INVESTING IN YOUR SALES TEAM:
IS YOUR PORTFOLIO DIVERSE ENOUGH?

Compare your results to our comprehensive total rewards study

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LIKE YOUR OWN INVESTMENT
PORTFOLIO, A LEVEL OF DIVERSITY
IS IMPORTANT

BUILDING A BETTER PORTFOLIO

In a Harvard Business Review article from 2012, researchers compared the variety of tools available to reward and motivate sales teams to an investment portfolio. They pointed to the all-important balance between finance's need for control with sales leadership's desire to get results. With an estimated $800 billion spent on sales compensation in the US alone, it's an area that can determine the success or failure of your organization's strategic objectives and top-line growth.

Like your own investment portfolio, a certain level of diversity is important. But how common is diversification in top-performing sales organizations today? And how are sales leaders using different investments in their sales team to affect customer satisfaction? Sales retention? Revenue improvement?

We set out to determine how successful organizations are investing in their sales teams. The questions we sought to answer in this study:

1. WHAT DOES A HIGH-PERFORMING SALES COMPENSATION PORTFOLIO LOOK LIKE?
2. WHICH LEVERS WORK BEST TO DRIVE REVENUE, RETENTION AND CUSTOMER SATISFACTION?
3. BEYOND SALARY AND COMMISSIONS, WHICH INVESTMENTS ARE CURRENTLY PAYING OFF?

Understanding where and how much to invest in each area of your comp plan can make the difference between a high-performing and an average sales team.

Our survey of 575 sales compensation experts,

completed in October of 2015, returned a clear picture of how sales organizations are using salary, commission, benefits, cash and non-cash incentives and recognition to drive performance.

MORE INVESTMENT FLEXIBILITY

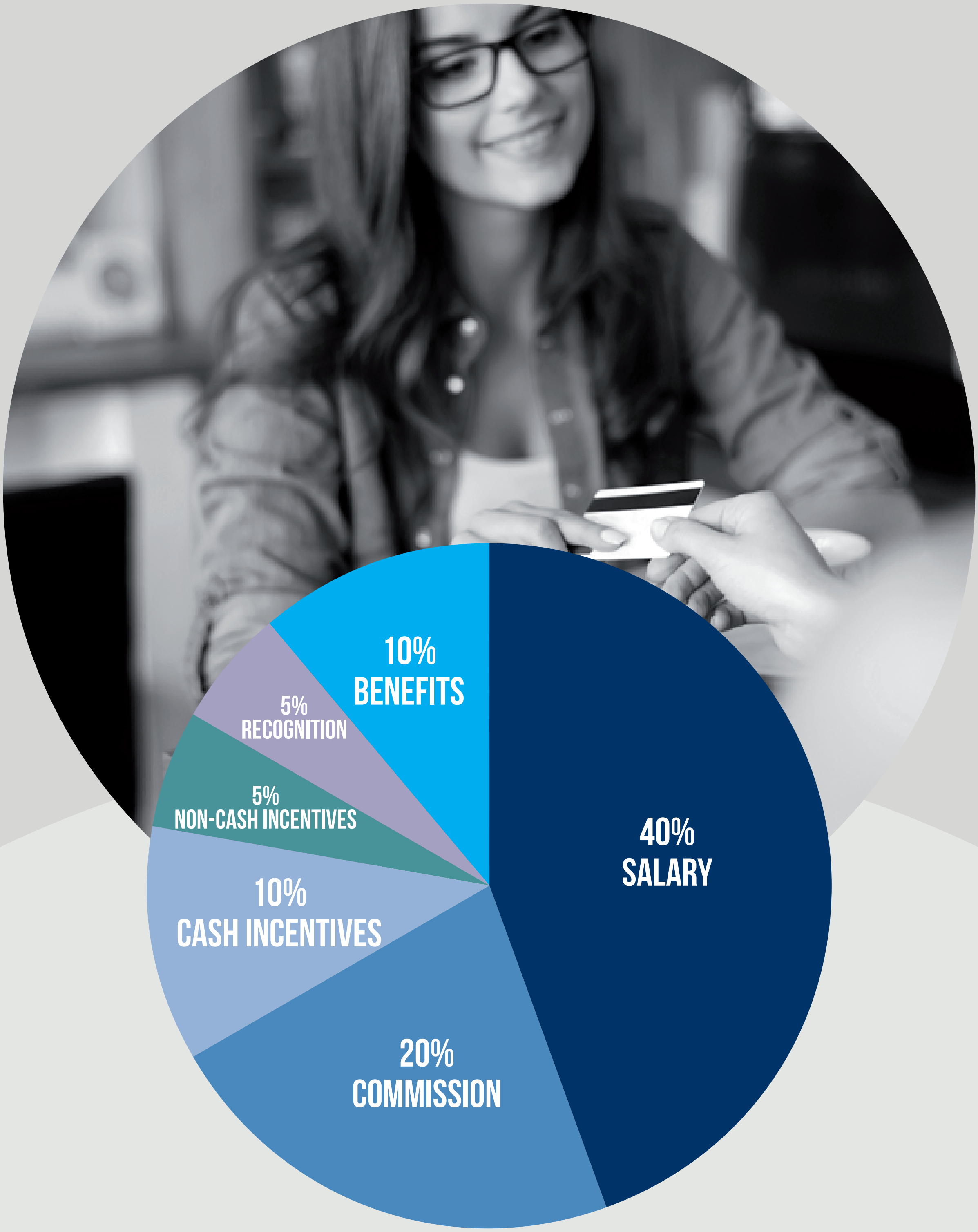
Sales leaders today have more data available than ever before. And with that data comes flexibility to fine-tune your overall comp plan and put your dollars where they will have the most impact. So what does a typical portfolio look like? How are sales leaders dividing up their long-term, less-flexible investments like salary, commission and benefits vs. short-term, flexible tools like cash and non-cash incentives? And with the recent focus on overall employee engagement, how does recognition spend figure into the mix?

