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Sales Governance study

How leading companies in the Nordic region steer and develop their sales organisation

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Executive summary

Companies face many challenges in optimally steering their sales organisations. For example, this is often the case for more mature organisations in need of more structure. Usually this need occurs after phases of business growth with many sales initiatives and less control, as well as after cost saving phases when companies aim to steer their sales organisation more efficiently.

Capgemini examined 42 leading companies from different industries in Finland, Norway and Sweden regarding how they handle Sales Governance and the related challenges and best practices. The study was conducted through in-depth qualitative interviews and a quantitative online survey. The participants were Sales Executives, mostly the Heads of Sales, but also CEOs or Business Area Managers.

All Sales Executives stated that Sales Governance will become more important in the future. In addition, 86% of the Sales Executives anticipate their group management to put more focus on questions related to Sales Governance the coming three years.

The Sales Executives saw driving sales productivity and reducing non-value adding time as the major benefits of Sales Governance. In addition, Sales Governance enables best practice identification and implementation, and ensures an adequate sales behaviour.

The four elements of Sales Governance have reached different levels of maturity. Sales Management is the most elaborated element. But even though basic enablers are typically well defined, companies continuously improve the synchronisation of the strategic and operational levels of Sales Management and enhance cross-functional co-operation. Sales Performance Measurement is moderately mature, however, the defined Key Performance Indicators (KPIs) did not fully enable an efficient tracking and steering of sales behaviour. Due to the various Compensation and Incentive models available, companies face challenges in optimising their compensation structure. Sales Coaching and Training was seen as an emerging area.

Even though the maturity levels vary between the companies and industries investigated, a common pattern exists for Sales Governance. It is used rather for controlling purposes than for driving the continuous improvement of sales performance.

Overall, leading companies in the Nordic region have the potential to further develop and improve their Sales Governance models. To take Sales Governance to the next level, three main principles should be kept in mind: Integration of the different Sales Governance elements, Cross-functional alignment and keeping a clear focus on the improvement objectives and benefits.

Study overview

> **“The Sales Governance framework creates the necessary balanced, holistic perspective to optimise sales effort and maximise results.**
>
> **Sales Director, Energy Industry**

Why a study on Sales Governance?

This study is part of Capgemini’s continuous research into the trends and issues in the business environment of our clients. Sales Governance has been experienced as a very important topic by many Sales Executives.

Companies face many challenges in optimally steering their sales organisations, for example:

- Having evolved to more mature organisations, companies struggle to establish more structured and consistent ways of working.
- Phases of business growth often result in new sales initiatives and less control of the sales organisation in terms of operations and costs.
- Expansion to new business segments requires a more thorough and coordinated sales governance model.
- Business complexity and the number of interaction points have increased due to a wider business scope, involving more customers and suppliers.
- Phases of cost savings often result in pressure to run the sales organisation in a more cost efficient way.

For companies from all industries, the elements of the Sales Governance Framework are key in actively driving the sales organisations towards effectiveness and higher performance.

Objective and methodology

This study examines sales governance practises in leading Nordic companies and aims to identify related challenges, best practices and areas for further development. To gain a broad understanding of the topic, the study covered a broad range of industries.

During January-April of 2008, 42 representatives from Finland, Norway and Sweden participated in the study. The participants were Sales Executives, mostly the Heads of Sales, but also CEOs or Business Area Managers (or equivalent).

A total of 35 in-depth interviews were conducted in addition to 21 online survey responses. The qualitative interviews followed a standardised approach with open questions on Sales Governance and its elements to gain insights based on the statements of the Sales Executives. The quantitative part of the study comprised an online survey targeting the interviewed Sales Executives and other key managers within the sales organisation.

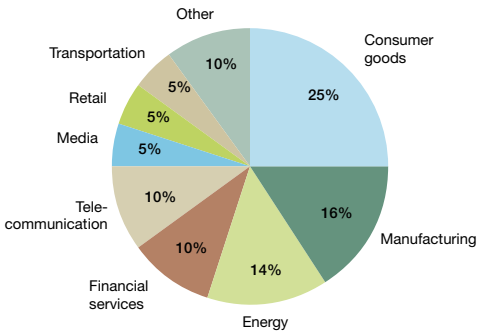
Participating companies

The interviews and online surveys were conducted primarily with large companies in the Nordic region. 50% of the participating executives were from Sweden, 31% from Norway and 19% from Finland.

As seen in figure 1, the participating companies cover different industries to ensure a broad approach to and solid understanding of Sales Governance. The main industries are consumer goods, manufacturing, energy, financial services, and telecommunication.

Among the participating companies, more than 90% have multinational sales operations including Finland, Norway and Sweden.

Figure 1 Participating companies per industry



Capgemini Consulting would like to express its sincere appreciation to the Executives who participated in this study. There was an enormous interest in the topic, and we hope you find our report thought-provoking and valuable.

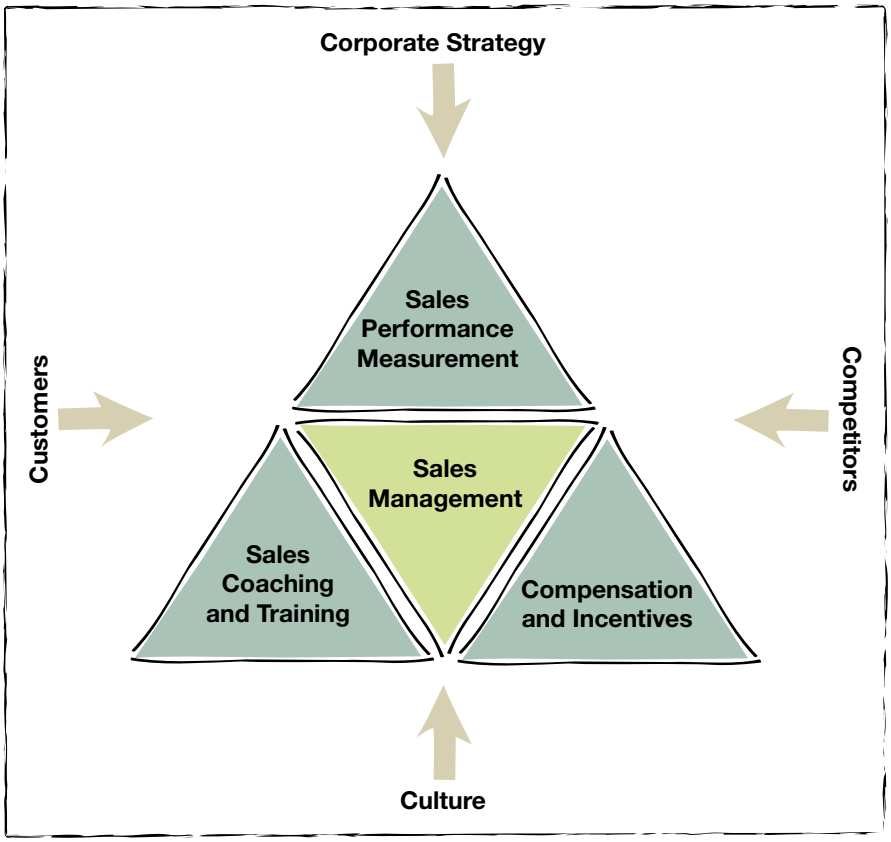
Definition of Sales Governance and its elements

Sales Governance is defined as the method used by management to drive the sales organisation towards effectiveness and high performance and to promote a desired sales behaviour. It can be visualised in the Sales Governance Framework containing four different elements (see figure 2):

- Sales Management
- Sales Performance Measurement
- Compensation and Incentives
- Sales Coaching and Training

There are strong links between all of these elements, and they can not be viewed or developed separately.

