

# ESR's Guide to Measuring Sales Performance

Version 2.0

## Preview

**ES Research Group maximizes the value of the relationship between the sales training buyer and the sales training provider through our knowledge base, experience, and guidance in making the right decision.**

## Table of Contents

|          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>Executive Summary</b> .....  | <b>4</b>  |
| 1.1      | Goals .....   | 4         |
| 1.2      | Methodology.....  | 4         |
| 1.3      | Key Findings.....   | 4         |
| <b>2</b> | <b>Measurement as an Integral Component of the System</b> .....               | <b>7</b>  |
| 2.1      | The Metrics Sub-System .....  | 9         |
| <b>3</b> | <b>Measurement Goals and Objectives</b> .....                                 | <b>10</b> |
| 3.1      | Beyond the Hawthorne Effect.....  | 10        |
| 3.2      | The Implications of the “Camel” & “Chaise Lounge” .....                       | 14        |
| 3.3      | Measuring Programs & Events vs. Measuring Continuous Sales Improvement.....   | 15        |
| 3.4      | Benchmarking .....  | 17        |
| 3.5      | Why Benchmark Sales Performance?.....   | 17        |
| <b>4</b> | <b>Measuring Sales Training Results</b> .....                                 | <b>18</b> |
| 4.1      | Sales Training Measurement Goals .....  | 18        |
| 4.2      | The “Total Cost of Training” (TCT) .....                                      | 21        |
| <b>5</b> | <b>Levels of Sales Measurement</b> .....                                      | <b>23</b> |
| 5.1      | How Much to Measure.....  | 23        |
| 5.2      | Operational / Transitional Measures .....                                     | 25        |
| 5.3      | Vendors and ROI .....   | 28        |
| 5.4      | Then, Can You Project ROI?.....   | 28        |
| 5.5      | Determining the ROI for a Training Program .....                              | 28        |
| 5.6      | Caution Regarding Gains .....   | 29        |
| 5.7      | Using Net Present Value.....  | 30        |
| 5.8      | Other Methods of Determining ROI .....  | 30        |
| 5.9      | The Relationship between Measurement and Organization.....                    | 31        |
| <b>6</b> | <b>The Metrics</b> .....  | <b>35</b> |
| 6.1      | The Foundation Metrics .....  | 35        |
| <b>7</b> | <b>The Measurement Process – A Step-by-Step Guide</b> .....                   | <b>43</b> |
| 7.1      | Set Goals.....  | 43        |
| 7.2      | Define Methods to Achieve Goals.....  | 44        |
| 7.3      | Select Metrics that Measure Methods & Predict or Determine Goal Results ..... | 44        |
| 7.4      | Implement Metric Collection Methods .....                                     | 47        |
| 7.5      | Implement Methods.....  | 49        |
| 7.6      | Collect & Analyze Metrics.....  | 49        |
| 7.7      | Evaluate Results .....  | 50        |
| 7.8      | Revise Goals & Methods .....  | 50        |
| <b>8</b> | <b>How to Implement A Performance Improvement Metrics Program</b> .....       | <b>51</b> |

|           |  |           |
|-----------|--|-----------|
| 8.1       | Implementation Plan Objectives .....   | 51        |
| 8.2       | Organizing the Process.....  | 51        |
| 8.3       | Communicating the Program.....   | 52        |
| 8.4       | Rolling Out the Program.....   | 52        |
| 8.5       | Future Planning .....  | 52        |
| <b>9</b>  | <b>Measurement Process Evaluation Framework.....</b>                               | <b>53</b> |
| 9.1       | Objectives of the Framework .....  | 53        |
| 9.2       | Introduction to the Framework.....   | 53        |
| 9.3       | The Criteria .....   | 55        |
| <b>10</b> | <b>Benchmarking, Auditing &amp; Certifying Sales Performance Measurement .....</b> | <b>58</b> |
| 10.1      | Independent Validation & Verification Audits .....                                 | 58        |
| 10.2      | Comparative Benchmarks.....  | 58        |
| 10.3      | Certification Programs .....   | 58        |
| <b>11</b> | <b>Conclusions .....</b>   | <b>60</b> |
| <b>12</b> | <b>Index.....</b>  | <b>61</b> |

## 1 Executive Summary

### 1.1 Goals

This report is about metrics and measurement of productivity improvement as they pertain to sales performance. However, this report is more than that. Just as the health of a company can be described in terms of dollars, which are symbolic representations for various elements of corporate performance, sales process can be defined in terms of metrics that are symbolic representations of the sales process.

