# Designing a Sales Strategy With the Customer in Mind

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*By taking a marketing-oriented, customer-focused approach to sales compensation management, a company can ensure that its sales force is driven to achieve the most desired results.*

# Designing a Sales Strategy With the Customer in Mind

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A computer peripherals firm had a profitability problem. Ten years earlier it had entered a new, developing market; met a need with a top-flight product; and watched its sales take off. But now, although its sales force was still able to secure new accounts, it was missing opportunities to grow those accounts. Customer needs and potential were left unassessed because sales representatives weren't paid for account penetration. Nor did the compensation plan promote team selling—another strategy that was necessary for this company to discover and serve the needs of its customers. Instead, top salespeople concentrated on finding new customers and making new sales, since that brought the greatest personal payoff.

The company faced a dilemma not uncommon in business. Its selling strategy and compensation plan had become passé. Its strategy and reward package continued to drive the behaviors that had given the company its foothold. But these behaviors were not the ones that would assure a steady and growing profit. In essence, the sales force was responsive to the sales compensation plan instead of to the customer.

The solution to this relatively common problem, the following five steps, can help companies get a bang for their direct selling-expense dollars.

(1) The company needs to take stock of its customers and define their needs by asking, "How do our customers want to be sold?" (2) It needs to take a look at its marketing mix and ask, "What is the sales force's role in the marketing mix?" (3) It must evaluate whether its sales force has the capability to implement the targeted sales approach effectively. (4) It must align customers' salespeople. (5) It must design a compensation plan that rewards salespeople who adopt the new selling approach.

While this solution is logical, too few companies actually use it. The marketing profession has not spent much time trying to tie the sales force into customer needs. This article is intended to start to fill the gap by applying the concept of marketing to sales force management.

## Applying the Marketing Concept to Sales Force Management

For years, no one has applied marketing in this way better than IBM. The prototypical marketing machine, IBM has also managed to create a sales force regarded as one of the finest in the country. In fact, competitors actually track the number of ex-IBM salespeople they have in their sales forces. IBM maintains its sales reputation in large part through "The IBM Way" of selling, which it teaches religiously to all newly hired salespeople. While IBM's edge in products or software may blur over time, its sales force has been a constant source of competitiveness.

Monroe Equipment, a Tenneco automotive company and a leading manufacturer of shock absorbers and struts, also earns high marks for its sales strategy. Its salespeople work directly with all significant players in its distribution channel. Sales reps do not assume that distributors will handle all downstream selling to other intermediaries in the channel. Instead, they create demand for Monroe products by working to meet everyone's needs at all levels in the distribution chain. This sales approach has consistently yielded profitable sales growth, enabling Monroe to maintain its preeminent market position.

