THREE REASONS WHY YOUR SALES ARE UP OR DOWN

CSO White Paper Series from Chuck Reaves, CSP, CPAE, CSO

UNDERSTANDING WHICH ONE IS CAUSING YOUR CURRENT CHANGE IN SALES IS CRITICAL

AUTHOR'S NOTE: THIS WHITE PAPER PRIMARILY FOCUSES ON DOWN-MARKET STRATEGIES

The Nature of the Beast

There are three distinct reasons why your sales may be growing or declining. As the Chief Sales Officer of your organization[1], you must determine which one is driving the change right now. Once determined, you must take responsibility for responding to the condition and make the appropriate changes as quickly and effectively as possible.

There is rarely a Chief Sales Officer in the ranks of senior management. However the function still exists and usually falls to the CEO for execution.

Which of the following is most responsible for driving the changes in your sales?

- Industry influences
- Market influences
- Company activities

[1] If your organization does not have a CSO, the CEO is responsible for the function. If you aspire to be a CSO, this information is for you.

This white paper addresses these three drivers. What you will encounter here:

- Explanation of the three drivers
- Examples of how CSOs have managed them
- Some ideas for you to use now and in your strategic sales planning

Overview

There is an old joke about a drunk crawling around on the sidewalk under a streetlamp. A passerby asks what he's doing and he says, "I'm looking for the watch I dropped." The passerby asks, "Where were you when you dropped it?" and the drunk points to a dark alley across the street. "If you dropped it over there, why are you looking over here?" The drunk responds, "The light is so much better here."

If the real issue is an industry problem or it's the result of a declining market, you're unlikely to find the best solution inside your four walls.

The problem is "out there".

Looking "in here" for the solution does not make sense, does it?

The problem is, too many CSOs and CEOs are acting like the drunk. Their sales are off so they are responding "where the light is best". They have better vision in their own organizations so, when the downturn hits, they implement the "lost sales plan":

- Cut prices
- Cut production
- Cut people

They can easily see how to do these things even though doing them is not easy. In most circumstances, they are the wrong things to be doing.

When the underlying issue behind a decline in sales is the market, cutting prices, production and headcount in your company is probably not the right response. When the underlying issue behind the decline is sales is your industry, cutting prices, production and headcount in your company is probably not the right response.

Even when the problem is one that seems to only affect your company, cutting prices, production and headcount in your company is probably not the right response.

It's better to look at the source of the problem and use the CSO's two primary questions to address it:

Who else? What else?

When the buggy whip **industry** began to decline, it did not matter what a company manufacturing these obsolete products did. Cutting prices, lowering overhead and reducing headcount was not going to make the company successful. It was an industry problem and looking for solutions inside the company was a futile – if not ridiculous – way to respond.

At the same time there was a mass migration from the farm to the city. America was moving from an agricultural economy/society to an industrial one. The mail order catalog companies found that their **market** had shrunk significantly. Reducing prices, offering fewer products and cutting headcount was not going to save them.

Some buggy whip companies began making parts for the automobile industry and some catalog companies, like Sears and Roebuck opened urban stores.

If, indeed, your company is the problem, you must address that. But it's more likely to be an industry or market issue and making adjustments in your company may only make things worse.

Industry Influences

Is your **industry** suffering?

What is happening in your industry?

In a down economy some industries suffer earlier than others and some suffer more than others. If your industry is susceptible to early or significant changes in the economy, this could be the reason why your sales are down.

For instance, in a down market luxury goods will suffer while in an up market they will thrive. Products and services that are deemed to be essential will continue to sell and those deemed non-essential will see declines in sales.

How do you know?

Note that it does not matter if you, the provider, think your products or services are essential, it only matters what the customer or client thinks.[2]

In some recessionary economies specific industries see extraordinary increases or declines. These "one-off" scenarios are atypical, meaning they don't occur with every boom or bust market, only occasionally. An example would be the surge in sales in soup and cereal during the 2008-2009 decline. Working parents needed to feed their

[2] *(For more on this topic see the white paper: "12 Changes You Must Make To Sell In A Recession")*

industry

children, they did not have time to prepare it at home and their budget would not support fast food meals.

