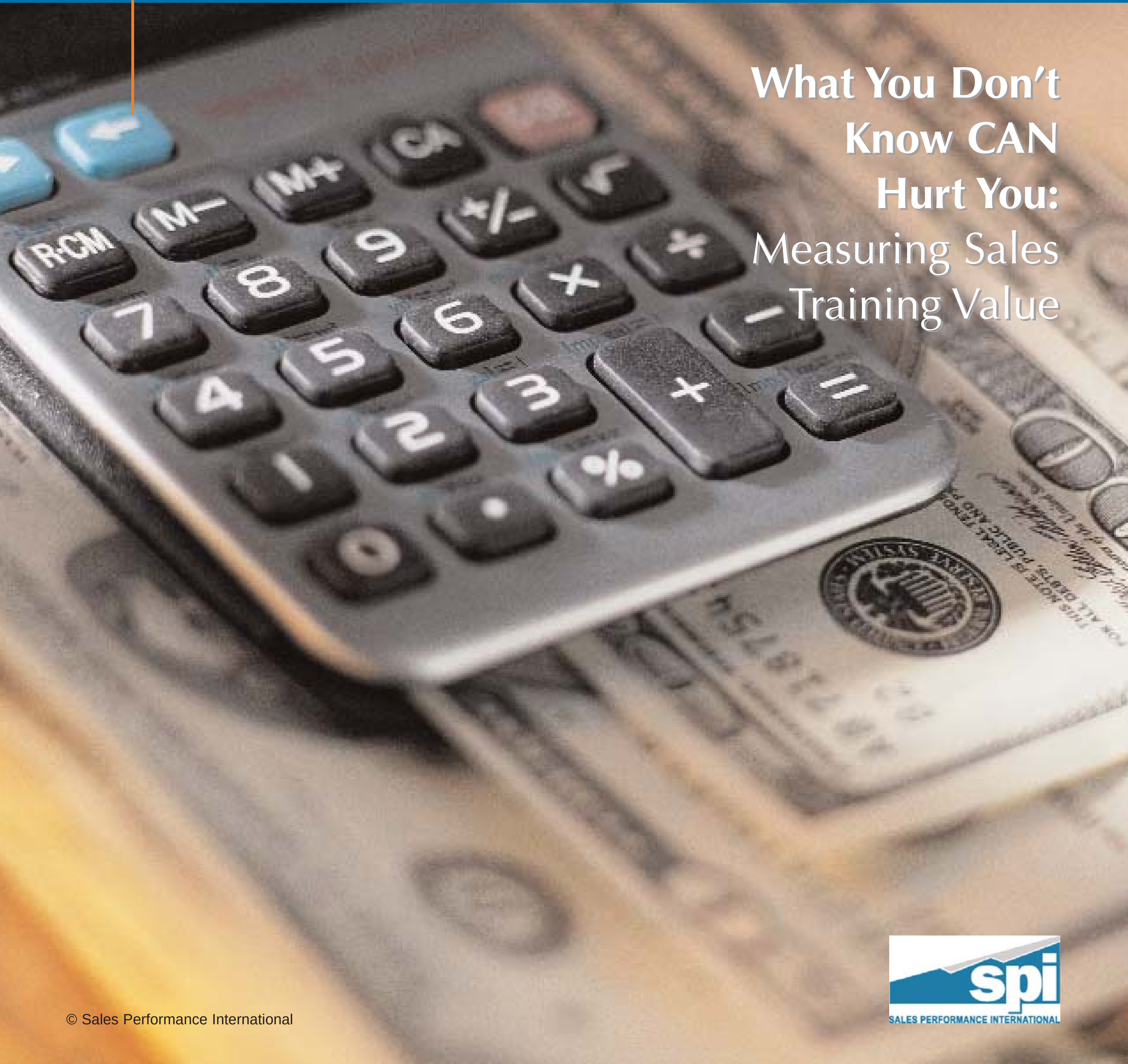
Prepared for **Chief Learning Officers**

POINT-OF-VIEW

## SALES TRAINING METRICS AND ROI



# What You Don't Know CAN Hurt You: Measuring Sales Training Value

# SALES TRAINING METRICS AND ROI:
## What you don't know can hurt you!

With 83% of CEO's indicating that revenue growth is more important than cost reduction[1], and 70% of sales executives identifying it as their top priority[2], pressure is increasingly on sales organizations to deliver sustainable revenue growth.