Figure 2 **The Sales Governance framework**



Sales Governance is influenced by environmental factors, such as the corporate strategy, corporate culture, customers, and competitors. These factors can have a constraining or encouraging effect on the development of each element, but are not further examined in this study. Similarly, aspects such as sales strategy definition, sales process, and sales organisation structure are also not in scope of this study.

Sales Management is the core element of the Sales Governance Framework. It entails both a strategic and an operational level. At the strategic level of Sales Management, the sales strategy is aligned with the corporate strategy and short-term and long-term business objectives are defined. At the operational level, the activity plan is implemented and managed as required. Cross-functional co-operation is a prerequisite for achieving internal strategy alignment and operational efficiency. To support the strategic and operational levels of sales management and the cross-functional co-operation, four key enablers (forums, roles and responsibilities, processes and tools) need to be in place.

Sales Performance Measurement is used to monitor how the sales organisation is performing against the set targets. Performance measures are typically expressed as KPIs and can be both, financial and non-financial. KPIs play a vital role in steering the sales organisation. In addition, they allow initiating corrective measures, if defined targets are at risk. Performance measures can be distinguished as leading and lagging. Lagging measures include financial KPIs such as revenue and margin, and report the final results of sales activities. Leading measures are often process-related, action-oriented and focus on performance driving the result, e.g. number of customer visits.

Compensation and Incentives include a variety of rewards both for the individual and the team to reward good performance and to stimulate motivation. Compensation can be divided into fix and variable parts, which are in most cases equivalent to a monthly salary and a monthly or annual bonus. Incentives can be grouped into financial and non-financial. Good performance is ultimately defined by breaking down corporate targets to an individual level for which performance can be measured.

Sales Coaching and Training is an efficient tool in supporting individuals and groups to recognise ways to optimise their sales behaviour. Coaching provides individual guidance, support and feedback through interaction rather than instruction. It aims to increase the awareness for personal strengths and improvement areas to reach the sales goals. Coaching is particularly useful for one-on-one conversations, but can also be included in group sessions. It must be seen in the context of an overall model for sales training and sales career development. Trainings help to develop skills and competence through typically standardised course format. In combination with that, coaching is an efficient way of encouraging salespeople to adopt the training content in their daily work.

Overview – Sales Governance maturity

Figure 3 **Impact of Sales Governance components**

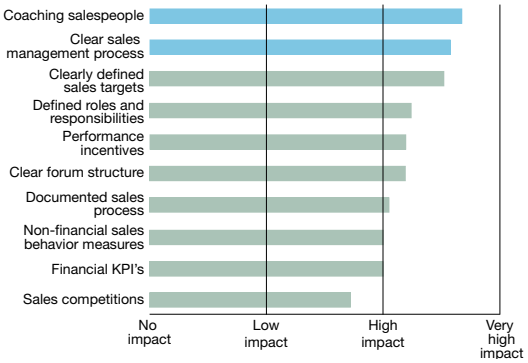
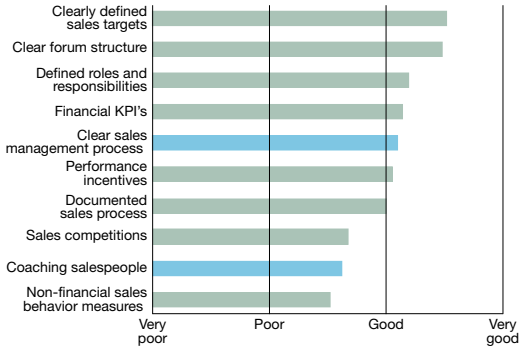


Figure 4 **Current performance of Sales Governance components**



Maturity levels vary between the Sales Governance elements

The four elements of Sales Governance have reached different levels of maturity in the investigated companies. According to the Sales Executives, Sales Management is the most mature and elaborated element, as a lot of effort has gone into developing Sales Management practises and processes. Thus, basic enablers are typically well defined. As this is the core element, companies focus on continuously improving their Sales Management, especially in terms of synchronising the strategic and operational levels of Sales Management and enhancing cross-functional co-operation.

The Sales Executives evaluated the element of Sales Performance Measurement as moderately mature, stating that KPIs were defined and sales performance was followed-up. However, the defined KPIs were not assessed to fully enable an efficient tracking and steering of sales behaviour. Due to the various Compensation and Incentive models available, companies face challenges in optimising their compensation policies. For instance, Sales Executives found it difficult to firmly define on which KPIs the compensation and incentive model should be based. Sales Coaching and Training was seen as an emerging area and, thus, evaluated to have the lowest maturity level. Although the majority of investigated companies has standardised training programmes, they lack an established coaching culture.

The importance of Sales Governance is growing rapidly

All Sales Executives stated that the importance of Sales Governance will increase in the future. In addition, 86% of the Sales Executives anticipate their Group Management to put more focus on questions related to Sales Governance the coming three years.

The Executives saw driving sales productivity and reducing non-value adding time as the major benefits of Sales Governance. In addition, Sales Governance enables best practice identification and implementation, and ensures an adequate sales behaviour.

As illustrated in figure 3, certain Sales Governance components are regarded as more important in driving the desired sales behaviour. However, the capabilities to apply these components varied (see figure 4), an aspect closely linked to areas of improvement. The coaching of salespeople is evaluated to have a very high impact on the possibility to drive sales behaviour, but applying coaching was seen as very challenging. As many as 33% of the respondents stated that their companies are poor or very poor at coaching their salespeople. A similar issue can be seen in the Sales Management process. Companies experience that the processes can make a difference in steering sales behaviour but that they are not sufficiently skilled in using them. If improved, both Coaching salespeople and Sales Management processes thus have a potential impact.

