

Warne's Marketing

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The New Sales Paradigm

Frequent face-to-face sales contact is not essential to maintain good customer relations. A program of contact by phone, fax, e-mail and direct mail, can replace many personal sales calls.

MORE CUSTOMERS TODAY PREFER direct access to an inside sales person, rather than seeing a field sales representative. As the chart shows, face-to-face sales contact declined from #1 preference in 1970 to #8 in 1990. This drastic change is not surprising considering downsizing, EDI, designated suppliers, and the emphasis on productivity and lower costs. Buyers today are looking for solutions. They have less time than ever to spend with sales people.

Face-to-face contact still has "unique roles in the overall sales process, such as inventory management, training, product demonstrations, and on-site audits of activities."⁽¹⁾ But think about this: a confidential study conducted by a 2.2 billion \$U.S. company, found that five days after being contacted, 50% of their customers couldn't recall whether the contact was face-to-face or by phone. For this company, a face-to-face contact cost \$460, while a phone call cost \$18.

The Shell Experience

"At the time the 'TBA' group was set up to market Shell's tires, batteries and accessories, Shell had 67 field sales personnel dedicated to this business." Shell reduced this to 17

field representatives, cutting personal sales calls by 75%, but dramatically increasing telephone and mail contacts. This resulted in a multimillion-dollar savings in sales costs.

After 12 months, Shell asked service stations what they thought about the level of service they were getting. In 30 of 31 service/satisfaction categories, perceived levels had increased. Many respondents stated they knew "Team TBA" couldn't continue this new higher level of contact because it was too expensive. Yet there had been a significant reduction in contact costs per dealer. The studies and the Shell experience clearly demonstrate that the customer is more concerned with the *content* of the contact than with the method. The key is the *value* of the contact.

contact methods to provide the highest value to the customer and the most cost-effective approach to selling. It involves an *integrated* plan of communication contacts of value."

A Contact Plan

By estimating the future revenue stream for each customer, you can determine the type and frequency of contact the customer can support. Say you're selling business forms to the dental market. You've determined that the average customer lifetime value is \$1,075, and your cost per face-to-face contact is \$350.

Obviously, it doesn't make economic sense for a sales person to call on this level of customer. However, if the top tier of customers has a lifetime value 10 to 20 times the average, there's economic justification to use a sales person in the selling process to them.

To control the process, you'll need a contact database that includes those lifetime values.

You'll also want to ask your customers to define their communications preferences by type of information.

Completing these two steps will provide the required data for a customer contact model that will best satisfy your customers' needs.

Customer Contact Preferences

	1970	1980	1985	1990
CONTACT WITH OUTSIDE SALES PERSON	1	3	5	8
FREQUENCY AND SPEED OF DELIVERY	2	1	1	2
PRICE	3	2	3	4
RANGE OF AVAILABLE PRODUCTS	4	5	4	3
CAPABLE INSIDE SALES PERSON	5	4	2	1

Source: Based on Arthur Andersen & Co. data ⁽¹⁾

"The new sales paradigm embraces... leveraging the high cost of personal sales contact with other, lower cost,

Community of Customers

The ultimate goal of any company is to build strong, long-term relationships with its own unique community of customers – those *individuals* who represent the best sales potential over their lifetime.

Customer loyalty is built through *value-based contacts*, be they face-to-face, by phone, direct mail, e-mail or facsimile. Replacing some face-to-face contacts with *value-based*, lower cost contacts will increase the productivity of your sales personnel, while lowering your costs of sales.

Calculating Lifetime Value

“Only in recent years has the concept of *lifetime value* of customers been treated seriously. Simply stated, LTV is the dollar value of a customer's purchases over the entire life of that customer's business, minus the acquisition cost and the cost to service that customer.”

Philip Kotler⁽²⁾ identified a hi-tech company where it cost \$120,000 to support a salesperson. Sales call costs averaged \$600 each. Generally, three sales calls were required to convert a prospect into a customer. So, the cost to acquire each new customer was \$1,800.

Say the average life of such a customer is five years, with annual purchases of \$4,000 per year, for a total of \$20,000 of purchases. With a yearly service cost (including product cost) of \$3,000, the total service cost over five years would be \$15,000 plus the \$1,800 acquisition cost. So that customer's lifetime value would be \$3,200. If that customer was not retained past the first year, the renewal stream would be negative - a loss of \$800 (service and acquisition costs of \$4,800 less sales of \$4,000).

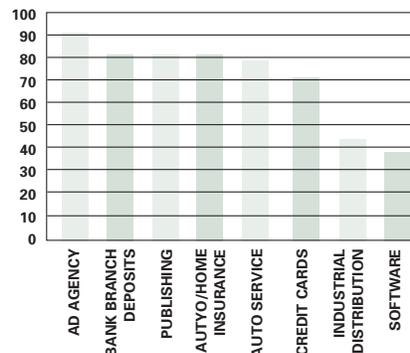
Customer Retention

There is no question that increasing customer retention is “the foundation for profitability and sustainability.” Indeed, “a five percent increase in customer retention will change the profitability of a business by at least 25 percent.”

You should regularly check your database for customer deflections.

“When you focus on retention, you control lifetime value. When you focus on acquisition, you can end up in a death spiral.” So, “you must have a balanced program that begins with customer retention, moves to customer cultivation, and then continues to build through acquisition.”

How a 5% Increase in Loyalty Lifts Profit per Customer



Source: Adapted from Patricia Sellers, “Keeping the Buyers You Already Have,” Fortune magazine. Used with permission from Bain & Company Inc., a Washington DC management consulting group.

An Integrated Approach

“In building the customer community, an integrated marketing approach, supplementing face-to-face contact with more frequent mail and phone contacts, will increase sales force productivity. Companies with a field sales force can realize an immediate 15% decrease in sales expense.”

Building necessary customer relationships starts with “focusing on the process of marketing to *individuals*. Focus on the individuals and their business applications rather than on the company or account.

“A community of customers is built one person at a time. It is an individual and personal effort.”

Sources:

⁽¹⁾ The content of this newsletter was derived, with permission, from the book “Business To Business Marketing, Creating a Community of Customers” by Victor L. Hunter, President of Hunter Business Direct Inc. of Milwaukee WI

⁽²⁾ “Marketing Management” by Philip Kotler



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