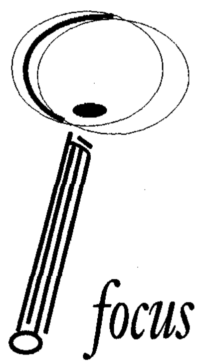
1

An Introduction to Sales Force Motivation



Learning Objectives

By the end of this chapter, you should be able to:

- State why sales incentives must be based on the individual needs and desires of sales personnel.
- Differentiate between nonfinancial and financial sales incentives.
- Specify the role of sales incentives and compensation as motivators of behavior.
- Identify major sales incentive and compensation trends.

INTRODUCTION TO THE COURSE

This course illustrates how sales managers can use sales incentives and compensation to motivate their sales teams. To motivate salespeople effectively, sales managers must have a thorough understanding of human needs and the concepts of motivation. They must also learn how to use the various forms of sales incentives and compensation to meet their salespeople's needs.

Think About It . . .

What rewards do you seek from a sales or sales management career? Why are these rewards important to you?

THE CHALLENGE OF SALES FORCE MOTIVATION

One of the most difficult tasks a sales manager faces is the motivation of a sales force. The diverse challenges of modern selling make this especially true. Salespeople may be scattered across a large geographical area; they may offer a broad product line to several diverse markets; their selling jobs are often technical and highly competitive; they may be part of a multifaceted sales team; and their expenses often represent a large portion of the company's marketing budget. Furthermore, many companies now have international sales forces whose composition adds even more complexity to the motivation challenge.

Because salespeople's needs change as they move through the various stages of their careers, sales incentives and compensation must be adapted. In particular, sales trainees and older salespeople present special motivational challenges. It is hard to motivate trainees who must undergo long breaking-in periods before they are productive. It is difficult to give them a feeling of accomplishment. It is especially difficult to generate enthusiasm for selling when trainees are technically trained but lack a sales orientation. For this reason, it may be wise to reward beginners for their efforts to learn rather than for their ability to produce. In contrast, experienced salespeople sometimes have limits on what they can earn; and they occasionally feel that their advancement and personal growth are restricted.

Because of these and other complexities of selling, a sales manager cannot assume that salespeople are strongly motivated day in and day out. However, failure to identify the needs of subordinates and to provide effective motivation result in increased turnover, lower sales force productivity, and unnecessary selling expenses.

A sales manager's first challenge is to identify the individual needs of sales personnel. Then the manager has to provide the conditions for motivation-opportunities for growth, achievement, participation, responsibility, and recognition. The manager must also make sure that the basic conditions for good morale are provided-adequate pay, suitable physical surroundings, social opportunities, and the like. To a large extent, these needs will be met through the various forms of sales incentives, compensation, and leadership.

? Think About It . . .

Does your company have a special sales compensation program for sales recruits? If not, should it?

INCENTIVES AND MOTIVATION

In many cases, sales motivation depends on the quality of management provided by the first-line sales supervisor. Through day-to-day contact, the manager sets the style and tone for the salesperson's relationship with the company. However, personal supervision is limited by the time available to the manager, and sales incentives (including compensation) must also be used to motivate salespeople. A sales incentive can be defined as anything that is used to reward sales personnel for their accomplishments.

A manager cannot motivate salespeople without understanding their needs. People are usually much more diverse in their work values and motivation patterns than their managers suspect. Although part of the supervisory task is to develop a general awareness of human behavior, this alone will not suffice. The sales manager must also identify the individual needs of sales personnel. For example, let's say Tom, who has four children and a mortgage, is concerned with security. On the other hand, Marge, who is single, is motivated by the potential for advancement. Obviously, Tom's and Marge's needs are different. The incentives used to motivate these two salespeople must also be different.

In Chapter 2, a framework for identifying salespeople's needs will be presented and various approaches to needs and motivation will be described. Applying these approaches involves sales leadership, which is covered in Chapter 3. The material in Chapter 3 also provides the basis for our consideration of the various forms of incentives and compensation presented in the following chapters.

TYPES OF INCENTIVES

Although personal leadership is a strong motivating factor, financial and nonfinancial incentives are two other major means of motivating salespeople. Just as effective leadership motivates salespeople, well-chosen incentives stimulate them to use their existing energies and resources more effectively. In designing incentives, one can choose either a special-effort approach or a continuing-format approach. A sales contest is an example of a special-effort incentive, because a contest is designed to achieve a specific, short-term goal. However, compensation and promotion are related to the achievement of continuing, or long-term, objectives. The major types of incentives are shown in Exhibit 1-1.

