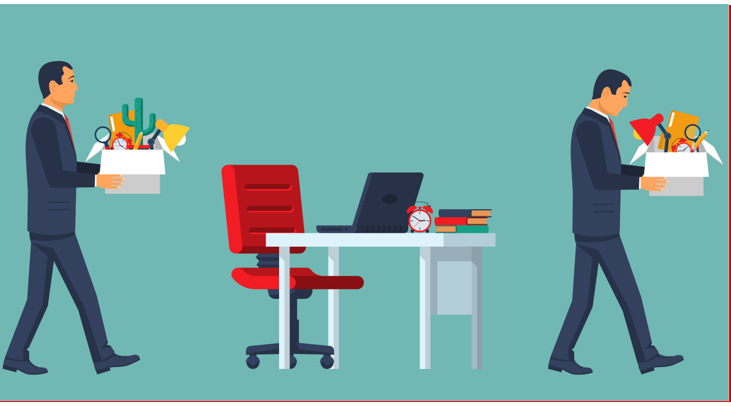
The Actual Costs of Sales Turnover: It's Much Worse Than You Think



You've heard it all before – the costs of constant sales turnover. Everyone knows that hiring the wrong salesperson is a colossal waste of money and time. There are several direct and indirect costs to the business; hiring costs, onboarding expenses, salaries, benefits, training, missed revenue expectations. Although significant, they are minimal in comparison to the three often ignored, but severe costs most companies don't want to acknowledge. This is the dirty little secret of sales turnover and the actual financial impact on the business.

Sales turnover.

Along with death and taxes, most executives treat this as one of life's ugly inevitabilities.

Turnover within most sales organizations is 2-3x higher than other functional areas of the business. In a previous white paper, we addressed the root causes of high sales turnover and how to cure it forever. We will not delve further into those causes and remedies in this report, but it is essential to consider two important points for our purposes here.

During our initial discussions with clients, we often hear that they have too many 'bad salespeople.' In each instance, that assumption turns out to be incorrect.

They don't have too many bad salespeople. They did a lousy job and hired the wrong salespeople.

If this merely sounds like a difference in vernacular, it isn't. Companies that believe they hired bad salespeople will 'justify' their mistakes and shift blame. They will use excuses such as, 'The candidate fooled us during the interview process', when in fact, they had a bad process and hired the wrong salesperson. These excuses will then extend into, 'It happens to everyone hiring salespeople,' which somehow rationalizes that these failings are just part of doing business.

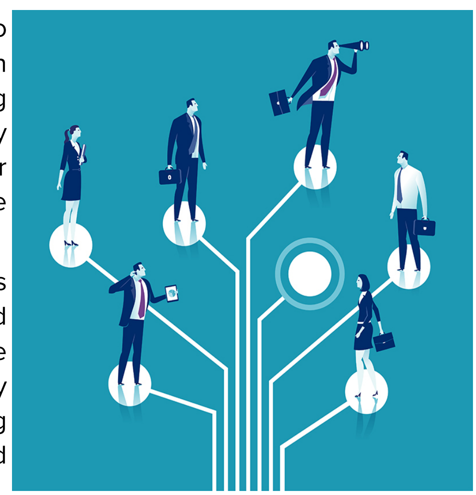
Both viewpoints are untrue.

Research indicates that 68% of organizations treat the cost of sales turnover as something that is beyond their control and an inescapable part of doing business. If your company falls into this category, then we believe your opinion will change after reading this report.

All Turnover Is Not Created Equal

To fully acknowledge the actual costs of sales turnover, we need first to understand the three types of turnover and the impact of each on the organization.

1. Wrong Hires – This type of turnover is usually the result of trying to meet an internal deadline. As companies prepare for the upcoming sales year, they are filling spots for new headcount as well as anticipated openings due to the expected termination of non-performers. They want to get new salespeople on board quickly so they can attend planned sales training early in the first quarter, as well as get the new hires ramped up so they can contribute revenue in the calendar year. Most of this hiring occurs between November through January; however, the hiring process usually starts in October. That leaves companies with roughly 90 days to source, screen, interview, vet, and ultimately decide to make an offer. If the company has multiple slots to fill, this inevitably leads to making bad decisions on the wrong candidates for the role(s) to meet the internal deadline. Research shows that 78% or wrong hires are terminated or leave voluntarily within 18 months of their hire date, and their average attainment against assigned quota is less than thirty percent.
2. Anticipated Departures – This type of turnover comes from the 'Middle 60', which represents the bulk of salespeople in companies who average 55% of quota attainment. Most companies anticipate involuntary turnover from this group, but they can always identify the exact number and which individuals in advance. That is because there are two sub-groups of Anticipated Departures:
   - Cop-outs – Those on the lower end of the Middle 60 who don't see improvement coming. They have given up on themselves and the company and have been actively looking for other opportunities. They will move to another company hoping the grass will be greener. They will blame others for their failures and likely had 2 – 3 other sales jobs before joining the company, all with tenures for less than two years.
   - Drop-outs – These are salespeople whose resignation was unexpected. They have been good team players, and although they haven't been successful, they have given the impression that they are happy and trying to improve. Many could become strong B-Players for the company, averaging 80%+ of quota, but they are not getting the coaching and mentoring they need for improvement.



