

How to Outsell the Competition: The Benchmarking Edge for Successful Sales Execution

By Greg Alexander and Aaron Bartels

Sales Benchmark Index

Sales Benchmark Index (SBI) conducts the most in-depth ongoing study of sales management benchmarking and best practice usage in the world. This white paper, brought to you by NetSuite, is designed to help sales managers succeed by implementing data driven decision-making. Here the five steps for developing a sales benchmark are identified.

How to Outsell the Competition: The Benchmark Edge for Successful Sales Execution

By Greg Alexander and Aaron Bartels
Sales Benchmark Index

Introduction to Data Driven Decision Making

Sales benchmarking represents a source of sustained competitive advantage for corporations today. The second largest cost item on a company's financial statement is SG&A expense which typically represents 30%-40% of revenue. This is second only to cost of goods sold and in some cases three times research and development. Yet, most corporations today can not calculate the return they are generating for each sales dollar spent and do not understand how their return compares objectively to their external competitors. Bringing the discipline of benchmarking to the sales and marketing functions can solve this problem. The benefit of mastering this technique can be found in manufacturing companies using Six Sigma statistics to benchmark product quality, in finance functions using financial ratios such as return on equity to benchmark capital efficiencies, or in customer service organizations which gather statistics to benchmark customer loyalty. Benchmarking the sales function will bring data driven decision making to the mission critical process of acquiring and retaining customers thus allowing for the deployment of a continuous improvement program in sales.

How to Benchmark Sales

Benchmarking is a process where companies compare their performance over time against their competition. You'll find there are areas where you are better than most. You'll also see areas where significant improvement may be desirable.

The point of benchmarking is to focus your efforts where you can get the best return. The five steps to performing an operational sales benchmark are identifying your metrics, collecting your data, comparing and contrasting that data with best practices, planning the focused actions to address gaps, and creating a strategy for sustainable improvement.



Step 1 - Metric Identification

The first step in executing a sales benchmark is identifying the metrics to measure. The Formula for Sales Success™ assists in selecting metrics as it helps determine the key drivers of an organization's sales performance.

$$\text{ACTIVITIES} \times \text{CONVERSION} \times \text{TRANSACTION} \times \text{TALENT} \times \text{TIME} = \text{REVENUE}$$

Each non-constant variable in the equation (Activities, Conversion, Transaction and Talent) is defined in the company's business terms. For example, how is an *Activity* defined? Is it a lead? Is it an e-mail, a phone call, a virtual sales call? Or is it a face-to-face sales call, a proposal or something else entirely? Is it all of the above? The goal is to identify the key activities currently being performed by the sales team that have the most *significant impact* on whether a deal is won tomorrow, next week, next month or next year.

In addition to productivity metrics, there is another non-constant variable – cost – that underscores the Formula for Sales Success™ equation. Benchmarking your sales costs results in a decrease in Selling Expense just as benchmarking productivity results in an increase in Revenue. By simultaneously doing both, a firm can significantly boost earnings and its Return on Sales (defined as profit return for each dollar of new sales generated).

Once each of the non-constant variables has been defined in the company's business terms, it is time to select the metrics to measure. Appendix A contains a full list of metrics to consider. This list should be pared to the top 10 - 40 metrics that will make the biggest impact on the organization through internal measurement, external benchmarking and frequent reviews with the sales team. Use the following selection criteria as a guide when deciding which metrics to benchmark:

- Relevance to the company's overall sales performance
- Degree to which each can be a leading indicator of sales performance
- Availability of the internal data and effort required to collect the data
- Availability of the external data and effort required to collect the data

Step 2 - Data Collection

Internal data collection. The first objective in benchmarking is to have a detailed, clear understanding of how the firm is performing internally. The process for gathering data about the chosen metrics is highly dependent on the individual company and the systems it uses. The information is already in the company somewhere and though it may take a little digging, it can be found.

Typical sources of information include:

- CRM system
- Finance systems
- Payroll system
- Expense reporting system
- HR systems
- Sales management team.

External data collection. To deliver a sustained competitive advantage, the firm must understand how it is performing relative to its peers. Armed with internal data, the organization now needs to compare this information externally to a statistically valid *sample* derived from the overall *population*. A *population* is the set of all items of interest – for example, all likely voters in the next election or all sales receipts in November. A *sample* is a subset of the population that is non-biased and representative of the sample as a whole. Examples of a sample might be 1,000 voters selected at random for interview or every 100th receipt selected for audit.

