Chapter Seven

Evaluation and control of sales people

Meaning of performance appraisal

Performance appraisal is the process of assessing the performance and progress of an employee or of a group of employee or a group of employees on a given job and his potential for future development.

A **performance appraisal** (**PA**), also referred to as a performance review, Performance evaluation, (career) development discussion, or employee appraisal. It is a method by which the job performance of an employee is documented and evaluated. Performance appraisals are a part of career development and consist of regular reviews of employee performance within organization.

- According to Flippo, "performance appraisal is the systematic, periodic and impartial rating of an employee's excellence in matters pertaining to his present job and his potential for a better job."

Performance Appraisal

Performance Appraisal (PA) refers to all those procedures that are used to evaluate the:

- personality
- performance
- potential of its group members

The Importance of Appraisals

Employee recognition and rewards

Appraisals provide the opportunity to recognize and reward employees and to ensure they feel valued for the work that they do. By monitoring performance and progress against objectives employers can assess whether to reward staff with salary increases, promotions or bonuses. It's also

a chance to say thank you and to provide verbal feedback and praise. Rewarding any successes highlighted doesn't have to be financial. Although money still holds considerable importance, and salaries should be regularly reviewed to ensure they remain competitive and in line with performance, simple and sincere acknowledgements still go a long way towards maintaining employee engagement.

New challenges and clear objectives

Organizations with a great workplace culture are ones where employees feel a real sense of belonging. They understand what the organization is trying to achieve, are inspired by its mission and values and recognize how their role plays a part in achieving overall success. The discussions which take place during appraisal meetings will help employees to understand how the individual objectives set for them will play a part in the wider business plan. This helps to give employees a sense of ownership within the collective vision and to empower them to achieve the results needed. It's also a great opportunity to regularly review objectives and to provide ongoing challenges to ensure employees remain motivated by new goals and experiences.

Continued progression and development

Organizations which provide clear progression opportunities are attractive to new recruits and are more likely to be able to retain talented employees by mapping out a career path for them. Regularly looking at performance will help to identify when employees are ready to take on more responsibility. Setting aside the time to discuss an employee's individual ambitions will also help organizations to spot and develop potential talent and build a strong succession pipeline.

Culture of trust and openness

In today's fast paced business world, it's more important than ever to maintain a meaningful, two-way dialogue with employees to help keep talented people within your organizatio. One of the key enablers for achieving employee engagement is to ensure that employees have a voice and appraisal and performance review meetings can help to fuel discussion and empower staff to share their opinions. They will feel encouraged to influence innovation by feeding ideas upwards and the

relationship which develops from open communication within appraisal systems will help employees to feel more able to approach and discuss any ideas or issues outside of these meetings as well.

Support and training

Open discussions on performance can help to identify any problems early and provides the opportunity to explore positive solutions. Managers can look at what additional training and support could be provided to enable the employee to achieve results which they would feel proud of. High performing employees can be supported with further training to help them to progress to the next level in their careers.

Prevention of long-term dissatisfaction

Issues can usually be nipped in the bud before they escalate to the point of someone leaving if they can be raised through appraisal meetings. It is a great opportunity for an employee to raise any worries or concerns, or to discuss any barriers which they feel are holding them back. Taking the time to listen to employees and address any concerns helps to create a happier workforce and will continue to fuel a culture of openness and trust.

Supporting staff to deliver an effective appraisal system

For appraisals and performance communications to work to best effect, managers need to feel effectively equipped to provide regular feedback and ongoing performance management. Investing in training for managers to able to deliver effective performance appraisals with an authentic approach is a worthwhile investment. Maintaining a natural management style will help them to foster the trust and respect needed to build open and transparent relationships and developing skills such as active listening and performance assessment will help to ensure a constructive appraisal system is in place.

Objective of Performance Appraisal

 Providing Feedback

Facilitating Promotion Decisions

Encouraging Performance Improvement.

Motivating Superior Performance

Setting and Measuring Goals.

Counseling Poor Performers

Encouraging Coaching and Mentoring.

Improving Overall Organizational Performance.

