Implementing a Formal Selling Process and Performance Measures in a Sales Organization

Joe Vavricka and Barry Trailer
Trailer Vavricka, Inc.

Summary: This paper describes implementing a process management framework and performance measurements into a corporate sales organization. It begins with describing the traditional approach to sales management and the potential impact of improving sales performance on revenue and profits. Then, the company’s process-based approach to sales management is described along with the key performance measures most relevant for monitoring sales revenue production across sales, marketing, and customer support departments. This case illustrates that viewing sales as a production process and implementing process performance measures will enable a company to significantly increase sales and improve sales predictability by increasing productivity throughout the process.

THE TRADITIONAL SALES MANAGEMENT APPROACH

Role of the salesforce
The purpose of the majority of corporate salesforces is twofold:
1. Keep sales revenue coming into the company at a rate that meets or exceeds budgeted revenue and growth targets.
2. Create customer expectations and relationships which will produce high satisfaction, desire to buy more in the future, and customers who are willing to act as references to influence prospects, generate referrals, and provide feedback that will help improve products and services.

The traditional sales approach
Sales departments traditionally operate informally, that is, without having a formal selling process followed by its sales people. Each salesperson works in his own 'way' which is a personally derived, non-documented and mostly non-measured approach pieced together from past experiences, training, and ideas gleaned by chance from hearing about other people’s adventures. Consequently, management has no way to see how the company’s selling function is actually operating as a process.

The common metaphor used to portray the process of sales development is a pipeline. As shown by Figure 1, a territory’s sales opportunities are dispersed along a pipeline

---

1 This case study is included in the landmark book by Will Kaydos, President of The Decision Group, entitled: Operational Performance Measurement -- Increasing Total Productivity, published by St. Lucie Press 7/98. For the book's preface/outline see website: www.decisiongroup.com.
depending on the prospect’s state of maturity toward making the buying decision. At worst, the salesperson merely reacts to what prospects ask for and prods them for an order. At best, the salesperson proactively brings the prospect through a joint-effort problem solving experience that builds credibility, confidence, and a desire to commit to a formal customer relationship. The overall cycle time of these types of sales can stretch from a few months to a few years, depending on the product.

At the point the sales opportunity is closed, it passes out of the pipeline and into technical implementation and ongoing customer support, a small portion of which, may be provided by the sales organization. From a sales perspective it is assumed implementation and support functions will follow through to fulfill the customer’s expectations and maintain high satisfaction. Customers remain willing to buy more, act as a reference, and provide referral leads only as long as they receive support that meets their expectations.

“Marketing” is the pre-pipeline work to find and develop prospects before they are ready to be entered into the pipeline as live opportunities. The marketing department’s purpose is to supply prospects of adequate quality and in sufficient quantity so each territory can meet its monthly sales targets.

**Operationally passing the buck to salespeople**

Company management normally holds the salespeople ultimately accountable to produce the assigned revenue quotas. However, this amounts to a classic Catch-22 situation. The company’s sales revenue production performance results are dependent on multiple departments. But salespeople have no visibility into, nor authority to control or make changes in the performance of the marketing and customer support departments.

Each salesperson’s ability to close new accounts or expand business volume from existing ones, is highly dependent upon having highly satisfied customer references available when needed. High quality referral leads throughout the year also help to keep a territory’s pipeline healthy and flowing.

The other requirement, of course, is a continuing flow of new prospects into the pipeline from direct mail, telemarketing, advertising, trade shows, and other marketing efforts. If the marketing department’s campaigns do not consistently cultivate and unearth enough
good quality prospects, then the burden of doing effective marketing work falls onto each salesperson by default. When this happens, not only does this drain time away from selling, marketing suffers because salespeople usually do not have the training, tools, or expertise to do effective marketing.

Nevertheless, traditional sales management often has its highly paid salespeople trying to create marketing wheels from scratch and keep them rolling on their own. Therefore, territories are ineffectively and inconsistently cultivated, leading to an unreliable flow of prospects into the pipeline.

Furthermore, under the tremendous pressure to produce revenues, salespeople resort to working whatever prospects they happen to have at-hand – regardless of their low quality. Consequently, the close rate remains chronically low. Desperate to close anything to achieve revenue targets, the company aggressively discounts price, agrees to special terms, makes commitments it can’t meet, and gives away normally paid consulting, training, or support services. Ironically, these very situations have a tendency to turn into post-sale nightmares because of high expectations and poor quality throughout the sales production, delivery, and support processes.

Today’s sales quotas and market competition are generally much heavier compared to a decade or two ago. Just as a home mortgage for $300,000 @ 9% is a wholly different burden to carry than $50,000 @ 4%, salespeople don’t have the capacity to accomplish marketing and customer hand-holding along with their selling responsibility. When they are operating with an unstructured sales approach, it is no wonder that many sales organizations are not as effective as they could be.

