IMPLEMENTING A NEW SELLING MIX

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Many industrial firms are adopting new selling methods such as telemarketing, national account management, and the like. Unfortunately, there are few guidelines for division managers who pioneer the use of these techniques in their firms, particularly in terms of changes in appraisal, coordination, and planning systems that accompany the adoption of new selling methods. This article details the development and implementation of new selling methods at an industrial firm, and provides guidelines to managers for using these techniques in their own firms.

New selling methods, such as telemarketing (TM), national account management (NAM), demonstration centers (DC), catalogs, and industrial stores (IS) have received a great deal of attention in the business press.[7] Telemarketing even has its own monthly magazine (*Telemarketing*) and its own trade association. With the amount of business press exposure given to different selling methods, most managers are familiar with their concepts and their advantages and disadvantages.

A potent reason for the amount of interest in

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Support for this project was provided by the University of Minnesota and the Marketing Science Institute.

these techniques is the evidence that adopting TM, NAM, and other new selling methods can improve a firm's service to all customers while reducing overall selling costs.[2] For example, if one face-to-face (FTF) sales call (averaging over $200 across a large sample of industries) can be replaced by two TM contacts (averaging $15 each), the company can save 85 percent of its selling costs.

The division was experiencing heightened demands from customers, competition, and corporate management.

Unfortunately, the new selling methods are not without risks. NAM, for instance, is usually adopted to serve a firm's largest customers. If the implementation of NAM is inappropriate, the firm can jeopardize relationships with its largest customers. TM, if relied upon as the sole selling method, can result in missed market coverage or failure to capitalize on changes in served markets.[2]

However, in a recent in-depth study of the adoption and implementation of new selling methods in divisions in over 40 firms, we found that the incidence and severity of the problems with new selling methods varied widely. Some divisions had relatively trouble-free integration of new selling methods into the existing sales force. These divisions commonly were able to call upon the accumulated experience of other divisions, which allowed them to sidestep many of the impediments to successful implementation.

Unfortunately, the benefit of others' experience is not available to managers of divisions that are the first in a company to adopt new selling methods, or to those whose selling task or goal differs from that of the pioneers in the organization. To date, these managers have been provided little information about how to implement a new selling mix,* which is an integrated, consistent combination of personal selling methods, including NAM, TM, IS, DM, and traditional face-to-face selling.[3] This lack of discussion may delude such managers into believing that the benefits of new selling methods can be enjoyed simply by adopting them. Nothing could be farther from the truth. "Unfortunately, merely adopting the new method is insufficient. The new selling mix must be combined with appropriate planning, coordination, and appraisal systems[4] to be properly implemented.

Perhaps the most effective way to demonstrate the process is to describe the experiences of a firm that adopted and implemented a new selling mix.[1] The process of doing so took three years.

Adopting a New Selling Mix

The Firm

The division studied, the largest of four divisions comprising the firm, supplies original equipment and replacement parts to other industrial firms. In 1983 several key industries suffered major slowdowns, causing the division and the firm to suffer its first loss since the 1930's. Beginning in the second half of 1983, the division began a critical look at its worldwide operations with the goal of returning to desired profitability levels.

The Current Selling Approach

In 1983 the division relied exclusively on an in-house face-to-face sales force for performing all stages of the selling process with all current and potential customers. The sales force was organized into four market groups, with a sales manager for each group. Within the groups, each salesperson was assigned responsibility for all current and potential accounts within a given geographic region. The structure of the sales force for a single market area is depicted in Exhibit 1.

Salespeople had little influence over other company functions that affected customer service. New product development, applications engineering, and technical support were in the engineering division. Distribution was controlled by manufacturing. No formal links existed between these functions and sales.

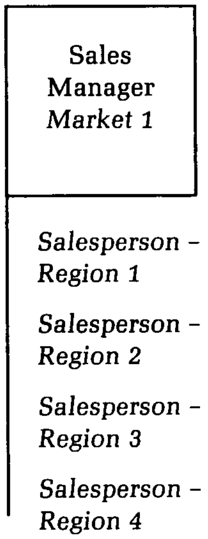
Forces Driving Adoption of a New Selling Mix

Some of the forces driving changes in the face-to-face selling approach included (1) increasing complexity of the sales task, (2) changes in the customers' buying centers, (3) increasing competition, and (4) increased attention to sales force

* With a few notable exceptions, such as Coppett, John, and William Staples, "Managing a National Account Sales Team," *Business*, April-June 1983, pp. 41-44; and Arthur Bragg, "National Account Managers," *Sales and Marketing Management*, August 16, 1982, pp. 30-34.