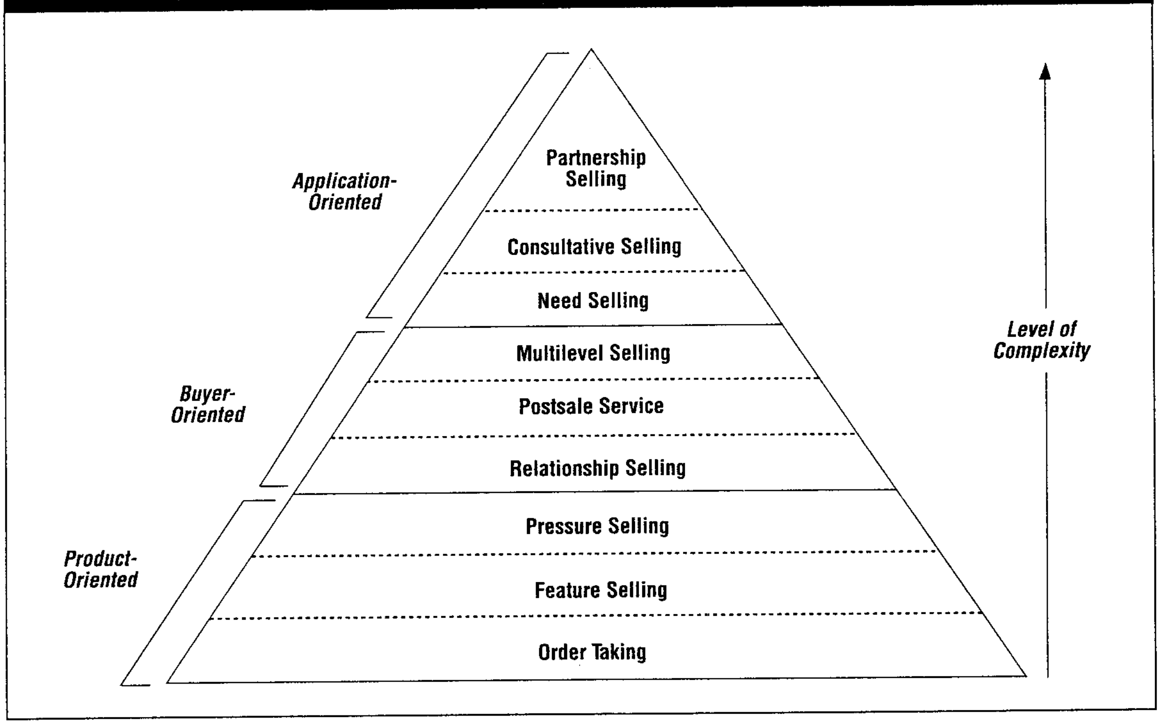
## DEFINING CUSTOMER NEEDS

To develop any sales strategy, a company must first match its general selling situation with a selling philosophy and a specific sales approach. The potential choices can be diagrammed in a "selling pyramid" composed of three selling orientations—product, buyer, and application—each of which includes three specific sales approaches (see Exhibit 1).

Sales approaches have evolved over the years to reflect different philosophies about, or orientations toward, selling. The product-oriented sales approaches aim to complete the sales transaction immediately. The buyer-oriented approaches assume that the sales transaction will not be completed unless the salesperson takes a variety of intermediate steps involving the buyer and/or other individuals who have a role in the sales process. The application-oriented approaches assume that the sales process must address each customer's unique business situation, fulfilling more than the needs of the specific individuals involved in the sale.

The selling pyramid is based on the notion that sales approaches that are higher in the pyramid require more complex personal selling skills. Also, with each step higher in the pyramid, salespeople are required to build upon the sales skills needed to execute the lower sales approaches. The selling pyramid contains no implicit assumption that one sales approach is

EXHIBIT 1
The Selling Pyramid



the best; rather, the objective for each company should be to choose and develop a sales approach that best meets its customer needs and is consistent with its marketing plan. Take, for example, Young & Rubicam, the international advertising company. Y&R recognizes that certain clients want marketing partners as well as good advertising. Rather than using the more traditional sales approach of developing sample ads for prospective accounts, Y&R analyzes each prospect's business and provides consulting on potential new products or market definition. When the agency pitched the Rust-Oleum account in the early 1980s, its marketing ideas—not the creative advertising—won the business.

There is a proper time and place for each of the selling philosophies and approaches—and it often depends on customer needs (see Exhibit 2). Below is a brief overview of each philosophy and the approaches it encompasses.

## *Product-Oriented Selling*

In product-oriented selling, salespeople focus primarily on closing the sale.

**EXHIBIT 2**

**Matching Sales Approaches with Customer Needs**

| *Sales Approach* | *Definition* | *The Customer's Dominant Need* |
|---|---|---|
| ***Product-Oriented*** | | |
| *Order Taking* | The salesperson simply takes orders from customers. | To complete the sales transaction efficiently. |
| *Feature Selling* | The salesperson describes (or "pitches") the characteristics of the product. | To obtain information about the product (e.g., how it works, what it can do). |
| *Pressure Selling* | The salesperson negotiates terms such as price or persuades customers to buy. | To make the best deal on a purchase or to be convinced by the salesperson to buy. |
| ***Buyer-Oriented*** | | |
| *Relationship Selling* | The salesperson builds friendships with buyers. | To be familiar and friendly with the salesperson. |
| *Post-Sale Service* | The salesperson provides assistance to customers in areas such as inventory control, installation, and training. | To receive significant levels of assistance after the sale is completed. |
| *Multilevel Selling* | The salesperson contends with multiple functional areas or interest groups in the sales process (e.g., selling "downstream" past distributors to end users). | To have the salesperson coordinate the sales process with other individuals in his or her own company or the salesperson's company, or with other players in the distribution system. |
| ***Application-Oriented*** | | |
| *Need Selling* | The salesperson develops cost/benefit analyses or defines how the product fits into the customer's overall financial picture. | To understand the unique cost/benefit trade-offs of the purchase for the business. |
| *Consultative Selling* | The salesperson uses personal experience and technical expertise to help customers learn something new about their business. | To identify a supplier who has superior knowledge about important aspects of his or her company's unique business. |
| *Partnership Selling* | The salesperson shapes and executes strategic and financial commitments for his or her company. | To establish new ways of doing business with suppliers through joint ventures or unique business arrangements. |

*Order taking.* Many customers are already sold on a product before they even meet the salesperson. In these cases, the company just needs to use an order-taking sales approach. Order taking is appropriate when demand equals or exceeds supply—which may occur, for example, when highly publicized new computers or "hot" new car models are allocated to dealers early because of extremely high demand. Order taking is also appropriate for many telemarketing or customer-service operations where active selling is avoided. (The telemarketer, for example, may be instructed to close each conversation quickly and move on to the next call; the customer-service representative may be told to refer the prospect to a field salesperson.)

