



SALES

Who's Your Most Valuable Salesperson?

by V. Kumar, Sarang Sunder, and Robert P. Leone

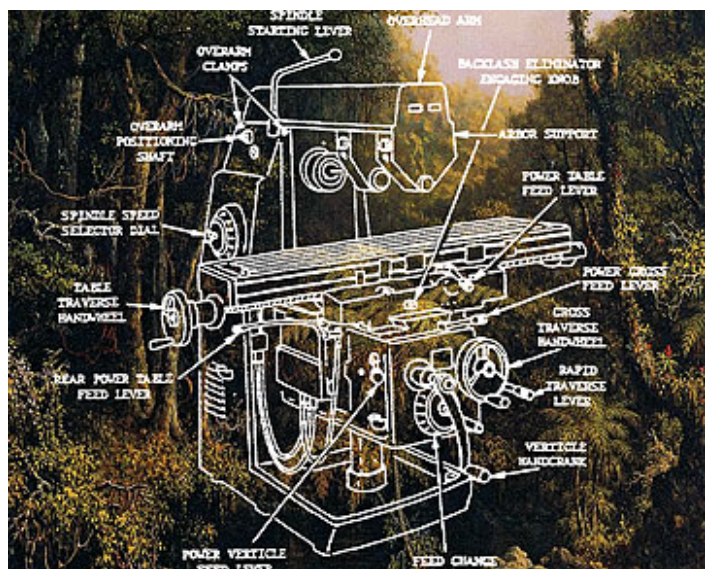
FROM THE APRIL 2015 ISSUE

Companies have become savvy customers, often determining the solution they need, the supplier they want, and the price they'll pay before a salesperson sets foot through the door. In this competitive environment, the premium on finding, training, motivating, and retaining star salespeople has never been higher. That's why U.S. businesses spend a whopping \$800 billion annually on sales force compensation and another \$15 billion on sales training.

Yet companies currently rely on backward-looking methods to gauge the impact of this spending. Because firms measure only past sales performance (using metrics such as revenue generated, unit sales, and conversion rates), they have limited insight into how a salesperson will do going forward and what types of training and incentives will be most effective. As a result, many firms overvalue their poor performers and undervalue their stars, misdirecting their sales force investments.

Drawing on our 20 years of research on customer profitability, we have developed a novel method for measuring a salesperson's *future* profitability to the firm. Further, we link future performance to specific types of training and incentives and show how optimizing those investments can dramatically boost revenue. To our knowledge, our work is the first to explicitly investigate the impact of training and incentives on a rep's future performance.



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Motivating Salespeople: What Really Works

MOTIVATING PEOPLE FEATURE by Thomas Steenburgh and Michael Ahearne

Companies fiddle constantly with their incentive plans—but most of their changes have little effect. Here's a better approach.

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Failing to forecast a salesperson's future value can lead to costly misallocation of training and incentive dollars. Worse, it can allow undervalued but top-flight salespeople to slip through your fingers and into competitors' arms—taking valuable customers with them.

Gauging Future Value

To develop our method for measuring salesperson future value (SFV) and to determine its drivers, we collaborated with a *Fortune* 500 B2B software, hardware, and services firm, which provided seven years of data on approximately 500 salespeople and their customers. This included data on each rep's age, aptitude, tenure, and territory and his or her customers' detailed purchase

histories. It also included specifics on the type and duration of training and the monetary and nonmonetary incentives each salesperson had received.

We define SFV as the net present value of future cash flows from a salesperson's customers after accounting for the costs of developing, motivating, and retaining the rep. To calculate an SFV, managers need to estimate the customer lifetime value (CLV) of the rep's existing and prospective customers. (For more on CLV, see V. Kumar, *Profitable Customer Engagement: Concept, Metrics, and Strategies*, Sage Publications, 2013.)