The process of defining metrics is truly not simply about measuring some pre-defined performance improvement program, but a tool in the design of the program itself. As noted management professor and consultant, Peter Drucker, said, "If you can't measure it, you can't manage it."

To effectively measure, you must define goals (outcomes), methods to achieve those goals, and metrics which define the outcomes and measure the methods. This definition process, when incorporated within the process of defining your performance improvement design process significantly improves the probability that a well-formed, effective performance improvement program will result.

Measurement is not something you do "to" a performance improvement program, it is "part of the design" of the program itself.

### 1.2 Methodology

ESR's *Guide to Measuring Sales Performance* is a synthesis of customer and sales performance improvement vendor interviews, survey of existing literature, and actual practice, drawing upon co-author Al Case's experiences as group vice president of Gartner|Measurement and president of Gartner|eMetrix where he designed and implemented IT and business performance measurement programs for hundreds of companies worldwide. This report draws upon not only research specific to metrics and metrics related to sales performance, but also cognitive research (how do human managers process metrics information to make management decisions) and General Systems Theory (how to measure the relative effectiveness of a business system).

### 1.3 Key Findings

#### Notes

Most organizations ESR interviewed (approximately 70%) said they had no formal program for measuring sales training or any related sales improvement program. Those that did, by and large, took a very informal approach to measuring their sales training (i.e., they either do not develop any measurements or do the "bare minimum" such as post-event satisfaction questionnaires).

### **1.3.1 Less is More**

"Less is More" echoes Aldous Huxley's famous paradoxical mantra of Big Brother in *Brave New World*. In our case, however, "less is more" is a paradox (a common occurrence in measurement) within the context of sales performance improvement.

Many existing, commercially available business methods and systems for measuring performance extol the virtues of measuring hundreds of data points within the process. However, practical experience and empirical evidence indicates that this "bigger is better" approach is overkill – in both resource and expense. Furthermore, our research indicates that, from a cognitive process perspective, any given business goal should be defined by no more than 7 +/- 2 metrics. There is significant empirical evidence that decision making ability is impaired, rapidly, as the number of metrics being evaluated for any given decision exceeds 9 metrics.

### **1.3.2 Paradox Rules**

"Less is more" is not the only paradox in measurement. In fact, we find that many management rules-of-thumb are less than accurate business decision making guides. For example, we estimate that approximately 1/3 of all performance improvement programs actually improve performance. Approximately 1/3 have no sustainable effect on performance, and often fail to even cover the cost of the theoretical improvement, in which case, they are simply one-time bad investments. Most disconcerting is that roughly 1/3 of theoretical performance improvements actually have a long-term sustainable degradation in performance, which often goes unnoticed.

Without specific, well-defined measures, managers are often guessing, based on bad assumptions, about what will improve performance. The argument for a formal metrics program is no stronger than as demonstrated by a phenomenon known as *Braess's Paradox* (discussed in more detail in Section 4), which originally explained why, counter-intuitively, telecommunications network performance went down as new "performance improving" nodes (routers) were added. Later that same theory explained why, maddeningly, traffic patterns in heavily trafficked urban areas degraded as more highway capacity was built between points "A" and "B."

### **1.3.3 Goal-Method-Metric Traceability**

In this report, we describe a *Goal-Method-Metric Traceability* (GMMT) process that links every metric to a specific performance improvement method, and assures that Borrowing from the Department of Defense (DoD), we adopted the

concept of Requirements Traceability and applied it to defining the goals of sales performance improvement.

The DoD uses these methods to assure that every implemented (and taxpayer paid for) element of a mission-critical defense systems built for the U.S. government actually ties to a specific mission-critical requirement. Furthermore, it assures that no implemented component is extraneous and detracts from the system's ability to achieve the mission.

Furthermore, GMMT assures that the *minimum necessary and sufficient* metrics are deployed for each goal.

#### **1.3.4 Evaluating the Effectiveness of a Measurement Program**

Purveyors of performance improvement solutions, process, programs and tools – from training to consulting to software – often offer a process for measuring the result. Many organizations have formed their own processes. However, it must be recognized that any measurement/metrics program is a system. Systems can be well or poorly designed. They can have bugs. They can closely meet the user's requirements or not.