*Feature selling.* A second product-oriented selling approach is feature selling. This approach assumes that target customers will be easily sold once they have a clear picture of the product. In other words, the product practically sells itself when the right features are revealed to the customer. The selling challenge, then, is to reach as many prospects as possible and effectively convey what the product can do for them.

Time-Life uses feature selling in its telemarketing group. Sales pitches are carefully designed to convey efficiently the primary characteristics of Time-Life books. In fact, salespeople's accents are sometimes matched to geographic parts of the country to reduce any distractions from the pitch.

*Pressure selling.* The third product-oriented approach is pressure selling. Less sophisticated forms of pressure selling involve conveying risks that the prospect can avoid by making the purchase. While pressure-selling tactics can be quite unprofessional (remember those used by the salesmen in the film *Tin Men*), they can be the critical selling step in some industries. Some companies encourage the close of a sale by emphasizing the risks associated with a competitive product. AT&T, for example, created very effective commercials in the mid-1980s showing the career-limiting consequences of a manager's decision to use an inadequate, non-AT&T phone system. Similarly, the well-known saying "No one was ever fired for buying IBM" illustrates how pressure selling can be used as an important part of the sales process.

Pressure selling is also effective for a company that regularly faces zero-sum or stalemate situations. For most companies that sell name-brand products to large national retailers, the most important aspect of the selling effort is negotiating price. Retailers already know they can make money on name brands—it is just a question of how much. There are only so many margin points to work with, and buyers are determined to move as many of those margin points as possible off the manufacturer's ledger sheet and onto their own. Faced with this situation, many manufacturers develop pressure-selling skills among their national account salespeople, particularly in the area of negotiating prices with large accounts.

## Buyer-Oriented Selling

Buyer-oriented selling is more complex than product-oriented selling. It builds upon the product-oriented sales philosophy by focusing on the needs of the individuals involved in the purchasing decision. Buyer-oriented selling is appropriate when customers buy on the basis of personal relationships.

*Relationship selling.* Salespeople engage in relationship selling to build strong associations within customer and prospect companies. In companies where the relationship-selling approach is critical, salespeople can "take the business with them" if they leave to work for another company. For certain industries, it is nearly impossible to sell a product without first establishing a relationship with vendors and other members of a close-knit network. In financial printing, for example, where many vendors offer similar quality and equally priced services, chief executive officers and investment bankers "buy" the salesperson more than the printing company, because of the trust the salesperson has established with them over a period of time.

*Postsale selling.* When a customer buys on the basis of follow-up services, salespeople need to use postsale selling to ensure that customer needs are met after the product is shipped. Postsale service can be a critical dimension of selling for some industries. As an example, Walker Manufacturing, another Tenneco company and a maker of exhaust pipes and mufflers, realized in the late 1980s that most distributors in the automotive aftermarket needed help in managing their inventories, and it decided to effectively take over the distributors' job of managing warehouse inventories. It gave its sales force tools to help them determine which, how many, and where items should be kept in distributor warehouse inventories. As a result, Walker frequently receives the "Best Supplier" award from automotive aftermarket distributors.

*Multilevel selling.* When a number of players are critical to the purchasing decision, salespeople need to use multilevel selling. In multilevel selling, a salesperson works with individuals involved in the purchasing decision at a number of levels within the customer's company, the distribution channel, or his or her own company. One important aspect of multilevel selling is that salespeople sell internally to their own company management as well as externally to the customer. One of the world's largest printers, R. R. Donnelley, is well known in the industry for the effectiveness of its salespeople at "getting things done." Salespeople are expected to solicit the assistance of anyone within R. R. Donnelley—from the president to manufacturing and even to suppliers—to move the company closer toward meeting customer needs.

> ***The most complex approaches are grouped under application-oriented selling.***

## *Application-Oriented Selling*

The most complex approaches on the selling pyramid are those grouped under the heading of application-oriented selling, which came into being with the marketing era. The marketing concept taught sales forces that they could be more successful by augmenting product- and buyer-oriented sales approaches with an application-oriented philosophy. Application-oriented selling focuses on the customer's business—how the purchase will impact the customer's profitability. This sales philosophy is appropriate with customers who will not buy until they know how the purchase will affect their business.

*Need selling.* The need-selling approach encompasses what is generally regarded today as professional selling. It centers on defining the customer's problem and estimating the purchase benefits to the customer in terms of cost-benefit and return-on-investment (ROI) analyses. To be successful with this approach, the salesperson must gain an understanding of the customer's business situation and translate that understanding into a financial justification for making the recommended purchase.