Nonfinancial Incentives

Nonfinancial incentives consist of a variety of incentive techniques used mainly for specific, special-effort situations. Recognition (honors and awards, special privileges, and communication), sales contests and incentive programs, sales meetings, and sales training are the major forms. These techniques will be covered in Chapters 3, 4, and 5.

Nonfinancial incentives are usually designed to achieve one or two specific, short-range objectives. However, the incentives must be coordinated with the company's long-range marketing goals and overall human resources program. For example, if a company has a long-range goal of balanced sales

Exhibit 1-1
Types of Incentives

NONFINANCIAL INCENTIVES

- Recognition
- Sales contests and incentive programs
- Sales meetings
- Sales training

FINANCIAL INCENTIVES (DIRECT)

- Salary
- Commission
- Bonus

INDIRECT FINANCIAL REWARDS

- Fringe benefits

among all of its product lines, it is unwise to introduce a sales contest that encourages salespeople to emphasize a specific product line at the expense of other product lines. Sales contests have the power to redirect sales efforts, so their use must be carefully considered.

Financial Incentives

Business organizations provide two forms of financial rewards. Financial incentives may be direct monetary payments, such as salaries and wages, or they may be indirect monetary rewards. These indirect rewards, commonly known as fringe benefits, include paid vacations, insurance plans, retirement plans, and similar employee benefits. Indirect financial rewards will be covered in Chapter 7.

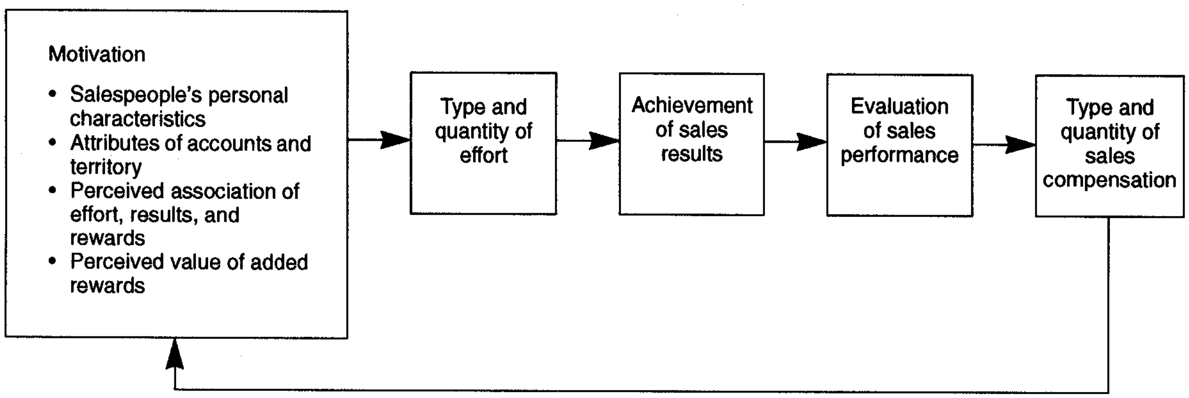
It is important for all sales managers to know and understand how financial incentives work because adequate and equitable compensation is essential to sales force motivation. A diagram showing the relationship between motivation, evaluation, and compensation is presented in Exhibit 1-2. The compensation plan is a key element in this linkage.

The model shows that motivation, which depends on the personal characteristics of salespeople and other factors, is both the starting and ending point on a continuum. The effort that salespeople expend and the results they achieve will depend on what they expect to receive as rewards (i.e., compensation). In turn, evaluation criteria, systems, and procedures measure salespersons' achievements (the results of their efforts) to determine the quantity and type of compensation.

Chapter 6 discusses the development of a sales compensation plan. Criteria for establishing a sound compensation plan are considered, and the establishment of compensation objectives and levels are discussed. The various methods of sales compensation are presented in Chapter 7. Implementing the sales compensation plan is covered in Chapter 8.

Exhibit 1–2

Links Between Motivation, Evaluation, and Compensation



Source: Adapted from Frank V. Cespedes, "A Preface to Payment: Designing a Sales Compensation Plan," *Sloan Management Review,* Fall 1990, p. 60.

Think About It . . .

What types of incentives does your company use to motivate its salespeople? How much emphasis is placed on nonfinancial incentives? How much is placed on financial incentives?

CONFUSION AND CONTROVERSY OVER FINANCIAL REWARDS

A sound incentive and compensation plan is essential to successful management of the sales force. An effective plan can be an important motivator. Sales incentives and compensation are more than simply payments for services rendered; they are related to recognition as well. For example, a salary increase is a reward, but it is also a form of recognition for acceptable or superior job performance.

