

A New View of the Selling System

There are some things most distributors agree on. That today's market place is more demanding than our markets of ten or twenty years ago. That maintaining margin is more difficult. That change is occurring at a bewildering rate.

We see the changes in the marketplace — and to some degree, we react to them. But, at the same time, we cling to our traditions, even in the face of a marketplace that tells us that much of our tradition is not only obsolete, it is irrelevant.

The Facing the Forces of Change report from DREF notes that inside sales has grown to 46% of the selling forces today, compared to 39% in the previous DREF study. It also predicts that by the year 2000 more than half of all distributor salespeople will be inside. Bruce Merrifield, a widely respected distribution consultant, predicts that by the year 2000 there will be no outside salespeople; their function will be taken by technology, and we will learn to live happily on shrunken margins.

I don't know how many inside sales people or outside salespeople we will have in the year 2000 — a milestone, incidentally, that is only three years away. I disagree with Bruce. I do believe that inside sales is going to have to become a much more powerful part of the distributor's selling system, but I don't believe that the outside sales function will disappear.

But all that is really beside the point. This discussion of inside and outside sales and their relative importance to the future of distribution may be in-

teresting to us, but it's essentially irrelevant to our customers. It's an excellent example of a problem that we've had since the beginnings of independent distribution. That problem is that — no matter how much we protest that we are customer oriented or devoted to customer service — we continue to look at the marketplace from our own point of view. It is "us," our company, or distribution as a whole, against "them." The "them" may be, according to the problems or issues that we are dealing with at the moment, our customers or our vendors.

The real issue that we should be dealing with is how our companies — not the functional areas within our companies — can conform ourselves to our customers' requirements. Once we have determined that, we can deal with it with a variety of combinations of inside and outside sales, technology, and — hopefully — answers that we haven't even thought of yet.

The title of this presentation is New Directions in Sales: What the Market Is Telling Us. That's really just part of it. We're also going to deal with a method for creating a new selling system more in tune with what the market requires from us today.

I was tempted to call this "Reengineering the Distributor Selling System." What we are talking about falls very close to Michael Hammer's original definition of reengineering.

According to Hammer, "reengineering is the fundamental rethinking and radical redesign of business processes to bring about dramatic improvement in

performance." Certainly, this is about fundamental rethinking and radical redesign. And, certainly, our goal is a dramatic improvement in performance. However, there are at least three problems with ripping off Michael Hammer's concept — in addition to the obvious problem of theft.

The first is that what we are talking about, while it is similar to reengineering, is both more than what Hammer is talking about and less. It is more than reengineering because it deals not with process, but with a superset of processes that comprise the total company/customer interface.

It is less than reengineering because, in some instances, we will be automating existing tasks and in other cases accepting them just as they are. It is possible, though not at all certain, that this process might be a large step toward authentic reengineering.

The second problem is that, like many worthwhile ideas, reengineering has been misused and abused. It has become nearly synonymous with downsizing. What we are talking about now is not about downsizing so much as re-aligning.

The third problem is that Hammer's reengineering uses a specific technique. The model we'll discuss here is different.

There is, however, one important similarity. This model, like reengineering, is focused on how work is done, not on how our organization is structured.

And in distribution, our work is creating and growing customers.

In the next few minutes we will do three things:

1. Discuss where we are, how we got there and the feedback we are getting from the marketplace.
2. Consider a model for redefining our selling system, essentially building it from the ground up.
3. And discuss the consequences of such a change.

First, where we are — and how we got there. Distribution as we know it became a prominent part of the channel after the Civil War. Before that time, where there was widespread distribution of products, the intermediary was generally a factor or a commissioned agent. They sold the product, but they did not take title to it. They didn't stock it.

After the Civil War, as industry spread throughout the country, machinery design was standardized and interchangeable parts and components were developed, stocking distributors became the principal intermediary. The role of the commissioned agent declined, but distributors still shared the channel with the direct sales force. As new manufacturing firms came into the market, many were not large enough to field a direct sales force; so many of them turned to independent distributors. Customers turned to distribution for a very simple reason: we had the product, on the ground, in our community. That was our primary reason for being: we had the product.

For 130 years, that has been our primary reason for being. Having the product.

And for that same time we have used the same model for our selling system. The outside salesperson was the primary sales asset, and everything else existed in support of the outside sales-

person. That was the model we began with, and it is the one that we have perpetuated, largely, I think, because most of the people in senior management in distribution came through outside sales.

We have always been a sales-driven industry. More feet on the street was our primary means of increasing sales effectiveness.

