

# Measuring sales performance

Javier Marcos, Monica Franco and Peter Kerr from Cranfield School of Management explore why focusing solely on financial indicators isn't the best way to judge performance, and how setting unrealistic targets is demotivating

Most companies that have sales functions have sales performance measurement systems in place. The types of sales performance measures depend on the nature of a firm's sales processes and internal requirements. The selection of sales measures also hinge on the maturity of a firm's CRM systems and sales automation solutions that enable the collection, analysis and exploitation of its performance data. What only a few organisations realise is that the complexities of sales performance measures go beyond the difficulty of gathering and reporting of data. A number of factors make measuring sales performance problematic.

## THE CHALLENGE OF SALE PERFORMANCE MEASURES

The achievement of high levels of sales performance and marketing effectiveness depend on the identification and implementation of customer management practices where outcomes are not immediately or quantitatively measurable. Yet, stakeholders' demands often lead organisations to implement a plethora of sales measures without recognising the limitations they may have. These key limitations are described here.



- **The 'end'-'means' paradox**

The aim of measuring sales performance is to improve it. However, many organisations design and roll out performance management systems and achieve precisely the opposite. When sales people are 'subject' to a set of strict measures, they engage in behaviours to deliver against those measures. Focusing solely on financial indicators like revenue, as an example, may cause sales people to ignore longer term customer relationship building activities.

- **Linking measures with quotas**

Sales measures may become largely dysfunctional when linked to targets or sales quotas. Sales targets are often perceived

as unachievable, and evidence shows that this results in negative effects to both salespeople's trust in the organisation and their own sales performance. Targets can be perceived as unachievable if they result from the combination of inaccurate forecasts, along with pressure to exceed market growth. The recent economic crisis has questioned many organisations' ability to reliably predict demand. Even if prediction is accurate, fast changing customer expectations render many forecasts invalid.

- **The complex nature of measures**

Organisational phenomena, including sales performance, are, by their very nature, complex, interconnected and often subjective. Therefore,

most attempts to measure 'performance realities' will be, by definition, limited. Sales managers need to be aware of certain characteristics common to most sales measures, such as:

**Imperfection:** Some measures do not capture critical business development practices, resulting in the phenomenon known as 'hitting the measure but missing the point'. For instance, many organisations measure conversion rate, ignoring the 'quality' of those conversions. Equally, managers may focus on the 'number of new customers', while failing to scrutinise the quality and potential of such customers. The latter may be an 'imperfect objective' but a more meaningful measure than the former.

**Stickiness:** once sales measures have been accepted, they become uncontested, thus promoting activities to increase a measure that may no longer be relevant, such as market share in highly volatile markets.

**Conflicting roles:** some measures, inherently more useful for strategic decision-making, such as sales-per-customer segment, are used for reward and compensation purposes. This induces distortion and manipulation of the metrics.

**Inconsistency:** over time, the validity of measures

decreases. Measures will lose informativeness as individuals 'learn' how to manipulate them, so they no longer reflect true selling performance.

Based on the existence of these limitations, here are some key guidelines for implementing sales performance measurement systems.

## USE INSIGHTS TO CREATE VALUE

Sales performance systems should be seen as an investment. The value of the insights that can be derived from them should supersede the cost of their procurement. Sales measures are powerful mechanisms to enhance strategy execution when coherence and alignment with the overall sales and business strategy are achieved. It is well known that data by itself will not create value. It is the contextualisation of the data that triggers the emergence of information. When absorbed, this information becomes knowledge, and when used to inform decision-making and resource allocation, a source of advantage. Key questions for managers are: 'Do we get value from our measures that supersede their cost?' And 'to what extent do we use the insights derived from these measures?' If not, 'why do we have them?'

## RELEVANCE RATHER THAN ACCURACY

Given that sales performance is a multifaceted and imperfectly measurable phenomenon, measures are rarely perfect. Efforts to obtain exact indicators in sales and marketing organisations will often be futile.

A more realistic and fruitful endeavour is to define measures that capture essential sales processes that are sensitive to the specific context, and mindful of the customer's needs and expectations in that sector. Relevant sales measures often balance the needs of short-term accomplishments with desirable long-term performance. A key question for managers is: 'Do our sales performance measures serve the purpose they intend?' and 'is the data good enough for that purpose?'

## UNDERSTANDING RATHER THAN CONTROL

Sales performance information can be used for different purposes. It can be used to inform decision-making as well as the monitoring and rewarding of sales people. It is important to know that when the same information is used for both purposes, information is likely to be distorted.

To find competitive advantages, sales performance information should be used mainly to better understand the drivers of sales success and the factors that influence those drivers.

A control chart can be a very useful tool to appreciate the nature of the performance being measured and the factors that affect its variation. When investigating performance data, key questions for managers are: 'What factors are affecting the results of our performance measures?' 'Are these factors out of our control?' 'Are these factors generated by our own sales processes?' 'Are these factors due to our sales people's skills, knowledge, clarity of direction or motivation?'

## FURTHER READING

Marketing In The Era Of Accountability. Identifying The Marketing Practices And Metrics That Truly Increase Profitability, *Les Binet and Peter Field. IPA dataMINE, 2008*

The Future Of Selling, *Brian Fetherstonhaugh with Mish Fletcher, Nikolaj Birjuicow, Phil Buehler and Jennifer Blum, WPP Atticus Awards: Merit 2010*

## FOSTER A SUPPORTIVE ENVIRONMENT

Sales professionals are often regarded as solely driven by extrinsic motives. This claim is mistaken, as recent research suggests that most sales professionals show high levels of intrinsic motivation as well.

Managers can stimulate both sources of motivation and channel them towards higher levels of effort and performance, by increasing the significance of the sales endeavour, providing greater autonomy, development and a supportive environment. Explaining the rationale of the chosen measures, negotiating realistic targets and exploring effective approaches to accomplish them will all increase the meaningfulness of the sales job.

A key question for sales managers is 'to what extent do our sales measurements and management system promote a meaningful sales job, a sense of autonomy, a sense of development and a supportive environment?'

## CONCLUSION

Sales measurement and management systems are, by their very nature, complex and highly interactive. Data is rarely purely objective, since we all use prior frames of reference and rely on assumptions to

make sense of performance data to turn it into information. Moreover, sales and marketing managers often believe in the misguided motto of 'what you measure is what you manage'. Customer experience is critical in many contexts, yet is difficult to measure, as it is driven by subtle, intangible factors that may be observable but are imperfectly measurable. This does not impede organisations such as Singapore Airlines or BMW to manage their customer experience skilfully.

Managing sales performance data strategically is increasingly becoming a source of advantage and a key foundation for creating winning sales teams focused on engaging valuable customers, with relevant offerings, through pertinent channels and approaches.

Sales leaders can use sales performance measures as key mechanisms to implement and communicate the business vision, inform decision-making, allocate resources and align sales behaviours with the overall sales strategy. To ensure that sales performance measurement activities ultimately result in improved performance, the above evidence-based principles need to be considered.