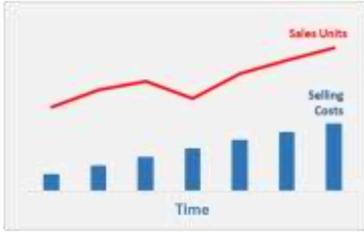


Measure selling productivity

By Alka Sood, MBA, BComm

Indisputably, there is an art to selling, and excellent salespeople are critical to any business' success. Motivating sales staff while managing selling costs involves a balancing act that business executives must contend with – especially when markets become more competitive, saturated and mature. It is natural for sales people to desire the freedom to pursue sales at any cost; and it is logical for executives to expect that a new sale make a positive impact on the bottom line. Measuring this becomes problematic since statutory financial statements do not readily lend themselves to providing good sales productivity information.

What is the impact of each new sale?

Selling costs include more than the obvious items that come to mind – direct costs such as commissions, cost of sales, sales salaries (and benefits), advertising, and so on. There are also, hidden, unintended, costs which are incidental to achieving higher sales targets: increased travel, meals and entertainment, higher than expected shipping and distribution costs, higher communications costs, increased customer returns, more delinquent accounts, and so on. To capture both direct and hidden costs it is useful to map out the full sales cycle from the initial point of contact with a customer until the customer pays in full. A financial statement will not do the trick.

The sales cycle

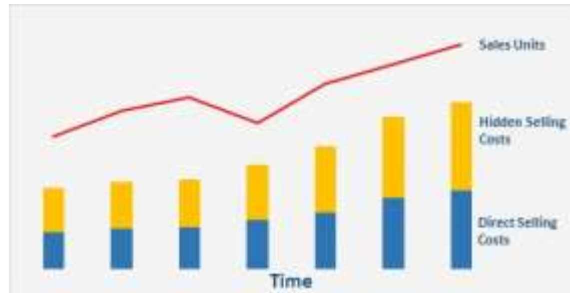
Setting and effective sales strategy and commission structure for your sales team, requires a clear understanding of your total sales cycle and the levers that drive that cycle.

The generic cycle, illustrated below, can be easily tailored to suite your business. Note the illustration presents the complete end-to-end process which begins with sourcing customers, to order fulfilment, to receipt of payment. Various costs are incurred throughout the process and these are often not captured separately nor isolated in typical financial statements. These hidden costs, though, can define whether a new sale is truly profitable. For example, a customer that has very specific packaging requirements may not necessarily pay for these features if a sale quotation sheet does not provide an opportunity to capture this nuance and then subsequently bill the customer accordingly.

The *hidden* costs

Every stage of the sales process generates either a direct or *hidden* cost; and understanding this is the first step toward measuring selling productivity. The illustration of the sales cycle identifies various costs associated with selling. These will differ among businesses and should be identified, particularly where such costs can be substantial or where such costs can affect delivery capability.

When included in your analysis, you can determine total direct and hidden selling costs. Accounting methods such as activity based costing, inventory carrying costs, etc., are useful tools that enable such analyses (and these methods and are the subject of other articles in this portfolio of articles).



Calculating selling productivity

Sales productivity can be captured by simply taking total sales or sales units (outputs) and dividing it by resources consumed (inputs or input costs). In the example below, we have captured the productivity measure and then indexed it, using the first year as the base year, to assess whether there have been improvements over time. The illustration below shows a gradual decline in selling productivity while sales are increasing. This may not be sustainable over the long run or where markets are becoming more competitive.

A more holistic approach toward measuring selling productivity will improve communications with your sales teams but also lead to developing more effective sales strategies, customer segmentation, internal controls, and sales compensation structure.

Being clear and focused is always a challenge for any business. Define the levers that make your business successful or alternatively mire performance. We assist clients in deconstructing their financials to understand the impact of their decisions. For example, our analytics can link sales performance to sales spend to help you maximize the impact of sales activity. Activity based costing, target costing and network routing are just some of the tools that will help you understand the impact of your decisions on your results. Please contact us to learn about our engagements.

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