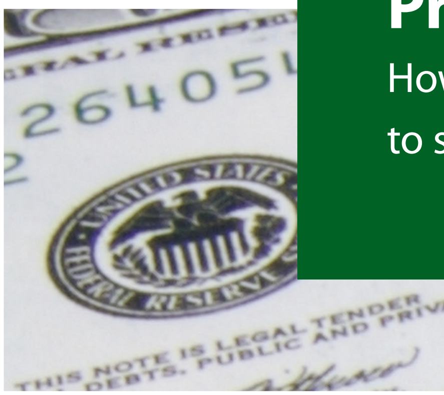
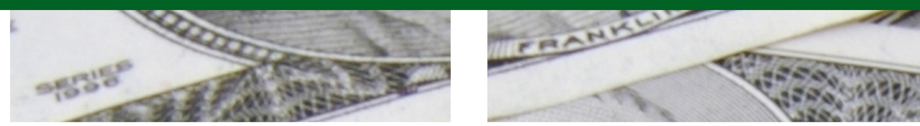
Executive Brief



Principles of Sales Compensation

How to compensate different types of salespeople to satisfy different types of customers



ADVANTUS Business Consulting

Building A World Class Sales Force Requires 3 Critical Steps

With regard to these requirements, Chally has discovered there is as much confusion, conflict, and frustration expressed about compensation as any other factor affecting salespeople.

Three Critical Steps

1 **Recruiting**

Recruiting and selecting the best candidates

2 **Training & Developing**

Training & developing specific skills on a continuing basis

*3 **Compensation and Incentives**

Organizing, motivating, and compensating those carefully selected and trained salespeople to utilize their best abilities.

The Basic Principles That Shape Compensation Plans

- Customers need different sales approaches to match their needs.
- The different types of salespeople who are best suited to fulfill those different customer needs have unique incentive and compensation requirements.

"Selecting and training the best people in the world is of little value if you can't retain them."

How Different Customer Needs Vary

Extensive quantitative research interviews with over 50,000 corporate customers and correlation of their buying criteria with their actual purchase history revealed four distinct buying approaches. These buying approaches varied according to customers' needs for Technical and Application Support and/or Purchase and Delivery Support from the seller.

Differences in customers' essential buying needs were found to parallel the four stages of the product/market growth cycle. The majority of customers for a given product will need different sets of added-value services from sellers as the product or service being sold to them matures.

Product / Market Life Cycle Stage

Customers' Added Value Needs

STAGE I

In the Introductory Stage of a New Product or Service:

Customers are unfamiliar with the new product, have not previously decided the product is beneficial to their businesses, may not believe they have a need, and cannot rely on independent referrals to evaluate the product. Therefore...

Customers need a conceptual and technical explanation and dramatic practical demonstration that the product/service offers substantial opportunity to offset the risk of trying something new and, as yet, unproven. Such risk can only be taken by top decision-makers with the necessary authority and motivation to look for new breakthrough opportunities. Customers need a Hi-Tech demonstration, presented to authoritative decision-makers.

STAGE II

In the Fast Growth Stage of a Product or Service:

Customers have some familiarity with the product because of the public success stories of the product during Stage I. However, new features and options have evolved which add to the product's complexity. Competitors have also appeared with additional claims, and the new customer still has little or no internal experience in how to select or design specific applications of the product within their own businesses. Therefore…

Customers need extensive technical assistance to design the application, educate line managers to evaluate the benefits, train employees to use it, and manage the installation without disrupting ongoing operations too severely. Customers need Hi-Tech assistance to support the customers' line decision-makers and staff implementers. And...

Customers will also need project management assistance to respond to problems and overcome resistance from various customer personnel, and quick personal and logistics service to smooth the transition to the new product. Customers need Hi-Touch assistance to support customers' systems personnel who will be affected by the changes required to use the new product or service.

STAGE III

In the Penetration Stage of the Product or Service:

Customers are familiar and experienced using a type of product. It has become an established technology, and in-house experts are more familiar with their own uses and applications than is the seller. In addition, there are other vendors who at least claim similar quality and capacity for their products. Therefore…

Customers will select vendors who can service them better. They need to trust their preferred vendor to be accessible to deal with problems, provide quick service, and build a long-term relationship they can depend on. Customers need Hi-Touch assistance to guarantee customer satisfaction in using the product.

