

# CHAPTER 1

## How Selling Environment Change Affects Sales Compensation

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### **The Challenge for Sales and Compensation Leaders**

Suzanne, the head of sales operations for a large corporation, had just come out of a meeting with senior company leaders. The message at the meeting was clear: Change was coming. Suzanne and her sales operations team, with input from others, were responsible for many sales support functions, including sales compensation design and administration. Although no one specifically pointed at her during the meeting, she knew the changes discussed would have a major impact on her team's work.

It wasn't too long ago, with sales flat, that certain leaders were telling her, "We need to fix sales compensation." At the time, Suzanne questioned whether sales compensation was really the issue. Recently, in fact, sales were starting to increase, which was a positive sign. But unfortunately, at the same time, margins were slipping.

Discussion at the meeting had focused first on how the internet affected customer buying and the impact this had on the field sales force. Most customers now used the web and social media to educate themselves about product and service options and prices before engaging with the company's field salespeople. In addition, many customers placed orders on their own using the company's self-service purchasing website. The number of customers who regularly relied on field salespeople for product information and order placement was shrinking.

In response, the company was planning to restructure the sales organization. A portion of the field sales force would be replaced by an inside sales team that would handle sales to smaller, lower-volume or less-demanding customers. The inside sales team would also share responsibility with field sales for midmarket customers who preferred telephone discussions to face-to-face meetings or who sought help with internet purchasing.

At the same time, the company's expectations of the field sales organization were changing. With customers having greater access to pricing information on the internet, salespeople felt increased pressure to offer customers discounts to close deals. Profitability had dipped below market benchmarks. There was a need to make salespeople accountable not just for sales but for *profitable* sales.

Suzanne wasn't sure exactly how the restructure would work – how many field and inside sales jobs there would be and how the field and inside sales teams would work together to ensure a well-coordinated experience for customers. She also wasn't sure how the company was going to measure and share information about profitability at the individual salesperson level. What was certain, however, was that Suzanne's team would need to be involved and that a big part of the effort would involve updating the sales compensation plan to align with the new sales structure and directive.

Suzanne began to contemplate the magnitude of the work that would be required. Much of this was new to her. Up to now, sales compensation had been fairly straightforward – field salespeople earned incentives on sales to their assigned customers. With the new sales model, customer responsibility would often be shared among field sales, inside sales and the internet. It wasn't clear how to design a sales compensation plan that paid individuals fairly for their performance.

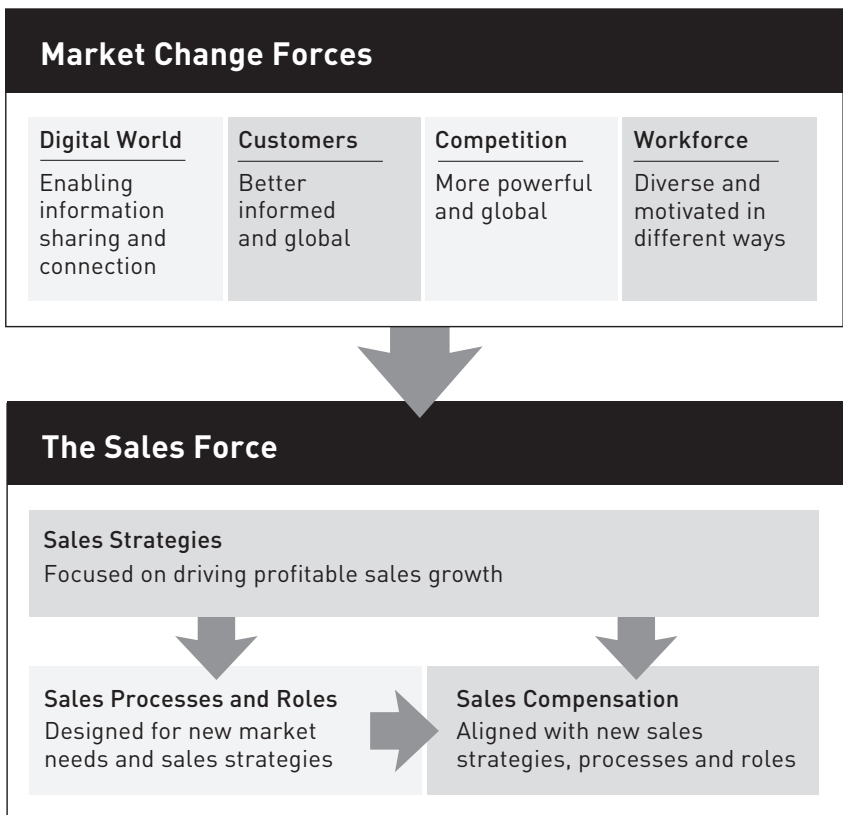
In addition, there was the issue of profitability – how to measure it and how to incorporate profitability metrics into the plan. Finally, Suzanne realized that designing the new sales compensation plan was only part of the challenge. With all the changes taking place, getting the sales force to understand and embrace the new sales model and compensation plan could be just as difficult as designing the changes in the first place.