We asked our panel to provide us with information about the total rewards provided to their sales employees, including incentives and recognition.

Here's what we asked:

THINK ABOUT HOW YOUR SALES COMPENSATION BUDGET IS ALLOCATED. WHAT PERCENT OF YOUR SALES COMPENSATION BUDGET IS CURRENTLY SPENT ON EACH OF THE FOLLOWING?

SALARY	COMMISSION/ AT-RISK COMPENSATION	CASH INCENTIVES
NON-CASH INCENTIVES	RECOGNITION	BENEFITS



THE RESULTS OUR PANEL ASSIGNED TO EACH AREA OFFER A BENCHMARK FOR COMPARISON.

*In our analysis, the median, not mean, for each category is presented. As a result, the totals in the pie chart do not equal 100%.

This information, to our knowledge, is the first study that reports in detail what employers are investing in recognition and incentives for their sales organization as part of their total rewards portfolio.

COMPANIES CAN USE THIS AS A BENCHMARK TO COMPARE THEIR INCENTIVE INVESTMENT.

What follows are additional insights about how companies are investing those incentive and recognition dollars and what can be done to maximize that investment.

This study focused on the areas of more flexible incentive and recognition because it is our belief that those areas are most effective at creating what Dr. Ran Kivetz[i] calls *idiosyncratic fit* – a key concept in understanding what motivates and drives salespeople to perform. In short, idiosyncratic fit defines the emotional experience you have when you feel you have a positive advantage over others to earn, achieve or win a reward. Salary and benefits provide minimal fit, as those are perceived to be equally available to everyone on a sales team, or earned by tenure or experience, something that is hard to change in the short-term.

When used effectively, cash, non-cash and recognition awards can create a fit among all segments of your sales team:

- **NEW MEMBERS OF YOUR ORGANIZATION CAN BE ON-BOARDED MORE QUICKLY AND WITH BETTER RESULTS**
- **EMERGING PERFORMERS CAN LEARN FASTER**
- **REPS IN THE MIDDLE WILL STRIVE FOR IMPROVEMENT, RATHER THAN CHECKING OUT**
- **TOP PERFORMING REPS WILL BE RETAINED AND CONTINUE TO SET THE PACE**

Proof of these results can be found both in actual program results as well as in the perspective of our panel of sales leaders. We sought answers to several questions, in an effort to understand how to motivate all segments of a sales organization.

Our findings are as follows...

i "The Idiosyncratic Fit Heuristic", by Dr. Ran Kivetz and Itamar Simonson, Journal of Marketing Research, November 2003 issues, at: http://www.columbia.edu/~rk566/research/Idiosyncratic_Fit.pdf

