



Selling In A Down Economy

by Robert B. Miller, Founder, Miller Heiman

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The conventional wisdom: “The sales force needs to hunker down when the economy slows.”

The reality: “A slow market is the time to consider doubling down on sales resources.”

Experienced executives all know that markets are cyclical. Downturns are followed by upturns, which then eventually lead to another slowing of business. During a down economy – typically, when revenues decline by 10 percent over the previous year for two quarters in a row -- sales organizations tend to hunker down. Managers implement a hiring freeze and might even lay off staff. Moreover, they cut back resources, for instance, reducing sales training or eliminating it altogether. All this seems natural and sensible. As that old saying goes, you need to tighten your belt when times are lean. It all makes such good sense, right? Wrong!

In fact, I believe that cutting back in a down economy is the worst thing that sales organizations can do because it often

just makes them all the more vulnerable to the competition -- and it leaves them woefully unprepared for when the market picks up. Instead, a business that doubles down on its sales resources will be better able to weather the storm and emerge from the tough times as a far stronger and more competitive organization. Indeed, a careful analysis of data from a Miller Heiman study shows that top sales organizations tend to use such a counterintuitive approach, redoubling their efforts to handle economic downturns.

Okay, some of you probably think I’ve gone off the deep end but hear me out. Investing in a down economy isn’t as crazy as it might first seem. After all, that’s the strategy of savvy Wall St. investors who know that, in a bear market, stocks are cheaper so they can get more for their dollar. Many real-

estate developers also recognize the huge potential pay-offs of investing in new projects in a down market, when land is relatively inexpensive and the cost of construction is cheaper because contractors are scrambling for work. Their bet is that, by the time those projects are completed, the economy will have picked up and they'll have homes to sell and offices to rent at top prices. (On the other hand, undertaking numerous construction projects in a hot real-estate market only means that you'll end up with plenty of empty space when those buildings are finished and the economy inevitably slows.)

Consider the actions of Bob Lutz, the executive responsible for Chrysler's turnaround in the 1990s. During some of Chrysler's darkest days, Lutz wasn't all that interested in hunkering down. Instead he spent \$80 million to develop and build the Dodge Viper, a muscular, pricey sports car that many critics claimed was a frivolous investment. To explain that bold move, Lutz uses an aerodynamic analogy: when an aircraft is flying too slowly the last thing you want to do is to conserve fuel by decreasing the airspeed because then the plane will stall. Instead, to gain altitude, you need to drop the plane's nose and accelerate. You'll initially dive but then you'll pick up enough speed to climb, and that's exactly what happened at Chrysler as the Viper helped spur a dramatic turnaround by proving to the naysayers that the company was still a contender. Today, Lutz is vice chairman at General Motors, where he's been spearheading the company's efforts to develop a new type of hybrid electric car. Popular hybrid vehicles currently on the market are basically gasoline-powered with electricity as the auxiliary. GM's goal is to develop a car that is powered primarily by electricity with gasoline as the secondary fuel source. Whether Lutz will succeed given all of GM's current woes is far from certain, but the point is that he's not been busy closing plants and selling off divisions. Instead, he's been making big investments that,

should they pay off quickly enough, will help the company out of its tailspin.

The Three Stages of a Downturn

Several years ago, the consulting firm Bain & Company conducted a fascinating study.¹ It analyzed more than 375 companies on the Fortune 500 to investigate what they did during industry slumps and how that affected their subsequent performance. In particular, the study looked at the three typical chronological stages of a downturn: 1) "storm clouds on the horizon," when the first signs of trouble appear, 2) "wet and rainy weather," when sales plunge, and 3) "the first rays of sunshine," when customers start to increase their buying again. Interestingly, Bain found that, at each of those stages, companies tend to do exactly what they shouldn't. In stage 1, executives try to exude confidence that their company will be okay (so as not to frighten employees). In stage 2, they slash costs like crazy, often laying off employees and cutting back on the quality of their products or services. And in stage 3, they spend freely, partly to try to make amends to alienated employees and customers.

