Strategic account manager compensation: Striking the right plan balance is critical in an increasingly competitive talent war

By Peter Z. Manoogian
Manager
ZS Associates Inc.

As organizations seek organic growth during the economic recovery, they look toward individuals who manage their most important accounts to lead the way. Furthermore companies are expanding their strategic account management programs. Program expansion requires careful execution in all dimensions of a firm’s go-to-market strategy. Among them are proper motivation and rewards through a well-designed sales incentive plan. To provide insight on how leading businesses pay strategic account managers, the Strategic Account Management Association and ZS Associates Inc. created the 2013 Report on Strategic Account Management Compensation Practices, which is available to purchase on SAMA’s website, www.strategicaccounts.org. More than 200 people in the SAM field representing almost 30 industries participated in this biennial study. The findings highlight three trends:

1. Program expansion is accelerating the war for SAM talent and increasing pay.
2. Similar to the SAM role’s evolution, incentive plans have become more complex.
3. The definition of “target” and “top” performance is increasingly blurred.

Program expansion is increasing pay

Program revenue growth is expected to outpace overall company growth in ’13, which suggests that firms now place more importance on top accounts. Survey responses show that organizations anticipate 10 percent revenue growth from SAM accounts in ’13 compared to a companywide growth target of 8 percent. Moreover SAMs are becoming more entrenched with customers through joint-business planning and mutual opportunity assessment, commanding more time spent with SAMs per customer. The higher expectation underscores a trend: Enterprises have proof-points to back up what they’ve known for years—a key account approach for managing the largest, most strategic customers has significant value. These proof-points are common thanks to customer relationship management software that is advanced and more clearly links SAM activity to results.

To align with the role’s evolution, SAMs are managing fewer accounts on a per-SAM basis, causing organizations to seek talent to maintain or increase their strategic account portfolios. This year 68 percent of SAMs manage no more than five accounts compared to 50 percent in ’11. Acquiring talent is costly. Sales professionals who can master the partnership model that modern strategic account relationships command are scarce resources. This manifests itself in higher total target pay for SAM “switchers.” Median total target compensation for less-tenured SAMs is higher than for more-tenured SAMs. Combined with headhunting tactics, this has led to higher pay.

A snapshot of SAM compensation plan trends

Given the complex nature of the SAM’s role, it’s no surprise that most plans contain more than one component and employ various controls to minimize overpayment. Here is a summary of key trends when comparing current results to ’11:

Components—Companies use bonuses more than two years ago but don’t use management by objectives as frequently. This is a direct result of the tendency to grow existing accounts and move away from the income-protection mode spurred by the economic downturn. To support an added emphasis
on quotas, firms assign them more granularly. Seventy-three percent of SAMs report them being allocated at the account level, a 10-percent increase from ‘11.

**Metrics**—While sales continues as the primary metric for pay, the survey suggests that companies tie a greater portion of pay to other components such as company/division/business unit performance, profit, and sales process milestones. (See Figure 1.)

**Thresholds and caps**—Consistent with prior years, about two-thirds of SAMs have thresholds for all plan metrics and more than half of SAMs have caps in all plan measures. However, quota thresholds have inched higher. Fifty-five percent of SAMs – up from 48 two years ago – have a payout threshold of at least 80 percent. This says firms are either more confident in their ability to set attainable goals or less willing to pay SAMs for underperformance (or both).

**A growing disconnect between target and actual performance?**

As the talent war intensifies and SAMs consider their opportunities, they’ll evaluate pay packages in context of a target total compensation package. While it doesn’t have a specific definition, “target” is typically synonymous with achieving the expectations set for a role. But the interplay between a SAM plan’s complexity and an organization’s drive for fiscal responsibility may inadvertently redefine target performance for SAMs. For the second consecutive survey, actual SAM payout lags target SAM payout. This remains true when controlling for industry, tenure and payout percentile. (See Figure 2.) We believe that several factors led to this phenomenon:

**High quotas.** The median quota achievement – 85 percent – still falls well below 100. Moreover when asked about changes they’d make to their compensation plan, SAMs indicated that “improving the quota-setting process” is a notable issue. High quotas aren’t limited to sales results. MBOs can suffer from quota inflation, as well.

**Thresholds and caps depressing total upside.** Some measures, including pay thresholds and caps, make it challenging to “run the table” on a plan and earn a large increase over target pay.

**Metrics outside SAMs’ control.** Metrics paying on aggregate division or company performance/profit certainly aren’t fully within a SAM’s control. For example, SAMs have more profit-and-loss responsibility for managed accounts but less pricing control than in ‘11. Tying additional incentive pay to profit doesn’t align well if the person who’s measured is unable to exert greater influence over the metric.

Imagine telling an Olympic swimmer that being “good” requires a gold medal in the freestyle, butterfly and team relay events. The individual is unlikely to achieve that expectation once, let alone sustain it. In a way, this is what we ask SAMs to do.

**The path forward**

As survey results demonstrate, organizations are still challenged to design a SAM compensation plan that strikes the right balance of role objectives, upside opportunity and fiscal risk. Companies should review the entire plan rather than each component in isolation to gain a better picture of SAMs’ earning opportunity. Furthermore plan execution through careful communication, tracking and reporting is critical to compensation plan effectiveness.

Peter Z. Manoogian is a manager at the consultancy ZS Associates Inc. (www.zsassociates.com) and can be reached at peter.manoogian@zsassociates.com. He can also be found at www.linkedin.com/in/petermanoogian and www.twitter.com/pmanoog3.

**Additional resources**