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Retention

How will you break the costly cycle of turnover?

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As the economy improves, the aging baby-boomer population retires, and the sources of new talent become smaller, retention of the best talent in sales organizations will be the difference between success and failure for companies over the next decade.

What are the turnover statistics today?

Based on the Omnibus Survey¹ of over 300 firms conducted by the DePaul University Center for Sales Leadership, turnover is a rapidly increasing drain on the bottom line of firms today.

Prospects for better performance in the future are not rosy.

Average turnover in sales personnel ranges from 12-18% for most sales organizations, but *24% of firms report a turnover rate greater than 20%*, with some specialty areas (such as outbound phone sales) soaring *as high as 100%*.

Involuntary turnover (dismissal and promotion) represent only 28% of total turnover, so it is a fair assumption that the remainder are individuals who are currently performing at an acceptable level but choose to leave their job based on differences between their expectations and the reality of the position.

The rate of turnover is highest with entry-level hires (Chart 1), with 38% of new hires leaving firms in the first year, and 31% in the second year of employment. Turnover of longer-tenured sales performers is especially costly, as they are usually your top producers and can most easily move to

another firm. It is rarely the low producers on your team that competition seeks to attract.

What are the costs of turnover?

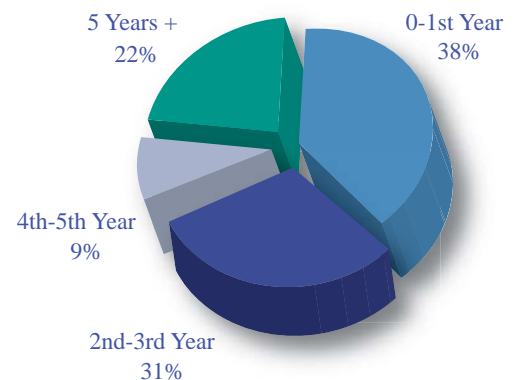
The total costs of turnover can be difficult to quantify, depending on the level of recruiting and training investments, as well as the revenue generation models in different firms.

The *hard costs* of turnover for manufacturing firms in our survey averaged \$67,000 without lost sales impact. Sadly, nearly 1/3 of companies were unable to report any COH (cost of hire), so these levels are very likely understated.

The *soft costs* are not as easily calculated, but will evidence themselves in the significant time spent by management to compensate for lost sales coverage and continuing forays into the job market to identify, recruit, and train replacement talent.

Turnover is like experience. It's what you get when you didn't get what you wanted.

Chart 1
Time from Hire When Turnover Occurs



Technology produces ever larger quantities of candidates, but not necessarily higher quality.

Best estimates indicate that managers spend nearly 50% of their valuable time on recruiting, retention and rehire issues when they should be spending it helping their top performers excel and elevating the performance of the moderate performers in the sales organization. According to a 1998 case study by Wilkening and Company², firms with very high turnover (36%) incurred costs 10% higher than firms with low turnover (3%). What company would not like an additional 10% of sales on their bottom line?

When firms can improve their retention in the first two years of employment (and in subsequent years), the result will be much higher revenue and lower costs.

What's broken and how can we fix it?

A body of work exists which has been confirmed by our Omnibus Survey¹, pointing to causes (Chart 2) which involve the matching of sales employees expectations with reality.

It is rarely about “show me the money”, but about the specific failure to meet employee expectations and understand the personal wants and needs which will engage them in the task.

Much of the current wisdom surrounding the many causes of turnover can be categorized into several broad categories talent sourcing, managing by individual need, and task engagement.

Talent Sourcing

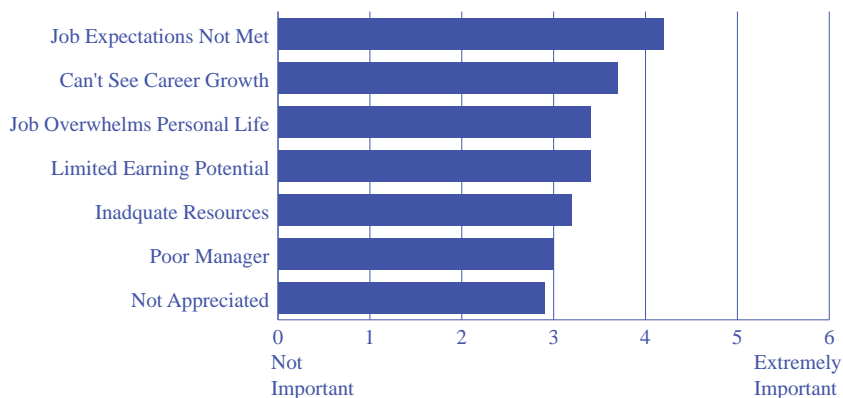
During the last twenty years, intense world-wide competition has been accelerated by technology, and resulting in a long period of cost-cutting, eliminating the infrastructure at many firms needed to support the acquisition of top talent. Technology itself, while making many functions more efficient, has not provided the same benefit for the identification and selection of talent. The use of technology in talent acquisition has delivered ever larger quantities of candidates, but not necessarily higher quality.

