CHAPTER 1

The Role of Outside Sales in Wholesale Distribution

Outside sales continues to play an important role in the business of wholesale distribution.

After reading and studying the material in this chapter, you will be able to:

1. **Discuss the importance of sales in the wholesale distribution business.**
2. **Identify the participants in a typical wholesaler-distributor's sales team.**
3. **Define the role of the Field Sales / Outside Sales Representative.**
4. **Describe the typical job duties of today's Field Sales / Outside Sales Representative.**
5. **Identify the common job requirements of a Field Sales / Outside Sales Representative.**

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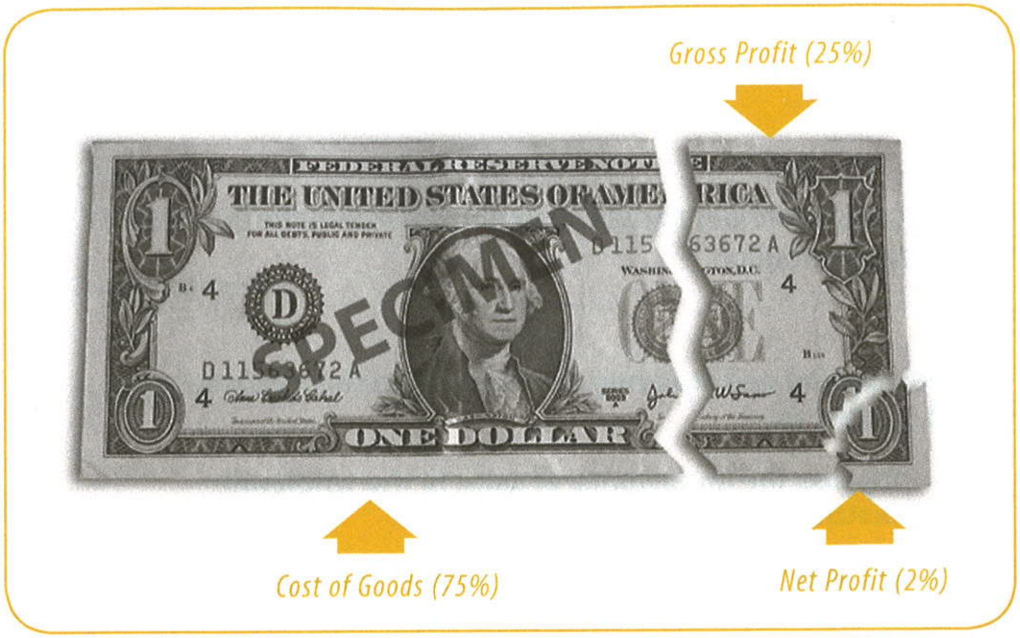
Wholesaler profit margins are just a few cents on the dollar.



Wholesale Distribution is Driven by Sales

Wholesale distribution is a sales-driven business. Distributors must continuously grow their revenues and profits to support the enormous investment they have made in the product inventory, facilities, and equipment that are required to service their customers. Yet competition has never been tougher than in today's world. Most customers are able to buy not only from other supply houses, but also through numerous other sales channels. This includes sales anywhere in the country online via Websites.

To compete in this environment, distributors must constantly search for ways to convince customers to buy from their supply house instead of from somewhere else. Studies show that companies that take time to build, nurture, and develop strong relationships with customers grow their business. Repeat customers spend 33% more than new customers. To build these long-term relationships, distributors must show their customers that they are important and that the company cares about them. This means trying to satisfy them with the right products and services, supported by a well-trained staff, and available at the right time and location. It also means striving for excellence every day and with every transaction no matter how big or how small.

The race to prosperity also requires the continuous recruitment of new customers who are buying elsewhere. These customers must be nurtured and retained. Maintaining strong relationships with customers results in repeat customers who may refer others based on the quality of the products and/or service they received. Referrals among repeat customers are 107% greater than non-customers. All this must be accomplished with ruthless efficiency because the distributor makes only a few cents of profit on every dollar worth of sales. As a result, the typical distributor employs a professional sales force who are dedicated to the job of selling.

The Sales Team

Wholesaler-distributors primarily engage in a low-key type of selling that emphasizes long-term relationships and repeat business. Superior salespeople are more than just order takers. They persuade customers to try new products, buy more products, and buy more profitable products. A good salesperson doesn't try to sell customers more than they need or can afford to purchase. Good salespeople aim to ensure that customers buy whatever they need from their company rather than a competitor's.

A good salesperson doesn't try to sell customers more than they need or can afford to purchase.

Selling skills are not the only requirement for these jobs. Sales personnel who work for distributors must have a keen understanding of their customers' businesses and the problems they face. Selling for a distributor also requires excellent problem-solving skills.

Wholesale distribution sales tend to be a team effort. Let's look at the key players on this team.

Sales management oversees the sales process

Most wholesaler-distributors employ an individual to oversee all sales efforts. Sometimes one of the owners may make this his or her specialty. Typically this person will have the title of vice president of sales, sales manager, or some comparable title.

A first-rate sales manager hires, trains, motivates, and supervises an effective sales force.

Depending on the size and complexity of the organization, the top sales manager may supervise a number of department or branch sales managers. At the branch level, the branch manager sometimes functions as the sales manager. At larger branches, there may a separate person in charge of sales who reports to the branch manager.

Sales managers may call on some key customers, but usually their responsibilities require them to spend more time in the office than the outside salespeople they supervise. A sales manager needs to be able to analyze markets and segment them in a way that most effectively uses the distributor's resources. For instance, the sales manager may determine whether there are enough heating contractors in a given market to warrant a specialized salesperson calling on them. A sales manager also has to develop and implement sales plans and accurately forecast results.

Perhaps the most important job of a sales manager is to hire, train, motivate, and supervise an effective sales force. The sales manager also must interact with vendors and managers of other departments.

Outside salespeople call on customers at their business locations

The outside salespeople typically call on customers at their place of business or at jobsites. Time spent with customers isn't just devoted to "pitching" new products to them. An outside salesperson must listen to customers explain their needs, answer customers' questions, and solve their problems. Outside salespeople also may be called upon to train customers in new products and applications—sometimes working closely with a manufacturer's representative.

Being able to identify key purchasing influences is an integral part of an outside salesperson's job.

Wholesaler-distributor sales personnel may also spend considerable time meeting with people who don't buy products directly, but are important buying influences. For instance, engineers specify which products go into commercial construction projects. So it's important for distributor salespeople to get to know the engineers in their area and explain why they should specify their company's products rather than a competitor's.

Outside salespeople may also call on building owners, maintenance staff, public housing officials, and many others who don't buy products but have a large say in which products are used. Identifying these purchasing influences is part of an outside salesperson's job. Outside sales personnel cannot waste their time—or the customers' time—with small talk, simple order taking, or calling on customers and prospects that offer little sales potential. Although outside salespeople call on small customers that often generate high profits, more and more outside salespeople are emphasizing prospecting, high-volume sales, high-potential accounts, and problem-solving skills.

One of the most important roles of an outside salesperson is to protect the gross margin percentage. Outside salespeople frequently encounter customers who try to negotiate bigger discounts. "I'll buy from you if you give me an extra five (percent)" is a typical enticement heard in the field. An outside salesperson may have some leeway to reduce prices—and sometimes it is necessary in order to make a big sale. However, doing so is a bad habit.

When you are only making two percent, an extra five percent does more than cut into a distributor's margin. Giving an "extra five" can turn a profitable sale into an unprofitable sale. Discounts and/or price cuts also diminish the salesperson's commission. Compensation policies vary among wholesaler-distributors, but it's common for outside salespeople to have at least part of their income based on a percent of sales or profit dollars.

One of the most important roles of an outside salesperson is to protect the wholesaler-distributors' gross margin percentage.

Salespeople who understand their customers' businesses and can demonstrate how the products and services they offer can provide value to those customers are better able to avoid the price discussion trap. Training in the art of negotiation is an important part of the skills package needed for a salesperson to be effective.

Inside salespeople work with customers over the phone

Because of the high cost of outside sales calls and the need for outside sale personnel to emphasize prospecting, higher volumes, and problem solving, an increasing amount of customer contact and service duties are falling to inside sales representatives.

Inside sales representatives connect with customers over the phone. They often work hand-in-hand with the outside sales reps to make sure customers get what they order in a timely fashion. The inside sales staff may also develop new business by handling customers that are too small to justify a visit by an outside salesperson.

Inside salespeople fulfill a crucial customer service role. They generally can be reached more readily than outside salespeople can because nearly all their time is spent in the office. If a customer has a problem requiring immediate attention, the inside salesperson is often in the best position to initiate a prompt response.

Inside salespeople fulfill a crucial customer service role.

Frequently, outside and inside salespeople work as a team on accounts. It is critical that the relationship between these two areas is strong and helpful. The outside salesperson typically would be in charge of generating sales, with the inside person following up to make sure customers get what they need by providing quotes, specifications, submittals, etc.

Today's inside sales professionals need to be much more proactive than in the past and are growing in importance within top distribution companies. This is in response to a faster-paced, more pressure-packed business world, coupled with advances in communications technology that reduce the need for face-to-face meetings. Inside salespeople are expected to originate conversations and promote the sale of profitable products. They are expected to understand their customers' businesses and educate them about products and services that benefit them. These functions require more technical knowledge and salesmanship understanding than ever before.

Counter salespeople sell products the customer picks up

In addition to the outside and inside salespeople, most supply houses operate a sales counter where customers can come to pick up merchandise. The men and women who work these counters primarily are charged with filling orders, but they often wield considerable influence in determining which products customers purchase. Although the meeting is usually brief, customers expect the counter salesperson to have product and application knowledge in order to answer questions. Customers also expect the distributor to have accurate pricing, adequate inventory, and timely service. Finally, they expect a service attitude from the counter salesperson that proves their business is valued.

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in Wholesale Distribution

Sales Roles and Responsibilities

Historically, the outside sales position has been more prestigious within the typical supply house. Outside sales personnel generally were more experienced and got paid more than their associates working on the inside. Face-to-face selling has some obvious advantages. Most importantly, it provides the opportunity to build lasting personal relationships. The outside sales rep also gains an edge by reading body language and viewing the customer's business operations. An outside sales rep with a winning personality and dedication to customer service has a definite advantage over the inside salesperson in this regard.

Also, in the days before cell phones, fax machines, the Internet, and social networking, customers often relied upon distributor sales reps as a major source of information about new products and industry news. For these reasons, most distributors traditionally considered outside salespeople to be the company's primary interface with customers.

Frequently, the inside sales position served as a stepping-stone to an outside sales job—an apprenticeship of sorts. The inside sales rep was viewed as an assistant to the outside salesperson.

What have been described thus far are the "traditional" roles of outside and inside sales personnel in the distribution industry. But those traditional roles are changing rapidly. Today, in many companies, the inside and outside salespeople are viewed as equal members of the sales team. The outside rep relies on the insides sales team to support sales efforts in the field. For example, an inside sales rep with strong background in research and written communication may be asked to create a presentation to assist the outside sales rep. Because the inside salesperson may actually have more contact with a customer, the inside salesperson may have a great influence on the customer's buying decision.

Over the past few years, several situations made the sales process more difficult for both inside and outside salespeople.

- At one time, many companies relied on an outside sales force for face-to-face new product introductions. Today consumers with Internet access via dial-up, landline broadband, Wi-Fi, satellite, and 3G/4G technology cell phones can find much of the new product information they need. And they can order that product online.

- The 2008–2012 global financial crisis resulted in the collapse of large financial institutions, the bailout of banks by national governments, downturns in stock markets around the world, prolonged unemployment, reduced income from fixed income investments, and a significant decline in economic activity. As a result, consumers have less money to spend and are more reluctant to spend what they have.
- Many potential prospects with Caller ID no longer answer their phones or return calls. As a result, many outside salespeople are finding it difficult to connect with potential customers—even when they have been asked to call.

These events have changed the way successful outside salespeople look at their role and the way they do business.

Outside sales stress prospecting, high volume, high potential, and problem-solving

Today's hectic business world pace means that many distributor customers have less time to meet with sales reps face-to-face. In particular, they hate spending time with sales personnel who drop by without an appointment, indulge in small talk, and do little more than take orders for routine product replenishment. Salespeople are more often hearing their customers say, "Don't waste my time."

Top-notch outside salespeople certainly do not waste their customers' time. In fact, true sales professionals understand that their own time is too valuable to waste. They do not want to spend it in small talk, order taking, or calling on customers and prospects that offer little sales potential. Instead, they focus their attention where it will do the most good. Outside sales emphasize prospecting, high volume and high potential sales, and problem solving.

Outside sales takes ownership in making customers more profitable. Before an outside salesperson contacts a potential customer, he/she has researched the prospect's company and developed a checklist of questions about the company's business. Careful pre-approach planning allows the salesperson to be less mechanical and more thoughtful about the questions he/she asks. It also allows the salesperson to anticipate problems and plan ways to handle them.

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Successful salespeople have a passion and a real belief in the products and services they sell. If you can't get passionate about what you do, how can you expect a customer to do so? In addition to explaining a product's features and benefits, successful salespeople show their prospects what the distributor's service can do for them. They explain the impact the distributor's service will have on the customer's life and businesses.

Although most successful salespeople are likeable, they cannot afford to need everyone to like them. They need tolerance and an ability to learn and move on quickly from failure. Successful salespeople are thoughtful and find ways to get past any rejection. They anticipate the prospect's responses and think about ways to overcome objections. They practice selling aloud and, if needed, they redesign the scenario until it is comfortable and produces the desired outcome.

Field Sales / Outside Sales Representative's Objective and Job Duties

What follows is a sample job description defining the objective, duties, and common job requirements for a Field Sales / Outside Sales Representative position in a progressive distribution company.

FIELD SALES / OUTSIDE SALES REPRESENTATIVE OBJECTIVE

The Field Sales / Outside Sales Representative works cooperatively with inside sales and other members of the distribution team to grow existing customers, create new customers, and meet or exceed monthly sales quotas at the appropriate gross margin while increasing customer satisfaction.

As you can see, there's more than enough required of this position to fill a day with productive work! Not just anyone can do this work or generate the results demanded of a top rate Field Sales / Outside Sales Representative. Distributors looking to recruit, train, and develop outside sales reps have a shopping list of qualifications and requirements for this important position.

Here are some of the qualities and qualifications distributors commonly seek.

Job Duties

Sales Ability / Persuasiveness	▪ **Demonstrates** ability to integrate channel partners into sales opportunities ▪ **Demonstrates** leadership in regional channel associations ▪ **Learns** and demonstrates understanding of basic business analytic skills and their application to customers' businesses (e.g., National Builder, distributor, plumber, engineer, architect, etc.) ▪ **Assists** customers in creating marketing plans and programs to grow their business ▪ **Learns** and demonstrates stages of selling process ▪ **Demonstrates** skill in prioritizing customers, product promotion, activity management, campaign deployment and training ▪ **Articulates** the organization's value proposition within customer business situation ▪ **Incorporates** the selling process within proposal writing and pricing models to match company expectations ▪ **Educates** customers on how to differentiate from competitors, and assists customers in increasing their selling skills ▪ **Builds** relationships through networking with various industry and customer relationships ▪ **Demonstrates** effective presentation skills to successfully influence and communicate with various audience types and sizes.
Customer Focus	• **Learns** and demonstrates competence with customer organization and stakeholder models ▪ **Adds** value to customer and internal interactions by understanding customer business models ▪ **Uses** company-provided systems for improved planning, history collection, and to adopting new behaviors ▪ **Plans** for upcoming customer meetings with a defined time management process ▪ **Drives** the account planning process to define and track progress toward revenue, mix, and profit objectives ▪ **Understands** the customer's business including metrics, definitions of success, hierarchy, decision-making, etc. ▪ **Establishes** "trusted advisor" status to become a business resource for customers in the relationship selling process ▪ **Recognizes** different customer types within the supply chain and adjusts approach with each for optimal results ▪ **Demonstrates** active listening skills to add value to customer and internal interactions

Job Duties

Managing Work	▪ **Learns** and demonstrates effective time management practices involving planning and scheduling daily, monthly, and annual activities and priorities. ▪ **Learns** and demonstrates ability to organize electronic and paper-based information ▪ **Expands** organizational skills to include additional leadership and business development commitments
Navigating Within the Organization	▪ **Learns** and uses organizational resources and escalation processes for issue resolution ▪ **Respects** and appropriately uses the internal chain of command ▪ **Establishes** team relationships (e.g. Manager/Branch peers/Corporate network) for improved job effectiveness ▪ **Expands** immediate problem-resolution network to include ancillary network contacts (e.g. product development, marketing) ▪ **Gets** things done by using internal resources (internet, channel marketing, customer service, supply chain, etc.) ▪ **Demonstrates** comprehensive company product knowledge—as well as products of the competition—and can articulate competitive advantage ▪ **Demonstrates** comprehensive industry knowledge and can apply it to enhance decision-making effectiveness ▪ **Leverages** a deep understanding of the company's internal processes to advise customers and develop a course of action to deliver mutually beneficial results
Contributing to Team Success	▪ **Operates** effectively within vertical and horizontal teams ▪ **Demonstrates** effective delegation and limited-scope management of others on direct tasks ▪ **Assumes** responsibility for team outcomes ▪ **Leverages** team interactions for improved individual effectiveness and actively participates in team activities to share best practices ▪ **Exhibits** positive outlook, camaraderie, and passion for the job, business, customers, and team

Job Duties

Technical / Professional Knowledge and Skills	▪ **Learns** and demonstrates competence in features and functionality of all product lines ▪ **Expands** product knowledge base in their primary sales channels and into other sales channels ▪ **Demonstrates** appropriate application of all product offerings and solutions in customer environments ▪ **Adds** value to customer and internal interactions by understanding the market, customers, suppliers, and competitors ▪ **Understands** the nuances of competitor product offerings as well as their target audience and strategies on how they reach that audience ▪ **Provides** market specific product needs and price points ▪ **Conveys** accurate messages, ideas, and decisions through clear verbal and written communication ▪ **Demonstrates** proficiency with Microsoft Outlook, Word, Excel, PowerPoint and other related software as assigned ▪ **Understands** own organization's profit model and makes sound decisions and recommendations to maximize
Leading Through Vision and Values	▪ **Leads** branch and corporate initiatives and mentoring activities ▪ **Balances** the role of strong customer advocate with the role of good company steward with resources and time

Common Job Requirements for Field Sales / Outside Sales

- Exhibits integrity and ethical standards
- Demonstrated success in meeting sales goals and growing sales
- Desire to learn continuously
- Outgoing and eager to make outside customer calls
- Delivers superior customer service
- Handles difficult customers with diplomacy and tact
- Effective listening, communication (verbal and written), and negotiation skills
- Works productively with a wide range of people—a team player
- Technical expertise and knowledge of company products
- Excellent organizational skills
- Superior presentation / public speaking skills
- Knowledge of Internet, Microsoft Office, and distribution software
- Ability to multi-task
- Motivated and self-directed
- Problem-solving and analytical ability
- Accuracy and attention to detail
- Able to perform business math (basic algebra, compute rates, ratios, etc.)
- Positive attitude and professional image
- Bachelor's degree or equivalent experience

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Your company's outside sales job description and requirements may vary somewhat from the model presented here, but probably not by much. Some companies may not issue formal job descriptions, but it's a good bet that the job expected of the Field Sales / Outside Sales representative will encompass most of the duties described here.

Now that you have a good idea about the role and responsibilities of an outside salesperson, we'll take a closer look at how the sales function works in the next three chapters. In Chapter 2, we examine what makes a sale profitable and the important role that profit plays in business. In Chapter 3, we look at how great salespeople develop their skills in order to increase sales and profitability. And, in Chapter 4, we will identify factors that influence customer price sensitivity and also explain how distributors can add tangible value to the goods they sell.

Quiz

The Role of Outside Sales in Wholesale Distribution

1. The MAIN reason wholesale distributors need a well-trained, professional sales force is to

A. reduce the overall cost of doing business.
B. find new customers.
C. successfully compete with other companies.
D. reduce the amount of employee turnover.

2. Which of the following is part of the TRADITIONAL role of a distributor's outside salesperson?

A. Call on customers at their place of business
B. Collect payments from customers
C. Develop large accounts
D. Answer customer questions promptly

3. An inside salesperson is often in a better position than an outside salesperson to immediately

A. retrieve information about new products.
B. sell new products to customers.
C. stay in touch with non-buyers who influence the sale.
D. troubleshoot product failures.

4. The most common complaint customers have about outside distributor sales personnel is that they

A. have inadequate inventory.
B. waste time with small talk.
C. seldom arrive for appointments on time.
D. fail to make promised delivery deadlines.

5. Successful outside sales professionals routinely concentrate on all of the following tasks EXCEPT

A. Prospecting for new customers
B. Handling the needs of high-volume customers
C. Training inside salespeople to handle difficult customers
D. Building solid relationships with customers

CHAPTER 1

Quiz

The Role of Outside Sales in Wholesale Distribution

6. Outside salespeople continue to be important to the distribution industry because they FREQUENTLY

A. meet outside the office with key customers.
B. are better team players than other regular employees.
C. have more passion for the job than inside salespeople.
D. have managers advising them about every part of their job.

7. Which of the following is NOT a typical responsibility of a Field Sales / Outside Sales Representative?

A. Providing product and technical information
B. Responding to customer requests
C. Selling upgrades and add-ons
D. Handling orders from smaller customers

8. Of the following skills, which is the MOST important for a Field Sales / Outside Sales Representative to master?

A. Verbal and written communications
B. Advanced mathematics
C. Foreign languages
D. Manual dexterity

9. A successful outside salesperson is most likely to call on a customer who

A. orders a small amount of the same products each month.
B. has special needs that can only be met in the field.
C. needs new product information before making a purchase.
D. places several small orders on a regular basis.

10. A typical job description for an Outside Sales Representative will include all of the following requirements EXCEPT

A. Accuracy and attention to detail
B. Ability to multi-task and problem solve
C. Positive attitude and professional attitude
D. Demonstrated skill in managing others

(Answers below)

Answers: 1-C;2-A;3-A;4-B;5-C;6-A;7-D;8-A;9-B;10-D

CHAPTER 2

What Makes a Sale Profitable?

A person is born with a liking for profit.

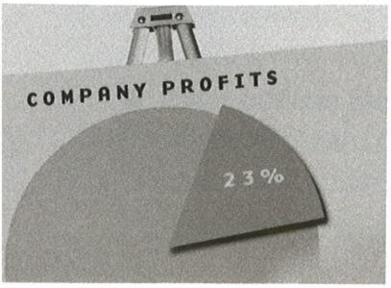
~Xun Zi

After reading and studying the material in this chapter, you will be able to:

1. **Define what is meant by a profitable sale.**
2. **Describe the role of profit in a business.**
3. **Explain the difference between sales and profit.**
4. **Define and explain gross margin, net profit, gross margin dollars, and mark-up.**
5. **Calculate gross margin, gross margin dollars, and mark-up.**
6. **Calculate the "bottom line" of a business.**

CHAPTER 2

What Makes a Sale Profitable?



A joke that has been circulating around the distribution industry for a long time goes like this:

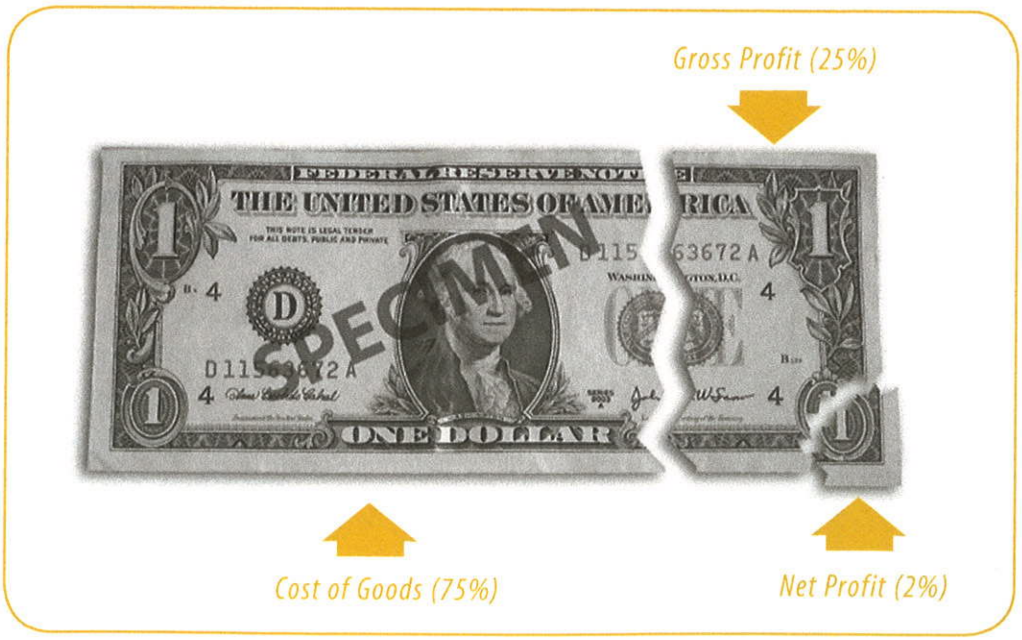
A distributor was complaining that he ends up losing money on every order he sells. "How do you stay in business?" someone asked. The distributor replied, "Well, I make it up in volume."

The best way for a distributor to increase profits is to make all sales profitable.

