Strategic account manager compensation

Companies are proactively managing uncertainty and planning for growth while job satisfaction is down

By Jonathan Ezer
Consultant
ZS Associates Inc.

Initiatives' success frequently depends on execution by the people – strategic account managers – who handle relationships with a firm's most important customers. For several years companies have been adjusting to a fast-changing economic environment. A well-designed, properly implemented incentive plan plays a crucial role motivating SAMs to effectively apply new strategies in this volatile environment. To provide insight into how leading organizations pay their SAMs, the Strategic Account Management Association and ZS Associates Inc. have created the *2011 Report on Strategic Account Management Compensation Practices*. The study includes input from more than 400 strategic, national and global account managers across numerous industries. This is the third time in four calendar years SAMA and ZS have partnered to conduct leading research on account manager compensation. The longitudinal approach shows how compensation practices have changed and reveals several key emerging trends in SAMs' compensation.

Companies are proactively managing uncertainty

Economic uncertainty exacerbates problems with poorly designed compensation plans. Small economic contractions can cause large reductions in compensation payments leading to dissatisfaction and turnover. On the flip side unexpected growth can cause big, fiscally irresponsible overpayments. Companies are increasingly taking measures to design compensation packages that manage uncertainty, such as by implementing caps and thresholds. Despite caps' unpopularity among sales professionals, 53 percent of respondents report that their firms use caps to limit payouts, up from 38 percent in 2009. Caps are often used as a tool to limit windfall sales' impact. Similarly 66 percent reports that all incentive measures contain thresholds, up from 35 percent two years ago. Thresholds require SAMs to achieve a minimum performance level before earning any incentive pay, which reduces payouts to low performers.

Conversely fewer companies are using quotas. Sixty percent of respondents report they have an assigned quota, down from 75 percent in 2009. This may be attributable to economic uncertainty. For quota-based compensation plans to be effective, quotas must accurately reflect sales potential. Precise quota setting is difficult, especially in unstable times. And poorly set quotas introduce bias, feed discontent and waste money. Consequently quota-based plans are still popular but less so than in previous years. Finally, companies are shifting emphasis toward profit-oriented metrics and company-wide performance. Two years ago respondents reported that 12 percent of their incentive pay was tied to profit. That percentage is up to 30. Correspondingly 52 percent of incentive pay is based on individual performance, down from 61 percent in 2009. These shifts likely reflect senior management's desire to tie variable pay to overall performance. However, team-based incentives do not necessarily improve team performance and must be carefully designed and implemented to succeed.[1]

Companies are planning for growth

The good news is companies anticipate greater growth. For 2011, respondents report a growth projection rate of 10 percent for their companies and 11 percent for their SAM programs. These

Figure 1.