Most sales managers are struggling to meet these expectations while wrestling with significant performance obstacles including:

- Inability to access buying power and sell effectively to executives
- Frequent pursuit of unqualified opportunities
- Failure to realize revenue potential in major accounts
- Lengthy sales cycles and frequent no decisions

In order to meet revenue growth goals, sales leaders must overcome these obstacles, and many are turning to training as a means to do so. American organizations spent $4 billion on sales training last year[3] and expect to increase this investment by 12% this year[4]. To ensure a sufficient return on investment from sales training programs, sales leadership often asks:

- How do I know that sales training will impact the right behaviors?
- How do I measure the success of my training effort?
- How do I measure the business results of sales training?

[1] IBM. Your Turn: The Global CEO Study 2004.
[2, 4] CSO Insights. Sales Performance Optimization - 2006 Study.
[3] Training magazine. 2005 Industry Report.

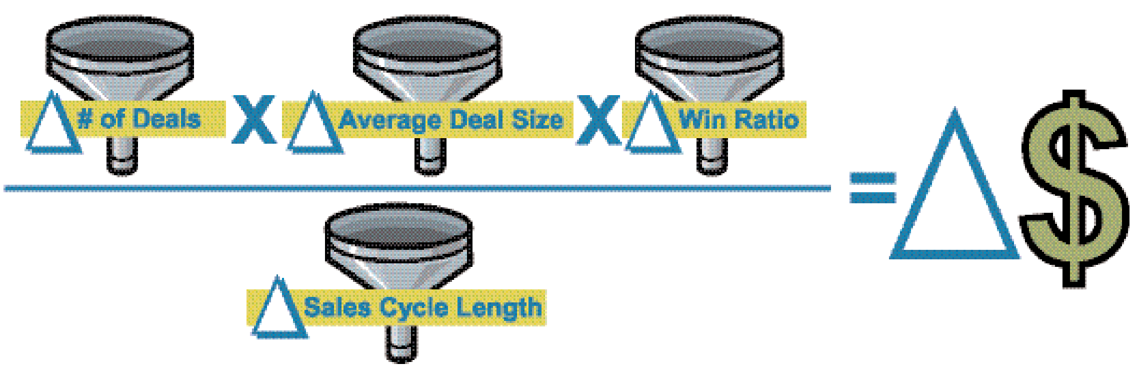
This white paper examines how to measure the impact of sales training, and how to determine its return on investment, by following a few simple steps:

1. Starting with the End in Mind
2. Establishing a Measurement Construct
3. Linking the Training Purpose with the Measurement Construct
4. Measuring the Impact of Sales Training on the Job and on the Business
5. Interpreting Sales Training Impact Measurements

## Starting with the End in Mind

Measuring the results of a sales training program appears to be an easy task – just track the increases in revenue of the people who participated and calculate the ratio of the net benefit divided by cost. Unfortunately, it's not that simple. While evidence demonstrates that organizations consistently out-perform their competition when they invest in sales training, convincing senior executives that sales training and business results are linked is a significant challenge. In our experience, the best way to make this connection is to align sales training to metrics associated with sales pipeline management (Figure 1).

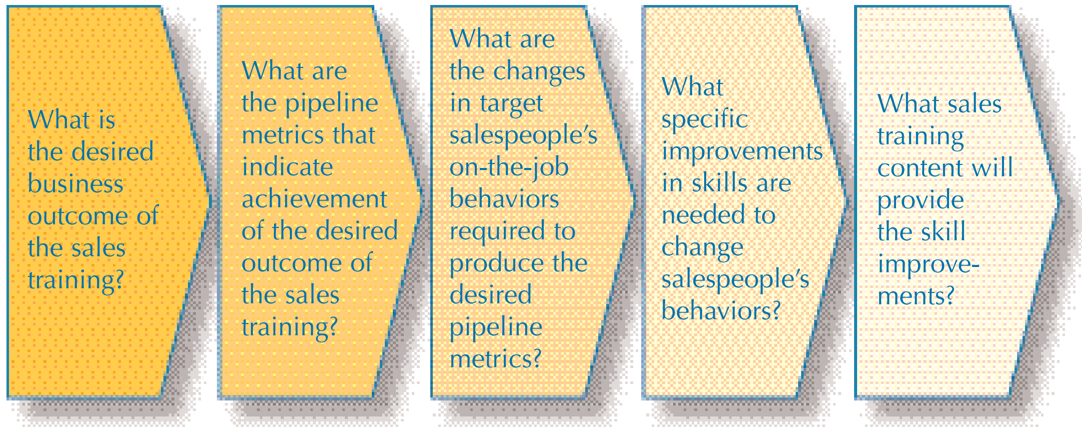
Figure 1
**TYPICAL SALES PIPELINE METRICS**




The exact sales skill and behavior improvements needed to affect these metrics can vary between organizations, depending on the type of business. Identifying these critical improvements and what they mean to sales pipeline metrics and revenue results is the essential first step in calculating the business impact of training.