Profitable Sales Cover All Costs

The harsh truth is that many sales made by distributors are, in fact, unprofitable. It costs them more to make and service the sale than the dollars they bring in from the transaction. Most distributors are profitable overall, of course, or they wouldn't be able to stay in business. This means profits from some sales must be enough to cover the losses from other transactions. It also means that one of the best ways for a distributor to increase profits is to make all sales profitable. The outside salesperson plays a major part in reaching that goal. In this chapter, we'll explain how to do that.

Wholesaler net profit margins are just a few cents on the dollar.



What Makes a Sale Profitable?

A profitable sale is one that

A. Covers the cost of the goods sold (COGS) which are the inventory costs of those goods a business has sold during a particular period

B. Covers the cost of operations needed to service the sale (also known as *overhead*)

C. Generates a net profit to keep the business going and provide a return to the owners who invested in the business.

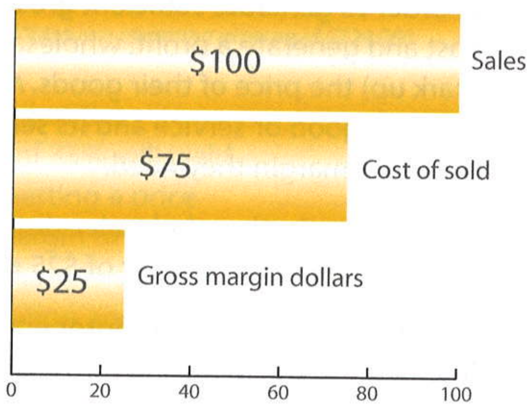
Gross Margin Dollars Must Support Overhead

Gross margin dollars are the difference between the price the distributor pays for goods and the amount for which they are sold. If a distributor pays $75 for an item and sells it for $100, the company earns $25 gross margin dollars:

$100 Sales
– $ 75 COGS
= $ 25 Gross Margin Dollars

This transaction results in a 25% gross margin (gross profit as a percent of selling price):

$ 25 Gross Margin Dollars
÷ $100 Sales
= 25% Gross Margin



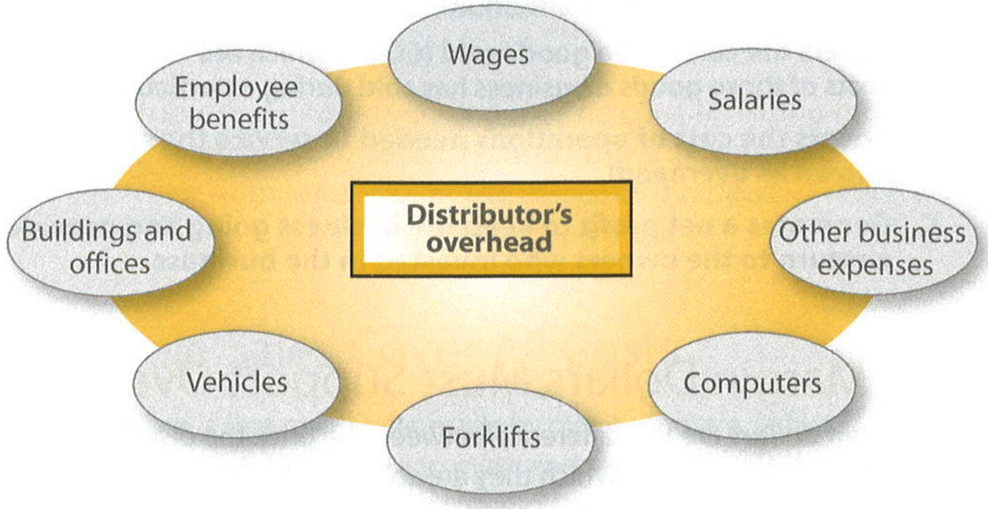
For a sale to be profitable, both the gross margin and the dollar size of the sale must be large enough for the gross margin dollars to exceed the expense of making and servicing the sale.

As an example, a $100 sale that generates $25 gross margin dollars but costs $35 to deliver loses at least $10—and that $10 is just one of the many costs of overhead.

Very few gross margin dollars go into a distributor's pocket. They must support all the costs of doing business, i.e., overhead. This includes wages and salaries, employee benefits, buildings and offices, vehicles, forklifts, computers, and everything else that is necessary to run the business.

CHAPTER 2

What Makes a Sale Profitable?



Mark up your cost to get the margin you need

In order to generate sufficient gross margin dollars to cover the overhead cost and generate a profit, wholesaler-distributors need to increase (or mark up) the price of their goods. ***Mark-up*** is the difference between the cost of a good or service and its selling price to achieve a sale that provides the gross margin they need.

As an example, the wholesaler-distributor bought a product for $75, sold it for $100 and made a profit of $25 or 25% of the selling price.

So, if the wholesaler-distributor wanted to generate a gross margin of 25%, it would use the following formula:

$$\frac{\textbf{Gross Margin Dollars}}{\textbf{Cost of Goods Sold}} = \textbf{Mark-up}$$

In our example:

$$\frac{\textbf{\$ 25 Gross Margin Dollars}}{\textbf{\$ 75 Cost of Goods Sold}} = \textbf{.3333} = \textbf{33\% Mark-up}$$

For a wholesaler-distributor to make a 25% gross margin on an item, that product would need to be marked up (or increased) 33% above what the company paid for it.

Never confuse margin with mark-up!

What Makes a Sale Profitable?

For a wholesaler-distributor to make a 25% gross margin on an item, that product would need to be marked up 33% above what the company paid for it.

CONFUSING MARGIN AND MARK-UP COSTS MONEY

25% GM From a 33% Mark-up		*25% Mark-up Yields 20% GM*	
Sales	$1,000,000	Sales	$937,500
Cost of Goods Sold (75%)	- $750,000*	Cost of Goods Sold (75%)	-$750,000**
Gross Margin (25%)	$250,000	Gross Margin (25%)	$187,500
Operating Expense (23%)	- $229,000***	Operating Expense (23%)	$229,000
Net Before Taxes (2%)	**$21,000**	**Net Before Taxes (2%)**	**($41,500)**

**Marked up 33-1/3%* ***Marked up at 25%* ****Assume operating expense of $229,000*

It is easy to confuse margin and mark-up, but the distinction is very important. A mark-up of 33% will yield gross margin dollars of 25%, **NOT** 33%! Setting a price based on a mark-up of 25% will yield a margin of 20%, not 25% ($187,500 ÷ $937,500 = 20%). That 5% can spell the difference between a profitable operation and one that cannot survive in a competitive environment.

Never confuse margin with mark-up.

There are formulas one can use to determine the percent a company needs to mark-up an item to get the desired gross margin dollars. Most wholesaler-distributors use a GM/Mark-up chart like the one shown here to set prices.

Applying our example to the highlighted area of the chart, the wholesaler-distributor who wants to make a gross margin of 25% would need a mark-up of 33%. When a wholesaler-distributor tells employees to mark up that valve by a third (33%), they very likely will use a GM/Mark-up chart.

For Gross Margin	Use Mark-Up Percentage
60	*150*
55	***122***
50	*100*
45	***82***
40	*67*
35	***54***
33	*50*
30	***43***
25	***33***
20	***25***
15	*18*

What Makes a Sale Profitable?

In labor-intensive businesses such as construction, labor hours are the selected unit of measure. Such contractors add overhead costs to labor hours.

Earning a net profit is essential for staying in business

Hopefully, some additional dollars remain after all the overhead is paid. This "net profit" is used to replace items needed to run the business, and to reward the owners and associates for investing in the company.

	Sales
–	***Cost of Goods Sold - Overhead***
=	***Net Profit***

Any company that does not generate a net profit will eventually go out of business. This is important to understand. The general public and news media sometimes equate "profit" with greed. In reality, profits are needed to conduct business activities that create jobs, renew capital, and continuously boost our standard of living. Profits reward people for hard work and innovations that make for a better society. Profits also help fund our government through taxes, and enable businesses and individuals to make charitable contributions.

Profits are not simply desirable. They are essential for any business to keep operating and for our economy to stay healthy.

Net profits are generated when gross margin dollars exceed overhead.

Almost all distributors keep track of their overall gross margin dollars. That is, a distributor that sells $10 million of goods with an average gross margin of 25% would generate $2.5 million in gross margin dollars. This would probably be enough to support overhead with a small portion remaining as net profit.

	$10 Million	***Sales***
x	***25%***	***Gross Margin***
=	***$2,500,000***	***Gross Margin Dollars***

Distributors also should break down gross margin dollars and overhead expenses into smaller chunks. This allows them to gauge and manage the profitability of different types of sales transactions. It is important to note that different types of businesses use different methods to allocate expenses against sales. As an example, contractors often allocate overhead based on labor hours. ***Overhead costs*** are indirect costs, such as administration and quality control. The selling price must be equal to at least the total direct and overhead costs to break even. ***Direct labor cost*** depends on the number of hours worked and the average hourly rate for labor.

Homeowners might see labor billed at rates of $65 an hour or more, and think the person doing the work is making all that money.

Labor intensive businesses allocate overhead on labor hours basis

Traditional cost accounting assigns overhead on an equal basis to a selected unit of measure. In labor-intensive businesses such as construction, labor hours are the selected unit of measure. Such contractors add overhead costs to labor hours. If overhead amounts to, say, $100,000 per worker per year and a worker puts in 2,000 hours of work in a year, the overhead burden would be $50 for every hour worked.

In other words, a worker's wages might be $20 an hour, but when benefits and other overhead are added, that worker actually costs the company $70 an hour. So, to cover all a contractor's costs, $70 in expenses for each man-hour of labor must be calculated when estimating and bidding jobs. But the contractor needs to do better than merely breaking even on each job. As a result, an additional amount for net profit is likely to be built into the estimate. Clearly, a contractor must be very accurate in estimating the job. A contractor also must be very good at managing a workforce to complete the contract on schedule and make a profit. The term "time is money" is especially true in the contracting business.

As you can see, the company's true cost for a trade worker is much higher than the amount paid in wages. Therefore, contractors need wholesalers to provide the right product at the right time. Otherwise, trade workers might stand around waiting for work to do. An idle tradesman costs the contractor not only the wages paid to the worker, but the added overhead burden as well. In many markets, $70 or more per hour comes right off the contractor's bottom line. It doesn't take many idle hours to turn a profitable job into an unprofitable one.

This also explains the seemingly high hourly rates charged by home repair firms. Homeowners might see labor billed at rates of $70 an hour or more, and think the person doing the work is making all that money. Actually, the plumber, electrician, or HVAC technician is making far less than the amount charged. The rest is overhead allocation.

Some Wholesalers Use Average Overhead Expense Per Order

Wholesalers often average overhead expense based on their number of orders

Labor and benefits are also a significant cost for distributors. The productivity of their labor force can be measured in many ways. Distributors use measures such as average sales per employee, gross margin per employee, net profit per employee, and several others. By regularly analyzing how certain functions are performing, distributors can develop strategies and policies to improve their profitability.

However, when calculating a transaction's profitability, labor costs are often included in selling, warehousing, delivery, administration, and property expense. Those overhead expenses are often allocated based on the number of orders booked and related measures.

For instance, if a distributor has $5 million in sales spread over 10,000 orders, the average amount of sales per order is $500. If that distributor's overhead amounts to 20% of sales revenues, it would total $1 million. Thus, it would cost this distributor an average of $100 in overhead to fill each order.

The calculations would look like this:

	$5 Million	***Sales***
÷	***10,000***	***Orders***
=	***$ 500***	***Average Sales per Order***
	$5 Million	***Sales***
x	***20%***	***Overhead***
=	***$1 Million***	***Overhead***
	$1 Million	***Overhead***
÷	***10,000***	***Orders***
=	***$ 100***	***Average Overhead per Order***

What Makes a Sale Profitable?

Most distributors also break down the number of line items billed per order. This way, it is possible for a distributor to narrow down the overhead allocation by assigning it to each line item. Using our example above, if a distributor averages five line items per order, each would chew up $20 in overhead.

Most distributors break down overhead by assigning it to each line item.

	10,000	***Orders***
x	***5***	***Line Items per Order***
=	***50,000***	***Line Items***

	$1 Million	***Overhead***
÷	***50,000***	***Line Items***
=	***$ 20***	***Overhead per Line Item***

Costs and activities involved in servicing individual sales transactions vary widely.

There is a shortcoming of this traditional way of allocating overhead. Expenses are averaged out without regard to the number of cost-generating activities actually involved in a particular transaction. Using our example (five line items of $20 each = $100), on *average* it costs this distributor $100 to fill each order and $20 per line item. While averages are acceptable for general accounting purposes, they don't really help a distributor pinpoint how much it costs to service any given transaction.

Averages Don't Really Tell Whether a Transaction is Profitable

Traditional overhead accounting does not help the Salesperson to improve the profitability of a sales transaction.

Using averages suggests that any sale yielding less than $100 in gross margin dollars would automatically lose money for this distributor. However, that's probably not true if you look more closely at the number and costs of services actually required for each individual sale.

For instance, it obviously costs a distributor more to deliver products to a customer than for that customer to pick up the order at the distributor's counter. Extra costs also accrue from visiting customers in the field as opposed to making contact by phone or email. Accepting return goods also would mean additional expense. The traditional method of averaging overhead does not help to improve the profitability of sales transactions.

*ABC refers to **A**ctivity-**B**ased **C**osting*

Tracking the Cost of Activities Can Help Improve Profitability

Accurately allocating costs per transaction can be done using ***activity-based costing (ABC)***. This is an advanced method of calculating overhead. ABC is based on the rationale that all distributor activities that add value for the customer use resources that cost money—labor, material, tools, equipment, office supplies, etc. By making sales that generate enough gross margin dollars to pay for such value-added activities, the salesperson can improve the profitability of the sale.

The objectives of activity-based costing (ABC) are to:

- **Define the number of measurable activities that go into making each transaction**
- **Pinpoint the overhead allocation for each measurable activity**
- **Use that information to help generate more profitable transactions.**

ABC gives distributors a much more accurate assessment of profitability for many different types of transactions.

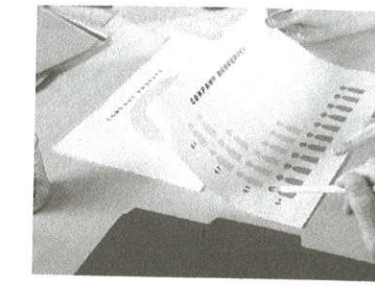
CHAPTER 2

What Makes a Sale Profitable?

Define the measurable activities

To begin we need to define all the measurable activities that go into making a given sale. For our example, the activities involved in a typical distributor transaction might include:

1. **Making an outside sales call**
2. **Engaging inside sales assistance**
3. **Processing the order**
4. **Handling warehouse materials including picking and packing the materials, moving them within the warehouse, and then loading them onto a truck**
5. **Delivering materials to the customer**
6. **Billing/accounts receivable**
7. **Carrying cost of inventory**



Define the number of measurable activities that go into making each transaction.

Transactions differ in the activities and costs involved

Some transactions might require more than the seven activities in the example above; some require less. Some orders are delivered to a customer directly from a vendor's factory, for instance. This would mean less overhead than goods shipped from a distributor's warehouse. A reduced cost factor also could be applied if a customer did not require a visit by an outside salesperson. On the other hand, if the customer returned some of the goods ordered, that would add cost.

A key point to keep in mind is that activities add value for the customer but costs for the distributor.

By being aware of an activity's costs, as well as the value delivered, we can do a better job of ensuring that we include these costs in a sales transaction.

Transaction Activity Can Enhance or Decrease Profitability

Here are a few activities that tend to either enhance or decrease profitability:

Enhance profitability

- Order picked up
- Order shipped direct from someone else
- Many line items per order
- Large sales volume
- Infrequent ordering
- Handled entirely by inside sales
- Invoices paid promptly
- Minimal phone calls to check on order
- Electronic ordering

Decrease profitability

- Order requires delivery
- Order stored in distributors' warehouse
- Few line items per order
- Small sales volume
- Frequent orders
- Requires outside sales visits
- Payments delayed
- Return goods

How to Pinpoint or Quantify the Overhead Allocation for each Activity

Let's take a look at how the cost of each measurable activity can impact the profitability of a transaction.

Pinpoint or quantify the overhead allocation for each activity
Once the activities are defined, the ABC method helps determine how much each activity costs.

Let's examine a hypothetical sale for BLT Wholesale Distribution Company using the seven activities described on the previous page. The order is for $1,000 worth of materials in five line items. BLT originally purchased these goods for $750.

This leaves the distributor with $250 gross margin dollars on the sale.

	$1,000	***Sales***
–	***$ 750***	***COGS***
=	***$ 250***	***Gross Margin Dollars***

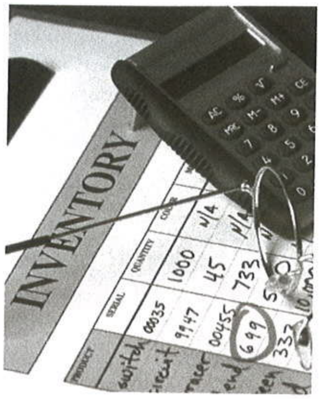
An analysis of the measurable activities in this transaction might look something like this:

1. **Outside sales** expense would include the costs of a salesperson's salary, benefits and commissions, plus automobile, gasoline, entertainment, and other expenses. The total would then be divided by the number of sales calls made for a given time period. This includes calls that did not yield any sales. For our hypothetical transaction, let's assume the cost to be $115 per sales call. Various studies have shown this to be a realistic number, maybe even a little on the low side.

2. **Inside sales** assistance might include sending sales literature and handling a phone call or two from the customer inquiring about technical information, order status or anything else. Inside sales cost would include compensation (including commissions) and office cost allocations, divided by the total number of orders generated by a distributor. For this order, we'll assign $11 of inside sales cost, which again is realistic. Since each item ordered has the potential to occupy inside sales time, it makes sense to further break down this allocation by line item. We assume this order contains five line items. So inside sales expense would be $2.20 per line item.

3. **Order processing** would include the labor and office expenses incurred by order entry, accounting, inventory, and other recordkeeping. A realistic cost to process a single $1,000 order would be around $2.00. This, too, typically is broken down by line item, which would equate to 40 cents each.

4. **Warehouse handling** expense includes all costs associated with storing, picking, and transporting the goods within the warehouse. This involves the cost of employees, material handling and other equipment, supplies, utilities, insurance, taxes, maintenance, etc. That total is then divided by the number of orders and line items. For this function, $10 ($2.00 per line item) would be a reasonable ballpark amount for a $1,000 order with five line items.



Inventory carrying costs typically amount to 25% to 30% of the merchandise value at the distributor's cost.

5. **Delivery service** tends to be fairly expensive for distributors. In addition to the wages and benefits paid to the driver, there are vehicle maintenance, insurance and depreciation charges, plus fuel costs to consider. A common way to assign delivery overhead is to calculate it per stop. A realistic distributor delivery cost would be in the range of $25.

6. **Billing** and processing an invoice adds between $1.00 and $2.00 to the typical order. Much of that expense is due to the time lag between billing and payment, measured in accounts receivable days. Distributor customers typically average more than 30 days to pay their bills. In the meantime, the distributor has money tied up in the goods purchased. These funds could otherwise be used to buy more goods or earn interest. We'll assign $2.00 for billing/accounts receivable to our sample order.

7. Finally, we need to factor in **inventory carrying cost**. We noted this typically amounts to 25% to 30% of the merchandise value at the distributor's cost, which in this case was $750. If we assume the material purchased by this customer turned (was purchased and depleted) an average of four times a year, the carrying costs would be figured on the basis of only one-third of the 12 months. If carrying costs for this distributor are 30%, then one-third of 30% = 10%. Then multiply .10 by $750 (COGS) to determine the inventory carrying cost value of this order ($75).

Now let's review how BLT Wholesale Distribution allocated costs against this transaction:

	$1,000	***Sales***
–	***$ 750***	***COGS***
=	***$ 250***	***Gross Profit***

However, you must then consider BLT's activity overhead outlined above:

	$ 115	***Outside Sales***
+	***$ 11***	***Inside Sales***
+	***$ 2***	***Order Processing***
+	***$ 10***	***Warehouse Expense***
+	***$ 25***	***Delivery Service***
+	***$ 2***	***Billing***
+	***$ 75***	***Inventory Carrying Cost***
=	***$ 240***	***Total Activity Costs (Overhead)***

This allows you to determine the true net profit:

	$ 250	***Gross Profit***
–	***$ 240***	***Overhead***
=	***$ 10***	***Net Profit***

The salesperson needs to understand how to take advantage of numerous ways to increase the profitability of a sales transaction.

After subtracting the activity costs from the gross profit, we see that BLT Wholesale Distribution realized a $10 net profit on this $1,000 order. A profitable sale, but barely. It amounts to 1% net income, which is well below average for most distribution companies.

Changing the activities in a transaction can enhance or reduce profit. Now, go back and take a second look at the list of activities that enhance or reduce profitability. You should be able to see how changing several of these activities can improve the bottom line on this transaction.

BLT Wholesale Distribution probably would lose money if this customer needed additional services, such as a troubleshooting visit in the field. Suppose the customer ordered too many items and decided to return a few for account credit. That would reduce the net sales and gross margin dollars while adding an additional cost. Or suppose someone at BLT Wholesale Distribution made a mistake in processing the order and some items had to be returned. Any of these events could tip the balance in the transaction, meaning the cost of service activity is higher than the revenue generated by the sale.

Some distributors have highly sophisticated programs for allocating costs against sales while others have very simple systems.

The key point is that the salesperson needs to understand the role of gross margin dollars in profitability and the cost factors that enhance or reduce profitability.

Those who do are in a good position to take advantage of the numerous opportunities to protect or increase the profitability of their sales transactions.

In the next chapter, we will examine some of those opportunities to enhance profitability and their impact on the distributor's bottom line.

Quiz

What Makes a Sale Profitable?

1. **A distributor that traditionally loses money on every order sold can earn a profit by increasing the**
   A. total volume.
   B. number of sales calls.
   C. gross margin.
   D. number of customers.

2. **Which of the following are likely to result in increased profits if gross margin stays the same?**
   A. Decreased volume
   B. Increased inventory
   C. Increased overhead
   D. Improved volume

3. **Many distributors use activity-based costing (ABC) because, unlike traditional cost accounting, ABC**
   A. estimates profitability for many different types of transactions.
   B. uses averages to estimate costs.
   C. averages overhead among many activities.
   D. uses estimated average costs.

4. **Which of the following is the primary reason for a distributor's unprofitable sales?**
   A. Cost of goods sold is too great
   B. Inexperienced salespeople do not sell enough products
   C. Gross margin dollars do not support overhead
   D. Not enough sales volume

5. **A profitable sale is one that covers all of the following EXCEPT**
   A. Covers the cost of goods sold
   B. Generates more income than originally thought
   C. Covers the cost of operations needed to service the sale
   D. Generates a net profit

Quiz

What Makes a Sale Profitable?

6. The term "gross margin" is defined as the

A. percentage of mark-up on a product.
B. dollar size of the sale divided by its cost of goods sold.
C. sale price of the transaction minus the cost of goods sold.
D. gross margin dollars divided by net sales, expressed as a percentage.

7. Unlike companies with low gross margins, companies with higher gross margins will have

A. more money to spend on business operations.
B. less money to spend on business operations.
C. higher cost of goods sold and higher cost of operations.
D. lower cost of goods sold and higher cost of operations.

8. If your company records $15 million in annual sales with a gross margin of 25%, what amount of gross margin dollars would it generate?

A. $600,000
B. $3.75 million
C. $11.25 million
D. $2.5 million

9. Some distributors average their overhead costs based on the

A. number of order transactions conducted.
B. average cost of employee benefits.
C. number of customers serviced by outside reps.
D. average total labor cost per year.

10. Among the activities that can enhance a distributor's profitability are

A. returned goods.
B. large sales volume.
C. frequent small orders by a customer.
D. billing customers when order is placed.

CHAPTER 2

Quiz

What Makes a Sale Profitable?

11. Assume a distributor has $5,000 in sales, $3,000 cost of goods sold, $500 in outside sales costs plus $1,000 in other overhead. What is the distributor's net profit?

A. $2,500
B. $2,000
C. $1,000
D. $500

12. The MAIN goal of an outside salesperson is to

A. apply activity-based costing to all sales.
B. make profitable sales for a distributor.
C. advise customers about how to save money.
D. avoid making mistakes when taking orders.

(Answers below)

Answers: 1-C; 2-D; 3-A; 4-C; 5-B; 6-D; 7-A; 8-B; 9-A; 10-B; 11-D; 12-B

CHAPTER 3

Increasing Sales and Their Profitability

The worst crime against working people is a company which fails to operate at a profit.

~Samuel Gompers

After reading and studying the material in this chapter, you will be able to:

1. **List several ways to turn an unprofitable sale into a profitable one.**
2. **Explain the importance of holding the line on price.**
3. **Describe eight strategies that decrease overhead.**
4. **Explain how mistakes kill profits.**
5. **List eight characteristics of unprofitable customers.**

Increasing Sales

and Their Profitability

Do you remember from the previous chapter what can cause unprofitable sales?

Unprofitable sales are caused when customers require more services than they pay for in gross margin dollars.

The next question from a profitability perspective ought to be: "How can I help turn an unprofitable sale into a profitable one or turn a low-profit sale into a higher-profit one?"