Some examples of industries that were impacted by recent downturns and how some of the companies in those industries responded:

Luxury Restaurants

When the economy sours, people tend to eat out less often and will opt for more reasonably priced restaurants when they do. As a result, even some of the best known chains see an early and significant decline in business as people cut back on their food budgets and as companies cut back on their T&E costs.

The luxury, or "white table cloth" restaurants had a grasp on the smallest segment of the restaurant industry – the top of their "food chain". It is the smallest segment, however, it can be the most profitable. At the tip of any industry pyramid there are the buyers who are looking for quality and are willing to pay for it. At the second tier there are many more buyers but they are typically unwilling to pay the higher prices. And, in almost every industry, there is a bottom tier of buyers who are primarily price buyers.

Have you mapped your industry pyramid?

When the restaurant industry pyramid began to shrink, it did not take long for the top tier to become too small to support the number of restaurants in the category. The category had grown during the previous years of a rapidly growing economy and, when the downturn came, was over-saturated with providers and under-supported with potential customers.

What were they to do to survive?

What lessons can your organization learn from Ruth's Chris?

In 2009, Ruth's Chris Steak House restaurants began offering a special. For $39.95, a patron could order one of a few entrees, enjoy an appetizer and even have a choice of a few desserts. People considering a special night out for a birthday, anniversary or other occasion would see Ruth's Chris as an option. Before the promotion, the average ticket per person was nearing $50 (without drinks) so a couple would expect to spend around $100 (a three-digit number). With the promotion, the cost of their meal would seem "affordable" and celebrating special occasions is "essential". This allowed the upscale restaurant to draw some buyers from the second tier.

They combined "affordable" with "essential".

Why it worked:

What can your team learn from this example?

How can you develop your own plan?

- It placed Ruth's Chris back on the list of "restaurants to consider".
- It did not create potential damage to the brand because options were limited – the remainder of the menu kept the same pricing.
- Corporate business was not harmed significantly; who is going to take a client to a restaurant and tell them to choose from the special menu? Some business people were prudent enough to choose the lower-priced option and, as a result, employers looked more favorably on the chain.
- The $39.95 price was driven by consumers. Web-based comments indicated that a total of $60 for a meal was "outrageous" for some and $39.95 was "a steal" for others.

LUXURY RETAILERS Another example is the Tiffany's – Wal-Mart phenomena during the holiday season of 2007. Both stores did well. Tiffany's approach was to maintain their exceptional level of quality and unique designs but to offer them in smaller pieces of jewelry. There is just something about giving someone a gift in that little blue box! Once in the store, the well-trained sales staff was able to engage the buyer, determine their real need/want and to offer alternatives. Side-by-side comparisons showed the difference in small-but-nice pieces versus spectacular ones. Whether the customer could upgrade or not, they left the store feeling good about their selection.

MANUFACTURERS Several of my manufacturing clients have taken advantage of down markets to expand their businesses and even to reinvent themselves. Rather than provide components, some began offering sub-assemblies and finished goods. Most found that they had greater inherent capabilities than they had imagined, bringing credence to the idea that necessity is the mother of invention. Supply Chain Selling is the critical component here; your salespeople need to be well-trained in this area to better capitalize on any economy. A down market is the perfect time to exploit it.

Capitalize on the victims

This may seem cruel, but you need to consider who the victims and survivors will be in your industry. You plan to be a survivor; when the economy turns around, you plan to capitalize on the new environment and take your business to new levels. Whenever there are survivors, by definition, there must be victims. Who will the victims be in your industry and how will you capitalize on that?