Figure 2 illustrates a Sales Training Diagnosis Approach that defines critical improvements which the training will address based on specific selling characteristics of an organization.

Figure 2
**SALES TRAINING DIAGNOSIS APPROACH**




The most important people to involve in an initial diagnosis include key stakeholders, such as sales executives and field sales managers. From these interviews you can better understand current sales capabilities and prioritize performance gaps. Each part of the approach should yield target metrics of improvement, e.g., an improvement of x% in company revenues. These targets will drive the measurement plan for the sales training.

By obtaining such input in advance, companies can establish the clear business reasons for a sales training program and begin the process of isolating the specific improvements that the training needs to address.

## Establishing a Measurement Construct

The next step is to establish the measurement construct by which the training objectives can be evaluated. There are several generally accepted models for measuring training effectiveness.

Donald L. Kirkpatrick's 4-level approach is a widely accepted model for evaluating training effectiveness, with each successive evaluation level built on information provided by the lower level. Kirkpatrick's method normally focuses on collecting information across four levels for all training participants. Statistical extrapolations and proxies are often used to determine the business benefit.

An alternative approach, Dennis Dressler and Robert Brinkerhoff's Success Case Method separates out participants who have successfully adopted the training from those who have not. From the successful adopters, you can determine the positive impact of the training on operational and financial metrics. From the unsuccessful adopters, you can identify the environmental barriers that prevent learning and application. This process focuses on the collection of results from a small number of examples to determine the business result of the training.

One of the key distinctions between the two approaches is that the Success Case Method assumes that training adoption relies on supporting performance systems and the interaction of the training with common sales practices, while the Kirkpatrick model associates adoption with the training itself.

We recommend synthesizing these two approaches. The Sales Training Evaluation Tiers model shown in Figure 3 below expands on Kirkpatrick's 4-level approach by incorporating key aspects of the Success Case Method into 5 distinct tiers of measurement. The Sales Training Evaluation Tiers model assumes that all sales training requires integration into organizational practices and internal systems for the training to be sustainable, and that the quality of the sales training will be deemed "good" if it is diagnosed from a business perspective to begin with.

Figure 3
**SALES TRAINING EVALUATION TIERS**

| TIER | TYPE | ITEM MEASURED | EXAMPLES | CHARACTERISTICS |
|---|---|---|---|---|
| 1  | **Reaction** | Opinions of Participants about the Training Event | "Smile Sheets" – Post Session Evaluations | ■ Easiest to measure<br>■ Quickest feedback<br>■ Lowest cost<br>■ Least long-term insight |
| 2  | **Understanding & Application** | Skills and Knowledge Learned by Participants | Pre-class and post-class test | ■ Easy to administer and moderate<br>■ Can be part of the instructional design |
| | | Ability to Apply Skills and Knowledge in Classroom | Demonstration in Case Studies | ■ More predictive value<br>■ More difficult to incorporate in the instructional design<br>■ Costly to design and build |
| 3  | **Job Behavior / Skills** | On-the-job Behavior Changes | Observation and interviews on the job | ■ Difficult to observe and quantify<br>■ Measurement process may affect outcome of sales interactions<br>■ Requires managers' participation<br>■ Many dependencies |
| 4  | **Pipeline Impact** | Measurement of Pipeline Metrics | Improvements in:<br>■ Sales cycles<br>■ Win ratios<br>■ Average deal size | ■ Easy to measure, due to information available in CRM systems<br>■ Difficult to link business impacts to behavior changes |
| 5  | **Business Results** | Measurement of Financial Metrics | Improvements in:<br>■ Revenue<br>■ Cost of sales<br>■ Profitability<br>■ ROI analysis | ■ Easy to observe or calculate from typical business reports<br>■ Difficult to trace correlation of improved results to training<br>■ Many dependencies |

# Linking the Training Purpose with the Measurement Construct

The Sales Training Evaluation Tiers model should link directly to the diagnostic framework used to determine the sales training content and measurement areas as shown in Figure 4. Understanding the types of data that will be useful is an important part of this linkage, as illustrated in the Key Data Terms table on the following page. The five tiers of measurement focus on the target quantified improvements established at each step in the diagnostic framework. For example, the Tier 2 measurement assesses whether the learning that the training was designed to convey was actually understood and applied.