All of that might sound reasonable, but Bain found that companies that have been better at weathering downturns tend to do just the opposite. In stage 1, they start battening down the hatches by letting staff know of their contingency plans. In stage 2, they treat employees and customers like partners ("we're all in this together, so let's figure out how to get through the tough times"). Moreover, to bolster their core businesses, they open up their checkbooks to acquire other firms at bargain prices. And in stage 3, they might ramp up but just gradually to meet the increasing demand.

Consequently, sales leaders need to think twice before cutting back during a recession. In particular, the benefits

of any layoffs can be deceptively elusive. In the early 2000s, Bain & Company conducted another study of the S&P 500. It found that, among companies that had similar growth rates, those that had small or no layoffs during a downturn tended to substantially outperform those that had larger layoffs. The reason is simple: because recessions typically last less than a year, so any short-term wage savings obtained from a large layoff are more than offset by the considerable cost of severance packages, any subsequent declines in productivity, and the expense of rehiring and training employees once the economy rebounds. “The average recession lasts only 11 months,” notes Darrell Rigby, a director of Bain, “If it takes a company three to six months to realize it is in a downturn and another three to six months to institute layoffs, it can find itself zigging just when it should be zagging.”²

That’s why smarter companies look for alternatives to layoffs. During the recession of the late 1970s, Hewlett-Packard didn’t hand out pink slips. Instead, it implemented an across-the-board pay cut of 10 percent, and it required employees to take off every other Friday. Those measures definitely helped foster a “we’re all in this together” attitude, which only made workers all the more loyal to the company and to the “HP way.” (Decades later, however, that loyalty was sorely tested as HP implemented round after round of layoffs.)

The hard truth is that no company has ever been able to achieve long-term success on the basis of budget cuts. Instead, every business that succeeds over the long haul knows that it needs to invest in order to grow. As the saying goes, you have to spend money in order to make money. And that’s why top sales organizations take advantage of a slow economy by hiring people while the competition is handing out pink slips. After all, more feet on the street will

land more sales. But ramping up resources is only part of the solution. Companies also need to be smarter and more efficient about how they deploy those resources.

Prioritization is Crucial

In a down economy, everyone needs to get out and sell, and this includes first-line, district, and area managers. Those individuals all need to have quotas, and they should be spending more time with customers and less time in the office, even though that might mean fewer meetings and less involvement with reporting. A good practice is to have your operations or production department (or whichever group is responsible for implementation after a sale) involved earlier in order to get salespeople away from a deal as soon as it closes (so that they can concentrate on signing other customers). Moreover, sales activities should be prioritized in the following way:

- 1. Secure existing customers.** In a slow economy, competitors who are desperate for new business will offer big discounts to poach customers from you. That’s why you need to pre-empt such maneuvers by strengthening all relationships with your existing accounts. Emphasize with customers that you’re in the same boat together and that you are going to help them weather the storm. They’ll appreciate the concern and the attention – and they’ll be more likely to reward you with their loyalty. In particular, you need to be in contact with the economic buyers (that is, those individuals who have final approval) at your existing accounts. You don’t want to be blindsided in the future by their defecting to a competitor, and one way to avoid that is to regularly ask them the following question: “What could we be doing better in our relationship with you?” It’s also important for you to be in touch with your coaches at your existing accounts to ensure that you keep in touch with their needs.

As you work to secure and strengthen your relationships at your existing accounts, you should also be on the lookout for ways in which you might increase your business with them. Every successful charitable organization knows that the best sources for donations are people who have already given. Similarly, it's always easier to sell to your existing customers than it is to find new ones. During a downturn at one of Miller Heiman's clients – a large, global provider of business information – management asked all the sales reps to list their top 15 accounts. The reps then had to rank each of those customers in terms of their current sales as well as their potential for revenue growth. That data was then plotted on an "opportunity account map" to identify exactly where the company should be focusing its efforts, and the results helped the sales reps better prioritize all their activities and resources accordingly.

2. Re-visit accounts that got away. Again, it's usually easier and more efficient to sell to people you already know than to try to forge new relationships. That's why, in any recessionary period, it's smart to seek out former customers or to reach out to previous prospects who ended up choosing a different product or service. After all, in a downturn, your competitors might be going out of business, laying off employees, cutting back on customer service or otherwise putting into practice a number of actions that are annoying or alienating their customers. Why not take advantage of that? In times like that, face-to-face visits could win back old customers or persuade former prospects to give you another shot at their business – especially if they're feeling ignored by your competition.

