

# How To Benchmark Sales

## The Guide To Getting Started



Sales Benchmark Index

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# Benchmarking Basics

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## **Benchmarking for Business Functions**

Benchmarking is one of the most universally effective management disciplines available in business today. It has demonstrated an ability to consistently produce quantum performance improvements in the functional areas where it has been adopted – Finance, Manufacturing, Human Resources, Supply Chain Management, Warehouse Management, Distribution, and so on. What is of further significance is that benchmarking has registered these positive results regardless of an organization's size, industry, business model or location; in other words, its application requires no order of magnitude scale or any other precondition to achieve its impact. Benchmarking is a truly democratic approach to corporate self-improvement – it works for everyone. Having said that, benchmarking is not for the feint of heart. The temptation is often to say, 'we are so unique that no comparison is valid' or 'they are different from us that any attempt at learning from them would be a waste of time'. These variations on the 'not in my backyard' excuse can damage, even completely derail, a promising benchmarking initiative.

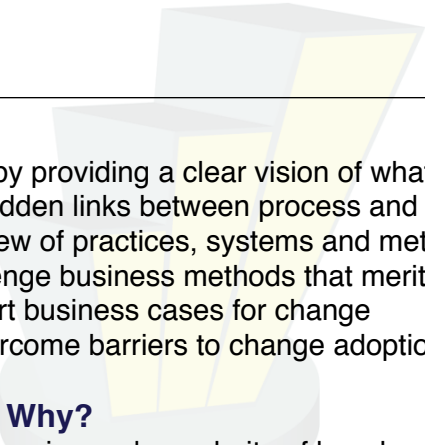
## **Why is Benchmarking so Popular?**

Benchmarking is a powerful change management tool because it challenges thinking and extends performance indicators beyond the insular environment that exists inside the organization. It helps overcome organizational resistance to improvement as it drains the argument for change of much of its emotional content and makes it more difficult for change resisters to defeat initiatives because there is no historical track record internally to support such an effort. Further, benchmarking clearly indicates where current practice falls short of best practice, not to mention World-Class practice.

Benchmarking may be a single exercise or it may be an ongoing practice. The latter approach yields the most value, as a continuous process enables organizations to challenge practices that may be sufficient one day but stale the next. For those organizations who adopt best practices benchmarking, the end game is to transcend the competition.

## **What does Benchmarking Deliver?**

Benchmarking is not a panacea; it will not correct a flawed business model nor will it force an organization to make the necessary changes – that is the job of the leader. It does, however, serve up a wealth of positive possibility. The following are just some of the reasonable expectations you should have for a successful benchmarking effort; namely, that it will:

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- Awaken competitive drive by providing a clear vision of what is attainable
  - Disclose and display the hidden links between process and result
  - Stimulate an objective review of practices, systems and metrics
  - Raise questions and challenge business methods that merit greater scrutiny
  - Provide evidence to support business cases for change
  - Provide means to help overcome barriers to change adoption

### **Benchmarking Works – But Why?**

We have discussed above the promise and popularity of benchmarking. Indeed, the realization of its promise and the reason for its popularity lie in one key aspect of benchmarking – it works. So many corporate strategic change initiatives sound enticing and they often come with expectations of major impact to the balance sheet. Somewhere, somehow along the way, though, the effort fatigues and the results are never obtained. The sponsoring executive develops some selective amnesia and the project is quietly buried, if possible given the increased scrutiny of shareholders, and all parties move on to the next *big thing*. Not so with benchmarking. Benchmarking initiatives do not create dashed hopes and ruined careers. They merely deliver results; usually in a low key, almost surreptitious fashion. But why is this so? Below is a list of at least some of these reasons why benchmarking works – no matter what business function is using it to drive superior performance.

