CASE A-1: SMITH & NEPHEW – INNOVEX

Case objectives

The main objective of this case is to discuss the strategic option of using contract or outsourced sales forces.

According to a Research Report by the American Management Association[1], 94% of the surveyed US companies had outsourced at least one business activity or function. Of these, 51% had outsourced at least one marketing activity or function. And within the sales and marketing function, 12.9% of the surveyed U.S. companies had outsourced personal selling activities or functions. A very similar percentage was obtained in a survey of Spanish companies in 2001[2].

Using a contract or outsourced sales team may be considered as an alternative to using a permanent salaried sales team, and also as an alternative to using traditional independent sales agents.

Summary

Smith & Nephew, S.A. (S&N) was the Spanish subsidiary of Smith & Nephew plc, a multinational company of British origin, devoted to manufacturing and selling a variety of health products and devices.

On September 29th, 1999, the General Manager of S&N signed an agency contract with Innovex. The contract specified that two Innovex employees would cooperate with the existing S&N sales team to promote some specific moist wound healing (MWH) products to primary health care centers in the Spanish regions of Galicia and Asturias.

The original agreement was for six months, though it could be extended.

In early March 2000, near the end of the original contract period, the managers of Smith & Nephew, S.A. must assess and evaluate the results attained, and must decide not only what to subsequently do in Galicia and Asturias, but also, more generally, what their policy should be regarding the potential further use of an Innovex contract sales force to promote MWH products in the rest of Spain. Such a contract or outsourced sales team would presumably complement the existing salaried S&N sales team, as well as the three independent, multiproduct sales commission agents long active in the region of Extremadura and in Mallorca, Menorca and Ibiza.

A possible set of assignment questions that you would see for this case:

1. Should a company such as Smith & Nephew, S.A. use a contract or outsourced sales team? What do you see as the main pros and cons?

2. What does Innovex contribute? What is the cost of such contributions? Do the services provided by Innovex have a good price/quality relationship from the point of view of Smith&Nephew?

3. How do you evaluate the results attained so far by Isabel in Galicia, and by Federico in Asturias?

4. What are the main courses of action available to Smith&Nephew in March 2000?

5. What decision criteria should be used by S&N managers?

6. In view of the above analysis, what specific action plan would you recommend? Why?

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Analysis of each question:

1. **Should a company such as Smith & Nephew, S.A. use a contract or outsourced sales team? What do you see as the main pros and cons?**

There are a number of reasons why a company might want to use a contract or outsourced sales force. Professors may wish to distinguish between general reasons for using one, and then try to identify which of them may be more important specifically for S&N.

PROS

– Does not increase the salaried salespeople headcount. In Spain (see case Exhibit 9) it is particularly difficult to hire and fire employees. Therefore, companies may prefer to contract the services of a sales team, especially if their help may be needed only temporarily.
– Flexibility: a contract sales force may be fairly easily increased or decreased.
– Testing: in this particular case, S&N may not be sure about the sales results attainable by means of increasing the promotion efforts in Galicia and Asturias. As indicated on case page 10, “If the Innovex offer was accepted, it would be very much an experiment”. As a matter of fact, it may be said that by implementing this test, S&N is actually testing four different things simultaneously:

  – It is testing the market acceptance of Allevyn, Intrasite Gel and Opsite.
  – It is testing Isabel and Federico.
  – It is testing the sales territories of Galicia and Asturias.
  – And it is testing Innovex as a supplier of contract sales force services.

– Time to market: Innovex (last paragraph of case Exhibit 2) is said to have 135 sales representatives, of which 77 are full-time Innovex employees and 58 have temporary contracts linked to a particular job for a client. Presumably, Innovex is capable of quickly supplying a lineup of sales reps, either out of their own salaried team, or by hiring them for the purpose, using their database of potential sales reps who may be hired on a contract-by-contract basis.

– Access to special Innovex knowledge. Although this is not specifically mentioned in the case, Innovex may have available salespeople who have already previously worked on assignments similar to the Galicia–Asturias S&N assignment. Therefore, they may already know the location of primary care centers in these Spanish provinces, they may already personally know doctors and nurses working there.

– Cost control: By using Innovex, S&N is sure that the cost of the whole testing exercise will not be more than 9,720,000 pesetas (810,000 ptas per Innovex rep per month x 6 months of contract x 2 reps in Galicia and Asturias).

