

SALES FORCE MANAGEMENT

*Planning, Implementation,
and Control*

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HIGHLIGHTS FOR CHILDREN, INC.*

Elmer C. Meider, president of Highlights for Children, Inc., had just completed a lengthy meeting involving several of his managers. Each manager had been assigned the task of preparing recommendations that would allow Highlights for Children to more effectively utilize the three marketing channels currently being used. Meider felt that the company had not been taking full advantage of the capabilities of direct mail, telemarketing, and direct sales in terms of prospecting, lead distribution, current and new product sales, and overall profitability. Moreover, Meider contends that Highlights for Children needs to capitalize on the continuity of direct mail, the rapid follow-up possible via telemarketing, and the value of face-to-face customer contact available through direct sales.

Although Meider knew he had the authority to eliminate the direct sales force operation, he felt this would not be in the best interests of Highlights. Rumors were abundant about possible legal restrictions on telemarketing programs. In fact, several states were considering legislation that would greatly restrict when telephone calls could be made for sales purposes. One such law would limit telephone calls to specified times and no later than 7:00 P.M. Meider knew that such a limit would sharply curtail Highlights's successful telemarketing program. Moreover, the threat of increases in postal rates caused Meider concern about the future of Highlights' successful direct-mail program. These possible environmental changes provided support for Meider's position to keep the direct sales arm intact. Company experience revealed that the direct sales force was in a better position to learn about and resolve customer problems and concerns than either telemarketing or direct mail.

Managers from each of the three distribution methods had been asked to prepare recommendations concerning changes they would implement to improve the overall sales and profitability picture. Meider's task would be to review the various recommendations and prepare a final report to present to Garry C. Myers III, chief executive officer, who was present at the meeting. Also present at the meeting were Richard H. Bell, chairman of the board; Lynn Wearsch, national rep sales service manager; Chuck Rout, vice president—telemarketing; and Gayle Ruwe, mail marketing manager.

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Of the various recommendations, the one that provoked the most discussion was that Highlights for Children rely exclusively on telemarketing and direct mail distribution and that the company eliminate the direct sales force. Richard Bell, responding to this suggestion, pointed out that it was the direct sales force that got the company started, and would keep the company going well into the future. He commented, "Highlights for Children might well close its doors if the direct sales force is eliminated." One manager's response to Bell's defense of the direct sales force consisted of referring to the relative sales contributions from each source and how telemarketing and direct mail have grown faster. This manager noted the following:

Telemarketing and direct sales are in a competitive position from a lead utilization standpoint. Profitability is greatly enhanced when leads are sent directly to telemarketing rather than to the direct sales force. Sure, representatives can sell a bigger package and a longer-term subscription than the other marketing arms, but the reps rely solely on company-generated leads and are not using referrals generated from customers, nor are they doing any local prospecting. The resources assigned to the direct sales force could be more profitably used by telemarketing and direct mail. Our opportunity costs, or losses, have been rising as a result of sending leads to the direct sales group. They cannot handle all of the leads, and by the time telemarketing receives them they are stale and of little value.

Bell agreed in part with these observations but was quick to note that the size of the direct sales force had dropped from an all-time high of 750 to the current level of 265 independent sales reps, which includes 65 area managers. "We need to be more effective recruiting new sales reps. Just doubling the direct sales force would produce significant benefits," noted Bell in his rejoinder. After this interchange, Garry Myers suggested that Elmer would take all proposals into consideration and attempt to arrive at a recommendation that would combine the best of everything.

The Company

General information. Begun in 1946 as a children's publication. Highlights for Children, Inc., has become a multidivisional company, selling not only magazines but also textbooks, newsletters, criterion-referenced tests, and other materials. The consumers include children, parents, and teachers.

The Mission Statement of Highlights for Children, Inc., states:

Highlights for Children, Inc.'s mission is to create, publish, produce, or distribute on a profitable basis quality products and services uniquely designed for the educational development of children, their parents and teachers, and others with specific educational needs.

Each of the current divisions or subsidiaries operates within these guidelines.

Highlights emphasizes the fair and courteous treatment of its customers. Promotional offers are closely reviewed to ensure prospective customers are not being misled. Highlights is committed to maintaining a "pure" image in the marketplace in terms of marketing efforts as well as quality of its product.

