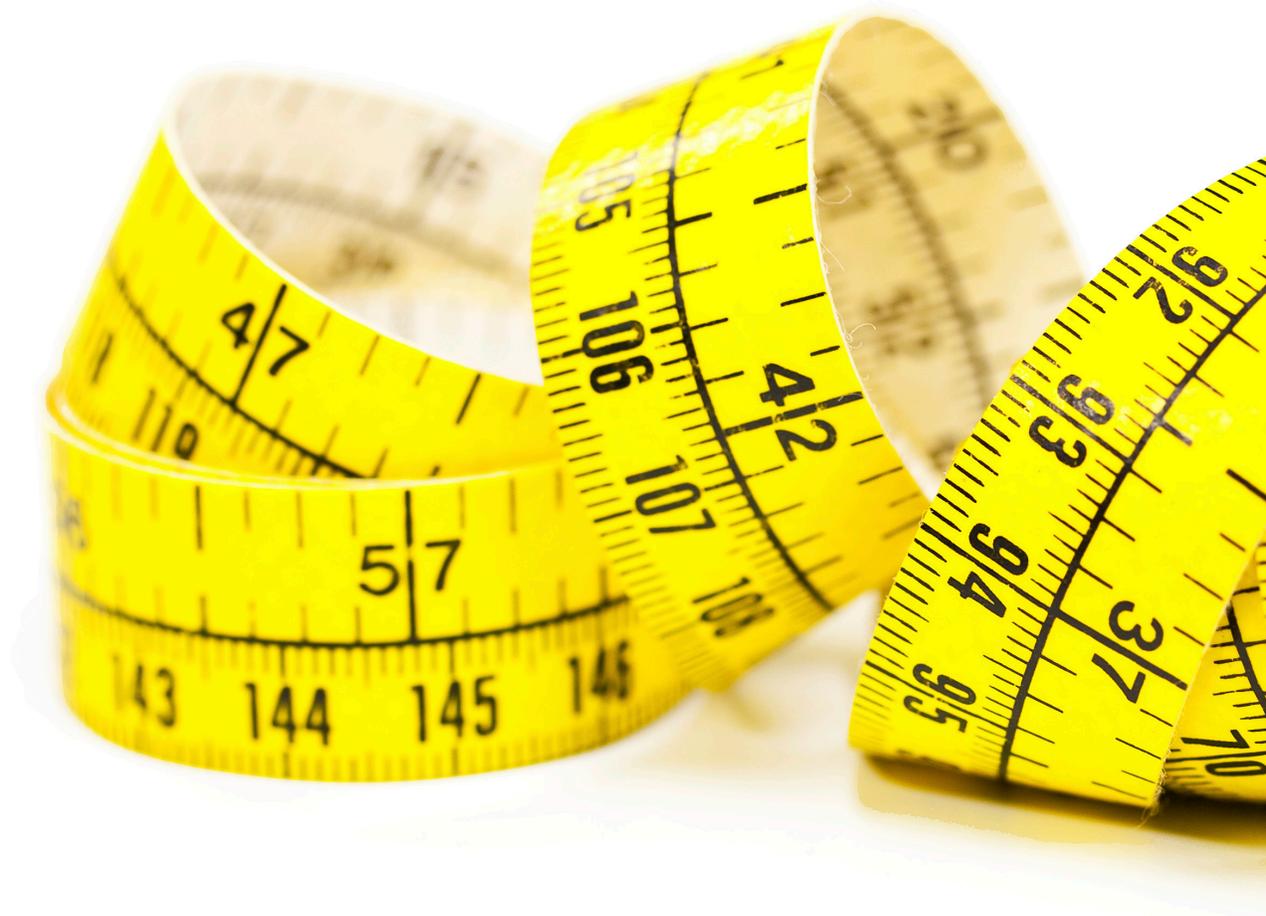


Great (sales) expectations

The growing gap between sales force expectations and the influence traditional sales compensation has on performance