STAGE IV

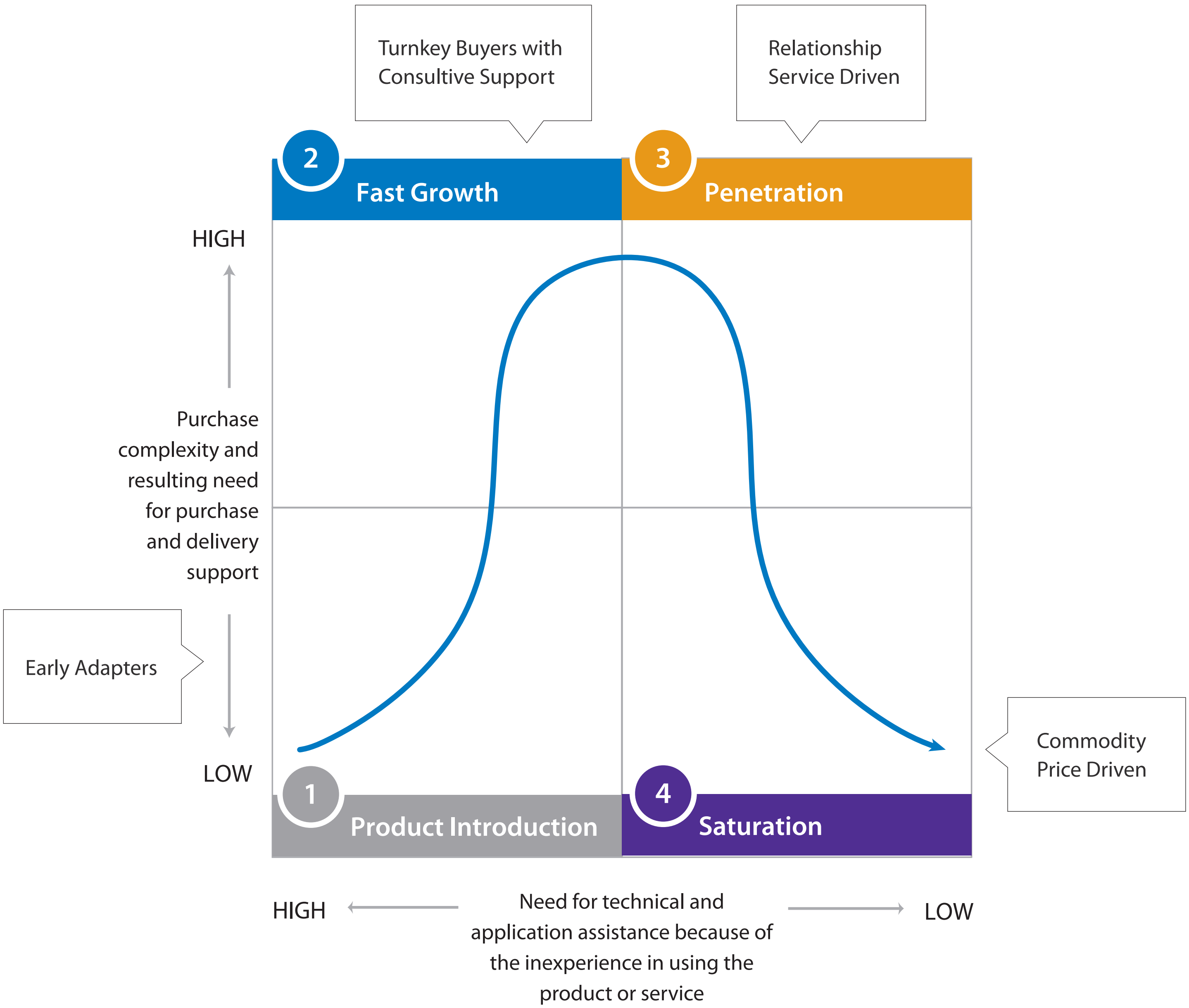
In the Saturation or Commodity Stage:

Customers have functionalized the purchasing process for the product. Often, top-line managers or even in-house technical experts delegate the decisions to purchasing specialists based on specified criteria. These specialists are charged with reducing cost and may not even be able to fully evaluate the quality or the benefit of the alternative features or options. Therefore…

Customers need an efficient, reliable sales approach that reduces price, simplifies purchasing, and eliminates the need for higher-level personnel in the customers' businesses to get excessively involved. Customers need a Low-Tech/Low-Touch approach to guarantee efficiency and control price and ordering reliability.

In fact, the product/market life cycle itself is driven by two customer need factors:

1. The extent of customers' inexperience and thus their inability to select and use a product without substantial technical assistance from the seller, and
2. The complexity of the purchase decision customers must resolve in order to purchase a product without purchase and delivery assistance from the seller.



Therefore, customer purchases fall into four different buying need environments. Each has its own set of seller *added values* that are required to assist customer purchase decisions.

The Specific Type of Salesperson Best Matched to Each of the Four Market Stages

Some basics of selling are common to all situations, e.g., listening, asking for the order, and responding to objections. However, the type of listening, the method of closing, and even the style of resolving objections vary greatly for customers at different stages of the product/market life cycle.

In baseball, where all players must be able to throw, catch, run, and hit, even a passive baseball fan would recognize the tremendous differences between the critical skills of a pitcher, for example, and those of a shortstop. Only amateur teams use generalists that can play all positions but specialize in none.

Professional selling also requires specialists. Extensive statistical evaluation of over 250,000 individuals has identified four distinct types. The four different and more specialized types of salespeople have been found to be significantly more successful when properly matched to the most appropriate type of customers typically found at different stages of the product/market life cycle.

Customers may need either a Hi-Tech or Low-Tech selling approach as well as either a Hi-Touch or Low-Touch selling approach. Very different types of skills are required in each of the four combinations of sales approaches.

Recognizing the critical elements of matching the right salespeople with the right customers to the greatest degree practical is a necessary first step in sales compensation planning. It forms the foundation for implementing the general principles of effective compensation systems and evaluating the role and worth of salespeople.

