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Leveraging Incentives to Drive Sales Motivation

By Elliot Scott and Matthew Haller



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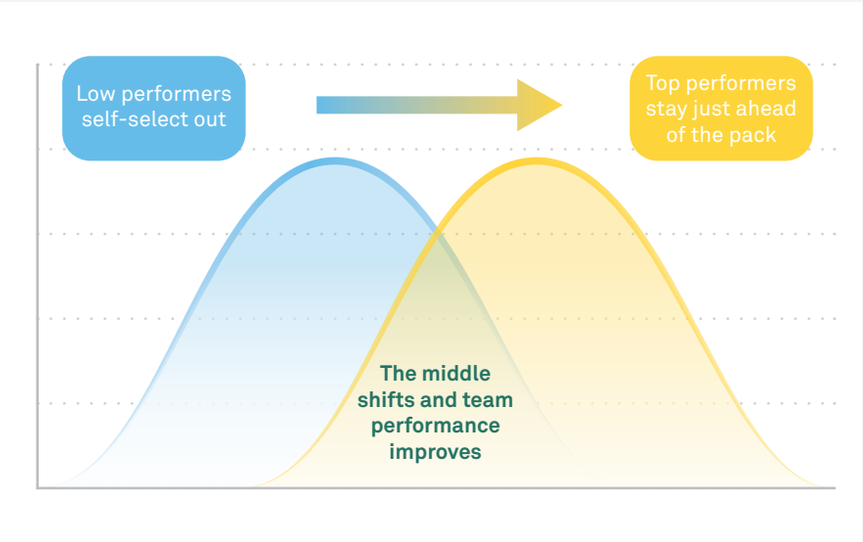
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A Dirty Little Secret in Sales

Many - maybe most - sales incentive plans aren't all that motivational. Sounds crazy, right?

We're not saying companies should do away with sales incentive programs; there are plenty of good reasons why you need them. But it's almost a rarity for salespeople to be powerfully motivated by their incentive plans. As sales compensation consultants, we frequently ask salespeople how they like their plan, and it's not unusual to hear back, "I'll let you know at the end of the year!"

What that tells us is that the salesperson is hoping that if things go well, a decent reward *may* follow – but they do not know how their actions today will ultimately benefit their paycheck at the end of the quarter. And that is a far cry from true, incentive-driven motivation.



It is often said that a primary objective of sales incentive plans is to "move the middle." There will always be top sales performers, for example, who are gifted with inherent motivation to succeed and beat the competition, regardless

of the incentive plan. With this group, the goal is to recognize them and pay them well, so they don't leave...if possible. The low performers, on the other hand, will never be successful in their current job, regardless of the incentive plan. And then there's "the middle", the good salespeople who benefit from additional motivation to go the extra mile and overachieve. A motivational sales incentive plan can excite these people and spur them to move up the curve. And since they deliver the bulk of sales, an increase in motivation can yield big returns for a company.

What Is Motivation?

Motivation, as explained by Yale Professor Victor Vroom's Expectancy Theory, states that motivational force = ***expectancy*** x ***instrumentality*** x ***valence***. Let's break it down:



Expectancy:
If the job is clear and I do it well, I will achieve the expected results

Instrumentality:
If I achieve the results, I will receive a reward

Valence:
I value the reward

Motivation:
THEN I will work to overachieve my goals

These variables – in a well designed incentive plan – work together to magnify the motivational potential; the more immediate the results are, and the more immediate, certain, and known the rewards are, the greater the motivational impact.

For example, the promise of the immediacy of a scratch-off lottery card, combined with the valence (value) of cash, is enough to sell millions of scratch-off cards annually, although the likelihood you win the jackpot is slim.

If we apply this same theory to sales incentives, Expectancy Theory states that most motivational sales incentive programs would enable the salesperson to know in advance the exact incentive earnings from a sale and deliver the reward immediately upon the customer saying “yes”. Alas, this an unrealistic ideal in most sales environments (good luck getting finance to sign off on that!), but the closer you can get to that ideal, the more motivational impact your incentive plans will have. For most reps, motivation depends on clarity and certainty.

How Can an Incentive Compensation Management (ICM) System Help?

1

Use ICM to make the “carrot” so clear, vibrant, and juicy you can almost taste it.