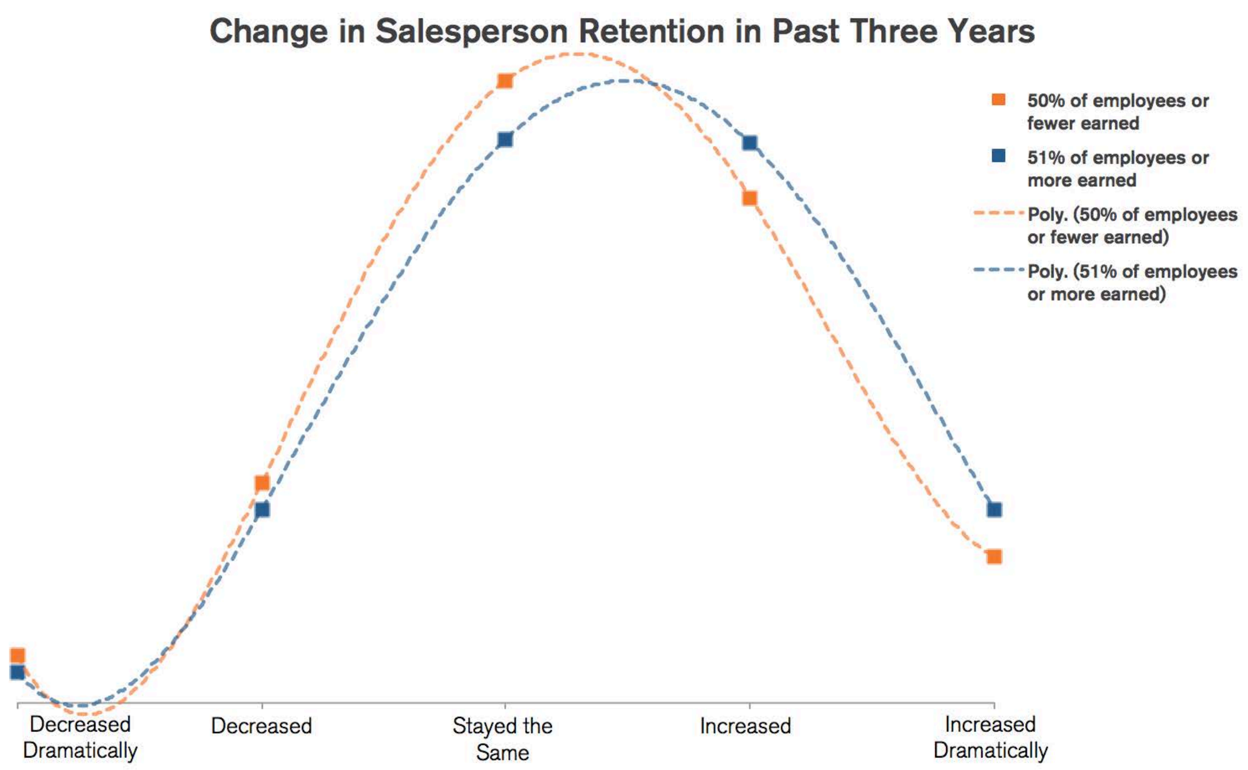
1

WIDESPREAD AWARD EARNING RELATES TO INCREASED SALES VOLUME AND RETENTION

For some years we've advocated a point of view often called "move the middle", where incentives are designed to engage salespeople across the spectrum of productivity. To determine if an approach like "move the middle" was being implemented, we asked our panel the following:

APPROXIMATELY WHAT PERCENT OF EMPLOYEES AT YOUR COMPANY EARN AT LEAST ONE INCENTIVE PER YEAR?

We grouped responses into the "50% or fewer" and "51% or more" categories and then explored the relationship between this response and the business results provided. The results were quite telling. Those employers who reported more than fifty percent of their sales organization had earned at least one incentive in the last year were more likely to report an increase in salesperson retention over the past three years:

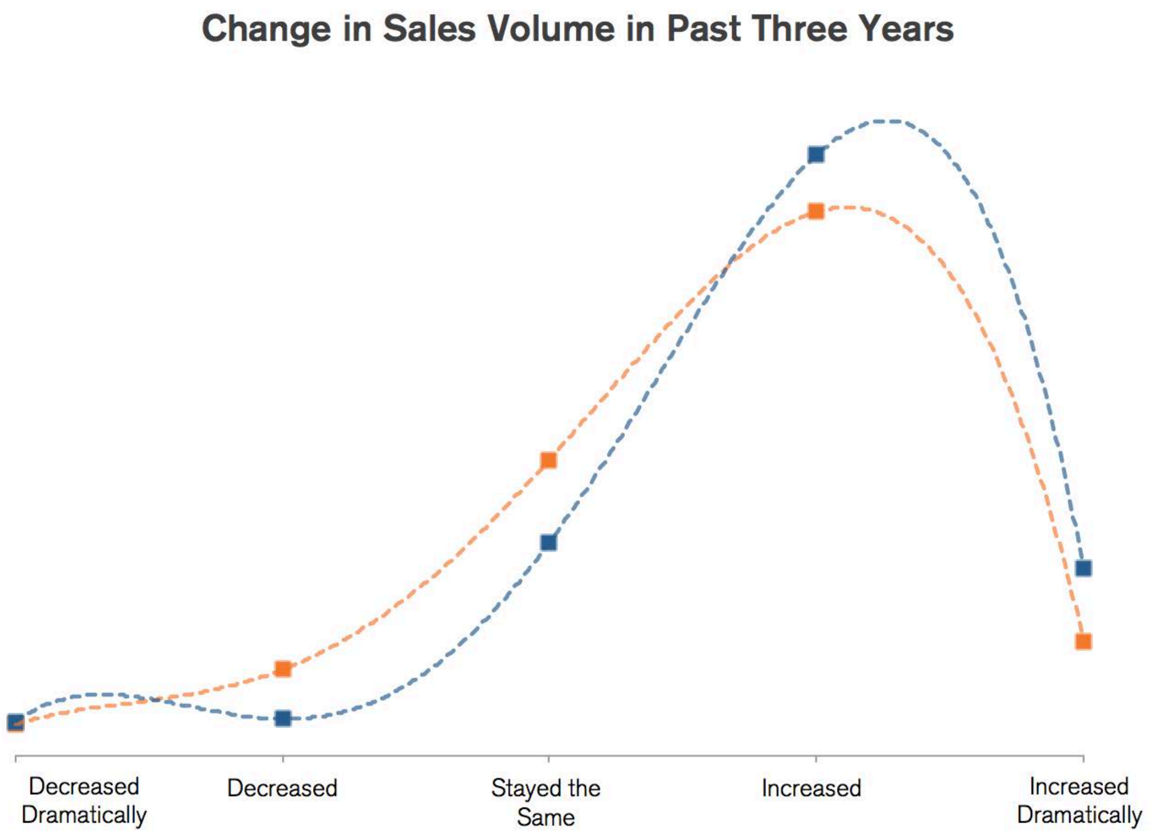


In addition to incentives (including recognition), salary and commission also significantly contributed to salesperson retention. The benefit of using incentives to drive retention is flexibility. Unlike salary and commission, incentives can easily be added, removed or adjusted from year to year.