Exhibit 1

Salesforce Organizational Chart



efficiency by corporate management.

More complex sales task. Since products were becoming more technologically sophisticated, salespeople and technicians were required to work together closely. Moreover, customers were increasingly purchasing whole systems from a single supplier rather than assembling a system from components purchased from several vendors. As a result, salespeople had to spend more time with their customers to understand system design specifications. Buyers with increasing global sales were searching for suppliers who could provide global product availability. Buyers were also finding that their mix of sales at the dealer level was changing to products with which they had little previous experience, causing them to rely on their suppliers for training and promotional assistance.

Changing distribution of influence among members of the customers' buying centers. For many years, product performance had been the primary selling point for companies in this industry. Recently, however, performance limits had been reached. As a result, the relative influence of engineers agents within customers' buying centers was also changing, with purchasing agents assuming an increasingly important role. As a result, the division's salespeople needed not only engineering expertise, but also strong negotiating skills for bargaining with purchasing agents.

Increasing competition. The division was facing increased price competition from new entrants to the market. Existing competitors were responding aggressively to the new entrants by expanding fleet discount programs and cutting prices.

Attention from management. Corporate management was increasing pressure on the division to cut costs and increase cash flow to allow acquisitions of promising new technologies or firms. Most potential acquisitions were in product/markets served by other divisions in the firm.

In sum, the division was experiencing heightened demands from customers, competition, and corporate management. These demands could be answered only by it providing desired customer service levels as efficiently as possible. Unfortunately, the current sales force provided insufficient levels of customer service to large accounts and was too costly to be used to serve smaller accounts.

Developing a New Mix

Developing a new selling mix involved evaluating alternative selling methods, classifying customers and developing support (Exhibit 2).

For NAM to be successful, support was required from four groups: division management, salespeople, customers and corporate management.

Evaluation of alternative selling methods. Selling method analysis consisted of a comparison of several methods, including NAM, TM, geographically based FTF sales forces, and product-based FTF sales forces. These methods were compared by cost per contact and by managers' assessments of the services that could be provided by each method. For example, TM was viewed as being useful in situations where frequent contact was required to sell replacement items, while NAM was more appropriate when highly sophisticated systems were being sold.

Exhibit 2
Developing a New Selling Mix

- Evaluate alternative selling methods
  - by cost per contact
  - by ability to provide services customers desire
- Classify customers by similarity in service needs
- Develop support among
  - division management
  - salespeople
  - customers
  - corporate management

Classifying customers. Customers were grouped according to similarity in service needs, in order to ensure that they were served with the selling method that came closest to meeting their needs at the lowest cost. Customers were classified as large, mid-sized, or small.[9] Large customers had complex service needs varying from promotional assistance for dealers to global product sourcing. National account managers were assigned to each of these customers.

Mid-sized customers (between $25,000 and $250,000 in annual sales) and small (under $25,000) had less complex service needs than large customers. Important aspects of service included frequent contact and periodic information sessions on changes in product design characteristics requested by large customers.

Large customers had complex service needs varying from promotional assistance for dealers to global product sourcing.

Although the service needs of mid-sized and small customers were similar, they were not combined into a single group for the purpose of assigning a selling method. Management was concerned that if a selling method were assigned that was cost-efficient even for the smallest customer, service to mid-sized firms would decline, and a market opportunity would thereby be provided for an aggressive competitor. Conversely, if a selling method were assigned that would provide adequate service for mid-sized accounts, the costs for serving small accounts would be prohibitive. Therefore, the current face-to-face selling effort was continued for mid-sized accounts, while small accounts were served with TM.

Development of support. This involved determining the most important stakeholders in the decision to implement NAM and providing them with information that supported the selection of NAM. For NAM to be successful, support was required from four groups: division management, salespeople, customers and corporate management. These groups were major stakeholders, or groups who affected or were affected by the change in selling methods.[5]

Support from division management and salespeople was developed by involving them in the decision-making process that led to the new selling mix. Early in the process, key division managers and salespeople were provided with data comparing different selling methods. They were asked to use this information to consider how the current selling mix could be improved, and to design a new selling mix if one seemed warranted. The managers designed a selling mix calling for NAM to serve large accounts, the existing FTF sales force to serve mid-sized customers, and TM for small accounts. Since the new mix was designed by the managers responsible for implementing it, commitment to success was high.

