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**Introduction**

Companies fiddle constantly with their incentive plans and sales executives are always looking for ingenious ways to motivate their teams. If sales targets are missed, they blame the sales compensation plan and start over. Meanwhile, The finance organization views the comp plan as an expense to manage. That’s not surprising: Sales force compensation represents the single largest marketing investment for most B2B companies. So naturally finance tries to ensure that comp plans have cost-control measures designed into them. Additionally, many companies respond to cost-cutting pressure from the finance department with incentives that backfire. More often than not, controls encourage salespeople to spend time with customers according to the company’s internal needs, rather than when the customer is ready to buy.

A few progressive companies have been able to coax better performance from their teams by treating their sales force like a portfolio of investments that require different levels and kinds of attention. Accounting for individual differences raises the odds that a compensation plan will stimulate the performance of all types of salespeople. This article illustrates how companies can do this to deliver greater returns on investment and shift their sales-performance curve upward.

**Motivating core performers**

Some salespeople have greater ability and internal drive than others, and a growing body of research suggests that stars, laggards, and core performers are motivated by different facets of comp plans. Stars seem to knock down any target that stands in their way—but may stop working if a ceiling is imposed. Laggards need more guidance and prodding to make their numbers. Core performers fall somewhere in the middle; they get the least attention, even though they’re the group most likely to move the needle—if they’re given the proper incentives.

So why does this group of core performers tend to be ignored? One reason is that sales managers don’t identify with them. As a consequence, core performers are often passed over for promotion and neglected at annual sales meetings. But this is not in the best interest of the company. Core performers usually represent the largest part of the sales force. Here are some proven strategies for keeping them there.
Multi-tier targets

These are targets that help motivate core performers. In most companies a major proportion of the salespeople fall into the category of core performers. In an effort to nudge their performance upward, a company could introduce tiered targets.

<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
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<tbody>
<tr>
<td>first-tier target</td>
<td>A point that a majority of the company’s sales agents has historically attained</td>
</tr>
<tr>
<td>second-tier target</td>
<td>A point reached by a smaller percentage of the sales force</td>
</tr>
<tr>
<td>third-tier target</td>
<td>A point hit only by the company’s elite</td>
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In a recent study, one group was given targets at tiers one and three, and another group got targets at all three tiers. The hypothesis was that tiers would act as stepping-stones to guide core performers up the curve.

The tiered structure had a profound impact. Core performers striviing to achieve triple-tier targets significantly outsold core performers given only two tiers, which suggests that core performers exert more effort if given additional tiers. By contrast, multi-tier targets did not motivate stars and laggards as much. Stars are presumably unaffected by the extra stepping stone because they view the top tier as attainable regardless of the number of targets. And the inattentiveness that laggards show suggests that they typically aim for and are satisfied with achieving the first-tier target.

Prizes

How can prize structures in sales contests engage core performers? The problem with contests is that stars usually win them. Knowing this, core performers don’t bump up their own efforts. Ideally, sales executives should design contests so that both stars and core performers would go home satisfied. The key is to offer gifts (not cash) for the lower-level prizes that can be seen as equal, or even superior, to the top-level prizes on some dimension. Suppose a prestigious golf vacation is awarded as a top prize and a local family get-away is awarded as a lower prize. The family getaway has a lower market value than the golf vacation, but core performers can adapt to their central position on the performance curve by shifting their preferences and rationalizing the value of their prize. This approach only works if the lower-level prize has some quality that the higher-level one does not. In this example, it was the local getaway’s family appeal that allowed core performers to remain engaged in the contest.

These incentives consistently show that core performers work harder and perform better in contests of this kind than they do in contests with cash prizes. Furthermore, their increased effort does not come at the cost of decreased effort from stars or laggards. We’ve also seen that core performers near the bottom of their cadre are motivated by incentives designed to improve the performance of laggards. This happens because they fear falling into the lower category.
Motivating laggards

The low-performing group in a sales force is usually heterogeneous: it may include new hires in need of training and senior salespeople who have become complacent, or other people less talented and motivated than their colleagues. Most laggard groups have members whose performance can improve with the right incentive.