**Traditional sales forecasting inaccuracy**

Sales forecasts are usually produced by each salesperson estimating for each prospect: the potential revenue for each product involved; the probability of closing; and the date it will close. Since every salesperson is estimating from significantly unique perspectives, biases, experiences, understandings, and selling approaches, the company’s resulting forecast accuracy is all over the map. Without common understanding of the relationships between inputs, events, and outputs, process outcomes will vary in ways that nobody can predict.²

To make matter worse, upper management then massages these numbers to satisfy any number of political ends and beliefs that have no factual basis. This procedure produces forecasts that are generally regarded by department heads as being so unreliable as to be worthless. This poor predictability significantly handicaps a company trying to plan and structure its operations in order to profit from the business that does materialize.

**Hockey-stick quarterly revenue performance**

Along with chronically poor sales predictability, inconsistent monthly revenue production is another side effect of traditional “hands off the processes” operating style. In its extreme, pipeline output flow can develop into a recurring “hockey stick” revenue curve. For the first ten weeks of each fiscal quarter sales merely trickle in. Then, 60-80% of the

---

quarter’s total purchase orders floods in during the final two weeks. However, the revenue surge results from a desperation frenzy of unnatural acts - giving away excessive discounts, training, consulting, support, financial terms, etc., in order to close sales.

Executives may be relieved that the revenue number was made, but the workers are repeatedly buried under avalanches of work. Wholly understaffed to properly handle such workloads, quality drops and costs increase. Customers get their first taste of the real relationship - experiencing much less satisfaction than they expected.

**Turnover multiplies performance problems and cost-of-sales**
Under repeated siege conditions created by end-of-the-period sales panics, morale collapses, employees burn out, and increased turnover is inevitable. Sales personnel turnover has steadily risen over the last dozen years. Turnover rates exceeding 30% are common and we have seen many companies with much higher rates. A vacated territory means a vacated pipeline. Its flow will drop, making it necessary for the new person to work hard just to get back to the starting point. This will usually take at least several months. An annual turnover rate of 30% could reduce sales as much as 30% depending on how quickly positions could be filled by qualified people and length of the sales cycle. Add to this the costs of recruitment and training, and the impact on profits becomes very substantial. Unfortunately, the lost profits don’t show up in accounting reports and the direct costs caused by turnover are so well accepted and hidden, they are all but invisible.

**The potential for improving profits by increasing sales performance**
There is enormous potential to increase a company’s profit by improving sales performance. As Figure 2 shows, the increase in a company’s profits can be four times the increase in sales, but reducing sales expenses will have minimal effect on profits.

<table>
<thead>
<tr>
<th>COMPANY P &amp; L PERFORMANCE IMPACT</th>
<th>P &amp; L</th>
<th>Sales Expense -5%</th>
<th>Sales Volume +5%</th>
<th>Price +5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>100.0</td>
<td>100.0</td>
<td>105.0</td>
<td>105.0</td>
</tr>
<tr>
<td>Cost of Goods</td>
<td>60.0</td>
<td>60.0</td>
<td>63.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>40.0</td>
<td>40.0</td>
<td>42.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Mfg. Fixed</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
<td>13.0</td>
</tr>
<tr>
<td>General &amp; Admin.</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
<td>11.0</td>
</tr>
<tr>
<td>Sales Expenses</td>
<td>6.0</td>
<td>5.7</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>10.0</td>
<td>10.3</td>
<td>12.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Profit Increase</td>
<td></td>
<td>3.0%</td>
<td>20.0%</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Typically most corporations have their sales pipelines operating at only a 10-20% close rate. Although this level of performance is not anything to brag about, this low performance level means a relatively small improvement in effectiveness can yield very large increases in revenue.

For instance, the company that can raise its close rate from 20% to 30%, while maintaining all other pipeline performance measures constant, could increase its sales revenue by 50%. Per the above table, this increase in sales volume could create a 200% increase in gross profit performance for the company – with plenty of room to improve beyond the 30% close rate in the following years!

The “Price” column on the above table shows that a 10X profit leverage can come from effectively increasing prices by giving away less discount, training, consulting, support, and financial terms in order to close sales. Working on higher quality prospects with greater selling effectiveness, stronger references, and less desperation to close, generally softens pressure to discount price, directly raising profit. If the average discount given drops only 2.5 percentage points, it could increase profits 25%!

Improving sales performance can also reduce the sales cycle time. A reduction of average cycle time from six months to five adds two months of selling time which can increase sales revenue over a fiscal year by 20%, assuming all other factors remain the same.

THE COMPANY: The Situation and the New Sales Operating Vision

The product
The company sells a “Customer Relationship Management” software system along with implementation consulting, ongoing technical support, and continual enhancements in system functionality. This type of information system is termed an enterprise wide application in that users from sales, marketing and customer support departments all access and update the same customer information system database -- integrating all sales, marketing, support and communication history notes. Having access to the central data, each department can be immediately aware of everything happening with each customer or prospect. The information system helps improve the quality of every interaction with each customer, contributing to the overall quality, depth, and longevity of the business relationship.