Developing support among customers was extremely important for future sales and goodwill. Large customers accounted for over 90 percent of sales and profits in this division. Any change affecting these customers carried high risk unless carefully executed.

Large customers' support was obtained two ways: first, by disturbing existing customer-salesperson relationships as little as possible, and second, by conducting an organized information campaign to show them the benefits of NAM. The former was not difficult to accomplish, since many of the newly designated account managers had been responsible for the same customers under the previous organization. The latter involved providing customers with new reports made possible by the adoption of NAM. For example, under the previous selling mix, information on ordering patterns had been collected by market; under NAM, information was organized by customer, and so several new reports could be generated. One of these reports, targeted to purchasing agents, analyzed their company's past ordering history to show how the customer could increase its use of quantity discounts by altering ordering patterns. Customers' use of this report helped the division smooth out production schedules, reduce short production runs, and increase plant lead times.

Service to mid-sized customers was essentially unchanged under the new selling mix. Service to small customers, however, improved dramatically in frequency of contact. Some small customers had not been contacted by an FTF salesperson in more than two years. The TM group averaged at least one contact per month for even the smallest customers.

Corporate management was encouraged by the likelihood of more efficient use of marketing resources under the new structure because increasing the efficiency of marketing expenditures was a key factor in improving cash flow. Allocating the cost of sales by market had not provided sufficient depth of detail in determining what level of service would be provided to each customer. With information organized by customer, however, the cost of serving each customer could be determined, and the division could therefore adjust pricing or services provided to reflect the actual costs of serving that customer.

Operating the New Selling Mix

Management Systems Development

Coordination, appraisal, and planning systems all had to be altered to operate the new selling mix. While changes in all systems were necessary, the development of a new planning system was crucial to the success of implementation. Changing the planning system might not always play such a key role, but its importance in this case may cause managers to pay close attention to planning processes while installing new selling mixes in their own firms.

Overall, implementation within the division moved deliberately and cautiously, following the notion of allowing strategy to emerge through conversation among those responsible for carrying it out.[6] Since this was the first division in the firm to use NAM or TM, management had little experience with what changes were required in coordination, appraisal, and planning systems. To encourage discussion and experimentation with different administrative procedures, weekly meetings were held with all division managers and account personnel (national account managers, field sales managers, and TM managers.) After approximately six months, administrative policies began to emerge based on several common concerns (see Exhibit 3).

Exhibit 3

Operating a New Selling Mix

- Implement cautiously
- Alter systems
  - coordination
  - appraisal
  - planning
- Evaluate thoroughly
  - balance positive effects on systems with time requirements

Coordination Concerns

Account personnel were now responsible for all service to their assigned accounts, including coordinating support from other divisions, such as engineering and manufacturing, to provide the necessary levels of customer service. Account personnel had expressed two major concerns about coordination. The first was that account personnel had no line authority to ensure that their requests were acted upon. This concern was alleviated through training and was voiced less as account personnel gained experience in working with other divisions. Within the division, NA managers and FTF salespeople were concerned about their lack of authority over TM reps, who, in addition to their own accounts, were responsible for routine requests and orders from large and mid-sized accounts. This problem was also partially alleviated through training, although TM reps complained that their own accounts frequently suffered because of their responsibilities to large customers.

The second concern was that other divisions had separate planning procedures and their goals sometimes conflicted with the efforts of account personnel to coordinate service to their accounts. For example, one national account manager developed a long-term supply agreement with a customer that required the seller to maintain high levels of inventory. At the same time, the manufacturing division, operating under a separate planning system, adopted a goal of increasing inventory turnover threefold. The two goals were incompatible, and no formal mechanism existed for resolving the conflict.

Appraisal Concerns

Concerns over appraisal methods centered around the lack of congruence between goals and desired actions by managers. Appraisal methods were adopted that evaluated each NA manager, TM representative, or FTF salesperson on the total sales and profitability of his or her customers. Sales and profitability goals were not set by product line. As a result, salespeople had little incentive to introduce new programs or products. For example, it was easier to reach profitability goals by emphasizing current products, since new products were often initially sold at lower margins to persuade customers to switch from their current products. In the long term, however, the failure to introduce new products would have serious negative consequences for the division and the corporation as a whole.