As the talent war bears down on all sales-driven organizations, the need to improve the quality of talent sourcing will become critical to the survival of the firm.

Current recruiting methods are not encouraging in terms of raising the talent levels in today's sales organizations.

The survey found that the following exists in sales organizations today:

Chart 2
Causes of Turnover in Sales Organizations



- 42% of hires are referred by friends
- 63% of hires have a college degree
- Only 20% of hires have had a sales course

Prior to the hiring decision, the typical firm invests a mere 3.6 hours in the interview and recruiting process, and the candidate meets only 2-3 people from the firm.

Many firms have actually *outsourced* the talent acquisition to contractors who are clearly unable to convey company culture, job expectations, or new career opportunities in an effective way to new hires.

Effective managers will have to learn how to manage one person at a time.

The prevailing method of selection consists of personal interviews, resumes, and reference checks, which are not strong predictors of future performance.

Conversely, less than 25% of recruiting processes firms utilize objective screening tests, such as quantitative measures of aptitude, intelligence, or personality to aid in the final decision process.

While these solutions sound simplistic, the gaining factor for success for firms will be the willingness to allocate resources within their sales and human resources organization to effectively hire talent who will align with their expectations *before the hire*.

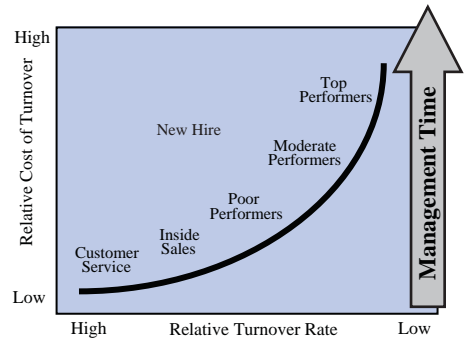
Managing by Individual Need

Even if clear expectations are communicated by the organization before hiring, many firms falter at the alignment of the expectations with individual needs across key groups

Sourcing Solutions:

- Set expectations before hiring
- Recruit early at the college level
- Hire candidates with a sales education
- Identify key individual motivation

Chart 3
Turnover Cost and Rate by Group



- top, moderate, and poor performers as well as three unique groups of sales roles - customer service teams, new hires and inside sales teams.

A hierarchy exists in the relationship between turnover rate, cost of turnover, and the yield on management time, which is graphically illustrated below (Chart 3):

For instance, turnover is relatively low with longer service employees, but very costly and requires a significant amount of management time to fill the void created by a top sales producer.

On the other hand, entry-level sales groups such as customer service, inside sales, and new hires have a relatively lower cost of turnover, but a higher turnover rate. New hires fall somewhere in the middle.

Unsuccessful talent sourcing creates an imbalance of management time, shifting time and energy to lower productivity positions (customer service and inside sales) and lower productivity individuals (poor performers).

The highest yield on sales management time is obtained when their time is focused on helping top producers excel, and raising the level of performance of more moderate performers. However, the real world dictates that today's manager cannot ignore

Less than 1/3 of firms teach new hires important business skills.

sales performance issues in any segment of the team.

Each employee population has a different cause for their “disconnect” between expectations and reality, affected in many ways by demographics and time in position.

Expectations vary by individual based on a wide variety of emotional drivers, while the expectations of sales organizations tend to be more uniform, rigid, and inflexible. The task of the effective manager is to bring these two diverse camps together not by changing either, but by understanding how their needs align to avoid the expectations gap.

Effective sales managers will have to learn how to manage one person at a time which is a more complex and often frustrating task.

Each employee population has very different, (but often congruent) needs which can be met in a wide variety of ways:

Customer service and inside sales turnover is a result of a “Dilbert-like” cubicle work area, noisy environment, isolation, lack of support and key resources, inadequate connection to field sales, rigid work rules which hinder customer response, and unclear career paths.

Best practices organizations counter these key difficulties by providing personal control and more freedom in the tasks, immediate feedback, peer benchmarking, ownership of accounts, and solid connections with field teams in sharing accounts.

Importantly, the best companies identify and manage employees in this group based on how they perceive their career path - as a journey (training for career advancement) or a destination (permanent position fitting their lifestyle), and manage each individual’s needs accordingly.

Based on field experience with many

outbound and inbound selling organizations, utilization of these methods and others can mean the difference between a 10% turnover in one organization and 100% turnover in similar operations.

