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Team selling: getting incentive compensation right

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The incentive compensation plan is one of the most important factors in determining the success of team-based selling initiatives. Executives pursuing team-based sales strategies must ensure that their compensation plan motivates effective collaboration and resource allocation while recognizing individual contributions and managing cost of sales. They must also address the other critical drivers of team-selling effectiveness with which the plan is interdependent. Even the best team compensation plan will be successful only when sales force structure, sales process and sales force deployment are well-designed and work in concert with the plan.

In this article we share current insights on challenges and key success factors for designing team-based incentive compensation plans. We also provide an overview of the sales model drivers and interdependencies management must consider when designing and assessing plans. The article is derived from ZS Associates Inc.'s experience developing more than 700 sales force compensation plans in the past decade and conducting more than 300 sales force design studies each year.

THE INCENTIVE COMPENSATION PLAN IS ONE OF THE MOST IMPORTANT FACTORS IN DETERMINING THE SUCCESS OF TEAM-BASED SELLING INITIATIVES.

It's not just the compensation plan

Developing and implementing compensation plans that cost-effectively motivate team selling is a priority for many of today's sales and human resources executives. Team-based sales models have become increasingly prevalent as sales organizations have moved from individual product sales to broader solution selling and cross-selling. These sales models can enable coordinated strategy and contact, increased cross-selling and broader customer solutions. In the right situations team-based sales models provide the role specialization and cross-line-of-business coordination required for maximum sales effectiveness and profitable growth. On the other hand, when poorly designed or implemented, these models can result in dramatically inflated cost of sales, destructive conflict between team members, weakened accountability for results and high levels of customer confusion. In essence, while team selling can create unprecedented value for the buyer and seller, team selling can just as easily destroy it.

An effective incentive compensation plan is essential to successful team selling. However, many executives are over-reliant on their compensation plans to achieve team-selling objectives. They assume if they get the plan right, everything else will automatically fall into place. And when their team selling fails to work, many of these same executives quickly point to the plan as the primary source of the problem.

While incentive compensation matters, cost-effective team-based selling can be achieved only with the right combination of several other factors, including sales force structure, sales processes and resource deployment strategies. Since every one of these factors has a unique role in driving successful team selling, they must all be leveraged appropriately and work in tandem. The true power of team-oriented sales models derives from multiple specialists carefully collaborating to maximize value and profitable sales in the right accounts, at the right time and with the right resources. The figure on Page 34 summarizes four critical conditions for successful team selling.

The *sales force structure* forms the foundation for effective team selling. Leadership's challenge is determining how best to specialize different sales roles around specific activities, products, customer types and geographies. The most effective team structures break down these roles into a set of tasks at which a single person can excel while simultaneously aligning with customer-buying preferences, enabling coordination efficiency and ensuring clear responsibilities and accountabilities.

In too many cases, executives falsely assume that effective compensation will override any inherent ambiguities or weaknesses in structure. In other words, executives expect that shared objectives and rewards will result in team members either "finding a way to work well together" or "working it out among themselves." Unfortunately, when roles are unclear or poorly conceived, the compensation plan typically cannot make up for the dysfunction created in the team. Tension regarding what is the right customer solution, who has decision authority and who should be involved in a given opportunity often leads to poor outcomes for the customer, company and individual team members.

Team structure is also a more powerful lever than sales compensation for controlling sales effort allocation and focus. Creating roles that have a specific set of responsibilities ensures that individuals clearly understand and own the accountability for their part in the sales process. Conversely, while compensation plans can be weighted to influence the degree of attention one pays to a given task, salespeople will ultimately spend their time in a way that helps maximize their individual earnings. When effort allocation control is left to the plan alone, salesperson decisions often do not align with the company's objectives.

As an example of how structure is being used to enable effective team selling, many companies have created an account manager role responsible for overall relationship and opportunity identification—and supported by product specialists who then own the opportunity throughout the remainder of the sales process. The objective of this structure is to guarantee there is an individual on the team, the account manager, who is focused on identifying and coordinating cross-selling and solution opportunities in addition to individual product opportunities within important accounts. In some cases structures such as this also help ensure that the sales force pursues more difficult, large-scale solution opportunities besides chasing easier, faster transactional sales.