Planning Concerns

Interestingly, even though planning procedures had not changed in response to the new selling mix, key account personnel expressed few concerns about the planning system. A survey of these personnel showed why few complained. They viewed the annual plan as an exercise designed for use at the corporate level. While they were responsible for creating the document, it was not a tool they used throughout the year to guide their dealings with specific customers. In fact, once the planning document was complete, few, if any, account managers looked at it until annual performance review time was near. At that time, they would be held accountable for the sales forecasts in the plan. Their lack of complaints reflected their resignation about performing the annual planning ritual.

Failure to use the planning process was perceived as a major problem, because proper planning procedures could alleviate the aforementioned coordination and appraisal problems. Coordination among different divisions could be facilitated if the plans provided a common platform on which goals of different divisions toward the same customer could be discussed. Appraisal methods could be improved if the plans allowed account and division managers to set goals by product area for each customer rather than an overall sales target.

New Planning Methods

Since proper planning procedures were viewed as a key to better coordination and appraisal, a new supplementary planning format was developed for use primarily within the division. Conceptually, the new format followed three steps, described in Exhibit 4: (1) Where are we? (2) Where do we want to go? and (3) How do we get there?

The planning process for TM managers and FTF sales managers differed from that of NA managers primarily in terms of the unit of analysis used for planning. NA managers constructed plans for their assigned accounts, while TM managers constructed plans by market served and FTF managers constructed plans by geographic region.

Developing support among customers was extremely important for future sales and goodwill.

The process for developing a national account manager's plan was as follows. First, the account manager determined the division's current share of the customer's purchases in each product category in terms of dollars and units. For example, if a customer purchased 1,000 units of Product Line A at a total dollar value of $50,000 in a product category from all vendors, and the division sold the customer 500 units for $10,000, the division had a 50 percent unit share and a 20 percent dollar share of the customer's purchases. Current profitabilities for each product area were also obtained.

Second, the desired market share and profitabilities for each product line were determined. Desired market share was based on subjective assessments of sales potential, as well as an environmental assessment that was prepared annually for each customer. This assessment included likely product needs, possible effects of pending government regulation, and positions of competitors. Desired customer profitability was assessed by comparing the customer's current profitability in a product area to that of other customers in the same market.

Given discrepancy between current and desired market share and profitability, the third step was to choose the appropriate goal for the customer for Product Line A. Possible goals were to maintain, divest, or increase share or profitability. Increases in share could result from developing new applications for the customer or from taking existing business from a competitor. In this case, increase was the appropriate goal for both share and profitability.

Whenever the market or profitability goal required a significant change from the current relationship, the account manager was required to prepare a brief explanatory memo. This was the third step in the planning process. Explanation memos were concise competitive marketing plans which identified relevant competitors and discussed the tactics the company used in pursuing its competitive goals within the product area. Explanation memos also listed types of support needed from other divisions to achieve desired customer share or profitability levels, along with a rough estimate of the cost of the desired support.

Estimates of incremental sales derived from step 1 and cost estimates from step 3 were used at the division level to determine which customers would receive added service. For example, if an account manager estimated that sales in a product category would increase by $50,000 with expenditures of $10,000, division management could array that request against other requests for expenditures and fund the requests with the highest profit potential.

Analysis of the New Planning Methods

Effects on Coordination

The customer-based planning method facilitated communication and coordination in four directions. First, communication between the account manager and customer was facilitated because the salesperson had a consistent, formalized plan to serve the customer. The account manager knew how much could be spent to support the customer, and in what areas tradeoffs could be made to maintain customer satisfaction while ensuring compliance with the expected growth and share goals.

