Sales Benchmark Index

Benchmarking Best Practice Discussion

SALES BENCHMARK INDEX

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Sales Metric	Sales Force Productivity

Inquiry

"How much revenue should a sales person generate in my industry?

Please provide me some data points and models to make sure we are equal to or better than our peers as it relates to sales force productivity?"

Response

Productivity can be measured in the following ways:

- Sales (revenues) per person (measured in dollars)
- Profits per person (measured in dollars)
- Volume sold per person (in units)

Most productivity measures focus on revenue per person. SBI uses a metric for sales productivity that is designed to capture the degree to which the average individual salesperson contributes to the bottom line.

The Sales Productivity Formula

The formula and its components are as follows:

$$SP = \frac{\sum s\,(t)}{\sum s\,(p)}$$

Where

SP = sales productivity

$\sum s(t)$ = Sum Total for All Salespeople

$\sum s(p)$ = Total Number of Salespeople

Understanding the *Sum Total for All Salespeople* Variable

Executives should have total sales figures from performance summaries for each period of time being measured. These figures are sent on to the company's Accounting or Finance departments and included in the overall financial review of the business. While executives' numbers should be accurate, the Finance department has final information on returned products after the sale, customer discounts and similar allowances and reimbursements, all of which affect the final sales total.

Response (continued)

Understanding the *Total Number of Salespeople* Variable
Executives should have the data on total number of salespeople directly from Human Resources, although sales management is likely to have even more up-to-date information.

Example – BEA Systems vs. SPSS
The trailing twelve months (TTM) revenue for BEA Systems recently was $1,199,000 and at last count they employed 2,349 sales reps. Their company Sector Code Identifier is *Technology* and their Market Guide Industry is *Software & Programming*.

A comparable company from the same Sector Code Identifier and Market Guide Industry would be SPSS Inc. This company's TTM revenue stream for the same time period was $282,000,000 and at last count they employed 544 sales reps.

The calculation for both firms would be as follows:

$$SP = \frac{\sum s\,(t)}{\sum s\,(p)}$$

$$SP\,(BEA) = \frac{1.199\text{ B}}{2{,}349} = \mathbf{\$510{,}429}$$

$$SP\,(SPSS) = \frac{282\text{ M}}{544} = \mathbf{\$518{,}383}$$

Evaluation of this result shows that, between these two firms, sales force productivity in this industry is roughly the same. If the goal is to increase sales force productivity, best practices may be found in a different industry or in a different firm with a superior Sales Productivity result in the same industry.

Conclusion

Sales productivity is a simple measure as used here. The results of this analysis will affect decisions at the company, team and individual levels. Since every company's needs differ, measures of productivity will vary accordingly. Every company's leadership should develop its own productivity measures, derived from the business plan goals. Measuring sales productivity should inspire deeper analysis of the underlying causes of the performance (whether good or bad). Decision-making will focus more on detailed questions raised by the sales productivity results, which are affected by overall company goals, sales targets, sales territory definition, and segment and account strategies.

Executives must be careful not to misinterpret sales productivity data. The performance of a handful of top performers may disguise under-performance of the rest of the team. Therefore, results will need to be reviewed across the sales force and at the individual level. High performers will generate substantial revenues, but if those results are partly secured by offering customers generous, low cost support contracts, then the financial impact on the rest of the company could be severe. Perhaps the high performers generated strong sales, but also had higher returns as a result of less-thoughtful selling efforts. Of, their significant sales volume may strain the company's production and delivery capabilities, particularly if the revenue growth is sudden and sharp. The outcome could be unhappy customers, which is certainly counter to the purpose of selling and marketing in the first place.

Company level decisions are complicated by hard-to-control factors. Assuming executives are familiar with their teams, they may conclude that poor performance as revealed by sales force productivity analysis could be due to other less controllable factors such as unrealistic goals, a weak correlation between pay and performance or shifting market conditions that affected the assumptions that supported the original sales plan. These must be weighed against sales management's future compensation plans, sales targets, account objectives and ultimately, changes in personnel.

Conclusion (continued)

Sales management will use productivity to understand a salesperson's individual performance in comparison with those of colleague or competitors. Marketing can use the results to advise under-performers about more-effective segmentation or new segment opportunities. Sales management can use the results to counsel poor performers in better account selection, time management and selling strategies for each customer. More specifically, sales management can use the productivity results to develop step-by-step plan for improved individual performance.

About this Document

Sales Benchmark Index offers this ongoing series of best practices discussion documents to compliment the sales benchmarking services we provide to each member. These documents help our members connect cause and effect and enable them to take the next step to address the deficiencies revealed through relevant peer group comparison.

We hope this document addressed the member's initial question. Any follow-up questions or further assistance should be directed to your Client Management Team. Please contact them at 888-556-7338 or visit us at www.salesbenchmarkindex.com.