

Measuring Sales Force Performance

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Owner-managers who have to be their own sales managers have the problem of measuring the performance of each of their sales representatives. Their tasks are complicated because of the many criteria that can be used.

This publication presents a method that is workable and effective. It discusses the development of benchmarks that will allow a sales representative's performance to be measured in numbers that are profit-oriented.

Some owner-managers find it difficult to measure the performance of sales representatives because representatives vary, customers vary, and business conditions vary. This publication is a conversation between a consultant who specializes in sales representative incentives (**C**) and an owner-manager (**OM**).

As their discussion opens, the consultant is pointing out:

C: "Fortunately, your competitors face the same variables you face. But tell me, why do you want to measure the performance of your sales force?"

OM: "I heard recently that industrial sales can average as much as \$75 a visit. I don't want to spend that kind of money unless it's a good investment."

The Measurement Problem

C: "Here's a list that I call Sound Criteria for Measuring Performance?" (See Exhibit 1)

OM: "From the question mark at the end of the title I gather that not all of the 12 are sound criteria?"

C: "Right, first, let's look at some of the common errors that owner-managers make in measuring the performance of their sales representatives."

OM: "I'm willing to listen."

Exhibit 1

Sound Criteria for Measuring Performance?

Which of the following are sound criteria for measuring the performance of sales representatives?

1. Volume of sales in dollars.
2. Amount of time spent in office.
3. Personal appearance: for example, clothes, hair, cleanliness and neatness.
4. Number of calls made on existing accounts.
5. Number of new accounts opened.
6. Completeness and accuracy of sales orders.
7. Promptness in submitting reports.
8. Dollars spent in entertaining customers.
9. Extent to which sales representative sells the company.
10. Accuracy in quoting prices and deliveries to customers.
11. Knowledge of the business.
12. Planning and routing of calls.

C: "Usually owner-managers make one of the five following errors: They evaluate their sales representatives primarily on the basis of sales volume. Secondly, they rely too much on the number of sales calls made by each of their sales representatives. They compare each sales representative's present sales results with past sales for a corresponding period - for instance, May of the current year against May of last year. Moreover, they expect their sales representatives to follow explicitly the selling methods that worked for them when they were selling. Or they give their sales representatives too much freedom."

OM: "That's interesting, but not clear. What do you mean? Would you explain each point? For example, what's wrong with evaluating my sales force in terms of their sales volume?"

C: "Usually, sales volume by itself won't tell you how much profit or loss you're making on each sales representative. Unless you know this fact, a sales representative can cost you money without you realizing it. For example, one small manufacturer was losing money until he analyzed the profitability of the sales volume brought in by each member of the sales force. He found that one of them created a loss on almost every order. This representative was concentrating on a market that had become so competitive that markups had to be drastically reduced to make sales."

OM: "Assume that I have an adequate markup on my sales. Isn't performance then largely a matter of how many calls each of my sales representatives makes to get the business?"

C: "Of course making calls on customers and prospects is important, but a sales representative should make calls on accounts in relation to their sales and profit potential."

OM: "It sounds to me as though you're questioning if sales representatives should get in the habit of making regular calls on their accounts."

C: "If your sales force is more responsible for servicing their accounts than selling their accounts, then a regular routine of calls may be okay. But paying sales representatives to do routine pick-up and delivery, for example, can be expensive."

OM: "How about comparing a sales representative's current performance with the past?"

C: "That can be very misleading. Some months have more working days than others. Changes in products, prices, competition, and assignments make comparisons with the past unfair, sometimes to the sales representative, sometimes to you. It's much better to measure cumulative progress - quarterly, semi-annual, or annual results - toward goals."

OM: "Why not evaluate a sales representative's selling methods?"

C: "You should if a sales representative violates company policy or doesn't accomplish goals. But why criticize a sales representative for spending too much time in the office if that brings in profitable orders by telephone or by mail?"

OM: "I suppose owner-managers who've had sales experience themselves expect their sales representatives to use the same selling methods that worked for them - even if they don't realize it."

C: "It's natural that they would. But it's often unfortunate. Market conditions change or the sales representative faces different problems. I know of one good sales representative who's basically an introvert - avoids socializing whenever possible. This representative's boss is an extrovert and can't understand this."

OM: "What about owner-managers without sales experience? Do they face any special problems in measuring the performance of their sales forces?"

C: "They surely do. They often give their sales representatives too much freedom. Their knowledge of selling is limited. Often they don't know what they should really expect from their sales representatives."

Benchmarks for Measurement

OM: "Okay, now I understand what you meant by the five errors that owner-managers make. But I'm confused about all the so-called criteria in your Exhibit 1. Are any of them usable for measuring the performance of sales representatives?"

C: "Yes. Some of them are excellent. The trick is to use the benchmarks that can be expressed in numbers. The best ones in Exhibit 1 are items 1,4,5, and 8."

OM: "I can see that item 1, "Volume in sales dollars," and item 4, "Number of calls made on existing accounts," can be expressed in numbers."

C: "Right. And also item 5, "Number of new accounts opened," and item 8, "Dollars spent in entertaining customers." All four of these items are especially good when they are accompanied with target dates such as month-end, quarter-end, or year-end."

OM: "This is beginning to look good to me."

C: "Fine. But I believe there are better criteria than those we've been talking about."

OM: "I'd like to hear about them. But first, what about the other items shown in Exhibit 1?"

