

IMPROVING SALES PERFORMANCE THROUGH SITUATIONAL MANAGEMENT IN SALES ORGANIZATIONS

By Karl Pinczolits

An increasing number of companies are introducing performance measurement systems into their sales force organizations. It has become essential to understand the impact of productivity in the sales process. A performance management concept is described in this article, which explains the nature and effects of the number of operations and their quality in sales organizations. In a first step, we look at the concepts companies are using to improve productivity. Secondly, we examine the logic and the metrics behind the concepts, which are applied in practice to increase productivity. Thirdly, we define general statements about activity levels, performance gaps and sales culture. The findings suggest that there are various strategies to enhance productivity which lead to a performance based culture in sales organizations. Based on general implications of the findings several recommendations are formulated to improve sales force performance. The results describe fundamentals of essential metrics in sales organization. These metrics answer basic sales questions, such as the impact of operations on the results of a sales organization. This article provides guidelines for measuring and handling the implications of stimulating and penetrating markets.

Introduction

This article is based on ten years of research in analyzing the productivity of sales organizations, primarily in two ways. First, the findings are based on empirical statistical analysis from a sales manager panel and secondly, on specific performance measurements of sales organizations. Basically, performance management logic and those metrics we use to measure the effectiveness of the sales organization are generally misunderstood, and therefore underused management tools in sales organizations. In the last ten years, among the members of the sales panel of the organizations, who use performance management, productivity rose from 48 percent to 55 percent. There are a lot of impact factors in measuring the productivity of sales force organizations. The line of business and the various sales channels are the highest ranked. When we take into account all the different meanings, there

are at least some hundred possibilities to understand and measure performance. The findings in this article are normally applicable for the classical sales force organization: in direct business-to-business, direct business-to-consumer and indirect sales organizations. The findings are only partly applicable for key account management, project sales, and in organizations with deep, long, and sustained sales processes.

Data comes mainly from a panel of sales managers. This panel has been in existence since 1998, and the members of the panel come mainly from Austria, Switzerland, and Germany. There are approximately 150 panel members in the sales manager panel, and in about 40 companies, performance measurements have been tried and tested. Research started in 1998, and the last applied research was in spring 2007. The results have been published as studies of the Institute for Market Communication and

Sales of the University of Applied Sciences Wiener Neustadt, Austria.

The sales person is the most important resource in sales. A sales person refers to anyone who generates revenue from their customer base. In a small or medium sized enterprise, this could be the owner or a manager. On the other hand, large enterprises typically have an institutional sales department with sales representatives, sales managers and top management executives in sales. If we asked where an increase in sales productivity could be easily achieved, the entrepreneur, executive, and sales manager would mention sales people first. In particular, time management, number of operations at the customers, and optimal customer support are topics brought up in this regard. As a general rule, the output of a sales representative differs significantly from his sales quality. The range of performance between good and bad sales people can vary greatly. A double or triple sales increase is not unusual between the best and the weakest sales persons. For example, a sales representative achieves triple the annual sales of his colleagues. A business consultant sells forty man-days compared to a colleague who sells 150 man-days. One bank clerk services 200 clients while another clerk attends to 600 clients in the same period of time. A car salesman sells one car per week in comparison to his colleague with one car per day. These sales representatives perform under the same conditions, with the same product, in the same sales area, and sometimes in the same company. Sales contact frequency optimization, customer base optimization, and quality optimization are the central key factors in performance management in most sales organizations.

Some Concepts to Improve Productivity

When comparing different productivity enhancement programs in companies, more than 70 percent of all companies primarily improve their productivity by increasing pace rate or frequency of contact. One quarter of the examined companies increases its productivity by means of quality as measured by hit rates or productivity of operation. Only 5 percent of companies boost sales on the basis of quality or product. Companies who improve productivity usually introduce, enhance, and modify products frequently. In the long run, measurements to improve the quality are increasingly deployed to raise productivity. The following working concepts are used by sales managers in sales organizations to improve the performance of their sales force.

