Research Brief

Aberdeen Group
A Harte-Hanks Company

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Non-Cash Incentives: Best Practices to Optimize Sales Effectiveness

In the view of many casual observers, managing a sales force should be straightforward: hire a rep with a proven track record of making a number; give them a territory, script, phone, and price list; and let them sink or swim based on their ability to meet quota. While a cut-and-dried transactional sales environment might be appropriate for this approach, in today's business-to-business (B2B) space, most contemporary business development efforts require the antithesis of this overly simplistic approach. The care and feeding of professional, consultative sellers demands a new skill set that encompasses a broad range of compensation, motivation, and coaching best practices that the most successful enterprises find to be well worth their investment. This Research Brief will explore how Best-in-Class organizations extend beyond simply cash compensation, to use non-cash incentives and rewards as a vital part of their modern B2B sales performance management efforts.

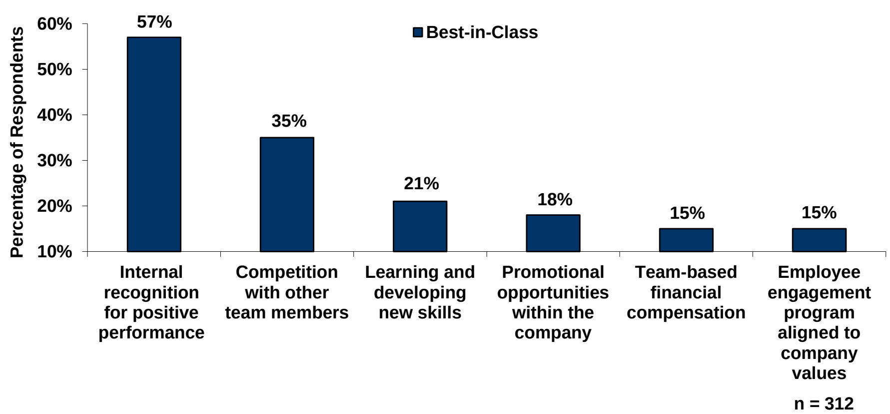
Research Brief

Aberdeen's Research Briefs provide a detailed exploration of key findings from a primary research study, including key performance indicators, Best-in-Class insight, and vendor insight.

Sales Performance Management Foundations for Non-Cash Initiatives

Between September and November 2012, Aberdeen Group surveyed 312 end-user organizations about their sales effectiveness practices and accomplishments, specifically to understand how sales performance management is most effectively deployed.

Figure 1: Best-in-Class Report Non-Financial Approaches among Most Effective Sales Motivators

