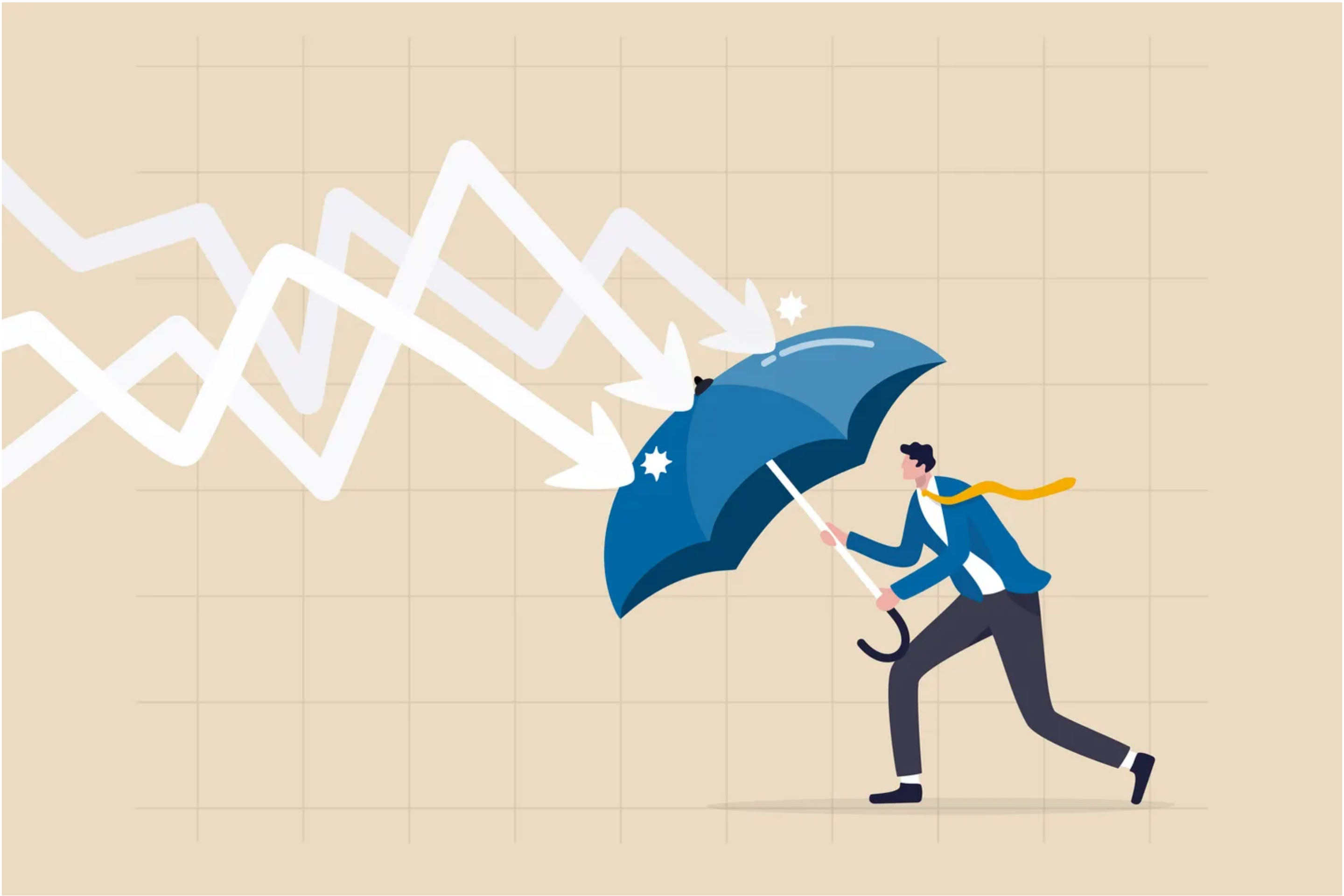
Case Study: Maintaining Market Share

Competition can be fierce, an outside of the box approach can provide the edge to keep you competitive without breaking the bank.



Direct to Consumer Sales Firm

Industry: Home Services
Location: East Coast
Size: 250 Employees, $60M Annual Revenue

Overview

In order to maintain a competitive stance in the market our client needed to offer aggressive consumer financing programs. They wanted to market these options to drive lead flow while avoiding paying the high premium of selling them.

Consumer Finance Fees as a % of Sales

Starting Point	Month 1	Month 2	Month 3
7.38%	2.92%	1.63%	1.14%

The Challenge

The client had been pressured to market very aggressive consumer financing promotions in order to compete in the market for their product. As a result of this decision, consumer financing fees in the prior year had increased from 0.60 percent of revenue to more than 5 percent of revenue, costing them more than $2M. In the current year this trend continued, with consumer financing fee cost topping out at 7.38 percent of revenue before we became involved. Annualized, this rate represents a meaningful cost of $4.4M.

The Approach

We approached this issue of market share from a sales and finance perspective. We needed to market the aggressive promotions, they needed to be available to customers, but we did not have to sell them. Ultimately, we were able to achieve an immediate and impactful reduction in expensive consumer financing by incentivizing the sales team to sell financing programs that were free or very low cost.

The Solution

The client already had a progressive commission structure for its sales team, we duplicated this structure and created four tiers. The first tier involved the opportunity for sales representatives to earn more commission than they previously could, but only if they wrote contracts that involved financing arrangements that were zero fee to the client, this tier also included cash payment terms. The second tier was equivalent to the existing commission structure and was applicable only on contracts that involved financing arrangements that cost less than 3.5 percent, less than half of the highest rate the client had experienced the month before this new strategy was launched. The third tier capped the sales commission at a rate 2 percent less than the existing commission structure, and allowed financing arrangements costing up up to 5 percent. The fourth tier reduced the top commission rate even further and also limited the sales representatives' ability to negotiate discounts on the contract price with their customers, and allowed the sale of financing plans costing up to 10 percent.

This solution was advantageous for a few reasons:

1. The sales team was sold on it because they were able to earn a higher commission rate.
2. It did not prevent the sales team from using an aggressive finance plan if they had to in order to close a contract.
3. It did not put the burden of restricting the sales team on their direct supervisors.
4. it was not so complicated that the users of the structure could not comprehend it.

"'Because we've always done it that way' is a phrase that can be the downfall of even the best organization. Sometimes a challenge requires a fresh approach from an expert who can take an outside perspective."

Nicole S.
Founder

The Results

Immediately upon the implementation of the new strategy the cost of consumer financing reduced by more than 50 percent, by the second month that reduction was 78 percent and by the third month it had reduced to 15 percent of the top rate. Also important, there was not a negative impact on the sales metrics of the organization. The primary metric used to track sales efficiency for the client experienced a 10 percent benefit by the third month in which the strategy was in force. Consequently, because the progressive commission structures for all four tiers maintained a scale that incentivized not discounting the retail price of contracts more than 12 percent, the client did not experience a reduction in their average sale resulting from this change.

Our client trusted us to make a significant change to the pay structure of their sales team, which numbered more than 70 employees. This change upended a structure, which in its basic form, had been the same for more than 10 years. Annualized, this strategy is expected to provide a benefit of over $4M in the first year, only to grow more substantial in the future.

About Your CFO

At Your CFO, we empower small to mid-sized businesses to thrive and succeed. Our focus is on helping our clients achieve their goals and realize their full potential, in a way consistent with their culture and values. We believe that by working together, we can build a better future for businesses and communities.