

Managing Personal Communications: Direct and Database Marketing and Personal Selling

Although mass and digital communications provide many benefits, there are times personal communications are needed to be relevant and close a sale—or perhaps even to elect a president! Many political pundits credit savvy database marketing as a crucial factor in the reelection of U.S. President Barack Obama in 2012.¹



After database marketing proved a key to winning the presidential election in 2008, the Obama campaign team vowed to exploit it even more during his 2012 reelection campaign. By merging the main Democratic voter files with information from pollsters, fund-raisers, field workers, and customer databases, as well as social media and mobile contacts, they created one comprehensive database. Sophisticated data analytics helped raise \$1 billion and fine-tune the use of TV ads, phone calls, direct mail, door-to-door campaigning, and social media, especially in critical swing states. Much of the \$690 million raised online resulted from carefully targeted and tested e-mails. Every day, the campaign used small groups of supporters to test as many as 18 different versions of e-mails varying in subject line, amounts requested, and sender. The winning combination went to the broad base of tens of millions of supporters. Campaign analysts found that a casual tone (such as the word hey) was often effective in subject lines and that supporters seemed to never tire of the e-mails. The campaign also broke new ground with a Facebook campaign in which people who downloaded an app were sent messages with pictures of their friends in swing states and asked to click a button to automatically urge those targeted voters to register to vote or get to the polls. As a result of all these efforts, 1.25 million more 18- to 24-year-old voters supported Obama in 2012 than 2008.

Personalizing communications and saying and doing the right thing for the right person at the right time are critical for marketing effectiveness. In this chapter, we consider how companies personalize their marketing communications to have more impact. We begin by evaluating direct and database marketing, then move on to consider personal selling and the sales force.

Direct Marketing

Today, many marketers build long-term relationships with customers. They send birthday cards, information materials, or small premiums. Airlines, hotels, and other businesses adopt frequency reward programs and club programs.² **Direct marketing** is the use of consumer-direct (CD) channels to reach and deliver goods and services to customers without using marketing middlemen.

Direct marketers can use a number of channels to reach individual prospects and customers: direct mail, catalog marketing, telemarketing, interactive TV, kiosks, Web sites, and mobile devices. They often seek a measurable response, typically a customer order, through **direct-order marketing**.

Direct marketing has been a fast-growing avenue, partly in response to the high and increasing costs of reaching business markets through a sales force. Sales produced through traditional direct marketing channels (catalogs,

direct mail, and telemarketing) have been growing rapidly, along with direct-mail sales, which include sales to the consumer market, B-to-B, and fund-raising by charitable institutions. Direct marketing has been outpacing U.S. retail sales. It produced \$2.05 trillion in sales in 2012, accounting for approximately 8.7 percent of GDP.³

THE BENEFITS OF DIRECT MARKETING

Market demassification has resulted in an ever-increasing number of market niches. Consumers short of time and tired of traffic and parking headaches appreciate toll-free phone numbers, always-open Web sites, next-day delivery, and direct marketers' commitment to customer service. In addition, many chain stores have dropped slower-moving specialty items, creating an opportunity for direct marketers to promote these to interested buyers instead.

Sellers benefit from demassification as well. Direct marketers can buy a list containing the names of almost any group: left-handed people, overweight people, or millionaires. They can customize and personalize messages and build a continuous relationship with each customer. New parents will receive periodic mailings describing new clothes, toys, and other goods as their child grows.

Direct marketing can reach prospects at the moment they want a solicitation and therefore be noticed by more highly interested prospects. It lets marketers test alternate media and messages to find the most cost-effective approach. Direct marketing also makes the company's offer and strategy less visible to competitors. Finally, direct marketers can measure responses to their campaigns to decide which have been the most profitable.

Direct marketing must be integrated with other communications and channel activities.⁴ Eddie Bauer, Lands' End, and the Franklin Mint made fortunes building their brands in the direct marketing mail-order and phone-order business and then opened retail stores. They cross-promote their stores, catalogs, and Web sites, for example, by putting their Internet addresses on their shopping bags.

Successful direct marketers view a customer interaction as an opportunity to up-sell, cross-sell, or just deepen a relationship. They make sure they know enough about each customer to customize and personalize offers and messages and develop a plan for lifetime marketing to each valuable customer, based on their knowledge of life events and transitions. They also carefully orchestrate each element of their campaigns. Here is an award-winning campaign that did just that.⁵

TIP TOP ICE CREAM

New Zealand loves ice cream—the country has one of the highest per-capita consumption rates in the world. With fierce competition among brands, local brand Tip Top needed a way to maintain its leadership over its well-financed rivals. The “Feel Tip Top” campaign was a clever way to engage its customers.

A Facebook app allowed people to nominate friends and family to receive ice cream delivered personally in the company's new truck. The happy reactions of some lucky recipients were captured on film for ads and viral videos. Winner of the Direct Marketing Association's Diamond Echo Award for 2013, the campaign generated 2,000 nominations in 24 hours, rising eventually to 30,000. Sales increased 5 percent.

New Zealand's Tip Top ice cream used social media and video to connect its brand with customers to retain its market leadership.



Source: Frontera

We next consider some of the key issues that characterize different direct marketing channels.

DIRECT MAIL

Direct-mail marketing means sending an offer, announcement, reminder, or other item to an individual consumer. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, fliers, foldouts, and other “salespeople with wings.”

Direct mail is a popular medium because it permits target market selectivity, can be personalized, is flexible, and allows early testing and response measurement. Although the cost per thousand is higher than for mass media, the people reached are much better prospects. The success of direct mail, however, has also become its liability—so many marketers are sending out direct-mail pieces that mailboxes are becoming stuffed, leading some consumers to disregard the blizzard of solicitations they receive.

In constructing an effective direct-mail campaign, direct marketers must choose their objectives, target markets and prospects, offer elements, means of testing the campaign, and measures of campaign success.

OBJECTIVES Most direct marketers judge a campaign’s success by the response rate, measured in customer orders. An order-response rate for letter-sized direct mail averages 3.4 percent to an internal company list and 1.3 percent to a general public list. Although that can vary with product category, price, and the nature of the offering, it is much higher than e-mails’ average response rates of 0.12 percent and 0.03 percent, respectively.⁶ Direct mail can also produce prospect leads, strengthen customer relationships, inform and educate customers, remind customers of offers, and reinforce recent customer purchase decisions.

TARGET MARKETS AND PROSPECTS Most direct marketers apply the RFM (*recency, frequency, monetary amount*) formula to select customers according to how much time has passed since their last purchase, how many times they have purchased, and how much they have spent since becoming a customer.⁷ Suppose the company is offering a leather jacket. It might make this offer to the most attractive customers—those who made their last purchase between 30 and 60 days ago, who make three to six purchases a year, and who have spent at least \$100 since becoming customers. Points are established for varying RFM levels; the more points, the more attractive the customer.⁸

Marketers also identify prospects on the basis of age, sex, income, education, previous mail-order purchases, and occasion. College freshmen will buy laptop computers, backpacks, and compact refrigerators; newlyweds look for housing, furniture, appliances, and bank loans. Another useful variable is consumer lifestyle or “passions” such as electronics, cooking, and the outdoors.

Dun & Bradstreet provides a wealth of data for B-to-B direct marketing. Here the prospect is often not an individual but a group or committee of both decision makers and decision influencers. Each member needs to be treated differently, and the timing, frequency, nature, and format of contact must reflect the member’s status and role.

The company’s best prospects are customers who have bought its products in the past. The direct marketer can also buy lists of names from list brokers, but these lists often have problems, including name duplication, incomplete data, and obsolete addresses. Better lists include overlays of demographic and psychographic information. Direct marketers typically buy and test a sample before buying more names from the same list. They can build their own lists by advertising a promotional offer and collecting responses.

OFFER ELEMENTS The offer strategy has five elements—the *product*, the *offer*, the *medium*, the *distribution method*, and the *creative strategy*.⁹ Fortunately, all can be tested. The direct-mail marketer also must choose five components of the mailing itself: the outside envelope, sales letter, circular, reply form, and reply envelope. A common direct marketing strategy is to follow up direct mail with an e-mail.

TESTING ELEMENTS One of the great advantages of direct marketing is the ability to test, under real marketplace conditions, different elements of an offer strategy, such as products, product features, copy platform, mailer type, envelope, prices, or mailing lists. The Teaching Company mails 50 million catalogs and sends 25 million e-mails to sell educational DVDs of lectures and courses. Every element of the offer is tested. Changing the color and location of an “Add to Cart” button on its Web site (from pale green to orange and from side to bottom) increased sales almost 6 percent. Replacing an image of Michelangelo’s God’s hand with one depicting the ruins of Petra improved sales more than 20 percent.¹⁰

Response rates typically underestimate a campaign’s long-term impact. Suppose only 2 percent of the recipients who receive a direct-mail piece advertising Samsonite luggage place an order. A much larger percentage became aware of the product (direct mail has high readership), and some percentage may have formed an intention to buy

at a later date (either by mail or at a retail outlet). Some may mention Samsonite luggage to others as a result of the direct-mail piece. To better estimate a promotion's impact, some companies measure the impact of direct marketing on awareness, intention to buy, and word of mouth.

