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Sales Force Design and Management

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1 INTRODUCTION

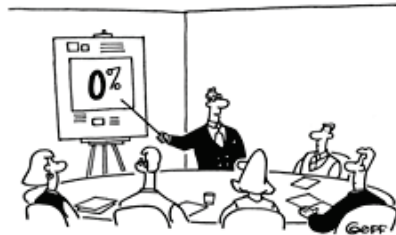
Whether they are called “rainmakers” [in investment banking] or “peddlers,” whether their feet are on the street or in the door, whether they are pushing metal [cars] or slamming boxes [photocopiers], salespeople are the unsung heroes of business. They battle daily and bravely against rival firms and consumers who foolishly prefer to save their hard-earned cash. They gather vital intelligence about customers’ preferences and competitors’ moves. Forget the marketing mavens, the strategy wizards, the bean counters and the designers. Spare a thought for the world’s Willy Lomans, riding on a smile and a shoeshine.

—“The Art of Selling,” *The Economist* ¹

A common saying in the business world—and the title of a popular book in the field—is “Sales eats first.”² In other words, a company (or an economy, for that matter) cannot survive without sales; selling goods or services is usually the only revenue-generating function in businesses. That is why successful organizations must align and implement their organizational objectives with the objectives of the sales force, and vice versa.

In this reading you will learn how managers foster such strategic alignment, and how that alignment in turn creates sales teams that most effectively sell the service or product that the organization is pitching. But first let’s look briefly at the scope and business of this function we call sales. A wide range of products and services comprises what is sold in the world—everything from food to housing, event tickets to travel packages, and more. This includes skills and services like lawn care, massage therapy, and elective surgery, as well as business needs such as financial instruments, customer data lists, and chemical reagents. And don’t forget the big-ticket items such as aircraft carriers and seats on the next flight into outer space.

The act of selling itself takes place in a wide range of industries and demands a variety of skills, some of which can be quite advanced and technical. For example, IT sales representatives selling hardware or software to government agencies may need a high-level security clearance just to learn, much less meet, the needs of their customers. In the biotechnology field, salespeople often hold degrees in a related science and are expected to be knowledgeable about issues ranging from medical efficacy to patent law.

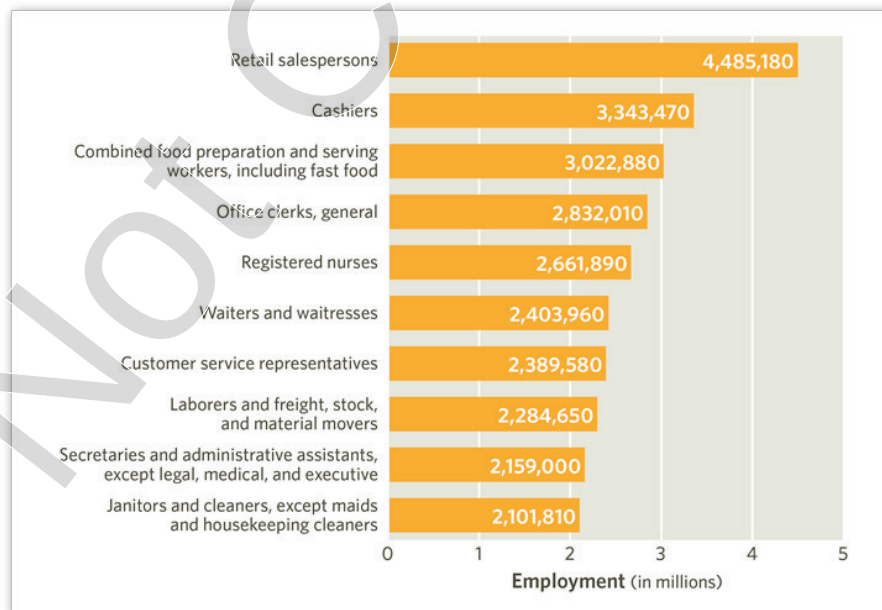


"Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part."

© 1999 Ted Goff.

Given the enormous range of things to sell and the types of people needed to sell them, it should come as no surprise that the number of sales forces themselves is enormous. In the United States, salespeople number around 14 million—more than 10% of the country's work force.³ As of May 2013, the largest single occupation category in the United States was retail salespeople, at almost 4.49 million, over a million more than the next category, cashiers, at 3.34 million⁴ (see **Exhibit 1**). In a more populous country such as China, the numbers become even more dramatic, where more than 65 million people are employed in sales.⁵

EXHIBIT 1 Size of U.S. Occupational Categories, 2013



Source: U.S. Department of Labor, Bureau of Labor Statistics, *Data Tables for the Overview of May 2013 Occupational Employment and Wages*, May 2013, http://www.bls.gov/oes/2013/may/featured_data.htm#largest, accessed May 14, 2014.

With so many jobs at stake, the deliberate design and management of sales forces becomes even more critical. The costs alone are staggering; growing,

maintaining, and managing a sales force is a massive investment for most companies. U.S. organizations invest more than \$800 billion annually in maintaining their sales forces—a sum 4.7 times larger than total spending on all media advertising.⁶ Sales force costs represent on average about 10% of sales revenue and as much as 40% of sales revenue for certain industries.⁷ The top 500 companies in North America, as ranked by the estimated size of their sales forces, employ almost 24 million salespeople.⁸ These high costs motivate organizations to continually enhance the effectiveness of their sales forces through employee selection, training, supervision, motivation, and compensation. Collectively, these actions are referred to as *sales force management*.

The impact of a company's sales function, however, extends beyond bringing in immediate revenue. This is where the alignment between sales and the strategic goals of the organization comes into play. Salespeople can be groomed as frontline providers of valuable micromarket-level information (detailed data from a small targeted area) about products, customers, and competitors. Such data can help companies improve their marketing strategies as well as their sales revenues.

For example, U.S. Equipment Financing, a unit of GE Commercial Finance, added \$300 million in new business in one year. Its president attributed the success to the creation of new customer databases, which analyzed and prioritized prospects according to criteria developed by the sales force. The approach not only uncovered 10,000 high-potential prospects who would otherwise have been overlooked, but it also informed targeted marketing campaigns that focus on the most promising market segments. In general, companies that have charged their salespeople with systematic data gathering and analysis have been able to improve product offerings and management processes in integrated efforts, producing productivity increases of up to 200%.⁹

Such quantitative success notwithstanding, selling is not simply about data and money. It is also an art. Despite the adage, "Salesmen are born, not made," a good salesperson actually must train and practice like any artist.

Successful salespeople have been likened to baseball players who bat .300. "Hitting 1 out of 100 is tremendous in many types of sales," says author P.D. Broughton. "So to really succeed at it, you have to understand the odds, you have to understand that you're going to be told 'no' more than 'yes' and . . . that's psychologically hard." Even so, Broughton continues, sales is what makes the organization human, cutting to the essence of our nature as people, to our ability to persuade others. In that way, sales provides the greatest laboratory for studying human beings—which is the opposite of what we usually think about when we think about business.¹⁰

We can therefore consider sales the most basic, straightforward means of direct marketing. That is especially true of **personal selling**, exemplified by the salesclerk in a clothing store or the agent at a car rental counter. Face-to-face contact gives organizations the power to focus on high-profile customers and the freedom to directly convey the organization's message. (Note that although personal selling usually refers to sales conducted face-to-face, such selling can also take place via phone, e-mail, or online. For example, telemarketing or web-based contacts can be effective ways to generate prospects and/or qualify initial leads.)

But again, that kind of synergy can occur only when the sales force is on the same page with the overall strategy of the business, which we have begun to describe in this introduction. In the Essential Reading that follows, we'll take a deeper look at how the design of a sales force can work to coordinate actions in the service of the organization's overall strategy. Then we will explore the individual salesperson's role and, finally, how she or he is managed within an organization. The Supplemental Reading discusses sales force compensation, a key tool used by organizations to recruit and motivate the sales force.

2 ESSENTIAL READING

2.1 Aligning Sales with the Organization's Strategy

The effectiveness of any sales force, as we have said, is directly related to how well its objectives match those of the organization as a whole. But that kind of alignment does not happen by chance. It is a deliberate process that begins with designing a sales force (see **Exhibit 2**).

EXHIBIT 2 Aligning Strategy and Sales



2.1.1 Designing a Sales Force

To align the objectives of a sales force—and ultimately the objectives of each individual salesperson—with an organization’s objectives and business strategy, managers need to decide on the following factors: (1) the sales force’s objectives and strategy, (2) its structure and size, and (3) its system for hiring, training, evaluating, and compensating. Sometimes these decisions lead to unconventional or creative approaches. For example, when the nonprofit organization Population Services India (PSI) was looking for a strategic method to tackle HIV/AIDS prevention in India, it decided to use its sales force to “sell” the benefits of using condoms. This meant hiring and training a new kind of salesperson: interpersonal communicators (IPCs) who would speak with sex workers, pimps, and madams about condom use. The subsequent increase in sales of government-subsidized condoms was an indicator of the close alignment between PSI’s strategy and its “sales”—which, in this case, meant successfully communicating the idea that condoms can prevent disease transmission.

