Successful Matchmaking: Linking Reward Systems with Today's Sales Roles

Consultative and value-added sales roles require special consideration

Successfully forging these types of sales relationships effectively locks the customer into an on-going business partnership.

Tailoring the sales compensation plan can support building long-term relationships and secure high-quality sales talent.

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The Changing Landscape of Sales

I f the economic gyrations of the new millennium have taught us anything, it's that selling successfully continues to be the greatest challenge that marketer's face.

Even the word "selling" has taken on new meaning. One word simply cannot capture the tremendous differences in selling process required in the current business environment. Traditionally, the sales process was fairly simple and one-dimensional. Most selling was a relationship game. Customers negotiated with any supplier willing to sell. And salespeople depended on face-to-face contact, an engaging personality, and, often, wining and dining to seal the deal. In many ways, a salesperson was only as good as his or her expense account and prices.

Over the past several years, many customers have conducted a major rethinking of how they do business with their suppliers. Call it a by-product of reengineering or of endless cost-reduction initiatives. The job of purchasing has become much more professional—often, more of an executive management role—and customers have instituted multiple measures to assess purchasing effectiveness. The result: Purchasing agents now face significant quantitative hurdles in choosing suppliers. Influence strategies require a business case, not a free lunch.

This drive to reduce costs has also prompted customers to limit, rather than increase, their network of suppliers. Traditionally, customers separated internal cost efficiencies from price. Cutting the cost of production or logistics was an internal task. Price concessions were all one expected of vendors, and the more competition was introduced, the lower the price went. But with economic pressures shaving margins razor thin, customers have come to realize the true economic benefits of reducing their network of suppliers and partnering with a select few. Through such an approach, they are keeping their overall supply chain costs low—not by playing one supplier against another to get the best price, but by working with the supplier to make the entire operation more cost-efficient.

This does not mean that the "old models" no longer exist. But now there are more varieties of selling processes to consider. The effectiveness of any one of them depends highly on the customer's requirements.

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Along with this new world order for customers and suppliers, new types of sales roles began to emerge. As customers became more sophisticated, they needed salespeople who could work in consultative ways to add significant value to their organizations.

Sales Process Models

Table 1 shows the continuum of sales roles/processes in use today. Note that consultative and value-added sales, which use more sophisticated approaches, are not necessarily "better" than sales roles on the other side of the spectrum. Instead, a sales organization needs to align sales roles and compensation with the customer's ultimate economic objective. The type of selling process used has some relationship to the nature of the product sold. But it is not unusual for an organization to employ several, if not all, of these processes, depending on the variety of customer segments/channels and the size or importance of an individual customer.

Table 1: Sales Process Models and Features

Transactional	Feature/Benefit (Relationship)	Consultative	Value-Added
■ Product is a commodity; price is key differentiator ■ "The early bird gets the worm" ■ A wide range of vendors are qualified	■ Some product differentiation exists ■ Price and features are equally important ■ Vendors must be "certified"	■ Solutions are tailored to customers' needs ■ Price is second to application ■ Develop a short-list of preferred vendors	■ Solutions are often unknown to a customer—pre-sale ■ Solution is more important than price ■ Team selling predominates ■ "Locked-in" buying creates a partnership"

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The sales processes displayed in Table 1 are:

■ Transactional sales. Here, commodity pricing is the rule. Customers know what they want and are just seeking the best price. Think of this as "routine" individual selling. To reinforce the point above, in some situations it is still an appropriate way to sell. Many types of retail selling fall into this category.

■ Feature/Benefit-Oriented sales. Sales professionals at this level do more than dicker over price; they help customers determine the appropriate

choice by comparing features and benefits to competitive product choices. They also rely on their relationship skills where vendor differentiation is minimal. This type of process continues to be viable in the business-to-business sale of a wide range of products (e.g., low-end telecommunications products, pharmaceuticals, office equipment, and so on).

