Development and Analysis of a Sales-Based Leading Indicator for Economic Developments

By *Christian Schmitz*, *Janina-Vanessa Schneider*, *Jan Helge Guba*, *Michael Ahlers,* and *Jan Wieseke*

The aim of this paper is the development of a sales-based leading indicator for the German economy on the basis of sales-based assessments and empirical validation using a sample of 3,584 sales executives of German companies over a period of 15 quarters (2017–2020; on average 239 respondents per point of time). While the sales function and its proximity to (potential) customers and other market actors is often regarded as the central company-internal source of information for the development of future revenues, it has surprisingly been overlooked in the context of economic barometers to date.

The early forecast of macroeconomic developments is not only central to the field of economics but is also a key factor of success for operational as well as strategic decisions on a company level, e.g., in strategic marketing decision making. As official statistics concerning macroeconomic changes are often only made available with delay, economic barometers can be used for an early forecast of macroeconomic developments. Economic barometers are known as macroeconomic leading indicators because their data is regularly available before the release of official statistics. Currently, the most regarded economic barometers in Germany survey general management (ifo-index) and purchasing managers (purchasing manager-index), asking them to report on the current state of their business as well as their projections on future business developments. The perspective of the sales function therefore, is widely neglected.

This paper (1) deduces on a theoretical basis, why the sales function can be used as a key informant in the context of leading indicators using the concept of the sales funnel as the central mechanism for our argumentation. Furthermore, it (2) explores the relationship between sales-based assessments and macroeconomic developments and is tested against the existing leading indicator „ifo-index". Finally, (3) in a descriptive analysis, the paper provides first insights into the circumstances under which the forecast of the sales-based leading indicator is more accurate.

The results of the study show that the sales-based leading indicator allows a timely forecast of the official GDP time series. Moreover, while the ifo-index shows a stronger correlation with the GDP under synchronism of the time series, the sales-based leading indicator shows a more accurate forecast of the GDP (lead between one and two quarters) when compared to the ifo-index.

This paper contributes to existing research streams in the field of sales management and macroeconomic leading indicators in at least three ways. First, it presents an alternative perspective for the development of a macroeconomic leading indicator. In addition to utilizing the established perspectives of general managers and purchasing managers, sales executives are investigated as key informants in the area of survey-based leading indicators. Second, the paper adds to existing research in the area of the sales funnel. Despite the prominent usage of the sales funnel in business practice, this concept is scarcely considered in scientific literature. Third, our study contributes to

the investigation of the effects of sales decisions on a management level, e.g., for strategic marketing decision making. To the best of our knowledge, scientific papers concerning this area are still rare.

Moreover, the findings of the present study provide essential insights for practice. The paper shows that sales executives are key informants and as such, are valuable additions to existing leading indicators. Moreover, the quarterly results can be used as benchmarks for sales funnel performance on the company-level as they allow for cross-company comparisons.