Sales incentives that boost growth

Not all sales compensation is the same. Structuring incentives using these four building blocks, can improve the bottom line.

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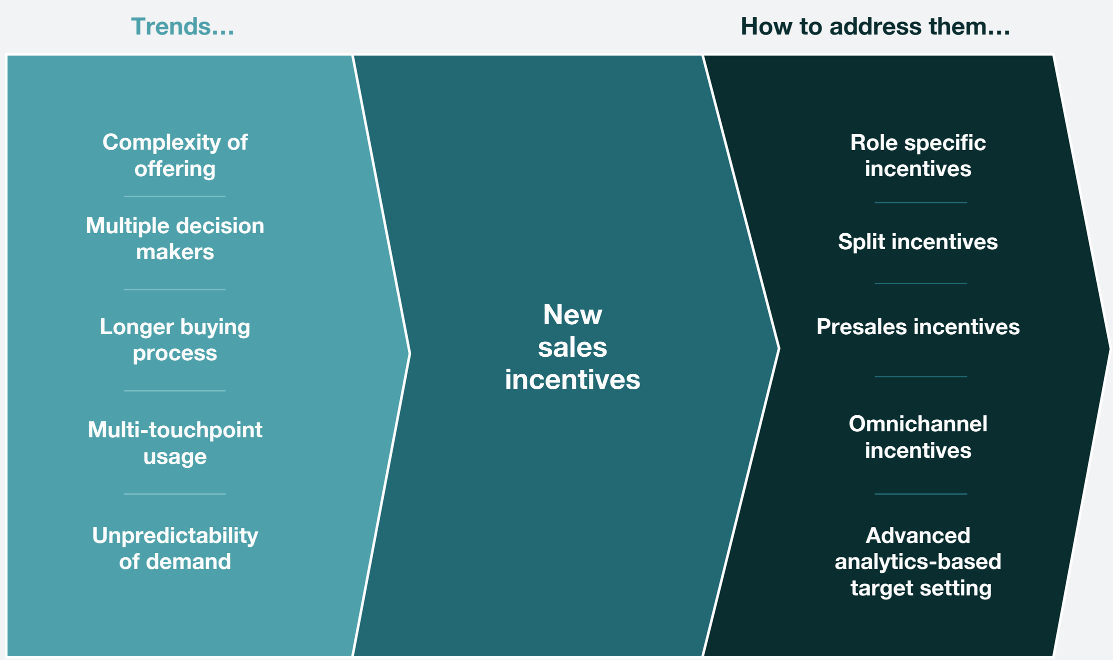
Sales calls aren't what they used to be. For starters, salespeople are interacting with customers who are armed with heaps of prior research, thanks to the availability of digital and in-person channels. Today's salespeople are also encountering greater numbers of people they need to influence at customer organizations and are being asked to sell new types of complex, digital products. As a result, the average buying cycle is longer, making it harder to forecast customer demand and use it to set goals.

To achieve growth in this changing and challenging selling environment, many companies have made important changes, like the creation of new digital channels, the addition of specialized roles, and the adoption of team-based selling. There is another crucial shift, however, that tends to be overlooked. Fully addressing today's complexities necessitates the development of new, thoughtful compensation models that provide clear motivation for how a salesforce can continue to sell effectively. Salespeople shouldn't be told what to do; they should feel persuaded toward behaviors that will support a company's go-to-market strategy. Adjusting the mix of commissions, quotas, salaries, and bonuses for the salesforce can be a driver of growth. Smart revisions of compensation models have been found to have a 50 percent higher impact on sales than changes in advertising investments.[1]

Our experience from multiple engagements and a series of interviews with sales executives shows that the following building blocks are needed to revamp sales compensation models and help sales organizations address today's most pressing trends in an effective and efficient way (Exhibit 1).