To find out the many answers to this question, let's analyze the order from BLT Wholesale Distribution Company from the previous chapter.

BLT Wholesale Distribution Company

	$1,000	Sales
–	$ 750	COGS
=	$ 250	Gross Margin Dollars
–	$ 240	Activity Costs
	$ 10	Net Profit

How to Increase the Profitability of a Given Transaction

Adding line items at acceptable margins will increase gross margin dollars and the profitability of the sale

Increasing sales volume may help boost profitability in many cases. The key factor is to increase income without eroding gross margin.

Let's examine what would happen to this order if BLT Wholesale Distribution's $1,000 sale was increased by one $300 line item when an inside salesperson working with the outside salesperson added one line item, with gross margin remaining at 25%. The new arithmetic would be:

	$1300	Sales Volume
x	25%	Gross Margin
=	$ 325	Gross Margin Dollars

1. Outside sales expense would remain at $115 because no additional sales call was involved. Remember, outside sales calls are itemized based on the number of calls made, not per order or line items generated.
2. Inside sales expense tends to be allocated per line item, which we determined earlier to assign at $2.20 each. Since this order was increased from five line items to six, we must add $2.20 in inside sales expense for the additional line item. Remember, when a company uses activity-based costing (ABC) overhead costs are assigned to products.

3. Order processing expense would increase a little as well. We assigned $2.00 to the original order of five line items, so let's add 40 cents to cover this added item.

4. Warehouse handling also would increase for a separate line item. We charged $10 for the original order of five lines items, so add another $2.00 for handling this extra line item.

5. Delivery costs typically are measured on a per-stop basis. Delivering six items instead of five would not require an extra stop. As a result, extra delivery cost would be negligible for adding one line item to the order.

6. As for billing/accounts receivable, let's add 40 cents, just as we did for the order processing activity.

7. Inventory carrying cost also would be charged per line item. The original order tallied $75 in carrying costs, or $15 per line item. So add $15 to cover the new item.

A review shows that when the outside salesperson sells an additional line item for $300, the additional activity costs are:

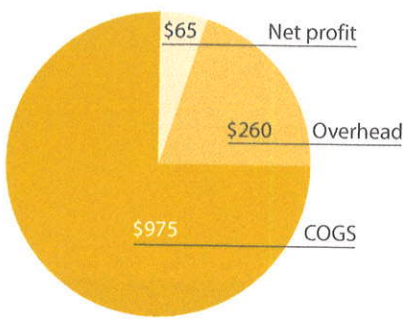
	$ 2.20	***Inside Sales***
+	***$ 0.40***	***Order Processing***
+	***$ 2.00***	***Warehouse Handling***
+	***$ 0.40***	***Billing/Accounts Receivable***
+	***$15.00***	***Inventory Carrying Cost***
=	***$20.00***	***Total Additional Overhead***

Remember, this order generated $325 gross profit dollars as opposed to $250 for the original order. That's $75 in additional gross profit. Subtracting the $20 in extra ABC expense leaves the distributor with $55 added to the bottom line for just this one line item, or a total of $65 net profit dollars for the entire $1,300 sale.

By spreading the larger one-time-per-order ABC expenses over more line items, the profitability of the sale usually improves.

Adding line items to a sale almost always results in higher gross margin dollars than additional expenses needed to service those extra line items.

New BLT Sale



$1300 Sales

	$1300	***Sales***
–	***$ 975***	***COGS***
=	***$ 325***	***Gross Margin Dollars***
–	***$ 260***	***Overhead***
=	***$ 65***	***Net Profit Dollars***
	$ 65	***Net Profit Dollars***
÷	***$1300***	***Sales***
=	***5%***	***Net Profit Percentage***

Adding that single $300 line item to this order has increased the net profit from 1% to 5%, which is above average in most distribution industries. By increasing sales by one $300 line item, or 30%, the salesperson has increased the net profit on the transaction by 500%!

Adding a line item to a sale is one of the most effective profit-building activities that a salesperson can perform.

Increasing gross margin has a huge impact on the bottom line

In setting up the BLT Wholesale Distribution example, we assumed gross margin of 25% on a $1,000 sale. This is about average in some distribution industries.

Suppose we changed that assumption. Let's leave all other cost factors the same. We're still dealing with BLT Wholesale Distribution's $1,000 sale on an order with five line items. The seven BLT activities remain the same. However, let's assume the salesperson does some ***upselling*** and this order provides an overall gross margin of 30% instead of 25%. Unlike selling an additional product, increasing margin does not result in added overhead expense—with the possible exception of a commission the salesperson might earn on the extra margin dollars. Since commission practices vary widely, let's assume for the sake of simplicity that this added margin entailed no extra commission.

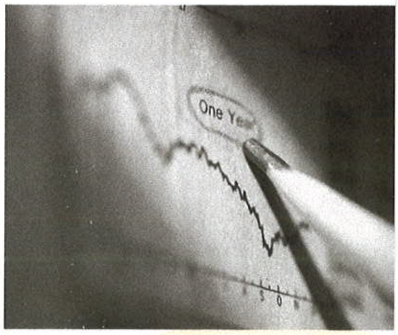
A 30%, rather than a 25%, gross margin would generate $300 gross margin dollars, rather than $250. With the overhead burden remaining at $240 for this order, the result is $60 net profit, rather than $10. So instead of a 1% net profit margin, the distributor realizes 6% net profit on this sale. That profit is considerably above average in most distribution industries.

By increasing gross margin by 5 percentage points, we increased net profit on the individual sale by 600%!

	30%	***New Gross Margin***
–	***25%***	***Original Gross Margin***
=	***5%***	***Gross Margin Improvement***
	$60	***New Net Profit***
÷	***$10***	***Original Net Profit***
=	***600%***	***Improved Profit Margin***

Holding the line on price protects gross margin dollars and net profits

Outside salespeople may get pressured by customers to lower the price on various items or on entire orders. Some distributors give their salespeople the authority to lower prices under certain conditions. It is hard to resist the temptation to give in when it seems necessary to salvage a sale.



The salesperson who thinks he or she "saved the sale" actually turned a bare bones net profit of 1% into a 4% loss.

Think of what it means to grant a customer request for an "extra five"—a common expression when asking for a 5% discount. This would mean, for example, that instead of charging the customer $1,000 for an order, the rep lets it go for $950. The distributor's cost of goods didn't change. It remains $750. That means your gross margin dollars just shrank from $250 to $200.

All of BLT's cost activities defined earlier remain the same. They still add up to $240. Suddenly, an order that barely squeezed out a $10 profit becomes a losing sale. You're now $40 in the red. The salesperson who thinks he or she "saved the sale" actually turned a bare bones net profit of 1% into a 4% loss. An illustration of the effect of giving away an "extra five" follows.

Effect of giving away the "extra five"

	Original order	*After a 5% discount*
Selling Price	$1000	$950
Cost of Goods Sold	$ 750	$750
Gross Margin Dollars	$ 250	$200
Overhead	$ 240	$240
Net Profit	$ 10	(-$40)

"Aw, but it's only 5%!" That's the way a customer looks at a request for a price break. A professional salesperson understands the profound damage that cutting prices will do to the company's bottom line.

Decreasing Overhead Can be a Key Strategy to Increase Profits

Now let's look at the situation from a different perspective. Assume you strike out at all attempts to increase the sales volume of the order, and gross margin is stuck at 25%. Still, there are chances left to boost the order's profitability.

✔ ***Eliminate Outside Sales Call***	✔ ***Improve Warehouse Operations***
✔ ***Increase DSS Efficiency***	✔ ***Request Counter Pickup***
✔ ***Process Order Electronically***	✔ ***Shorten Billing / Accounts Receivable***
✔ ***Reduce Paperwork***	✔ ***Reduce Inventory Carrying Cost***

Let's take a look at these items in a bit more detail.

Increasing Sales

and Their Profitability

With every one of the seven activities measured in our BLT example, opportunities exist to increase profitability. For example:

1. **Improve outside sales call**

   Does this customer really require a visit from an outside salesperson? An analysis of buying habits over time usually will provide an answer. If the customer is in the habit of placing $1,000 delivery orders that results in 1% net profit, it might be wise to turn this into an inside sales only account. With the average price of an outside sales call averaging well over $100 for most distributors, outside salespeople cannot afford to waste time with routine order taking. As accounts mature, it often makes sense to transition order handling from outside to inside sales. Progressive distributors are redefining the role of the outside salesperson into that of a prospector and new account builder, troubleshooter, and key account specialist.

2. **Increase inside sales efficiency**

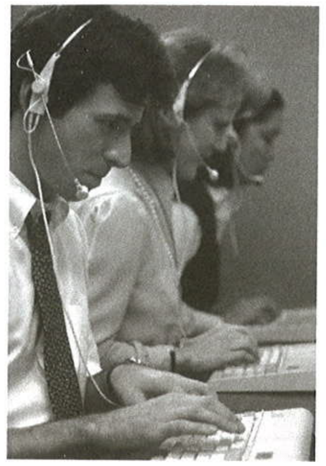
   An efficient inside salesperson can trim inside sales expense. Instead of taking two phone calls from customers checking on technical information and order status, perhaps one would be sufficient if the salesperson took time to ask, "May I help you with anything else?" before hanging up. Distribution industry studies have shown that the single biggest factor in improved distributor profitability is increasing the number of line items per order. And though additional line items will be a little more expensive to process, the added gross margin dollars typically increase more dramatically. The inside sales staff holds the key to boosting line item sales. All else being equal, distributors with the most capable inside sales staff who work closely with outside sales professionals will out-perform competitors.

3. **Process the order electronically**

   Many distributors are turning to email and the Internet to streamline order processing. For example, it is common for customers to order from the distributor's Website.

4. **Reduce paperwork**

   Order processing expenses can also be reduced by a close analysis of paperwork flow. Does everyone who gets copied on an order really need to be copied? Can two forms be consolidated into one? Can forms be simplified?



Inside salespeople can increase the number of line items per order to boost the overall profitability.

5. **Improve warehouse operations**

   Many opportunities exist for greater efficiencies in warehouse operations. Some distributors have turned to automated warehouse management systems that speed up operations and improve accuracy. Rather than paper order sheets, workers can use radio frequency electronic devices that direct them to the most efficient picking routes. The devices also have a bar code scanner that records items picked and automatically updates inventory. Even without automated systems, it's possible to shave warehouse expense through better organization.

6. **Request counter pickup**

   Salespeople can shave expenses by asking customers to pick up goods at the supply house rather than waiting for delivery. Some distributors enact separate delivery charges to help cover expenses. This is a good practice where market conditions allow it. However, in markets where competing distributors offer free delivery, it's hard to buck that trend without losing business. (In reality, it's an illusion that delivery ever is free. If not billed separately, the cost is captured as overhead and built into selling prices.)

7. **Shorten billing/accounts receivable times**

   The biggest savings opportunity here is to convince the customer to pay on time or early. Mindful of those inventory carrying costs, many distributors offer discounts of 1% to 2% on invoices paid within a short time, usually 10 days. Some technologically advanced distributors also save money with paperless billing systems or Internet-based networks with customers. When customers can access their invoices or track their own orders over a secure Website, calls to inside sales just to get a price off a recent order or a copy of an invoice are reduced. This saves the salesperson time—time that could be spent selling. Savings can also be realized with automated payment systems.

8. **Reduce carrying cost of inventory**

   Inventory cost can be reduced or eliminated by arranging for certain orders to be delivered direct from a manufacturer, rep warehouse, or master distributor. This can be an effective way to maintain profitability on large orders with low margins.

CHAPTER 3

Increasing Sales

and Their Profitability

Eliminate the Mistakes that Kill Profits

Let's not forget this message from Chapter 2: mistakes are to profitability what a plane crash is to on-time arrival. Think of all those activity costs involved in reordering, repicking, repacking, and reshipping goods—often on an emergency basis. Then remember to add the cost of taking back the materials previously delivered by mistake. Think of how unproductive a salesperson's time becomes when coordinating these activities, plus dealing with disappointed and angry customers. Shouldn't the salesperson be spending more time selling and facilitating orders? Even the healthiest gross margins can be rendered unprofitable by the cost of activities needed to correct mistakes.

Think of how unproductive a salesperson's time becomes when customers are disappointed or angry.

Consider this stark reality: If a distributor is making 2% net profit on sales and the mistake wipes out that profit, it takes 50 times the cost of the mistake in new sales to pay for the mistake! Here's the math on a $20 mistake:

	$1000	***Original Sale***
x	***2%***	***Net Profit Margin***
=	***$ 20***	***Cost of Original Mistake***
	$ 20	***Cost of Original Mistake***
x	***50***	***New Sales***
	$1000	***Original Sale***

Some customers are profitable—many are unprofitable

So far in this chapter, we have focused on understanding the factors that determine the profitability of an individual transaction. As a practical matter, it's unlikely that any distributor could make every transaction profitable. Unforeseen circumstances make it inevitable that an occasional sale will result in a loss.

The purpose of using activity-based costing to assess individual transactions is to develop and study customer purchasing patterns. If a customer repeatedly makes purchases that are unprofitable for the distributor, it may be possible to change that purchasing behavior. Computers and specialized distribution software programs now enable distributors to apply activity-based costing to every transaction, every line item, every customer, and every group of customers.

Using such data, some distributors have raised their prices for customers who cost more in direct expense to service than they contribute in gross profit dollars. In some cases, distributors "fire" these customers. In other words, the distributors stop selling to these customers unless they change their buying habits. Other distributors simply refuse to make any price concessions or provide extra services until the problem customers just go elsewhere. These are management decisions and should not be taken lightly.

A better solution is to encourage unprofitable or low-profit customers to change the way they do business with you. Frequently, customer practices that lead to unprofitable sales for a distributor also cost the customer needless time and money. A salesperson who can identify unprofitable orders is in a prime position to suggest better business practices that will be win-win for both the distributor and the customer.

Increasing Sales

and Their Profitability

Unprofitable Customers are Easily Identified

Even without detailed data, a sharp salesperson shouldn't have much trouble identifying the least profitable—or even unprofitable—customers. In general, the least profitable customers will exhibit one or more of the following characteristics:

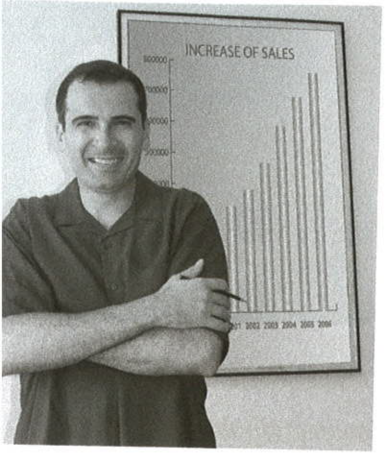
1. **Ordering too little, too often**
2. **Demanding too many sales or troubleshooting visits in relation to purchase volume**
3. **Demanding delivery of small orders or small margin orders**
4. **Tying up distributor personnel with excessive phone calls and requests**
5. **Habitually returning goods and/or canceling orders**
6. **Price shopping, cherry picking, and haggling over price**
7. **Constant complaining**
8. **Slow payment of invoices greater than 45 days**

A salesperson who notices one or more of these patterns in customers must nudge them toward more profitable behavior. Such patterns should be discussed with management. As an example, let's take the first warning sign—ordering too little, too often.

A salesperson who notices an unprofitable customer has the responsibility of nudging him/her toward more profitable behavior. This situation should be discussed with management.

Economic order quantity (EOQ) assessments can aid effective ordering

Customers obviously don't want to order more material than they can use in a reasonable time period because they, just like distributors, get penalized with carrying costs. However, many fail to realize that too many acquisitions also can lead to needless expense. It takes time to evaluate what's needed, to place the order, receive the goods, and so on. Plus, the more separate orders placed, the more chances there are for mistakes to be made. Central to the business of distribution is deciding how many of which products to order and when. Most distributors follow inventory management guidelines known as ***economic order quantities (EOQ)***. These mathematical formulas are used to determine the quantity and purchasing frequency for any given product line.



It takes no special talent to generate a large amount of sales volume simply by cutting prices and giving in to every customer demand.

The formulas take into consideration factors such as historical usage, cost of the product, acquisition and ownership costs, turnover rates, and lead times.

EOQs advise distributors of ideal minimum and maximum stock quantities. Minimums pertain to the fewest number a distributor should have on hand to fulfill anticipated demand for a given product. When inventory reaches that level, EOQs signal that it's time to order more. The maximum guideline tells the distributor an optimal quantity to order. Its goal is ensuring that the distributor doesn't tie up money with more goods in stock than necessary.

Maintenance, Repair, and Operations (MRO) customers, in particular, could benefit from an EOQ analysis. These customers purchase materials to sustain a factory or keep production lines running. Many MRO customers are fearful of running out of items needed to avoid production shutdowns. As a result, they place frequent orders for a small amount of goods every time they use a few. In doing so, their acquisition costs go through the roof. An EOQ assessment could show them that it would be more economical for both of you if they would order, say, 20 items once a month rather than five items to be delivered each week.

Much money also can be saved if large-volume orders are shipped directly from a vendor's factory to the customer, rather than passing through a distributor's warehouse. Distributors frequently use this tactic to fill sales orders that are highly competitive and offer low gross margins. When you eliminate the costs of physical handling of the goods and delivery, some sales can be reasonably profitable for a distributor—even at single-digit gross margins.

Your primary job is to make profitable sales

Something to keep in mind is that the single most important duty of an outside salesperson is to make profitable sales for the distributor that employs you. It takes no special talent to generate a large amount of sales volume simply by cutting prices and giving in to every customer demand. To rise to the top of the field, a salesperson must become an astute businessperson who can sell products that may be priced higher than the exact same products sold by competitors.

In the next chapter, you'll learn ways to increase your profit by selling add-ons and upgrades.

Quiz

Increasing Sales and Their Profitability

1. Which of the following is NOT a good way to increase profits on a transaction?

A. Increase line items on an order
B. Request counter pickup of goods
C. Upsell to an item with a higher gross margin
D. Save the sale by granting a discount

2. If a distributor uses activity based costing (ABC), the profitability of the sales usually improves because

A. revenue and expenses generally increase.
B. expenses are spread over more line items.
C. orders get shipped from a distributor's warehouse.
D. more attention is paid to the actual costs of those sales.

3. If you reduce gross margin of a profitable sale by 5%, the net profit of that sale will be

A. increased by a much larger percentage.
B. decreased by a much larger percentage.
C. increased by a smaller percentage.
D. decreased by the same percentage.

4. According to the principles of activity-based costing (ABC), how would the cost of outside sales be calculated for a transaction that included an outside sales call?

A. Total outside sales expense for a given time period would be divided by the number of calls made in that period.
B. The total outside sales expense for a given time period would be divided by the number of orders taken in that period.
C. The total outside sales expense for a given time period would be divided by the line items ordered in that period.
D. The salesperson's salary would be divided by the number of orders taken during the previous accounting period and would be used to calculate the cost.

Quiz

Increasing Sales and Their Profitability

5. Which of these activity areas would NOT entail additional cost if an extra line item is added to a customer's order?

A. Inside sales
B. Warehouse handling
C. Delivery
D. Inventory carrying costs

6. If a sale generates $325 in gross margin dollars and the amount needed to service that sale is $260, what is your net profit?

A. $45
B. $65
C. $85
D. $55

7. One of the most effective profit-building activities a salesperson can perform to improve the profitability of a sale is to

A. make follow-up calls to a customer.
B. give the customer an "extra five."
C. process an order electronically.
D. add a line item to a sale.

8. Which of the following is the BEST way for distributors to increase the profitability of their sales orders?

A. Increase the number of orders that require outside sales calls.
B. Require customers to order via return mail.
C. Deliver all orders to increase efficiency.
D. Decrease the number of orders that require outside sales calls.

9. If a distributor is making 2% net profit on sales and a mistake wipes out that profit, how much in sales does it take to make up for the cost of the mistake?

A. 50 times the cost of the mistake in new sales
B. Sales equal to the cost of the original mistake
C. Another new sale of equal value
D. 2 times the cost of the mistake in new sales

CHAPTER 3

Quiz

Increasing Sales and Their Profitability

10. An outside salesperson can easily identify unprofitable customers by looking for which of the following habits?

A. Frequent, large orders
B. Paying invoices within 30 days
C. Calling the inside salesperson each month
D. Frequent, small orders

11. The inventory management guidelines known as economic order quantity (EOQ) are used to determine the

A. quantity and purchasing frequency of any product line.
B. number of warehouse employees picking and pulling orders.
C. inventory carrying costs of any particular product line.
D. mathematical formula to use in calculating the profitability of a product line.

(Answers below)

Answers: 1-D; 2-D; 3-B; 4-A; 5-C; 6-B; 7-D; 8-D; 9-A; 10-D; 11-A

CHAPTER 4

Increase Perceived Value to Increase Profits

Perceived value has a great deal to do with how much money a distributor can make.

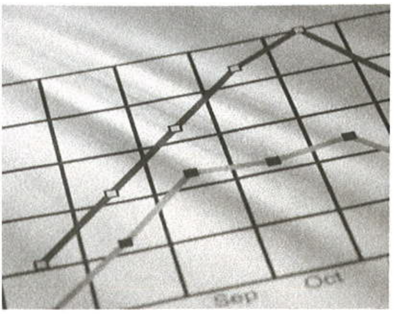
After reading and studying the material in this chapter, you will be able to:

1. **Explain the difference between cost and perceived value.**
2. **Identify 10 factors that influence customer price sensitivity.**
3. **Explain how distributors can add tangible value to the goods they sell.**
4. **Recognize opportunities to sell adds-ons and upgrades.**
5. **Explain the importance of adding line items to each order.**

CHAPTER 4

Increase Perceived Value

to Increase Profits



A distributor's costs are the amount spent to acquire goods and produce services. Costs are defined in dollars and cents.

The price charged for products sold by a distributor needs to incorporate not only the cost of those goods, but also their value to the buyer in that marketplace. Ultimately, this value is expressed in dollars and cents, but getting there involves psychology as well as arithmetic.

Value is a buyer's perception of how much a product or service is worth.

Perceived Value Varies with Different Situations

"Value" is a buyer's perception of how much a product or service is worth. How value is perceived depends on the situation. A person dying of thirst in the desert might be willing to give up everything for a jug of water, yet would regard a sack of gold to be worthless.

Consider another example that is relevant to the distribution business. A manufacturer uses a high-pressure, abrasive process that quickly wears out a certain metal component of the production line. This component costs $5 and tends to fail about once a month. Each time a failure occurs, the manufacturer must shut down the line and replace the component. It costs the manufacturer an average of $1,000 every time the line must be shut down.

Suppose a salesperson working for one of the manufacturer's distributors has heard about new components with a ceramic lining that should last at least six months under the same conditions. The ceramic-lined components sell for $50 apiece—10 times as much as the conventional metal units.

However, instead of monthly shut downs to replace the metal components, the manufacturer can expect only two shutdowns a year with the new ceramic components.

Expressed in terms of cost, the ceramic components cost the manufacturer 10 times more per unit. Using two of the ceramic parts at $50 apiece, rather than 12 metal components costing $5 each, means $40 a year more in material expense. This equates to an annual material cost increase of 67%. However, the cost associated with the production shutdowns would significantly drop. With only two shutdowns per year—compared to 12—the manufacturer would realize operational savings of $10,000 annually.

Customers are less price sensitive in some situations than others

In the example just cited, two different perspectives come into play. The salesperson is trying to sell a customer an item that costs 10 times more than the customer is used to paying for a similar product. Some customers might focus on this and object to paying so much more. In such a situation, a skilled salesperson would move the focus of the conversation away from cost and toward the value of the ceramic component.

Although the material cost is $40 per year higher, the potential savings to the customer is almost $10,000 a year. Paying that extra $40 to achieve this savings is pretty smart, wouldn't you agree?

Here's how a skilled outside salesperson might present this to a customer.

Cost/savings comparison on metal vs. ceramic components

Metal Component	
Old metal component cost	*$5 per unit*
Units used per year	*12*
Annual cost of component	*$60*
Cost of 12 line shutdowns	*$12,000 ($1,000 x 12)*
Annual total cost to customer	*$12,060 ($12,000 + $60)*
Ceramic Component	
New ceramic component cost	*$50 per unit*
Units used per year	*2*
Annual cost of component	*$100*
Cost of 2 line shutdowns	*$2,000 ($1,000 x 2)*
Annual total cost to customer	*$2,100 ($2,000 + $100)*
Difference in total cost:	
$12,060	*Metal Component Cost*
- $ 2,100	*Ceramic Component Cost*
= $ 9,960	*Annual Savings*

A salesperson must recognize when opportunity knocks.

By explaining how paying only $40 extra for better material, the outside salesperson helps the customer realize $9,960 a year in total savings. That is a spectacular value.

A salesperson must recognize when opportunity knocks

Let's pose another question: Could this outside sales rep have sold the ceramic component for more than $50? Given that the customer stands to save almost 20 times that amount in overall savings, the answer is probably "yes." But the answer could also depend on a number of other factors such as timing or availability. Knowing when you can charge higher prices is a matter of gauging ***customer price sensitivity***.

10 Factors That Affect Customer Price Sensitivity

Competition puts restraints on the price that distributors can charge for any given item. But the opposite also holds true. Lack of competition usually enables distributors to increase prices and margins.

1. Exclusivity for valuable products may permit premium prices

Distribution is a highly competitive business. Not only do competing distributors sell many of the same products, but those same products often can be obtained through other sales channels as well, such as retail stores, over the Internet, etc.

