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Maximize the lifetime value of your sales force

Better and more thoughtful ways to measure the potential lifetime value of each member of the sales force can not only improve talent management but also create more value.

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Sales organizations invest heavily in data and analytics in order to measure the potential long-term value of their customers. Yet few apply the same discipline to their own internal sales force. This is surprising, given the increasing challenges sales managers face in acquiring and retaining talent in today's economic environment.

Many sales leaders are unclear about how to identify, attract, and hire reps who have the "perfect" profile, and they have little idea of what motivates such people to stay. Nor do they know how to combat the "performance plateau," where top performers start to stagnate. They are, however, all too aware that employees vary widely in performance, both in the early stages after they are hired and in the longer term, when the disparity between top and bottom performers can be sixfold.

Beyond sales performance, employee attrition is a permanent headache for many sales leaders. Turnover can often top 50 percent a year and is most heavily weighted with recent hires, meaning organizations never recover recruitment costs for the hires who leave. McKinsey estimates that, in some organizations, the cost of a lost employee can be $25,000 to $50,000 when lost productivity and customer dissatisfaction, as well as recruitment and training costs, are factored in.

Many sales leaders have begun to use analytics for day-to-day performance management, but they haven't gone beyond such short-term analysis to quantify the lifetime value of a salesperson the way they routinely calculate the lifetime value of a customer. Forward-thinking sales leaders, however, can now take performance management to the next level by using data to directly link talent management to increased financial value. This approach can drive up to a 10 to 20 percent increase in revenue per salesperson and reduce attrition rates by double digits.

Seller lifetime value: A new framework to help raise productivity

Customer lifetime value was established in the 1980s as a framework to forecast the net profit attributable to a customer over the entirety of his or her relationship with a company.

By applying a similar rationale, sales organizations of all sizes and hues can determine how to maximize the lifetime value of their staff—specifically the salespeople themselves (exhibit). This seller-lifetime-value (SLV) model has four inputs:

— **Cost to acquire/hire.** Just as companies understand customer-acquisition costs, they can now evaluate and optimize the costs of finding, choosing, and introducing new employees, which typically range from 20 to 50 percent of annual salary.

