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Passing the Baton

For years, companies have outsourced certain business functions to cut costs and boost the quality of core competencies. Prized functions such as sales, however, were protected as crown jewels, locked behind corporate gates. But as budget concerns, pressure from the C-suite, and the need for greater flexibility multiply, an increasing number of companies are choosing to outsource sales. Many are finding success, but is outsourcing for you?

By Sara Calabro

Under the axiom that companies do not contract out a core competency — that is, anything that differentiates them in the marketplace — outsourcing certain business functions has been widely accepted for quite some time. Outsourcing sales, however, is a newer concept, as handing over a customer-facing function to an external organization has traditionally been considered a high-risk endeavor because of the direct impact it has on a company's bottom line. Despite this, market activity and expert opinions indicate that business process outsourcing, a form of outsourcing that involves contracting out an entire function or department for example, sales, marketing, human resources, or finance, as opposed to just one product or service within a department, is gaining momentum and will continue to grow in popularity as an additive solution.



In a recent S&MM/Equation Research survey, 24 percent of respondents answered yes when asked if they outsource any function of their sales organizations. The Sixth Annual Outsourcing Index, performed in 2003 by The Outsourcing Institute, a membership association based in Jericho, New York, reported that 8 percent of respondents were already outsourcing some function of their sales and marketing divisions; 10 percent, according to the Index, were considering it.

The apparent trend of companies' warming to the idea of outsourcing sales does not necessarily mean it's right for everyone. Managers should consider how transactional their product is (typically, outsourcing works best with products that have shorter sales cycles), as well as their willingness to form true partnerships with unaffiliated companies. And of course, they should carefully assess their sales objectives before making the decision to outsource.

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The decision to put sales, the virtual face of your company, in the hands of an external organization is undisputedly a big one. That's why it's imperative that any manager considering the approach first carefully assess his company's needs, as well as the likelihood of success with an outsourced sales model. Here are five tips to consider before and after inking an outsourcing deal:

Getting the Job Done

Already, such big-name companies as General Electric, IBM, SBC Communications Inc., and United Parcel Service — just to name a few — are using outsourced sales forces to sell select products and services. For competitive reasons, executives at companies that outsource sales are generally reluctant to comment on their companies' outsourcing efforts, but their participation alone is evidence of the trend. Peter Groop, CEO of Fusion Sales Partners, a sales outsourcing company based in Baltimore that specializes in "working with 800-pound elephants" (Fusion has GE, IBM, Kodak, and Siemens as clients), says outsourcing is an effective tactic for larger companies because of the breadth and underlying opportunities of their business. "Can you stand before top management of your company and honestly say that you are selling everything you can?" asks Groop, hypothetically, to a potential client considering outsourcing. "No one can say that. Bigger companies can use help."

One big company that got help is the now-defunct energy titan, Enron. Since filing for Chapter 11 bankruptcy protection on December 2, 2001, Enron has been tarred by detractors — new missteps emerged practically every day of the ensuing year. The company got a lot of things wrong. Outsourcing its sales, however, was not one of them.

Enron's outsourcing journey began in early 2001, when it launched a new marketing program to grow sales in the commercial electricity sector. To carry out the effort, Enron launched an entirely outsourced door-to-door sales effort — an approach its United Kingdom subsidiary had been successfully taking for years. It called on three different outsourcing companies — Sales Focus Inc., Sallience, and Talent Tree — to build its sales force. At its peak, the team was made up of 600 to 700 direct agents and 35 to 40 managers.

Chris Bailey, former manager of outsourced sales at Enron, who led the effort internally, was in contact with the sales managers a couple of times a week, while the outsourced managers handled responsibility for managing the direct agents. Having that kind of sales model — one that from the client's perspective seemingly runs itself — is what Bailey identifies, over financial concerns, as the primary reason Enron decided to outsource. "It wasn't about budget; it was about getting it done. When you need mobility and the ability to turn [a sales force] on and off," outsourcing is the way to go, he says. "You can't build something like that internally." In four months, the outsourced sales force closed approximately 30,000 five-year deals for Enron.

Bailey now heads the sales organization at Accent Energy, an energy company based in Columbus, Ohio. Having learned from his experience at Enron, Bailey, senior vice president of sales, has employed a similar outsourced sales force model at Accent. He refused to elaborate for competitive reasons, but he says Accent uses fewer than 50 outsourced sales reps to handle commercial deals in the New York area.

Although it is not possible to capture the "full flavor or experience" of how Enron's effort went because the company imploded, "from a sales perspective, it was a huge success," Bailey says. "We had a telemarketing campaign running parallel" that did not produce anywhere near the success of the outsourced door-to-door effort, he says.

Out With the Old

Enron's decision to outsource sales is what George Schildge would call "strategic." The CEO of Matrix Marketing Group, a sales and marketing firm based in Fort Collins, Colorado, that recently increased its focus on outsourcing services, says, "There is a transition where outsourcing sales and marketing has gone up to the C-suite. The CEO is seeing it as a strategic business issue," not just a cost-savings endeavor, he says.

At smaller companies, while still strategic, outsourcing decisions are influenced more often by budget concerns and risk avoidance, Schildge says. "CEOs are saying to heads of sales, 'Show me that you can fill my sales funnel where I have predictability.'" And in those cases, it's often more efficient to hire an outsourcing company made up of sales pros who can come in and hit the ground running than it is to build an internal department. "If you get a bad sales hire, that's a year or two of [wasted] momentum," Schildge says. CEOs want it done right the first time. "They don't want to take a bet with shareholders' money by targeting the wrong [customers]," he says.

Concern over targeting the wrong customers was precisely the reason Richard Gristak, CEO of Cherokee Consulting, an information technology consulting firm in Denver, decided last summer to get rid of his internal sales team and replace it with Matrix Marketing Group's outsourced services. He wanted Cherokee's sales efforts to focus more on sales campaigning and strategizing — that is, coming up with creative ways to generate new clients, not just calling on repeat customers. "Salespeople tend to call back the people they are friends with," Gristak says. "That is not necessarily who is going to get you business."

Since its inception in 1997, Cherokee maintained a two-person sales team, made up of what Gristak says were experienced salespeople, working on a competitive fixed salary, plus commission. The salespeople were primarily focused on selling three-month slots of consulting services, in person, to CIOs, vice presidents, or controllers at companies in the \$100 million to \$500 million range. Although Cherokee believed it had a high-quality offering and an experienced sales staff, "Expansion wasn't happening the way we wanted it to," Gristak says. He believed outsourcing, because it is more of an "arm's length arrangement," would be a viable alternative. Putting sales in the hands of people who he did not see in the office on a day-to-day basis allowed Gristak to be more forthright with discipline and

constructive criticism. "It is easy to get too comfortable with your sales staff and accept explanations that are more personal than business related. You feel funny telling them they aren't doing a good job," he says.

Gristak and his colleagues talked to 15 to 20 different outsourcing companies before narrowing it down to a final five that gave in-person presentations for the business. Cherokee selected Matrix Marketing Group, which is currently working to develop "quality sales campaigns geared toward targeted companies," Gristak says, and will ultimately recruit two salespeople to work on a contract basis for Cherokee exclusively.

Whether Gristak's decision to do away with an in-house sales staff was a good one remains to be seen (Cherokee and Matrix Marketing Group were gearing up for the rollout of the initial campaign efforts at press time), but he is confident in outsourcing as a recipe for success. "With outsourcing, there is a more rigid structure," he says. That's because the outsourcer "won't maintain the relationship if they don't do a good job."

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