Suzanne was excited yet anxious about the task that lay ahead. She knew her decisions could affect the future success of the sales organization, as well as her own standing in the company.

## Sales Compensation in Today's Changing Business World

For sales and compensation leaders like Suzanne, creating an effective sales compensation program in today's continuously changing business environment is very challenging. Doing it right creates a double win. Salespeople win because they are appropriately rewarded for their hard work and good performance, while the company wins through a better-motivated sales team that drives results and is more likely to achieve company goals. Companies and their sales forces both benefit when the sales compensation plan is designed and implemented for maximum effectiveness.

The complexities of designing and implementing sales compensation plans today arise from several ever-evolving change forces, as illustrated in Figure 1-1.



**Figure 1-1.** Change Forces That Affect Sales Compensation

## Market Change Forces

Constant change in the digital environment, customers, competition and the workforce is requiring companies to be more nimble and agile when developing their sales strategies. Sales processes and roles must adapt to the ever-changing world, and sales compensation plans must adapt as well to stay aligned.

### The Digital World

An environment of unprecedented information technology and digital channel innovation is rapidly changing the nature of business. Advances in information technology, including systems (customer relationship management, digital asset management), tools (data management, analytics), infrastructure (mobile, cloud) and information (big data), give sales forces, along with their customers and competitors, better access to information. At the same time, digital channels (apps, social media, email, text messaging, videoconferencing) give buyers and sellers new ways to connect and create value for one another. All of these changes affect sales forces and sales compensation plans.

### More Informed Customers

As access to information makes customers better informed and more self-sufficient, power is shifting from sellers to buyers. Increasingly, customers can make purchase decisions without the help of a salesperson. Still, some customers want advice from salespeople and help with sifting through the flood of information and misinformation. At the same time, there are an increasing number of global customers who desire greater efficiency in purchasing across countries. These changes in customer needs affect sales forces and the design of sales compensation plans.

### Powerful Competitors

Competition is more intense than ever. Technology and the availability of information are reducing barriers to entry and making it difficult for companies to create and sustain competitive advantage. Companies are moving their manufacturing to lower-cost locations. The internet allows companies from anywhere on the globe to compete for business, often by eliminating the need for expensive distribution networks or sales teams. For companies that use a sales force to create competitive advantage, sales compensation remains a key factor in attracting and retaining sales talent.

## **Workforce Diversity**

Managing a sales force requires addressing the needs of salespeople from different generations and career stages, as well as managing different personalities. The entry of a large number of millennial-generation workers into sales forces has introduced new diversity in terms of what motivates and engages salespeople. The millennial generation's technology savvy is an asset in today's digital environment. At the same time, this generation has new expectations about career progression and has different wants and needs from other generations in the workforce. An increasingly diverse workforce challenges companies to design sales compensation and other motivation programs that go beyond money alone as a means of engaging salespeople.