Ideas to Consider

If your sales are up or down because your industry is up or down, here are some ideas to consider. [Red text is specifically for sales declines and green text is specifically for sales increases, black text applies to either.]

- Do you need to consider expanding your line to include lower-priced options?
    - Make certain you do not damage your brand.
    - Place restrictions on the offering.
    - Expect customers to ask for your regular offering at a price point closer to the new offering's price and make sure your salespeople are able to address that issue!
    - Consider placing a time limit on the offering.
- Do you need to expand your line to attract more affluent buyers?
    - Can you earn higher margins on more robust offerings?
    - Will these improve your brand?
    - Prioritize based on longer tails, lower barriers to entry, greater impact on revenues/profits
    - Begin immediately to develop proprietary products your competitors cannot easily copy
- Have you examined the next tier down in your industry?
    - Do a quantified analysis – don't guess.
    - Find pockets or segments that have short term appeal and perhaps long term (long tail) potential as well.
    - Resist creating a second-brand (as the airlines did) to offer lower-service/lower-price offers. During a down market discretionary funds and strategic investments need to focus on cash flow, not investing in costly new initiatives.

Quantify!
Don't guess

- Which of your competitors will not survive?
    - What is your plan to attract their remaining customers?
    - What differentiation do they have that caused others to buy from them in the past? Do you need to offer something similar?
- Which of your competitors are thriving?
    - What are they doing you need to consider doing?
    - What are they doing you need to do but do differently?
- What are the entities on the next tier down doing? *(At the same time Ruth's Chris was promoting their $39.95 offer, Appleby's rolled out a similar promotion at $20, widening the gap between the white table cloth and the upscale.)* Keep your eye on the tier below you.

Is the pie smaller?

Market Influences

Do you need a larger slice of a smaller pie?

Is your **market** in decline?

Here “market” is loosely defined as your current buying group. When considering this area of impact, you might want to think in terms of industries you have traditionally sold to, geographic regions or defined demographics. Any buying group qualifies as a “market” here.

market

When your traditional market slows their buying – or even stops buying – what are your alternatives?

The obvious but certainly not simple, solution is to find another market

I personally faced this in 2008. Of my three companies, the one that books me as a speaker has usually been the cash cow. As the economy softened, one of the first areas to be cut in most companies was the meetings budgets. Sales meetings are necessary - even mandatory - for getting everyone on the same page. A consistent message in the market is essential. The few companies that still held off-site meetings reduced their meeting budgets by cutting back on bringing in outside speakers like me. The market for speakers declined significantly. Corporations saw communication as “essential”, but not outside speakers.

For those who think they cannot afford the CSO position, a down market can reveal the true cost of not having one

How would your situation be different if you had a CSO in place a year ago? Will you be asking the same question a year from now?

In the 2008 – 2009 decline, the housing market tanked. Any company that depended on sales to the housing market was in trouble. A huge number of industries were impacted by this. The decline here was not an industry issue, it was a market issue.

The obvious, but certainly not simple, solution is to find another market.

The CSO is supposed to ask two questions all day, every day:

- WHO ELSE? Who else could we be selling to? Who else could benefit from our core competencies? Who else could benefit from our unique capabilities?
- WHAT ELSE? What else could we do to better serve our existing customers? What additional needs do they have that we could address?

The “what else?” question helps address Industry Influences (above).

The “who else?” question helps address the Market Influences.

Those companies that have a formal CSO in place have already addressed these questions. They had their Plan B drafted long before the downturn began. Some of them were developing plans to sell into those other markets even if the economy had stayed strong. Knowing what alternatives were available, the value of each and already having them prioritized allowed them to execute quickly and effectively when their traditional markets failed.

Don't you wish your company had done the same? Isn't it time for your organization to get serious about the CSO role? And, by the way, were any of your competitors among the early CSO adapters – the ones who are now scooping up whatever low-hanging fruit in the new markets?