ESR has defined an eight-step process, with guidelines, for evaluating the probable effectiveness of a performance measurement program.

## 2 Measurement as an Integral Component of the System

We often think of measuring a process, or measuring a change (such as a performance improvement method) to a process as a separate step, an add-on, to the performance improvement process. This thinking often leads us to believe that measurement is optional.

We would contend that, while the actual measurement itself may (sub-optimally) be optional, the process of defining the metrics, and relating metrics to business goals and methods of performance improvement is actually an integral, and necessary part of the performance improvement program.

The sales process is a business system. In the mid-1980s, the following model of a macrosystem was developed, which helps illustrate this point.

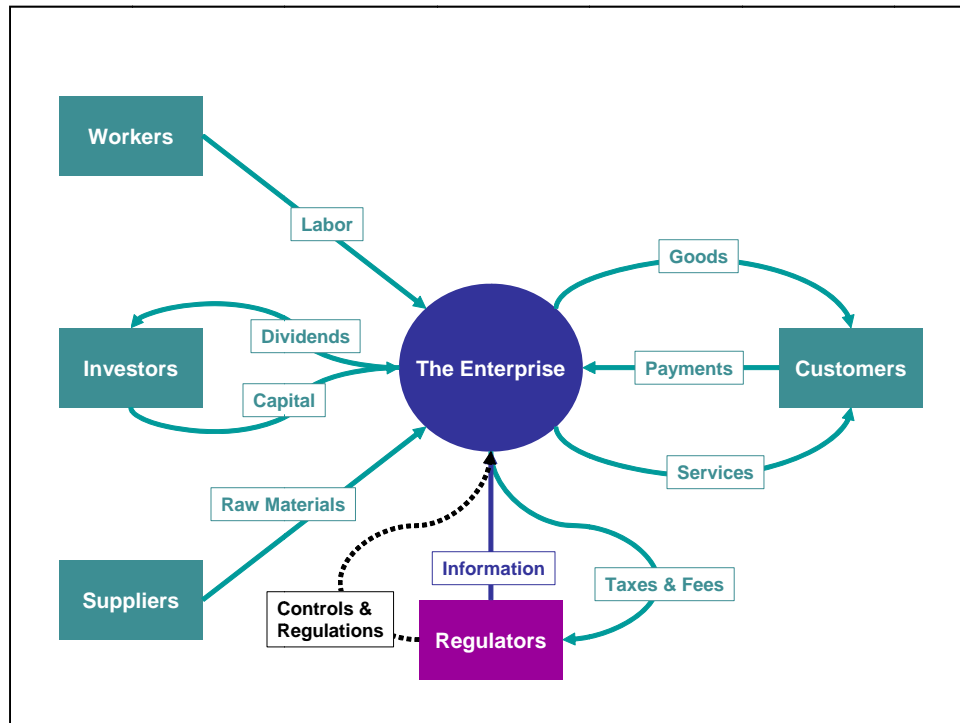


Figure 2A: The Enterprise System<sup>1</sup>

Figure 2A. describes the enterprise as a “system.” All systems behave according to a predictable set of rules defined by *General Systems Theory*<sup>2</sup>. But most importantly, all enterprise systems exist to provide customers with goods and services in exchange for payments, using labor, capital and raw materials provided by workers, investors and suppliers. The key objective of most enterprises is to

<sup>1</sup> **Source:** Case, A. *Information Systems Development* (Prentice Hall). Reproduced with permission.

<sup>2</sup> Von Bertalanffy, L. *General Systems Theory* (George Braziller Inc.).

optimize the system for profits (paid as dividends), and most performance improvement programs, including sales, focus on that optimization goal.

In Figure 2B, we see a more detailed view of the system, which highlights the fact that the enterprise system is actually a collection of sub-systems at three levels:

- the **Transformation Process** which actually converts physical things (like raw material and labor) into products and services in exchange for dollars,
- the **Information Process** which monitors the Transformation Process and converts data into information for management decision making, and,
- The **Management Decision Making Process**, which analyzes the information and provides direction, control and decisions.

