

Case analysis: sales force training at arrow electronics



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Case analysis: Sales Force Training at Arrow Electronics Executive Summary

- This case focuses on the training given to the fresh, out-of-college sales people at Arrow Electronics and the reasons on why the training programme failed to have the intended effect. Arrow Electronics was the first distributing company to recruit college graduates as a part of their sales force. To bring them up to the skill level required by field sales representatives, an elaborate training programme was put in place.

By the second year the training programme proved to be really successful as the trained graduates became best in the business as field sales representatives. That was when the competitors poached them with higher salaries and promise of leadership and management roles. Attrition level among the graduates or sprouts as they were called reached a crescendo soon and Arrow Electronics had to do away with the programme. Situational Analysis - Arrow Electronics started as a radio equipment retailer in 1935. In the 1960s and 70s it started dealing in electronic equipments.

It quickly progressed to being the 2nd largest distributor by 1980 and in 1993 has the highest sales in the industry with \$2.5 billion in North America. Arrow ordered components from suppliers like Intel, Motorola and sold them to OEMs like IBM, HP etc. They also catered to smaller firms and start ups. They were renowned for having a diversified product portfolio. A major competitive advantage of Arrow was its extensive and strong relationship network with clients. Sales were divided into four distinct product groups viz.

Commercial semiconductors, military and aerospace semiconductors, passive and connector products, computer peripherals and software. Steve

Kaufman was the CEO and Chairman of Arrow Electronics and the main protagonist of the case too. Organisational Structure and Compensation & Benefits The organizational structure of Arrow was hierarchical in nature, with each sales force divided into geographic divisions. The General Manager headed each branch sales office. The Branch Office structure is depicted as follows. Branch General Managers (45) Area Sales Manager (1-3) Inside Sales Manager

Marketing Manager Admin Manager Admin Personnel Field Sales Reps (6-8) Sales & Marketing Reps (6-12) Product Managers (3-6) The compensation and benefit structure at Arrows was competitive with a significant amount of variable component for the employees. Branch Office Employee General Managers (GM) Field Sales Representatives (FSR) Compensation 35% of salary is bonus based on branch performance (measured by operating profit) \$300/week draw against a commission (8% of gross profit dollars shipped to the FSR's customers) Average yearly income \$60, 000-\$120, 000 \$60, 000-\$80, 000

Sales & Representatives (SMR) Product Managers (PM) Marketing Paid entirely on commission, earned 4-5% of gross margin dollars generated 25% of compensation based on sales & gross margin of product lines \$40, 000-\$50, 000 \$35, 000-\$75, 000 Demerits of the existing sales force structure- The sales force of arrows was a major asset for them mainly for their skills and network. But the top management of Arrow wanted to revamp the entire sales structure because they wanted a more professional sales team. The current sales team had developed personal relations with the buyer in the client companies.

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So it was a 1: 1 relation and when the sales person left, he took away with him the client contact and the deal. Poaching sales people of competitors was prevalent because of this. Also some W-2 Hoppers shopped themselves around to some firms for higher fixed income. Subsequently attrition was high in the sales area as there were only 20 national players who required the same kind of sales people and thus offered competitive salaries. As a result of all this there was a stagnated sales force in the industry and no fresh blood was being inducted.

Nature of the incumbent sales people – Men and women aged between 30 to 40 years and having high energy, highly aggressive personality comprised of arrow's sales force. They generally had strong monetary motivation and were at most high school graduates. Most did not have college degrees and moved up within the business. They resorted to a lot of glad handling and travel & entertainment in order to attract and lock in clients. Personal relations were the focused on for converting a lead into a contract. They were difficult to train because of the amount of time they had spent being like this.

Everyone had their own informal way of tapping clients and it was hard to inject new perspectives and formal training to them. Strategy of formalizing the sales force by recruiting college graduates – The idea was to bring in fresh people who would be trained formally and would also provide as a pool for the next generation of leaders and managers in the company. The demerits of the existing sales force as discussed would be overcome as professionalism would be incorporated in its ranks. The company wanted the

sales people to understand the client company as a whole, try to gauge their needs and suggest suitable products which met them.

