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Salesforce Retention:

The Importance of Competencies & Incentives

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Success lies in a salesforce hired for its competencies.

Many sales organizations struggle with tighter-than-ever margins, fierce competition and the fact that their products' features and benefits are often readily available online. This kind of environment requires sales managers to attract and retain salespeople who can create a more value-added relationship with customers. In the authors' experience, the best way to attract and retain such a salesforce is through a competency-based hiring model combined with appropriate incentives.

This is more critical now than ever. Typically, ineffective commissioned salespeople tend to wash out and quit. In the past, management didn't worry much about attrition; it simply replaced the washouts with new hires. Today, however, many organizations cannot afford this laissez-faire approach. When trying to create a value-added relationship through sales, high turnover among salespeople can lead to disaster.

Predicting Future Behavior

Behavior-based interviewing has been shown repeatedly to have significantly higher predictive validity than other methods. (For a recent study, see the 2008 paper, "Predictive Validity of a Behavioral Event Interviewing Technique" by Gary C. Oliphant of Stetson University.) Based on the principle that past behavior is the best predictor of future behavior, behavioral interviewing allows an organization to dig underneath a candidate's résumé to understand not just where he/she worked, but how they work.

Behavioral interviewing is most effective when it focuses on three to four specific, past events that occurred relatively recently (e.g., in the last 18-24 months). At the heart of a behavioral event interview is the need to understand what the candidate did and, just as important, why he/she did it. It is a highly structured interview process, where the candidate is first asked

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to pinpoint an event in which they played a key role, often an event that involves a characteristic relevant to the job. (For example, a candidate may be asked, "Tell us about a time you worked toward a challenging goal or needed to convince someone of something.") Once the interviewer understands the high-level outline of the story, he/she must dive deep to probe key elements of the story, asking questions to elicit what the candidate did, said, thought and felt. It is this level of detail that elicits concrete evidence of behavior and thinking. By gathering this level of detail over multiple events, the interviewer will walk away with a very clear understanding of the candidate — and what he/she may do in the future.

The authors' company worked with one consumer-products company that was experiencing unwanted turnover among salespeople who needed to maintain relationships with customers to be successful. It tested a competency-based approach to selection, applying behavioral interviewing to one set of new hires and conventional hiring to another. The results were dramatic. (See Figure 1.)

Employers who hired based on competency demonstration during the interview delivered average sales nearly double compared with candidates hired based on conventional methods, such as previous experience, training and professional references. What's more, 6 percent of the competency-based hires were promoted to management, while none of the conventionally hired salespeople were promoted. And only 15 percent of the competency-based hires quit or were fired, compared to 41 percent of the conventional hires.

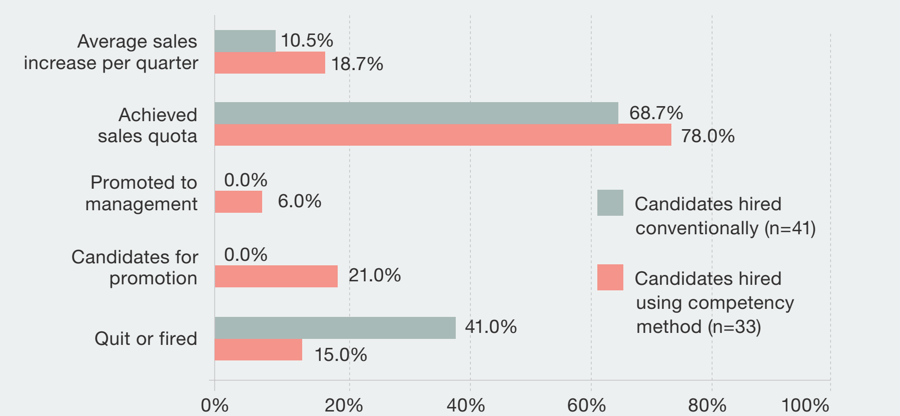
According to the authors' research and work with many of the world's leading organizations, sales professionals hired for their competencies add more value to their organizations. When a specialty pharmaceutical company began to think about how to market the first and only treatment for a rare medical condition, it quickly realized it needed a special kind of salesperson. Its product is an "orphan drug" used to treat people afflicted with a rare, life-threatening genetic condition that affects a small population of patients. With so few cases, selling the treatment requires becoming close to individual patients and their families, without becoming so close as to cross regulatory boundaries. Not all salespeople have the emotional resiliency for that. And not all salespeople can handle a large 10-state territory that requires extensive travel, or manage relations with infusion centers where the drug is administered. Once the unique competencies for the salespeople were identified and a pay and incentive structure was designed, an elite, low-turnover sales organization resulted — one that topped initial sales goals by more than 200 percent and continued to succeed year over year.