Nonetheless, many distributors enjoy a degree of exclusivity on certain products. Sometimes this arises by an agreement with a vendor. More often, it stems from decisions by the distributor to take on products that competitors don't know about or have access to—or which they don't recognize as having good sales potential.

Suppose the distributor in the previous example was the only one in that area stocking the ceramic components. In that case, the distributor probably could charge more than $50 apiece for the items. Let's assume the distributor raised the price to $100. The math still shows enormous annual savings for the customer:

New component cost	***$100 per unit***
Units used per year	***2***
Annual cost of component	***$200***
Cost of 2 line shutdowns	***$2,000 ($1,000 x 2)***
Annual total cost to customer	***$2,200 ($2,000 + $200)***

Difference in total annual cost between old metal component and ceramic component: $9,860 ($12,060 - $2,200)

We could plug higher numbers, such as $500 and $1,000, into these equations and still show substantial savings for the customer. However, it is likely that at some point the distributor would encounter psychological limits to perceived value.

Perceived value has self-imposed limits

Asking someone to pay $1,000 for a component that once cost $5 might lead to buyer resistance no matter how much savings can be demonstrated. The customer might be tempted to shop around and see what other distributors charge for the same component.

Distributors that did not carry the item might begin to investigate the product once they found out how much their competitor charged. for. They could discover its profit potential and start selling it as well. Competition would then force down local selling prices for the item.

For certain products, it can be worthwhile for a distributor to push the limits of pricing to see what the market might bear. It's simple to lower prices in an effort to spur more sales. It's harder to increase established prices once customers get used to paying a low amount. When a distributor has exclusivity on a certain product or line, it is one of the best opportunities to charge premium prices.

2. New products offer a pricing "window of opportunity"

Product exclusivity is limited in many distribution industries. It's usually in the interest of manufacturers to sell popular products through as many distributors as possible.

Sometimes distributors form a committee composed of purchasing and sales personnel to determine which new products to take on.

One of the best opportunities for distributors to gain exclusive sales is when a new product comes out. For at least a brief time, a particular distributor might be the only one selling it. This is why many distributors constantly are on the lookout for new products to sell.

This doesn't mean it's a good idea to buy every new product that comes out. Distributors take a risk when they invest money in unproven products. Many products turn out to have unknown defects or lack customer appeal for a variety of reasons. There are probably more losers than winners with new products.

Purchasers frequently seek advice from inside and outside sales personnel on whether they should take a chance on a new product. Sometimes distributors form a committee composed of purchasing and sales personnel to determine which new products to take on. A salesperson can become more valuable to the company by sharing knowledge of product features and benefits that will satisfy customers' needs and desires. A good salesperson should be on the lookout for new products all the time.

When a new product turns out to be a hot seller, exclusivity typically lasts for only a short period of time. Competing distributors start to sell it as well. Then customers are able to shop around for better prices and, as a result, margins tend to shrink. Nonetheless, new products frequently offer distributors a way to expand selling prices and margins.

3. Infrequently ordered products allow for higher margins

Another factor impacting price sensitivity is customer familiarity with a product. Think of grocery shopping. Most consumers are familiar with the price of household staples such as bread and eggs because they often buy them. For that reason, staples usually are sold at low margins—often as loss leader items. Grocers make up the difference with higher margins on gourmet foodstuffs and less frequently purchased items.

The same logic applies to the distribution business. In general, the more frequently customers order a product, the more familiar they are with its typical price. When it comes to products they purchase only on rare occasions, customers are not as familiar about what kind of pricing is appropriate for those products.

4. **Higher prices on unfamiliar products can imply premium value**

   Lack of familiarity also can be turned to your advantage in another way. For products that are unusual or new, higher prices can send a sense of premium value.

   Think of shopping in a wine store and trying to choose between two bottles of wine you're not familiar with, but you are tempted to try. One bottle sells for $15, the other for $25. Most people would assume the $25 bottle is of higher quality.

   That's not always true. Even experienced wine drinkers find that some lower-priced varieties taste better than more expensive brands. Or they may feel the higher-priced wine is a bit better, but not enough to justify the price differential. However, if they are in the mood to experiment, they might opt for the higher-priced wine precisely because of its higher price.

Experienced wine drinkers may find that some lower-priced varieties taste better than more expensive brands.

5. **Unfamiliar brands and private labels invite unique pricing strategies**

   Distributors can benefit from this kind of buyer psychology. Sometimes they can earn higher margins selling unfamiliar brands that are positioned as premium products. Some distributors employ this strategy with privately labeled merchandise.

   Some distributors use private labels as a merchandising strategy to differentiate themselves from competitors. Private labels may bear the distributor's name or some other identity. In either case, they give a distributor an exclusive brand to sell.

   Frequently, private labels are used on goods produced by low-cost overseas manufacturers. This enables distributors to sell the goods at lower prices than competing brand name products, but at healthy margins. In other cases, a private label may be marketed as a premium-priced product that is superior to competing brands. This is where unfamiliarity and exclusivity can work to a distributor's advantage.

6. **Emergencies justify higher prices**

   Customers occasionally need an item on an emergency basis. In these situations, they are not inclined to shop around for the best price. If they call your company to locate the product, most likely they'll be willing to pay any price you quote, within reason.

It's hard to define precisely what "within reason" may mean. Distributors always have to weigh short-term profit opportunities against the value of long-term business relationships. Distributors certainly don't want loyal customers accusing them of gouging at a time of dire need.

It's important to keep in mind that supplying goods in an emergency adds cost for the distributor. It may require a special delivery to a jobsite. The distributor might not have the product in stock and must obtain it elsewhere at a premium price. The sales rep and warehouse personnel may have to interrupt their normal duties to fill the emergency order. Overtime pay for some employees may result. These extra costs may well justify a variable fee for after-hours service. Some distributors will waive the fee for their regular, more profitable customers.

These special efforts cost distributors money and disrupt normal operations. That's why they are justified to sell items at substantially higher prices or suspend normal discounts during emergencies and unusually high-demand periods.

7. Special orders require higher margins

Closely related to emergency orders are situations in which a customer makes special demands on a distributor. Maybe it's to purchase a product not normally carried by the distributor, or to package the item in an unconventional way, or ship it to a location off the beaten path.

As a general rule, it's good to accommodate special requests as a matter of customer service. But it's important to be sure that the profit margins of these sales are adequate to cover the extra burdens they place on the distributor and its employees.

8. Six single cans sell for more than a six-pack

Another type of sale that requires higher margins occurs when a customer wants a smaller quantity of items that are normally sold bundled in a package or case. It's like a grocery store selling individual cans of beer or soda at a higher per-unit price than if they were sold as part of a six-pack. Breaking up a package or case results in extra labor and accounting costs. Plus, the case then becomes impossible to sell except as individual units.

9. Tiny price tags offer huge mark-up opportunities

Small-ticket items that cost just a few dollars or less generally need to be sold with extraordinary mark-ups. The labor involved in handling and keeping track of these items can add up to more than the cost of the products themselves.

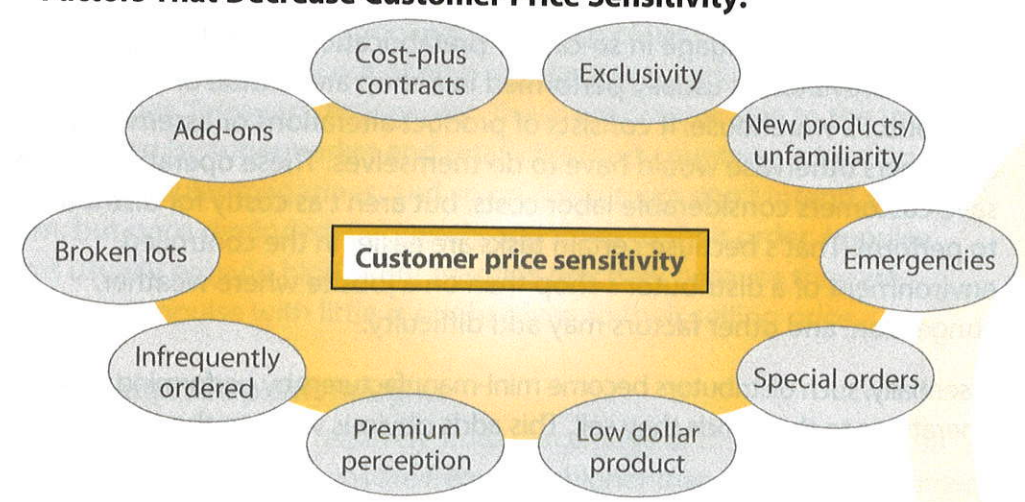
If a distributor pays $1 for a small repair part, it makes more sense to sell it for $2 or $3 than at the normal mark-up range of $1.25 to $1.50. It's doubtful that any customer will run to another supply house to buy it just because the other distributor sells it for 50 cents less. Items with tiny price tags tend not to be price sensitive.

Items with tiny price tags tend not to be price sensitive.

10. Cost-plus customers are not very price-sensitive

Another good opportunity to boost gross margins comes in selling to customers that work on cost-plus contracts. As the term suggests, these arrangements usually require customers to submit material purchase receipts to their employers for reimbursement of expenses. The party paying the bills usually has some type of review process that questions extraordinary amounts, so we're not saying the sky is the limit in what you can charge. Yet customers working on a cost-plus basis usually won't be as price-sensitive as those whose profits are more directly related to expenses. These customers tend to be more concerned with product performance and reliability than cost. They are prime candidates for sales of premium-priced, high-performance products entailing high margins.

Factors That Decrease Customer Price Sensitivity:



Distributors Frequently Add Tangible Value to the Products They Sell

So far in this chapter, we've addressed the idea of "perceived value." This is the value that exists in the minds of customers in relation to the various situations already discussed.

Yet value exists in more than just the mind. Distributors contribute real value to the products they handle. In previous chapters, we've discussed some of the intangible value inherent to the business of distribution. This includes factors such as a large warehouse stocked with comprehensive inventory, availability of credit, knowledgeable employees, and so on.

We call these "intangibles" because customers tend to take them for granted. Some view distributors as simply the "middle man" in the supply chain and overlook the value that distributors bring to the table.

Prefab and kitting are valuable services

Many distributors add tangible value to the products they sell through processes that physically alter the products or the way they are presented.

These added value processes include threading or beveling pipe, as well as welding or assembling components. They also may include the "kitting" of products, i.e., grouping a family of goods that are usually used together into one convenient package or kit. Items like boilers, oil tanks, and other items can be sold with accessory packages that simplify installation, carry a higher profit margin, and add gross margin dollars to the order.

Some distributors engage in so-called "prefabrication." Prefab, as it's often abbreviated, is usually performed in a shop area inside or outside a distributor's warehouse. It consists of product alterations or assemblies that customers otherwise would have to do themselves. These operations often save customers considerable labor costs, but aren't as costly for distributors to perform. That's because certain tasks are easier in the controlled environment of a distributor's shop than on a jobsite where weather, congestion, and other factors may add difficulty.

Essentially, such distributors become mini-manufacturers by performing finishing operations to the goods they sell. This adds obvious value to the products.

Prices for altered, assembled, or kitted goods must be correspondingly higher to cover the added costs to the distributor—along with the added value to the customer.

In most industries, only a handful of distributors in a given market perform such operations. Those that do typically earn high gross margins on these altered products.

Add-ons and Upgrades Can Improve Profits

How often have you heard the phrase "Do you want fries with that?" This is nothing more than the strategy adopted by the quick service restaurant industry of asking customers whether they want French fries with any order that does not include them. These businesses have found that many customers who may not have wanted fries originally will say, "Aw, alright," once they are prompted.

Distributors have similar opportunities to boost profit margins by selling add-ons to their customers. Sometimes customers simply forget to specify them, while others may believe they are already included. Customers placing phone orders frequently forget certain items that are part of the same family of goods or that are needed for certain kinds of projects.

For example, a remodeling customer might order a host of construction materials and tools from a distributor but overlook something like touch-up paint. A skilled salesperson would remind the customer of this oversight.

The "fries" in many distribution industries also could be consumable items that customers often run out of on a regular basis—polishes, cleaners, putties, wipes, fasteners, fittings, etc. These are comparable to the impulse items placed by supermarket and retail checkout counters—chewing gum, batteries, popular magazines, and so on. Customers don't intend to buy them, but once reminded, frequently add them to their order. Impulse items usually provide high profit margins precisely because they are bought on impulse with little thought given to their selling price.

Add-ons improve profit margins

Add-ons typically entail a relatively small percentage of the total price of an order. Yet, their profit margins are frequently higher than the rest of the order.

That's because since the customer didn't think to ask for them in the first place, he or she probably is not inclined to do any comparison shopping. Impulse purchases are just that—impulsive reactions.

Upgrades go hand-in-hand with add-ons

A salesperson can boost the company's income through upgrades as well as add-ons. The ceramic component example used to introduce this chapter is a perfect example of upgrade selling. A salesperson should always keep in mind the best merchandise available in any product category.

When an order is placed for run-of-the-mill goods, it's simple for a salesperson to ask the customer, "Are you aware that Product B performs better/lasts longer/looks more attractive...etc."

The more knowledge a salesperson possesses about customers' businesses, the better able he or she will be to boost sales volume and margins through add-on and upgrade sales.

Gross Margin Dollars are the Key

So far, we've discussed ways to boost gross margin percentages for the sales made by a salesperson. In the longer view, percentages aren't the most important thing to a distributor. A distributor pays bills with dollars, not percentages—making gross margin dollars more important.

Gross margin dollars are a function of sales volume as well as gross margin percentage. A distributor with a much larger sales volume will generate more gross margin dollars than a distributor with a higher gross margin percentage on much lower sales.

Example: **A**

	$ 10 Million	***Total Sales***
x	***25%***	***Gross Margin***
=	***$2.5 Million***	***Gross Margin Dollars***

Distributor B

	$ 7 Million	***Total Sales***
x	***30%***	***Gross Margin***
=	***$2.1 Million***	***Gross Margin Dollars***

Add-ons make a big difference

A distribution industry consultant who studied the difference between profit leaders and median-profit companies in a variety of distribution industries came to an interesting conclusion. After examining all the data, he found gross margin percentages to be virtually the same between the high-profit and median-profit companies. The most striking difference between the high-profit and median-profit companies boiled down to two areas:

- **More line items per order**
- **Larger dollar amount per order**

So what does this tell us? Two companies might have the same dollar volume, the same gross margin, and the same gross margin dollars but the higher profit company would have generated that volume and those gross margin dollars with fewer, larger orders to serve and process. When adding line items to orders by selling proactively, a salesperson builds overall sales volume and generate **more gross margin dollars per order**.

Distributors also gain efficiencies by selling larger orders. Selling more goods in the same transaction reduces paperwork, warehouse activity, delivery trips, and so on. Add-on sales not only create more gross margin dollars, they reduce overhead as a percentage of sales. That's why increasing order size can be even more important than increasing gross margin. With today's computer systems, it is relatively easy to consistently be aware of each customer's average order size and profitability. With this information at hand, the sales rep is better positioned to avoid further discounts on orders that are not profitable.

As an outside salesperson, you are in the forefront of this effort to increase order size.

Adding items to each customer order is one of the most important things a salesperson can do to increase your value to the distributor's organization.

A salesperson is obligated to follow the employer's pricing policies and procedures.

A salesperson must adhere to company policies

Sales policies vary with every distributor. Some allow sales personnel quite a bit of leeway to adjust prices on the spot, while others keep them on a tighter rein. A salesperson is obligated to follow an employer's pricing policies and procedure.

If you are granted considerable leeway to adjust selling prices, lock into memory all of the factors discussed in this chapter that lead to customers becoming less price-sensitive. The more experience you gain, the better able you will be to detect when one or more of these factors come into play. This will help both you and your company prosper.

In the next chapter, we'll look at why successful companies and their salespeople rely on a sales process, not just sales skills, to increase their profits. A successful sales process is a proven, documented sales approach with messaging and job aids that represent your winning model for gaining, penetrating, and retaining accounts.

Quiz

Increase Perceived Value to Increase Profits

1. **How customers perceive the value of a product or service depends mostly on**
   A. the price.
   B. how much they feel it's worth.
   C. the gross margin earned by the distributor.
   D. arithmetic and a little psychology.

2. **Which of the following is TRUE about selling upgraded products?**
   A. Customers are usually more price sensitive for upgraded products.
   B. Customers are usually less price sensitive for upgraded products.
   C. Being the exclusive source for an upgraded product is not an advantage for the distributor.
   D. Customers seldom want upgraded or exclusive items.

3. **Of the following items, which would tend to have the LOWEST customer price sensitivity?**
   A. Items that are optional to keeping production lines running
   B. Items that are ordered every few days
   C. Commodity items with several suppliers
   D. Items purchased as part of a cost-plus contact

4. **Cans of beverages priced individually cost more than cans priced as part of a six-pack because**
   A. the seller incurs extra costs.
   B. customers purchase more single cans.
   C. the seller incurs fewer costs.
   D. shipping single cans is more expensive.

5. **A distributor can boost gross margins when selling to customers using the product in a cost-plus contract because the customers are**
   A. more price-sensitive than most.
   B. about as price-sensitive as most.
   C. less price-sensitive than most.
   D. not influenced by the price.

CHAPTER 4

Quiz

Increase Perceived Value to Increase Profits

6. A distributor that sells add-ons to its customer improves profit margins because

A. the goods are stocked in the warehouse.
B. they are always big-ticket items.
C. there is no comparison shopping.
D. the goods have a higher perceived value.

7. Private labels are established by distributors for all of the following reasons EXCEPT

A. To achieve larger market share
B. To create brand loyalty
C. To generate higher margins
D. To easily accommodate special requests

8. The BEST way for a distributor to increase its profits is to increase the number of

A. add-on items.
B. total sales.
C. special orders.
D. private labels.

9. According to the course, which of the following is the key to a distributor's financial success?

A. Sales volume
B. Gross margin dollars
C. Gross margin percentage
D. Emergency orders

10. Which one of the following factors will limit how long a distributor can charge premium prices for a new product?

A. Other new products are developed.
B. Private labels will mimic the new product.
C. Buyers will resist paying higher prices over time.
D. Competing distributors will start to sell it as well.

(Answers below)

Answers: 1-B; 2-B; 3-D; 4-A; 5-C; 6-C; 7-D; 8-A; 9-B; 10-D; 11-A

CHAPTER 5

The Outside Sales Process

We were born to succeed, not to fail.

~Henry David Thoreau

After reading and studying the material in this chapter, you will be able to:

1. **Explain what the term "sales process" means.**
2. **Discuss the importance and benefits of following a systematic sales process.**
3. **Explain the benefits of following an effective sales process.**
4. **Define and explain the major activities in the sales process.**

The Outside Sales Process

More than anything else "sales" is a process—a verified, systematic set of steps for selling a product or service. Learning that process and developing a high degree of competence and confidence in executing the various component activities is vital to growing profitable sales. Salespeople skilled in the component activities control their sales efforts and deliver superior results over those who take a haphazard approach.

With the cost of an outside sales call easily exceeding $100 and competition looking to "eat your lunch" at every turn, wholesaler-distributors need sales teams who go well beyond "order taking." They need to be successful in market development, problem solving, and taking market share. Critical in all of this is making sure that every sale generates enough gross margin to cover the cost of servicing the sale.

In this chapter, we will examine the sales process, learn the advantages of a process approach to sales development, and develop the ability to plan, execute, and track the activities in the process. In subsequent chapters, we will delve into more detail on the specific best practices of top sales professionals. We will also examine the components of a perfect sales call. For now, we will start with an overview of the sales process.

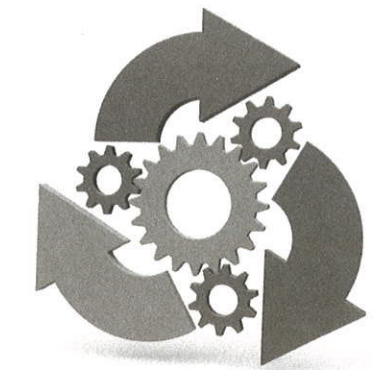
The Sales Process Includes a Logical Series of Steps

The ***sales process*** is series of logical steps involved in selling a product or service. While there are many definitions of this process, just about every one includes several basic activities starting with planning and prospecting through to closing the sale. Conducting follow-up activity is often included.

The activities are included in the following illustration.

CHAPTER 5

The Outside Sales Process



Without the discipline of a sales process the world of selling is chaotic and unprofitable.

In the world of wholesale distribution, sales are more complex and more driven by relationships than at the retail level. This is especially true of those sales opportunities that are important and potentially profitable enough to justify the cost of an outside sales call.

A disciplined sales process is critical to an effective sales effort

Without a disciplined approach to sales, the world of selling is chaos. Salespeople and customers waste time. Salespeople pursue unprofitable sales while missing profitable opportunities. Without a disciplined process, an effort to evaluate the sales team becomes arbitrary rather than objective.

By breaking the sales process into its activities or steps, the distribution team and its sales team members can see exactly where they stand through every step in the process.

Complete attention to every step in the sales process provides benefits

The process approach to wholesale distribution sales helps:

- **Accommodate different sales styles**

  Probably no myth is more pervasive than the idea that there are "born" salespeople. This one goes along with the idea that one is born with "the gift of gab." In truth, some salespeople are self-made, learning what works best through intuition and experience. Others are trained and learn several selling systems, eventually settling on the selling system that produces outstanding results for them. Whether a salesperson is the clichéd "born salesperson" or a talented but more introverted individual, the discipline of the sales process enhances the personality of the "born" person while letting other equally skilled players deliver excellent sales figures.

- **Accommodate present sales activity and enhance future planning**

  The information gathering generated in the steps of the sales process help salespeople track how well they are doing and make adjustments. These activities also uncover new opportunities relating to the customer's business, product sales, and service enhancements.

- **Provide a better transaction for the customer**

  The disciplined approach of the sales process facilitates better identification of customer needs, increases customer satisfaction, reduces mistakes, and increases closings.

- **Identify opportunities for improvement**

  By evaluating activity and performance at each stage in the process, the sales team members can identify areas for improvement. Individual salespeople can hold themselves accountable. Sales supervisors and managers can evaluate performance and coach more effectively.

- **Measure performance**

  One popular business axiom says, "What gets measured gets done." The measures in each step of the sales process help ensure the steps are completed.

- **Put the salespeople in control**

  When salespeople know where they are in the process, the next steps are obvious. Like good chess players, they know when, where, and how to move ahead.

- **Enhance internal customer service**

  The team members who communicate to fellow team members about where they are in the sales process enhance the efficiency of the transaction for internal and external customers alike.

Planning Defines Goals and the Means of Achieving Them

The first step in any sales process is to create a sales plan. In its simplest definition, a ***sales plan*** is a document that defines a company's sales goals and the means of achieving them. The plan provides details that answer what you want to sell, in which period, and to whom you will sell.

The sales plan is often broken down into a spreadsheet(s) that states:

- Annual, quarterly, and monthly dollar and percentage goals
- Annual, quarterly, and monthly unit sales goals

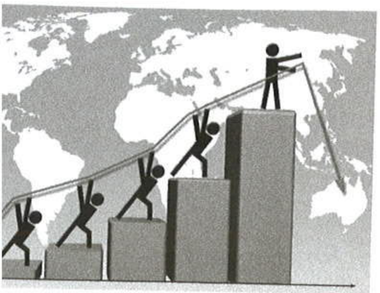
Other components of the plan include:

- Customer sales targets
- Market segment sales targets
- Salespeople assigned
- Territories
- Sales strategies
- Salespeople's sales and margin targets

Numbers drive every component of the plan. Various items such as the type and numbers of sales calls per period are often included.

In theory, sales planning is simple and straightforward.
In reality, executing the plan requires
hard work and can be difficult.

The Outside Sales Process



You do not have to do anything wrong to lose business, you just have to keep doing what you have always done.

Prospecting Helps Ensure a Steady Stream of Leads

There is a saying that if you always do what you always did, you will always get what you always got. This is not true; you will get less. In the words of the late business management author, Peter Drucker, ***"You need to grow or die!"***

On average, businesses lose around 9% of their customers each year through no fault of their own. This attrition includes customers who die, go out of business, move away, change the way they do business, align with a different product line, or something else.

Experienced sales professionals recognize and accept the fact that some business is lost through the attrition factors mentioned earlier. More importantly, these professionals devote considerable resources and energy to generating not only ***replacement sales*** but also new sales that drive real growth.

Good prospectors always go where the gold is most likely to be, not where it is easiest to dig.

In sales, ***prospecting*** is simply discarding all the unqualified leads and retaining the "gold." The job of prospecting is to find qualified leads that may buy your product. Only after this process is complete should the selling begin. Outside salespeople who serve on the front lines of driving business growth employ several prospecting strategies to grow sales.

Use four prospecting strategies to drive new sales growth

1. **Identify new product and service opportunities with current customers**

   Current customers are usually your best prospects. You are already past the gatekeepers. You have already established a positive relationship. They are already ***qualified*** and know something about your products, services, and policies.

Current customers are good prospects for:

- additional products or services
- larger orders
- higher quality product
- service enhancements such as fabrication.

Contacting current customers can provide benefits for both the customer and the wholesaler-distributor.

