Sales Force Design
Assessing Stark Choices and Getting It Right
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The structure and productivity of sales forces have turned into major concerns for many C-level executives amid the pressures of slower economic growth, changing customer requirements, and rising competition.

Getting the sales structure right can have a huge impact on the future success of a company and mean billions in additional revenues, increased customer satisfaction, and significantly improved profits. Getting the sales structure wrong can have an equally big negative impact.

Given the stakes, a sales force redesign needs to be done carefully. Every sales force redesign needs to address two fundamental questions: How many sales forces are needed? And what is the optimal reporting structure? It also needs to be executed flawlessly. The risks are real, and success hinges on the support of senior management, the right enablers, and a phased, well-conceived rollout plan.
Sales force organization structures tend to be left alone during stable economic times, when companies are doing well. They are more apt to come under scrutiny when times aren’t as good, or when a company is facing significant change. At present, in many companies, there is increasing scrutiny of how sales forces are designed and a willingness to consider changing the sales function in ways that will better serve customers and drive improved financial results. This is especially true at companies that continue to suffer revenue declines associated with the recession, that are struggling to return to previous levels of profitability, or that face disruptive market changes.

An interplay of factors typically drives a company to a sales force redesign. Given the inherent risks, most companies will only do it as a response to one or more of several reasons.

The first is slowing growth. Whether the cause is a lagging economy or declining demand for the seller’s core products, a slowdown or decline in revenue will often prompt companies to take a fresh look at the design of their sales forces. In these situations senior management may feel it cannot afford to maintain separate sales forces, or that it needs to split up its existing sales force to get more market focus.

Declines in profitability in different product segments can also prompt companies to rethink their sales force designs. For instance, a company may determine that it can raise its overall profitability by doing a consolidation that lets its representatives sell a broader portfolio of its products. Or it may decide it can use lower-cost channels (such as telesales or the Web) to sell products that are inexpensive and don’t require customer hand-holding.

Changes in the product and customer portfolio, whether a streamlining of the existing portfolio, an expansion into an adjacent product or service segment, or a move into a new geography, can also prompt a move toward a new sales force design. So can a company’s decision to pursue new customers or to pursue a given customer segment in a more dedicated fashion. Many technology companies, for instance, have increased their focus on specific industry verticals and the government, and often deploy specialists or dedicated selling organizations to serve these segments.

Finally, customer input often gets companies to rethink the design of their sales forces. It is not uncommon for a customer to impose some requirements—such as a single point of contact to manage the relationship—on its vendors as a condition of doing business. If the customer is important enough, not only does the selling company usually make the accommodation, but it may also see the change as an opportunity to redesign its sales force in more fundamental ways.

Usually, a seller that decides to redesign its sales force will be responding to more than one of the above factors at the same time. This increases the complexity of the transformation.

These issues have cropped up in many industries in recent years, causing more and more companies to embark on sales force redesigns. In these redesigns, some companies have decided to integrate multiple sales force organizations under a single global sales function to simplify the customer interface and to improve coordination and efficiency. Other companies have decided to “de-integrate” their sales structure by creating separate sales forces, often embedded in individual business units, to achieve greater customer or product focus.

Getting the sales structure right or wrong can have a huge impact on the future success of a company and mean billions of additional (or missed) revenues, increased (or reduced) customer satisfaction, and significantly improved (or reduced) profits. For instance, one midsized technology solutions provider identified an opportunity to increase revenues from its 100 largest accounts by 60 percent by forming a dedicated sales organization to focus on that segment.
Companies that want to rethink their sales force structure need to address two critical questions: How many sales forces do we need? And to what extent should our sales forces be embedded in individual business units, rather than integrated as part of a centralized sales function (see Exhibit 1). Answering these two questions correctly is complex and critically important, given the inherent risk in a sales force redesign, the time and expense involved, and the likelihood of having to overcome some internal resistance. Fortunately, there is a way of rethinking sales force design that is highly structured. As such, it can help in formulating a redesign strategy and implementing the change.

This Perspective lays out the factors to be considered in addressing the two fundamental sales force questions—how many sales forces a company needs and what the reporting structure should be—and introduces some principles for making changes.

Exhibit 1
Critical Questions in a Sales Force Redesign

1. Factors Impacting the Number of Sales Forces Needed

   - Product/Service Diversity
   - Customer Requirements
   - Complexity of the Selling Process

2. Factors Impacting the Reporting Structure

   - Decentralized Sales Function
   - Centralized Sales Function
   - Scale/Efficiency Considerations
   - Level of Collaboration/Coordination

Source: Booz & Company
HOW MANY SALES FORCES DO YOU NEED?

Answering the first question—How many sales forces are needed?—entails first completing a customer segmentation. This could be simple—small and medium-sized business customers versus Fortune 1,000 accounts, for example—or it could involve much more sophisticated clustering. For instance, a company could segment its customers by industry, revenue and growth potential, customer needs or purchasing behaviors, and other factors.

