

Key Performance Indicators – Management Tools for Sales Improvement

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Abstract

The present article analyses the importance of key performance indicators in sales field. Key performance indicators are financial and non financial indicators that organizations use in order to estimate and fortify how successful they are, aiming previously established long lasting goals. Appropriate selection of indicators that will be used for measuring is of a greatest importance. Process organization of business is necessary to be constitute in order to realize such effective and efficient system or performance measuring via KPI. Process organization also implies customer orientation and necessary flexibility in nowadays condition of global competition.

Key words and expressions: *customer satisfaction, sales, key performance indicators, quota fulfillment, closing ratio, prospecting activity, customer retention, sales manager.*

1. Characteristics of KPI

A **performance indicator** or **key performance indicator (KPI)** is a type of performance measurement. KPIs evaluate the success of an organization or of a particular activity in which it engages. Often success is simply the repeated, periodic achievement of some levels of operational goal (e.g. zero defects, 10/10 customer satisfaction, etc.), and sometimes success is defined in terms of making progress toward strategic goals. Accordingly, choosing the right KPIs relies upon a good understanding of what is important to the organization. 'What is important' often depends on the department measuring the performance - e.g. the KPIs useful to finance will really differ from the KPIs assigned to sales. Since there is a need to understand well what is important, various techniques to assess the present state of the business, and its key activities, are associated with the selection of performance indicators. These assessments often lead to the identification of potential improvements, so performance indicators are routinely associated with 'performance improvement' initiatives. A very common way to choose KPIs is to apply a management framework such as the balanced scorecard.

Performance indicators differ from business drivers and aims (or goals). A school might consider the failure rate of its students as a key performance indicator which might help the school understand its position in the educational community,

whereas a business might consider the percentage of income from returning customers as a potential KPI.

Following are some characteristics of KPI:

- A KPI must be aligned with the organization's objectives;
- A KPI is determined by management personnel (normally human resource managers);
- A KPI must be designed so that it is easy to understand;
- Some KPIs are specifically designed for each employee;
- KPIs are expected performance by the organization;
- KPIs must be designed to balance the evaluation of each employee;
- KPIs lose their accuracy over time; therefore, it is necessary to revise KPIs periodically.

The key stages in identifying KPIs are: having a pre-defined business process (BP), having requirements for the BPs, having a quantitative/qualitative measurement of the results and comparison with set goals, investigating variances and tweaking processes or resources to achieve short-term goals.

Key performance indicators are ways to periodically assess the performances of organizations, business units, and their division, departments and employees. Accordingly, KPIs are most commonly defined in a way that is understandable, meaningful, and measurable. They are rarely defined in such a way such that their fulfillment would be hampered by factors seen as non-controllable by the organizations or individuals responsible.

KPIs can be **quantitative** and **qualitative** indicators:

a) strategic – many of them are financial KPIs (return of investment, profit margin, risk versus opportunity, return of assets, turnover, market share, employee satisfaction, client satisfaction);

b) managerial (availability of resources, planning versus effort, cost and income versus budget),

c) operational – to be followed in each department/function/employee (information on individual performance - regarding processes, activities, products, specifications, procedures, efficiency, quality of all services provided to customers, new clients, active clients; on **schedule/timed** projects, within **budget** and according to **specifications**, timed targets; the engagement of staff in relation to work activities and responsibilities as defined by the enthusiasm, dedication and personal effort).

The selection of relevant performance indicators should take into account many factors:

- strategic objectives (turnover, profit, cost - intensive or extensive development);
- timing of activity (long-term orientation and immediate profit);
- the current situation in the company's development curve (growth, maturity, decline), including the style of management practiced.

KPIs can be implemented for sales, logistics, procurement-acquisition, marketing, accounting, HR.

A KPI can follow the SMART criteria. This means that is important each objective to determine the KPIs is to have 5 main features:

- **Specific** - easily identifiable and understandable;
- **Measurable** - can be quantified;
- **Achievable** - can be reached;
- **Relevant** - is representative for the ones which must perform it;
- **Time** – defined in time, until when.

2. Sales KPI

Sales department plays one of the most important roles in a business. It decides directly to gain how much sales revenue per year of the company. Attracting and retaining customers are two main functions of a sales department. It is also for the number one objective of it. But for gaining a competitive edge the main objective for the sales team should be the improvement of the customer satisfaction which can be obtain by taking into consideration the following aspects:

- a) fast delivery of products;
- b) order picking service;
- c) better price;
- d) attractive bonus scheme;
- e) higher quality products;
- f) marketing & merchandising and promotion activity;
- g) quick respond to requests;
- h) greater flexibility – term of payment; deferred payments;
- i) new assortment and designs;
- j) rapid resolution of complaints;
- k) quick replacement of products;
- l) fast and accurate information of customers regarding tariffs and promotions;
- m) bonus at termination of stock;
- n) limitation of the increase of price;
- o) compensation of the remaining stock;
- p) rapid issuance of the off-invoice bonuses;
- q) flexibility;
- r) incentives accorded to customers.

The management and human system of the sales department are coordinated together for the purpose of making sales activities effectively and profitably. These are firstly to meet customer demands through appropriate service supply, secondly to increase sales volume considering a particular period of time. On the other hands, in order to carry out sales activities the sales department has responsibility of seeking appropriate and potential partners, then to give motivation by proper means to the sales personnel and to train them systematically in the sale activities.