The U.S. presidential reelection campaign for Barack Obama in 2012 combined sales techniques with social marketing to even greater effectiveness than did his 2008 campaign. While the Republican Party relied heavily on mass media advertising, Obama strategists used demographic data to target promising “customers”—in other words, Democratic-leaning voter segments. Then they built a massive online grassroots campaign, recruiting supporters as their “sales force.” Through data-mining the campaign’s many websites, including one for each state and for various subgroups such as nurses and veterans, the Obama campaign managers helped people use platforms like Facebook to identify like-minded friends and encourage them to donate, volunteer, and, most importantly, vote. The campaign then tracked the follow-up online traffic and, combined with information gathered from in-person canvassing and calling, used it to further refine its strategy and its sales pitch.¹¹ This groundbreaking approach did more than win the election; in the admiring

words of one political commentator, it left the U.S. Republican Party “beaten, amazed, and dismayed.”¹²

A recent success of the retailer Nordstrom demonstrates the importance of aligning strategy and sales in a more traditional business context. Throughout the company’s lengthy history, it has prided itself on superior customer service, carefully training its in-store salespeople to provide a personalized buyer experience. To meet the challenges of e-commerce, Nordstrom slowed the opening of new brick-and-mortar stores and invested heavily in mobile and digital technologies. But the strategic focus never wavered. Nor did the alignment between strategy and sales: The new tools were designed to enable salespeople to create unique collaborations with their customers. For example, representatives in the menswear department have a special app on their iPads to showcase the fabrics and styles available to custom-tailor a suit—and to arrange two-week delivery of the finished product. Other sales associates use their iPhones to quickly inform their customers about new merchandise.¹³ In 2011 alone, Nordstrom deployed 6,000 mobile point-of-sale devices to its salespeople. Citing the company’s stellar growth in 2012, a *Forbes* magazine columnist asked: “Lord and Taylor, Belk, Dillard’s, et al.—are you taking notes?”¹⁴

Please click on **Video 1** to see Professor Frank Cespedes speak about key challenges at the heart of aligning strategy and sales: understanding the industry, market, and other external factors; determining the sales tasks appropriate to a particular organization and product; ensuring that selling behaviors and activities support tasks; and recognizing alignment as a leadership issue.



VIDEO 1 Aligning Strategy and Sales



Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2ulh3VL

2.1.2 Sales Force Objectives and Strategy

While pure selling is the focal point of many sales organizations, today’s sales force exists to solve customers’ needs rather than to simply sell. That’s why salespeople responsible for key accounts should not only have good industry-specific knowledge; they should also be able to capture and analyze data so they will be able to effectively provide vital information for the success of the organization’s mission. Whether that mission/objective is to maximize revenues, maximize social welfare, solve customer problems, or all this and more, managers will need to define specific sales force objectives to help the organization realize its mission.

Consider an organization with a strategic objective of enhancing customer satisfaction and loyalty. Achieving this objective requires not only the ongoing collection and evaluation of survey data, but also linking satisfaction-based measures, sales performance, and compensation. For example, software vendor Parametric Technologies Corporation suffered from a chronic failure of its salespeople to follow up post-sale; customers joked that the best way to get rid of a PTC salesperson was to place an order. To create a more customer-oriented sales force, the firm began basing sales compensation in part on customer satisfaction scores. This resulted in a culture change and largely solved the problem.¹⁵

To maximize the impact on the behavior of a sales force, the linkage between strategic goals and sales objectives must be clear. For instance, if the firm is expanding its geographic scope, salespeople would need a plan to attract new customers; if the strategic goal is to deepen market penetration, the selling should focus on getting more business from existing customers. Additionally, sales targets should be quantified to the extent possible (e.g., increasing new orders by a given percentage or driving repeat business to a specific volume of shipments).

At this point, the business can choose to use a *direct sales force* (its own employees) or an *indirect sales force* (employees of an independent sales organization) that will represent its products either exclusively or jointly with competitors' products. There are pros and cons to each approach. A direct sales force, while more costly, will have better messaging capabilities and greater control over the flow of information and marketing material to customers. Generally, an organization would opt for a direct sales force when (1) the product is specialized in terms of function, market, or other key characteristics, (2) the product line is relatively wide, and (3) the organization is sufficiently established to support the additional employees.

But downsizing a direct sales force, if needed, may be difficult, especially in countries where labor laws require extensive pre-layoff notifications or pose other implementation challenges. Further, firms carrying large numbers of salespeople on their payrolls are especially vulnerable to cost pressures and must respond to regulatory constraints.

As an example of these difficulties, the traditional direct sales force of the pharmaceutical industry is facing pressures today because of scandals, price erosion, and changes in relevant laws. Regulations have made it more difficult and more expensive for salespeople to meet directly with doctors. Direct sales force costs are increasing as companies compete to recruit the best talent. Firms with drugs coming off patent protection are forced to lay off entire sales teams because of the price advantage of generic drugs. Some companies, like Takeda,

have eliminated part of their direct sales force altogether in favor of indirect channels;¹⁶ others have shifted to smaller teams with more limited responsibilities. Throughout the industry, firms are redesigning their sales forces to align with new external realities and organizational strategies.

Another way companies manage the enormous costs of maintaining a sales force is to have a defined area of focus. For example, an organization might set a goal of prioritizing prospects with high *customer lifetime value*. (CLV is generally defined as the present value of future profits expected from a customer throughout his or her relationship with the firm.¹⁷) This firm could use a **leveraged sales force**, with focal teams from the direct sales force assigned to call on top CLV accounts while less costly indirect sales representatives or web-ordering systems handle accounts with lower potential.^a For example, a maker of medical devices might assign certain salespeople to service national hospital networks, while others handle individual surgery centers or community hospitals.

Now let's look at how the structure and size of a company's sales force can be designed to reflect both the sales force's own objectives and the overall goals of the organization.

2.1.3 Sales Force Structure and Size

The optimal structure and size of a sales force will vary, depending on many micro- and macroeconomic factors. The most common sales force structures are based on product, market, account, or geography.

Product. A company with product offerings that differ in function, complexity, and/or end users could choose to deploy salespeople based on specialized knowledge of each product. For example, the medical products vendor Roche Diagnostics has different sales teams for diabetes care, cardiovascular testing, and urinalysis equipment.¹⁸

Market. A company serving different types of markets might assign salespeople based on their market expertise. A commercial baker, for instance, could have separate sales forces for hotels, universities, and prisons.

Account. Particular structures may be required for certain accounts, such as dedicating specific salespeople to the biggest or highest-potential accounts. In a variation of this approach, one food and beverage company services the

^a Another key distinction is made between salespeople based on their responsibilities. *Outside salespeople* spend most of their time in the field, calling on customers to generate sales. *Inside salespeople* are office-based, primarily responding to orders and inquiries that come in on the web or phone.

membership wholesaler Sam's Club at its headquarters, since the Walmart unit's purchasing is centralized at that location (Walmart owns Sam's Club); but this company also fields regional sales teams to call on Sam's Club competitor Costco, which does its buying regionally.¹⁹

Geography. Firms that offer the same, relatively simple products to all customers can divide their sales force by geographic area. For example, Avon's 3.5 million salespeople sell an unvarying line of items to one single target audience throughout the world.²⁰

The effectiveness or efficiency of any sales structure may change over time, in response to new conditions like an altered product or customer portfolio, shifts in relative market profitability, or a change in organizational objectives. Some research suggests that sales force structures should be revisited at each stage of the business life cycle (startup, growth, maturity, and decline), just as marketing strategies are matched to different stages of the product life cycle. For instance, as a growing enterprise expands its offerings and customer base, it may need salespeople who are increasingly specialized by product, market, or account. A mature business, on the other hand, might consolidate its sales teams in geographic areas to reduce costs.²¹