3. A-Listers – The most devastating of all turnover is when an A-Player unexpectedly resigns. This turnover mainly occurs in the first quarter after they have received their year-end bonuses. The timing can have a tremendous impact on small teams of sellers because their anticipated revenue contribution will take months to replace. Not only is the loss of an A-Lister a substantial financial hit to the organization, but it can also deflate the morale of other salespeople, as well as their immediate management. After the loss of an A-Lister, we often hear managers say, "If we knew they were looking to leave, we would have done something to keep them," Of course, by that point, it is too late. When an A-Lister decides to leave, the reasons are usually profoundly intrinsic. They aren't looking for more money or promise of a better future. Although most won't admit it on their exit interview, they made their mind up long before, and they are not open to negotiation.

Five Levels Deep

With an understanding of the three types of sales turnover, we can better understand the negative financial impact that each has on the organization. The actual financial damage of turnover runs much deeper than most executives would like to admit.

Direct Costs – These apply mainly to the first category of turnover, Wrong Hires, and a lesser degree Anticipated Departures. These are the hard costs that the company shelled out during the employment period of the salesperson, which is typically less than two years. The company made a significant financial investment in the salesperson, and they did not come close to producing the expected revenue. Direct costs include recruiting fees paid, salary, benefits, payroll taxes, direct training costs, travel-related costs, car allowance/reimbursement, and IT and phone expenses. Any profit from the revenue that wrong hires may have generated is usually a fraction of their costs to the company.

Indirect Costs – Most company executives don't want to acknowledge the indirect costs of turnover, but it is a mistake to ignore. The highest indirect cost is associated with your sales managers. One-third of a sales manager's time is associated with supporting Wrong Hires. This includes the time during the recruiting and hiring process, onboarding, training, and daily support and coaching. Sales managers spend an inordinate amount of their time on Wrong Hires, which turns out to be a complete wasted effort on their part.

Even if you do not want to include the portion of a sales manager's salary as an indirect cost, you need to consider the following. Every hour of wasted time a sales manager spends on a Wrong Hire could have been used to support B-Players to achieve higher performance, as well as encourage their A-Players. The leading reason for the unexpected resignations of B- and A-Players is due to lack of support and proper acknowledgment from their company. This can lead to HR placing the blame on the sales manager for this turnover based on exit interviews.

It is patently unfair to lay the blame on the sales manager when the company's ineffective talent management process creates a revolving door of Wrong Hires. It is no coincidence that new research shows that a sales manager's tenure is now just nineteen months. The costs of replacing a sales manager are 3x that of a sales rep.

Lost Anticipated Revenue/Profit (Wrong Hires) – Some companies assume a high failure rate is due to Wrong Hires and build it into their financial models and forecasts. They have accepted that a majority of the salespeople are not going to make quota and deliver the expected revenue and associated profit. Because of this shortsighted perspective, they don't view this as revenue loss and choose to ignore it altogether. Leading companies do not accept this defeatist perspective.

Let's look at a company with just 40 salespeople who each have an average salary of $55,000 and an assigned quota of $750,000 with an 8-month initial ramp-up. With turnover of twenty percent, over the course of eighteen, the eight departed salespeople should have contributed $8.1 million in revenue and over $800,000 in profit (assuming a 12% net profit margin). Even if your company chooses to ignore these numbers, the direct costs of the eight salespeople total almost $1 million, which could have directly contributed to the current net profit. Very few companies would accept that a million dollars to their bottom line would be of little significance. If there were another needless expense in the company that had such a negative effect on profit, it would certainly be addressed.

Five Levels Deep - *Continued*

Required Additional Revenue – The next level of financial impact caused by sales turnover is one that is rarely considered by senior leaders. This is the new revenue that needs to be generated, without negatively impacting existing net profit, to cover the direct costs of turnover from Wrong Hires. Using the previous example of a company with 40 salespeople, the company will need to generate over $8.2 million in new revenue to cover the direct cost of the eight Wrong Hires. When many executives fully comprehend the tremendous financial gain that the company could be experiencing as a result of Wrong Hires and poor sales performance, they often make the implementation of a comprehensive sales talent management program a priority.

Lost A-Lister Revenue/Profit – Just as painful as the loss of an A-Lister from your organization is the loss of the revenue and profit they take with them. Different than the *potential* lost revenue from a Wrong Hire, A-Listers were directly contributing to current and short-term revenue to the company that was factored into financial projections. That revenue and associated profit can never be recouped during the fiscal year. And because A-Listers tend to leave in the first quarter, it puts a tremendous strain on the sales organization to attempt to recoup those losses.

