Cutting Sales and Marketing Costs without Cutting Muscle

By Chris Madaus, Derek Mills and Rodrigo Navarro

When businesses cut costs, sales and marketing often get a pass. As the revenue engine of a company, many business leaders try to avoid slicing into their commercial organization. However, during an economic downturn or crisis, revenue often falls faster than costs and executive teams are forced to take a hard look at their commercial costs as they seek to conserve cash and protect the business.

Cutting commercial spend is risky and fraught with unintended consequences. Traditional cost-cutting methods using high level "thumb-rules" or a "cut deep and see where they scream" approach aren't precise enough when revenue, customers and sales talent are at risk. Knowing where and how to make cuts requires knowing where critical customer relationships and talent sit, understanding commercial processes, and reoptimizing the remaining resources so that they continue to sell and retain customers effectively.

Cut with a Purpose

Smart sales and marketing cost reduction starts with an understanding of the level to which revenue might fall and building a plan to take out costs accordingly. As a starting point, review your revenue performance during past downturns and crises. Identify two or three potential scenarios (e.g. low, base and high) and translate them into cost reduction targets for each scenario. Build out your plan around a prioritized set of cost-reduction opportunities that will allow you to flex up or down as the crisis or downturn plays out. Having a prioritized set of opportunities ready will allow you to adapt quickly and act decisively when the time comes.

Begin the process of prioritizing cost-reduction opportunities by bucketing and ranking commercial costs by return and risk. Understanding the return (revenue, gross profit, bookings, opportunities, leads) and risk (of customer/revenue loss and long-term revenue engine damage) associated with each commercial cost bucket will enable you to quickly prioritize low-return spend and low-risk resources to reduce or cut first. Be sure to consider the full set of revenue sources and costs from each business unit, geography, channel, group/team, product/service set and role. This exercise also provides a great opportunity to make sure the major components of your spend (demand/lead generation, hunting, farming, retention and sales operations/support) are aligned with your growth strategy.

© Blue Ridge Partners Management Consulting

Find the Low-Return Commercial Spend and Low-Risk Resources to Cut

With a clear understanding of the return and risk of each bucket of your commercial spend, consider the following eight opportunities to cut commercial costs as you develop the prioritization within your plan. While not all eight are a fit for every business model, our work helping clients reduce commercial costs has shown them to be a good place to start your search. Remember, the key with each of these opportunities is to go deep enough to understand potential unintended consequences, reduce risk and be ready to reoptimize the remaining resources.

1. Quota-carrying reps

While underperforming quota-carrying reps may seem like an obvious place to cut, thinning the ranks of sales reps is not as simple as cutting the lowest-performing 20%. One of the dangers here is that cuts made simply based on performance could put key accounts and prospects at risk or leave important territories uncovered. That's why, in addition to evaluating each rep's recent performance, it's important to review their key client relationships and consider their future potential. Leverage input from your commercial leaders to ensure you are cutting and retaining the right reps. Done right, removing the cost of reps who are unlikely to develop into strong performers (and not critical to key customer relationships) not only brings a quick cost-cutting win, it also opens up seats to bring in high performers and position the business for the recovery.

We are often asked about hunting roles. Since these reps drive new business and good ones are hard to find, some companies are reluctant to make cuts here. If you have hunting talent you would like to retain but market opportunity is limited during the downturn, consider shifting those hunters to farming or retention-focused roles during the downturn. When the market recovers, they can sidestep back into hunting roles (and good farmers are typically easier to find when you need to backfill). Be sure to focus your reduced hunting capacity on only the best prospects that can realistically convert.

2. Account coverage

Review your account coverage ratios in terms of number of accounts and total revenue or gross profit for any role that is aligned to specific existing accounts. We find that weak performers often cover one-fifth the revenue of strong performers. By eliminating low-risk, weak performers and giving their accounts to middle performers, you will rationalize the account coverage ratios (each team member will cover more accounts/revenue) of your account management (or similar) function. Make sure the top performers who cover your best accounts have plenty of capacity to take great care of these relationships during the downturn. A recent client was able to leverage this approach to remove over $2M (~25%) of one division's account management costs without impacting any of the accounts responsible for over 90% of their revenue.

Another option to consider is a shift to a low-cost, virtual model for account management and customer success, especially for the long tail of medium and small customers. Review the tactics and processes that your account managers (and similar roles) are using to cover their accounts and shift to lower-cost methods where possible.

3. Sales management

Sales managers are not an "extra" layer; they are a critical lever for customer retention, prospect conversion, and for driving the performance of the sales team. While there are opportunities to cut here, it's important to do so in a way that doesn't expose key customer relationships or leave sales reps with insufficient direction.

Start by calculating your spans of control (the number of direct reports for each manager) and the number of management layers from your CRO down to your individual contributors. If not already there, consider expanding your spans of control to at least eight for hunting teams and at least 10 for farming teams. This should allow you to eliminate bottom-performing and low-potential managers (again, being aware of any key customer relationships). If your spans of control are very low, consider removing a layer across your commercial function. With 10-person spans, a three-layer organization can support up to approximately 100 and a four-layer organization can support up to approximately 1,000.

Your remaining managers will need to be more hands-on in order to drive results during the downturn. For example, weekly team meetings should become daily huddles. One-on-ones between reps and managers should increase to twice-weekly. If they aren't already doing so, managers should be joining all important client and prospect meetings.

4. Non-quota-carrying support functions

A smaller commercial function needs a smaller support team. You can typically be aggressive in making cuts here. During a market downturn, you won't need as much capacity in overlay roles like sales engineers, BDRs/SDRs, partner account managers and inside sales. You should still take the time to find and eliminate the weakest performers; the stronger members of these teams will be critical to driving revenue during the recovery.