However, sales managers must recognize that financial incentives are not the only way to stimulate salespeople. Money decreases in importance as a motivator once a satisfactory level of earnings has been reached. Even those salespeople striving to reach a desired standard of living have other needs that must be met. As a result, there is confusion and disagreement about the role of financial incentives as motivators.

For instance, Alfie Kohn, the controversial author of *Punished by Rewards,* disputes the effectiveness of reward systems such as incentives, bonuses, commissions, and recognition awards. In fact, he argues that quality of work declines over time because salespeople and other employees become less focused on the task at hand and more focused on earning the reward. He even goes so far as to suggest that creativity and quality of work improve when external rewards are not involved (Kohn,1993).

Another point of view is suggested by sales researcher Rene Darmon. He observes that the behavioral responses to financial incentives can fall into several categories. Salespersons who are money-sensitive will be motivated to work harder by an increase in remuneration. There are also salespersons who are not money-sensitive and do not become motivated (or more motivated) from an increase in remuneration. Leisure sensitive salespersons have been found to work less following increased remuneration, whereas income satisfiers adjust the level of their activities and sales to maintain the income they have been earning (Darmon, 1987).

Sales practitioners are also uncertain about the impact of financial incentives. At one extreme are the sales managers who feel that sales personnel are motivated strictly by financial considerations. These managers rarely recognize other needs. At the other extreme are the proponents of personal growth. They argue that a salesperson is concerned with factors related to the job, such as security, recognition, or advancement, and that financial rewards are relatively unimportant as true motivators of behavior.

An accurate view of money as a motivator lies somewhere between these two extremes. A financial incentive has several functions in motivating salespeople: it is a determinant of a salesperson's purchasing power; it is a symbol of status; and it is an indication of equitable treatment.

Think About It . . .

Do you know what role compensation plays in the motivation of each salesperson who reports to you?

SALES INCENTIVE AND COMPENSATION TRENDS

Sales incentive and compensation plans are continuously undergoing change. To a large extent, the trends in sales incentives and compensation reflect what has been happening in the marketplace. The major trends are listed in Exhibit 1-3 and discussed below.

Emphasis on Strategic Goals

Many companies are now trying to relate sales incentives and compensation to strategic management objectives. Emphasis has been placed on tying sales

Exhibit 1-3

Sales Incentive and Compensation Trends

- Compensation now being related to strategic management objectives.
- Compensation now being adapted to global sales, team selling, and other changes in sales strategy.
- A new shift to combination plans.
- Increased availability and variety of fringe benefits.

incentives and compensation to some measure of profitability or other strategic sales, marketing, or organizational goal.

In particular, the increased demand for customer service has led many firms to examine better ways to relate sales compensation to customer satisfaction. Salespeople are being asked to develop and maintain long-term customer relationships. Therefore, companies are developing compensation plans that reward salespeople for thinking of the long-term and working to retain customers. For instance, Toyota uses customer satisfaction as a key element in determining compensation for its Lexus dealers and salespeople. General Electric and AT&T's Universal Credit Card unit are two other organizations that use customer satisfaction as a factor in sales compensation.

Astute sales managers realize that their firms' strategic goals, such as increased market share, improved return on sales, and profitability growth, can be related to sales performance measures and rewards. For example, market share can often be increased through the introduction of a new product. However, the sales compensation plan should provide salespeople an incentive for investing the extra time required to sell the new product to first-time buyers. Profitability can be increased by rewarding salespeople for selling products at list price or close to list price. Likewise, compensation that offers rewards for focusing on account retention or the sale of strategically important products will help increase a firm's return on sales.

AT&T recently changed the sales evaluation and compensation program for its business-to-business sales force. A performance management program for account executives, sales managers, and branch managers has replaced the previous program that was based only on sales quotas. The new program measures and rewards salespeople for three specific areas of knowledge in addition to sales quotas:

1. In-depth knowledge of AT&T's product line and that of competitors.
2. Ability to demonstrate knowledge of the customer's business and to develop plans to assist the customer.
3. Success in developing their own personal strengths and those of others.

AT&T managers feel that this program is the best way to measure and reward sales performance. Because it does not focus solely on sales quotas, it helps sales personnel achieve all-around sales excellence. Moreover, sales compensation is more closely related to AT&T's strategic goals.

There will be a more detailed discussion of sales compensation objectives in Chapter 6.

Think About It . . .

AT&T, IBM, and many other companies are relating a significant portion of sales compensation directly to measures of customer satisfaction. Do you agree with this trend? Is this something your company should do?