From a situational analysis/sales-strategy development perspective, the seemingly simple assumption behind need selling—that the customer wants a financial justification—would appear to be critical to any sale. But at times, need selling can be the wrong sales approach. Many customers do not need a financial justification, since they already know they need to spend the money. Or they may be unwilling to provide the information needed to prepare the financial justification because that kind of information is confidential.

Need selling is also time consuming and costly. Therefore, in developing a sales strategy, it is important to know whether customers really want need selling, rather than a less complex sales approach, and how need selling impacts sales productivity.

*Consultative selling.* Another application-oriented technique is consultative selling. At the heart of consultative selling is the use of industry and technical expertise to help customers learn something new about their business. In consultative selling, salespeople must either redefine the problem for the customer, provide fundamental insight into technical or competitive issues, or actually identify a new opportunity for improving profitability that the customer did not understand or accept before working with the salesperson.

As mentioned earlier in the discussion on Young & Rubicam, advertising firms have been using consultative selling for years. They frequently obtain a new account or brand on the basis of their ability to provide the best marketing ideas. Such ideas are not limited to creative advertising concepts, but may involve product positioning, market segmentation, or new product recommendations.

*Partnership selling.* The most complex form of selling is partnership selling, which leads to the establishment of a distinct new business. With this type of selling, salespeople become so integral to the development of a new business opportunity that they actually end up taking on a new responsibility for themselves as well as a new business for their company. While this type of selling is clearly used by entrepreneurs, a few companies occasionally allow their salespeople to run the new businesses they develop.

As companies analyze customer needs, they may find that different customer segments have unique sets of selling needs that can best be met by individuals in different sales jobs (e.g., national accounts salespeople may be required to provide additional post-sale services after completing a need-selling effort). They may also find that they can use a different sales approach from that used by the rest of the industry (e.g., a more complex sales approach) and thereby achieve a competitive edge.

## MARKETING MIX

Although an analysis of customer needs can provide a company with useful insights on which sales approach to use, the selection of a sales approach should also be based on the company's marketing mix. For example, it may be a waste of money for a company to use a more complex sales approach if it already has a superior nonsales marketing mix because of high product quality or low prices.

In fact, a more complex sales approach can hinder a company's execution of its marketing plan. When IBM began selling the Series/1 minicomputer in 1976, it did not adopt the industry's dominant sales approach for mainframes: need selling. Instead, it used feature selling and depended on the rest of its marketing mix—reputation, product quality, and price position—to carry the sale. Thus, although it was a late comer, IBM experienced a tremendously rapid penetration of the mini-computer market. Had it used the traditional need-selling sales approach, its market penetration would most likely have been much slower.

It is safe to assume that a more complex sales approach is more costly; after all, recruiting, selection, training, and compensation costs are likely to be higher. Therefore, if a company spends more than the competition on advertising, for example, it may jeopardize its cost position if it also adopts a more complex sales approach. The key is to ensure that an appropriate return is achieved when a more complex sales approach is adopted (e.g., the selling-costs-to-sales ratio should remain competitive with the industry).

Continental Can is an example of a company that realized it had a weak nonsales marketing mix. The company's customers were fully aware that the industry had excess manufacturing capacity and that quality and service were relatively comparable among manufacturers. So Continental Can directed its sales force to adopt the pressure-selling sales approach and prepare all year long for the pressure-cooked days of price negotiations. While the strategy did not solve the excess-capacity problem, it did play an integral part in helping Continental Can survive an industry shakeout.

## IMPLEMENTATION CAPABILITY

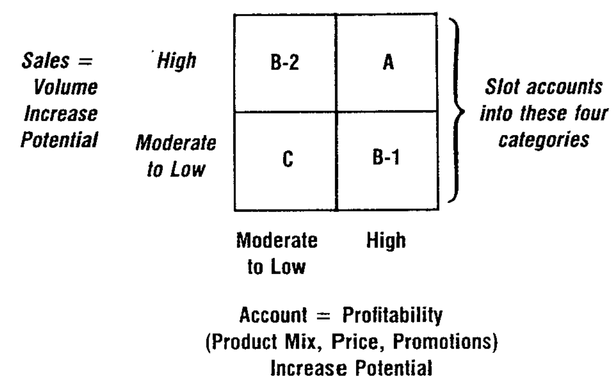
Sometimes a company's best decision is to keep its existing sales approach and improve its sales force's capability to use that approach.

Procter & Gamble's store-door sales force is widely regarded as one of the best in the grocery business. Its salespeople do not use a unique sales approach; they simply do it better. How? P&G hires high-potential salespeople, provides excellent training, encourages aggressive implementation of all marketing programs, and moves high performers into progressively more challenging and higher-paying territories.