Second, communication between the account manager and the division manager was facilitated. Given an initial customer plan by the account manager, the division manager was free to suggest changes based on overall awareness of the plan contents across customers. For example, if an account manager listed a new product program for a particular customer as low priority, the division manager might suggest a higher priority

Exhibit 4
Customer-Based Planning Process

Steps in Process	Information Needs	Information Source
1. Where are we?	Current share of customer's purchases by product category (in units and $); current profits by product area	Company records
2. Where do we want to go?	Desired market share and profitability goals	Salesperson and periodic environmental assessment
3. How do we get there?	List of tactics and resources required to accomplish	Explanation memos

based on the inclusion of similar programs by several other account managers. Conversely, if an account manager requested high levels of resources for a program that would benefit only his or her customer, the division manager would require strong financial projections to justify requesting those resources. Communication was also facilitated between the account manager and the applications engineers and promotional department within the division. The new planning system plans allowed those functions to set priorities for projects based on expected costs and benefits of pursuing that project.

Third, communication between different groups or divisions was facilitated. For example, one account, because of its complex organizational structure, was served by two salespeople from different divisions. Salesperson A was responsible for selling parts to be used in the manufacturing process while Salesperson B sold replacement parts. As the two salespeople were working together to create a plan for that customer, Salesperson A remarked that a certain product should be divested, since it required specialized manufacturing capabilities and the firm already produced more efficient and profitable substitutes. Unfortunately, the substitutes cost about one-half the price of the current part, so the switch would have cut his sales in that product area in half. Salesperson B responded that such a switch would increase sales of *his* products tenfold, since the substitutes required more frequent replacement. The plan was then written to incorporate a loss in sales for one salesperson and a gain for the other. Previously, no such mechanism had existed to allow coordination across divisional lines. The net benefit to the firm at the corporate level was great, ridding manufacturing of low-volume, specialized tools and improving overall account sales and profitability.

Coordination, appraisal, and planning systems all had to be altered to operate the new selling mix.

Last, customer-based plans facilitated communications between the division and corporate management. Corporate management, instead of receiving sales forecasts based on market categories glossing over important distinctions between customers, were now given specific profitability and share forecasts for each of the largest customers. As a result, variances in divisional profits or share due to a specific customer's purchasing patterns were much easier to isolate and correct.

Effects on Appraisal

Appraisal was facilitated through the development of clear share and profitability goals as well as the budget discipline imposed by the explanation memos. Since market and profitability goals were established by product type, relatively more evaluative weight could be given to capturing sales in highly competitive markets rather than rewarding account managers for business already attained. This made the reward system more equitable since much more effort was required in the former markets.

Support from division management and salespeople was developed by involving them in the decision-making process that led to the new selling mix.

In regard to the budgeting process, previously the costs of support services such as applications engineering were allocated to the division on the basis of a fixed percentage of sales. Costs were not assigned to specific projects. With the explanation memos, division management was now able to compare projected and actual budget figures, assess favorable and unfavorable variances, and reward account managers on the basis of profitability as well as sales and share.

Limitations

After two annual planning cycles, the major problem of the new planning system was the amount of time it requred from key account personnel and division management. Since the method was based on several conversations between the account representative and his or her superior, and the plan typically required several iterations, the new planning process was quite time-consuming. It must also be remembered that this planning process is in addition to, not a replacement for, the existing annual planning exercise. However, as account personnel and division management grew accustomed to the new planning method, the time to perform it decreased. The number of revisions decreased, and several account managers serving similar customers in the same market combined their planning efforts.

Variances in divisional profits or share due to a specific customer's purchasing patterns were much easier to isolate and correct.

Another limitation is that planning by customer for national account managers has the potential to become counterproductive, given the rate of change in the structure of the industries served. For example, mergers and buyouts reduced the number of customers in one industry from twelve to five. Spending a great deal of time developing plans for customers who will be out of business before the end of the planning period may not be the best possible use of management time. This problem, of course, was much less important to FTF and TM managers, because their plans were based on geographic regions or entire markets rather than on specific customers.

Conclusion

Although customer-based planning was useful in this instance, it is not necessarily a panacea for all implementation difficulties. For firms with centralized sales forces and support functions, many of the described mechanisms for coordination already exist. Such firms may be able to benefit, however, from the suggestion that new selling methods should be introduced gradually, with using a single geographic region or a particular group of customers used as a test. Doing this would allow necessary changes in planning, coordination, and appraisal procedures to be recognized early, before serious adverse consequences arose.

An interesting concluding note is that the easiest organization into which to introduce NAM is one with a single sales force organized by industry.[8] Since the division studied had this type of sales force structure, the development of management systems described herein most likely underestimates the difficulty of proper implementation of NAM.

End Notes

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