# MODULE 18 : BEHAVIOUR AND OTHER PERFORMANCE ANALYSIS

## PERFORMANCE VERSUS EFFECTIVENESS

A sales representative’s performance is a function of five factors :

1. Role Perceptions
2. Aptitude
3. Skill level
4. Motivation level
5. Personal

## See model in text

**Behaviour :** Behaviour refers to what representatives do – that is, the tasks on which they expend effort while working. These tasks might include calling on customers, writing orders, preparing sales presentations, developing formal equipment proposals, and the like.

**Performance :** Performance is behaviour evaluated in terms of its contributions to the goals of the organization. Performance, in other words, has a normative element reflecting whether a salesperson’s behaviour is “good” or “bad” in light of the organisation’s goals and objectives. Both behaviour and performance are both influenced by relevant sales activities. Those in turn depend on the types of sales jobs in question.

**Effectiveness :** Effectiveness refers to some summary index of organizational outcomes for which an individual is at least partly responsible, such as sales volume, market share or profitability of sales. The crucial distinction between performance and effectiveness is that the latter does not refer to behaviour directly; rather it is a function of additional factors not under the individual salesperson’s control. These include top management policies, the sales potential of a territory, and the actions of competitors.

It is generally agreed that salesmen should be judges solely on those phases of sales performance over which they exercise control, and should not be held responsible for results beyond their control. If a company’s method of measuring salesmen’s performance is to result in valid comparisons, serious consideration must be given to such factors in developing yardsticks for objective or subjective evaluation.

One could argue that a careful specification of performance standards by territory should eliminate inequities across territories. For example, percentage of quota attained should be an acceptable measure of performance because quotas supposedly consider variations in environmental factors across territories. Admittedly, a comparison of salespeople with respect to percentage of quota attained is a better measure of their performance than is a comparison that simply looks at each representative’s level of absolute sales or market share, assuming the quotas were done well. This is a big if, however; sometimes they are not. In some instances, they are arbitrary and are not necessarily based on an objective assessment of all the factors that facilitate or constrain a salesperson’s ability to make a sale.

Even when quotas are done well, the measure “percentage of quota attained” still omits much with respect to a salesperson’s performance. For one thing, it ignores the profitability of sales. Sales reps can be compared with respect to the profitability or the return they produce on the assets under their control.

Even if good sales and profit standards could be developed, the problem of salesperson’s evaluation would not be solved because neither measure incorporates activities that may have no short-term payout but still have substantial consequences to the firm in the long run. These include the time devoted to developing a potential large account, to building long-term goodwill for the company, or to developing detailed understanding of the capabilities of the firm’s products. That is why many firms supplement sale sand cost analyses with other measures that more directly reflect each sales rep’s performance.

## How much is a customer worth?

Major sources of customer dissatisfaction are :

* a lack of responsiveness or the inability to resolve a problem
* delays or interruptions in service
* unfriendly employees
* errors in billing or delivery

When a customer becomes history, revenues and costs suffer. The loss in sales leads to a reduction in revenues. Attempts to bring the ex-customer back will increase costs.

The other measures firms use to evaluate salespeople fall into two broad categories :

* objective measures
* subjective measures

The objective measures reflect other statistics the manager can gather from the firm’s internal data. The subjective measures rely on personal evaluations by someone in the organization, typically the salesperson’s immediate supervisor, of how individual salespeople are doing.

## OBJECTIVE MEASURES

The objective measures that firms use to supplement traditional sales and cost analyses fall into the three subcategories of :

1. Output measures
2. Input measures
3. Ratios of output and/or input measures

## Common output and input factors used to evaluate salespeople

## Output factors

1. **Orders**

* Number of orders
* Average size of orders
* Number of cancelled orders

1. **Accounts**

* Number of active accounts
* Number of new accounts
* Number of lost accounts
* Number of overdue accounts
* Number of prospective accounts

## Input factors

1. **Calls**

* Number of calls
* Number of planned calls
* Number of unplanned calls

1. **Time and time utilization**

* Days worked
* Calls per day (call rate)
* Selling time versus non-selling time

1. **Expenses**

* total
* by type
* as a percentage of sales
* as a percentage of quota

1. **Nonselling activities**

* Letters written to prospects
* Telephone calls to prospects
* Number of formal proposals developed
* Advertising displays set up
* Number of meetings held with distributors/dealers
* Number of training sessions held with distributor/dealer personnel
* Number of calls on distributor/dealer customers
* Number of service calls made
* Number of overdue accounts collected

## Common ratios to evaluate salespeople

1. **Expense ratios**
   1. **Sales Expense Ratio = Expenses/Sales**
   2. **Cost per Call Ratio = Total Costs/Number of Sales**

**(ii) Account development and servicing ratios**

* 1. **Account Penetration Ratio = Accounts sold/Total accounts available**
  2. **New account conversion ration = Number of new accounts/Total number of accounts**
  3. **Lost account ratio = Prior accounts not sold/Total number of accounts**
  4. **Sales per account ratio = Sales dollar volume/Total number of accounts**
  5. **Average order size ratio = Sales dollar volume/Total number of orders**
  6. **Order cancellation ratio = Number of cancelled orders/Total number of orders**

1. **Call Activity and/or Productivity**
   1. **Calls per day ratio = Number of calls/Number of days worked**
   2. **Calls per account ratio = Number of calls/Number of accounts**
   3. **Planned call ratio = Number of planned calls/Total number of calls**
   4. **Order per call (hit) ratio = Number of orders/Total number of calls**

**OUTPUT MEASURES**

The output measures most used for evaluating sales people are sales statistics.

