

Press release

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GfK GeoMarketing releases study of sales territory planning practices in Germany

GfK GeoMarketing examined current planning practices in Germany on the basis of 76 representative companies with external sales forces. The results show that using a specialized software for sales territory planning is an established practice. However, companies are still passing up opportunities - for example, through a lack of focus on obtaining company-wide support for changes, a too infrequent examination and updating of territory structures and uncertainty regarding the actual market potential.

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The external sales force - expensive, but also no. 1 turnover generator

The external sales force is the most expensive contingency of a sales division: Each customer visit costs a company an average of between €120 and €800; a single sales force member thus carries an annual price tag of €100,000. For companies with external sales forces, it's therefore essential to implement resources efficiently and avoid waste. At the same time, an external sales force is also a company's most important turnover generator: In some branches - particularly those dealing with consumer goods - successful external sales force members can generate up to €1.5 million per territory per year; in some industry branches, this figure can even be significantly higher.

Better efficiency, customer service and transparency through restructuring

By regularly restructuring sales territories, businesses can optimize their sales regions according to various criteria such as employee workload and the existing market potential. These optimizations increase cost-effectiveness, profit margins and employee motivation. In short, a geomarketing approach actualizes potential, increases turnover and decreases costs.

2010 sales territory planning practices in Germany

While the overwhelming majority of German companies (98%) regularly carry out sales territory planning, many only do so every two years. GfK GeoMarketing's sales territory

planning expert Michael Büttcher warns that this is too infrequently to react to market changes: "We recommend that companies routinely examine whether adjustments are necessary at least once a year - this should be done even more frequently in periods of rapid market- or company changes."

Companies' external sales forces are usually very fragmented and often even organized into multi-level hierarchies (54%). Parallel sales distribution channels are also very common (53%), which makes sales territory planning and external sales force management particularly complex and in need of regular monitoring.

Planning management

Surprisingly, responsibility for planning initiatives is often not in the hands of management: In the overwhelming majority of companies, this role is played by heads of sales or marketing (63%). Even so, the controlling division has authority over every fourth sales territory planning initiative. This makes communication among those concerned all the more important, because it's essential that the blessing of all areas of the company be obtained. Sales territory planning must therefore be as transparent as possible. The geomarketing software RegioGraph supports this task by precisely documenting the current state of things as well as the planning goals, including alternative scenarios. These technologies have finally abolished the practice - common up until the end of the 1990s - of planning with wall maps, pins and string. All examined companies have been aware of sales territory planning software for years and either use it themselves or employ external consultants for this purpose. GfK GeoMarketing's consultants draw on almost 20 years of experience to help companies create and optimize territory structures. This is done through a combination of the geomarketing solution RegioGraph, the consultants' comprehensive knowledge of multiple branches and their role as moderators of the planning process.

Planning criteria

The most common planning criterion is optimizing territories according to workload distribution (75%). However, planning according to balanced potential is clearly becoming more popular (38%). Michael Büttcher considers this latter approach the best, because only this method yields definite insight into whether a company is fully and efficiently exploiting its market. Given this, it's a positive sign that already more than half of all companies evaluated (54%) are using external data on potential in the planning process. "Many companies shy away from the cost of external data, but knowing the precise extent and location of potential is worth the investment. If a company remains in the dark about the actual market potential, sales territory planning becomes just a guessing game!"

Planning according to past turnover values is still fairly common (22%). Sales territory planning expert Büttcher warns that this is a risky strategy: "This always results in untapped potential, which is something no company can afford!"

Limiting factors

Sales force employees' places of residences are generally considered fixed points in restructurings. However, these residences are almost never optimally distributed, which means that the driving time for individual employees can vary significantly. This is typically compensated for by creating territories of differing sizes. This ensures that the customer density per territory and the associated driving time are approximately the same for each sales force member over the course of the year. Other priorities come

into play when optimizing service regions: New locations are increasingly added for the sake of improving service and accessibility for customers.

