



The Measurement of Sales Force Productivity and Sales Compensation Effectiveness

A recent article ¹ reported that 11% and 12% of companies, respectively, assess their year-over-year improvement in sales force productivity using these metrics:

- Return on sales investment – i.e., ratio of direct and allocated sales cost for the sales organization as % of revenue; and
- Return on sales compensation investment – i.e., ratio of direct cost of sales staff as % of revenue.

Neither of the above is a ‘return on’ measure. They are expense ratios that might be proper in monitoring the cost of a company’s sales effort or sales compensation. Clearly, the metrics don’t view a company’s sales force as a productive asset or sales compensation as an investment in production. From TopMark’s perspective, more appropriate indicators of sales force productivity would include such metrics as: ²

- Revenue ÷ Number of sales calls on current and prospective customers;
- Revenue ÷ Number of current and prospective customers;
- New Customer Revenue ÷ Number of new customers “won” during the fiscal year;
- Current Customer Revenue ÷ Number of active customers at the beginning of the fiscal year;
- Revenue ÷ Revenue potential of all territories; ³
- Revenue ÷ Revenue potential of all opportunities in the pipeline during the fiscal year;
- Revenue ÷ Number of sales force members assigned sales quotas or goals; and
- Revenue ÷ Direct and allocated overhead investment in sales resources.

The above list is by no means exhaustive. Each metric can be used to compare the results generated by different sales jobs, salespeople or sales channels as well as trends over time. The value and precision of metrics gauging sales force productivity and sales compensation effectiveness increase when the amount and source of revenue and revenue growth can be directly linked to specific sales resources and actions. This requires a knowledge of the sales organization, go-to-market strategies, sales roles, sales processes and sales cycles. One, aggregate sales force calculation will not be as revealing as multiple calculations in situations where indirect, overlay and pre- and post-sales jobs contribute significantly to a company’s overall sales result. ⁴



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The payback on, or effectiveness of, a company's sales compensation program or sales incentive plan can be determined through calculations that reveal the dollars of revenue generated per dollar of pay invested in those tasked with generating the revenue. This is akin to the inverse of a commission rate. A company that pays a 10% commission invests \$1.00 to net \$9.00 – a 9:1 payback on its investment (e.g., [\$100 revenue - \$10 commission] ÷ \$10 commission). A similar calculation can be made for companies with bonus plans. For instance, a company providing a \$25,000 bonus opportunity to a salesperson expected to generate revenue of \$2,500,000 does so in the anticipation of receiving \$99 for each dollar of bonus paid [(\$2,500,000 - \$25,000) ÷ \$25,000]. Here are several 'payback' formulas:^{2 5}

- $(\text{Revenue} - \text{Aggregate sales compensation}) \div \text{Aggregate sales compensation}$; and
- $(\text{Revenue} - \text{Aggregate sales incentive}) \div \text{Aggregate sales incentive}$.

There are additional – although less formulaic and holistic – ways to critique the effectiveness of a sales compensation program. For example, it is beneficial to compare the rate of increase (or decrease) in year-over-year revenue to the rate of rise (or fall) in sales compensation or sales incentive earned. Assume, for example, a company's revenue increased 25% from one year to the next but sales incentives associated with the revenue increase grew 50%. Questions that might be asked about the increase in sales incentives might include:

- Were quotas improperly set? How robust is the market data that feeds into the quota setting and sales incentive design processes?
- Are commission rate or bonus accelerators too aggressive?
- Were sales resources added during the year? Did new hire deals affect sales incentives?
- Regardless of the growth rate in sales incentives, is the revenue payback on earned sales incentives acceptable?

What if year-over-year revenue declined but earned sales incentives fell at a lesser rate? In this case, it might be important to explore the:

- Sufficiency of variable pay in sales force members' compensation;
- Alignment of performance and sales incentives;
- Mix of high and low performers and the degree that results produced, and sales incentives earned, by a group of high performers offset the results delivered by, and minimal/no sales incentives of, low performers;



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- Prevalence of KPIs in the sales incentive plan that are not funded by revenue; and
- Extent the sales incentive plan is individual contributor- or team-oriented and the ability of performance measurement systems to discern an individual's contribution to team results.

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As it regularly does with other productive assets, management should assess the returns received on its sales force and sales compensation investments.

¹ *Sales Force Productivity Metrics: Assessing Sales Success*, Jerome A. Colletti and Mary S. Fiss, © 2006 Colletti-Fiss, LLC. – http://collettifiss.com/Sh-C_SalesForceProdMetrics.pdf

² If appropriate, gross profit or profit contribution can be substituted for revenue.

³ The definition of a territory could include, or exclude, a salesperson's assigned current and prospective accounts, house accounts, or vertical markets, etc. based on how the company has organized its: a) current and prospective accounts, b) sales resources, and c) sales channels.

⁴ Such sales jobs might include indirect sellers (who work with channel intermediaries that sell to end-users), individuals who provide support to the primary seller (e.g., application, product and/or vertical market specialists), and/or Individuals who work on pre- and/or post-sale technical issues.

⁵ Aggregate sales compensation or sales incentives of sales force members assigned sales quotas or goals. Sales incentives earned in the fiscal year should be used rather than sales incentives paid in the fiscal year to match the timing of performance and pay.