Current Customer Strategy	Benefits
Additional products or services	Meets a customer's need that was not previously met; locks in the customer with your company; builds order size and gross profit
Larger orders	Saves operations expense for both the customer and wholesaler-distributor and builds gross margin dollars
Higher quality products	Provides more value for the customer and more gross margin for wholesaler-distributor
Service enhancements such as kitting, assembly, and fabrication	Saves the customer operation's expense and generates additional higher margin business for wholesaler-distributor

2. Accounts that have been lost are good prospects for recovery

Very often, a customer has been lost due to a poor service experience, a change in the customer's business or personnel, or a change in the product line. Sometimes a customer has been lost simply because of lack of attention from the wholesaler-distributor's salespeople. Assuming the former customers are still qualified, they are prime candidates for recovery. The fact that your company had a working relationship at one time can be an excellent starting point for a profitable recovery.

After verifying that the customer is still qualified, you can start with a simple phone call that sounds something like this:

"Good morning, I'm Pat Jones from PDQ Supply Company. Our records show you used to be a regular customer of ours but have not bought anything for a long time. I'd like to find out why and see if there is anything we can do to resolve any problems you may have had."

3. **Identify products your suppliers carry that you do not actively promote**

Many vendors carry product and service lines that the wholesaler-distributor does not actively promote. This provides an opportunity for additional sales. Salespeople can investigate the potential for selling these products to:

- Current customers who may not be aware of the vendor's other product lines, and
- New potential customers or markets in your area.

For example:

- Add a luxury product line for your customers who serve upscale customers.
- Find non-customers who run an upscale business but do not use your vendor's line.
- In addition to selling a vendor's water filters, explore what it would take to expand into water softeners as well.
- Suggest time- or energy-saving product enhancements that your customer may not know about.

4. **Research the businesses in your territory for potential customers**

Sales professionals are always collecting information about the market, the competition, and other sources for further prospecting. Successful salespeople network aggressively within their contacts to find new leads. Making the right industry contacts is a key factor in developing a successful sales career. The problem is most salespeople really don't know who the most valuable industry contacts are, where to find them, how to transform a first contact into a meaningful relationship, and what it means to have the "right" industry connections.

Even if you have good relationships with the right people, this won't help you unless you work on having the right things in place that enable your industry contacts to feel confident enough to work with you.

Social media allows salespeople to focus more accurately on their target audience and communicating most effectively about what is important to that audience. More and more outside salespeople incorporate various social media such as blogs, LinkedIn, and Twitter in their efforts while maintaining activity within their professional and trade associations and community. Salespeople can offer large amounts of information that can help to solve their customers' problems.

Lead generation is vitally important but the qualifying activity lets you set priorities, target your efforts, and land an actual customer.

Qualifying Your Prospects

Qualifying leads and potential prospects helps ensure you are focusing your sales efforts—and time—on potential customers who meet the big three qualifications:

1. Need for your product,
2. Money to buy it, and
3. Authority to place the order.

Effective qualifying requires homework, homework, and more homework. Without effective qualification, it is impossible to set realistic, attainable sales objectives for a prospect. Sloppy or inadequate pre-contact research wastes the prospect's time, your time, and your company's money. It can also destroy your credibility.

Some of the more common information gathered in an effective qualification process includes:

- Size and components of the prospect's business
- The prospect's services and markets
- Prospect's size and rank in the industry
- Prospect's customer base
- Products that meet prospect's needs
- Health of their business
- Potential business with the prospect
- Prospect's decision-makers and influencers
- Contacts your company has in prospect's company

- Competition from which the prospect currently buys
- Prospect's satisfaction with current supplier

This information tells you if someone in your company has a contact in the prospect's company and makes the qualification process much easier. It also allows you to tailor your sales process to match the prospect's needs—which saves time and money.

A well-executed qualifying activity helps salespeople spend their time most effectively because it helps distinguish between hot, warm, and cold prospects

Qualification information on prospect information is widely available

In today's world of readily available information, almost nothing is secret. Without being intrusive, qualifying investigations can include:

- Industry Websites
- Customer Websites
- Competition Websites
- Business and trade press publications
- Online business directories
- Business information services
- Prospect advertising
- Prospect press releases

You should also engage in conversations with current customers and your sales colleagues to find out more about your prospects.

Stay organized with a contact management system

Collecting prospect information is useless without a system to gather, organize, maintain, share, and access your qualification and prospect activity information. While there are many systems available, your company probably has a system it prefers and supports with training. Because qualification and related activities are ongoing and can occur at several points during a sales call, it is important to maintain your system. Three simple rules apply to managing prospect information:

Keep it current. Keep it credible. Keep it accessible.

Pre-approach activity is a logical extension of the detailed qualification

Pre-approach activity involves gathering the information about a prospect that helps ensure your sales call will be productive and on target.

It influences the quality of the preparations, meeting agendas, discussions, presentations, and negotiations. It can draw on much of the information collected during the qualifying activity.

In pre-approach, salespeople seek to learn as much as they can about the prospect's size, the markets they serve, their current suppliers and buying routines, their decision-making process, and the issues they face.

Diligent pre-approach work enables salespeople to prepare presentations that effectively focus on the customers' issues and relevant benefits. Salespeople who have done rigorous pre-approach are more able to anticipate objections and prepare effective responses when they meet with the prospect.

Consider a pre-meeting call to ensure you are on track

Sometimes it is helpful for salespeople to confer with their prospect's contact to verify their understanding of the prospect's interest, the reasons and objectives for a meeting, and the tentative agenda.

After you are sure the customer is qualified, you have gained a mentally agile command of your research, and are confident that your information is current and accurate, it is time to meet with the customer.

Approaching the Prospect

In the next step of the sales process, the outside salesperson approaches the customer. The approach includes the initial face-to-face contact between the salesperson and the prospect. The objective is to establish a rapport with the potential customer so they can see you as a potential business partner.

The approach is short. It usually includes introductions, some small talk to increase the comfort level, and a brief introduction of yourself and your company. It usually includes an overview of the customer's interests as well as an agreement on the agenda for the more in-depth interview portion of the meeting. A well-executed approach sets the stage for a positive, productive, and enthusiastic interview meeting.

Good questions encourage the customer to talk and expand upon their needs, interests, and business. The more customers talks about their needs the more likely a sale will result.

The Interview

During the interview stage, the salesperson learns more about the prospect's business model, culture, and purchasing protocols. The interview discussion relates the customer's operations to the products and services for sale in such a way that the prospect sees them as increasingly relevant to the company's needs.

Professional salespeople approach the interview with a well-prepared set of questions to uncover the customer's needs.

Salespeople use effective listening techniques to clarify what the customer is saying, encourage more disclosure, and verify any information uncovered. Frequently, you get only one chance to hear key information, which is why it's important for an outside sales rep to master the art of listening.

Listening is hard work

Most people are born with the ability to hear, but hearing is not the same thing as listening. Hearing is to listening what holding a scalpel is to performing surgery. Listening is more than just keeping quiet. You must train your brain to focus on the speaker instead of yourself or your surroundings. This may sound easy, but listening is hard work. You may be selling in an area bombarded with sounds from telephone, radios, intercoms, warehouse noise, office equipment, and extraneous conversations. Unfortunately, distractions sometimes cause us to tune out information that matters.

You can become a better listener. You have to want to understand what the other person is saying. Your motivation comes from wanting to be the best you can be at your job. Once motivated, here are some tips to help you master the art of listening.

- **Ask questions**

  Asking questions forces you to concentrate on listening. Get in the habit of asking speakers to clarify or elaborate things you don't fully understand. This not only helps you to listen, it will also help you learn more about your customers and their needs.

- **Take notes**

  The act of writing things down on paper forces you to concentrate on what the other person is saying. It also helps lock the information in your mind. The notes don't have to be detailed. Just jot down key words, phrases, and numbers. People speak much faster than most people can write. If you try to write down every word that's said, you will lose track of the conversation and miss some of the speaker's main points.

- **Briefly stop the speaker**

  During a long conversation, make brief comments such as, "I understand" or "I see what you're saying." This helps you to stay alert and shows the speaker that you are paying attention.

- **Give the speaker time**

  Some people have trouble getting to the point. Make sure other parties are through speaking before you venture an opinion or explanation. Give them time to tell you what they want to say. Remember that it is acceptable to move the conversation along by asking questions.

- **Don't rehearse a response**

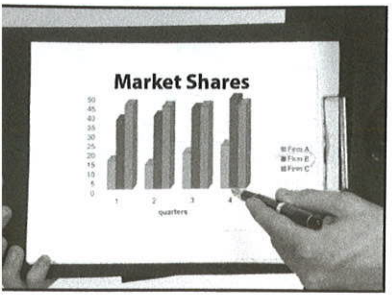
  Respond only after the other person has finished talking. There may be some key information that the speaker does not reveal until near the end. Unless you hear that information, your response may be inappropriate.

- **Wait for the speaker to finish**

  After the other party finishes talking, pause for a few seconds before responding. The other person might be pausing, just catching a breath, or formulating other remarks. Pausing allows you a chance to soak up and retain what's been said, as well as to collect your thoughts.

- **Tune in to unspoken messages**

  It's not enough to *listen* to what people say—it's important to notice *how* they say it. They may be trying to tell you something but don't know how, or they may be uncomfortable saying it. Studies show that only 7% of communication is conveyed by spoken words. Facial expressions and body language account for 55%, with the remaining 38% coming through in one's tone of voice.



Preparing and Delivering the Sales Presentation

The interview sets the stage for an effective sales presentation. The quality of your sales presentation will often determine whether a prospect buys from you or one of your competitors. However, most presentations lack pizzazz and are seldom compelling enough to motivate the other person to make a buying decision.

Here are strategies that will help you create a presentation that will differentiate you from your competition. Components of an effective, well-prepared, and well-delivered presentation include:

- **Brief overview** that establishes you and your company as credible business partners
- **Features** that link well to most probable benefits
- **Information** that will pre-address the most common potential objections
- **Testimonials** from credible sources that enhance your credibility and reduce the customer's perception of risk
- **Certifications, warranties, and guarantees** that enhance the credibility of the product and reduce the risk of purchase
- **Visuals** to enhance your core message
- **Additional time** in your presentation so that you can accommodate customer's questions and address any concerns

After the presentation, use handouts, and leave-behinds that reinforce the message about you, your company, your products, and your customers' needs.

Do not distribute the handouts at the front end of a presentation. It will encourage the attendees to examine the handout rather than listen to you.

Avoid the sins of selling

Extensive homework, preparation, and practice go a long way to ensuring a well-received presentation. However, there a several "sins of selling" that can derail your presentation. Avoid the following:

- **Running down the competition** delivers a very negative message about you and your company. You may be unaware that a high level of loyalty exists between your prospect and the competition.

Highly negative statements will not make the prospect like you. If they do not like you, they will never buy from you.

- **Pushing too aggressively** too early in the process makes you appear greedy and unconcerned about customers and their needs.
- **Not knowing the customers' needs** tells customers you have not done your homework, not listened, or simply do not care about them.
- **Not knowing the competition** means you cannot accurately answer questions about your competition's products and services versus your own.
- **Not knowing your own business** tells the prospect you are unprepared, lack knowledge, and are probably lazy.
- **Poor delivery** sends a signal that you are unprepared and lack confidence in the credibility of your message.
- **Selling features instead of benefits** misses one of the powerful strategies in selling: Customers do not buy features; they buy benefits. Remember to sell benefits!
- **Overstating benefits** kills trust. When the salesperson kills trust, it is the death knell in the relationship.
- **Stating irrelevant benefits** tells the customer you have not taken the trouble to get to know the advantages your company and its products offer.

Clearly, diligent attention to all the components of the sales process is critical to effective discussions with high potential customers.

Dealing with Objections

Even with well-prepared meetings and presentations, prospects may not be ready to buy. Objections are a natural part of the process of selling and move you one step closer to a sale. Many objections are unstated, so some probing is required to clarify the concern further. You cannot answer an unstated concern.

The best way to approach an objection is to think of it as a request for further information and clarification. Then accept the objection as an opportunity to keep selling.

Objections are a positive not a negative.
They keep the sales process moving forward.

Use the ask, listen, demonstrate, ask method of responding to objections

One way to respond to objections is with a four-step process:

1. **Ask questions** to clarify the objection. "Is there something else you need in order to conclude the purchase now?"
2. **Listen carefully** to the prospect's response. If the prospect says, "I can get them cheaper from XYZ Supply," keep selling.
3. **Demonstrate the value** of your offer by reviewing all the benefits and value-added offered by your company.
4. **Ask for the order again.**

Repeat the clarifying process as necessary

It may be necessary to repeat the clarifying process until you have established there is only one remaining obstacle to completing the purchase.

- Agree that if you can resolve that problem or objection, you may ask for the order.
- Then resolve the problem to the prospect's satisfaction.
- Then ask for the sale again.

This process may require you to show empathy, disagree without being disagreeable, and keep the customer's interest foremost in mind.

Closing the Sale

The longer it takes to close, the more your costs go up and the more likely you will lose the sale.

Successful salespeople must truly believe that they can satisfy the prospect's needs. They see the benefits, features, and limitations of their product or service from their prospect's view. They weigh things on the prospect's scale of value, not their own. They realize what is important to the prospect. And they must know when to close the sale.

The actual closing of the sale is by far the most important step in the selling process. However, many salespeople do not know when to start closing.

These salespeople do not understand that most successful salespeople are closing all the time! They are constantly trying test closes and will go into the final closing sequence anytime they think the prospect is ready.

The ***trial close*** is something salespeople do throughout the sales call in order to judge the customers readiness to buy. In general, salespeople want to close as early in the process as possible.

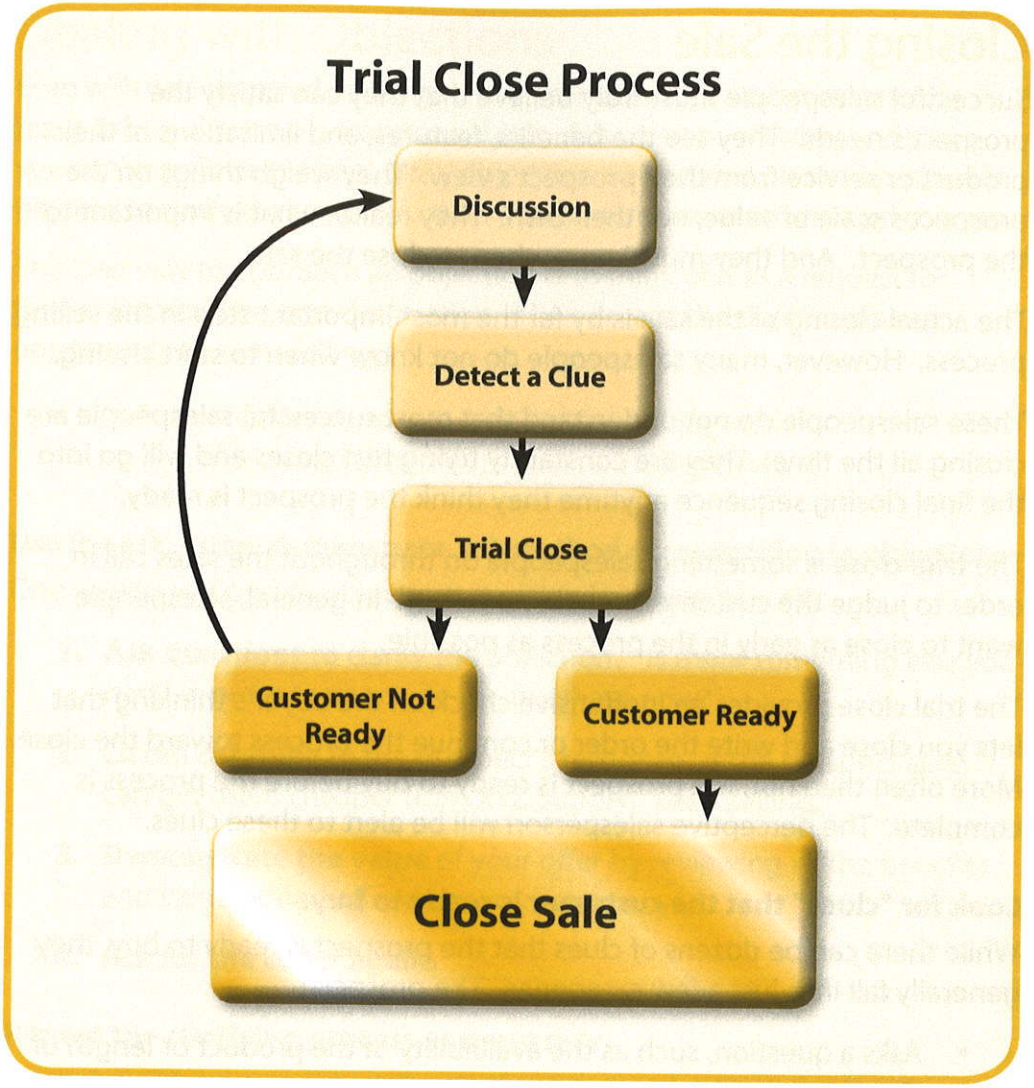
The trial close provides an inoffensive check on the buyer's thinking that lets you close and write the order or continue the process toward the close. More often than not, the prospect is ready to buy before the process is complete. The perceptive salesperson will be alert to these clues.

Look for "clues" that the customer is ready to buy.

While there can be dozens of clues that the prospect is ready to buy, they generally fall into just a few categories. The prospect:

- Asks a question, such as the availability of the product or length of time for delivery, that almost assumes a buy
- Demonstrates high-interest body language such as smiling or direct eye contact
- Agrees with several points of value or discussion by head nodding or verbal agreement

When this occurs, the salesperson follows the simple trial close process:



Ask for the order

Most salespeople will tell you that the close is the most important part of the sales call. Your customers will tell you that they expect you to ask for the sale. You have earned the right to ask for the sale because of your preparation and alignment between their needs and your products. Yet, the most common reason for failing to close a sale is that the salesperson fails to ask for the order. You can do everything right, but if the customer does not buy, you cannot make any money. One simple rule applies:

The salesperson must initiate the close.

There are an unlimited number of questions that the salesperson can use to trigger the close, but most assume the customer's purchase.

A few questions might include:

"Would you like that delivered on the 14th or the 16th"

"Would you like the regular steel or stainless version?"

"Do you want to give us a purchase order or put it on a credit card?"

The one rule in the assumptive close is simple.

"The word 'No' is not one of the answers!"

Not every close is a sale

We just gave an example of a close that results in a sale. The truth is that in consultative sales and business-to-business sales, it may take several contacts and meetings to put together a complicated buyer/seller relationship. In these more involved cases, a close might consist of an agreement to move the relationship to the next level. That does not mean just leaving brochures. It means a measurable, significant advancement to the next level of a purchase decision. That could be something such as a credit application, a meeting with the purchasing committee, a visit by engineer, or a presentation to the CEO.

Whatever the level of close, always thank the prospect and congratulate them on a good decision. Then confirm the details of the sale.

Following up after the sale

After the sale is made, successful salespeople continue to build the strength and permanence of the relationship. Few things can be more damaging to that relationship than if a customer places a big order and then has a difficult time contacting their supplier.

Here are some essential follow-up activities:

- Make sure a product or service was delivered as promised
- Address any remaining concerns or questions
- Identify new opportunities

- Gather market information
- Generate new referrals and prospects.

This follow-up information completes the sales cycle. The basic information delivered in this chapter is like peeling the first layer of an onion. True sales professionals take the opportunity to explore the sales profession further. Millions of books, articles, and learning programs on the subject of sales are readily available.

Now that you have a basic command of the sales plan and process, it is time to move on to take an in-depth look at the sales call itself and to learn the preparations, techniques, and skills that will ensure the sales call is successful.

Quiz

The Outside Sales Process

1. **It is important for an outside salesperson to follow a series of steps called a "sales process" because the process will**
   A. allow the salesperson to show a wide range of interpersonal skills.
   B. encourage the prospect to ask additional questions that will lead to more sales.
   C. assist the salesperson in uncovering specific issues that can be addressed with solutions.
   D. guarantee that the meeting will end with the prospect buying the offered product or service.

2. **All of the following statements are TRUE about the value of the sales process approach EXCEPT**
   A. Accommodates many sales styles
   B. Puts the salesperson in control
   C. Eliminates the need for internal customer service
   D. Provides a better experience for the customer

3. **Which of the following is the first step in the sales process?**
   A. Planning
   B. Approaching the customer
   C. Prospecting
   D. Preparing the presentation

4. **All of the following are usually included in a sales plan EXCEPT**
   A. The area to which each salesperson is assigned
   B. Sales goals and the means of achieving them
   C. Annual, quarterly, and monthly dollar sales goals
   D. Customer behavior, needs, and trends

5. **All of the following are TRUE about the prospecting part of the sales process EXCEPT**
   A. Prospecting is intended for new sales only.
   B. Prospecting includes increasing sales with current customers.
   C. Prospecting should be directed at people who want your product and can pay for it.
   D. Prospecting is necessary to replace customers who are lost for various reasons each year.

CHAPTER 5

Quiz

The Outside Sales Process

6. Why are your current customers usually good prospects for larger orders and higher-quality products?

A. They are likely to spend more money than new customers will.
B. They are unaware of other distributors' products or services.
C. They know that you will offer discounts for these items.
D. They are already qualified and know about your products and service.

7. Which part of the sales process includes a meeting to establish rapport between the salesperson and the prospect?

A. Pre-approach
B. Interview
C. Approach
D. Planning

8. An effective sales presentation will include all of the following EXCEPT

A. A clear and detailed criticism of your company's competition
B. A summary of yourself and your company that illustrates your strengths
C. Testimonials about the excellence of your company's products and service
D. Use of visuals to enhance your presentation

9. The best way to think about an objection from the prospect is that it is a

A. request for more information or clarification.
B. "no sale" clue to you and your company.
C. negative that indicates the prospect is not ready to buy.
D. detailed and accurate picture of the prospect's concern.

10. All of the following statements are TRUE about closing the sale EXCEPT

A. A close might take several meetings or contacts with a prospect.
B. When the order is placed, the process is complete.
C. The salesperson must initiate the close when the prospect is ready.
D. The salesperson must ask for the order.

(Answers below)

Answers: 1-C; 2-C; 3-A; 4-D; 5-A; 6-D; 7-C; 8-A; 9-A; 10-B

CHAPTER 6

Creating the Outside Sales Call

It's about listening first, then selling.

~Erik Qualman

After reading and studying the material in this chapter, you will be able to:

1. **Practice the techniques to make a great first impression.**
2. **Prepare for the call and qualify the prospects.**
3. **Demonstrate the three keys to an effective sales presentation.**
4. **Practice effective closing techniques.**
5. **Overcome price objections six different ways.**

Creating the Outside

Sales Call

Top sales professionals do more listening than talking.

So far, you have learned quite a bit about the strategies and tactics distributors use to maintain profitability through optimal pricing. You have also learned about the major components of the sales process and what top sales professionals do to make their numbers. Now, you'll need to put the theories and skills you have read about into practice in an actual sales call and convince customers to buy from you. This requires a planned and skillful approach to every outside call.

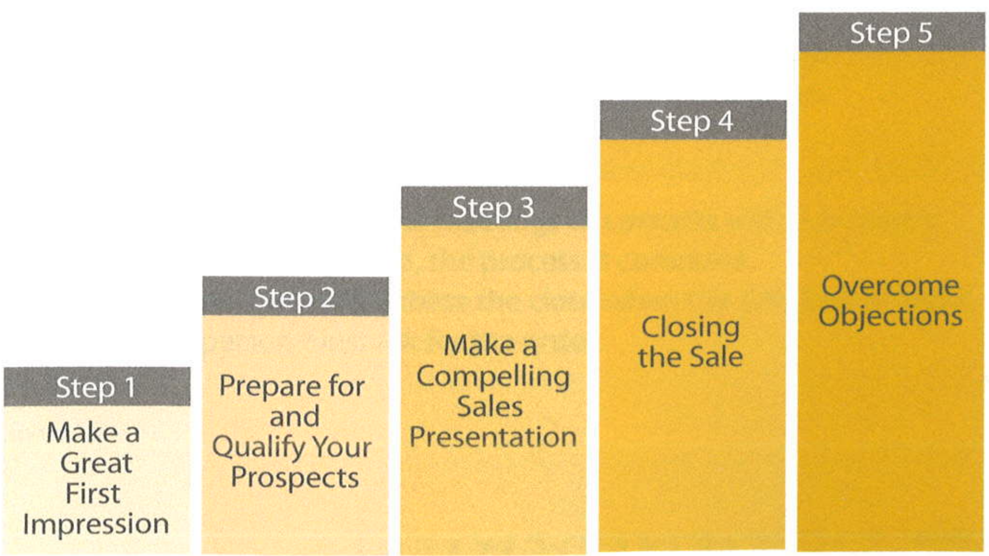
Some people believe the stereotype of a salesperson as a fast-talking snake oil peddler who will never take "no" for an answer and will say anything in order to get the customer to buy. Nothing could be further from the truth in the wholesale distribution industry. Keep in mind one of the most important truths about selling:

Top sales professionals do more listening than talking.

Their powers of persuasion don't come from bludgeoning a customer into submission. Instead, top sales professional have a knack for convincing customers to do what's in their customers' best interests. In this chapter, we'll examine ways to do this.