- *Unbiased and Viable Context.* Benchmarking produces objective findings that uncover the reasons why some organizations succeed while others fail at the same task. Benchmarking results are used objectively to identify, quantify and prioritize improvement opportunities while also highlighting areas of risk. Benchmarking findings serve as the unbiased context and support for creating business strategies that drive effective change. There are many aspects of what we do that are similar enough to merit comparison. The ‘we are so unique’ argument is not supportable given commonality of process, approach, and technique in each business function.
- *Effective Emulation.* With thousands of companies attempting to address similar problems, innovative practices are often found by looking outside an organization or even outside the industry for proven and new ideas. This tendency to look far and wide for best practices due to common process or function but not common industry is a well established technique. If you want to emulate the best supply chain go to Wal-Mart; if you want to emulate the best made-to-order process, benchmark against Dell; if you want to emulate the best direct sales force, emulate EMC. And so on. In the end, it does not matter much what industry in which you compete, if you have a function shared by other companies, find the best in the business in that function and start comparing. Thus, benchmarking opens the avenue to identify and locate the most effective and applicable practices, regardless of their source.
- *Data-driven decisions.* Companies are driven by the need to grow revenue, shorten business cycles, improve quality and contain costs. Consequently, they cannot afford to expend effort and resources on activities that do not yield demonstrable value, as

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evidenced by increased revenue, improved products/services and more efficient processes or cost savings. Often, improvement initiatives, especially those directed at the sales department, are light on the financial details and lack convincing business justification. Benchmarking, at its core a data-oriented quantitative discipline, leapfrogs over these other, more qualitative approaches. It provides executives with the ability to make decisions based on a flow of high quality empirical data, enabling a more proactive approach in the boardroom. This data-rich decision-making environment may seem a luxury to sales leaders in the current environment, but it is a reality well within reach.

- *Risk Mitigation.* Benchmarking gives management the assurance it needs to focus action that drives substantial change with the reasonable expectation results will be achieved. Why is the risk premium so low? Because the benchmarking discipline has a long pedigree and a substantive footprint. It can be cited, leveraged, and deployed with the knowledge that its techniques will work. No matter what the field or the business function, some other organization has already used benchmarking to unearth opportunity and then drive performance improvement. It has been done. With this experience as a backdrop, corporate auditors usually assess the risk of a benchmarking project low compared to the alternatives.
- *Future Focus.* Benchmarking has a relatively unique focus on the future in its prognostication. It uses leading indicators to help point the way to expected future performance, even when change is not yet adopted. This represents a break with typical past practice, which focus on lagging indicators and straight line projections. The ability to be reliably predictive helps underscore benchmarking's inherent veracity.
- *Compatibility with BSM.* As discussed previously, business leaders face increasing global demands and more vigorous competition. Part of the mantra to cope with this new dynamic is that organizations should seize growth and improvement opportunities wherever they exist. A recent development along these lines has been the emergence of Business Service Management (or BSM). BSM is a strategy for linking key internal service components (e.g. IT, Human Resources, Legal, etc..) to the goals of the business. It enables organizations to understand, cost, and predict how changes in these service components will impacts the business. Those who have adopted BSM have aligned their internal support infrastructure to such an extent that the business functions as an integrated whole. BSM requires a process-centric view of the organization so that each service component can be assessed cross-functionally. Benchmarking fits this strategy like a hand in glove, as it too enables organizations to compare one internal process to another and therefore lead the way to improved productivity, profitability and competitive positioning for an individual business function.
- *Growth Opportunity Identification.* Executives are starving for good ideas. They might hear a tidbit here and another there from consultants, colleagues, and staff. What they lack, though, is a comprehensive means to expose all the possibilities and then a framework within which to view them. Benchmarking provides this. In the hyper-charged globalized business environment of today, executives are demanding that

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each functional discipline come to the table with a whole raft of ideas, not just a fait accompli project as the only way to achieve success. Above all, benchmarking yields a wealth of options.

### **Characteristics of Organizational Benchmarking**

So if the last several pages have convinced you that sales benchmarking has potential to impact your business, you probably want to know a bit more about it. One topic of immediate interest would be, 'Is my organization ready for benchmarking? Do we have the traits necessary to support such an effort?' What follows below are some of the basic corporate 'personality traits' conducive to a good benchmarking organization. Is your company:

- *Process-friendly?* Benchmarking is a process that drives value from measurement, focused action and transference of best practices. But it is a process and if you are an organization that rejects process out of hand, benchmarking would not be for you.
- *Dynamic?* Benchmarking is an interactive, ongoing and dynamic activity that rests on the constant update of data – new metrics, fresh comparisons, changing peer groups, etc.. Benchmarking cannot succeed if it relies on static knowledge. Organizations use benchmarking to invent, improvise and learn every day. To be effective, organizations that benchmark should be flexible and dynamic.
- *Open to Continuous Improvement?* Benchmarking works best when it is continuous. Some may choose to apply benchmarking techniques periodically as a diagnostic tool, and only when the problem becomes painful. But benchmarking is most effective when it is woven into the fabric of the organization and its operational culture. In this way, the early warning radar is always on – issues are identified, raised, and addressed before they become problems.
- *Willing to learn and change.* Everyone usually answers, 'yes', to this question but they should probably spend more time being honestly self-critical. A lively desire for overcoming challenges and an openness to accept difficult news are at the heart of successful benchmarking. Benchmarking only transforms an organization when it is willing to act on the results and demonstrate an ability to resist the 'not invented here' syndrome.

