

MarketWise



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When Sales Help is Affordable, and Isn't

One of the questions agency owners frequently ask AMR is about sales help. Sometimes the principal of a marketing communication company wants to know how to go about hiring someone to generate new business.

Developing new business at all levels is one of the biggest concerns. It's difficult to set aside enough time to solicit new business when the principal is so involved in company management or even client management. Yet, without regular new business development, it is easy to become dependent on too few clients, forced to rely on fickle referrals, or forego promising opportunities. Sales help-hiring a new business development person-would solve these problems.

Unfortunately, the reality is that a firm needs to reach good size before full-time sales help is practical. This article explains why, and offers some alternatives.

THE RISK EQUATION

Hiring a salesperson is fundamentally different from hiring most other employees. Whatever a firm's size, these decisions are financially more risky for two reasons.

1. The first is hiring costs. Other hiring decisions are nearly always production driven. That is, they are based on work that already exists. So the up-front costs of a new employee are quickly offset by his or her billed time. In contrast, hiring a new salesperson is often based on

projections of new business. Even when accurate, and they are as likely to be off as on, there will be weeks, perhaps months, before there will be enough business increase to compensate.

2. The second reason is ongoing salary and benefits costs. Sales time is not billable. So a salesperson who is slow to produce becomes a financial sinkhole, usually even when paid on commission. In contrast, the salaries of other less-than-great hires are at least partially covered by their billable activity.
3. A third, non-financial reason is that salespeople are the public face of an organization.

No hiring decision should ever be taken lightly. But hiring a salesperson, especially the first one, calls for special consideration. For the reasons above as well as those below, financial risk is easily double that of most other employees.

THE AFFORDABILITY EQUATION

All employees are human resources investments. Put simply and somewhat callously, their role is to produce products or services worth more than the combined costs of their salaries, benefits, overhead and the cost to provide the product or service.

With this in mind, let's see what it takes for an investment in full-time sales help to payoff. We'll look at compensation three ways: salary, commission, and salary plus commission.

For example purposes we'll use a hypothetical marcom company with a staff of ten full-time employees and a principal. Gross revenue is \$2,892,000, with an AGI of

\$1,215,000. (The difference is pass-through income collected for media, printing, freelance and other cost of goods.)

The AGI figure (\$1,215,000) is low (\$1,400,000+ would be better), a fact the principal attributes to time diverted to selling. Her desire is to hire a full-time salesperson to prospect for business. This will allow her to focus more on the firm's deliverables.

Salary compensation. Let's say our principal hires a new fulltime salesperson at a conservative salary of \$72,000. Assuming an equally conservative 25% of salary to cover benefits and overhead, and \$18,000 for sales expenses, this will actually run the firm around \$108,000 annually, or \$9,000 a month.

To break even on this cost two things will have to happen. One, the obvious, is that salesperson will have to produce at least \$9,000 a month (AGI) in brand new business. The second, less obvious, is that the new business will have to be handled without otherwise increasing the firm's overhead. In other words, it must be accommodated either through existing excess capacity.

This second condition is unlikely. If, as is more probable, staff will be added to handle the new business, the additional overhead costs (hiring expenses, salaries, benefits, workstations, etc.) must be added to the salesperson's costs for a true picture of the impact generated by the new business.

In addition, salaried salespeople seldom work out in the long run. Individuals paid a straight salary tend to quickly turn into account executives. Without the incentive of commissions, there is little motivation to do the difficult work of prospecting for new business; too much motivation to do the pleasant work of taking care of existing business. (*AMR* does not recommend straight salary for salespeople for marcom firms of any size.)

Commission compensation. Although it reduces the risk of payroll costs increasing faster than profitable

projects, it doesn't eliminate it. Most commissioned salespeople expect a draw account from which they take a regular "salary." The account is later reimbursed out of their commissions. If the salesperson leaves the firm and the account is in arrears, which most are, the firm is out the money that has been advanced.

In addition, commissioned salespeople are subject to payroll taxes and fees, and most expect the same benefits as salaried personnel. There are also sales expenses, which are normally covered. So there are tens of thousands of dollars in annual costs to factor in.

The standard sales commission when there's no base or partial salary is 15% (of the AGI\$) on new projects, and 10% to 12.5% on repeat projects. Using the 15% figure, a salesperson would need to land new business worth around \$60,000 a month (\$720,000 yearly) to earn a commission of \$72,000. This would mean an average of around \$72,000 in fee billings for each of the firm's now ten employees. Moreover, even this level of performance does not include covering the firm's costs of benefits, overhead, and sales expenses.

In short, a productive salesperson working on commission will produce enough work to keep three to five billable employees busy, depending on their speed and efficiency. Looked at another way, a salesperson limited to the production capacity of a ten-person firm could not make enough commission to make this a full-time job.

Salary plus commission compensation. For an example with this arrangement we will use a typical salary/commission mix: \$30,000 base (the same as the starting salary for an employee with no experience) with a commission of 15% of AGI on new work and 8% on repeat work or clients.

Using only new projects for our example, the salesperson will have to bring in \$470,000 worth of projects to earn \$72,000 annually (\$30,000 base plus \$42,000 commission). In doing so, however, he or she will have raised the firm's payroll costs by around \$48,000—salary, benefits (same as for higher paid

employees), and sales expenses. This, plus the commission payments.