The outside sales call can be broken down into steps

As you learned earlier, sales trainers often break down the sales process into a series of eight steps. The outside sales call can also be broken down into steps. For our purposes, the outside sales call contains five steps:



Step 1: Make a Great First Impression

Before you even say hello look and act as if you are pleased to meet the prospective client.

The most important part of your initial contact is the first impression you make. It is wise to dress professionally all the time. In some areas of the country, a suit is most appropriate but in other areas, business casual attire is acceptable.

Approach the prospect with confidence. Walk at an easy pace with your head held high and shoulders squared. Have a warm smile on your face. In other words, before you even say "hello," look and act as if you are pleased to be in your prospect's place of business.

In your job, it is essential to develop a cheerful demeanor when meeting with customers and prospects, even if you have to put on an act.

Face it, you may not feel cheerful every hour of every day. Nonetheless, professionalism demands that a salesperson convey a favorable first impression so you come across as likable, helpful, and honest.

If you don't convey a positive, upbeat attitude, you may lose the sale before you ever get a chance to present what you have to offer.

Control the tone of your voice

Your first impression is determined not only by what you say, but how you say it. It's important to maintain a friendly tone of voice. This can be hard to do when you've been talking all day and feel discouraged because you haven't sold many products. However, your next customer doesn't care about your last customer, so maintaining a positive attitude and an open mind is critical.

One trick many sales professionals use to maintain a cheerful disposition is to think positively. They repeat ***affirmations*** or optimistic statements mentally or aloud that describe in positive words a desired situation, event, habit or goal. Repeating these statements often allows them take root in the subconscious mind and influence it to act accordingly.

"I am looking forward to meeting with Mary Smith because I know I can really help her business."

Put your objectives in writing before the outside sales call

Some distributors feel that a salesperson is more likely to commit to and accomplish a written goal. Committing goals to writing forces you to define clearly what you want, motives you to take action, helps you to overcome resistance, and enables you to see your progress.

Even if your employer does require you to list your goals, before your sales call, identify and then write down the specific objectives you want to accomplish during you visit with the prospect or client. Doing so will allow you to focus on the discussion, stay on track, and achieve what you set out to do.

When you set precise objectives for every sales call and put your goals in writing, you appear more professional and intelligent. You will be less likely to repeat information or leave out anything important. Your clients will appreciate doing business with someone who respects their time and conducts sales calls in an efficient, productive, and professional manner.

Every sales call is an investment in the potential sale

Whether you are making your first visit to a prospect or you fifth visit to a long-time client, you must set goals and objectives. Some sales, such as high-end products, may take more visits and several telephone calls.

When you returning a call or calling back with some requested information, explain your purpose in calling in the first few seconds of the conversation.

"Hello, this is Jill Smith from ABC Supply returning your call."
"Good morning, this is Bill Smith from XYZ Supply.
I'm calling with the equipment ratings you requested."

A prompt return call is important to the customer. When you can supply needed information, you are one step closer to gaining your customer's commitment to purchase your products.

It gets trickier when your objective is also to sell something the customer has not requested. This is when another question comes into play—why is it important to the customer?

Consider the WIIFM principle

Another way of stating this from the customer's perspective is, "What's in it for me?" Think of the initials WIIFM.

The answer could be that the customer uses many of these items and would find a special deal attractive. Or maybe you're calling with a limited time offer and time is running out.

"This is Tina Jones from Very Best Supply Co.

I'm calling because we have some specials on sale for a limited period and I want to give you an opportunity to take advantage before time runs out."

The success you have with these kinds of calls will depend a great deal on how well you handle Step 2 in the selling process.

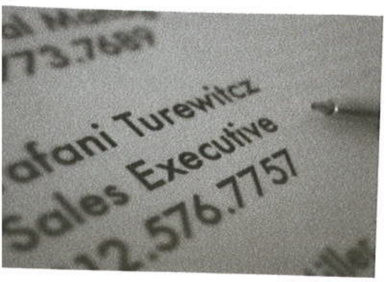
Step 2: Prepare for and Qualify Your Prospects

Preparation means learning everything possible about customers and their needs.

Qualification means determining who needs what you sell and has the purchasing authority or influence.

You could make the best sales pitch the world has ever known, yet it would be nothing but a waste of time if delivered to wrong person. Time is a precious commodity to both your customers and you as a salesperson. You can most efficiently use your time by targeting your conversations to people with buying authority or influence.

When making an outside sales call, you ideally should target a specific person. Preparation includes learning the roles that various individuals—especially those who are involved in the buying process—play in the organization you plan to visit.



As a last resort, ask the person you're calling for the right way to say his/her name.

Be sure to pronounce names correctly

Obtain the correct pronunciation of the person's name you will be meeting. Ask co-workers who might be familiar with the individual whether they can assist you with the pronunciation.

This is especially good to do if it's a difficult name. This way you'll have a chance to practice saying it aloud.

If nobody in your company knows the way the name should sound, then perhaps the phone receptionist could prove helpful when you call to make the initial contact or appointment. You might say:

"Good morning. I'm trying to reach Carol Smythe. Can you tell me if she pronounces her name like 'Smith,' or 'Smythe' as in 'Scythe'?"

As a last resort, ask the person you're calling for a sales appointment for the correct way to pronounce his or her name.

"Good morning. I'm sorry, but do you pronounce your name as 'Smith' or 'Smythe'?"

Or, if it's an especially difficult name ask:

"I'm sorry, but I don't want to mispronounce your name. Will you please tell me how to say it?"

Learn your customer's business

Some people in a customer's company will have direct purchasing authority. Others may leave the buying to someone else but will have considerable influence over what the company purchases.

For instance, engineers and technical support personnel generally don't issue purchase orders, but they usually have a great deal of say over which products are purchased. The same holds true with many maintenance staffers. A salesperson needs to cultivate good relationships with both direct buyers and those who influence purchasing.

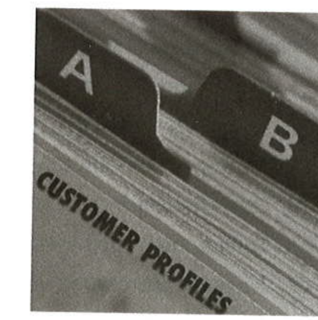
Find out how and why the customer decides to purchase the products you sell. Are they typically purchased for inventory replenishment or on an "as needed" basis? What kinds of timeframe and order quantities are usually involved? What type of purchase terms does the customer expect?

Creating the Outside

Sales Call

The more you know about customer buying habits, the better positioned you'll be to sell products they need. Customer knowledge also gives insight into which high-profit items they use most. Does the customer prefer a particular brand name of equipment, which only you can provide locally? Who are your customer's customers? Knowing for whom your customers work will often give you a good idea of the types of products and services that they find important.

Customer profile records are a big help



Some distributors may require a salesperson to keep detailed customer "profiles" that are filled with information about customer buying habits.

Even if your employer does not require this kind of record keeping, it could be helpful for you to develop it on your own. The more information you gather, the better able you'll be to anticipate and fulfill your customers' wants and needs. This leads to more sales and more commission income. Remember that customer profiles are dynamic. They change constantly and must be routinely updated.

Qualify prospects by asking questions

Sometimes you won't be able to research customers and their businesses in advance. People may call you with information requests, and you'll be in the dark about their roles. Here's where qualifying comes into play.

"Qualifying" means determining whether prospects have purchasing authority or influence. Having purchasing authority does not always mean that the person is the decision-maker. These may be two different people. You can obtain this information simply by asking: "Are you the person who will be purchasing the product?"

If the answer is no, then it makes sense to follow up with, "Who in your company handles the purchasing of these products?"

Sometimes the answer might be noncommittal. The person might indicate that he/she sometimes buys the products, or maybe is "involved" in purchasing decisions. Then the question becomes, "Who besides yourself is involved in the decision-making process?"

Asking questions is the best way to obtain valuable information.

Salesperson: ______________________ **Date:** ______________________

CUSTOMER PROFILE SHEET

Company Name: ______________________ Company Address: ______________________
Type of Business: ______________________ Contact Person: ______________________
Phone Number: ______________________ Email: ______________________ Fax: ______________________

Purchasing Information:

1. Purchasing Contact:______________________ Department: __________ Phone: ______________
2. Secondary Contact:______________________ Department: __________ Phone: ______________
3. Who Specifies Vendor?________ Purchasing __________ Other
4. Other Purchasing Locations? No _____ Yes_____ ***If Yes, Contact Name & Number:*______________
5. Total Annual Purchases: $25,000___ $50,000___ $100,000___
6. Available Storeroom: No:______ Yes:_____ ***If "Yes," contact name and phone:* ______________
7. Typical Products Purchased: ____
8. Sketch buying process here:

____

Vendor Information:

1. Primary Vendor: ______________________ Number of Years: ______ Reason: ______________
2. Secondary Vendor(s): ____
3. What is the most important factor in choosing a vendor? ______________________________
4. What could your current vendor(s) do better? ______________________________
5. With the primary vendor(s), do you have a: Blanket PO ______ System Contact ______

____

Purchasing Priorities:

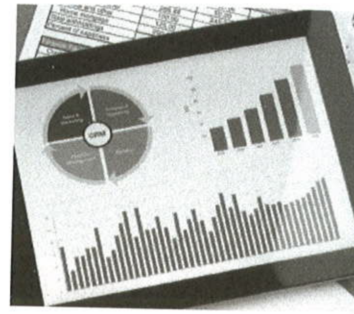
1. How are major projects handled? In-house ____________ Outside Contractor ______
2. How important are regular calls by an outside salesperson? ______________________________
3. How important are experienced inside salespeople to your company? ______________________
4. Do you pay from a statement (once a month) or invoice (more than once a month?)______________
5. Do you currently use: ___ barcoding for receiving ___ EDI ___ VMI or other automatic replenishment

If we can show that we can save you time and/or money, could you and would you consider changing primary vendors?
Salesperson: ______________________ **Date:** ______________________

____

No ___ Yes ___

Step 3: Make a Compelling Sales Presentation



The third step in the sales process is what some might call the sales "pitch." It's a matter of presenting the offer and giving the customer reasons to buy.

The most important thing to remember in this regard is the need to be helpful to the customer. Don't think of it as a seller-buyer relationship. Instead,

Think of yourself as a business consultant sitting on the same side of the desk with customers.

What advice can you give them about the products you sell that would best fit their needs? An outside salesperson is not like a used car salesperson who probably will never see the same customer twice. A rep must cultivate long-lasting customer relationships that result in repeat sales. This means selling items that prove beneficial to customers, as well as being profitable to your company. Here again, a big advantage comes from learning everything you can about the customers' businesses.

At the same time, three basic selling principles come into play that are just as relevant to an outside sales rep as to any other salesperson:

- Sell up by selling down
- Sell benefits over features
- Sell positively rather than negatively

Basic selling principle #1: Sell up by selling down

The first of these principles is called "selling up by selling down." This means that you need to make the customer aware early in the presentation of the best you have to offer in any given product category.

Let's say your company carries three grades of a certain kind of product. Product A is top of the line and most expensive. Product B is middle grade, and Product C is the low end of the line and costs the least.

Think of what's likely to happen if you begin your presentation by saying: "Product C will do the job just fine, and it only costs $50. Oh, and we also carry Product B for $75, and Product A, which costs $100."

As soon as they hear you say Product C will do the job and costs less money, most people will tune out everything that follows. Everyone is interested in saving money. That's what will be going through their minds when you start to describe the better features for Products B and A.

A better way to make this presentation would be along the following lines:

"The best item for this purpose is Product A. It's easiest to install, requires less service, and lasts the longest. We have it on sale for $100."

Selling "down" makes it more likely the customer will buy "up"

Afterwards you can describe the attributes of Product B and Product C, explaining that they cost less because they don't have as many beneficial features. Some customers may decide that Product B or Product C meets their needs just fine and won't want to pay a premium price for Product A. But at least you'll have had a chance to present Product A to a receptive audience.

However, if you begin your presentation describing the virtues of Product C, many customers will never move beyond that point psychologically. As long as the product functions okay and costs less, they'll tune out your subsequent presentations of better-grade products.

Begin selling at the top of the line. A better-grade product may contain an attribute for which the customer may be willing to pay more.

But you may never find that out if you start by describing the virtues of the bottom-grade products.

Basic selling principle #2: Sell benefits over features

A "feature" is something a product has. A "benefit" is a good thing that happens because of a feature. Better gas mileage is a selling feature of some automobiles. The benefit is substantial savings in fuel costs.

Customers buy benefits more than features.

Too often salespeople leave it to customers to figure out benefits for themselves. Benefits aren't always self-evident, however. An outside sales rep who handles the same products day in and day out often takes for granted that customers know all about a product and its features and benefits.

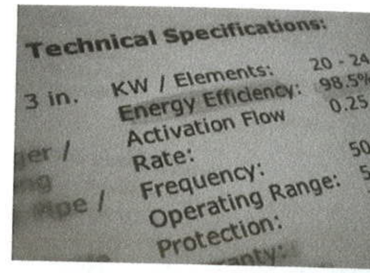
Often, salespeople just listen and write or type as they take a list of materials from a customer. Instead, try working a product benefit into the conversation with something such as, "Hey Joe, you know that the water heater you just ordered, the one you always buy? It now has a self-diagnostic control on it. It'll be easier for you to troubleshoot those occasional nuisance callbacks. And don't worry, they didn't raise the price!"

On the other hand, a distributor might carry a product touted as having a more powerful motor than competing models. That doesn't mean much to the average person. More meaningful would be the benefits of that powerful motor. For example, it enables operation at higher speed with less strain. This contributes to a longer life and less servicing, which means fewer shut- downs. In the end, a powerful motor saves time and money.

Speak the language of benefits

Saving time and money are the benefits of a powerful motor, but it takes several steps of reasoning to teach them. Your sales presentations will be more successful if you speak in terms of benefits ("saves time and money") more than features ("has a more powerful motor").

This doesn't mean you should never draw attention to features. Distributors sell many products whose features can be measured in terms of BTUs, horsepower, or RPMs, or described in general terms such as bigger, stronger, quicker. These features provide a shortcut to describe product value.



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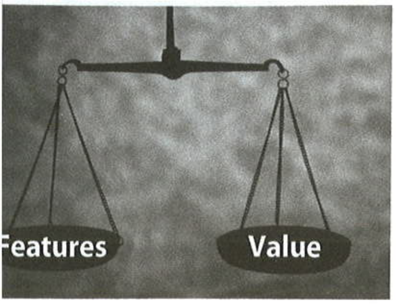


Features equate with value

Products with more advanced features tend to be more profitable for the distributor. You want to sell as many high-value products as you possibly can to your customers.

Just make sure your customers understand the benefits derived from certain features. Products made of stainless steel tend to cost more than comparable items made from carbon steel. Some people understand this helps the product resist corrosion, but don't assume everyone does. Make the benefit clear to them.

Benefits include anything that saves time, money, energy for your customer or your customer's customer..

Less installation time is a benefit. Fewer service calls are a benefit. Longer lasting is a benefit. You'll be more successful selling benefits over features.

Promote yourself and your company as benefits

Don't forget the value you and your company add to the products. People can buy most of the products you sell from other sources. The main reason to buy them from you might have nothing to do with a product's features.

The main benefits come from your ability to provide exceptional services to the customer. Be sure to define what you do better than other sellers and include that in your sales presentation, i.e., delivery, technical knowledge, accessibility, installation knowledge, support staff, inventory availability, quick and hassle-free processing of credits, no handling charges on products returned that go back into regular stock, etc.

Basic selling principle #3: Positive selling works better than negative

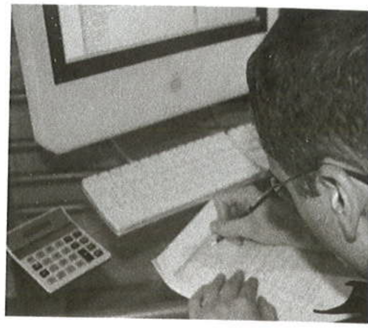
Numerous studies have shown that positive messages work much better than negative selling techniques. Bashing your competitors or their products reflects poorly on your professionalism. Frequently, it can come back to haunt you because the day may come when your company starts selling the product you have been bad mouthing to a good customer.

Emphasize the positive reasons customers have to buy from you and your company. Sometimes it may be the best price for a given item. It also may include better service capabilities, longer warranties, better payment terms, a trip promotion, or myriad other advantages. Weave these messages into your sales presentations. Throw the negative stuff overboard.

Step 4: Closing the Sale

This is the most important part of any sales call.

You can do everything else right, but if the customer doesn't buy, you can't make any money.



Ask for the order

Probably the most common reason for failing to close a sale is so simple it is almost laughable. A sales rep will neglect to ask for the order.

The rep may convey a friendly impression and do all the preparation and qualification work described previously. The rep may engage the customer in a detailed sales presentation doing all the things right that we described in Step 3. Then the conversation meanders all over the place without ever resulting in an agreement to buy. The customer says thank you for the information and ends the conversation s without placing an order.

An experienced, first-rate salesperson will not let this happen. One of the most basic selling skills is learning how to move someone from just an interested sales prospect into a customer.

Asking for the order is as simple as it sounds: "Should I go ahead and place your order?"

That's a straightforward way to prompt an order, but probably not the best way in most cases. Anytime you ask questions beginning with "Should I… May I… Is it okay if I…?" you invite the customer to respond with "no."

An assumptive close usually works better.

A better sales closing technique is to assume the customer is ready to buy from you. So-called "assumptive" closing puts the onus on the customer to reject the sale. An assumptive close is usually triggered by a question:

"Do you want this order delivered, or will you pick it up?"

"Is UPS ground okay, or do you want it second-day air?"

"Which color would you like?"

"Is there anything else you need?"

Timing is everything—Detect when the customer is ready

Closing a sale depends less on what you say than when you say it. Top sales professionals develop an almost intuitive sense for timing their close. They detect signals that tell when a customer is ready to buy.

These signals may consist of questions asked by the customer: "How long will delivery take?" or "When will payment be required?"

Sometimes the signals are subtler. Customers may change the pace of the conversation, either slowing down or speeding up. Either case might provide a clue that they have made a decision and are thinking of something else, perhaps other items to buy.

Closing too early invites objections

The most important thing to realize about timing the sales close is to make sure you have provided all the information needed for the customer to decide. Trying to close too soon opens the door to objections—especially price objections.

Handling objections is a key to successful selling

Handling objections is a skill that every sales professional must learn. Seldom will a customer come right out and tell you why he or she does not want to place an order right now. Think of an objection as a request for additional information. Objections can be a sign of interest in what you are selling.

Most objections are unspoken. You need to listen closely and read between the lines to uncover the real reason.

Objections get signaled by statements such as:

"Thanks for your help. I'll get back to you."

"I need time to think it over."

*"I don't need this product right now.
I'm just calling to gather some information."*

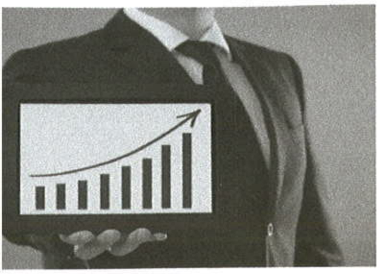
This table lists commonly stated objections, what they really mean, and how you can overcome those objections.

Stated Objection	Unstated Objection	Salesperson's Response
Price is too high	Cannot see the benefit is worth the cost	Explain additional benefits to show value
Need to think about it	Afraid to make a bad decision	Provide more evidence and support that the customer is making the right decision
Get other quotes	Unsure you're meeting their needs	Identify targeted solutions and explain why they are the best solution to the customer's problem
Happy with someone else	Doesn't perceive you as being better	Point out why you and your company are better, different, and unique
Bad history	Has had bad sales experiences with other salespeople; may see you as another bad experience	Explain your value and that of your company, your product, and service
Has to talk to their partner	Unsure you are meeting their needs; you have not reached the decision-maker	Get all the decision-makers Together; rearticulate value; begin again if necessary

As you complete the steps of your sales call, more concerns or objections may arise. Be prepared for them by watching the prospect's facial expressions, body language, and tone of voice.

Become a great observer and listener.

It is important that you identify concerns and objections and that you answer them in a satisfactory manner to make them go away. If you don't, the odds of writing the order are greatly diminished.



Step 5: Overcome Price Objections

You have already learned the disastrous impact that lowering prices can exert on profits. That makes dealing with price objections critically important. There are many reasons customers may resist buying, but most have to do with price. Customers feel they can get a product cheaper somewhere else. Here are some proven techniques for dealing with price objections.

Focus on why buying products from your company is advantageous.

1. **Demonstrate value first**

   A price objection is another way of saying you haven't adequately demonstrated value. Focus on why buying products from your company is advantageous, and then discuss prices. Talk about price last—especially with customers who always ask about the price of every item that they need. If necessary, refuse to quote a price until the entire list of goods required has been presented to you.

   Quantify the value of all you provide.

   That is, break down into dollars and cents how much services such as quick delivery, extended terms, engineering assistance, etc., are worth to the customer.

2. **Put them in your shoes**

   "Tell me, is yours the cheapest company in your field? Well, neither are we. We need to charge a fair price in order to provide the great services that you need."

3. **Break down the difference into chunks**

   If a customer pays $25 more for a pump than a competitor sells it for, talk about the life span of that pump. If it's 10 years, the extra cost amounts to $2.50 per year. Point out how trivial that is compared with the value-added services provided by your company.

4. **Give them alternatives**

   As stated earlier, always begin by selling the highest-priced items in a category. But, remember, you also have to know your customer. Don't try to sell high-end products to contractors who are always after the least-expensive alternative. If price becomes an obstacle, try to sell the customer lower-price alternatives that will still do the job.

5. **Negotiate something else of value**

   Trade something of value in return for holding firm on the price. These could include price, such as extended terms, lower order quantity, special deals on other products, etc. Or, maybe there is some leeway to cut the price on other products to bring the total package in line with what the customer is willing to pay.

6. **Give up**

   This is the stage that some people might describe as "never take 'no' for an answer." That is not literally true. You will not be able to close every sale. Refusing to be undersold can be a route to bankruptcy. In most cases, unprofitable sales are worse than no sales. It's better to lose a sale than to badger customers mercilessly so that they never call you again. At the same time, it will be hard for a salesperson to earn a good living if he or she takes every customer objection as the final word.

This chapter has reviewed the selling techniques you need to master in order to make a truly productive outside sales call. In the next chapter, we'll look at the traits customers and sales managers look for in salespeople.

Quiz

Creating the Outside Sale Call

1. **Which of the following is a very important characteristic of a top sales professional?**
   A. Never takes no for an answer
   B. Does more listening than talking
   C. Sells everything possible to every customer
   D. Closes the sales as quickly as possible

2. **When meeting prospects for the first time, you can make a favorable first impression by**
   A. offering to sell your product at the lowest price.
   B. revealing details about your previous customers.
   C. maintaining a professional appearance and behavior.
   D. sharing some personal details about your life.

3. **It is important for distribution team members to answer the phone promptly because nothing is more important than**
   A. checking the caller ID and referring to the person by name.
   B. talking about every product in stock.
   C. speaking to prospects and customers.
   D. using your time effectively.

4. **Which of the following statements BEST demonstrates the "WIIFM" principle?**
   A. Determine what's important to the customer
   B. Present high-price products first
   C. Qualify customers for buying authority
   D. Determine the best way to make a sale

5. **When employing the basic selling principle of "selling up by selling down," a salesperson ensures that customers**
   A. understand the difference between features and benefits.
   B. hear about the lowest priced product first.
   C. who want the lowest possible price have their needs met.
   D. hear about the best products in any category first.

Quiz

Creating the Outside Sale Call

6. Which statement about benefits and features of a product is TRUE?

A. A benefit is a good thing that happens because of a feature.
B. Customers usually figure out benefits for themselves.
C. Customers like to hear about features more than benefits.
D. Features include anything that saves time, money, or energy.

7. Which of the following is the MOST important part of qualifying customers?

A. Getting information from your co-workers
B. Estimating how much your company will make from your sales
C. Establishing a friendly and cordial relationship immediately
D. Determining purchasing authorities and influences

8. One of the signals that tells the outside sales rep that the customer is ready to buy is that the customer

A. asks questions about things such as delivery time or payment terms.
B. offers to think about it and call back later.
C. says "no" but really means "yes."
D. asks for a discount.

9. All of the following are examples of an assumptive close EXCEPT

A. "Which color would you like?"
B. "Is UPS overnight okay or would you like second-day air?"
C. "Should I go ahead and place your order?"
D. "Will you pick this up or would you like it delivered?"

10. All of the following are ways to overcome a customer's price objections EXCEPT

A. Demonstrating the value of the product first before mentioning price
B. Offering lower-priced alternatives that meet the need
C. Trading something of value but retaining the original price
D. Refusing to be undersold by any company

(Answers below)

Answers:1-B;2-C;3-C;4-A;5-D;6-A;7-D;8-A;9-C;10-D

CHAPTER 7

How Successful Outside Salespeople Sell

If your ship doesn't come in, swim out to meet it!

~Jonathan Winters

After reading and studying the material in this chapter, you will be able to:

1. **Discuss the traits that customers value most in the outside salespeople who visit them.**
2. **List and discuss the skills that sales managers value most in their top performing the salespeople.**
3. **Explain why successful salespeople need to develop their own personal brand.**
4. **Describe the practices top performing sales professionals use to achieve their sales goals and increase customer satisfaction.**

CHAPTER 7

How Successful

Outside Salespeople Sell

The customer is the best judge of a high-quality buying experience. It does not matter how good your preparation, research, presentation, or service is if they do not help the customer make a buying decision. Through surveys and research, customers have told wholesaler-distributors what they value most in salespeople. Likewise, sales managers have described what the top performing salespeople do better than their peers do in order to reach their goals and objectives.