Determining Organizational Training and development Needs. In addition Performance Appraisal:

 Provide a basis for promotion/ transfer/ termination:

 Identify those employees who deserve promotion or those who require lateral shift (transfer) or termination

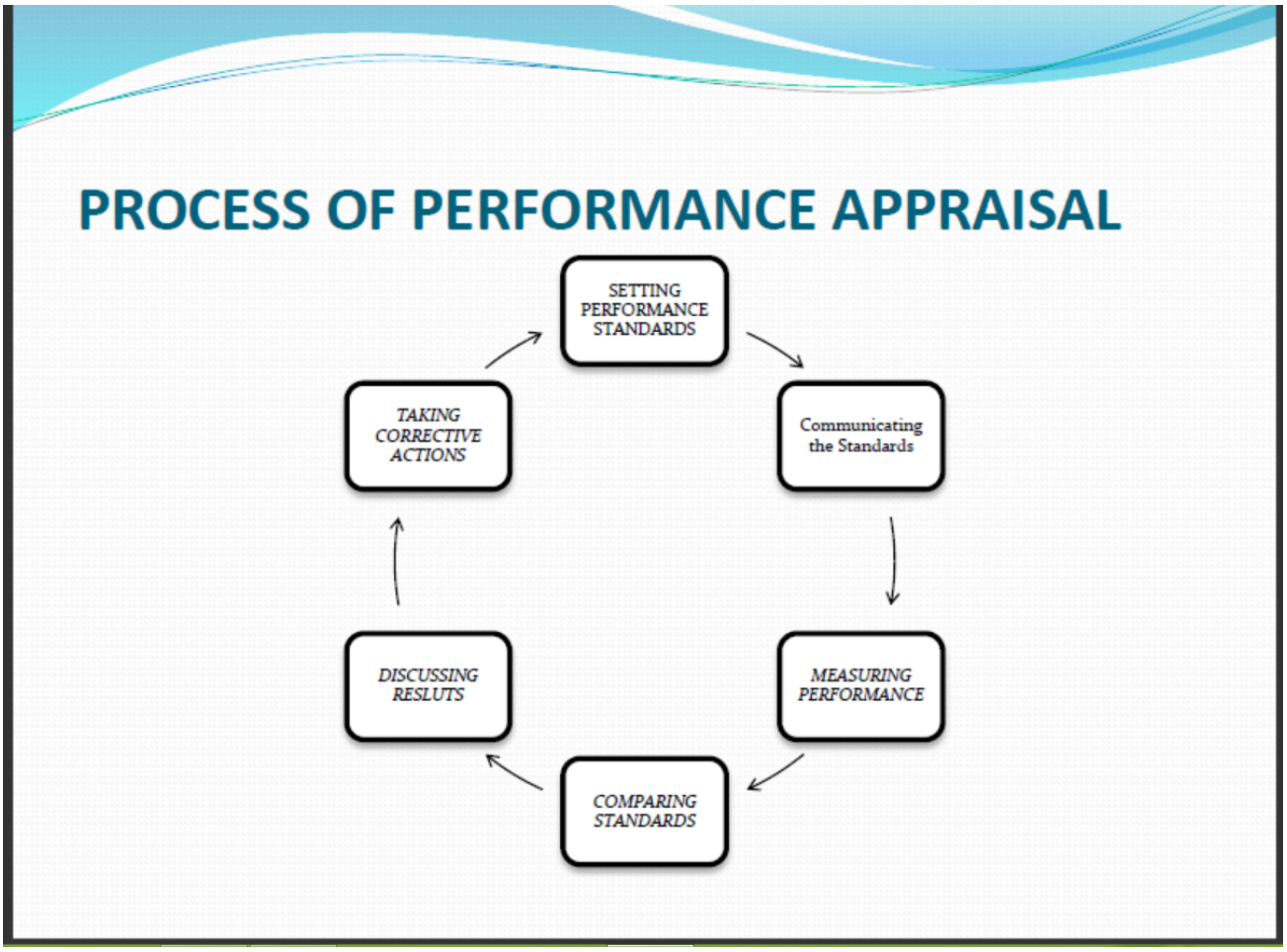
 Performance Appraisal is used for career planning

 Enhance employees' effectiveness by helping to identify their strengths and weaknesses and

 Inform them about expected levels of performance

 To provide feedback to employees so that they come to know where they are stand and can improve their job performance

Process of Performance Appraisal



Setting Performance Standard

- Performance standards serve as benchmarks against which performance is Measured.
- Standards should relate to the desired results of each job.
- The appraisal process beings with the setting up of criteria to be used for apprising the performance of employees.
- The criteria should be clear, objective and in writing.
- It should be discussed with the supervisors to ensure that all the relevant factors have been included. Where the out put can be measured the criteria is clear.