Highlights for Children magazine is circulated to approximately two million subscribers. It is marketed through direct selling (via independent contractors), telephone marketing, and direct mail. Parents, teachers, doctors, and gift donors are targeted by the different marketing arms. In addition, *Highlights* sells various educational products that have been promoted through the introductory-offer school programs.

History. Dr. Garry C. Myers, Jr., and Caroline C. Myers founded *Highlights for Children, Inc.*, in 1946 in Honesdale, Pennsylvania. Based on the belief that learning must begin early in order to fully develop a child's learning ability, the magazine was geared to challenge children's creative thinking and abilities. Today, the editorial offices are still in Honesdale, although the corporate headquarters are located in Columbus, Ohio, and the magazine is printed in Nashville, Tennessee.

At the time *Highlights for Children, Inc.*, was founded, magazines were sold almost exclusively by door-to-door salesmen. *Highlights for Children* followed suit. Today, *Highlights* continues to use direct selling in conjunction with telephone marketing and direct mail to market the magazine.

In 1955, Myers hit upon the idea of putting *Highlights for Children* in doctors' offices with lead cards. At about the same time, his wife came up with the introductory-offer program to be marketed to parents through the schools. This was the beginning of marketing *Highlights for Children* by mail. Both programs met with immediate and resounding success.

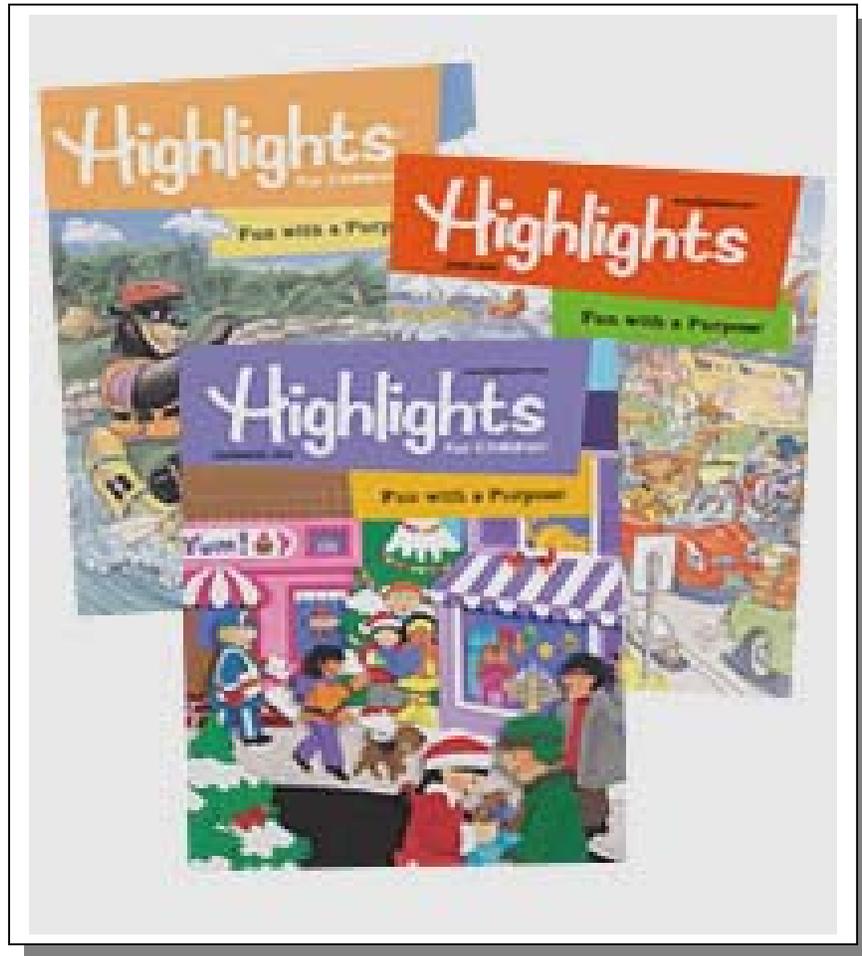
Magazine Content

Highlights for Children targets and services a diverse age group from 2 to 12. The material in the magazine ranges from easy to advanced. This conforms to the philosophy of challenging children: Rather than having material graded and directed to a particular age child, children are allowed to work at their own rate and are "encouraged" to achieve and understand more.