This approach establishes a baseline of current sales metrics, the capabilities of internal systems and sets the expectations for how the sales training will ultimately lead to revenue results.

It is critical at this juncture for a cross-section of stakeholders to reach consensus on what should be measured based on the sales training objectives and what the organization is actually capable of measuring, given the quality of internal sales systems and controls.

Figure 4
**LINKING SALES TRAINING DIAGNOSIS APPROACH TO EVALUATION MODEL**

| | | | | | |
|---|---|---|---|---|---|
| **Training Diagnosis Approach** | What is the desired business outcome of the sales training? | What are the pipeline metrics that indicate achievement of the desired outcome of the sales training? | What are the changes in target salespeople's on-the-job behaviors required to produce the desired pipeline metrics? | What specific improvements in skills are needed to change salespeople's behaviors? | What sales training content will provide the skill improvements? |
| **Measurement Tier** | **5:** Business Results (ROI)  | **4:** Pipeline Impact  | **3:** Job Behavior / Skills  | **2:**Understanding & Application  | **1:** Reaction  |
| **Measurement Areas (Examples)** | ■ Profit<br>■ Revenue | ■ Win Rates<br>■ Sell Cycle length<br>■ Size of deals<br>■ Size of qualified pipeline | ■ Client interactions<br>■ Sales tools / samples used<br>■ Management Observations | ■ Qualification skills<br>■ Closing ability<br>■ Negotiation skills | ■ Instructor effectiveness<br>■ Participant satisfaction<br>■ Participant self-assessment of learning |
| **Data Types That Can Be Used to Measure** | ■ Internal Systems Data | ■ Internal Systems Data | ■ Survey Data<br>■ Empirical Data<br>■ Internal Systems Data<br>■ Control Group Comparison Data | ■ Empirical Data<br>■ Testing Data | ■ Program Evaluation Data |

### KEY DATA TERMS

| DATA TYPE | DATA TYPE DESCRIPTION |
|---|---|
| **Evaluation** | Data gathered immediately at the end of the sales training. Normally in the form of program evaluation or "smile sheets" in hard copy but can also be distributed soon after the program through e-learning. Focus of this data is typically on delivery quality and content relevance. |
| **Testing** | Data gathered through implementing a pass/fail testing evaluation of concepts taught. eLearning systems are effective at doing this type of measurement. Scenario based testing on skills is also common. |
| **Survey** | Data obtained through implementing a survey instrument (web, phone or paper based). Normally, this information is perception-based. |
| **Empirical** | Data gathered through active observation of a salesperson at key sales stages. Normally this is done by sales management as part of a review process contained in the sales training. |
| **Internal Systems** | Data that resides in financial reporting, CRM, and SFA systems. This information is normally highly trusted because it is used to run the business. |
| **Control Group Comparison** | Data gathered across two distinct groups to test different outcomes. The Success Case Method focuses on control group research in order to identify patterns between successful and unsuccessful adopters of training. |

# Measurement Pitfalls and Practicalities

Before developing a measurement plan to quantify the improvements that result from a sales training program, you must first consider the factors that can lead to wrong conclusions, including:

- **Recognize Seasonality.** Sales results often vary by time of year. For example, in some industries, the 4th quarter is often when customers spend the remaining budget they have for a year. So 4th quarter results are systematically biased compared to the other 3 quarters. Before and after training measurements must take into account such seasonality in the assessment of sales training impact. When seasonality is an issue, the baseline should cover a year of results or at least look at quarter-over-quarter comparisons.
- **Consider the Hawthorne Effect[5].** Research has shown that the productivity of workers improves temporarily as a result of studying them. This means that the period of measurement at Tiers 3 or 4 should not be short-term, but greater than 120 days.

[5] American Sociological Review. Franke, R. H. & Kaul, J. D., The Hawthorne Experiments: First Statistical Interpretation, 1978.