Pace-setting bonuses

A recent study looks at the bonus incentive. The behavior of stars, core performers, and laggards was separately modeled within a number of different compensation plans. The study found that removing quarterly bonuses from laggards’ incentives — and keeping only an annual bonus — would decrease their overall performance by approximately 10%. There is no downside to including quarterly bonuses. They help laggards contribute to the bottom line without detracting from the performance of other groups.

Natural social pressure.

Managers often mention that having a high-quality pipeline of new sales talent naturally puts social pressure on low-performing salespeople.

In a current study, we’ve observed that salespeople in districts with a bench player perform approximately 5% better than those without one. The greatest increase in performance takes place in the laggard group. In the long run the overall increase in revenue easily outweighs the additional costs associated with hiring bench players.

Program-induced social pressure

Programs that put social pressure on laggards should be implemented with care. Successful programs are born out of rigorous pilot testing and are sensitive to the culture of the firm. When designed well, programs heighten laggards’ sense of responsibility to the team and motivate stars to help laggards out. They avoid demoralizing people.

One company we’ve observed puts laggards’ performance under the microscope by occasionally posting sales numbers in ascending order from laggards to stars. Another company publicly posts a sign in its sales bullpen that lists each of its salespeople in one of three categories: starters, benchwarmers, and the penalty box.

While this type of public display is relatively extreme, it seems to work within this company’s competitive and transparent culture.

Motivating stars

Since stars represent the most efficient portion of a company’s performance curve, incentive plans should favor them. Yet in many companies sales commission rates are capped and winner-take-all prize structures dominate the incentives. A primary reason is cost control, driven largely by the finance department. By placing caps on commissions when salespeople are hot, executives encourage stars to quit selling. Companies would be better off if stars worked more intensively during times of high demand. Frugality toward top salespeople is detrimental to firm performance.
No ceiling on commissions

In a recent study examined the impact of capping salespeople’s pay. A company stopped paying commissions once salespeople’s performance reached a quota ceiling. In response, the salespeople always held sales under the ceiling. By eliminating it, the company could substantially increase revenue.

Overachievement commissions

These higher rates that kick in after quotas are met, are very effective incentives. Removing them from a compensation plan would reduce stars’ sales by approximately 17%. An overachievement commission rate can help keep stars in the field during the fourth quarter, often the period in which customers are most ready to buy.

Multiple winners

Contests with multiple winners boost sales effort and performance better than contests with winner-take-all prize structures. And more prizes should be awarded as the proportion of stars increases. This finding suggests that executives should offer at least as many prizes as there are stars in a sales force. Increasing the number of prizes in a contest increases the chances that a laggard or a core performer will win a prize in place of a star, which motivates stars to work harder.

Conclusion: Shift the performance curve upward

Deciding how to compensate salespeople is invariably one of the most difficult decisions executives have to make. They also rarely have enough information to support their comp-related decisions. It’s time for that to change. Research reveals that salespeople at different points on the performance curve will respond to different incentives. Companies should not just rely on studies being done by academics; they should develop their own field experiments and learn what works best for their salespeople.

The first step for any company is to get a clear understanding of its own performance curve. Ideally, this would be done through sophisticated econometric methods, but an approximation can be obtained if you simply calculate each salesperson’s performance against sales targets, you’ll have a rough understanding of whether your company’s curve is normal, laggard-heavy, or star-heavy. The shape of the curve will suggest which incentives will give you the most leverage.

The existing sales culture can’t be replaced all at once. Rather than set up a whole new comp structure, you should form a hypothesis about one element of the plan. Design an experiment that includes both a treatment and a control group. Test one hypothesis at a time, in a limited pilot run.

Sales compensation plans that take into account the different needs of different salespeople, and that are based on real evidence rather than assumptions, will ensure that your sales department gets a significantly higher return on its investments.