

**Sales Performance Management:  
Integrated System or a Collection Disjointed Practices?**

**By**

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*“Performance is your reality. Forget everything else.”  
Harold Geneen, president & CEO (1959-'77), ITT Corp.*

This is not another discussion about sales performance appraisal. We see sales performance management as a challenge that is much broader than appraising sales reps' performance. In fact, we believe sales performance management should be every CSO's (Chief Sales Officer) new reality. The purpose of this White Paper is to provide a way to think about and execute sales performance management (SPM) that is helpful to sales leaders who share a common problem – assuring the CEO that revenue growth, sales profitability and other non-financial objectives (e.g., market share gain, customer loyalty) will be consistently met through effective sales force performance.

Consider this situation faced by the newly appointed VP, Global Sales for a top 100 technology company: *“The CEO asked me to review how we set and assign company performance expectations to our sales channels. There is a concern that we are missing our annual revenue growth objectives due to sales force underperformance. I came from a company where we had a sales performance dashboard. It provided me with visibility into booked sales, the pipeline and activities related to each account in it. The nice part about it was that it was already in place when I took over that company's US sales organization. That enabled me and my leadership team to focus on sharpening the business sales strategy, ensuring that we used the right sales metrics, setting objectives and quotas that supported our strategy, and evaluating effectiveness and taking corrective action where required. I have begun conversations with my new sales leadership team about how they approach sales performance management in their sales channels. What I am finding is that*

*there is no common understanding of what constitutes an effective approach to sales performance management. And, while I do not want to be harsh, it appears that we generally have random practices – everyone is doing parts of what could be an integrated practice. Part of the answer may be to have a software system like I had at my former company. However, before making that commitment, I want my team to have a common understanding of what sales performance management is and how we apply it here to address our CEO’s concerns and, ultimately, to achieve the status of a high-performance sales organization. Is there a best practices approach to accomplishing that?*

As this VP, Global Sales comments suggest, sales performance management (SPM) is not an easy leadership challenge to tackle. First, we believe that there are widely different views about what constitutes SPM. A simple Google check confirms that when a search for sales performance management is typed in 360 million results appear. When the search is refined to add the words, “definitions of”, 429,000 results are returned. Not surprisingly, most references are linked to a software solution. Software is, of course, a valuable tool; however, as pointed out by the VP in the case example above, it important to first start with a set of common expectations about what sales performance management is and can do for an organization when effectively implemented.

SPM is easier to talk about than to actually implement. A VP, Sales Training and Development for a Fortune 50 company recently told us “...using sales performance management as a framework to increase both sales productivity and sales results is a good idea; however, before we could go forward with that in our business sectors, we had to define exactly what we meant by performance management.” Finally, we believe that SPM must be thought of and used strategically. That means it helps a company win and keep business. Systems and process are important tools to have; however, unless SPM can help contribute to business results, enthusiasm for it quickly wanes.

## **SALES PERFORMANCE MANAGEMENT DEFINED**

As we see it, sales performance management is a systemic approach to managing sales people and teams that involves:

- Defining and clearly communicating sales strategy and objectives
- Prescribing roles and sales processes consistent with how a company intends to deliver value to its customers
- Setting sales performance expectations that are clear, actionable, aligned with business needs and measurable; and,
- Applying management discipline (through leadership, programs, processes and tools) to insure sales force effort and behavior are directed toward desired business results

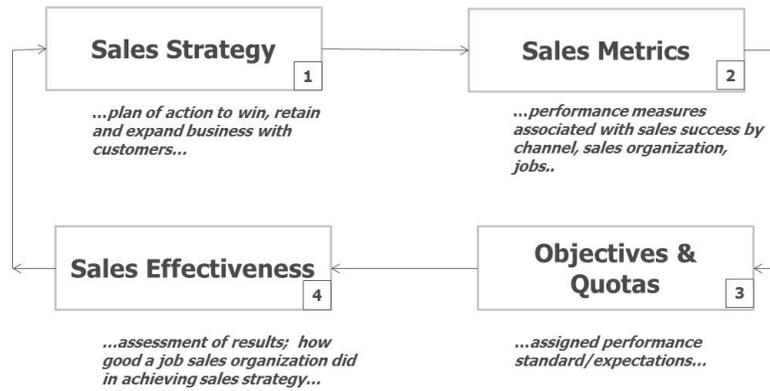
Our experience suggests that regardless of industry, and particularly in B2B oriented companies, this definition has wide-spread applicability because it provides an integrated charter for how to think about increasing sales performance.

## **HOW DO THE PIECES FIT TOGETHER?**

The attention given to sales performance management by company leaders, in our opinion, oscillates between high and low points as a function of a business' current success. In good times, we find that there is less concern about how effective sales performance management is or, in fact, if there is even a system or process in place to monitor and improve it. However, when senior management is not seeing sufficient growth in top line revenue, margins begin to fall, a sufficient number of new sales opportunities isn't converted to significant new customer revenue or, the customer attrition rate increases significantly over prior years, alarm bells go off and renewed interest surfaces over how sales performance is managed.

To avoid the problem of oscillating interest in sales performance management, we suggest that senior sales leaders and their teams use the following model to execute a consistent application of sales performance management in their sales organization:

### ***Sales Performance Management: Conceptual Model***



On the surface, this model appears quite simple. While simple is often good, we find the challenge most sales leaders face is how to achieve consistency in the execution of the model's elements. To achieve improvement in sales performance management a solid foundation is required. It all starts with sales strategy. Too often, a company's sales strategy is either not explicit or if explicit is not uniformly understood in terms of how the sales force puts forth effort and behavior to achieve it.