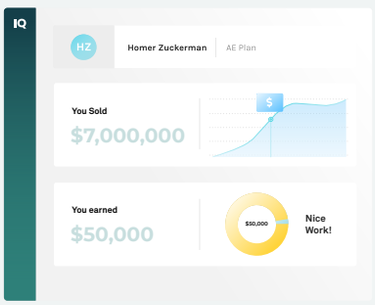
Receiving cash may be supremely exciting, but seeing online the amount of cash that is coming in a check at the end of the period, and how that amount grows daily or weekly when you continue to generate



results, is also pretty powerful. It's similar to the feeling one gets playing a video game and watching the score go up; sure, these points don't have any intrinsic value now, but we like seeing the number go up, so we continue playing.

ICM systems can automate the creation of real-time compensation statements and individual-salesperson performance dashboards that link results (sales) with the reward (a commission check) to enhance the perceived value of the reward. It may seem simple, but this is one of the most powerful – and often overlooked – benefits of ICM investments. Not convinced? See for yourself: Which of the following is likely to be more motivational:

A



Reading, "*You sold $7,000,000 this month and earned $50,000! Nice work!*"

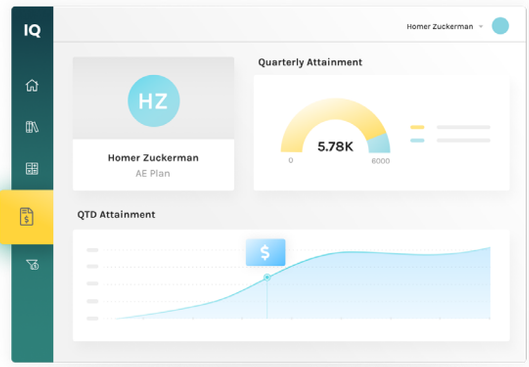
B

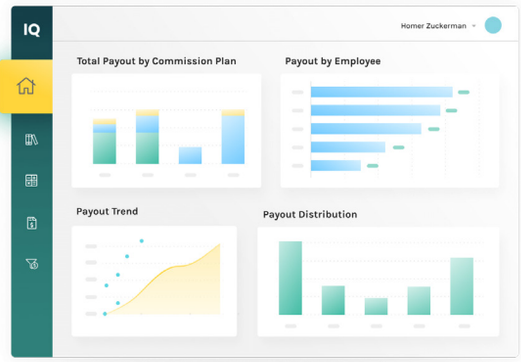


Noticing that $50,000 has been deposited into your checking account, which was probably related to some deals closed at some point in the past.

Option A connects the specific actions taken by the rep to an end result – a payout – that rewards them for their performance. With ICM, many companies can calculate commissions at the deal level, increasing the Expectancy and Instrumentality of their incentive programs.

And don't forget the key role in every sales force: the first-line sales manager. Not only are they also money-motivated (as they typically earn more money when their reports earn more money), but nothing drives team motivation and loyalty like cash. The manager's dashboard, therefore, should highlight their reports' earnings as well as their own. If done in an impactful way, the ICM tool can become an important tool that not only motivates managers to overachieve, but can also serve as an important performance management function across the team.





2 Use ICM to eliminate complexity.

When we ask salespeople what they don't like about their incentive plans, we most frequently hear, **"It's too complex. I don't understand how I am paid."**

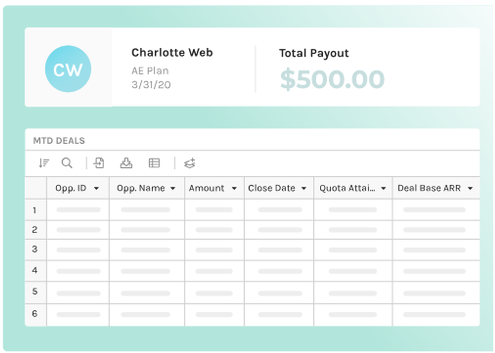


Common logic follows that a salesperson who does not know how the incentive is calculated will be a lot less motivated by the incentive

plan than one who does. The underlying reason though, is important when designing and managing sales incentive programs:

A

While it can be demotivational to not understand how you are paid, the reason it lacks motivation is that it gets in the way of instrumentality and valence: it undermines the link between results (I sold $1M) and reward (how much do I earn for selling $1M) and it creates uncertainty about the value of the reward. With an ICM system, results can be clearly shown – down to the transaction level – and the rewards can be clearly displayed (and often in real time). Even without knowing the precise mechanics of the calculation, the salesperson has more confidence in the system's immediate calculations than, say, the finance team's calculation at the end of the period.