MEASURING CAMPAIGN SUCCESS: LIFETIME VALUE By adding up the planned campaign costs, the direct marketer can determine the needed break-even response rate. This rate must be net of returned merchandise and bad debts. A specific campaign may fail to break even in the short run but can still be profitable in the long run if we factor in customer lifetime value (see Chapter 5) by calculating the average customer longevity, average customer annual expenditure, and average gross margin, minus the average cost of customer acquisition and maintenance (discounted for the opportunity cost of money).¹¹

CATALOG MARKETING

In catalog marketing, companies may send full-line merchandise catalogs, specialty consumer catalogs, and business catalogs, usually in print form but also as DVDs or online. In 2010, three of the top B-to-C catalog sellers were Dell (\$52 billion), Staples (\$9.8 billion), and CDW (\$8.8 billion). Three top B-to-B catalog sellers were Thermo Fisher Scientific lab and research supplies (\$10.8 billion), Henry Schien dental, medical, and vet supplies (\$7.5 billion), and WESCO International electrical and industry maintenance supplies (\$5.0 billion).¹² Thousands of small businesses also issue specialty catalogs. Many direct marketers find combining catalogs and Web sites an effective way to sell.

Catalogs are a huge business—the Internet and catalog retailing industry includes 20,000 companies with combined annual revenue of \$350 billion.¹³ Successfully marketing a catalog business depends on managing customer lists carefully to avoid duplication or bad debts, controlling inventory, offering good-quality merchandise so returns are low, and projecting a distinctive image. Some companies add literary or information features, send swatches of materials, operate a special online or telephone hotline to answer questions, send gifts to their best customers, and donate a percentage of profits to good causes. Putting their entire catalog online also provides business marketers with better access to global consumers than ever before, saving printing and mailing costs.

TELEMARKETING

Telemarketing is the use of the telephone and call centers to attract prospects, sell to existing customers, and provide service by taking orders and answering questions. It helps companies increase revenue, reduce selling costs, and improve customer satisfaction. Companies use call centers for *inbound telemarketing*—receiving calls from customers—and *outbound telemarketing*—initiating calls to prospects and customers.

As Chapter 4 noted, because of the establishment of the National Do Not Call Registry in 2003, consumer telemarketing has lost much of its effectiveness. Business-to-business telemarketing is increasing, however.

Raleigh Bicycles used telemarketing to cut costs and drive sales.



Source: © Cultura RM/Alamy



Source: HORST OSSINGER/EPA/Newscom

TV infomercials have been used with great success to sell the George Foreman grill, backed by the former heavyweight boxing champion.

Raleigh Bicycles used telemarketing to reduce the personal selling costs of contacting its dealers. In the first year, sales force travel costs dropped 50 percent and sales in a single quarter went up 34 percent. As it improves with the use of video conferencing, telemarketing will increasingly replace, though never eliminate, more expensive field sales calls.

OTHER MEDIA FOR DIRECT-RESPONSE MARKETING

Direct marketers use all the major media. Newspapers and magazines carry ads offering books, clothing, appliances, vacations, and other goods and services that individuals can order via toll-free numbers. Radio ads present offers 24 hours a day. Some companies prepare 30- and 60-minute *infomercials* to combine the selling power of television commercials with the draw of information and entertainment. Infomercials promote products that are complicated or technologically advanced or that require a great deal of explanation. Some of the most successful are for Proactiv acne system, P90X workout DVDs, and the George Foreman grill. At-home shopping channels are dedicated to selling goods and services through a toll-free number or via the Internet for delivery within 48 hours.

PUBLIC AND ETHICAL ISSUES IN DIRECT MARKETING

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges:

- **Irritation.** Many people don't like hard-sell direct marketing solicitations. Firms have been popping up to help block unwanted junk mail.¹⁴
- **Unfairness.** Some direct marketers take advantage of impulsive or less sophisticated buyers or prey on the vulnerable, especially the elderly.
- **Deception and fraud.** Some direct marketers design mailers and write copy intended to mislead or exaggerate product size, performance claims, or the "retail price." The Federal Trade Commission receives thousands of complaints each year about fraudulent investment scams and phony charities.
- **Invasion of privacy.** It seems that almost every time consumers order products by mail or telephone, apply for a credit card, or take out a magazine subscription, their names, addresses, and purchasing behavior may be added to several company databases. As Chapters 3 and 5 discussed, critics worry that marketers may know too much about consumers' lives and that they may use this knowledge to take unfair advantage.¹⁵

People in the direct marketing industry know that, left unattended, such problems will lead to increasingly negative consumer attitudes, lower response rates, and calls for greater state and federal regulation. Most direct marketers want the same thing consumers want: honest and well-designed marketing offers targeted only to those who appreciate hearing about them.

Customer Databases and Database Marketing

To conduct direct marketing, marketers must know their customers.¹⁶ And to do that, they must collect information and store it in a database from which to conduct database marketing. A **customer database** is an organized collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable for lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships. **Database marketing** is the process of building, maintaining, and using customer databases and other databases (of products, suppliers, or resellers) to contact, transact, and build customer relationships.

Chapter 3 reviewed “Big Data” and the analysis of massive data sets. Here we consider some additional issues in building customer databases and conducting database marketing.

CUSTOMER DATABASES

Many companies confuse a customer mailing list with a customer database. A **customer mailing list** is simply a set of names, addresses, and telephone numbers. A customer electronic mailing or e-mail list may literally be just names and e-mail addresses. A customer database, however, contains much more information, accumulated through customer transactions, registration information, telephone queries, cookies, and every customer contact. Ideally, a customer database also contains the consumer’s past purchases, demographics (age, income, family members, birthdays), psychographics (activities, interests, and opinions), mediographics (preferred media), and other useful information.

A typical **business database** contains business customers’ past purchases; past volumes, prices, and profits; buyer team members’ names (and ages, birthdays, hobbies, and favorite foods); status of current contracts; the supplier’s estimated share of the customer’s business; competitive suppliers; assessment of competitive strengths and weaknesses in selling and servicing the account; and relevant customer buying practices, patterns, and policies. A Latin American unit of the Swiss pharmaceutical firm Novartis keeps data on 100,000 of Argentina’s farmers, knows their crop protection chemical purchases, groups them by value, and treats each group differently.



Source: © Elena Elisseeva/Shutterstock

In Argentina, Novartis keeps a detailed data base on its farmer customers so that it can market more effectively to them.

DATA WAREHOUSES AND DATA MINING

Savvy companies capture information every time a customer contacts any of their departments, whether via purchase, a service call, an online query, or a mail-in rebate card.¹⁷ Banks and credit card companies, telephone companies, catalog marketers, and many other companies have a great deal of information about their customers, including transaction history and enhanced data on age, family size, income, and other demographics.

These data are collected by the company’s contact center and organized into a **data warehouse** where marketers can capture, query, and analyze them to draw inferences about an individual customer’s needs and responses. Customer service reps inside the company can respond to customer inquiries based on a complete picture of the customer relationship, and customized marketing activities can be directed to individual customers. Some firms provide specialized help to support database marketing.¹⁸

DUNNHUMBY

British research firm Dunnhumby has increased the profitability of retailers and other firms by gleaning insights from their loyalty program data and credit card transactions. The firm has helped British supermarket giant Tesco manage every aspect of its business: creating new shop formats, arranging store layouts, developing private label products, and tailoring coupons and special discounts to its loyalty card shoppers. Tesco decided against dropping a poor-selling type of bread after Dunnhumby’s analysis revealed it was a “destination product” for a loyal cohort that would shop elsewhere if it disappeared. U.S. clients of Dunnhumby have included Coca-Cola, Kroger, Macy’s, and Home Depot. Based on data from

350 million people in 28 countries, Dunnhumby's insights have aided decisions about product range, availability, space planning, and new-product innovations. For a major European catalog company, Dunnhumby found that not only did shoppers with different body types prefer different clothing styles, they also shopped at different times of the year: Slimmer consumers tended to buy early in a new season, whereas larger folks tended to take fewer risks and wait until later in the season to see which styles proved popular.

Through **data mining**, marketing statisticians can extract from the mass of data useful information about individuals, trends, and segments. Data mining uses sophisticated statistical and mathematical techniques such as cluster analysis, automatic interaction detection, predictive modeling, and neural networking.

Some observers believe a proprietary database can provide a company with a significant competitive advantage.¹⁹ In general, companies can use their databases in five ways:

1. **To identify prospects**—Many companies generate sales leads by advertising their product or service and including a response feature, such as a link to a home page, a business reply card, or a toll-free phone number, and building a database from customer responses. The company sorts through the database to identify the best prospects, then contacts them by mail, e-mail, or phone to try to convert them into customers.
2. **To decide which customers should receive a particular offer**—Companies interested in selling, up-selling, and cross-selling set up criteria describing the ideal target customer for a particular offer. Then they search their customer databases for those who most closely resemble the ideal. By noting response rates, a company can improve its targeting precision. Following a sale, it can set up an automatic sequence of activities: One week later e-mail a thank-you note; five weeks later e-mail a new offer; 10 weeks later (if the customer has not responded) e-mail an offer of a special discount.
3. **To deepen customer loyalty**—Companies can build interest and enthusiasm by remembering customer preferences and sending appropriate gifts, discount coupons, and interesting reading material.
4. **To reactivate customer purchases**—Automatic mailing programs (automatic marketing) can send out birthday or anniversary cards, holiday shopping reminders, or off-season promotions. The database can help the company make attractive or timely offers.
5. **To avoid serious customer mistakes**—A major bank confessed to a number of mistakes it had made by not using its customer database well. In one case, the bank charged a customer a penalty for late payment on his mortgage, failing to note he headed a company that was a major depositor in this bank. The customer quit the bank. In a second case, two different staff members of the bank phoned the same mortgage customer offering a home equity loan at different prices. Neither knew the other had made the call. In a third case, the bank gave a premium customer only standard service in another country.



