Sales Staff Turnover:

More Expensive and More Destructive Than You Think

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Missing Your Numbers and Wondering Why?

Curly was right: "There's just one thing" that explains a lot.

In the classic 1991 movie *City Slickers*, Billy Crystal's Mitch Robbins asks the wise, tough trail leader, Curly Washburn (Jack Palance), the secret to life. In one of the best-remembered script lines of all time, Curly responds, "One thing. Just one thing." When Mitch asks *What is the one thing*, Curly just smiles and says, "That's what *you* have to find out."

I'm not here to reveal the secret to life (even if I knew it). But if the question is *What is the secret to not missing my revenue projections again this year?*, I know the answer. After 21 years of consulting sales organizations of all sizes, both here in North America and overseas, I can tell you there is *one thing* that executives and sales managers keep getting wrong. There is *one thing* that delivers a double-whammy: It prevents them from reaching their revenue projections and it drives their sales-related expenses through the roof... impacting cash flow hard, twice.

That *one thing* is: The cost of employee turnover in Sales. Annual turnover rates among salespeople and sales managers are shockingly high, they're largely untracked and unknown by top management, and they stand between you and the performance you seek.

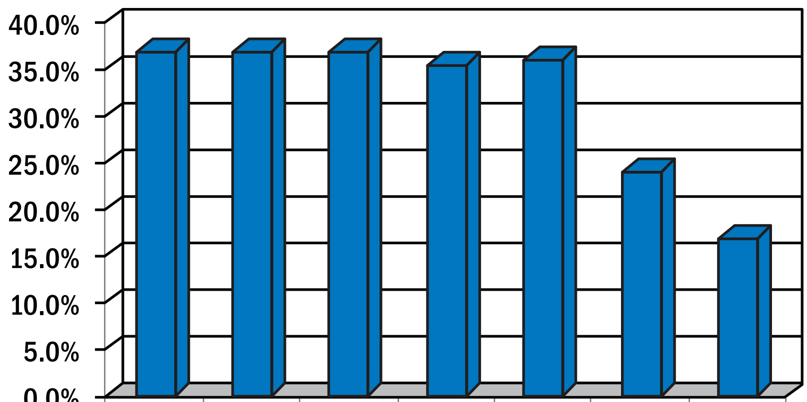
On the one hand, companies spend countless hours developing finely-crafted strategic plans and use often-complex formulas based on a wide range of variables (historical performance, market conditions, new product introductions, etc.) to create specific-looking revenue projections. But they pay scant attention to the one thing that often has the greatest impact on their top line and their bottom line: sales and sales management personnel turnover—its direct costs in recruitment, selection, training, distraction, and lost momentum... and its indirect costs in unproductive empty chairs, broken business relationships with clients, and sending bad hires out to represent the company to good prospects.

Depending on the size of the enterprise, I suggest to executives and managers they insert seven-figure expense lines to account for all those direct and indirect costs. Eight figures for larger firms. Most simply chuckle and remark they would lose their job if they did that. But not facing up to the facts doesn't make the ugly truth go away. Not reflecting the cost on their P&L doesn't mean the cost has disappeared. It's simply been swept under the sales department rug.

An exaggeration?

Seven figures? Eight figures? Can those numbers be right?

One of our clients did the math. Before our firm began serving this client, they had been experiencing a 36% annual turnover rate among their salespeople. We helped them cut that rate by more than half—to 17%—and the company saved over two million dollars a year:



	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Turnover %	36.7%	37.0%	37.0%	35.5%	36.0%	24.0%	17.0%

Here are the details:

- Salesperson turnover decreased from 36% in FY10 to 23.5% in FY11 and dropped further in FY12.
- The company has projected its turnover costs (those expenses most executives think they'd be fired for revealing) for FY11 at $4.7 million. For FY12, they pegged those turnover costs at $2.5 million—saving the company $2.2 million in one year alone. Those savings continue for every year in which this company keeps sales personnel turnover low.
- These turnover cost estimates are conservative, having been calculated at only 1x annual salary of the departed salespeople. Most researchers who have studied sales turnover agree that the true cost is closer to 1.5 times annual salary. Had that figure been used, the one-year savings here would have been $3.3 million.
- Not surprisingly, as the company was reducing its employee turnover, it was also outperforming its competitors. While its markets' total revenue showed a slight decline of 0.4%, this company's revenue grew 2.7%, outdistancing the competition by 3.1 percentage points.
- As you might now expect, the attrition rate among the company's Key Accounts was down considerably. Their goal was to reduce attrition to 25%, but it came in at an even-better 19%.