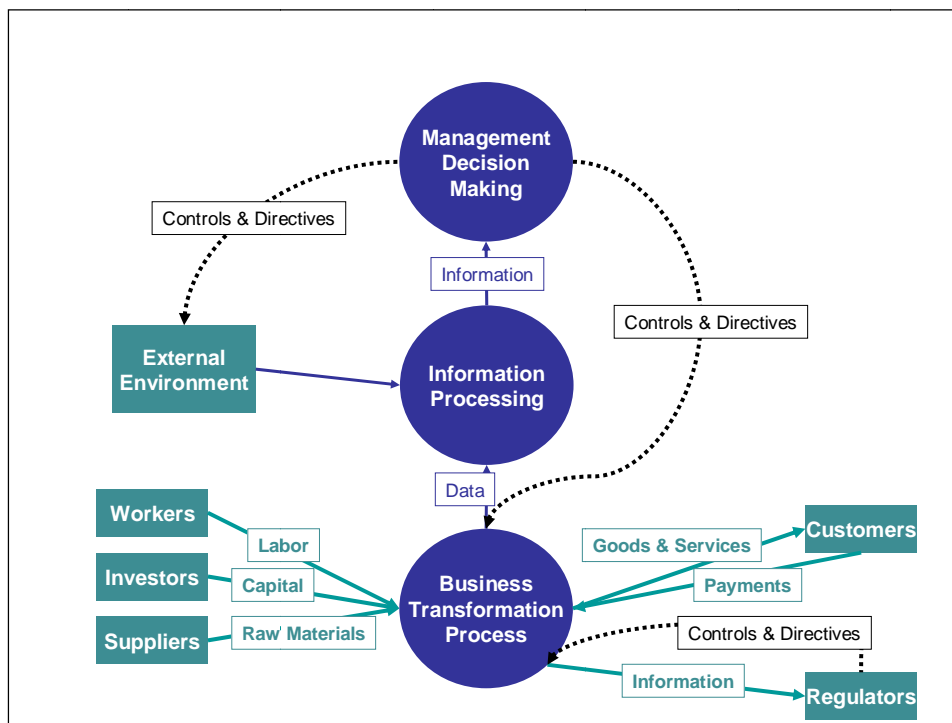


Figure 2B: The Business System<sup>3</sup>

All performance improvement programs are changes to the methods used in the Business Transformation Process subsystem. And, any change in the performance improvement program, requires a corresponding Information Processing system to monitor the change, and Management Decision Making Process to determine what further changes may be required to optimize.

<sup>3</sup> op. cit., Case, A.

## **2.1 The Metrics Sub-System**

A metrics program for improving sales performance is not an optional component of the enterprise system, nor some “nice to have” feature. It is an essential component of the well-managed enterprise required to provide feedback.

Defining only the performance improvements is, in effect, defining only 1/3 of the system. Implementing the performance improvements, without implementing the appropriate metrics information and management decision making processes almost guarantees failure of the performance improvement for two reasons:

1. Information systems implemented prior to the change (whether automated or manual, whether sophisticated or “back of the envelope”) most likely will not correspond to the changes made in the transformation process. This yields a high probability that feedback from the transformation, post improvement, will be, to some degree, flawed.
2. The flawed information provided to management will, undoubtedly, result in bad decisions regarding the success, failure, and logical modifications to the performance improvement program.

One need look only as far as some current trade-press article that discusses how some enterprise implemented some benefit producing “system” at great cost, only to be disappointed with the return, to infer that most organizations implement only the bottom third of their performance enhancing programs!

## **3 Measurement Goals and Objectives**

Management guru Peter Drucker is widely quoted as having said, "If you can't measure it, you can't manage it." His wry sense of humor also gave us this contrarian (to investment bankers) quote, "The only predictor of future performance is past performance." In sales training - both are true. If you don't have a series of quantitative performance metrics that can be measured over time, you cannot determine your past sales training performance. And, without that - you cannot measure the results of your next training program.

### **3.1 Beyond the Hawthorne Effect**

Our goal is to identify a series of key metrics that will tell us how our sales training and productivity programs are working over time. This is particularly important since often, immediately after implementing a program, there is a spurt of sales productivity. However, this initial increase often has less to do with the program provided than with a phenomenon known as "The Hawthorne Effect."