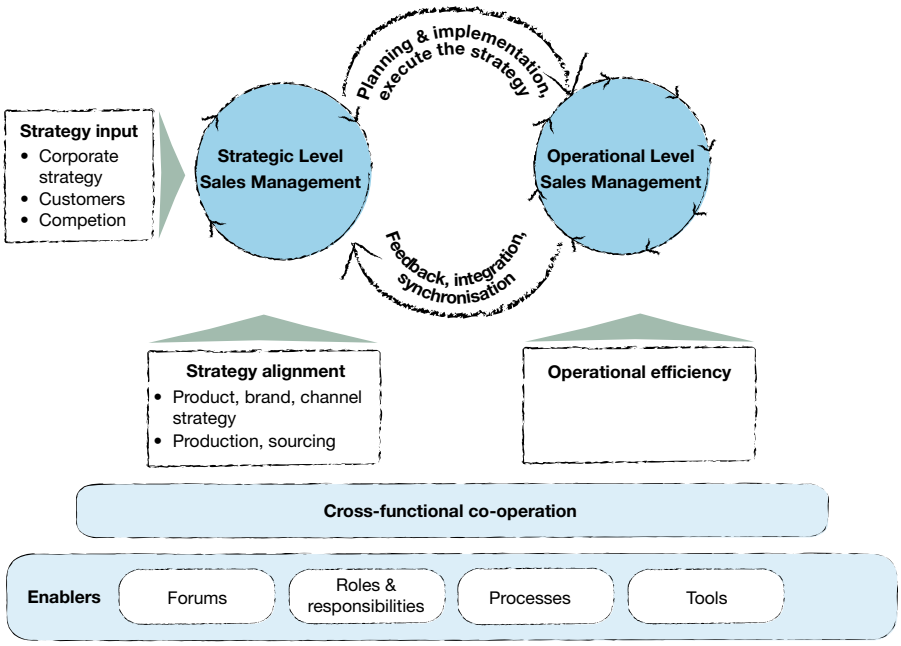
Regardless of the enhancement area, the Sales Executives highlighted the importance of involving the salespeople and creating commitment to the components as a key success factor in implementing improvement initiatives.

Sales Management

Introduction

Sales Management is the core element of the Sales Governance Framework (see figure 5 for an overview of its components). Sales Management is strongly linked to Sales Performance Measurement through the target setting process. Linkage to Compensation and Incentives as well as Sales Coaching and Training elements is, for example, created by aligning the salespeople's individual objectives and coaching needs with Sales Management targets.

Figure 5 **Sales Management model**



Sales Management related findings

Having solid Sales Management enablers in place is not a genuine source of competitive advantage

Independently of the industry, a basic set of processes and forum structures are defined and in place. More than 95% of the respondents stated that they use a clear Sales Management process and forum structures. 86% of the companies indicated that the roles and responsibilities within Sales Management are also well defined (see figure 6 on next page). In addition, a clear interdependency emerges between the role descriptions and the process. To some extent, good role descriptions can compensate week process documentations, and vice versa.

"To compensate the lack of process, the company relies on well-defined role descriptions and tries to enforce the coaching culture to secure that Sales is managed and controlled."

Manager Marketing and Sales, Manufacturing Industry

Overall, the respondents are confident with the Sales Management enablers and see these as important for driving sales, but not as a source of competitive advantage. The main improvement area appears to be the sales process documentation, where a fourth of the participating companies still saw improvement potential (see figure 6 on next page).

Other improvement areas mentioned were enhancing efficiency of forum in terms of frequency, participation, agenda, and objectives to increase the time with the customers. Companies also strive to improve the tools supporting Sales Management, especially regarding data management and integration.

Increasing need for enhanced cross-functional co-operation and transparency

Only 52% of the Sales Executives believed that the roles and responsibilities of other functions involved in the sales process, such as marketing, customer services, supply chain, or finance, are clearly defined and understood (see figure 7).

In many of the interviewed companies, co-operation with other functions is centred around joint forum structures, whereas companies typically lack deeper cross-functional co-operation based on aligned role descriptions, joint processes, and target setting.

Challenges to synchronise the strategic and operational levels of Sales Management

Achieving excellence at the operational Sales Management level or having clear sales strategies does not suffice for an effective Sales Management. Many companies see a challenge in synchronising the operational and the strategic levels of Sales Management due to different time horizons and planning frequencies: the strategic level in Sales Management is typically touched upon annually or bi-annually, whereas operational planning and sales performance measurement may take place daily.

The link from the operational to the strategic level is often not as well implemented as the other way around. Annually prepared sales strategies or customer plans are rarely reviewed and updated during the year. When targets are not met, fire fighting takes place in the shape of action planning, though this easily leaves strategic planning as an isolated annual task.

Due to the challenges of synchronising the strategic and operational levels, Executives have limited options to effectively drive the desired Sales behaviour of the salespeople. As decision making power is typically focused on the Sales Executives, operational issues are often unnecessarily escalated to the executive level, which in turn decreases time for customer-related and strategic level decision making.

Figure 6 Application of Sales Management enablers

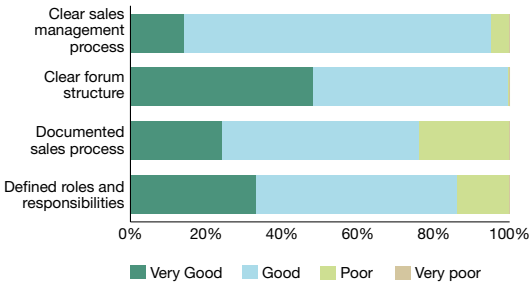
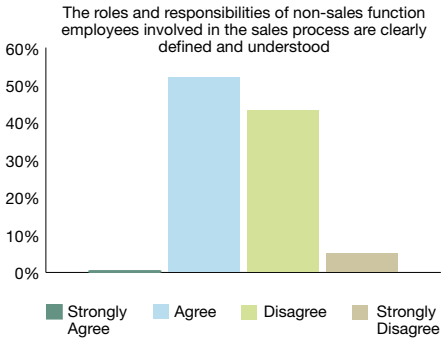


Figure 7 Roles and responsibilities of non-sales function employees



> **“ Senior Sales Executives should spend more customer-related time than internal managerial time – 70% external and 30% internal focus would be ideal.**
>
> **Business Area Head, Consumer Goods Industry**

Recommendations to further improve Sales Management

Facilitate effective and flexible cross-functional co-operation

To deepen cross-functional co-operation, companies are recommended to design aligned role descriptions, joint processes, and common targets to clarify how to drive collaboration between functions. To improve the co-operation, one option is to appoint coordinative roles with overall responsibility for certain areas (e.g. customer segments or strategic products) to ensure that suboptimal activities within the different functions are resolved.

Due to increasing customer demands, sales organisations need to tighten the touch points across the organisations, from finance and controlling to marketing and supply chain functions. Many companies focus on developing a seamless co-operation between sales and marketing, but in manufacturing, for example, the pressure increases to achieve more transparency throughout the end-to-end supply chain.

