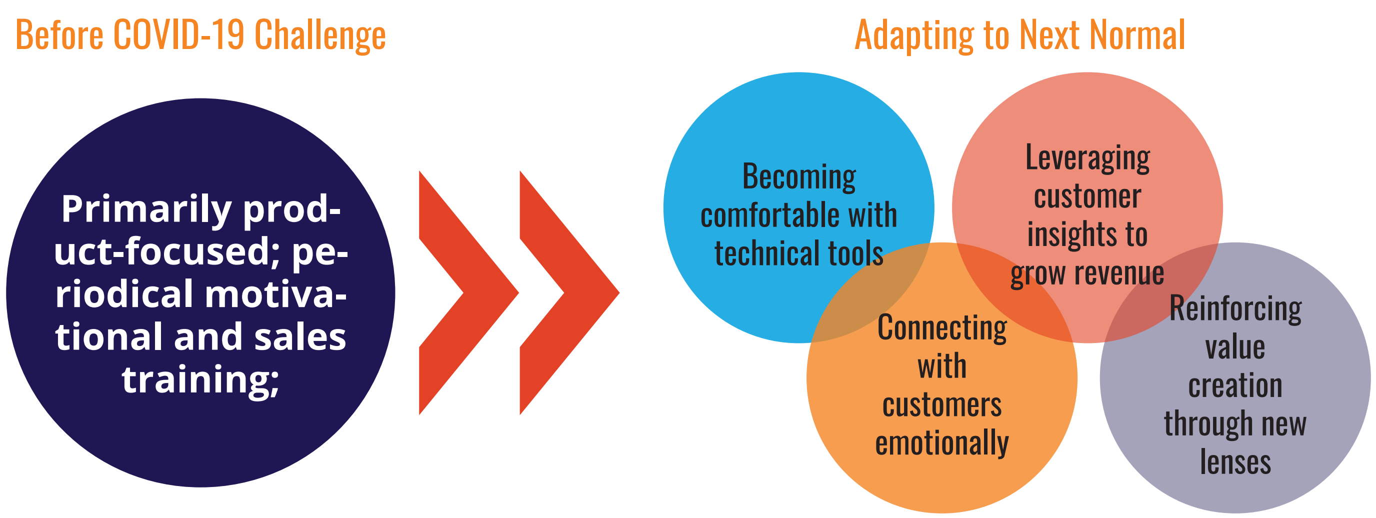
Now, step back and ask yourself: What kind of customer-specific information do we typically provide to the sales team as part of their customer calls? In many cases, it's limited to the recent purchase history of the customer. A select few proactive salespeople spend extra time understanding this report, but most do not. However, those who weren't incorporating reports like this before may not have that luxury anymore. Sales teams now operate in a vacuum in the absence of field data. How do we enable them with what we do have?

Distributors should increase the granularity of customer-specific information without overwhelming the salesperson.

Distributors should increase the granularity of customer-specific information without overwhelming the salesperson. There are two types of information that provide customer insights: past (a customer-specific dashboard that summarizes key metrics in terms of revenue, product mix, margin trend and cost-to-serve), and future (a customer-specific profile that highlights item-level sales recommendations and margin enhancement opportunities).

A chemical distributor deployed this strategy as part of its remote sales effort. The distributor had performed customer stratification as part of its strategic initiatives during the last year. One of the key applications is the 'customer X-ray' snapshot (ping us at the email below for a sample snapshot). The X-ray view distills customer KPIs into four buckets: customer volume mix, penetration, margin and cost-to-serve. The salesperson can access customer-specific information intuitively and instantly. The view lists customer-specific sales recommendations based on its periodic purchases, enabling the salesperson to propose appropriate items. The view integrates a customer's past performance as well as future opportunities. The benefits are numerous for a remote selling model, as it not only helps the salesperson prepare for customer calls but also demonstrates consulting capability, creates value for customers, and minimizes pricing pressures.