### **The Three Phases of Benchmarking**

There are three basic 'phases' in the discipline of benchmarking. These phases do not represent a formal methodology, per se, but are provided to help readers understand that there are some prerequisites to enable the benchmarking project to flow smoothly.

1. *Assess Current State.* To begin a benchmarking process an organization must first understand its operating environment and its conduciveness to benchmarking. Sponsoring executives should ensure that the proper infrastructure is put in place prior to support the planned benchmarking project. Such infrastructure might include senior management endorsement, sales training capabilities, various information

technology systems, a culture of learning, requisite funding, specific support staff (i.e. sales operations or administration), 3<sup>rd</sup> party sales consultancy, benchmarking expertise from an association or paid membership, and enough time to be successful. Another aspect to this phase is the need to focus on one specific business function – sales, finance, marketing, whatever – as the target of the benchmarking. This is necessary to establish a baseline and measure against a best-in-company standard and to become knowledgeable about the processes and inputs specific to that function.

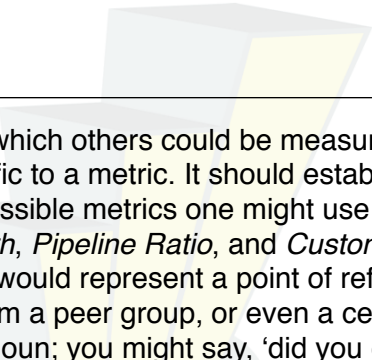
2. *Selecting a Peer Group.* The second phase of sales benchmarking focuses on performance and outputs. For benchmarking to be of use to an organization, it requires the existence of a relevant peer group, a term that represents the universe of other organizations against which it can be validly compared. ‘What’, you might ask, ‘is a relevant peer group?’ In a nutshell, a relevant peer group is a collection of organizations that share one or more attributes such that when they are measured, the results show a degree of dispersion and clustering. For instance, when benchmarking financial services organizations on their performance, a relevant peer group may be established based on attributes such as product or service type, customer type, geography, sales model, and so on.

To determine which attributes should be used to select a peer group, one should remove it from bounding the sample set. If the impact of this removal is that the data changes significantly, you probably have a significant variable. If, however, the results do not change much, you can probably discard that attribute in terms of forming your peer group. Regarding the sales function, Sales Benchmark Index has found that the two most important attributes in determining peer group are sales channel and sales force size. When normed for these attributes, organizations can be compared against each other, even if they are in different geographies or industries. During this stage, a company begins to look outside of its own walls. The standard upon which it measures itself is the industry in which it competes. To succeed in benchmarking, a company must compare its business activities with others.

3. *World-Class Comparison.* The third phase of sales benchmarking concerns itself with strategy. The focus of this phase is to compare a company’s sales productivity against best-in-world, or, what some refer to, as World-Class status. During the strategic phase, a Chief Sales Officer looks for breakthrough improvements after already having captured incremental improvement during the first two phases. Acquiring and customizing best practices from unrelated industries provides strategic benefit that is difficult to replicate. We will discuss the specifics of World-class comparison, calculation, and application in a later chapter.

## **Benchmark vs. Benchmarking**

Since the discipline of benchmarking has been in place for some time and readers may just be getting their feet wet with the concept, it is also important to make a distinction between a benchmark and benchmarking. A benchmark is a sighting point from which measurements



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can be made or a standard against which others could be measured. Think of it as a specific value for an operating statistic specific to a metric. It should establish a norm. For example, in the sales world there are many possible metrics one might use to assess performance; examples include *Sales Cycle Length*, *Pipeline Ratio*, and *Customer Churn Rate*. The benchmark for one of these metrics would represent a point of reference – it could be an arbitrary value or a median value from a peer group, or even a certain quartile. In this case, you would refer to benchmark as a noun; you might say, ‘did you exceed the benchmark for *Pipeline Ratio* this quarter?’ Benchmarking, in contrast, is the ongoing search for best practices that produce superior performance when adapted and implemented in one’s organization. It is in every sense a verb – it requires investigation and discovery, application and effort. One might say, ‘we need to adopt the discipline of benchmarking right away, and change our operating procedures accordingly.’ It is the latter with which we are concerned almost exclusively throughout this paper.