## **Impact on the Sales Force**

Amidst all these external market challenges, sales forces remain on the hook to drive profitable sales growth. To succeed, companies must adapt their sales strategies. They must redesign sales processes and roles and rethink many sales force decisions and programs, including sales force design, customer engagement, sales force hiring and development, motivation and sales operations. In short, companies must realign all components of the sales force system to enable success in a new world, and the sales compensation plan is an important part of that effort.

## **Current Sales Compensation Issues**

Despite all the change taking place today, sales compensation remains a powerful management tool for motivating salespeople, providing strategic direction and encouraging fiscal responsibility in a sales force. Several current issues make it more challenging than ever to design and implement effective sales compensation plans. Among these are the following:

### **Current Sales Compensation Plans Are Misaligned With Today's Sales Roles**

As selling today is increasingly multichannel and complex, traditional sales compensation plans designed around a single sales role are no longer sufficient. Each individual salesperson has less impact on sales outcomes, and it's more difficult to measure an individual's specific contribution to every sale. This reduces the power of traditional sales

force incentives to motivate and challenges companies to develop plans that encourage effective orchestration of sales activity across multiple sales team members and selling channels. Team-based selling and multi-channel connections also make it difficult to pay for performance when shared customer responsibility masks the contribution of each individual to the outcome.

## **Sales Incentives Aren't Always Enough to Motivate Today's Diverse Workforce**

Current sales compensation plans use money as the primary means of motivating salespeople. But today's workforce includes people of many different generations, cultures and personality types – factors creating diversity in terms of what motivates and engages salespeople. Addressing this diversity requires creativity in designing sales incentive compensation plans and thinking beyond cash incentives as a means of engaging a diverse sales force.

## **More Than Ever, Sales Forces Feel Pressure to Drive Profits, Not Just Sales**

Most current sales compensation plans use a sales-based metric for determining incentive payouts. However, with the increased expectation that sales forces should deliver profits, and not just sales, the ability of a plan to direct sales effort to the right customers and products, and to sell at the right price, becomes increasingly important. Companies are challenged to take advantage of improvements in data and information systems to develop better financial metrics (for example, measures of territory profitability) and to use these metrics and other features in their incentive plans to drive more profitable sales.

## **Sales Compensation Is Going Global**

Current sales compensation plans at many global companies differ across countries; each country has its own plan aligned with the local market, business culture, laws and data availability. Increasingly, global companies are discovering that implementation of a globalized sales compensation framework can have benefits. Sales compensation plans that are global on key dimensions, but also have features acknowledging differences across countries, can reinforce global selling models while creating efficiencies in plan management and administration.

## **New Analytics Create Opportunities but Also Complexity for Sales Compensation**

Most companies use basic analytics to monitor their sales compensation plans. For example, they will track metrics such as actual versus budgeted spending and the percentage of salespeople making quota. They will provide feedback to the sales force on metrics such as sales and quota attainment. Advances in analytics and information systems are allowing companies to do more to enhance the impact of sales compensation plans, including more powerful and customized sales force feedback and earlier and more thorough diagnosis of plan performance. The potential for using analytics to improve sales compensation plans is considerable, yet many companies are challenged to implement initiatives effectively and therefore don't realize the full opportunity.

## **The Issues of Quota Setting and Plan Understanding Are Not Going Away**

In the Incentive Practices Research (IPR) study<sup>1</sup> that ZS has been conducting for more than 10 years now, two issues come up repeatedly as top challenges for many companies. First, accurate quota setting is a perennial issue. Second, companies struggle with achieving good sales force understanding of their sales compensation plans. This lack of understanding creates a big challenge for companies seeking to get their sales forces on board with frequent plan changes in today's ever-changing world. Without careful attention to these two plan implementation issues, even the best-designed sales compensation plans cannot achieve their objectives.