4. RETRAIN:
What's the focus of sales force training?



Most sales force training hours are spent on product training, with the remaining hours dedicated to motivational and general sales training. As the current crisis redefines sales force roles and skill sets, they have to excel in four competencies in this new universe of virtual or remote selling:

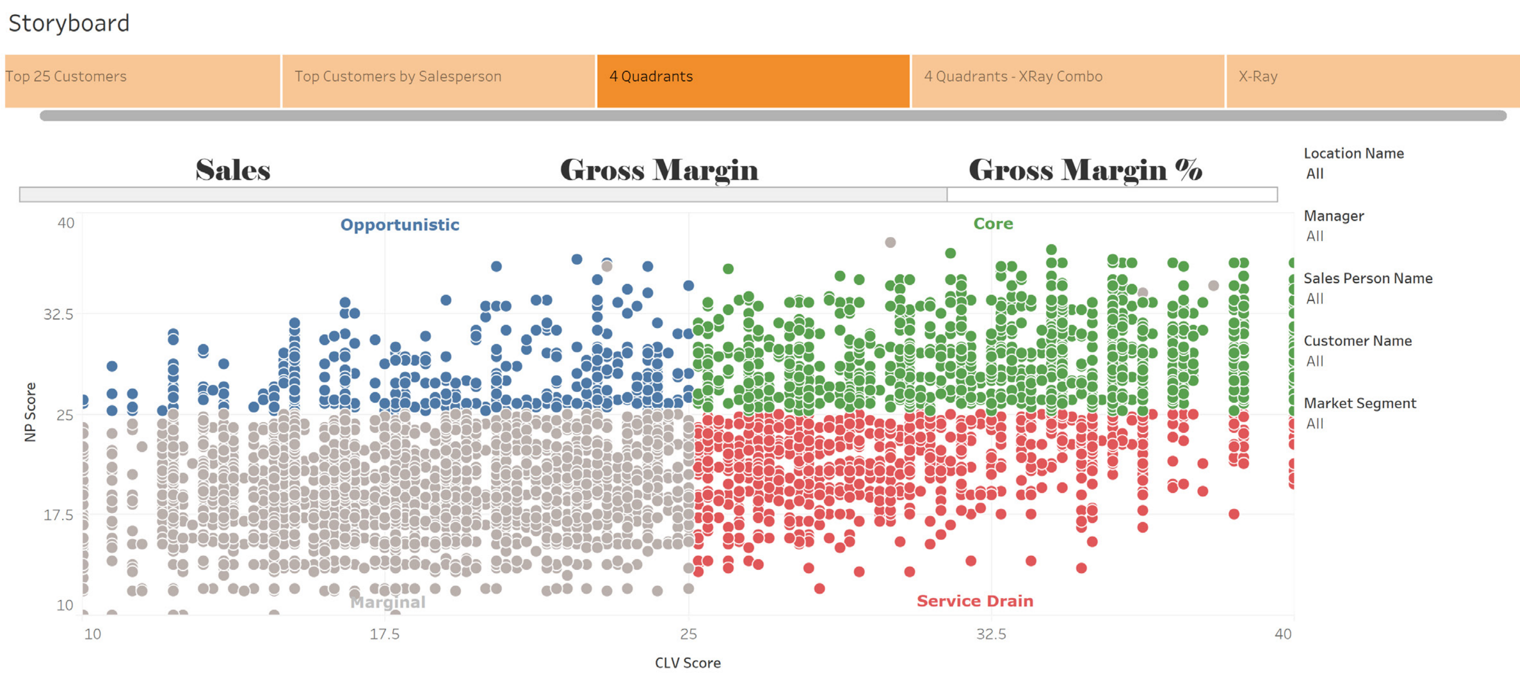
1. Customer invitation or access (becoming comfortable with virtual tools)
2. Customer interaction (connecting with customers emotionally)
3. Customer insight (leveraging customer analytics to grow revenue)
4. Customer influence (reinforcing value creation through new lenses)

An industrial distributor quickly redefined all four competencies for its sales team, across 16 branch locations, through specific retraining and coaching. In addressing customer invitation, the distributor understood that the technical maturity of its sales force ranged from low to high based on experience and tenure. So, its IT team rolled out a sales-specific training session to introduce virtual tools that would enable the sales team not only to connect with the customer but also to provide the customer the opportunity to scan or share plant information in return.

