Sales Management Newsletter (5/11/2005) Featured Articles by Heather Baldwin

Five Steps to a Winning Compensation Plan

If you think selling is tough, try putting together a sales compensation plan. You practically need a degree in statist to understand all the variables – and even then an effective plan that drives performance at all levels without draini profits can be elusive. Bob Davenport, vice president, sales force effectiveness practice at Hay Group (www.haygroup.com), has designed incentive plans for more than 140 companies over the past two decades. He s sales managers must do five things to ensure their compensation plans are built for performance.

1. Get out of the office. Get out and talk to reps, the CFO and the CEO. A lot of sales managers think they have a the answers, says Davenport, but "you don't always know. You have to find out what reps are thinking, whether the motivated by the plan and what they want." It's a good idea to do an objective survey of your reps that asks how th make money and what are the best and worst things about the compensation plan. Also talk to the CFO, who will h some good insights about what should be driving company profits and how the sales plan relates. Ensure that the CEO is in full agreement with the plan's structure by setting up a meeting and talking through ideas. It all starts wit leadership, says Davenport. The CEO has to support what the sales organization is doing and communicate that support to the team.

2. Do an ROI analysis. Do you really know what the performance you're getting is costing you? Many managers c To figure it out, create a chart where the X axis shows your key performance objectives (revenue or profit) and the axis shows how much you are paying the sales force for each of those objectives. Look at the threshold, target and outstanding performance levels to see what you're paying versus what you're getting in return – or how much differentiation there is in pay versus performance. The other question to ask yourself is whether you are truly rewarding people who are delivering substantial results. A good rule of thumb, says Davenport, is that an outstand performer should be earning twice as much as an average performer. (See sidebar.)

3. Validate the motivation in your payout curve. You need to ensure there's motivation at each step on the way toward and beyond quota. A common decision faced by reps who have reached quota is whether it's worth it to ke going and selling more. Yet above quota is where organizations can make a lot of money, so the rewards for rocke past quota figures should be significant. Chart your compensation plan and take a hard look at the entire pathway 0% of quota to 150% and beyond. Are there adequate incentives to keep selling above 90% of quota? Above 95% Above 100%?

4. Find out why your top reps left last year. You'll need to hire someone outside your company to do this becau ex-employees usually won't tell you the real reason they left. But here's why it's important: In general, the most common reason employees leave their job is their boss. The number one reason top-performing sales reps leave t jobs, however, is the pay plan. If that's the case, figure out what they didn't like and fix it.

5. Challenge existing wisdom. Take a hard look at your compensation plan and question everything about it. "Sit down and look at all your assumptions. Look at the distribution of performance by rep, by territory size, by experien and so on. What is the performance data telling you?" asks Davenport. "Do people in small territories always go ov quota while people in big territories never go over quota? That type of analysis is critical." It's easy to get lulled into using the same compensation plan year after year because that's the way it's always been done, but you might fin the data show your assumptions aren't working.

No Fear

It's widely known that one way to boost sales is to boost the amount of time your reps spend selling. Most reps will you, however, that they already are so busy there's no way they could pack in more selling time without adding ho to their days. But have you taken a close look at that claim? Do you really know how your reps spend each momen their days? It might surprise you, says Brian Tracy, a speaker, sales trainer and author of *The Psychology of Sellin* (Nelson Business, 2004).

In his book, Tracy cites a study by Columbia University that found the average salesperson spends about one and half hours a day selling. That's right – less than 20% of an 8-hour day in spent in front of customers. What's the re doing the rest of the time? Tracy says the average rep spends mornings getting warmed up – drinking coffee, chat with co-workers, reading the paper and checking voice mail and email. Eventually, the rep leaves to call on a pros The study found that, on average, the first sales call is not made before 11 a.m. After the call, it's time to stop for lunch. Afterward, the rep might remotely check voice mail and then prepare for and drive to the next sales call, whi isn't scheduled until 1 p.m. or 2 p.m. Soon it's late afternoon, so the rep returns to the office to commiserate with c workers about how tough it is out there.

To the average rep that time not selling is well justified, says Tracy. The newspaper needs to be read so the rep is informed when calling on a prospect. Coffee must be drunk to stay alert, voice mail needs to be checked to see if anyone has called to order something and sales calls after 11:30 a.m. aren't possible because no one wants to be disturbed during lunch. Calls after 3:30 p.m. or 4 p.m. are not productive because people are getting ready to go home.

In truth, most of your sales reps could spend a lot more time selling. Tracy says two things are holding them back - fear of failure and fear of rejection. The fear of a prospect saying no "acts like a subconscious brake that holds salespeople back and causes them to underperform," says Tracy. "Of course, they always have a wonderful select of excuses and rationalizations, but the real reason is fear of rejection." Not convinced? Consider this: If you hande your reps a list of prospects so well qualified that at least 90% were guaranteed to buy your product on one certain day, how do you think your reps would spend that day? They sure wouldn't be drinking coffee and checking email the office.

Now that you know the reason why your mid-level performers aren't maximizing their sales time, here's how you c help them.

1. Teach them that rejection is not personal. "Once you know that saying no is not personal, you stop worrying about it when people react to you or your product negatively," says Tracy. Top salespeople understand this princip and have built their self esteem up such that a no doesn't bother them. In fact; a no to a top performer is a challen not a rejection.

2. Become a personal trainer in courage. It takes courage to get up each day and face the fears of failure and rejection, but the good news is that courage is a habit just like brushing your teeth at night or taking a morning vita "Like a muscle, the more you practice courage the stronger you become," says Tracy. "Eventually you reach the p at which you are virtually unafraid."