How does widespread earning relate to higher employee retention?

An approach that provides meaningful rewards to a greater percentage of the sales organization gives producers at all levels a greater feeling of worth and appreciation which, in turn, creates greater organizational commitment.

A SIMILAR RELATIONSHIP IS SEEN WITH WIDESPREAD REWARDS EARNING AND SALES:



Offering “stack ranking” incentives, which reward the top sales producers in an organization, is valuable for recognizing the contributions of an organization’s best. But a stack ranking incentive, such as a President’s Club, won’t be appealing to a fourth quartile producer. And we note that some of our panelists reported only five percent of their sales organization received an award in the last year, suggesting their focus was primarily on stack ranking incentives.

Producers in the lower half of the organization can still contribute and make improvements but will be most engaged by incentives where they perceive they have a better chance of earning. So along with offering a stack ranking incentive, sales leaders may also want to consider rules structures such as “do-this-get-that” or a sweepstakes, where a greater percentage of the sales organization would have a more reasonable chance to earn.

How do the companies in our study who are enjoying better business results explain their approach?

A panelist in the life sciences industry talks about providing incentives across performance groups. They provide...“top to bottom incentives. Finding ways to incent everyone on a team drives the motivation for the support members to create environments where the sales people can perform better and they all benefit.” A panelist in the telecommunications field remarked: “I find that an open-ended incentive program works best and boosts morale. Plateau incentives and sometimes closed-ended lowers morale, making some employees not try as hard as they should.” Another panelist advised: “Set attainable goals for a small incentive that almost everybody can accomplish, then raise the bar higher.”

MANY EMPLOYERS ARE INTENTIONALLY DESIGNING PROGRAMS THAT “MOVE THE MIDDLE,”

getting as much of the sales organization focused on driving toward a common result. Our research indicates that this approach can reap significant important benefits.

2

GREATER VARIETY IN INCENTIVE TYPES IS ASSOCIATED WITH INCREASED SALES, RETENTION AND CUSTOMER SATISFACTION

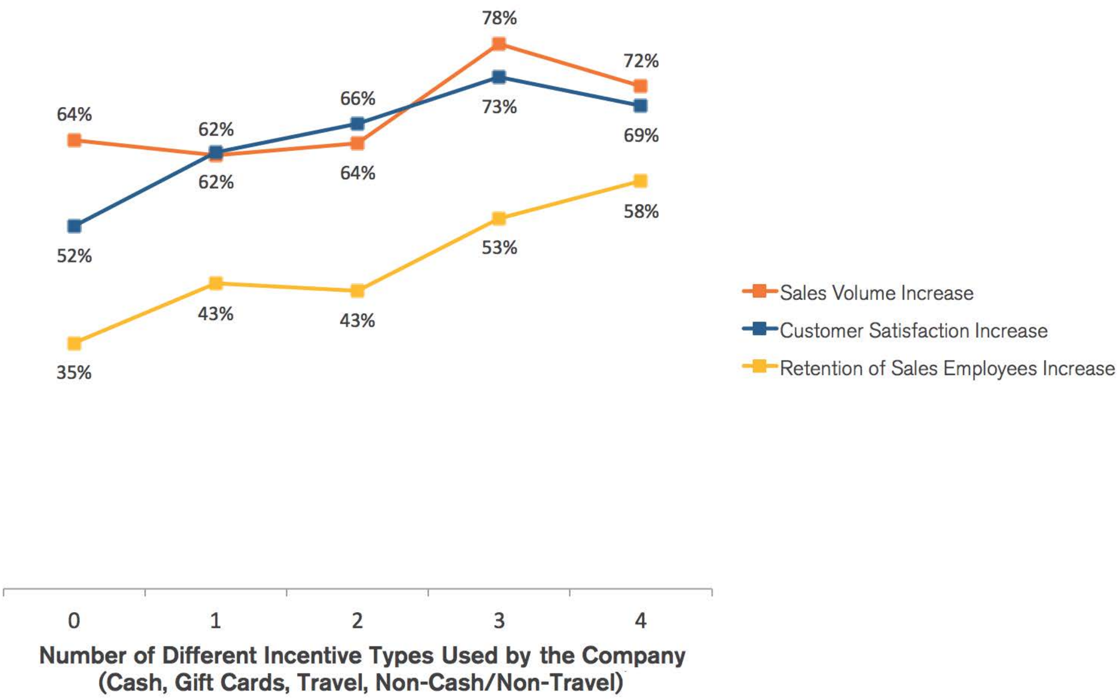
To bring the investment portfolio down to a personal level, let's compare your sales comp plan to the way you invest (or spend) your own personal income. To begin with, salary and benefits are similar to long-term investments like real-estate, bonds and insurance in your own personal portfolio. Continuing the comparison to other ways of investing (or spending) your income is easy. Commissions and cash spiffs are the gas and groceries of your comp plan, which leaves non-cash incentives and recognition as the emotional and social part of your own personal spending, analogous to the money that goes to entertainment and special occasions. Although these may not be a huge part of your sales comp (or individual) budget, results show they can be powerful motivators when used wisely.