Issues in selling the product
The company sells the software system through its own salesforce, directly to other corporations worldwide. For an information system of this scope, the prospect’s buying process is complex. This makes selling a system very challenging. The salesperson must effectively communicate with multiple departments and levels of management including the CEO, CFO, COO, and executives of Sales, Marketing, Customer Support, and Information Systems (IS). Senior users from these departments, as well as consultants

---

3 “Total Customer Management” is the Registered Trademark of the ONYX Software Corporation, Bellevue, WA Website: www.onyx.com
who may help evaluate the solution, may also be involved in the buying decision. The salesperson has to identify and convince each involved person of the system’s value, and of his company’s ability to successfully implement and support the system. References from current customers are strong evidence of that capability, which is why they can make or break a sale.

Selling information system software that can affect a whole company is not merely an exercise in communicating the logical solution to a company’s needs. The salespeople must handle inordinate emotional resistance to change. Some of the prospect’s employees fear they’ll lose heavily if the system were to fail, whereas others think they will lose if it succeeds.

The company faced these same issues in deciding to implement selling as a process into its own operations. Nevertheless, the company became its own best example of using its Total Customer Management software and the formal selling process orientation it supports. Using its own product well establishes strong understanding of the system as a business solution, and genuine credibility for the salesforce, management team, and company as a whole.

The organization
The company had been engaged in a very difficult, two-year, high-growth phase calling for 300% growth in the second year, as shown by Figure 3. At the end of the third quarter (Q3) of Year 1, management decided it needed to implement selling as a process and performance measurement to improve sales performance and control.

<table>
<thead>
<tr>
<th>Sales Dept.: People &amp; Goals</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales managers</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Field salespeople</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Selling experience</td>
<td>5-8 years</td>
<td>5-9 years</td>
</tr>
<tr>
<td>Total people selling</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>FY revenue goal</td>
<td>$10M</td>
<td>$30M</td>
</tr>
<tr>
<td>Sales revenue load per person</td>
<td>$1.1M</td>
<td>$1.75M</td>
</tr>
<tr>
<td>Inside sales assistants</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Field system engineers</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

**SALES DEPARTMENT GROWTH OBJECTIVES**
Figure 3

In Year 1, the direct field sales force had a VP of sales, two sales managers, and six salespeople, all of whom carried sales quotas and direct selling responsibility. All field salespeople except one were remote from headquarters (HQ), working from their homes or small regional offices in their own ways. Four inside sales assistants were put in place.
to do first pass follow-up contact on all potential prospect leads. After prospects were deemed truly interested and qualified to purchase the product, inside sales transferred them to the appropriate field salesperson, which would take over the remaining steps of the sales cycle.

Operating issues
In Year 1, the managers and original salespeople were very technically competent with the product’s functional capabilities and had intimate product application knowledge. Combined with exceptional selling insight, the core sales group had somehow been able to pull off successive “miracle” finishes each quarter to make the prior revenue targets. This produced a severe hockey-stick revenue performance pattern, which heavily taxed the staff’s ability to keep customers satisfied.

Faced with Year 2’s 300% revenue growth target and doubling of the sales force, management realized they would have to significantly improve the effectiveness and consistency of how they were operating in order to have a prayer of achieving the new goals. Field sales turnover and the 6-month period needed to get a new field salesperson productive, also had to be reduced. To help shorten the learning period, three field system engineers were added during the first half of Year 2 to team with the salespeople. This was intended to add more technical depth to their selling efforts and make the challenges of the job less formidable to new people.

New operating vision
The company decided to bring process structure and performance measurement into the traditionally informally operating sales and marketing departments. The primary objectives were to significantly improve:

- Sales revenue production per person;
- Sales revenue predictability (forecast accuracy);
- Management’s ability to grow the company’s infrastructure while keeping all departments operating as a single team, maintaining 100% of its customers as good references, and preserving the attractive quality of the internal work culture.

The executive team believed that to accomplish these objectives, just adding more sales people and marketing resources would not be sufficient. They determined that the company’s operational capability in producing sales revenue needed to increase significantly and continuously improve to support its growth.

Management believed that given a competitive product/service, and a good corporate reputation, the generation of a company’s sales revenue involves a continuous work-flow across Marketing, Sales, and Customer Support departments as shown by Figure 4. Together they constitute the components of the revenue production system. Optimizing revenue production as a system would eventually call for close coupling and synchronizing of these departments.
Management laid out a summary of their sales revenue production process. They captured what needed to be done to continuously initiate, cultivate, build, and support the company’s customer relationships, which in turn produces the company’s sales revenue. The diagram (Figure 5) clearly revealed that this business process was cross-departmental. To name this process they adopted the acronym “CARE” (Customer Acquisition, Retention, & Expansion).