A key insight explaining how sales has evolved into both a basic set of business skills as well as sets of specialized sales skills becomes increasingly clear if we step back and realize that a customer's purchase (especially in the business to business world) is first of all a decision to outsource. If the purchasing company had decided to in-source that product or service, they would have a manager overseeing that function. As a replacement for that internal control, sales professionals are often required to act as "surrogate managers" to the companies they serve. In these high profile markets, customers will care less about salespeople with only the "traditionally trained sales skills" and value salespeople who have general management savvy and the ability to understand their business, as well as their effectiveness at customer advocacy to protect their interests within the vendor organization. In short, all sales specialties need a foundation set of competencies including:

- General management savvy
- The ability to understand their customer's business
- Effectiveness at problem solving and customer advocacy to protect their customer's interests within the vendor organization and "get things done" in spite of bureaucratic bottlenecks, or customer hostile policies. *

* *Achieve Sales Excellence* book by Howard Stevens

TYPE OF SALESPERSON	Critical Skills and Behaviors		
	STYLE	PRIMARY SKILLS	PERSONAL STRENGTHS
I. Closing Salesperson For Product or Service Introduction	Theatrical and Confident	• Build emotion and enthusiasm • Give permission to buy • Create urgency	• Builds emotion and enthusiasm • Handles personal rejection
II. Consultive Salesperson For Fast Growth Products or Services	Expert and Competent	• Demonstrate technical competency • Professional credibility • Systemized and organized • Answer objections	• Handles confrontation and negotiates well • Handles personal rejection • Projects personal business competence
III. Relationship Salesperson For Market Penetration of Product or Service	Dependable and Loyal to Customer	• Demonstrate product and customer knowledge • Customer advocacy • Time and territory management	• Patient • Persistent • Organized • Disciplined • Reliable/trustworthy
IV. Display Salesperson For Commodities in the Saturated Markets	Responsive and Service-Oriented	• Congeniality • Demonstrate product knowledge • Energy and stamina	• Handles boredom and repetition • Handles social fatigue • Enjoys talking with people

Chapter I: 16 Characteristics of Compensation Plans That Work

Characteristic 1:

Effective compensation plans build in an allowance for company profit at the high end of the range of profitability appropriate to their market stage (start up/fast growth/penetration/saturation).

Since any company can be measured by its economic utility (profit), defining Acceptable Profitability Standards is critical. However, there are different ranges of gross profitability that are realistically attainable at different phases of the product or service life cycle for that company's primary business(es). Four ranges are most commonly used. These are set by marketplace factors including the typical customer's expertise and buying power or leverage as well as the size and effectiveness of competitors. Usually, these are all beyond the direct control of any one selling company. Some characteristics of each of the phases are shown in **Chart 1.**

Chart 1

SELLING COMPANY'S PRODUCT/ SERVICE LIFE CYCLE STAGES	% OF MARKET WILLING TO BUY	GROSS OPERATING MARGIN TOLERATED	LONGEVITY OF PHASE
1. Start-up (Closing sales)	1%	200%+	1-4 years
2. Fast Growth (Consultive sales)	Up to 20%	50-150%	2-10 years
3. Penetration (Relationship sales)	Up to 75%	10-30%	10-50 years
4. Saturation (Display sales)	Up to 95%	1-5%	Until replaced by new products

Selling costs, including sales compensation, must fit within the available operating margin and still assure adequate profitability. **Chart 2** describes the relationship between typical selling costs and company profit per unit sold.

Chart 2

	Typical Selling Costs			Profitability
PHASE	SALES COMPENSATION	COST OF SALES	MARKETING, OTHER SELLING COSTS, & G&A	NET OPERATING PROFIT PER UNIT
1. Start-up (Closing sales)	25-75% *	1-10%	5-10%	40% & up
2. Fast Growth (Consultive sales)	10-25%	30-50%	10-20%	15-40%
3. Penetration (Relationship sales)	3-10%	50-65%	20-25%	5-15%
4. Saturation (Display sales)	1-2%	65-75%	25-50%	1-5%

* Compensation in the Closing market often includes pyramid sales compensation or overrides for multilevels of sales supervisors and managers.

Characteristic 2:

Effective compensation plans focus on motivating salespeople to meet both tactical and strategic company needs: profit, growth, market share, volume, etc.

Companies will probably have different strategic goals and tactical needs as they mature through their own life cycle, as indicated in **Chart 3.** Compensation must recognize these distinct needs in order to motivate salespeople who are best suited to contribute to those needs and goals.