- **Ensure Reinforcement.** Our research has shown that without reinforcement the half life of sales training is 5.1 weeks. In this period of time, half of what was learned during the training event will be forgotten unless the learning is reinforced. By reinforcement we mean management focus, system support, peer mentoring, compensation plans, etc. For sustained improvements, a comprehensive reinforcement program must accompany the training program.

Some other measurement practicalities include:

- **Measure Only What is Needed.** Measure only what is needed to ensure the successful integration of the sales training into sales practices, and no more – don't waste time measuring items that aren't relevant
- **Start with What You Have.** Leverage data that is already available if possible – don't add new measures and measurement processes unless absolutely necessary.

## Measuring the Impact of Sales Training On The Job and On The Business

Traditionally, sales organizations have little trouble collecting Tier 1 reaction information based on program evaluation forms. However, they often stop there, missing the opportunity to fully link the program evaluation to the key learning topics. These key learning topics should also be central to Tier 2 program learning and application measurements, which typically emphasize skill development through pre and post testing and in-class case practice. The crux of measurement comes down to a organization's ability to effectively measure Tiers 3 through 5.

Measuring how sales training impacted a salesperson's on-the-job behavior is a difficult proposition. Normally organizations use one or more of the following techniques: surveying, analysis of sales support systems usage, or direct observation by sales management.

Self-referential survey instruments can identify the salesperson's perspective on how the training has altered on-the-job behavior. However, since surveys are based on opinions, they often result in salespeople overestimating or underestimating their own behavioral improvements or capabilities (Figure 5).

Figure 5

**SELF-REFERENTIAL SURVEY EXAMPLE**

On a scale of 1 to 5, with 5 being strongly agree and 1 being strongly disagree, please respond to the following statements:

As a result of this training, I have improved:

| | | | | | |
|---|---|---|---|---|---|
| ■ My ability to qualify opportunities | 5 | 4 | 3 | 2 | 1 |
| ■ My ability to close business | 5 | 4 | 3 | 2 | 1 |
| ■ etc. | | | | | |

In your opinion, how has the training improved your ability to qualify?

________________________________________

________________________________________

An option to reduce issues with self-referential surveys is to depersonalize the survey instrument and expand it beyond the salesperson. Often the salesperson will answer more candidly if the behavior in question is about the entire salesperson group vs. about them personally. Additionally, by including sales managers in this survey feedback, you get another perspective on the behavior change. Figure 6 shows an observational survey example.

Figure 6

**OBSERVATIONAL SURVEY EXAMPLE**

On a scale of 1 to 5, with 5 being strongly agree and 1 being strongly disagree, please respond to the following statements:

As a result of this training, our salespeople have improved:

| | | | | | |
|---|---|---|---|---|---|
| ■ Their ability to qualify opportunities | 5 | 4 | 3 | 2 | 1 |
| ■ Their ability to close business | 5 | 4 | 3 | 2 | 1 |
| ■ etc. | | | | | |

In your opinion, how has the training improved our salespeople's ability to qualify?

