

IDENTIFYING SHORT AND LONG-TERM SALES CONTROLLING INSTRUMENTS FOR A PRODUCTIVE SALES ORGANISATION AND DEFINING APPROVED ACTIONS WITHIN A SHORT REACTION TIME AFTER PERCEPTION

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Abstract

The study presented in this paper evaluates the needs and the structures of key performance indicators as short and long-term sales controlling instruments and furthermore to define action opportunities within short reaction time, if, for whatever reason, the companies lacks orders. The main purpose of this research is to identify the current challenges regarding sales controlling instruments and to provide useful solutions for managers in order to have a better use of the sales controlling and therefore the results. Another purpose of this paper is to discuss the contrast between requested detailed controlling figures and the consequences in motivation, organisation and sales force size. Furthermore the need of a two-step sales controlling system in the directions of results and behaviours is discussed.

By identifying six areas of success factors for the implementation of a sales controlling system the results of the studies performed in this paper can be useful for any sales management in any company and can support the performance of them.

Keywords

Key Performance Indicator, Sales controlling, Sales actions, Sales process, Target System, Supportive Leadership

JEL Classification

The article should follow the Journal of Economic Literature classification system (JEL), in one or several categories. All relevant code(s) must be shown here. M10, M16, M19

Introduction

The purpose of this article is to identify how to create the right sales management control systems covering the related obstacles against such a system. Furthermore it has to be investigated how to receive the right information without disturbing the sales force in their important work and how the organisational structure supports or undermines the main subject of a sales control system.

The role and perception of sales controlling systems has grown dramatically in the past decades. Increasing international competition, higher expectations on regarding shareholder values, getting a higher market share, increasing or stabilizing prices and last but not least, just surviving in between all the market forces. All this put the necessity of productive sales organisations into the spotlight for the top management and the international research. At the same time products in the B2B Sector became more and more comparable and prices are under strong competition pressure. So Sales Organisations are one of the top key

performance enablers in successful companies worldwide. That is the reason why the sales controlling instrument systems must be investigated.

In Sales, time, motivation and information are a limiting success factors. This creates a triangle with interrelated and interdependent limited factors. In the same time organisations are fighting for the attention of their sales forces. Fast changing product life time's create the need for technical product trainings, the needs of the market and customer information have to be transferred and channelled by the sales force. Furthermore higher demands on compliance and anti-trust systems, financial and contract information and negotiations, accurate budget planning seasons reduce the active sales time, dramatically. (Huckemann/Schmitz 2014)

Furthermore, sales managements demand a high accuracy within real time of a high number of key performance indicators. On the other hand they are reducing the quality of the required information or reducing the active sales time further. Nevertheless, sales people are not very much interested in giving greater insight into their own sales pipeline for the management. They feel observed, over-controlled and limited in their freedom towards their own activities. Last but not least, companies are working together with independent sales dealer or sales agents in export markets. These independent sales organisations are normally not interested in giving any insight into their own sales pipeline or further information. So, the new challenge for the sales management is to define the right key performance indicators without damaging the motivation of the sales force or reducing the active sales time to zero and receiving the right information in the same time to control and manage company's success.

Research Methodology

In order to attain the foreseen objectives, relevant research articles and literature from renowned publishers as well as globally recognized research entities and professional organizations were studied. The focus was on a desk study comprising the analysis of publications to provide an overview of short and long-term sales controlling instruments for a productive sales organisation and defining approved actions within a short reaction time after perception.

Sales Controlling Systems – short literature overview

“Sales management control systems (SMCSs) are designed to align salespeople's activities and actions with organizational objectives.” (Malek/ Sarin/ Jaworski 2018) Sales management is a function with four main tasks, sales controlling, personnel management, strategy development and efficient sales processes. All four functions are bound together. For an effective sales controlling it is necessary to create the right targets within the sales strategy and personnel management through coaching and, furthermore, enabling of the staff is mainly combined with sales processes. (Cespedes 2014) For a successful sales organization, effective use of the given resources is necessary. (Homburg et al. 2012)

In almost all sales organizations with a high number of customers, a customer segmentation model with a two dimensional diagram combining the actual customer value and the future customer potential, is needed. This is to concentrate on the right customers according to the sales strategy and the first requirement need of a controlling system, which has to condense market information and future potential down to key performance indicators on existing and future market chances according to the profitability needs of the company.

