

Outsourcing the sales process: Hiring a mercenary sales force

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ABSTRACT

In today's highly competitive environment, many firms make the decision to outsource a business process on the well-established idea that it is better to contract for services that are not within the scope of a company's core set of competencies. While outsourcing was once limited to peripheral firm activities such as advertising, firms are expanding the types of functions they outsource. For instance, many firms have begun to outsource their sales force, or at a minimum, have begun to consider 'renting' a sales force rather than 'owning' their own sales force. Being a recent trend, very little is known about what prompts firms to outsource their sales forces, nor the consequences of doing so. As such, this research explores the factors associated with determining whether a firm should outsource their sales force as well as the value to be had by engaging in such a decision. Most importantly, we offer that beyond the standard cost-based analysis, there are numerous issues that deserve consideration and examination before a firm elects to outsource its sales force.

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1. Introduction

As the globalization of both customers and competitors has increased, many businesses face a stark reality. They must anticipate, respond, and react to the demands of the marketplace while reducing overall cost structures, or perish. In the fiercely competitive environment of the 21st century, business strategy not only determines success, it governs business survival.

Organizational theorists have long argued that differentiation helps firms gain a competitive advantage placing them in a better position to achieve long-term success than companies that do not differentiate. In order to achieve an advanced capability, firms engage numerous strategies, some of which include employing technology advancements, adapting their inter-organizational strategies, and outsourcing specific business processes to better serve customers' needs.

Most companies already outsource a portion of their marketing function – advertising. However, in recent years, many marketing units have begun outsourcing typical practices such as direct-mail management, lead management, market research, and customer analytics. Companies stand to benefit considerably by outsourcing functions, such as market and customer analysis, to qualified suppliers if those skills are lacking internally. It stands to argue that expertise in these and other marketing areas may lie outside of the firm and can be more effectively achieved by a third party. Interestingly, another method of outsourcing has increasingly gained popularity – that of firms using a contract sales force to handle the selling function of their products or services.

The outsourcing market has grown enormously in the past few years and many companies, regardless of their size, are now outsourcing some parts of their non-core operations. One example, sales outsourcing, refers to shifting a company's sales activities in part or as a whole to an independent third party (Ross, Dalsace, & Anderson, 2005). Many companies will test sales outsourcing outside of primary markets. Offshore locations, like India, are popular when it comes to outsourcing sales activities, in order for companies to receive better exposure, expand into new markets, try out new products, test a new sales or marketing strategy, and perhaps most importantly, ensure that the front-line employees are able to effectively service the customer (Engardio, Arndt, & Foust, 2006). However, as recent evidence suggests, firms are employing this strategy in Western markets as well.

The primary goal of this paper is to present a conceptual framework of the firm-specific factors that play a role in a company's decision to outsource its sales force. Many firms subscribe to strategies that are most well-suited to their industry, regardless of cost (i.e., relationship marketing). Accordingly, this research focuses on firms' strategic orientations, beyond the traditional cost-based approach, and their influence on the intention to engage in sales outsourcing. Specifically, we examine and present arguments concerning why a firm may or may not choose to use independent sales representatives in light of the following firm orientations: (1) brand, (2) competitor, (3) customer, (4) learning, (5) production, (6) selling, and (7) technological. Moreover, we propose there may be many situation-specific factors that stand to influence the relationships between the drivers of sales outsourcing and actual sales outsourcing. We focus specifically on the complexity of the selling task and the amount of turbulence in the marketplace.

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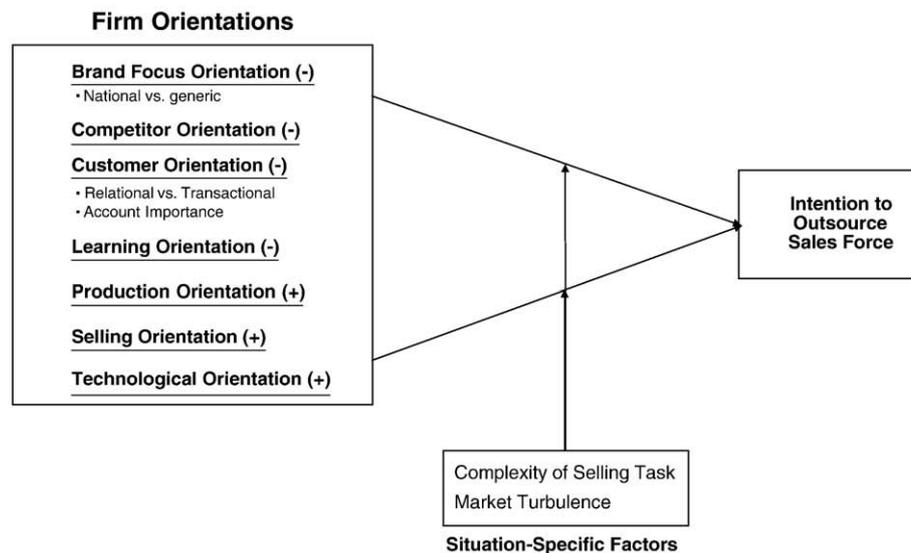