A similar example is provided by Coca-Cola's fountain sales force. This industry's dominant sales approach is relationship selling. Knowing this, Coca-Cola carefully nurtures each relationship its salespeople have with restaurant and tavern owners. As a result, no one has been able to significantly dislodge Coca-Cola's long-standing top position in this market.

Any number of management systems and processes may impact a sales force's capability to implement its sales approach. The best sales forces actually gain a competitive edge through their unyielding devotion to maintaining the highest level of implementation capability. For example, it took R.R. Donnelley decades to establish the top sales force in the printing industry. It accomplished this by hiring promising college graduates, giving them years of training, and providing them with tremendous upside compensation opportunities once they finally made the "big sale" and graduated to full commission stature. While other printers constantly raid Donnelley for salespeople, Donnelley is able not only to replace the losses, but also to keep adding to the size of its sales force.

**EXHIBIT 3**
**Defining Account Potential**




## ALIGNING CUSTOMERS WITH SALESPEOPLE

Once a company has identified the type of selling approach or combination of approaches that is appropriate for its customers, it must align its customers with its salespeople. This ensures that the right people with the right set of skills are charged with meeting customer needs.

Aligning customers with the sales force is a four-step process:

1. Define the account potential.
2. Assess the sales talent.
3. Plug the gaps between the account's needs and the salesperson's skills.
4. Design the whole sales process so that salespeople are deployed to the company's best advantage.

### *Define the Account Potential*

The matrix in Exhibit 3 is useful for defining account potential. Current and potential accounts are placed in one of the four cells depending on their mix of increase potential in terms of both volume and profitability. Volume is measured in units or dollars, and profitability can be measured by product mix, prices, gross margin, or reduced discounts or promotion expenditures.

Unfortunately, in many companies account potential is not linked with commission potential. The greatest rewards often result from serving the accounts with the lowest potential for improved volume or profitability. These would be the "C" accounts in Exhibit 3. Such accounts may include repeat buyers or maintenance accounts. These accounts may require a different sales approach, perhaps heavily oriented toward postsale service. While providing an important, stable base of business, these accounts may not demand the more complex sales attention that "A" or "B" accounts require. When top talent focuses on "C" accounts—because they offer the highest incentive rewards—overall company profitability will not improve as desired.

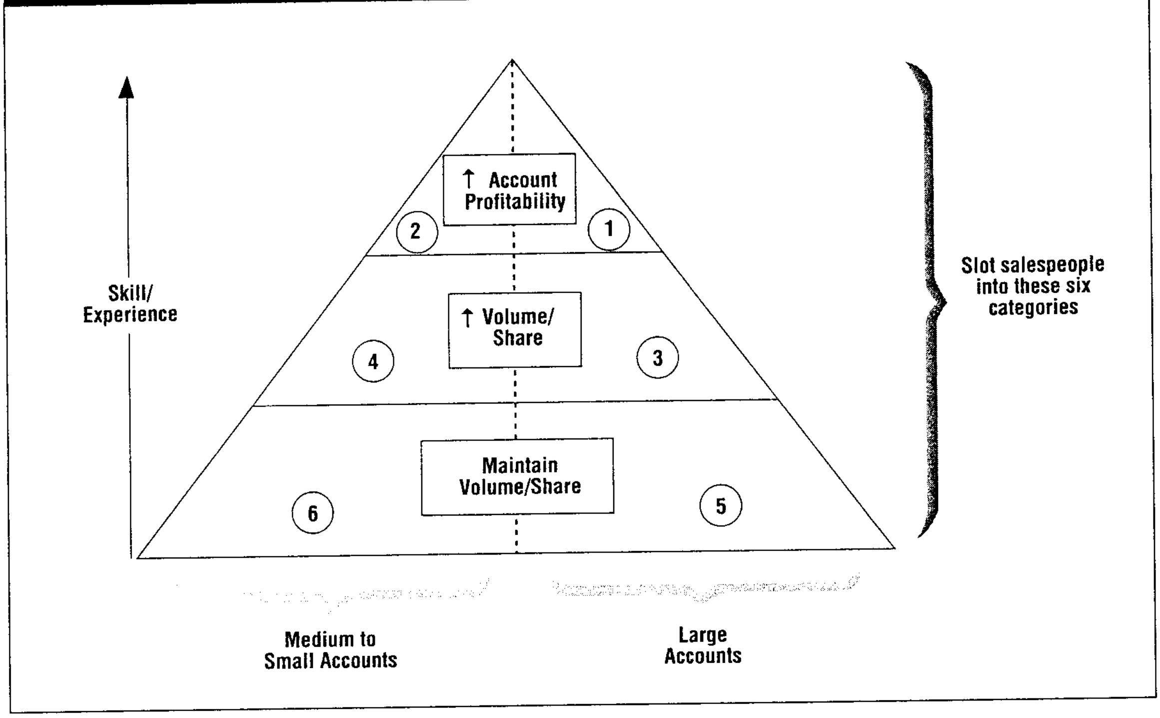
Sales managers are usually able to work off of their knowledge of their salespeople's territories to categorize accounts into the four categories. Top management can facilitate the process by providing guidelines as to what should be considered a large volume or profitability increase. This yields an analysis with country-wide relevance.