How to Stimulate Sales Performance

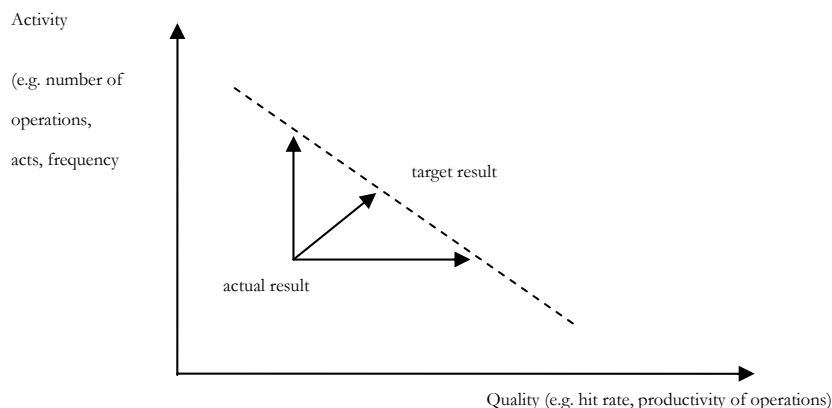
What matters most? – Activity, or hit rate and productivity? When a company wishes to reach a certain goal, it generally has a set of options on getting there. First of all it can increase the activity level and secondly improve quality. The third option represents a combination of increased activity and increased quality. Activity refers to increasing the number of operations, such as visiting customers more often or spending more time with the customer. Quality refers to productivity improvement. For example, by launching new products in order to achieve higher prices or to increase the value of contracts. A better trained sales force and an optimization of processes are also implied. Every result is a combination of quality and activity. Therefore it is possible to describe

every planned goal as a combination of the two dimensions, activity and quality as shown in Fig. 1 below.

Figure 1: The relationship between activity and quality

Choosing the best of these options depends on the current position of the company in the market. Nevertheless, the management of the

main operations in the sales process or the key performance indicators of the sales process. One of the consolidated findings is that the level cannot be sustained without effort. Planning and steering of the activity level is one of the main practices in managing a sales force.



number of operations, the pace rate, diligence, and quality of the sales representatives are central influencing factors on productivity in sales. In principle, every increase in performance can be a result of better quality, higher quantity or a combination of both these factors. In practice, the last option, namely a combination of quality and quantity, will be chosen in the majority of cases. The optimal strategy can be derived from statistical key figures. The degree of operations at the customers is basically measured by the activity, or the time spent to win new customers and in satisfying the existing ones. But not every operation is measurable; in most cases sales managers measure only the

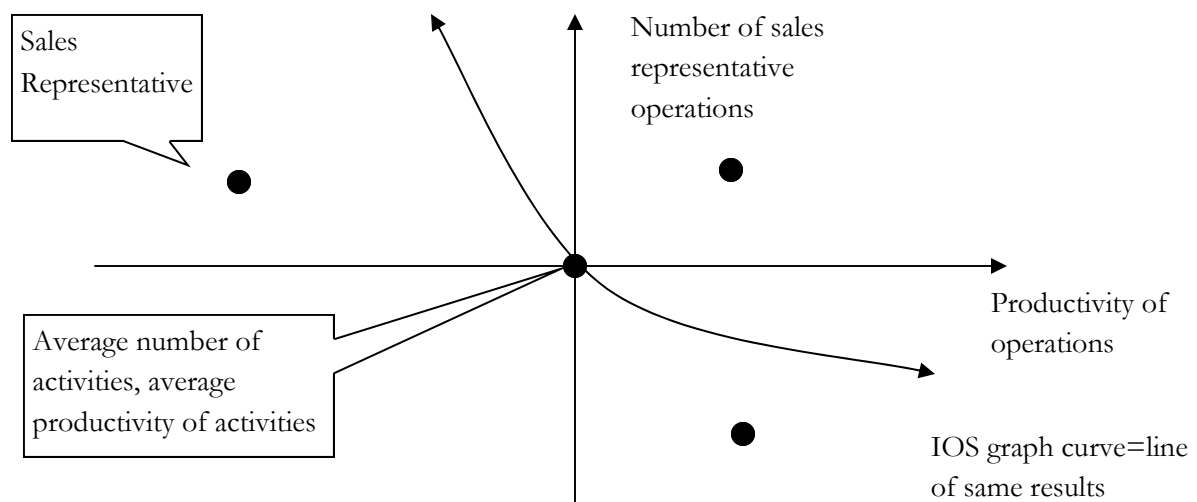
Outcome: Companies in the same markets and under the same circumstances could outperform the average company in this field to an amount of up to 35 percent compared with the average. This figure is relevant to at least 70 percent of the sales organizations within the sales panel. Seven percent of the sales force is not the driving force of the business model.