# How To Benchmark the Sales Function

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## **Benchmarking + Sales = A New Combination**

Into the turmoil and uncertainty of today's business environment has arrived the discipline of sales benchmarking – a new technique to help diagnose what ails a sales organization. Sales professionals respond differently when exposed to the concept of benchmarking. Some never accept the notion that it can be applied to sales. Others are almost tortured by the exercise of it; spending all of their time gathering data and analyzing it, but never taking any real action. Still others, the most successful deployments, gain comfort from combining data-orientation with street smarts. When benchmarking is used an accurate picture can be drawn and from that picture sales managers can judge exactly what resources they need to make their numbers.

Sales benchmarking helps organizations understand how to use data to uncover the *root cause* of individual sales problems and drill down to the real issue preventing success. It should be noted, though, that the adoption and application of benchmarking to the sales function has been slow, more so than expected, and certainly more so than warranted.

Many organizations, including a few sales improvement, consultancy, and training firms, offer sales benchmarking assistance to compliment their other offerings. These companies have deployed aspects of benchmarking into the sales profession in various forms and fashions. None, other than Sales Benchmark Index, have developed a specification that defines the metrics, processes, formulas, and relationships necessary to constitute a complete taxonomy for sales benchmarking. Thus, we are at an early stage of the evolution in the dissemination of sales benchmarking expertise.

Benchmarking is a process where companies compare their performance over time against their competition. You'll find there are areas where you are better than most. You'll also see areas where significant improvement may be desirable.

The point of benchmarking is to focus your efforts where you can get the best return. The five steps to performing an operational sales benchmark are identifying your metrics, collecting your data, comparing and contrasting that data with best practices, planning the focused actions to address gaps, and creating a strategy for sustainable improvement.



### Step 1 - Metric Identification

The first step in executing a sales benchmark is identifying the metrics to measure. The Formula for Sales Success assists in selecting metrics as it helps determine the key drivers of an organization's sales performance.



Each non-constant variable in the equation (Activities, Conversion, Transaction and Talent) is defined in the company's business terms. For example, how is an *Activity* defined? Is it a lead? Is it an e-mail, a phone call, a virtual sales call? Or is it a face-to-face sales call, a proposal or something else entirely? Is it all the above? The goal is to identify the key activities currently being performed by the sales team that have the most *significant impact* on whether a deal is won tomorrow, next week, next month or next year.

Besides productivity metrics, there is another non-constant variable – cost – that underscores the Formula for Sales Success equation. Benchmarking your sales costs results in a decrease in Selling Expense just as benchmarking productivity results in an increase in Revenue. By simultaneously doing both, a firm can significantly boost earnings and its Return on Sales (defined as profit return for each dollar of new sales generated).

Once each of the non-constant variables has been defined in the company's business terms, it is time to select the metrics to measure. This list should be pared to the top 30 - 40 metrics that will make the biggest impact on the organization through internal measurement, external benchmarking and frequent reviews with the sales team. Use the following selection criteria as a guide when deciding which metrics to benchmark:

- Relevance to the company's overall sales performance
- Degree to which each can be a leading indicator of sales performance
- Availability of the internal data and effort required to collect the data
- Availability of the external data and effort required to collect the data

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## Step 2 - Data Collection

**Internal data collection.** The first objective in benchmarking is to have a detailed, clear understanding of how the firm is performing internally. The process for gathering data about the chosen metrics is highly dependent on the individual company and the systems it uses. The information is already in the company somewhere and though it may take a little digging, it can be found.

Typical sources of information include:

- CRM system
- Finance systems
- Payroll system
- Expense reporting system
- HR systems
- Sales management team.

**External data collection.** To deliver a sustained competitive advantage, the firm must understand how it is performing relative to its peers. Armed with internal data, the organization now needs to compare this information externally to a statistically valid *sample* derived from the overall *population*. A *population* is the set of all items of interest – for example, all likely voters in the next election or all sales receipts in November. A *sample* is a subset of the population that is non-biased and representative of the sample as a whole. Examples of a sample might be 1,000 voters selected at random for interview or every 100th receipt selected for audit.

