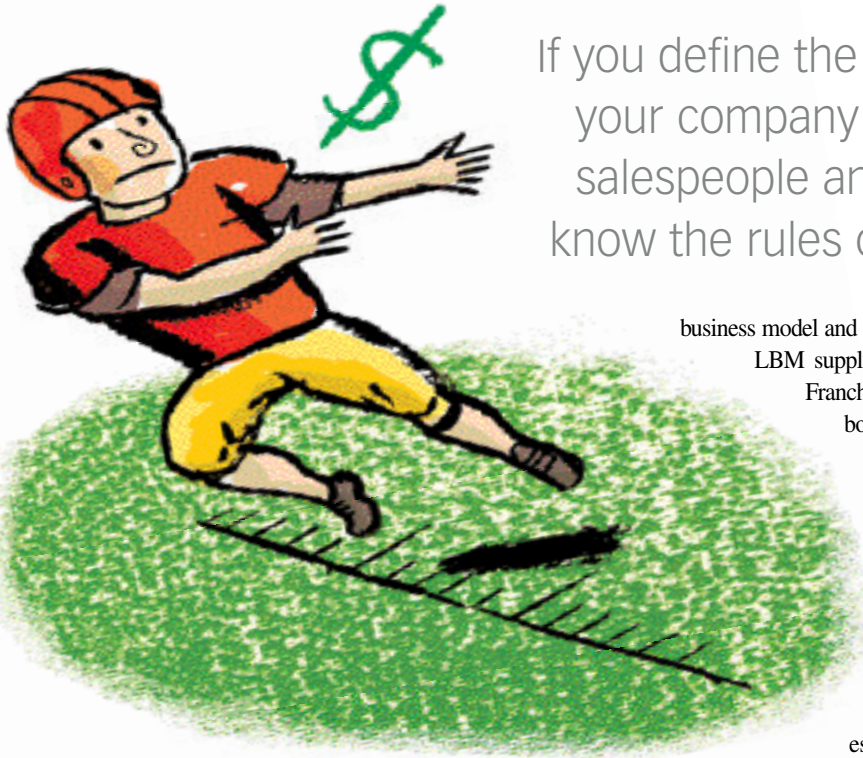


Staying Inbounds



If you define the type of business model your company will follow, both your salespeople and your customers will know the rules of the game. By Rick Davis

business model and then communicating it to your salespeople. In today's LBM supply channel, two prevalent business models exist: the Franchise model and the Adaptive model. While they often both work in tandem within an organization, the company usually must choose between the two in order to manage profits successfully.

Using the Franchise model, a business establishes firm (or relatively firm) parameters under which the company will operate, essentially training customers on how the two companies will conduct business with each other. While this seems an absurd statement to many salespeople, the reality is that, for many businesses, profitability is contingent upon this very premise. Companies that use the Adaptive model of business adjust their business practices to accommodate the individual requests of customers.

The Franchise model is proactive, while the Adaptive model is reactive. To illustrate how the two business approaches might be applied, consider the basic factors that a business offers its customers: product and service at a specified price.

Product implications of the two models. In relation to products, the Adaptive model can be a challenging approach for most dealers because it implies that a supplier continually is trying to provide exactly the products requested by customers. If 10 different customers ask for 10 different products, then the dealer will strive to accommodate those requests. Using the Franchise model, on the other hand, a salesperson is given a set menu of products to sell and must persuade customers to buy from this limited offering.

Service implications of the two models. In the area of service offerings, the Adaptive model is more costly than the Franchise model. A simple request for a special delivery, for example, has ripple effects throughout an organization, e.g., extra work for order entry, shipping paperwork, an extra stop for the driver, and special coordination with deliveries to other customers. Conversely, the



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Your salesperson comes to you with yet another special request. He has a potential new customer that promises to purchase all his millwork materials from you over the next 12 months—if you can accommodate some “special needs.” The builder wants pre-cut orders of materials at specific lengths and insists that he won't pay extra for this additional service. Your salesperson is lobbying hard for the sale because he has been short on his quotas the past few months. What do you do?