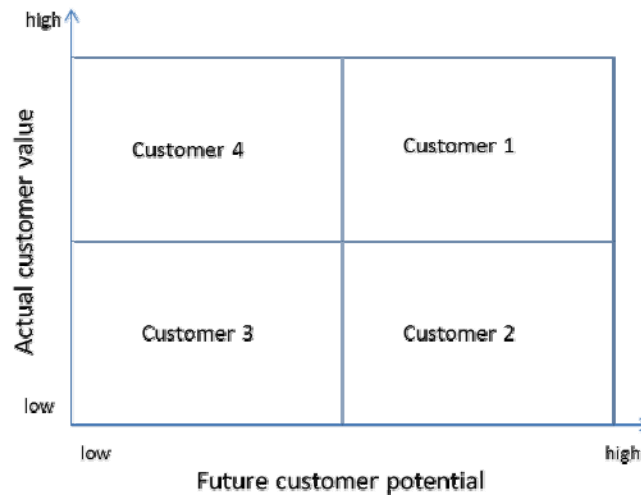


Fig. no. 1. Customer Segmentation Diagram

Source: Schedl et al. 2013

A successful key performance indicator system is simple and transparent in order to gain the two main aspects of such a system: Evaluate the sales performance and recognize warning signals at target deviations or performance problems. Usually there are three main classes of indicators: Profitability, market and customer perspective and Internal and cost perspective. In connection with these classes a long list of potential indicators must be reduced according to the diagram in figure 2. The usability of the key performance indicators for the sales force on a day to day business with a direct link to the personal targets is an important success factor for the complete key performance indicator system. (Schedl et al. 2013)

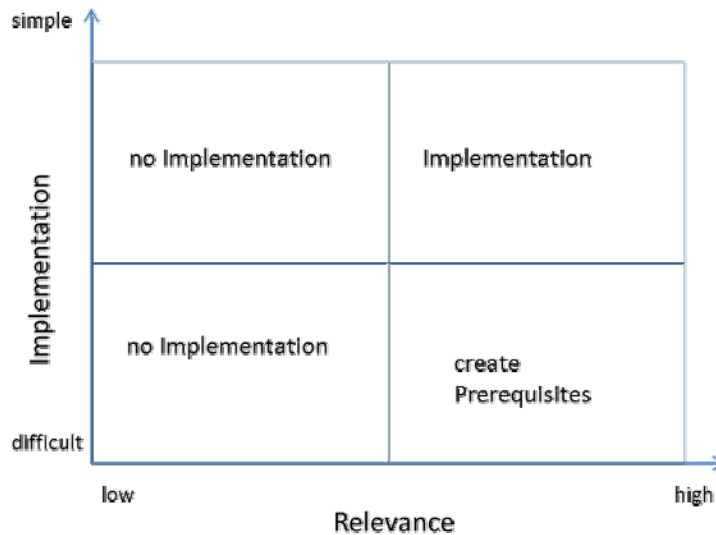


Fig. no. 2. Key Performance Indicator diagram

Source: Schedl et al. 2013

Although the information content of a single key performance indicator could be low, it is possible in relation with different other regional or product sales units to gain the necessary complete picture. The markets, regions, products and company organisations are too different and dependent, that a definition of overall reliable and effective and the right

number of key performance indicators is possible. (Homburg et al. 2012, Huckemann/Schmitz 2014)

Challenges for a Sales Controlling System

The choice of the key performance indicators has to assure on all levels of the order pipeline that potential warnings at target deviations could be recognized. Short and long term pipeline management is related to the individual industry steps and timelines and the regional differences and needs. It means that the key performance indicators have to picture the complete sales process from the first contact at least to the invoicing, more preferably to the final payments.