– In addition to the tasks performed by the two Innovex field reps, Innovex commits itself to provide some additional services supplied by a project manager and a clerical assistant, plus some administrative support in recruiting and training, payroll administration, control of field expenses, etc. (see case page 13, second paragraph, under "other considerations").

– Innovex Spain is the local subsidiary of Innovex Inc., a prestigious company, with a positive and successful track record with S&N in UK (page 9).

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1 Greenburg, Eric R., and Carol Canzoneri (1997), "Outsourcing: The AMA Survey", American Management Association Research Reports, AMACOM, New York.

2 Renart, Lluis G., and Cósimo Chiesa (2002) "La remuneración y fidelización de equipos de venta en España", Harvard-Deusto Marketing y Ventas, in press.

CONS

– As mentioned, the cost of using Innovex may be slightly higher that the cost of newly hired S&N salaried reps.

– As mentioned in the case, the salary of an Innovex sales rep assigned to work for S&N under the agency agreement is 2.8 million pesetas. As mentioned in a footnote, no further incentives were established for them. Their overall pay level is thus likely to be substantially lower than the salary plus incentives collected by a salaried S&N salesperson[3]. Innovex reps may accept this lower pay level because they may consider that this is an "entry level" compensation. But if successful in their assigned sales tasks and territories, they may fairly soon either aspire to be eventually hired as S&N salespersons, or to receive a pay increase. If none of this happens, they may be recruited by another company (maybe by a competitor of S&N who may have market information regarding the additional sales volumes generated by Isabel in Galicia or by Federico in Asturias.

– Some students may fear that a company like S&N may lose some of its strategic autonomy by relying too much on an external services supplier like Innovex. In other words, after a while, S&N may become dependent on Innovex.

– In a similar vein, if all or most of the new sales knowledge and skills is acquired by Innovex reps and managers, S&N reps and managers may fail to acquire this knowledge, and may even lose some sales knowledge and capabilities.

  – If Innovex is a "freelance" service provider, and remains free to work for other health product companies, S&N may suffer from an uncontrolled leakage of proprietary information.

- In this particular kind of sales situation, it may be safely assumed that building strong relationships with doctors and nurses working in primary care centers is likely to be a key success factor. How good and how strong will these relationships be if doctors and nurses are contacted by an outsourced sales team? If the contract with Innovex is eventually discontinued, or if a sales rep quits Innovex, what will happen to the relationships that have been built up?

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3 We are only told in the case that the overall cost of a S&N salaried sales rep was 8.5 million pesetas per year, including social security and field expenses. A reasonable guess would be that the salary plus incentives (take home pay) of a salaried S&N rep is likely to be around 5 million pesetas, which is almost twice the compensation level received by an Innovex rep working for S&N in Galicia and Asturias.

2. What does Innovex contribute? What is the cost of its contributions? Do the services provided by Innovex represent value for money from Smith&Nephew's point of view?

At this point, professors may choose to list on the board the participants' suggestions regarding the ingredients or elements of the service designed and delivered by Innovex.

It should be relatively easy to see why the CEO of Innovex (case Exhibit 2) says that, "It's not just a matter of getting people out in the street knocking on doors".

The Innovex service includes:

- management support
- speed and quality of recruiting and selection
- training (done jointly with S&N)
- administrative support
- the possibility of changing the assigned reps if they fail or prove not to attain a sufficient level of sales results
- flexibility
- the possibility of upward escalation in the number of reps, should the Galicia and Asturias test prove successful.
- field supervision[4].

One interesting question is, however, to what extent these features or characteristics of the Innovex service will actually materialize to the benefit of S&N.

Another interesting question is what S&N sales managers can do to maximize the quality and amount of service received from Innovex. Close monitoring by S&N sales executives may be required for this. In other words, they should not "abdicate" to Innovex, but must continuously monitor the amount of service delivered, as well as the sales results attained by Innovex reps in Galicia and Asturias.

As mentioned above, the strict economic cost of using the Innovex reps is only slightly above the total economic cost of using salaried S&N reps. The yearly cost of an Innovex rep to S&N is 810,000 pesetas/month x 12 months = 9,720,000 pesetas per year. This amount may be compared to the total cost of 8,500,000 pesetas/year of an S&N salaried rep.

