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SPOTLIGHT INTERVIEW WITH ANDRIS ZOLTNERS

Getting Beyond "Show Me the Money"

The sales force analytics pioneer weighs in on compensation.

BRIAN TIETZ

AS A YOUNG business school professor, Andris Zoltners became fascinated by two questions: How many salespeople does a company need, and how should it divide up their territories to balance workload and market potential—so as to maximize profits? To unearth the answers, he developed and applied complex math models, and in 1983 Zoltners, by then a professor at Northwestern University's Kellogg School, had enough companies clamoring for his insights that he and a colleague, Prabha Sinha, founded ZS Associates. Today the firm is one of the world's largest sales consultancies, with 3,500 employees, and Zoltners, now emeritus after 35 years on Northwestern's faculty, is considered an authority on the best ways to manage and pay a sales force. He has coauthored six books on the subject; the latest, *The Power of Sales Analytics,* was published last summer. Zoltners recently spoke to HBR's Daniel McGinn about why companies rely too heavily on compensation systems to drive results, why field managers are the key to a high-performing sales force, and what's changed over the years he's spent watching the field. Here are some edited highlights of that conversation:

HBR: What are the most common mistakes companies make in compensating a sales force?
Zoltners: Too often they over- or underincentivize key products, resulting in misdirected sales force efforts—that's a classic mistake. Or they underpay their top performers: You have to "feed the eagles." Sometimes they overpay salespeople with good territories—they pay for the territory and not the talent. Or companies set goals or quotas too low or too high. If they're too low, people blow right through them and earn a big payday without having to work particularly hard, and once they're accustomed to that level of pay it's very difficult to wean them off it. On the other hand, if the quotas are too high, people will give up and stop working. They'll put off sales to the next pay period, when the goal is lower. Companies have gotten better at quota setting over the past 30 years, partly because better data for measuring territory potential is available. And they've improved at designing incentive plans because they can use analytics, and more expertise is available. With analytics you can start to estimate the consequences of what will happen if you change a plan, rather than guessing. You can look not only at overall revenue but also at who gets helped and who gets hurt by changes. If your best performers will be hurt by a new plan, you want to know that before you implement it.

Do sales leaders rely too much on compensation as a motivator? To give you some context, 85% of companies will change their sales compensation plan this year. They're not just changing the quotas—these are structural changes. So why do they do it? Some of them are entering new markets or introducing new products, and they need to focus the sales team on new opportunities. Strategic opportunities must be addressed. But the reality is that while there are various drivers of sales success—you can restructure the sales force, hire better reps, select different sales managers, offer more-effective coaching—many of them take a long time to have an effect. Though it's only one driver, changing a compensation plan is relatively easy, and it can get quick results. It's also an area where there's always room for improvement—it's hard to get right. When you create a plan, it's almost impossible not to overpay some people and underpay others. And rest assured, the latter group will find out about it and argue for changes.

Should different reps have different pay plans? I have colleagues who argue that someday we'll see customized individual comp plans, where salespeople will be able to choose the features and rewards they want. I'm not sure if I agree. The risk is that some salespeople will make the wrong choices and feel regret. The company also may pay out more than it needs to.

Do most companies have the right degree of "leverage," or at-risk pay, in their incentive plans? Some companies don't really understand how leveraged their plans are, because of "free sales"—sales that occur this year but are due to past effort in the territory. In many product categories, if you sell something one year, there's a high probability you'll make residual sales the next year without any effort. If a salesperson is paid a commission or bonus for free sales, we call that a "hidden salary," since it's an incentive paid for something that's nearly automatic. Many companies don't account for hidden salaries when they design their comp plans and set goals. A company may think that it's paying salespeople 60% in salary and 40% in commissions, so people have strong incentives to sell. But if the

FURTHER READING

More sales wisdom from Andris Zoltners and his coauthors Prabha Sinha and Sally Lorimer

Building a Winning Sales Force: Powerful Strategies for Driving High Performance
Amacom, 2009

The Complete Guide to Sales Force Incentive Compensation: How to Design and Implement Plans That Work
Amacom, 2006

The Power of Sales Analytics
ZS Associates, 2014

Sales Force Design for Strategic Advantage
Palgrave Macmillan, 2004

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salespeople have a lot of free sales, they may really be earning 85% in salary and 15% in commissions, which is a lower incentive.

You've argued that many sales compensation plans are too complicated. Why do companies favor complexity? That is a significant problem with many plans. I've seen plans that have different payments for as many as 28 different objectives. This happens because multiple market managers need to gain sales force attention for their brands. But people can't focus on that many things—four or five goals are the maximum, and any feature that affects less than 15% of someone's incentive pay is probably going to be ignored because it's not meaningful. Some people argue that companies with a complex sales process or lots of product offerings need a complex pay plan, but I don't believe that's true. IBM has a complex selling process and sells many complicated products and services. But its pay plan has three components, and you can describe it on one side of a business card. That's the way a good plan should work.

Has the quality or attitude of the people going into sales changed during your years in the field? A sales force usually spans different generations with different job expectations. Millennials may want a higher quality of life and more meaning in their

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work. They expect to communicate electronically and constantly and crave frequent feedback on how they're doing. Baby Boomers want to ensure a comfortable retirement. Those in the middle may be working for financial security. A successful compensation plan needs to accommodate all those objectives.