## **Achieving Sales Force Success Requires Sales Compensation Change**

The hundreds of sales forces we work with every year, along with our surveys of sales and compensation professionals, suggest that more than 75% of companies will make changes to their sales compensation plans in any given year. These ongoing plan changes help to keep sales compensation aligned with a changing business environment. Some plan changes are brought about by external market forces, such as changing customer needs or new competition. Other changes are designed to exploit new opportunities for the company, such as a product launch

or entry into a new market. Still other changes are designed to give the sales force a motivational lift or to deliver better on the wide-ranging expectations of sales and marketing leaders.

Whatever the reason for changing your sales compensation plan, finding the right plan design and implementing it effectively in today's complex world is no easy task. Companies that are successful will do the following:

- create a motivated sales force with manageable turnover of sales talent
- drive high levels of quality sales effort
- achieve better financial results

## The Purpose and Organization of This Book

We wrote this book to help sales leaders, and others responsible for sales compensation, design and implement plans that will drive high performance in today's changing world. The book focuses on addressing key issues and challenges that are top-of-mind among the sales and compensation professionals whom we work with. Some of these issues deal with designing and redesigning sales compensation plans in response to the changing business landscape. Other issues deal with the perpetual challenge of implementing sales compensation plans to gain sales force commitment and provide efficient ongoing support and administration.

This book complements two other books we have written on the topic of sales compensation. *The Complete Guide to Sales Force Incentive Compensation* (Zoltners, Sinha and Lorimer)<sup>2</sup> is a comprehensive text about sales compensation plan design and implementation and is a useful reference for readers who want more detail on specific approaches and analytics discussed in this book. *The Future of Sales Compensation* (Albrecht and Marley)<sup>3</sup> is a book that delivers forward-looking insights about sales compensation and is an engaging read to help readers think differently about how to design, implement, communicate and support sales compensation programs for the future.

In this book – *Sales Compensation Solutions* – the five authors have collaborated to provide actionable insights for helping you address the toughest sales incentive issues in today's changing world. Together, our three books allow readers to understand the fundamentals, apply those to the current challenges they face and start thinking about stretching to tomorrow.



The issues we chose to focus on in this book are ones that come up repeatedly in our work with clients and in executive education programs we teach, as well as through surveys, conferences and webinars that we participate in. The book is not a complete assessment of every change affecting sales forces today; rather, it focuses on a few key issues that sales and compensation professionals find very challenging to address. All of these issues have a large impact on the success of a sales compensation program.

In the book we share strategic insights, pragmatic advice and illustrative case studies from our experience (unless otherwise referenced). We seek to give you practical guidance, ideas and approaches that you can put to work immediately to design and implement a sales compensation program that works in today's selling environment. The book is organized into three sections.

## **Section 1: Sales Compensation Background**

Section 1 provides an overview of the role of sales compensation in sales forces. It includes two chapters focusing on the basics of sales compensation theory and practice. These chapters lay a foundation for the rest of the book. Reading, or at least skimming, Section 1 provides you with context for the solutions we propose for addressing the current issues covered in Sections 2 and 3.

### **Chapter 2: The Role of Sales Compensation**

Sales compensation can work well only when it fits within the context of your overall sales program. This chapter discusses how an effective sales compensation program aligns with all sales force decisions, programs, systems and processes around a cohesive sales strategy.

### **Chapter 3: Four Fundamental Decisions for Effective Sales Compensation Design**

Creating a sales compensation plan starts with four key design decisions. This chapter provides advice and frameworks to help you align these decisions with your selling environment.

## **Section 2: Addressing Recent Sales Compensation Issues**

Section 2 includes five chapters that address key sales compensation issues arising from recent market changes.

## Chapter 4: Aligning Compensation With Changing Sales Roles

As companies adapt their sales processes to meet the needs of more-informed customers, sales roles are changing, and sales compensation plans must adapt accordingly. This chapter shares ideas on how to rethink sales compensation as sales roles change to reflect greater customer knowledge and self-sufficiency in the buying process, as well as the need for orchestration across multiple sales roles and communication channels.