The tag line of *Highlights for Children* is "Fun with a Purpose" (see Exhibit 1). The purpose of the magazine is to educate and instruct, not merely entertain. The magazine is positioned as supplemental material to be used in the home, rather than in the classroom.

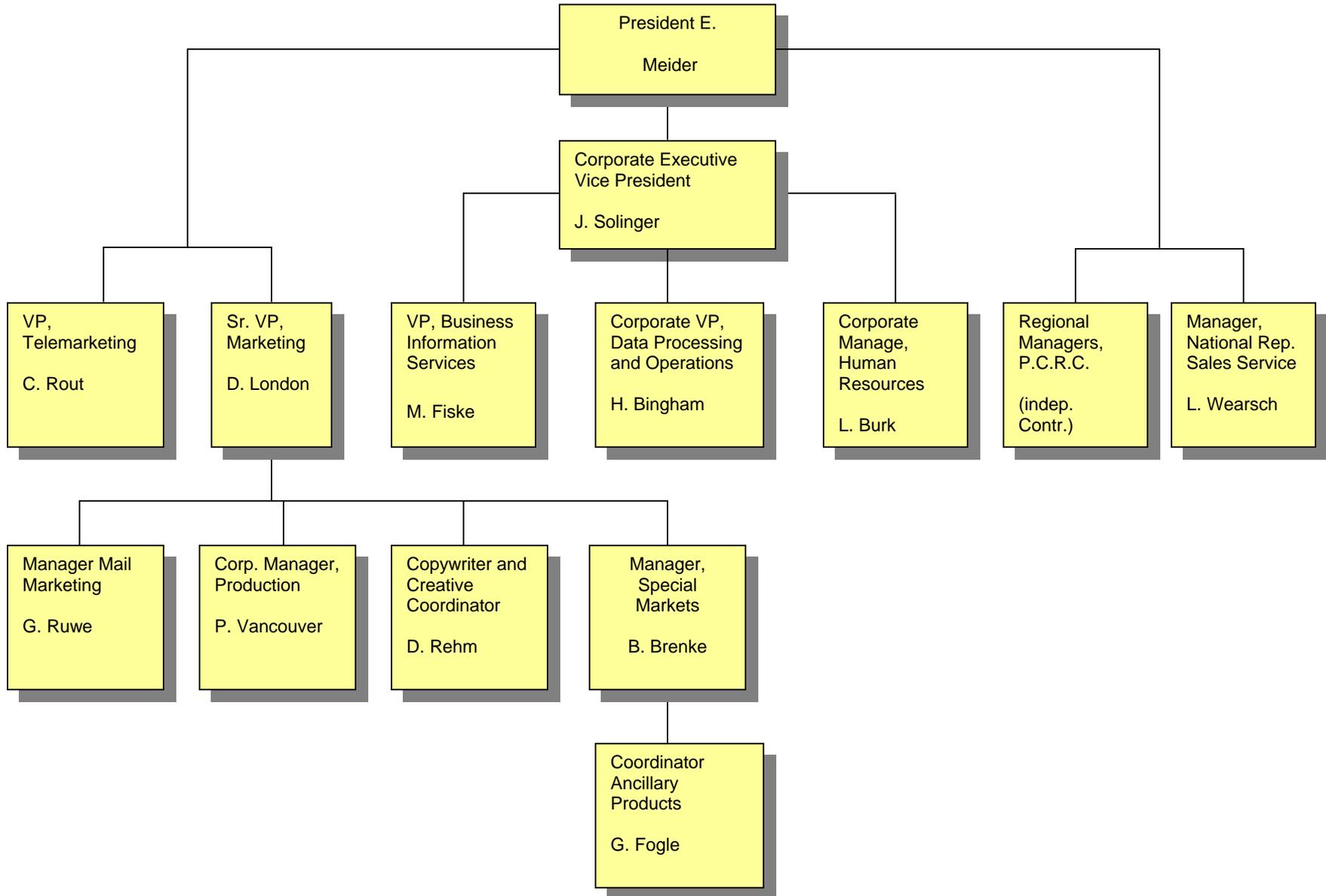
Highlights for Children likes to maintain the image of an educational magazine. No cut-outs or mark-ups are included in the magazine content, enhancing the idea of lasting quality. There is no paid advertising in *Highlights for Children*, which is in line with the educational image. Throughout the years, advertising has been considered at various times. Management continues to feel the magazine is more salable as an educational supplement without advertising. *Highlights* also believes that children are already subjected to more than enough advertising pressure through other sources, much of which is resented by parents and teachers. Recently, President Elmer Meider raised the advertising issue and suggested that advertising revenues might be a way to improve *Highlight's* profit performance.