Improving the Sales Force Operations Level

The level of operations is one of the most important factors in sales organizations. The German term or phrase “Schlagzahl erhöhen” is a term which originated in sports (rowing

frequency) and can be translated as: frequency, increase stroke count, increase the number of operations, or to pick up the pace. In general, it means to increase the operations level of the sales organization. The “Schlagzahl Portfolio” (shown in Fig. 2) visualizes the sales performance of sales representatives. Each sales representative is positioned within the four quadrant portfolio, based on the employee’s quality and activity.

Figure 2: Schlagzahl portfolio



What is productivity? By dividing the output “how much the customer pays” by the input “the number of activities involving the customer” you receive productivity of operations as a result. Companies measure this productivity in many different ways. Possible outputs could be sales figures, gross profits or units sold. Inputs include the number of activities with the customer, time spent with the customer, the number of proposals or appointments with the customer. In each case, the basic principle of outputs over inputs applies, regardless of what you are measuring,

be it in an international project sales organization, a bank clerk or a dealer organization. By applying the basic portfolio concept, you can plot the activity and the quality graph. After positioning sales representative performance, you can visualize enhancement areas for each sales representative based on the combined positions of all sales people.

Each sales person’s performance is a combination of the number of activities and qualities (the hit and productivity). The best

way is to use different methods to define the center point. For activities it is useful to use the mode for the number of activities, and for productivity it is useful to use the median. The reason is the different pattern of data you handle. Derived from measurements in the sales panel we were able to see two outputs:

Sales output 1: There is no existing industry standard for the number of activities but studies have shown that in almost every line of business, the best sales representatives work on average twice as much as the average sales representatives.

Sales output 2: Weak sales representatives, on average, have one sixth of the activity of the best sales representatives. This level of activity varies by a factor of one to six. In general, the wider the gap between the highest and lowest activity, the greater is the activity area of a company.

Concentration on Key Performance Indicators (KPI)

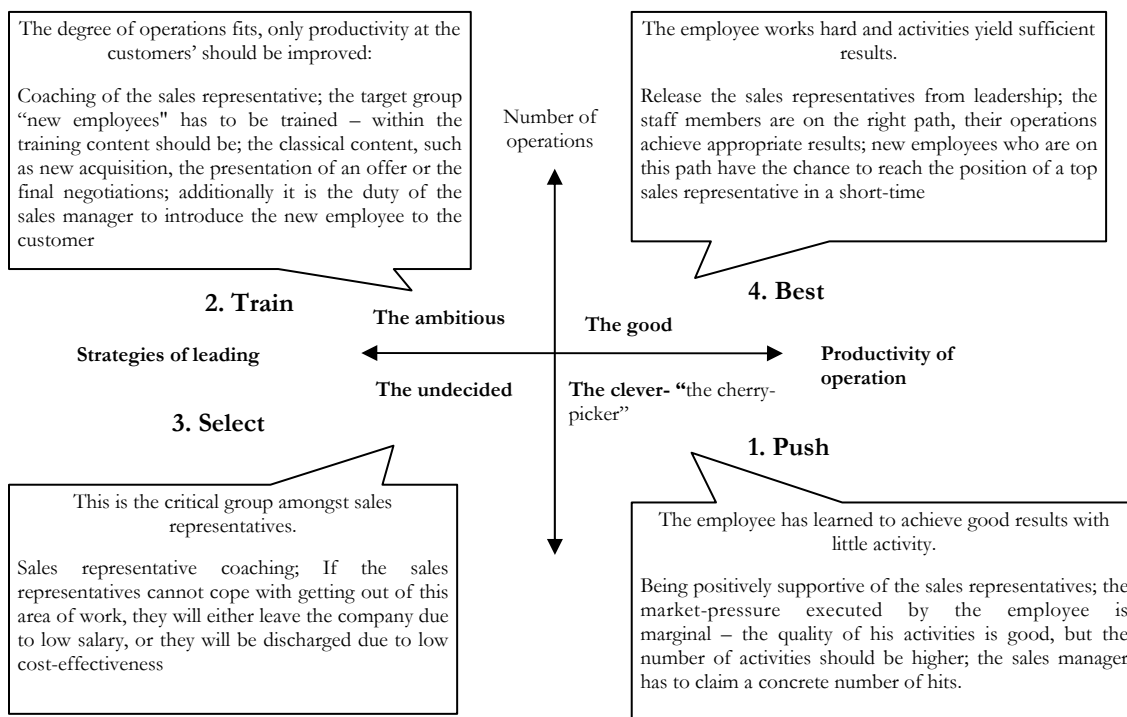
In practical terms it is sometimes difficult to measure all types of sales force activities. The reason could be a very short selling cycle or a complex long lasting sales process. That is why sales managers define certain key performance indicators (KPI) to measure the sales force performance in an adequate way. These key operations reduce the complexity of the sales process and lead the sales force to perform the tasks correctly. Examples of key

performance indicators are total sales negotiations of a financial institution, or the number of test drives at a car dealership. To achieve a methodically accurate key performance indicator, a correlation analysis between the input of sales process (operations) and the output (sales revenue, units, gross profits etc.) has to be performed. Two advantages of the KPI are that they are easy to use in sales controlling processes and easy to understand force.