#### **The Hawthorne Effect Defined**

Briefly, the *Hawthorne Effect* is a productivity phenomenon noticed by researchers Roethlisberger & Dickson in studies conducted between 1924 and 1933 at the Hawthorne Western Electric Plant. Various changes were made in the working environment (lighter, dimmer, higher pay, lower pay, warmer room, colder room, etc.) and observed by consultants with clipboards taking notes. In virtually each case, the observers noted an increase in worker productivity immediately after the change and during the period of observation. Also, universally, productivity returned, over a relatively short period of time, back to its previous levels. The result was that the act of observation or scrutiny is what changed the productivity level - not any fundamental change wrought by the environmental adjustments.

Any sales training program must be measured in such a way that increases resulting from the Hawthorne Effect can be ruled out.

Of course, another learning here is that Drucker's maxim is, in essence, both correct and a stimulus for the Hawthorne effect - if you measure it, simply the effect of measuring human performance will have some positive effect on productivity.

Our goal, therefore, restated, is to avoid spending hundreds of thousands of dollars on sales training, for which a recent MBA graduate with a clipboard could get essentially the same result. Sales training should engender a fundamental change in the process by which account executive conduct the business of selling to obtain a sustainable result - beyond the Hawthorne Effect.

#### **What to Measure**

Chart 3A: Typical Seasonal "Hockey Stick" Performance

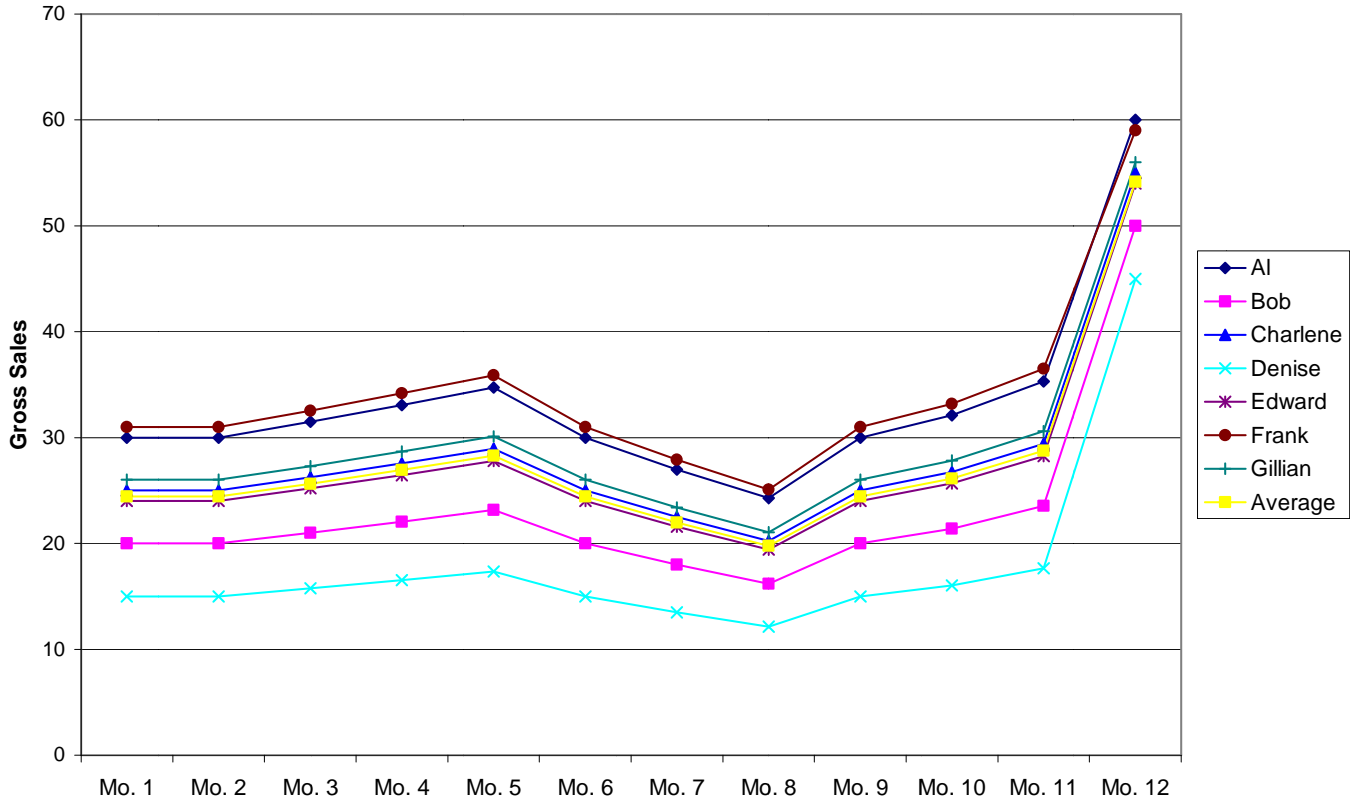


Chart 3B: Hawthorne Effect with Seasonality shows the typical "Camel Profile" associated with the Hawthorne effect. In this sample, a sales training event took place in Month 1. The effect is short-lived, showing rapid early growth in sales, followed by a gradual decline to previous levels. The spike at the end of the year is typically due to seasonality of sales and the effect of compensation plan accelerators.

## 5 Levels of Sales Measurement

### 5.1 How Much to Measure

The biggest challenge in measuring sales productivity is avoiding “paralysis by analysis.” We have begun the process of identifying specific sales-related metrics to analyze past and predict future sales performance improvement. With nearly 100 possible sales-related performance metrics, a key issue becomes how to select the right metrics to solve the right problem. The answer lies in a technique called Requirements Traceability pioneered by the Department of Defense (DoD), but adapted to sales.

There are, however, two core challenges in any measurement program:

**#1: Determining what should be measured.** We have discussed on numerous occasions the concept of “Miller’s Magic Number” which states that there is a limit on the complexity of information (particularly statistical information) that can be processed by a person – and effectively used in decision making. The “magical number” is between five (5) and nine (9) metrics or data points. Any more than that, and it becomes increasingly difficult, if not impossible, to make a rational decision based on the data. (See the study *The Magical Number 7 +/- 2: Some Limits on our capacity to process information*<sup>5</sup>.)