Sales benchmarking uses sampling to draw conclusions about the population as a whole. Sampling is used because it is less time consuming, less costly, more practical to administer and if done in the proper, non-biased manner, it supports statistical results with sufficiently high precision. The data should reflect both good and bad findings, should be presented in a fair and objective manner and should not use inappropriate summary measures that distort the facts. Therefore, the key to Step 2 is having a statistically valid, non-biased sample to compare your organization in relation to peers.

Living in the information age, a monumental storehouse data is available. There are several ways to find a statistically valid sample for comparison purposes. This report is one example, although this information can be supplemented with:

- Internet search - points to thousands of sites that have pieces of the needed data - Salary.com or American Customer Satisfaction Index
- Trade associations – the National Association for Sales Professionals or the Sales Force Effectiveness Benchmarking Association
- Universities - Harvard University or Georgia Institute of Technology
- Market research - Buzzmetrics or Business Validation Resources
- Research firms - Sales Benchmark Index (SBI)

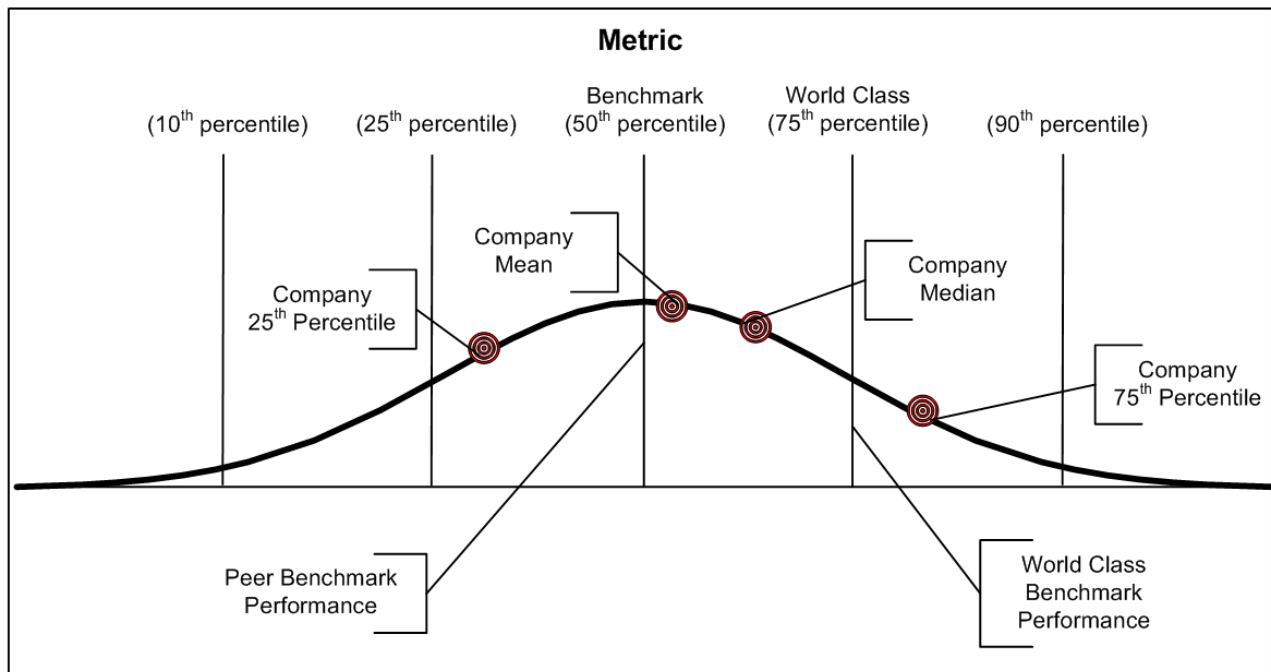
The goal of data collection is to have a statistically valid sample that will be used in the next step – Compare and Contrast – where an organization identifies where it is under-performing or over-performing in relation to its peers and other world-class organizations.

