The Measuring Sticks of Sales Productivity

Expense and performance data are the black-and-white measurements of sales, but fail to measure an organization's ability to sell

A true sales dashboard should include operational, performance, opportunity and productivity metrics

Sales productivity metrics focus on measuring the size, quality and speed of opportunities as they move through a lifecycle

The world is flat, or at least we thought it was until Columbus made a discovery or two while trying to find a faster route to the Far East. In many organizations, sales executives take the same myopic view of sales productivity, refusing to treat it as anything but the ratio of expense to revenue. Not surprisingly, their search across oceans of data generated by finance, human resources and sales force automation systems to find a new world of results can't ever seem to find dry land.

Measuring sales is easy; it's measuring selling that presents a challenge. In our research brief "Productivity: More Than Just the Topline," we looked at how traditional performance metrics are often confused with measures of productivity. In this brief, we will define a more complete framework of metrics that drive a better understanding of sales performance and how to improve it.

A MATRIX OF METRICS

Measuring sales exclusively on results and the underlying cost structure is certainly a clean approach, but forces sales leaders to rely on intuition as to how to improve sales performance. Is more training required? Do we know our products well enough? What is marketing's contribution? Where can technology save time or improve the quality of output?

A metrics framework that incorporates a balanced view of sales and selling, on the other hand, provides decisionmakers with a dashboard of financial facts (what we know) and field intelligence (what we think). We segment this framework into four categories: operations, performance, opportunity and productivity. The operations category measures how the sales organization is engaging with the marketplace in terms of expense, headcount and infrastructure, while the performance category tells us how we have done in terms of revenue, quota attainment

and product contribution. The opportunity category provides perspective on individual opportunities as they move through a lifecycle; productivity shows us how efficient and effective we are at advancing these opportunities.

By putting these categories together, we now have a "matrix of metrics" that can be sorted and viewed by a variety of demographics including geography, product group and customer market for relevance. This matrix allows sales executives not only to pick apart their results, but to troubleshoot the difficulties of their teams and take the proper action.

PRODUCTIVITY'S FOUNDATION

The presence of the opportunity category in our metrics framework cannot be overlooked; it forms the foundation on which productivity can be measured. Classifying opportunities requires an institutional understanding of a well-defined sales process; at a minimum, opportunities should be classified by sales stage, product mix, revenue value and anticipated close date. More advanced sales organizations will capture intelligence such as source (lead, campaign, referral, cold call), competitive presence (pricing, products, messaging), buying roles (decisionmaker, influencer, user, ratifier) and decision factors (business requirements, budgets, signing authority), all of which lead to a deeper knowledge of buying behaviors and cycles.

Although sales force automation systems have been deployed to automate the collection and calculation of opportunities in the form of pipelines and forecasts, many organizations struggle with both adoption and compliance for these systems. There is no way that a sales organization can consistently measure its productivity without its sales force both understanding and executing a prescribed sales methodology and process to consistently classify opportunities by sales stage. Training salespeople on the sales

process and leveraging first-line managers to inspect and coach this process will result in more accurate, reliable opportunity grading; at a minimum, salespeople should be required to maintain and update the status of opportunities on a weekly basis. If sales embraces this discipline, technology can do the work to populate the appropriate dashboards.

PRODUCTIVITY: METRICS

With an opportunity framework in place, organizations can begin to look at both the activities and the competencies that underlie the framework. In "Productivity: More Than the Topline," we broke activity down into six categories, including administration, education, prospecting/account research, telephone, call preparation and face-to-face calls. At a baseline, the greater number of competent client interactions a salesperson has (bad sales calls will negatively impact productivity), the more likely it is that he or she will succeed. And although telephone-based prospecting, researching and pre-call planning are less tangible, assessing the time required and efficacy of each can result in freeing up more customer face time; the same can be said for administration.

Measuring sales competencies – the processes, skills and knowledge required to be successful – is more challenging. Historically, this task has fallen to sales managers, who use highly individual, subjective criteria to assess the reps under their control. And while product certification can now be accomplished through online training and assessment tools, these measurements are too often taken to justify sales training budgets rather than to understand and address gaps in knowledge. With the average sales rep now dedicating roughly 3 percent of his or her time to training and the average sales organization spending between $3,000 and $7,000 per rep per year, a competency model that applies equally to all reps in an organization is required. With this model in place, managers will have a framework to assess a rep's process utilization, sales

skills and the depth of their knowledge; we will discuss the construction of such a model in a future research brief.

While many factors play into closing opportunities, a more knowledgeable, skilled and focused sales rep will certainly drive better performance. Thus, measuring sales productivity – the time, effort and quality of selling – requires three sets of metrics that include an analysis of performance beyond revenue or quota, as well as opportunity management and demand creation.

The first category, productivity performance, is evidenced by increased deal sizes, higher win rates, shorter sales cycles and improved deal margin contribution. Analysis of the quality of closed opportunities reflects how productive the selling was, while increased deal size demonstrates progress toward selling broader solutions rather than point products. Higher win rates reflect a competency advantage in competitive situations; shorter sales cycles demonstrate process fluency; and increased margin contribution can often be tracked to improved sales acumen.

Opportunity management, the second category, reflects the size, depth and speed of opportunities as they move through their lifecycle tracked in the sales pipeline. An increase in the net total number of opportunities in the pipeline first indicates an increase in revenue generating activities. Increased total pipeline value will be driven by working on more deals, and average pipeline opportunity size demonstrates how well productivity improvements can be expected to impact future deal size. Finally, pipeline velocity metrics monitor the speed that opportunities advance through the opportunity lifecycle; analysis will identify where bottlenecks occur or where process refinement is needed.

The third category, demand creation, is comprised of metrics that judge the most time-consuming (and therefore least productive) set of sales activities. Improvements in demand creation efforts will result in more new opportunities with higher potential revenue values that are further along in the opportunity lifecycle. Net new opportunities and their attributes of revenue and sales phase will focus on the potential and maturity of new opportunities. Sales qualified leads (SQLs), leads that are sourced through marketing initiatives and the pipeline percentage of SQLs will showcase marketing's contributions to sales productivity and help set field/inside sales' contribution expectations.

THE SIRIUS DECISION

Improving productivity isn't a matter of telling sales to just "sell more, better." Rather, it comes from an acute focus on the set of competencies, activities and opportunity management that all occur between a dollar being spent on a head and assigned to a territory, and a dollar of revenue being generated. Best-in-class sales organizations understand that to drive performance, they must measure not just their sales, but their collective ability to sell; only then are they able to drive the sales performance improvements they seek.

IN FOCUS: PRODUCTIVITY METRICS

The productivity of a sales organization and the individuals that create it are determined by metrics in three categories. How many of these has your organization standardized around, and does it track with regularity?

Productivity performance: Closed deal size, average selling price (ASP), win rate, sales cycle length, margin contribution.

Opportunity management: Pipeline revenue value, number of opportunities, revenue per opportunity, opportunity velocity.

Demand creation: Number of new opportunities, sales/buying phase of opportunities (degree of progression into the cycle when given to sales), number of sales qualified leads (SQLs), number of sales sourced leads, pipeline percentage (marketing sourced), pipeline percentage (sales sourced).