■ Consultative sales. Sales professionals here help customers by analyzing their needs and providing advice on the best choices. This type of sale typically includes analyses of total-life-cycle cost vs. initial-purchase price. Consultative sales often result in changes in how the product is sold, delivered, or used. Cross-functional sales teams are becoming increasingly common for both consultative and value-added (see below) sales. These sales teams often focus on a single customer. Enterprise software is a typical example of a consultative selling process.

■ Value-Added sales. Sales professionals who truly add value will not only provide advice but will also take an active role in crafting the solution—customizing the production or delivery of the product—to meet the customer's need. The bottom line: Customer problem solving is more important than selling. Very few sales jobs fall within this category.

The payoff from successfully forging consultative or value-added sales relationships is that the customer is locked into an ongoing kind of partnership. Repeat sales are more akin to servicing events that focus on crafting solutions. This contrasts with traditional sales events focused on getting the customer to sign again on the dotted line. Companies that provide total-solution packaging and logistics (e.g., telecommunications networks, on-site chemical production) are examples of value-added selling processes.

Aligning Reward Systems with Customer Requirements and the Sales Process

The problem today is that, too often, the new breed of consultative and value-added salespeople are compensated as if their primary skills were a smooth approach and an ability to close the sale. The truth is, anyone who begins selling solutions needs a much broader skill set. Suppose you were the national accounts manager selling to a large retail chain. That customer would depend on you not only to deliver a fair price but, more importantly,

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to work with people in the customer's organization, wherever these activities were needed or were under way:

■ Customizing packaging to fit the customer's needs.

■ Establishing electronic data interchange to monitor inventory.

■ Replenishing inventory on a just-in-time basis.

■ Taking on the role of "category captain" (that is, actually managing the customer's inventory and display of its own and its competitors' products).

■ Designing an entire newly "branded" product line, which will be sold exclusively in the customer's stores.

What type of person does that description conjure up? Someone who is equal parts traditional sales professional and modern business consultant. And the methods for directing and compensating this kind of role will be worlds apart from the classic Pavlovian sales commission systems.

Such a value-added sales professional is a rare commodity; few salespeople possess the traits needed for success in this role. Therefore, the reward system must be aligned with this type of sales event. As shown in Table 2, this type of role is most effectively compensated with a total cash package that is at the top tier, and a base salary package tied to the competencies required for success. Pay at risk needs to be moderate because short term compensation/earnings pressure is often counter motivational to longer-term success.

Table 2: Sales Compensation Types

	Transactional	Feature/Benefit Oriented	Consultative	Value-Added
Total Cash	Very low to very high	Average	Competitive	Top tier
Pay at Risk	High	High/Moderate	Moderate	Moderate
Role of Base Salary	Pay for job	Pay for production	Pay for production and competency	Pay for competency

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Sales Compensation Plan Designs

Differences in the selling process—as well as differences in the makeup of a successful salesperson in each process (e.g., motives, traits, skill sets)—must be reflected in the supporting compensation system. Sales compensation plans tend to be very specific—and directive—in design. They typically are much more "customized," compared to variable compensation plans used for other types of functions and roles. This is largely because the sales process and the end results are very evident and measurable. Thus, very specific plan designs and metrics can be used to direct individual selling positions.

Let's walk through the primary sales roles: transactional, feature/benefit-oriented, consultative, and value-added (see Table 2). As you will see, certain design elements work best for each type of process.

Transactional

With this kind of role, the compensation plan is directly related to the business's sales or profits, and the sales process is usually frequent and repetitive. Commission-type compensation plans are most common. These are typically driven by sales volume and are paid monthly. With the rise of the Internet and electronic data interchange, transactional sales positions are becoming an endangered species in many arenas. Who needs anyone to quote prices, when computer systems can detail features and take orders more reliably than people can?

Feature/Benefit-Oriented

This is a step up in the sales spectrum, so the compensation plan must reward experience and deepening knowledge of the product line. It also rewards territory tenure and the ongoing management of strong customer relationships. Sales goals are usually set at a level higher than in the previous year, and incentives tend to be based not only on sales volume but also on the product mix. The most common type of plan design is a quota-based system.