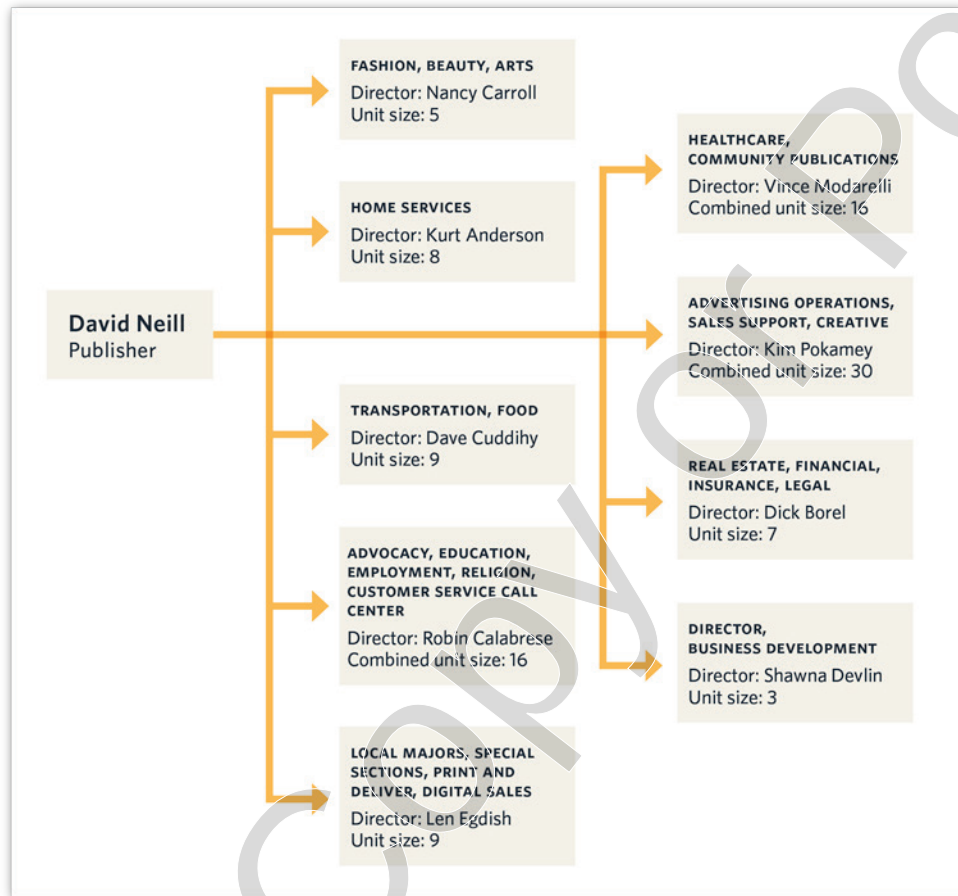
Structuring the Sales Force²²

A change in how the work of the sales force is structured can drastically improve sales, particularly when the change reflects a larger shift in the organization's strategic objectives. When Florida's *Naples Daily News* faced declining ad revenues, it reconsidered its territory-based sales force structure, in which each salesperson was responsible for a specific geographic area. The approach, in the words of Kurt Anderson, the home services advertising director, had always created "a free-for-all," with no focus on any particular type of business unit or targets, as long as the sales representative stayed within the assigned geographical boundary.

Publisher David Neill started searching for a better way. Neill looked at what areas of business the paper covered as a starting point to restructure from geographical units to business units. The goal was to "operate at a much higher level of sophistication" and specialization in the paper's sales approach. Neill hoped that sales teams would function more effectively by targeting the type of business rather than its location.

As shown in **Exhibit 3**, the *Naples Daily News* rearranged its sales groups into nine business units, each with a common economic base. For example, the transportation unit began selling ad space only to transportation-related businesses, such as boat manufacturers, car washes, and tire stores.

EXHIBIT 3 Naples Daily News Restructured Sales Force



Source: Pew Research Center, "Newspapers Turning Ideas into Dollars: The *Naples Daily News*—Restructuring the Sales Operation," February 11, 2013, http://www.journalism.org/analysis_report/naples_daily_news_restructuring_sales_operation, accessed June 28, 2013.

The newspaper's sales representatives received more power to negotiate advertising rates independently and each unit director "owned" his or her unit. "What was here previously was a traditional environment," said Neill. "People had their marching orders and they had the rate cards . . . and they went to market and said, 'Here are the rates; advertise with us.'" Neill wanted to design a more creative environment at the paper, which empowered the account executive to make decisions and negotiate directly with the customer. "In the past they weren't allowed to do that without approval from three or four people," he said.

The change, after a pilot period with 30% of the salespeople using the new model (which was modified slightly), proved very successful. Revenue in the first quarter after the reorganization was up 10% and circulation up 20% from the same quarter the year before, with growth occurring in all four quarters in 2012. By having sales staff assigned to specific industries, "they're able to share

national industry trends, they're able to share regional trends," says one sales director. "They're able to own that vertical, own that business unit, and then it's just proven exponentially successful."²³

Sizing the Sales Force

There are a number of factors to take into account when deciding what size sales force a company will need. Given the fact that sales is one of an organization's most resource-intensive functions, decisions about changing its size should be made cautiously. Increasing the size of the sales force, for example, would naturally have an impact on both the company's revenues and costs and, once increased, downsizing a sales force may be difficult. For more detail, see the sidebar developed by the authors of this reading, "The Eight-Step Method to Construct Sales Force Size."

The Eight-Step Method to Construct Sales Force Size

While there are no strict guidelines on the optimal size of a sales force, once an organization determines the number of customers it wants to serve based on its objectives and strategy, it can use an eight-step method to construct sales force size, as follows:

Step A Segment the types of customers and estimate their number—based on segment size, characteristics, etc.

Step B Estimate the call frequency (the number of sales calls per year) necessary to serve each of the customers in a segment.

Step C Multiply the number of customers in each segment by the corresponding call frequency to obtain the total number of sales calls necessary for the year. (Step A x Step B = Step C)

Step D Compute the net number of working days possible, minus vacation and expected sick leaves, per salesperson.

Step E Identify the time necessary per sales call, including travel time.

Step F Calculate the number of total working hours per year by multiplying the hours worked per day by the expected number of salesperson work days in a year. (Hours per day x Step D = Step F)

Step G Calculate the number of calls attainable per salesperson per year by dividing the total working hours per year by time to perform a sales call. (Step F ÷ Step E = Step G)

Step H Divide the total number of calls per year by the number of calls per salesperson to arrive at the approximate target sales force size. (Step C ÷ Step G = Step H)

Exhibit 4 provides an example: Assume that a hypothetical firm serves 10,000 mom-and-pop stores (Segment 1) and 5,000 medium-size businesses (Segment 2). To estimate the number of salespeople needed for Segment 1, multiply 10,000 customers by 12 annual calls per customer = 120,000 calls per year for Segment 1. Then take the number of possible work days, 250, and subtract 10 vacation days and 10 sick days to arrive at an expected number of 230 actual work days. Multiplying 230 days by eight hours per day yields 1,840 hours per salesperson per year. For Segment 1, we anticipate that each call takes no more than one hour because the proprietors' needs are relatively simple, so a salesperson could be expected to complete 1,840 calls in one year. Dividing 120,000 calls needed by 1,840 calls per salesperson yields a requirement of 65 salespeople.

EXHIBIT 4 Sizing a Sales Force

	Segment 1	Segment 2
Number of customers	10,000	5,000
Number of calls per customer per year	12	24
Number of calls necessary per year	120,000	120,000
Number of work days	250	250
Number of vacation days	10	10
Number of expected sick days	10	10
Number of hours work per day	8	8
Number of hours per call (including travel time)	1	2
Number of calls per salesperson per year	1,840	920
Number of salespeople	65	130

Medium-size businesses have more decision makers and use more products than individual proprietorships, so we anticipate that twice as many sales calls are needed in Segment 2. Multiplying 5,000 customers by 24 annual calls per customer = 120,000 calls per year for Segment 2. To attend to the relatively complex needs of these customers, we predict that each call in this segment takes approximately two hours, so a salesperson could be expected to complete 920 calls. Dividing 120,000 calls needed by 920 calls per salesperson yields a requirement of 130 salespeople for our company example.

While this equation provides a general starting place to estimate the number of salespeople an organization might need, in reality it will be complicated by

additional factors such as training days, turnover, administrative work, and the differences among salespeople's strategic responsibilities. But it illustrates the two key elements crucial in determining the size of the sales force: (1) calls needed per customer per year, and (2) hours required for each call. Accuracy in these predictions is fundamental to the right-sizing task.

2.1.4 Structures for Key Account Sales

Organizations have steadily become larger, more complex, and more globalized over the past two decades, especially in the business-to-business sector—both for the customers they serve and the competitors they face. The advent of **systems or solutions selling** (where vendors offer combinations of products and services to solve customers' problems) has helped to increase the size of an average sale, sometimes dramatically. For example, the industrial chemical division of Allied Chemical typically obtained \$1 million to \$2 million in annual contracts for sulfuric acid; when the division developed a process for air-pollution control, one sale involved a \$20 million, multiyear commitment.²⁴

These changes mean that a relatively small number of customers now contributes an outsized share of many companies' sales volume and/or profits. Selling to these key accounts differs radically from transaction selling such as in a retail store, where the salesperson may spend just a few minutes making a standardized pitch to many one-time customers. Because sales to these key accounts require months or years to develop and involve numerous purchasing decision makers, vendors may utilize multiple salespeople with different types of expertise. For example, a technical consulting company might have nontechnical representatives setting up initial contacts, technical experts closing sales, and account managers handling ongoing customer relationships.

The goal of **key account selling** is to build long-term buyer/seller relationships that foster ongoing communication, cooperative planning, and mutual trust. While it can be time-consuming and expensive to nurture these relationships, the payoff is loyalty—an enormously valuable commodity. Across many organizations, loyal customers are more likely than others to consistently rebuy the vendor's product, generate positive word-of-mouth, resist competitive marketing, pay a price premium, and collaborate with the vendor to improve performance and develop new products.²⁵

Because relationship-oriented selling demands special attention and skills, many organizations create distinct types of key account sales structures.