Communicating the Standards

- Performance appraisal involves at least two parties, the appraiser who does the appraisal and the appraise whose performance is being evaluated.
- The appraiser should prepare job descriptions clearly; help appraisee set his goals and targets; analyze results objectively; offer coaching and guidance to appraise whenever required and reward good results
- The appraise should be very clear about what he is doing and why

Measuring Performance

- Performance measures, to be helpful must be easy to use, reliable and must report on the critical behaviors that determine performance.
- Performance measures may be objective or subjective.
- Objective performance measures are indications of job performance that Can be verified by others and are usually quantitative.
- Subjective performance measures are ratings that are based on the personal standards or opinions of those doing the evaluation and are not verifiable by others.

Comparing Standards

- Actual performance may be better than expected and sometimes it may go off the track. Whatever be the consequences, there is a way to communicate and discuss the final outcome

Discussing Results

- The results of the appraisal are communicated to and discussed with the employees.

Along with the deviations, the reasons behind are also analyzed and discussed.
Such discussion will enable an employee to know his weakness and strengths.
Therefore, he will be motivated to improve himself.

Taking Corrective Actions

 Through mutual discussions with employees, the steps required to improve performance are identified and initiated. Training, coaching, counseling, etc. isexamples ofcorrective actions that help to improve performance.

Advantages and Disadvantages of Performance Appraisals

Advantages of Performance Appraisals

Documentation: A Performance Appraisal provides a document of employee performance over a specific period of time. It's a piece of paper that can be placed in an employee file.

Structure: This process creates a structure where a manager can meet and discuss performance with an employee. It forces the uncomfortable conversations that often need to happen.

Feedback: Employees crave feedback, and this process allows a manager the opportunity to provide the employee with feedback about their performance and discuss how well the employee goals were accomplished. It also provides an opportunity to discuss employee development opportunities. Performance Appraisal process allows for a manager to clarify expectations and discuss issues with their employee.

Annual Planning: It provides a structure for thinking through and planning the upcoming year and developing employee goals.

Motivation: The process should motivate employees by rewarding them with a merit increase and as part of a comprehensive compensation strategy.

Disadvantages of Performance Appraisals

Creates Negative Experience: If not done right, the performance appraisal can create a negative experience for both the employee as well as the manager. Proper training on process and techniques can help with this.

Time Consuming: Performance appraisals are very time consuming and can be overwhelming to managers with many employees. I've known managers who were responsible for doing an annual PA on hundreds of employees.

Natural Biases: Human assessment are subject to natural biases that result in rater errors. Managers need to understand these biases to eliminate them from the process.

Waste of Time: The entire process can be a waste of time if not done appropriately. Think about the time investment when the end result is negative. It is time wasted on all fronts.

Stressful Workplace: Performance appraisals can create stressful work environments for both employees and managers. Proper training can help to reduce the stress involved in the process.

Finally, performance appraisals are only as good as the performance management system it operates within. Organizations that only do performance appraisals for the sake of doing them are wasting their time.