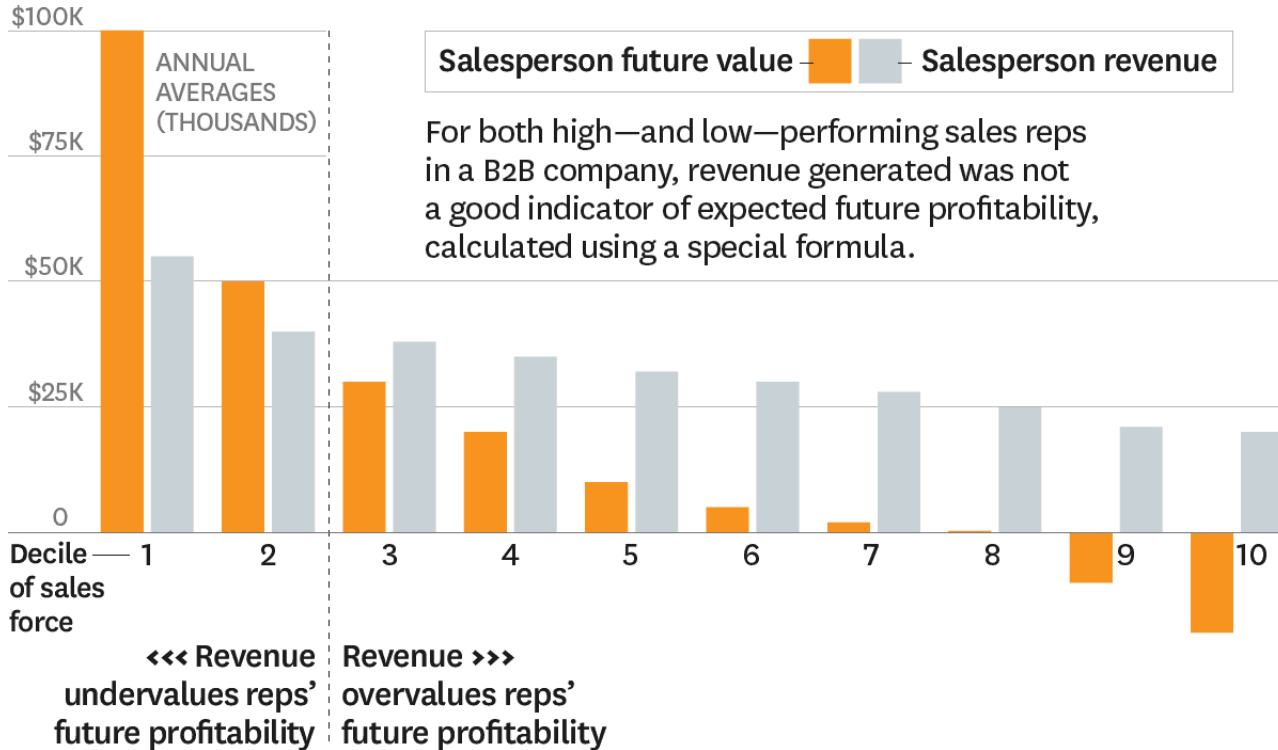
Managers must then subtract the present value of the rep's training and incentives, such as commissions, to yield a measure of the rep's expected future profits. (For details on calculating SFV, see our article "Measuring and Managing a Salesperson's Future Value to the Firm," *Journal of Marketing Research*, October 2014.)

Comparing SFV for different time horizons allows managers to optimize training and incentives to achieve short- and longer-term goals. In our research, we forecast reps' SFV at one year and three years. There are several reasons to stay within a three-year horizon, chief among them that the accuracy of the CLV model deteriorates when we attempt to predict customer behavior beyond three years. Particularly in dynamic business environments such as the high-tech B2B world of our study company, a three-year horizon is typical for managerial decision making, especially when it concerns the sales force.

Like most companies, the firm we worked with had been using revenue generated as the main metric for valuing its salespeople. Reps who brought in the most money were considered "stars." An SFV analysis, however, revealed that this blunt measure was neither an accurate gauge of a rep's current worth nor a good indicator of his or her potential.

A Rep's Past Performance Doesn't Predict Future Profits

By looking not just at the revenue reps have generated but at their future profitability, you may find that your top performers are even more valuable than you thought—and your low performers even more costly.



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FROM "WHO'S YOUR MOST VALUABLE SALESPERSON?" APRIL 2015

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To understand the relationship between future value and revenue, we first divided the sales force into deciles, according to revenue generated over a three-year period. Next, we calculated the SFV for the reps in each decile. As the exhibit shows, the firm had been dramatically *undervaluing* salespeople in the highest decile; those reps' future value was found to be nearly double their value as measured by revenue alone. Meanwhile, reps in the bottom decile, who appeared to bring in lower but still substantial revenue, were badly *overvalued*—destined to cost the firm more than they generated.

Between these highest and lowest performers, we noted a rapid drop-off in SFV by decile: From the third decile down, the backward-looking revenue metric consistently overstated the reps' true value to the firm.

