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Sales People Lose Their Way & Become Bread Men

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"Losing your way on a journey is unfortunate. But, losing your reason for the journey is a fate more cruel." - H. G. Well

Bread-men are delivery guys who pick up a truckload of fresh bread each morning and then they drive from store to store filling shelves. If there is an empty slot they fill it. All they need to care about is that the right number of the right bread goes in the right slot.

When B2B Sales People start thinking like bread men, a company is in trouble.

Thirty years of profitable growth without having to compete is not a good thing. I was working with a large regional distributor whose market share was shrinking. As the sole source of a high-end home construction product in an area of the country where the population had doubled and then doubled again during the prior 30 years, the company had seen both its sales and profitability grow during that entire time.

And then the manufacturer's patent expired and the product began to be made in China. While this company still maintained the largest percent share of the market, competitors were able undercut their price by 30% or more and the company's sales were dropping off.

During an afternoon working session with the company's VPs, we were looking for ways to turn things around when the Sales VP said something that literally left me dumbstruck: "I know we are losing market share but we still make good money so I'm not worried."

At that point I turned to the Credit Manager who was there with his boss, the Finance VP, and asked him how many new customer credit applications - or better still, *New Customer Information Forms* - he processed each month? He wasn't real sure because he didn't track them, but he guessed at about four a month. I then asked the Sales VP how many salespeople he had in their six state area … it was 26. I then said something to the effect that ten new potential credit customers a month by 26 salespeople meant that on average each salesperson was bringing in a potential new customer every 200 days or so. "No", said the Credit Manager, "it's only 5 or so of the salespeople that ever turn in a new customer request for credit." The population had continued to grow and construction was up, but the salespeople in this company had become "bread men": they had long ago forgotten how to sell.

CEOs, business owners and senior managers need to monitor their company's B2B Credit Sales and A/R vital signs.

In medicine, basic vital signs monitored include temperature, pulse rate, blood pressure … and pain level. Vital signs are measurements taken in order to assess the *performance* of critical body functions. And so it is with vital signs for critical business functions like Credit Sales and Accounts Receivable Management, and with a company's state of health.

All the costs involved with a new sale are considered the investment made in getting a new customer, and they often exceed the profit to be earned on that first sale. Profit comes from long term customers and repeat sales.

A good thing to know (vital sign) is the number of *new customer information forms*, (better than preprinted, one size fits all credit applications) that are being submitted by Sales to Credit. If the number of submitted *new customer information forms* is down during key times of the month compared to the prior month, it may be due to the season, the economy, or some other reason. What's is important *is knowing* and *asking why*. Knowing should lead to doing. Sales-people can be incentivized to turn a slow month around and Credit Sales Managers should take into consideration the low *product value at time of sale* in their Credit Approval decisions.

Daily contests for the greatest number of *new customer information forms* submitted and on the credit area's timely processing can turn a slow month around … if you know that it's a slow month.

Credit Sales should know and report on who is bringing in the new business, the type of business/market segment of the new customers, and of course they should report on how long it took to process the *new pending sales*. Another good thing to know during key times of the month is the total amount of credit that has been applied for vs. the percent of the applied for credit approved. A profit-directed Credit Manager can be worth three to four good sales people if they view pending sales as their highest priority and focus on finding ways via T&Cs (terms and conditions) to approve profitable sales while remaining confident of payment. And if a way wasn't found to approve a new customer, it's important for Sales and Management to know why not.

If during key times of the month the percent of applied for credit approved drops, is it because the quality of the customers is down? Is it due to the economy or due to the sales force calling on the wrong market? Or is it because the credit guy isn't working hard enough to find ways to make profitable sales happen? When Salespeople focus on quality customers and Credit people focus on both finding a way to make the deal happen and on the granting a larger credit line (never credit limit) than requested; the percent of credit approved should be more than 100% of the applied for credit amount. This is an important vital sign.

Another Vital Sign: Working Capital Flow

People talk about cash flow and how it's the life blood of a business, but cash can flow both in and out of a business. The greatest source of cash flow in, Working Capital, is the A/R short term money due from customers. The proper management of A/R will result in good cash flow in, controlled bad debt and sustained repeat sales. Customers are much more likely to do future business with a supplier/vendor they are paying than with one that, for whatever reason, they have not paid.

The daily payment percent during key times of the month and the PDI (payment days index) at the end of each month are vital signs directly connected to cash flow in, bad debt, and repeat sales. *Remember the most profitable sales have yet to happen.*

$$\text{PDI} = \frac{\text{TOS (for each term of sale)}}{\text{Payment Percentage (end of month)}}$$

Start with the *beginning total A\R balance* as of the first of the month. This means all A/R regardless of age. Any new credit sales made during the month will be picked up in the following month's beginning total A/R balance.

For example let's say that your total A/R balance as of the 1st of the month is $1000. Next you need to track payments and credits on those invoices that made up the *beginning total A/R balance*. During key times of the month (the 10th and the 20th) you will want to compute the *Payment Percentage* as of that date by dividing the amount paid/credited as of that date by the *beginning total A/R balance*.

If by the 10th you have been paid or have credited $200 of the beginning $1000 total balance, your payment percentage as of the 10th is 20%. You can compare the current month's payment percentage against the prior month's 10th day payment percentage. If last month's 10th day payment percentage was 40% and this month it's 20%, it doesn't necessarily mean that you are doing a poorer job this month than last. If there's a variation of the payment percentage it's not a matter of good or bad, but of why? That's the question to be asking.

A lower payment percentage may be due to as simple a reason as the Credit and A/R person going on vacation and no one is following up on past due A/R. It may also be a matter of a product/service with a lower *Product Value* being sold to someone with less than a perfect past performance (pay record). Or it could be due to the accounts being worked in alphabetical order rather than by largest dollar accounts first. If by the 20th, you have been paid $400 of your beginning balance of $1000 your payment percentage as of the 20th is 40%.

By tracking the payment percentage during the month you can determine if you need to exert greater efforts in order to turn things around. At the end of each month the PDI is computed by dividing the TOS (term of sale) by the ending payment percentage.

In our example, if at the end of the month $500 of the *beginning total A/R balance* of $1000 has paid or been credited and if you sell on N-30 day terms, divide 30 by 50% or .5 and your PDI is 60 days. If you offer varying TOS the PDI is computed for each TOS and then averaged to come up with an averaged PDI.

The construction supply company I was working with? They expanded on their product lines, but never sold enough of the new products to cover the additional cost. Having been the sole source of the old product line for so long the company had forgotten how to sell. Their market share continued to drop and in time the manufacturer revoked their distribution agreement. Last I heard, the company had been sold.

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