This implies then, that measuring all possible sales statistics and generating monthly reports of the 100 or so possible selling metrics is of limited effectiveness in actually making management decisions that effect performance improvement. To be effective, there must be a way to cull the statistics to only a few that directly characterize the problem that you are trying to solve, or the opportunity of which you are trying to take advantage.

**#2: Assuring that the results are meaningful.** The second problem related to measuring performance is the rate of change. If you make one change to the selling environment (e.g., adoption of a sales methodology, a specific sales training event) and then measure the result, you can reasonably determine whether that change had a significant effect. If you make two simultaneous changes, it becomes increasingly difficult to determine which change caused the improvement (or decline) in performance – or to what extent each change contributed.

#### 5.1.1 Core Problem #1: What should be measured?

The U.S. Department of Defense (DoD), when implementing a new program of any type, defines a set of requirements (i.e., a formal Requirements Definition), just as we have recommended before adopting any sales performance improvement program (see *ESR/Insight Brief: An Introduction to Sales Training Requirements Definition and RFPs*). However, when the DoD develops a set of requirements they begin by identify a core problem (“threat”) which will be

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<sup>5</sup> <http://www.well.com/~smalin/miller.html>

Sales performance improvement programs are typically designed around improving one or more Business Impact Measures.

### **5.2.3 Return on Investment**

Business Impact Measures may be financial or non-financial. Return on Investment (ROI) reduces performance improvement to the impact on corporate profit. ROI is a measure of the contribution of the current sales organization.

ROI is also a tool used to compare various investment alternatives. With a finite amount of cash for investment, typically the highest ROI projects will be initiated.

In most organizations, executive management have established ROI objectives for any investment. It is a method for senior management to compare investments in sales productivity improvement programs with other corporate investments.

Essentially, the ROI for sales is a simple ratio of total sales divided by total selling costs (salaries, commissions, sales tools, travel expenses, phones for sales people, etc.).

The measure of the ROI of a particular sales improvement program is the total increase in sales after the program is implemented, divided by the total cost of the program.

***However, ROI does not provide sales management operational data*** – it is a post-facto measure of relative success of any initiative implemented to improve sales performance. It tells sales management whether success has been achieved or not, but does not tell management how

#### **5.2.3.1 Measuring Return on Investment**

Return on Investment is a financial term that specifically means the profit or gain achieved on an investment. ROI is usually expressed as a percentage.