Additional limiting factors include natural barriers such as rivers and mountain ranges that impact the transport network of a given region or location. Language and cultural barriers must also be taken into account. In many branches, companies carry out sales territory planning initiatives that cross national boundaries. An internationally sound planning foundation is therefore essential in order to facilitate accurate, reliable analyses in the chosen sales territory planning software. Büttcher points out that other important factors are practice-based knowledge, diplomatic tact and intuition informed by experience. Many companies have fixed contracts that guarantee territorial exclusivity for their sales force members. "In these cases, planners must be extremely well prepared to negotiate consent for any restructurings," says Büttcher.

Planning duration

The study also shows that thanks to modern planning tools, sales territory planning is typically accomplished in just several weeks rather than months. A software such as GfK GeoMarketing's "RegioGraph Planning" makes it possible to carry out the actual restructuring in just several hours. The territories can then be visualized directly on digital maps and automatically or manually optimized according to criteria such as workload, accessibility and market potential.

The most time-intensive aspect of a restructuring involves getting the many areas of a company prepared for and onboard with the changes: Sixty-one percent of the companies examined need several weeks from the start of the planning initiative to its implementation, while 33 percent need a half year and seven percent need an entire year.

Success of sales territory planning hinges on good communication

It's essential to achieve unity among all aspects of a company, says Büttcher, because otherwise the entire planning initiative can suffer if the changes aren't accepted. Here Büttcher mentions two typical examples: One company subdivided its key-account customers into a separate premium sales distribution channel. The existing sales force members lost the customers who generated the bulk of the turnover. This led to dissatisfaction and an increasing number of resignations. The changes were consequently reversed after a year and the key-account line was again merged with the mainstream accounts. In another case, a well-conceived sales territory planning initiative in a German subsidiary was not accepted by the parent company in the final phase of implementation. The initiative was consequently abandoned. Above all, the parent company wanted to avoid the additional costs associated with the proposed increase in sales territories. This is something that should have been explored with RegioGraph analyses and scenarios in the initial stages of the planning.

Despite crisis, downsizing is rare, but major changes are avoided

The study reveals that the climate of crisis has not yet significantly impacted external sales force planning approaches: In fact, more companies are expanding their sales force teams (30%) than reducing them (28%). Most companies are however choosing to optimize their existing structures rather than invest in completely new ones. "This is understandable," says Büttcher, "because change entails a certain amount of risk. However, one has to accept that things can't get better without change. We therefore

recommend mustering up the courage to proceed and making use of objective data and well thought-out alternative scenarios."

About the study

The 76 examined companies constitute a representative sample of all business branches in Germany. The period under review extended from January 2006 to June 2010. Atypical sales formats - such as door-to-door sales, where sales teams can include several thousand members - were not taken into account in order to avoid skewing the results.

About Michael Büttcher

Michael Büttcher is senior consultant for sales territory planning at GfK GeoMarketing. He has been with GfK GeoMarketing since 1994. Prior to that he was a scientific consultant at the Institute for Geography at the University of Bonn.

The **complete study** will be published in the August edition of GfK GeoMarketing's customer magazine, *GfK GeoMarketing Magazine 3/2010*. The study can also be obtained from Cornelia Lichtner, public relations, GfK GeoMarketing: +49 (0)7251 9295270 or c.lichtner@gfk-geomarketing.com.





Print-quality illustrations can be found at www.gfk-geomarketing.com/territory_planning2010 (approx. 4.4 MB).

Free e-book: "Sales Territory Planning in Practice"

This e-book provides an insightful overview of the most important aspects of an optimal sales territory structure. The contents cover tips on analyzing the current state of a territory structure, choosing the correct planning approach, implementing changes and evaluating performance. The e-book can be obtained from GfK GeoMarketing by calling +49 (0)7251 9295200.

About GfK GeoMarketing

GfK GeoMarketing is one of the largest providers of geomarketing services in Europe for customers and users from all branches of trade. Key business areas include:

-  Consultancy and reports
-  Market data
-  Digital maps
-  Geomarketing software RegioGraph

The company is a subsidiary of the international GfK network. Ranked fourth among the world's market research institutes, the GfK is represented in 100 countries with over 115 subsidiaries and 10,000 employees.