Sales Benchmark Index

Benchmarking Best Practice Discussion

Jul 2011

Understanding Break-even Sales Volume

Increased sales rep activity does not necessarily mean value perceived by prospects and customers. Each activity should be geared towards the buyer and what stage they are in their journey.

The goal, therefore, is to shorten the sales cycle by only engaging in those activities that are valued by the buyer.

But how can a company know whether a sales rep's actions are leading towards an eventual sale by helping the buyer advance or whether or not they are merely substituting action for progress?

Companies first should analyze the number of activities needed to close a sale. Though a worthwhile endeavor this is, by itself, incomplete. The next step is to measure and optimize **Break-Even Sales Volume**.

Break-Even Sales Volume combines the number of calls to close with cost per call and total sales costs. The output (or break-even) is the *minimum number of sales activities such that revenue generated = cost incurred*.

There are many factors that impact the number of activities to close a sale. Knowing your Break-Even Sales Volume helps focus the sales effort, improving efficiency (the wrong accounts are not pursued) and effectiveness (the executive now knows the sales amount to break even).

Break-Even Sales Volume provides a *minimum acceptable standard for determining the attractiveness of pursuing a prospect account*. It helps executives focus on the business opportunities that represent the best potential and reduce the number of less-attractive (and less profitable) customers. From this point can then begin the more rigorous phases of account planning.

The key concept to understand is that <u>any sales below the break-even point should be avoided for they will waste valuable time</u>.

Formula	The formula for **Break-Even Sales Volume** is: $BE(sv) = \frac{CPC \text{ x } NCC}{C(s)}$ <u>Where:</u> BE(sv) = break-even sales volume in dollars CPC = cost per call NCC = number of calls to close C(s) = Cost of Sales (expressed as a % of sales)

Calculating Breakeven Sales Volume

Step 1: Calculate Cost per Call (CPC)
Using the three variables described above Cost per Call can be calculated using the following formula:

$$CPC = \frac{SE}{CPD * SD}$$

- ***Sales Expense per Time Period (SE) -*** The sales-expense data is based on historical expenses, with greater emphasis assigned to more recent time periods. Sales people incur additional expenses in the course of their annual selling activities, including those associated with transportation, entertainment, and support costs. If a company's sales force is new (perhaps previously the company's products were sold by an independent agency, or online) then historical data may be insignificant or non-existent. In this case, data can be acquired through a market-research firm or industry trade publication.
- ***Total Number of Selling Days per Time Period (SD).*** The total number of selling days in the chosen time period will vary by company because of differences in vacation policies, training days, time required for internal meetings and similar non-selling activities. Executives will need to determine total selling days for each person in the sales force if an accurate, individual measure is required. While totaling all sales days and dividing by the number of sales people will produce an average, it will not reflect the specific selling and non-selling schedules of individual sales representatives.
- ***Average Number of Calls per Day (CPD).*** The data for the average number of sales calls per day can be gathered at the individual sales rep or team sales levels. If an average without regard for specific individual performance is required, the total number of sales calls made by the team divided by the number of team members in that time period will provide that information. But accurate individual performance reviews will require executives to calculate each individual representative's performance.

Step 2: Calculate Number of Calls to Close (NCC). This variable is based on recent historical data describing the number of times the sales person had to meet (or talk on the phone or email) the customer before the sale was completed. There are no universal rules governing the number of calls required to close a sale. Selling consumer perishables, such as canned foods, is very different form selling computers. The canned-foods sales person may be able to close a sale in two or three calls since the buyer regularly needs to replenish inventory on store shelves. The computer sales person may have several meetings over several months with buyers before a sale is completed. Executives should be familiar with performance standards of their industry. Their own experience with customers also serves as a relevant guideline for the number of calls typically needed to close a sale.

Step 3: Calculate Cost of Sales (Cs). This variable is determined from total expenses incurred in the selling effort. The costs are divided by the total number of sales representatives during the same time period to determine the average. Even within industries where practices tend to be similar overall, companies are likely to allocate percentages differently for each expense category, including direct selling expenses. Executives must learn their Board's expectations and factor these into their break-even analysis. Alternatively, executives can calculate sales costs for each sales person. While this is more time consuming. It is also more accurate since the answer reflects a more accurate individual review of each sales person.

Example

Determining Break-Even Volume for an Industry
Using the information below, each industry's Break-Even Sales Volume can be calculated. To illustrate, let's look at the data from the Food Products industry[1]. Note: in the final section of this document, entitled 'Other Reference Data', we provide the values for a series of industries other than Food Service. This data is derived from the same data cut as is the one for Food Service.

Food Products
Cost per call: $131.60
# of calls needed to close: 4.8
Sales cost as a % of revenue: 2.7%

Using the formula for Break-Even Volume described earlier:

$$BE(sv) = \frac{CPC \times NCC}{C(s)}$$

We can now calculate the Break-Even Volume for Food Services industry company as follows:

$$BE(sv) = \frac{131.60 \times 4.8}{0.027} = \mathbf{\$23{,}396}$$

With this information in hand, what can a sales executive now do?

Remembering that any sales below the break-even point should be avoided for they will waste valuable time, a food service industry executive can inquire as to whether any sales less than $23,396 are being pursued. If so, they should be terminated.

This minimum performance benchmark helps target customer more effectively, reallocating time and resources away from customers who do not meet this standard.

[1] Data Source: Sales Benchmark Index Data Repository, 2011

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SALES BENCHMARK INDEX

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Reference Data		
	<u>Business Services</u> Cost per call: $46.00 # of calls needed to close: 4.6 Sales costs as % of revenue: 10.3%	<u>Instruments</u> Cost per call: $226.00 # of calls needed to close: 5.3 Sales cost as a % of revenue: 14.8%
	<u>Chemicals</u> Cost per call: $165.80 # of calls needed to close: 2.8 Sales costs as % of revenue: 3.4%	<u>Machinery</u> Cost per call: $68.50 # of calls needed to close: 3.0 Sales cost as a 5 of revenue: 11.3%
	<u>Construction</u> Cost per call: $111.20 # of calls needed to close: 2.8 Sales cost as a % of revenue: 7.1%	<u>Office Equipment</u> Cost per call: $25.00 # of calls needed to close: 3.7 Sales cost as a % of revenue: 2.4%
	<u>Electronics</u> Cost per call: $133.30 # of calls needed to close: 3.9 Sales cost as a % of revenue: 12.6%	<u>Printing/Publishing</u> Cost per call: $70.10 # of calls needed to close: 4.5 Sales cost as a 5% of revenue: 22.2%

About this Document

Sales Benchmark Index offers best practices discussion documents to compliment the sales consulting services we provide to our clients. These documents help companies connect cause to effect and enable them to take steps to address their challenges.

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