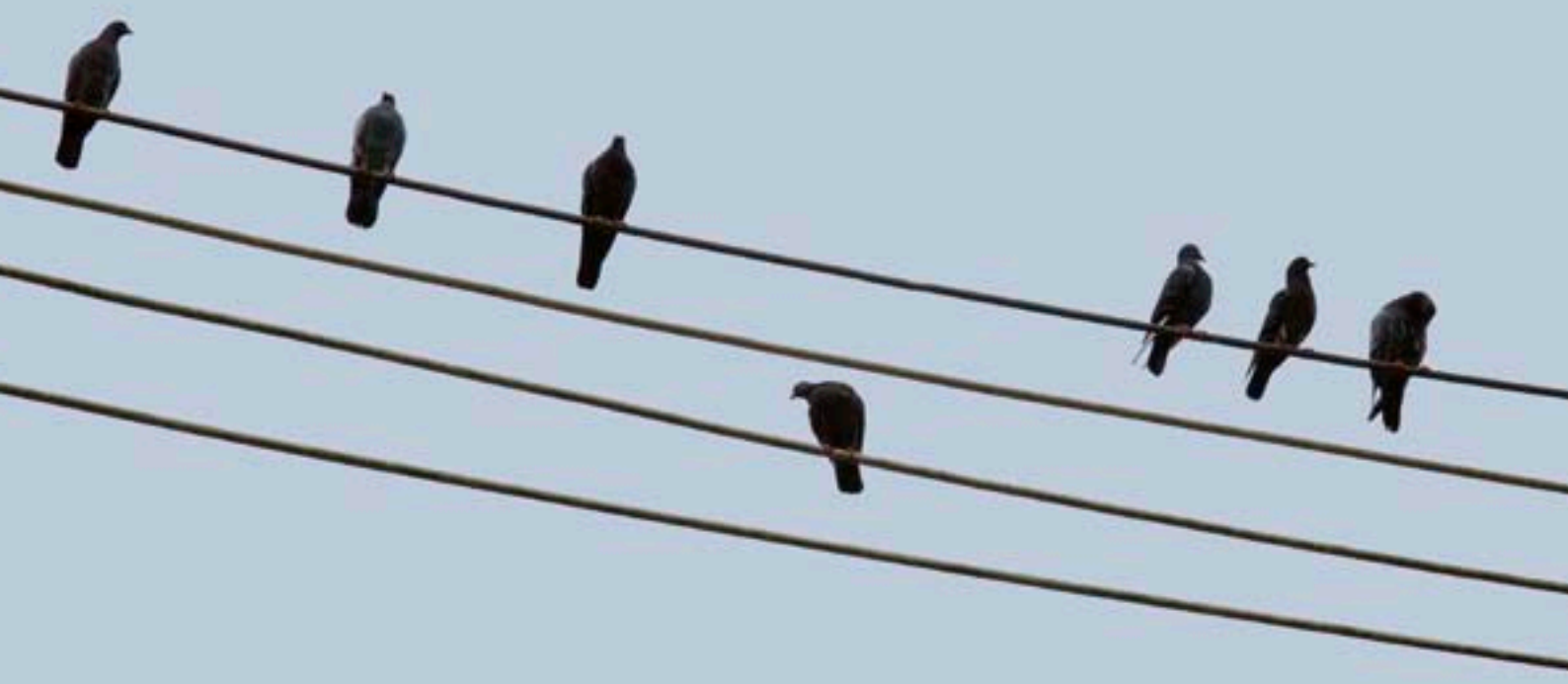
Focus on synchronising strategic and operational levels of Sales Management by establishing firm feedback loops

Although most participating companies have a comparatively mature level of Sales Management enablers and are capable of turning sales strategy to concrete activities, several initiatives can be identified to improve the link between strategic and operational levels:

- *Target setting by involving salespeople* creates higher commitment to targets and motivation to provide feedback.
- *Rolling planning* should be adapted in sales forecasting to better support corporate planning and budgeting. It is equally important to establish up-to-date feedback loops to share the volume plans from sales to other functions such as production, increase the sales forecasting accuracy, and create a forward-looking attitude instead of focusing on historical sales data.
- *Creating thorough customer plans for key customers* ensures key account managers prepare an action plan that they will follow.
- *Strategic sales plans should be reviewed* during the year to confirm if the assumptions made are still valid or if updates are necessary and the budget allows. A clear process should thus be in place, preferably supported by a tool guiding the work. This enables the organisation to integrate new information in planning and respond more swiftly to changes in the marketplace.
- *Communicating strategies widely* across the organisation promotes openness and reduces personal agendas. They are typically shared within the sales organisation but should also be communicated across functions, for example with marketing.

“It is important to have the right rhythm in Sales.

Director Customer Relations,
Consumer Goods Industry



Additional insights

Besides the recommendations and findings mentioned, a number of interesting aspects were discussed in interviews with Sales Executives. Some additional insights from these discussions are:

- Delegate decision making authority within clearly defined boundaries to lower levels of the sales organisation which are closer to the operational issues on a daily basis.
- Support salespeople in prioritising their work and in balancing their time spent on internal versus external matters. Proper sales planning, prioritisation of customer segments and key customers, target setting, and action planning are critical.
- When conducting strategic development projects with customers to increase collaboration, sufficiently support salespeople with additional project manager responsibility for cross-functional teams, e.g. by coaching.
- Implement tools supporting the sales management process from strategic to operational level, and vice versa, e.g. for managing and maintaining documentation and follow-up on targets and action plans.

Sales Performance Measurement

Figure 8 **Number of KPIs in use**

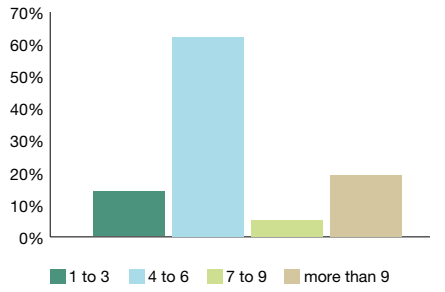


Figure 9 **Use of non-financial measures**

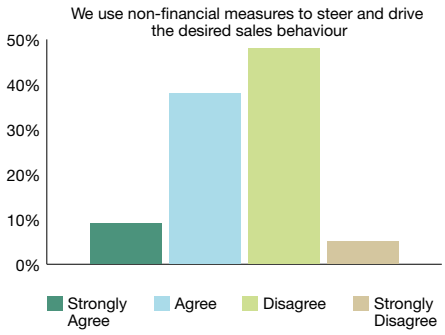
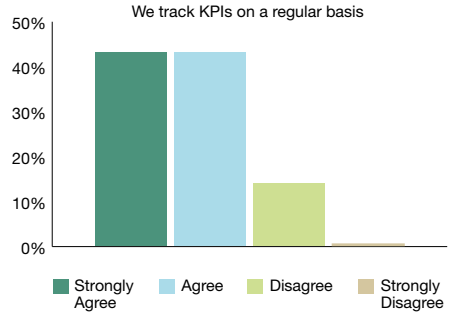


Figure 10 **Regular mesurement of KPIs**



Introduction

Sales Performance Measurement is used to monitor how the sales organisation is performing against the set targets. Performance measures are typically expressed as KPIs. Sales Performance Measurement is closely linked to Sales Management through the process of target setting and following up of performance. It is also connected to the area of Compensation and Incentives, as the performance measurement data typically constitutes the basis for rewarding.

Sales Performance Measurement related findings

Companies tend to use few basic KPIs

Most of the interviewed companies use a small set of very basic KPIs. 76% measure a maximum of six KPIs (see figure 8). Sales volume or value is the most common one in addition to revenue, margin, and market share, but the drill-down varies.