There Is An Upside

Most companies have invested heavily in sales enablement programs and technology to increase revenue and improve productivity per rep. US companies alone spent over $800 billion in sales enablement and training over the last decade. However, cumulative research has shown that this investment has not produced the anticipated benefits. Quota attainment, win rates, and revenue per salesperson declined, while rep turnover and sales costs increased. In addition to the actual direct costs of sales enablement, it also required a tremendous amount of effort from salespeople and sales managers during implementation, which reduced further selling time.

COST OF MISHIRE CALCULATOR

INSTRUCTIONS

Enter your company data in the highlighted fields.

# of Salespeople:	40
Annual Rep Quota:	$750,000
Annual Salary:	$55,000
Turnover %	20%
Net Profit %:	12%

Hard Costs/Individual		Revenue & Profit Loss/Individual	
Salary	$82,500	Revenue Miss	$1,012,500
Recruiting Fees:	$11,000	Profit Miss	$151,875
Training:	$4,500	Profit Contribution:	$50,625
Onboarding:	$5,000	**PROFIT LOSS:**	**$101,250**
Benefits/Taxes:	$20,625	**REVENUE MISS:**	**$1,265,625**
TOTAL DIRECT COSTS:	**$123,625**		
TOTAL INDIRECT COSTS*:	**$20,625**		
TOTAL COST:	**$245,500**		

Hard Costs/Company		Revenue & Profit Loss/Company	
Salary	$660,000	Revenue Miss	$8,100,000
Recruiting Fees:	$88,000	Profit Miss	$1,215,000
Training:	$36,000	Profit Contribution:	$405,000
Onboarding:	$40,000	**PROFIT LOSS:**	**$810,000**
Benefits/Taxes:	$165,000	**REVENUE MISS:**	**$8,100,000**
TOTAL DIRECT COSTS	**$989,000**		
TOTAL INDIRECT COSTS*:	**$165,000**	**ADDITIONAL REVENUE NEEDED TO COVER LOST HARD COSTS**	**$8,241,667**
TOTAL COSTS:	**$1,154,000**		

Many executives are at a loss for the causes of the unfulfilled expected benefits from their investment in sales enablement. Regardless of how well companies have successfully operationalized the sales function with repeatable processes, standardized methodologies, and a consistent management cadence, they are unable to produce reliable business metrics that provide accurate financial measurement and predictability beyond ninety days.

The reason for this failure is simple – it's the people behind the processes and technology. All of these systems and processes require good salespeople to make them work. Companies without a sophisticated sales enablement platform but have a majority of strong salespeople, outperform those that don't by a 3:1 margin.

If companies only put a fraction of the resources they have invested in sales enablement into improving their sales talent management process, they could create an unstoppable revenue engine.

By establishing clear lines or responsibility and accountability for sales talent management, companies could completely transform the quality of their entire sales force in under three years. Working with our clients we are able to transition the mix of A-, B-, and C-Player salespeople in the organization, so that a minimum of 35% are A-Players and 65% are B-Players. As the graphic below indicates, even having this modest increase in the mix of your sellers, you can achieve revenue increases of 28% without additional headcount.

Salesperson Peformance Distribution

	START	YEAR 1	YEAR 2	YEAR 3	%	% +/-
A-Players	20	25	30	35	**35%**	**75%**
B-Players	60	67	70	65	**65%**	**8%**
C-Players	20	5	0	0	**0%**	-100%
TOTAL	**100**	**97**	**100**	**100**	**100%**	
# New Hires		**12**	**8**	**4**		

Revenue Contribution

	START	YEAR 1	YEAR 2	YEAR 3	%
A-Players	$20,000,000	$22,500,000	$27,000,000	$31,500,000	**58%**
B-Players	$30,000,000	$32,160,000	$33,600,000	$39,000,000	**30%**
C-Players	$5,000,000	$1,250,000	$0	$0	-100%
TOTAL	**$55,000,000**	**$55,910,000**	**$60,600,000**	**$70,500,000**	**$15,500,000**
YOY Growth		**1.7%**	**8.4%**	**16.3%**	**28.2%**

Assumptions

- Avg. Quota / Rep: $1mm
- Performance / Rep:
  - A-Players: 100%
  - B-Players: 50%
  - C-Players: 25%
- New hires: 8-month ramp-up
- B-Players in Year 3 perform at 60% of assigned quota

If you company's sales turnover exceeds 15% and less than half of your salespeople are achieving plan, then it is time to get serious about your approach to sales talent management.

About The Collier Group

The Collier Group is a niche consulting, advisory, and managed services firm that works with B2B companies who have outside sales teams of 25-300 salespeople.

We help our clients restructure the makeup of their sales force, without additional headcount, to increase the number of top performers by 75% and grow net new revenue by an average of 28% over 3-years.

As a client-focused firm, we structure our fees to work within our client's current budget during the initial phase of the engagement, so there are no additional unplanned costs. We then work on a success fee basis, where we only get paid when our clients achieve their program goals. We do not have billable hours, nor do we allow for 'project creep' that increases expenses for our clients.