An effectively designed and operationalized sales process takes the roles conceived in structure down to the execution level. Processes define and sequence the critical activities the sales force must accomplish for consistent success. Process metrics say with certainty where a customer is in the buying process so all team members can be on the same page. The process also specifies the salespeople involved in each activity and defines the nature of their involvement. Not having a clear process that team members understand and adopt often results in conflicting, counterproductive actions from members. Imagine a football team that does not outline the role of every player or spell out individual actions for plays. The resulting disorganization would be similar to that experienced by some sales teams that lack a well-defined sales process.

The *deployment strategy* dictates where and how sales resources will be allocated to geographies, accounts and opportunities. Deployment is a powerful driver of sales force return on investment. An optimized deployment strategy will allocate the right level and type of sales resources to the right opportunities at the right time. In team-selling situations, the deployment strategy can be leveraged to significantly improve team coordination and shared accountability. Executives can set up multiple strategies to maximize team-selling effectiveness. One strategy is to dedicate a set of sales representatives to an account or a small number of accounts. This can be a viable strategy, however, only when both the value of the account and associated workload justify this dedicated resource.

Another deployment strategy is to "mirror" territories of reps who then work together as a team. Mirroring creates a group of accounts or a geography that a small number of salespeople in different roles jointly own. For instance, this could mean one-to-one territory alignments between two reps or three-to-one

Critical conditions for team selling and primary drivers

Critical conditions	Primary drivers	Consequences when insufficient
Clear and effective roles, responsibilities, accountabilities and authorities	• Structure • Sales process	• Unrealistic expectations of certain roles, role confusion, destructive team conflict
Efficient coordination requirements	• Structure • Sales process • Deployment	• Too many coordination requirements, high complexity, lost sales efficiency
Ability to optimize sales resource allocation	• Structure • Deployment • Incentives	• Poor market coverage, too many or few resources allocated against critical opportunities
Motivation to collaborate	• Incentives	• Individual rejection of the strategy, internal team conflict, customer frustration

alignments in which three salespeople with identical roles are aligned with the territory of a fourth salesperson who has a distinct role. Mirroring can increase team efficiency and effectiveness by reducing the number of people with whom a given salesperson must develop relationships and coordinate.

Dedicated account team and mirroring strategies also can foster a more effective compensation strategy. Incentive compensation is most powerful when tied to performance measures that can be strongly felt at the individual level. An incentive plan that pays out upon achieving a dedicated or mirrored account team's performance goal, for example, has far greater motivational impact than a plan that pays out against an entire district's or region's performance. In the first instance the team can strongly affect the outcome, while in the second much of the outcome is beyond the team's control.

When companies can neither assign dedicated teams nor mirror territories, things become more complicated. Ensuring that incentives are tied to measures that a given set of salespeople actually drive is difficult when team members share only some accounts or geographies and any given salesperson is a member of many different teams. Some organizations have attempted to overcome this complication by creating account-level goals and paying the set of salespeople who collectively own that account based on its performance. Compensation plan administration can be difficult in this situation. This approach also is fraught with the danger that certain team members will disengage from accounts and teams that don't represent the majority of the members' personal earning opportunities. This is true even when those accounts are important to the company and its earning goals.

Commission-based plans are another option frequently employed when dedicated teams or mirroring are not feasible. These plans can work well when there are a small number of salespeople involved in a deal and their relative contributions are easy to define. However, when these conditions do not exist, the plans can lead to team members "piling on" to deals and arguing about respective shares of the winnings. This results in diminished sales effectiveness and efficiency. Furthermore, as with account-level goals, when there are many accounts and deals, commission-based plans can be highly complicated to administer.

The role of compensation

Sales force structure, sales process and deployment decisions have a dramatic impact on team-selling success. These determinations must be made before designing the compensation plan. Only in this way can the plan be made to align with each individual's role and provide adequate motivation for the behaviors, activities and effort allocations defined by the sales strategy. Once the optimal sales model has been determined, the development of an effective plan is essential to effective team selling.

Sales force incentives play a big role in reinforcing what is important, setting a clear target for achievement and continuously providing both motivation and rewards for high levels of effort, desired behaviors and outcomes. Like most of us, salespeople will focus on the activities that maximize their rewards. Team compensation plans are headed in the right direction if they create win-win scenarios for all team members, ensure the best solutions for the customer and motivate the focus and behaviors sought by the supplier. Conversely, compensation plans that put a salesperson's interests at odds with those of his team members, the customer or the supplier are destined to underperform. Similarly, a plan that is hard to understand, that is not focused on measures the sales team affects and that does not provide an adequate effort-versus-return ratio will also fail to achieve the supplier's objectives.