For example, a *special sales force*—typical in the food and packaged-goods industries—comprises senior sales representatives who call exclusively on the

buying offices of major retail chains and wholesalers. It is most appropriate when a company has a large number of key accounts and prospects.

In the *regional sales management* approach, each field sales manager is assigned to one or two accounts. It is used in such industries as apparel and furniture where key accounts are relatively few in number and geographically dispersed. Likewise, when the number of key accounts is small, they may be handled by sales specialists (a *small national account group*) who work from the vendor's headquarters. These specialists might call on key accounts themselves, or offer technical expertise and other types of support to the regular field sales force. Sometimes, however, a *separate sales division* becomes appropriate, one that is limited to key accounts that need an integrated, customized operation—for instance, in companies that manufacture private-label products for large retail chains.²⁶

The classic procedure for making key account sales is described in the sidebar, “The Eight-Step Process for Key Account Selling.” The most crucial part of managing this sales task is often the ability to marshal a range of internal resources effectively across different buying locations, buying decision makers, and organizational boundaries.²⁷ For example, a key account salesperson may need to work with engineers to develop a customized product configuration, with manufacturing to dedicate sufficient production capacity, and with finance to obtain special payment terms.²⁸ To clinch a sale, he or she must get past a gatekeeper, such as a corporate purchasing agent, then satisfy the needs and wants of various product experts, functional managers, and potential end users.

Of course, not every salesperson is suited to key account selling, which demands a high level of social and interpersonal skills in addition to basic sales expertise. This brings us to our next topic: the individuals who do the actual work of selling.

The Eight-Step Process for Key Account Selling

- 1 *Open the selling process.* The salesperson's first step is to determine what individual or group in the buying organization is most appropriate to approach—and most likely to respond positively. Sometimes a third party is best positioned to make the first contact; for example, a law firm might ask its current clients to make introductions to others in their industries.
- 2 *Qualify the prospect.* Prospects differ in the likelihood that they can be converted to sales. To avoid wasting time on low- or no-potential leads, salespeople must determine if the buying organization has a demonstrated need for their product; and if so, whether their offering can realistically compete with alternatives or how likely it is that the buyer would consider switching vendors.
- 3 *Develop the sales strategy.* Once a prospect has been qualified, the salesperson should develop a plan that specifies all necessary contacts and selling tasks. For example, certain individuals or groups in the buying organization could need detailed cost estimates or product usage data in order to make a decision. Some customers might require price negotiations to be handled by a specific office or individual. In general, the goal of strategic selling is to grow connections and gather data that will not only facilitate a single transaction, but contribute to a more sustained relationship.
- 4 *Organize the justification.* Part of the salesperson's job is to help the prospective customer cost-justify a purchase. This means developing a deep understanding of the buying organization's needs and challenges, in order to convince decision makers that the seller's product will save money, boost profits, or otherwise improve their operation. It is also an opportunity to ask buyers directly about what they really want and expect from a vendor.
- 5 *Make the presentation.* In a final presentation to key customer personnel, the salesperson has an opportunity to summarize and reinforce prior agreements made individually with each decision maker. This is also the time to formally ask for the order. Typically, a final sales presentation revisits the scope and advantages of the specific products or services being offered for sale, and includes a proposed implementation schedule and contract.
- 6 *Coordinate resources and personnel.* The salesperson is responsible for identifying, mobilizing, and coordinating all of the selling company's resources necessary to facilitate the sale. For example, a prospective customer might have special product design requirements, or specific delivery and/or financing needs. An effective salesperson thoroughly understands who or what is involved in addressing such needs.
- 7 *Close the sale.* Closing the sale is a process, not a single event. Because months or even years may elapse between making the initial contact and obtaining the final go-ahead, the salesperson cannot wait until the end to get a final, collective agreement. He or she must close each call—in other words, get and reaffirm a commitment—from every decision maker along the way.
- 8 *Nurture the account relationship.* Skilled salesmanship continues to play a critical role long after the sale has closed. In addition to supporting the account by providing such services as installation, training, and trouble-shooting, the salesperson can continually reinforce the buyer's confidence in the seller—and set the stage for future sales.

Source: Adapted and reprinted from "Making the Major Sale," by Benson P. Shapiro and Ronald S. Posner, *Harvard Business Review*, July–August 2006. Copyright © 2006 by the Harvard Business School Publishing Corporation, all rights reserved.

2.2 The Salesperson

Who are salespeople? What is the role of a salesperson within an organization? And how should salespeople best be managed (selected, compensated, trained, and evaluated)—both as individuals and as part of a key organizational strategic function? These are some of the questions we will address in the remainder of this reading.

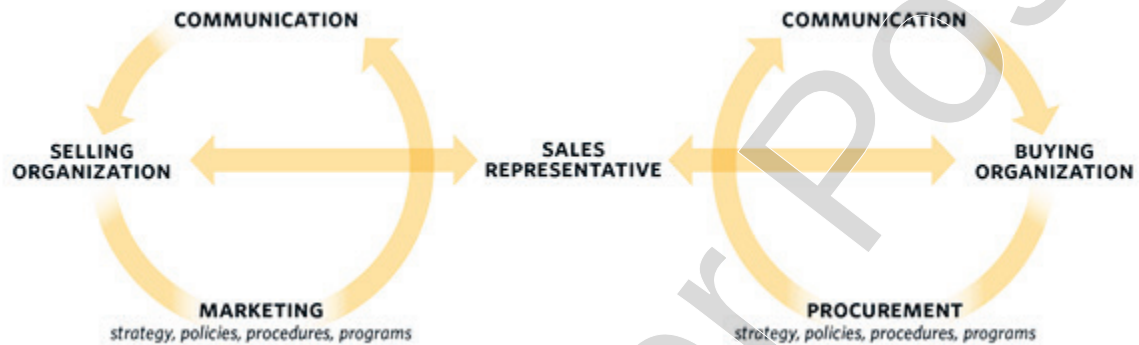
2.2.1 The Basic Job

Let's begin with the task of sales in general. Fundamentally, salespeople are responsible for generating leads, converting leads into sales, and retaining customers. They act as the representatives and the face of an organization and in many cases they are the organization's only source of direct contact with customers. Thus, salespeople are in an ideal position to gather valuable insights into customer behavior and to identify market needs.

Salespeople at first may not appear to be selling, like the farmer at an open air market showing off his vegetables or a waiter recommending "the special" (often whatever the kitchen made too much of). Airline flight attendants assist passengers in many ways, but one of them is selling passengers anything they may want for the flight, from snacks and beverages to headsets, as well as duty-free items. For example, in 2012, All Nippon Airways (ANA) completed over ¥40 billion (US\$454 million) worth of inflight sales, a 20% increase over the previous year.²⁹

Sales representatives serve in a **boundary role** within the selling organization (see **Exhibit 5**), functioning as both the face of the company to the customer and the face of the customer to the company. In addition to selling and administrative duties, salespeople may also play a role in implementing promotional strategies, as when salespeople staff company booths at trade shows or deliver posters to stores and restaurants. They are usually expected to report buyer comments and complaints to their management, and to collect data about customers' needs, preferences, and buying behaviors.

EXHIBIT 5 Selling as a Boundary Role



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The customer data that salespeople compile are important to managers, who must allocate resources in line with profit and business-building opportunities. This information can be pivotal in decisions about whether or not to “fire” a customer—in other words, to determine if the cost of servicing an account exceeds the profit it generates. For example, a customer may demand increasingly significant discounts, or expect post-sale support that is beyond the scope of the original agreement. Such investments may pay off under certain circumstances—such as when the relationship is new, highly prestigious, or rapidly growing—but may be unsustainable in the long run. For more on this topic, see *Core Reading: Customer Management* (HBP No. 8162).

In trying to respond to two different and often conflicting sets of rules, procedures, and task requirements, the salesperson may generate controversy within the selling organization and feel somewhat isolated, both psychologically and physically.³⁰ An effective way to mitigate this sense of isolation is to ensure cooperation and respect among all internal team members. It is vital, for instance, for co-workers to be committed to keeping the promises made by salespeople to customers. Salespeople themselves can help foster these relationships by treating their colleagues with the same attentiveness and courtesy they show their buyers.

In addition to the challenges inherent in a boundary role, salespeople take on different responsibilities depending on factors like the nature of the selling organization, the product, the customer, and the competitive environment. For example, sales may take place between organizations (known as **business-to-business selling**, or **B2B selling**), or between a single salesperson and a household consumer (known as **business-to-consumer selling** or **B2C selling**). However, on the basis of the selling task itself, salespeople can be classified into

six categories, ranging from the least sophisticated to the most sophisticated types of selling, as follows:³¹

Deliverer. A deliverer's primary responsibility is to distribute a product after it has been ordered through the channel, while fostering positive customer interactions that increase the likelihood of repeat business. This salesperson is focused on getting the product into the hands of a wholesaler, retailer, or end user, such as a fuel seller who supplies gas stations or a soft drink salesperson who delivers to restaurants. While most common in B2B transactions, deliverers of products like appliances or furniture may also serve household consumers.