To a large extent, visibility at this detailed level allows for certainty - even if not every crediting rule is precisely understood. After all, most of us don't fully understand how our tax bills are calculated, but we pay them anyway.

B

Second, ICM reporting can be done in a way that doesn't just show the result but shows some or all of the steps along the way. Having written hundreds of plan documents with

words to precisely explain the details of how incentives are calculated. Sadly, we find that most people still don't understand. Prose is simply not the best tool for that job.



Even when we turn to Excel-based incentive calculators, which allow reps to input sales results and see what their incentive would be (and if they like, they can go in and see the formulas), reps can still struggle to accurately track all of the deals they are assigned. ICM is far better at this and makes, or should make, Excel-based incentive calculators obsolete. The dashboards and user interfaces can be better at showing the baseline data (including quota and territory definitions) and the calculation steps, reps can be confident that their results are accurate and can be trusted.

3 Use ICM to improve the link between the job and the results.



Let's return to the first pillar of Expectancy Theory: "If I do my job, I will achieve the expected results." Because sales are never

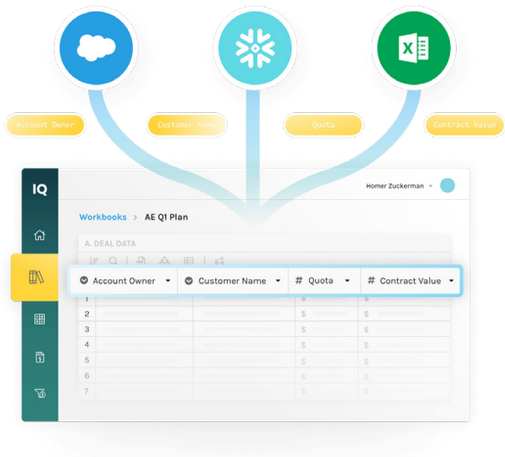
entirely within the control of the salesperson, there is always a degree of uncertainty. Sometimes you make the sale and sometimes you don't. In retrospect, it often turns out that if you had done something differently, you would have achieved better results. Perhaps you...

- Spent time on the wrong customers
- Spent time on the wrong parts of the sales process
- Tried to sell the wrong product
- Ineffectively leveraged sales tools

It can be hard to know in advance what works best in each situation, and what worked yesterday may not work today. Markets, products, technology, and customers are evolving rapidly.

But so are CRM systems, availability of internal and external data, and powerful tools to produce actionable insights. And increasingly, ICM systems are linked with these tools and data.

So, ICM systems can be used as a gateway and an enhancement to quantitatively assess what factors are correlating with sales success in various circumstances. Just as Facebook has a frighteningly good idea of what to try to sell me, and it is constantly updated based not only on my known preferences but on what appeals to others like me.



The more that salespeople can update and tailor their approach to each sales situation, based on historical data, the more they will see the results they want: more sales!

ICM systems have the ability to not only show the deals for which reps were successful, and can also show the opportunities where deals weren't closed – which can lead to important insights. ICM customers frequently create insights that can direct reps towards account profiles that have the highest win rates, close the fastest, and have the highest deal value. Combined, these key insights answer the age old question: "with only X days left in the quarter, where should I focus my time?"

Having access to these insights at the individual level not only serves as an additional management layer, but can also motivate reps by increasing both the Expectancy and Instrumentality of the commission plan: reps know their job and are guided to do it well, and are then motivated by the demonstrated reward – their commission statement – in real time.

Our Final Thoughts

Sales incentive plans have historically been very difficult to design and administer in a way that drives a strong ROI. Annually, companies spend weeks (and in many cases - tens of thousands of dollars) trying to dial in the specific rates, tiers, and policies designed to fire up the sales team and get them excited for the new fiscal year. Even with all the investments, many reps still say that the incentive plan doesn't truly motivate them to go above and beyond. Expectancy theory helps shed light on this stubborn challenge by highlighting the building blocks necessary for plans to remain motivational not just to sales reps, but anyone placed on an incentive program.



Expectancy Theory's three-pronged framework of Expectancy, Instrumentality, and Valence tells us that simply adjusting rates and thresholds won't sufficiently satisfy the instrumentality requirement in motivation, leading many incentive programs to fail.

Today's advanced ICM tools help remedy the instrumentality requirement by not only showing reps how their prior actions affect achievement - and therefore earnings - but can also yield insights that help individual reps maximize their time in the field, leading to higher overall rep attainment, satisfaction, and motivation to beat their goals. And when reps overachieve, so do the companies that employ them.

About the Authors



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