The Company’s Sales Revenue Production Process
Customer Acquisition, Retention, and Expansion -- CARE
The heart of the CARE revenue production process is the sales pipeline. It contains an ever-changing volume of potential sales revenue, in the form of individual sales opportunities as they flow through the selling process. The never-ending challenge facing every corporation is keeping its sales pipelines flowing at full capacity with good quality prospects. Each week prospect sales opportunities can and do scrap out of the pipeline anywhere along their way as “fall-out,” for a myriad of reasons. New and different sales opportunities are being entered as “input.” Others are closed as booked business, moving out of the pipeline as “output.” The volume and content of “sales-in-process” is in constant flux. Some prospects are maturing, moving forward in the selling/buying process, while others stay put or even move backwards.

From the CARE model, the responsibilities of the field sales staff and their corresponding performance measures were determined. Each field person would be accountable for getting their pipeline’s operating performance measurements healthy and keeping them in balance. Sales managers, in addition to improving the performance of their consolidated regional pipelines, would be accountable for improving and synchronizing cross-departmental activities to attain it.

All managers, including the VP of Sales, were to have the same operating performance measures as salespeople in their territories. This made the performance picture consistent over the whole salesforce. The ability to compare performance between territories and to the sales force average, provides an ongoing objective basis for managers to identify where they need to focus their coaching efforts. Everyone will see the graphs and differences in marketing and selling process behaviors. By identifying what methods work better than others, management can systematically improve revenue production and reduce overall variation in performance. This will result in both increased revenue and better revenue predictability.

This unified picture of operating performance would serve as the driver for organizing and synchronizing marketing’s functions as supplier to the territory pipelines. Marketing will be able to determine future prospect requirements and will be called upon to systematically improve its lead generating effectiveness. The system will provide the sales history database from which marketing can get feedback on wins, losses, lead sources, industry segments, competition, and other prospect parameters.

To manage the all-important customer references, customer support would regularly update a “Customer Reference Availability” database, while sales and marketing would likewise update the database on all uses of customers as a reference.

To begin to significantly increase revenue, management first needed to determine how well the operation was currently performing. After that, it would need to see the measurements on a regular basis in order to keep the revenue production system components synchronized.
IMPLEMENTATION: The Selling Process and Performance Measures

The selling process map
A “customer relationship” is the result of two or more independent processes combining and groups of people interacting. Two processes always present in any customer relationship are the selling process of the vendor and the customer’s buying process. Other processes can be involved if other parties are involved in the relationship for buying, selling, implementing, or supporting the products.

Unlike manufacturing environments that are set up to control the entire fabrication process, Sales can only try to influence the actions of the prospect. Even in executing the fundamentals of its selling process, Sales must accommodate the needs of the prospect’s buying process.

This points to why many veterans insist that selling is an “art” and that “talent” is what sells. Insofar as art is a medium to convey knowledge, meaning, and emotion, salespeople indeed educate and create interpersonal rapport, trust, and confidence with prospects. They must certainly inspire emotional desire in the prospect to want to commit to a relationship.

Yet, as a repeating business operating function, there is also mechanical process or science underlying selling. A sales manager once described selling as being like a bicycle. The gears, chain, sprockets, pedals, frame, and wheels are the process – the bicycle’s capability and capacity. However, the steering, balancing and quality of energy powering it – that’s talent.

The selling process map is a common framework for guiding and measuring selling workflow through the sales pipeline. Development of the map started with Trailer Vavricka, Inc. facilitating a two-day session for the salesforce to map its own “best-methods” selling process. This identified and captured what seemed to produce the most consistent closing and best quality of customer results.

The salesforce defined six macro-steps to their selling process. Each step contains an objective (what it is designed to accomplish), a desired result (how to determine the objective is accomplished), and two subsets of detail step actions that usually lead to achieving the desired result. One set of actions list what the selling team generally needs to accomplish, while the other set lays out what the prospect’s buying team typically needs to do at each point in the cycle.

In the same session, the group also derived their prospect quality criteria, set its team operating rules for using the process consistently, and loaded their pipeline database with all current sales-in-process. This produced a unanimously agreed upon selling process in sufficient detail to serve as the common structure to meaningfully measure operating performance for each individual territory and every management level.
Sales operating performance measures

Performance measures can show how effectively the combination of process and talent is operating as in Figure 6, which shows pipeline revenue input rate. The performance measures can also identify significant changes in performance as they start to occur and the pipeline’s bottlenecks. With such early warning signals, sales, marketing, and support managers will be able to take timely action to keep the revenue production in control and more predictable.

Managers reasoned that implementing sales process performance measures would enhance four fundamental management capabilities. They would provide all three CARE departments with quantified operational feedback, fact-based understanding, and clear requirements for:

1. Maintaining the production of sales revenue on-target to current FY budget goals;
2. Increasing sales production capacity at least a sales cycle length ahead of when increased sales targets call for greater monthly output;
3. Continuously improving the processes within each CARE department, as well as the daily execution of them, to increase operating capability;
4. Synchronizing the CARE departments to operate as a single team, with the common goal of optimizing the overall operating performance of the sales revenue generation system.