Some examples of companies that found the "who else" when their markets declined:

BUILDING MATERIALS MJB Wood Group is a great example of a dynamic company that looks for the "who else?". During a previous construction downturn they found themselves with excess capacity and inventory. So their CEO/CSO began with a simple question: "Who else uses wood in their business?" This lead to a long list being developed by salespeople, customer service people, truck drivers – in fact, virtually everyone in the organization. I will not reveal their list, of course, but suffice it to say they found many new markets for their capabilities.

My role in working with my clients is not to answer their questions or to even question their answers. My role is to question their questions.

Are you asking the right questions?

Here's a hint, if you're not coming up with viable answers, you're probably not asking the right questions.

PRINTING North Star Print Group used a simple, but not easy, approach: "Who else needs printing?" This highly efficient, technologically advanced company was poised to take on virtually any opportunity in any market. What they needed was a viable new market. Since they had specialized in high quality marketing pieces, they initially looked at who else needed advertising. They learned that ad budgets were being reduced. So they shifted their thinking and answered the "Who else needs printing?" question with, "Who is still selling stuff?" After all, virtually anything that is sold has some printing associated with it. Again, their list is their property and I will not disclose it. What might you learn about new markets if you and your team entertained that same line of questions?

Ideas to Consider

If your sales are up or down because your market is up or down, here are some ideas to consider. [Red text is specifically for sales declines and green text is specifically for sales increases, black text applies to either.]

- What segments of your existing markets are poised for growth?
  - Have you identified, quantified and prioritized them?
- What business are you in? (It takes the typical company about thirty days to answer this one!) What are your core competencies? *Example: the printer mentioned above realized they were not in the (declining) printing business, they were in the ink-on-paper business. That opened more markets to them. Then they upgraded to being in the ink-on-anything business and more markets opened up.*
  - What are your core competencies?
    - Where you excel?
    - Where you are a me-too?
    - Where you could expand?
  - What are your ancillary competencies?
    - Consultative selling?
    - Solution selling?
    - Vendor managed inventory?
    - Design capabilities?
    - Delivery or other service strengths?
- What previously unattractive markets look prettier now?
  - Have they changed or have you?
  - Do any offer attractive benefits for you?
    - Immediate cash?
    - Access to government or other funded projects?
    - Access to additional new markets or other opportunities?

But, then, it may actually be your company. You may be the problem. Look first at your industry and your market and, if the problem is not there, it's time to hold up a mirror.

Is it me?

We have to ask the hard question: “Is it just me?” Is your **company** the source of the decline or growth?

How does your organization’s performance stack up against other similar companies? We’re not only referring to competitors here, we’re including similar entities. For instance, if you’re a manufacturer, how do you compare to other manufacturers regardless of what they make? If you’re in financial services, how do your current results compare to others in the broader world of financial services?

Then we have to ask the even harder question: “How do we know?” Where can you go to find the data you need to determine how your company stacks up against others?

- Online data bases (if your company and/or competitors are large enough)
- Industry publications – though this limits your analysis to only your industry
- Other sources that have proved reliable for you in the past[3]

How do you know it is really a company issue?

The purpose of this comparative analysis is to determine where we are on the continuum of successful and failing organizations. No matter how well we are doing or how poorly, there will be people ahead of us and some behind us. We need to know exactly where we stand.

Some examples in this category include:

AUTOMOTIVE Detroit (American automobile manufacturers) seemed to have their head in the sand in the 1980’s. Having enjoyed more than 90% market share for decades, foreign competitors were not viewed as a threat. Comparing themselves to each other caused them to think more parochially than a global economy would allow. As a result, their opinion that their customers did not want what the off shore manufacturers were selling caused them to slip into a decline that may now be unstoppable for some.

These were the best managed companies

Remember, these companies were being managed by some of the best and brightest minds in industry and the business publications regularly rated them as high-performing leaders.