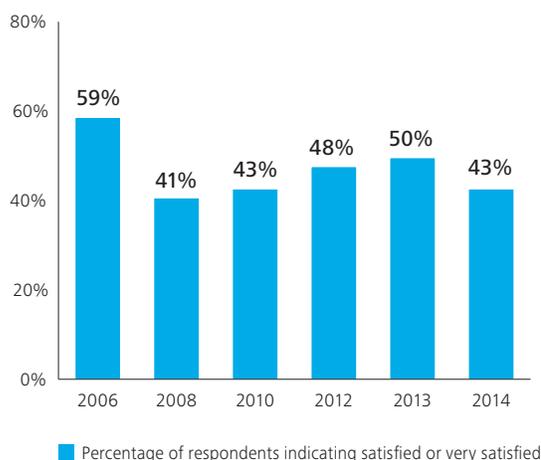


Charles Dickens' 'Great Expectations' took place during a period of significant technological change. The Industrial Revolution greatly altered how people worked, communicated, and traveled. This historical backdrop is comparable to the windfall of technological advancement the global business community is experiencing today. With the economy growing again, executives have moved past the Great Recession and set aggressive growth sales goals for their organizations. However, the desire to grow is, at times, hampered by the difficulty in effectively managing and influencing sales force performance. Many sales leaders continue to use decades old tactics and methods for motivating their sales teams and are not seeing the desired results. Sales leaders who broaden their approach to sales motivation, compensation, and talent have a better chance of moving the performance needle and meeting growth demands.

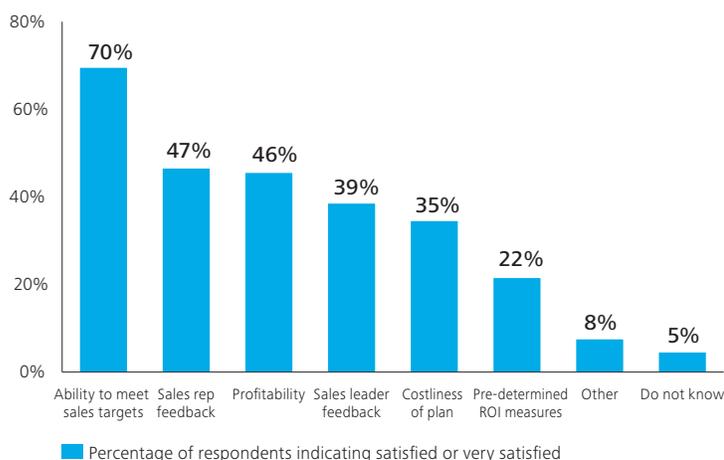
When Deloitte compiled the 2013 Strategic Sales Compensation Survey¹, it identified a gap in how sales leaders viewed the effectiveness of their sales compensation programs. While exactly half of sales leaders indicated that they were satisfied with their compensation programs (an increase of 7% since 2010), nearly one-third were not satisfied with how effectively their incentive plans were driving the applicable behaviors. It was evident that although sales leaders looked to their sales compensation programs to improve overall performance, many were not seeing the lift in performance that was expected.

Unfortunately, satisfaction levels have not risen in 2014. In fact, for the first time since 2008, the percent of leaders who are satisfied with their sales compensation programs decreased, even though sales productivity satisfaction levels remain constant compared to previous years. The primary measure of sales compensation program effectiveness, as indicated by surveyed participants, is the ability of sales organizations to meet their targets — which many missed in 2013 (see graph 5); so it is no surprise that sales leaders expressed dissatisfaction in their sales compensation programs.

Graph 1: Sales compensation program satisfaction¹



Graph 2: Primary measure of sales compensation effectiveness



¹ <http://www2.deloitte.com/us/en/pages/human-capital/articles/2013-strategic-sales-compensation-survey-report.html>

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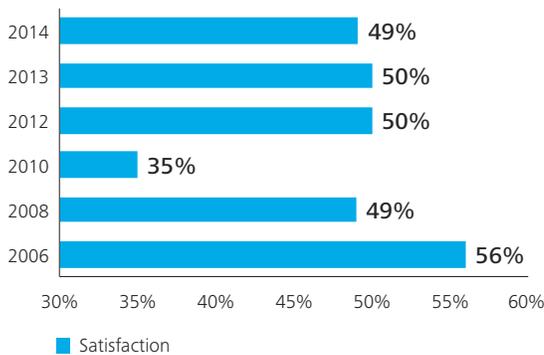
However, the growing pressure on sales compensation programs to change sales force behaviors may be only one layer of the dissatisfaction.

While incentive pay has historically been the primary motivational tool in a sales leaders' tool box to drive behavior and results, executives should look at other aspects of their sales execution capabilities to improve sales force effectiveness and performance.

Sales productivity remains stagnant

While satisfaction with sales force productivity increased drastically between 2010 and 2012 (from 35% to 50%), sales leaders' sentiments about their teams have plateaued. Between 2012 and 2014, just 49%–50% of sales leaders indicated satisfaction with the overall productivity of their sales organizations. Flat sales productivity satisfaction seems to counter the fact that an astonishing 65% of sales leaders who responded believe that the economic recovery had already occurred or would happen by end of 2014 (a 30% uptick from 2013).

