

Salesforce Development

Sales Performance Management: Reverse-Engineering Sales Results

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So what is *sales performance management* anyway? Broadly speaking, Kotter¹ defines *management* as setting operational goals, coordinating and controlling resources, monitoring results and solving problems. This is contrasted with *leadership*, which is defined as setting global vision and strategy, and fostering excitement and commitment for those directional imperatives.

Consequently, it can be said that sales performance management is all about setting operational sales objectives and then monitoring, coordinating and controlling the day-to-day activities of the sales team in order to achieve those objectives.

This article explores a scientific approach to the challenge of managing sales performance. It will introduce a new model, explore a couple of real-world case studies and discuss how these learnings apply in a practical SAM environment.

In today's increasingly dynamic global marketplace, amalgamation and acquisition are changing the landscape. All organizations are vying for fewer, bigger customers, resulting in increasing competitive threat, pressure on margins and a serious battle for good talent. All of these marketplace factors are placing a growing pressure on

strategic account teams (also known as key accounts, major accounts, global accounts, etc.). Often these teams – and the handful of critical customers they manage – are responsible for over 80% of an organization's revenue / profit volume.

Add to these factors the fact that most organizations are facing pressure to grow their top and bottom lines in 2004. In response to all of these pressures, strategic account teams seem even more intent on finding *new* ways to drive incremental sales volume.

Target Chasing

Historically, sales organizations and representatives have used a "target chasing" approach to driving sales growth. Each year we set our targets, and then spend the rest of the year pursuing those targets and measuring two things:

1. The gap between the target and where we are today; and
2. The rate of closure of the gap.

"Target chasing" involves constantly assessing these two measures (sometimes formally and sometimes intuitively) in order to determine whether the individual and the organization will reach the target by the end of the year. Then, based on the results of these assessments, sales efforts can be intensified or management "control" can be imposed as needed.

Often, we get to the end of the third quarter, and realize that the gap between current sales and defined targets is not closing fast enough, so we start "running." We intensify various selling efforts, such as prospecting call volumes, customer visits and proposal generation...sometimes leading to sheer PANIC!



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This phenomenon can be particularly stressful in a strategic account environment, since driving incremental sales volume isn't simply a matter of picking up the phone and calling a prospective customer from an industry trade directory. In strategic account sales, representatives often have one, two or a small handful of large key customers in their stables. It's not so easy to just "drum up" new business at the beginning of Q4.

More importantly, target chasing methodologies don't really work. Measuring performance against a target is a "lagging indicator" of sales performance. If we get to the end of January and determine that sales results didn't meet or exceed target it's too late to do anything about it—now we only have 11 months to recover, making our actions reactive rather than proactive.

Said another way, historically organizations have undertaken several concurrent initiatives to manage sales performance and optimize results, including:

- Sales activity tracking;
- Performance management and accountability efforts;
- Strategy refinement;
- Compensation modification;
- Recruiting and top-grading; and
- Training and development.

Generally, sales managers consider each of these items independently, selecting which ones to address, often based on their intuition about what is holding back the sales organization or individual representatives. The challenge is that this approach doesn't acknowledge the systemic nature of sales performance and how these efforts must work in concert.

Entrepreneurial Empowerment

Combined with target-chasing methodologies, it seems that sales organizations across North America have evolved from the old, hierarchical,

micro-management environment that existed for much of the early to mid-1900s. Organizations have moved almost to the opposite end of the spectrum, to something akin to "entrepreneurial empowerment."

In today's sales environment targets are often defined, and representatives are then empowered to use their entrepreneurial skills to reach those objectives. If they do, they are rewarded and celebrated. If they don't, they are held accountable.

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This is especially true in a SAM environment, where activity-based management methods "feel" inappropriate or overbearing, given the tenure, sophistication, capability and responsibility of the representatives that typically manage such a large part of an organization's revenue and profit.

Within today's traditional SAM team, few metrics are generated on representative performance beyond financial sales results. These results may compare current performance to last year's performance or against a defined budget, and they may even be broken down by product line, SKU, customer division, region, etc.