Due to the focus on measuring financial KPIs, the non-financial KPIs are often overlooked. In fact, less than half of the interviewed companies use non-financial measures to drive a desired sales behaviour (see figure 9). What is more, the companies actually using non-financial KPIs state that less focus is put on them vs. the financial ones. The non-financial KPI most commonly used was the "number of customer visits". In general, companies find it difficult to develop more advanced performance measures, because setting an appropriate baseline for the metrics, especially for non-financial measures, appears to be the main challenge.

If non-financial KPIs are not followed up regularly and integrated into sales performance measurement system, companies will be at risk of not focusing sufficiently on qualitative factors, such as customer satisfaction, time spent with customers, which may be important factors in strengthening the customer relationships.

In addition to typical financial KPIs, some companies also follow up other parameters, such as planned activities performed, variances in terms and conditions per deal, etc. These parameters are often secondary in importance. Therefore, corrective actions are not taken in case of deviations, as long as the primary KPIs meet the targets.

KPIs are frequently measured but insufficient follow-up and corrective actions are taken

The capabilities to utilise Sales Performance Measurement data typically depend on the frequency of measurement and reporting forums. This is due to the fact that reporting forums often make the decisions concerning corrective actions. Synchronising the sales performance measurement and reporting forums is a challenge: 86% of companies track KPIs on frequent basis (see figure 10), whereas reporting and follow-up forums are held less frequently, monthly or often even quarterly. Naturally, the frequency of KPI measurement and follow-up is influenced by the length of the sales cycle, e.g. capital goods industry versus fast moving consumer goods industry.

Overall, it can be stated that companies are ambitious when it comes to measuring but less keen in taking corrective actions and making improvements based on the KPIs.

"Measuring and reporting problems is not a mean in itself, the time should rather be spent on fixing the problems."

Marketing & Sales Manager, Manufacturing Industry

Another challenge mentioned by several Sales Executives is keeping the focus on what lies ahead and which proactive initiatives need to be taken. Following up on KPIs highlights the results from previous actions and the Executives experience that historical data has limited impact on how they plan for the future.

Difficulties in developing an aligned set of KPIs

Although Sales Executives are satisfied with their current set of KPIs, misalignment exists between short-term tactics and long-term strategy. The conflict occurs due to the relative ease of measuring short-term tactics, often done on activity level or by using simple financial measures. Typically, the long-term strategy is more challenging to measure due to less concrete objectives.

Balancing individual and collective targets is another typical challenge for Sales Executives, as fulfilling individual KPIs does not necessarily equal the fulfilment of the company's overall targets. This limits management's possibility to steer organisational performance by putting efforts into making individuals achieve their goals. Due to insufficient links between individual and company performance, there is also a risk that individuals will lose motivation if the compensation is too dependent on the overall performance of the company.

System support for performance measurement and reporting is hard to efficiently adapt

When it comes to system support for performance measurement and reporting, the situation varies dramatically between the companies. The companies have either invested heavily in large ERP systems with extensive functionalities for performance reporting, or they still rely on manual routines based on spreadsheet reporting. The problem with a large ERP system is that it can quickly become complex to handle and demands time-consuming trainings to understand the system. The spreadsheet reporting model is easy to handle but bears several risks in terms of accuracy due to manual input and management of the model. In fact, very few of the interviewed companies appear to have established an appropriate balance in system support for performance measurement.

"The main benefit of having a clear set of KPIs is that it sends the signal that we follow-up on important areas we want to focus on.

Head of Marketing and Sales, Transportation Industry

Recommendations to further improve Sales Performance Measurement

Integrate leading KPIs to understand the drivers of performance

Integrating the non-financial measures in the Sales Performance Management system is critical for understanding the drivers of performance. To exclusively rely on financial measures is an inefficient way of measuring performance, making it difficult to clearly see the link to sales behaviour. Hence, additional leading KPIs need to be identified to complete performance tracking (illustrated in figure 11). Since leading KPIs often are specific to the industry, these kind of measures should be identified by analysing the behaviour of the best performing salespeople. Measuring financial KPIs in combination with additional measures allow managers to quickly adjust and take corrective actions on below-target performance.

Non-financial measures can also be utilised in establishing the link between strategic objectives and the drivers for fulfilment of the long-term strategy, for example, measuring the "number of launched products" may be a key metric for realising objectives such as "reduce market risks by broadening the existing product portfolio".

Balancing the non-financial and financial measures is often critical to avoid suboptimal sales behaviour. For example, the "sales volume" should be integrated with the "number of strategic products sold" to ensure that salespeople direct their activities towards achieving the targeted sales mix.

"Finding the right mix of measures have had a positive impact on how we manage sales behaviour."

Head of Sales and Marketing, Transportation Industry

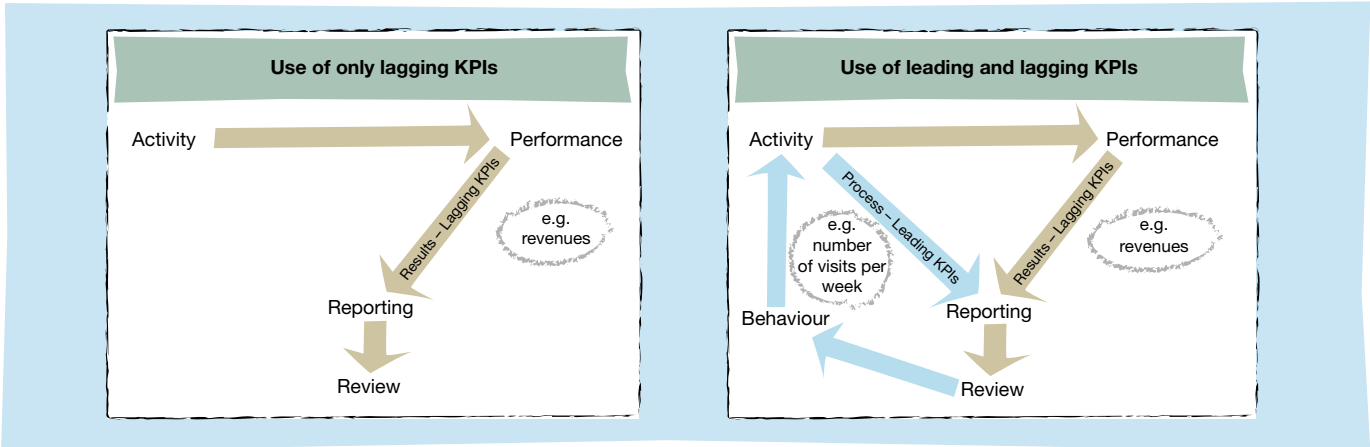
Align follow-up processes and performance measures

Typically, lot of effort is used to report performance on a frequent basis without dedicated follow-up responsibilities assigned that are operating with similar frequency. Standardised procedures can exist for escalating large-scale deviations in performance, whereas regular follow-up processes too often constrain immediate corrective actions on more frequent deviations of smaller scale. By using predefined early-warning indicators, companies can ensure quick and consistent actions for deviations requiring immediate focus.