### *Assess the Sales Talent*

The pyramid in Exhibit 4 can help companies assess their sales talent. Skills at the bottom of the pyramid are those necessary to maintain sales volume. These are typically the less complex sales skills, the ones required to perform product- or buyer-oriented selling, particularly order taking, feature selling, relationship selling, or post-sale service.

At the middle of the pyramid, more complex sets of skills are required. For example, at Level 4, salespeople may have to employ multilevel

EXHIBIT 4
**Assessing Sales Talent**




selling, since an increase in sales volume or market share could require selling downstream directly to end users to create additional product demand.

The top levels include those skills required to get customers to buy a more profitable mix and/or collateral services. These frequently are the skills that will make or break the business in the long run, and may include need- or consultative-selling skills. Selling at this level also requires a strong understanding of the competition and an ability to articulately differentiate the company's product from the competitor's.

Identifying the appropriate cell for each salesperson involves evaluating their track record as well as their short-term potential. Typically, only a small proportion of salespeople should receive the highest ratings (unless large accounts are broadly distributed and typically yield profit increases).

## *Plug the Gaps*

The next step is to compare sales representatives' skills with their account loads to determine where gaps exist. For example, Exhibit 5 shows that sales rep "Bailey" has the track record and potential to grow the profitability and value of "A" and "B" accounts. But much of Bailey's time is spent on "C" accounts that require maintenance skills, rather than higher-level selling skills. The solution: Reassign a good portion of Bailey's "C" accounts, which will free him up to explore and satisfy the needs of the accounts with greater profit and growth potential.

On the other hand, the Exhibit 5 chart shows that Smith has no "A" accounts although her track record proves that she has the skills to handle them. An appropriate strategy would be to assign Smith a manageable number of high-profit/volume-potential accounts while reassigning a number of her "C" accounts.

Account reassignments obviously must be made while taking into account established account relationships and geographic limitations. Therefore, transition periods, during which account responsibilities are shifted from one salesperson to another, may be required, or sales talent may need to be relocated. Given the scarcity of top talent and the importance of "A" and "B" accounts, however, companies can yield

**EXHIBIT 5**
**Plugging the Gaps**

| Salesperson | Number of Accounts A | B1 | B2 | C | Talent Rating Track Record | Potential | Implementation Gaps | Targeted Action Steps |
|---|---|---|---|---|---|---|---|---|
| Bailey | 5 | 2 | 1 | 20 | 1 | 1 | Too much time on "C" accounts. | Assign 3 "A" or "B" accounts and reassign 20 "C" accounts. |
| Smith | 0 | 0 | 0 | 28 | 1 | 1 | No "A" accounts. | Assign 4 "A" accounts. |
| Johnson | 5 | 2 | 1 | 20 | 5 | 5 | Unable to manage "A" and "B" accounts. | Reassign "A" and "B" accounts. |
| Reed | 0 | 0 | 0 | 28 | 5 | 5 | None. | No action required. |

very high returns by paying careful attention to plugging the largest gaps.

### *Design the Whole Sales Process*

The final step is to determine the team that will be required to service each type of account, and align talent on both an individual and a team basis. This step involves defining sales roles for the whole sales team through all phases of the sales process. While one individual maintains control of each account, other team members are needed to make contributions at various points during the sales cycle.

For example, as Exhibit 6 shows, national account managers may have primary responsibility for the "A" accounts. But it is appropriate for other parties to be called in at various steps in the sales process. Target marketing and account qualification may require the assistance of sales management and marketing, while the national accounts person may handle the introductory selling solo. At proposal development, a number of team members may join the effort, among them industry and product specialists, sales management, and engineering and marketing professionals. The geographic salesperson may sit out the steps leading up to and including the close of the sale, but this individual could provide critical post-sale service and pursue account-penetration opportunities. The decision as to whom to involve in the selling process and when to involve them hinges on how best to manage the sales cycle. More companies are finding that selling success with "A" and "B" accounts depends on successfully orchestrating the contributions of a number of players.

For example, in 1987 General Electric was very effective in designing its whole sales process when it sold power generation, distribution, and control systems to General Motors' Saturn plant. GE employed a massive team-selling effort. Although it used the same need-selling sales approach as the rest of the industry, it accurately anticipated that General Motors needed to consolidate its sources of supply. GE also determined that General Motors would prefer to work with a coordinated sales team instead of dealing with five or more of GE's sales forces. GE's coordinated sales approach, encompassing multiple sales forces, augmented its implementation strength and gave the company a critical edge in selling a major contract to General Motors.