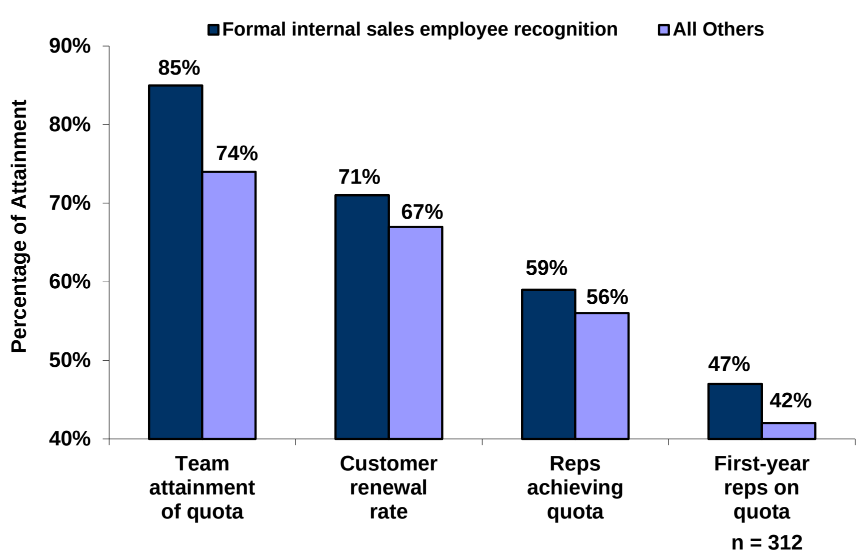


Source: Aberdeen Group, November 2012

The resulting findings were published in *Motivate, Incent, Compensate, Enable: Sales Performance Management Best Practices* (January 2013), and include the fact that Best-in-Class companies (see sidebar) are 12% more likely than All Others (57% vs. 51%) to indicate that internal recognition for positive performance results was a vital motivator for sales success. Indeed, while an expected overwhelming majority of these Best-in-Class companies indicated that money was a top-three sales motivator — although that number is 98%, not 100% — we see in Figure 1 that among all other, non-financial motivators, recognition for a "job well done" scores significantly higher than the remaining cash-less incentives. If we combine these findings with the fact that a majority of survey respondents (55%) indicated to Aberdeen that "Non-cash incentives / rewards are a vital component of sales performance management," a very different story of sales performance management best practices — compared with the car dealership model — presents itself to us.

The hypothesis here is simple: while cash is crucial to effectively managing front-line salespeople, it is not the sole element through which their managers and executives should structure the performance of any given selling individual. This is because contemporary best practices in Human Capital Management have dramatically evolved over the generations: acknowledging the holistic needs of salespeople is both a politically correct 21st-century necessity, as well as an approach with proven return on investment (ROI). Hence, while earning commissions and bonuses are naturally of the highest priority for B2B salespeople, a pat on the back is also valued. In Figure 2, we compare the current performance results of companies indicating that they have a formal initiative in place to recognize sales staffers, with companies that do not. In all three sales-quota-oriented metrics, as well as in customer retention rates, adopters of this best practice perform better than organizations without such initiatives in place.

Figure 2: Formal Recognition Translates into Better Results



Source: Aberdeen Group, November 2012

The Sales Performance Management Best-in-Class

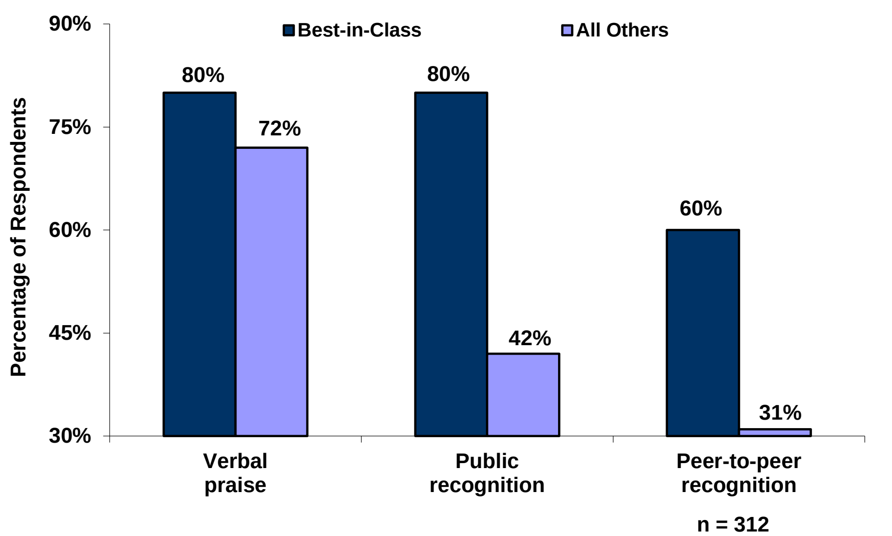
In November and December, 2012, Aberdeen surveyed 312 end-user sales organizations to understand their sales effectiveness best practices. The performance metrics used to define the Best-in-Class (top 20%), Industry Average (middle 50%), and Laggard (bottom 30%) among these sales teams are:

- √ 88% customer retention rate, vs. 78% among Industry Average and 14% for Laggard firms
- √ 12.3% average year-over-year increase in overall team attainment of sales quota, vs. a 1.0% increase for the Industry Average and a 5.8% decline among Laggard respondents
- √ 10.1% average year-over-year increase in the percentage of sales reps achieving quota, vs. a 1.2% decline for Industry Average and a 7.7% decline for Laggard respondents of (increase in) the cycle time among Laggard respondents
- √ 8.0% average year-over-year increase in average deal size or contract value, vs. a 0.8% increase for the Industry Average and a 1.5% decline among Laggard respondents