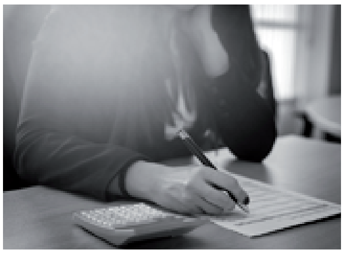
As we have seen from the previous research, each of these is part of a healthy comp plan. But what is the right blend? If rewarding more of your sales force is important, should you have different incentive tools available? To explore this issue, we asked:

WHAT METHOD(S) OF REWARDS DO YOU USE FOR INCENTIVES?

(CHECK ALL THAT APPLY.)

The results are telling. Companies who use more of the incentives listed above have a positive relationship with the business outcomes on which our panelists reported:



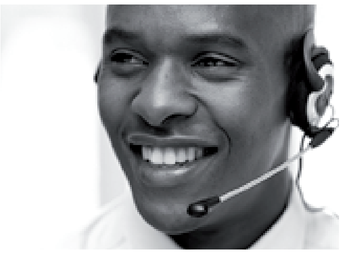
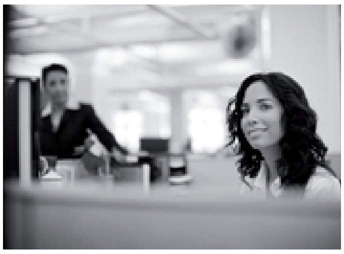
To most effectively engage the entire sales organization, different types of incentives can be used. Travel, which is a comparatively more expensive option, can be used to reward top performers. Gift cards or non-cash items, which are less expensive, can be used for incentives where more salespersons earn based on achieving, for example, a shorter-term sales contest.

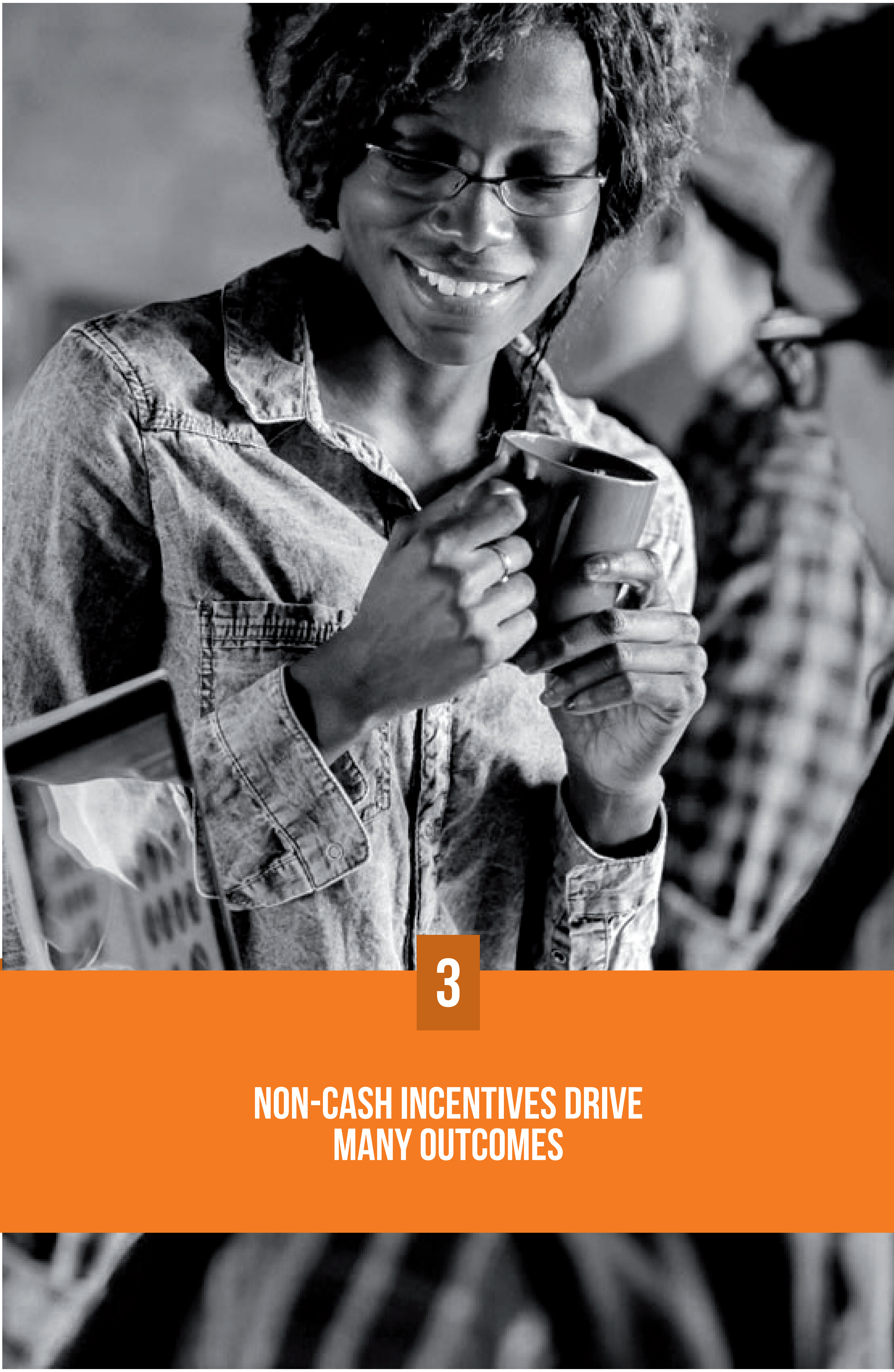
ONE EXECUTIVE IN THE AUTOMOTIVE INDUSTRY CONCLUDES:

"I THINK EMPLOYEES WHO HAVE SMALLER GOALS IN A SHORT PERIOD OF TIME ARE MORE SUCCESSFUL THAN LONG TERM GOALS THAT REQUIRE MORE TIME."