EXHIBIT 1

**The Marketing Program**

Highlights for children, Inc., uses three different marketing arms to sell its products: direct selling, telephone marketing, and mail marketing. Each type is discussed in following sections. Exhibit 2 shows the current organization.

EXHIBIT 2 Highlights for Children, Inc., Organization Chart



Direct Selling. The direct selling organization has two kinds of representatives: the school representatives and regular representatives. Almost all reps receive company-generated leads; however, school reps make most of their sales from self-generated “school drop” leads.

School representatives. Reps make their initial presentation to a school principal or superintendent. The object of the presentation is to gain permission to leave sample copies of *Highlights for Children* in grades K-4. If the school agrees to participate, a sample copy, along with a lead card to the school if the parents are interested in ordering *Highlights*. Reps then pick up the lead cards from the schools. A school rep usually visits a particular school once every two to three years. Currently *Highlights for children* has about 70 school reps.

Regular reps. Regular reps contact the following company-generated leads:

1. *Parent inquiries (PI)* and *doctor inquiries (DI)*. These people have not had a subscription but have sent in a card indicating interest.
2. *Introductory-offer renewals (iO)*. These people have been sold the 6-month introductory offer through the school and are now up for renewal.
3. *Regular renewals (RR)*. These people have had a regular subscription (11 issues or more) and are up for renewal.
4. *Donor renewals (DR)*. These people have given a gift subscription (11 issues or more) and are up for renewal.

A rep has a set amount of time to work the leads (depending on the type). At the end of that time period, the lead automatically goes to either phone or mail for follow-up. Reps send back the leads marked “no contact” or “no sale” once they have been worked, so the other departments can follow up quickly.

Reps call on parents at home. The increasing number of women working and higher gasoline prices have made the rep’s job more difficult over the years. When reps do find someone at home, their presentation hits mainly on what *Highlights for children* is, how to use it, and its educational value. The rep can sell, on average, a 2.8 year term subscription.

There is a management structure in the regular rep program. Not all reps are under a manager; none reports directly to the home office. Managers receive an override on all area sales (personal and representative’s sales).

The current rep structure is composed of about 265 active reps, of which about 65 are managers. The Columbus, Ohio, office has seven employees who are assigned to the direct-selling arm. Reps are independent contracts and as such are not paid a salary, but rather they earn a commission on their sales. Their commission is calculated by commission level times units. Units are determined by term sold: (five-year subscription = 1.4 units; three-year subscription = 1.0 unit; two-year subscription = .7 unit; and on-year subscription = .3 unit)> *Highlights for Children* subscription rates are \$49.95 for 33 issues (three years) and \$79.95 for 55 issues (five years). For example, the commission for a three-year subscription is \$24.97 (1.0 unit = .50; \$49.95 X .50 \$24.97).

Telephone marketing. Started over 10 years ago in response to the energy crisis and the possibility of the greatly reduced mobility of the representative selling arm, telephone marketing has grown and flourished from a staff of 3 to 190 telemarketing reps, all paid on a commission basis. Telemarketing commissions are about one half (23 percent) of direct-sales commissions. Com-missions are not paid for sales that are cancelled or never paid by the customers. These reps are located in Columbus along with 25 staff employees.

Telemarketing receives basically three types of leads: parent and doctor inquiries, introductory-offer renewals, and regular renewals. Telemarketing reps have a specified time period in which to contact and sell their leads before they go to mail marketing for follow-up. They attempt to contact leads, all types, 10 times before giving up. In one day's time, they can make up to four attempts. On average, telemarketing sells a 2.3-year term.