The next step is to determine which channels—direct or indirect—will work best for various customer segments. Many companies mix and match their channel strategies. For instance, a company may have a direct field sales force for a particular product and customer segment in North America, but sell the same product through an indirect partner in a developing country like India.

Three factors in particular will determine the optimal mix of channel strategies and the optimal number of sales forces: the diversity and complexity of the product portfolio; customer requirements; and the complexity of the company’s selling process.

**Product/Service Diversity**
Companies with complex or technical products may need a specialized sales force for each category. Examples can be found in many industries. For instance, Roche Diagnostics, a medical products provider, sells technical products in several distinct product categories, including diabetes care, cardiovascular testing equipment, and urinalysis systems. The product categories are aimed at different customers—clinics, hospitals, physicians, and consumers. These products are too specialized to be handled through a single sales force.

Broad-based technology companies such as IBM face a similar challenge. That’s why those who sell personal technology products to retailers typically differ from those who sell data center computers to enterprises, or who sell business software to those same enterprises.

However, if the company also sells integrated business solutions, and bundles together several of its products to do so, this activity trumps the specialization requirement and is often handled by an integrated sales force. The same is true of all sales efforts that are oriented around solutions instead of “point products”—whatever the industry, it is generally more effective to sell solutions through a single sales force than to have different salespeople selling the solution piecemeal.

In contrast, a company with a simple and relatively unified portfolio can get away with maintaining fewer sales forces. Cosmetics company Avon is a good example. It has a single sales force—3.5 million salespeople—all selling the same products. This is possible because the Avon portfolio, which includes fragrances, skin care creams, beauty accessories, and the like, is simple (if extremely broad), has a clear target audience, and can be understood by any salesperson.

**Customer Requirements**
One food and beverage company relies on a separate sales force structure for each of two large but very different customers. At Sam’s Club, it has established a sales team within the Walmart unit’s headquarters, since

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all purchasing takes place centrally from that location. With Costco, on the other hand, the food and beverage company has established eight regional account teams located near the regional offices that do Costco’s buying. This sort of flexible sales strategy isn’t uncommon, especially to accommodate major customers.

 Properly aligning and rationalizing sales forces is equally important when viewed from the perspective of the buyer. One company was sending four different sales managers, representing four separate product lines, to visit a customer’s chief operating officer. This isn’t a unique situation; mergers, acquisitions, and expansion into adjacent product segments have resulted in overlapping market or customer approaches for many multi-line companies (see Exhibit 2). However, when these circumstances lead to irritation for customers, smart companies respond quickly, putting in a layer of coordination to improve the buyer’s experience and the overall relationship with the customer.

 Complexity of the Selling Process

 It may make sense to maintain multiple sales forces in cases where the selling processes differ dramatically by product segment. For instance, selling a simple product may involve fewer customer interactions, contributions from fewer stakeholders within the vendor organization, and shorter selling cycles than complex products or solutions.

 Occasionally, companies may find common sales processes across business units for its large customers, but big differences in how the business units approach their small and medium-sized business (SMB) customers. In these cases, it may make sense to form a separate enterprise sales group to focus on the top (typically 50 to 100) accounts, and let the product or business units decide how to sell to smaller customers. This is especially effective in situations where the key accounts drive most of the company’s growth, and where senior management wants to shower attention on these customers and work with them in an integrated manner. One model that often works is to appoint a generalist (or client executive) to own the client relationship and bring in sales specialists as needed to address technical questions or fulfill other needs for the client. Not only does this let the company do more up- and cross-selling, but it also uses resources more efficiently and can lower the cost of sales.

### Exhibit 2

Points of Contact for One Multi-Line Company

<table>
<thead>
<tr>
<th>Customer Relationship Needs for Various Product/Service Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product/Service 1</strong></td>
</tr>
<tr>
<td>COO/EVP Operations</td>
</tr>
<tr>
<td>CFO/Billing Group</td>
</tr>
<tr>
<td>CMO/VP Marketing (Advertising/Brand Mgmt)</td>
</tr>
<tr>
<td>CIQ/CTO/IT Strategy</td>
</tr>
<tr>
<td>Business Unit/Function Leads</td>
</tr>
<tr>
<td>Procurement Lead</td>
</tr>
<tr>
<td>Facilities Lead</td>
</tr>
<tr>
<td>Business Development</td>
</tr>
<tr>
<td>Legal/Compliance</td>
</tr>
<tr>
<td>Program Managers</td>
</tr>
</tbody>
</table>

Source: Booz & Company
Once the optimal number of sales forces has been determined, companies can turn their attention to the equally important question of the reporting structure for each.

Trying to answer this second question before, or in parallel with, the first question is rife with danger because it increases the risk of taking action for the wrong reasons. For instance, the often-held conviction that “we are a global company” might lead an organization to conclude that it should have a globally run sales force. But if customer attitudes and behaviors in China are different from those in the U.S., a global sales force may make no sense whatsoever. Companies should start with what drives sales on a day-to-day basis, and then design the sales force accordingly.

