Leveraging Sales Efficiency for Optimal Resource Planning

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This white paper aims to inform you on the efficiency of your salespeople, how it affects revenue targets, how to cope with turnover, and how to increase sales and revenue.

As companies plan their sales budgets for the coming year, an overlooked area of sales resource planning is the efficiencies of salespeople. These efficiency rates provide insight into the current sales team's capacity and what to expect from new hires. Knowing the specific rates helps you accurately plan headcount additions to meet revenue targets. They also help improve the accuracy of sales forecasts.

In addition, knowing this data provides a framework for measuring the impact of sales initiatives. By measuring the change in sales efficiency rates, one can see the monetary benefit from sales investments such as improved recruiting, sales training, enhanced sales tools, improved marketing qualified leads, and reduced turnover.

Calculating Sales Efficiency

At ORM Technologies, we define sales efficiency as the **expected orders a salesperson will achieve divided by their quota at 100% achievement**. On the surface this sounds like a simple calculation, however, the simplicity quickly evaporates when you realize that sales efficiency varies significantly with position, tenure, experience, and other factors.

$$Sales\ Efficiency\ =\ \frac{Expected\ Orders\ Achieved}{100\%\ Quota\ Achievement}$$

This method calculates the efficiency of one salesperson or organization at *a single point in time*. A more detailed breakdown by position, territory, or person by month gives greater insight into your current sales processes.

The important factors to consider when calculating the efficiency for each salesperson are:

- Annual order quota of a fully effective salesperson, broken down by position and territory
- Planned future order quota of a fully effective salesperson, broken down by position and territory
- Actual order performance by salesperson measured in months
- Hire date for each salesperson

Using this information, you can calculate the sales efficiency for each salesperson by month or quarter. We can combine each salesperson's efficiency by position to see the average efficiency of a given position. For example, you a realistic expectation of your new hires. Similarly, you calculate this data for each month of employment to gain an accurate reflection of each position's efficiency based on employee tenure. This data allows you to predict the average sales efficiency expectations by sales position and territory. Below is an example of a real calculation for sales efficiency.

Figure 1 shows the orders of two account executives at a company in their first year. We can calculate the quarterly sales efficiency by dividing each quarter's orders by the associated quota. Since the AE position has an annual quota of $1.5M, we can assume a linear distribution for their quarterly quota of $375K.

	Quarter Quota	Q1 Orders	Q2 Orders	Q3 Orders	Q4 Orders
Account Executive A	$ 375,000	$ 110,000	$ 150,000	$ 240,000	$ 300,000
Efficiency		29.3%	40.0%	64.0%	80.0%
Account Executive B	$ 375,000	$ 140,000	$ 170,000	$ 200,000	$ 275,000
Efficiency		37.3%	45.3%	53.3%	73.3%

Figure 1: Previous quarters of two account executives at a given company.

By averaging the efficiencies of the two AEs, we can see how efficient a newly hired account executive would be and their expected orders in the first year.

	Q1 Efficiency	Q2 Efficiency	Q3 Efficiency	Q4 Efficiency
Average Account Executive	33.3%	42.7%	58.7%	76.7%

Figure 2: Average efficiency by quarter of the account executive position.

As Figure 2 shows, the average efficiency of an account executive in their first quarter is 33.3%. This means that a new account executive hired at this company should close, on average, $125K in their first quarter ($375K quota × 33.3% average Q1 efficiency).

Calculating the efficiency rates of a single salesperson or position is relatively simple. However, identifying them has many benefits for sales executives, such as understanding how they affect orders and sales.

How Efficiency Rates Affect Orders and Sales

Sales forecasting is an extremely helpful tool for sales organizations. It allows CFOs to financially plan for the company's growth. For public companies, forecasting impacts stock prices and market expectations. Sales forecasting allows companies to see into the future and strategically plan their moves to increase growth.

Unfortunately many sales leaders do not understand that their sales efficiencies drastically affect their forecasts. Just because a company hired a senior account executive this quarter does not mean that they will contribute their full quota this quarter, and possibly not even until their fourth quarter. Sales efficiency rates can help sales leaders accurately account for new hires in their forecasts, more specifically, how long it will take them to contribute their full quota. Below is an example of how sales efficiency rates affect orders and sales and can help more accurately forecast sales.

Figure 3 outlines two sales positions with different quotas and different *average* sales efficiency ramp rates. Assuming the yearly quota is linearly distributed over each quarter, a new salesperson in each position would be expected to achieve the following results in terms of orders and sales in their first year.