________________________________________

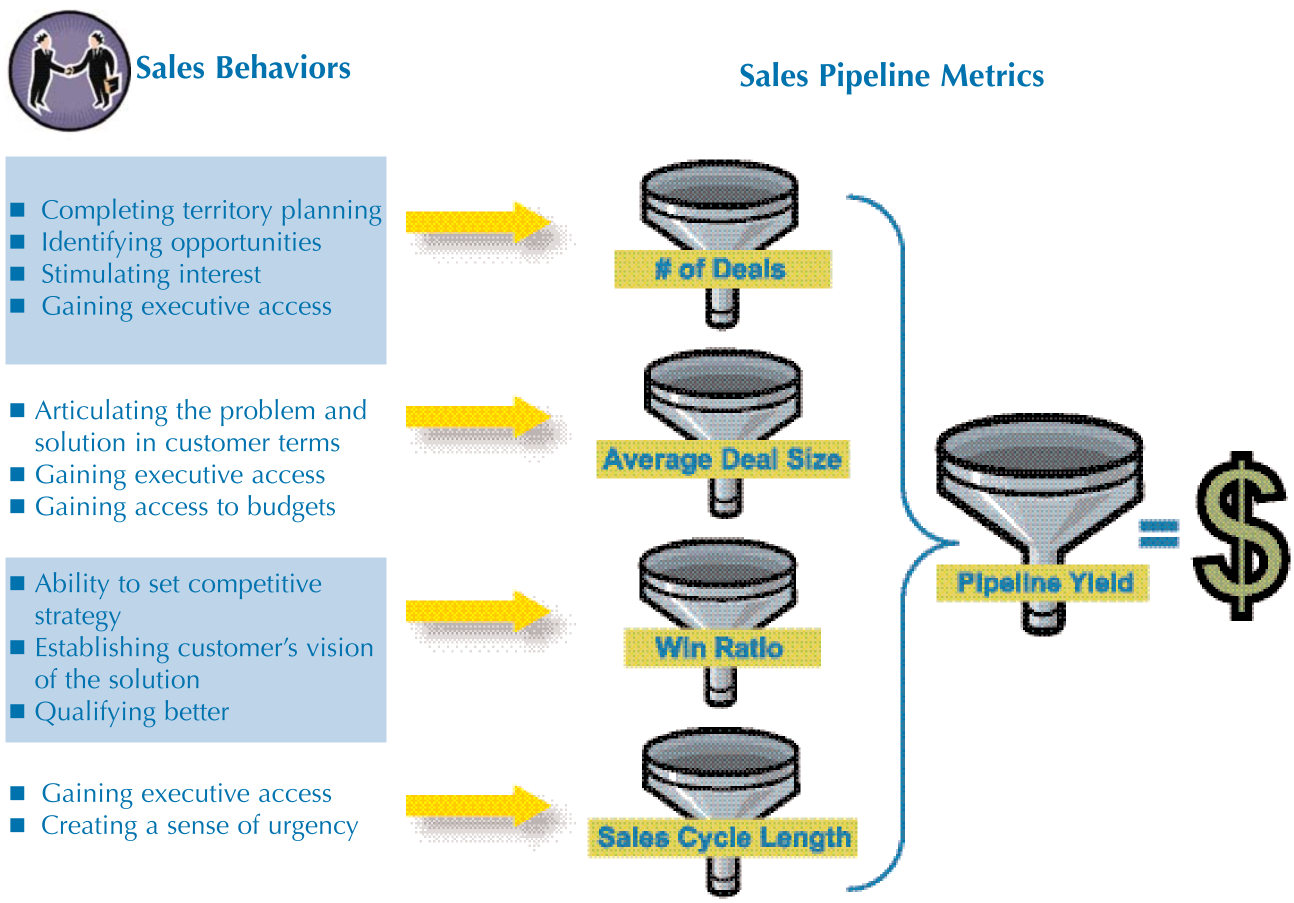
________________________________________

Another survey approach increasingly used to test behavior/skill improvements involves scenario-based skills testing, where salespeople are evaluated based on their ability to "test out" through a specific behavior/skill scenario.

Using a Control Group Comparison survey approach simplifies survey data collection requirements and improves the value of the data by comparing successful adopters' responses to those of unsuccessful adopters. Often, this analysis will reveal both the techniques and approaches for successful adoption and identify environmental factors that lead to unsuccessful adoption.

Survey data provides rich information about people's perceptions. But for objective Tier 3 measurements, using the factual content of internal systems data and direct observation is the most useful method for gaining accurate insight into what truly drives pipeline performance. It is relatively easy to brainstorm the cause and effect relationship between sales behaviors and sales pipeline metrics (Figure 7), but another matter entirely to do so with objectivity.