Unfortunately, these traditional financial measures still represent a target-chasing approach, relying upon lagging performance indicators.

Moreover, the marketplace pressure organizations are facing (or forecasting) won't let them rely upon entrepreneurial empowerment to chase defined targets any more. In today's business environment, sales leaders need to virtually *guarantee* targets for the next few years.



Reverse-Engineering

So, what are we to do? Well, we may be able to learn something from scientists. Highly sophisticated sales

organizations and representatives today are turning things upside-down, abandoning a target chasing orientation, and employing a "reverse-engineering" approach to assure target attainment.

Reverse-engineering comes from the worlds of mechanical engineering, food sciences and biotechnology / pharmaceuticals. It involves taking apart a finished product, and determining how it is built and works in order to duplicate or improve it. For example, reverse engineering could involve buying a competitor's car and tearing it apart to determine the volume of steel, type of computer chips and size and strength of the various welds in order to build your own competitive car. The same could be done with a competitor's muffin: blending it up and analyzing the various food components (and the volume of each) in order to bake your own competitive muffin.

As sales professionals we can learn something from the process of reverse-engineering. By breaking down the sales process we can determine the individual components for success. Then,

a veritable mathematical equation can be created that adds up to the requisite targets. By focusing our attention each day on the individual components of the equation (rather than the "result" we are trying to attain), we can reach our business development targets at the end of the year.

Ultimately, reverse-engineering in sales involves determining, tracking and

THE OVERALL SALES STRATEGY NATURALLY INFORMS, AND IS IN TURN INFORMED BY, OTHER ORGANIZATIONAL SYSTEMS, STRATEGIES AND CAPABILITIES.

managing the High Leverage Activities (HLAs) that lead to target attainment. In other words, by determining the "leading indicators" (activities and behaviors) that will lead to target performance, we can manage the business proactively each week to guarantee monthly results.

Let's consider an example:

Pretend for moment that a strategic account manager is responsible for one strategic account, *ABC Global Manufacturing (ABCGM)*. Furthermore, let's assume that this SAM must undertake four primary steps in securing new, incremental business from ABCGM:

1. Make a prospecting call to a new division or decision influence within ABCGM, in order to secure a first appointment...or perhaps book an appointment with an existing buyer to discuss a new product or service;
2. Spend some time uncovering more details of ABCGM's needs in the relevant areas;
3. Present a targeted proposal, based on the ABCGM's needs; and
4. Secure the customer's commitment to the proposal.

In most cases, there are likely other

high-leverage behaviors or steps required to ensure success in this key account environment. But let's stick with this simple example for the time being.

Now, let's assume that our SAM has an annual "new business" target for ABCGM of \$1.2M. Furthermore, let's assume that the average value of a sale in this representative's industry is \$50k. It can then be extrapolated that approximately two new sales are required per month in order to ensure a consistent flow of new business, and ultimate target attainment.



Now, let's reverse-engineer a little further. Assume that our SAM closes 50% of the proposals presented. Also, let's pretend that, on average, one out of every three appointments to discuss a new opportunity eventually result in a proposal. Based on these efficiency statistics we can conclude that if our representative simply undertakes six "new business" conversations per month within ABCGM, two proposals will result, *guaranteeing* the defined new business target.

Focusing simply on securing six new opportunity discussions per month (1.5 per week) is much more manageable than the typical target-chasing approach of focusing on the ultimate goal of \$1.2M.

Utilizing this reverse-engineering methodology, a given SAM (or entire organization) can predict whether it will achieve its targets at any point in time. For example, if at the end of the first week

of the year a SAM has not succeeded in securing the prescribed number of "new business" appointments, she can confidently report to her sales manager that she will not make her target for the year, as of right now. Then, she can offer her strategy for the next week to repair the situation...rather than waiting until part way through the first quarter (or even later in many cases!) to determine that the gap between present results and targets isn't closing fast enough.

So...how does this translate to practical daily sales performance management in a strategic account environment?

A new *Sales Performance Management Process (SPMP)* may help to synthesize all of the preceding concepts.