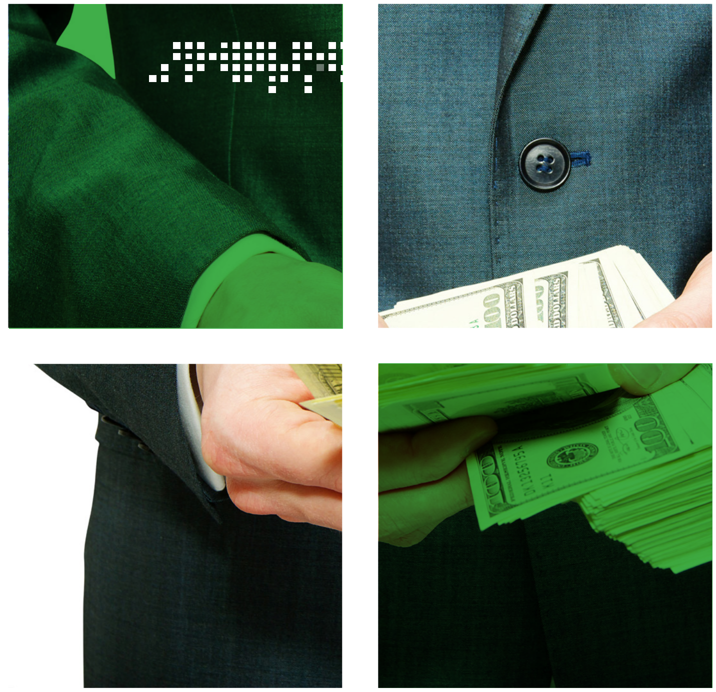


Chart 3

	STAGE 1 START-UP	STAGE 2 FAST GROWTH	STAGE 3 PENETRATION	STAGE 4 SATURATION
	CLOSING SALES	CONSULTIVE SALES	RELATIONSHIP SALES	DISPLAY SALES
STRATEGIC GOALS	• Establish viability of product • Generate cash • Establish profitability	• Position company leadership • Find new customer segments and applications • Control profitable growth	• Dominate market niches • Protect customer longevity • Protect profit margins	• Gain economies of scale • Dominate distribution channels • Gain and protect market share
TACTICAL NEEDS	• Find buyers • Close transactions • Prevent "buyer remorse"	• Find new applications • Guarantee successful installation initially with significant customers to build case histories • Establish position in marketplace	• Build long-term customer relationship • Provide service excellence • Eliminate inappropriate products and services	• Establish "brand" position • Defend customer base • Control new product introduction or new product competition

With these needs evolving as a company and its market matures, different objectives will be critical to sales success. As can be seen in **Chart 4,** different forms of compensation will attract and motivate salespeople who are best able to achieve these objectives.

Characteristic 3:

Effective compensation plans are tied to measurable criteria that accurately match the critical sales success factors for the company.

While sales volume (units sold/quota attainment) is often easiest to measure, volume in itself is seldom the most realistic measure of a selling company's long-term sales effectiveness. For all but the newest of products, measures of gross sales volume miss the most critical business issues of customer satisfaction, customer retention, competitive advantage, and profitability.

Measures of customer satisfaction predict long-term profitability and market share more fully, since the cost of acquiring a new customer is considerably higher than expanding sales with existing customers. In addition, new customer acquisition investment is lost with customer turnover.

When salespeople directly affect customer satisfaction or have freedom to establish pricing (especially through discounting), compensation should be, at least in part, tied to factors such as: customer satisfaction, percent of customer turnover (or new business acquisition) and contribution to profit. In competitive environments, measured market share may also be an important compensation variable.

In all cases, the measures must be concrete, timely, and objectively measured. This often requires independent measures of customer satisfaction or market share collected outside of the sales force's typical reporting system.

Chart 4

	STAGE I CLOSING	STAGE 2 CONSULTIVE	STAGE 3 RELATIONSHIP	STAGE 4 DISPLAY
TYPICAL SALESPEOPLE	• Aggressive/ ambitious • Confident/able to handle rejection • Theatrical • Emotional/ enthusiastic	• Assertive/patient • Competent/ organized • Professional/ technical • Career-oriented	• Dedicated to long-term customer relationship • Service-oriented • Disciplined and reliable	• Dedicated to efficient order taking • Tolerant of unpleasant customer behaviors • Dependable and consistent
ATTRACTIVE COMPENSATIONS	• High percentage or all commission • Transaction based • Immediate pay • "Big hit" pay potential • Highly visible	• High percentage salary • Promotions or other forms of recognition • Bonus for exceptional effort • Fringe benefits (status perks)	• Base salary for long-term security • Variable commission to recognize individual results • Stability of compensation system • Entertainment perks	• Compensation for time expended or task completion • Bonus for efficiency • Non-pay-related fringes (purchase discounts, etc.)

Characteristic 4:

Effective compensation plans include both fixed and variable elements that are easily managed by the company and quickly understood by the salesperson (but they need not be "simple").

Companies have both tactical and strategic goals and needs. Compensation plans should be designed based on these specific needs/issues.

Tactical Issues are often more specific and concrete and, therefore, easier to measure and compensate quickly. In general, tactical activities can be directly measured based on a specific result and thus compensated on a variable (commission) basis. Examples of tactical issues include individual transactions, selling price, margin, sales returns or cancellations, back orders, orders booked, and inventory turnover or buildup.

Strategic Issues are often intangible, i.e., customer loyalty, future demand, competitive position, etc. These are often difficult to measure because they involve less tangible factors, or take a long time to develop and cannot be predicted well enough in advance to compensate immediately. Execution of strategic goals typically involves tasks that are either non-measurable or difficult to measure accurately. They require a fixed (salary) compensation plan with bonus options. The plan must have some long-term payoff to stimulate continuing results.

Combination plans are also commonly used. These include:

- An initial commission with a much smaller trail for continued customer activity in succeeding years. This is often used in insurance sales and sales of some financial products.
- Base salary plus commission. Where long-term customer relationships must be maintained to continue to get new orders, a base salary plus commission plan is typically used.
- A plan that incorporates straight salary plus special promotional incentives or commissions is often used when base business must be maintained but there is also a need to introduce new products or new promotions. This type of plan is also often used to relieve excess inventory in a particular product line, or when new customer acquisition efforts are important.

The appropriateness of each type—tactical, strategic, or mixed—also varies with the company/marketplace, product/service life cycle, as shown in **Chart 5 (see next page).**

Compensation plans are effective motivational tools only when two conditions are met.