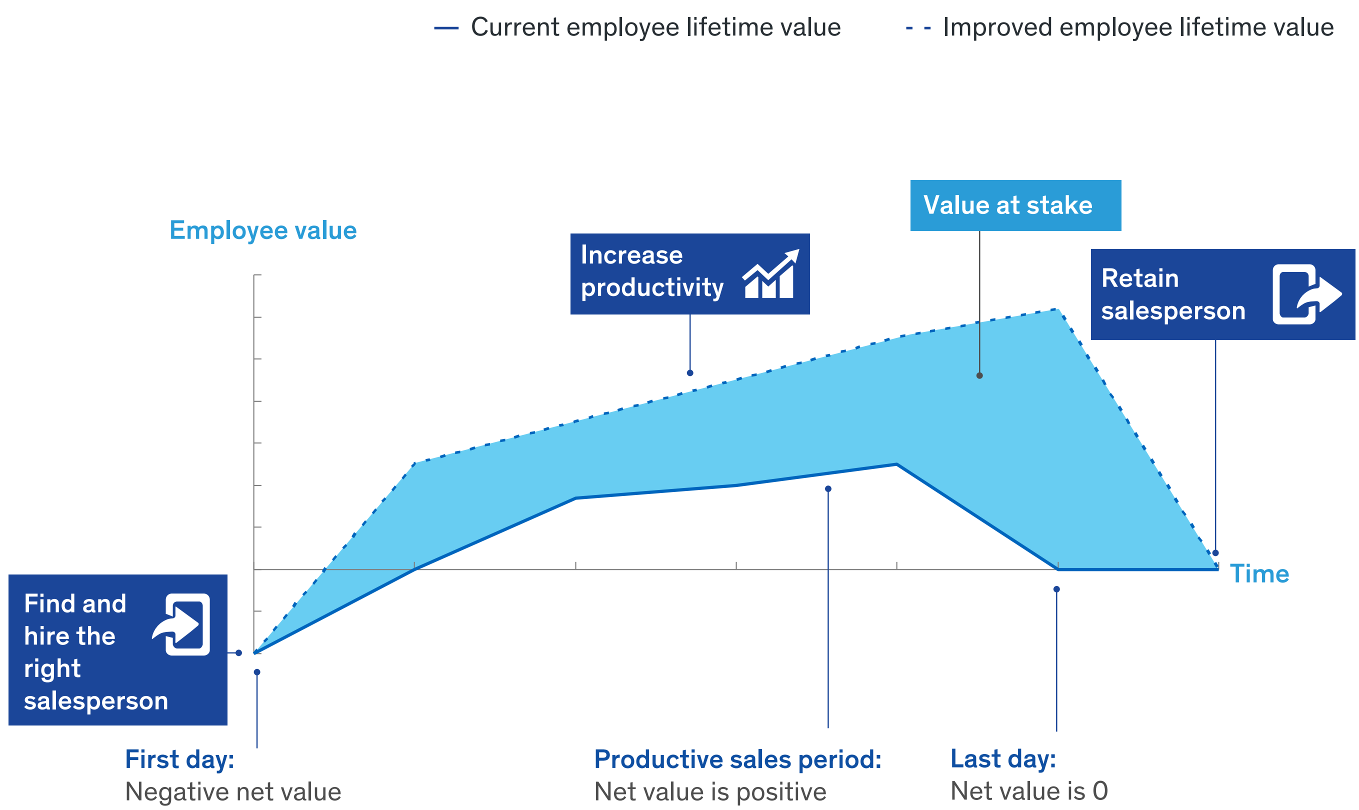
— **Cost of employment.** Companies are familiar with the concept of cost to serve, but it is typically used to address customer profitability, not the profitability of individual sales reps.

— **Gross margin generated (and trajectory of margin).** Customers are measured in terms of recurring revenues, and a similar approach helps companies understand the impact of employee performance on revenue. Break-even times—the time when a salesperson generates enough margin to cover his or her costs to date—vary, with the average being about nine months.

— **Length of employment and value creation.** Just as companies measure the length of customer relationships, they can assess how salesperson tenure correlates with value creation and thus measure the effects of attrition. Attrition in sales roles is typically much higher than for other functions; 50 percent turnover is not unusual.

Exhibit

An SLV model can help companies boost the value of a salesperson.



Equipped with the data generated by these inputs, sales leaders can then derive actionable insights into where they can improve SLV. There are many tactical steps they can take—finding and hiring the right talent; increasing productivity through tailored development programs, personalized incentives, and defined career paths; managing performance; and, ultimately, retaining proven winners.

From model to action

Due to both organic growth and multiple acquisitions, a large services provider was enjoying exceptional revenue growth—56 percent in three years. Its footprint had grown by a quarter, and there seemed to be no limit to its potential growth in market share.

But its rapid growth was causing headaches for sales leaders around talent. They were finding it difficult to smoothly integrate all the disparate cultures from the acquisition spree, and the sheer size of the combined sales forces was making it harder for senior leaders to manage performance. Minor problems were evolving into major obstacles to maximizing value.

Moreover, sales leaders were finding it hard to attract ideal new talent, given an extremely competitive market. Onboarding processes were fast becoming disjointed and inconsistent across the company and its various acquisitions. Retention was proving a major challenge, with attrition rates creeping upward of 60 percent in some businesses.

It was clear the company needed to adopt a new, fact-based approach to sales talent. It needed to gain deeper knowledge of what makes certain candidates successful and then carefully source and select the right people. In short, it needed to understand how to maximize the seller lifetime value of each member of the sales force.