New hire turnover is a result of recruiting from unqualified talent sources, ineffective use of screening tools, insufficient time in the interview process, and unclear or ill-defined job expectations during the interview and recruiting process.

In the area of training, our Omnibus Survey found that only 43% of firms had a formalized training process in place for new hires, and that average training periods last a mere 45 days.

Most entry level training is dominated by OJT type training, with primary focus on company knowledge, product lines, customers, pricing, and process systems.

Crucial areas such as technology, territory and time management, and CRM are covered by less than 40% of the firms.

In the area of integration, 78% of all firms provided office and information systems training, but less than 60% provided a mentor and feedback program on an ongoing basis to new hires.

When new firms do train new hires, 2/3 of firms enhance their skill sets in communications, key customer focus, and selling processes. Few provide deeper skills necessary for long term success in the profession.

Best practices organizations counter these key difficulties by forming personal relationships with recruiting sources who can provide trained and motivated entry level candidates, while building a “bench” to fill the demand inevitably created by turnover.

As the process unfolds, screening tools help to identify potential “non-fits” to the tasks, and the addition of younger members

Only 51% of firms train their new hires in selling attitude, selling skills, and ethics.

to recruiting teams can help to overcome generational gaps.

The design of on-boarding processes which focus on continuous feedback, frequent coaching and cultural integration occurring on a simultaneous basis helps reduce turnover in the critical first two years. However, this approach demands that current managers receive effective training in coaching skills to produce results.

The key to minimizing new hire turnover is the establishment of a mentoring process, as one of the key reasons for turnover in this group is their perceived lack of support and advice on career paths within the organization.

Poor, Moderate and Top Performer turnover is driven by different disconnects based on the very different expectations of each individual type of employee.

Poor Performer turnover generally results from a mismatch with talents which makes them unable to understand the expectations of the job, and leads to them being overwhelmed by the tasks.

Resignation to the possibility that individuals may not be able to meet the full expectations of their position is not acceptable. Managers must first work with each individual to understand if that individual feels that they can still meet expectations. If so, providing additional training and coaching may improve results.

However, if the first discussion yields a mismatch in the abilities and aspirations of the individual, or poor performance continues, the best course is to terminate the employee.

No amount of additional training and coaching will yield the desired result, and failing to act promptly may affect commitment levels of fellow employees on the team.

Moderate Performer turnover stems

from a lack of engagement in the job, resulting from a conflict between personal goals and key tasks needed to meet the job requirements.

A clear understanding of the motivations of the individual, and working to fill the gaps in their performance by training and coaching will yield better results. In this group particularly, providing continuous learning, added opportunity for diverse and new experiences, and individual attitude formation will improve results and retention.

As one of the primary reasons for turnover in this group is the inability to see a career progression, it is important to build that discussion into each individual plan.

Top Performer turnover will occur when there is a perceived absence of appreciation, when they are excluded from key decisions which affect their customers or income, or sense a management style which does not respect their contribution and value to the organization.

Best practices organizations can overcome such difficulties by insuring that managers provide the necessary involvement, trust and autonomy for their best performers.

Engagement and performance at this level is high by definition, and the management task with top performers is simply to help remove obstacles to their success, and insure that they are involved in the decision making process for the team.

Is it all about the employee?

No.

Significant studies by The Gallup Organization³ and others have shown that decisions to leave a firm are strongly influenced by the employee's experience with their managers, not company policy or position.

Employees today want balance between work and home - yet 28% of employers expect them to be 'connected' outside of normal office hours.

Statistics indicate that 65% of all workers intend to look for a new job in the next year.

Turnover is a failure in leadership to engage the sales person in the task. Not surprisingly, the worst managers have the worst turnover.

What is surprising however, is the failure of senior leadership to recognize the manager as the possible cause of the problem. An astounding 80% of new or replacement hires are made or approved by the bottom 40% of managers. After all, it is they who created the vacancies and must approve the replacements.

It is the clear obligation of top and middle management to make the identification and development of talent a top company priority to insure the economic survival of their firms.

By setting clear objectives for employees, delegating the achievement of objectives to line sales professionals, and providing fair measurement and compensation systems, the benefits of lower turnover will produce a significant competitive edge to those companies willing to make the investment.

Simple, but not easy.

Endnotes:

1. Hoffmeister, David C. (2005-2006) Omnibus Survey - Survey of Sales Organization Practices *DePaul University Center for Sales Leadership* (2006). *All statistical data quoted in this article are derived from the results of this survey, unless otherwise noted as derived from another source.*
2. Wilkening, Robert J. (1998) Sales Force Turnover: The Hidden Cost of Selling *Wilkening and Company White Paper on Sales Force Productivity*
3. Buckingham, Marcus & Coffman, Curt (1999) First, Break All The Rules *Simon and Schuster*



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