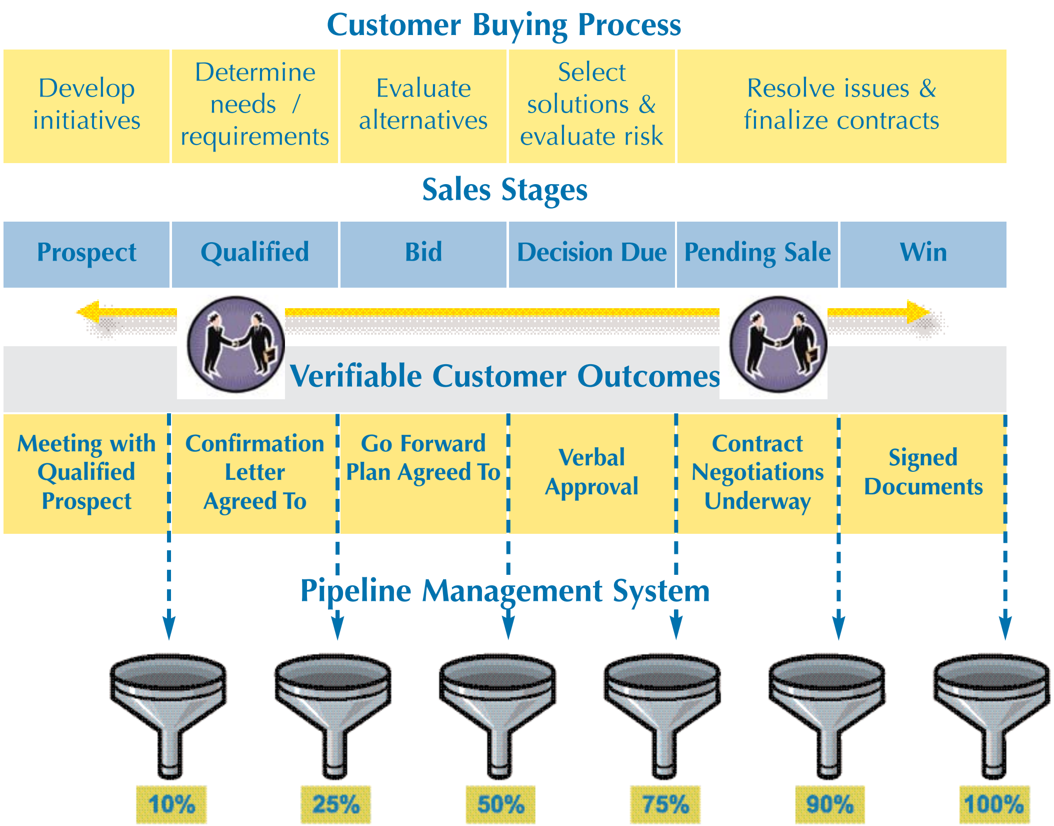
Figure 7
**INTER-RELATIONSHIP BETWEEN SALES BEHAVIOR AND SALES PIPELINE METRICS**




If a defined sales process is in place and embedded into a pipeline management system where progress through the pipeline depends on key customer outcomes being achieved at each sales stage then analysis of sales support systems will yield additional insights into the degree to which salespeople have changed their behavior. Verifiable customer outcomes are the essential measurement validation point between the customer buying process, the sales process and the pipeline management reporting system. Figure 8 illustrates an example of a pipeline management system that can be very useful in gathering objective Tier 3 data when sales activities are linked properly to sales stages.

Figure 8

**CUSTOMER LINKED PIPELINE MANAGEMENT SYSTEM**




Verifiable customer outcomes, and use of the sales tools that help achieve them, become the focus of sales management activities. It is through these pipeline management interactions and other post-training review sessions that behavioral changes can be observed most readily. When such information is available, it prompts insightful questions about sellers' performance, e.g.:

- How good are different sales people at moving opportunities through the pipeline?
- What stage-gates are the most problematic, and for whom?
- Why are some sales people more successful than others?

Sales tools that are connected to the training, and to the sales process itself, help sales organizations manage to the right activities. The combination of sales tools integrated into CRM systems and management review meetings / direct managerial objective observations can create a powerful measurement-driven mechanism for reinforcing the desired behavioral changes. Having a measurement system linked to management practices, sales process and a CRM system addresses 54% of the biggest productivity drains commonly cited for sales organizations[6]. It also makes Tier 3 data more meaningful and reliable.

[6] Selling Power. Poll Results. April 25, 2006.

By breaking down sales performance into key steps measured by a pipeline management system, it becomes much easier for sales management to recognize how leading sales behaviors are impacting lagging sales pipeline metrics (pipeline size, win ratio, length of sales cycle and average deal size) that are typically tracked in pipeline management systems. Ultimately, sales organizations must see and attribute improvements to the pipeline yield for sales training investments to be seen as valuable.

Business Results (Tier 5) measurements are also tracked with regularity in financial reporting systems. The challenge here is isolating the training's actual impact on the business result. A reasonable proxy can sometimes be established by simply asking sales managers the percentage of revenue increase that can be attributed to sales training. The more sales managers you involve, the better the proxy. This makes the revenue increase in the magical ROI formula more defensible. The next step is to accurately calculate cost.

The cost to deliver sales training, and related travel expenses are the key traditional cost components. Some organizations also track opportunity cost based on participants' average sales productivity. ROI can be calculated by subtracting total cost from attributed revenue increase to produce an attributed net revenue increase, then dividing the attributed net revenue increase by total cost.

