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Five Actions to Improve Sales Force Effectiveness

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Sales people that act like owners simultaneously strive to achieve short-term sales goals while investing in the future by establishing fruitful long-term relationships and working to ensure ongoing customer loyalty.

However, too often sales incentive plans are ill-conceived and constructed piecemeal with adverse behavioral biases, resulting in anything but an ownership mentality.

Sales incentives based on "common pay practices" often come with common problems such as sandbagging quotas, short-term thinking, and gamesmanship. Seeking to resolve those issues usually adds complexity through haphazard fixes that attempt to cure one problem but create two more.

The result is a cynical sales force that believes each convoluted "fix" just takes money out of their pockets. In some cases, the skepticism is justified, where despite the best of intentions, the result is anything but fair. So what should a company do?

There are five actions to drive an ownership mindset within a sales force.

1. **Clearly Define 'Fair' and 'Performance'**

Constructing a fair incentive plan is not an easy feat. For starters, the definition of "fair" is often assumed to be universally understood, when in fact it's not. People tend to have different definitions of "fair" depending on their personal situation. "Fair" may mean "equal pay" to some, while to others it means "equal opportunity." To an owner, "fair" simply means "pay for performance." However, to define performance it is helpful to know which products and customer segments create the most value. In many organizations, 20% of the products or customers creates 80% of the value. Knowing which products and customers create the most value helps formulate "where" to direct the efforts of the sales team and how to measure their performance.

2. **Allocate Sales Territories Through an Objective, Rules-Based Approach**

The elusive nature of "pay for performance" sales incentives stems from the difficulty in distinguishing talent from luck. Establishing sales territories of equal opportunity sets the stage to objectively pay according to skill and true performance.

Instituting a rules-based approach to territory allocation, regardless of how simple, can provide the transparency needed to establish the perception of fairness.

In one case, a client allocated territories based on the alphabet. If a customer changed its name or was acquired, the customer would be allocated to the sale person who owned the “alpha” territory. No exceptions. We initially thought sales people would find it unfair that they would lose a customer to another sales person due to a name change. Surprisingly, every sales person, even though they were skeptical at first, thought it was fair because it was objective and there were no exceptions. In the end they felt it evened out over time. This is not to advocate allocating territories by alpha, but to reinforce the importance of having objective rules.

Rules that are created based on facts instill buy-in and ownership of results. A good place to start is by analyzing historical revenue performance for both the company and peers (if possible), as well as trends of different territories. This provides great insight on how to allocate territories fairly and simulate different scenarios to see how well pay correlates with performance. The analysis can also provide insight on how to “right-size” the sales force to strike a healthy balance between adequate territory opportunity and a competitive sales environment.

3. **Avoid Quotas**

In response to a lack of objectivity in sales territory allocations, sales managers will at times resort to arbitrary sales quotas or targets. “Rich” or “large” territories are saddled with high quotas, while “poor” or “small” territories are bestowed with low quotas. In struggling to adjust for unequally sized sales territories, managers lose sight of what incentives are meant to do and in an effort to be “fair,” they unintentionally “equalize” pay versus opportunity. Sadly, those who generate the greatest amount of revenue don’t necessarily get paid the most.

Even more disconcerting is that a sales person’s pay can become negatively correlated to performance from one year to the next. Unrealistic sales quotas may result in less pay despite a sales person selling more than the previous year. To rectify this injustice, a manager will set next year’s sales quota too low, where a sales person may receive more pay despite selling less than the previous year. This cycle of “pay for NO performance” is more common than one would think and creates unwarranted volatility in pay that has nothing to do with performance. In addition, it does nothing to motivate actual success.

4. **Don’t Sweat Cents at the Expense of Dollars**

Ironically, caps and thresholds are sometimes introduced to act as a hedge against “easy quotas” or to not over pay “lucky” sales people. A threshold represents the minimum amount of sales required before a commission can be earned, while a cap represents the maximum amount of commission that will be paid after reaching a certain level of sales.

Unfortunately, threshold and caps acts as a headwind rather than a tailwind for companies that want to grow and becomes a formula for mediocrity. Sales people are incentivized to sandbag sales projections. The process becomes a negotiation rather than an exercise in forecasting. In some cases, if a sales rep has met their maximum payout they will hold off a sale for the following year. Not only will it help them negotiate a lower budget for the next year, they will also get paid for it. The same goes for thresholds. A sales person has no reason to sprint to the finish line if they don't think they'll make their minimum. They are forced to choose between what's best for the customer and their company versus what's best for themselves and their family, which isn't much of a choice. Solution: avoid caps and thresholds.

5. **Engage the Sales Force and Stakeholders to Solicit Feedback**

Coupling quantitative with qualitative analysis through a series of conversations with members of the sales organization and key stakeholders provides invaluable information as to the cause and effect of financial performance and clues to possible solutions. On a practical level, there are benefits in having a third party conduct these discussions so that the discussions are more open and candid. It's been our experience that employees genuinely have a desire to help improve the business and will be brutally honest in their assessments.

The value of these one-on-one discussions can't be overstated, because they provide insights that are difficult to detect from numbers alone. For example, understanding whether to move to a more generalist versus product specialist sales structure depends on many considerations. Conversations help to reveal cross-selling opportunities between products, level of product knowledge required to sell a product, skill level of sales force, and whether the point of customer contact is the same person for different products sold by the company.

In many cases, the issues have nothing to do with the sales force and more to do with product differentiation. Often sales is blamed for only selling products that are "easy" to sell and neglecting the products or services that are tougher to sell, without considering that perhaps it's not a sales problem but rather a product or service offering problem. In other cases, poor processes are the contributing factor for underperformance. These conversations uncover the reasons for good and bad quantitative performance, which is vital in determining the right solution.

As a final note, there is no substitute for a strong sales manager. Effective managers recognize how invaluable fact-based analysis and employee feedback are for any change management initiative, especially when it involves a sales force. By creating solutions based on facts, figures, and sales force feedback, sales people will have greater confidence that any "fixes" will not only be good for the customer and company, but will also be good for them and their families.

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