

Total Quality Sales Management

Measurable increases in productivity and
reductions in turnover



An Executive Brief from HR Chally



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Applying TQM Techniques to Sales Produces Dramatic Results

Putting the right people in the right jobs using measurable, predictable, and actionable assessments

Six Sigma, the data-driven methodology for eliminating defects in organizations based on standards, measurements, and repeatable processes, has provided undeniable success for organizations around the world by eliminating waste and improving productivity. So why hasn't this TQM (Total Quality Management) concept of measurable and predictable error reduction been applied to Sales Management?

Six Sigma Status	Company Quality Capability ¹	Application
Level 6	Approach or surpass Six Sigma accuracy	World-class manufacturing
Level 5	Significantly reduce error and improve quality through archival databases	
Level 4	Leverage metrics toward quality improvement analysis	
Level 3	Implement error measurement practices	
Level 2	Adopt Six Sigma quality philosophy	
Level 1	Commit to metrics and measurements to identify error and sources of error	Typical selection and talent management systems
¹ Adopted from Carnegie Mellon Software Engineering Institute		

TQM requires a system of precise measures – objective and accurate enough for statistical analysis. By contrast, the measurement of sales force performance typically involves subjective and overly-general data that proves to be too fallible to support the level of accuracy that TQM requires.

Total Quality Management (TQM) Comparisons ¹		
Six Sigma Standard	Error Rate	Business Application
6 Sigma +	3.4 per million	Airline flight safety (takeoff/landing)
5 Sigma		World-class manufacturing
4 Sigma	6 per 10,000	Manufacturing average
2 Sigma	30 per 100	IRS phone tax advice
1.6 Sigma	45 per 100	Typical employment selection and deployment
¹ Adopted from Carnegie Mellon Software Engineering Institute		

But now, as this executive brief identifies, a measurable and quantifiable Six Sigma-like process has been defined and documented to help address these error-prone, human aspects of sales management.

The initial requirement is an accurate measure of any individual's skills, competencies, motivational drivers, work habits, and potential for developing future competencies. The assessment instrument must be criterion validated to be predictively accurate of *measured productivity improvements* and/or reduction in "unwanted" turnover well beyond the 55-65% accuracy most commonly reported. Research suggests that only a Six Sigma or TQM approach can accomplish the necessary level of quality improvement in the management of intellectual capital. Using a TQM for sales or Total Quality Sales Management (TQSM) requires focusing primarily on identifying the "causes of failure" of otherwise qualified sales and service people. This is a counter opposite approach to the more common identification of the criteria for success as typically seen in job analyses and competency studies. A TQSM approach is capable of establishing a single instrument that can measure all of the relevant competencies with an accuracy level robust enough to support substantial quality gains in the management of a company's most valuable "Human" assets.

The result is a **TQSM Audit system** – an information repository where organizations have a complete inventory of strengths and weaknesses for all employees in every key position. This relational database can distinguish the job performance potentials for key talent located anywhere in the organization.

This brief reviews the causes of less effective talent management and how a Six Sigma/TQSM approach helps minimize the following common criteria for sales force effectiveness:

- Increasing productivity and achieving sales goals
- Reducing unwanted turnover
- Motivating top performers
- Putting the right salespeople in the right sales job
- Maximizing your training investment

Benefit 1: Increasing Productivity and Achieving Sales Goals

Increasing Productivity Means Beating the Infamous 80/20 Rule

Most businesses can identify with a simple operating rule of thumb: **“20% of our salespeople bring in 80% of our sales.”**

If the top salespeople of a sales force produce a substantial proportion of total sales, there is an immense opportunity for productivity increases. The 80/20 rule actually describes a normal curve or *random* distribution of top, average, and poor sales performers, and there are as many poor performers as strong performers. Importantly, the out-of-pocket costs (before variable compensation) of a poor salesperson is as high or higher than a top performer.

With today's sales tools, beating chance by a few percentage points is actually fairly strong performance.

The better news: Applying “Total Quality” (TQM) principles to build a Total Quality Sales Management (TQSM) system can increase productivity by 20 or 30% or better.