1. Salespeople clearly understand the results or tasks they are compensated for and how much.
2. Where results or task completion is not instantly self-evident to the salesperson, full feedback must be fast enough to allow the salesperson to recognize which sales methods are effective and which are not in time to correct techniques that would reduce their compensation.

Only an effective compensation tracking and administrative process permits commission and other variable compensation plans to be effectively utilized. This is critical when multiple tasks must be completed to produce a sale.

The elements of a compensation plan need not be simple, especially when the overall success of the company and sales force depends upon several important variables. Salespeople are quite capable of understanding and thriving with complex compensation plans if the tracking process gives them complete, real-time reports of their status.

Chart 5

	STAGE 1 START-UP (CLOSING SALES)	STAGE 2 FAST GROWTH (CONSULTIVE SALES)	STAGE 3 PENETRATION (RELATIONSHIP SALES)	STAGE 4 SATURATION (DISPLAY SALES)
PRIMARY REQUIREMENT	• Tactical: Immediate Sales	• Strategic: Develop new market segments and new applications	• Tactical: Bring in more orders • Strategic: Maintain continuing customer relationship	• Tactical: Maintain sales volume and balance fluctuation; control product mix
TYPE OF PLAN	• Most or all commission or promotional incentive	• Salary and bonus (Salary based on business competence, technical skills, and applications experience)	• 1/2 Salary • 1/2 Commission (Salary based on market experience or established relationships; commission paid on volume attained or units sold)	• Transaction pay (wages) if salesperson's efforts affect likelihood of sales; time pay with bonus if salesperson can only lose sales (i.e., order-entry functions)
UNITS MEASURED TO BASE VARIABLE COMPENSATION	• Commission paid on volume, i.e., number of units	• Bonus paid on first sales; finder's fee; bonuses paid on margins or overall profitability	• Commission paid on margin criteria or product mix criteria	• Bonus or perks paid only on special promotions

Characteristic 5:

Effective compensation plans have a design that is sufficiently complex to fit the real needs of the company and salespeople.

When management tries to make plans too simple either because they are easier to administer or because they believe in simplicity for its own sake, good salespeople will quickly determine ways to maximize their own compensation and ignore factors important to the company that are under-compensated. Typical oversimplifications include:

1. Paying on volume rather than contribution to profit, which usually stimulates higher sales volume but lower margin sales;
2. Not adequately compensating new business development or new customer acquisition which takes longer and is, therefore, less rewarding than sales to existing customers;
3. Subjectively based quotas which stimulate salespeople to manipulate management rather than sell;
4. Moving experienced Relationship salespeople to new territories which irritates their old customers, eliminates the goodwill they've already built up, and reduces their opportunity to capitalize on their investment in time and relationship building.

Characteristic 6:

Effective compensation plans establish fixed baselines that support the long-term security of both company and salesperson with enough flexibility to change as goals change.

Many sales situations require a more lengthy process, especially in Consultive or Relationship sales. When this occurs, some form of fixed compensation must be available to make it worth the salesperson's time to wait for final sales results.

If the salesperson is viewed as an independent rather than an employee, a retainer or draw against future commissions is appropriate. If the salesperson is viewed as an employee, then salary plus bonus upon successful sales closure is appropriate, especially for larger, more complex, consultive project or system sales. When customers must come to know and trust the salesperson in order to establish a continuing buying relationship, a partial fixed salary—perhaps 40-60% of ultimate expected compensation—with an additional variable commission on continuing sales orders is appropriate.

Characteristic 7:

Effective compensation plans do not hurt or take advantage of either company or salesperson; however, they protect the salesperson first, within limits.

In more mature companies, many executives believe that quality, technical uniqueness, existing market programs, or other factors make selling easier. This implies that anybody could sell the product or service if they work hard enough. It also may imply that salespeople are paid too much or that selling costs must be tightly controlled to protect profitability. While all of these factors can be true, they are usually misconceptions based on accounting techniques that do not effectively put a value on the cost of salesperson turnover, i.e., recruitment, selection, training, or the value of lost opportunity costs when a territory is not covered. Taking these factors into account, the typical replacement cost for an experienced salesperson who is selling at an average level for a company is between $40,000 and $60,000. These costs are usually not taken into account. This obviously makes the company's investment in an experienced salesperson a substantial asset worth protecting.

Characteristic 8:

Effective compensation plans value efforts according to their worth (contribution), not just their difficulty.

Most managers, especially those good with people, tend to be impressed by people who try hard. The American ethic tends to honor good intentions, dedication, hard work, and loyalty. Normally, these are all outstanding qualities. But no matter how worthwhile they are, these factors are often unspecified and, therefore, unmeasured. Effective sales managers must intuitively control overly simplified compensation plans and either tweak them or outright manipulate them to protect the interests of salespeople. They can fall into the trap of protecting those salespeople who appear to be more dedicated, to the frustration of more independent-minded but more effective results producers. This forces effective salespeople to spend more time managing their managers instead of their customers.

Characteristic 9:

Effective compensation plans motivate all salespeople: stars to continue; average producers to improve; and poor performers to leave.

Good compensation systems are not meant to keep everybody happy. If poor performers find it easier to sustain themselves without major improvements in their results or by seeking employment elsewhere, then the compensation plan suffers in either one of two ways, or both.

- The plan is too rich overall, allowing too great a reward for everybody.
- There is too little differentiation between the payouts for top, average, and inadequate performers. If skill and effort are not really important, then variable compensation plans aren't needed.

