SALES

Just Say No

BY SUSAN GRECO

Seven CEOs give different examples of when they refused to make deals to avoid doing bad business.

Why not all business is good business: seven CEOs on the sales they refused to make, plus 20 good reasons to think twice before closing a deal

Laura Koenig Young, a sales manager for Leegin Creative Leather Products, in San Antonio, once sent a dozen red roses to a buyer for a large department-store chain. An attempt to nudge an order? No, more like condolences. Young was declining the chain's repeated requests for Leegin's handbags. As Young recalls, the recipient of the flowers called back in shock. "I've never been turned down and received a gift," said the buyer.

Not all rejected suitors take the news so gracefully. Recently, a chain-store executive chastised Young. "Are you telling me you're not going to sell to me?"

"Yes, ma'am, that's what I'm saying. I want you to know how flattered I am that you're interested in our product," Young said, taking a breath. "But we have a commitment to our specialty stores so that they can have a chance to compete."

Leegin's president, Jerry Kohl, has guided the women's brand division to $24 million in sales in five years. He concedes, "When we say no, they think we're arrogant."

Admittedly, it's tough to say no to any customer, especially when your company is young. "What if there isn't a next sale?" a voice whispers, usually in the dark of night and usually when you're worrying about next week's payroll. But all sales are not equal. It's good business to turn away sales that aren't profitable, for example, or those that conflict with long-term goals -- assuming you're clear about the margins you make on each sale and where you want to take your company. Forget the customers from hell -- we all know that, relatively speaking, they're the easy ones to lose. Jerry Kohl turns away customers others would kill for, sales that look perfectly good in theory. And he's not alone. Here's a sampling of other successful chief executives who have said no.

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Phyllis Apelbaum: "The truth was, we were too small to fulfill that contract."
Phyllis Apelbaum, president of $6.5-million Arrow Messenger Service, in Chicago, had been in business but a few years when she received the opportunity of a lifetime. A company she knew well was setting up package-pickup points nationwide. Would Arrow like to be its Chicago vendor? The contract was worth a cool $500,000.

That was 18 years ago, when Arrow was still a start-up. "I can remember it as if it were yesterday. Tossing and turning and tossing and turning, thinking, 'How can I make this work?" Apelbaum recalls. "The truth was, we were too small. I went back and said, 'I appreciate the opportunity. We're not the right vendor to do this.' It was very painful to turn away the largest piece of work that had come my way. But I knew in all good conscience that we couldn't do a good job for them in the time frame they needed to have it done."

Still, Apelbaum concedes, when you're first starting out, "it's so hard to tell anyone, 'I'm not going to do your work." But she's a firm believer in manifest destiny. "When you turn business down for the right reason and in the right way, very often it will come back to you."

She did, and it did. A few years after the fateful $500,000 question, Apelbaum got to bid on another large contract. Neiman Marcus was coming to Chicago and needed a courier company. Apelbaum's anecdote was a great selling point. She convinced the department store that she understood what it took to service a big account and even offered the other company as a reference. "It was a great selling tool," she says.

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Tom Golisano: "We probably know just enough about that kind of a sale to be dangerous."
Every month, Tom Golisano is faced with a recurring temptation: should his payroll-processing firm, Paychex, in Rochester, N.Y., jump into the health-insurance business? "We're contacted by major insurance companies and brokerage firms all the time," he says. Handling the employee deductions would be easy enough. And he admits there's a "desire within the company" to add the service.

Still, Golisano resists. "We don't know anything about insurance sales, or we probably know just enough to be dangerous." Health insurance, he notes, "is a very volatile product, and we don't have a lot of expertise within the company to be a competitive force over a long period of time."

The company's mission has changed little in 25 years, and for good reason. Despite 215,000 payroll clients, generating $300 million in revenues, Paychex owns just 4% of the market. "We feel that the best strategy for us is doing more of what we're doing instead of extending ourselves into areas that will make our lives unnecessarily complicated," says Golisano.

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Charlie Broadway: "If the sale is too easy, that's a red flag that says these people probably don't have any money."