Improving the Quality of Activities

Every activity has its result and this can be positive or negative. There are several methods in use to increase the outcome of each operation in sales. The first is concentrated on productivity of the sales force and the second is concentrated on quality. Productivity is measured by power of

Figure 3: Four type of leadership strategies in a “Schlagzahl Portfolio”



operations and is the division of output by input. The second method is the measurement of hit rates in the sales process. The methods range from behavioral methods to methods identifying the right customer, to the use of opportunity management in customer relationship tools.

Leadership Strategies and Performance Coaching

When you build your performance management environment on the basis of the individual sales person, you begin to see their specific performance patterns. If you rank the sales representatives on the number of operations (acts, frequency, and so on), and on the other hand, on productivity of the operations (output divided by input), you will see a specific pattern. The main goal for sales managers is to coach their staff in a manner appropriate to the situation. Sales representatives have different patterns, and to accept these patterns and lead them to a common objective, is one of the issues of performance management. Generally, we can distinguish four different leadership strategies – which are shown in Fig.3.

1: PUSH: People in this area know how to get results with a minimum of operations. The sales manager has to push these people – the customer operations level or market level is too low. The sales manager should demand an increase of the pace rate.

2: TRAIN: Sales representatives are busy in the market, but they do not get the right

results. The strategy in this area is to coach and train the sales representatives. The sales manager should work with quality measurements (e.g. hit rates) in this area.

3: SELECT: This is the critical area among sales representatives – the strategy is to move away fast from here. The sales manager strategy is to focus on the number of operations of the sales representative by performance coaching.

4: THE BEST: People are working hard and get good results – the standard strategy is to release the sales representative from leading. Since people know how to get the right results, they know the market and are very active, it is best to leave them to work on their own.

In large sales force organizations it is useful to make a large number of clusters which you can treat independently. The clustering of sales representatives makes the coaching process easier.

Performance coaching is a special form of coaching used to increase the performance of sales representatives. The sales manager, together with the sales representative, develops a metric which illustrates the quality and the quantity of the average and the best sales representative. The main tool of performance coaching is the development of a coaching path for the sales representative. The coaching path supports the sales representative in reaching their goals. By treating your sales representatives individually you avoid annoying and losing customers as well as sales representative burn-out.

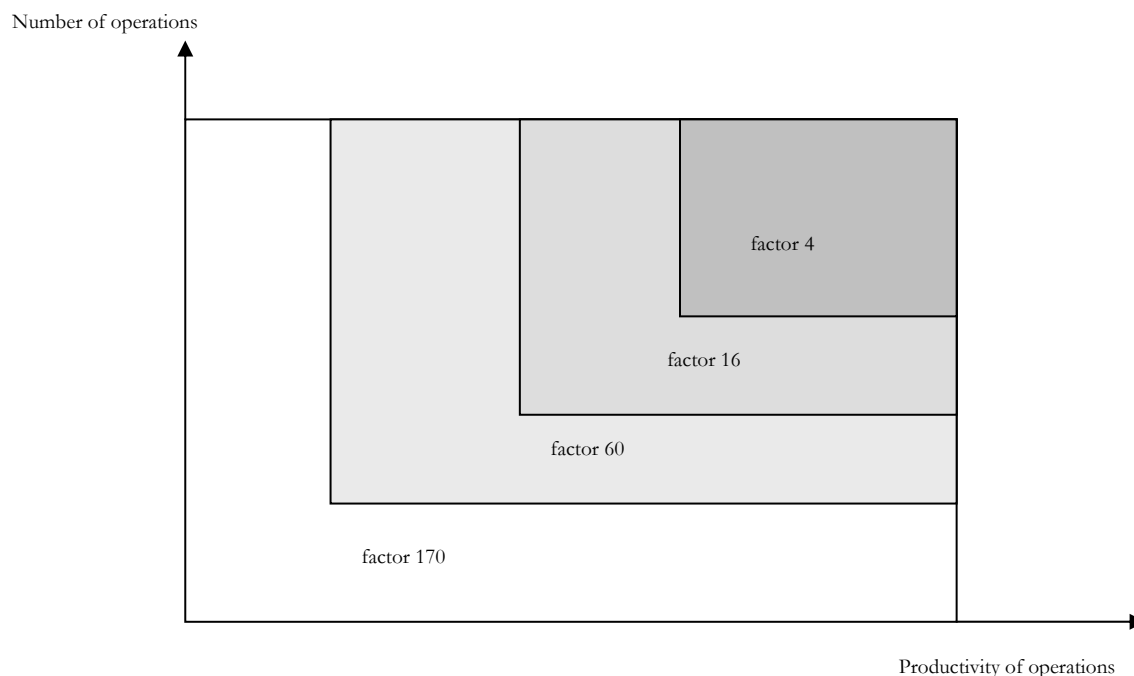
Improving Sales Organization Performance