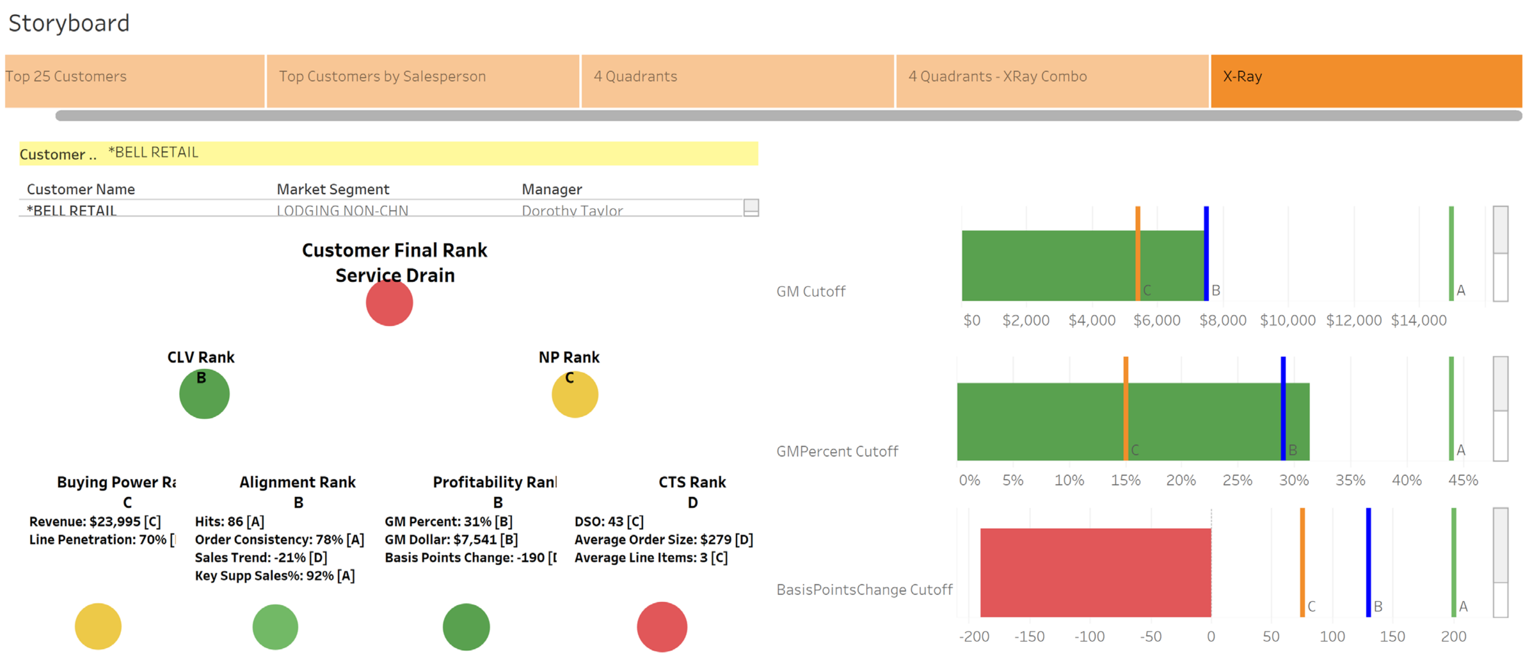
Further, the sales leaders recognized the importance of empathy in the overall customer experience. The public health crisis has increased anxiety at an individual level. To help salespeople with these customer interactions, the human resources team researched and created a quick checklist of critical items and brief videos as an aid for sales teams to recognize the role of empathy. This effort helped the sales team navigate difficult conversations using their awareness of the economic and health impact on customers' lives.