Tactical Guidance: Best-in-Class Deployment of Sales Incentives

With this research-proven validation of the value of employee recognition, let's now explore how the most successful sales organizations tactically deploy sales incentives. First, it is important to identify what sales contributor actions are most desired by the companies interested in rewarding them for certain activities. Among all survey respondents, the three most frequently cited sales results are all associated with traditional sales success: year-end sales totals (46%), quarterly sales achievements (35%), and ongoing progress against general individual sales goals (33%). When asked whether achieving non-sales related results such as certified training participation or subject matter expertise were of value, only 19% of companies indicated such "warmer, fuzzier" actions as worthy of non-cash incentivization. The lesson here is that while sales leaders have evolved into a "kinder, gentler" awareness of the need to recognize and support their sales reps in ways that transcend the paycheck, the desired results are still heavily focused on the traditional achievements associated with reaching or exceeding quota. The vast majority of survey respondents are for-profit enterprises that need to show demonstrable ROI on their individual contributors, the sales team as a whole, and all sales effectiveness initiatives designed to support "hitting the big number."

Figure 3: Best-in-Class Offer More Recognition for Progress Toward Goals



Source: Aberdeen Group, November 2012

With a clear understanding of the desired results, how do Best-in-Class companies motivate and incent their sellers? A close look at the research data is very enlightening, particularly when we analyze how each of the four desired behaviors ascribed above are promoted differently by top-performing companies. Looking at the different support mechanisms that non-cash initiatives involve in the context of the typical chronological sales cycle, we

Aberdeen's PACE Methodology

Aberdeen applies a methodology to benchmark research that evaluates the business Pressures, Actions, Capabilities, and Enablers (PACE) that indicate corporate behavior in specific business processes:

- √ Pressures — external forces that impact an organization's market position, competitiveness, or business operations.
- √ Actions — the strategic approaches that an organization takes in response to industry pressures.
- √ Capabilities — the business process competencies (process, organization, performance, and knowledge management) required to execute corporate strategy.
- √ Enablers — the key functionality of technology solutions required to support the organization's enabling business practices.

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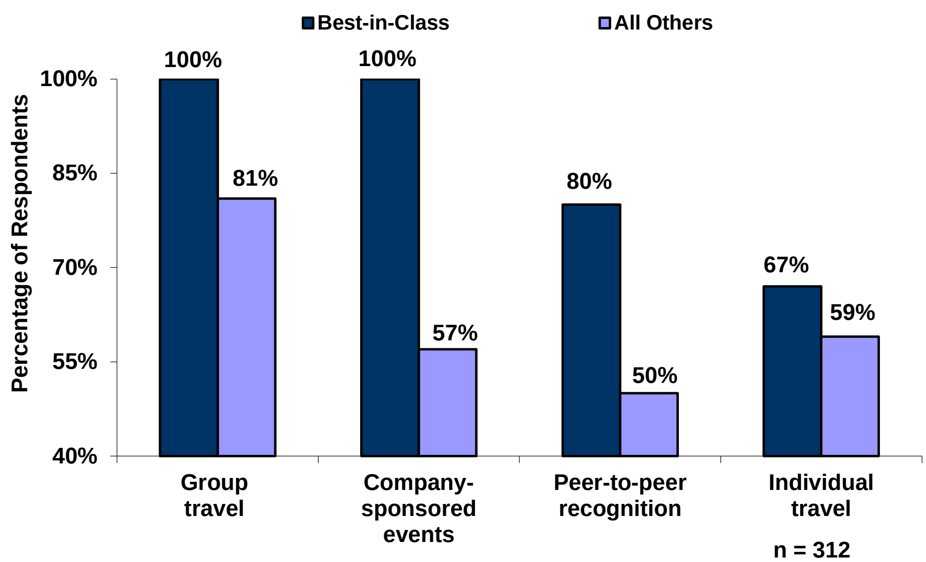
start by noting in Figure 3 that the strongest performers rely heavily on the recognition-oriented elements discussed above, when it comes to the real-time performance of sales reps. In other words, the more nebulous and less quantifiable tactics of verbal praise and public recognition are deployed more often by Best-in-Class companies than All Others, when it comes to the congratulations and call-outs that acknowledge random, isolated sales successes. These instances include a hard-won account win, a glowing customer reference, the first sale of a new product line or into new territory, or other scenarios in which a sales rep — or team — brings a positive one-off performance to light.