One place to exercise caution is in sales operations. While you won't need as much capacity in sales enablement, onboarding and training, market intelligence, pricing/deal desk, proposal support or sales administration, the core sales operations functions – metrics, reporting, pipeline management and forecasting – will be more important than ever. Avoid cutting too deep into these capabilities.

This is also a good time to re-establish requirements around reporting. Set clear guidelines for the smaller sales management and sales operations teams to drive precise, "just the facts" pipeline tracking and reporting. The sales team will have a heightened awareness of policies during a downturn so take this opportunity to develop good habits.

5. Channel partners

If you have channel partners, you're likely making significant investments in direct commissions, reduced pricing, market development funds (MDF), partner account managers and technical sales or customer service resources (e.g. sales engineers) to provide your partners and their customers with technical support during and after the sales process.

Rank your channel partner relationships by the revenue or gross profit they proactively drive to your business (exclude deals that your sales team initiated and brought your channel partners into). Consider reducing or eliminating spend (or increasing pricing) for the long tail of low-productivity channel partner relationships with an awareness of any important customer relationships that might be disrupted. A recent client determined they weren't getting a sufficient return on their channel partner spend so they cut their MDF by an average of 50% (over-weighted toward smaller and less proactive channel partners) and significantly reduced their partner account management force with very limited impact on their channel partner revenue.

6. Sales compensation

A difficult economic environment with revenue targets and quotas being revised down presents an opportunity to review your compensation plans. If your on-target compensation cost of sales (CCOS – the percentage of revenue you pay out as compensation to sales reps when the company hits its revenue target) has drifted too high over the last few strong years, you can take this opportunity to reset it with limited incremental disruption or pushback from the sales team. If there are specific opportunities you want to emphasize during the downturn (e.g. products/services that are especially relevant), consider using sales performance incentive funds (SPIFs) to focus sales rep attention without impacting the overall compensation structure and on-target CCOS.

That said, the sales compensation playbook remains the same. You still need your compensation plans to drive the right behaviors with your remaining sales reps. Apply sales compensation and other incentive changes to drive specific objectives with specific groups (e.g. retention in high-performers, increased motivation for middle performers and reduced compensation for low performers).

Review each compensation structure and assess for alignment with your growth strategy and go to market model; use this disruption as an opportunity to realign.

Other creative strategies to consider as you seek to retain sales talent during a challenging period and position the business for the recovery include 100% commission plans, scaling back hours, voluntary pay cuts, furloughs and unpaid sabbaticals.

7. Marketing spend

Any marketing spend with an unquantifiable ROI should be considered for reduction or elimination during a downturn. Think of the downturn as an opportunity to reestablish discipline around marketing spend. Consider giving your CMO a cost-reduction target and ask that any spend that is retained be clearly justified in terms of ROI. The CMO should come back with a revised marketing budget laser-focused on generating high-quality leads that are likely to convert and where the ROI is clear. Expect to cut longer-term branding and awareness marketing.

8. Travel and entertainment

While many T&E budgets have been reduced considerably in recent years, they still offer an opportunity for further cost reduction during a downturn. Consider putting a temporary pre-approval process in place for spending above a nominal amount, such as $100. To further discourage unnecessary spending, consider circulating a regular report of T&E expenses by account or by rep to make it clear that this use of cash is being watched closely and to give reps a greater sense of accountability.

Reoptimize the Leaner Commercial Function

Once the sales ranks are thinned and you've cut other less-productive spend, you'll need to reoptimize the remaining team. For example, you'll need to adjust your go-to-market model by realigning around the right customer/market segments and products/services for the current environment. You'll also need to reassign the territories, accounts and prospects of departed sales reps. Make sure your top producers get the lion's share of incremental opportunity while avoiding any actions that might disrupt important customers. This is also a good opportunity to improve targeting by ensuring your remaining sales team is prioritizing the most important existing customers and prospects. Finally, keep in mind that the smaller team will have to be more productive. If you cut your selling capacity by 30%, every sales hour will need to be far more productive to achieve the same results.

We don't know how long an economic downturn or crisis will last. But developing a plan to cut commercial costs going into the downturn or crisis will allow you to be decisive and precise. While commercial cost-cutting presents the risk of revenue loss and damage to the revenue engine, you can dramatically reduce this risk by avoiding traditional "thumb-rule" based cost-

© Blue Ridge Partners Management Consulting

BLUE RIDGE PARTNERS
The Revenue Engine

cutting methods and working to understand potential unintended consequences. A downturn is a challenge for any business, but it also offers a powerful opportunity to reoptimize the go-to-market model and make structural changes that can be more difficult in stronger market conditions. If you get it right, the business will emerge having maintained commercial effectiveness and ready to capture opportunities during the recovery.

About Blue Ridge Partners

Blue Ridge Partners is recognized as the most experienced, impactful and respected firm that is exclusively focused on helping companies accelerate profitable revenue growth. We have worked with hundreds of companies on business model transitions, where we are known for rolling up our sleeves, being focused and pragmatic in our analyses and delivering tangible results that focus on the "how" of execution. In our work with over 600 clients worldwide, we have amassed extensive knowledge of the issues that affect revenue performance. For more information visit **www.blueridgepartners.com.**

Our Locations

Head Office
1350 Beverly Road, Suite 115
McLean, VA 22101
USA
pricing@blueridgepartners.com

United Kingdom
Quadrant House
55-58 Pall Mall
London SW1Y 5JH
United Kingdom

Germany
An der Welle 4
60322 Frankfurt am Main
Germany

Australia
Level 3
480 Collins Street
Melbourne VIC 3000
Australia

© Blue Ridge Partners Management Consulting