Typically, compensation plans that suffer from too little differentiation are doubly cursed. Not only do they retain poor performers, but they also cause top performer turnover, as stars leave for greener pastures elsewhere.

Characteristic 10:

Effective compensation plans distinguish between performing tasks and achieving results.

There are two circumstances when salespeople should be compensated for tasks (or steps in the selling process) and not compensated for results:

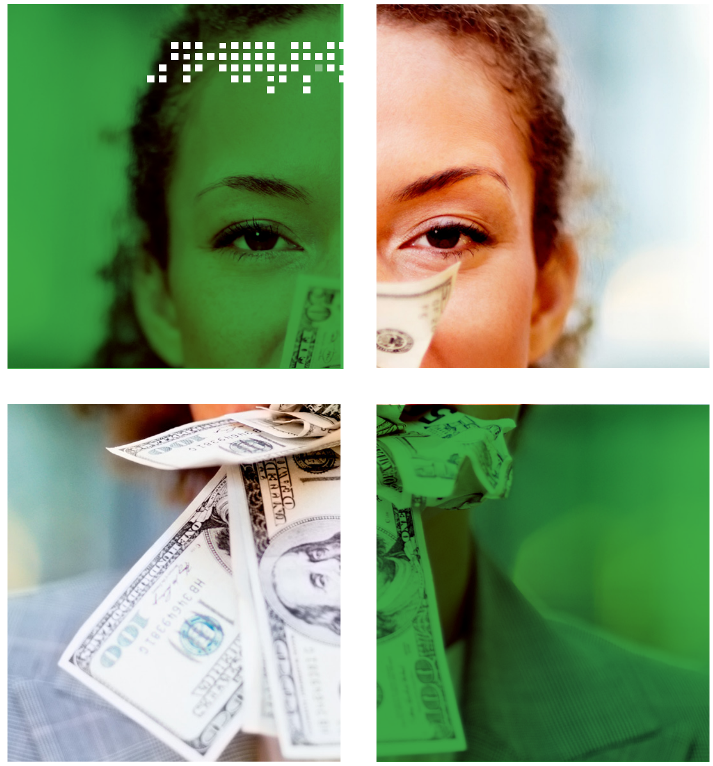
1. When the salesperson cannot control or even perform all steps that lead to a sale, e.g., they can only accept telephone orders, or only schedule appointments, or can only offer a fixed response to a market promotion;
2. During training when a salesperson ha s not yet learned all of the methods and techniques necessary to find a prospect, tailor a sales presentation, resolve objections, and close the order.

Under these conditions, a fixed salary is required to pay for the time it takes to complete a task or for the specific task itself. Almost all other sales compensation plans should reward results.

Characteristic 11:

Effective compensation plans avoid competition between salespeople.

Most of us were educated in schools where teachers or professors used a grading curve, because there is no reliable yardstick to measure the degree of difficulty of a test. Teachers may not want to be too hard or too easy. The grading curve, which assumes that all classes have good students and poor students, reduces the responsibility for evaluation by the teacher. The same philosophy is often used in compensation plans, with the same problems. Salespeople and sharp students are forced to try to beat the system. They can win either by selling more, or by cheating (which is often easier) since all they really have to do is beat the other salespeople. Many shift their focus to finding competitive edges which disadvantage other salespeople. For example, they may stop sharing successful techniques ... "Why help the other guy win your prize?"; or they may negotiate with customers to help, often by booking falsely timed orders to hit certain dates even though shipment releases may later be altered thus confusing production schedules. Excellent plans focus only on rewarding salespeople for concentrating on customers or, at the very least, outselling competitors.



Characteristic 12:

Effective compensation plans allow salespeople to plan, thus reducing stress.

Sales force morale problems are almost always a result of stress produced by the combination of only two factors:

1. The sales force's feelings of lack of control;
2. Their inability to predict changes in compensation, in product offering or availability, or in delivery schedules, etc.

Top sales forces put high priority on communication. By listening to input from sales forces, management allows salespeople to help influence and control their own destiny. By keeping sales forces informed early and candidly, top sales managers allow salespeople to better predict and prepare for changes. This ability to predict and control reduces the potential for stress. Psychologically, it is easier for management to play it close to the vest, but they must weigh the risk of too much information against the chilling effect on morale of keeping the sales force in the dark.

Characteristic 13:

Effective compensation plans do not change more quickly than the ability of salespeople to adjust and protect their own interests as well as the interests of the customer.

In a Consultive or Relationship market, stability is critical to both the customer and the salesperson during the fast growth and penetration phases, when the largest percentage of business-to-business salespeople perform. Changing the plan's rules every few months while trying to establish a continuous buying/selling relationship (which often takes over a year) disrupts that relationship and increases the distrust of both the salesperson and the customer. Top selling companies don't pull the rug out from under career salespeople with what may appear to be arbitrary or capricious changes.

Characteristic 14:

Effective compensation plans permit everyone with above-adequate performance to seek their own level without penalty.