"Sometimes the customers you can make the most margin off of are the most risky," says Charlie Broadway. Broadway is president of Spartan Forest Products, a lumber broker in Greensboro, N.C., which in its first five years sprouted from $723,000 in sales to $12.6 million.

Broadway is talking about the prospective customer who calls out of the blue looking for a price. "If I quote him high and he wants to buy it anyway, that's a red flag that says these people probably don't have any money." He continues: "Either they can't buy from someone else because other suppliers have perceived the risk too, or their credit's been cut off. I'm not nave enough to think they're calling me because they love me."

Broadway learned the hard way. He's been the victim of nonpaying customers so often that he took out indemnity insurance. "I probably should have fire insurance along with the credit insurance, I've been burned so many times."

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Betsy Wiersma: "The customer couldn't focus on anything but 'Do it, do it, do it."

Betsy Wiersma knows all about projects that can get out of hand. Her nine-year-old company, $1.5-million Wiersma Event Marketing, in Indianapolis, once put on a city festival for 30,000 people. Wiersma's clients range from large corporations to the mayor of Indianapolis, who, being a politician, tends to think big -- so big that Wiersma's take on one event amounted to a grand $13 an hour. Yet Wiersma won't cut off her government clients -- they are good payers, and there are intangible rewards, notably, "having the mayor love you."

She draws the line, however, with would-be customers who can't (or won't) define their business goals. Last summer a large corporation all but begged Wiersma to take on its trade-show booth. It was a major show, and no doubt the budget was sizable. "They couldn't focus on anything but 'Do it, do it, do it," recalls Wiersma. The corporation didn't want to talk details: it wouldn't define what it wanted the show to accomplish or how much traffic it expected the booth to generate. Its attitude was "Read my mind," Wiersma says.

Another company might have jumped at the challenge -- and the money -- but Wiersma knew better. The repercussions of an ill-planned project would have overshadowed any monetary gain.

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Janet Taylor: "After looking at the margins, I thought, 'Why am I doing this?"

Motorola Cellular was a profitable and steady customer of Taylor Management Systems, a $10-million company in Des Plaines, Ill., that contracts out software developers and technicians to large corporations. "We support Motorola Cellular's entire help desk," says Janet Taylor, president of the 12-year-old company. "This same division said, 'We really want to outsource our telephone operation' -- a bank of live operators. We said OK."

What seemed a good way to deepen the bond with Motorola turned into "a total nightmare," Taylor says. "What did we really know about telephone operators who make $7 an hour versus $40,000-a-year professional technicians? The turnover was just tremendous."

As a result, with costs soaring, Taylor's profit on the account took a beating. "I spent more time going out to the client to resolve little issues. I thought, 'Why am I doing this?" Every time one of the phone operators quit, Taylor had to find a replacement that day, forcing her to hire temps for only a dollar less per hour than she was billing Motorola. She wondered, "Am I really making any money?"

A year later, when the phone contract was up for renewal, Motorola offered to expand it. Taylor passed, and instead found a good replacement-temp agency to smooth the transition. As a result, she retained that part of the Motorola business that had been most profitable for her.

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David Sluter: "I don't want to commit a project manager to something that might become a heartache."

"I just turned down a deal today," David Sluter, CEO of $6-million New England Construction, in Rumford, R.I., says matter-of-factly. It's not the first time in his company's six-year history.

The circumstances: Sluter recently carried out a preconstruction service agreement for a client, a family-owned business whose patriarch Sluter respected. But during the course of the work, the man's son took on an increasing managerial role. "Junior," as Sluter took to referring to him, was being groomed to take over, and his inexperience working with suppliers became painfully obvious.

New England Construction got paid, but not without a dispute over the deal. Finally, Junior canceled his plans for a new building and decided to renovate instead. Sluter was asked to bid. "I knew we could probably get it," he says, but he'd had enough and was wary of future dealings with his old customer. "I don't want to commit a project manager to something that might become a heartache. It's a risky business as it is," he says. "We do 15 to 20 projects a year. If one goes bad, that's a tremendous impact."