## Orders

The number of orders each salesperson secures is often used to assess the rep’s ability to make sales presentations since it reflects the individual’s ability to “close”. Not only the timing of the close be right, but also the salesperson must have adequately moved the buyer through the prior stages of the buying process via the sales presentation if the close is going to be successful.

Although the number of orders a salesperson secures is important, the average size of these orders is equally so. Having many orders may mean the orders are small and may indicate the person is spending too much calling on small type C accounts and not enough time calling on large type A accounts.

Still another measure of a salesperson’s presentation effectiveness is the number of cancelled orders. A salesperson who loses a large proportion of total orders to subsequent cancellation may be using high-pressure tactics in sales presentations.

## Accounts

The various account measures provide a perspective on the equity of territorial assignments and also on how the salesperson is handling the territory. One popular measure focuses on the number of active accounts in the salesperson’s customer portfolio. An active account may be any account where a customer has placed an order in the past six months or in the past one year. A salesperson’s performance in one year may be compared to performance in the past years by contrasting the number of active accounts. Closely related to this yardstick is the number of new accounts a salesperson develops in a given time. Some companies even establish new-prospect quotas by salespeople that allow a ready comparison of performance to standard.

While not as popular as the number of new accounts, the number of lost accounts can be a revealing statistic, since it indicates how successfully the salesperson is satisfying the ongoing needs of the established accounts in the territory. Still other account measures by which salespeople can be compared are the number of overdue accounts, which might indicate the salesperson is not following company procedures in screening accounts for their creditworthiness, and the number of prospective accounts, which assesses the salesperson’s ability in identifying potential target customers.

## INPUT MEASURES

Many objective measures of performance evaluation focus on the efforts sales representatives expend rather than the results of those efforts. There are at least two good reasons for this. First, efforts or desirable behaviours are much more controllable results. If a rep’s sales efforts fall short of quota, the problem may lie with the person, the quota, or a change in the environment. If the number of calls a salesperson makes falls short of the target, however, the problem lies much more directly with the individual. Second, in many selling situations, there is a time lag between inputs and outputs. A particular large sale may be the result of several year’s efforts.

## Calls

The number of current customer and/or prospect calls is often used to decide whether a salesperson is covering the territory in accord with the company’s plan. Sales calls are a resource with a finite supply. They represent a resource that is time sensitive in that the time available to make them evaporates if it is not used. The number of calls typically can be determined from a salesperson’s call reports.

Companies would like their salespeople to make a lot of calls and also prefer that these are planned. Unplanned calls typically reflect some emergency or breakdown in customer service. While these will always occur, they create inefficiencies in covering a territory; it is a mark of good territory management when they are low relative to the number of planned calls.

## Time and Time Utilisation

The number of days worked and the calls per day (or the call rate) are routinely used by many companies to assess salespeople’s efforts since the product of the two quantities provides a direct measure of the extent of customer contact. If the amount of customer contact by a salesperson is low, one can look separately at the components to see where the problem lies. Perhaps the salesperson has not been working enough because of sickness, extenuating circumstances, or just plain laziness – a situation that would show up in the number of days worked. Alternatively, perhaps the salesperson’s total time input was satisfactory, but the salesperson was not using that time wisely and, consequently, had a low call rate.

Comparing salespeople’s division of time between sales calls, traveling, and office work offers a useful perspective. For the most part, the firm would want salespeople to maximize the time in face-to-face customer contact at the expense of the other two factors. The company would want representatives particularly to minimize unproductive travel time. Such analysis require detailed input on how each person is spending time and can be expensive. Some companies, however, routinely conduct such analysis because the benefits are deemed to outweigh the costs.

## Expenses

Many firms keep records detailing the total expenses incurred by each salesperson. Some break these expenses down by type, such as automobile expenses, lodging expenses, entertainment expenses, and so on. They might look at these expenses in total and/or as a percentage of sales or quotas by salesperson and use the expense ratios to evaluate salespeople.

**Nonselling Activities**

In addition to assessing the direct contact of salespeople with customers, some firms monitor indirect contact. They use indexes such as the number of letters written, the number of telephone calls made, and the number of formal proposals developed.

In many firms, the sales rep’s duties go beyond what might be considered a normal selling emphasis. In such instances, firms often try to monitor the extent of these duties, such indexes as the number of promotion or advertising displays set up, the number of dealer meetings, and the number of training sessions for distributor personnel held, the number of calls the salesperson made on dealer customers, the number of service calls made, the number of complaints received, and the number of overdue accounts collected. Some of this information can be gathered from sales call reports while the rest of it, such as the number of customer complaints, requires monitoring other than correspondence.