The types of salespeople who excel in different stages of the company/product/market life cycle are so different, they usually are not interchangeable. Closers are interested in the quick accumulation of personal wealth and success. Consultive salespeople are interested in deliberately building a career beyond sales, often going into general management. Relationship salespeople are interested in the security of a comfortable, long-term sales career. Display salespeople are interested in an enjoyable job that provides basic income. A sales compensation plan that caps the earning potential of a Closer, devalues the "book" of a Relationship salesperson, or forces a display person to compete with the buddy next to him/her undercuts the motivation satisfying their basic drives. This causes frustration, low morale, poor results, and ultimately, turnover. As long as it is profitable in the company's and the customers' eyes, top sales forces allow unlimited potential for those so driven, even when they earn more than management, or conversely, allow experienced salespeople to hit a comfortable but profitable plateau ... and stay there.

Characteristic 15:

Effective compensation plans do not change so slowly that changing company goals or market conditions are not addressed.

In an environment where communication is open, fast changing plans and directions can be exciting rather than stressful. Top sales forces know that success is often being quicker than the competition, especially in listening to and fixing customer problems, altering product mixes, offering new services, etc. Compensation must often change just as quickly to stimulate new sales approaches or different kinds of behaviors preferred by customers. Should salespeople take responsibility for service problems when customer service used to do it? Does the company need to establish a new service in the market place? Should new customer acquisition be rewarded separately? These kinds of changes are critical and impact the compensation plans of top sales forces.

Characteristic 16:

Effective compensation plans are logical and appropriate and make sense to the customer the ultimate test of validity.

To a customer, the clearest sign that something is out of line is a supplier's defensiveness about its sales compensation. It implies that either the sales force may be paid too much—an overcharge to the customer—or too little—"When is the other shoe going to drop?" If you don't believe that your customers would applaud your compensation plan, then maybe it is out of line.

Chapter II
How to Evaluate the Role of Sales

Introduction

Unfortunately, the worth of a sales force is seldom calculated objectively. Complicating the issue further, sales force costs cannot be estimated easily. In financial terms, anytime cost information is available but no value data exists, managers naturally turn toward control rather than investment. As companies grow larger, manage more professionally, and rely less on the kinds of instinctive or intuitive beliefs entrepreneurs use, sales force compensation is often viewed more as a cost than as an investment.

Three factors add to the error that can occur as a result of treating sales only as a cost and not as an investment:

1. The American technical and innovation tradition believes, quite incorrectly, that "building a better mousetrap" guarantees demand;
2. The belief that anyone motivated and willing to work can be easily trained to sell (clearly false when nationally 80% of all sales are produced by 15-25% of all the salespeople);
3. The dangerous belief that an effective marketing and sales system guarantees a minimum level of customer satisfaction that assures and protects sales.

To more objectively evaluate the impact of sales on overall company viability and profitability, only four major areas need to be assessed:

1. The strength of the demand for your product/service in the marketplace;
2. The elements of that demand that must be stimulated or satisfied at the point of sale, and the level of talent/skill required to fulfill the demand;
3. The effectiveness of your corporate support systems in finding and satisfying customers directly or supporting salespeople;
4. Evaluation of and comparison to competitors' compensation and support systems.

Each major area should be reviewed critically.

1. Demand for the Benefits the Product Produces

Chart 6 illustrates how the demand for a product varies dramatically through a business/product/market life cycle and how it can be roughly categorized as *cold, lukewarm, warm,* or *hot*.

Chart 6

	STAGE 1 START-UP (CLOSING SALES)	STAGE 2 FAST GROWTH (CONSULTIVE SALES)	STAGE 3 PENETRATION (RELATIONSHIP SALES)	STAGE 4 SATURATION (DISPLAY SALES)
DEMAND LEVEL	Cold	Lukewarm	Warm	Hot
PERCENT OF PROSPECTS WILLING TO BUY	1-2%	Up to 20%	Up to 75%	Up to 95%
REASON	Prospects don't believe or understand benefit	Prospects believe in the benefit but not sure your product/ service will provide it	Prospects believe in the benefit and product but not in your company as supplier	Prospects believe in the benefit, product, and several suppliers (including yours), but are looking for best price or most convenience in buying

2. Elements Which Stimulate Demand

The critical elements to stimulate demand also vary dramatically at different stages of the business/product/market life cycle. However, the degree of innate sales talent needed decreases; therefore, the percent of salespeople capable of satisfying that demand increases as the market matures and customers need less salesperson assistance to select the product/service. **Chart 7** summarizes this.

Chart 7

	STAGE 1 START-UP (CLOSING SALES)	STAGE 2 FAST GROWTH (CONSULTIVE SALES)	STAGE 3 PENETRATION (RELATIONSHIP SALES)	STAGE 4 SATURATION (DISPLAY SALES)

CRITICAL ELEMENTS TO STIMULATE DEMAND	• Attention-grabbing
	• Dramatic (emotional) presentation
	• Creating urgency/ concern for missing opportunity
	• Rationalizing objections/giving permission to risk buying
		• Customer executive education
		• Project management for
		  • Design
		  • Installation
		  • Training
		  • Service
			• Service responsiveness
			• Reliability/ thoroughness
			• Specification understanding
				• Product availability
				• Price knowledge
				• Energy to handle repetition
				• Resistance to social fatigue from high volume contact with many customers

NECESSARY SALES SKILLS	• Confident projection/theatrics • Benefit applications • Handling frequent rejections • Overcoming strong objections	• Understanding customers' business/ product/service applications • Negotiating with individuals/groups • Managing complex projects • Technical competence in product design and use	• Organization • Time and territory management • Relationship building skills • Consistency/ discipline • Problem resolution	• Ability to communicate • Stamina • Positive mental attitude • Stress resistance
PERCENT OF SALESPEOPLE CAPABLE OF PERFORMING	1-3%	15-30%	30-50%	40-60%

3. Effectiveness of Corporate Sales Support

Through statistical research, nine different steps (or skills) of a successful sales process have been identified. Their importance varies widely according to the stage of the business/product/market life cycle. The degree to which the important steps are accomplished on a corporate level without depending on the individual salesperson reduces the skill and competence level required for salespeople to succeed. **Chart 8** lists these nine skills/steps in the sales process, and their degree of importance to the salesperson's success at each stage of the product/service life cycle.