As mentioned earlier, measurement planning should be based on both the training diagnosis and what the organization actually can measure. If the internal systems and controls are not in place to leverage internal systems data, then using a blend of surveying and observation techniques allows a sales organization to "attribute" Tier 3 and 4 impacts to sales training. This involves developing proxies and making extrapolations with key sales stakeholders: If done correctly, it can be very effective.

Most sales organizations can easily gather and track information at Tiers 1, 4 and 5, but struggle getting their arms around Tier 3 measurements. If they can get a handle on Tier 3 measurements, then the struggle becomes linking them to Tier 4 and 5 data.

## Interpreting Sales Training Impact Measurements

The relationship between sales metrics and financial metrics can vary dramatically from business to business. Often a diagnostic approach with a cross-section of stakeholders is needed not only to define and collect the right measurements, but also to interpret them. Figure 9 illustrates the relationship between sales metrics and financial metrics. In this example, verifiable customer outcomes represent the key linkage between Tier 2 and Tier 4 data.

Figure 9
**ILLUSTRATIVE EXAMPLE OF METRIC LINKAGE ACROSS TIERS**

| Sales Skills | Sales Behavior Metrics | Sales Pipeline Metrics | Financial Metrics |
|---|---|---|---|
| Tier 2 | Tier 3 | Tier 4 | Tier 5 |
| Qualification Capability → | All Verifiable Customer Outcomes → | Pipeline Yield, # of Deals, Win Ratio | |
| Ability to identify new qualified opportunities → | Meeting with Qualified Prospect → | # of Deals | Revenue Growth |
| Ability to manage existing opportunities → | All Verifiable Customer Outcomes → | # of Deals, Sales Cycle Length, Win Ratio | |
| Inability to access buying power and sell effectively to executives → | Confirmation Letter Agreed To<br>Go-Forward Plan Agreed To → | Sales Cycle Length | Lower Cost of Goods Sold |
| Closing Skills → | Signed Documents → | Level of Discounting | |

As an example, qualification capability is a trainable skill that can be measured in-class through practice and testing. The actual measurement of the application of this qualification skill on-the-job is done through a verifiable customer outcome linked to the sales stages where qualification is important. Sales tools help the salesperson qualify, and allow sales management to identify the behavior changes required, so that mid-course sales training adjustments can be made, or post-training coaching can be provided.

The analysis of the Tier 3 through 5 measurement results should be done in collaboration with finance, the learning center, sales management, salespeople, and sales operations. Typically, line sales management should be the most significant participants because they are the closest observers to Tier 3 changes in behavior. Learning centers drive the process, and sales operations is involved to help provide Tier 4 and Tier 5 data and to interpret conclusions. Regardless of the quality of internal systems, the process of interpreting sales training measurement results should always involve a cross-section of stakeholders, because this approach drives buy-in, additional insights and better future measurements.

# Summary

For optimum measurement results, keep the following guiding principles in mind:

- **Starting with the End in Mind** requires cross-functional involvement and a detailed look at current sales performance gaps;
- **Establishing a Measurement Construct** requires internal agreement on measurement priorities and assumptions about data reliability;
- **Linking the Training Purpose with the Measurement Construct** requires an honest assessment of internal sales systems' ability to support the measurement process in order to create a realistic measurement plan;
- **Measuring the Impact of Sales Training On The Job and On The Business** requires blending various techniques and ongoing sales management support; and
- **Interpreting Sales Training Measurements** requires a thoughtful examination of the inter-relationship between key sales and financial metrics.

In practice, measurement of sales training is complicated with issues ranging from difficulty of pulling the right data from internal systems to the challenge of actively evaluating and interpreting sales metrics. Effective measurement requires involving a cross-section of sales stakeholders with diagnosis being linked to five different tiers of training effectiveness.

The good news is that many sales organizations have the ability to collect Tiers 3 and 4 measurement data through their opportunity management systems (CRM/SFA). Having these systems, sales processes, and supporting tools aligned with the sales training (and thus the measurement systems) eases the time and resource commitment often associated with evaluating subjective information.

If administered correctly, measurement can provide proof that sales training dollars, coupled with good reinforcement, are having a business impact. Sales pipeline metrics, if embedded in the sales training and technology systems used to run the business, clarify the impact of sales training. Metrics connect the sales training with verifiable steps that can be measured and managed to. This helps sales training provide a revenue lift and creates momentum behind the sales performance improvement initiative.

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