Sales process performance measures would also directly support the salesperson, who’s role was defined as a Territory Business Manager, responsible for:

1. Producing 100% or more of the current FY’s assigned quarterly revenue targets;
2. Developing a continuous business pipeline flow adequate to meet the monthly revenue targets across fiscal quarters and fiscal year boundaries - with 100% customer satisfaction;
3. Improving quarterly forecast accuracy to within +/- 15% of actual.

Due to the dynamically changing status of each pipeline’s performance and capacity, everyone’s measures need to be recalculated each week, in order for the feedback graphs to effectively reveal changes in performance. The following measures were selected to monitor the performance of the sales process with respect to the given objective.

**Producing 100% or more of the quarterly revenue targets**

- **Input revenue flow per month** is the amount of new revenue needed by each pipeline, and would be calculated according to how the territory’s pipeline was actually operating. For example, a pipeline operating at a 20% close rate with a $100K/month quota would need $500K of new input each month to keep its flow going; but only $250K if its close rate had improved to 40%.

- **New sales project quality** is another key leading performance indicator, along with input revenue flow. Better quality prospects typically close at significantly higher rates, taking less average cycle time. The opposite is true for poorer quality prospects. To develop a consistent way to measure the relative quality of each prospect opportunity, salespeople agreed on the top five most important determinants of a prospect’s quality. These criteria went beyond merely arbitrary demographics into the characteristics most germane to forming a long-term customer relationship. A rating scale of –5 to +5 was used for each criteria. This measure showed the average quality of the input stream as well as the overall pipeline contents.

- **Close rate by process step** is the calculated probability to close from each step of the sales process, for each pipeline. This is also used in calculating several other measures such as input rate, pipeline %full, and projected output.

- **Pipeline %full** shows whether the revenue of sales-in-process is enough to support the monthly revenue objective. This is a good indicator of how healthy the pipeline is according to its current close probability, cycle time, and its volume-in-process capacity. Figure 7 is an example of a performance chart.

- **Average project revenue size** is calculated across all the sales projects currently in a pipeline. Revenue growth can be significantly increased by the pipeline’s population of prospects becoming larger in average size, requiring a lower total number of projects to be found and worked. In the company’s case, it takes almost the same amount of effort and time to win a small contract as it does for a large one.
• **Output revenue percent to fiscal quarter target** is simply the actual revenue recognized per fiscal quarter as a percentage of the territory’s revenue quota for the same quarter. This is the traditionally used results measure.

![Pipeline %FULL -- Control Chart](image)

**SAMPLE PERFORMANCE CHART**

*Figure 7*

*Developing a continuous adequate pipeline flow*

• **Pipeline forecast projection by month and YTD cumulative position** shows the salesperson and manager how the current pipeline contents, will probably flow out in future months and accumulate in YTD revenue. This is based on the individual performance measures of each pipeline, giving each person a relevant picture of where they stand and are likely to be in future months. Everyone can see whether their projected sales revenue position is below or above their target. The projection spans fiscal period boundaries to keep visible the need to maintain continuity in each pipeline’s adequate flow at all times.

• **Cycle time by process step** is the total time in weeks that the average sales project takes to go through the pipeline’s sales process steps. Steps with large time sinks should be candidates for investigating what is causing delays to see if the process can be improved. Cycle time is also used in calculating several other measures such as projected revenue output, pipeline %full, and course correction. A sample chart is shown by Figure 8.
%Fall-out by process step shows the portion of potential revenue of sales projects that were lost or otherwise scrapped out of the pipeline. Large portions of fall-out early in the sales cycle usually points to low or misgauged prospect quality, whereas late in the process, it suggests a need for selling process or execution improvement. Reducing fall-out has the effect of raising the close rate and reducing overall average cycle time. Moving fall-out forward in the sales cycle prevents wasting time and resources on future scrap, enabling them to be applied to better opportunities. This can raise the close rate and improve sales volume. A sample chart is shown by Figure 9.
The fall-out in each step can also be analyzed by competitor, product, industry segment, and selling team. The patterns of fall-out can provide insight into what is causing it and how it might be reduced. Similar analysis can be done on closed opportunities to see where particular people or approaches are stronger, so those tactics can be deployed to all territories.

**Improving quarterly forecast accuracy**

- **Quarterly forecast accuracy** is measured by the difference between forecast and actual revenue as a percentage of the forecast. The forecast is what was predicted as of the last day of the previous fiscal quarter. Each quarterly period is calculated each month on a rolling quarterly basis.