Fig. no. 3. Sales Process

Source: adjusted of Homburg et al. 2012, p. 246

The profitability of a company has different forces which must be observed. One is the achieved gross margin with each single order another is the schedule payment income. Additionally, for the sales organisations it is important to utilize the given production and supply capacities to the optimum. In a complex company with different production sites, sales units distributed globally in different organisational forms and a heterogeneous product matrix, just to verify and to fill the free capacity, is a highly demanding and important task. World wide access to an online customer relationship management system including a capacity tool is a first step to getting the right information into both directions, company and international sales organisation.

Another challenge is the information quality input of the sales force. The key performance indicators are generated from this information and are the foundation for important top management decisions. The quality is related to the timely availability as well as the truthful content of the information, which is directly influenced by the sales force. That is a reason why managers are afraid to implement additional key performance indicators. They are afraid of damaging the motivation of their sales force because they know, that the sales people feel constricted and over-controlled. Transparency is equated to a lack of self-control and freedom in the possibilities and the flexibility of their work and procedures. Especially the freedom to set the own frame for the work is one of the main motivational factors for people to join a sales organisation. Nevertheless, it is often very difficult to justify the truthful content of information. Especially, when time is a critical factor and the special relationship of truth between the sales force and the customer can be jeopardized. (Huckemann/ Schmitz 2014) “

Providing sales information is a sensible act between management and the sales force. Unless the relationship is covered by an employment contract, management has several possibilities to obtain necessary information, however difficult it may be. (Challagalla/ Shervani 1996) It is totally different when even multinational Dow Jones listed companies like Caterpillar, do not have their own sales force. The worldwide sales organisation is organised via independent dealers. Caterpillar merely owns a support structure based in several hubs over the world. The possibilities of getting any information out of the dealers are very limited, until they need better purchasing conditions. So, a reliable order pipeline for Caterpillar is not available, combined with all problems caused by missing information.

The Sales Management is a key factor in the quality of the sales controlling system. Especially the personnel management of the direct sales force with steering, coaching and enabling of competencies is a potential quality driver. Practically, many Sales Managers are deeply involved in the day to day business, e.g. customer services or negotiations. (Schedl et al. 2013) In smaller sales organisations which work together with sales agents or smaller dealers, a special relationship of trust between the area manager and the sales people in the country can be built up by reliable support in any phase of the sales process.

The major tasks for the sales Management is to achieve the budget figures. The need for constant and overall sales controlling becomes a significant performance enabler. For the overall purpose of a sales organisation it is necessary to create the perception faculty on the target deviations as soon as possible in every sales process step. On a regular basis and related to the time to order period in the specific business industry, the target deviation report based on the detailed budget figures and the detailed sales process steps is an important sales quality item.



Fig. no. 4. Planning and control process Process

Source: adjusted of Homburg et al. 2012, p. 135

Deviations in target achievements are part of the daily business routine and acceptable within small tolerances. To define these tolerances is an issue for the sales management. As soon as business or sales units or even single sales people are outside their target tolerance, the reasons for this deviation must be analysed and appropriate actions defined. In shorter time periods as on a normal control process the progress of the defined actions and the results have to be reported until the deviation is balanced.

The actions to be taken vary depending on the sales process step and the analysed problems which occur. Two major critical items for the actions taken are the reaction time to results and the size of the problem. If the problem is in the early sales process step acquisition, there are two major possibilities to react. On the one hand the sales management can reinforce the capacity in marketing via telephone or digital acquisition to increase the number of leads accordingly or on the other hand the improvement of the sales abilities in the later steps, so to increase the number of orders proportional to the deviation. Both need a two-step sales controlling system, which is not only focussed on the results but also on the capabilities and activities of the sales force. (Challagalla/ Shervani 1996), (Richard/ Anderson 1994)

Solution for a Sales Controlling System

For sustainable growth and profitability to satisfy the shareholders expectations, companies need reliable forecasting to plan the capacities in production and supplies as well as the cash flow. Sales organisations are an important part of the operational execution of budget plans, strategies and profitability, especially in competitive worldwide markets. So, the need for best operating sales organisations requires a sales controlling system, with instruments which can fulfil the highly demanding task of providing reliable information on a short and a long term.