It is not possible to increase the productivity of every sales representative in sales organizations. The important question is how great is the performance gap that a sales manager can close. In order to handle a performance gap, you need to increase the performance of all sales representatives that are below the average ISO graph curve (figure 1). This means that the improvement of sales productivity has implications for the total productivity of the company. The greater the productivity area, the greater is the potential for the use of performance management. In

will be able to work out an optimal strategy to close this performance gap.

The field of performance is characterized by the area between the weakest and the best sales representative in the dimensions of productivity and number of activities in a sales organization. The greater the area, the lower the average productivity of a sales force. When comparing different sales organizations over a period of several years, average productivity in companies with larger areas is lower than in smaller areas. As a sales organization focuses more on productivity, its fields of performance decrease. The

Figure 4: Performance gap



studies we found that sales force performance gaps range from a factor of four to a factor of 170. A factor represents the difference between the best and the weakest performance in terms of quantity and activity. If a sales manager is aware of this factor, he

difference between good and bad sales representatives will become smaller without an alteration of good sales representative performance. Some company examples have shown that very effective companies have a productivity field factor of four. These

companies have neither a high sales oriented culture, nor productivity potential.

On the other hand, there are companies with a very wide field of productivity. In these companies there could be a productivity field of up to factor 170. These companies display an enormous level of productivity potential. The factor sixteen to forty refers to a moderate level of potential, while a factor of sixty points to a high level of productivity potential. One of the most used tools is to bring the underperforming sales representatives to the average ISO graph curve. This will increase the company average. One of the most commonly used tools in performance management is the use of rankings.

Visualization of Goals

There are several tools in performance measurement to visualize goals for sales representatives. The use of analysis translated into a visual form is a common tool used, to help calculate the number of activities needed to meet further performance objectives. The reporting needs for general management, for sales managers and for sales representatives vary significantly. In this case, the distinguishing feature is the inclusion of information to close the performance gap. A top manager only needs to see the sales figures to know what is unsatisfactory. A sales representative needs more detailed information, specifically a quality benchmark such as number of operations, hit rates, productivity benchmarks, as well as the productivity in different product lines and services. A good report should serve top management and sales representatives equally.

Conclusion

To summarize, there are four strategic outcomes for improving sales force productivity:

- 1) Sales organization performance as well as sales representative performance is measurable, controllable, and can be increased.
- 2) More operations lead to more sales. Activity is the basic element in the sales management process for sales managers. More contacts generate more contracts. Activities follow certain metrics – they are neither storable nor retrievable. The management of activities is one of the central elements in enhancing productivity.
- 3) The quality of sales activities is the basic element in the sales management process for sales people. Each sales representative is responsible for the quality of their activities. Therefore it is essential to know the key hit rates of their business.
- 4) By implementing a planning method that explains to each sales representative which activities lead to success, it is possible to reach goals with less effort on the part of the sales representative and with less pressure exerted by the manager. The implementation of a productivity optimization program leads to higher company market pressure. The implications of heightened market pressure become visible in a higher number of customers and increased cross- and add-on sales. Furthermore, sales representatives have more time for their customers and the sales process quality improves overall. Sales representatives and sales benefit more from

the implementation of different concepts. The program is easy to understand and implement, and illustrates the performance culture. The performance culture characterizes a company that always focuses on the number of operations. Knowing which level of activity is feasible leads to transparency and warrants that everyone in the sales organization is focused on the same performance criteria.

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