**IMPLEMENTATION: Consistent Daily Use and Feedback**

Management consistently encouraged all the salespeople to adopt and regularly execute the sales process procedures as a daily habit. The goal was to establish the process as a standard framework for managing sales opportunities as individual projects. Management felt this framework would accelerate getting every salesperson up to a high level of selling competency and provide managers with the information they needed to become effective coaches. Managers reinforced the process orientation by using the sales process as the context for every sales opportunity discussion, resource and quotation request, forecasting, planning and debriefing every sales call, and all interfacing of the field with marketing, inside sales, technical consulting services, and customer support groups.

The sales force information system was upgraded to incorporate the mapped sales process steps, prospect quality criteria rating, pipeline per territory, and to regularly capture the needed data on all sales project movement through closing or fall-out. The system would serve as the company’s sustaining mechanism for deploying the cultural continuation of its best process behaviors throughout the involved departments. Management felt the sales measurement and management system would provide the degree of control it needed - and had never had before.

The sales management system needed to have algorithms built into it to make the performance measurements each weekend for each remote salesperson, up through the consolidated VP Sales level. The system would have to:

- Measure the chosen vital signs of *in-process* sales revenue production flow, and show statistically significant changes and forming trends in actual operating performance;
- Provide on demand the sales forecast projection based on the actual operating statistics as measured each week;
- Report the measures graphically so everyone could easily understand and monitor performance.

Due to limited internal programming resources, implementing a complete sales management system with these capabilities was going to take much longer than management desired. To get started as quickly as possible, an interim system was put in
place to measure the pipelines for current territories and the aggregate national pipeline. Tools such as Excel’s database query, pivot table, and graphing were used to summarize the data and track changes in the operating measures. Although not as sophisticated as the new sales management system would be, the patchwork system was capable of providing reliable performance measures.

Each remote salesperson had a computer, which would automatically send all sales project updates made each week to the central database. Salespeople made up a common set of system updating procedures so they all understood how to consistently use the sales process and do timely and accurate system updating as sales projects progressed. This made the data very complete and reliable.

**IMPACT ON OPERATING PERFORMANCE**

The sales operation was able to increase both its headcount and output rate over the first two quarters of Year 2. The YTD performance measurements of Figure 10 show an interesting picture of current sales operating conditions and reveal the challenge for attaining the next two quarter’s sales targets.

<table>
<thead>
<tr>
<th>Operating Performance</th>
<th>Year 1 (end 4th Qtr.)</th>
<th>Year 2 (end 2nd Qtr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input Prospect Quality (-5 to +5)</td>
<td>-2</td>
<td>0</td>
</tr>
<tr>
<td>Pipeline %Full Next Cycle Length</td>
<td>33%</td>
<td>60%</td>
</tr>
<tr>
<td>Sales Cycle Length</td>
<td>6.1 mo’s</td>
<td>5.0 mo’s</td>
</tr>
<tr>
<td>Close Rate Field Sales Pipeline</td>
<td>14%</td>
<td>31%</td>
</tr>
<tr>
<td>Average Project Revenue Size</td>
<td>$73,000</td>
<td>$98,700</td>
</tr>
<tr>
<td>Output Revenue % of Goal (at a 300% growth rate in Year 2)</td>
<td>101%</td>
<td>87% YTD</td>
</tr>
<tr>
<td>Relative sales level</td>
<td>100%</td>
<td>240%</td>
</tr>
<tr>
<td>Quarterly Forecast Accuracy</td>
<td>+/- 58%</td>
<td>+/- 11%</td>
</tr>
<tr>
<td>Turnover in Sales Personnel</td>
<td>33%</td>
<td>9%</td>
</tr>
<tr>
<td>New Salesperson Ramp-up Time</td>
<td>6 mo’s</td>
<td>4 mo’s</td>
</tr>
<tr>
<td>% Customers Referenceable</td>
<td>99%</td>
<td>99%</td>
</tr>
</tbody>
</table>

**IMPACT ON PERFORMANCE - FROM YEAR 1 TO YEAR 2**

*Figure 10*

The most striking improvement is the close rate jumping from 14% in Year 1 to 31% for the first two quarters of Year 2. This was partially due to improved selling effectiveness, resulting from everyone using the “best methods” selling process. Also, the executive management team relentlessly assisted the salespeople in actively meeting with prospects...
by traveling to prospect sites and hosting prospects during their visits to the company. However, Q3’s revenue target is 40% higher than Q2’s. Besides that, counting on maintaining the 31% closing rate without improving selling capability in some fashion was risky. Accordingly, sales management began formal sales opportunity reviews and initiated planning for all above average size sales projects that moved into the solution demonstration phase of the selling process.

Although new field sales people are quickly becoming competent to manage system sales as a result of the structured selling process and better training, they are having difficulty keeping their pipelines full. The company’s initial effort to fill the pipelines was centered on beefing up the inside sales group’s capacity. They were being counted on to find and follow-up more of marketing’s general leads in order to stock the new territory pipelines as new salespeople were hired. While this helped fill the national pipeline, all the newer territories were far behind their objectives going into Q3.