**RATIOS**

## Expense ratios

The sales expense ratio combines both salespeople’s inputs and the results produced by those inputs in a single number. Salespeople can affect this ratio either by making sales or by controlling expenses. The ratio can also be used to analyse salesperson’s expenses by type. Thus, a sales/transportation expense ratio that is much higher for one salesperson than others might indicate the salesperson is covering his/her territory inefficiently. However, territorial differences need to be recognized when comparing these ratios.

The cost per call ratio expresses the costs of supporting each salesperson in the field as a function of the number of calls the salesperson makes. The ratio can be evaluated using total costs or the costs can be broken down by elements, and ratios such as expenses per call and travel costs per call can be computed. Not only are these ratios useful for comparing salespeople from the same firm, but they can also be compared to those of other companies in the same industry to assess how efficient the firm’s personal selling effort is.

## Account development and servicing ratios

A number of ratios concern accounts and orders that reflect on how well salespeople are capturing the potential business that exists in their territories. The account penetration ratio, for example measures the percentage of accounts in the territory from which the salesperson secures orders. It provides a direct measure of whether the salesperson is simply skimming the cream off the business or is working the territory systematically and hard.

The new account conversion ratio similarly measures the salesperson’s ability to convert prospects to customers. The lost account ratio measures how well the salesperson keeps prior accounts as active customers and reflects on how well the representative is serving the established accounts in the territory.

The sales per account ratio indicates the salesperson’s success per account on average. A low ratio could indicate the salesperson is spending too much time calling on small non-profitable accounts and not enough time calling on larger ones. One could also look at the sales per account ratios by class of account, which can reveal the strengths and weaknesses of each salesperson. A salesperson who has a low sales per account ratio for class A accounts might need help in learning how to sell when there are multiple buying influences.

The average order size ratio can also reveal the salesperson’s call patterns. A very low average size might suggest the calls are too frequent and the salesperson’s productivity could be improved by spacing them more. The order cancellation ratio reflects on the salesperson’s method of selling; a very high ratio could mean the salesperson is using high pressure tactics to secure orders, rather than satisfactorily handling customer concerns.

## Call Activity and/or Productivity ratios

The call activity ratios measure the effort and planning salespeople put into their customer call activities and the successes they derive from it. The measures might be used to compare salespersons activities in total – such as when using calls per day or when using calls per total number of accounts or by type of account. The planned call ratio could be used to assess if the salesperson is systematically planning territory coverage or whether the representative is working the territory without an overall gameplan. The orders per call ratio bears directly on the question of whether the salesperson’s calls on average are productive. This ratio is sometimes called the hit ratio or the batting average, since it captures the number of successes (hits or orders) in relation to the number of as-bats (calls).

## Caution is in order

One combination that is often used to evaluate sales people is the equation :

### Sales = Days worked X Calls/Days worked X Orders/calls X Sales/orders

**Sales = Days worked X Call rate X batting average X Average order size**

Thus, in order to increase sales, a sales representative can increase :

* the number of days worked
* the calls made per day
* success in securing an order on a given call
* the size of the orders secured

However, these equations focus on the results of the salesperson’s efforts and ignores the cost of the efforts.

## SUBJECTIVE MEASURES

Quantitative measures of effort focus on what salespeople do, whereas qualitative measures reflect how well they do what they are doing.

The attributes most commonly evaluated using merit rating forms are these :

1. **Sales results :**

* volume performance
* sales to new accounts
* selling the full product line

1. **Job Knowledge**

* knowledge of company policies, prices, products

1. **Management of territory**

* planning of activities and calls
* controlling expenses
* handling reports and records

**(iv) Customer and Company relations**

* standing with customers, associates, and company.a

1. **Personal characteristics**

- initiative, personal appearance, personality, resourcefulness, and so on.

The emphasis given to each varies by company. The emphasis also seems to depend on the purpose for which the evaluation is used.

## Problems in the use of simple rater forms

1. **Lack of an outcome focus**

The most useful type of performance appraisal highlights areas of improvement and the actions that must be taken to effect such improvements. For this to occur, the key behaviours in accomplishing the tasks assigned must be identified. Unfortunately, many companies have not taken this step. Rather, they have simply identified attributes thought to be related to performance, but they have not attempted to assess systematically whether the attributes are the key. A recent emphasis in performance appraisal called Behavioural Anchored Rating Scale) BARS attempts to identify the behaviours that are more or less effective with respect to the goals established for the person. It then secures superior ratings for these behaviours.

1. **Ill-defined personality traits**

Many merit rating forms contain personality factors as attributes. In the case of salespeople, these attributes might include such things as initiative and resourcefulness. Although these attributes are intuitively appealing, their actual relationship to performance is open to question.

**(iii) Halo Effect**

A halo effect is a common phenomenon in the use of any rating form. It refers to the fact that the rating assigned to one characteristic significantly influences the ratings assigned to others.