That's where we came from. That — to a great degree — is where we are today. We are meeting the market with a selling system that was substantially in place before the invention of the telephone, the automobile, or the computer. Our attempts at change have been centered on how we might adjust our selling system, as evidenced by our discussions of the relative numbers of inside and outside salespeople.

That's where we are. Let's look for a moment at where the market is.

There are several things that we know about the marketplace, things that impact all distributors to some extent. They are:

1. That the channel is in a state of flux. It is not nearly so clear or well defined as it once was.
2. That having the product — and the attendant "value-added" services — is not a sufficient reason for being.
3. That our customers are rejecting our traditional selling system and are seeking alternatives. Those who provide the most attractive alternatives in terms of our customers' objectives win.
4. That the traditional price/service/quality model as

we have understood it for years is obsolete.

Let's begin with the macro view: the state of the channel. In 1967 Helmy Baligh and Leon Richartz conducted a study on channel equilibrium and determined that a channel in equilibrium had these three characteristics:

- Every firm performs a function.
- No firm within the structure finds it profitable to change relationships.
- No firm outside the structure finds it profitable to alter the existing relationships.

How many of these characteristics exist today? We won't debate. But we know that points two and three do not exist today. Relationships are changing, and new competitors are entering our market by phone, fax and computer, not to mention mass merchandisers who are biting off large chunks of markets in some industries. We know that our customers have more choices than they had thirty years ago, or even five years ago.

The second point: having product is not a sufficient reason for our existence. Six years ago I wrote a training program for the National Association of Electrical Distributors that provided basic distribution education and skills training for counterpeople and inside salespeople. One of the sections was on the value that distribution added to the marketplace for the customer and for the vendor — the value-added services that we provided.

These are the services that we provided to our customers: local product, technical support, timely delivery, credit, smaller quantities.

And these are the services that we provided for our vendors: a customer for quantity purchasing and shipping, technical support, local trouble shooting, and market intelligence.

These were our functions in the marketplace.

Look at the list, then think about the ten to fifteen percent of your customers who provide probably 80% of your gross profit — the 10% to 15% that pay your bills and keep you in business. How difficult would it be for them to get credit from your major vendors? How difficult for the vendors would it be to ship directly to them? How important, given the ability to share your margin between them, would things such as "market intelligence" be?

The immediate answer is that, "OK, they could handle the usual situations, but what about emergencies?" But, offered a 15% price reduction and some new rules, the customers may learn to plan better — or be willing to pay the overnight shipping charges.

It is true that our smaller customers, those below this most valuable 10% or 15% probably would not make an attractive market for our vendors. But it is also true that we cannot live on those customers alone.

As technology has improved communications, as our vendors have learned to deal profitably with smaller quantities, and as improved information flows and computerized invoicing have made credit for large companies a non-issue, much of what we considered our value to the channel has been diminished or eliminated.

The third point: that our customers are rejecting our traditional selling system and are seeking alternatives. This is

possibly the most difficult one for distributor management to accept.

One of the seminars that I do is called "New Directions in Inside Sales." Compared to what we are talking about today, it's pretty mild stuff. Essentially, in the seminar we are saying that inside sales can and should become a much more aggressive part of the distributor's selling system — up to and including becoming the primary contact on the account, leaving outside sales to perform the "hunter" function — finding and capturing new accounts. We also talk about the fact that as salespeople inside sales should be compensated on sales, some sort of commission structure.

Nothing revolutionary. Nothing that some distributors have not been doing for years.

However, it's the toughest seminar that I do. Immediately, the outside salespeople in the room begin defending outside sales as the only legitimate connection to the customer. Senior managers begin to back them up, and then when we get to compensation, senior managers dig in on the point that they won't pay inside and outside sales commission on the same sale and if sales increase the resulting increase in cost of selling dollars will bring about the collapse of the company.

None of that is true, of course. With a properly designed compensation system, selling costs as a percentage of gross margin will not go up and may — in fact — go down. I can prove it with the numbers. But what I am arguing with is a deep-seated tradition, one that we value. Unfortunately, it is not one that our customers value.

Over the last several years, our research has consistently shown that many,

if not most, of our outside salespeople are considered a waste of time by the customer and not a resource or solution provider.

Perhaps the starkest example of that was a study we did for a Midwestern distributor. One of the questions was "How often should the outside salesperson call on you?" We provided the usual tick list: once a week, twice a month, once a month, etc.

The most popular answer was "other." And the most common definition of "other" was "when I call him."