Increase focus on proactive measurement

To ensure a more proactive approach to planning and executing corrective actions, the number of proactive measures should be increased. Currently, in many companies forecasting is an underdeveloped area driven by controlling units that merely apply simple forecasts ratios. In more advanced forecasting models, measures indicating future performance are used, for example "number of deals in a specific sales stage in the sales funnel" and "probability of sales". The foremost purpose of using these measures is to improve forecasting accuracy. Effective use of forecasting is a key to take charge over time spent on sales, and also offers an instrument to be used for effective coaching.

Figure 11 Difference of leading vs. lagging KPIs



> **There is a difference between results and drivers. By only measuring KPIs, such as sales volume, you are not able to intervene quickly and take corrective actions.**
>
> **Head of Global Sales Operations, Manufacturing Industry**

Additional insights

Besides the recommendations and findings mentioned, a number of interesting aspects were discussed in interviews with Sales Executives. Some additional insights from these discussions are:

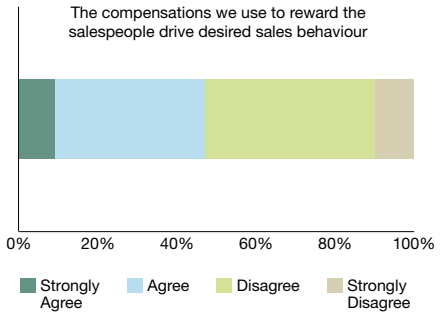
- Best practice for driving the sales process forward is to have standard indicators for how much time needs to be spent on a deal at each sales stage of the sales funnel. If the standard time is exceeded, the deal will be followed up to identify the reasons for the delay and to ensure sales funnel quality.
- User-friendly system where all reported input leads to relevant and useful output (e.g. the output can be used by salespeople to view a bonus forecast).
- Systems integrating marketing and sales indicators and enabling root cause analyses of sales drivers (e.g. average price development, purchase frequency, market penetration) are used to fine-tune the KPIs.
- An increased integration with customers allows joint measures and data sharing to further understand sales drivers and track sales performance (e.g. point of sales data, collaborative forecasting).

Compensation and Incentives

Figure 12 **Overview of reward types and examples**

Compensation	
Fix	Variable
• Fix monthly pay	• Variable part of pay (i.e. bonus based on performance)
Incentives	
Financial	Non-financial
• Trips • Dinners, event tickets	• Awards such as "Salesperson of the year"

Figure 13 **Effect of compensations**



Introduction

Compensation and Incentives include many different types of rewards (see figure 12). The capability to accurately measure performance is the basis of creating an effective mix of reward types. The alignment of different rewards ensures the sales organisation is working as a one unit towards common targets which are defined in the Sales Management process. A cultural dimension is in many aspects related to Compensation and Incentives. For instance, there is often a higher accepted level of variable compensation in individual cultures compared to more team-oriented ones.

Findings related to Compensation and Incentives

Compensation models are not sufficient to drive motivation on a daily basis

The intention of Compensation and Incentive programmes is to motivate salespeople and thereby promote the desired sales behaviour. However, more than 50% of the Sales Executives commented that the compensation structures used fail to promote the desired sales behaviour, thus indicating a clear improvement area (see figure 13).

Discrepancy can, for example, result from the following factors:

- *Insufficient variable compensation.* In most of the interviewed companies, the variable part of the salary amounts to approximately 20% of the total annual salary. Several Sales Executives stated that this amount is not sufficient to make an impact on a salesperson's behaviour on a daily basis.
- *The variable part is not paid often enough.* Typically, the bonus is paid annually. This decreases the everyday motivation, as the time between compensation and the actual performance is considered too long.

Incentive programmes are often used not only to motivate existing salespeople but to attract new employees.

"Incentives have become more or less a hygiene factor – needed to be on industry par – rather than as an instrument to drive sales behaviour."

Manager Marketing and Sales, Manufacturing Industry

Since financial rewards often fail to fulfil their purpose, the Sales Executives stress the importance of systematically using non-financial rewards as a supplement.

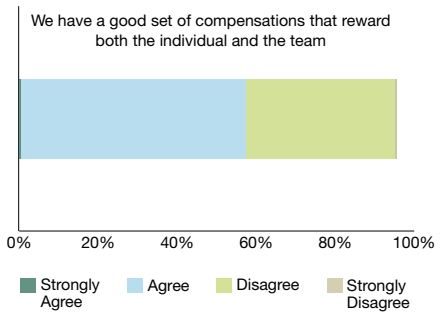
"If people are doing a good job, they get more responsibility, better development possibilities in projects, and altogether more visibility. The monetary incentives need to be complemented with these rewards."

Head of Sales, Pharmaceutical Industry

“How could you possibly understand your own contribution to the Group result if it’s being remarkably reduced due to depreciation of goodwill?

Director Business Sales, Telecom Industry

Figure 14 **Individual and team based rewards**



> **“An efficient compensation structure should have a high variable part, allow exposure of performance, and contains a close follow-up structure.**
>
> **Head of Global Sales Operations, Manufacturing Industry**

Risk of suboptimal compensation – individual versus group performance

Some of the interviewed companies have started to move towards more individually driven incentives, whereas others use group performance-based compensation models. These are mostly based on geographical criteria, such as district or country. Such incentives could encourage team work contribution but at the same time reduce individual ambitions. Balancing the individual and the team compensations is an ongoing challenge, as approximately 40% of the companies are lacking compensation models that would reward both (see figure 14).

Group-based incentive structures help to put focus on overall corporate targets and collaboration. Nonetheless, the Sales Executives stated that compensations and incentives insufficiently linked to individual efforts prevent this very purpose, i.e. as instruments to motivate a desired sales behaviour and drive the performance of the individual salesperson.

Recommendations to further improve Compensation and Incentives

Optimise the mix of and increase the focus on individual compensation and incentives

The variable part of the total compensation is often too low to truly impact motivation. The link to individual performance has to be clearer to steer the behaviour of the salespeople.

However, increasing the variable part linked to individual performance should be considered very carefully based on industry requirements to avoid hampering teamwork. Across industries, companies should strive towards a model where a comparatively low proportion of compensation and incentives is directly tied to company performance. The individual salesperson perceives the own influence on the company’s performance as relatively low, and hence will feel less committed to contributing to company results. Instead, it is preferable to pay compensation on individual performance, which should ultimately be clearly linked to company results.

To avoid suboptimal results, it is important to align the compensation with the company values and the targets of other functions. One way of maintaining the focus on teamwork is to conduct competitions for sales teams (where applicable).

Another important aspect of the compensation mix is to consider how high performers can be exposed. This could be done in many different ways: formally, by enhancing the employee’s responsibilities, through “salesperson of the month” awards, or informally, for example through exposing successful sales employees in newsletters or by promoting best practice stories. Regardless of the method used, a structured approach towards recognising good performance is important and helps to define role models for the targeted sales behaviour

Use more frequent incentive intervals to drive everyday motivation

Many companies pay variable rewards on an annual basis. However, defining incentives on a quarterly or half-year basis helps to more clearly link individual performance and incentives, and thus promotes the targeted behaviour among the salespeople (for practical reasons, pay-out can still be made on an annual basis). One Sales Executive expressed that *"annual bonus is something one takes for granted"*, a notion that can be addressed by more frequent bonus intervals. However, to maintain a constantly high level of motivation throughout the year, establishing structures preventing the salespeople from being fully satisfied upon fulfilling their targets within the first quarters is essential. This can, for example, be achieved by using incentives that increase gradually throughout the year.