Mail marketing. The Mail Marketing Department consists of three primary areas: creative, production/analysis, and list rental. Currently, 10 employees work in the mail marketing department. Major responsibilities, in addition to list rental, include acquiring new customers (through efforts such as the Christmas mailing and school teacher introductory-offer mailing), acquiring new leads (through the doctors' offices, doctor inquiries, and parent inquiries mailings), and converting leads (these leads may be new or renewals) to customers (typically after regular reps and/or phone reps have tried to convert). All activities are conducted through direct mail.

More specifically, all promotion packages (to acquire either a lead or a customer), space ads, package inserts, billing stuffers, preprinted computer forms, and so forth are created and produced through the efforts of this department. The actual mail production (merge/purge, lettershop, etc.) is also coordinated here. Finally, the analysis of the results is performed here as well.

Christmas program. The Christmas program is a multimedia effort to acquire one-year subscriptions targeting a donor. The mail program consists of over 5 million names, mailed from mid-September to mid-October.

Additionally, the Christmas program includes card inserts in the October, November, and December issues of *Highlights for Children* magazine, statement stuffers, approximately two million package inserts in outside packages (Drawing Board, Current, etc.) and space ads (The Wall Street Journal, New York Times, Christian Science Monitor, etc.).

Introductory-offer program. A mailing is made to teachers who hand out "take-home" slips on which the parents can subscribe. The subscription offer to the parents is for six months of *Highlights for Children*, an "introductory offer."

EXHIBIT 3 Highlights for Children, Inc.: Annual Gross Sales by Source, 1976-1985 (\$000)

	Reps	Telephone	Mail
1976	11,400	860	10,700
1977	11,800	1,500	11,300
1978	12,100	2,300	12,100
1979	10,300	3,300	14,400
1980	10,400	6,400	16,300
1981	11,100	8,400	16,400
1982	12,400	9,000	21,400
1983	12,300	13,400	28,000
1984	10,800	20,400	36,000
1985	10,200	23,800	46,000

Parent inquiry/doctor inquiry program. Several times a year, *Highlights for children* purchases doctor lists for an outside mailing to produce doctor inquiries. General practitioners, pediatricians, dentists, any doctors who have children, and/or parents visiting their offices and waiting rooms are targeted. Doctors who subscribe are especially valuable because they provide a vehicle to reach parents, and the primary purpose of the doctor mailing is to eventually reach parents. Highlights for Children can send the magazine, complete with parent inquiry cards, into a doctor subscriber's office on a *monthly* basis, potentially reaching many parents.

Marketing Arm Effectiveness

Background information revealed that mail marketing produced the most revenue for the last seven years. In 1983, telemarketing surpassed direct marketing in terms of revenue. Exhibit 3 shows sales by marketing arm since 1976. Order-per-lead ratios by marketing arm are as follows:

- Telemarketing: over 30 percent
- Direct sales: over 20 percent
- Mail: over 5 percent

Normally, order-per-lead ratios are higher for direct sales. In fact, for a given number of leads, say 50, the direct sales group will produce more orders than the telemarketing group. However, since the reps are asking for more leads than they can possibly handle, many end up wasted and are not viable by the time they are received by telemarketing and direct mail.

The decline in the number of independent contractors has been of some concern for several years. Various programs have been initiated over the years to increase the number of reps.

EXHIBIT 4 Sales Opportunity Fact Sheet

Highlights for Children is an educational magazine for children ages 2 through 12. There are 11 issues published each year, and the December issue includes an annual Resource Index, which turns that year's books into a home reference library for the whole family.

Highlights is available by enrollment only. It is not sold on any newsstand, contains no advertising, and is created primarily for family use. The vast majority of its subscribers are parents. *Highlights* contains a wide range of fiction, nonfiction, thinking and reasoning features, contributions from readers, and things to make and do. The high interest articles include humor, mystery, sports, folk tales, science, history, arts, animal stories, crafts, quizzes, recipes, action rhymes, poems, and riddles.

Dr. Garry Cleveland Myers and Caroline Clark Myers founded *Highlights for Children* in 1946 as the outcome of years of professional work in child psychology, family life, education, and publishing for children. *Highlights* has grown from a first issue circulation of 22,000 to over 1,500,000 in 1982 and is the world's most honored book for children.