Fig. 1. Firm orientation drivers of intention to outsource their sales force.

Below, we first review the different types of personal selling channels and identify some advantages of the independent sales force. Next, we examine some of the research that specifically addresses sales force outsourcing. We then advance detailed linear and interactive propositions as summarized in Fig. 1. We conclude with a discussion of theoretical and managerial implications as well as some of the limitations of our framework.

2. Definitions

Using sales representatives is one the most effective and efficient ways to get a product or service into the marketplace. Typically, firms employ one of two types of salespeople to represent their firm and product offerings. Individuals who are employed directly by the firm or manufacturer are often called sales representatives; whereas, those who are self-employed or work for independent firms that contract their services to a manufacturers are called manufacturers agents/representatives or independent sales representatives (Anderson, 1985). For continuity, we will refer to these outsourced salespeople as independent sales representatives.

Independent sales representatives exist across a wide range of industries. Because of the diversity of products and services sold, independent sales opportunities are available in nearly every part of the world. Most often, independent sales representatives will gain experience and recognition working directly with and for a specific employer before making the transition to become self-employed.

3. Motivation

In sales, the personal selling approach has witnessed tremendous growth over the past two decades. With the advent of relationship marketing, many firms have shifted from a short-term, quick sale to more of a long-term customer focus. This paradigm shift presents itself as firms pay increasing attention to leveraging relationships in an effort to enhance customer service and satisfaction. For example, recent estimates by the *World Federation of Direct Selling Association* (2006) indicate that more than 46 million direct salespeople, triple the number from just ten years ago, collectively compile \$85 billion worth of direct sales worldwide.

The impact of the personal selling approach in a business-to-business environment is also impressive. Global sales transactions will total a staggering \$105 trillion (McCall, 2006). Interestingly, almost 50% of the of business-to-business and upper-channel sales are

conducted through independent manufacturer's representatives or agents, that is, those that sell contractually, usually on a commission only basis (Barrett, 1986; Taylor, 1981). While no definitive data exists on the exact number of independent sales representative present in the work force, it is clear that using individuals external to the company to represent the firm's offerings represents a viable and profitable option that many firms are embracing.

4. Advantages of independent sales representatives

There are clearly advantages associated with outsourcing sales. The first and most widely researched benefit is related to cost analysis (Anderson, 1985; Anderson, 1988; Dishman, 1996; Ross et al., 2005). While research purports that there are several methods to calculate the overall cost of an independent sales force, some basic truths exist. First, because independent salespeople operate on commissions earned from sales, up-front costs of selling are reduced. Some industries may provide monies prior to selling for independent salespeople; however, these initial cash outlays are nearly always less than maintaining an internal sales force. Additionally, the practitioner literature also suggests that costs can be reduced in the form of travel expenses, benefits packages, administrative fees, and so on.

The existing literature maintains that many other benefits exist and extend beyond simple cost reductions. A company with an outside sales force has the capability to upsize and downsize quickly, which can be important in a volatile marketplace and can benefit both large and small firms. In the pharmaceutical industry, for instance, where the size of the sales force has doubled over the last five years, sales force size may vary radically depending on the number of drugs in the company's portfolio. Antithetically, smaller firms often times do not have a need for a large sales force and may have to adjust based on available cash, company growth, or seasonal/cyclical sales trends due to resource limitations.

One important area that many organizations have not considered is the qualifications that accompany independent salespeople. As mentioned earlier, independent sales representatives tend to have a great deal of experience and have demonstrated past sales success. They have often received extensive sales training and gained valuable experience while working with large, national firms. Coupled with this, existing networks and strong networking skills provide a quicker and more cost effective means of moving products and services through the market.

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