Step 3 - Compare and Contrast

The third step in executing sales benchmarking is comparing and contrasting the internal data with the external data. There are two sets of inputs – the internal data about the organization’s sales force and the external statistically valid sample.

Before the data can speak, an organization must first transform the raw data into information that can be compared and contrasted. Two calculations are necessary – identifying the central location and measuring variation. For measuring central location, it is recommended to use four indicators: the mean, the median and the 25th and 75th percentiles. For measuring variation, the range and standard deviation are recommended. These are simple to use and can be simplified by using a tool such as Excel. These six calculations for each metric allow ease of implementation while still delivering the desired result.

Once the calculations are complete the organization’s performance is compared externally against its peers and internally against history. The illustration below notes performance on a distribution plot which shows how the company compares to peers and to world class organizations.



On this distribution, a company will plot its mean, median, 25th and 75th percentiles to determine how it stacks up to the peers and world class organizations. The high and low ends of the computed range will be compared to the distribution plot above to determine if the company has outliers residing above or below the 90th and 10th percentile marks. And lastly, the standard deviation is computed to determine how dispersed the data is. In general, if standard deviation is 1.5 times greater than the difference between the 25th and 75th percentiles, the company should focus on reducing the variation in the current performance. If the standard deviation times 1.5 is less than the difference between the 25th and 75th percentiles, the company should focus on moving the entire group at once.

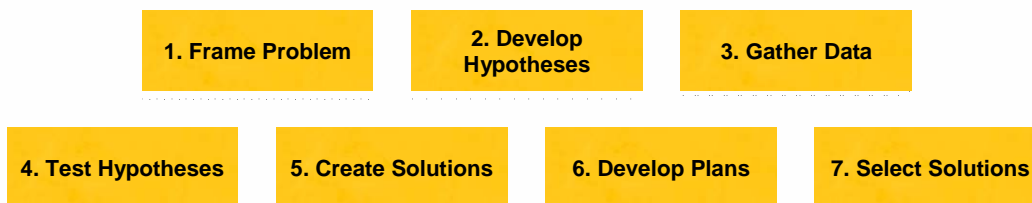
The last piece of the Compare and Contrast step is to quantify the opportunity in terms of increased revenue or decreased cost if performance is improved to match the peer group. To do this, measure the company’s current revenue at its current performance level and compare it to the revenue produced at the peer group’s performance level.

Step 4 - Focused Action

The fourth step in executing sales benchmarking is Focused Action, where a company develops a plan to create and sustain a competitive advantage. The organization has identified where it is over/under performing the market and has quantified the opportunity each area presents. Now that the high return areas of focus are known, the company needs to put a remedy plan in place and test it over time to measure its effectiveness, constantly tweaking it to get the results it is looking for. The focus is on reducing the risk of missing the sales targets and improving the chances of consistently hitting them.

This step is based on hypothesis testing. Hypothesis testing provides managers with a structured analytical method for making decisions. It lets them make decisions in such a way that the probability of errors can be controlled, or at least measured. Statistical hypothesis testing does not eliminate the uncertainty in managerial environments, but the techniques allow managers to identify and control the *level* of uncertainty.

Methodology for solving business problems:



- **Frame the Problem** – Define the problem that is being addressed in specific terms.
- **Develop Hypotheses** – List potential causes for each problem and the key drivers that impact or influence each cause.
- **Gather Data** – Gather relevant data, information and background on the key drivers that will allow each to be proven or disproved.
- **Test Hypotheses** – Analyze each possible cause to determine if the data proves it is a cause, effect, unintended variable or irrelevant.
- **Create Solutions** – For hypotheses that prove valid, identify possible solutions and examine each solution’s feasibility for successful implementation.
- **Develop Plans** – For viable solution(s), estimate all necessary tasks, investments, milestones, resource commitments, metrics and returns.
- **Select Solutions** – Use hurdle rate or other decision-making criteria to determine which solution(s) should be implemented.