The Obvious Costs of Turnover

Some costs of sales employee turnover are easy-to-calculate. As an executive or manager you can make a list of quantifiable costs as fast as I can, and you can put a dollar figure on every one of them:

- Salary.
- Draw payments made but never earned, and ultimately lost when the salesperson leaves.
- Benefits.
- Payroll taxes.
- Training.
- The sales manager's time spent trying to develop the salesperson.

The Less Obvious Costs

If only the costs were limited to those listed above! But if you stop and take account of all the damage, it gets worse. Much worse. Personnel turnover is expensive wherever it occurs in the organization, but when it happens in Sales, it's twice as expensive—especially if you plan to do business again with those customers. Here are a few more costs you're suffering, and just because it's tougher to put a number on them, don't be thinking they're minimal. Truth is, they're immensely destructive:

- Broken relationships with customers.
- Lost intelligence about customers and their needs.
- Failure to maximize each customer's potential.
- Customers who desert you entirely.
- Lost opportunity with prospects (sometimes, prospects who you've now burned forever).
- Lost revenue in every sales slot that is under-producing against your budgeted revenue.
- Lowered standards. Your actual standards are not the ones you announce; your true standards of performance are equal to the worst performance you tolerate.

Sales Management Turnover? Add a Zero

When the turnover is in the sales manager's office, you can multiply the damage by ten. Losing a competent sales manager—or hiring the wrong one—compounds the hit to both your revenue and your expenses. The surest path to strong sales performance is to hire the most talented and skilled sales leader. Likewise, putting the wrong person in the job is dramatically destructive. Here the numbers that happen again and again across America:

- Position: Director of Sales
- Total Annual Comp: $250,000 (Salary $175,000, Bonus $75,000)
- Executive search fee: 33% of first-year compensation ($83,000 in this example)
- Moving allowance: $15,000
- Quota Attainment: 61%
- Time in the Job: 18 months
- Severance: 6 months' salary in return for a full release of liabilities
- Damage: Ran off 10 top-producing sales reps, each producing $2 million in revenue
- Damage: Alienated five of your largest accounts
- Damage: Mishandled your pricing and reduced your effective margin

Again, do you think I am exaggerating?

About ten years ago I watched a company drive into that very ditch—for one of its most important business units. The recruitment process for this key Sales Director role was weak, so they had fewer candidates from which to select. In evaluating the candidates, they relied heavily on past job experience—and ignored talent assessments indicating clearly that this person was not a good fit for the job. Even the reference checks were mixed, but the executive doing the hiring demonstrated "selective hearing" because this key management slot had been open for a long while and it was eating away at him. Fatigue often sets in when the chair is empty for an extended time—and that's when managers settle. Of course, this exec didn't think he was settling at the time, but I knew he was. I tried to prevent the train wreck, but the boss was tired of the search process, itching to make the hire, and eager to move on to a different challenge. If you've ever been that exec, or watched a process like this happen, you know just what it's like.

What happened? That Sales Director was ushered out the door after only eight months. The position sat open for another four months before it was filled by someone who was the right fit. Altogether the top sales executive position in this particular business unit was either open or poorly handled for a total of 16 months. During that time, a number of talented people left the organization (as they typically do in such a scenario). If you consider only the hard costs, this mistake cost the company just under a million dollars. But you know better: The less obvious costs are greater and they linger much longer. By any reasonable measure, this was a multi-million-dollar mistake.

When I speak with top executives about their company's performance in various markets, segments, and business units, I too often hear, "Well, we're way under our quota in that market because we had to move on a bad manager. We're rebuilding there." My point exactly.

How Can You Avoid These Mistakes?

They are avoidable! (Sorry, Curly, this list has more than one item):

1. ***Look for people before you have an opening.*** Most managers don't start looking for candidates until they have an opening. That's their first mistake, and it sets up their other mistakes.

   There is a big difference between *recruitment* and *selection*. Recruitment is what you do to make deposits to your talent bank. Selection is making a *withdrawal* from the talent bank to bring someone on board. When recruitment and selection is shoved together into one urgent process, standards are inevitably lowered, compromises are made, and the wrong person ends up being hired.

   The best executives have a formal talent bank brimming with talented people with various levels and types of experience... so when an opening develops, they're able to fill it, not only quickly, but with the right person. A well-stocked talent bank also provides the manager or executive with the comfort of knowing they have alternatives to tolerating under-performance in any job. As a result, there's less under-performance and standards go up.