Should companies base pay on activities, like number of calls made, instead of on sales? No. In most industries salespeople earn a good salary before the incentives kick in. That salary is paying for activity—for making the sales calls. Paying salespeople for performing the basic duties of the job is an abdication of management; the manager is supposed to ensure that those activities are done. There are at least two more reasons not to pay for activity. First, it's difficult to measure: People report it when it's convenient and may mistake what they actually do. Second, tracking activity will motivate an increase in quantity but also trigger a decrease in quality.

How big a problem is disintermediation, or the diminished role of salespeople in actually generating revenue? It's a problem. We describe it using two concepts. The first is causality: If you can't affect the outcome, you shouldn't be rewarded for outcomes. Does an auto salesperson really cause you to buy a car, or is he just negotiating the discount and doing the paperwork, since you probably decided what to buy by reading websites before you walked into the showroom? The other is measurability—can you accurately measure the sales and profit generated by a single salesperson? Particularly in B2B sales, where large sales teams service national accounts, it's hard to measure the contribution of an individual. I have met salespeople who say they have no idea how their commission checks are calculated, because they're part of a team and credit is divided up by an obtuse algorithm somewhere. For incentives to really work, you need to have individual causality and measurability, and in a lot of industries those are declining. There's some argument that, as a result, companies need to cut back on incentive pay. So far most companies haven't done that, because the incentives are built into the culture and firms are afraid that if they remove them, they'll lose their best salespeople.

Is globalization changing the way companies pay their salespeople? Some global companies want to use the same sales compensation plan around the world. I can't imagine how that would work. You're going to pay people in the United States, Thailand, Mexico, and Denmark the same way? The tax systems are completely different—in Scandinavia, incentive payments are taxed much higher than salary is, so people there would be penalized by a high-incentive plan. China, India, and Latin America prefer higher-risk plans. That being said, it's useful to have some global incentive-compensation guidelines and frameworks to help local teams make good choices about how they pay their salespeople—choices that reflect the needs and culture of their specific market but also are aligned with overall company business and compensation strategies and philosophies.

Over the past decade there's been a lot of discussion of changing sales methodologies—for instance, the shift from "solution selling" to "challenger selling." Is that important? It's all the same stuff—it just gets packaged in a different way. I worry that some sales methods are too prescriptive—they want to come up with an approach you can use with every customer. Some sales leaders like a prescribed approach because it allows them to control activity, but salespeople aren't robots. My view is that customers are different, and salespeople need to understand each customer's needs and be adaptive. It might be better if the industry would focus more on what really drives sales success—broader issues like hiring and managing—instead of focusing on exactly what salespeople should say to close a deal.

Why are field sales managers so important? Many firms move their best salespeople into sales management jobs, but the skills don't necessarily translate. Managing someone is never easy. If I tell you that you're doing a terrible job with this interview, do you really want to hear it? Some people are responsive to criticism; others are defensive. Managers also have to work through a salesperson—they can't make the sale themselves—and that can be challenging. In sales it's about me, what I do. In management it's about you and how I can help you succeed. Good managers empower their people to do the selling. Also, sales managers who are promoted from within are usually friends with the people they're managing, which makes it harder. But the role is incredibly important. If you have a bad salesperson, it affects one territory. If you have a bad sales manager, it affects a whole district.

A lot of your consulting work involves using math to optimize how companies sell, but it's striking how much you talk about soft issues—especially culture—as a driver of results. That's true—culture is really important. The best sales leaders shape culture by modeling behavior and telling stories. I once had the vice president of sales for a defibrillator company speak to my class at Northwestern. He showed up looking really tired. It turned out he'd spent all night riding around Chicago in an ambulance, because he wanted to see how customers used his products. That illustrated his commitment to listening to customers. Stories like that get around. Cultures are really about choices—the culture pushes you to do this or do that. The compensation plan is a piece of the culture—it's telling people what choices the company wants them to make. That being said, I think that sales analytics is important, and it's getting more important in the age of big data.

How well do tech start-ups manage their sales forces? Many of them need help. A lot of them hire leaders who are very smart people but who have very little selling experience. They focus on doing everything very fast, and if it doesn't work, you just fix it later. Leading a sales force requires understanding the sales system, and in new industries and new companies, there's often too little of that. Fixing it later is very difficult to do well.

Some innovation experts point to salespeople as an important source of ideas. Do many companies really use them in that way? Salespeople won't play that role unless you have systems in place to capture that information. Generating ideas isn't natural or inherent to what they do. But they do gather information, and companies should build procedures to find out what they're hearing from customers.

Is the number of salespeople going to decline because of technology and self-service? People have predicted that before, and they were wrong. We're hearing those predictions again. The sales job will certainly change. Social media, e-mail, videoconferencing, and webinars are all ways that companies are connecting with customers and prospects. There will be more telesales and inside sales jobs, and more national account or key account jobs. In many industries there may be less face-to-face selling. But on the seller's side, there needs to be a captain, someone in charge of that interaction. That will remain the role of the salesperson. In business, nothing happens until a sale is made, and most jobs involve some form of selling. As a professor, I'm selling ideas. Selling is about being curious and trying to help people. It's a role that shows up in unexpected places. I had a knee replacement, and there was a sales guy in the operating room, making sure the doctor used the right components. That's a pretty critical job, isn't it?

Final thoughts? You know, it's not all about incentives. You manage through culture. You manage through managers. You manage by sizing, structuring, territory design, training, and hiring—there are many decisions that drive sales force effectiveness. There's this idea that unless you put a quarter in, you're not going to get anything out of someone—that people are coin operated. We have to build a new paradigm.

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