Namely they will learn methods of analyzing the demands of markets, study consumer's psychology, market fluctuations, prepare sale budgets. In additions, in vision of market development of the company the sales personnel need to learn ways of exploring new markets and back the main objective is to attract and retain customers.

KPI examples for sales

Quota Fulfillment

Quota fulfillment is one of the leading indicators of sales performance. Sales quotas serve the purpose of giving salespeople a tangible goal. The ability to consistently meet and exceed a quota is often a sign of a motivated salesperson. Factors to consider when establishing quotas include your company's overall revenue goals, the historical revenue generation of each sales territory, the past performance of each member of your sales team and whether you plan to increase or decrease sales staff.

Closing Ratio

A closing ratio measures the salesperson's success at converting appointments into actual sales. For instance, a salesperson that had 50 closing appointments in a given month and converted 20 into sales had a closing ratio of 40 percent. If a salesperson has a lower closing ratio than is acceptable for your type of business or industry, it is likely a sign that he could use additional assistance or training to hone his closing skills.

Prospecting Activity

The salesperson's ability to prospect effectively can ensure that she develops and maintains a steady stream of qualified candidates to contact for appointments. Salespeople whose numbers are low due to not having enough prospects to see can benefit from help in developing their prospecting skills. In many cases, simply devoting more time to prospecting activities like cold-calling or generating referrals from existing customers can resolve the issue. Developing more effective methods of qualifying prospects can also help.

Customer Retention

Some salespeople may be highly successful at getting the initial sale but are poor at following up after the sale. Keeping track of customer retention, which can be measured by determining the number of customers who purchase more than once, as well as those who choose to take their business elsewhere, is an indicator of how well the salesperson serves the needs of his customers and makes an effort to stay in touch on a regular basis.

Other examples of key performance indicators used to measure the performance of salespeople could be:

a. Sales Rep

- The rate of response / total sent;
- Time to answer a request by customers;
- The rate of gaining new customers;
- Number of customers / employees;
- Number of average appointments per sale rep;

- The rate of sale rep met sales targets;
- Average sale turnover/ per sales staff;
- Average turnover / customer / sale staff;
- The replacement sale staff = total salesman recruited / total salesman left;
- Total time to recruit and train sale rep to meet sale standards;
- Cost of sales force.

b. Sales by phone method

- The average cost per call / per transaction;
- Time to talk of an average phone calls;
- Average time waited when transiting;
- % answer after time regulated (for example 5 seconds or 3 ring tone);
- Cancellation rate of calls in the meantime;
- The rate of resolution in the first call.

c. Shop/Retail

- The rate of profit / per shop;
- The rate of profit / capital;
- Sales turnover / location;
- Cost premises / sales turnover;
- Salary costs / sales turnover;
- Product selling.

d. Market share

- Market share of the company compared with the entire market;
- Relative market share;
- Compare market share to growth rate.

e. Customer care

- Frequency impact to customers;
- Cost of services per customer;
- The rate of service charges / profits;
- Pareto rules.

f. Customer loyalty

- Total customer lost;
- The rate of lost customers lost after purchasing first time;
- The life cycles of a customer;
- The rate of customers back;
- The rate of new customer.

3. The importance of KPIs in sales

KPIs are real management tools for sales improvement and there are a lot of reasons because they are powerful and they will be presented such of them in following paragraphs:

- **They will help the sales manager make better decisions.** He must have timely and accurate information about all aspects of the performance of his team members in order to plan and coach effectively. A sales manager

can't rely on hope and assumptions; he must be assessing real data in real time that will reveal what is going on so he can take action now, before it is too late.

- **This leads to better execution.** Identifying, measuring and – most of all - coaching to the right KPIs leads directly to behavior change and skill improvement across the entire team.
- **KPIs set expectations and improve communication.** Defining KPIs clarifies for sales makers the activities upon which they should be spending their time, and provides a context for sales managers to interact with sales makers regarding their performance.
- **A clear focus on KPIs will change sales maker behavior.** Once sales makers understand the activities they are supposed to be concentrating on, they will devote more time and energy to these areas, especially if they know their compensation will be tied to their performance in these areas.
- **Focusing on a core set of KPIs will keep sales maker activities consistent.** There is an old saying; “People don’t do what is expected, they only do what is inspected.” When sales makers understand what you are going to inspect every week, they are much more likely to do them every week.
- **Tracking KPIs is the best way to identify and qualify sales maker performance.** Sales makers might be staying busy and giving a 100% effort every day, which can be confused with real productivity. However, if they aren’t giving that effort to the right activities, all that effort is wasted. Tracking KPIs helps sales managers make sure sales makers are spending the right amount of time on the right activities.
- **Tracking KPIs takes the guess work out of evaluation and coaching.** This is related to the previous point. Sales managers who don’t regularly track sales maker performance against a set of standard KPI metrics don’t really have any objective basis for evaluating performance. The sales maker may be a great person and hard worker, or they may be a disagreeable know-it-all, but those aren’t the most important behaviors for a sales manager to evaluate. The only thing that really matters is how they are performing in relation to the KPIs.
- **Effective coaching begins with KPIs.** Most sales managers understand that coaching is important, but coaching is useless if it is not based on quantifiable, actionable skills and behaviors. The greatest value of tracking KPIs is the information they reveal about where each sales maker is doing well, and where they might need help to do better. Sales managers can quickly access KPI’s from their CRM for every sales maker and use this data to customize coaching conversations that will address gaps and boost performance.
- Once the team knows and understands the role of KPIs in helping them measure and achieve success, their ability to meet and even exceed the expectations will rise dramatically.

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