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4 This is an important point, not only due to economic or effectiveness and efficiency reasons. Indeed, according to Spanish law, if Innovex acts as an agent for S&N, Isabel and Federico should be supervised in the field by Innovex managers. S&N sales managers should refrain from giving direct orders and work directions to Isabel and Federico. If they do, Isabel and Federico might eventually claim that they were actually treated like any other salaried salesperson, and legally request that S&N should take them into the company as salaried salespersons included in the company's payroll.

However, students should be made aware of the possible "hidden costs":

- S&N salaried reps are more experienced, and are said to sell 150 million pesetas per year on the average. This means that their cost of 8.5 million pesetas per year is only 5.7% on sales. In contrast, according to the "sales projection" prepared by the medical division's marketing manager (case page 12), during the first year an Innovex rep working for S&N would be expected to sell only 28.9 million pesetas[5]. This means that the cost of an Innovex rep (810,000 pesetas/month x 12 months = 9,720,000 pesetas/year) represents a hefty 33.6% on sales!!

If S&N were to continue the Galicia and Asturias test for a second year, the marketing manager expects Innovex reps to sell 3 million pesetas per month x 12 months = 36 million pesetas. If their cost continued to be 810,000 pesetas/month x 12 months = 9,720,000 pesetas/year, the cost of an Innovex rep working for S&N in the second year would still be a high 27% on sales. Barely above the 30% gross profit that S&N is assumed to be making (top of case page 13).

Other "hidden costs" have already been mentioned in the list of "CONS", when answering the first question: risk of loss of proprietary information; customer relationships fragile or at risk of being lost if Innovex contract is terminated and/or contract sales reps leave; etc.

3. How do you evaluate the results attained so far by Isabel in Galicia, and by Federico in Asturias?

Many professors and students alike may consider the above discussions too abstract and theoretical.

I would suggest that professors do not devote too much time to these two first questions, which, as a matter of fact, may be considered to "set the stage" for the more specific and down-to-earth consideration of the results attained so far by Isabel and Federico.

Let's consider them in turn:

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5 450,000 + 900,000 + 1,650,000 + 2,225,000 + 2,700,000 + (3,000,000 pesetas/month x the remaining 7 months) = 28,925,000 pesetas of sales in the first year.

ISABEL IN GALICIA

So far (according to footnote 9) Isabel has generated 5,133,000 pesetas of additional sales in four months (October 1999 – January 2000, both inclusive), with a gross margin of 1,540,000 pesetas (30% on average, as mentioned on case page 12).

If her cost has been 810,000 pesetas per month x 4 months = 3,240,000 pesetas, Isabel, so far, has generated a direct loss of 1,540,000 – 3,240,000 = 1,700,000 pesetas in the first four months.

In addition to that, one must consider that, generally speaking, the circumstances in Galicia were relatively favorable:

- Isabel "already had some experience of medical sales visits" (bottom of case page 10).

- "The S&N products she would have to promote were already known and used in the region."

- She had some degree of local support from Arturo, the S&N (salaried) sales rep in Galicia, who had been visiting hospitals there.

- "Two weeks after Isabel had taken up her post the (S&N) Marketing Department held two study days in Vigo and Corunna, giving her a chance to make contacts much more quickly" (case page 11).
- Total population in Galicia was 2,716,000 people. Breakeven sales volume may be estimated to be attained if Isabel succeeds in selling 1 peseta per person per month (2,716,000 pesetas in sales x 30% Gross margin = 815,000 pesetas/ month > 810,000 pesetas, which is her direct cost as invoiced by Innovex to S&N).

- In addition to sales and gross profit, students may point out that for the whole of Galicia the market share of Allevyn, Intrasite Gel and Opsite almost doubled in just four months, increasing from 3.3% to 6.4% .

FEDERICO IN ASTURIAS

Federico's results have been much worse, with just 1,484,000 pesetas in sales in the first four months (footnote 10 on case page 12).

In addition, even if due to "chance factors" (case page 12), his gross margin was only 25% on sales, or 371,000 pesetas in four months.

This means that, so far, S&N has registered a direct loss of 2,869,000 pesetas in four months (3,240,000 pesetas cost of Federico paid to Innovex, minus 371,000 pesetas gross margin generated by Federico).