Exhibit 1

Trends in selling environment and sales incentive scheme response



Building blocks of new sales-incentive schemes

1. Role-specific incentives

In the digital age, the notion of a "product" has dramatically shifted. It is less likely to be a physical object and far more likely to be a service that entails an ongoing relationship with the customer beyond the closing of a deal. And whether this service is cloud-based software, functionality through a mobile app, or a suite of rental equipment for the agricultural industry, additional expertise is often needed to assist frontline sales reps in the sales process. Many companies, for instance, will want specialist sellers who can help with complex sales as well as solution architects who can provide technical know-how for digital or otherwise intricate products. Other roles to consider are customer-care experts who give attentive aftersales support to customers, and advisory salespeople who have deep knowledge of an industry and can provide presale guidance to customers on what types of solutions to buy.

Once a company has determined which roles are most useful for addressing its customers' needs, it should identify the desired goals and behaviors for each role and motivate employees through varying models of compensation. Since frontline sales reps and specialist sellers are responsible for acquiring or retaining customers and thus have the highest impact on revenue, they will continue to be rewarded with a classic incentive system (quota or commission) when they meet sales or revenue targets. For roles less directly linked to revenue, such as solution architects, customer care, and advisory sales, compensation should be geared toward avoiding competition with frontline sales and incentivizing these members of the salesforce to provide as much support to sales reps and/or the customer as possible. Such compensation could be a salary plus a bonus plan that's based on overall team performance and/or feedback from frontline sales on how helpful someone has been in the sales process.

For example, at a global financial-services company, only the three roles that spend a majority of their time on sales activities (in this case, frontline sales reps, hunters, and specialist sales) are eligible for the individual quota-based compensation plan. The product specialists and solution architects who provide technical know-how during a sales pursuit are compensated through a standard bonus plan that is based on overall team performance and input from the frontline sales team they support.

2. Split incentives

With more salespeople involved in any given deal, it is critical that everyone works together in the most efficient and conflict-free way. This starts with sales managers configuring clear rules of engagement that spell out what roles will team up on which deals, how teaming will be orchestrated, and how each person will be credited for his or her work. There should also be a governance process for assessing team-member contributions and arbitrating potential disputes over crediting.

Two sales reps from different geographies, for instance, can be encouraged to work together on the same account by giving "double rewards" to each rep. This means counting the revenue from a sale equally toward the quotas of each rep without differentiating each one's contribution to the sales process. Such an arrangement promotes short-term, cross-regional, and cross-functional collaboration. However, as such double payments aren't economically optimal in the long run—you're compensating sales staff as if it had gained twice the revenues it actually has—a more permanent alternative is to split the generated revenue (and hence the sales incentives) equally or in some predefined proportion among sales reps involved in the sale.

For example, a global chemicals company, which has sales staff in two different regions working on the same deal, splits revenue allocation according to the workload of each member of the sales team so that their efforts are commensurate with their rewards. To assess workloads and arbitrate occasional disputes over reward allocations, the company has set up a strong governance mechanism that's overseen by the HR department.

3. Presales incentives

Faced with the relative novelty and complexity of today's products, customers are investing more time in evaluating alternatives before locking in their best option, resulting in extended, sometimes one-year-plus sales cycles. To help the salesforce stay motivated over such long periods of time, a staged compensation approach that encourages both short-term and long-term focus is needed. One way to do this is to reward interim progress on long deals by allowing reps to collect commissions before the close of the sale and based on their progress in the sales funnel. At the same time, patience and continued effort can be encouraged by offering a disproportionately large payoff at the final closing of the deal.

Another solution is to give salespeople a balanced portfolio of deals with both long and short sales cycles, so that certain accounts will provide near-term rewards. There may also be a benefit to having separate teams of hunters dedicated only to going after long-sales-cycle pursuits. These salespeople could have a high enough base pay so as not to depend on commissions, but still be awarded with a healthy payoff when a deal actually closes.

A med-tech company uses two curves in its compensation plan. One focuses on long-term sales by incentivizing reps to go beyond their quota. The second, a stair-step curve, provides incentives for achieving very specific and measurable milestones along the funnel, such as getting a verbal agreement or written contract from a customer.

4. Omnichannel incentives

Customers are seeking flexibility in how they engage with suppliers and thus are using both human and digital channels. This means that sales reps and/or channel partners/dealers are sometimes left out of the process, especially during the actual purchase. Leading companies are working to address this by finding ways to make online or mobile sales an asset for salespeople or channel partners and not a threat. One approach is to reward reps or channel partners for their involvement in online sales and to give credit to them for doing what digital tools cannot: being consultative and persuasive in the early stages of the buying process.

