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B2B sales force productivity: applications of revenue management strategies to sales management

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Abstract

Firms should be able to apply the time-based philosophy of revenue management to their sales forces. To do so requires a revision in the way most sales divisions traditionally have viewed salesperson time. Hence, a different type of proposed measure, revenue per available salesperson hour, is proposed to better integrate the value of the salesperson's time as a factor in sales potential and revenue calculation. This article seeks to (1) foster a positive perception of revenue management as a viable sales approach, (2) establish a framework for such a strategy, and (3) set a useful road map for facilitating execution.

Keywords: Sales force productivity; Revenue management; Yield management; Sales management; Sales efficiency

1. Introduction

Revenue management is the application of information systems and pricing strategies to allocate the right capacity to the right customer at the right place at the right time [1]. Increasingly, revenue management is being adopted across a broad spectrum of industries. For example, not only is revenue management routinely used in airlines and hotels, but it is currently being adopted by restaurants, golf courses, and utility companies, and is being given serious consideration by at least one world-renowned hospital based in the United States [2–6]. The goal of revenue management is to ensure the firm generates the highest possible profits given current customer demand and price sensitivities.

Likewise, sales and marketing managers have similar corporate objectives. Yet, as evidenced by comments of industry representatives attending a recent sales consortium, a major concern of business-to-business (B2B) sales managers is their inability to accurately measure the efficiency and regulate the productivity of their sales force to effectively service diverse customer groups. Despite the numerous measures for governing salesperson performance that have been discussed in the literature for decades [7–11], none have gained sales managers' complete confidence that the bottom-line efficiency and profitability of the sales force is being assessed.

Perhaps other types of measures can better seize the imagination and bolster the assurance of sales managers charged with the task of evaluating the performance of the sales force. The most promising developments that capture both dimensions of sales performance and provide guidance on assessing and improving sales performance appear to be innovative applications of revenue management[3] techniques. There is little evidence that revenue management has been applied to the sales function, but given the revenue management revolution appearing in many industries, the utilization of revenue management strategies for the sales force cannot be far behind. As will be discussed in greater detail later, the sales force represents a perishable specific

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[3] In this study, *revenue management* is synonymous with another often-used term—*yield management*.

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human asset, which impacts customer relations through the value of services provided [12], and therefore, the efficiency and profitability of day-to-day operations [13]. Given these elements, a revenue management framework can be used to measure sales force efficiency, increase the profitability and productivity of the sales force, and assist firms in better servicing diverse B2B customer groups through integrative transactional and consultative selling models.

Research in revenue management has previously addressed the theoretical and practical operational problems (i.e., pricing and controlling revenue-producing assets) facing airlines, restaurants, and hotels, among other industries [14,15], but has given little consideration to the operational problems confronting the B2B sales forces. The sales function is similar enough to hotel, restaurants, and airline operations in that sales managers should be able to apply revenue-management principles to the services-laden value the sales force provides. By way of example, an occupied hotel room yields customer value by providing a night's rest, an occupied restaurant seat imparts value by securing a meal for the customer, an occupied airline seat results in customer value by providing transportation from one location to another, and occupied salespeople supply customer value through unique problem-solving skills and services. Viewed through the lens of revenue management, then, the firm's sales force represents a revenue-producing asset, operating within the limits of a constrained time frame that imparts value to customers via information, service behaviors, and consultative advice.

A broader conceptualization and application of revenue management that would permit certain businesses with sales forces to increase revenue and profitability without alienating the customer can be adopted. First, revenue management provides an innovative way to measure sales performance, thus, answering the call from industry to develop metrics that measure "'marketing performance' in new and creative ways" [16]. Second, revenue management furnishes a baseline for gauging the specific asset value of a salesperson's time. Last, revenue management offers direction to increase the success of the firm by better understanding the costs and benefits the sales force encounters when servicing customers. However, limitations to the use of revenue management also exist. The premise of revenue management applications to the sales force is predicated on a belief that sales representatives do provide cost-laden services and knowledge that are of *value* to the customer especially in a business environment. If sales managers or customers fail to perceive the value of the sales force, the use of revenue management tactics for assessing sales force productivity is inappropriate.

The objective of this paper is to develop a framework illustrating how revenue management could be used to improve the effectiveness of allocating sales force time in B2B settings. Specifically, the paper serves as a directive to sales managers to consider issues important to customers while ensuring that the sales force routinely targets the most profitable customers. In this paper, current methods of sales force evaluation are briefly reviewed followed by a discussion of revenue management. The necessary conditions and strategic levers needed for heightening the effectiveness of a revenue management approach, the tactics for utilizing sales revenue management, and potential outcomes of this sales force metric are then discussed. Each of these components is delineated in a framework that unifies the tactical tools for the application of revenue management as applied to the sales force (see Fig. 1). Further, the benefits and, where applicable, the limitations of adopting sales force revenue management strategies are presented. Finally, conclusions and managerial implications are provided.

2. Overview of methods of B2B sales force evaluation

Many B2B sales forces are currently governed by various ad hoc revenue management-related practices, but the application has so far been mostly tactical with little direction for an overall strategic framework. Quotas, sales volume, gross margin, calls per day, order–call ratio, and expense ratios are common quantitative methods used to determine whether the sales force is meeting performance standards. Customer satisfaction scores, product knowledge, attitude, selling skills, appearance, initiative, and knowledge of the competition are among the more popular qualitative methods used in evaluating B2B sales performance [17,18].

Moreover, academicians have developed a number of sales models to determine allocation of selling efforts. While the pioneers in this stream of research are to be commended, the models yielded are frequently too complex for general

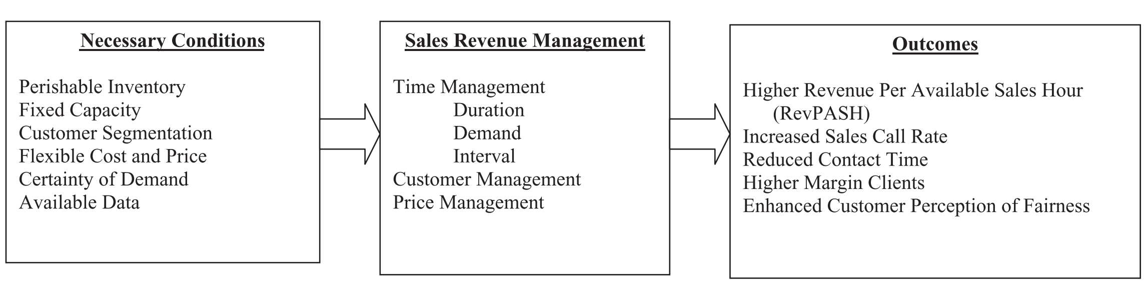

Fig. 1. Framework for sales revenue management.