**Gain = Cash Received Over Time – Cash Spent Over Time to obtain the Cash received**

**ROI = Gain / Cash spent over time to obtain the cash received**

although, often "Gain" and "ROI" are often used interchangeably. ROI is always determined over a period of time. So the question is not, "What is the ROI on this investment?" but "What is the ROI in a three month, six month or twelve month time frame?" The time frame will have a direct impact on the return.

**12 Index**

|   |                        |  |  |
|---|------------------------|--|--|
| "If you can't measure it, you can't manage it." ..... | 4, 10, 60              | leading indicators.....                    | 17, 19, 34   |
| "People respect what you inspect." .....              | 15                     | Lloyds .....                               | 59   |
| "less is more" .....                                  | 5                      | Management Decision Making Process.....    | 8, 9   |
| 7 +/- 2 .....   | 5, 23, 34, 45, 60      | margins .....                              | 33   |
| appointments .....                                    | 39, 40, 41             | Miller's Magic Number.....                 | 23, 60   |
| average lead cost .....                               | 37, 38                 | net closed business .....                  | 33   |
| Bass, Thomas .....                                    | 18                     | Net Present Value .....                    | 29, 30   |
| benchmark.....  | 17, 58                 | new recruits .....                         | 31   |
| <i>Braess's Paradox</i> .....                         | 5, 18, 60              | non-financial indicators .....             | 11   |
| Camel Profile .....                                   | 12, 13, 14             | NPV .....                                  | 29, 30, 42   |
| chaise lounge .....                                   | 14                     | peer group.....                            | 17, 58   |
| closing ratio .....                                   | 40                     | performance improvement metrics program..  | 51   |
| Cohen, Joel .....                                     | 18, 19                 | product training .....                     | 36, 46   |
| compensation .....                                    | 12, 18, 44             | profitability per deal .....               | 33   |
| consistency of measurement.....                       | 16                     | quota attainment .....                     | 33, 40, 41   |
| Consumers Reports .....                               | 59                     | requirements traceability..                | 5, 23, 24, 45, 46, 47                              |
| conversion .....                                      | 39, 41                 | Return on Investment.....                  | 27, 43   |
| CRM .....   | 16, 20, 21, 26, 36, 48 | RFP .....                                  | 21   |
| deal size .....                                       | 32, 40, 46             | Rockefeller University .....               | 18   |
| deal volume .....                                     | 32                     | Roethlisberger & Dickson .....             | 10   |
| Department of Defense .....                           | 5, 23, 58              | ROI .....                                  | 26, 27, 28, 29, 30, 31, 38, 44                     |
| Det Norske Vertias .....                              | 59                     | sales cycle .....                          | 15, 17, 26, 33, 46                                 |
| discounting .....                                     | 33, 36                 | sales force automation.....                | 18, 44   |
| Drucker, Peter .....                                  | 4, 10, 11, 60          | sales methodology .....                    | 23, 44   |
| evaluation criteria .....                             | 58                     | sales training.....                        | 10, 11, 12, 14, 15, 16, 21, 23, 26, 28, 29, 33, 44 |
| forecast .....  | 29, 30                 | sales training event .....                 | 11, 12, 21, 23, 29                                 |
| framework .....                                       | 53                     | segmentation of selling organization ..... | 32   |
| Gartner.....  | 4, 59                  | skills training.....                       | 46   |
| General Systems Theory .....                          | 4, 8                   | T&E.....                                   | 38, 40   |
| GMMT.....   | 5, 6                   | TCO .....                                  | 59   |
| Hawthorne Effect .....                                | 10, 12, 16, 18, 20, 34 | TCT.....                                   | See Total Cost of Training                         |
| heterogeneous sales force .....                       | 31                     | telesales .....                            | 31, 35, 37, 38, 39, 40, 41, 48                     |
| hired guns.....                                       | 31                     | top performers .....                       | 31   |
| Hockey Stick .....                                    | 11                     | Total Cost of Training .....               | 21, 29   |
| incentive.....  | 18, 44                 | Transformation Process.....                | 8, 9   |
| Information Process.....                              | 8                      | turnover .....                             | 30   |
| ISO .....   | 59                     | Underwriters Laboratory.....               | 59   |
| lagging indicators.....                               | 16, 17, 32             | what to measure.....                       | 11, 32   |
| lead cost per sale .....                              | 37, 38                 |  |  |

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