

Presentation Notes
Sales Force Retention, Quality & Economics
Session of March 2-3, 2009; University of Wisconsin
Prepared by Wilkening & Company
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Sales force retention, quality and economics are subjects that Wilkening & Company has studied and commented upon for a number of years. As I mentioned in our early-March session, we began to study the economics of sales force retention and quality after a client's CFO proposed during luncheon that he terminate all of the company's senior (and experienced) sales representatives and replace them with new-inexperienced (and lower-paid) reps to "save" money. While he was right on a strict replacement-cost basis, he had totally ignored the value of an individual's experience to the company and its customers.

As a tool to explain the impact of experience on sales-force effectiveness and economics, we developed the *sales force experience curve*. It is shown on Slide # 4 of the enclosed presentation extracted from our full March 3rd presentation and enclosed as a separate document. It forms the basis and foundation for our analysis and comments.

The experience curve (Slide #4) is a simple concept. On the horizontal axis is an individual's company (or industry) field experience in terms of years. On the vertical axis is the sales effectiveness of the individual sales representative. Sales effectiveness is defined in terms of combined *product knowledge, customer and customer-requirement familiarity and expertise with the company's selling process*. In short think of it this way: the longer I am in the job (and progress in terms of the above-mentioned factors), the better I get in developing the full potential of the customers and prospects that have been assigned to me by the company.

We believe sales effectiveness has two components (see Slide #4):

- "Base" sales effectiveness ranges from 0% to 100%. Clearly at 100% sales effectiveness, the sales representative has reached their "par" expectations for an average experienced sales rep as outlined above. Research by another consulting firm was used to establish the base sales effectiveness curve. These findings indicated that it takes nearly two years for a typical rookie sales rep to reach full (or 100%) sales effectiveness in their territory or with their account base. Does that also mean that all "new" sales reps start on the experience curve at 0%? We think few will and that most will join the curve at a different and higher level—say 20%. As you will see later, where they start does matter.

- “Value-Added” represents a premium level of sales effectiveness that will (may) result when a sales rep becomes highly experienced or is superior in terms of the factors of sales-effectiveness (stated above). We believe this premium level of sales effectiveness normally begins in roughly the third year of tenure and can progressively add as much as 50% to base effectiveness after the sixth year. Beyond the sixth year, this value added may continue to increase but at a slower rate. However let us be clear on one point, just because one is in a job for several years (or in their territory) does not mean that they will achieve premium sales effectiveness—or even reach a level of 100%.

The experience curve may also have a different profile for different companies and sales processes. For example, a company selling commodities and/or using a telemarketing sales process may have a very flat curve. In other words, a rookie can reach 100% in less than two years—if they have the capability. Understanding each company’s unique experience curve is crucial to decisions regarding reward, hiring and retention.

A number of implications and questions arise when one considers the sales force experience curve. For example—

1. What are the implications of turning over your sales force (termination and rehire) every two to three years? How high will (can) your company’s cumulative sales effectiveness ever reach under those circumstances?
2. As a follow-on question, typically what is the cost of exchanging a 6-year employee for one with less than a year’s experience?
3. What is it worth in sales training investment to move a new sales representative “up” the curve six months to one year sooner than normal? Will all types of sales training accomplish this end?
4. What is it worth for a firm to hire an industry-experienced sales rep from a competitor? Should you be willing to pay a premium to complete such an arrangement? How much?
5. If a sales representative has limited abilities and consequently can only (ever) reach 60% sales effectiveness, what is the ultimate cost in lost opportunity to the organization—and the customer?

To try to apply the sales experience curve to addressing the questions raised above, the analysis and descriptive charts shown on Slides #5 and #6 were developed.

The first chart (shown on Slide #5) is an analysis of the value to a company of retaining an average successful sales representative for a period of five years. The 2009 net present cash value to the company of the sales rep who progresses up the

sales experience curve as expected (as shown in Slide #4) is nearly \$160,000. That means that the financial product of their performance (pre-tax) for five years is worth \$160,000 to your company—today. The analysis also shows that the sales rep will breakeven in about 16 months but that their real value does not begin to accumulate for the company until the “out years”—i.e.: years 4 and 5. The analysis is built upon financial information of a real client and as such can be adjusted for different conditions and assumptions.

But, what would happen if the sales representative shown in Slide #5 is able to move up their personal sales experience curve more quickly—or slowly? Those results are shown on Slide #6.

There are four bars shown on Slide #6, let's describe each.

- The first bar (from the left) shows the 2009 net present cash value of a sales rep who goes up the curve faster than the average by 20%. Visualize the entire curve moving up 20% over Slide #4. The five-year present value of that accelerated pace is nearly \$228,000; or \$68,000 more than the “average” sales rep. Notice also that there is a (blue) line running across Slide #6. This represents the months from hiring to breakeven. With the accelerated pace this is 12 months or 4 months sooner than the “average” sales representative.
- The second bar (from the left) restates the results for the average sales representation already shown on Slide #5 and described above.
- The third bar (from the left) shows the 2009 net present cash value of a below-average sales representative. In this case the sales representative only progresses at 80% of the average representative or 20% less than expected. Again, visualize the entire curve moving down 20%. The five-year present value of this below-average representative is roughly \$116,000; or \$45,000 less than the “average” sales rep. Breakeven is now at 21 months, or 5 months later than the average performer.
- The fourth and final bar (on the furthest right) shows the 2009 net present cash value of a well below-average sales representative. In this case the sales representative progresses at 60% of the average performer or 40% less than expected. Again, visualize the entire curve moving down 40%. The five-year present value of this below-average representative is roughly \$60,000; or \$100,000 less than the average sales rep. Breakeven is at 32 months, or double that of the average performer. Why bother?

What does the above data and information shown in Slide # 6 clearly demonstrate? We think three broad conclusions jump off the page.

1. It pays great dividends to retain a good sales representative for the long-term. Turnover is very costly.

2. It also pays great dividends to move your sales representatives up the experience curve as quickly as possible. Rapidly getting all sales reps to 100% sales effectiveness should be the goal and will pay dividends.
3. It never pays to hire, train or promote a sales representative who you know is sub-par or marginal. It takes forever to get your investment back—if you ever do.

This proprietary analysis model was built by Wilkening & Company using data, conditions and assumptions from specific client situations. This same model can be tailored to any client or situation.

What is the profile of your sales experience curve? Are you taking the actions required to maximize your sales force return on investment.

Please feel free to call or write with any questions or comments.

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