Vlerick Sales Centre Article Summary Series

Who’s your most valuable salesperson? (by V. Kumar, Sarang Sunder and Robert P. Leone, Harvard Business Review, April 2015)

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Introduction

Companies have become savvy customers; they have often determined the solution and the supplier they need, and the price they are willing to pay, before the salesperson enters the scene. In this competitive environment, the premium on finding, training, motivating and retaining star performers has never been higher. Because firms only measure past sales performance, they have limited insight into how a salesperson will do going forward and what types of training and incentives will be most effective. Failing to forecast a salesperson’s future value can lead to costly misallocation of training and incentive dollars. Many firms overvalue their poor performers and undervalue their stars, which might lead to undervalued top salespeople to slip through their fingers and into competitors’ arms.

This article illustrates a novel method for measuring a salesperson’s future profitability to the firm. Future performance is linked to specific types of training and incentives and show how those investments can dramatically boost revenue.

Gauging future value

Most firms use revenue generated as main metric for valuing their salespeople. Reps who bring in the most money are considered ‘stars’. However, this measure is neither an accurate gauge of a rep’s current worth, nor a good indicator of his or her potential.

Salesperson Future Value, SFV, is 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. It measures the rep’s expected future profits. Comparing SFV for different time horizons allows managers to optimize training and incentives to achieve short- and longer-term goals.

\[ SFV = CLV - Cost \]

**CLV = Estimated Customer Lifetime Value of the rep’s existing and prospective customers.**

**Cost = The present value of the rep’s training and incentives, such as commissions.**

To understand the relationship between revenue and future value, a study was conducted in a firm that applied generated revenue as a metric. First, the sales force was divided into deciles, according to revenue generated over a three-year
period. Next, the SFV was calculated for the reps in each decile. The results showed that the firm had been dramatically undervaluing salespeople in the highest decile and reps in the lowest decile, who appeared to bring in lower but still substantial revenue, were badly overvalued – destined to cost more than they generated. There is also a rapid drop-off in SFV by decile; already 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 are aware of the need for different teaching and motivating techniques, depending on the person and the circumstances. Still, training and incentive programs are often applied unscientifically, on the basis of best guesses, with predictably uneven results.

The SFV provides a starting point for finding out what training and incentives will bring out the best in a high achiever or help a promising rep improve. After determining the SFV of each rep in the study company, data on each rep’s prior training and incentives was correlated with their SFV to understand the factors that influence a salesperson’s future performance. Data was gathered on 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, rep-level data on the value of monetary incentives received and the number of nonmonetary rewards was collected.

The study identified strong associations between training types, incentives, and a rep’s future performance. Two broad classes of sales reps were identified: **training-driven reps** – whose SFV is influenced most by instruction and learning – and **incentive-driven reps** – who are motivated more by monetary and other rewards. This analysis allows the firm to optimize each salesperson’s training and incentives according to his or her segment.

**Optimizing training and incentives**

According to the study, during the first four years all salespeople undergo basic, mandatory task and growth training. Most sales training is task related, focused on improving knowledge and skills directly involved in selling. Growth-related training enables reps to “learn how to learn,” helping them identify needed task-related skills and develop their repertoire of those skills.

When examining the data, three findings emerged that have important managerial implications:

- **More isn’t necessarily better.** Because training is expensive and time-consuming, the cost of further training beyond a certain point outweighs any incremental increase in a rep’s SFV. Knowing where that point lies for salespeople in each segment is critical.
- **Time frame matters.** Training effects in general are greater in the long term.
Managers must be patient in evaluating the effects of training.
- Training types are mutually reinforcing. 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 the synergy between the two types when designing training schedules. The benefits of the synergy are also greater in the long term than in the short term.

When it comes to extrinsic motivators, monetary rewards are more powerful for all types of reps in the short term – although incentive-driven reps had a greater response to them than did training-driven reps. Both groups responded positively to nonmonetary rewards, both in the short and long term. Monetary and nonmonetary rewards have a greater impact on SFV when combined.

**Redefining sales force management**

Firms can use advanced customer relationship management systems that allow them to measure SFV. Managers can use the SFV to segment the sales force and based on this segmentation they can make data-driven decisions about investment in training and incentives, career development, and even hiring and firing.

**Training and incentives investment**

Managers should determine each salesperson’s sensitivity to different types of instruction and monitor both assigned and opt-in training accordingly, perhaps even establish limits. They must determine which reps will respond best to different types of incentives and adjust the incentive structure as needed. For example, in the firm that was studied, managers made adjustments at the segment level based on this approach. It allowed them to reallocate training and incentive investments across reps, resulting in an 8% increase in SFV across the sales force and a 4% increase in firm revenue.

**Career development and retention**

Sales person 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. Performance problems may reflect misapplication of training and incentives. A rep can have great potential that can be reached only when he/she gets the right tools.

**Profiling and recruitment**

SFV measurement allows firms to profile top performers, 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.

**Conclusion**

As selling becomes ever more complex, the role of the sales force as a source of competitive advantage grows. SFV calculations allow managers to improve sales force valuation and management and to be more strategic in hiring, firing,
motivating and training. SFV-focused management offers potential to streamline the sales force and improve organizational efficiency. Future value metrics give managers the possibility to optimize their resources and reduce system wide cost, which results in increased profit and competitive advantage.