Average prospect quality, cycle time, and project revenue size have also improved. Another important contribution to performance improvement is through the reduction in turnover. When turnover is low, the territory development effort can be continuous with most management time being dedicated to coaching instead of repeated hiring and training.

Quarterly forecast accuracy has greatly improved so far for Year 2. However, the hockey stick nature of more than 70% of the closed revenue coming in the last month of the quarter, is restraining management’s confidence in overall revenue predictability. It is also costing the company in having to discount, provide special terms, and give away normally fee training and services to get orders closed before the end of the quarter. There has been a large amount of slippage in expected close dates and revenue (additional operating performance measures), but this appears to be more of a problem with estimating than with operations performance or customer behavior. Rules for the salesforce to consistently estimate project revenue as well as close date, and close probability are being instituted to decrease the estimating errors.

What is now crystal clear to management is that new territory marketing cultivation has a 1-2 sales cycle lag time (5-10 months) before it can establish an adequate input flow of qualified prospects. In Q1 of Year 2, Marketing started a rudimentary on-going contact pattern for any prospects field salespeople or inside sales provided to them. They are now starting Q3 with resources to launch support for larger scale, multiple-contact-points-per-prospect cultivation of each territory. Unfortunately this will take about the next two quarters to really kick in. Until then, the salespeople will have to employ guerrilla prospecting tactics in an all out effort to get enough prospects into their developing pipelines to make revenue targets for this year and be in position to start next year at full pace.

Some specific instances where the performance measures were instrumental in initiating corrective or other actions to improve performance are given below.
1. At the end of the 4th quarter of Year 1, the Sales VP saw that the revenue projection based on the system’s calculated performance data showed that the next two quarters were going to fall far short of objectives. This was in contrast to his own estimates that were based on a much rosier picture. He called an emergency meeting with the Marketing and Inside Sales managers to develop a plan for keeping the pipelines full with a steady stream of new prospects. They worked out an approach to target the top 50 potential customers in each territory for sustained cultivation - combining specifically designed direct mail, seminars, and teleselling programs. This increased the Pipeline %Full measure 20 points, making achievement of the sales goals at least a realistic possibility.

2. The Inside Sales group contacts raw sales prospects to determine which are worth passing on to the field. In an effort to increase the number of prospects getting into the pipelines, the Inside Sales manager put incentives in place in some groups. The incentives were based on the number of prospects each Inside salesperson passed on to the field. Two weeks later, the pipeline showed a marked increase in prospects, but prospect quality, as assessed by the salespeople, also showed a sharp decline. Quality was apparently suffering in favor of quantity. This was confirmed by a more detailed analysis, which showed the drop in quality was happening only in the areas that were under the incentive plan.

The incentive plan was subverting the primary purpose of Inside Sales, which was to screen out poor quality prospects so they would not waste the field salespeople's time. To prevent this, the incentive plan was changed to include prospect quality criteria and subtract prospects rejected by the field as poor quality. Prospect quality quickly got back to normal with little decrease in prospect volume. Had the quality measures not been present, it undoubtedly would have taken several months for the quality problem to become evident.

3. At one point, the Southern Regions' close rate was 14% lower than the average. Investigation showed the largest cause of the problem was the quality of customers that could be used as references and for getting referrals into other companies in the region. Surveys of the key accounts for referrals revealed that most of them were only using about 20% of the product's capability, which was certainly not resulting in highly satisfied references and great referrals.

A customer CARE team was formed to raise the customers' level of understanding of the system's scope and everything that it could do. As a result, the key customers began additional training and implementation efforts, quickly realizing significantly greater benefits and return on their investment. In return, they became very strong references and referral generators for the Southern Region, speaking to prospects one-on-one and through organized sales seminars. This increased the region's overall close rate by 17% in the ensuing five months.

4. A Western Region sales rep had the largest amount of pipeline fall-out, most of which was happening on the last step of the sales process. He also had the lowest
closing rate of anyone in the region. The sales rep and the regional manager examined what was happening and concluded that the primary cause of the problem was poor execution in getting to upper management in the selling process.

Querying the system, the regional manager then identified other salespeople across the company who had high close rates and the least fall-out in the last steps of the pipeline. Along with the other regional managers, they were then surveyed to determine what techniques for getting to and selling to upper management worked best for them. This included telephone scripts, questions asked of customers, benefit statements, article reprints, meeting agendas and formats to run meetings.

In six months, the sales rep's close rate was above the regional average and his last step fall-out was reduced 70%. In this case, the performance measurement system not only identified a specific problem; it told management where to look for the solution. Without the performance information being available, identifying and correcting the problem would have taken much longer - probably at least another year, if ever. The sales training manager is organizing this into an education module for the regional managers to present to all salespeople to improve everyone’s performance.

IMPACT ON THE ORGANIZATION

The company’s CARE departments, along with the executive committee, have become galvanized in their effort to contribute to the company achieving the needed operating performance improvements. Everyone is focused on finding ways to improve their individual performance in order to support the team effort.