Investing in the Sales Force

Most managers know that one size doesn't fit all when it comes to teaching and motivating salespeople. Targets, prizes, bonuses, public praise, and social pressure, for example, can all be effective in different measure, depending on the person and the circumstances. But training and incentive programs are often applied unscientifically, on the basis of best guesses about the relationship between past performance, current programs, and future outcomes. Consequently, managers endlessly tinker with these plans—with predictably uneven results.



What training and incentives will bring out the best in a high achiever or help a promising rep improve? Our SFV analysis provides the starting point for finding an answer. After determining the future value of each salesperson in our study company, we correlated data on each rep's prior training and incentives with his or her SFV to develop a picture of how those factors influence performance.

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Dismantling the Sales Machine

SALES FEATURE by Brent Adamson, Matthew Dixon, and Nicholas Toman

Selling today requires flexibility, judgment, and a focus on results—not process.

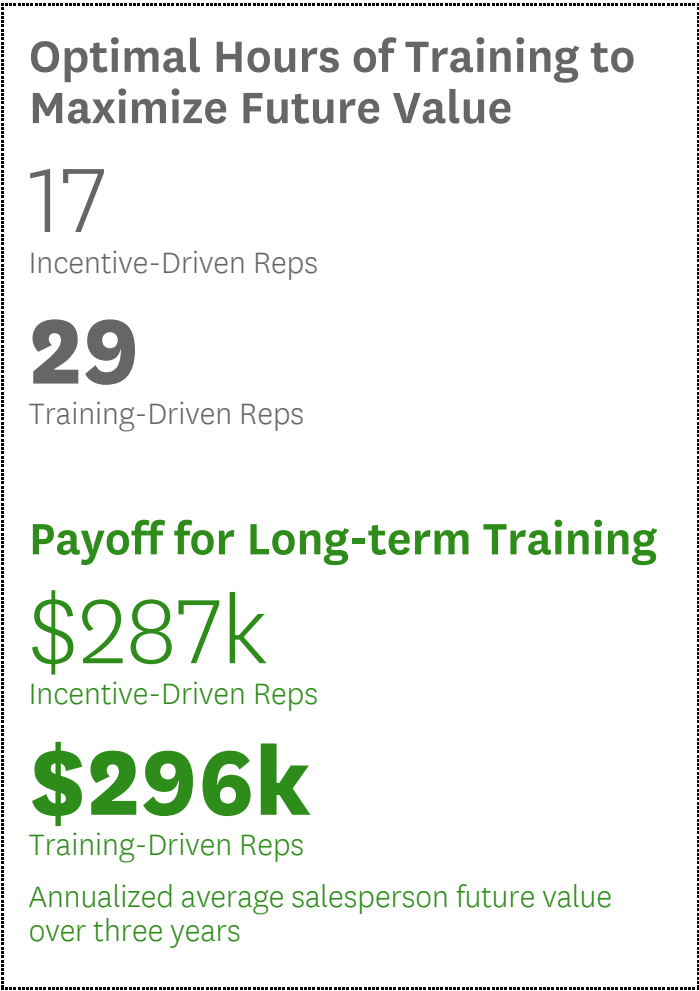
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To do this, we used a popular statistical technique called latent class segmentation, which can reveal hidden (or latent) subgroups within a larger population. In this case, the analysis allowed us to understand the factors that influence a salesperson's future performance and group reps according to them. We gathered three years' worth of data on the number of hours of

two types of training each rep had received: *task related*, such as building product and customer knowledge; and *growth related*, such as developing leadership, team, and customer engagement skills. In addition, we collected rep-level data on the value of monetary incentives received and the number of nonmonetary rewards—recognition such as commendations and plaques—the reps got. The analysis controlled for variables including tenure, market competitiveness, and territory, and it looked at both one-year and three-year effects.

Our study identified strong associations between training types, incentives, and a rep’s future performance. On the basis of those findings, we were able to segment the firm’s salespeople into two broad classes: *training-driven reps*, whose SFV is influenced more by instruction and learning; and *incentive-driven reps*, who are motivated more by monetary and other rewards.

This analysis allowed the firm to optimize each salesperson’s training and incentives according to his or her segment.



Optimizing Training

Most sales training is task related, focused on improving knowledge and skills directly involved in selling. This includes teaching about the firm’s products and services, its industry and competitors, and its current and potential customers. It also covers time management and customer relationship management skills, including “people skills.”