Consultative

With salespeople at this level, the compensation plan closely parallels annual business plan objectives by reflecting financial performance metrics and linking to specific marketing objectives (both account- and product-based). Objectives have a longer-term, so the time horizon for incentives pushes out to quarterly and sometimes annually. Sales goals are more free form and multiple, based largely on the needs of specific customer segments. Compensation will be driven by such diverse measures as sales volume, profits, product mix, and customer satisfaction.

Value-Added

At the uppermost end of the spectrum, sales compensation is driven by longer-term milestones (for example, winning a spot on the customer's preferred group of select vendors). Sales professionals at this level are often national or global account managers; the sales organization pairs its top people with its top customers. Customer executives are often key sales contacts. Pay directly reflects how well the salesperson contributes to fulfilling the strategic business plan.

Drivers of pay will typically include profit, sales volume, and very specific objectives—often tied to meeting the customer's long-term objectives. The premium salaries and total cash compensation common to this level reflect the scarcity of professionals who possess the competencies required. If the sales organization uses a team approach, some part of the incentive will reflect team results.

Other Factors Driving the Sales Compensation Approach

"Formulas" and "rules of thumb" need to be adapted to specific real-world situations encountered in recruiting and motivating sales talent. Perspective and perception are often more important than "logic" in establishing a viable program. In other words, tailoring the sales compensation plan to the organization's unique needs, as well as to the available talent pool, is vital. To be successfully implemented, the compensation plan must reflect:

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- Market and industry compensation trends. Some industries, such as computer software, pay more on average than others, such as semiconductors. Selling software may not require more skill; the industry simply has a history of higher pay. The same disparity occurs in the health insurance industry versus retail trade.

- Talent availability. Scarcity always drives prices up. Pharmaceutical sales reps with specialty medical experience, for example, are in particular demand today—a demand fueled by the current explosion of new drug therapies. In contrast, loan officers are a commodity.

- Competency profile. Numerous studies have shown that outstanding sales performers possess unique competencies that differentiate them from average performers. Skills and knowledge competencies are generally important, but less readily apparent competencies (for example, traits, motives, and behaviors) tend to be much more predictive of top performance. The bottom line: It is worth paying more for the right competency profile.

- Team contributions. In today's consultative and value-added selling environment, the salesperson is only one member of the sales team. Successful selling often depends on the direct contribution of a variety of functions (such as marketing, finance, sales support, and technical support). To reinforce the contributions of these other jobs to sales success, many organizations have found it valuable to develop "sales" incentive schemes for these supporting jobs. There may not be as much risk (typically 10-15% of total cash) in the pay of these persons, but similar performance measures are often used—and rewarded—to help foster overall team success.

- Cultural environment and artifacts. High-tech reps expect stock options, distributor reps expect fancy cars, and insurance reps expect exotic travel "conferences." Flout these cultural conventions at your peril.

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Final Words on Developing Effective Sales Compensation Plans

Creation of an effective sales compensation program must start with the big picture (see chart), before a reward program can be effectively designed.