Step 5 - Sustained Improvement

The fifth step in executing sales benchmarking is a sustained improvement plan that transitions the project from a one-time event to being embedded in the operating procedures of the company. Sales

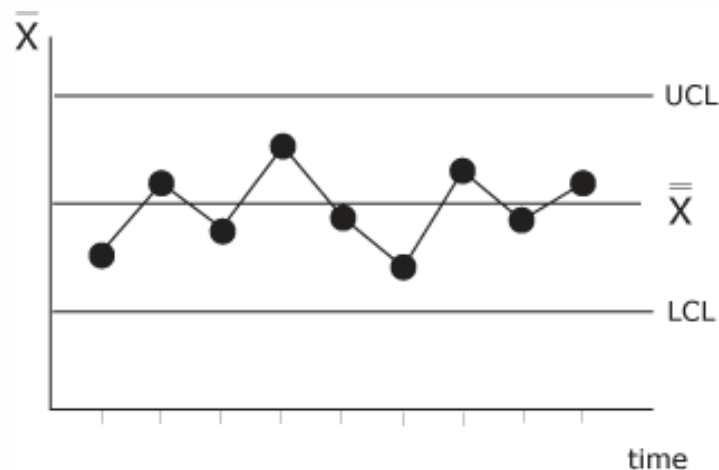
benchmarking should become standard operating procedure – without replicating the heavy lifting over and over again - through Statistical Process Control.

Statistical Process Control is a methodology that uses graphic displays known as control charts to monitor the quality of conformance and level of variation.

Statistical Process Control utilizes a control chart. To create the chart:

- Take data samples over multiple subgroups of time
- Calculate the subgroup mean (\bar{x})
- Calculate the average of all the subgroup means ($\bar{\bar{x}}$)
- Plot the subgroup means as a line chart
- Calculate the Upper Control Limit (UCL) and Lower Control Limit (LCL), which should be three standard deviations from the subgroup mean

In control. A process is said to be “in control” when points are randomly distributed around the centerline and all points are within the control limits. Below is an example of a process control chart for a process that is in control:



Out of control. A process is said to be “out of control” if any of the following conditions are true:

- One or more points are outside control limits
- Nine (9) or more points in a row fall on one side of the centerline
- Six (6) or more points move in the same direction
- Fourteen (14) or more points alternate above and below the centerline

Sustained improvement plan. If a process is determined to be out of control, the cause of variation must be understood. This sustained improvement plan will allow a company to stay appraised of:

- Areas where the firm has *developed new advantages*
- Areas where the firm has *lost its advantages*

The basic steps in this Sustained Improvement plan include:

- Appointment of a Sales Benchmarking project manager responsible for ongoing administration and oversight of the process
- Monthly internal review of company performance
- Monthly review of company performance against a fresh external data source
- Monitoring of Focused Action implementation ensuring expected results are produced
- Monthly monitoring of the benchmarks in the context of Statistical Process Control

The ultimate goal is sustained competitive advantage. After all, your competitors are not going to stand still. Sales Benchmarking must become a standard operating procedure and part of your long-term strategy for success.

Case Study

Background

Recently, one of SBI's clients was running what they believed to be a very successful call center. The organization was growing revenue at over 30% a year and thanks to a very profitable business model, had net margins approaching 15%. Sales people were being measured on total revenue production per month and the historical trend of revenue per head was increasing. On the surface, it appeared this sales force was knocking it out of the park. However, all it took was a quick look under the hood and it was obvious the organization was falling well short of its potential.

The client was spending approximately \$20M a year on marketing campaigns to get the phones to ring with inbound interest. Depending on the lead source, the cost per inbound lead ranged between \$50-\$1,000 with the average around \$200 per lead. The cost per lead closed ranged between \$1,000 to \$10,000 per transaction with the average around \$2,500. The company was not measuring sales person efficiency in closing leads and therefore was unaware of how many quality leads were being lost in the process. With each close representing annual recurring revenue valued around \$10,000 per year with 50% gross margins, the company didn't question the cost to acquire each customer and was unaware they could be doing much better.

This is the classic example of the mistakes typical organizations make when deploying benchmarking principals. They measure performance internally and historically and settle for performance that is well below average.

Benchmarking Phase 1 – Internal / Leading:

The first phase of rolling out an improved benchmarking approach was to measuring leading indicators of sales success. This company rolled out the tracking the following metrics for each call center rep:

- Number of inbound calls taken
- Number of outbound calls made
- Number of appointment made
- Number of appointments kept
- Call to appointment conversion rate
- Appointment to close conversion rate
- Average deal size
- Total sales revenue

Immediately after deploying the new metrics, the company found that well qualified inbound leads, which were easy to close with a little follow-up, were being cast aside and wasted. Because the phone was ringing often enough, the call center reps were not required to follow-up under the old system. They could just take a call, go for the “one call close” which would happen frequently enough that each rep could achieve his or her quota. There was no need to put forth the additional work to follow-up on leads requiring a couple calls to close. Management had no idea this practice was taking place and was appalled to find that much of the \$50-\$500 the company was spending each time the phone rang was being squandered.