		Sales Efficiency				
	Annual Quota	Q1	Q2	Q3	Q4	Total Year 1
Large Enterprise Account Executive	**$ 1,500,000**	10%	20%	40%	65%	**33.8%**
Expected Orders		$ 37,500	$ 75,000	$ 150,000	$243,750	**$ 506,250**
Enterprise Account Executive	**$ 800,000**	20%	40%	60%	80%	**50.0%**
Expected Orders		$ 40,000	$ 80,000	$ 120,000	$160,000	**$ 400,000**

Figure 3: Average sales efficiencies of two different positions and their expected orders.

As you can observe from the data in Figure 3, the Large Enterprise Account Executive has a very low expectation of order achievement in the first 3 quarters of employment, whereas the Enterprise Account Executive ramps up to 60% effectiveness by the 3rd quarter. This is not surprising given the Large Enterprise AE has a more complex set of customers and a $1.5M quota expectation compared to the Enterprise AE's $800K quota.

You can then use the efficiencies of the first two years to see a real expectation of orders and sales for each position. In this example, the orders are amortized over a 12 month period.

		Orders vs Sales			
	Annual Quota	Year 1 Orders	Year 1 Sales	Year 2 Orders	Year 2 Sales
Large Enterprise Account Executive	**$ 1,500,000**	$ 506,250	$ 187,500	$ 1,350,000	$ 818,750
Annual Sales Efficiency		33.8%		90.0%	
Enterprise Account Executive	**$ 800,000**	$ 400,000	$ 166,667	$ 760,000	$ 550,000
Annual Sales Efficiency		50.0%		95.0%	

Figure 4: Orders and sales expectations from a new salesperson.

A new Large Enterprise Account Executive hired in January would be expected to achieve $506K in orders in their first year, just 33.8% of the quota target. The new hire's first year sales estimate is $187K. That low sales result in the first year is usually a big surprise to sales leaders as they do not fully realize the impact of the sales efficiency ramp rate. A new hire will take time to ramp up to full efficiency.

The sales estimate is significantly affected because of the 12-month amortization schedule. In the first half of the first year, the salesperson only achieves $112K of the $506K annual orders, hence the majority of the sales will cascade into the second year. The order and sales numbers for the second year increase as the sales efficiency for a Large Enterprise AE is 90% for the entire year.

Using the average sales efficiency rates of these two positions can help companies more accurately forecast sales and revenue for the coming quarters and years. Many sales leaders do not fully understand the impact of their salespeople's efficiency on their forecasts. It is important to take the efficiency rates into account when projecting your sales and revenue forecasts.

Additionally, knowing your sales efficiency rates can help meet your revenue targets while accounting for the most expensive issue in sales organizations: turnover.

Leveraging Sales Efficiency for Proper Staffing

Turnover is often considered one of the most expensive events for sales organizations. A 10–30% yearly turnover rate can *significantly* impact your orders and, in turn, sales. Fortunately, you can account for the high cost of turnover in your forecasting process using sales efficiency rates.

The following is an example of how knowing the sales efficiency of your salespeople can ensure turnover does not affect your revenue targets for the quarter.

One of the seasoned account executives at your company just tendered his resignation. He was entering his fourth quarter as an AE. Luckily, your Sales VP realizes that a single new hire cannot produce the same order volume as a seasoned AE. Knowing he cannot miss the quarter by more than $50K, he needs to calculate the number of replacement AEs to hire. Using the sales efficiencies shown in Figure 2 can help assess how many additional account executives to hire to still meet the quarter goals.

Since the seasoned account executive leaving the company was entering his fourth quarter with the company, he was expected to bring in $287K in orders this quarter ($375K Quota × 76.7% Average Q4 Efficiency).

Given the average sales efficiency for a newly hired account executive in the first quarter is 33.3%, we can expect one new account executive to bring in, on average, $125K in the first quarter they are hired ($375K Quota × 33.3% Average Q1 Efficiency).

With this information, it is clear to the Sales VP that he would need to hire at least two new account executives to replace the $287K the AE leaving was expected to close. These two new salespeople would be expected to close a combined $250K in their first quarter, which is within the Sales VP's $50K constraint.

Knowing the efficiency of your salespeople is crucial to ensure you are properly staffed and adequately resourced to meet your goals. It can help you cope with the inevitable turnover in your sales organization. Additionally, knowing this data provides a framework for measuring the impact of your sales initiatives.

Improving Sales Efficiencies

Having high sales efficiencies can help you reach your order goals faster and with fewer salespeople. This is why improving your sales efficiency rates is crucial to growth. By measuring the change in your sales efficiency rates, you can calculate an expected monetary benefit and compare it to the investments you make in things like sales training, improved recruiting, reduced turnover, enhanced sales tools, or improved marketing qualified leads.