Figure 1: Get the "Big Picture" into View
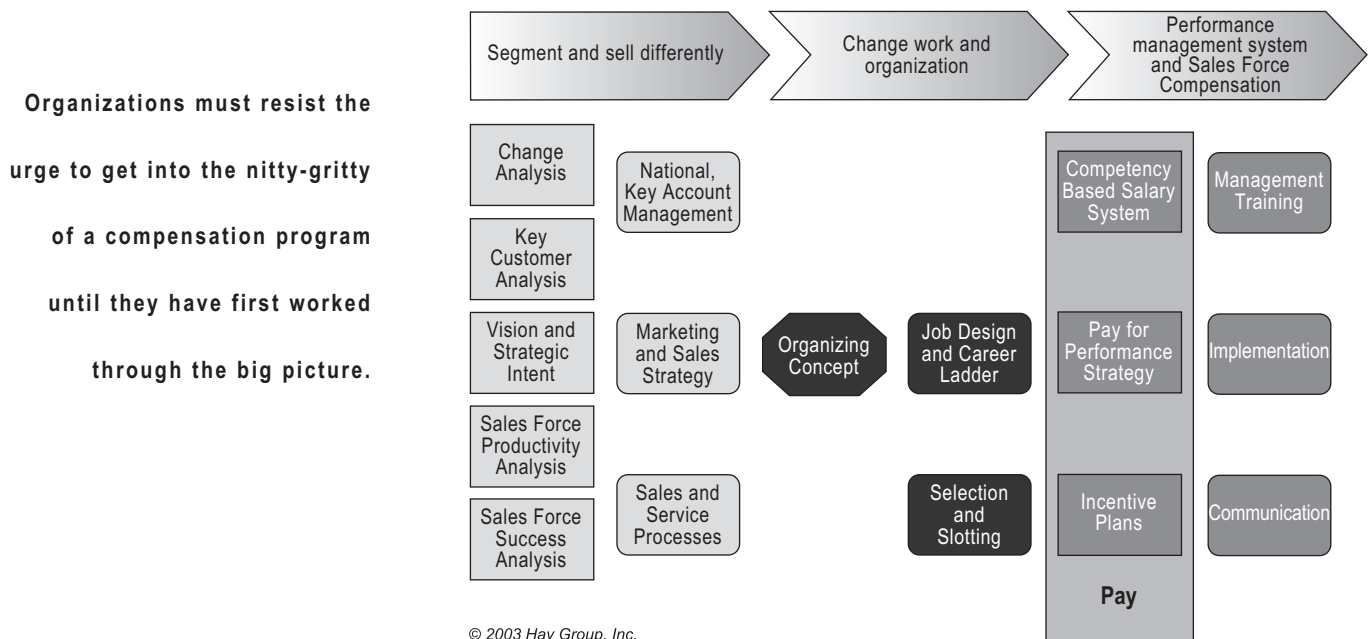
Only by addressing those areas can an appropriate sales compensation program be crafted. Challenge traditional methods when processes—and customers' expectations—dictate change. Resist the urge to get into the nitty-gritty of a compensation program until you have worked through all the big-picture items it needs to reflect. Sales compensation, then, is your tool for supporting all the elements of sales force effectiveness noted in the chart.

In tailoring your sales compensation program, be sure to make appropriate modifications for higher-end sales roles—the 20 percent who deliver 80 percent of the results. That's key because, as customers' demands become more sophisticated and complex, sales compensation needs to reflect that new reality. Just as an organization segments its customers by how they buy, you need to take similar steps to adjust sales plans for the salespeople who focus on each customer segment.

Organizations must resist the urge to get into the nitty-gritty of a compensation program until they have first worked through the big picture.

For example, instead of tying pay to monthly or quarterly sales goals, compensation for the top sales roles needs to reflect all the work that goes into deepening and strengthening the relationship with the customer. Why? Because the supplier/vendor bond has paradoxically become both stronger and more fragile. A transactional type of pay plan would not be appropriate for a longer-term sale. The last thing you would want to do is motivate a top sales rep to force a sale in order for the rep to qualify for a short-term incentive. Instead, you should encourage the rep to make the sale at the point where it delivers the most value to the customer. Put another way, appropriate sales compensation helps deepen customer relationships; inappropriate pay plans may jeopardize those relationships.

Finally, be careful of "over-engineering" a sales compensation program. One of the leading reasons for poor incentive plan results is design complexity. In the search for perfect formulas, many organizations have created algorithm monsters that are elegant in construct, but fair miserably in directing—yet alone rewarding—appropriate sales behavior.

There is no one-size-fits-all pay plan that an organization can adopt for all its sales professionals. Instead, to effectively support the selling process, sales-force reward programs must be customized for each business customer segment and sales role. Often, this means that sales management and human resources professionals must form a partnership to ensure not only that the pay systems are competitive, but that the driving measurements make good business sense.

Appropriate sales compensation helps to deepen customer relationships, but inappropriate pay plans can put these relationships in jeopardy.

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