Total Quality Sales Management

The key to increasing productivity is not based on trying to find more superstars...but instead, to eliminate hiring and investing in poor performers. In fact, TQSM focuses on finding and reducing the failure points in every step of the sales management process.

TQM EVEN HELPED HOLLYWOOD

Imagine using 80/20 as it applies to the Hollywood mantra of hit-driven economics: the top 20% of films will make virtually all the profit, subsidizing the loss-making bottom 80%.

In other words, if you could only know ahead of time which films would be hits, the economically rational decision would be to make just 20% as many of them. And, indeed, this is largely what DVD rental and retail outlets do: since they do know which films were hits in the box office, they mainly stock and push just those. As a result, theatrical hits from the past year make up 90% of the transactions in even video superstores (the 10% of other weaker titles are not promoted).

The Limitations of Typical Tools

What surprises most business people are the statistics on the effectiveness of the most common techniques we use to hire and deploy salespeople. As the Typical Hiring Methods table (reporting selection research first done at the University of Michigan) indicates, most business techniques used in selecting the right person are only slightly more accurate than chance. No wonder the 80/20 rule is so common. A better technique to screen out poor performers so that those selected or promoted are at least above average will return dramatic results.

For example, if your organization has 100 salespeople and \$100 million in sales, and the 80/20 rule (or close) applies to you, then your top 20 salespeople bring in \$80 million. But your bottom 20 salespeople are bringing in only \$3 million. If you could guarantee replacing your bottom performers with only “average” salespeople (assuming that it may be unrealistic to find 20 more superstars) your increase in sales would be approximately \$17 million! And average salesperson productivity would climb by 17% or more.

Typical Hiring Methods*

Method	Improvement over the Flip of a Coin
Interview	+ 2% Accuracy
Any short selection test	+ 3% Accuracy
Scorable Interview	+ 7% Accuracy
Reference Check	+ 7% Accuracy
Compared to	
Position-specific, validated job assessment	25-36% Accuracy
*Taken from the research; “Validity and Utility of Alternative Predictors of Job Performance,” Psychological Bulletin, July 1984	

The Chally “Total Quality Sales Management System”

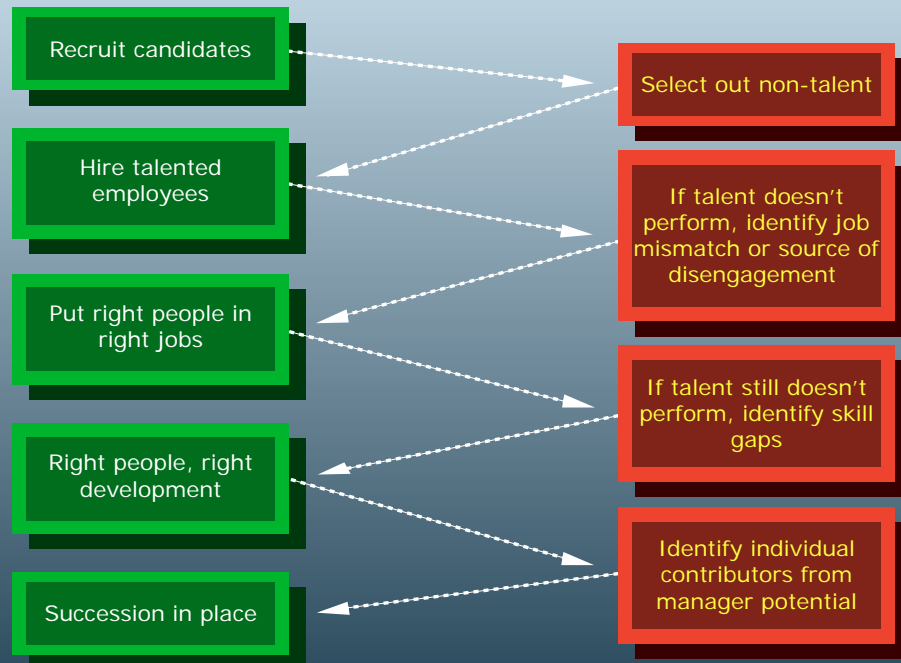


Figure 1

Benefit 2: Reducing Unwanted Turnover

All organizations expect a certain amount of turnover. In small amounts, turnover keeps the organization fresh with new talent and ideas. But when turnover is higher or unwanted, the result quickly turns negative, costing the organization considerable time and money to hire and train new personnel – from only \$75,000-\$90,000 for telesales people, to \$300,000 and more for top positions.