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Lynette Hegeman: "My fear was 'What if it doesn't sell because those big companies don't get behind it?"

Lynette Hegeman worked for two years to produce a skin cream for pregnant women. She devised the formula with a Stanford dermatologist and consulted with a network of ob/gyn offices. By the time she started to manufacture Belly Butter for stores, last summer, her savings were dangerously close to being depleted. The San Ramon, Calif., business could have used a big order right then.

And that's when Hegeman received a visit from a salesman representing several major retail distributors. After hearing in July about her modest marketing plans, he said, "I can bring you across the country in a heartbeat." He left that day with a jar of Belly Butter, promising to talk to an executive at McKesson, the large San Francisco distributor that services Wal-Mart and other mass-retail chains.

Hegeman was floored. This was no fly-by-night salesman. She knew he had previously been a rep for a major drug company and now made a living discovering new products for mass merchandisers. He'd recently scored with an arthritis cream.

"He came back to us with a proposal to take our product mass merch -- he could get it into Long's, Raley's, Wal-Mart, Target, everyplace," Hegeman says. But he added this warning: "You need to look at your distribution and manufacturing. Your first order could be 100,000 units, easily." A call to her manufacturer and chemist confirmed that Hegeman could ramp up quickly enough.

She agonized for a month, though, over product positioning. "I thought, 'I'm going to be all over the place, but nobody is going to know my name.' Pregnant women don't go into Target to look for a pregnancy cream. And the price would obviously come down. Instead of being upscale, it would just be another cream." There were other marketing issues, like her lack of advertising dollars. "My fear was 'What if it doesn't sell because those big companies don't get behind it?"

Finally, Hegeman weighed the short-term gain against her long-term goals. In the end she realized that the endorsement of obstetricians and the loyalty of specialty maternity and baby shops were worth more to her future than sitting on a shelf at Wal-Mart (or, worse, a half-off shelf at Wal-Mart).

"So we said, 'Thank you, but no, no thank you."

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20 GOOD REASONS TO SAY NO TO A SALE

1. **The overhead.** Or, put another way, you're in over your head. You could pull off this sale if you had an unlimited credit line, more space, triple the staff, and . . .

2. **You'll get paid, but on their terms.** Remember, you didn't start your own business to become a collection agency.

3. **Taking the sale would force you to make hasty hiring decisions.** Long after the sale is over, you could be stuck with employees you wish you'd never met.

4. **The deal is about money only.** And the money is never enough.

5. **It's the vision thing.** Their mission doesn't mesh with your mission.

6. **The "honeymoon" is killing you.** If this is what the first sale is like, you don't need the repeat business. Get out now.

7. **Getting the sale was a little too easy.** There's something fishy here. Do a credit check, pronto.

8. **Less is more.** You're as skilled at outsourcing as the next entrepreneur, but resources are not unlimited. Peter Drucker writes, "In business service firms . . . the question of the absolute limit should be taken most seriously."

9. **The numbers don't add up.** If you can't see how you'll make money on this deal, you won't.

10. **Your chief financial officer loves this deal.** It looks good on paper, but you know better.

11. **You're dealing with a dictator.** Your hot prospective customer wants to tell you how to run your company.

12. **Your cash flow can't take the hit.** You can get the sale only if you bankroll a customer the size of a small Latin American country.

13. **Saying yes now means saying no later to the customer you really want.** Trust us, there will be a next customer.

14. **This customer doesn't make your top 20 list.** If it's true that 20% of your customers provide 80% of your sales, why waste your time?

15. **That's not the business you're in.** It's a nice sale but in a marginal market.

16. **Taking on this project would render your business unmanageable.** Diversification is one thing; anarchy is another.

17. **This sale is the same old thing.** Your people are tired of doing the same sort of projects

over and over again. They need to stretch -- and so do you.

18. **It's growth for growth's sake.** And the sale will come back to haunt you.

19. **The sale is good for the ego, lousy for the business.** Really, now, must you do business with the largest company in your state?

20. **It's a case of diminishing returns.** It's taking every last resource to service this account, and it's no longer profitable.

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