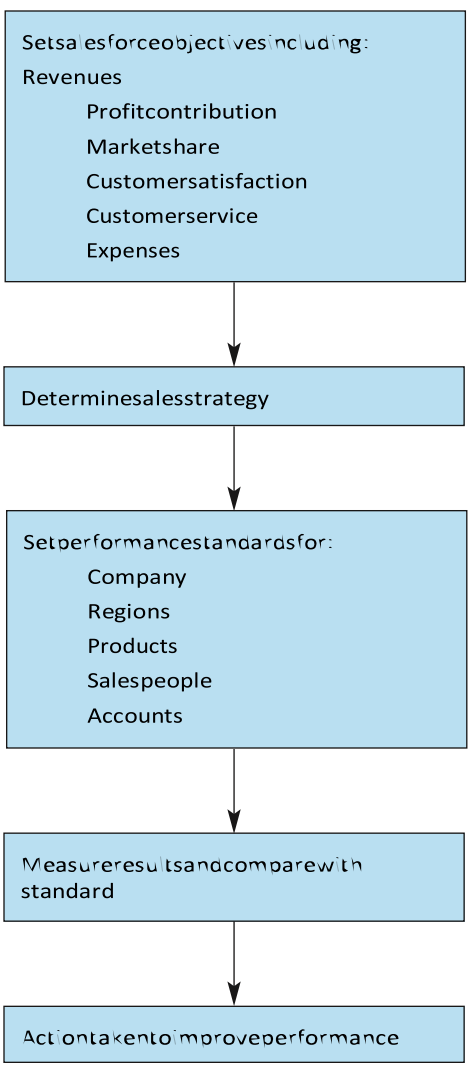
But organizations that incorporate performance appraisals into a comprehensive performance management system and use them to implement business goals have an advantage for accomplishing their goals and ultimately their strategic plan.

THE SALESFORCE EVALUATION PROCESS

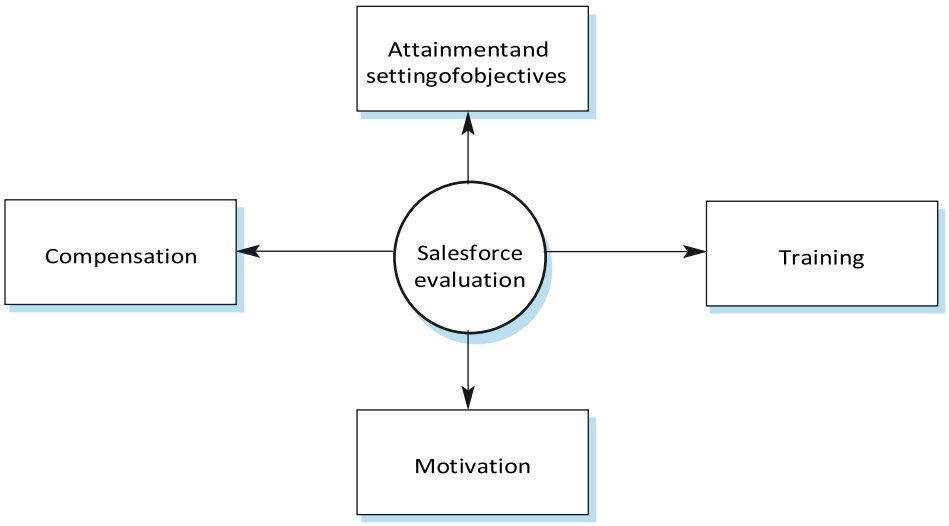
Evaluation is the process of judging or calculating the quality, importance, amount, or value of something.

Salesforce evaluation is the comparison of Salesforce objectives with results. A model of the evaluation process is shown in Figure below begins with the setting ofSalesforce objective which may be financial, such as sales revenues, profits and expenses; market-orientated, such as market share; or customer-based such as customersuch as market share;or customer-based such as customersatisfaction and service levels. Then, the sales strategy must be decided toshow how the objectives are to be achieved. Next , performance standards should be set for the overall company, regions, products, and accounts. Results are then measured and compared with performance standards. Reasons for differences are assessed and action taken to improve performance.

The Salesforce evaluation process


Setsalesforceobjectivesincluding:
Revenues
Profitcontribution
Marketshare
Customersatisfaction
Customerservice
Expenses
Determinesalesstrategy
Setperformancestandardsfor:
Company
Regions
Products
Salespeople
Accounts
Measureresultsandcomparewith standard
Actiontakentoimproveperformance

The central role of evaluation in sales management



The degree to which sales teams are controlled may depend upon the culture of the employing company. Many European and Us companies are profit focused and so emphasis quantitative (eg. Sales and profit) control mechanisms. Many Japanese and Asian companies use less formal and less quantitative evaluation systems.

Control systems must take into account the local conditions in such overseas market. Furthermore, they should account for the type of Salesforce employed(expatriates or foreign nationals). Systems

that are used at home may be appropriate for expatriates, but for the foreign nationals they may be alien to their culture and way of doing business.