Growth-related training enables reps to “learn how to learn,” helping them identify needed task-related skills and develop their repertoire of those skills. Growth training also focuses on leadership development, negotiation strategies, and adaptability—how to adjust

selling strategies to fit the situation.

During the first four years of our study period, all salespeople underwent basic, mandatory task and growth training. And they could opt in to additional training of either type. Thus we were able to determine reps’ average annual number of hours of both task and growth training, determine the cost for each rep, and gauge the impact of the training on performance.

Three findings emerged that have important managerial implications:

More isn't necessarily better.

We saw a clear positive correlation between both kinds of training and reps' future value—but only up to a point. Because training is expensive and time-consuming, the cost of further training beyond a certain amount outweighs any incremental increase in a rep's SFV.

Knowing where that point lies for salespeople in each segment is critical.

In our study firm, we determined that the optimal annual amount of instruction for reps in the training-driven segment is 29 hours—70% more than what's best for incentive-driven reps.

Time frame matters.

By looking at SFV at both one year and three years, we were able to tease apart the effects of short-term and long-term training on reps' future value. We found that training effects in general are greater in the long term. However, the impact of long-term training on SFV is much more pronounced among training-driven reps.

One implication of this finding is that managers must be patient in evaluating the effects of training. Conclusions about efficacy based on a single year of performance (measured as SFV) could lead to some demonstrably wrong conclusions—for example, that a manager is seeing the maximum impact of training or that incentive-driven reps are more responsive to training than training-driven reps are, when, over a three-year period, the reverse is true.

Training types are mutually reinforcing.

We found that growth-related training, which focuses on adaptive and problem-solving skills, can increase a rep's future value in part by enhancing his or her ability to apply information and tactics developed in task-related training. It's important for managers to consider this synergy when designing training schedules. For example, consider the case of a salesperson who has received the maximum recommended amount of task-related training. By providing

additional growth-related training, the manager can improve the effectiveness of the earlier instruction. As with training effects generally, we found that the benefits of the synergy between the two types is greater in the long term than in the short term.

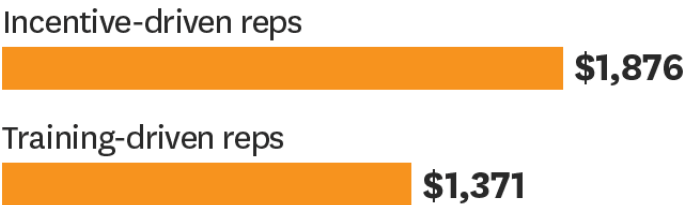
Optimizing Incentives

When it comes to extrinsic motivators, salespeople are no different than anyone else; they respond quickly and enthusiastically to monetary rewards and recognition.

We looked at the effects of compensation beyond a rep’s base pay (such as commissions) on SFV; and we investigated the impact of peer recognition, such as “salesperson of the month” plaques and public acknowledgement from peers. (We measured peer recognition as the annualized average number of times the rep was recognized in the firm through e-mail, newsletters, and awards.)

Benefits of Short-Term Incentives

Impact of \$1,000 increase in incentives
on salesperson future value after one year:



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more responsive.

Unlike training, monetary rewards are more powerful for all types of reps in the short term –although, not surprisingly, incentive-driven reps had a greater response to them than did training-driven reps. Likewise, we found that both groups responded positively to nonmonetary rewards in both the short and long term. Short-term effects were greater for both, and, again, incentive-driven reps were

Finally, we found that monetary and nonmonetary rewards have a greater impact on SFV when combined, an effect that we saw in both segments and in both the short and long term.

Redefining Sales Force Management

To apply these findings, managers must calculate each salesperson's future value. Because SFV is based on the aggregated customer lifetime value (CLV) of the salesperson's customers, firms that use advanced customer relationship management systems that calculate CLV already have the required starting data.

With SFV metrics in hand, managers can then segment the sales force, identifying groups that are more or less sensitive to training, incentives, or other factors. For example, analysis might reveal microsegments that respond more to growth training than to task training, or more to peer recognition than to other types of rewards. With this segmentation, managers can then make data-driven decisions about investments in training and incentives, career development, and even hiring and firing.

Training and incentives investments.

As we've shown, an overtrained salesperson may have a lower future value than an optimally trained one, given the cost and diminishing returns of training. Therefore, managers should determine each salesperson's sensitivity to different types of instruction and monitor both assigned and opt-in training accordingly—perhaps even establishing limits. Training decisions must also take into account managers' time frame goals: Training strategies that will maximize short-term performance may be different from those that lead to the best long-term outcomes.