3. Prospect for new business. Because your competition might be making poor tactical decisions in an economic slowdown (cutting back services, letting go of salespeople,

and so on), you might be able not only to reclaim former customers and prospects but also to pick up completely new business. In any recession, an account that previously seemed locked up by the competition could often be up for grabs, particularly by a company that better understands how to help that customer not only weather the slowdown but even prosper during it.

In addition to prioritizing sales activities as described above, there's something else to consider. When the economy is booming, sales professionals can get away with cherry picking their customers because there's so much business to go around. In bad times, all the low-hanging fruit is gone and companies need to go after tougher accounts, and they might even want to take another look at customers that previously have been categorized as "undesirable." Take, for example, Progressive Insurance, which used extensive data analysis to recognize that not all high-risk customers (mainly young drivers and those with poor records) were the same. Those, for instance, with families and station wagons were much less of a risk than those who were single and owned sports cars. By using sophisticated techniques for customer segmentation, Progressive could identify which "undesirable" customers could be served in win-win relationships and through which the company could make an average underwriting profit of 4.5 percent (profit as a percentage of premiums).

Oftentimes, the trick is to figure out how to alter your product or service so that your relationship with a particular customer segment can become profitable. That's exactly what Charles Schwab did several years ago. Previously, the company had ignored a huge segment of customers -- those who couldn't afford all the pricey investment research and advice from the firm's expert analysts. So, to attract

business from that market segment, Schwab provided a cheaper self-service model through which people could basically buy and sell stocks on their own either online or over the phone with minimal assistance.

But don't get me wrong – I am certainly not advocating that companies become lowly bottom feeders that sell to any customer. Doing so would only lead to lose-win relationships that will surely damage a company's bottom line. For an extreme example of that, consider the entire subprime-loan debacle, in which banks, mortgage companies, and other financial institutions were granting loans to people who were clearly unqualified to take on such debt. Obviously, firms need to draw the line somewhere to separate deals that are lose-win from those that are win-win. For the riskiest of drivers, for instance, Progressive Insurance gives its highest quotes and will often refer those individuals to a competitor that might have lower rates.

You may have noticed that I was very specific in my priority of sales activities: 1) secure existing customers, 2) re-visit accounts that got away, and 3) prospect for new business. There's a very good reason for that. According to past research, the general odds of making a sale tends to vary widely according to the type of deal involved:

- Selling an established product to a current customer: 1 in 2,
- Selling a new product to a current customer: 1 in 4,
- Selling an established product to a new customer: 1 in 8,
- Selling a new product to a new customer: 1 in 24.

In other words, your odds range from 50-50 (for selling something proven to an existing account) all the way to essentially a dice roll (for selling something new to a stranger). And that's why existing customers should always be your top

priority. Keep in mind that nobody – especially customers – likes the feeling that they're being taken for granted. Indeed, we have all had the experience of being mistreated, neglected or ignored by a restaurant, a department store, an airlines or some other business. And what did we do in those situations? Often, we just took our business elsewhere.

Unfortunately, most salespeople make the mistake of valuing new business more than they do sales to existing customers. For whatever reason, I find that wrong-headed mentality very prevalent in the United States, somewhat widespread in Europe, and less so in the Middle East and Asia. Somehow, the exciting prospect of landing a new account is just too alluring for many salespeople to resist, even at the expense of ignoring an important current customer. But such thinking can be downright dangerous, particularly in a down economy when your priority has always got to be your existing customer base.

Toward Better Funnel Management

No matter whether the market is hot or cold, sales professionals always need to regularly manage their sales funnels, but in an economic downturn they need to do so with greater frequency. If your staff typically does funnel management on a monthly basis, then the process should become bi-weekly during a slowdown. And if it's usually performed weekly, then it must be done every other day when the market heads south. The basics stay the same, but you need to be more disciplined about it. In a booming economy, with abundant "low hanging fruit," salespeople can sometimes get away with sloppy funnel management. But in a recession, they absolutely need to rely more on the process, analysis, and planning because they simply don't have the same margin for error anymore and they often have fewer resources to back them up.