Tesco uses insights gained from a massive customer data base to help make all kinds of business and marketing decisions.

THE DOWNSIDE OF DATABASE MARKETING

Database marketing is most frequently used by business marketers and service providers that routinely collect masses of customer data, like hotels, banks, airlines, and insurance, credit card, and phone companies. Other types of companies that invest in database marketing are those that favor cross-selling and up-selling (such as GE and Amazon.com) or whose customers have highly differentiated needs and are of highly differentiated value to the company. Although packaged-goods retailers and consumer packaged-goods companies use database marketing less frequently, many (such as Kraft, Quaker Oats, Ralston Purina, and Nabisco) are building databases for certain brands.

Having covered the upside of database marketing, we also need to cover the downside. Five main problems can prevent a firm from effectively using database marketing.

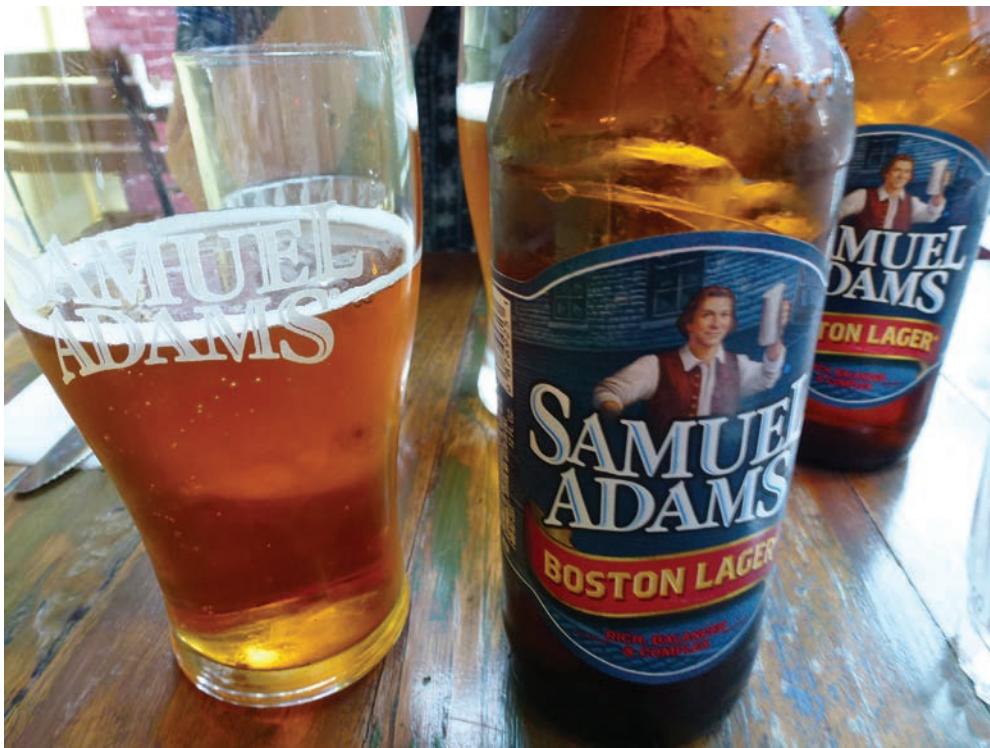
1. ***Some situations are just not conducive to database marketing.*** Building a customer database may not be worthwhile when: (1) the product is a once-in-a-lifetime purchase (a grand piano); (2) customers show little loyalty to a brand (there is a lot of customer churn); (3) the unit sale is very small (a candy bar) so customer lifetime value is low; (4) the cost of gathering information is too high; and (5) there is no direct contact between the seller and ultimate buyer.
2. ***Building and maintaining a customer database require a large investment.*** Computer hardware, database software, analytical programs, communication links, and skilled staff can be costly. It's difficult to collect the right data, especially to capture all the occasions of company interaction with individual customers. Deloitte Consulting found 70 percent of firms experienced little or no improvement from implementing customer relationship management (CRM) because the system was poorly designed, it became too expensive, users didn't make much use of it or report much benefit, and collaborators ignored it. Sometimes companies mistakenly concentrate on customer contact processes without making corresponding changes in internal structures and systems.²⁰
3. ***Employees may resist becoming customer-oriented and using the available information.*** Employees find it far easier to carry on traditional transaction marketing than to practice CRM. Effective database marketing requires managing and training employees as well as dealers and suppliers.
4. ***Not all customers want a relationship with the company.*** Some may resent knowing the company has collected that much personal information about them. Online companies should explain their privacy policies and give consumers the right not to have their information stored. European countries do not look favorably on database marketing and are protective of consumers' private information. The European Union passed a law handicapping the growth of database marketing in its 28 member countries.
5. ***The assumptions behind CRM may not always hold true.***²¹ High-volume customers often know their value to a company and can leverage it to extract premium service and/or price discounts, so it may not cost the firm less to serve them. Loyal customers may also be jealous of attention lavished on other customers. When eBay began to chase big corporate customers such as IBM, Disney, and Sears, some mom-and-pop businesses that helped build the brand felt abandoned.²² Loyal customers also may not necessarily be the best ambassadors for the brand. One study found those who scored high on behavioral loyalty and bought a lot of a company's products were less active word-of-mouth marketers than customers who scored high on attitudinal loyalty and expressed greater commitment to the firm.²³

When it works, a data warehouse yields more than it costs, but the data must be in good condition, and the discovered relationships must be valid and acceptable to consumers.

Designing the Sales Force

The original and oldest form of direct marketing is the field sales call. To locate prospects, develop them into customers, and grow the business, most industrial companies rely heavily on a professional sales force or hire manufacturers' representatives and agents. Many consumer companies such as Allstate, Amway, Avon, Mary Kay, Merrill Lynch, and Tupperware use a direct-selling force.

U.S. firms spend more than a trillion dollars annually on sales forces and sales force materials—more than on any other promotional method. In 2012, more than 10 percent of the total workforce worked full time in sales occupations, both nonprofit and for profit.²⁴ Hospitals and museums, for example, use fund-raisers to contact donors and solicit donations. In asserting that selling is the core function of every company, Boston Beer founder Jim Koch notes, "Without sales, there is no business to manage."²⁵ For many firms, sales force performance is critical.²⁶



Source: Alexandra Schuler/dpa/picture-alliance/Newscom

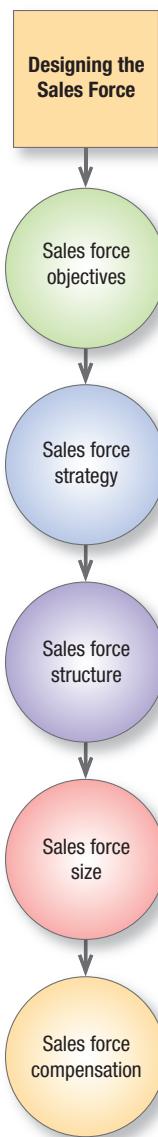
Boston Beer founder Jim Koch is a firm believer that the selling function is essential to the success of its Samuel Adams brand.

I SOBE John Bello, founder of SoBe nutritionally enhanced teas and juices, has given much credit to his sales force for the brand's successful ascent. Bello claims that the superior quality and consistent sales effort from the 150 salespeople the company had at its peak was directed toward one simple goal: "SoBe won in the street because our salespeople were there more often and in greater numbers than the competition, and they were more motivated by far." SoBe's sales force operated at every level of the distribution chain: At the distributor level, steady communication gave SoBe disproportionate focus relative to the other brands; at the trade level, most senior salespeople had strong personal relationships with retailers such as 7-Eleven, Costco, and Safeway; and at the individual store level, the SoBe team was always at work setting and restocking shelves, cutting in product, and putting up point-of-sale displays. According to Bello, bottom-line success in any entrepreneurial endeavor depends on sales execution.

Although no one debates the importance of the sales force in marketing programs, companies are sensitive to the high and rising costs of maintaining one, including salaries, commissions, bonuses, travel expenses, and benefits. Not surprisingly, companies are trying to increase sales force productivity through better selection, training, supervision, motivation, and compensation.²⁷

The term *sales representative* covers six positions, ranging from the least to the most creative types of selling:²⁸

1. **Deliverer**—A salesperson whose major task is the delivery of a product (water, fuel, oil).
2. **Order taker**—An inside order taker (standing behind the counter) or outside order taker (calling on the supermarket manager).
3. **Missionary**—A salesperson not permitted to take an order but expected rather to build goodwill or educate the actual or potential user (the medical "detailer" representing an ethical pharmaceutical house).
4. **Technician**—A salesperson with a high level of technical knowledge (the engineering salesperson who is primarily a consultant to client companies).
5. **Demand creator**—A salesperson who relies on creative methods for selling tangible products (vacuum cleaners, cleaning brushes, household products) or intangibles (insurance, advertising services, or education).
6. **Solution vendor**—A salesperson whose expertise is solving a customer's problem, often with a system of the company's products and services (for example, computer and communications systems).



Salespeople are the company's personal link to its customers. In designing the sales force, the company must develop sales force objectives, strategy, structure, size, and compensation (see Figure 22.1).