Likewise, managers must determine which salespeople will respond best to different types of incentives and adjust the incentive structure as needed. In the company we studied, managers made adjustments at the segment level. For example, they tweaked the bonus and commission structure slightly for the incentive-driven reps in order to motivate them to meet high quotas. In addition, for this group, managers underscored the importance of nonmonetary incentives, suggesting that these might translate into future rewards, such as promotions or assignments to choice territories.

After completing its sales force segmentation and SFV analysis, the firm we studied increased its investment in training for its training-driven reps while reducing training and increasing rewards and recognition for incentive-driven reps. In the three years after implementing those changes, the firm achieved an 8% increase in SFV across the sales force.

In making decisions about which reps to invest in, sales managers have had to rely on backward-looking and, often, subjective measures of a salesperson's performance. They've depended on previous performance evaluations, past revenue, and gut feel, all of which can be unreliable and, at worst, lead to costly bad decisions. Knowing how much profit a salesperson will likely generate over various time horizons, and what the cost of that profit will be in terms of training and compensation, makes these investment decisions more straightforward.

Our study firm used its analysis to prioritize investment in high-SFV reps. To that end, it increased those reps' base pay, incentives, and benefits, and optimized their training; it reduced those investments in low-SFV reps. This reallocation of resources ultimately increased firm revenue by 4%.

Career development and retention.

Salesperson segmentation and future value calculations allow managers not only to identify their best salespeople but also to understand why the profit potential of one is climbing while another's is plateauing or falling. Not all underperforming salespeople should be cut loose, obviously. This is particularly relevant when a rep identified as having a high future value doesn't live up to expectations; in many cases, our research suggests, such performance problems may reflect misapplication of training and incentives. A rep may have great potential that can be reached only if she gets the right tools. The problem, in other words, is managerial.

For example, an incentive-driven rep's performance may fall off if her manager overemphasizes training and underuses monetary and other rewards. Likewise, a training-driven rep may be losing his edge because management is providing too much task-related

and not enough growth-related training.

Analyzing reps' future value lets managers profile top performers and recruit others like them.

The firm we studied used segmentation and SFV analysis to make training and retention decisions on the basis of the relationship between a rep's potential and actual performance. Optimizing a rep's training and incentives according to the model generally resulted in an improvement in sales. However, when a rep's sales continued to fall short of expectations despite careful attention to the model, the salesperson was let go.

Profiling and recruitment.

An exciting implication of SFV measurement is that it allows a firm to profile top performers in a given segment and then recruit and optimally train and motivate others like them. To build such profiles, managers must collect demographic and psychographic data on the high-SFV reps. Our study company collected data on age and sales experience, and surveyed reps on their confidence on a dozen sales-related tasks, including managing time, planning sales presentations, handling customer objections, and closing a sale.

Three Steps to Boost Your Reps' Future Value

1

MEASURE EACH REP'S SFV (SALESPERSON FUTURE VALUE)

Calculate future profits from a salesperson's customers and then subtract the cost of the rep's training and incentives.

2

IDENTIFY THE DRIVERS OF SFV

Use statistical techniques to quantify the effects of training and incentives on each rep's future value.

3

SEGMENT AND MANAGE THE SALES FORCE

Sort the sales force into training-driven and incentive-driven reps and tailor instruction and rewards for each type.

The company found that in general incentive-driven reps were older (over 35), had more experience (more than 10 years), and were more self-confident than training-driven reps. Training-driven reps tended to engage in more cross-selling and so sold a wider breadth of products, but their revenue per transaction was lower than that of the incentive-driven reps. Finally, training-driven reps were more likely to sell to smaller but rapidly growing clients, while incentive-driven reps tended to attract larger and more stable customers. Using such profiles, managers can adjust their hiring to recruit reps likely to have desired selling styles or capabilities.

As selling becomes ever more complex, the role of the sales force as a source of competitive advantage grows. Here we've described how SFV calculations allow managers to improve sales force valuation and management, and be more strategic in hiring, firing, motivating, and training. Less obvious, but just as important, is the potential of SFV-focused management to streamline the sales force and improve organizational efficiency. By enhancing the performance of high-profit-potential reps, shedding poor performers, and applying just the right amount and kind of training and incentives, managers can optimize their resources and reduce systemwide costs. Measuring and managing the sales force according to future value metrics can deliver greater efficiency and profits and increase competitive advantage.

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