They had great leaders

There was no problem with the industry because others in the industry were doing very well. Honda, Toyota and Datsun (now Nissan) were enjoying steady

[3] CSOs keep an updated list of resources they can use to verify assumptions, develop new approaches and evaluate opportunities.

growth. There was still a viable market for new cars – after all, the three Japanese companies were selling cars. It was a company problem and, in this case, three companies with similarly flawed business models. Even great leaders cannot overcome a flawed business model.

The big three realized they could not compete with the foreign manufacturers on their turf. Building “economy cars” was not in their blood – and never had been. The few times they had tried were disappointing; remember the Chevrolet Corvair, Ford Falcon and Plymouth Valiant? Most people don’t.

After World War II Henry Ford was in a group of industrialist who went to Germany to help rebuild industries there. He was assigned to automotive, naturally, and he visited the Volkswagen plant. His assessment: “The Volkswagen does not meet the fundamental requirements of a motor car.” The Ford Motor Company held to that tenet even as the Beetle ate into their market share.

Of the Big Three, Chrysler suffered the most from a reputation of quality and design weaknesses. Dealers complained about having to “rebuild what Detroit sent us”.

Rather than go downscale, they decided to go for power and muscle. The “muscle car” would result from this thinking. Their first response was to build a more powerful engine, which they did. The Chrysler hemi was one of the most sought-after engines in the market. Racing enthusiasts would take their engine and put it in other vehicles!

Enter Lee Iacocca. (Full disclosure: I’m a big fan of his leadership style.) When the public wanted smaller, better cars, he pushed the K Car project. When he saw the minivan concept, he knew it would be a category killer; it would out-feature the foreign cars that were already feature-rich (cup holders!) and attracting customers. At that point, the other manufacturers had to play catch-up.

Die-hards to the end, others at Chrysler still thought muscle was the way to go so they introduced the Viper, Prowler and other concepts – none of which made a profit.

Ideas to Consider

When your sales are running above or below sales in similar organizations, one of the best ways to determine why is to use the following steps in the order presented:

1. Have a brainstorming session with the sales team
   a. Why do you think sales are up?
   b. Why do you think sales are down?
2. Have a second brainstorming session and include representatives from as many other areas of the organization as possible (customer service, manufacturing, etc.) and answer the same questions
3. Have the sales team members individually address any deviations between 1 & 2
   a. "What do others in the company see that we're missing?"
   b. "Do we agree with their assessments?" "Why?"
   c. Have the sales team members submit their responses to one person who will compile them
4. Ask your customers the same question(s)
   a. Look for deviations – "What did all of us (internally) miss?"
   b. Use the 25% process:
      i. 25% of customer surveys are done face-to-face
      ii. 25% over the phone
      iii. 25% via email
      iv. 25% anonymously (usually via mail)
5. Final brainstorming session – "What did we learn about ourselves?"
   a. List your three to five greatest strengths
   b. List the three to five areas where you will formally improve your performance

Throughout this white paper you were presented with numerous ideas for determining why your sales are up or why they are down. These ideas were broken into three major categories: Industry, Market and Company. In any selling situation all three of these will have some influence the customer's buying decision. However, one of these will usually be the predominate force driving your sales or lack of sales.

Using these ideas, determine which of the three is having the greatest influence on your sales. Put an action plan in place to correct whatever is going on in your industry, market or company.

If you need help in taking advantage of your current situation, sales developers like Chuck Reaves can help you examine, diagnose and/or cure whatever is ailing your sales.

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Chuck Reaves, CSP, CPAE, CSO is a pioneer in the latest trends, tools and capabilities in sales and sales leadership. For more than twenty years he has been assisting CEOs, sales leaders and salespeople in taking their performance to the next level. A former top producer for AT&T (number one out of 1,100), he works with Fortune 100 and start-up companies and everything in-between. He has written eight books, created hundreds of sales tools, and is one of the highest rated speakers to the world's largest membership organization for CEOs for which he has delivered more than 900 presentations in addition to another 4,000 programs worldwide. .