A. Tell the salesperson to sell the standard products or get a significant price increase.

B. Ask the production manager what he thinks.

C. Find out how many truckloads the customer promises to buy before you commit.

The business model that defines how your company operates should dictate your answer. If you answered *A*, you probably are doing a very good job of managing profits for a company that strives to standardize procedures. If you said *B* or *C*, then you may need to prepare for an internal battle among departments, but one that may be worthwhile.

One of the biggest sales challenges you will face occurs long before the negotiation battle begins with the customer: fully defining and understanding your organization's

Franchise model establishes specific rules for delivery, customer pickup, billing procedures, discount terms, incentive programs, and other operational issues. The leaders within a Franchise model teach each sales representative that the cumulative costs of adaptation are strenuous. If 10 compa-

when a dealer is focusing on large-volume accounts that wield immense purchasing power, the Adaptive model is required and can be profitable. As the largest builders in the country increase market share, they also increase purchasing power. Therefore, the dealers that target this business should be pre-

volume accounts tend to be more combative. Smaller accounts enable you to utilize the Franchise model more readily, while large-volume accounts may force you into an Adaptive model.

2. Prospecting equals choice equals power. Most salespeople push for Adaptive behaviors because they have not done enough prospecting. An Adaptive model of business should be a proactive decision, not a reaction to bad salesmanship. The Franchise model succeeds only when many potential prospects are in the sales pipeline. If your salespeople are continually pushing to provide additional services to customers (without earning price concessions), it could be a sign that they are not prospecting enough. If you are a salesperson that feels threatened by combative negotiations, then prospect more to give yourself choices in the market.

3. Know when to say no. If salespeople are continually making exceptions, eventually each special request adds up until your entire organization is plagued with Post-its, memos, and e-mails to remind them of the special circumstances that apply to a variety of customers. There is a time when you simply should stand your ground. Under the Franchise model, when you clearly know the rules of the game, then it becomes much easier to say no to a customer demand. Two things happen when you hold your ground: First, you increase profits by reducing the cost of doing business; second, the customer will probably buy from you anyway and respect you more in the process.

In the end, it is up to a company's leadership to decide what business model works best and whether or not both must be employed for different customer segments. Without a clear sense of purpose, it is impossible for salespeople to know the boundaries of their behaviors. If you don't have rules and a clear sense of purpose, then you may soon have your customers running your business for you. ■



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nies request 10 different cutoff times, the exact same challenges occur as if 10 customers requested 10 different products. Rather than create a smooth-running operation, the company starts reacting to daily requests that keep its sales and shipping staffs guessing and on edge. The costs might not be as easily quantified, but they are quite real.

Price implications of the two models. Nowhere is the importance of a clear-cut business model more evident than in price negotiations. In the Adaptive model, the salesperson negotiates pricing based on purchasing commitments, customer specifications, and other factors related to the cost of doing business. For instance, a customer that wants special packaging on selected lengths of millwork should expect to pay a premium for the special consideration. In a Franchise model, the salesperson should not negotiate because a stable price structure has been instituted to create equity and fairness for all customers. Moreover, in a Franchise model the pricing structure should minimize negotiations—i.e., the best customers get the best price. Salespeople in a Franchise model should learn that their requests for special pricing likely will be denied.

Making the Right Choice

No doubt, the Franchise model is the most attractive to pro dealer managers, but there are situations in which a company should, in fact, employ an Adaptive model of business. For example,

pared to adapt to customer demands and also must strive to protect their profitability in the process.

One Indianapolis LBM supplier I work with uses the Adaptive model, catering to large-volume builders with unique billing, ordering, and delivery policies designed to support individual customers. For each big builder client, the dealer offers different discounts, adjusts delivery policies, varies load assemblies, and so on. In this case, the dealer has fewer than 10 customers and an Adaptive model makes sense.

But when an LBM dealer has many small- and medium-volume accounts, a Franchise model is usually much more profitable. For example, at a Midwestern millwork dealer that focuses exclusively on small to medium-size builders, the owner has discovered that it is more cost effective to pass on special requests that would bog down the system. The company focuses on builders that fit its business model and lets competitors handle the complex special orders.

Defining Your Approach

In order to clarify the model of your business, consider the following:

1. Evaluate your target audience to select your business model. Your business model should cater to the types of customers you hope to draw. I've always been a big fan of small- and medium-volume accounts. They are usually more willing to work with you, whereas large-