The opportunity associated with turnover intensifies when you consider that nearly two thirds of all above medium income jobs are for sales positions that are specifically compensated for sales results.

Everybody needs good salespeople but there is no resource pool to find them. Statistics tell us that more than two out of every three college graduates, regardless of their majors, will become salespeople. But of the 4,158 colleges in this country, only a dozen have sales programs.

At the same time, the pool of experienced sales pros will begin to evaporate; “70 million Baby Boomers will retire over the next 15 years,” according to *Human Resource Executive* magazine’s Forecast 2006. “During this time, only 40 million workers will enter the workforce, leaving us with a shortage of talent...”

The good news: there is a solid opportunity to improve the average level of salesperson retention and decrease the rate of unwanted turnover, typically by 30%.

Deloitte, a member of Deloitte Touche Tohmatsu, stated in a 2005 article summarizing their U.S. survey of human resource executives: *“More than 70 percent of respondents say incoming workers with inadequate skills pose the greatest threat to business performance.”*

How does your organization go about selecting, developing, and motivating the right personnel for targeted positions? If you are like most companies, you rely on recruiting to competency profiles (based on the “profile” of top performers and creating matching job descriptions). Even if personality tests and similar kinds of selection screening as well as carefully planned interviews were more than a few percent effective, they will produce weaker results if the profiles depend on “competencies” found in most top performers. There are two critical flaws in this “benchmarking approach.”

False Predictors (or non-critical competencies)

1. Requiring skills that can be “covered by other means”

Be sure that there are no superstars who are missing any of the selected competencies. If there are, it is probably

What led us to Chally and why Chally? What we were looking for is a company that could give us precise and quantifiable data, that could take the anecdotal discussion out of the analysis and allow us to assess the strengths and weaknesses of our sales representatives.

We’ve been able to grow our market share by about 4 points. And 4 points is about 20 to 30,000 more units, at \$20,000 revenue per vehicle. So it’s a lot of real money here. It’s also allowed us to improve our retention rate with our customers to about 95, 96%.

Bill Gibson
Director of Fleet and
Commercial Sales
General Motors Corporation

Over the past 3 years, turnover of our Sales Specialist position dropped from over 30% to about 19%.

Cost savings in turnover reduction alone amounts to well over \$2 million a year.

We are very satisfied with the accuracy, because we know through a validation study that it is indeed accurate and predictive.

Martin Wikoff
Vice President, Sales
Force and Leadership
Development
KI

possible to find a “work around” for that skill or competency, making it unnecessary in itself, and worse, the cause of screening out top performers who would have used the work around. A classic example is salespeople who know they hate detail and paperwork, but who make arrangements to have these needs covered in some other way. These both satisfy the job requirement and allow the sales superstars to concentrate on their other great skills.

2. Not identifying the **critical** reasons for failure in poor performers

Second, an analysis of poor performers will typically identify the presence of many of the same skills demonstrated by the top performers. Having these skills clearly doesn’t guarantee success, they are probably helpful but insufficient

in themselves. These may actually just be skills that are common to all people *interested* in sales as a career...but not indicative of success in sales. Through a “validation” process (an actuarial statistical process), it is possible to identify only the critical skills at which top performers routinely excel, but poor performers fail. Basing the selection system on an **accurate** measure of **just** these skills alone can reduce turnover by as much as 30%.

The key to success: identifying fatal failure points as the key to improvement.

Don’t worry about finding superstars, there aren’t enough of them anyway. Instead, concentrate on not hiring, promoting, or training below-average performers with limited potential.

Benefit 3: Motivating Top Performers

Engaged salespeople with the skills to succeed are usually self-motivating, but unwanted turnover (top performers who leave on their own) still occurs. So what is the cause? Many organizations mistakenly believe that employees leave jobs primarily for better wages, benefits, or both. The actual causes are quite different.