Salespeople also need to realize that they need more stuff at the top of their funnels. If their ratio is 5:1 in a regular economy (for every five prospects, one deal will likely result), then it will be more like 8:1 or 10:1 in a tight market. So they need to increase their number of qualified leads, or they've got to be better at qualifying those leads, or both. Here, sales leaders can help by checking the alignment between the sales and marketing departments. Are the two groups singing the same song? Specifically, do salespeople feel they're getting good leads? And do the marketing people really understand the profile of the ideal customer?

During a downturn, salespeople also have to be more vigilant and disciplined about regularly shedding unpromising prospects from their funnels. According to research conducted at Miller Heiman, nearly 35 percent of prospects that a typical salesperson is working on will ultimately not result in a win-win outcome. When these prospects are in the middle of the funnel, they suck up valuable time and resources, so salespeople have got to be better at flushing them out. In particular, salespeople should be on the lookout for "whirlpool" prospects – potential deals that go around and around in the funnel with no signs of closing. Negotiations don't converge, and the more energy that is put into signing the deal, the more time and energy it sucks. When that happens, the prospect is more than likely an unqualified lead that belongs at the top of the funnel and not in the middle.

Taking a Hard Look

Although I advocate that sales organizations make certain investments in a down economy, I am hardly advising that they spend frivolously. On the contrary, they need to be prudent, spending in areas that will give them a big return on investment all while examining every line item in the budget with a fine-tooth comb. They should question corporate sponsorships

and determine whether their original assumptions were valid. For example, are you getting a decent return on investment for your annual sponsorship of a local golf tournament? Are the corporate boxes at sporting events providing sufficient payback? And so on.

When assessing such corporate sponsorships and other similar marketing and sales expenditures, sales managers should ask themselves two questions: 1) Does it bring value to the customer, and 2) Does it bring value to our company? If the answer is yes to both questions, then the investment should be continued. But if the answer is no to both questions, then the activity should be terminated. And those investments which bring value to customers but not necessarily to your company should have higher priority than those which bring value to your company but not to your customers. (Remember that the sales process is always customer driven.)

Some sponsorships or activities might once have had value but are now nothing more than "pet projects." Years ago, a consulting firm launched an expensive magazine using top-notch editors, writers, and photographers. The publication, which was printed on expensive paper and cost tens of thousands of dollars to produce, was regularly mailed to clients helping to establish the firm as a thought leader in its field. When the company's business began to slow, however, an outside team was convened to investigate whether the magazine was actually helping to bring in new clients. But the team couldn't really make that determination, and so the publication, which had been the CEO's pet project, was quickly folded. And that's why you need to question all spending assumptions. What, for example, is the value of mailing out several thousand generic holiday cards each year compared to sending certain customers personalized notes to tell them how much you appreciate their business? Only

a thorough analysis of such investments will tell you whether your original assumptions are still valid and if your money is being spent well.

What Not to Do

In a market slump, it's always tempting to try to take shortcuts, and many sales professional will revert to bad habits. But slowdowns are when it's most important to remember the basics. In boom times, you can often get away with sloppy selling because of the abundance of business. In market downturns, you will pay dearly for every mistake you make. Consequently, when the economy heads south, it's all the more crucial that you:

