



TOP NOTCH SALES PEOPLE ARE FREE

by Leigh Wallinger

So, times are good and you are thinking about growing your sales team. Great news.

One of your existing sales team members has just resigned after 5 years of solid performance. Now what do you do?

One of your sales team has to be sacked because of some act of gross misconduct. Disaster.

Whenever you encounter one of these situations, you are also facing having to pay for advertising the vacancy, pay a recruitment fee, pay some guaranteed commission to your new recruit for a few months and the like. Does this expense worry you? It shouldn't.

These costs will only become a problem if your new sales person doesn't make the grade. What if you recruit the wrong person? In this case, the above costs will really hurt the bottom line. A top-notch salesperson, on the other hand, who will deliver on or over-target performance year after year, will repay these entry costs many times over.

A lesser able salesperson (or a mediocre salesperson if you are really poor at interviewing) will always struggle to deliver consistent performance over many years. These sales people will typically thrive when the going is easy and the marketplace is thriving. However, when the market takes a dip towards recession the lesser able salesperson will struggle.

Where there isn't enough business to go round to everyone who is selling to an industry, it is the top-notch sales people who keep hitting quota. When this occurs, there is even less business left over to be shared amongst everyone else.

Consider the economics of recruiting a top-notch salesperson. Yes, you do pay a high quartile salary with an extensive package of perks. In return, you will get a regular flow of sales. Indeed, the setting of sales quotas for individual salespeople will need to be done much more carefully than ever.

The days of having a 1-day strategy session away from the office once a year to determine revenue targets for the following year and dividing it equally across everyone in the sales team have gone. They should have gone – but even in 2003 at least one major UK based IT services company set its sales targets exactly this way.

Setting sales targets in the future will require you to develop a cost-based target, possibly covering the current and subsequent 2 years. Each salesperson will have a cost-based target that is based on the cost of that individual to the Company. The highest cost salespeople will carry the highest quota. They must sell more before any over-quota payments are accrued to cover their higher running costs.

Each individual salesperson's cost-based target is the revenue they must deliver to generate enough profit to cover their annual cost to the Company.

As an example, let's assume Katie is being recruited to join our sale team. Katie is an experienced salesperson whose overall package equates to £78K in year 1. This figure includes a period of guaranteed commission, her car, laptop and phone, pension and other corporate benefits.

The recruitment fee is £10K and assume we run the business at a contribution level of 10%. In year 1, Katie therefore has a cost-based target of £880K.



In year 1, before any performance related payments are taken into account, Katie has to book £880K of revenue, which generates a contribution of £88K – balancing her costs.

In years 2 and 3, the cost-based target will not include the £100K of revenue that contributed to the recruitment fee in Year 1. For this reason, it could be argued that the recruitment fee should be offset over (say) 3 years to smooth the numbers. Based on the same criteria as above, the cost-based target for Year 2 is (only) £780K.

By adopting a 3 year cost-based target approach, the Company would have a tangible way of ensuring top-notch salespeople were effectively free to the Company. Provided they delivered on or above their cost-based revenue target, they made a net contribution to profits. It is only when they fall below the cost-based target is there a net cost to the Company as a result of the recruitment process.

All of this means that a greater part of the recruitment decision has to be a judgement on whether or not the candidate will exceed the cost-based revenue target.

Recruiting a cheaper, less able salesperson, whose background shows swings in performance from over target to below target, adds considerable risk. Yes, their cost-based revenue target will be lower than it would be for a top-notch salesperson but the likelihood of exceeding their cost-based revenue target is that much less.

On the other hand, recruiting a top-notch salesperson will cost more. That person will have a higher cost-based revenue target and a track record of over-quote performance year after year. These people are, effectively, free to your Company because of this over-performance. Does it really make sense not to recruit the best?

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