In addition to rolling out the new metrics, the compensation plan was changed to reward call center rep efficiency. The “lead burners” who had close rates below 2% were penalized, while those who made the most of their leads — demonstrating at least a 4% close rate — were rewarded. With the new metric measurement program and revised compensation plan, revenue production grew by 35% within 3 months while headcount remained constant. The \$2,500 marketing cost per close had quickly shrunk to \$2,000 and profitability was nearly 20%, up from the previous 15%.

Benchmarking Phase 2 – External / Leading:

The company was delighted with its performance and compared to history it was setting new records for itself. But, there was still much work to do. An external benchmark revealed that the activity of the call center reps was 30% below the benchmarks, and conversion rates were 50% below where they should have been. A time study was launched that revealed that call center reps were not making productive use of their days and too much time was being spent sending out customer information for each caller. These inefficiencies were easily addressed with the implementation of best practices tools giving call center reps the time they needed to make their daily call volumes. To close the gap on the close rates, the goal was adjusted from 4% to 8% for reps to achieve their commission accelerators. This goal re-alignment drove more diligent follow-up, which increased the close rate to the goal within 12 months. The result of benchmarking was a much greater return on the \$20M marketing spend. The cost per closed lead dropped from \$2,500 to \$1,000 in just over a year, helping the profitability of the company grow from 15% to over 20%.

As seen here, applying such metric-based methodologies to the sales department will produce dramatic results.

For more information and updates on sales effectiveness benchmarking, please subscribe to the SBI newsletter at www.salesbenchmarkindex.com.



Appendix A: Sales Metrics

Sales and Marketing Metrics

- Sales Growth Rate
- Annual Sales Quota Amount
- Sales Quota Attainment
- Sales Productivity Per Sales Rep
- Sales Deal Size
- Sales Goals
- Number of Sales Goals per Rep
- Rep Gap to Goal
- Sales Variance
- Sales Volume Variance
- Sales Price Variance
- Number of Accounts in Territory
- Sales Force Size
- Annual Sales Head Count Increase/Decrease
- Sales Headcount by Role
- Sales Support to Sales Rep Ratio
- Sales Manager to Sales Rep Ratio
- Tenure Breakdown of Sale Force
- Years of Sales Experience per Sales Rep
- Years of Industry Experience per Sales Rep
- Annual Sales Turnover Rate
- Time to Backfill Rep
- Recruiting
- Ramp Time to Full Sales Productivity
- Sales Rep Time Allocation
- Sales from Top 10% of Sales Force
- Sales from Top 20% of Sales Force
- Variable vs. Fixed Sales Compensation Rate
- Inside vs. Outside Revenue Contribution
- Inbound Leads vs. Outbound Leads
- Number of Sales Leads
- Number of Sales Calls
- Number of Sales Appointments
- Number of Sales Proposals
- Sales Lead to Call Conversion Rate
- Sales Call to Appointment Conversion Rate
- Sales Leads Rated as Qualified
- Sales Appointment to Proposal Conversion Ratio
- Number of Hours to Generate Proposal
- Forecast Accuracy
- Proposal to Close Sale Conversion Ratio
- Number of Sales Activities to Close Sale
- Sales Cycle Length
- Deals Requiring Cost Justification
- Deals Issued via RFP
- Number of Influencers per Deal
- Number of Decision Makers per Deal
- Reason Customers Purchase
- Solution to Product Sale Ratio
- Deal Type
- No Decision Deal Ratio
- Win/Loss Ratio
- Number of Customer Sales
- Number of Units Sold
- Close Rate
- Discount Levels
- Payment Terms Offered
- Training Budget
- Training Budget Spent on Product vs. Sales vs. Business
- Training Hours per Rep
- Reps Achieving 90% or Greater on Sales Training Tests
- Cost of Sales
- Sales Budget Allocation by Category
- Sales per Call
- Cost per Call
- Cost per Rep
- Cost per Prospect
- Cost per Sale
- Return on Sales
- Return on Sales By Sales Unit
- Net Sales Contribution
- Breakeven Analysis
- Cost of Advertising
- Advertising Budget Allocation by Category
- Cost of Marketing
- Marketing Budget Allocation by Category
- Marketing Headcount
- Program Response Rates
- Program Return
- Cost per Lead
- Marketing to Sales Lead Follow up Service Level Agreement
- Sales Lead Generation Source
- Sales by Channel
- Price
- Customer Satisfaction