Order taker. This B2C or B2B salesperson is primarily responsible for taking orders from customers who, in most cases, have already chosen what they will purchase. Although an order taker will occasionally influence product choice through recommendations, he or she usually has a limited impact on the product sale. For example, a person taking an order at the fast-food chain KFC may ask if you want a larger size item or a soda. In B2B selling organizations, the job of order takers is generally to interact with the customer's purchasing personnel and to perform tasks like verifying the price and in-stock availability of items listed on a purchase order.

Missionary. In both the B2C and B2B sectors, missionary salespeople use product education and promotion to build goodwill toward the selling organization and its offerings. It is rare for this salesperson to actually take an order, and sometimes order taking is not allowed. For example, sales representatives for beer brewers routinely call on bars, where they offer promotional materials like banners and coasters but do not sell beer. Auto show hosts demonstrate their companies' vehicles but do not sell the cars. Medical detailers for pharmaceutical firms may educate doctors but cannot write prescriptions.

Technician. These are B2B salespeople who possess a high level of technical knowledge related to one product or service. Technicians usually work closely with the customer, often consulting directly with the end user of the product to help with applications, training, or engineering support. For example, IBM employs sales consultants who explain the most intricate details of a product before passing the account along to IBM's global services. Technicians are common in industries like information technology, biotechnology, chemicals, and heavy machinery.

Demand creator. The main objective of a demand creator is to obtain new accounts. Common in both B2C and B2B selling organizations, this form of sales may focus on goods like household or industrial cleaning supplies, or on services like insurance or financial planning. Demand creators typically have to complete

two processes in order to win sales. These salespeople must first convince customers that they have a need which is not being met well or at all, and then persuade them that the company's offering would meet that need better than alternatives. For example, Eureka Forbes vacuum cleaner salespeople in urban India first need to make a case for using a vacuum cleaner over alternative cleaning options and then for buying their brand instead of Black & Decker or Philips.

Consultative seller. The primary responsibility of this B2B salesperson is to solve integrated and sometimes complex customer problems. This kind of selling usually involves a system of goods and services with lengthy implementation periods. For example, consultative selling is provided by IBM's global services, which creates full-stack IT infrastructures, and by Nokia's infrastructure sales, which aids in setting up 3G or 4G networks throughout entire countries. Salespeople in industries such as information technology, management consulting, and communication systems development commonly fall into this category.

While the types of salespeople we've just listed have been separated into categories for simplicity, real-world sellers often play multiple roles at different times in the sales process or over the life cycle of an account. Retail salespeople, for instance, may be order takers, deliverers, demand creators, or missionaries. At department stores like Nordstrom in the United States or Takashimaya in Japan, sellers could fit into different categories depending on whether they are assisting customers on the floor, ringing up purchases at the register, or stocking shelves in the inventory storeroom. A stockbroker at Deutsche Bank could act as a demand creator when trying to push a certain stock, as an order taker for a client who already knows what stock they would like to buy, or as a missionary when answering general market questions.

But regardless of the specifics of a selling role, how salespeople are managed—from initial selection through ongoing evaluation and compensation—is key to their performance, as we will describe next.

2.3 Managing the Sales Force

A character in the play *Glengarry Glenn Ross* makes the following announcement to his staff: "We're adding a little something to this month's sales contest. As you all know, first prize is a Cadillac Eldorado. . . . Second prize is a set of steak knives. Third prize is you're fired."³² When it comes to sales, the scenario this character offered is not so far from reality. Consistently poor sales performance

can result in termination. But more often than not, management bears much of the responsibility for the failure or success of the sales force.

To be sure, structural issues are extremely important in aligning sales objectives with those of the organization as a whole. Yet even an ideally structured sales organization cannot make up for poor management. Managing the sales force is an interconnected process that begins with managing the salesperson. Managing the salesperson starts with recruiting and hiring individuals who fit a particular job and sales culture. Salespeople then need to be motivated and educated to perform the behaviors desired by the organization, through appropriate compensation, training, and evaluation.

2.3.1 Recruitment and Selection

As discussed in previous sections, there are many different types of selling jobs. Logically, then, there is no one type of person suited—or unsuited—for sales. Organizations must understand their unique sales needs and culture, then recruit and hire accordingly.

Recruiting refers to the process of generating applications from a pool of candidates who meet certain criteria set by sales or marketing managers. While the key criterion is often experience, in a sales context, “experience” can have a range of meanings.³³ It can mean experience with a product, technology, geographical area, customer group, or selling activity. Managers must be clear about the type of experience that is necessary to do a specific job, not just to perform selling tasks in general.

Since sales is both science (gathering data, gaining knowledge, and quantifying customers’ tangible and intangible benefits) and art (building personal relationships, resilience, gut instinct, and persuasion), a salesperson’s personality may matter as much, or even more, than the other criteria. David Ogilvy, the famous advertising executive, advised, “The worst fault a salesman can commit is to be a bore. Foster any attempt to talk about other things; the longer you stay, the better you get to know the prospect, and the more you will be trusted.”³⁴ While head of business operations in the Americas, at Infosys, Ashok Vemuri described the art of selling this way: “I’ve had salespeople with terrible accents, who don’t adhere to an acceptable Westernized dress code, and misspeak words, but they are terrific storytellers. They relate their story to your problem and can combine experiences across functions and geographies. They cannot hold a great conversation with the CEO about wine, but they can talk specifically about technology.”³⁵

Sales cultures may be classified as either outcome-based or behavior-based, with different personalities likely to flourish in each type:³⁶

Outcome-based sales culture:

- The sole concern is results. Salespeople are highly competitive, managers are hands-off, and everyone is aware of who is productive and who is not.
- The most successful salespeople are highly autonomous, creative, and willing to take a “sink or swim” approach to their jobs; they are motivated by financial incentives and by formal recognition.

Behavior-based sales culture:

- How salespeople act and what they do on the job is considered as important as how many sales they make. Managers provide a significant degree of guidance and support.
- The most successful salespeople are motivated not just by money, but also by the satisfaction of offering superior service and helping customers. They respond well to managerial direction.

Another common distinction between sales personalities is found in the categories of “hunters” versus “farmers.”³⁷ Hunters are highly persuasive and self-confident; they are well-suited to finding, qualifying, and closing new accounts. Farmers are skilled at building relationships and networks; their greatest strengths are in maintaining long-term relationships and securing new business from existing customers. Many organizations need both types, though their relative importance may change as the business evolves. Hunters, for example, play a major role in startups, while farmers are critical in nurturing key accounts.

It is up to the sales manager to understand the personality type that is needed in a given situation. The stakes are high. For instance, the medical device firm TYRX faced lagging sales of its antibacterial technology despite superior performance. When a new CEO arrived, he realized the organization was overreliant on farmers; salespeople were spending too much time with doctors who already used the product and didn’t need help. After transforming its sales force from farmers to hunters, TYRX doubled its sales in one year.³⁸ Conversely, data center software provider GoodData employed hunters who were highly successful in closing new accounts but who fell short in obtaining contract renewals. The firm created an account team composed of farmers who helped customers obtain maximum value from GoodData’s products, saving a \$50 million account and expanding many others.³⁹

From a promising pool of applicants, how does an organization select the best hires? Many sales managers make choices based largely on interviews or because an applicant is like them, but studies show that this approach rarely produces optimal results.⁴⁰ Instead, forward-thinking organizations have created a range of observational and behaviorally based techniques. For example, Procter & Gamble and MetLife require candidates to develop and role-

play a sales strategy based on a 15- to 30-page case study.⁴¹ Contact lens maker CIBA Vision uses a profiling instrument that attempts to match a candidate's personality traits with those of the firm's top performers.⁴²

Organizations that pick their salespeople wisely not only maximize sales but also often achieve cost savings through reduced turnover. And yet it is important to note that selection isn't completely in the hands of the organization. Salespeople may also self-select into an organization, based on factors like the nature of the compensation plan or the appeal of a particular structure. For example, an individual may choose to sell for Avon or Mary Kay because these jobs are designed to be home-based and focused on building a local clientele. Some people will gladly trade an opportunity to earn big commissions for the security of a regular paycheck. There is also a "herding effect," where the presence of top salespeople at a firm tends to attract other high performers.⁴³