The performance measurements have been instrumental in helping management to understand and zero in on what areas in the CARE process would contribute most to improving the Company’s revenue production performance. Having the common, fact-based picture of what is happening in sales operations has enabled more rapid concurrence on deciding what needs to be done, priorities, and who needs to do it.

Both inter-department and management-worker unity has noticeably improved as a result of having common objectives, clear responsibilities, and reliable, objective performance information. Departments are operating as a team and all members are playing with heart. The quality of the culture is itself improving – even amidst the demands, strains, and pains of rapid growth.

As investments in continued process improvement, management decided, among other items, to:

- Build up the Inside Sales infrastructure and hire a manager to analyze their process and continuously improve its capability to provide qualified prospects to all field pipelines.

- Utilize Inside Sales as a filter to prevent field salespeople from wasting their limited selling time and resources running after sub-quality prospects – which
salespeople tend to do when that’s all they have available.

- Hire vertical market industry experts to build specialized marketing plans, produce education programs for field personnel, develop customized solution demos, and generate other initiatives.

- Implement sales opportunity reviews and planning sessions where a salesperson and manager will formally review sales projects that are near closing to develop comprehensive selling plans to win the business.

- Develop a customer reference system to enable quick identification of available references that match the prospect's profile and track reference usage, actual involvement, and effectiveness.

- Add more field system engineers to team with salespeople in custom demo modeling of prospects’ selling, marketing, and support processes.

A considerable operating benefit of the measurement system will be better predictability of when and what business will be materializing. Armed with this information, department managers will be able to make better staffing and training decisions further ahead of when the business will actually materialize. This is how the company sees it will be able to better maintain the quality of the internal work environment and 100% customer satisfaction.

Potential System Improvements
The information system currently has several additional enhancements underway to add other key performance measurements and expand the reporting capabilities to include control charting of all the weekly performance measurements. New measures will include:

- Sales process step and step action execution tracking across sales projects.
- Close date and revenue slippage.
- Rolling 1-6 month forecast accuracy.
- Rate of flow within each pipeline.
- Project age tracking to identify where action/scrap/recycle decisions must be made.
- Correcting additional input revenue amounts needed each month to compensate for projected revenue shortfalls in each territory.

Control charting the weekly performance measurements helps put each week into the context of all the previous weeks. Seeing the series of performance points graphed over time shows the natural band of variation around its “normal” average. In the same way for each territory and manager’s pipeline, control charts detect and give exception ALERT signals for taking timely corrective action.

There will also be better ways to analyze closed and fall-out projects for finding the largest areas for potential improvement and identifying where better methods are emerging which can be used to improve performance.
Marketing will begin to directly help improve field close rates for each product line by looking across the territories for standout patterns in effectiveness against particular competitors in specific industry segments. Marketing will then collect the best methods, documenting where each fits best within the standard sales process. These changes will then be sent to all salespeople as they begin pursuing opportunities fitting those profiles. Product line performance data will also help better manage the decision process for introducing new products and deleting non-productive ones.

CONCLUSIONS

Although there are many improvements to be made to the sales performance measurement and management systems, some firm conclusions can be drawn from this study:

1. Selling is a production process that can be measured. It may not be possible to measure sales as precisely as a manufacturing process, but the process can be measured well enough to give management relevant, useful, and timely information for making operating and strategic decisions.

2. The performance measures that were developed made a significant contribution to improving performance throughout the sales process. Management had to make the decisions and take action, but there is no question that the performance measures were effective in identifying problems on a timely basis and also in helping to solve them.

3. Using a structured process framework and performance measures had no negative effects on performance or morale. Instead, the effects were all positive. Most of this can be attributed to the leadership of the company’s top management, but this experience illustrates there is nothing inherently objectionable about measuring individual and group performance in sales and marketing.

This case study is reprinted in the book titled Operational Performance Measurement – Increasing Total Productivity by Will Kaydos, 1998, St. Lucie Press, (Amazon.com search “kaydos”) with the permission of Trailer Vavricka, Inc. TVI has since entered into a joint development agreement with SalesWare, Inc. to continue with developing our third version of the process management and performance feedback system from all that we learned in live-testing the second Sales Naviguide prototype. It will be named Sales Process Management / Vital Signs™ and made available for licensed use with all leading Sales Force Automation/CRM software packages, as well as private in-house developed opportunity management systems. In parallel TVI consults with clients to define, implement, and sustainably improve their sales operating process effectiveness and performance. The company also speaks and writes on the subjects of Sales Operating Fitness/Performance Improvement, CARE/Revenue Production Management, and Sales Mastery. For an outline of services, please contact: Joe Vavricka, VAVRICKA ASSOCIATES, 319 Shoemaker Lane, Solana Beach, CA 92075, Ph: 858-755-1994; E-mail: joevav@alumni.princeton.edu. Website: www.raisesales.com.