3. Follow the five-calls rule. Statistics show that 80% of sales are never closed before the fifth meeting or closin attempt, but only about 10% of salespeople make more than those five calls or closing attempts. So if your reps ar discouraged after the third no, send them back out there. With more persistence they'll start closing more sales an building the self-esteem that comes with success.

Thinking of Sales Training? Read This

When you're up to your ears in the minutiae of running a sales organization and trying to make sure you hit your n term numbers it's easy to put sales training on the back burner, or worse, decide to book a local training organizati after their convincing pitch in the hopes they'll be able to lift your team's performance. There's no question the righ sales training can do wonders for an organization, but most organizations aren't getting the right training, aren't usi what they learned once training is over or aren't measuring the results. If you want your training to pay off in the lo term, follow these four sales training best practices from Thomas Morrill, lead principal of the global sales effectiveness practice at Boston-based PRTM, a global management consulting firm (www.prtm.com).

1. Sales training must be selected and delivered based on a specific skill gap in the organization. In other words, don't buy training just because the training company gave you a good pitch, says Morrill. Once each quarte out and analyze where the skills gaps are. How? When you ride along on a sales call, take a look at your reps' bas skills. Can they evaluate a customer's needs? Give a strong sales presentation? Close a sale? Also look at time a territory management skills. Can your reps manage a pipeline? How well do they manage their time? From this kin review you'll start identifying some common skill areas that need attention. Then you can seek out the best training match those needs.

2. Work with your vendor or internal training group to set performance metrics. If you're going to spend mon on an outside vendor, says Morrill, you should demand metrics that will show you've improved as a result of the training provided. If that means the company needs to come in and conduct an internal survey prior to the training they have a baseline against which to assess improvement, grant the necessary access. Don't take the company's word that the target metrics will be achieved. Ask for concrete examples of other organizations like yours with whic the trainer has worked and achieved the kind of results being promised. Then call those organizations.

3. Put a mechanism in place to hold people accountable for the training's execution. Almost everyone in the sales profession has at least one large sales training binder that hasn't been touched since they attended the prog To ensure that doesn't happen to you, have a plan in place to use the training beyond the classroom. For example you do training on closing skills, you should be rating the effectiveness of your people on negotiating and closing. I you taught a pipeline management course, during pipeline reviews everyone should be talking in the language the learned during the course. And if the trainers offer the option to conduct an audit 90 days after training, take them on it. The extra cost will be worth it, says Morrill.

4. Assess the ROI based on the metrics you laid out before training. Morrill recommends going back after 90 to look at the metrics you established before the training and see if they were met. Of course, the product or servic you sell will determine what you can evaluate. If you sell cars, says Morrill, you'll probably know within a day or two the training worked because your sales numbers should climb immediately. On the other hand, if you sell a produc that costs $5 million and takes 12 to 14 months to sell, you'll need to establish some interim metrics. Keep in mind metrics aren't always going to be about sales numbers. If your reps had problems with time management and they now spend 45% of their time selling instead of 30% – and nothing else changed – then the training worked.

Grow Your Own

Much has been written about the fact that your top salespeople won't necessarily make the best managers. So ho can you help ensure your company moves forward, and not backward, when someone takes over a sales management position? Know what you're getting by creating a mentoring culture within your organization that encourages employees to continue learning, growing and developing toward leadership roles, says Lois Zachary, president of Phoenix-based consultancy Leadership Development Services and author of *Creating a Mentoring Culture: The Organization's Guide* (Jossey-Bass, 2005).

Creating a mentoring culture is a time-consuming, complex process, but the paybacks are significant. Employee learning is accelerated and individuals find work more satisfying and meaningful, which in turn boosts retention fig Also, mentees become more adept at risk taking, perform at higher levels and tend to become more visionary think Relationships also are strengthened throughout an organization. Thus mentees who eventually move into a sales management position are likely to know what they're doing from day one and have the leadership skills to succeed a deep-rooted commitment to the organization. In her book, Zachary outlines 15 action steps organizations must ta when planning a mentoring implementation. Here are six of them.

1. Define the purpose, scope, target population, learning outcomes and benefits. Doing so creates a level of readiness and a set of expectations for everyone connected with the mentoring program. There must be no ambig here and the purpose and intent of the program must be crystal clear says Zachary.

2. Articulate roles and responsibilities of program participants. If ignored, this step can be a big stumbling blo to success. "If roles and responsibilities are not defined, multiple (and often unrealistic) expectations are created," Zachary cautions.

3. Establish mentee and mentor criteria. Clarify who is eligible to participate in mentoring and what is the ultima basis for selection.

4. Ensure visible support from the top. Leaders must champion the mentoring effort and encourage other leade do the same by their example. They must talk about the value of mentoring and share their own mentoring stories, example.

5. Plan rollout and full implementation. Start with a pilot program so you can learn your lessons on a small scale before doing a full implementation. Establish a timeline for both the pilot rollout and full implementation.

6. Gather and share stories and best practices. "Stories inspire. Best practices inform. One of the keys to sellin inspiring and galvanizing participation is being able to relate to the real-life mentoring experiences of peers, collea and role models," says Zachary. So gather the success stories of great sales managers who were mentored and u them to galvanize support for a mentoring program. Then get your sales reps with promising leadership potential i the program.

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Davenport compares the actual payout curve

In this chart Davenport compares the actual payout curve of an amalgamation of 50 pharmaceutical companies to an ideal curve. In an ideal situation, top performers should be making twice as much as average performers. Here, the superstars are making just 40% more than the median – a sign that many of these companies need to retool their compensation plans. How do the numbers work out in your organization?