Cause A: Poor Job Fit

Reports show that one of the primary causes for top performer turnover is actually poor job fit. Employees become frustrated when they can’t do the job they want to do. Talent audits demonstrate that **as much as 65% of job dissatisfaction which leads to unwanted turnover is a result of these job mismatches.**

A systematic approach is needed to address the causes of poor job fit:

1. Identify **sources and causes of failure** for each position
2. Identify **the key skills** to overcome those failure points
3. **Assess** incumbents against the **skills** that ensure success
4. Continually conduct **exit interviews** to document turnover causes (the talent baseline is established for the organization)

5. Analyze results periodically to determine the commonalities
6. Establish a plan to reduce the defects

Cause B: Incompatibility with Management

The other well-known cause of turnover is incompatibility between subordinates and their managers. As with any organization, the responsibility to correct that error must lie with management itself. Ideally, management would do a statistical analysis to determine which managers are best in which jobs, managing which people. Historically, time and the vast amounts of data needed to perform that analysis have made that process prohibitive for most organizations – until now.

The HR Chally Group in Dayton, Ohio has been dedicated to solving the problems associated with fallible and inaccurate assessments for over 30 years. By researching more than 75,000 managers and executives, as well as 250,000 salespeople in both Fortune 500 as well as midsized and small companies, Chally has developed the industry’s most statistically accurate job skills database.

Through this database, identified skills were used to distinguish top managers in different management jobs from weaker or less-successful managers. Selection assessment scales were then developed to accurately measure the most important skills. Using the

findings, five common and distinct types of successful managers surfaced:

- Line Executives and Managers
 - o For sustaining companies, or
 - o For startup/turnaround companies
- Staff Executives and Managers
- Corporate Profit Center Managers
- Entrepreneurs
- Sales Force Managers and Executives

Following up with the identification of which managers would thrive in which role, companies are able to improve the job match of managers and subordinates, reducing unwanted turnover, or worse – continually underproducing, “less-engaged” employees.

Benefit 4: Putting the Right Salespeople in the Right Sales Job

There has been a great deal written about the pending talent storm and the shortage of appropriate talent.

Through a TQSM approach to systematically capturing, defining, and measuring data, companies are finding that the problems around skills and job performance are more about skilled personnel in the wrong jobs, than a lack of available skills. There is some belief among executives that companies consistently underutilize the talents of their people, leaving a significantly untapped talent reserve.

With the help of a Talent Audit skills database, companies can more accurately identify job performance skills and competencies, much like insurance companies use health and behavior metadata to accurately assess and predict their financial risk. Once the defects – or health risks

in the case of the insurance company – are discovered, an action plan can be put in place to systematically remove the defects.

A Talent Audit database can provide organizations with a complete inventory of strengths and weaknesses for all employees in every key position. In looking at the salesperson job function as an example, the Talent Audit identifies **why job mismatch is so prevalent**. Companies too often have one job description for sales representatives, regardless of the customer need. A Talent Audit uses competency scores that have been developed from research that has identified a full range of unique sales positions and various sales roles according to their unique markets and customer needs. In the simplified example below (see Figure 2), seven sales types are shown in a talent-based audit database.

For each position, statistically-predictive competency scores identify **the critical failure points and the key skills needed to overcome those failures**. For example, “Hunters” (new business development specialists) need skills

Success Probability Scores for Specific Sales Positions

	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 2px; text-align: center;">Strength</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">Caution</div> <div style="border: 1px solid black; padding: 2px; text-align: center;">Weakness</div> </div>						
Name	Account Management	New Business Development	Sales Engineer	Technical Rep	Solutions Rep	Product Line Rep	Sales Management
Robbins	75	32	69	59	51	70	42
Baker	49	26	53	61	48	26	49
Klein	50	44	30	36	43	36	48
Mayer	41	71	45	57	28	61	59
Billman	39	48	58	49	50	42	64
Stevens	57	33	40	29	45	68	39
AVERAGE	52	42	49	49	44	51	50

Figure 2

such as qualifying prospects with standard probes and closing using logical, incremental steps. Meanwhile, “Farmers” (account management and penetration specialists) need to be driven to produce increased sales to existing accounts. The chart below (see Figure 3) shows all of the specific, critical skills for the Account Manager (Farmer) role.