An effective team-based compensation plan takes into account both the behavioral and financial implications of alternative compensation approaches. Designing a team-based incentive plan also comes with other challenges. To begin with, the very nature of team selling makes measuring and rewarding individual contributions difficult. Different team roles may warrant significantly different pay levels. The incentive plan needs to maintain cost-of-sales requirements. It must represent the concerns of different lines of business and make certain that sales activities and solutions guard the interest of both the supplier and customer. Additional challenges heightened during compensation plan design for teams include the following:

- Freeloader concern: Team incentives can sometimes allow one or more members to unfairly ride on the backs of teammates and receive incentives without making necessary contributions to the team's success. There also is a risk that the lack of output by one member will hurt the team's overall performance and earned incentives.
- Local/global conflict: The objectives of business lines, product teams and geographic business units are often not aligned with one another. Varying priorities can create destructive conflict for team members as they attempt to balance different constituents' interests with their own.
- Import/export disparity: When one sales role has substantially more opportunity to assist another, there can be an imbalance in the mutual benefit of the relationship. Likewise, when the average deal size of one role's products is significantly larger, you run the risk that the smaller deal's products will not receive necessary attention from the team.
- Earning disparities: Individual pay levels, including incentive pay, are usually established by comparing each role to the market and providing competitive pay for that role. This can result in very different incentive payouts for roles within the same team.

Case study: developing an effective compensation plan

Developing effective compensation plans in complex team environments is a challenge faced by many sales leaders. This case study demonstrates how one organization successfully countered this challenge.

An information technology company wanted to change its incentives structure to improve alignment with and coordination between the strategic account managers who owned their key client relationships and the many product specialists who drove product- and solution-oriented sales opportunities within these accounts. In the early stages of the initiative, the leadership team determined six primary objectives for its sales incentive plan:

1. Encourage the sharing and teamwork required for solutions that crossed business lines.
2. Make all team members accountable for achieving their own product goals.
3. Drive maximum price. (Every salesperson had the ability to negotiate price.)
4. Sell strategically important products—even if they were harder to sell and had longer sales cycles.
5. Reduce the motivation for salespeople to attach themselves to deals where they were not significant contributors.
6. Keep the plan simple.

Since many of these objectives had the potential to be at odds with one another, the next step was to identify the most feasible plan design options that satisfied as many of the objectives as possible (all being the ideal) and assess the risks and downsides of each option. The company outlined more than 20 plan designs that achieved most of the design objectives in good measure. After rigorous analysis, the plan selected was the following:

Role	Metric 1 (Individual)	Metric 2 (Team)
Strategic account manager	Account-level Total profit *50% weight*	Account-level Total revenue *50% weight*
Product specialist	Account-level Product-specific profit *70% weight*	Account-level Total revenue *30% weight*

The company chose account-level profit by assigned area of responsibility as the primary individual metric for both roles. For SAMs this meant total account profit, and for product specialists this meant profit for their specific product set. The leadership team chose profit as the metric since all salespeople had pricing power. Profit also satisfied the objective to focus on strategically important products, which had significantly higher margins than most other products. The weight on the profit component was higher for product specialists than SAMs (70 percent versus 50 percent) because this was product specialists' primary area of influence.

The team component was total account revenue—an identical metric for both the SAM and product specialist. The existence of a team metric reflected that all team members affected overall team sales. However, the reduced weight for product specialists (30 percent versus 50 percent) reflected their lower influence on the overall team total. The company decided to use revenue to reflect the fact that product specialists did not control price outside of their product set.

In determining the optimal plan, careful consideration was given to the ways in which structure, sales process and deployment would contribute to the teaming objectives. This allowed the compensation planning team to focus on the compensation options that would best align with and complement the sales model. What follows is a summary of how the final plan design supported each objective:

Design objective	Possible design implications	Final plan design feature
Encourage sharing for solutions that cross business lines.	Team component Lead generation bonus	The team revenue metric was simplest and allowed a single metric across all team members.
Make team members accountable for achieving their own product goals.	Individual product component	All roles had an individual profit metric based on their level of responsibility. For product specialists this was their primary metric at 70 percent weight. For SAMs the weight was 50 percent.
Drive maximum price.	Price realization component Profit component	The individual component was gross profit dollars vs. the goal, meaning that all price reductions would impact payouts.
Sell strategically important products.	Separate components for strategic and "core" products	Analysis showed that strategically important products had higher margins than core products. Paying on profit achieved this objective.
Reduce the motivation for salespeople to attach themselves to deals they were not truly supporting.	Altering the sales credit policy	Nothing was done. It was determined that the appropriate way to address this issue was through better defining both the sales process and deal-specific participants.
Keep the plan simple.	Limited number of components Simple mechanics	All plans were limited to two components with different weights based on specific roles. The team metric was the same for all roles.