The field of positive psychology informs of a phenomenon called "hedonic adaptation," where something that initially makes us happy and engages us becomes dull and trite after a time. We would argue that companies who employ various tools reduce the impact of hedonic adaptation.

More simply stated: when it comes to incentives, it's good to mix it up.



3

NON-CASH INCENTIVES DRIVE MANY OUTCOMES

Our next area of focus is on non-cash incentives and how companies use them. We asked:

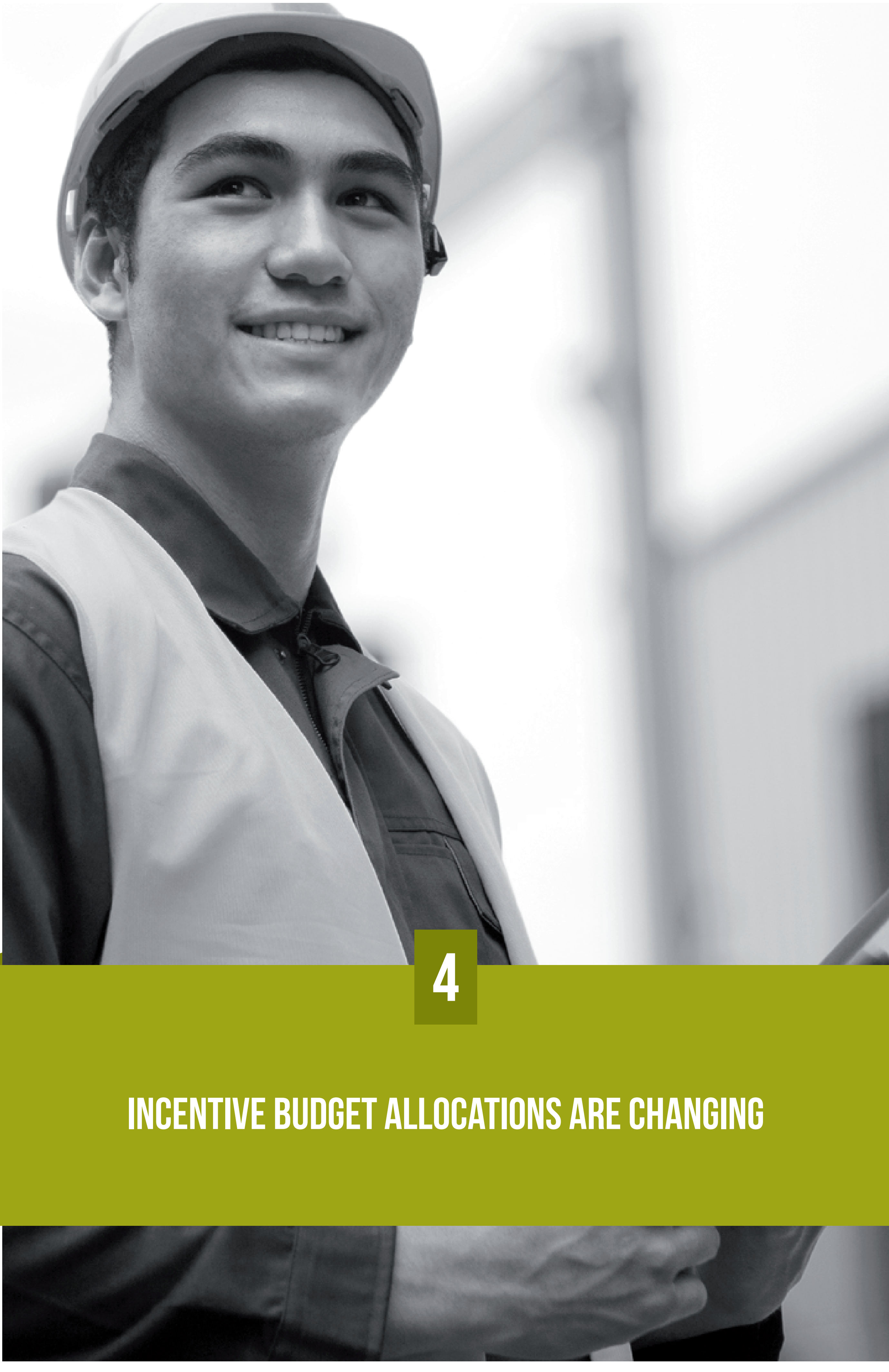
HOW EFFECTIVE ARE INCENTIVES
(NON-CASH INCENTIVES: NON-CASH CONTESTS, RAFFLES, OR POINTS-BASED PROMOTIONS THAT REWARD IN TRAVEL OR MERCHANDISE)
AT INCREASING OUTCOMES FOR EACH OF THE FOLLOWING FOR YOUR SALES AUDIENCE?