- Identify salespeople most adept at developing new business
- Determine which salespeople have the skills to move into management
- Identify skill gaps that can be remedied with training
- Discover which associates should support key accounts

By putting a talent audit to use, companies have been able to:

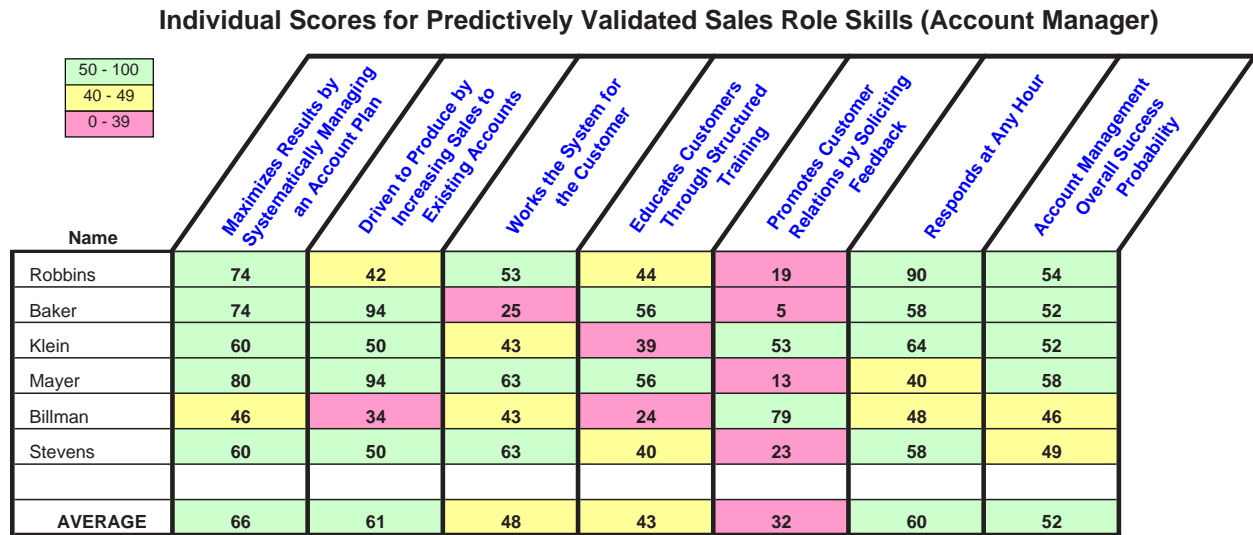


Figure 3

Benefit 5: Maximizing Your Training Investment

Most estimates of effective training suggest that individuals can improve their skills by no more than 20%. This means that people in the wrong positions with skill scores below the 40th percentile cannot be trained to become top performers, only that their “bad” skills can be improved to “not quite as bad.” Clearly, training is too expensive to waste on a poor job match.

Four common challenges must be overcome for training to be effective:

- Maximizing people strengths rather than overcoming several weaknesses

- Training the right personnel for the right jobs
- Training the “most trainable” personnel
- Focusing on the people with the highest potential to improve

In the attempt to address these challenges, companies frequently come to the same conclusion: Training needs to be flexible and tailored to each individual job function.

The use of predictive job skill analytics such as those found in a Talent Audit database can help organizations tailor their training to the individuals that need it most. Corporate Express, for instance, used a Talent Audit system to redesign their sales training to address the gaps in skill for all the most trainable salespeople.

**Solution That Provides the Benefits:
The HR Chally Talent Audit System**

The Chally Talent Audit system utilizes an extensive benchmark database comprising more than 30 years of research across 300,000 candidates and incumbents. Besides 866 assessment data points and measures of performance over time, the research results have led to statistically predictive effectiveness measures for 156 unique work skills. The Talent Audit is EEOC-compliant, enabling highly predictive assessments that dramatically improve talent management accuracy. In typical cases, Chally's clients have realized a 25-30% improvement in selection accuracy over conventional methods, as well as many times the return on their investment.