Significant Incentives

After the competencies are put into place, think about incentives that are significant enough to motivate the sales team. In the authors' experience, employers should not be afraid to pay in the 75th percentile or even the 90th percentile of market for highly effective sellers. Keep in mind that when the market is tight, star salespeople still have no trouble finding jobs. Since you've hired the best, why not reward them at or near the top of the market?

To ensure a return on this investment, it is important to understand what impact the role has, particularly as the salesperson interacts more with the customer. The more emphasis

Figure 1 | Compentency Method Produces Superior Hires



Source: Sibson Consulting

on building value with the customer, the more the consultative model comes into effect.

Consider a recent experience with a health-club chain. For the salespeople, it seemed like a straightforward proposition: A prospect would arrive for a tour of the facility, and was then sold a membership for which the salesperson earned a commission. But that's not where the salesperson added value. After all, in most cases the decision to buy had already been made. The person has shown up, and it's likely that the sale will close. The real — and overlooked — impact is how the membership is financed. If the customer chooses the option of writing a check every month, that's good, but a monthly credit card dip is better, and a direct debit better yet. The best sale, however, is where the buyer agrees to pay cash up front.

Problem was, management didn't understand the true nature of the sales role. Initially, they hired friendly, outgoing fitness fanatics, but failed to orient them to the selling opportunities. Consequently, sales were poor and turnover high. To remedy this, management took actions regarding staffing and the incentive plan.

First, they implemented a set of competencies by which to interview sales candidates. Traditionally, they had hired based primarily on achievement orientation. Salespeople with strong achievement orientation tend to focus on checking things off and moving to the next task. They also crave feedback and improving performance; they want to know how they are doing. Those who have this behavior tend to do well in a transactional sale environment. If one has to work a territory, qualify leads, demonstrate benefits and overcome objections, achievement orientation behaviors can be very successful. It is less successful when the method of purchase is almost as critical as the sale itself. In these situations, those with achievement orientation are more likely to become impatient and want to close the sale quickly. The company identified that successful sellers took the time to better understand the customer, and develop mutually beneficial solutions to financing the membership. Therefore, they added these behaviors into the competency profile.

Next, they established a compensation plan that reflected the desired sales goals. Under the new plan, cash-up-front sales earned representatives the biggest rewards, followed in descending order by direct debit memberships, credit card memberships and monthly checks. When management began to interview candidates based on the identified competencies, and then put into place an appropriate compensation plan, turnover decreased and cash-up-front sales increased.

Matching the role and impact is critical. Another example is a chain of car dealerships. Their most successful sales reps invested their time in "clienteling" — getting to know and anticipate client needs. Leadership recognized that it needed more of this. The challenge is that it takes time, and individuals with expertise in this area tend to take longer to ramp up. But the commission plan allotted only one month for training — not nearly enough time to gain self-sufficiency. When a person with just six months washed out and had to be replaced with a new hire, it cost each dealership around $171,000 per month.

Recognizing this was a significant cost. Management realized that part of the problem was that salespeople did not have patience to build the relationships over time. Those who were successful tended to exhibit more behaviors associated with affiliation versus achievement. Whereas, most salespeople would focus on selling the car to the person who showed up, successful ones called past customers: "Mr. Smith, your lease is coming up this year; if you come in today or tomorrow, I can get you into a new car for the same monthly cost as your lease. What do you think?" When management recognized that this was a different profile, it started looking for candidates who thought in terms of having a territory or book of business versus strong selling skills alone.

The incentive was also adjusted. Although 100 percent commission was maintained, leadership recognized that the ramp-up time was a problem. In the past, only the first month came with a salary, so most reps washed out because they could not make enough money to live on. Management needed the pressure that a commission brings to a salesforce, but also needed to ramp up salespeople who were better at thinking outside the dealership. As a result, management maintained the plan, but implemented salary support that reduced over time: 100 percent the first month, 80 percent the second month, etc.

Once the training, incentives and commissions were aligned, retention skyrocketed and margins improved.

Across all industries — from car sales to health-club memberships to pharmaceutical products — the stakes have never been so high. It's more important now than ever to attract and retain the right salespeople. When the competencies are in place and the incentives clear, sales talent will add value to the organization. ws

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