The third and fourth competencies – customer insight and influence – are related. As described in the previous section, it's paramount that the sales force leverages analytics to influence customer conversations in remote selling. The sales VP organized two virtual training sessions with the help of the sales analytics team. The first training helped sales managers understand the role of customer analytics in influencing customer calls. The second training was conducted both at the group as well as individual levels. The sessions helped salespersons understand the customer X-ray snapshot (customer performance and sales recommendations) and how to use it. Though ActVantage applied advanced analytics to develop these customer X-rays and prescriptive sales recommendations, the sales team was trained to access the information using easy-to-absorb visualizations intuitively and instantly.

The marketing team created a quick infographic documenting recent, value-added services (branch/counter/curbside pick-up, safety, signature texting, etc.) and shared it with core customers. The integrated efforts helped the sales team embrace the new model of virtual/remote selling confidently and collectively, leading to active customer influence.



Customer X-Ray: Customer-Specific Growth Opportunities



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FOLLOW THE ROADMAP TO REVENUE RECOVERY

Managing sales team transition during this public health challenge is one of the critical deciding factors for distributors as far as how well – and how quickly – they'll recover. The road to revenue recovery is uncertain, and past recessionary reactions may not suffice. Of crisis management, Peter Drucker said, "The greatest danger in times of turbulence is not turbulence itself, but to act with yesterday's logic." As an industry, we can collectively respond in many creative ways and come out stronger on the other side if we lead with courage and compassion.

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THE ROADMAP: FOUR STEPS TO REVENUE RECOVERY

Revenue Recovery Roadmap: 4 Steps	Before Crisis	Adapting to Next Normal
1. Reassure: Sales Compensation	High variable pay (commission) with low fixed pay (salary)	Change the mix of fixed-variable component
2. Renew: Sales Management	Primarily focused on performance gaps and outcomes	People-centered; Process-focused; Performance-driven;
3. Retool: Sales Tools	Customers' recent purchase history; onsite customer visits;	Customer X-ray; Prescriptive growth opportunities;
4. Retrain: Sales Training	Primarily product-focused; periodical motivational and sales training;	Customer Invitation > Interaction > Insight > Influence

Senthil Gunasekaran is co-founder and managing director of ActVantage. He is passionate about driving profitable growth through analytics. Being an engineer at heart, he brings a quantitative approach to business challenges, leading to unbiased solutions that optimize shareholder value. Having deployed best practices across hundreds of distributors over the past two decades, he believes in the critical role of people in making or breaking analytics; hence practices capability-driven approach that integrates people-process-technology-performance capitals. Contact Senthil at senthil@actvantage.com.

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HERE'S WHAT SOME OF OUR READERS HAD TO SAY:

"This study has been an invaluable tool for highlighting opportunities to improve margins. Implementing the principles in a pilot location raised gross margins by more than 3% in less than a year. It has been an eye-opening experience for those salespeople using the cost-plus method for determining sales price."

—Kevin Martin, Vice President of Operations, Pipeline Packaging

"Given the complexity of pricing, it is impossible for a salesperson to mentally juggle all the relevant elements of a pricing decision—such as customer segment information, product visibility for the branch and for the customer, historical pricing, target prices, etc. This Pricing Optimization study has gone a long way to specifying these elements and, more importantly, putting them into terms that can be quantified and managed. If you want to be profitable in a competitive market, you must understand where and when you can optimize your pricing. You can't pull your numbers from thin air. This book can help you understand the variables and the math of distribution pricing. Don't get on the phone without reading this study!"

—Lawrence Mohr, Senior Vice President (retired), F.W. Webb Company