Sales and Marketing Metrics Combined with Company Metrics

- Gross Revenue
- Gross Margin
- Net Margin
- Sales from Products Introduced in Last 12 Months
- New Business vs. Existing Customers
- Customer Churn Rate
- Revenue Per Existing Customer
- Revenue Per New Customer Acquired
- New Customer Gain
- Customer Acquisition Cost
- Customer Net Margin
- Customer Gross Margin
- Customer Life Time Value
- Customer Payment Performance
- Sales Activity Based Costing
- Profitability
- Customer Profitability

Sales Force Metrics combined with External Market Metrics

- Market Demand
- Market Growth Rate
- Market Share
- Market Share Gains
- Market Penetration Rate
- Market Penetration Rate by Product Line
- Causal Forecast
- Share of Customer

Creating the Metrics You Need to Benchmark Your Sales Success

In order to analyze and act upon the metrics you select for your sales effectiveness benchmarking, you will need to identify, track and report on them. And true sales effectiveness surpasses simple opportunity management. Of course you want to collect the metrics about prospects before they become customers, but those metrics only encompass less than a quarter of the full customer lifecycle. Here we look at that entire lifecycle to ascertain the critical metrics you will want to focus on to improve your sales effectiveness.

First, you need to automate *all* parts of the customer life cycle. This ensures that you can systematically capture the data for the metrics you have identified. You will want to maintain all the sales information from a "suspect" browsing your business Web site, to an interested lead, to a qualified prospect, to a customer who has actually placed an order, to servicing that customer and finally, to guiding that customer to re-purchase. If you are an ecommerce company, you can begin by incorporating your Web site into the selling process, by tracking all customer interactions on the Web and by providing a comprehensive self-service customer portal. You will want to automatically capture campaign data from all aspects of your marketing programs — such as your e-mail, online advertising, and traditional marketing lead generation programs — for use in your relationship management processes and decision making. Automation allows data to be entered once at its source and not require re-entry or export into hard-to-use and inaccurate spreadsheets.

SBI cites the following typical sources of information as places to begin gathering data:

- CRM system
- Finance systems
- Payroll system
- Expense reporting system
- HR systems
- Sales management team.

and they point out that it may take some digging. This is where the clear advantage of an integrated business management system is apparent: rather than looking at six separate sources for data that may prove inconsistent or nonexistent, with one single integrated suite, you can see across all business functions and have one consistent version of "truth."

Good win-loss metrics come from in-depth analysis of your sales opportunities. Of course, this assumes you can view all your opportunities, can easily assign different priorities to opportunities, customers and leads, and give your sales managers a 360-degree view of all the leads and opportunities in the pipeline. You need accurate metrics to analyze the deals your competitors have won against your team, according to dollar and percentage amounts.

Most sales executives look at key performance indicators (KPIs) such as open opportunities, opportunities won and opportunities lost compared against past sales periods to provide real-time forecast metrics. You need to quickly see the most current pipeline, forecast and quota data and compare these in a single chart. You may also want to see an instantaneous breakdown of bookings (sales based on orders) versus billings (sales based on invoices). In addition, with NetSuite for example, you can also create your own KPIs to measure other things important to measuring your sales success.

And if you are an ecommerce company that provides goods or services over the Web, look for a solution that enables you to drill-down to any customer record and see a complete history of that customer's activities on your website, seeing exactly what pages he or she has visited, how often, and even the page currently being viewed. With this kind of functionality, not only can you view the exact shopping cart contents of each of your shoppers, including the date each item was added, you can create marketing campaigns that are sent to customers based on their site activities – with the knowledge of what was successful at targeting that customer in the past.