The message was simple. The customer wanted contact with the outside salesperson — or probably anybody else in the company — when it was in the customer's interest, not when it was in the company's interest, as in trying to push some product.

This is something that most of us accept intellectually. We want our salespeople to position themselves as problem-solving resources for our customers. But what we have accepted intellectually has never made it down to our inspection systems and our management tactics. We preach solutions selling, but we practice pushing products.

Our customers are demanding an obvious return on the time that they invest with any part of our company.

Which brings us to the fourth point: That the traditional price/service/quality model as we have understood it for years is obsolete.

We all understand that "quality" as it relates to the product is not so much a selling feature as a ticket of admission. We must meet the customer's quality specifications before we can get in so

that he can beat us up on price. If we redefine quality to include what we call "value-added," we actually talking about service: delivery, having the product in stock, providing accurate quotes and invoicing — our core contract with the customer.

But we have taken most of those things as far as we can go. Guaranteed fill rates. Just in time delivery. We have created parity from what once was excellent service. And when all other things are equal, price is the only question. Lower is the only acceptable answer.

For the last decade our customers have been off loading expenses onto us. Inventory. Clerical expenses. Quality control. Things that were traditionally the customer's responsibilities that have — for the sake of maintaining the customer — become our responsibilities. And they expect us to absorb these expenses while maintaining or even reducing our price.

But even if we could continue to do this, we cannot find the kind of savings that our customers are demanding in our gross margin.

The automobile industry has provided us with an excellent contrast of the traditional approach to cost savings with what I think will be the wave of the future.

The first case is General Motors when José Lopez was there. As you probably know, Mr. Lopez has since left GM. He went to Volkswagen and resigned from there when GM sued Volkswagen for stealing secrets. The newspaper accounts referred to Mr. Lopez as a "fierce cost cutter."

The part of his cost cutting program that I'm most familiar with was the

mandated 20% reduction in the price of products bought through distribution.

I had an opportunity to interview several distributors who were selling to GM plants at the time. They felt betrayed, because General Motors, as a part of its quality program, had been preaching partnership and — per Deming — value oriented purchasing. Mr. Lopez's approach was a good deal simpler: cut your price by 20%.

The distributors I talked to did not, however, refuse the business. It was a contract that they didn't want to lose. They did, however, drop the service levels as close to zero as possible. GM got the products, but very little else.

I do not believe that this approach resulted in an equal cost reduction. Many of the costs that had been absorbed by the distributors were now pushed back to GM.

I wish I could say that GM saw the folly of this approach and traded in Mr. Lopez for a more rational purchasing executive. However, when he left to go to Volkswagen, GM offered him the second most powerful job in the company, presidency of GM's North American operations, to keep him.

That, in an extreme and highly visible form, is the way our customers have traditionally seen us as improving their performance. We absorb their expenses, and we cut our costs.

The second case is, I think, the shape of things to come. The Chrysler SCORE program. This is a program Chrysler has initiated for its so-called "commodity distributors." A commodity distributor is anyone who sells Chrysler something that is not made specifically for Chrysler.

Essentially Chrysler mandates that, if you accept the contract from Chrysler, you will come up with cost saving suggestions equal to 5% of your billings to the company. They are emphatic that the 5% is not to come from a 5% reduction in your price.

Chrysler became very important to each of the distributors in the program by going through a severe vendor reduction effort. In the McGraw Glass Plant in Detroit they went from 433 commodity distributors to 11.

There are obvious advantages to both the distributor and to Chrysler in doing this. The most obvious advantage to the distributor is much more business — in some cases going from a few thousand dollars a month to more than a million dollars a year. From that comes another advantage. The company can devote more time and resources to understanding the customer, serving the customer, and building a working partnership.

The obvious advantages to the company are a much simplified purchasing system, better defined accountability, and the fact that the Chrysler employees who used these products could often deal directly with the distributor, especially in urgent situations, rather than going through purchasing.

But none of that is particularly new. It has been an argument for vendor reduction for a decade. And to a great degree those advantages are not quantifiable. It would be difficult to count these against your pledged 5% savings. The way the distributors did quantify those savings go much deeper and further than simplifying purchasing. Here are some examples.

One supplier eliminated a machining operation by revising production die casts.

Another reduced the manpower needed in receiving by shipping a stiffener and patch as an assembly rather than as separate components.

Another reduced original tooling costs by eliminating the need for a taper and crimp fixture.

Note the difference. Not only are we not just concerned with pushing a product — we've gone far beyond that — but we also are not just concerned with purchasing and receiving. While those are important, it is more important that we understand how the products that we provide impact costs all the way through the plant.