SALES FORCE OBJECTIVES AND STRATEGY

The days when all the sales force did was "sell, sell, and sell" are long gone. Sales reps need to know how to diagnose a customer's problem and propose a solution that can help improve the customer's profitability. The best salespeople even go beyond the customer's stated problems to offer fresh insights into the customer's business model and identify unrecognized needs and unstated problems.²⁹

In performing their jobs, salespeople complete one or more specific tasks:

- **Prospecting.** Searching for prospects or leads
- **Targeting.** Deciding how to allocate their time among prospects and customers
- **Communicating.** Communicating information about the company's products and services
- **Selling.** Approaching, presenting, answering questions, overcoming objections, and closing sales
- **Servicing.** Providing various services to the customers—consulting on problems, rendering technical assistance, arranging financing, expediting delivery
- **Information gathering.** Conducting market research and doing intelligence work
- **Allocating.** Deciding which customers will get scarce products during product shortages

To manage costs, most companies are choosing a *leveraged sales force* that focuses reps on selling the company's more complex and customized products to large accounts and uses inside salespeople and online ordering for low-end selling. Salespeople handle fewer accounts and are rewarded for key account growth; lead generation, proposal writing, order fulfillment, and postsale support are turned over to others. This is far different from expecting salespeople to sell to every possible account, the common weakness of geographically based sales forces.³⁰

Companies must deploy sales forces strategically so they call on the right customers at the right time in the right way, acting as "account managers" who arrange fruitful contact between people in the buying and selling organizations. Selling increasingly calls for teamwork and the support of others, such as *top management*, especially when national accounts or major sales are at stake; *technical people*, who supply information and service before, during, and after product purchase; *customer service representatives*, who provide installation, maintenance, and other services; and *office staff*, consisting of sales analysts, order expeditors, and assistants.³¹

To maintain a market focus, salespeople should know how to analyze sales data, measure market potential, gather market intelligence, and develop marketing strategies and plans. Especially at the higher levels of sales management, they need analytical marketing skills. Marketers believe sales forces are more effective in the long run if they understand and appreciate marketing as well as selling.

Too often marketing and sales are in conflict: the sales force complains marketing isn't generating enough leads, and marketers complain the sales force isn't converting them (see Figure 22.2). Improved collaboration and communication between these two can increase revenues and profits.³²

| Fig. 22.1 |

Designing a Sales Force

Sales: I need leads, but marketing never sends me any good leads. How am I supposed to get new business with no good leads?

Marketing: We deliver tons of leads, and they just sit in the system. Why won't sales call on any of them?

Sales: I have nothing new to sell. What is marketing doing? Why can't they figure out what customers want before they give it to us? Why don't they give me anything that's easy to sell?

Marketing: Why won't sales get out and sell my new programs? How do they expect customers to place orders without sales contacts?

Sales: My people spend too much time on administration and paperwork. I need them out selling.

Marketing: We need information to get new ideas. How long does it take to type in a few words? Don't they know their own customers?

Sales: How am I going to hit my number? Marketing is a waste of time. I'd rather have more sales reps.

Marketing: How am I going to hit my number? Sales won't help, and I don't have enough people to do it myself.

| Fig. 22.2 |

A Hypothetical (Dysfunctional) Sales Marketing Exchange

Source: Based on a talk by Scott Sanderude and Jeff Standish, "Work Together, Win Together: Resolving Misconceptions between Sales and Marketing," talk given at Marketing Science Institute's *Marketing, Sales, and Customers* conference, December 7, 2005.



Source: GEOFF ROBINS/AFP/Getty Images/Newscom

Ford CMO Jim Farley believes that it is highly beneficial that he is in charge of both marketing and sales.

Jim Farley, CMO at Ford, notes that “the coolest thing about my job at Ford is that I’m in charge of both marketing and sales” and maintains that it is a mistake to have separate people in charge. He sees the best salespeople at Ford as a cross between *problem solvers*, who help explain and customize all the sophisticated automobile electronics, and *concierges*, who help with all the steps in the complicated process of buying a car.³³ To improve mutual understanding, Honeywell moves marketers into sales and vice versa when appropriate, as well as getting them together for joint meetings throughout the year.³⁴

Once the company chooses its strategy, it can use a direct or a contractual sales force. A **direct (company) sales force** consists of full- or part-time paid employees who work exclusively for the company. Inside sales people conduct business from the office and receive visits from prospective buyers, and field sales people travel and visit customers. A **contractual sales force** consists of manufacturers’ reps, sales agents, and brokers who earn a commission based on sales.

SALES FORCE STRUCTURE

The sales force strategy also has implications for its structure. A company that sells one product line to one end-using industry with customers in many locations would use a territorial structure. A company that sells many products to many types of customers might need a product or market structure.

Some companies need a more complex structure and adopt some combination of four types of sales force: (1) a strategic market sales force assigned to major accounts (see below); (2) a geographic sales force calling on customers in different territories; (3) a distributor sales force calling on and coaching distributors; and (4) an inside sales force marketing and taking orders online and via phone.

Established companies need to revise their sales force structures as market and economic conditions change. SAS, seller of business intelligence software, reorganized its sales force into industry-specific groups to serve such customers as banks, brokerages, and insurers and saw revenue soar by 14 percent.³⁵ “Marketing Insight: Major Account Management” discusses a specialized form of sales force structure.

marketing insight

Major Account Management

Marketers typically single out for attention major accounts (also called key accounts, national accounts, global accounts, or house accounts). These are important customers with multiple divisions in many locations that use uniform pricing and coordinated service for all divisions. A major account manager (MAM) usually reports to the national sales manager and supervises field reps calling on customer plants within their territories. The average company manages about 75 key accounts. If a company has several such accounts, it's likely to organize a major account management division, in which the average MAM handles nine accounts.

Large accounts are often handled by a strategic account management team with cross-functional members who integrate new-product development, technical support, supply chain, marketing activities, and multiple communication channels to cover all aspects of the relationship. Procter & Gamble has a strategic account management team of 300 staffers to work with Walmart in its Bentonville, Arkansas, headquarters, with more stationed at Walmart headquarters in Europe, Asia, and Latin America. P&G has credited this relationship with saving the company billions of dollars.

Major account management is growing. As buyer concentration increases through mergers and acquisitions, fewer buyers are accounting for a larger share of sales. Many are centralizing their purchases of certain items, gaining more bargaining power. And as products become

more complex, more groups in the buyer's organization participate in the purchase process. The typical salesperson alone might not have the skill, authority, or coverage to sell effectively to the large buyer.

In selecting major accounts, companies look for those that purchase a high volume (especially of more profitable products), purchase centrally, require a high level of service in several geographic locations, may be price sensitive, and want a long-term partnership. Major account managers act as the single point of contact, develop and grow customer business, understand customer decision processes, identify added-value opportunities, provide competitive intelligence, negotiate sales, and orchestrate customer service.

Many major accounts look for added value more than a price advantage. They appreciate having a single point of dedicated contact, single billing, special warranties, EDI links, priority shipping, early information releases, customized products, and efficient maintenance, repair, and upgraded service. And there's the value of goodwill. Personal relationships with people who value the major account's business and have a vested interest in its success are compelling reasons for remaining a loyal customer.

Sources: Noel Capon, Dave Potter, and Fred Schindler, *Managing Global Accounts: Nine Critical Factors for a World-Class Program*, 2nd ed. (Bronxville, NY: Wessex Press, 2008); Peter Cheverton, *Global Account Management: A Complete Action Kit of Tools and Techniques for Managing Key Global Customers* (London, UK: Kogan Page, 2008); Malcolm McDonald and Diana Woodburn, *Key Account Management: The Definitive Guide*, 2nd ed. (Oxford, UK: Butterworth-Heinemann, 2007); Jack Neff, "Bentonville or Bust," *Advertising Age*, February 24, 2003. More information can be obtained from SAMA (Strategic Account Management Association) and the *Journal of Selling and Major Account Management*.

SALES FORCE SIZE

Sales representatives are one of the company's most productive and expensive assets. Increasing their number increases both sales and costs. Once the company establishes the number of customers it wants to reach, it can use a *workload approach* to establish sales force size. This method has five steps:

1. Group customers into size classes according to annual sales volume.
2. Establish desirable call frequencies (number of calls on an account per year) for each customer class.
3. Multiply the number of accounts in each size class by the corresponding call frequency to arrive at the total workload for the country, in sales calls per year.
4. Determine the average number of calls a sales representative can make per year.
5. Divide the total annual calls required by the average annual calls made by a sales representative to arrive at the number of sales representatives needed.

Suppose the company estimates it has 1,000 A accounts and 2,000 B accounts. A accounts require 36 calls a year, and B accounts require 12, so the company needs a sales force that can make 60,000 sales calls ($36,000 + 24,000$) a year. If the average full-time rep can make 1,000 calls a year, the company needs 60 reps.

SALES FORCE COMPENSATION

To attract top-quality reps, the company must develop an attractive compensation package. Sales reps want income regularity, extra reward for above-average performance, and fair pay for experience and longevity. Management wants control, economy, and simplicity. Some of these objectives will conflict. No wonder compensation plans vary tremendously among and even within industries.

The company must quantify four components of sales force compensation. The *fixed amount*, a salary, satisfies the need for income stability. The *variable amount*, whether commissions, bonus, or profit sharing, serves to

stimulate and reward effort.³⁶ *Expense allowances* enable sales reps to meet the costs of travel and entertaining on the company's behalf. *Benefits*, such as paid vacations, sickness or accident benefits, pensions, and health and life insurance, provide security and job satisfaction.

