Home > Advice Tailored for You > Building/Remodeling > Content

Cut Sales Costs, Not Revenues

Building/Remodeling Finance and Legal Advice
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When budgets are tight, it's important to take stock of the money that's coming in and the money that's going out, looking for ways to make more and spend less. That's true for households as well as businesses.

When you own a business—as when you own a home—the down economy demands that you scrutinize your spending in order to look for waste and eliminate it, either by spending less or by spending differently. Knowing where to look and what to cut is key, and in most businesses, an obvious target is sales costs.

Sales costs and opportunities
Before you can target sales costs, you must first understand what they are, as sales costs can include everything from research and development to the raw materials it takes to produce the things you sell.

"Sales costs are anything it costs your company to acquire new business," says Rod McKinnis, a Chandler, Ariz.-based sales consultant and founder of The McKinnis Consulting Group.

For service-based businesses like construction, what constitutes "sales costs" is typically quite simple, adds Adrian Miller, Long Island, N.Y.-based sales expert and president of Adrian Miller Sales Training. "When you're thinking about sales costs," she says, "you're typically thinking about marketing expenditures, although it can also be the cost of your sales reps, if you have any."

Whatever your costs are, it's unwise to cut them without assessing the risks. "Along with sales costs, you also need to look at opportunity costs—the cost of lost sales," McKinnis says.

How and what to cut

Because across-the-board cuts often are executed to the detriment of the bottom line, the first step in cutting sales costs isn't cutting at all—it's measuring.

"The first thing you need to do is an analysis of what you're spending your sales and marketing dollars on so that you can determine if those things are producing results," Miller says. "Rather than cut things unilaterally, you want to measure things as tightly as possible so that you can see if they're producing business for you. If they are—even if they seem very expensive—you surely wouldn't want to cut them."

But, you should cut anything that isn't working. If you find you're spending a lot of money on search engine marketing, for instance, but that the majority of your business comes from offline referrals, then you should cut your Internet marketing budget. Similarly, if you advertise in the phonebook, but get most of your leads through your Web site, it might be time to cancel your Yellow Pages ad.

"Once you know what your ROI is, then you can cut—especially in tough economic times—the initiatives that are not really giving you a high return on investment," Miller says, adding that the same strategy works for cutting sales staff. "You have to do an analysis of who's producing and who's not; you can't run the risk of cutting people who are actually bringing in business."

Filling the void

Like razing a forest, you shouldn't cut sales costs down without replanting something that can grow more productively in their place. For that reason, McKinnis argues that companies should focus less on cutting sales costs and more on reallocating sales dollars.

"Instead of managing results, you should be managing the activity that drives results," he says. "You shouldn't always be looking at ways to cut costs; instead, you should be looking at ways you can better spend your money on the daily activities that will help you reach your goals."

According to McKinnis, all sales come down to three activities: attempts, which are marketing activities used to generate sales; contacts, which are opportunities to directly engage decision-makers in the sales process; and demos, which are product or service demonstrations representing the final stage of the sales process, before closing a deal.

"You should generate a sales formula for your business, which tracks the number of attempts it takes to get a contact, the number of contacts it takes to get a demo and the number of demos it takes to get a sale," McKinnis says. "Cut resources from programs that aren't yielding the contacts you want and funnel them into the types of attempts that are, understanding that in times like these, it may require more attempts—and more investment—to generate more contacts."

In other words: If you have to make cuts, cut overhead, but don't cut sales and marketing budgets; instead, be smarter about spending. "What you should cut are things that appeal to your ego only and have no discernable measurement proving that anything good has come from them, such as advertising that only features the owner and hasn't generated any business or 'feel-good' networking events that hasn't brought in new leads or contacts," Miller concludes. "Don't cut marketing entirely, because if you disappear from sight when times are bad, it will be very hard to resurface again when times are good again."