The downward spiral

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The “Downward Spiral” was faced in the past by companies that even in the good times faced declining sales issues as their consumer walked away for one reason or another. The spiral is initiated by cost cuts which reduce the capacity of an organisation to generate sales growth, necessitating the finance director recommending further cuts be made. Finance directors tend not to trust the sales and marketing people anyway!

Tax on RTD alcoholic drinks changing, one chocolate being better tasting than another, the price of fuel affecting the choice of car etc. Are good examples of dynamics which have lead to large consumer behavioural changes outside the control of the companies affected.

A large consumer behavioural change in the past caused companies to look for solutions which did not disturb the status quo too much, as traditional margins and business was being protected, the Advertising agency would be asked to pull a rabbit out of a hat and find the silver bullet, (I hated those briefs), and the accountants would come to the marketing department looking for cuts, Media was the first point of call.

The business was looking for a fix which was palatable, rather than facing the cold reality and responding to it in a flexible fashion.

Right now I think we all know of companies cutting costs as the issues of the financial crisis of the past 12 months start to impact.

We have all read that the fast food co’s are doing well, Coke and Ice-cream are selling well.

I was with a prospective client yesterday who had two issues A) he had met with Woolworths who wanted to lower the consumer price points as they had begun to realise consumers were beginning to shift their buying behaviour towards lower priced substitutes B) his sales people weren’t listening to the customer.

The COO was listening.

There is fundamental consumer change occurring.

At the same time I seen companies cutting expenses by shaving everywhere they can. As they are red-lining line item after line item. These co’s have begun the downward spiral.

Going back to my prospective client he said “Sam, ‘success’, “It’s not an expense issue--it’s a SALES issue!”

Recently Circuit City stores closed.

I wanted to find out why?

Do you know why?

Some say, “Well the economy stinks, so sales were down.”

The answer I was told was, sales were down, and the board of directors dictated that they cut staff costs they ended up fireing all of their experienced store salespeople. Again the spiral was heading down.

These sales people were the knowledgeable staff and making sales. However, the decision was made to cut expenses by cutting the payroll. The seasoned, sharp people were fired, and inexperienced, untested “salespeople” were brought in at the minimum wage rate, and told to get out there and sell. Of course it’s impossible to make sales when you aren’t trained and are on a sales floor text messaging friends about how dull the job is because there isn’t anything to do! How much money do you suppose Circuit City invested in training these new hires?

Were the bean counters at Circuit City happy about the cut expenses? I am sure they were beyond thrilled. It’s just too bad they didn’t think through that during ANY economy, increasing sales is the one-way rocket trip UP to making money.

Some stats from the US.

Now for the news as it pertains to employment that I’d like you to share with your boss. According to the Bureau of Labour Statistics and the National Commission for Employment Policy,

1. By 2012, 50% of baby boomers will be out of the workforce.
2. During this same time, the talent pool of 35-44 year old employees will decline by 15%.
3. A massive shortage of skilled workers is going to make the labour shortage of the late 1990’s seem like a “minor irritation”.
4. Actively disengaged workers cost US companies 300 billion in lost productivity.
5. Only 29% of workers in the US are truly “engaged” at work.
6. Lower performing companies have over twice the turnover of highly productive companies.
7. Nearly 84% of HR departments do not use structured training programs.
8. Return on trained salespeople is anywhere between 60-300% higher for companies who invest.
9. To be competitive and successful, management needs to rethink their greatest asset-- their people!

You could say that the theme of this note is to say invest in your sales people but perhaps more importantly this note was prompted by my client telling me that his sales people were not listening to the customer in this case Woolworths.

Sales people operate within defined authority boundaries but in times like these they need to be able to bring the customer issues to the most senior management in a form that implores the Boss to take action to present the solution to the customer.

If the customer wants a price point the question is how to give it to him/her and make money, that’s what great sales people do all the time, that’s why they need training and that’s why the Circuit City route is wrong.

Now is the time to sell the customer what he wants not what you can make and to use the times to morph the organisation into a more focused sales machine.