Sales benchmarking uses sampling to draw conclusions about the population as a whole. Sampling is used because it is less time consuming, less costly, more practical to administer and if done in the proper, non-biased manner, it supports statistical results with sufficiently high precision. The data should reflect both good and bad findings, should be presented in a fair and objective manner and should not use inappropriate summary measures that distort the facts. Therefore, the key to Step 2 is having a statistically valid, non-biased sample to compare your organization in relation to peers.

Living in the information age, a monumental storehouse data is available. There are several ways to find a statistically valid sample for comparison purposes:

- Internet search - points to thousands of sites that have pieces of the needed data - Salary.com or American Customer Satisfaction Index
- Trade associations – the National Association for Sales Professionals or the Sales Force Effectiveness Benchmarking Association
- Universities - Harvard University or Georgia Institute of Technology
- Market research - Buzzmetrics or Business Validation Resources
- Research firms - Sales Benchmark Index (SBI)

The goal of data collection is to have a statistically valid sample that will be used in the next step – Compare & Contrast – where an organization identifies where it is underperforming or overperforming in relation to its peers and other World-Class organizations.

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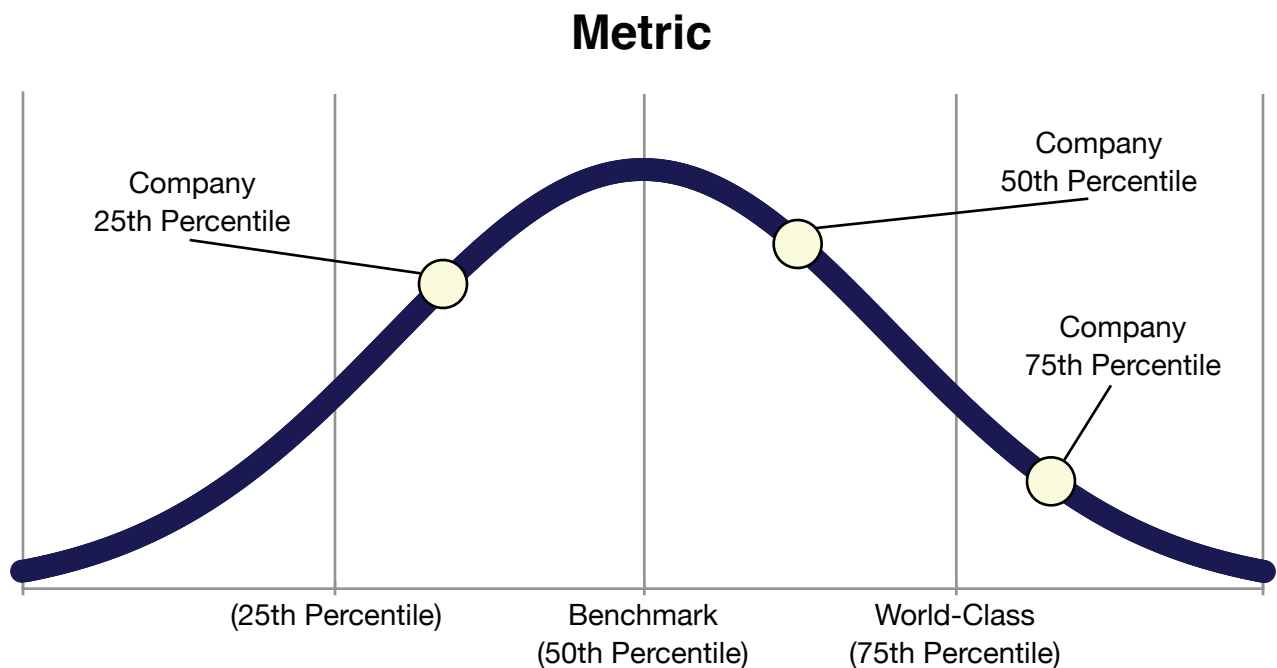
### Step 3 - Compare & Contrast

The third step in executing sales benchmarking is comparing and contrasting the internal data with the external data. There are two sets of inputs – the internal data about the organization's sales force and the external statistically valid sample.