Metrics gleaned from forecasting give valuable insight into the effectiveness of your teams, and your individual team members. A brief example of data most companies insist upon to begin to gather that insight, include:

- Sales by Sales Rep analyzed by Sales Period
- Forecast vs. Quota vs. Bookings
- Forecast versus actual by Sales Rep analyzed by Class, Department or Location
- Forecast versus actual by Item (Product or Service)
- Sales Pipeline (Projected and Weighted) versus actual by Sales Rep
- Pipeline By Status analyzed by Sales Period
- Open and Closed Opportunities
- Won and Lost Opportunities
- Sales-to-Pipeline ratio
- Sales by customer segment

NetSuite, an integrated on-demand business management solution that includes all accounting/ERP, e-commerce, and customer relationship management (CRM), provides all this data in built-in reports that provide detailed forecast analysis. In addition, ad hoc reports can be built and saved for repeated use using NetSuite's reporting tools. Because actual booked orders can be seen in forecasts, your forecasts have greatly increased reliability, predictability and accuracy.

A key metric source in NetSuite is the important intersection of customers and the orders they place. This order management capability also allows sales people to work a deal through the pipeline, right through to the actual close, allowing their management to see booked orders in your forecast, greatly increasing its reliability, predictability and accuracy. Thus, the "actuals" information in "forecast vs. actual" reports is based on real sales data.

Order management data is the key metric in ascertaining ROI. Because CRM systems often do not capture the details of what a customer has actually purchased, they provide incomplete and inaccurate results for marketing and sales decision-making. With no real record of what or how much has been ordered by each customer, marketing has no way to know if the leads generated are actually converting to customers nor the value of the customer to which they convert.



Metrics for Management

Metrics are important to all levels of the sales organization – the sales reps want to see how they are doing against their compensation plans (in real-time), and sales management wants the ability to see the details as well as the big picture. Thus, the delivery of metrics in a useable fashion is essential. It is critical to see the status of key open deals so you can proactively put the right resources on the right prospects to close more deals faster. You want to view the top deals outstanding for a given sales period, your sales funnel portrayed as pipeline by status, your top customers or even your worst performing sales reps to determine which “current deal” metrics may make sense in evaluating for overall sales effectiveness analysis. And of course, the ability for total visibility across the entire sales organization allows you to select those metrics that most make sense for you. The Sales Management portlet on NetSuite Forecast Dashboard, as one example, provides a single, hierarchical view of the sales organization that can be expanded to show details down to individual reps or can be rolled up for summary views of each sales team, by manager, by geographical region, or by country to provide an all-encompassing view of all sales performance at every level.

The NetSuite Advantage in Providing Sales Effectiveness Metrics

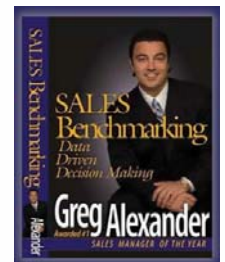
NetSuite provides a true 360 degree view of all customer data and customer interactions, including complete visibility into all financial transactions and website interactions without any integration required. Now a single view of customer information is available to everyone in your company who needs it. This means all the data about all opportunities, leads, prospects, sales activities, sales teams, customers, items purchased and repurchased, campaign status, and much much more is available for you to use in selecting your own key performance indicators for your benchmarking metrics. And because NetSuite is an on-demand system, all the data behind your metrics selected is available in real-time, providing timely accurate information for your benchmarking use.

About SBI:

Sales Benchmark Index, is the research, training, and consulting company leading organizations turn to when in search of cost effective revenue growth through benchmarking sales performance. We help thousands of sales managers overcome their most significant challenges that affect sales management effectiveness. SBI has the data, expertise, and tools to move you quickly from diagnosis, implementation, and results.

Typical problems we solve include:

- Quota Attainment
- Talent Optimization
- Quality Lead Maximization
- Sales Cycle Reduction
- Increasing Product/Service Differentiation



About NetSuite:

NetSuite, Inc. is the leader in on-demand business software suites. NetSuite enables companies to manage all key business operations in a single system, which includes accounting/Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), and ecommerce. NetSuite is delivered as an on-demand service, so there is no hardware to procure, no large, up-front license fee, and no complex set-ups. For more information about NetSuite, visit: www.netsuite.com