Evaluation implies the setting of standards of performance along certain lines that are believed to be important for sales success. The control process is based upon the collection of information on performance so that actual results can be compared against those standards. For the sales team as a whole, the sales budget will be the standard against which actual performance will be evaluated. This measure will be used to evaluate sales management as well as individual salespeople. For each salesperson, their sales quota will be a prime standard of sales success.

Standards provide a method of fairly assessing and comparing individual salespeople. Simply comparing levels of sales achieved by individual salespeople is unlikely to be fair since territories often have differing levels of sales potential and varying degrees of work load

Setting Standards

The individual salesperson will provide much of the information upon which evaluation will take place. They will provide head office with data relating to sales achieved by product/brand and customer, a daily or weekly report of the names of customers called on and problems and opportunities revealed, together with expense claims.

Such information will be supplemented by sales management during field visits. These are important in providing more qualitative information on how the salesperson performs in front of customers, as well as giving indications of general attitudes, work habits and degree of organizational ability, all of which supplement the more quantitative information provided by the salesperson.

Gathering

Market research projects can also provide information on the sales team from customers themselves. Aspecific project, or a more general one which focuses on the full range of customer–

seller relationships, e.g. delivery, product reliability, etc., can provide information on salespeople's performance. A market research study commissioned by Perkins Engines found that salespeople with technical backgrounds were basing their sales presentation on features which were not properly understood by their audience.[1] This led Perkins Engines to retrain their salesforce so that their sales presentation focused upon a simple presentation of features and the customer benefits which arose from those features. Finally, company records provide a rich source of information for evaluation. Records of past sales levels, calls achieved, expense levels, etc. can provide bases for comparison and indications of trends that can be used both for evaluation and objective setting.

Two Types of measuring performance

1. Quantitative measures of performance

Assessment using **qualitative performance measures** falls into two groups. For both groups, management may wish to set targets for their sales team. One group is a set of input measures which are essentially diagnostic in nature – they help to provide indications of why performance is below standard. Key output measures relate to sales and profit performance. Most companies use a combination of input (behavioural) and output measures to evaluate their salesforces.Specific output measures for individual salespeople include the following:

- sales revenue achieved
- profits generated
- percentage gross profit margin achieved

Measures of

- sales per potential account
- sales per active account

- sales revenue as a percentage of sales potential
- number of orders
- sales to new customers
- number of new customers.

All of these measures relate to output.

The second group of measures relates to input and includes:

- number of calls made
- calls per potential account
- calls per active account
- number of quotations (in part, an output measure also)
- number of calls on prospects

By combining output and input measures a number of hybrid ratios can be determined. For example:

1. Strike rate = $\frac{\text{Number of orders}}{\text{Number of quotations}}$
2. Sales revenue per call ratio
3. Profit per call ratio (call effectiveness)
4. Order per call ratio
5. Average order value
6. Prospecting success ratio
7. Average profit contribution per order

All of these ratios can be applied to individual product and customer types and help to answer the following questions:

(a) Is the salesperson achieving a satisfactory level of sales?

(b) Is sales success reflected in profit achievement?

(c) Is the salesperson 'buying' sales by giving excessive discounts?

(d) Is the salesperson devoting sufficient time to prospecting?

(e) Is time spent prospecting being rewarded by orders?

(f) Does the salesperson appear to be making a satisfactory number of calls per week?

(g) Are they making enough repeat calls on different customer categories?

(h) Are they making too many calls on low-potential customers?

(i) Are calls being reflected in sales success?

(j) Are the number of quotations being made reflected in orders taken?

(k) How are sales being achieved – a large number of small orders or a few large orders? (l) Are the profits generated per order sufficient to justify calling upon the account?

Many of these measures are clearly diagnostic. They provide pointers to possible reasons why a salesperson may not be reaching their sales quota. Perhaps they are lazy – not making enough calls. Perhaps call rate is satisfactory but call effectiveness, e.g. sales per call, is low, indicating a lack of sales skill. Maybe the salesperson is calling on too many established accounts and not enough new prospects.