To demonstrate how an improved sales efficiency rate can increase orders and sales for a company, we will use the same employee types and quotas from the first example: a Large Enterprise Account Executive with a $1.5M quota and an Enterprise Account Executive with a $800K quota. In both cases, the quota is 100% subscription services and the sales are realized over a 12 month period upon order receipt.

The original sales efficiency rates in our model for each sales position are outlined in Figure 5. In this example, we assume that we can increase our sales efficiency by 10% in quarters two, three, and four. These increased sales efficiency rates are designated in the table as “Revised”. For example, in the case of an Enterprise AE, if the goal in Q2 for a fully effective person is $150K, then we expect a $15K uplift from the Revised model.

	Annual Quota	Sales Efficiency			
		Q1	Q2	Q3	Q4
Large Enterprise AE	$ 1,500,000	10%	20%	40%	65%
Large Enterprise AE - Revised	$ 1,500,000	10%	30%	50%	75%
Improvement		0%	10%	10%	10%
Enterprise AE	$ 800,000	20%	40%	60%	80%
Enterprise AE - Revised	$ 800,000	20%	50%	70%	90%
Improvement		0%	10%	10%	10%

Figure 5: Original and revised sales efficiency rates of two AE positions.

Using the original and the revised sales efficiency expectations, we can compare the orders and sales expectations over a two year period for each sales position. The following table outlines the expected order value and sales value for the first two years for each sales position and sales efficiency assumption. We can assume the second year total efficiency, 90%, is the same for both positions and models.

	Annual Quota	Orders vs Sales			
		Year 1 Orders	Year 1 Sales	Year 2 Orders	Year 2 Sales
Large Enterprise AE	$ 1,500,000	$ 506,250	$ 187,500	$ 1,350,000	$ 1,533,750
Large Enterprise AE - Revised	$ 1,500,000	$ 618,750	$ 234,375	$ 1,350,000	$ 1,599,375
Improvement		$ 112,500	$ 46,875	$ -	$ 65,625
Enterprise AE	$ 800,000	$ 400,000	$ 166,667	$ 760,000	$ 917,333
Enterprise AE - Revised	$ 800,000	$ 460,000	$ 191,667	$ 760,000	$ 952,333
Improvement		$ 60,000	$ 25,000	$ -	$ 35,000

Figure 6: The improvement in orders and sales from the revised efficiency rates.

For the Large Enterprise AE, assuming a start date in January and an improvement in sales efficiency of 10% in quarters two, three and four, the total orders in the first year increases by $112K (+22%). The orders in the second year remain the same because the salesperson in both examples is at 90% for the full year. Based on the monthly amortization of orders, the first year sales increases by $46K (+25%) and $65K (+4%) in the second year. The increase in sales over both years is equal to the year one increased orders, $112K, because those orders fully amortize over the two year period.

For the Enterprise AE, assuming a start date in January and an improvement in sales efficiency of 10% in quarters two, three and four, the total orders in the first year increases by $60K (+15%). The orders in the second year remain the same because the salesperson in both examples is at 90% for the full year. Based on the monthly amortization of orders, the increase in first year sales is $25K (+15%) and is $35K (+4%) in the second year. The increase in sales over both years is equal to the year one increased orders, $60K, because those orders fully amortize over the two year period.

So what should you conclude from this example? For a relatively small improvement in your sales efficiency, you can generate a significant improvement in first-year orders and realize a two-year benefit by increased sales. You can also target improvements in sales positions with the slowest sales efficiency ramps and largest order targets to produce the most benefit.

As demonstrated in this example, you can realize a $60K to $112K in first-year order benefit as well as a $25K to $47K increase in first-year sales. Additionally, you can realize a second-year sales benefit of $35K to $66K.

You should consider investing up to the first-year sales increase in onboarding enhancements to improve sales efficiencies, such as improved recruiting, sales training, enhanced sales tools, improved marketing qualified leads, and reduced turnover.

Conclusion

Calculating the efficiency of your salespeople by position, territory, and quarter can help provide accurate insight into how much your new hires will contribute. They can help ensure you are adequately staffed to meet your revenue targets. Knowing your efficiencies can also help you plan for turnover in your sales organization to ensure your company does not its goals.

At ORM Technologies, we specialize in sales efficiency rates and how they can affect your organization sales and revenue forecasts for the coming years. If you would like more information on how optimization can help your business, contact ORM Technologies at (469) 269-6760 or email us at info@orm-tech.com.