In an independent evaluation conducted at Wright State University, the Chally system was compared to major independently reported research studies and meta-analyses of other techniques used to predict performance. The Chally tools were found to be substantially more effective and less discriminatory than other selection techniques. In addition, the Chally assessment exceeded the correlations for all the other commonly used tests. The study concluded, **"The scientific literature suggests that no measure predicts as well, or with less adverse impact, as the Chally assessment."**

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<small>¹ Adopted from Carnegie Mellon Software Engineering Institute</small>		

The Six Sigma Framework Applied to Talent Management

Process	Talent Benchmark Metrics		
Define			
Company Standards	Productivity	Unwanted Turnover	Reduce Costs, Increase Profits
Measure			
Accurate Statistics	Competencies	Limitations	Improvable Weaknesses
Analyze			
Errors and Improvements	Best Job Fit	Career Potential	Level of Engagement
Improve			
Repeatable Processes	Selection and Assignment	Career Path	Recognition and Compensation
Control			
Processes and Measures	Accurate Assessment Measure	Development and Training	Succession Planning

METHODOLOGY

The Chally selected methodology was originally developed for the US Justice Department to discover a legally compliant, but predictively accurate, selection system for law enforcement officers. Initial stages of the research explored a wide variety of existing instruments including personality, "style," aptitude, and interest-based surveys. These instruments, in any combination, while descriptively accurate of the individual in the present, were unable to increase accuracy in predicting *future performance* over chance by more than 10-12%.

New instruments were then developed to measure work motivations (based on the research of McClelland and Hertzberg) as well as work habits based on both personality and work attributes. Initial factor analyses were performed on these new instruments as well as the extensive job analysis data and criteria based on behaviorally anchored rating scales, plus documented performance data for over 5,000 civilians and law enforcement officers. The resulting scales were still only able to approximate an improvement in identifying effective competency performance by 14-17%. The Justice Department was unwilling to accept an error rate of 33% in empowering individuals to use lethal weapons.

Finally, actuaries within the insurance industry were consulted. Based on their recommendations, the "scales" were abandoned but new factor analyses were run on the instruments' 288 items that produced 866 data points. Using items that individually correlated with a given measure of effective skill performance produced "new" scales that could achieve predictive accuracy of 11-16+%. More importantly, combinations of the new scales that each best predicted overall job performance for a given position were capable of reaching as high as 72% accuracy.

Over the ensuing three decades, additional research across 320 criterion-based validity studies has identified 156 unique and essentially independent competencies. Each competency has been verified in several independent validity studies so that each has been essentially demonstrated in its own "meta-analysis." Correlations for each average 0.33, or an increase in accuracy over chance of nearly 11%. In "best fitting" combinations, or "Profiles" of the most predictive skills for a given job, predictive accuracy can reach as high as 85%. This level of accuracy, however, can only be accomplished when job analyses allow for specialized versus the more common "generalized" definition of a job. For example, research to date has identified some 14 basic sales and customer-facing positions. While some types of sales roles are similar enough to be interchangeable, many such as "New Business Development" actually require counter opposite skills than "Account Maintenance." Likewise, most successful entrepreneurs would not be as effective in a large corporate "staff" role. The final proof is that scales based on individual item correlations for uniquely identified and "specialized" positions are routinely capable of reducing *measured* unwanted turnover by more than 30% and increasing productivity per individual in excess of 35%.

And all of this can be accomplished through an online assessment that requires no new hardware or software investment and takes a candidate only about an hour to complete.

Solutions to Achieve

Total Quality Sales Management (TQSM)



Typical ROI's:

35% increase in employee productivity

30% reduction in undesirable turnover

85% plus accuracy in identifying high potentials for leadership

Proven selection and talent management tools based on over 30 years of research. EEOC compliant & non-discriminatory. Only Chally offers the power of a single, predictive assessment for talent selection, alignment and development.

TQSM executive brief available at:

www.chally.com/only/sales