The Sales Performance Management Process (SPMP)

Figure 1 on page 52 illustrates a systems diagram for how effective sales performance management can be used to reverse engineer sales targets. The "process" of sales performance management is captured within the box in the middle of the diagram.

First, by defining the HLAs that lead to success, an organization can then implement systems to track and monitor those HLAs on a daily basis. This tracking generates data that can be converted to "intelligence." In turn, the intelligence can be used to determine the development needs of the sales organization or individual representatives. These development needs can be addressed through individual efforts like coaching, or group efforts such as training.

This allows for a laser approach to training and development, rather than the shotgun approach often employed in sales organizations. For example, rather than relying upon the sales leader's intuition and experience to determine that the team requires *negotiation skills* training, by tracking the right data the organization can start to identify the very specific training and development that will enhance HLA performance results. The

team may only require a mini-module on *dealing with price pushback*, for example, rather than an entire negotiation skills training program.

Furthermore, the intelligence that results from tracking HLAs will invariably inform an organization's sales strategy, forcing leaders to ask themselves tough questions:

- Do we need to revisit our vision, objectives and / or sales targets?
- Should we shift our target market?
- Is our pricing approach yielding results?
- Is our competitive strategy working? Have we differentiated ourselves from our competition?
- Have we defined effective value propositions that customers demand?

On a secondary note, various elements outside of the "process" itself inform effective sales performance management (see Figure 1). For example, the overall sales strategy naturally informs, and is in

turn informed by, other organizational systems, strategies and capabilities. Compensation and recruiting strategies are impacted by the overall sales strategy. Finally, an organization's manpower (recruiting) also informs developmental needs and vice-versa.

SAM Application

The key to the SPMP is defining the HLAs that lead to success—identifying the leading indicators that can be tracked in order to reverse-engineer sales results. In a strategic account environment, this can be quite challenging. SAM is not like "street" sales, where a given sales territory offers large volumes of prospective sales organizations to target. In a SAM environment, we must achieve growth targets through a few (or sometimes ONE) named strategic accounts.

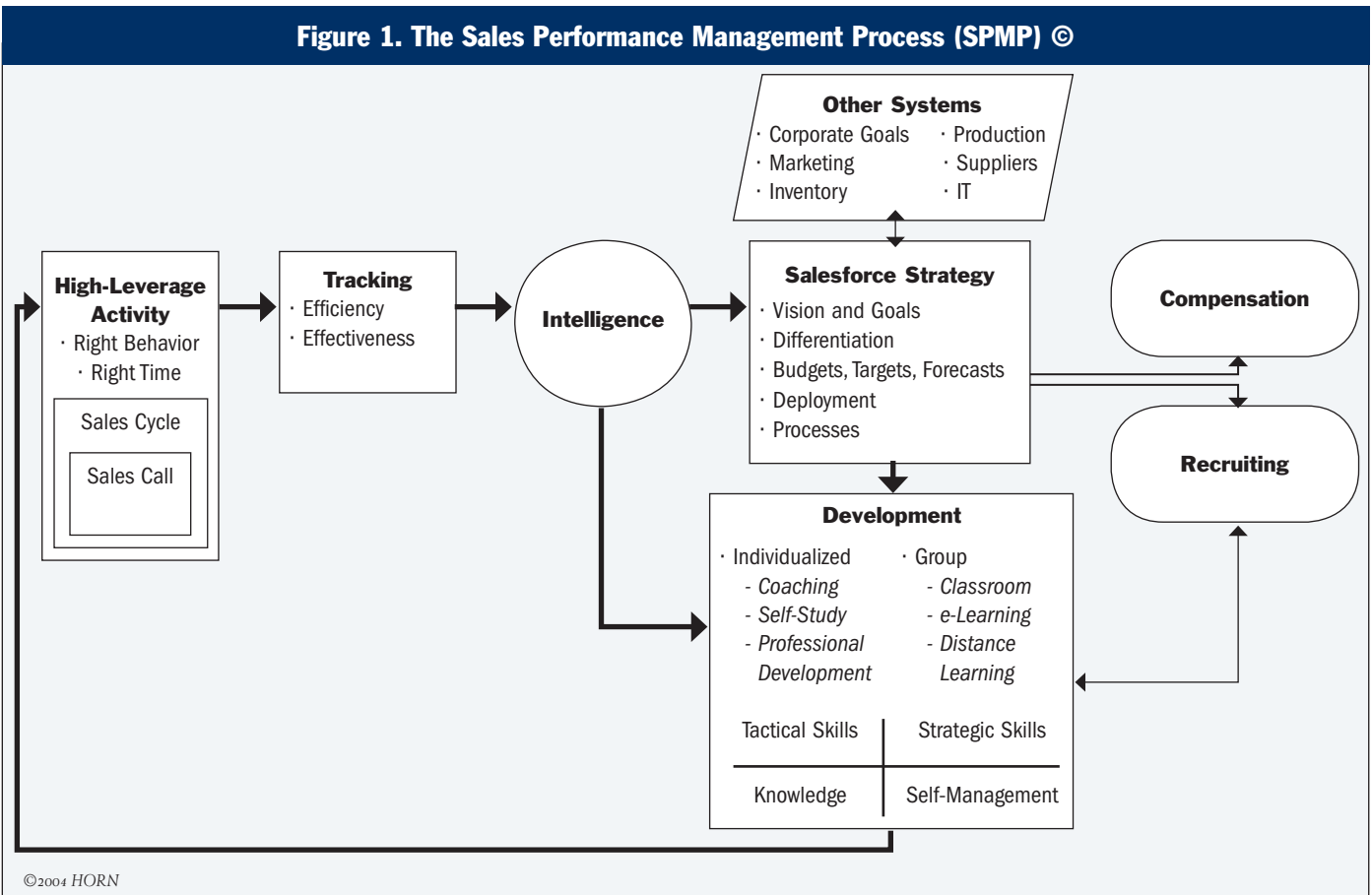
By definition, strategic account management often concerns existing clients. Otherwise, it would be called