Ratios also provide clues to problem areas that require further investigation. Alow strike rate (order to quotations) suggests the need for an analysis of why orders are not following quotations. Poor call effectiveness suggests a close examination of sales technique to identify specific areas of weakness so that training can be applied more effectively.

Afurther group of quantitative measures will explore the remuneration which each salesperson receives. The focus will be on expenses and compensation. With respect to expenses, comparisons will be made between salespeople and between current year and last year. Ratios which may be used include the following:

- expenses/sales revenue generated
- expenses/profit generated
- expenses per call
- expenses per square mile of territory.

Such measures should give an indication of when the level of expenses is becoming excessive. Compensation analysis is particularly valuable when:

- a large part of salary is fixed;
- salespeople are on different levels of fixed salary.

The latter situation will be found in companies which pay according to the number of years at the firm or according to age. Unfairness, in terms of sales results, can be exposed by calculating for each salesperson the following two ratios:

- total salary (including commission)/sales revenue
- total salary (including commission)/profits.

These ratios will reveal when a compensation plan has gone out of control and allow changes to be made before lower paid higher achievers leave for jobs which more closely relate pay to sales success.

A study by Jobber, Hooley and Shipley surveyed a sample of 450 industrial products organizations (i.e. firms manufacturing and selling repeat industrial goods such as components and capital goods such as machinery).The objective was to discover the extent of usage of sales evaluation criteria among small (less than £3 million sales turnover) and large (greater than £3 million sales turnover) firms. The use of input criteria is also quite variable, with statistics relating to calls the most frequently used by both large and small firms. Again, there is a tendency for large firms to use more input criteria when evaluating their salesforces.

The growth in the penetration of personal computers is mirrored by the development of software packages that provide the facilities for the simple compilation and analysis of salesforce evaluation measures. The creation of a databank of quantitative measures over time allows a rich source of information about how the salesforce is performing.

Alone, these quantitative measures cannot produce a complete evaluation of salespeople. In order to provide a wider perspective, qualitative measures will also be employed.

2. Qualitative measure of Performance

Assess2ment along qualitative lines will necessarily be more subjective and take place in the main during field visits. The usual dimensions applied are given in the following list:

1. Sales skills. These may be rated using a number of sub-factors:
   - Handling the opening and developing rapport.
   - Identification of customer needs, questioning ability.
   - Quality of sales presentation.
   - Use of visual aids.
   - Ability to overcome objections.
   - Ability to close the sale.
2. Customer relationships.
   - How well received is the salesperson?
   - Are customers well satisfied with the service, advice, reliability of the salesperson,or are there frequent grumbles and complaints?
3. Self-organization. How well does the salesperson carry out the following?
   - Prepare calls.
   - Organize routing to minimize unproductive travelling.
   - Keep customer records up to date.
   - Provide market information to headquarters.
   - Conduct self-analysis of performance in order to improve weaknesses.
4. Product knowledge. How well informed is the salesperson regarding the following?
   - Their own products and their customer benefits and applications.
   - Competitive products and their benefits and applications.
   - Relative strengths and weaknesses between their own and competitive offerings.
5. Co-operation and attitudes. To what extent will the salesperson do the following?
   - Respond to the objectives determined by management in order to improve per-formance, e.g. increase prospecting rate.
   - Co-operate with suggestions made during field training for improved salestechnique.
   - Use their own initiative.

   What are their attitudes towards the following?

- The company and its products.
- Hard work.

An increasing number of companies are measuring their salespeople on the basis of the achievement of customer satisfaction. As Richard Harrison, a senior sales manager at IBM, states: 'Our sales team is compensated based on how quickly and how efficiently they achieve customer satisfaction'.[4]

The study by Jobber, Hooley and Shipley also investigated the use of qualitative evaluative measures by industrial goods companies. Table 3 shows the results, with most criteria being used by the majority of sales managers in the sample. Although differences between small and large firms were not so distinct as for quantitative measures, more detailed analysis of the results showed that managers of small firms tended to hold qualitative opinions 'in the head', whereas managers of large firms tended to produce more formal assessments, e.g. in an evaluation report.

As mentioned earlier, the use of quantitative and qualitative measures is interrelated. A poor sales per call ratio will inevitably result in close scrutiny of sales skills, customer relationships and degree of product knowledge in order to discover why performance is poor.