Additional insights

Besides the recommendations and findings mentioned, a number of interesting aspects were discussed in interviews with Sales Executives. Some additional insights from these discussions are:

- If the variable pay is connected to the company results, communicate the results on a monthly basis to motivate the individuals to further contribute to the company results.
- A high exposure of performance can be a motivator without additional financial rewards, e.g. monthly publication of sales results with a traffic light status encourages salespeople to try harder to avoid receiving a red light.
- Combine incentive trips with learning purposes, e.g. reward good performance with a trip to another national sales company within the group to share best practices.
- Incentives are all about the right timing. What is more, even small signs of appreciation are extremely important.
- Allow the employees to choose whether they want to take a higher risk, e.g. by accepting a lower fixed compensation in favour of an even higher variable part upon high performance.

Sales Coaching and Training

Figure 15 **Impact of coaching**

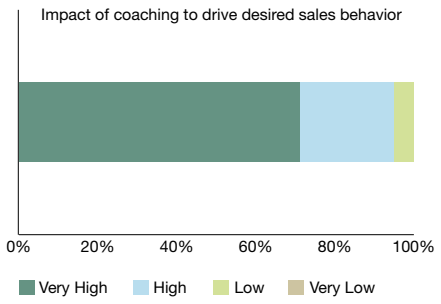


Figure 16 **Top three improvement areas**

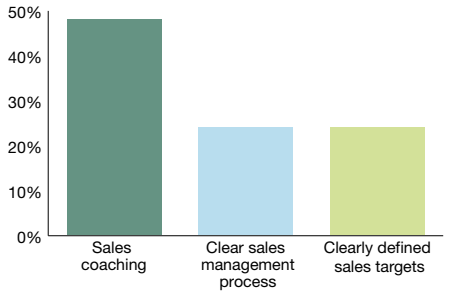
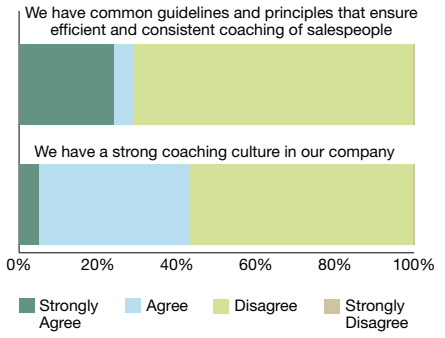


Figure 17 **Coaching guidelines and culture**



Introduction

Sales coaching provides individual guidance, support and feedback through interaction rather than instruction. Trainings help to develop skills and competence through typically standardised course format. In combination with that, coaching is an efficient way of encouraging salespeople to adopt the training content in their daily work. Together with the management process and clearly defined sales targets, sales coaching is a crucial element to drive desired sales behaviour:

"One of the most important factors in sales governance is to ensure that sales resources develop the right competence, create motivation and develop the right sales behaviour"

Sales Manager, Media Industry

Findings related to Sales Coaching and Training

Sales coaching is an important instrument to enforce desired sales behaviour

Sales coaching is seen as an important method for developing adequate competences, motivation and sales behaviour. 95% of the respondents rank coaching as important or very important for managing and driving the desired sales behaviour of the sales organisation (see figure 15). In the interviews, sales coaching and training were often referred to as the most important elements of the Sales Governance Framework.

"Coaching is an essential component in sales governance. Coaching is a key factor to support performance. This is becoming more and more important"

Sales Director, Energy Industry

It was emphasised that standardised trainings should be complemented with individual coaching on a regular basis to ensure a lasting effect. Sales coaching should not only be limited to specific trainings.

In companies where sales performance cannot be measured easily (e.g. in cases of indirect sales, or when sales is driven more by market-related factors than sales performance), it was mentioned that coaching can be especially important. In these cases, sales coaching can compensate for the lack of traditional KPIs used to drive sales behaviour.

Few companies have a structured methodology to accomplish sales coaching and training

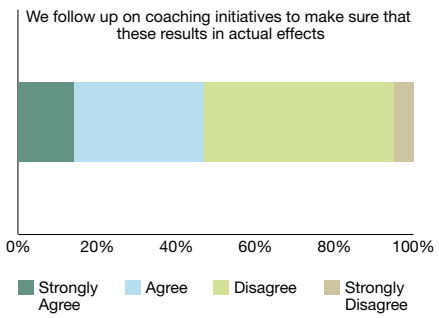
Despite its importance, Sales coaching is still the area within the Sales Governance Framework where the potential for improvement appears to be most apparent: 48% of the respondents rank sales coaching as the most important element to improve in the coming three years (see figure 16).

Based on the interviews it seems that the desire to improve sales coaching is closely linked to a general lack of clear coaching guidelines. In the survey, less than 30% say that they have common principles to ensure salespeople are coached in a consistent manner (see figure 17). Sales Executives also mentioned that coaching initiatives often rely on individual efforts rather than company efforts.

> **Sales coaching should be happening all the time, not in one single session. This is a critical part of sales.**
>
> **Sales Director, Consumer Goods Industry**

> **Coaching should be done, but measuring its effects can be difficult.**
>
> **Vice President of Sales, Consumer Goods Industry**

Figure 18 **Measurement of coaching effects**



Only a minority of companies report that they have established a strong coaching culture in their company. At the same time, the Sales Executives say that they want to prioritise this area in the time ahead.

"The current coaching approach is individually driven by each sales manager. Today we lack a common approach to coaching, but this will be one of the areas to develop for the years to come".

Director Business Sales, Telecom Industry

In general, there are large differences in the sales coaching and training approaches. Some companies have a strict structure for competence development that is based on standardised trainings. Other companies apply a learning-by-doing approach and standardised methodologies are met with mistrust.

Evaluating effects of sales coaching is a major challenge

Evaluating the effects of coaching is a prerequisite to ensure continuous improvement and alignment of sales targets and strategic objectives. The majority of companies find it difficult to measure the effects of coaching (see figure 18). Some companies evaluate sales competence in exams, certifications or employee surveys. These evaluations do not capture the effects of sales coaching. Many companies observe the positive effects of coaching without formalised measurement methods. Others have no awareness of any positive long-term effects of coaching.

Most companies are unsure of the actual effects of sales coaching. Or as a Sales Director in the consumer goods industry put it:

"We are not certain of the effects of coaching. Generally it increases motivation, but people tend to go back to old behavioural patterns in the long run"

Sales Director, Consumer Goods Industry

Recommendations to further improve Sales Coaching and Training

Implement a structured model for sales coaching and training

Companies should promote and develop sales coaching and training initiatives according to a structured model (see example in figure 19). It should be used as a means to ensure continuous improvement and the development of the sales organisation. To realise the effects of the underlying layers, companies should develop a common coach training programme and use individual coaching to enforce desired sales behaviour and improve sales force efficiency.