Fixed compensation is common in jobs with a high ratio of nonselling to selling duties and jobs where the selling task is technically complex and requires teamwork. Variable compensation works best where sales are cyclical or depend on individual initiative. Fixed and variable compensation give rise to three basic types of compensation plans—straight salary, straight commission, and combination salary and commission. One survey revealed that more than half of sales reps receive 40 percent or more of their compensation in variable pay.³⁷

Straight-salary plans provide a secure income, encourage reps to complete nonselling activities, and reduce incentive to overstock customers. For the firm, these plans deliver administrative simplicity and lower turnover. When semiconductor company Microchip dropped commissions for its sales force, sales actually increased.³⁸ Straight-commission plans attract higher performers, provide more motivation, require less supervision, and control selling costs. On the negative side, they emphasize getting the sale over building the relationship. Combination plans feature the benefits of both plans while limiting their disadvantages.

Plans that combine fixed and variable pay link the variable portion to a wide variety of strategic goals. One current trend deemphasizes sales volume in favor of gross profitability, customer satisfaction, and customer retention. Other companies reward reps partly on sales team or even company-wide performance, motivating them to work together for the common good.

Managing the Sales Force

Various policies and procedures guide the firm in recruiting, selecting, training, supervising, motivating, and evaluating sales representatives to manage its sales force (see Figure 22.3).

RECRUITING AND SELECTING REPRESENTATIVES

At the heart of any successful sales force are appropriately selected representatives. One survey revealed that the top 25 percent of the sales force brought in more than 52 percent of the sales. It's a great waste to hire the wrong people. The average annual turnover rate of sales reps for all industries is almost 20 percent. Sales force turnover leads to lost sales, the expense of finding and training replacements, and often pressure on existing salespeople to pick up the slack.³⁹

Studies have not always shown a strong relationship between sales performance on one hand and background and experience variables, current status, lifestyle, attitude, personality, and skills on the other. More effective predictors of high performance in sales are composite tests and assessment centers that simulate the working environment and assess applicants in an environment similar to the one in which they would work.⁴⁰

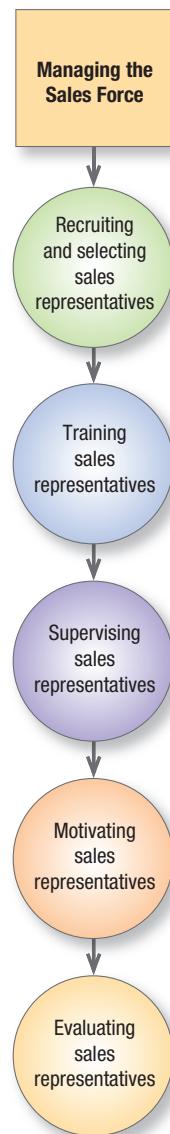
Although scores from formal tests are only one element in a set that includes personal characteristics, references, past employment history, and interviewer reactions, they have been weighted quite heavily by companies such as IBM, Prudential, and Procter & Gamble. Gillette claims tests have reduced turnover and scores have correlated well with the progress of new reps.

TRAINING AND SUPERVISING SALES REPRESENTATIVES

Today's customers expect salespeople to have deep product knowledge, add ideas to improve operations, and be efficient and reliable. These demands have required companies to make a much greater investment in sales training.

New reps may spend a few weeks to several months in training. The median training period is 28 weeks in industrial-products companies, 12 in service companies, and 4 in consumer-products companies. Training time varies with the complexity of the selling task and the type of recruit. New methods of training are continually emerging, such as the use of programmed learning, distance learning, and videos. Some firms use role playing and sensitivity or empathy training to help reps identify with customers' situations and motives.

Reps paid mostly on commission generally receive less supervision. Those who are salaried and must cover definite accounts are likely to receive substantial supervision. With multilevel selling, which Avon, Sara Lee, Virgin, and others use, independent distributors are also in charge of their own sales force selling company products. These independent contractors or reps are paid a commission not only on their own sales but also on the sales of people they recruit and train.



| Fig. 22.3 |
Managing the Sales Force



Avon was an early pioneer in multilevel selling, using women as sales reps to sell to other women.

person selling. Each contact made by an inside salesperson might cost a company \$25 to \$30 compared with \$300 to \$500 for a field staff person with travel expenses. Virtual meeting software such as WebEx, communication tools such as Skype, and social media sites such as LinkedIn, Facebook, and Twitter make it easier to sell with few if any face-to-face meetings. And inside sellers don't even need to be in the office—a growing percentage work at home.⁴⁵

The inside sales force frees outside reps to spend more time selling to major accounts, identifying and converting new major prospects, and obtaining more blanket orders and systems contracts. Inside salespeople spend more time checking inventory, following up orders, and phoning smaller accounts. They typically earn a salary or salary-plus-bonus pay.

SALES TECHNOLOGY The salesperson today has truly gone electronic. Not only is sales and inventory information transferred much more quickly, but specific computer-based decision support systems have been created for sales managers and sales representatives. Going online with a tablet or laptop, salespeople can prime themselves on backgrounds of clients, call up prewritten sales letters, transmit orders and resolve customer-service issues on the spot, and send samples, pamphlets, brochures, and other materials to clients.

One of the most valuable digital tools for the sales rep is the company Web site. It can help define the firm's relationships with individual accounts and identify those whose business warrants a personal sales call. It provides an introduction to self-identified potential customers and a way to contact the seller; it might even receive the initial order.

Social media are another valuable digital selling tool. Social networking is useful in "front end" prospecting and lead qualification as well as in "back end" relationship building and management. When one B-to-B sales rep for virtual-meetings company PGi was monitoring Twitter tweets for various keywords, he noticed that someone from a company tweeted about dissatisfaction with "web conferencing." The sales rep got in touch with the company's CEO and was able to quickly convince him of the merits of PGi's products, securing an agreement within a few hours.⁴⁶

MOTIVATING SALES REPRESENTATIVES

The majority of sales representatives require encouragement and special incentives, especially those in the field who encounter daily challenges.⁴⁷ Most marketers believe that the higher the salesperson's motivation, the greater the effort and the resulting performance, rewards, and satisfaction—all of which in turn further increase motivation.

SALES REP PRODUCTIVITY

How many calls should a company make on a particular account each year? Some research suggests today's sales reps spend too much time selling to smaller, less profitable accounts instead of focusing on larger, more profitable ones.⁴¹

NORMS FOR PROSPECT CALLS Left to their own devices, many reps will spend most of their time with current customers, who are known quantities. Reps can depend on them for some business, whereas a prospect might never deliver any. Companies therefore often specify how much time reps should spend prospecting for new accounts.⁴² Spector Freight wants its sales representatives to spend 25 percent of their time prospecting and stop after three unsuccessful calls. Some companies rely on a missionary sales force to create new interest and open new accounts.

USING SALES TIME EFFICIENTLY In the course of a day, reps plan, travel, wait, sell, and perform administrative tasks (writing reports and billing, attending sales meetings, and talking to others in the company about production, delivery, billing, and sales performance). It's no wonder face-to-face selling accounts for as little as 29 percent of total working time!⁴³ The best sales reps manage their time efficiently. *Time-and-duty analysis* and hour-by-hour breakdowns of activities help them understand how they spend their time and how they might increase their productivity.

Companies constantly try to improve sales force productivity.⁴⁴ To cut costs, reduce time demands on their outside sales force, and leverage technological innovations, many have increased the size and responsibilities of their inside sales force.

Inside selling is less expensive and growing faster than in-person selling. Each contact made by an inside salesperson might cost a company \$25 to \$30 compared with \$300 to \$500 for a field staff person with travel expenses. Virtual meeting software such as WebEx, communication tools such as Skype, and social media sites such as LinkedIn, Facebook, and Twitter make it easier to sell with few if any face-to-face meetings. And inside sellers don't even need to be in the office—a growing percentage work at home.⁴⁵

INTRINSIC VERSUS EXTRINSIC REWARDS Marketers reinforce intrinsic and extrinsic rewards of all types. One research study found the employee reward with the highest value was pay, followed by promotion, personal growth, and sense of accomplishment.⁴⁸ Least valued were liking and respect, security, and recognition. In other words, salespeople are highly motivated by pay and the chance to get ahead and satisfy their intrinsic needs, and they may be less motivated by compliments and security. Some firms use sales contests to increase sales effort.⁴⁹

Compensation plans may even need to vary depending on the type of salespersons: stars, core or solid performers, and laggards.⁵⁰ Stars benefit from no ceiling or caps on commissions, overachievement commissions for exceeding quotas, and prize structures that allow multiple winners.⁵¹ Core performers benefit from multi-tier targets that serve as stepping stones for achievement and sales contests with prizes that vary in nature and value. Laggards respond to consistent quarterly bonuses and social pressure.⁵²

SALES QUOTAS Many companies set annual sales quotas, developed from the annual marketing plan, for dollar sales, unit volume, margin, selling effort or activity, or product type. Compensation is often tied to degree of quota fulfillment. The company first prepares a sales forecast that becomes the basis for planning production, workforce size, and financial requirements. Management then establishes quotas for regions and territories, which typically add up to more than the sales forecast to encourage managers and salespeople to perform at their best. Even if they fail to make their quotas, the company nevertheless may reach its sales forecast.

Conventional wisdom says profits are maximized by sales reps focusing on the more important products and more profitable products. Reps are unlikely to achieve their quotas for established products when the company is launching several new products at the same time. The company may need to expand its sales force for new-product launches.