Fast Facts

- √ Best-in-Class companies average 105% total team attainment of quota, compared with 86% for Industry Average and 54% among Laggards
- √ Best-in-Class firms close an average of 29% of sales-accepted leads; the number drops to 24% and 19% among Industry Average and Laggards respectively
- √ The percentage of sales reps achieving quota grew by 8.8% among the Best-in-Class and 1.0% for Industry Average companies; Laggards report an average 2.1% decrease

Figure 4: Best-in-Class Offer More Year-End Sales Incentives



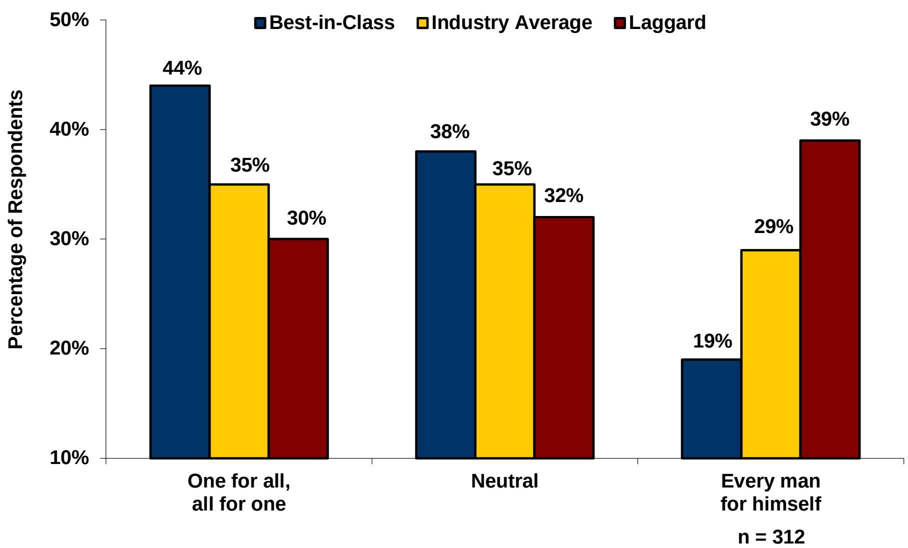
Source: Aberdeen Group, November 2012

The kind of non-cash incentives most frequently used to recognize year-end sales results, however, are significantly different from these "anywhere, any time" approaches. When individual contributors and groups meet or exceed sales quota, far more tangible victories are dangled in front of the sales team, and supported by public acknowledgement being earned. Summarized in Figure 4, these rewards are also deployed more aggressively by the Best-in-Class; fully 100% of these top performers offer President's Club or similar group travel perks and events.

The only intangible commonly deployed for year-end results is also the only non-cash element appearing in both Figures 3 and 4: peer-to-peer recognition, which can be a powerful tool in motivating a sense of teamwork and camaraderie among co-workers, even on the traditionally individualistic sales floor. But wait, the reader might ask — is teamwork truly relevant in the prototypical, dog-eat-dog sales environment? Figure 5 tells a very clear story: on a 1-5 scale, survey respondents were asked to indicate how important teamwork was to their overall company's sales success. The results? Best-in-

Class companies indicating that "getting along with others" was either very or extremely significant are represented strongly in the "One for all, all for one" section, while "very or extremely unimportant" responses on the right-hand side — "Every man for himself" — are favored far more often by under-performing firms. The takeaway here: the "lone wolf" mentality promoting totally selfish sales rep behavior needs to be modified, through incentives and motivation, to include a degree of communal efforts and rewards.