Before the data can speak, an organization must first transform the raw data into information that can be compared and contrasted. Two calculations are necessary – identifying the central location and measuring variation. For measuring central location, it is recommended to use three indicators: the median, the 25th percentile and the 75th percentile. For measuring variation, the range and standard deviation are recommended. These are simple to use and can be simplified by using a tool such as Excel. These five calculations for each metric allow ease of implementation while still delivering the desired result.

Once the calculations are complete the organization's performance is compared externally against its peers and internally against history. The illustration below notes performance on a distribution plot which shows how the company compares to peers and to World-Class organizations.

On this distribution, a company will plot its mean, median, 25th and 75th percentiles to determine how it stacks up to the peers and World-Class organizations. The high and low ends of the computed range will be compared to the distribution plot above to determine if the company has outliers residing above or below the 75th and 25th percentile marks. And lastly,



the standard deviation is computed to determine how dispersed the data is. In general, if standard deviation is 1.5 times greater than the difference between the 25th and 75th percentiles, the company should focus on reducing the variation in the current performance. If the standard deviation times 1.5 is less than the difference between the 25th and 75th percentiles, the company should focus on moving the entire group at once.

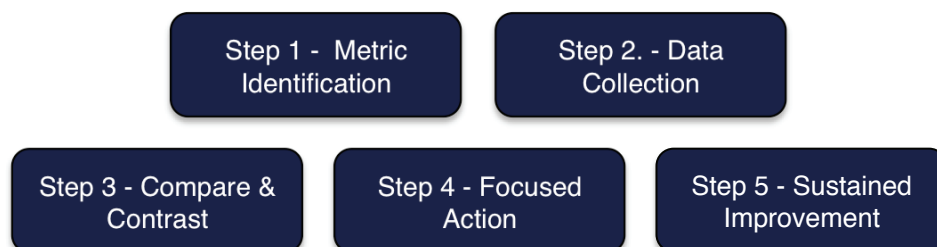
The last piece of the Compare and Contrast step is to quantify the opportunity in terms of increased revenue or decreased cost if performance is improved to match the peer group. To do this, measure the company's current revenue at its current performance level and compare it to the revenue produced at the peer group's performance level.

#### Step 4 - Focused Action

The fourth step in executing sales benchmarking is Focused Action, where a company develops a plan to create and sustain a competitive advantage. The organization has identified where it is over/under performing the market and has quantified the opportunity each area presents. Now that the high return areas of focus are known, the company needs to put a remedy plan in place and test it over time to measure its effectiveness, constantly tweaking it to get the results it is looking for. The focus is on reducing the risk of missing the sales targets and improving the chances of consistently hitting them.

This step is based on hypothesis testing. Hypothesis testing provides managers with a structured analytical method for making decisions. It lets them make decisions in such a way that the probability of errors can be controlled, or at least measured. Statistical hypothesis testing does not eliminate the uncertainty in managerial environments, but the techniques allow managers to identify and control the *level* of uncertainty.

#### ***Methodology for solving sales problems:***



- **Frame the Problem** – Define the problem that is being addressed in specific terms.
- **Develop Hypotheses** – List potential causes for each problem and the key drivers that impact or influence each cause.

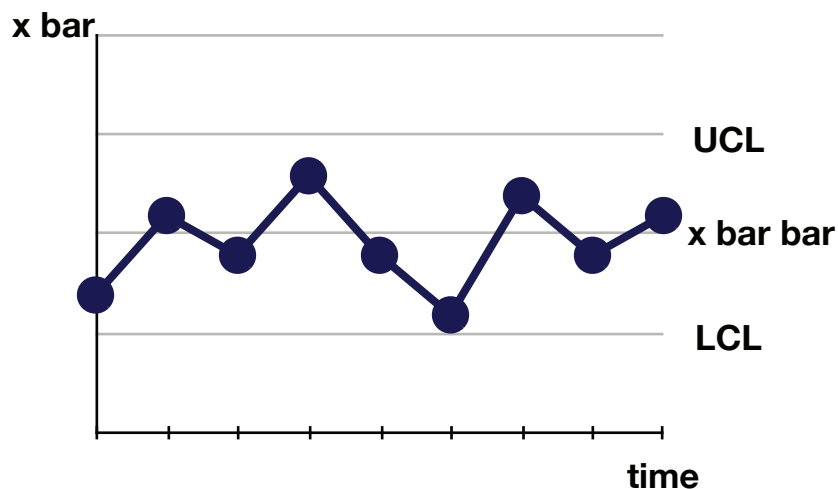
- **Gather Data** – Gather relevant data, information and background on the key drivers that will allow each to be proven or disproved.
- **Test Hypotheses** – Analyze each possible cause to determine if the data proves it is a cause, effect, unintended variable or irrelevant.
- **Create Solutions** – For hypotheses that prove valid, identify possible solutions and examine each solution's feasibility for successful implementation.
- **Develop Plans** – For viable solution(s), estimate all necessary tasks, investments, milestones, resource commitments, metrics and returns.
- **Select Solutions** – Use hurdle rate or other decision-making criteria to determine which solution(s) should be implemented.