   If you don't make deposits to your talent bank, you can't make withdrawals. So you need to recruit 52 weeks a year, and you need to be looking for a broad range of people who could possibly fill the various roles in your sales organization. Yes, it takes time, but the investment will pay big dividends year after year.

2. ***When you have an opening, know exactly what you are looking for.*** Pardon the sports analogy, but would you hire the best tight end to play quarterback for your NFL team? Probably not—not even in *fantasy* football. Start the selection process with a very clear description of exactly what you are looking for in this particular opening. If it's a sales opening, you might ask yourself questions such as: What kinds of clients are on that list or in that territory? How important is new business development? What did the predecessor lack that you would like to see next time?

Conversely, what did the predecessor do well that you don't want to lose in this transition? Don't dust off a generic job description from two years ago. Spec out the particular opening.

3. ***Look at more than experience.*** Sure, it would be very convenient to hire someone who you think needs very little training, but job experience is a mirage. Our company observes the hiring of literally hundreds of salespeople every year in a wide range of organizations, and we see over and over again how managers are misled when they place too much importance on prior experience. So often that experience is not applicable or transferable; indeed, too often it's not even valid (even if the numbers are correct, you don't know how they were achieved).

   Experience is over-valued in business today. Yes, it's helpful, often valuable. Sometimes it's mandatory. But it's no guarantor of success; often it's not even a predictor. The single most important, most predictive factor in evaluating sales or management candidates is *talent*—the person's raw material, those habits and behaviors that will never change. For this reason, we tell our clients to always consider talent *first*, then skills, and lastly experience—exactly the reverse of how most managers think about candidates.

   Recently we spoke with a South Florida bank director who told us the problem they have is they hired many experienced salespeople from other banks only to realize they each one sold in a different way... and none did it the way this bank wanted. Each candidate's experience looked good on paper, but had little real value to the bank.

   You can give someone experience, and you can teach someone skills, but you cannot give someone *talent*. To switch momentarily to a different movie metaphor, you can't give the Tin Man a heart. And singing lessons work dramatically better with those people who have a talent for singing. It's no less true of sales talent: Some have it, some don't. Talent should always be your first step in candidate screening.

4. ***Use a validated talent assessment instrument.*** Don't confuse talents with skills. I can train you on how to ask a better needs-analysis question, but I can't make you more curious. I can talk to you about the importance of seeing things from the customer's point of view, but I can't make you more naturally empathetic or caring. Caring and curiosity are among a whole range of talents that create success in sales. You can't train people, or even incentivize people, to take on those talents. All you can do is *hire* those talents.

   Another of the innate behaviors shown in our research to correlate to success in sales is something we call Command. Those people that exhibit Command naturally feel like they have the right to invade other people's thinking and bring them around to their way of thinking. This is *not* normal behavior (yes, we're looking for abnormal people!). Sure, you could send your salesperson off to assertiveness training or give them 22 closing techniques. But if they don't have the talent called Command, that training won't stick. And if they do, they don't need that kind of training. Unless this innate behavior exists at a sufficient level, that person will rarely be successful in moving a complex sale along and eventually closing it.

   The single most important thing you can do as a manager or executive is bring great talent into your organization. The greatest management guru of all time, Peter Drucker, said it best: *Talent* *determines the performance capacity of the organization*. Fortunately, talent is measurable. Don't fly blind. Use a validated talent assessment instrument.

5. ***Build a formal recruitment and selection plan.*** It baffles me that so few organizations have a formalized plan for *proactive recruitment* and *astute selection*. Companies seem to have plans for just about everything from facilities usage to expense reimbursement, but often no plan for acquiring and retaining great sales and sales management talent. No plan at all, in spite of the fact that sales turnover is the biggest reason most companies fail to meet their top-line or bottom-line projections.

   A strategic plan for recruitment and selection would include considerations like these:

   - *How will you identify and reach out to sales talent before you have an opening?*
   - *What is your company's value proposition (and your personal value proposition as a manager)?*
   - *Who can help you identify talented salespeople?*
   - *How will you spec out each job opening, identifying the talents, skills, and experience you need?*
   - *Where will your talent bank reside? Who will see it? How often will you review it together?*
   - *How will you keep individuals in your talent bank interested until you have the right job for them?*
   - *How will you screen for the talents you need?*

Missing your revenue and cash flow numbers really does come down to one thing—sales turnover. You can change this by re-arranging your priorities and putting the development of a genuine talent bank near the top of that list. Like saving for retirement, fixing your sales personnel turnover problem is vitally important, but often not considered urgent. Commit now to finding, selecting, and retaining top talent, and stop missing your revenue and profit numbers.

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