Possibly, a different sales process could be used for "B" and "C" accounts. Perhaps geographically assigned salespeople would take the lead on these accounts, and fewer players would be involved in selling and servicing them.

## DESIGNING THE COMPENSATION PLAN

Once the sales process has been designed, the company can turn its attention to rewards. The right compensation plan can lock in the new sales strategy and structure by motivating the right behaviors, which will result in improved volume, share, and profitability.

**EXHIBIT 6**

**Designing the Whole Sales Process**

*"A" Accounts*
*Potential Members of Sales Team*

| *Step in Sales Process* | *Geographic Salesperson* | *Industry Specialists* | *Product Specialists* | *National, Key Accounts Salesperson* | *Telemarketing* | *Sales Management* | *Inventory and Ordering* | *Installation and Training* | *Engineering* | *Marketing* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Sales* | | | | | | | *Service* | | |
| Target Marketing | | | | ✓ | | ✓ | | | | ✓ |
| Account Qualification | | | | ✓ | | ✓ | | | | ✓ |
| Introductory Selling | | | | ✓ | | | | | | |
| Proposal Development | | ✓ | ✓ | ✓ | | ✓ | | | ✓ | ✓ |
| Closing | | | | ✓ | | ✓ | | | | |
| Postsale Service | ✓ | | | ✓ | | | ✓ | ✓ | ✓ | |
| Account Penetration | ✓ | ✓ | ✓ | ✓ | | ✓ | | | | ✓ |
| Account Profitability | | | | ✓ | | ✓ | | | | ✓ |

The first objective is to establish the guiding philosophy for the plan, identifying what is important to the company and what orientation is required to achieve the new sales strategy. Traditional compensation approaches reward the individuals who have the greatest control over top-line results. But more companies are recognizing the benefits of rewarding the influence that a team of individuals has on the company's top and bottom lines. Thus, new compensation philosophies set the stage for the new sales strategy by outlining general parameters—such as rewards for both individual and team results—and providing incentives for both top-line and bottom-line results.

A company's overall compensation philosophy guides the direction of the four key components of the compensation plan:

1. Performance measures.
2. Competitive compensation targets.
3. Pay mix.
4. Motivational payout formulas.

Each component must be considered in conjunction with the selling strategy to ensure that the plan pays off when objectives are achieved.

## *Performance Measures*

While total sales will typically remain the number-one performance measure, other measures can help focus the sales force on areas of strategic importance. For example, if the objective is growth, rewards and recognition can be tied to attaining new accounts while maintaining a strong base of business. The company may choose, for instance, to calculate a three-year rolling average of sales volume for each salesperson. Salespeople may then receive a base level of pay for maintaining sales up to the rolling base, and may earn aggressive incentives for any volume exceeding the rolling average. Other growth-related measures may include market-share and account-penetration goals. Market share, which takes time to build, is sometimes better tracked through the sales force's recognition program, or the company may grant intermediary bonuses for improvements made along the way. Account penetration also can be recognized with a bonus for sales achievements with specific key accounts.

Companies that need to promote product mix might consider profit margin or strategic importance when setting performance measures. As an example, IBM uses a point system to emphasize the importance of certain products. Point volume and payouts vary on the basis of the mix of high- and low-point products sold.

If sales force productivity is a strategic thrust, direct-selling expenses as a percentage of sales should be considered. By tracking this ratio, the company can encourage the sales force to

**EXHIBIT 7**
**Finding the Right Pay Mix**

| Salesperson's Impact on Sale | Fixed Salary/Incentives Ratio: Team | Fixed Salary/Incentives Ratio: Solo |
|---|---|---|
| High | 60/40 | 50/50 |
| Medium | 75/25 | 70/30 |
| Low | 85/15 | 80/20 |

*Sales Process*

focus on spending money to make money, rather than on cutting sales expenses that could facilitate improved sales and customer satisfaction.

## *Competitive Compensation Targets*

Typically, as a company's sales approach moves higher in the selling pyramid, so must total cash compensation. A company with a strong application-oriented selling approach will pay more dollars to its sales force than a company that uses product-oriented selling skills. But selling approach does not dictate how much of total target pay should be placed at risk. That decision depends on the salesperson's impact on the sale.

## *Pay Mix*

As Exhibit 7 shows, finding the right pay mix (that is, the amount of pay that will be allocated to fixed or base salary and the amount that will vary according to performance) is a function of the salesperson's impact on the sale and the degree of team—versus solo—selling in the sales process. Generally, the higher an individual's impact, the more pay should be at risk.