2.3.2 Compensation

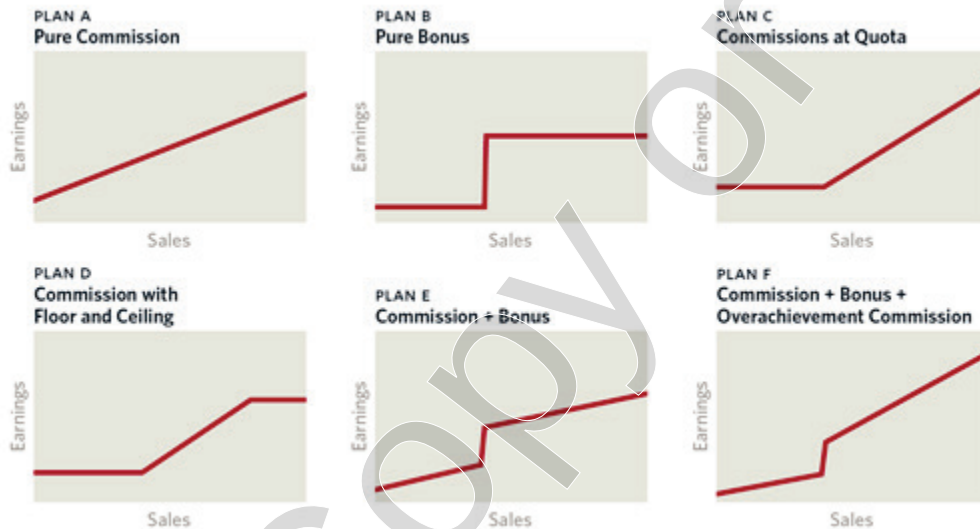
Compensation is one of the primary tools for motivating salespeople to achieve goals aligned with organizational strategy. Hence the question of how salespeople should be paid is a key issue in sales management. It is also important to recognize that a compensation plan has impacts beyond the sales function. The plan will affect who applies for jobs, which tasks get the most attention, and how the company allocates various resources.

What comprises an appealing compensation plan, one that would attract high-quality salespeople and motivate strategically focused efforts? Research shows that an organization typically makes use of four levers or components in compensation: (1) a fixed component (base salary); (2) a variable component, which can include a commission (a percentage of sales volume or margins), and/or a bonus (a lump sum attained on achieving a threshold of performance, called a quota); (3) intangible benefits (promotions, titles, job satisfaction, and other intrinsic rewards); and (4) recognition and praise. These four levers are often used in combination. They can be customized to suit the needs of a particular organization; for example, a firm might pay an "overachievement commission" on all revenues generated by top sellers beyond their annual quotas. As shown in **Exhibit 6**, the levers yield different impacts on earnings.⁴⁴

The *fixed component* of a salesperson's compensation provides him or her with income stability and provides encouragement to perform non-sales duties like post-sale customer follow-up. Organizations benefit from the relatively low costs of calculating and administering fixed components (though a higher level of supervision is necessary when pay is not dependent on performance). And, naturally, turnover is reduced because salaried employees are less likely to quit than those who can't count on a regular paycheck. The amount of fixed

compensation varies enormously across sales jobs; in the United States, the mean wage for salespeople in 2012 ranged from \$23,780 in clothing stores to \$129,990 in the financial investment industry.⁴⁵ Typically, compensation plans make greater use of fixed components when the selling task is lengthy, complex, and requires team effort.

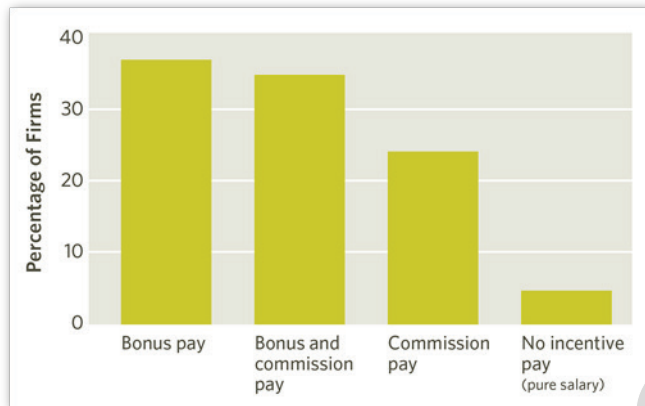
EXHIBIT 6 Components of Compensation: Typical Combinations and Earnings Impact



Source: Doug J. Chung, Thomas Steenburgh, and K. Sudhir, "Do Bonuses Enhance Sales Productivity? A Dynamic Structural Analysis of Bonus-Based Compensation Plans," *Marketing Science* 33 (2) (March–April 2014): 165–187. Marketing Science by Institute for Operations Research and the Management Sciences. Reproduced with permission of INFORMS in the format Republish in a book via Copyright Clearance Center.

But most organizations also offer one or more *variable components* in their compensation packages (see **Exhibit 7**). In 2009, an estimated 78% of U.S. salespeople received some form of incentive pay.⁴⁶ These components—usually commissions and/or bonuses—encourage high performers to exert maximum effort. There may also be cultural preferences for some form of variable compensation. For example, salespeople in China and India often prefer to work solely on commission.⁴⁷ Organizations with variable pay plans benefit from a reduced need for supervision and control, as well as from the ability to direct sales efforts toward goals that financially reward both the salesperson and the firm.

EXHIBIT 7 Distribution of Incentive Pay Type



Source: Reprinted from *Industrial Marketing Management* 27, No. 2, Joseph Kissan and Manohar U. Kalwani, "The Role of Bonus Pay in Salesforce Compensation Plans," pp. 147–159, Copyright 1998, with permission from Elsevier.

Variable components are most effective when individual effort can be readily measured and sales conform to a fairly predictable cycle. Organizations can also use these levers in different forms to motivate salespeople at low, average, and high levels of performance. (See the Supplemental Reading for more detail on this topic.) Click on **Interactive Illustration 1** in the sidebar "Compensation Impact" to test the impact of different levels and combinations of fixed and variable compensation components.

Compensation Impact

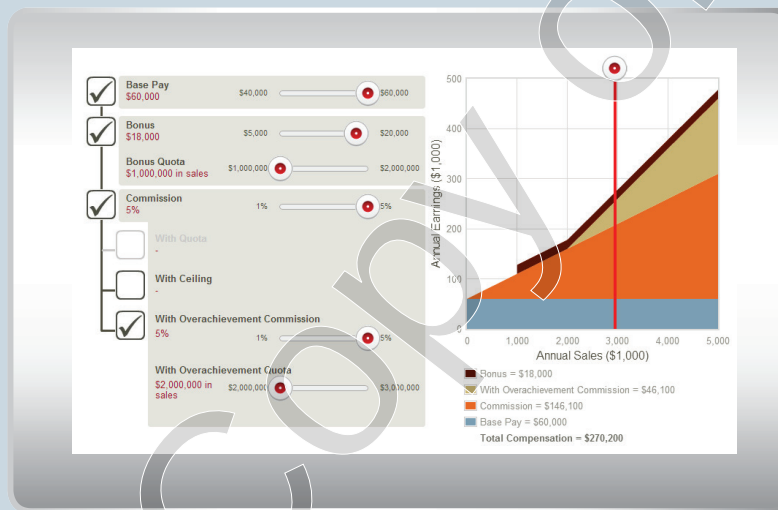
Interactive Illustration 1 displays the impact of aggregated compensation elements against the sales a salesperson signs. You can build a compensation plan with fixed and variable components. In this schematic, the ceiling is tied to the size of a salesperson's portfolio, but it could instead cap the dollar amount a salesperson receives or flatten out at a particular number of sales. Try this exercise: A firm offers \$50,000 in base pay, a 2% commission, and an overachievement commission of 3% for landing more than \$2,750,000 in sales. A salesperson signs \$4,000,000 worth of business in a year. What does she receive from the firm in compensation?



INTERACTIVE ILLUSTRATION 1 Compensation Impact



Scan this QR code, click the image, or use this link to access the interactive illustration: bit.ly/hbsp2uqvU1f