Perceptive students will point out that Federico had some initial disadvantages in Asturias as compared to Isabel in Galicia:

– "Federico had little experience, but the right profile and plenty of enthusiasm" (which to some may sound like a euphemism).

– "Asturias had the added disadvantage of having been neglected during the previous two years, following the death of S&N's previous sales rep, who had not been replaced" (case page 11).

– "The products Federico would have to promote were practically unknown in the region".

– No marketing "study days" are mentioned in Asturias.

– Acording to footnote 7 on case page 7, the population of Asturias was only 1,060,000 people. To reach his own direct breakeven, at the current level of 25% gross profit made in Asturias, Federico would have to sell 3,240,000 pesetas per month. (3,240,000 x 25% = 810,000 pesetas of gross profit per month, which is his own direct cost, as invoiced by Innovex to S&N). However, 3,240,000 pesetas of sales per month in a territory with 1,060,000 inhabitants implies that to reach his own direct breakeven Federico would have to sell slightly above 3 pesetas per person per month in his assigned territory. This amount is three times larger than the corresponding figure computed for Isabel in Galicia.

– In spite of all these difficulties, Federico has succeeded in increasing the promoted products' market share from 0.9% to 3.26% (case page 12).

IN SUMMARY

Both salespersons have, so far, failed to reach their own breakeven.
This is not so unusual in itself, because according to the marketing manager's own estimations ("sales projection", case page 12), such breakeven is expected to be attained in month number 5. (Sales of 2,700,000 pesetas x 30% gross margin = 810,000 pesetas gross margin, equivalent to the direct cost of an Innovex salesperson, as invoiced to S&N).

Obviously, the results attained by Isabel are much better and more promising that Federico's. We must now try to evaluate what their respective results might be in the immediate future.

4. What are the main courses of action available to Smith&Nephew managers in March 2000?

It would seem sensible for the instructor to adopt a step-by-step approach and start by deciding first what to do with Federico and Isabel. The next thing will be to consider what to do in the rest of Spain, particularly in the "underserved regions of Valencia and Andalusia", where S&N managers feel that 3 + 3 new sales reps could be allocated.

ISABEL IN GALICIA

Isabel has succeeded in growing her sales to slightly above 1.7 million pesetas in December 1999 and January 2000 respectively.

A pessimistic outlook: if she has reached a sales ceiling at 1.7 million pesetas per month, she would continue to generate a direct loss of 298,000 pesetas per month (monthly sales of 1.7 million pesetas x 30% gross margin = 512,000 pesetas gross margin, versus a direct cost of 810,000 pesetas). At this monthly sales level, the direct loss would be 3,576,000 pesetas per year (298,000 x 12 months).

However, a more optimistic outlook would see her growing her sales at a rate similar to the "sales projection" (case page 12) prepared by the division's marketing manager. In that sales projection the figure for month 5 is already 2,700,000 pesetas, which is her direct breakeven level (2,700,000 x 30% gross margin = 810,000 pesetas of monthly gross margin generated, which is equivalent to her direct cost as paid by S&N to Innovex).

Of course, both the S&N sales managers and the Innovex project manager should have more qualitative information regarding Isabel's performance, the potential of her territory, how doctors and nurses are being persuaded to start or continue using the MWH products she is promoting, how competitors are reacting, etc. For instance, it is mentioned in the case (page 9) that the original idea was to assign 3 new sales reps to Galicia. It is also mentioned (case page 11) that Isabel's promotional activities were concentrated in the provinces of Orense and Pontevedra (two out of a total of 4 provinces in Galicia). These two provinces have a joint total population of 1,246,000, that is 46% of the total population of Galicia.

In other words, it looks quite likely that Isabel may continue to develop her present customers in Orense and Pontevedra, but she might start to develop new primary care centers in Lugo and Corunna, the other two Galician provinces.

When asked, many students will discard the option of terminating Isabel and reverting to the original situation in Galicia, that is, with Arturo (the preexisting salaried S&N sales rep) continuing to visit just hospitals.

Therefore the question becomes: Should S&N renew the Innovex contract for Isabel for a further six months (April to September 2000)? Or, more aggressively, should S&N hire Isabel as a salaried S&N rep?

Offering Isabel the option to join the salaried ranks of S&N means:

– that S&N may have to pay Innovex a penalty or compensation of 20% of her yearly salary with Innovex (20% of 2.8 million pesetas = 560,000 pesetas).