Changes in Sales Strategies and Tactics

Many companies have begun to revise their sales incentive and compensation plans to reflect changes in sales strategies and tactics. For instance, the growth of international marketing requires that sales incentives and compensation be changed to reflect cultural, political, and economic differences in other countries. Sales practices and operations are likely to be different; as a result, management will be challenged to find the best way to motivate global sales personnel.

Team selling, another major sales trend, requires a program that rewards all members of the sales team appropriately. Team compensation plans must offer incentives to nonsales personnel as well as to salespeople. This is especially important for high-tech firms that rely heavily on the contributions of technical people. The unique nature of high-tech firms requires that the sales compensation plan take into consideration the complex organizational and motivational issues related to team selling.

For example, Xerox has developed a compensation program designed to enhance teamwork between sales and nonsales employees. The "Partnership Excellence" incentive program rewards districts that meet profitability and customer satisfaction goals through partnerships between sales managers, business operations managers, and service managers. During the first year of the program, more than a quarter of the districts qualified for incentive awards.

Dial Corporation, which produces soap, cleaning materials, and packaged foods, changed its compensation plan when it developed a regional sales strategy. Regionalization has become a prevalent segmentation strategy for companies seeking to capitalize on the differences in consumer tastes and preferences across the United States and throughout the world. Procter & Gamble and Cargill are examples of other companies that have developed regional strategies.

To implement its regionalization strategy, Dial divided the nation into eighteen segments and assigned a financial specialist, a marketing person, and a customer service representative to each segment. To ensure that team members would remain regionally focused, a different compensation plan was developed. Under the new plan, team members' bonuses would be based on sales volume, sales forecasting accuracy, and improved profitability for their region. Team members were also rewarded for their own individual performance.

By compensating its employees on both an individual and team basis, Dial has provided strong incentives for its employees to work hard. Basing part of employee compensation on individual performance ensures that each member of the team will feel adequately compensated for his or her own efforts. At the same time, basing part of the compensation on team performance ensures that team members will be motivated to work together and focus on their regions. Combining group and individual incentives keeps employee drive intact while encouraging the team loyalty that is needed if the firm's regionalization strategy is to be successful.

Companies are also structuring different incentive programs for different types of sales specialists. For example, they may have separate plans for salespeople who concentrate on large accounts. It has also been recommended that national account managers be paid significantly more than top field salespeople if a firm is to attract talented people to these challenging jobs. Furthermore, incentive payouts should be based on performance measures in addition to simple territory sales volume. A separate and distinct compensation plan should incorporate exceptional performance measures.

Sales incentives and compensation for people who sell services also reflects differences in sales strategies and approaches. Salespeople for business service firms are expected to be more entrepreneurial and are often paid on a commission basis. Since they take more risks, they earn more money on average at all levels than their counterparts in consumer and business products sales. However, although top sales performers in business service firms earn a great deal more, poor performers are severely penalized. Because companies in all industries are moving toward differentiating themselves on the basis of service, it is likely that sales compensation will increasingly reflect this trend.

It is also interesting that businesses new to selling, such as banks and other financial institutions, have begun to include incentives as part of their compensation plans. These incentive plans are directly tied to sales performance results and have been effective in motivating bank employees to sell.

A similar trend is taking place in retailing. In an effort to spur sales, traditional retailers are moving toward a greater emphasis on commissions. For instance, Nordstrom's sales personnel earn over half of their pay in commissions. It is felt that reliance on commissions is a key factor in Nordstrom's success.

Think About It . . .

Sales managers exist in a very dynamic environment. What are some likely changes that sales managers must be prepared to handle if they are to motivate their salespeople effectively?

The Shift to Combination Plans

For a number of years, companies have moved away from straight commission or straight salary plans toward combination plans. Most firms of all sizes now use combination compensation plans for their salespeople. Combination plans use salaries plus commissions and/or bonuses to pay salespeople.

Combination plans are popular because they provide flexibility. The modern sales job is complicated, and salespeople must be problem solvers. They are expected to be consultants, using their product knowledge to adapt products to the specific needs of customers. In this way, they meet their customers' needs by adding value that goes beyond the worth of the product itself. Sales compensation must reward these efforts.

Combination plans are used to relate incentives to the accomplishment of these expanded sales and marketing objectives as well as to sales volume. It is especially important to relate sales compensation to the accomplishment of less quantitative objectives and tasks, such as customer service, marketing intelligence, and long-range developmental sales activities. In addition, combination plans satisfy the salesperson's desire for some stable base income. Many firms that previously relied almost entirely on incentive compensation now include a salary component.