Setting sales quotas can create problems. If the company underestimates and the sales reps easily achieve their quotas, it has overpaid them. If it overestimates sales potential, the salespeople will find it very hard to reach their quotas and be frustrated or quit. Another downside is that quotas can drive reps to get as much business as possible—often ignoring the service side of the business. The company gains short-term results at the cost of long-term customer satisfaction. For these reasons, some companies are dropping quotas. Even hard-driving Oracle has changed its approach to sales compensation.⁵³

ORACLE Finding sales flagging and customers griping, Oracle, the second-largest software company in the world, decided to overhaul its sales department and practices. Its rapidly expanding capabilities, with diverse applications such as human resources, supply chain, and CRM, meant one rep could no longer be responsible for selling all Oracle products to certain customers. Reorganization let reps specialize in a few particular products. To tone down the sales force's reputation as overly aggressive, Oracle changed the commission structure from a range of 2 percent to 12 percent to a flat 4 percent to 6 percent and adopted guidelines on how to "play nice" with channels, independent software vendors (ISVs), resellers, integrators, and value-added resellers (VARs). Six principles instructed sales staff to identify and work with partners in accounts and respect their positions and the value they add in order to address partner feedback that Oracle should be more predictable and reliable.

EVALUATING SALES REPRESENTATIVES

We have been describing the *feed-forward* aspects of sales supervision—how management communicates what the sales reps should be doing and motivates them to do it. But good feed-forward requires good *feedback*, which means getting regular information about reps to evaluate their performance.

SOURCES OF INFORMATION The most important source of information about reps is sales reports. Additional information comes through personal observation, salesperson self-reports, customer letters and complaints, customer surveys, and conversations with other reps.

Sales reports are divided between *activity plans* and *write-ups of activity results*. The best example of the former is the salesperson's work plan, which reps submit a week or month in advance to describe intended calls and routing. This report forces sales reps to plan and schedule their activities and inform management of their whereabouts. It provides a basis for comparing their plans and accomplishments, or their ability to "plan their work and work their plan."

Many companies require representatives to develop an annual territory-marketing plan in which they outline their program for developing new accounts and increasing business from existing accounts. Sales managers study these plans, make suggestions, and use them to develop sales quotas. Sales reps write up completed activities on *call reports*. They also submit expense reports, new-business reports, lost-business reports, and reports on local business and economic conditions.

These reports provide raw data from which sales managers can extract key indicators of sales performance: (1) average number of sales calls per salesperson per day, (2) average sales call time per contact, (3) average revenue

per sales call, (4) average cost per sales call, (5) entertainment cost per sales call, (6) percentage of orders per hundred sales calls, (7) number of new customers per period, (8) number of lost customers per period, and (9) sales force cost as a percentage of total sales.

FORMAL EVALUATION The sales force's reports along with other observations supply the raw materials for evaluation. One type of evaluation compares current with past performance. An example is shown in Table 22.1.

The sales manager can learn many things about rep John Smith from this table. Total sales increased every year (line 3). This does not necessarily mean Smith is doing a better job. The product breakdown shows he has been able to push the sales of product B further than the sales of product A (lines 1 and 2), though A is more profitable for the company. Given his quotas for the two products (lines 4 and 5), Smith could be increasing product B sales at the expense of product A sales. Although he increased total sales by \$1,100 between 2013 and 2014 (line 3), gross profits on total sales actually decreased by \$580 (line 8).

Sales expense (line 9) shows a steady increase, though total expense as a percentage of total sales seems to be under control (line 10). The upward trend in total dollar expense does not seem to be explained by any increase in the number of calls (line 11), though it might be related to success in acquiring new customers (line 14). Perhaps in prospecting for new customers, this rep is neglecting present customers, as indicated by an upward trend in the annual number of lost accounts (line 15).

The last two lines show the level and trend in sales and gross profits per customer. These figures become more meaningful when compared with overall company averages. If Smith's average gross profit per customer is lower than the company's average, he could be concentrating on the wrong customers or not spending enough time with each customer. A review of annual number of calls (line 11) shows he might be making fewer annual calls than the average

TABLE 22.1 Form for Evaluating Sales Representative's Performance

Territory: Midland Sales Representative: John Smith	2011	2012	2013	2014
1. Net sales product A	\$251,300	\$253,200	\$270,000	\$263,100
2. Net sales product B	423,200	439,200	553,900	561,900
3. Net sales total	674,500	692,400	823,900	825,000
4. Percent of quota product A	95.6	92.0	88.0	84.7
5. Percent of quota product B	120.4	122.3	134.9	130.8
6. Gross profits product A	\$50,260	\$50,640	\$54,000	\$52,620
7. Gross profits product B	42,320	43,920	55,390	56,190
8. Gross profits total	92,580	94,560	109,390	108,810
9. Sales expense	\$10,200	\$11,100	\$11,600	\$13,200
10. Sales expense to total sales (%)	1.5	1.6	1.4	1.6
11. Number of calls	1,675	1,700	1,680	1,660
12. Cost per call	\$6.09	\$6.53	\$6.90	\$7.95
13. Average number of customers	320	24	328	334
14. Number of new customers	13	14	15	20
15. Number of lost customers	8	10	11	14
16. Average sales per customer	\$2,108	\$2,137	\$2,512	\$2,470
17. Average gross profit per customer	\$289	\$292	\$334	\$326

salesperson. If distances in the territory are similar to those in other territories, he might not be putting in a full work-day, might be poor at sales planning and routing, or might be spending too much time with certain accounts.

Even if effective in producing sales, the rep may not rate highly with customers. Success may come because competitors' salespeople are inferior, the rep's product is better, or new customers are always found to replace those who dislike the rep. Managers can glean customer opinions of the salesperson, product, and service by mail questionnaires or telephone calls. Sales reps can analyze the success or failure of a sales call and how they would improve the odds on subsequent calls. Their performance could be related to internal factors (effort, ability, and strategy) and/or external factors (task and luck).⁵⁴

Principles of Personal Selling

Personal selling is an ancient art. Effective salespeople today have more than instinct, however. Companies now spend hundreds of millions of dollars each year to train them in methods of analysis and customer management and to transform them from passive order takers into active order getters. Reps are taught the SPIN method to build long-term relationships by asking prospects several types of questions.⁵⁵

1. **Situation questions**—These ask about facts or explore the buyer's present situation. For example, "What system are you using to invoice your customers?"
2. **Problem questions**—These deal with problems, difficulties, and dissatisfactions the buyer is experiencing. For example, "What parts of the system create errors?"
3. **Implication questions**—These ask about the consequences or effects of a buyer's problems, difficulties, or dissatisfactions. For example, "How does this problem affect your people's productivity?"
4. **Need-payoff questions**—These ask about the value or usefulness of a proposed solution. For example, "How much would you save if our company could help you reduce errors by 80 percent?"

Most sales training programs agree on the major steps in any effective sales process. We show these steps in Figure 22.4 and discuss their application to industrial selling next.⁵⁶ Note that application of these selling practices can vary in different parts of the world. Pfizer has to sell very differently in Latin America than in North America.⁵⁷

THE SIX STEPS

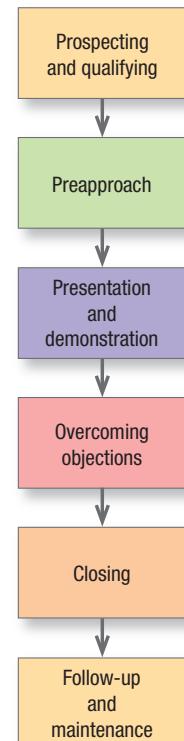
PROSPECTING AND QUALIFYING The first step in selling is to identify and qualify prospects. More companies are taking responsibility for finding and qualifying leads so salespeople can use their expensive time doing what they do best: selling. IBM qualifies leads according to the BANT acronym: Does the customer have the necessary *budget*, the *authority* to buy, a compelling *need* for the product or service, and a *timeline* for delivery that aligns with what is possible?

Marketers these days are going beyond BANT and getting increasingly sophisticated in their pursuit of qualified leads. One software firm, Infer, uses 150 different signals—including dozens of online data feeds—to rate customer leads. Using inputs as diverse as prospects' hiring practices, job boards, and sample tweets from customers and employees, the company's software classifies prospects as worth a call or offer—or not.⁵⁸

PREAPPROACH The salesperson needs to learn as much as possible about the prospect company (what it needs, who takes part in the purchase decision) and its buyers (personal characteristics and buying styles). How is the purchasing process conducted at the company? How is it structured? Many purchasing departments in larger companies have been elevated to strategic supply departments with more professional practices. Centralized purchasing may put a premium on having larger suppliers able to meet all the company's needs. At the same time, some companies are also decentralizing purchasing for smaller items such as coffeemakers, office supplies, and other inexpensive necessities.

The sales rep must thoroughly understand the purchasing process in terms of who, when, where, how, and why in order to set call objectives: to qualify the prospect, gather information, or make an immediate sale. Another task is to choose the best contact approach—a personal visit, phone call, e-mail, or letter. The right approach is crucial given that it has become harder for sales reps to get into the offices of purchasing agents, physicians, and other time-starved and Internet-enabled potential customers. Finally, the salesperson should plan an overall sales strategy for the account.