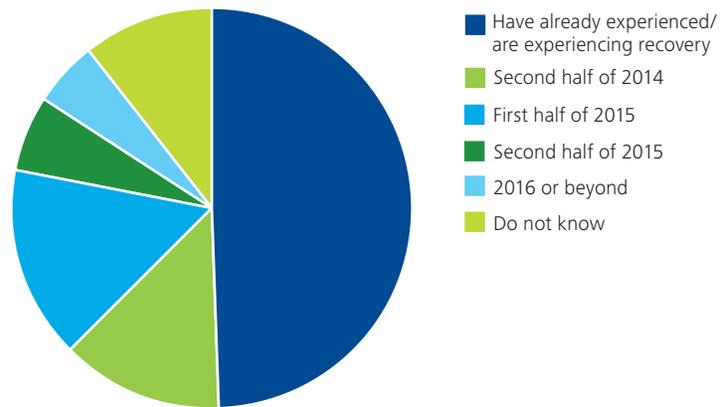
Graph 3: Satisfaction with sales productivity²



Such an increase in economic optimism might lead us to believe that sales organizations are poised to capture the market. However, it appears that leaders are growing increasingly frustrated that their teams are not effective in seizing the opportunity.

2 Stanford University. "Great Expectations: Two Historical Moments". (http://dickens.stanford.edu/great/historical_context.html, 2002)

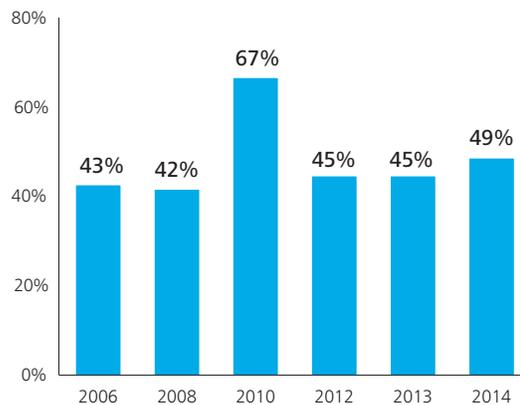
Graph 4: When do you anticipate that your marketplace will likely experience economic recovery and bring growth for you?



Sales leaders' growing expectations

Despite today's economic recovery only 49% of surveyed sales leaders indicated that they did not meet their annual quota/goals. Given that the primary measure of sales compensation effectiveness is the ability to meet sales targets, it makes sense that dissatisfaction with sales compensation programs is growing.

Graph 5: Percent of sales organizations that achieved sales target³



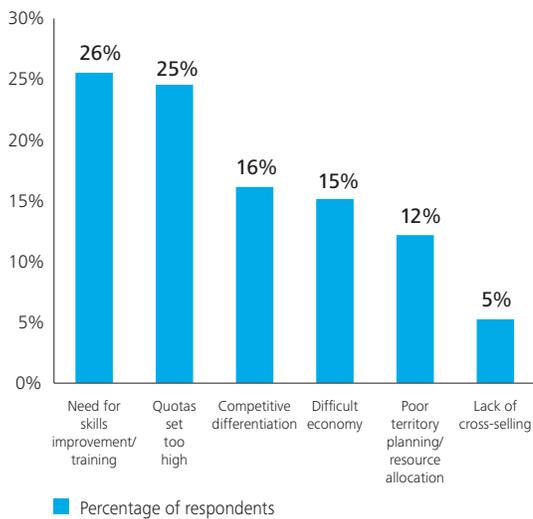
3 Stanford University. "Great Expectations: Two Historical Moments". (http://dickens.stanford.edu/great/historical_context.html, 2002)

For example, from 2012–2014, satisfaction with sales compensation programs decreased to levels not seen since the recession, and sales leaders indicated a simultaneous decrease in satisfaction with their sales compensation programs’ ability to reward the applicable behaviors. Although sales compensation is an integral component in driving focus and motivation within the sales force, motivation alone does not equate to the ability to meet sales targets.

Indicators may point to opportunities outside sales compensation

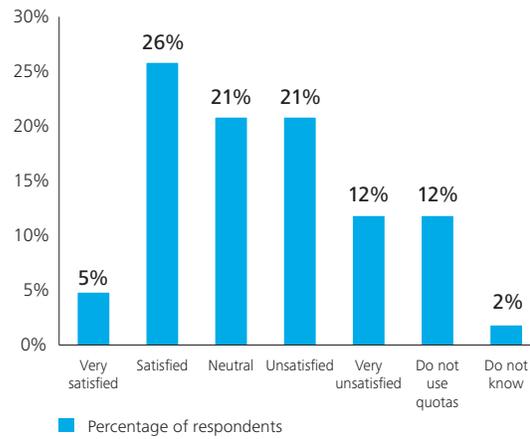
Survey results offer insights to other opportunities to increase overall sales performance outside of sales compensation design. Specifically, sales leaders expressed greater levels of discontent with their organizations’ abilities to set quota (see graph 7) and identified skill and capability gaps as a prominent cause for not meeting that quota.