strategic account prospecting (or some alternative moniker). At the same time, we must always be growing that existing business.

(It should be noted that in a pure business development role with strategic accounts, sales performance management can often look more like regular territory sales. Representatives need to book cold / warm appointments, submit proposals and secure commitments. This article focuses more on sales performance management for strategic account managers responsible for a portfolio of existing strategic accounts.)

Consequently, within the SAM domain, the primary business objectives are to:

- Protect the current, incumbent position within a strategic account against competitive threat;
- Penetrate the account further (grow existing share of wallet); and
- Help the customer grow *its* business, in order to grow yours.



In turn, there are several activities or behaviors that lead to these business objectives, depending on the industry, business climate, companies and people involved. Tracking these activity-based metrics under the context of sales performance management ensures representatives are taking the actions needed to achieve results.

Therefore, in addition to tracking the progress of new opportunities through the sales funnel, SAM teams can track HLAs such as:

- Completed internal strategic account plans for each customer;
- Customer participation in building an annual business review / plan for the strategic partnership (customer signature needed);
- Number of new decision influences engaged within a strategic client;
- Ratio of personnel engaged in the partnership (our organization : client organization);

- Number of new business units serviced within a client organization;
- Number of countries (regions) serviced for a client organization;
- Efficiency of account management—return-on-time-invested in an account (total people-hours in a team selling environment);
- Number of C-level decision influences engaged in “top-to-top” meetings with vendor’s C-level executives;
- Number of new product / service proposals; and
- Number of new products / services sold.

These business measures directly impact the three primary business objectives of a SAM team, as defined previously.

Finally, effective sales performance management is all about reverse-engineering efforts to achieve defined objectives. Consequently, once an organization defines the HLAs that lead to those objectives, specific performance expectations or benchmarks must be set for each HLA, as a precursor to tracking. Naturally, conservative performance expectations will provide a buffer to further ensure target attainment.

Case Studies

The SPMP model described herein has been applied in several leading organizations to help establish a continuous improvement, performance management culture and more scientific efforts to engineering

sales targets. The following are two examples.

