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The Pros and Cons of Outsourcing Sales

When resources are limited, research firms may want to consider outsourcing their sales efforts to a firm specialized in selling research to institutional investors. Without an in-house sales staff to manage, the research firm will have more time and energy to invest in their research while continuing to grow their client base. In this paper, we consider the pros and cons of outsourcing, along with what to look for when choosing an outsourced sales firm.

We will begin by defining what an outsourced sales firm does and doesn't do. We will then identify the characteristics of a research firm well suited to outsourcing. Lastly, we will examine how to evaluate an outsourced sales firm and some of the pros and cons of outsourcing sales.

What is an outsourced sales firm?

In a broad sense, an outsourced sales firm (OSF) is any firm or individual not on the research provider's (RP) payroll, that works outside of the RP's physical office environment, and that is hired as a consultant by the RP to perform direct sales on its behalf.

OSFs are typically paid on a success-fee basis. In other words, the majority (if not the totality) of payment is made to the OSF if it successfully closes research subscriptions or voting accounts with new buyside firms. If no new sales are made, the RP generally pays the OSF little or nothing.

It is like having a full- or part-time salesperson working for the RP but, instead of being on the RP's payroll, the salesperson is paid on commission only. What's more, sales and marketing costs may also be covered by the outsourced sales firm rather than coming out of the RP's budget.

What does an OSF do?

An OSF's primary tasks include: (1) acting as the RP's direct-selling sales force, (2) closing new research subscription deals on behalf of the RP, and (3) opening and managing new voting accounts, including handling compliance issues and any administrative requirements that may arise from the vote.

An OSF may also help with marketing campaigns, invoicing, accounts receivable, client servicing, client retention, account renewals, and client feedback. If required, OSFs will also undertake administrative tasks, such as product fulfillment, layout and design, website and blog management, and/or any other task that keeps an RP owner from focusing on their research.

How do outsourced sales work?

It is important to note that, even after an OSF has been hired, the RP's senior staff and analysts will still be active in the selling process. In the beginning of the relationship, the research firm will meet with the salesperson to educate them on the research product and the RP's value proposition.

While it is important that the salesperson can accurately describe the firm and research product, this will not be enough in itself to close new deals. At some point in the sales process, the buyside prospect will want to speak with the people behind the reports.

One of the key functions of the OSF is to filter out prospects that have a low probability of closing. By identifying and speaking with potential prospects in advance, it can determine which firms might not be a good fit for the RP. The better the OSF understands the product and the product's value add, the better the filtering. It is therefore important that the RP staff remain available throughout the selling process to answer the OSF's questions about the product's attributes and current research content.

Following the screening process, the OSF will ideally set up a meeting or conference call between a well-qualified prospect and the RP's analyst in the hope of taking the discussion to the next level and closing a new deal. By screening out the prospects who are unlikely to become paying clients, OSFs save analysts valuable time.

What conversion rates should an RP expect?

Even with a salesperson weeding out unlikely prospects, conversion rates can be as low as one in ten. Given that an OSF generates a high volume of leads, a profitable business can be built on this ratio. Of course, hiring the OSF might solve an even greater problem than dealing with unqualified prospects: that of having no prospects or leads at all.

The number of leads and prospects in the pipeline should increase over time. Each one of those prospects will most likely want to speak with the research firm. It is likely that regular contact with the analytic staff will be required for several months before enough trust is built to close a new deal. Typical sales cycles last anywhere between three and 12 months.

Why do OSF-generated leads sometimes take longer to close?

Unlike a warm lead originating from an analyst's personal Rolodex, it can take time for an OSF-generated lead to develop trust in the research provider and get to know the research. This trust is best built by having the cold prospect evaluate the research and speak with the analyst in real time to see how the research product can be integrated into their investment process.

As such, even with an outsourced sales solution, the RP's senior staff and analysts should expect to be involved in two ways. At the outset of the relationship with the OSF, they will need to bring the sales rep up to speed on the research product. Then, throughout the sales process, they will need to be available to qualified prospects introduced to them by the OSF. In other words, the research firm will continue to invest time in the sales process once the OSF has been hired.

What about client retention?

In the majority of cases, the OSF will help service and renew new buyside clients for the duration of their life cycle. Since most revenue share models include an incentive for the OSF when clients renew, it is in the OSF's best interest to help serve the buyside clients that it brings on board. This can be very appealing for analysts who wish to be more focused on their research.

The OSF generally has little involvement with the RP's pre-existing clients. In fact, we recommend that the RP provide the OSF with a list of their active clients to ensure that the OSF does not solicit them. After some time and once trust has been established between the OSF and the RP, arrangements are sometimes made to transfer the servicing of pre-existing accounts to the OSF. This would be a logical division of labor based on strengths and skill sets.