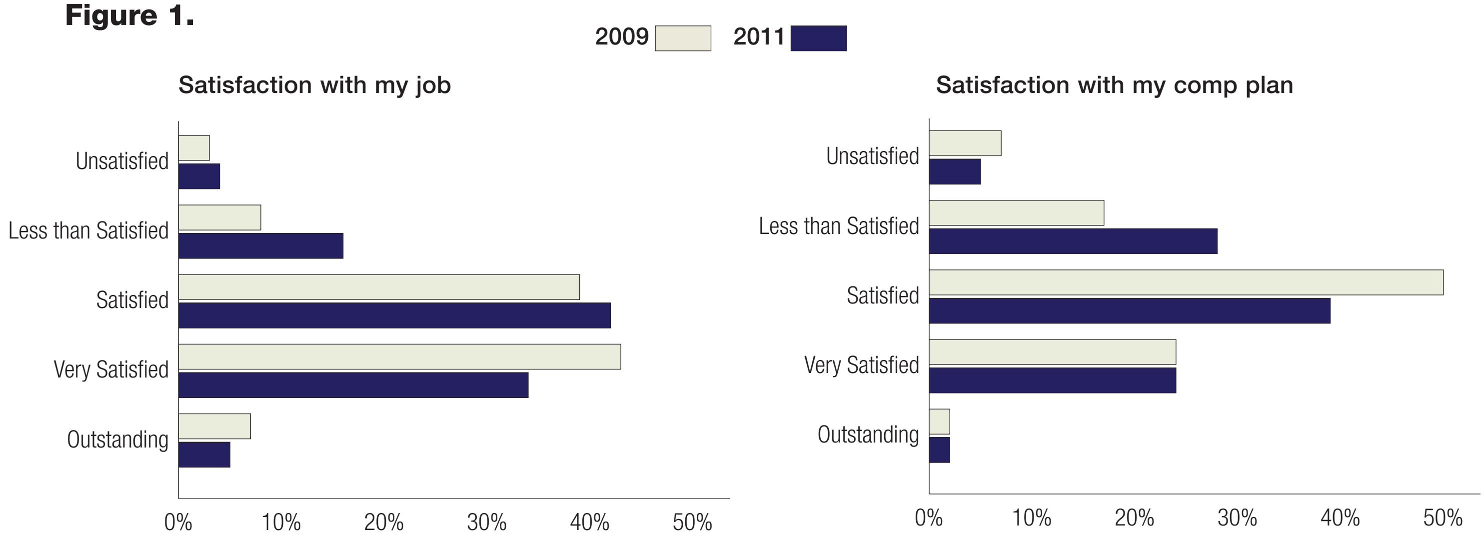

Figure 2.

	Total SAM compensation		
	2008	2010	% chg
Salary	$104K	$112.3K	8
Target incentive	$62.4K	$40K	-36
Actual incentive	$47K	$28.8K	-39
Total target comp	$166.4K	$152.3K	-8
Total actual comp	$151K	$141.1K	-7

rates are much higher than in 2009 (5 and 7 percent respectively). The improved economic outlook is also reflected in the quotas assigned to account managers. The bottom seems to have been reached because quotas are on the rise, up 9 percent on average. The fact that growth projections are up is a positive sign for the economy. However, for SAMs this has caused concern. Higher projections have led to higher quotas at a time when the economy still feels uncertain. For SAMs the pressure to perform is intense and job satisfaction is down.

Job satisfaction is down

In 2009 despite the financial collapse, 89 percent of SAMs reported they were satisfied with their jobs. That percentage is down to 79. Similarly only 65 percent of respondents report they are satisfied with their compensation package, down from 75 percent two years ago. (See Figure 1.) Respondents flag the following as changes they would most like to see in their compensation arrangement:

1. Increase incentive pay potential at the high end.
2. Increase base pay.
3. Use market benchmarking to ensure appropriate pay levels.
4. Pay on metrics more within SAMs' control.
5. Improve the quota-setting process.

Dissatisfaction may be fueled by lower pay. In 2010 SAMs earned less than in 2008. Base salaries actually increased in this period, but incentive pay declined significantly. The net result was a decline of 7 percent in SAMs' total actual compensation. (See Figure 2.) Despite all the turmoil, some things haven't changed. When asked to identify working life's most important aspect, in both 2009 and 2011 respondents chose the same top five:

1. Overall company leadership
2. Work-life balance
3. Strategic account leadership
4. Manager quality
5. Competitive pay

Conclusion

No doubt the past few years have been difficult, but the future's outlook is positive. Companies are growing, and SAMs are expected to lead the way. As strategic accounts become even more important, having the best possible pay practices will be critical. Minor flaws in compensation plan design can have major consequences in a fast-changing economy. As a result companies are proactively fine-tuning their compensation practices to ensure that practices are fair, fiscally responsible, attractive and rewarding.

[1] Michael B. Moorman and Chad Albrecht, "Team selling: getting incentive compensation right," *Velocity*®, Vol. 10, No. 2, Spring 2008, www.strategicaccounts.org.

Jonathan Ezer is a consultant at ZS Associates Inc. (www.zsassociates.com) and can be reached at jonathan.ezer@zsassociates.com or (212) 370-8851. He can also be found at www.linkedin.com/in/jonathanezer.

Additional resources

For more information on this subject by this company in SAMA's library, the editor recommends: Strategic Account Management Association and ZS Associates Inc., *2011 Report on Strategic Account Management Compensation Practices*, May 15, 2011, www.strategicaccounts.org; and Chad Albrecht, "Strategic account manager compensation: adjusting to economic realities," *Velocity*®, Vol. 11, No. 3/4, Summer/Fall 2009, www.strategicaccounts.org.