A cloud-based software company asks customers who buy online how they found out about the product or the company. If they mention a sales rep, he or she is given credit toward sales targets. Companies could also link purchases (whether online or traditional) to customers' prior digital interactions, such as their attendance at a sales-run webinar, and then give credit to the staff that led the event.

5. Advanced-analytics-based target setting

With sales reps absent from parts of the sales process and buying times extended, it is increasingly difficult for companies to forecast customer demand and use it to establish goals and quotas for the salesforce (and thus drive business performance). Tackling this challenge requires analytics and big data. These tools can add an unprecedented level of accuracy and granularity to customer demand, sales projections, and salesforce quotas, which can then allow for the development of fairer goals and a more motivated salesforce. Instead of assuming that a sales organization will meet last year's goal plus 10 percent, companies can use predictive algorithms that leverage a variety of internal and external data sets to come up with best estimates of customer demand. By making these algorithms responsive to how accurate such predictions turn out to be, the system can learn to become more accurate over time.

A global shipping company, for example, used machine learning to leverage currency and global import-export data and ended up improving its forecast accuracy by more than 15 percent. A pharma company operating in a volatile market took a different tack with its advanced use of data, employing it to compensate reps on the quality of their actions as opposed to the resulting dollar value of their sales. The company developed granular insights on what drives a rep's performance (for example, using a certain type of demo resulted in more sales), and then gave recommendations for selling actions. Reps were compensated on their ability to comply with the recommended actions.

Planning for success

When redesigning the sales-incentive scheme, there is no precise answer to how many or which building blocks a company should adopt. The key is to strike the right balance between a complex design that encompasses all of the building blocks mentioned above and a plan focused on a few elements that are easily understood by the salesforce (Exhibit 2). The decision should always be based on a company's overall sales strategy and should support key goals in its go-to-market model.

Whichever approach a company adopts, one change is non-negotiable for every sales organization: the cultural embrace of data to inform key decisions about sales compensation and beyond and to manage

Exhibit 2 **Design options for sales incentive scheme building blocks**

	Traditional	Innovative
Role specific incentives	Only one sales incentive scheme	Role differentiating sales incentive
Split incentives	100% crediting for only one sales rep	Incentives split based on effort
Presales incentives	KPIs, targets and payouts referring to deal closure only	Cycle-stage specific KPIs, targets and payouts
Omnichannel incentives	Only direct sales incentivized	Omnichannel sales incentivized
Advanced analytics-based target setting	Basic business intelligence used for target	Advanced analytics used for target setting

the salesforce. In today's environment, companies should be collecting data on every aspect of the selling process—the pipeline of new deals, the sales staff involved in particular deals, the accuracy of last quarter's forecasts, and more—then funneling it into a single unified source of information about customers and sales transactions that is trusted by both sales and nonsales teams. Without this, innovative sales compensation models won't have the fact-based clarity they need to succeed. Technology that enables transparency and real-time management of sales performance is also essential. Rep planning software, for instance, can help design and administer nuanced, role-specific compensation models. It provides an accurate view of deal economics and flows, offers granular insights into rep activity, and powers advanced analytics to do dynamic deal scoring.

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In the coming years, the pace of market disruptions and the creation of new products with entirely different business models are only going to intensify. To continue to drive growth, companies will have to adjust how they sell and find ways to keep their salesforce enthused and motivated amid these challenges. The most effective way to do this is through an innovative, differentiated, and data-based approach to compensation. ■

[1] Chung, D.J., Steenburgh, T., and Sudhir, K. "Do bonuses enhance sales productivity? A dynamic structural analysis of bonus-based compensation plans," *Marketing Science 33(2)* pp.165-87, 2014. Albers S Mantrala, M.K., and Sridhar, S., "Personal selling elasticities: A meta-analysis," *Journal of Marketing Research 47(5)*, pp. 840-53, 2010. Assmus, G., Farley, J.U., and Lehmann, D.R., "How advertising affects sales: Meta-analysis of econometric results," *Journal of Marketing Research 21(1)*, pp. 65-74, 1984.

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