Graph 6: Reasons why quota was not met



Of the organizations that use quotas to drive sales compensation, only 31% are satisfied with the efficiency and effectiveness of their quota and goal-setting process.

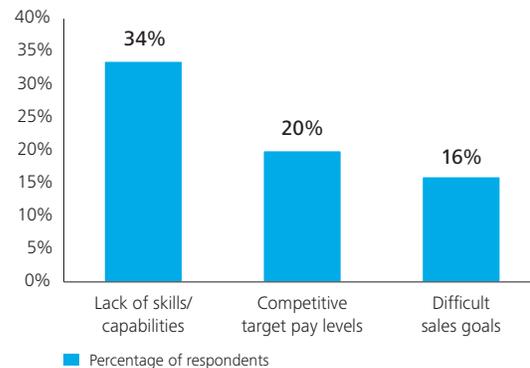
Graph 7: Effectiveness and efficiency of goal setting process



Since quotas are a critical factor to sales representatives’ ability to receive fair compensation for their effort and are one of the first things organizations communicate to their sales forces at the beginning of each fiscal year, it is a fair assumption that quotas that are inaccurate and/or are perceived to be too difficult to achieve are likely to adversely impact a sales individual’s motivation.

But developing an effective quota-setting process is only part of the battle. Sales leaders also placed significant emphasis on their teams’ skills and capabilities. When asked the primary cause of turnover for their sales organizations, respondents ranked “lack of skill and capabilities” first, well ahead of “uncompetitive pay levels” and “difficult sales goals”, which are ranked second and third, respectively.

Graph 8: Primary cause of turnover



Looking beyond sales compensation

If 2008 through 2013 can be described as an era of efficiency and cost-saving, 2014 and beyond could be described as an era of growth and investment. If the goal is to capture share in an economy that is growing again, sales leaders should build applicable capabilities to support their aggressive sales targets.

In our 2013 survey findings⁴, we identified sales compensation as a primary lever of choice to alter behavior and increase overall sales productivity⁵, but warned that compensation, if used in isolation without complementary enablers, may fall short of its intended goals. Our 2014 findings affirm the notion that to improve sales effectiveness, sales leaders are placing more emphasis on putting the right people, talent, and broader sales compensation enablers in place to support their sales goals.



Renewed focus on aligning sales strategy with sales talent

From technology to banking, industries across the board are busy with acquisitions, divestitures, operating model changes, and go-to-market realignments. Much of this change and activity necessitates shifts in a sales organization's approach to their sales talent — not just sales compensation. But building the applicable skill sets within a sales organization begins with having an effective people development approach — from onboarding to retention/attrition. Development needs to go beyond product and sales process-focused training and include business and solution focused programming to develop the ability to articulate well-defined value propositions and business solutions. In addition, organizations that are leaders in career and employee development create environments that foster talent mobility, instill strength-based coaching/management, and offer continuous and informal learning opportunities⁶. In our experience, many organizations fail to execute their enhanced sales strategies because they are not able to reinforce them with a comprehensive talent program.

4 <http://www2.deloitte.com/us/en/pages/human-capital/articles/2013-strategic-sales-compensation-survey-report.html>

5 Deloitte Consulting LLP, 2013

6 Bersin by Deloitte: Why People Management is Replacing Talent Management.

Not to feel slighted: Sales compensation revisited

While our 2013 and 2014 survey data indicate that other sales effectiveness capability areas should be considered in addition to compensation as levers of sales performance, sales compensation remains an integral part in achieving sales goals. We find that many of our clients view sales compensation narrowly through a lens of metrics, mechanics, and target pay levels. They include many components and activities that need to work together as well-functioning ecosystem, including 1) Sales Force Planning 2) Design 3) Execution and 4) Measurement. If one component is out of balance, the full potential of the other components may not be realized. Leaders of sales compensation, Human Resources, or Sales who want to influence sales behavior and increase overall performance should consider areas of improvement beyond just the typical compensation, but look to the broader ecosystem in which they operate.



Such an ecosystem ties naturally with the broad aspects of sales effectiveness and shows how interdependent sales compensation is with technology, process, and organizational capabilities.

Optimizing sales force effectiveness continues to be a challenge for sales leaders. The leaders who think broadly, are open to new approaches, and recognize the interdependence of the many levers of sales effectiveness, including incentives, are better suited to meet and exceed the great (sales) expectations that have been placed on them.

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