In this chapter, we will examine what most salespeople need to do better. We will also examine some practices that exemplary salespeople follow. Finally, we will identify some tools salespeople use to reach their goals and maintain their best practices.

Customers Want Salespeople Who Are Honest And Knowledgeable

Customers are the lifeblood of any business. Your goal as an outside sales representative is to do all you can to make customers think of your company as the most desirable supply house. The distributor with the best reputation among customers in a given market usually is the one that delivers the best customer service. Distributors have various ways to measure customer service. Capturing data on fill rates (the percentage of orders or line items filled completely), errors, and on-time deliveries are among the ways companies gauge how they perform with transactions.

Yet customer service is more a matter of perception than statistics. Your company can rank high in all the measurable areas, but still be back in the pack in the eyes of customers. That's because reputations are forged through relationships. Customers want to do business with distributors whose employees are honest and knowledgeable. They want to be treated with respect. They want to deal with people who solve their problems quickly and inexpensively. They want to give their business to people who are friendly, cheerful, and helpful. Most of all, they want to deal with people who understand their business. Let's look at the six ways successful salespeople demonstrate that they are trustworthy and well-informed.

How Successful
Outside Salespeople Sell

THE MOST SUCCESSFUL SALESPEOPLE ALWAYS

1. Demonstrate ethical behavior.
2. Sell the value of their company, products, and themselves first before discussing price.
3. Understand their company's major value points.
4. Fully explain their products and applications.
5. Demonstrate empathy for the customer.
6. Ask for the order.

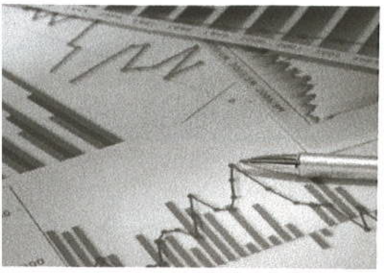
Successful salespeople are ethical

Customers want to do business with a company and a salesperson they can trust. When trust is at the core of a business, it is easy to recognize. The word "trust" means confidence in and reliance on good qualities, especially fairness, truth, honor, or ability. Customers rely on companies with a strong system of ethical principles that govern the appropriate conduct for their employees.

A simple way to think of the term "ethics" is that it applies to situations where you must determine if something is right or wrong. For example, it would be wrong and unethical for a salesperson to lie about a product in order to convince a consumer to buy it. In the business world, observing proper ethics and conducting honest business is very important for the continued success of any company.

When you take the high road to success, your goal is to build relationships that will last—and those are the relationships that pay off enormously in the long run. When your customers know they can trust you to be honest, to give them a fair deal, to listen to their concerns and deal equitably with them, they will stay with you throughout economic ups and downs. They will become the loyal customers every salesperson seeks.

Unethical or dishonorable behavior will drive a customer away far faster than an occasional mistake or price increase. Great salespeople work every day to build a high value personal brand that the customer will respect.



Successful salespeople sell the value of their company, products, and themselves before discussing price

Successful salespeople sell the value of their company, products, and themselves before discussing price

Every product or service offered, even commodity products, have different points of value. Most of the products you sell can be purchased from other sources. The main reason to buy them from you might have nothing to do with a product's features.

The main benefits come from your ability to provide exceptional services for your customer. Be sure to define what you do better than other sellers and include that in your sales presentation, i.e., delivery, technical knowledge, installation knowledge, showroom products and staff, inventory availability, quick and hassle-free processing of credits, no handling charges on products returned that go back into regular stock, etc.

Focus on why buying products from your company is advantageous, and then discuss prices. A price objection is another way of saying you haven't adequately demonstrated value. If the discussion of price comes up too early, the salesperson loses the opportunity to prove how the product can help the customer's business. Sometimes a customer will ask about price early to try to treat the product like a common standardized product. Standardized products are often called commodities because they are usually purchased by specification and the lowest price. If you let the customer "commoditize" your product, the discussion tends to fall onto price alone.

When a customer asks about the price too early, the skilled salesperson acknowledges the question and redirects the discussion back to value.

The skilled salesperson will deflect the pricing question without being argumentative or evasive. They might make a statement like, "I'll be happy to give you the price but I want to make sure you understand the value we deliver that the competition does not. Is that all right?" The key is to avoid price discussions until you have fully explored the different points of value.

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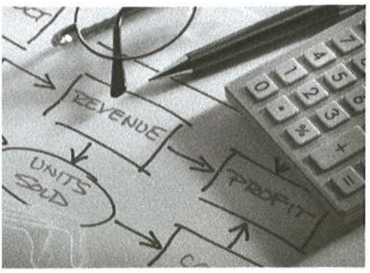
Skilled salespeople do their best to talk about price last.

Successful salespeople memorize their company's major value points

Wholesaler-distributors do much more than simply buy and sell goods. They perform a variety of functions that add value to the products they distribute for everyone in the supply chain. For the manufacturer, wholesaler-distributors simplify the task of selling a large volume of goods to widely scattered customers and stock that merchandise in convenient locations for rapid supply when needed by customers in their trading area. For customers, wholesaler-distributors provide value by carrying inventory from a wide array of manufacturers. This enables customers to do one-stop buying from a favorite wholesaler-distributor for all or most of the products they need.

Some of the points of value the salesperson should commit to memory include:

- guarantees and warranties
- services such as delivery
- emergency services
- accurate invoices
- longer product life
- reduced scrap
- better safety
- reduced rework
- technical support
- favorable payment terms
- high product reliability
- fewer returns
- return ability
- maintenance services
- less inventory
- green opportunities
- end-user needs
- training
- your commitment, knowledge, and service.



Your value argument needs to prove to the customer how they can make more money!

The salesperson also must gain command of one important concept: the cost of purchase vs. the ***cost of ownership***. In many instances, a product with the lowest up-front price costs more to own over the life of that product than a better, more expensive product with a better gross margin. Salespeople need to use this powerful argument for all appropriate products.

Demonstrating value to the customers means helping them sell more, compete better, provide better customer service, and lower costs.

Successful salespeople fully explain their products and applications

Asking for the order is very important. However, asking for the order before identifying the solution to the customer's need can aggravate your customer. Top performing salespeople compare their solid knowledge of their company's products and applications against the customers' needs. Salespeople who fail to prepare are likely to recommend an inappropriate product. The customer sees through this shortcoming immediately. That error destroys the salesperson's credibility.

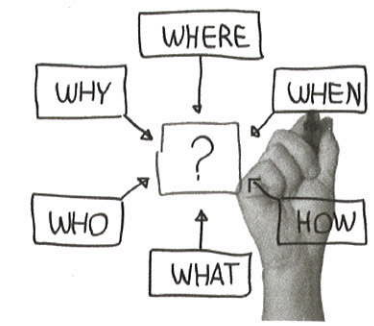
Customers need to see the salesperson as an expert or authority on the products and services they are selling.

Even knowledgeable salespeople will not know every detail about every product and its application. However, they can come to the sales call prepared with a solid knowledge of the products and applications most likely to be important to the customer. They can keep detailed backup readily available. They study the many sources of product knowledge to keep their minds agile. When discussing their company's products, salespeople who demonstrate mental agility give the customer confidence.

Successful salespeople demonstrate empathy for the customer

Empathy means imagining yourself in the other person's place. One way to do this is to imagine yourself as the customer and ask, "What does this person do that can help me?"

Then answer it.



If that is hard to do, it is time to learn more about the customer's business model, product line, customer groups, competitors, issues and problems, purchasing method, financing, etc. In meeting with customers, ask open-ended questions and listen closely. Open-ended questions cannot be answered with a simple yes or no, a number, or some other short response. Your objective is to identify all the points where your value argument will help the customer meet their needs.

The customer wants to do the talking. Open-ended questions encourage them to talk about their needs.

Customers expect the salesperson to connect products to their needs but do not have a great deal of time for you to make this happen. Many open-ended questions begin with the words: "What," "Why," or "How."

"What are some of the things you look for in a supplier?"

"Why are those things important to you?"

"How do most suppliers fall short?"

"What alternative solutions have you considered?"

"It looks as if our product lines and services are a good fit for your company. What do you think?"

Successful salespeople ask for the order

The number one shortcoming of salespeople according to customer surveys is that salespeople do not ask for the order. The rep may convey a friendly impression and do all the preparation and qualification work described previously. The rep may engage the customer in a detailed sales presentation doing all proper the things. But then the conversation meanders all over the place without ever resulting in an agreement to buy.

By asking for an order, the salesperson is helping customers meet their need.

The customer expects the salesperson to ask for the order. Without '"the ask," the salesperson is not performing his/her essential function of counseling and consulting the customer into an effective buying decision. Customers want to feel they invested their time with the salesperson wisely. Asking for the order may be as simple as it sounds, just say: "Should I go ahead and place your order?"

That's a straightforward way to prompt an order, but probably not the best way in most cases. Anytime you ask questions beginning with "Should I... May I... Is it okay if I...?" you invite the customer to respond with "no."

Use assumptive closing—it works better.

A better sales closing technique is to assume the customer is ready to buy from you. So-called "assumptive" closing puts the onus on the customer to reject the sale. An assumptive close usually is triggered by a question:

"Do you want this order delivered, or will you pick it up?"

"Is UPS ground okay, or do you want it second-day air?"

"Which color would you like?"

"Is there anything else you need?"

Build a Personal Brand the Customer Respects

A strong identity will help you stand out to customers. The process of ***branding*** involves creating a unique name and image for a product in the consumers' mind. Branding aims to establish a notable and separate presence in the market that attracts and retains loyal customers. The goal of branding is to build customer loyalty.

Today, ***personal branding*** is how successful salespeople market themselves to others. Because markets are becoming more complex and more competitive, salespeople must create a message and a strategy to promote themselves by showing how they deliver value to their customers. Personal branding is about building a compelling association between your name, your company, and your products or services. Outside salespeople especially need personal branding in order to sell themselves first before they can sell their company or its products.

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Outside Salespeople Sell

Your personal brand is ultimately a reflection of everything you value. For example, if you value honesty, then your brand will likely reflect the way you're always honest with your clients and prospects. Or if you value knowledge, then your brand will likely incorporate the way you acquire, use, and communicate information.

If you are interested in becoming a successful salesperson, your personal brand is everything. Your ultimate goal is to get people to trust you more than your competition and to think of you as the solution to their problems.

Sales Managers Have Identified Several Areas Where Their Top Salespeople Excel

Sales managers direct organizations' sales teams. They set sales goals, analyze data, and develop training programs for the organization's sales representatives. As part of their job, sales managers understand the saying that "No two people are exactly alike." Every prospect or customer will be different; every salesperson will be different. Sales managers help their salespeople to excel by helping them to identify their strengths and weaknesses.

Top salespeople learn how to identify people's main personality traits and then adapt to them. A salesperson needs to be a bit like a chameleon that changes colors based on its environment. Although salespeople want to connect with everyone, sometimes people just don't click. It's okay to refer those customers to a co-worker or to be honest and say "I don't believe I'm going to be able to help you."

Sales managers look for salespeople who:

1. Make things happen.
2. Set SMART goals and achieve them.
3. Continually improve their product knowledge.
4. Demonstrate enthusiasm and a positive attitude.
5. Become experts about their own company.

Top salespeople demonstrate a high level of initiative

Demonstrating initiative means being a self-starter, taking action without being asked. This is exceptionally important in consultative, business-to-business sales. As you learned earlier, businesses that do not grow will die. Simple order taking does not generate the gross margin dollars needed to sustain outside sales.

How Successful Outside Salespeople Sell

In order to survive, salespeople must aggressively pursue all the steps in the sales process from prospecting and lead-generation to follow-up without prodding from supervisors. Initiators seek new customers, pursue improvement in the sales process, and voluntarily originate action to accelerate their professional development. When initiators see a glitch anywhere in a transaction that might hurt the customer, they step in and correct the situation. Initiators hold themselves accountable for all the numbers in their sales plans.

Initiators make things happen.

Top salespeople have goals and dreams

A goal is nothing more than a well-defined target. Most experts agree that there are two major types of targets used in goal setting: "good" goals and dreams. You'll recall that Sales Managers often use a sales plan, a document that describes sales goals for a time period (usually a year) for each salesperson and explains how the goals will be reached. In addition, individual salespeople set sales goals for themselves, lay out sub-goals, detail how those goals will be reached, and when.

The sales plan details what is going to be sold, to whom, by whom and when, as well as the resources needed to achieve the goals.

Top sales people make sure their goals are **SMART**—which is an acronym used to describe "good" goal statements. These goal statements and an explanation of each follow.

SMART Sales Goals	
S-Specific	Precise, real numbers from historic data and other sources should be used to determine future sales goals.
M-Measurable	For sales and gross profit margin, salespeople should get a monthly report card showing their individual sales and gross margin. Goals are expressed in numbers whether it be in dollars, product units, or activities. Progress can be tracked, achievement documented, accountability assigned, resources allocated, and plans developed.
A-Agreed upon	Goals must be mutually agreed upon by salespeople and their supervisors.
R- Realistic	Goals must be realistic and achievable or they are meaningless.
T-Time-based	Goals must be set for a designated period of time. Normally sales and gross margin goals would be set for the fiscal year, broken out by month, e.g., goals for sales and gross margin dollars and GP percentage for January, February, March, etc. Seasonal factors and major industry events are considered.

SMART goals are focused, specific, short-term targets that are under a person's direct control. However, if salespeople only used SMART goals, they run the risk of losing sight about how those goals fit into the big picture—the reason they set the SMART goals in the first place.

That's where the concept of dreams—the second type of target—comes into play. Dreams can be big and may seem unrealistic at first glance. Dreams are the ultimate destination, while goals are the intermediate stops along the way. They also don't have to be as tightly focused or specific as the SMART goals. Dreams represent what you want to be while goals represent your plan to get you there.

How Successful

Outside Salespeople Sell

Top salespeople continually improve their product knowledge

Today, many customers can find much of the basic product information they need on the Internet and the distributor's Website. Very often, customers enter the conversation with a much higher level of knowledge than in the past. As a result, salespeople must be able to answer detailed questions that customers have about a product's benefits, features, applications, and alternatives.

Top sales professionals work every day to grow their knowledge of their products and applications.

Top sales professionals work every day to grow their knowledge of their products and applications. They take advantage of:

- Learning, reference materials, and training from manufacturers and other vendors
- Courses and materials from industry and professional associations, technical and professional experts, and third-party standards organizations
- Trade shows from associations and vendors
- Courses and training from business training organizations
- Community colleges and other educational organizations

The better the salespeople know their products and applications, the more they can believe in them, the more passion they can bring to the job, and the more enthusiasm they can demonstrate for the customer.

Top salespeople demonstrate enthusiasm and a positive attitude

Why is it that most sales rep wanted ads on the Internet mention enthusiasm as a basic requirement? The reason is that energetic, enthusiastic salespeople are easier for the customer to like. They close more sales, provide better customer service, and play better on the sales team. They make more money for themselves and their company.

Sincere enthusiasm grows out of a passion for sales as a profession and belief in one's company and its products. It grows through diligent adherence to the steps in the sales process as described in Chapter 5.

Confidence strengthens when the salesperson prepares by learning everything possible about the products and the customers' needs. At its core, enthusiasm rests on the desire to help customers meet their needs.

The customer recognizes when enthusiasm is genuine. Even if the emotion does not transfer to the customer, the customer will notice it and respect you.

You cannot fake enthusiasm. If passion is overdone, it comes across as arrogance. If it is not connected to in-depth preparation and customers' needs, customers will see you as an empty shell.

Successful salespeople anticipate that they will be successful. They have positive expectations of results. They realize that their attitude and mental outlook have a great deal to do with the results they create.

In summary, enthusiasm, preparation, and a positive attitude will give you an advantage over the competition.

Top salespeople are experts about their own company

Customers view outside salespeople as the "experts" about their own company. Outside sales reps know what their company can do for the customer, and how it differs from the competition. Top salespeople study their company until they have a solid command about the company's:

- History and founder
- Reputation and image
- Position in the industry
- Marketing philosophy
- Company strengths
- Key people
- Order handling procedures
- Customer service contacts
- Credit and collection policies
- Unique capabilities
- Technological advantages
- IT capabilities

How Successful

Outside Salespeople Sell

The Best Salespeople Integrate Several Classic Practices Into Their Activities

Achieving sales and gross margin goals is one of the biggest challenges outside salespeople face. Many factors beyond their control— the economy, the weather, the competition— can affect that final number. But the one manageable factor is the people who are in contact with customers—the outside salesperson and the inside sales team.

Some wholesaler-distributors ask every salesperson on the team to meet the same sales goals. But not everyone is capable of achieving at the same level. Some salespeople are better with a certain product; others work best with a certain type of client.

The top salespeople develop "best practices" which include:

1. Creating an activity plan.
2. Understanding and meeting customers' needs.
3. Becoming product and application experts.
4. Focusing on opportunity.
5. Building powerful relationships with customers.
6. Developing customized sales strategies.
7. Matching the customer's communication style.
8. Maintaining a professional appearance and demeanor.
9. Working well with internal customers.

Top salespeople create a sales activity plan

One of characteristics of all successful salespeople is that they hold themselves accountable for the results that they need to produce. And no one in the world is tougher on salespeople than they are on themselves. They begin by setting long-term goals by asking, "What do I have to produce this year in revenue or profit?" Then they break those long-term goals into more manageable and more actionable short-term goals. For

example, if the salesperson wants to generate $1,000,000 this year in new revenue, he or she knows the short-term goal is to generate a $250,000 each calendar quarter.

Reaching goals in the company sales plan will not just happen. ***Sales activity plans*** help ensure that salespeople use their time effectively by focusing on the activities most productive in reaching sales, unit, and dollar targets over both the short- and long-term. Activity plans include a limited number of in-depth, in-person calls per month. These may be limited to "A-level" customers. They could include calls on customers with a problem that only an in-person call can solve. Activity plans supplement the high-cost, in-person calls with phone consultations, problem-solving calls, and maintenance calls.

In making their sales activity plan, outside salespeople target customers whose potential returns cover all the costs of making and servicing the sale. Those costs can be substantial. Site visits to customers, presentation preparation, researching customers and markets, creating marketing materials, samples and demonstrations, contact management and sales management software, and training all raise the cost of the sales effort. Salespeople recognize that the cost of one outside sales call easily exceeds $100.

Outside salespeople focus their efforts on customers with the potential to generate enough gross margin dollars to cover all these costs and generate a profit. For example, a sales activity plan will include a number of in-person calls per month to the key customers that are generating the greatest gross margin dollars.

Key customers are known as ***A-Level customers*** (or prime, priority, or top-level customers). Customers who are not generating significant gross margin dollars would probably be contacted by telephone, served by inside salespeople, or be expected to use the company's Website.

Activities that generate leads and new prospects need to be included in the activity plan. Introducing a new product or service or entering a new territory might include a combination of outside calls, inside calls, sampling, and other activities.

The best salespeople have a full plate of activity and backup activity so that no time is wasted.

Sales activity plans include goals with four common but important characteristics. The best sales activity goals are:

- **Specific:**
  A goal should spell out exactly what must be achieved.
- **Measurable:**
  A goal must quantifiable so you can judge when you have completed or reached the goal. If there were no clear way to tell if you reached a goal, you would not know when to stop.
- **Time-based:**
  A goal must be set for a particular period of time.
- **Shared:**
  A goal must be shared with your supervisor or manager so you will be accountable (and rewarded) for meeting those goals.

Sales activity goals help the salesperson set priorities.

*Priorities emphasize high potential customers—
large accounts with a high chance for sales success.*

Sales goals are instructive on what to do. They are equally important in telling the salesperson what ***not*** to do. Outside salespeople cannot afford to waste outside calls on small potential customers. The small gross margin dollars will not pay the cost of outside sales calls. The sales team may reassign small potential accounts to inside sales.

CHAPTER 7

How Successful

Outside Salespeople Sell

When it comes to sales, one size does not fit all.

When developing sales plans, salespeople allocate activity time to serving existing customers and finding new customers. They make estimates and set goals on potential sales to the customer. They will compare targets to sales in previous years and possibly the desired share of the customer's entire purchases. Salespeople will also set activity goals for key product and product groups.

Top salespeople maintain a laser-like focus on customer needs

As you learned earlier, wholesaler-distribution sales involve a multi-step process. That process involves long-term, relationship-driven alignments between customer needs and the suppliers' products and services. Outside sales go beyond order taking and the "tell and sell" methods of simpler sales processes.

Customer needs are not all the same, even in the same industry. Getting to know customers well enough to focus on their needs requires answering several questions.

Here are a few that are part of good preparation:

- How does the customer's industry make its money?
- What issues confront the customer's industry?
- How does the customer make money?
- What issues do they face?
- Who are the customer's competitors?
- What is the customer's purchasing procedure?
- What are the customer's inner barriers to purchase?

One question is especially important:

What is the customer's most important issue that is being the least satisfied?

Answering these questions is essential to effective interview sessions with the customer. The more your customer perceives that you have insight into the issues they face and the more you can provide information and alternative solutions, the more they will embrace you as a consultant and partner in resolving their problems.

When engaging in discussing issues with the customer, start with the customer's ideas—not yours.

Keep the dialogue going and the sales process moving ahead. Practice high determination and diligence. Without persistence and drive, sales are lost.

In wholesale distribution, a great deal of business is lost because no buying decision ever takes place!

Top salespeople become product and applications experts

Top salespeople gain a superb knowledge of products and their applications. Knowledge and expertise enables them to:

- Close more sales
- Provide better customer service
- Prevent costly errors
- Enhance customers' ability to one-stop shop
- Lock customers into their company
- Build gross margin dollars for each sale

Top salespeople focus on the sales opportunity

Sales professionals recognize everyone is a prospect, but not every prospect is a sales opportunity. It is only when a person or business recognizes a need or a problem is there a potential buyer. This is a sales opportunity. Top salespeople:

- Become experts on products ordered most frequently, their uses, and selling options.
- Explain how products fit into an installation.
- Recommend a superior product the company carries when the exact product the customer is requesting is not in stock.
- Recommend a better product than the one the customer is requesting to provide better value for the end-user. This builds margin for both the customer and the wholesaler-distributor.
- Explain the cost of owning their products versus those of their competitor.
- Interpret specifications to help ensure an error free order. This eliminates both aggravation and the unnecessary costs of correcting errors.
- Recommend companion pieces to encourage a one-stop shopping experience for the customer, lock in the customer, and build margin for the company.

- Recognize when a customer-selected companion piece is not appropriate for the installation, which saves the customer aggravation, protects them from a costly error, and lowers protect returns.
- Serve as the "go to" person for customers who need a product-related problem solved.

When a tough situation arises, customer turns to the consultative salesperson who can help them the most.

Top salespeople build powerful relationships with the customer

Any number of sales gurus will tell you that people buy from people they like, people they trust, and who become their friends. However, this is only part of the equation in business-to-business relationships. Businesspeople also want to buy from suppliers who can solve a problem and identify an unmet need. At the most effective level, salespeople serve as consultants who develop insight into the customer's business. They help the customer run a better business.

Developing relationships at this highest level is not easy. Here are a few of the things the high-level sales performers do:

- **Emphasize "A" accounts or potential "A" accounts**

  Developing a powerful sales relationship requires time, effort, and money. The potential return needs to be justified in terms of the amount of sales generated.

- **Establish multiple contacts within a company**

  The larger buying decisions in a customer company usually touch on several employees' areas of responsibility. In addition to purchase decision-makers, many ***stakeholders*** can influence a decision, provide technical input, or have some other stake in a purchase decision. Getting to know the stakeholders and their interest is critically important in a successful high-level sales effort.

- **Build relationships with personal contact**

  Personal contact is an absolute must in building trust and a strong relationship. The depth of questioning and discussion needed to become a trusted consultant requires a great deal of interpersonal activity. More impersonal tools such as voice mail, email, texting, and faxing are supplemental to personal contact. They can be helpful in sending pieces of information back and forth. However, the salesperson addresses the most important business face-to-face.

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Top salespeople develop sales strategies that focus on individual customers

Top salespeople develop sales strategies that focus on individual customers
In consultative sales, there is no such thing as one size fits all. Every situation in consultative sales requires individual attention and investigation. Sales strategies need to be customer focused not internally focused.

Here are a few situations to consider when setting a sales strategy:

- Treat A-level customers with more attention and services than B- or C-level customers because A-level sales generate more gross-margin dollars per order. In distribution, small orders, frequently placed, that generate product returns and require several invoices before payment, often are profit-losing orders. Such orders do not compensate for the cost of an outside sales call.
- Contractor customers that serve residential and light commercial markets differ significantly from Original Equipment Manufacturers (OEM) and Maintenance and Repair Operations (MRO) customers. The purchasing procedures, product needs, operations issues, and customer issues vary widely among these types.
- Government customers often have unique purchasing procedures that need to be taken into account when making sales plans and scheduling sales activities.
- Salespeople who serve various markets and industries will often specialize in those markets and their logical product groupings.

Top salespeople match the customer's communication style
Successful salespeople connect effectively with customers because they match their communication style. Smart salespeople will not be overly enthusiastic and animated with a very reserved customer. When dealing with a very direct, "let us get down to business" style, the salesperson will minimize the small talk at the front end of a meeting. This style matching is simple and common sense. And it pays off!