In some cases these compensation level differences can strain member relationships.

- Stacking: Many constituents may try to claim a piece of the pie when payouts are determined on a per-deal basis. This can cause either a high cost of sale or the sharing of a fixed payout with people who did not contribute much to the deal. It might also encourage individuals to spend more time looking for deals to become attached to and less time driving new sales. (One company termed this "Siebel surfing" in reference to reps searching their customer relationship management system for such opportunities.) In a variation on this practice, salespeople may conspire to attach each other to their deals so the other can receive a complimentary payout.
- Complexity: Compensation plans that encompass multiple products and business lines can become complex since it is difficult to ensure that all stakeholders are – and believe they are – supported well by the plan. It is equally important to make the plan simple to understand. When the sales force is not clear about how its activities affect its incentives, it tends to ignore the plan and do as it sees fit.

Developing a team-based plan that addresses all of the above risks while aligning with the business's objectives can be a challenge. And no one plan offers the right answer for all firms. The correct answer is inevitably situation-specific and can change as the company's portfolio, customers, competitive environment and business life cycle evolve. Successfully addressing these issues requires knowledge in both the behavioral and financial elements of team-based compensation plan design. While it is beyond this article's scope to address situation-specific intricacies, we have observed a number of universal success factors for team compensation plan design. Here is a selection of some of the most important ones:

1. Anticipate compensation issues and feasibility during sales force structure, sales process and deployment design. All these elements must work together as a system to enable effective teaming.
2. Identify no more than three priorities to reward through the compensation plan. Including more will typically result in unnecessary complexity.
3. Ensure that salespeople can directly affect the compensation measures that determine payouts. Tying payouts to measures salespeople do not have a strong influence on has negative motivational value.
4. Set goals at the lowest level possible. Regional- and national-level goals rarely motivate individual salespeople or teams.

TEAM-BASED SELLING MODELS CAN PROVIDE COORDINATED STRATEGY AND CONTACT, ACHIEVE GREATER CROSS-SELLING AND DELIVER BETTER SOLUTIONS TO CUSTOMERS.

5. Consider both a team and an individual component to payouts. This will help ensure teamwork while continuing to reward individual success.
6. Treat "pie allocation" and "commission override" plans with caution since they can easily lead to inflated cost of sales and internal bickering. These strategies require tightly defined business rules and line of sight for fair, equitable payouts.
7. Make sure cross-sell and solution incentives don't motivate product specialists to become salespeople for another product group. If they earn significantly more for referring or selling products from another division, they may altogether stop selling their own products.
8. Carefully model and simulate financial payouts of plans under consideration. At the end of the day, the plan needs each role to hit target payouts at outlined performance levels with an appropriate upside and downside based on performance relative to expectations.
9. Align incentives all the way to the top. Conflict between sales force and executive incentives usually leads to the organization losing as a whole.

Conclusion

Team-based selling models can provide coordinated strategy and contact, achieve greater cross-selling and deliver better solutions to customers. While suppliers can realize great benefits from these models, companies also need to account for the associated risks of inflated cost of sales, internal conflict and customer frustration. Successful team-based selling requires careful navigation of the many compensation challenges introduced by this sales approach. No plan is perfect. When correctly designed, however, the best plans work in conjunction with well-designed sales force structure, sales processes and deployment to drive both individual and team accountability in a way that optimizes the alignment of customer, supplier and salespeople objectives.

Managing Principal Michael B. Moorman and Associate Principal Chad Albrecht of the consultancy ZS Associates Inc. (www.zsassociates.com) will give presentations – including about compensation – at SAMA's 44th Annual Conference in May in Dallas. Moorman can be reached at mike.moorman@zsassociates.com or (312) 233-4804. Albrecht can be reached at chad.albrecht@zsassociates.com or (847) 492-3651.

Additional resources

For more information on this subject in SAMA's library, the editors recommend: ZS Associates Inc. and Strategic Account Management Association, 2008 *Survey of Strategic Account Management Compensation Practices*, May 19, 2008, www.strategicaccounts.org; and Eric J. Maurer, "SAM compensation in 2007: challenges and solutions," *Velocity*®, Vol. 9, No. 3, Summer 2007, www.strategicaccounts.org.