MIT
Sloan School of Management

Outsourcing Sales?

Susan stared in her glass of beer. This was the first time she was in charge of the whole consulting project. Making it a success was a must.

Her client was a medium-sized television station. In a drive to cut costs, they were considering to outsource sales. Susan had just participated in the board meeting in which the key contender presented its proposal. The board had a positive impression but wanted to hear Susan's reaction.

According to the sales company's proposal, they would be compensated on a variable basis. In particular, they proposed the following scheme:

- 10% on the first $400 million in sales
- 5% on the next $200 million in sales (i.e. on the part between $400 and $600 million)
- 2% on the sales above $600 million

The sales company argued that their sales force was much more effective: for similar clients, their revenue generated per dollar spent on sales was about 30% higher than what the client currently achieved.

The client had about $500 million in advertising sales and had no other sources of revenue. Their fixed cost was $450 million, which went mainly to the purchasing of television programs and to general overhead. Finally, they had $50 million in sales expenses, all of which was variable (in function of the number of ads sold).

If you were Susan, would you advise your client to accept the proposal?