### Step 5 - Sustained Improvement

The fifth step in executing sales benchmarking is a sustained improvement plan that transitions the project from a one-time event to being embedded in the operating procedures of the company. Sales benchmarking should become standard operating procedure – without replicating the heavy lifting over and over again - through Statistical Process Control. Statistical Process Control is a methodology that uses graphic displays known as control charts to monitor the quality of conformance and level of variation.

Statistical Process Control uses a control chart. To create the chart:

- Take data samples over multiple subgroups of time
- Calculate the subgroup mean ( $\bar{x}$ )
- Calculate the average of all the subgroup means ( $\bar{\bar{x}}$ )
- Plot the subgroup means as a line chart
- Calculate the Upper Control Limit (UCL) and Lower Control Limit (LCL), which should be three standard deviations from the subgroup mean



**In control.** A process is said to be “in control” when points are randomly distributed around the centerline and all points are within the control limits. Above is an example of a process control chart for a process that is in control.

**Out of control.** A process is said to be “out of control” if any of the following conditions are true:

- One or more points are outside control limits
- Nine (9) or more points in a row fall on one side of the centerline
- Six (6) or more points move in the same direction
- Fourteen (14) or more points alternate above and below the centerline

**Sustained improvement plan.** If a process is determined to be out of control, the cause of variation must be understood. This sustained improvement plan will allow a company to stay apprised of:

- Areas where the firm has *developed new advantages*
- Areas where the firm has *lost its advantages*

**The basic steps in this Sustained Improvement plan include:**

- Appointment of a Sales Benchmarking project manager responsible for ongoing administration and oversight of the process
- Monthly internal review of company performance
- Monthly review of company performance against a fresh external data source
- Monitoring of Focused Action implementation ensuring expected results are produced
- Monthly monitoring of the benchmarks in the context of Statistical Process Control

The ultimate goal is sustained competitive advantage. After all, your competitors are not going to stand still. Sales Benchmarking must become a standard operating procedure and part of your long-term strategy for success.

# Sales Benchmarking Example - Acme

The practical application of benchmarking to the sales function can be described in the following example of Acme, Inc. Let us assume that the CEO of Acme Company has been asked by the board to increase sales by 20% in the next fiscal year. The CEO comes to the sales leader with a revenue target 20% greater than last year's and tells him that he must meet this number. The sales leader tries diligently to debate the validity of this increase, but is unsuccessful because he doesn't have the necessary information to support his claims.

If the discipline of sales benchmarking was a *best practice* in this firm, the board, CEO, and the sales leader would understand the five variables that drive a sales number, which can be expressed in a formula. This formula illustrates the relationship each variable has on the output.

The formula can be summarized as follows:



Or translated as follows:



An example:



In a simple scenario, the board has asked for a 20% increase in sales next year. How do the five variables impact annual sales revenue?

First, look at Calls per Day. If the number of sales Calls per Day doubled, annual sales revenue would also double:



Now look at the impact of Success Rates. If the Success Rate increased from 10% to 20%, again, the annual sales revenue doubles:



If *Average Deal Size* increases from \$100K to \$150K, annual sales revenue grows by 50%:



Now, look at how the number of salespeople affects sales outcome. If the number of salespeople increased from 50 to 75, annual sales revenue would increase by 50%:



As you can see, there are five variables that affect annual sales volume and only one of them – the number of days per year – is fixed. The other four variables are adjustable.

Understanding the Formula for Sales Success and how to use it, the CEO, board, and VP of Sales would now be engaged in a much different conversation. They would be discussing *which* of these variables they could most positively affect. Data driven decision-making, enabled by sales benchmarking, can help answer this and other questions by looking at additional metrics to uncover the root cause of such sales problems.