Top salespeople maintain a professional appearance and demeanor
In many cases today, a sales call does not require a suit and tie especially if a customer relates better to someone who is not wearing one. The rule here is to be neat and clean and to demonstrate a demeanor that the customer sees as appropriate. In addition to your physical appearance, your business cards must be immaculate.

When it comes to language, neat and clean also prevail. Humor can be appropriate, but anything off-color or that relates to race, gender, politics, or religion is off limits. Let good sense prevail.

In communicating with the customer, use plain but accurate language. Avoid jargon. Do not speak down to anyone. In short, start out with a good firm handshake, be polite, speak clearly, use good manners, and show basic human kindness.

Top salespeople work well with internal customers

In the wholesale distribution business, everything starts with the sale and nothing happens without a sale. Sales are the responsibility of everyone in the company because without sales, there is no company and there are no jobs.

Everything starts with the sale.

Members of the wholesale distribution team recognize that the outcome of their job is the input to someone else's job. Collectively all those inputs and outputs compromise the transaction that the customer experiences. So every team member has a stake in more than just their own jobs, they have a stake in the entire transaction. Think of them as your ***internal customers***. These are your colleagues. They work with you to provide services to the external customers who buy products. In a well-run wholesaler-distributorship, all the team members look out for each other and the entire transaction because it means better customer service. If individual team members do not look out for each other and just do their own jobs, it hurts the customer.

Customers who purchase merchandise from you are your ***external customers***. These customers experience the entire transaction and may not be aware of every team member's role in the transaction. They do not care. That is not their responsibility.

Remember that the customer experiences the entire transaction

However, delivering on the core contract requires that every distribution team member take ownership of the entire transaction. "Zero defects" is the only reasonable standard for the core contract of getting the customers what they need when they need it with no mistakes.

A small mistake might not seem like much. But look what happens to a sales transaction when every team member makes a small error and each step of the order is 95% rather than 100% accurate.

Take Order 95% + **Pick Order 95%** + **Pack Order 95%** + **Deliver Order 95%** + **Issue Invoice 95%** = **77%**

That means two things:

1. Almost one in four orders has a significant error.
2. A 95% individual performance rating will not give your company an "A" in the eyes of the customer.

Zero defects are the only reasonable standard in the customers' transactions.

Great customer service requires exemplary internal service from all team members to all team members. Issues, politics, and personalities must take a back seat to making sure the customer experiences a satisfying transaction.

Top salespeople use several tools to increase their effectiveness

As you learned in this and other chapters, professional salespeople need to develop, find, organize, and maintain a tremendous amount of information in order to sell effectively. Here are a few rules to follow in keeping everything straight.

1. Learn to use and become increasingly proficient in using your company's wholesaler-distributor software.
2. Learn to use and become increasingly proficient in using salesperson contact management software.
3. Develop and maintain a toolbox of open-ended questions that you can use to uncover the customer's needs.
4. Develop and maintain a database of features and benefits worksheets you can use to prepare for customer meetings.
5. Develop and maintain a database of customer objections and responses worksheets.
6. Develop and constantly improve your customer presentations and make sure to have copies available as needed on calls.
7. Develop, continuously improve and use 30-second "elevator speeches."

A well-delivered "elevator speech" grabs attention for your business.

The *30 Second Elevator Speech*

A 30-second elevator speech is a very short and effective statement of what you do, for whom you do it, and the bottom line benefit to customer. The name comes from the idea that an elevator ride takes about 30 seconds. That is all the time you have to capture the interest of a potential prospect.

Professional salespeople use "elevator speeches" because they are one of the most powerful tools available for generating leads and potential prospects.

There a few rules for "elevator speeches" that will enhance your success in writing and using them.

- Keep them short: 3 to 4 sentences and 50 words or less.
- State what you do and for whom you do it.
- Emphasize the measurable benefits and results that you deliver.
- Ask a question to get the prospect talking about their need.
- Practice until you are very comfortable delivering the speech.
- Develop slightly altered versions for different prospect groups.
- Never include price in the speech.

As your personal commercial, an "elevator speech" can be delivered in an unlimited number of places such as an association event, a buffet line, a community event—anywhere you are meeting and getting to know new people.

In this chapter, you learned what customers and sales like most about top salespeople. Several of the practices of top performing sales professionals were examined. Finally, we reviewed several of the tools top sales professionals use to keep them at the top of their game. Next you will learn how excellent communication skills improve the sales effort.

Quiz

How Successful Outside Salespeople Sell

1. **The top outside salespeople are successful because they**
   A. are smarter than other people.
   B. are better educated than most people.
   C. work harder than other employees.
   D. always ask for the order.

2. **Salespeople who fail to identify a customer's needs before suggesting a solution are likely to**
   A. recommend an unsuitable product or service.
   B. sell more products than unsuccessful salespeople.
   C. demonstrate more credibility than average salespeople.
   D. stress the value of their company over their own value.

3. **The BEST way to become a better outside salesperson is to**
   A. learn good sales techniques and practice them.
   B. attend as many seminars as possible.
   C. read sales books, listen to tapes, and watch videos.
   D. find a great trainer and coach.

4. **Why people buy is more important than how you sell them. All of the following are reasons clients might want to buy from you EXCEPT**
   A. They like you and believe in you.
   B. They perceive that you are focusing on their needs, not your own.
   C. You are always willing to lower your price to beat the competition.
   D. You provide better service than other salespeople.

5. **It is important for outside salespeople to develop their own personal brand because it helps them to**
   A. set their own achievable sales quotas.
   B. market their personal strengths and qualities to others.
   C. demonstrate a high level of initiative.
   D. develop a sales plan and set goals for a specific period.

CHAPTER 7

Quiz

How Successful Outside Salespeople Sell

6. All of the following are areas that an outside salesperson can and should work on EXCEPT

A. Knowing their customers
B. Knowing their products
C. Learning how to gossip about their competition
D. Learning all they can about their competition

7. All of the following statements are TRUE about SMART goals EXCEPT

A. Sales goals are measurable so progress can be tracked.
B. Individual sales goals are often set higher than company goals .
C. Individual outside salespeople do not set their own goals.
D. Seasonal factors are considered when setting goals.

8. According to the text, all of the following are TRUE about sales activity goals EXCEPT

A. They are specific to avoid any vagueness.
B. They are measurable and can be expressed in numbers.
C. They are known only to the salesperson.
D. They tell a salesperson what not to do.

9. Which of the following is the PRIMARY reason it is difficult for a salesperson to develop many "A" level accounts?

A. Most companies have one unreachable decision-maker.
B. Salespeople often have poor verbal or written skills.
C. Management is unwilling to send its top salespeople on the road.
D. The potential return must justify the time and expense involved.

10. Which of the following is NOT a good way for you to become a superior outside salesperson?

A. Deliver what you promise on time.
B. Visit only customers who frequently place small orders.
C. Be ethical and honest in your behavior.
D. Sell products that have greater value than the price asked for them.

(Answers below)

Answers: 1-D; 2-A; 3-A; 4-C; 5-B; 6-C; 7-C; 8-C; 9-D; 10-B

GLOSSARY

Common Wholesale Distribution Terms

A-Level Customers

A firm's most important customers; generally customers at the top of the list when measured by sales, gross margin dollars, and profits. *Also called Top-Level Customers*

Accounts Payable —

Money owed for goods/services as shown on the books of the company that purchased those goods or services.

Accounts Receivable —

Money owed for goods/services as shown on the books of the company that sold those goods or services.

Accounts Receivable Days —

Average amount of time in days it takes a distributor (or other business) to collect money owed from customers.

Acquisition Cost —

Amount of money spent on advertising/ promotion to acquire a new customer.

Added Value —

Increase in price of goods to pay for related services that make the goods more valuable or moves them more quickly to point of use. *Also see Value-added services.*

Affirmations —

A technique used by sales professionals to maintain a cheery disposition and positive mental attitude that consists of positive statements they repeat often to themselves.

Asset —

Anything owned that has value. Some assets of a distribution business include inventory, equipment, real estate owned, accounts receivable, owners' equity (money owners invested in the business) and cash on hand.

Assumptive Close —

A closing technique that assumes the customer will buy; most commonly exercised by giving the customer a choice of two or more buying options.

Back Order —

Order placed for goods not available at time of original sales transaction.

Bar Code —

Electronically readable codes affixed to merchandise, packages, pallets or shelves for efficient counting and other recordkeeping.

Benefit —

The value experienced by the customer.

"Big Box" —

Nickname given to warehouse home center mass merchandisers. *Also see Home Improvement Center; Mass Merchandiser.*

Bottom Line —

Term used loosely to mean profit left after expenses. The final bottom line is profit after all expenses are paid, including income taxes.

Branch —

A small warehouse and sales facility set up by a multi-location distributor to serve a local market.

GLOSSARY

Common Wholesale Distribution Terms

Brand —

A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is "trademark." A brand may identify one item, a family of items, or all items of that seller.

Brand Name Products —

Products typically ordered by brand name, which are perceived to have special features or attractive elements that make them different from similar products.

Breakeven Point —

When expenses match revenue.

Broker —

An agent who, for a commission, negotiates a transaction between a buyer and a seller of goods but does not take possession of, or title to, the goods.

Buying Group —

Organization of wholesaler-distributors (or some other category of businesses) that band together for joint purchasing in order to obtain greater volume discounts.

Carrying Costs —

Expenses that accrue when inventory sits on a shelf or money owed goes uncollected.

Central Distribution —

Practice of maintaining a large wholesale-distribution warehouse to store large quantities of merchandise, which get broken into smaller lots for shipment to branches.

Channel of Distribution —

See Distribution channel

Cherry Picking —

Buying only the fast moving items of a vendor's product line.

City Counter —

Supply house counter where customers come to order/pick up merchandise.

Close —

Question(s) that the salesperson asks the prospect/customer that confirms the sale. A close can also mean a measurable, significant advancement to the next level of a purchase decision.

C.O.D. —

Collect on delivery; status given to customers of unknown or poor credit standing.

Cold Calling —

Unsolicited selling to unfamiliar person: the practice of trying to sell things by telephoning or personally calling on people who are not known to the seller.

Commission —

1. Compensation granted to sales employees based on a percentage of what they sell;
2. Money made by a broker who has negotiated a transaction; 3. Money paid to a contractor for referring a buying consumer/customer to a distributor's showroom.

GLOSSARY

Common Wholesale Distribution Terms

Commodity —

Product that is usually produced to detailed standards so that it is nearly identical to other such products.

Consumer —

A customer who buys something for personal use rather than for business use or resale.

Contact Management System —

A system, usually software-based, that enables a salesperson or organization to gather, organize, maintain, share, and access qualification and prospect activity information.

Contractor —

A person, often in the building trades, who contracts to do specific work for an agreed-upon sum.

Cost of goods sold (COGS) —

A figure representing the cost of buying raw material and producing finished goods. Included are precise factors, i.e. material and factory labor, as well as others that are variable, such as factory overhead.

Cost-plus pricing —

A method of determining the price of a product or service that uses direct costs, indirect costs, and fixed costs whether related to the production and sale of the product or service or not. These costs are converted to per unit costs for the product and then a predetermined percentage of these costs is added to provide a profit margin. The resulting price is cost per unit plus the percentage mark-up.

Counterfeit Goods —

Inferior items, usually made in foreign countries, illegitimately passed off through labels, markings, etc., as popular brand name goods. *Also called "Knockoffs."*

Counterman/Counterperson —

Distributor employee whose job is to serve customers at the warehouse sales counter (city counter).

Credit —

1. Buying now to pay later; 2. Dollar allowance or rebate given in a distributor customer's account

Customer Price Sensitivity —

The degree to which the price of a product affects consumers purchasing behaviors. The degree of price sensitivity varies from product to product and from consumer to consumer.

CSR —

See Customer Service Representative.

Customer Service —

Understanding how customers make money and assisting in those efforts.

Customer Service Representative (CSR) —

Employee whose main duties are to interact with customers and solve problems.

Dating/Dating Terms —

Agreement between a vendor and distributor or distributor and its customer to extend a payment period.

GLOSSARY

Common Wholesale Distribution Terms

"Deadbeat" —

Slang for a person or company that often owes a past due account.

Dead Stock —

Inventory items that haven't sold in a long time, usually after a year of purchase, and whose sales prospects are dim.

Dealer —

A contractor or other installation/service provider authorized to handle certain products requiring certification.

Demand —

Desire of potential buyers for a given product or group of products.

Direct Costs —

Expenses that can be tracked for sales of specific products.

Direct Selling —

Circumventing the normal chain of distribution by cutting out one or more parties in the chain, usually pertaining to a manufacturer selling directly to a wholesaler's customers. *Also see DTU (direct to user).*

Distribution —

The process by which goods produced move from producer to end users.

Distribution Center —

Large warehouse used for central distribution.

Distribution Channel —

The path of distribution for a given category of products, usually based on greatest efficiency.

Distributor —

See Wholesaler-Distributor.

DIY —

Do-it-yourself. Refers to a consumer who tries to bypass hiring a contractor or to a retailer who sells to such a consumer.

"Dogs" —

Nickname given to slow-moving inventory items.

Drop Ship —

Manufacturer drops a shipment off at a jobsite or a customer facility, although a wholesaler makes the sale.

DTU —

Selling direct to (end) user, usually in the context of bypassing the wholesaler or contractor in the supply chain.

Dumping —

Selling merchandise at prices below prevailing market rates, usually used to describe foreign manufacturers selling at less than production cost in order to subsidize a local industry and/or company.

E-commerce (Electronic Commerce) —

Sales transactions taking place electronically via computers, especially over the Internet.

GLOSSARY

Common Wholesale Distribution Terms

Economic Order Quantity (EOQ) —

The amount of orders that minimizes total variable costs required to order and hold inventory.

80/20 Rule —

See Pareto's Law

End-user —

The final customer for whom a product or service is intended. An end user may be a consumer or customer using the product for a non-personal use.

Expense —

1. A charge incurred in order to generate revenue or maintain business operations; 2. A charge, such as travel or lodging cost, generated by an employee doing business outside the office.

Fill Rate —

The percentage of orders or line items filled completely.

Fixed pricing —

A method of determining the price of a product that means there is no bargaining allowed over the price of a good or, less commonly, a service.

Functional Discount —

Discount provided for performance of specific functions, often used to describe the discount passed on to members of a buying group.

Gatekeeper —

A person or group that controls access to somebody or something.

GMROI —

Gross Margin Return on Investment, a key financial measurement for wholesaler-distributors.

Gross Margin —

The ration of gross profit to sales revenue; sometimes used as a synonym for gross profit. For a manufacturer, gross margin is a measure of a company's efficiency in turning raw materials into income; for a retailer it measures their mark-up over wholesale. Gross margin is gross income divided by net sales, expressed as a percentage.

Gross Profit —

The difference between the cost of merchandise and net sales, usually expressed in dollars. [Net sales minus COGS]. The dollar amount of gross profit is the same as the gross margin expressed in dollars.

Gross Sales —

Sales revenue prior to subtracting discounts, allowances, and returns.

Home Improvement Center —

Retail business specializing in various building products. Large home improvement centers are often called "big boxes". *Also see Mass Merchandisers.*

HVAC/R —

Heating-Ventilating-Air Conditioning-Refrigerating.

Income —

See Revenue.

Income statement —

See Profit and Loss (P&L) Statement

Indirect Costs —

Expenses, often operating costs, which cannot be tracked for specific product sales. *Also see Operating Expenses.*

Inside Salesperson —

Salesperson who remains in the sales facility and generally sells over the phone.

Internal customer —

Anyone in the organization—a coworker, another department, or a distributor—who depends upon someone else in the organization to provide products or services which in turn are utilized to create another deliverable for the external customer.

Inventory —

Items stocked in a warehouse for sale or redistribution.

Inventory Turns —

Number of times inventory gets sold and reordered ("turned over") in the course of a year. *Sometimes called "Turns."*

Invoice —

Bill of sale.

JIT —

Just in Time. *See Just in Time Delivery.*

Jobber —

Old term for a wholesaler, pertaining to the wholesaler's function in coming up with material quotes for customers' job bidding.

Just in Time (JIT) Delivery —

Delivery at the time the goods are needed, rather than on a set delivery schedule.

Knockoffs —

See Counterfeit Goods.

Line —

See Product Line.

Line Item —

Line on an invoice pertaining to a single SKU.

List-less Pricing —

Discounted amount of the "list price" (selling price of something as stated in a catalogue or price list).

Loss Leader —

Product deliberately sold at cost or below for promotional purposes and to pull in customers who may then make other purchases too.

Loyalty Discount —

Discount given, usually by a manufacturer to a distributor, based on purchase of either a complete line of goods or additional lines besides those most desired by the buyer.

Manufacturer —

1. A company that makes goods; 2. An individual employed by a manufacturing company.

Manufacturer's Rep/Agent —

Independent businessman/company acting as a vendor's sales representative.

Marketing —

All business activity involved in the moving of goods from the producer to the consumer, including selling, advertising, packaging, etc.

Mark-up —

Amount added to the cost of goods sold to determine the selling price, usually expressed as a percentage of the COGS. *An item purchased for $75 and sold for $100 was marked up 33.3% [$100 minus $75 = $25 markup]; [$75 divided by $25 = 33.3% mark-up].*

Mass Merchandiser —

Large retail store selling to consumers. In the PHCP industry, home improvement centers are often mass merchandisers selling PHCP products. Large stores or chains may be called "big boxes" or home improvement centers.

Master Distributor —

A distributor that specializes in stocking complete inventories, including less popular items, of a limited number of vendors, usually for sale to other distributors.

Merchandising —

Marketing activities designed to attract the interest of the customer, including selection, packaging, pricing, promotion and display of goods.

MRO —

Maintenance/Repair/Operations; a customer that buys PHCP goods for those purposes.

National Brand —

A nationally distributed product brand name. May also be distributed regionally or locally.

Net Earnings —

See Net Income.

Net Income —

Revenue left after subtracting all expenses, including income taxes and interest. *Also called Net Earnings or Profit.*

Net Income Before Taxes —

Revenue left (profit) after paying COGS and operating expenses but before paying income taxes Operating Income or Earnings Before Interest and Taxes. *Sometimes referred to as Net Profit.*

Net Operating Income —

See Net Income Before Taxes.

Net Profit —

The company's total earning, reflecting revenues adjusted for costs of doing business, depreciation, interest, taxes and other expenses.

Net Sales —

Sales revenue minus discounts, returns, and allowances.

Objection —

A statement of challenge or rejection by a prospect or customer of a feature, benefit, product or service that can be helpful to the sales process in that it can indicate about what a prospect or customer is concerned.

Obsolescence —

Condition which occurs when products are no longer made (are "obsolete"), usually having gone out of demand or out of fashion.

GLOSSARY

Common Wholesale Distribution Terms

OEM —

Original Equipment Manufacturer; a customer that buys PHCP goods for assembly into larger products.

Operating Expenses —

Administrative expenses resulting from general costs of doing business, not including cost of goods sold, income taxes, or interest payments. Operating expenses generally are indirect costs such as rent, utilities, salaries, etc. *Also referred to as Overhead.*

Opportunity Cost —

The cost associated with having money tied up elsewhere (in inventory on-shelf or debt) so that it is not available to take advantage of some other business opportunity.

Outside Salesperson —

A salesperson who calls on customers at their businesses, or other outside locations, rather than selling at the business facility by which the salesperson is employed.

Overhead —

Costs associated with providing and maintaining a manufacturing or working environment, such as renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Overhead also includes indirect labor and indirect material.

Pareto's Law —

An unexplained statistical relationship that applies to numerous business calculations (and other non-business calculations). In business, Pareto's Law states, for example, that 20% of the products produce 80% of the profits. *Also known as the "80/20 Rule."*

Past Due —

An account overdue on payment.

Personal Branding —

A technique that successful salespeople use to market themselves to customers and prospects. It emphasizes the qualities that make them stand out in customers' minds as more attuned to the customers' interests and superior to salespersons from competing vendors.

Personal Brand Statement —

A short statement that helps prospects and customers understand that the salesperson is the solution to their problems.

Pre-approach—

The step in the sales process whereby the salesperson prepares for a productive sales call by learning as much as possible about the prospect's size, the markets served, current suppliers, buying routines, decision-making process, and the issues faced.

PHCP —

Plumbing-Heating-Cooling- (industrial) Piping

P&L Statement —

Profit and Loss Statement.

P.O.P. —

Point of purchase, often pertaining to retailer promotional displays.

Power of One —

An individual's ability to make a huge difference in a company's profitability and one's own status through tiny improvements in job performance.

Premiums (Marketing) —

Relatively large and expensive promotional giveaways such as wearing apparel and sporting goods.

Price-based Marketing —

The marketing of products based mostly upon price.

Private Label —

Product sold under a brand name of a supply chain customer rather than the actual manufacturer, with the permission of the manufacturer.

Product Line —

Single category of goods provided by a vendor.

Productivity (Personnel) —

A measure of how much each employee adds to the company's sales or profits. In PHCP distribution, employee productivity is usually calculated as the average sales per employee (even for employees who are not salespersons).

Profit —

See Net Income.

Profit and Loss Statement —

A concise financial statement that reports a company's revenues, expenses, and final profit or loss. *Also called an Income Statement or P&L.*

Promotions (Marketing) —

Special, time-limited selling campaigns, often including lowered sales prices, discounts, or giveaways, designed to promote sales of certain products.

Promotional Allowance —

A percentage of sales revenue given to distributors or others in a supply chain to promote a product line.

Prospect —

(Noun) An individual or organization with a need for a particular product or service, the potential for or existence of an understanding of that need and the potential to ultimately purchase the product or service.

Prospecting —

The activity of proactively seeking out potential buyers of a product or service and approaching them through personal contact (either in- person, over the phone, or via one-to-one email or fax) with the intent of selling them a needed product.

PVF —

Pipe, Valves, and Fittings. Usually refers to industrial distributors' inventories.

GLOSSARY

Common Wholesale Distribution Terms

Qualify —

To determine the purchasing potential of a suspect, prospect or customer.

Rebate —

Form of payment granted to parties in a supply chain at given times of a year based on level of purchases or other defined activities.

Receivables —

See Accounts Receivable.

Receivables Days —

See Accounts Receivable Days.

Replacement Sales —

Sales that do not grow the business but merely replace sales that are lost through attrition or other factors.

Retailer —

A business that sells primarily to consumers.

Return on Investments (ROI) —

Net income as a percent of total company assets. [Net income divided by total assets.]

Revenue —

Total amount of money taken in by a business through sales and other earning activities. Also referred to as "Volume" and "Income."

ROI —

Return on Investments.

Sales Plan —

A document that defines a company's sales goals and the means of achieving them. The plan provides details that answer what is to be sold, in what period, and to whom it will be sold.

Sales Process —

A systematic verified, systematic set of steps for selling a product or service.

Sales Representative —

See Manufacturer's Sales Rep/Agent

Showroom Salesperson —

A salesperson who sells to consumers in a distributor's showroom.

Shrinkage —

Inventory that gets lost, stolen or broken.

SKU —

Stock-Keeping Unit.

SMART Sales Goals —

Goals that are specific, measurable, realistic, agreed upon, and time-based.

Specialties (Marketing) —

Promotional giveaways which are smaller and less expensive than premiums, such as pens, pencils, and key chains.

Stock-Keeping Unit (SKU) —

An identification symbol, often alpha numeric (containing both letters and numbers) which can be used to track a particular item for inventory purposes. SKUs are often printed on product bar codes.

Supply —

Amount of goods available for sale.

Supply Chain —

All participants in a channel of distribution.

Trade Discount —

Discount provided by distributors to licensed or otherwise qualified contractor customers.

Transaction —

A completed sale, agreement, or business deal.

Trial Close —

An inoffensive check on the buyers' readiness to buy that allows the salesperson to close or continue the process toward the close.

Turns —

See Inventory Turns.

Upsell —

To sell a prospect or customer a product or service of higher value.

Value-added Services —

Services provided by the distributor which add to the value (and the cost) of products by making products more readily available or more useful to the end-user. Some value-added services include Just-in-Time delivery, job bidding, customer credit, and product training.

Value-based Marketing —

The marketing of products based upon a combination of price plus additional seller services or product features, which make the products valuable to the customer. Brand names and value-added services are among factors that increase the value of products being marketed.

Velocity Pricing —

Pricing system based on speed with which products move, i.e., usually discounting faster moving items more steeply than slow movers.

Vendor —

A company that sells goods or services to another company.

Vendor-Managed Inventory (VMI) —

A value-added service, usually offered to industrial customers such as OEMs and MROs, which requires that the distributor take the responsibility for making sure that the customer never runs out of critical items needed to keep the customer's business operating.

VMI —

Vendor-Managed Inventory.

Volume —

See Revenue.

GLOSSARY

Common Wholesale Distribution Terms

Wholesaler —

A business that sells to retailers, contractors, or other types of businesses, but NOT to end users, at least not in significant amounts.

Wholesaler-Distributor —

A wholesaler that buys and owns the products prior to reselling them to its customers.

WIIFM or WIIFem —

Sales factor acronym—**w**hat's **i**n **i**t **f**or **me** or **w**hat's **i**n **i**t **f**or th**em**— used to describe what should be the focus of any communication with a prospect or customer.