Emphasise continuous feedback and improvement

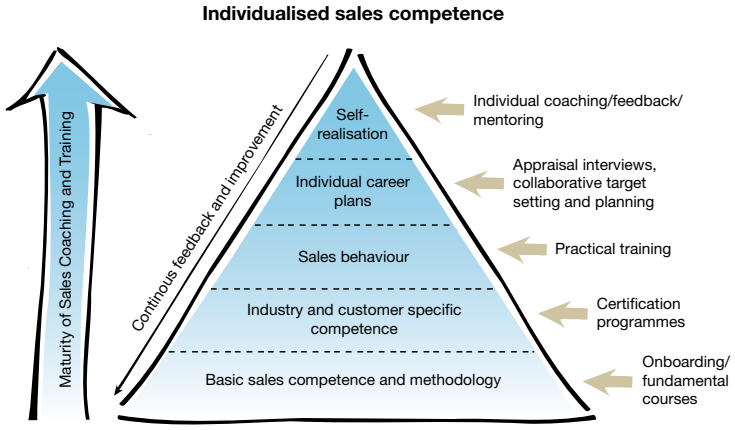
Together with individual career planning and target settings, Sales coaching needs to be integrated in the common framework for core sales competence development. Individual coaching should be used to increase motivation among salespeople, encourage desired sales behaviour and ensure long-term effects of competence development. The model should emphasise continuous feedback and the improvement of

different training components. Sales Managers should be given sufficient support to make use of coaching. This can be supported by creating a forum for exchanging best practices.

Follow up on coaching initiatives to ensure they result in actual effects

Effects of sales coaching and training are difficult to quantify. Qualitative effects on employee retention, sickness absence, customer churn and satisfaction can be quantified, e.g. in various employee and customer surveys. Because of a potentially large error margin, the measurement of the coaching success should be supported by employee interviews and 360 degree feedback to further secure qualitative effects.

Figure 19 Model for sales competence development



Additional insights

In addition to the recommendations and findings mentioned, a number of interesting aspects were discussed in interviews with Sales Executives. Some additional insights from these discussions are:

- A common methodology for a sales coaching culture is established throughout the sales organisation using a coach-the-coach programme.
- Creation of a common platform for core sales competence and methodology – while allowing for personal career development based on individual preferences and individual potential.
- Dynamic coaching model: the coaching methodology is continuously improved based on customer and employee feedback.
- Sales coaching is an integrated part of a common certification scheme.

Summarising discussion and way forward

Sales Governance is used rather for controlling purposes than for driving the continuous improvement of sales performance

Even though the levels of maturity of Sales Governance and its different elements vary between the companies and industries investigated, a common pattern exists for Sales Governance.

From the Sales Governance components, the Nordic Sales Executives ranked sales coaching, clear sales management processes and clearly defined sales targets as the most important factors to drive the desired sales behaviour. At the same time, sales coaching and clearly defined sales management processes were also identified as key improvement areas. Financial KPIs were considered the least important component to drive desired sales behaviours. This shows that measuring performance alone is not a means to ensure high performance. Rather there must be an optimum balance between different KPIs to drive the business. This balance should not be static, but evolve according to business objectives.

The study results indicate that most companies use Sales Governance elements as controlling mechanisms. Generally, Sales Governance is seen as a passive, rather administrative and rigid method for controlling the operations instead of an actively evolving, adaptable and flexible governance model. Only few companies use an elaborative governance model as a way to truly drive sales effectiveness and high performances.

Taking Sales Governance to the next level

All Sales Executives stated that the importance of sales governance will grow in the future. In fact, 86% of the Sales Executives believe that their Group Management will focus more on Sales Governance-related questions in the coming three years.

Overall, leading companies in the Nordic region have the potential to further develop and improve their Sales Governance models. As mentioned, forerunners have acknowledged that continuous improvement is key to ensure competitiveness. But to succeed with change and improvement initiatives and to take Sales Governance to the next level, three main principles should be kept in mind:

1. *Integration of the Sales Governance elements* by adapting a holistic perspective on governance and strengthen the links between the four elements. In particular, the elements Compensation and Incentives as well as Training and Coaching should be tied closer together with Sales Management and Sales Performance Measurement. Understanding that separated elements will lead to sub-optimal results is key to ensure the success of improvement initiatives. Bringing the Sales Governance elements together will create sustainable motivation for salespeople. The old management rule “only what gets measured gets done” still applies in the context of driv-

ing the right sales behaviours. Sales Coaching and Training support the way how this is done in the daily business. Compensation and Incentives together with the other elements will keep salespeople motivated. Overall, Sales Management sets the frame for the other elements and will be reinforced by them if done efficiently. Integration is also important *within* each of the Sales Governance elements, e.g. defining the right mix of different KPIs, rewards, coaching and training components and synchronising the strategic and operational sales management levels.

2. *Cross-functional alignment*. It is crucial that other business functions understand their roles in the sales value chain, i.e. how they can contribute and why they are important. Also, the role of Sales in integrating the customer view (e.g. Product Development) is of central importance, especially in product-driven companies. The Sales Governance model needs to be aligned with other organisational units such as marketing and delivery. Furthermore, aligning the Sales Governance model with customers (where applicable) will strengthen strategic partnerships and promote a culture of information exchange.
3. *Keeping a clear focus on the benefits*. Sales Governance spans a wide area and improvement objectives need to be clearly defined to stay focused and succeed with the implementation. Sales Governance supports efficiency gains, e.g. by focussing the salespeople on the most important targets and necessary actions and stopping those actions that do not create value. In times of economic downturn, sales governance facilitates the quick adjustment to market changes with modified targets using leading KPIs and sales coaching. In addition, a balanced Compensation and Incentives element that includes not only individual financial rewards but also recognition of the individual and groups, make the sales organisation more stable and hence, less vulnerable to changing market situations.

Key recommendations for each of the Sales Governance elements

Based on the findings of the study, the following recommendations are suggested to further improve each of the Sales Governance elements.

Sales Management

- Focus on synchronising strategic and operational sales management levels by establishing firm feedback loops to increase the internal efficiency
- Facilitate effective and flexible cross-functional cooperation to meet the increasing customer demands

Sales Performance Measurement

- Combine lagging financial KPIs with additional measures to understand the true performance drivers
- Increase the focus on proactive measurements to be able to take corrective actions in advance
- Align follow-up processes and performance measures to avoid over-administration and inconsistent corrective actions

Compensation and Incentives

- Optimise the mix of and increase the focus on individual compensation and incentives to motivate the salespeople
- Increase the frequency of incentive intervals to drive the motivation of salespeople on a daily basis

Sales Coaching and Training

- Follow up on coaching initiatives to ensure they create actual effects
- Implement a structured model for consistent trainings and coaching
- Emphasise continuous feedback and improvement to drive long-lasting competences

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Design: Fresh Design

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