The sales metrics associated with sales success should logically follow from the sales strategy. The sales strategy for a mature company with a broad product portfolio will be materially different from a relatively new company selling only a single product. The sales metrics that define the success of each sales force must, therefore, reflect the realities of what the sales force is asked to accomplish.

Assigning objectives to the leader of the sales organization is uniformly easier than allocating quotas equitably throughout the sales force. The CEO expects the top sales executive to deliver, for example, revenue growth, margin contribution and expense management consistent with the annual budget. Allocating quotas to the sales force is where the rubber meets the road. Assuming that there is a defined process and set of tools to use in doing so, the fact still remains that there is more art than science in assigning quota numbers to sales people that are reaching, yet realistically achievable.

That may explain, in part, why less than 40% of top sales leaders tell us that they are satisfied with their sales quota allocation practices.

The essence of sales force effectiveness is the organization's ability to sell to and interact with customers in a manner that meets their needs and motivates a desire to do business with the company on a continuous basis. With that in mind, on a regular basis (monthly; quarterly; ytd) it is important to assess how good a job the sales force is doing in executing the planned sales strategy. Actual performance compared to objectives and quotas is a good starting point. However, the assigned numbers may not tell a complete story about how effectively the sales force is performing. In such cases, it may be helpful to consider one or more of the following performance indicators that we find characterize high performing sales organizations:

- Demonstrated success with selling new products or services
- Successful acquisition of meaningful new customers
- Proven success in account penetration
- High rate of customer retention
- High rate of sales rep retention (particularly top performers)
- Sales expense ratio lower than peer group companies (i.e., companies with comparable sales model)

## **ASSESSING THE CURRENT STATE**

How good a job a company does in shaping and executing its approach to sales performance management is ultimately a result of the attention that top sales leaders choose to give it.<sup>1</sup> A top sales executive is often pulled in a number of different directions. Examples of initiatives calling for attention may include: finding new revenue streams, encouraging his/her team to design new processes for interacting with customers and, determining the optimal mix of channels to deploy to serve customers effectively and efficiently. Because setting the right tone for an emphasis on sales

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<sup>1</sup> For a thorough discussion about how top sales leaders see their role relative to performance management, see our article, Jerome A. Colletti and Mary S. Fiss, "The Ultimately Accountable Job: Leading Today's Sales Organization", Harvard Business Review, July-August, 2006; reprint R0607k

performance starts with the top sales executive and his/her immediate sales team, we suggest that doing so requires answers to important questions about each element in the Sales Performance Management model. Summarized below is a selection of representative questions we have found to be useful.

<b>Factors</b>	<b>Illustrative Key Questions</b>
<b>Sales Strategy</b>	<ul style="list-style-type: none"> <li>▪ Is the current sales strategy clear about where growth will come from?</li> <li>▪ Is there a consistent and methodical process used to identify and concentrate on value driven customer segments?</li> <li>▪ Is it clear what price premiums customers are willing to pay to have their needs more directly addressed?</li> </ul>
<b>Sales Metrics</b>	<ul style="list-style-type: none"> <li>▪ When was the last time sales metrics were validated for consistency with the sales strategy?</li> <li>▪ Have all appropriate customer results metrics been given consideration, e.g., customer revenue retention, revenue expansion by customer/customer set, new customer conversion?</li> <li>▪ Have all the typical sales financial metrics been given consideration, e.g., revenue growth, gross profit, sales expense, sales compensation expense?</li> <li>▪ Have other results-driven metrics been considered, e.g., sales productivity, close rates, sales results vs. tenure?</li> </ul>
<b>Objectives &amp; Quotas</b>	<ul style="list-style-type: none"> <li>▪ Does the company establish individual sales quotas which sum to the company's total sales plan?</li> <li>▪ Does the company use a potential based method for allocating quotas to sales reps?</li> <li>▪ Do sales reps understand how their sales quotas/objectives were determined? Are these performance expectations clear and are they committed to achievement?</li> </ul>
<b>Sales Effectiveness</b>	<ul style="list-style-type: none"> <li>▪ Is the company performing as expected to its plan?</li> <li>▪ Is performance distributed as expected across the sales organization?</li> <li>▪ Does quota attainment significantly differentiate top performers from average and marginal performers? Is this differentiation evident in sales incentive compensation earnings?</li> <li>▪ Are the top performers (relative to quota attainment) actually the company's most capable sales reps or are performance levels indicative of inaccurate quota allocation?</li> <li>▪ Do customer sensitive metrics (e.g., churn, services and satisfaction data) support the financial sales effectiveness results? If not, where are the gaps?</li> </ul>

## SUMMING UP

Based on the ideas and practices laid out in this White Paper, we have the following suggestions for any CSO who faces a challenge similar to the VP, Global Sales for a top technology company.

- 1) Gain agreement among the sales leadership team about what outstanding performance looks like. Do so in reference to an explicit sales strategy.
- 2) Once there is a clear idea about how outstanding sales performance manifests itself relative to the sales strategy, identify and agree on the most appropriate sales metrics to use to monitor and report results.
- 3) Develop, agree on and use a uniform process for assigning objectives and quotas in reference to key sales metrics. Exercise constraint by limiting the both the number of measures and objectives or quotas to three or less.
- 4) Agree on the process and tools that will be used to assess and report on sales effectiveness. This should include the top three of four key analyses performed regardless of business or sales channel so that learnings can be shared across the sales leadership team.
- 5) Review alignment of sales force effectiveness with actual sales performance in key areas (both financial and non-financial requirements).