PRESENTATION AND DEMONSTRATION The salesperson tells the product "story" to the buyer, using a *features*, *advantages*, *benefits*, and *value* (FABV) approach. Features describe physical characteristics of a market offering, such as chip processing speeds or memory capacity. Advantages describe why the features give the



| Fig. 22.4 |

Major Steps
in Effective
Selling



Source: © Kumar Srinivasan/Alamy

Pharma giant Pfizer sells its drug brands differently in different parts of the world.

customer an edge. Benefits describe the economic, technical, service, and social pluses delivered. Value describes the offering's worth (often in monetary terms).

Salespeople often spend too much time on product features (a product orientation) and not enough time stressing benefits and value (a customer orientation), especially when selling individualized or premium-priced products and in highly competitive markets.⁵⁹ The pitch to a prospective client must be highly relevant, engaging, and compelling—there is always another company waiting to take that business.⁶⁰

OVERCOMING OBJECTIONS Customers typically pose objections. *Psychological resistance* includes resistance to interference, preference for established supply sources or brands, apathy, reluctance to give up something, unpleasant associations created by the sales rep, predetermined ideas, dislike of making decisions, and a neurotic attitude toward money. *Logical resistance* might be objections to the price, delivery schedule, or product or company characteristics.

To handle these objections, the salesperson maintains a positive approach, asks the buyer to clarify the objection, questions in such a way that the buyer answers his own objection, denies the validity of the objection, or turns it into a reason for buying. Although price is the most frequently negotiated issue—especially in tight economic times—others include contract completion time, quality of goods and services offered, purchase volume, product safety, and responsibility for financing, risk taking, promotion, and title.

Salespeople sometimes give in too easily when customers demand a discount. One company recognized this problem when sales revenues went up 25 percent but profit remained flat. The company decided to retrain its salespeople to “sell the price” rather than “sell through price.” Salespeople were given richer information about each customer’s sales history and behavior. They received training to recognize value-adding opportunities rather than price-cutting opportunities. As a result, the company’s sales revenues climbed and so did its margins.⁶¹

CLOSING Closing signs from the buyer include physical actions, statements or comments, and questions. Reps can ask for the order, recapitulate the points of agreement, offer to help write up the order, ask whether the buyer wants A or B, get the buyer to make minor choices such as color or size, or indicate what the buyer will lose by not placing the order now. The salesperson might offer specific inducements to close, such as an additional service, an extra quantity, or a token gift.

If the client still isn’t budging, perhaps the salesperson is not interacting with the right executive—a more senior person may have the necessary authority. The salesperson also may need to find other ways to reinforce the value of the offering and how it alleviates financial or other pressures the client faces.⁶²

FOLLOW-UP AND MAINTENANCE Follow-up and maintenance are necessary to ensure customer satisfaction and repeat business. Immediately after closing, the salesperson should cement any necessary details about delivery time, purchase terms, and other matters important to the customer. He or she should schedule a follow-up call after delivery to ensure proper installation, instruction, and servicing and to detect any problems, assure the buyer of his or her interest, and reduce any cognitive dissonance. The salesperson should develop a maintenance and growth plan for the account.

RELATIONSHIP MARKETING

The principles of personal selling and negotiation are largely transaction-oriented because their purpose is to close a specific sale. But in many cases the company seeks not an immediate sale but rather a long-term supplier-customer relationship. Today’s customers prefer suppliers who can sell and deliver a coordinated set of products and services to many locations, who can quickly solve problems in different locations, and who can work closely with customer teams to improve products and processes.⁶³

Salespeople working with key customers must do more than email or call only when they think customers might be ready to place orders. They should get in touch at other times and make useful suggestions about the business to create value. They should monitor key accounts, know customers’ problems, and be ready to serve them in a number of ways, adapting and responding to different customer needs or situations.⁶⁴

Relationship marketing is not effective in all situations. But when it is the right strategy and is properly implemented, the organization will focus as much on managing its customers as on managing its products.

Summary

1. Direct marketing is an interactive marketing system that uses one or more media to effect a measurable response or transaction at any location. Direct marketing, especially electronic marketing, is showing explosive growth.
2. Direct marketers plan campaigns by deciding on objectives, target markets and prospects, offers, and prices. Next, they test and establish measures to determine the campaign's success.
3. Major channels for direct marketing include face-to-face selling, direct mail, catalog marketing, telemarketing, interactive TV, kiosks, Web sites, and mobile devices.
4. Customer relationship management often requires building a customer database and data mining to detect trends, segments, and individual needs. A number of significant risks also exist, so marketers must proceed thoughtfully.
5. What are the pros and cons of database marketing?
6. Salespeople serve as a company's link to its customers. The sales rep is the company to many of its customers, and it is the rep who brings back to the company much-needed information about the customer.
7. Designing the sales force requires choosing objectives, strategy, structure, size, and compensation. Objectives may include prospecting, targeting, communicating, selling, servicing, information gathering, and allocating. Selecting strategy requires choosing the most effective mix of selling approaches. Structuring the sales force entails dividing territories by geography, product, or market (or some combination of these). To estimate how large the sales force needs to be, the firm estimates the total workload and how many sales hours (and hence salespeople) will be needed. Compensating reps requires identifying the types of salaries, commissions, bonuses, expense accounts, and benefits to give and how much weight customer satisfaction should have in determining total compensation.
8. There are five steps in managing the sales force: (1) recruiting and selecting sales representatives; (2) training the representatives in sales techniques and in the company's products, policies, and customer-satisfaction orientation; (3) supervising the sales force and helping reps to use their time efficiently; (4) motivating the sales force and balancing quotas, monetary rewards, and supplementary motivators; and (5) evaluating individual and group sales performance.
9. Effective salespeople are trained in methods of analysis and customer management as well as the art of sales professionalism. No single approach works best in all circumstances, but most trainers agree that selling has six steps: prospecting and qualifying customers, approach, presentation and demonstration, overcoming objections, closing, and follow-up and maintenance.

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Applications

Marketing Debate

Are Great Salespeople Born or Made?

One debate in sales is about the impact of training versus selection in developing an effective sales force. Some observers maintain the best salespeople are born that way and are effective due to their personalities and interpersonal skills developed over a lifetime. Others contend that application of leading-edge sales techniques can make virtually anyone a sales star.

Take a position: The key to developing an effective sales force is selection *versus* The key to developing an effective sales force is training.

Marketing Discussion

Role of the Salesperson

 Think about the last time you went to make a major purchase in a store. How important was the salesperson in that decision? What did he or she do that you liked or didn't like?

Marketing Excellence

>> Progressive

Progressive Corporation is among the largest providers of auto, motorcycle, boat, and RV insurance in the United States. The company was founded in 1937 and is considered one of the most innovative in the industry. From the beginning, its philosophy has been to approach auto insurance "like no other company had."

Progressive attracts new customers through its unique product offerings and services. For example, it was the first insurance company to offer a drive-thru claim service, a 24-hour claim service, and reduced rates for low-risk drivers. In 1994, it introduced comparison insurance shopping service, encouraging customers to call 800-AUTO-PRO (now 800-PROGRESSIVE) and receive a Progressive quote as well as comparison quotes from three other competitors. The company extended this service when it launched comparison rate shopping on the Internet. It was also the first insurance company to offer the Immediate Response Vehicle (IRV), a special vehicle that brought trained claims professionals to wherever customers needed them, including the scene of an accident. Today, Progressive has thousands of IRVs located across the country.

The insurance industry has changed a lot over the years as consumers have become more educated, more cost-conscious, and less likely to use an agent during the buying process. Jonathan Beamer, marketing strategy and innovation business leader at Progressive, explained the company's media strategy: "As a company, we've always had the belief that customers should be able to interact with us in their channel of choice. In the past, that was by phone, online, or through an agent. Social media is another means for customers to engage with our brand." The company has a network of 35,000 independent agents but also gives customers the opportunity to interact with it via the Internet or mobile devices. It offers consumers several options to manage their service claims as well. Policyholders can bring their damaged vehicle to a Progressive service center, or they can call Progressive for roadside assistance to take care of problems ranging from flat tires to locksmith needs.

Consumers have responded positively Progressive's marketing campaigns in recent years thanks to the company's iconic character Flo, a quirky, witty employee dressed in a white uniform and white apron bearing the company's logo. Flo commercials are often set in an imaginary insurance superstore and aimed at consumers who are considering getting a new insurance policy

or changing insurers. The company has found that using a person to represent the brand helps consumers envision the intangible act of buying and selling insurance as a tangible one. Its ads also often feature a large white-and-blue "insurance" package, again reinforcing the idea that Progressive sells something concrete rather than abstract. In every commercial, Flo goes out of her way to help customers and their businesses. She works alongside plumbers, lugs shrubbery with landscapers, and finds stranded cars and drivers in pouring rain. Flo, her packages of insurance, and the Progressive supercenters have all helped differentiate Progressive in a competitive industry.

Flo is now one of the most recognized advertising icons, and as Chief Marketing Officer Jeff Charney explained, "Flo has made us a household name." However, Progressive's marketing team is careful to keep her modern and relevant. She appears across all screens, including TV, the Internet, mobile devices, smart-phone apps, video games like Sims Social, and animated YouTube videos, and she even has her own Facebook page (along with millions of fans). The company's marketing has also won multiple awards, including *Adweek's* "Brand Genius: Marketer of the Year Award" in 2011 and an Effie award for marketing efficiency.