Sales controlling is a sensitive subject in a fast moving competition. Sales people do not like to feel controlled or supervised above a sensitive personal extent. On the other hand for the sales management in charge it is needed to get the right information to forecast the order

income on time. Sales managers should not only focus on the hard facts and figures in their controlling system. The behavioural and activity indicators of each sales person needs to be observed as well. The understanding of weaknesses of the sales people in the sales process along the pipeline is necessary for providing the right support for each of them, to improve sales quality individually, but also to reduce the reaction time if an intolerable target deviation occurs.

A completely defined sales pipeline, in line with the sales process, supports the sales management to aggregate the right information from the control figures, because an intolerable deviation in acquisition just in a single area gives a different picture to a deviation in e.g. 50% of the sales areas. For the Sales Management it is important to understand, what the exact matter for the target deviation is to trigger the correct approved actions to solve the problem as soon as possible.

The performance indicator should be directly linked to the budgeted figures and the compensation plans of the sales people. In the best case, sales people can easily count the effect on his or her actions to his or her compensation or bonuses. In some industries, especially for large plant manufacturers or tailor-made products, the sales controlling is not finished with the order confirmation, but with the final acceptance of the delivery and acceptance by the customer. A post order margin calculation and the comparison with the pre-order margin calculation may provide deep insights into the sales quality of the affected sales people and/ or units. Beside the margin changes the process quality and information reliability could be big cost drivers in these kinds of huge orders. A detailed and continuous margin changes analysis provides important information on possible know-how deficits in sales organisations to the sales management.

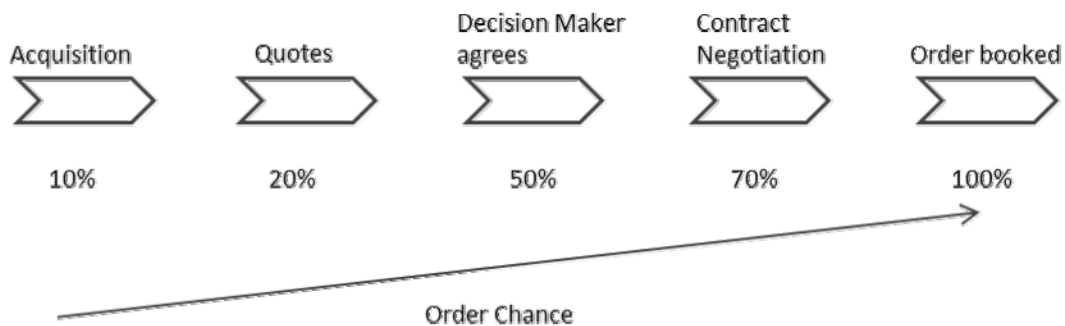


Fig. no. 5. Typical Sales Pipeline in B2B Industries

Source: own chart

A sales pipeline, as shown in figure 5, extends the view to potential problems in the future. The sooner a potential problem is perceived the more possibilities for a proper reaction are given. Furthermore, it gives a good view on the activity level for single sales person, considered markets or products as well as for the whole sales force. The same is relevant for displaying behavioural problems in single pipeline steps, again, for single sales persons, regions or the complete sales force. In combination with defined standard actions suitable for the different companies and situations, the reaction can be reduced again.