C: "The other items can affect a sales representative's performance. That means you may have to make judgments in these sales. I would hope your judgment would be made after you give the most weight to the items that can be measured in numbers "

Planning, Measuring and Correcting

But there's more to sales performance than merely compiling sales figures.

OM: "What else is there to do after performance has been measured?"

C: "Actually, the answer to that question is planning for better performance in the future and correcting past performance with which you are not satisfied. You do this by finding out what profit contribution each sales representative makes."

OM: "But what do you mean by profit contribution?"

C: "Oh, I'm about to get ahead of myself. First, let's look at this guide for planning, measuring and correcting a sales representative's performance. (See Exhibit 2)."

OM: "It looks good. I like the breakdown into three sections."

C: "Right. But to answer your questions about profit contribution - it's a term I use to designate what's left in the sales dollar after you subtract direct costs and a sales representative's controllable costs."

OM: "Markup?"

C: "Yes, but the important thing is to keep your eye on what the sales representative does to it. Suppose, for example, that one of your sales representatives makes a \$1,000 sale. If your direct material and direct labour total \$600, you would give him or her credit for a \$400 contribution to profit."

OM: "If I allow my sales representatives to cut the price, and they cut each sale by \$50, they would contribute only \$350 per sale to profit - toward my overhead, selling expense, and so on."

Exhibit 2

Guide for Improving a Sales Representative's Performance

One goal of measuring a sales representative's performance is improvement assistance. The three steps in bringing about improvement when it's needed are: planning, measuring and correcting.

Planning

Get the sales representative's agreement about goals to attain or exceed for the next year:

- total profit contribution in dollars;
- profit contribution in dollars for: each major profit line; each major market (by industry or geographical area); each of 10-20 target accounts (for significant new and additional business).

Get the sales representative's agreement about expenses to stay within for the next year:

- total sales budget in dollars;
- budget in dollars for: travel, customer entertainment, telephone, and other expenses.

Measuring

Review at least monthly the sales representative's record for:

- year-to-date progress toward 12-month profit contribution goals.; and
- year-to-date budget compliance.

Correcting

Meet with a sales representative if his or her record is 10 percent or more off target. Review the number of calls made on each significant account plus what he or she feels are his or her problems and accomplishments. In addition, you may need to do some of the following to help improve performance.

- give more day-to-day help and direction;
- accompany on calls to provide coaching;
- conduct regular meetings on subjects that representatives want covered;
- increase sales promotion activities;
- transfer accounts to other sales representatives if there is insufficient effort or progress;
- establish tighter control over price variances allowed;
- increase or reduce selling prices;
- add new products or services;
- increase financial incentives; and
- transfer, replace, or discharge.

C: "That's right. Additional costs such as price cuts, non-reimbursed overtime or makeovers caused by them, claims or credits due to their errors, and their expenses over what you would budget for - any of these reduce their profit contribution."

OM: "That looks like a good way to get owner-managers to think in terms of the dollars their sales representatives bring in to cover overhead and profit. Of course, I don't necessarily have to let my sales force know what my direct costs are. But I do have to urge them to sell products with high profit margins. Or if they're selling products with low profit margins, they have to bring in big volume."

C: "That's the idea. Incidentally, you don't have to have 100 percent accuracy on your direct costs for each product or product line. You can use standard estimates or annual estimates, as long as your sales representatives know what figures or numbers you're basing their performance evaluations on."

OM: "Then, product Line A might have a profit contribution credit of 40 percent of the sales dollar; Profit Line B, a contribution of 25 percent; and Profit Line C, a contribution of 10 percent. Again, this is aside from any sales representative's controllable costs."

C: "That's correct."

OM: "I believe the sales budget items in your "Guide for Improving Sales Representative's Performance" (Exhibit 2) are self-explanatory. So my next question is: How can a sales representative plan the number of calls that should be made on accounts?."

C: "That's largely a matter of arithmetic. After all, there are only so many calls a sales representative can make in a year. Depending on selling style, one sales representative might average four calls per day, another six, and another eight. Say you have a sales representative who averages six and who is free to make calls on 200 working days a year - that's 1,200 potential calls. The representative can allocate these calls among accounts in terms of the number of calls he or she feels is necessary and affordable to generate the business desired."

OM: "How should the sales representative keep track of the number of calls made on accounts?"

C: "One way is to have each sales representative turn in a regular report on calls made. Another way is to leave it up to each of them to record dates of calls on account cards."

OM: "I prefer the second way. My sales force knows I wouldn't have the time to read all the reports every week. Furthermore, to find out what my sales force is really doing takes an account-by-account review with each one. In the "Measuring" section of your "Guide" (Exhibit 2), why don't you use weekly figures instead of year-to-date volume?"

C: "You can have weekly figures if you want them. But year-to-date figures average out the very good or the very bad periods. With them, you're better able to see how each sales representative is progressing toward annual goals."

OM: "The measuring job looks fairly simple when each sales representative has profit contribution goals and has planned his or her other calls."

C: "Yes. But you still have to use judgment. You have to judge if, and when, you need to take corrective action. Unless you take the appropriate corrective action listed in the "Correction" section of the "Guide" (Exhibit 2), measurement is a waste of your time and money."

OM: "I agree. I can see that the foundation of measuring and correcting lies first in planning - by defining the benchmarks in numbers that are profit-oriented."

C: "Right. I couldn't have expressed it better."

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