## Chapter 5: Motivating the Sales Force With More Than Money

Sales forces are made up of people with varied capabilities, experiences and needs. With large numbers from three generations in the workforce today – Baby Boomers, Generation Xers and Millennials – what motivates salespeople is affected by generational differences in addition to individual differences in salespeople’s personalities and needs for achievement, social affiliation, power and ego gratification. This chapter shows how to make your compensation plan part of a broader sales force motivation program that goes beyond money to appeal to the diverse motivational needs of salespeople.

## Chapter 6: Driving Profit, Not Just Sales

Companies are increasingly expecting salespeople to deliver not just sales but *profitable* sales growth. To the extent that salespeople can influence profitability by controlling the price they offer their customers or by influencing the mix of higher- and lower-margin products that they sell, this chapter shows how to rethink sales compensation plan design and metrics to align sales force effort around profit objectives.

## Chapter 7: Going Global With Sales Compensation

Global consistency of sales compensation can create benefits when implemented in the right way. This chapter shares ideas about two approaches to sales compensation plan globalization:

1. **Global plan design:** It’s difficult to create a single global sales compensation plan for each sales role because of the varied dynamics of selling around the world. Companies can develop global guiding principles to help countries design plans that reflect a unified company perspective, while allowing flexibility to meet local needs and acknowledge cultural differences.

2. **Centralized resources:** By providing centralized resources and expertise for helping countries design or administer plans, companies of sufficient scale can realize effectiveness and efficiency benefits, as long as there is flexibility to address local issues.

## Chapter 8: Using Analytics to Boost Sales Compensation Impact

The explosion of information technology and digital channel innovation opens up tremendous opportunity for companies to use analytics to boost ongoing sales compensation plan performance. With so many tools available today, it can be tough to know where to start. This chapter shares ideas for using analytics to enhance the power of a current sales compensation plan in two ways:

1. by providing more powerful and timely performance feedback to salespeople and managers
2. by helping sales leaders stay on top of plan performance, anticipate and avoid potential problems and realize opportunities

## Section 3: Addressing Perpetual Sales Compensation Issues

Two sales compensation plan implementation issues – quota setting and lack of plan understanding by the field – are perennial challenges for companies. A lack of attention to quota setting has caused many well-designed sales compensation plans to fail. Additionally, insufficient focus on change management when implementing compensation plan change often leads to a lack of plan understanding by salespeople and the failure of the sales force to embrace change. Section 3 includes two chapters that address these recurring sales compensation implementation issues.

## Chapter 9: Setting Quotas That Motivate

Many sales compensation plans link payout to the achievement of territory sales or profit quotas. Despite the fact that these plans are only as good as the quotas underlying them, most companies struggle with quota setting and don't invest the necessary time to do it well. Fortunately, today's digital universe provides many industries with richer data for estimating territory potential – a key factor required for setting quotas that are motivational and fair. This chapter shows how analytics and a defined process can help address what many say is their biggest sales compensation plan implementation challenge: effective quota setting.

## Chapter 10: Helping the Sales Force Embrace Compensation Plan Change

Without careful attention to change management, even the best sales compensation plan design can't succeed. This chapter shows how redesigning a sales compensation plan requires proactive strategies for:

1. gaining sales force commitment
2. encouraging and requiring ownership from your sales managers
3. managing the transition for salespeople and customers

We hope this book will provide you with many actionable ideas for aligning your sales compensation program with the realities of today's selling environment.

## Endnotes

- 1 ZS Incentive Practices Research (IPR) study. Data are gathered annually through a survey of sales compensation professionals in multiple industries worldwide. Results are provided to participating companies.
- 2 Andris A. Zoltners, Prabhakant Sinha and Sally E. Lorimer, *The Complete Guide to Sales Force Incentive Compensation: How to Design and Implement Plans That Work* (New York: AMACOM, 2006).
- 3 Chad Albrecht and Steve Marley, *The Future of Sales Compensation* (Evanston, IL: ZS Associates, Inc., 2016).