– that Isabel may be happy if her entry level salary plus incentives as a salaried rep at S&N is higher than her salary up to this point in time as an Innovex rep. As mentioned above, if the total cost of a salaried S&N rep is 8.5 million pesetas per year, it is likely that an entry level salary plus incentives at S&N should be around 5 million pesetas per year.

– also Isabel may feel happy because being admitted as a salaried rep in S&N payroll means a higher level of job stability. Let's not disregard the fact that, as an Innovex rep, she was hired on a temporary basis for the initial six months of agency contract signed between Innovex and S&N. If S&N decided to terminate the contract, Innovex could also legally terminate Isabel's employment. Or, at best, assign her to another temporary assignment.

– let's not disregard the motivation/demotivation potential of this decision. Hiring Isabel as a salaried S&N rep sends her a strong message that S&N has a high evaluation of her performance and of her personally.

– if she is doing a good job, and S&N competitors are increasingly aware that they are losing market share in Galicia because of Isabel's efforts, they may try to hire her. It would be relatively easy for any competitor to offer her a higher salary plus incentives, and a permanent position as a salaried rep in their company.

The final decision may still be open, but I would make a strong recommendation to S&N managers to talk openly to Isabel, making it clear that they appreciate her efforts and her performance. And adding that, even if they decide to extend the Innovex contract for six more months, she will be a strong candidate to be invited to join S&N as a salaried rep, with higher pay, in October 2000. Provided, of course, she continues to improve her sales volume up to a certain level.

FEDERICO IN ASTURIAS

The dilemma with Federico may be more difficult to solve. In four months he has only reached a level of sales of 570,000 pesetas per month, which is clearly still very far from his direct breakeven point.

As we did in the case of Isabel, for the sake of “running some numbers” upon which to base a certain discussion, we may prepare two forecasts: one more optimistic and one more pessimistic.

An optimistic sales estimate for a complete first year might be, for instance:

October:	134,000	pesetas)	
November:	252,000	) __	(sales actually attained by Federico
December:	528,000	)	in the first four months).
January 2000:	570,000	pesetas)	
February:	750,000		
March:	1,000,000		
April:	1,250,000		
May:	1,500,000		
June:	1,750,000		
July:	2,000,000		
August:	2,250,000		
September:	2,500,000		

Total sales for this hypothetical optimistic first year: 14,484,000

If Federico continues generating a below-average 25% gross profit, the gross profit generated by him would be 14,484,000 x 25% = 3,621,000 pesetas per year. His direct cost to S&N, as invoiced by Innovex, is 810,000 pesetas per month x 12 = 9,720,000 pesetas per year. Therefore, the direct loss generated by Federico would be 9,720,000 – 3,621,000 = 6,099,000 pesetas per year.

Even if Federico succeeded in improving his product mix, thereby increasing the gross margin of his sales up to par, that is, up to 30%, with this same sales volume his direct loss would still be 4,345,000 ptas gross margin generated – 9,720,000 pesetas cost = 5,375,000 pesetas.

That is, even if S&N are reasonably optimistic, Federico will cost them between 5.4 and 6.1 million pesetas in the first year.

It may be argued that, in this “optimistic” estimated future sales trend, Federico might reach his own breakeven sales volume in October 2000 (the first month of his second year), if he succeeds in selling 2,750,000 pesetas in October 2000.

However, if we prepare a pessimistic sales forecast, S&N might end up with figures such as the following:

October:	134,000	pesetas)	
November:	252,000	)__	(sales actually attained by Federico
December:	528,000	)	in the first four months).
January 2000:	570,000	pesetas)	
February:	600,000		
March:	700,000		
April:	800,000		
May:	900,000		
June:	1,000,000		
July:	1,100,000		
August:	1,200,000		
September:	1,300,000		

Under this "pessimistic" hypothesis, Federico's sales for his first year would be 9,084,000 pesetas. At 25% margin, he would generate a gross profit volume of 2,271,000 pesetas. And a direct loss of 7,449,000 pesetas. At 30% margin, he would generate a gross profit volume of 2,725,000 pesetas, and a direct loss of 6,995,000.