Panelists who use non-cash incentives rated each strategy on a five-point scale from "Very Detrimental" to "Very Effective."

STRATEGY	% Very Effective
Short-term goal achievement	32%
Maintaining focus on critical products	30%
Focus on high-profit products or accessories	30%
Reinforce learning	26%
New product adoption	26%
Maximize seasonality	25%
Boost lagging products	21%

The results suggest that non-cash incentives can be used to drive different business outcomes. They can be used to gain greater focus of the sales organization. For example, "learn-and-earn" programs have proven to be very effective in better educating the sales force which, in turn, helps them be more effective with customers.

A RETAIL EXECUTIVE DESCRIBES THE LINKAGE: "BETTER PRODUCT KNOWLEDGE LEADS TO AN INCREASE IN SALES WHICH LEADS TO AN INCREASE IN SALES COMMISSIONS."



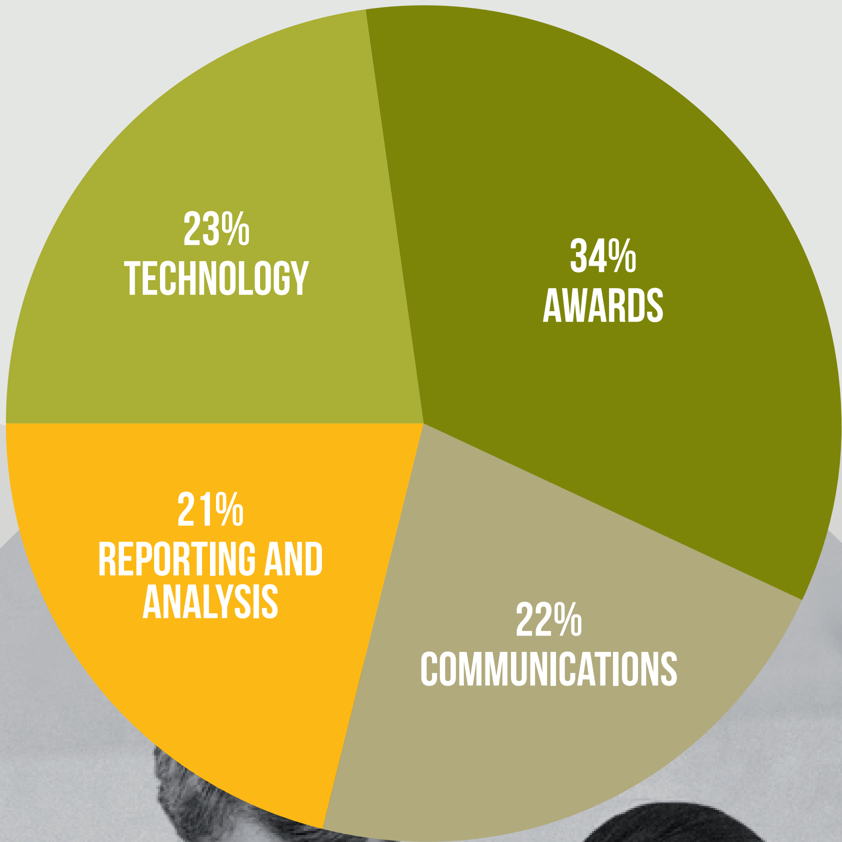
4

INCENTIVE BUDGET ALLOCATIONS ARE CHANGING

Ten or fifteen years ago, it was common for companies to invest the majority of their incentive dollars in the actual rewards for the sales organization. Whether it was travel, merchandise or gift cards, this often made up over ninety percent of the incentive budget.

We wondered if things have changed. Here's the question we posed:

THINKING ONLY OF YOUR BUDGET FOR INCENTIVES, WHAT PERCENT GOES TO FUNDING EACH OF THE FOLLOWING?



For this analysis, the mean (average) percentages were used.

The changing landscape of business is driving companies to allocate resources to functions beyond the awards.

Regarding communications, we see an even greater emphasis on getting the sales organization information in as timely a fashion as possible. One panelist shared where they are and the direction they're heading: "Daily updates on sales results would be extremely helpful but hard to do because of the time limit allowed to the program. But we do it weekly, which is effective in motivating them for the next week."

Reporting and analysis are taking on an even greater role for companies. As a sales leader in the telecommunications field remarked: "Incentives are only beneficial to the company when they motivate employees to sell more. We monitor the incentives so that we know how many extra sales were generated due to the incentive. This information will show if there was a return on a particular investment or incentive."

Companies are making investments in technology to support the effective execution of incentives. According to our panelists, those investments range from web-based training, reward and recognition platforms and customer management systems.

Rewards need to be meaningful, memorable and motivating. One thing we learned is that what is meaningful for one company may be of little value to another. Many participants identified "experiences" of various kinds to meet their mark. But experiences can vary widely, from gift cards to movie tickets to more expensive trips.

OUR TAKE-AWAY FROM THESE COMMENTS? KNOW YOUR AUDIENCE.

One panelist described a novel reward for their sales associates: "Warehouse run. It drives the employees to focus on retention, specific sales goals and handling calls more effectively. The employees win a trip to go on a… warehouse run and grab as many things as they can to take home with them. Employees love this because it is just in time for Christmas."