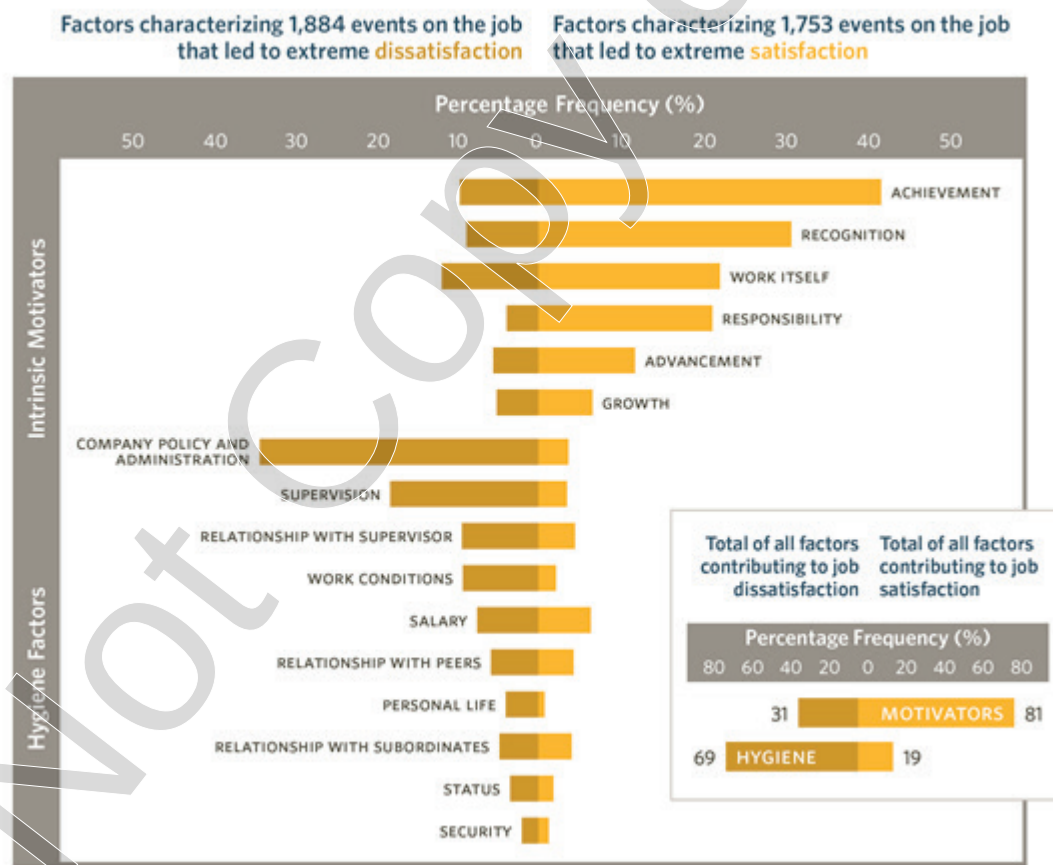
Note: The range of parameters of the compensation plan was derived from a Fortune 500 firm, analyzed in Doug J. Chung, Thomas Steenburgh, and K. Sudhir, "Do Bonuses Enhance Sales Productivity? A Dynamic Structural Analysis of Bonus-Based Compensation Plans," *Marketing Science* 33 (2) (March–April 2014): 165–187.

Now consider two firms in different industries: passenger automobiles and medical equipment. In this exercise you will design a sales compensation structure for each industry. In automobile sales, a dealership focuses its efforts on individual transactions made at the price of the moment. While warrantee contracts covering repair and maintenance service over a period of time can be sold along with the car, the concern of the sales department is on volume—moving autos off the lot, in high quantities and at the highest prices. Salespeople in this industry are known for their "hard sell" tactics, trying to close deals quickly with consumers who will likely not remember them, and who will wait a few years before their next car purchase. Medical equipment providers, however, thrive on long-term relationships with hospitals that are built on trust. These relationships develop more slowly. A relationship may start with a purchase of surgical equipment for one wing of a hospital building, but could lead to a lucrative contract for medical diagnostics equipment across a family of hospitals. Developing these relationships requires the investment of much more of the salesperson's time between actual sales, and may require regularly providing sophisticated information to several individuals in the buying organization.

Now try designing a sales compensation structure for each of these industries. Would these plans include highly variable components, or be mostly fixed? How do the firms want their sales team to be motivated? (Please note that this compensation plan could also differ temporally, i.e., bonuses and commissions can be different for quarterly and annual quotas.)

Salespeople can also be powerfully motivated by intangible forms of compensation. In fact, experts suggest that job satisfaction is more often the result of intrinsic rewards (such as feelings of accomplishment) than extrinsic ones (such as money). Studies have found that factors like pay, working conditions, company policies, and relationships with co-workers (known as hygiene factors) help keep an employee working toward a goal—and perhaps prevents him or her from being *unhappy*—but do not, in themselves, make an employee feel happy or satisfied. Rather, the motivators that lead to employee satisfaction are things like achievement, responsibility, advancement, growth, and enjoyment of the work itself ⁴⁸ (see **Exhibit 8**).

EXHIBIT 8 Factors Affecting Job Attitudes



Source: Reprinted from "One More Time, How Do You Motivate Employees?" by Frederick Herzberg, *Harvard Business Review*, January 2003. Copyright © 2003 by the Harvard Business School Publishing Corporation, all rights reserved.

One biotech company, for instance, conducted a double-blind study of its salespeople to determine what separated the top performers from the average ones. Executives were surprised to find that the answer was not a salesperson's focus on financial incentives. Instead, the top salespeople felt a greater sense of

purpose in the work they did every day.⁴⁹ In a Fortune 500 office supply firm, salespeople early in their careers exerted extra effort to attain promotions or better job titles and not just bigger paychecks.⁵⁰

Please click on **Video 2** to learn from the former president of the grocery chain Trader Joe's how engaging employees—by treating them fairly, giving them a voice, and creating a supportive atmosphere—can dramatically boost performance.



VIDEO 2 Invest in Engagement



Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2!7qf10

Finally, many organizations make good use of formal recognition as a means of rewarding and motivating salespeople. This can mean anything from “salesperson of the month” awards to special parking spaces or a congratulatory call from the CEO, often costing the organization little or nothing. For example, a call center in India that recorded all of its telephone sales calls would play the “Call of Fame,” the best outgoing sales call, every week at a breakfast meeting. The salesperson was thus recognized by both managers and peers, and also received a plaque of recognition to display in his or her cubicle.⁵¹

But the components of a compensation plan cannot be chosen in a vacuum. To be effective, they must be integrated with other managerial processes and related to both external and internal environments (see **Exhibit 9**). In particular, they must reflect what a salesperson is trained to do and be tied in a meaningful way to evaluation criteria and measurement.

EXHIBIT 9 Effective Sales Compensation Systems



Source: Reprinted from Harvard Business School, "Aspects of Sales Management: An Introduction," HBS No. 589-061 by Frank V. Cespedes. © 1988 by the President and Fellows of Harvard College, all rights reserved.

2.3.3 Training and Evaluation

In today's complex business environment, sales force training has become increasingly important. No longer can salespeople be shown a product and then be sent out to sell it. Now they have to be educated in such areas as web-selling techniques, data collection and interpretation, and ethics. And many organizations have recognized that ongoing professional development for seasoned veterans can be just as important as foundational training for new recruits. According to a survey of programs in 26 major industries, companies of all sizes provided experienced representatives with 25 to 38 hours per year of ongoing training in both selling skills and in product-specific knowledge.⁵²

Some organizations develop and deliver training programs in-house, while others contract with consultants or experts from the academic world. For instance, Citigroup hires top business school professors to train its private bankers, who sell wealth management services and advice.⁵³ Across industries, the median duration of training is 3.9 months, but this varies widely depending on the industry: Novice salespeople in construction businesses average 7.2 months of training, while those in educational services receive only 1.2 months. In general, new hires are trained for longer periods in industrial sales than in consumer sales.⁵⁴

Sales training may combine different formats, including lectures, role-playing, coaching, and online simulations. Because research shows that most people learn best by doing, field experiences and/or action-learning approaches are a key component of the most effective programs. For example, one pharmaceutical firm paired its strongest performers with new hires in a three-step experiential initiative. First, the novices accompanied their partners on sales calls to watch the experts at work. Next, the newcomers made calls while being observed and evaluated by their mentors. Finally, the pair met regularly over the course of about a year to discuss progress and share ideas.⁵⁵

When developing a training program, it is important for sales managers to spend time in the field to understand what frontline salespeople need to do and know. While this practice often gets short shrift because of administrative workload, managers neglect it at their peril. For example, they cannot prepare novices to answer questions about a new product unless they have heard the questions themselves.

Of course, sales training has no value unless it affects performance—which in turn should be regularly and rigorously evaluated. There is no “right” evaluation method. Instead, performance criteria should be based on managerial objectives aligned with the strategic objectives of the organization. Whatever outcomes and/or behaviors are evaluated should clearly make a difference on the job and help the company achieve marketplace success.

Sales volume goals are the most common basis for evaluation, but other criteria may be equally or even more appropriate. For example, if some items in a firm’s product line have higher profit margins than others, salespeople could reasonably be evaluated on the product mix as well as on the dollar volume of their sales. If salespeople have significant discretion over pricing, evaluation might take into account the proportion of sales made at a discount versus at the full price.

On key account teams or in other contexts where relationship-based selling is more important than transaction selling, organizations may incorporate various behavioral and/or attitudinal measures into their evaluation systems. For instance, cleaning product manufacturer Eureka Forbes developed a unique behavior-based plan called “Bettering the Best.” Salespeople earned points for completing a range of selling activities, from the simplest (knocking on a door, worth five points) to the most complex (selling a high-end product, worth 600 points). Compensation was linked to the total number of points accumulated.⁵⁶

Another approach is to base compensation on customer-feedback metrics, like the satisfaction survey you probably received if you bought a car recently. But whenever pay is tied to ratings, there is a risk that salespeople will focus more

on boosting their scores than on building customer loyalty. Managers must be on the alert for potential score inflation or exaggeration.

Please click on **Video 3** to see Rob Markey of Bain & Company address the risks of using customer-feedback metrics in evaluation systems.