In case there weren't any need, they wanted the sales people to understand their business process and suggest products to improve it. Demand creation would be the principle then. Recruitment and Training of the college graduates - The following steps were followed by the authorities for the recruitment and training of the 1st batch of Sprouts. The Arrow managers were trained as to how to interview college students. Managers were asked to look for self starters, goal-orientated, leadership skills, and people skills in the interviewees.

A very well planned structured interview process was developed. Questions were so designed to bring out the qualities which they were looking for in the sales force. They conducted mock interviews with students to give the managers a hands-on experience. 115 associates were hired for the first sprout batch of 1984. Training - The sprouts went to company headquarters for a weeklong orientation and then they were sent to warehouses for two weeks. They had six months of on the job training post which they returned to headquarters for a week of sales skills training.

The major problem with this structure was that managers across the company did not have time enough to mould the hires as the company wanted. Also the training varied from unit to unit. Whereas some were really good with their training, some other units really left the new hires to call dead accounts and gave very less importance to them. There was also resentment among the existing people as the college hires were getting high salaries

right from the inception and were also touted to rise to the ranks of managers quickly. A much more formal training process was subsequently developed.

Formal Training process - They rented Xerox's training facility where sprouts would live for 13 weeks of classroom learning. Following it there would be 13 weeks of on the job training. Then 3 weeks of training before entering field permanently. GMs noticed huge difference in sprouts skill set post this training method. They became worth the \$20000 that was spent on their training by all means. Problem of Attrition - Post the training and a couple of years of experience in the field, the sprouts started to migrate to other competitors. The reasons are mainly as follows: ?

Since they were really good at their jobs post the elaborate training, they were offered higher packages by rival firms. Whereas arrows gave them salaries to the tune of \$ 24000 - \$ 27000 over the first couple of years, rivals offered \$30000 to \$ 40000. Also they were promised leadership roles in the near future. ? The acceptance of sprouts in the sales ranks of arrow was not that widespread. The high school graduate but experienced sales force quite naturally resented the " high-handed" attitude of college educated and formally trained sprouts. Since the sprouts believed that they would be anagers within a short time, some of them behaved brashly leading to such resentments. ? Arrow had promised the sprouts that they would be promoted to management ranks within a short time, but never realized that the sprouts expected that to happen within the first couple of years itself. Neither did they increase the salary at par with the rivals' offers nor did they feel that sprouts were capable enough to handle leadership roles. So attrition was <https://assignbuster.com/case-analysis-sales-force-training-at-arrow-electronics/>

really high, as high as 36%. Steps taken to mitigate attrition - The management put in place a deferred compensation programme to hold back sprouts from leaving.

Non-compete agreements were also brought to the fray. But competitors paid them the amount they would lose on leaving as joining bonuses and non-compete agreements were invalid in states like California, where the sales force strength was the highest. Later when Arrow acquired Schweber and another major company, they stopped the college recruiting programme as they inducted the acquired company's sales force. Recommendations for the new programme - This time that they are again restarting the college recruitment drive, they should go in for a two phase recruitment drive.

They should target the college students for positions in the managerial ranks primarily at competitive salary. The college graduates would be required to be there in the sales force for only a year or so. This would prevent them from leaving for leadership roles. For a more permanent yet formally trained sales force, the management should primarily target the lower ranked colleges or community colleges. The graduates from there should be a bit more conservative when it would come to job hopping. The pay structure should be restructured with more variable component.

This would enhance the competitive feeling and would act as a motivation factor for the sales force to stay back. Also the pay should be such that there should be a steep hike after two years in the sales force. This hike should be there in the fixed pay. This would prevent the rivals from poaching with high joining sums. Graduates in the sales force should be promised with

management training in addition to sales training after a fixed tenure in the sales force. All these measures should arrest the problem of attrition that the previous programme faced.