Figure 5: Does Teamwork Matter in Sales? Best-in-Class Confirmation



Source: Aberdeen Group, November 2012

Incentives and Recognition: Help is On the Way

Finally, how do sales executives and sales operations leaders institute these non-cash incentive and recognition initiatives? Typically, while the majority of companies report that they offer some form of non-financial programs, not all of these deployments are formalized, or scrutinized for ROI. One basic choice that organizations need to make is whether to outsource the management of these scenarios, or attempt to implement them on their own. In Table 1, we look at the performance, around a number of sales effectiveness metrics, of companies turning to external providers for non-cash incentive program management, compared with those organizations deploying internal resources to accomplish the same goals. These key performance indicators (KPIs) show that a wide variety of efficiency-oriented metrics favor the outsourcing of incentive management. Specifically, the lead conversion and lead closure rates speak to how effectively the sales team works with their counterparts in the marketing organization to source opportunities that are more likely to eventually close for revenue. Aberdeen research published in *Sales and Marketing Alignment: The New Power Couple* (December 2011) correlates better marketing and sales collaboration with stronger business results that include

Fast Facts

- √ The Best-in-Class report a 16% higher average sales quota than all other firms: $1.208M vs. $1.043M
- √ Best-in-Class companies raised average sales quota 13.7% since last year, vs. 8.1% among all others
- √ Best-in-Class firms are 15% more likely than Laggards (69% vs. 60%) to onboard / train sales staff specific to individual job roles

these two crucial metrics; incentivizing sales reps to evaluate and take action on their marketing-provided sales leads in a timely fashion helps contribute to such positive outcomes; external providers with more experience implementing these programs can more effectively help their customers execute on these tangible corporate efficiency results.

Table 1: Value Associated with External Management of Non-Cash Incentives

Sales Effectiveness Metric	Non-cash incentives externally managed	All Other Companies
Lead conversion or marketing-to-sales pass-through rate	30.4%	23.9%
Lead closure rate (sales-accepted lead to close)	24.9%	22.1%
Sales rep time-to-hire (open requisition to start date)	2.2 months	2.9 months
Sales rep time-to-productivity (start date to closing first typical deal)	4.2 months	4.8 months
Average sales cycle (from accepted lead to close)	4.2 months	5.3 months

Source: Aberdeen Group, November 2012

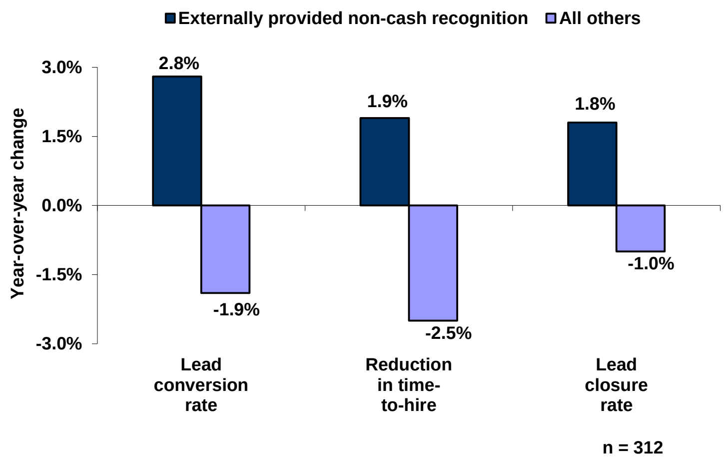
The other metrics in Table 1 deal with a precious commodity of time: companies that outsource their incentive operations are able to hire and train sales reps more quickly, and report average sales cycles that are 21% shorter (4.2 vs. 5.3 months) than other firms. Again, an incentive program that is well-informed by the experience of an external provider will have a better chance of attaining these efficiencies.

Finally, a close relation of sales incentives is the concept of sales recognition. Whereas incentive programs are generally revenue-neutral — sales reps typically generate enough incremental revenue to cover the cost of the goodies they receive, in a rules-based, do-this-get-that program — recognition programs are more about less predictable initiatives to publicly acclaim good deeds and/or strong performance. These deployments are not necessarily less formal, but involve after-the-fact acknowledgment of team or individual contributions, and are typically a line-item in the sales operations budget. Again, we see in Figure 6 that survey respondents turning to external expertise for recognition programs perform better on a year-over-year basis, around multiple sales KPIs, when compared to companies that do not.

Fast Facts

- √ What is the "ideal" amount of sales turnover? Best-in-Class firms report 9.7%; Industry Average 10.1%; Laggards 12.3%
- √ What is the average fully-loaded cost of sales rep? $152k among Best-in-Class organizations; $148k for Industry Average; $138k among Laggards
- √ Are Best-in-Class companies larger than others, and therefore more able to invest in SPM technologies? Actually, they are 18% smaller than Industry Average and Laggard firms, measured by revenue.