There are too many firm-specific variables to predict profitability in a salary plus commission arrangement. But it is unlikely that it would be cost effective for a firm with a billable staff of just ten to twelve.

THE SALES/PRODUCER RATIO

Remember that the account management team also produces new AGI in their day to day client activities. All AGI increases are not attributable to the salesperson. As the above illustrate, firms need a *minimum* of about six additional billable employees for every full-time salesperson, regardless of the method of compensation. When a salesperson produces only enough work to keep a couple employees busy, sales costs make the work unprofitable; when she or he produces up to capacity, employees find themselves overloaded and new hires are necessary.

If the company earns \$125,000 AGI for every employee, then the added cost of a salesperson must be defrayed with about \$720,000 in new AGI.

The ratio used to actually be higher: one salesperson on average for every eight billable employees—that is, one out of eight, or 12.5% of personnel resources. Now, as a result of the efficiencies brought about by technology it is often possible for the sales-to-producer ratio to be as low as one in six (17%). It may drop even lower in the future, but that's then, not now.

In addition, most principals, even for larger firms with adequate sales representation, are involved in pitching for major new business and in "closing" sales. Small firm clients, and major clients of large firms, often expect a principal's personal involvement, including acting as their account person. This should be avoided at all costs.

Another usually unavoidable responsibility of principals is setting their firms' marketing and sales strategies—what types of clients and projects to go after, and how much promotional effort to provide?

LOOKING AT ALTERNATIVES

The above notwithstanding, principals of firms with full-time salespeople do have the luxury of choosing what type of sales activity they want to be involved with, and when. Principals of smaller firms, faced with more demands on their time and tighter budgets, don't normally have these options.

Is it possible for a small firm to find someone to handle the most difficult and frustrating aspects of sales - the prospecting and cold calling that everyone hates? Asked another way, is it possible to handle only the relatively pleasant sales tasks - providing credibility, pricing and closing, even doing occasional presentations?

Not easily.

What about part-time help? This seems like the logical alternative when full-time sales help isn't feasible. Yet, what's good in theory is difficult to put into practice.

As principals with full-time sales help can readily attest, finding capable individuals is a major challenge. It is even greater when looking for a part-time individual. She or he not only has to possess a sales background or talent, but be capable of understanding a prospect's business and then building an appropriate strategy. This, without requiring a fulltime paycheck.

Tall order.

There can also be accessibility issues. Workflow can be impeded by being only occasionally available. Even more crucial can be inaccessibility during normal business hours, or being unavailable to respond to clients' needs on their, not the salesperson's, schedules.

This said, part-time help is possible. Good candidates are personable individuals freelancing, or currently at home who are not yet ready to go back into the work force full time but wish to maintain a connection with the creative community.

What about using employees part-time? It can be a good idea if it becomes *part of a qualified employee's regular responsibilities*. It is usually a bad idea when a

pay-for-leads offer is made to employees. This encourages them to expect a reward for what they should do willingly: pass on any tips that might help the firm - the source of their paychecks-prosper. Reward extraordinary effort with a bonus.

What about sharing a salesperson? It's possible, but usually impractical. Sharing firms could not be competitors, so it would be difficult for a salesperson to represent a group diverse enough for a profitable business.

Even if possible, chances are there would be destructive competitive pressures when the sharing firms had conflicting priorities. Further, clients usually want to entrust their business to an insider - an employee - they can call upon when needed.

What about hiring someone to make calls? Hiring an individual (think telemarketer) to make phone calls to set up introduction appointments has been successful for some. But cost effectiveness has to be carefully monitored. It is also crucial that the individual making the calls represent the firm professionally, and be well enough versed in the firm's capabilities to answer prospective client questions and concerns. A list of prospects often has to be provided as well.

A better alternative is usually to hire an individual with good telephone skills to make calls on an occasional basis. As with any part-time sales help, the difficulty is in finding the right person.

What about paying finders' fees? Paying outsiders (not employees) for referrals is occasionally productive. Be careful, however, not to cross the lines of business ethics and conflicts of interest. Never pay a client for a recommendation, and it is better not to pay anyone with whom you do business. The former is prohibited by most clients and may be illegal; the latter can easily be interpreted as a pay back.

Finder's fees normally run from 5% to 10% of the fee income generated from the referral.

THE SUMMARY

There's no easy way for the principal of a small firm to delegate new business generation.

Sales involvement is in the job description, an unavoidable aspect of being a proprietor. Moreover, no one else has as much potential - that is, as much knowledge about the business, or as much riding on its success. In short, *you will always be your firm's best salesperson, alone or with occasional help right now, supplemented with full time professionals later on.*

Principals who understand this and handle sales responsibilities enthusiastically will have a prosperous firm; it's a tossup whether firms of those who take on these responsibilities reluctantly will be successful; those who shun them will likely find that their firms eventually fail.



Dave Wood created The Agency Management Roundtable in 1995 with the mission to help small marketing communication firms move up to the next level. You can participate in this blog by either signing up on the AMR website or going directly to his blog at marcombizcoach.blogspot.com