There are two theoretical extremes (see Exhibit 3). One is to leave individual sales forces embedded in business units. The other is to have all sales forces report to a global head of sales.
EXECUTING A NEW SALES FORCE STRUCTURE

A successful sales force redesign requires careful planning, a realistic time frame for completing the transformation, and adequate preparation for those affected. Each redesign is different, but three important principles can help ensure success.

Build the case for change and ensure top management support. The reason for the redesign could be external (e.g., a declining market for a product or service) or internal (e.g., capturing an opportunity for synergy with other business units). Whatever the impetus, it should be explicitly articulated—and supported by whatever internal and industry data is available. After all, any departamental restructuring is going to face resistance, especially from those whose positions may be threatened; sales force redesigns are no exception. People are generally quite vocal about their emotional and cultural objections. To keep those views from drowning out the underlying motivations for the change, it is vital to have buy-in from senior managers, including, if possible, the CEO.

Implement mechanisms to support the transformation. When planning for and implementing a sales force redesign, it’s important to incorporate mechanisms that support the desired outcomes—and that kick in at the same time as the changes. Examples of such mechanisms include a set of quotas and incentives that support a move to the new sales structure, a change in where the P&L ownership resides or in how and when revenue is recognized, or new pricing guidelines (if the goal is to move from product-based sales to selling solutions, for example). A communications plan that clearly articulates the rationale for the changes to employees, customers, and suppliers is essential, especially in situations involving new leadership or staff reductions.

Companies that opt to consolidate sales forces should use the opportunity to streamline processes that have become outmoded or inefficient, and then standardize on the new, improved processes. Areas to scrutinize for improvement opportunities include technology platforms and services provided by other functions in the firm. Training on these new ways of operating—for the sales force and back-office personnel—is critical to increasing acceptance and ensuring consistency.
A Cautionary Tale of Sales Force Redesign

In the late 1990s, Xerox switched to a bifurcated strategy, focusing separately on large and small customers. As part of this switch, Xerox reorganized its sales force twice in 1999. The company was already facing intense competitive pressure from Japanese office equipment companies, but Xerox’s poorly executed reorganization didn’t help. To start, the change team set the new sales force structure largely behind closed doors, minimally involving the sales team in the design and implementation plan. It also dictated changes in account relationships that caused some frustrated customers to flee to other vendors. Finally, it flipped the switch on the new design virtually overnight—without a well-defined transition plan.

The results were abysmal. In October 2000, Xerox reported a third-quarter loss of $167 million—its first quarterly loss in 16 years—and initiated the first of a string of restructuring programs aimed at slashing $1 billion in annual operating expenses. While multiple reasons explain the declining performance at that time, the poorly executed sales force transformation was a key contributor.

HP and IBM: Contrasting Sales Force Designs

Hewlett-Packard and IBM are two very successful companies in the high-tech industry, ranking first and second by revenue. They have similar offerings—a combination of hardware, software, and services. However, they have designed their sales forces in very different ways.

After a series of transformations in the 1990s, IBM has moved to a more integrated approach by establishing a global sales function in which sales forces ultimately report to a global head of sales and distribution. For large and mid-sized accounts, salespeople with generalist skills who own the overall customer relationship bring in specialists to help with specific products during the selling cycle.

While HP had been pursuing this same path, in more recent years it has moved to a structure of separate sales forces, each handling a different product or service area. Mark Hurd, HP’s CEO until mid-2010, felt this structure made more sense for a company of HP’s size (US$114 billion as of its most recent fiscal year) and would increase accountability. The move to a decentralized structure inevitably introduced some inefficiencies, but HP found other cost-cutting measures to make up for them.

CONCLUSION

Most companies have gone through major changes in the last few years as the result of acquisition, divestiture, or cost-related restructuring. These events often create problems within sales forces, so it’s imperative to isolate and scrutinize the sales function in their wake.

Two key questions must be asked: How many sales forces are needed? And what is the optimal reporting structure—centralized or embedded in individual business units? Asking these questions helps in striking the best balance between focus—mastery of a single product area—and efficiency.

There is often no obvious answer—and no easy route to redesigning a sales force. However, the challenges of doing a sales force redesign shouldn’t cause companies to pull up short if an analysis reveals it makes sense. In that case, move ahead and capture the higher revenue and efficiency and improved customer relationships that are the rewards of getting the sales design right.
Key Highlights

- Declining revenues and profits, changes in product portfolios, and other factors are prompting more and more companies to look at the design of their sales forces.

- Companies often have different forces selling different product lines. Determining whether this makes sense is the first step in a redesign assessment.

- The structure of the sales force—whether it should be embedded in individual business units or centralized—is the second step in a redesign assessment.

- Sales force redesigns are fraught with risk, but managers can reduce that risk by communicating, by laying out incentives, and by implementing the redesign in phases, rather than trying to do it overnight.

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