Some employers are offering additional rewards to drive outcomes. One retailer, for example, allows winners of incentives to have preference on scheduling, which in the retail environment may be a strong motivator. A compensation executive in the telecommunications field has found that having extra paid-time-off as an award has value. Because attendance has been a challenge, only sales associates who meet an attendance requirement are eligible for the sales incentive.

For some panelists, particularly in the automotive and retail sectors, we note that manufacturers/suppliers are contributing to the incentive budgets. They also offer training specific to their products or services. For some employers, this contribution from valued business partners can meaningfully contribute to incentive budgets.

5

EXECUTION IS CRITICAL TO ACHIEVE OBJECTIVES

An incentive with the right rules structure can be derailed by other issues regarding execution. We asked our panel to identify the challenges they face in implementing incentives. Specifically, we asked:

DO YOU EXPERIENCE ANY OF THE FOLLOWING CHALLENGES WHEN IT COMES TO IMPLEMENTING SALES INCENTIVES?

Our panelists were allowed to choose from the list below or write in another challenge and they could identify as many on the list they felt relevant to their situation:

CHALLENGE	% Experiencing
Competing incentives within the same time period.	45%
Lack of support from other functions/departments.	37%
Sales data that isn't timely.	34%
Sales data that is less-than-accurate.	33%
Inability to communicate regularly with the sales audience.	27%
Lack of support from first-line supervisors.	25%

Although the two listed at the bottom of the chart are the least frequently reported problems, we do note they may have an impact on the business results we desire from incentives. Specifically:

CUSTOMER SATISFACTION IS SIGNIFICANTLY LOWER
IN COMPANIES THAT SAY THEY EXPERIENCE THE CHALLENGE OF "INABILITY TO COMMUNICATE REGULARLY WITH THE SALES AUDIENCE."

SALESPERSON RETENTION IS SIGNIFICANTLY LOWER
IN COMPANIES THAT SAY THEY EXPERIENCE A "LACK OF SUPPORT FROM FIRST-LINE SUPERVISORS."

These findings suggest challenges in communication and front-line supervisor engagement aren't experienced as often but if they are a problem, they may be a problem that moderates incentive results. As one panelist in technology industry noted in terms of how their company stacks up: "We have an excellent training program. I wish we had better communication with mid-level supervisors." An executive in the telecommunications field echoed: "You need to solve for it all up front – communication, training and follow up. Follow up by front-line supervisors is the key to success." Another panelist shared that management needs to be positive and respectful: "Employees should not feel confined and less liberated as if they are work prisoners. Their production speaks for itself and treating them like children can affect their performance, drive and most importantly their well-being."

THIS BENCHMARKING STUDY HAS ADDED TO OUR UNDERSTANDING OF THE BENEFITS OF SALES INCENTIVES. BY VIEWING SALES COMPENSATION AS A PORTFOLIO TO BE INVESTED IN HAS PRODUCED A VARIETY OF INSIGHTS:

LONG-TERM VS. FLEXIBLE INVESTMENTS

Salary and benefits are the low-risk investments that provide us with security (similar to real-estate) bonds and insurance in our daily lives. Commissions and cash spiffs are necessities, comparable to gas and groceries, that we use on a daily basis. And non-cash incentives and recognition are the highly flexible, emotional and social investments we make to produce short- and long-term results.

TOTAL REWARDS BIG PICTURE

We now have a benchmark of total rewards for salespeople that includes how much companies are investing in incentives and recognition and where those investments are focused.

"MOVE THE MIDDLE" MAKES A DIFFERENCE

Companies that provide performance-based rewards to multiple segments of their sales force enjoy better employee retention and sales volume.

IMPORTANCE OF A DIVERSIFIED PORTFOLIO

Companies that provide a greater variety of incentives (cash, gift cards, travel and non-cash/non-travel) enjoy increases in sales volume, retention and customer satisfaction.

THE EFFECTIVENESS OF NON-CASH INCENTIVES

These types of incentives can be used to focus a sales organization on a variety of outcomes. Execution is critical. Participants report a number of corporate challenges, which could hinder incentive effectiveness. Of particular concern is effective communication and supervisor engagement.

TO LEARN MORE ABOUT HOW BI WORLDWIDE CAN HELP MOTIVATE YOUR SALES FORCE WITH A TOTAL REWARDS INCENTIVE STRATEGY, VISIT:

BIWORLDWIDE.com or email info@BIWORLDWIDE.com.

APPENDIX

We conducted this study via an independent panel with individuals who self-identified as sales compensation experts. We used a novel method to validate their competency. After reviewing the records, results from the following respondents were reported.

575 SALES COMPENSATION EXPERTS WHO ARE BASED IN THE UNITED STATES COMPLETED THE SURVEY.

296 Were employed by a representative sample of employers with at least 1,000 employees.

279 were added as a "booster" sample to allow for reads in five industries of interest: Telecommunications, Automotive, Healthcare, Technology, and Retail. These respondents came from employers with at least 500 employees.

Respondents answered questions about up to two of their sales audiences, which could include:

- CALL CENTERS
- RETAIL
- ENTERPRISE
- DIRECT SALES

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