Noted educator, psychologist, and author, Dr. Walter B. Bathe, is the editor-in-chief of *Highlights*. Dr. Bathe's books and professional publications have made him nationally renowned in education and in demand as an international speaker. The ongoing production of each issue is coordinated by a talented staff of educators, most of whom are parents. The editorial offices are located in Honesdale, Pennsylvania. The marketing arm for *Highlights for Children* is Parent and Child Resource Center, Inc., and the administrative offices are centered in Columbus, Ohio, where a dedicated representative sales staff plans and directs the business of selling and delivering *Highlights* all around the world.

Highlights for Children is sold nationally by authorized independent representatives directly to families, teachers, preschools, daycare centers, doctors' offices, and to any other person or place interested in the welfare and development of children. This is a direct, person-to-person sales opportunity.

As an independent contractor selling *Highlight's* products, you are free to work the hours you want and earn as much commission as possible. You are in business for yourself with exclusive leads and virtually no product competition. There is no investment required, and you are provided with the information and instruction you need to grow in skill, experience, and earnings. Your business will grow in proportion to the time, skill, and resourcefulness you use in presenting the values of *Highlights* to families, individuals, or groups in your community. Your job is to visit with prospective customers, show them how *Highlights* will benefit their children, and write up the order. Statistics show that one out of three contacts will enroll.

You will find that selling *Highlighrs* products is enjoyable, pleasant, and profitable. The only qualifications necessary are that you enjoy meeting people and have a sincere interest in children.

There is no limit to your earnings. Every home with children aged 2 through 12 is a potential customer. You retain a liberal commission on every enrollment at the time of the sale, plus additional commissions as your sales record grows. You receive bonuses for the quantity of sales you report, bonuses for the quality of the sale you make, and bonuses for recommending others as representatives. Your sales can also make you eligible to win incentive contests with cash and/or merchandise prizes.

If you are interested in a sales career, complete the enclosed Confidential Information form and mail it today!

These programs have not met with much success as evidenced by the size of the direct sales force. Selling low-ticket items, however, limits how much a regular rep can earn.

About one half of the regular reps worked part-time. Earnings range from as low as \$1,000 a year for some reps to as high as six figures for those reps who are managers. Managers earn overrides on the sales of those reps that they have recruited into the sales organization, a common practice in direct selling programs. Exhibit 4 is typical of the literature used by Highlights to recruit new reps.

EXHIBIT 5 Fact Sheet

Summary: 1985 Direct Selling Industry Survey	
Total Retail Sales: \$8,360,000	
Percent of Sales by Major Product Group:	
Personal care products	34.8%
Home/family care products	50.0%
Leisure/educational products	9.4%
Services/other	5.8%
Sales Approach (method used to generate sales reported as a percent of sales dollars):	
One-on-one contact	81.0%
Group sales/party plan	19.0%
In the home:	77.0%
In a workplace:	11.8%
At a public event*:	2.5%
Over the phone:	6.9%
Other:	1.8%
Total Salespeople: 2,967,887	
Demographics of Salespeople:	
Independent	97.9%
Employed	2.1%
Full-time (30+ hours per week)	11.7%
Part-time	88.3%
Male	22.0%
Female	78.0%
* Such as a fair, exhibition, shopping mall, theme park, etc.	
Source: Direct Selling Association, Washington, DC	

Meider and others are aware that this is a problem that others in direct selling have faced. Giants in the direct-selling industry such as Avon, Tupperware, Mary Kay, Amway, and so forth have all confronted this problem and have adopted various techniques to alleviate the negative impact that fewer reps have had on sales. A major contributing factor has been the dramatic increase in the number of working mothers who are no longer home during the day.

The ability of people in direct selling to earn a reasonable level of income has been inhibited due to these trends. Many companies have adopted party plan selling programs in an attempt to increase the income earning opportunities of the reps. Other companies have expanded their product lines in order to provide their direct sales reps with more commission opportunities.

Exhibit 5, a fact sheet published by the Direct Selling Association, provides a summary of the 1985 direct selling industry.