If he stayed on for a second year and continued to increase his personal sales volume by 100,000 pesetas per month (that is, from 1,400,000 pesetas of sales in October 2000 to 2,500,000 pesetas sold in September 2001), his total sales volume for his second complete year would be 23.4 million pesetas. At 25% margin, he would generate a gross profit volume of 5.8 million pesetas. And a direct loss of some 3.9 million pesetas. At 30% margin, he would generate a gross profit volume of about 7 million pesetas, and a direct loss of about 2.7 million pesetas.

The total cumulative direct loss generated by Federico at the end of his second year might be between 11.4 million pesetas (-7.5 million in the first year, plus another 3.9 million in the second year), and -9.7 million pesetas (7 million in the first year plus 2.7 in his second year).

Under the above pessimistic estimate, Federico might reach his monthly sales direct breakeven volume by November 2001.

What should the managers of S&N do when faced with figures like these?
Some students may first want to ask, or failing this, the professor may prompt the question: What is the root cause of this situation in Asturias?

Here are some of the possible answers:

a. The main reason for the slow sales is Federico. He was a bad choice. His sales abilities are well below par. Something like this is mentioned in the case (page 12): "In response to the low sales in Asturias, the regional sales manager felt that Federico would have to improve his sales technique, in particular his closing abilities".

b. Some other students may feel that the bad results are due to the sales territory. Asturias is too small to support a full-time salesperson.

c. A third set of reasons may be linked to poor management. The Asturias sales territory had been abandoned for the previous two years. No study days were organized to facilitate Federico's breaking in. And Federico did not have the immediate support that Isabel had from Arturo in Galicia.

At this point, students should logically entertain the following options for an action plan in Asturias:

1. Renew the Innovex contract for Federico. In that event, both Innovex managers and/or S&N managers should coach Federico to actively help him first identify and then overcome his shortcomings.

2. Renew the Innovex contract for Asturias, but ask Innovex to find and put in place a different Innovex sales rep to replace Federico.

3. Ask the S&N marketing department to program a few "study days" in Asturias in order to more actively introduce the new MWH products to doctors and nurses, and to make it easier for Federico to make personal contact with them.

4. And, of course, there is the possibility of calling the whole exercise off and terminating the contract with Innovex as far as Asturias and Federico are concerned.

What should be done about Valencia and Andalusia?

According to the case (page 9), the S&N managers' original idea was to assign 3 new reps to Galicia, one to Asturias, 3 to Andalusia and 3 to Valencia. Although no further details are given in the case, the Valencia region contains three Spanish provinces, and Andalusia has eight provinces. In other words, they are both at least as large and important as Galicia.

But now, "at the beginning of March 2000" (case first line), maybe S&N managers know a few things that they did not know in September 1999:

– For one thing, they know that actively promoting Allevyn, Intrasite Gel and Opsite (the Moist Wound Healing products) to doctors and nurses in person in primary care hospitals produces good results, especially in terms of gains in market share. This has been the case even in the cold and less favourable territory of Asturias.

– But they also know that if sales grow roughly in line with the estimates of the division's marketing manager, the direct economic results at the end of the first year will be a direct loss of about 1 million pesetas[6]. This direct loss is expected to be recovered during the second year[7].

Of course, such results may be contingent upon the usual sales management caveats: good choice of sales territories with enough sales potential; good selection, training and field supervision of new reps; marketing support in terms of study days, advertising, etc.

The last two questions to contemplate might be:

How fast should S&N install new salespersons in Valencia and Andalusia? Each salesperson is an investment, at least for the first year. But S&N competitors may react and launch new MWH products themselves, thereby preempting S&N in the new sales areas…

Should S&N continue to use the services of Innovex in Valencia and/or Andalusia, or should they directly hire new salaried sales reps? This question, in a sense, proves that we have gone "full circle", and that we may now reconsider the Pros and Cons of using Innovex, as specified when answering Assignment Question number one.

5. What decision criteria should S&N managers use?

The purpose of this question is to stimulate students to think beyond the obvious purely economic answer. Therefore, the following decision criteria may be useful:

1. *Economic criteria*

1.1. Monthly "Profit and loss" results: what is the direct economic result, month by month, generated by each new salesperson assigned to a territory?

1.2. "Balance Sheet" or accumulated direct results: what is the maximum economic investment necessary before a new salesperson reaches direct breakeven and starts generating a positive contribution? When does a new salesperson start to generate an accumulated net positive direct contribution?