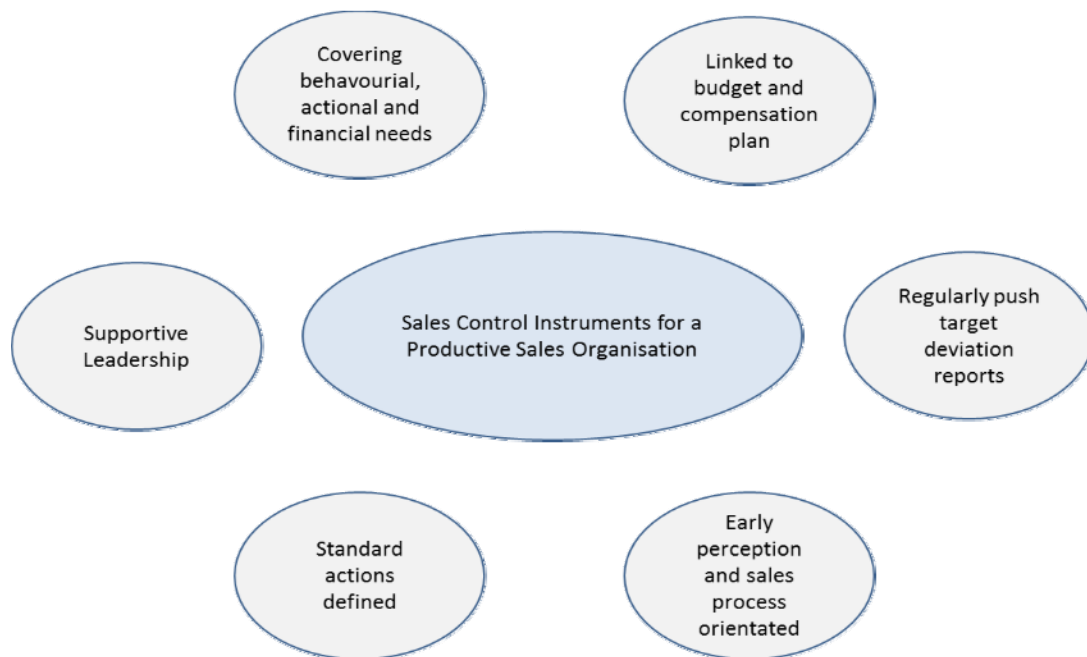


Fig. no. 6. Six Sales Control Instruments for a productive Sales Organisation

Source: own chart

The reporting routine depends on the specific market time to order period. Whether the reports are pushed on a daily, weekly or monthly routine depends on the sensitivity of the top sales management. Sales controlling reports shall differ in the information routine to increase the attention of the middle management. In challenging times a lot of sales managers are not in the position to search for the right facts and figures in thumb thick presentations. Relevant information should be available in a short summary and further details, e.g. regarding declining behavioural figure, should be presented for closer inspection in time for the next jour fix or on demand by the sales manager.

Sometimes it is necessary to set extraordinary challenges, especially when targets are threatened or almost impossible to reach. Maybe a competitor launched an extraordinary product or service with disruptive power to your business model or a regional market collapsed and the other regions or products have to compensate for that loss. Supportive leadership needs trust and respect in the people and in the management. Values like reliability, frankness and truthfulness in daily communication are exceptionally important drivers of a sustainable sales organisation development. Especially when a problem occurs, it is necessary to work on an existing and stable foundation; not to establish one first.

Conclusion

Identifying short and long-term sales controlling instruments requires a deep look into six areas in order to provide a productive sales organisation. The complex situation of sales organisations with independent players like customers, competitors, culture differences and political decisions, makes it necessary to react on target deviations or other situations on short notice. On the other hand, the earlier the perception of potential problems is, the more possibilities the sales management has to act. This could lead to a strong sales controlling system with defined and approved sales processes and pipelines and clear key performance indicators, but would most probably demotivate the sales people. In fast moving markets creative, motivated and sales people with the possibility to react flexibly are needed. The

right set of controlling instruments depends on the sales organisation and the independency of the different stake holders in the market.

The performance indicators should cover financial, actional and behavioural items to set a wide frame for controlling aspects and actions. The sales management needs regularly pushed reports with the timely relevant performance indicators. These are required to evaluate the need for properly defined standard actions, as soon as targets are intolerably missed. Supportive Leadership provides the connection between challenging targets, motivated sales people and key performance indicators to get a clear view of the market and company's situation and the necessary improvements for a sustainable company future.

This paper is related to a general purpose of sales controlling instruments in the B2B sector. Further studies may cover different market sections, e.g. automotive, tailor made production plants, industrial goods and so on to give more detailed insides and direct use for managers. Furthermore for better understanding of the sensitivity for different market sectors and controlling instruments needed.

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