Thriving in a Hostile Environment

Beachgrass Consulting

Sales Performance

Very often, in sales, **performance is almost exclusively linked to results** (measured against some targets or quota established long time before and hence without taking into account changes in competition, economic conditions, etc.). We think **this is an error**. Results depend on many factors that are not under the salesperson's control. Equating performance to results alone can lead to wrong and expensive decisions, such as firing the salesperson. Moreover, it does not provide any information on what to do with those salespersons whose results are deemed acceptable, which happens to be the majority when times are good. So, **how do we evaluate a salesperson's performance?**

We need to differentiate between two types of sales: **Direct sales** in which the salesperson sells to a company that will transform or consume the product or service (services are usually sold directly); **Indirect sales** in which the salesperson sells to a company that will resell the product without transforming it (wholesaler, distributor, reseller, retailer).

A- In the case of **direct sales**, performance can be defined as the **relationship between the sales results and the salesperson's efforts** to obtain them. This in turn implies that we need to know with some accuracy the average sales cycle length for this type of product, so we will consider a multiple of this length to evaluate the salesperson's performance. We can then differentiate between four cases:

		Efforts	
		Low	High
Results	Low	?? 1. New → Train 2. Probation	??? 1. Misdirected → Correct 2. Not able → Let go
	High	1. Keep person 2. Understand work habits	1. Keep person 2. Help to be more efficient

This approach takes into account the factors the salesperson does not control as we evaluate what he/she controls (efforts) and compare to what the rest of the salespersons' results are.

To evaluate the efforts, the sales manager needs to have a good view of the **sales funnel** of each salesperson. A well-implemented CRM or SFA comes very handy to do this. Unfortunately too many CRM or SFA are just glorified Outlooks and do not provide this type of information consistently, though most CRMs can do the job with the right setup.

B- In the case of **indirect sales**, the salesperson has to manage resellers to generate his/her sales results. To evaluate his/her efforts, the sales manager can analyze the salesperson's **forecast accuracy**. Good forecast accuracy is a clear sign that the salesperson puts in the right efforts to deliver his/her sales results. There are various degrees of forecast accuracy, depending on the internal use of the forecast and on what are the consequences of a poor accuracy which depend on various industrial factors. Usually, if sales forecast are used to manage production, industries with long production cycles are less sensitive to forecast inaccuracy and those with very short ones. Or if sales forecast are used to manage the company's cash-flows, the degree of accuracy has to be rather high. There are various ways to measure forecast accuracy: average sum of errors, average absolute error, standard deviation, etc. They depend on the time span considered and average number of sales operations in that time span. Moreover, forecast accuracy can be adjusted in case of major changes within the company: M&A, new factory, etc.

Call us (+41 22 785 23 14) or email us (info@beachgrass.ch) for more information.