1.3. How are these economic values changed by additional promotional actions such as study days. After all, as mentioned on case page 8, the average cost of a study day is only around 300,000 pesetas, to positively impact about 65 specially invited nurses. To what extent may study days help to speed up the process of breaking into a new territory by a new salesperson?

2. *Relational criteria*

How can new salespersons generate strong relationships with doctors and nurses in primary care centers?

Does the fact of using Innovex reps impact negatively upon the ability to generate a strong, positive relationship with doctors and nurses? How do doctors and nurses evaluate the fact that an Innovex rep's visiting card mentions (see case Exhibit 10) that the rep is an "Employee of Innovex Spain, S.L."?

How are these relationships affected if one rep is replaced by another?

Will the relationship be stronger if an Innovex sales rep joins the ranks of permanent, salaried S&N sales reps.

If the contract with Innovex is discontinued, are the existing relationships lost?

3. *Sales management criteria*

How is it different for a sales manager to manage a permanent salaried sales force, compared to the "indirect" management of an Innovex contract or an outsourced sales force?

How does the fact of using an outsourced sales force change each of a company's main sales management policies?

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6 According to the "sales projection" on case page 12, total sales per salesperson in a new region should amount to about 28,925,000 pesetas x 30% = 8,677,500 gross profit. If done with Innovex reps, the cost will be 810,000 ptas/month x 12 months = 9,720,000 pesetas. Therefore, there is a negative direct result of 1,042,500 pesetas.

7 The same "sales projection" estimates that sales will stabilize at about 3,000,000 pesetas per month after the 6th Month. Therefore, the sales volume of a new rep in his second year should be around 3M ptas x 12 months = 36 million pesetas. This, at 30% gross profit, generates 10.8 million pesetas in absolute gross profit. If the Innovex cost for the rep stays at 9.7 million pesetas per year, the second year should result in a positive direct contribution of 1.1 million pesetas. This compensates the 1.04 million loss of the first year, to reach an accumulated breakeven point at the end of the second year of a new Innovex rep.

4. *Human Resources criteria*

Does the fact of using an outsourced sales force change the internal business climate of a company? Do permanent employees feel that their jobs are at risk because management may decide to outsource their present jobs?

How should a company manage the aspirations of outsourced salespersons of becoming permanent salaried employees of the company?

Does outsourcing a sales force limit the "pool of talent" out of which a company may grow and develop its own future sales managers?

6. In view of the above analysis, what specific action plan would you recommend? Why?

The last portion of the case, "The decision", provides a fairly explicit list of action plan options open to S&N executives. After all the analysis, this is the part capable of generating the most intense discussion among participants.

WHAT HAPPENED?

IN MARCH 2000

The Innovex contracts for both Isabel and Federico were renewed for six more months.

At the same time, S&N and Innovex signed another contract for five more salespersons: two in the Valencia region (Valencia province and Alicante province), two in Andalusia (one in Seville and one in Malaga), and a fifth in Barcelona, where a salaried rep had quit the company.

Thus, the total number of Innovex reps working for S&N was 7.
IN JUNE 2000

Federico, the Innovex rep in Asturias, voluntarily quit the sales job to take on another job as a trainer of a handball team! Apparently he did not see a future for himself in sales! He was replaced by another Innovex salesperson.

IN JULY 2000

The Smith&Nephew corporation announced the worldwide purchase of IRUXOL, a pharmaceutical cream used in the process of wound healing. The actual transfer of this product was to take place on January 1st, 2001. The sales volume of this product in Spain was around 1,000 million pesetas, which obviously meant a substantial increase in sales for the Spanish subsidiary. Remember that total S&N sales in Spain were around 4,000 million pesetas in 1999 (case page 2).

But the company selling IRUXOL in Spain up until then had more sales reps than S&N. There was a risk of losing sales volume during the transition.

In view of these facts and risks, the Corporate Marketing Manager of the Advanced Wound Care Global Business Unit gave the go-ahead for S&N to contract a total of 22 additional Innovex sales reps. Twelve of them started work on September 1st, and another 10 started work on November 1st.

IN SEPTEMBER 2000

Three of the “veteran” Innovex reps, including Isabel in Galicia, were invited to join S&N as permanent salaried employees.

The rest continued to be Innovex employees.

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