Pharmaceuticals

A large international pharmaceutical organization used SPMP to tackle a long-term challenge with sales compensation in the industry. Historically, pharmaceutical representatives have been compensated (at least partially) based on the sales results in their territories. However, sales results are impacted by many external factors beyond the span of control of the representative, including Internet sales and cross-border subscription fulfillment (prescriptions written by a physician in one sales territory, but filled at a pharmacy in a different sales territory).

The organization used a systems-thinking SPMP approach in order to define the HLAs that actually lead to sales results, which ARE within the control of the representative. For example, for the Specialty Representative team (those representatives that call on strategically important specialists—the equivalent of a SAM in an industrial or consumer products environment) the organization determined several HLAs that offered direct impact on sales results from a given specialist (customer). Some examples include:

- Participating in patient rounds with that physician;
- Gaining the physician’s participation in Continuing Medical Education (CME) or Continuing Health Education (CHE) events;
- Using that physician as a reference for other physicians to call with treatment challenges; and
- Getting physicians to designate themselves as an “advocate” for the products of the pharmaceutical company, rather than merely a “prescriber” or a “non-user.”

These activities are now tracked for each representative, with their assigned portfolio of specialists. Compensation systems have been modified to provide



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additional weight on individual performance expectations against these HLAs.

Finally, by tracking data on the entire sales organization against these HLAs, skill development needs are now emerging, and the organization is planning to tailor training efforts though the balance of 2004 / 2005.

Telecommunications

A large commercial telecommunications provider wanted to implement a more progressive culture of sales performance management in order to recover declining sales results.

The industry is currently plagued by several factors that have a diminishing effect on sales revenues: declining renewal rates, natural client attrition and competitive pressure. All of these environmental pressures are forcing the organization to move away from a traditional entrepreneurial empowerment culture towards one of more purposeful sales performance management.

Similar to many organizations, this company recently restructured the sales team to create a strategic account group, comprising its top 400 accounts. This team manages well over 80% of the organization's sales and profit volumes, and each account manager is responsible for between one and six strategic accounts.

Given some of the marketplace pressures above, account managers must now shift their focus from "retention" efforts to a "business development" mindset, constantly sourcing incremental "net-new" opportunities within their existing major accounts.

As part of a new continuous improvement sales performance management culture, the organization is implementing funnel management systems where the strategic account group will track each incremental new business opportunity it is pursuing, and monitor its progress from one phase of the sales cycle to the next.

A 3:1 standard has been set, whereby a given representative's funnel is expected to be three times the six-month new business revenue target. For example, if a representative is expected to generate \$30k in incremental revenue per month (\$180k over a six-month period), then her funnel is expected to contain \$540k in new opportunities at any one time.

More importantly, the following running metrics

TRACKING THESE ACTIVITY-BASED METRICS UNDER THE CONTEXT OF SALES PERFORMANCE MANAGEMENT ENSURES REPRESENTATIVES ARE TAKING THE ACTIONS NEEDED TO ACHIEVE RESULTS.

will soon be maintained on each representative and the overall team:

- Total weekly new appointments;
- Average "win" value (calculated annually);
- Funnel value over 50%;
- Conversion ratios:
 - ✓ New Opportunity : Proposal;
 - ✓ Proposal : Close; and
 - ✓ New Opportunity : Close.

Finally, the organization is planning to implement methods for tracking HLAs that are directly relevant to a SAM environment, such as those listed earlier in this article.

In short order, this organization will begin using the data collected to determine both individual and team development needs. Current data trends indicate that sales managers require training on the intricacies of tactical sales performance management and coaching skills in order to support their teams effectively within this new domain. Furthermore, representatives may receive very targeted training on strategic business



development competencies such as:

- Uncovering opportunities in a major account environment;
- Developing Pan-American team selling methods;
- Engaging C-level executives; and
- Building robust financial business cases and ROI analyses for proposed solutions.

In summary, perhaps by turning our business development efforts into simple mathematical equations, and then tracking all of the right High Leverage Activities that lead to desired results, we can guarantee our organizations will reach their sales targets and new business objectives next year! 🍀

1 Kotter, J. P. (1988). *The Leadership Factor*. New York, NY: Free Press.

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