IESE Business School
University of Navarra

M-1391-E
February 2022

Professionalizing the Sales Force at The Veteran Tree

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In March 2022, Jim Heisser, CEO and founder of The Veteran Tree Co, reflected on his company's strong results in recent years. The historical growth in sales and profitability were something to be proud of, and—after 2020, which was a disastrous year for the sector due to the pandemic—the company had returned to solid growth in 2021. However, Jim felt that what started as a small operation with humble goals became very big. Big wasn't a bad thing, but Jim wondered if the way he managed his sales force should change. After all, the most successful companies tend to have more sophisticated management. What decisions needed to be made? Should he change something or continue to act in the same way?

The Veteran Tree Co.

Jim Heisser founded The Veteran Tree (hereafter TVT) in 2009, when he was 46 years old. At the time, Jim was out of a job after devoting five years of his life to a failed start-up. Reflecting on his more than 20 years of experience, sometimes working as an employee and other times as an investor—always in digital start-ups—he thought he had worked too hard with hardly anything to show for it. Faced with the impossibility of finding a well-paid job, he decided to invest all his savings into one last business venture.

His father had a small store selling all kinds of kitchen utensils (dishware, cutlery, glassware, etc.), which his brother had inherited, and it occurred to Jim that he could start selling those products to hotels and restaurants. When he was still a student, he spent part of his breaks helping his father, and it caught his attention when they would occasionally sell to a restaurant that opened in a nearby town. The amounts of these transactions were substantially higher than those obtained with the average clientele.

This case was prepared by Professor Julián Villanueva. February 2022.
This case is based on the Deodar case, M-1209, by Julián Villanueva and Victoriano Vila, IESE, 2008.
IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

Last edited: 10/2/22

Jim was also a foodie and very fond of international cuisine. With knowledge about these products and the sector, he could visit some restaurants and hotels with a small catalog of products. Eventually, he decided to start his own company and began visiting hotels and restaurants in Santa Ana and other locations in Orange County.

In 2021, sales reached $11.5 million, with a gross margin of 33%. The EBIT was $1.3 million. The most significant expenditures were salaries (sales force, staff), amortization of the distribution center, design and printing of the catalog, and the regional offices, with their respective showrooms. The company had no long-term debt.

The Equipment Market for the Hospitality Industry

When opening a restaurant, the owner had to spend a substantial amount of money on the equipment needed to prepare and serve the food. The most expensive utensils were glassware, cutlery, and dishware. The quality and design of these items were of vital importance for restaurants that wanted to position themselves in a segment of high or medium-high standing. Before opening, a restaurant would have to spend approximately $18,000 on these products. After opening, the amount spent would be reduced to roughly $3,000. Every five years or less, the amount spent could be substantially increased if, for example, the dishware was replaced.

Although Santa Ana was not one of the wealthiest cities in California, Orange County was a county with high purchasing power, and some of its cities were full of high-profile hotels and restaurants. High-profile restaurants tended to be owned by an entrepreneur who owned a single establishment, although some had managed to open a few more. However, many of the high-profile hotels belonged to larger companies. Regarding the products in which TVT competed, the hotel chains tended to allow the chefs and the hotel staff to choose both the product and the supplier. However, one of Jim's contacts at one of the big chains had alerted him to rumors that the central purchasing department would handle this category. Hotel restaurants were usually much larger than the average restaurant.

The size of the market was unknown, as no one had measured it professionally. Doing so would require bringing several distributors together to hire a market research firm, and the market was highly fragmented and traditional in its management practices. Jim estimated that there were more than 200 distributors in California, most of them small family businesses with sales of less than $1M. However, there was another competitor the size of TVT and two others with half of TVT's revenues.

Jim knew the market was growing, as the number of hotels and restaurants opening had been impressive in recent years, except for in 2020, when the COVID-19 pandemic hit hard. Although he did not have a complete database of all the restaurants, he learned about new openings through contacts in the sector. For example, there were 5,020 hotels and motels in California and more than 23,000 full-service restaurants (see **Exhibit 3**).

Sales Force Management for TVT

Shortly after founding TVT, Jim's strategy was to concentrate only on high and medium-high profile hotels and restaurants because these were the least price-oriented and the most interested in a good relationship with someone they could trust. It was calculated that the hotels and restaurants that could potentially be interested in TVT's offering comprised approximately 40% of the total.

Initially, sales had grown smoothly, and by 2011 profitability was good enough for Jim. Then, in 2012, restaurant sales dropped for the first time because the time spent on large accounts prevented him from visiting restaurants as often as he should. Jim decided to hire Cristel González, a childhood friend, who had been working as a clerk at a local bookstore that had just closed. Sales to restaurants picked up quickly, and TVT began hiring more salespeople, opening offices in Los Angeles and San Francisco, in addition to the one it already had in Orange County. Each of these offices was headed by a district sales manager (DSM) and had at least one other salesperson reporting to the DSM. TVT invested in developing a showroom in these three offices. In addition, there was another showroom and a large distribution center at the company's headquarters in Santa Ana.

The company distributed nearly 4,000 references and published an impressive paper catalog that distributed free of charge to its clients, in addition to having it available in electronic format. It also had a web page where orders could be placed, but it was hardly used, since clients preferred to touch and see the product, receive advice, and place the order with the salesperson. TVT distributed large brands such as Villeroy & Boch and Mikasa, in addition to its own brand, which made up less than 10% of sales. In the sector, it was infrequent for a brand to give the distributor geographical exclusivity.

Jim liked young people, so he hired salespeople with limited or no experience. He looked for people with a high school degree and a good presence. The salespeople received a fixed salary and a commission of 2.35% of their sales. In addition, each salesperson was entitled to a company car, a cell phone, and a computer. The salaries are presented in **Exhibit 1**. The average fixed salary per salesperson was $40,000 a year. Expenses (phone, car, per diems) averaged $15,000 per salesperson.

There was no formal training policy at TVT, but each DSM had to train each salesperson individually. The DSMs were also salespeople with a fixed salary plus a commission for what they sold. They did not receive a commission for what was sold by the salespeople they managed, since the time dedicated to their team was compensated in their higher fixed salary. Jim divided each district into several areas and assigned an area to each salesperson.

In 2019, TVT had nine people spread across three districts and another four in areas that were still too small to have a DSM or an office (San Diego, Palm Springs, Sacramento, and Las Vegas) (see **Exhibit 2**). Since 2013, six salespeople had been hired, who left the company shortly after. There were two areas within the San Francisco district, and in Los Angeles, three (one for each salesperson). Jim thought some areas had great potential and might warrant new hires (see **Exhibit 3**).

The day to day of a TVT salesperson was hard to predict. Therefore, it was complicated to establish a weekly visit plan. And for that reason, the managers did not prepare any route. Salespeople visited clients who were planning an opening and provided service and advice, although sometimes the account would go to a competitor. Most hotel openings were easy to spot because Jim kept good relationships with the big chains operating in California, and he would ask about new hotel construction. Responsibility for these sales fell to the DSMs in their respective districts. In addition, Jim distributed the openings in the areas where TVT did not have salespeople among the DSMs. The openings of independent restaurants were much trickier to identify. Often, the contacts came through word of mouth (for example, a chef who already knew TVT recommended them to the owner of the new restaurant that had just hired him). TVT's organic and paid positioning on the internet was quite good, although most opportunities did not come through digital channels.