Figure 6: Outsourced Recognition Programs Yield Better Annualized Business Results

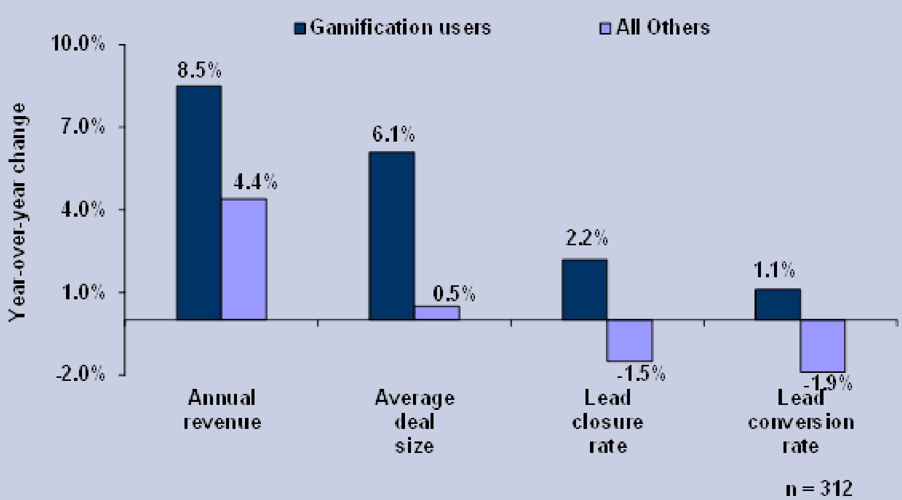


Source: Aberdeen Group, November 2012

Gamification: What's This All About?

No discussion of the best ways to motivate sales behavior would be complete without including the relatively new — to the enterprise, at least — concept of gamification. By definition, gamification is the use of game mechanics to motivate, modify, or reward distinct behaviors. In the context of Sales Effectiveness, it is typically deployed within both on-staff and channel sales teams to encourage both sales accomplishments — selling certain products or services during a promotion, for example — as well as non-sales activities such as learning, collaboration, or community service.

Figure 7: Annualized Metrics — Gamification Linked to Superior Performance



Source: Aberdeen Group, November 2012

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Gamification: What's This All About? *(cont.)*

While only 12% of survey respondents currently report an active gamification initiative, an additional 23% of them (31% among the Best-in-Class) indicate a plan to implement one within the next 12 months. Gamification is a natural fit for the sales function: it represents another dimension in which these naturally competitive team members can one-up each other. Among survey respondents indicating that game mechanics are indeed currently in play — no pun intended — we see in Figure 2 that a direct correlation between use of this enabler and positive sales results accrues.

Conclusion: Beyond the Steak Knives

The well-known prize for *Glengarry Glen Ross* second-place sales performance — steak knives — was meant to illustrate the assumption that only the top performer in timeshare sales was worthy of even keeping their job. Yet, the ironic takeaway from this parable in the modern era actually promotes the fact that the knives, the Rolex, and any additional non-cash rewards for sales performance actually do have value. It is less about the physical prize, though, and more about the fact that contemporary B2B sellers may primarily be motivated by money, but not entirely so. The use of non-financial incentives and recognition to help motivate and reward desired sales behavior is well-validated by Aberdeen's research, and most effectively deployed with the use of external services to implement them.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Motivate, Incent, Compensate, Enable: Sales Performance Management Best Practices; January 2013 *Train, Coach, Reinforce: Best Practices in Maximizing Sales Productivity*; October 2012 *Better Sales Forecasting Through Process and Technology: No Crystal Ball Required*; July 2012	*Lead-To-Win 2012: Managing People, Process and Technology to Optimize the Last Mile of the Sales Cycle;* March 2012 *Partner Relationship Management: Channeling Better Sales Results*; March 2012 *Sales and Marketing Alignment: The New Power Couple*; December 2011 *Leveraging the 360 Degree Customer View to Maximize Up-Sell and Cross-Sell Potential*; September 2011

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