- Don't try to rush a sale. Salespeople who are having trouble making their quota numbers often get desperate, and the big temptation is to try to short-circuit the customer's buying process in order to push through a deal. But that's exactly the wrong thing to do. Trying to rush a sale will more than likely be counter-productive: the customer will sense your anxiety and become ever more cautious, delaying the potential deal even further.
- Stay focused on the customer's buying process. Every deal remains the same no matter whether the economy is weak or strong. That is, you always need to cover all your bases at a customer company. So, for example, you always need to satisfy technical "gatekeepers" (those who can veto your product because it doesn't meet certain technical requirements), and you will never be able to close a sale without the approval of the "economic buyer" (the executive who has the ultimate authority to sign the deal). In fact, in down markets, it becomes all the more important to cover your bases properly because customers will be subjecting their potential purchases to greater scrutiny.
- Concentrate on customer results. When salespeople get into "push" mode, they can easily forget that the most important thing the customer is concerned with is results. This is especially true in an economic slowdown in which your customers might be struggling to keep afloat. If you can help customers improve their results, then they will be inclined to do business with you. Otherwise, you're just adding to their background noise. Or, worse, you could be irritating or aggravating them. An example of that occurred at a former client of Miller Heiman – a large, multinational beverage corporation. Someone in the company's marketing department had the brilliant idea to run a souvenir glass promotion by sending free drinking glasses with the firm's logo to customer fast-food restaurants. Unfortunately, the marketing folks didn't take the time to float this idea by the sales department; otherwise they would have learned that those fast-food stores didn't have any room to store the glasses. Not surprisingly, the promotion was a huge flop, as the promotional glasses became more of a nuisance than anything else. Clearly, the marketing folks hadn't thought things through, and in particular they had lost sight of what customers did – and, more specifically, what they didn't – need to run their businesses better.
- Remain disciplined and conduct routine reviews of major accounts. Many salespeople feel that they always need to be out of the office, visiting customers and potential accounts. And in a tough market, that feeling only intensifies. "If I'm in the office," they mistakenly believe, "then I'm not selling." But the truth is that salespeople also need to be systematic about how they sell, and account reviews are part of that process. Managers should make sure that all major accounts are reviewed, including customers that aren't currently in a buying

mode. Remember that markets are cyclical, and you don't want to be caught off-guard when a major customer begins to purchase products and services again.

- **Fight to maintain your resources.** In an economic recession, companies will typically tighten their belts. The top executives at an organization might, for example, issue an across-the-board cut of 10 percent. The underlying premise is that every company has some fat, and so the cutback will make the company more efficient without diminishing its competitiveness. But if your sales group is already running as lean as possible, you need to fight the cutback as strongly as you can. Typically, the edict to cut resources will originate from the CFO, who might not understand all of its implications. Your job is to make the CEO and other high-level executives at your organization aware of those ramifications. So, for instance, if a 10 percent cutback will likely lead to a corresponding 8 percent decrease in sales, then you need to make that case to the powers-that-be in no uncertain terms.
- **Hold firm on pricing.** In a market downturn, a big temptation is to slash prices. After all, if your product isn't moving, then you need to offer discounts, right? But doing so will only open the door to additional price cuts in the future, and the huge danger is that you could eventually be cannibalizing your sales of other higher-margin products.

I will be the first to admit that none of the measures on my list above is easy, and all are particularly difficult in a down market. But when times are bad, sales executives need to be especially vigilant about avoiding any shortcuts that might reap quick benefits yet be extremely harmful in the long term. That's why the Gap Inc. strongly resisted deep price cuts in early 2008, even after the market had slowed and the retail

chain had suffered an 18 percent decline in same-store sales from the same time period a year earlier. The company held fast, rightly knowing that its business model was not set up to compete on a long-term basis with the likes of discount chains like Target and Wal-Mart. CEO Glenn Murphy said that, in order to protect the company's profit margins, he was willing to sacrifice any short-term sales gains that might be achieved by slashing prices. Murphy, a seasoned exec who knows well that all markets are cyclical, wants to avoid taking any short-term actions that will damage his company over the long haul (that is, when the economy rebounds). All sales leaders should exercise Murphy's far-sighted discipline. Of course, doing so is far easier said than done, but that's why there are just a handful (if that) of top sales organizations in any industry, because only those companies can summon the wherewithal to take the right actions during the bad times as well as the good. ■

About Robert B. Miller

Thirty years ago, Bob Miller developed and introduced *Strategic Selling*®. Since then, his passion for elevating the role of the sales profession has resulted in several additional methodologies, all of which are incorporated in *The Miller Heiman Sales System*™. He continues today in a consulting and advisory capacity, focusing primarily on product development. His mentorship drives innovations in sales performance that are consistent with the vision for the company he started three decades ago.

1. Darrell Rigby, "Moving Upward in a Downturn," *Harvard Business Review* (June 2001): 99-105.
2. Darrell Rigby, "Look Before You Lay Off," *Harvard Business Review* (April 1, 2002).

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