According to a Chrysler purchasing executive, "What we are doing is pursuing efficiency, quality, and affordability without eroding our suppliers' profit margins." And the result to date is more than \$2.5 billion in savings.

This is, I think, the way we will create and keep customers in the future. We will attack their cost centers, we will make their businesses more profitable and more efficient, and we will be able to quantify the results of our efforts.

But we won't be able to do that using the same selling system that we've used for the last 130 years.

I believe that the market is telling us that we need a new model for our selling system, one that does a few things very well. This new model will be:

Designed from the customer back. We will not think in terms of functional areas, but in terms of customer satisfaction.

Infinitely variable. Our new selling system will deal with each of our customers as that customer wants to be dealt with.

Aimed at making our customers' businesses more efficient and more profitable. We will attack their cost centers, and our value added with expressed in real dollars and cents.

To make a change so radical we are going to have to adopt some new attitudes and discard some long-held beliefs. In terms of the attitudes that we should embrace, I believe that these are essential:

We must rebuild our organization around our customers rather than ourselves. If something in our organization does not contribute to customer value or customer satisfaction, or position us to better provide that value or satisfaction, we should get rid of it, just as many manufacturers are removing layers of middle management because they have discovered that their contribution is actually anti-value.

Secondly, we must get ahead of our customers, leading them rather than following them. It is to be expected that the SCORE program would be initiated by a customer, rather than by one of the hundreds of distributors serving that customer. It is our tradition to react, rather than to act. Look at where we are in terms of technology. ID Magazine reported recently that about half of the respondents to its survey said that they had EDI. It's a fairly safe bet that many — perhaps most — of those implemented EDI because it was required by a large customer. If we are to be perceived as the professionals in our field, the most logical and most effective channel partner, we must provide solutions that our

customers haven't even thought about yet.

Those are some required changes. Then there are a number of long-held beliefs that we must discard:

- The first — and perhaps the most radical — is that our selling system revolves around our outside salesperson.
- The second is that our inventory must be on our floor.
- And the third is that we handle all orders and all invoicing alike — that we do things "our way." This new selling system that we must create will be consistent only in that it is infinitely flexible. Our customers have too many choices for us to believe that we can cause them to fit to our way of doing business rather than our fitting to theirs.

So much for the preamble. The market and our traditional selling system are no longer compatible. Changing will be painful, and it will require us to adopt new attitudes and discard long-held, very comfortable beliefs. But we will change. The only question is how will we affect that change.

I am going to propose a model for what has been termed creative destruction. The idea of killing one thing to create another, better version.

It is a three step process.

First, we redefine the selling system.

Second, we reduce the selling system to the task level and analyze those tasks in the light of our customers' needs and our resources.

Finally, we deal with the consequences of the decisions in the second

step, understanding that any change in our companies generates additional changes.

First, let's consider the distributor selling system. Most of us define our selling system — if we think of such a thing — as outside sales, inside sales, perhaps marketing communications and occasionally advertising and public relations.

Again, that is our point of view. Neat cubicles. Proper departments. But that's not how our customer thinks of us. The customer thinks of us in terms of how we deal with the customer's needs, how dealing with us benefits him or causes him heartburn. Everything we do bears on the customer's opinion of us, promoting loyalty, or destroying our relationship. If we define selling as creating and growing customers, then we have to include substantially more in our definition of the selling system. This provides a more realistic view of the interaction between the distributor and the customer. In this definition, the selling system consists of all those components that comprise the total distributor/customer interface. This means that not only do we consider outside sales and inside sales, but also delivery and accounts receivable, as well as any other part of our company that has direct contact with the customer.

That's step one.

The second step in reappraising our selling system is to ask certain questions without basing our answers on certain "common sense" assumptions. Our old selling definition of the selling system assumed, as I've already mentioned, that our primary sales asset was the outside salesperson, that any account of a certain size not only deserved an outside salesperson, but that it required one.

To do this, we first reduce all of the activities of these functional areas to the task level. Just what do they do? This is not because we are interested in what the functional areas do.

These are some examples, obviously not an exhaustive list. In outside sales we prospect, make maintenance sales calls, do on-site trouble shooting, make new business presentations. Inside sales takes orders, researches quotes, enters orders, checks shipping schedules. Accounts receivables prepares invoices, answers invoice queries, deals with past dues. Warehouse and shipping or delivery pulls orders, packs, orders, and receives returns. Once we get our list, we combine them without regard to functional area. Another set of assumptions that we want to discard is that any task is necessarily performed in any functional area. We may find that the task is better performed in another area. Or perhaps not at all.