Progressive has experienced impressive growth over the past two decades thanks to its innovative and affordable insurance solutions and direct marketing campaigns. Between 1996 and 2005, the company grew an average of 17 percent per year, from \$3.4 billion to \$14 billion. In 2013, it wrote 17.3 billion policies and earned \$18.2 billion in revenue.

Questions

1. What has Progressive done well over the years to attract new insurance customers?
2. Discuss Progressive's direct marketing campaign, which primarily revolves around the character Flo. Why does it resonate so well with consumers?
3. What else should Progressive be doing to ensure it stays top of mind in the competitive industry of insurance?

Sources: Avi Dan, "How Progressive's CMO Jeff Charney Made 'Flo' More Loveable than Ducks and Geckos," *Forbes*, May 3, 2012; Giselle Abramovich, "How Progressive Got Its Social Flow," *CMO.com*, December 11, 2013; Stuart Elliott, "A Nomadic Insurance Pitchman, Luring New Consumers," *New York Times*, November 30, 2010; Gary Strauss, "Progressive CEO Calls Flo 'Essential' to Its Marketing Plan," *USA Today*, July 26, 2012; E. J. Schultz, "Progressive Goes Flo-less in Corporate Image Campaign," *Ad Age*, September 23, 2013; "BtoB's Best—Integrated Campaign (more than \$200,000): Progressive Commercial," *Ad Age*, October 8, 2013; E. J. Schultz, "Flo Gets More Company as Progressive Rolls Out 'The Box,'" *Ad Age*, December 5, 2012; Progressive.com; Progressive Insurance 2013 Annual Report.

Marketing Excellence

>> Victoria's Secret

Victoria's Secret is the largest retailer of lingerie in the United States. Roy Raymond founded the company in 1977 because he thought retailers offered only "racks of terry-cloth robes and ugly floral-print nylon nightgowns." In 1982, Raymond sold the company to Leslie Wexner, creator of Limited Stores Inc., for \$1 million. At the time, Victoria's Secret had expanded to four stores and a catalog business. The company wasn't profitable, but Wexner recalled its attraction: "There wasn't erotic lingerie, but there was very sexy lingerie, and I hadn't seen anything like it in the U.S." Although Wexner knew nothing about lingerie at the time, he saw an opportunity to look at the market in a new light. He explained, "Most of the women that I knew wore underwear most of the time, and most of the women that I knew I thought would rather wear lingerie most of the time, but there were no lingerie stores. I thought if we could develop price points and products that have a broader base of customer, it could be something big."

The market during the 1970s and early 1980s in fact offered women very few options for lingerie shopping. At one end, women could buy Fruit of the Loom, Hanes, or Jockey cotton underwear in three-pair packages just as men did. Department stores offered little in terms of design and style. And lacy lingerie could be found only in stores like Frederick's of Hollywood, whose products were considered provocative, not for daily wear, and often embarrassing to shop for.

Wexner took several steps to revamp Victoria's Secret. First, he realized the company should target female consumers who buy for themselves, rather than male customers who shop for their significant others. As a result, Victoria's Secret launched a range of new products in stylish colors, textiles, and patterns that made women feel sexy and glamorous in a tasteful manner. The company focused on consistency of fit, which helped create customer loyalty, and stores were reconfigured to appeal to female shoppers. Bra displays and fitting rooms were moved to the back, for instance, to provide customers with more privacy.

Next, Wexner reinforced the brand image of style and sophistication by evoking a European look and feel throughout the stores and catalogs. Catalogs bore a fake London address (the company was really headquartered in Columbus, Ohio), while storefronts resembled 19th-century England, complete with soft classical music and romantic-style details throughout. Within five years, Victoria's Secret had expanded from a handful of stores to 346 and a growing catalog business.

Victoria's Secret's catalog business is considered one of the most successful in the retail industry. When Wexner bought the company in 1982, each catalog cost a hefty \$3 to produce and distribute. Its customer database grew significantly over the next 20 years and peaked at 400 million

mailings in 1998. Today, Victoria's Secret spends approximately \$220 million a year and mails 390 million catalogs worldwide. Its catalog business has been so successful because it accomplishes several things a retail store cannot. Most importantly, catalogs allow consumers to browse and shop for lingerie in the comfort and privacy of their homes. To accommodate them, Victoria's Secret takes telephone orders 24 hours a day. Before the Internet, this was a critical key to the company's success. Catalogs also provide the opportunity to extend and test different product offerings, including bathing suits, sweaters, and dresses.

Another milestone in Victoria's Secret's marketing strategy was its shift to include supermodel fashion shows and television commercials in the 1990s. In 1999, the company's steamy 30-second Super Bowl ad resulted in millions of visits to the company's Web site. Each year, millions more tune in to watch the world's top supermodels, including Victoria's Secret Angels, strut down the runway in diamond-studded lingerie, high heels, and the company's signature angel wings. Erika Maschmeyer, an analyst at Robert W. Baird & Co., explained that the TV show "is essentially an hour-long commercial.... There are a lot of places to buy intimate apparel, but there's no other place that has such a strong brand connotation to it, and I think the fashion show is definitely a part of that."

Victoria's Secret has accomplished what no company has: It took an intimate product and made it stylish, trendy, acceptable, and accessible through innovative and pitch-perfect direct marketing. The company recently expanded with the launch of Pink, a lingerie line targeted at 15- to 22-year-old women. The hope is that Pink consumers remain loyal to the Victoria's Secret brand as they grow older.

Today, Victoria's Secret sells its products through alluring catalogs, through its Web site, and in more than 1,075 stores located primarily in shopping malls throughout the United States, Canada, and the United Kingdom. Annual sales topped \$6 billion in 2013, and the company continues to grow the business, making lingerie trendy and stylish for women of all ages.

Questions

1. Why has Victoria's Secret been so successful? How does the company reach its target audience?
2. What do you think are Victoria's Secret's biggest challenges?
3. What's next for Victoria's Secret? How does the company grow?

Sources: Carlye Adler, "How Victoria's Secret Made Lingerie Mainstream," *Newsweek*, June 9, 2010; Carlye Adler, "Victoria's Secret—The Man behind the Company That Made Lingerie Mainstream and Mall-friendly," *Newsweek*, October 15, 2012; Sapna Maheshwari, "Victoria's Secret Marketing Goes Own Way," SFgate.com, November 12, 2013; Ashley Lutz, "How Victoria's Secret Gets Way with Marketing to Teenagers," *Business Insider*, November 15, 2013; Victoria's Secret.com; 2013 Limited Brands Annual Report.

Part 8 Conducting Marketing Responsibly for Long-term Success

Chapter 23 Managing a Holistic Marketing Organization for the Long Run

DON'T BUY THIS JACKET



It's Black Friday, the day in the year retail turns from red to black and starts to make real money. But Black Friday, and the culture of consumption it reflects, puts the economy of natural systems that support all life firmly in the red. We're now using the resources of one-and-a-half planets on our one and only planet.

Because Patagonia wants to be in business for a good long time—and leave a world inhabitable for our kids—we want to do the opposite of every other business today. We ask you to buy less and to reflect before you spend a dime on this jacket or anything else.

Environmental bankruptcy, as with corporate bankruptcy, can happen very slowly, then all of a sudden. This is what we face unless we slow down, then reverse the damage. We're running short on fresh water, topsoil, fisheries, wetlands—all our planet's natural systems and resources that support business, and life, including our own.

The environmental cost of everything we make is astonishing. Consider the R2® Jacket shown, one of our best sellers. To make it required 135 liters of

COMMON THREADS INITIATIVE

REDUCE

We make useful gear that lasts a long time
YOU don't buy what you don't need

REPAIR

WE help you repair your Patagonia gear
YOU pledge to fix what's broken

REUSE

WE help find a home for Patagonia gear
you no longer need
YOU sell or pass it on*

RECYCLE

WE will take back your Patagonia gear
that is worn out
YOU pledge to keep your stuff out of
the landfill and incinerator

REIMAGINE

TOGETHER we reimagine a world where we take
only what nature can replace

water, enough to meet the daily needs (three glasses a day) of 45 people. Its journey from its origin as 60% recycled polyester to our Reno warehouse generated nearly 20 pounds of carbon dioxide, 24 times the weight of the finished product. This jacket left behind, on its way to Reno, two-thirds its weight in waste.

And this is a 60% recycled polyester jacket, knit and sewn to a high standard. It is exceptionally durable, so you won't have to replace it as often. And when it comes to the end of its useful life we'll take it back to recycle into a product of equal value. But, as is true of all the things we can make and you can buy, this jacket comes with an environmental cost higher than its price.

There is much to be done and plenty for us all to do. Don't buy what you don't need. Think twice before you buy anything. Go to patagonia.com/CommonThreads or scan the QR code below. Take the Common Threads Initiative pledge, and join us in the fifth "R," to reimagine a world where we take only what nature can replace.

patagonia
patagonia.com



TAKE THE PLEDGE

*If you sell your used Patagonia product on eBay® and take the Common Threads Initiative pledge, we will let your product on patagonia.com for no additional charge.

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In This Chapter, We Will Address the Following **Questions**

1. What are important trends in marketing practices? (p. 679)
2. What are the keys to effective internal marketing? (p. 680)
3. How can companies be socially responsible marketers? (p. 685)
4. What tools are available to help companies monitor and improve their marketing activities? (p. 697)
5. What do marketers need to do to succeed in the future? (p. 702)

Environmental concerns impacts all that outdoor clothing and equipment provider Patagonia does, leading to some fairly unconventional advertising!

Source: Patagonia, Inc.

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