VIDEO 3 Using Frontline Employees



Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp21712Hy

More broadly, the goal-setting process is also influenced by the nature of compensation components, the information and resources available to sales management, and the culture of the firm. For example, companies with a high-quality pipeline of new sales talent may see a “man on the bench” effect, where social pressure—like that exerted by football starters on second-string quarterbacks—causes poor performers to boost their efforts.⁵⁷

Sales managers should ask themselves three questions as they develop an evaluation process:⁵⁸

- 1 Does the evaluation focus on actionable behavior that the salesperson can do something about? (Even the best salesperson can't control everything that affects sales results, like macroeconomic changes or competitive moves. To be motivating, evaluations must focus on what he or she can actually fix or improve.)
- 2 Are evaluation criteria consistent with the company's measurement systems and compensation plan? (Whatever measures serve as the basis for evaluation, the system will be out of whack unless it gathers relevant data and uses those data to determine compensation. For instance, the evaluation of sales team members should measure and compensate their skill in coordinating resources, not just in closing accounts.)
- 3 What is the nature of the performance-evaluation process? (Ideally, an evaluation process should include an element of coaching as well as appraisal. This means the salesperson gets not only feedback but also a set of directions and expectations from management to help improve his or her selling behaviors.)

As one expert observes, “If we ignore the process of performance evaluations, we often don't get what we've paid for.”⁵⁹ The same could be said for every structural and interpersonal component of sales management.

2.4 Conclusion

Given the primacy of selling in generating organizational revenues and in the economy as a whole, sales force design and management is—and will continue to be—a critical function in every sector and industry. It is implemented in a wide variety of ways; indeed, the heterogeneity of organizations and offerings means that no set of rules could, or should, be imposed across the discipline. But its purpose is always the same: to focus, motivate, support, and evaluate the salespeople who work to further the organization's goals. And it is always an interconnected process that links structures to behaviors and seeks continual improvement.

As emphasized throughout this reading, achieving the alignment of sales with organizational objectives must be the touchstone for every management decision. Specifically, alignment is the outcome of:

- Structures that allocate resources and direct collective efforts to the products, markets, accounts, and/or tasks most important to the organization's mission
- Sizing calculations that recognize the nature and needs of different customers— specifically, the number of calls needed per customer and the time required for each call
- Hiring decisions that consider the abilities needed to do a specific job and the personality suited to a particular culture, not just selling experience in general
- Compensation plan components that motivate people to strive toward strategic goals
- Training programs that give both novices and seasoned salespeople the knowledge and tools they need for optimal performance in a particular context
- Evaluation methods that are focused on actionable behavior and that are consistent with the organization's measurement systems and compensation plan

Finally, sales force design and management is a dynamic and iterative process. Results, in the form of revenues and customer relationships, are readily observable and usually quantifiable, enabling managers to constantly test what (and who) is working well. They can rapidly identify leverage points and address structural or behavioral challenges. It is a rare sales manager who believes that he or she has found all the answers; instead, the best in the discipline are committed to asking questions, learning from experience, and seeking ever-better ways to create and deliver value to their customers.

3 SUPPLEMENTAL READING

3.1 Measuring the Impact of Salary, Commissions, and Bonuses

A sales force compensation plan is widely understood to be the primary tool by which firms can induce salespeople to exert maximum effort and thus to optimize the impact of sales force expenditures. The plan can consist of many components: salary, commissions, and bonuses on achieving a certain threshold of performance called **quotas**. Relatively few organizations pay their salespeople only a fixed salary; most use some combination of commissions and bonuses. Certain industries show a marked preference for a particular type of compensation. For example, a 2008 study showed that 89% of high-tech companies, 85% of medical-device firms, and 73% of pharmaceutical/biotech concerns used quota-based compensation.⁶⁰

Because sales force compensation has a powerful influence on the bottom line, managers need as much information as possible about how various components work. For example, are commissions and bonuses equally motivating to different types of salespeople? Is the relative importance of salary affected by factors in the selling environment? Research is helping to answer such questions.

3.1.1 Salary

The work of Amiya Basu and colleagues found that the degree of uncertainty in the selling environment has a significant impact on the relative effectiveness of salary compared to other types of compensation. In general, salary becomes more motivating than performance-based incentives, as salespeople lose confidence in their ability to forecast the outcome of their efforts, such as when there is increased competition or a new product begins to mature. Conversely, salary becomes less motivating than other components in a stable environment where salespeople perceive a high degree of certainty in expected sales.⁶¹ Later research extended these findings to salespeople who handle product lines instead of single items. Also, Lal and Srinivasan concluded that salary loses some of its importance as the salesperson's role becomes more influential in making the sale.⁶²

3.1.2 Commissions and Bonuses

Unlike salaries, which are relatively fixed year-to-year, commissions and bonuses can be varied per quarter to provide different kinds of motivation. The coauthor of this reading, Doug Chung, and his colleagues found that organizations can use commissions and bonuses to motivate average, high, and low performers.⁶³ In a multinational Fortune 500 office supply firm studied by the researchers, the direct sales force earned a salary plus bonuses and commissions. Each sales agent was given an exclusive territory, so his or her individual effort was apparent. In the first three quarters, a bonus of \$1,500 was paid if quarterly quotas were met; at the end of the fourth quarter, an additional bonus of \$4,000 was paid if the annual quota was met. Monthly commissions were 1.5% of revenues generated during the month, while an overachievement commission of 3% was paid for any excess revenues beyond the annual quota (see details in **Exhibit 10**).

EXHIBIT 10 Compensation Plan in a Fortune 500 Office Supply Company

Type	Description	Payment Period
Quarterly Bonus	\$1,500 awarded if quarterly revenue exceeds quarterly quota	March, June, September, December
Annual Bonus	\$4,000 awarded if annual revenue exceeds annual quota	December
Base Commission	About 1.5%* paid in proportion to the revenue generated each month	Every month
Overachievement Commission	About 3%* paid in proportion to the total cumulative revenue surpassing the annual quota	December

*These numbers are approximate for confidentiality reasons

Source: Doug J. Chung, Thomas Steenburgh, and K. Sudhir, "Do Bonuses Enhance Sales Productivity? A Dynamic Structural Analysis of Bonus-Based Compensation Plans," *Marketing Science* 33 (2) (March–April 2014): 165–187. Marketing Science by Institute for Operations Research and the Management Sciences. Reproduced with permission of INFORMS in the format Republish in a book via Copyright Clearance Center.

Average performers were motivated by quotas and bonuses to increase their efforts throughout the year. Quotas served as important goals for this group, while bonuses incentivized them to “stretch,” or extend, themselves to work hard. Top salespeople were motivated by the overachievement commission to continue putting in effort and excelling in their performance after meeting the annual quota. (Managers updated quotas by groups instead of by individuals, so that star performers wouldn’t cut back at the end of the year to avoid increases in their next year’s quotas, a practice called “ratcheting.”)

For laggards, the quarterly bonuses served as pacers, helping to motivate them to achieve a longer-term annual quota.⁶⁴ These results echo findings in the education literature, which suggest that frequent testing can improve academic performance. Just as periodic tests help weak students more than strong students, quarterly quotas appear to be most beneficial in motivating the least productive salespeople.

Another major question about bonuses is whether these incentives induce salespeople to work harder or encourage them to game the system. There are two basic types of gaming behaviors. In “delayed selling,” salespeople who have already met their quota push new orders into the next period so that future quotas are easier to reach. In “forward selling,” salespeople who are unlikely to meet their quota pull in orders from the next period to get closer to the goal.

According to Thomas Steenburgh, the positive outcome of bonuses (harder work) outweighs the negative (gaming behaviors). While his study of salespeople in a Fortune 500 firm uncovered some gaming, the problem was limited to low-end performers. The majority expended enough extra effort to compensate for the game-players, resulting in an overall gain for the company.⁶⁵

3.1.3 Other Issues

Whether compensation is based on the performance of teams or individuals may influence how co-workers affect each other’s productivity. In a study of retail salespeople in a Chinese department store, team-based compensation motivated star performers to help improve the results of weaker peers. But when compensation was based on individual results, strong sellers left laggards increasingly further behind.⁶⁶

Additional important issues remain as yet unexplored. For example, do quotas and bonuses force people to focus on closing sales in bonus periods, then shift to non-selling activities at other times of the year? How can firms use different types of compensation to reduce employee attrition and/or to recruit the best candidates for a job? Both the practical and theoretical dimensions of such questions are sure to attract significant future attention in the field.

4 KEY TERMS

boundary role The dual role played by salespeople within their organizations, requiring them to simultaneously represent the vendor to the customer and the customer to the vendor.

business-to-business selling Selling goods and services to businesses, governments, or nonprofits. Also known as *B2B selling*.

business-to-consumer selling Selling goods and services to individuals and end consumers. Also known as *B2C selling*.

key account selling Selling to a customer whose purchases account for a disproportionately high share of the vendor's sales volume and/or profit.

leveraged sales force Multichannel structure with some salespeople assigned to high-potential customers and others servicing smaller opportunities.

personal selling Two-way flow of communication between buyer and seller intended to influence a purchase decision.

quota A certain threshold of performance that, once achieved, results in certain compensation components, such as a bonus.

systems or solutions selling A structure in which sellers offer their products and services in a combination or "system" designed to solve customer problems.

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