In other cases, companies have moved to increase the percentage of sales compensation tied directly to performance. For example, in magazine advertising sales, salary used to comprise 60 to 70 percent of the average salesperson's compensation. In recent years this has dropped to about half, as direct incentives have become a larger portion of total sales compensation. However, incentive plans do not follow an industry formula but are designed to meet a specific magazine's needs. The various forms of combination plans will be discussed in Chapter 7.

Fringe Benefits

The last major trend is the increased availability and variety of fringe benefits, or indirect compensation. Companies must offer a range of health, welfare, and retirement benefits to attract and retain good people. Most firms now provide salespeople and other employees with paid holidays, vacations, group life insurance, major medical insurance, and some form of retirement program. Moreover, the number and variety of fringe benefits are growing. Paid legal assistance, child care, profit-sharing opportunities, and unique retirement options are some of the newer forms of company fringe benefits. These and other forms of fringe benefits will be discussed in more detail later in Chapter 7.

recap

People differ in what motivates them. Therefore, sales managers must identify the individual needs of their sales personnel. They must learn how to use the various forms of sales incentives and compensation to meet these individual needs.

There is much confusion and controversy about how to motivate salespeople. Traditionally, money has been the primary method, and financial rewards are still important. Money is the determinant of a salesperson's purchasing power, it is a symbol of status, and it is an indication of equitable treatment. However, some salespeople are motivated by other rewards. It is up to the sales manager to determine the appropriate incentives, including monetary rewards, for each salesperson.

There are two major forms of sales incentives: nonfinancial and financial. Nonfinancial incentives are nonmonetary techniques used for specific, special effort situations. Examples of special nonfinancial incentives include recognition, sales contests, and sales meetings and conventions. Financial incentives are direct monetary payments, such as salaries, commissions, and bonuses, or indirect rewards that have monetary value, such as medical insurance and child care assistance.

Changes in selling have led to changes in sales incentives and compensation. The current selling environment places an emphasis on tying a firm's strategic goals to sales compensation. Combination plans are a way in which companies encourage their sales forces to focus not only on making sales quotas but also on achieving less quantitative objectives, such as customer service. Global sales, team selling, national account management, services selling, and selling in new businesses, along with fringe benefits for salespeople, are just a few of the areas in which innovative approaches are being taken.

Review Questions

1. To develop an effective compensation plan, a sales manager must have an understanding of — 1. (a)
   (a) human needs and the concepts of motivation.
   (b) financial analysis and theories.
   (c) sales contests and their effect on sales results.
   (d) sales presentation skills.

2. Many firms today have shifted to: — 2. (c)
   (a) sales compensation plans based on straight commission.
   (b) compensation plans based on straight salary.
   (c) combination compensation plans.
   (d) bonus systems.

3. Which of the following are considered fringe benefits? — 3. (d)
   (a) Bonuses
   (b) Contests
   (c) Commissions
   (d) Pensions

4. Special motivational problems sometimes exist with sales trainees as they: — 4. (c)
   (a) have limits on what they can earn.
   (b) feel personal growth is restricted.
   (c) may be technically trained but often lack a sales orientation.
   (d) are always motivated solely by money.

5. Many companies are beginning to differentiate themselves on the basis of service. This will likely: 5. (c)
(a) have no effect on sales compensation.
(b) lead to an increase in the use of sales commissions as a component of compensation plans.
(c) change. the format of sales compensation.
(d) lead to a decrease in the use of sales teams.

6. One reason that the selection of sales incentives must be based on understanding individual needs is that: 6. (b)
(a) all people are motivated by the same factors.
(b) salespeople do not have the same work values and motivational patterns.
(c) individual needs are stable over time.
(d) everyone is motivated by financial rewards.

7. An effective sales compensation plan is: 7. (c)
(a) the only way to motivate salespeople.
(b) focused solely on salary.
(c) an important way to motivate salespeople.
(d) rarely changed.

8. A form of nonfinancial incentive that is used often to motivate salespeople is: 8. (c)
(a) fringe benefits.
(b) sales quotas.
(c) sales contests.
(d) bonuses.

9. Anything that is used to reward salespeople for their accomplishments is: 9. (d)
(a) a bonus.
(b) sales compensation.
(c) a sales commission.
(d) a sales incentive.

10. Sales compensation plans for many high-tech firms are changing to reflect the increased emphasis on: 10. (a)
(a) team selling.
(b) prospecting.
(c) cold calling.
(d) individual incentives.