Pay mix is a critical decision—as experience in the computer industry shows. This industry typically favors a 60/40 split, with 60% of target pay in fixed salary and 40% in incentives. In the 1970s Digital Equipment Company (DEC), however, prided itself on paying straight salary to its sales representatives. The intent of this pay policy was to establish a level of technical professionalism among the sales force. The strategy worked while DEC had a superior product. Unfortunately, however, DEC lost its technical advantage in the late 1970s, and the company's technically oriented salespeople could not compete with other sales forces accustomed to struggling for every sale and being paid largely on the basis of sales results. Consequently, DEC lost market share and volume to other firms with highly leveraged compensation plans.

Many companies use a combination of pay mixes for different sales jobs. For example, most national-account sales forces use an 80/20 mix, while their geographically assigned salespeople have more pay at risk.

It is important to note that the trend toward team selling places a downward pressure on the amount of pay at risk. A sales job that traditionally has had a 70/30 pay mix may have a 75/25 mix if team selling is involved. The rationale: Team selling reduces the amount of impact any one individual has on closing the sale.

## *Payout Formulas*

The plan's payout formula must truly reward the behavior and results necessary to achieve the sales strategy. While this sounds simple, many plans do just the opposite. For example, one company in the printing industry had two sales forces, both with the goal of achieving new growth. One sales force paid lower commissions for sales to established accounts and higher commissions for sales to new accounts. It experienced substantial growth in its base of business. The other division paid out on volume, with no distinction for customer mix. It had a tough time generating new growth.

If a sales strategy is to encourage team selling, it may be advantageous to use double credits—that is, a $100 sale is credited at $100 to two salespeople—or a combination of individual and team payouts. A common assumption is that double credits result in double payments. One solution is to reward team goal achievement and raise individual goals in anticipation of awarding double sales credit. Another option is to create a bonus pool for team accounts and uniformly split rewards among the team. In both cases, team pressure naturally becomes an important motivator that guards against freeloading.

To increase account profitability as well as penetration, a design element to consider is integrated volume/profit payouts. In such cases, a profitability multiplier touches every dollar sold. The multiplier could be established at 1.0 for accounts with average profitability, 1.5 for high profitability, and 0.9 for low profitability. In cases where profitability is a new responsibility for salespeople, it may be best to use an independent profit bonus first and later to adopt an integrated profit mechanism.

The objective of any design element is to put teeth in the compensation plan and send a clear message about expected behavior and results.

### *Implementation Pitfalls*

Two potential pitfalls threaten the best of plan designs: The first is plan rejection, manifested by turnover or a demotivated sales force; the second is the torture of suffering through—and administering—too many payout adjustments. Companies can avoid both by adhering to some practical and relatively simple rules.

To avoid plan rejection, companies should immediately put money only on familiar performance measures. Any new measures should be communicated in the field well in advance of incentive plan rollout. Next, companies should use simple formulas and examples, which will improve understanding and acceptance. The plan must be easily explained, easily understood, and easily put into practice. A third rule is to limit the number of qualifiers or stipulations governing when a salesperson can or cannot earn payouts. Qualifiers can be reduced or eliminated by modeling various performance scenarios and designing payout formulas that cover a wide variety of "what ifs."

There are three ways to ensure minimal payout adjustments. First, the company should pay for both profitability improvement and maintenance of superior profitability, allowing the sales force to make money in two ways. This allows salespeople with high profitability to earn payouts without having to generate even further improvements. Second, the company should create payout rate "buckets"—payouts for specific ranges of profitability. This way, only salespeople who are near the next higher payout level are likely to benefit from and request an adjustment. The third solution is to provide management with a discretionary component for recognizing contingencies. This allows management to evaluate behavior aimed at improving profitability. It puts pressure on managers, however, to eventually back up their subjective evaluations with results, since high evaluations of behavior cannot continue if results do not materialize some time down the road.

## CONCLUSION

Just as companies apply the "science" of marketing to product, price, promotion, and advertising decisions, they must also apply marketing science to sales. Companies that pay careful attention to how they sell are able to integrate their sales forces into the fabric of their business and marketing strategies. In an environment where the customer reigns, the essential elements of choosing the right sales approach and the right compensation plan must not be forgotten. Applying marketing science to sales means the following:

1. Selecting a sales approach that meets customer needs.

2. Considering the role of the sales force in the marketing mix.

3. Assessing the sales force's capability to implement the sales approach.

4. Aligning sales-force talents to satisfy customer needs. 5. Designing a compensation plan that will direct and reinforce the appropriate selling approach.

Maybe Harold Hill, Meredith Wilson's wonderful salesman in the musical *The Music Man*, was not all that different from today's IBM and R. R. Donnelley representatives. As Professor Hill learned in River City, there really is a significant competitive advantage in knowing precisely how customers want to be sold.

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