When should an RP consider outsourcing?

While OSFs are always helpful, an RP would be best to outsource when it is reaching the limits of its own organic growth. An RP might want to consider outsourcing, if it:

- Has between 5 and 50 paying clients;
- Has been stuck at a certain client number and revenue level for some time; or
- Has exhausted its own source of leads (personal Rolodex) and inbound leads are few and far between.

RPs will also want to consider their own culture and experience. Since managing sales is one of the services offered by OSFs, RPs with no experience hiring or managing a salesperson or sales team may want to consider outsourcing. This way their senior management can devote their energies to building and maintaining the research product.

Outsourcing may also be an attractive solution for RPs without the capital to invest in a senior salesperson (noting that a senior equity salesperson can ask for a six-figure annual salary) or the infrastructure required to implement a sales process (CRM, subscriptions to prospect information databases for leads, and travel costs can easily total in the high tens of thousands per year).

The RP should view an OSF as a revenue-share partner: in return for taking on the risk of bringing in new revenues, the OSF is compensated by sharing revenues on the business brought in by the OSF.

What should an RP look for when evaluating an OSF?

An RP should ask themselves several key questions when choosing an OSF:

1. Does the OSF have an established sales channel?

An experienced OSF will already have relationships with a number of buyside accounts that have paid them in the past. This invaluable sales channel allows the OSF to introduce research products to new accounts—and close deals—more quickly.

2. What sources of leads does the OSF use?

A professional OSF does not rely solely on an existing sales channel or personal Rolodex but should own or have access to a comprehensive list or database detailing contact information for institutional buyside firms across North America and globally.

3. What is the OSF's sales process?

A successful OSF will have a sales process that outlines in several logical steps how it finds potential leads, introduces them to the research product, and manages them through the closing process.

4. How can an RP be sure that the OSF is devoting the necessary time to sell its research product?

While having a fully dedicated sales team for your product is ideal, it may not always be realistic. An OSF should be able to devote at least 50 percent of one salesperson's time to selling the RP's product. As a rule, the more staff and staff hours an OSF is willing to provide, the better. It is advisable to get a clear understanding of an OSF's bandwidth prior to committing.

5. What type of reporting is the OSF able to offer the RP?

Another way an RP can ensure the OSF is devoting time to its research product is to request a weekly synopsis of work completed (the number of prospects contacted, the number of product presentations done, etc.). Tracking the OSF's work is especially important at the beginning of the relationship. Once sales start to come in and trust and confidence grow, regular monitoring will be less necessary.

The pros and cons of outsourcing

While the pros and cons of outsourcing sales are specific to each individual RP, the following generalities can be made.

Pros

- The RP's client base is grown in a cost-efficient, lower-risk manner. The majority (if not the totality) of payment to the OSF is made only if it closes deals. If the OSF does not succeed in bringing new business, the RP will owe it nothing or very little. In other words, the OSF bears most of the risk of the sales/marketing venture, not the RP.

- Fixed expenses related to sales and marketing, including fees for salaries, office space, telecommunications, database management, and travel expenses, are offloaded on to the OSF.

- The RP's professional representation is expanded making it appear larger and more established.

- The RP has more time to focus on research.

- The RP has a third party representative to gather product feedback from prospects and clients, which can be useful new product development.

Cons

- If the sales venture proves successful, the OSF will likely ask for a higher revenue share than an in-house salesperson (who would be paid a base salary) might ask for in commission. The OSF will most likely view its unpaid upfront work and initial assumption of risk without pay as an investment in the RP and expect a revenue share on new business it generates. The OSF will expect to be compensated for this on an ongoing basis.

- Given that OSFs operate in a different physical location, it is difficult for the RP to evaluate how much effort the OSF puts into the sales process. This is especially true if the sales cycle (i.e., the average length of time it takes to bring a prospect to a paid client) is several months long, as is often the case when selling to the institutional buyside.

- The RP is not able to monitor all of the communications between the OSF and the prospects. For some RP management, this may be a challenging proposition. This discomfort can be alleviated somewhat by the weekly sales reports and follow-ups with the sales rep to ensure that the information is correct and the volume of contacts is satisfactory. The RP should not expect this to be a continuous event, but must pay attention to the message that is being sent out to ensure that there is no disconnect.

- Given that the OSF is paid on a success-fee basis, if an RP's research product is not selling, the OSF may jump to another research provider that is more lucrative. While this may be hard to monitor or prevent, it can be tempered by getting feedback from the OSF on a consistent basis.

The bottom line

Can an RP get to the next stage of its business development with its own internal resources? If the answer is yes, there is no need to use an outsourced sales firm. However, an RP that has a quality research product but is having difficulty growing its client base, hiring an outsourced sales firm could help take the RP's revenue line to the next level.

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