Chart 8

STEP/SKILL	RESULT OF STEP	STAGE 1 START-UP (CLOSING SALES)	STAGE 2 FAST GROWTH (CONSULTIVE SALES)	STAGE 3 PENETRATION (RELATIONSHIP SALES)	STAGE 4 SATURATION (DISPLAY SALES)
IMAGE	The positive impression/ expectation established in the mind of the prospects or customers	Important	Very important	Moderately important	Moderately important
LEAD GENERATION	Developing lists of prospects with identified interest	Very important	Very important	Less important	Moderately important
QUALIFYING	Identifying decision makers' desired benefits and potential major objections	Critically important	Critically important	Important	Important
MAKING PRESENTATIONS	Tailoring a focused presentation of qualified benefits and resolution to objections	Critically important	Critically important	Important	Less important
ANSWERING OBJECTIONS	Finding unstated blocks to buying and getting prospects to accept a resolution	Critically important	Critically important	Important	Moderately important
CLOSING	Asking for the order and negotiating terms	Critically important	Important	Important	Moderately important
CUSTOMER RELATIONS	Building sufficient goodwill to outweigh future service problems	Less important	Very important	Critically important	Very important
CUSTOMER SERVICE	Resolving service problems before the customer relationship is damaged	Less important	Very important	Critically important	Critically important
RESALE	Ensuring customer reorders and expanding purchases	Less important	Less important	Critically important	Critically important

4. Corporate Sales Support vs. Competitors

Lack of corporate customer relations support will not affect the success of a strong Closing salesperson. Poor customer service systems, however, will force an effective Relationship salesperson to divert valuable selling time in order to handle service problems personally.

Five areas of corporate sales support should be compared to your competition's, including:

1. Training (especially market/customer information and applications, and selling skills beyond product information);
2. Information Systems (especially access to, and speed of information to salespeople);
3. Technical Support (both in problem analysis and service response time);
4. Market Share and image in the marketplace; and
5. Marketing and Advertising (including presentation and demonstration tools).

In general, selling companies with strong corporate support are able to select and develop individuals with high potential but little experience. Sellers with less corporate support must often rely on recruiting salespeople from premier selling companies and offering a premium compensation/opportunity package to attract them.

Analyzing roughly these five factors can be done to establish a sense of the investment value of a skilled, experienced sales force. This will establish a market value on the sales force and identify appropriate ranges of compensation to sustain and protect that investment. **(See chart 9)**

Chart 9

	STAGE 1 START-UP (CLOSING SALES)	STAGE 2 FAST GROWTH (CONSULTIVE SALES)	STAGE 3 PENETRATION (RELATIONSHIP SALES)	STAGE 4 SATURATION (DISPLAY SALES)
DEMAND	• Weak: 0-1% of prospects are interested **or** Strong: 1-3% of prospects are interested	• Weak: 5-10% of prospects are interested **or** Strong: 10-20% of prospects are interested	• Weak: Industry demand is down or economic conditions are weak **or** Strong: Industry demand is up	• Weak: Other suppliers are established providers **or** Strong: Company has the significant market share
SKILL LEVEL NEEDED	• Difficult: Prospects are unsophisticated **or** Easier: Prospects are sophisticated	• Difficult: Customers are large, complex, and satisfied with existing methods **or** Easier: Customers are less complex and have recognized needs	• Difficult: Customers are diverse and in many different markets **or** Easier: Customers are similar with similar needs and methods	• Difficult: Prospects are often jaded, distrustful, and only focused on cost **or** Easier: Customers are habituated to buying
CORPORATE SUPPORT	• Minimal: Limited corporate support of any kind **or** Strong: Effective support systems in place including lead generating and promotions	• Minimal: Salespeople must independently find, close, and manage major sales **or** Strong: Management is actively involved in sales and customer contact	• Minimal: Service and manufacturing or operations are independent and non-responsive **or** Strong: Service and manufacturing are integrated with sales and very efficient	• Minimal: Company or brand not recognized - little or no advertising, marketing, or promotional support **or** Strong: Frequent marketing support and good service infrastructure
COMPANY COMPETITIVE STRENGTHS	• Weak: No product awareness **or** Strong: Broad product awareness exists	• Weak: Company is not recognized as leader **or** Strong: Company is seen as state-of-the-art leader	• Weak: Company has spotty or poor record **or** Strong: Company is respected and well-known supplier	• Weak: Little/or local presence only against major competitors **or** Strong: Dominant market position against competition
WORLD CLASS SALESPERSON MARKET VALUE	• $500,000-2,000,000 per annum down to $50,000-150,000 per annum	• $150,000-500,000 per annum down to $45,000-95,000 per annum	• $60,000-150,000 per annum down to $25,000-75,000 per annum	• $20,000-50,000 per annum down to $15,000-20,000 per annum

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