Then we look at each of the tasks in terms of three questions.

The first question is, "Is this task necessary?"

Too often we do things simply because we have been doing them. I know one company that is currently going through withdrawals because they no longer use their four-part invoice. They've used it for sometime, despite the fact that there was no longer any recognizable reason for two of the parts. Accounting did not need it; the information was on the computer. Another went to the customer file, even though that was on the computer, too. They sent two copies to the customer, who probably threw one of them away on receipt. But they had used a four-part invoice for years.

An example closer to home: A few months ago I asked a client for his definition of an "A" account. His answer: an "A" account is one that the salesman called on every week. Whether the customer wanted it, needed it or not.

We may discover that the so-called routine or maintenance sales calls may be among the first tasks excluded by this question.

To be necessary, a task must meet one or more of the following qualifications.

First, does this task contribute to customer satisfaction? Not on the "We need to show the flag" level, but in terms of adding real value for the customer.

Second, does this task contribute to our effectiveness? That is, does it help us do what is necessary to meet our objectives and serve our customers?

Third, does this task contribute to our efficiency? Does it help the company do its work with a minimum of cost, effort and waste?

Now we should have a substantially shorter task list. Now, we consider each item of this list in terms of whether the task — already found necessary in terms of the first question — is being performed by the right person or in the right way. For instance, who should enter orders? The salesman in the field? The customer? The customer's computer?

Admittedly, we are moving again into functional areas. It's pure pragmatism. Although I hope that we will remove the labels for inside and outside sales and make them a single functional unit, I don't think we will ever combine sales and the warehouse.

Finally, we look at each task in terms of what changes will be required

to accommodate the relocation of this task. The changes may and probably will involve realigning tasks between inside and outside sales. They may — and probably will — involve investing in technology?

What we have at this point is a list of necessary tasks, assignments of how or where these tasks are best accomplished, and an analysis of the changes required to accommodate the relocation of the tasks. This is the beginning of our new selling system.

It is, however, only the beginning. The third step of the model remains.

Rebuilding the selling system, based on the information from the task analysis, determining what you will need to do in terms of management, training, compensation, and personnel to make it work.

In your company, everything is connected to everything else. Any change you create will — in turn — create other changes. For instance, if you determine that some or most of the tasks required for account maintenance are allocated to inside sales, you will have to deal with the impact of that change on outside sales.

Some of you may be thinking, this isn't particularly new. We're already giving inside sales greater responsibilities. We're teaching our outside sales force to deal with the customer in terms of value-added. We have already implemented EDI.

All of that is probably true. But still, for the most part, we are tinkering. We are still reactive. And we are still organized for our convenience rather than the customer's needs. What I'm suggesting here is not that we revise our century-old selling system, but that we

begin again, looking at each task that relates us to the customer without regard for what we've been doing, but with the objective of most efficiently attacking our customer's costs.

If we do that, a number of things will happen inside our companies.

First, we will see a decline of functional areas. Most of us have inside sales and outside sales that have the same cordial relationship as the Hatfields and McCoys. As we combine their efforts toward the single goal of most efficiently serving the customer — and reward them for doing it well, the distinctions between inside and outside sales and the barriers that separate them will no longer be relevant.

Second, technology will begin to do real work in our companies. We are computerized, but in most cases our computers are being used as large typewriters or very fast calculators. When we get an order in by phone or fax, it is typed into the computer by a human. The picking ticket is generated, and the order is pulled by a human. A human packs it and ships it. And at the other end a human receives it, counts it, and puts it away. Meanwhile, our snail mail invoice is posted by a human and at the other end received and entered into the customer's computer system by one of our customer's humans. Sooner or later we receive a check, opened and posted by one of our humans. For most of us, technology is simply a way to do faster the same tasks we have been doing since the beginnings of distribution.

More than a decade ago I wrote a piece for Andersen Consulting that talked about distribution technology: remote order entry, automatic warehouses, electronic invoicing and pay-

ment. It was available then. It is available now and is much more affordable.

Yet, we continue to do things substantially as we have done them for years. We acknowledge that change is happening all around us, but we meet it by tinkering with our selling system as it exists. Now is the time to admit that, as much as we love the old model, it's time for a new one. We've danced "with the one who 'brung' us" until she's exhausted.

This is a draft of a presentation made to the National Electronics Distributors Association in January, 1997 by Chuck Holmes, president of Corporate Strategies, Inc., an Atlanta, GA company specializing in helping manufacturers and distributors build their businesses.