First, the company aggregated a wide range of data for each sales rep, including HR data such as role, location, education, and personality attributes; sales-activity data harvested from the customer-relationship-management (CRM) system; and business-performance data such as revenue, client-relationship value, and compensation. It then used McKinsey's Sales DNA tool to gather data on reps' perceptions of skills, culture, and coaching, and then mined that data to identify the traits that separated top performers from the rest. Finally, it ran a competitive talent scan that included education, skills, and other work experience, measuring its own employees against McKinsey's Talent Refinery, a database of more than 500 million profiles. This revealed that the organization was hiring individuals who had significantly more professional experience than those its competitors were hiring and who were also, of course, expensive.

Examining this combined data through the SLV lens revealed two clear employee archetypes. The first were reps who quickly got up to speed but then fizzled out and left early. The second were slower to reach peak performance but performed better in the long run. The company realized it had to make a trade-off: it needed to place less emphasis on getting reps performing quickly and focus instead on long-term performance and retention. It also realized that it needed to invest more heavily in campus recruiting to encourage younger, eager-to-learn talent to join the organization.

This insight led the company's sales leaders to develop a set of tactical initiatives to transform the employee journey in pursuit of maximum SLV:

— **Inject structure into screening and interview processes.** Candidates had been subjected to a wide range of interview processes based entirely on individual branch managers' preferences. Some would hold two rounds of interviews, others four; some hired on a regular basis, others were more ad hoc. The variance made it much harder to assess the best approach. The company established a single process for every candidate and kept statistics on the time between each of its steps. This enabled the executive team to monitor the process and ensure that it was applied to any newly acquired companies to eliminate any variance in hiring approach.

— **Use objective measurements to evaluate candidates.** To remove bias from hiring decisions, the company introduced a structured interview sheet that forced managers to give a numerical score to the attributes that mattered, such as forcefulness and sociability. The scores, rather than subjective judgment, then drove the conversation around hiring decisions.

— **Focus on support and rapid development of new hires to limit attrition.** The company recognized the need to help new hires get up to speed with day-to-day processes faster and to make them feel valued during the early months when they might struggle to hit their targets.

— **Establish clear career paths.** For long-term, high-performing talent, it was important to provide visibility into how they might rise to leadership positions within the organization and to make it clear that a career in sales would also be valued and rewarded with additional financial incentives.

— **Measure and track performance continuously.** By tracking performance along four dimensions (HR processes, sales activities, financial outcomes, and employee retention), the company was able to make adjustments in different divisions and branches to ensure that everyone was performing to their full potential.

These initiatives were piloted in select branches before being rolled out nationally. In just six months, the company had gone from concept to a full transformation of its sales organization. By using the SLV model, the company was able to extract significantly more value from its sales talent and bust some entrenched myths around hiring. No longer did sales managers doggedly insist that early performance was the best indicator of long-term performance; no longer was liking someone enough to justify hiring them; no longer did managers assume that experience always equated to talent; and no longer were reps cast as nothing but sales machines with no ambition for leadership.

Over the course of the new setup's first year, the average revenue per salesperson grew by 30 percent and attrition in the first year of tenure fell by 12 percent. For long-term employees—those with at least three years under their belts, most of whom were already strong performers—revenue increased by an impressive 15 percent, driven by capability building for the skills that were mostly likely to atrophy over time. Finally, attrition for this same long-term employee cohort fell by 15 percent.

To extract the full potential of SLV models, sales leaders need to be cognizant of three guiding principles. First, the model is not a tool to identify or evaluate individual talent, but rather a structured way to understand which phases of the talent life cycle are most ripe for disruption and improvement.

Second, getting started with this type of analysis can be quick. It's not a multiyear transformation but a project-based sprint that delivers a dynamic outcome that leaders should expect to change as the organization's population and management practices evolve.

Finally, like all analytics exercises, the model itself does not create impact or value; these come from quick action and continuous improvement.

The analytical tools and methodologies companies have used for years to boost customer lifetime value can unleash tremendous performance when applied to sales-talent management. It just requires a clearer link between investing in talent and driving financial value.

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