Meider, on the other hand, feels that despite these trends the direct sales reps are not working as hard as they should and are not following prescribed and proven methods of selling. Reps are supposed to ask customers who have ordered a subscription to *Highlights for Children* for the names of others who might be interested in subscribing. Since the reps knew that they could secure company-generated leads free, there was no financial incentive for them to ask for referrals. This referral process has been the mainstay method of direct selling not only for *Highlights for Children* but other direct selling companies as well. Reps are expected to engage in local prospecting, which involves locating residential areas occupied by parents of young children. These activities have been neglected, and reps today rely solely on company-generated leads.

Sales reps continually ask for more leads than they can process, resulting in lost opportunities. By the time the leads are sent back to Columbus, they are of limited value. Meider was particularly distressed to learn that several reps had established their own telemarketing operations to enhance their earnings opportunities. As a result of this practice, *Highlights* was paying the reps a commission that was twice the amount normally paid for telemarketing sales. A report prepared by Marilyn Fisk, vice president of business information services, added further to Meider's concern. Her report contained the following points:

- Telemarketing sales in general are for the magazine only; sales of other products are very limited.
- Telemarketing sales do not involve a down payment, hence there are more cancellations.
- Recruiting of additional direct-sales reps has declined, especially in those situations where the reps, with the assistance or blessing of their managers, have started their own telemarketing operations.

Meider's reaction to Fisk's report further solidified his decision that changes are needed. He could understand why the managers would favor telemarketing conducted by their direct reps. Each subscription netted a \$4 override for the manager regardless of how it was secured, although suggestions had been made that the \$4 override was not adequate. And, the direct reps received their usual commission. He had attempted at an earlier date to persuade the former national sales manager to do something about this practice only to be told that the direct reps were independent and would view this as interference. Besides, as the national sales manager indicated, "The reps view the annual Christmas mailing as a direct threat and want the program to be eliminated or at least share in the commissions on sales from their territories."

Sometime later, the national sales manager left *Highlights for Children, Inc.*, due to a reorganization that eliminated the position. Meider hired two regional sales managers who work in the field and can provide closer supervision of the direct sales reps and their managers. Meider divided the United States into two regions: east and west. This move greatly reduced the span of control problems experienced by the former national sales manager.

Meider discussed these problems with Garry Myers III and asked for his reactions. Myers noted that it should not be surprising that reps rely totally on company-generated leads. As Myers stated, "Our reps want to make the most sales, and the best avenue is to call on people who have taken the effort to complete a card and mail it to Highlights. Reps know that these leads are more likely to produce sales than what they are likely to obtain using the referral process." Myers likened the referral process to "cold-call selling." Regardless, Highlights for Children is losing profits as a result of these practices, and Myers hoped that Meider's report would be available soon.

Meider indicated that his initial report would contain a series of alternative recommendations that would be used to generate discussion. For example, Meider suggested that one alternative would be to eliminate company-generated leads. Another possibility, suggested by Meider, would place a limit on the number of company-generated leads that a rep could receive each month. The number received might be a function of previous referral sales or some other factor. Meider also suggested charging the managers and/or the reps for each company-generated lead. To offset these additional charges, one likely countersuggestion would be to increase commissions paid to the reps. The Fisk report prompted another option: reducing the commission paid to reps for orders received without a down payment. This might curtail the use of telemarketing by the reps, a practice Meider wanted to stop. Finally, one manager suggested that the school reps be charged a small fee for all of the sample copies are left at schools for K-4 distribution. The manager said, "If the regular reps are wasteful of the excessive leads that they receive, then the school reps may be just as guilty when they give away too many free samples."

Eliminating the independent reps is one alternative, as is increasing the number of reps. Meider did not agree with Bell that more reps was the best solution, although he did think that it was an alternative to consider. Expanding the product line to give the reps more items to sell and more commission opportunities was another alternative suggested to Meider. Currently, a three-year subscription at \$49.95 produces a commission of \$24.97. Meider knew that no one would suggest replacing the direct sales force with a company sales force. Such a move would increase overhead expenses by at least 15 percent to cover fringe benefits costs plus staff additions needed for purposes of governmental reporting. Eliminating the direct selling arm would be a better solution than creating a company sales force.

Myers thought that Meider's suggestions would indeed produce much discussion among his management team. At this juncture, he felt that Meider should narrow the alternatives down to a final set of recommendations.