

How Right

Strategy suffers and execution fails when companies don't help salespeople manage the tension between serving the customer and serving the company. A holistic sales force control system can improve alignment and results.

Should the Customer Be?

by Erin Anderson
and Vincent Onyemah

Every one of your salespeople will tell you that the customer is king. Sometimes, they'll mean it, and that's usually a good thing. If you press them, your salespeople may even tell you that the district or regional manager is king, and that's not necessarily a bad thing either. The problems come when your salespeople aren't quite sure who their boss is. Their confusion could be a sign that your company's sales force controls—the various policies and practices that define the way you manage your sales team—are in conflict with one another.

In researching sales and sales force dynamics over two decades, we've found that this misalignment invariably creates problems in sales functions. As salespeople struggle to resolve or work around the conflicts within the system, the consequences mount—first affecting individuals, then spreading to the entire sales force, and eventually hobbling the whole organization. Over time, the sales force

Few firms should be turning over wholesale control of their salespeople to just the customer or just the sales manager. There needs to be a balance of power.

begins losing its best people. Turnover rates soar. One European multinational we studied had lost half its salespeople in its home market every year for five years. Even if a company isn't in such obviously dire straits, it may still be leaving a lot of money on the table.

Our statistical study of more than 2,500 salespeople working in 38 countries for 50 companies suggests there are significant, often overlooked, differences between management systems that encourage salespeople to put the customer first and those that encourage sales reps to put their district or regional managers first. In the following pages, we'll describe the potential fallout from conflicts within your sales force management system, and we'll explain how you can tell which kind of control system is appropriate for your company's strategy, competitive environment, capabilities, and time horizon.

A Tale of Two Cultures

The culture and effectiveness of any sales force are products of its management system: the rules that govern the way a company trains, monitors, supervises, motivates, and evaluates salespeople. The system signals, in a continuous and more-or-less automatic way, what management expects from its sales team. It conveys to salespeople which trade-offs the company would prefer them to make when the inevitable conflicts arise between what they want to do (spend lots of time and money to get a sale) and what they actually can do (utilize limited resources and still get the sale). The system also affects the way sales reps perceive business chal-

lenges, how they think and feel about their roles, how they go about their jobs, and what kinds of indicators they focus on.

All sales force management systems have eight basic components. Among these are the degree of management's intervention in daily sales activities, the types of compensation offered to salespeople, and the number and types of criteria managers use to evaluate salespeople's performance. (For a complete list, see the exhibit "Who's Calling the Shots?") The policies and practices that make up each component can be placed somewhere on a continuum between systems that encourage sales reps to put the customer first—what we call outcome control (OC) systems—and those that get them to put

the district or regional manager first—what we call behavior control (BC) systems. Companies that rely on OC systems focus on getting salespeople to deliver certain kinds of results and are essentially indifferent to how those results are obtained. By contrast, firms that rely on BC systems value *how* people make sales more than the number of sales they make.

OC systems: The customer is king. Companies with outcome control systems measure and reward results—the outcomes of sales reps' interactions with customers. These results can take many forms: sales, margins, contributions to profit, share of customer wallet, market share, sales of new products, repeat business, on-time collection of receivables, and so forth. Companies tend to emphasize and track only a few of these results. Firms with OC systems typically tie salespeople's compensation closely to two or three key metrics, and a substantial portion of each salesperson's compensation is determined by customers' behavior.

Salespeople at OC firms enjoy considerable autonomy and are expected to use it. The company sees them as entrepreneurs who craft and execute personal strategies to find and land their customers. The reps place more importance on pleasing their customers than on pleasing their managers. They will always take the customer's side in negotiating with the company because that relationship will always be more important for them. The employer is simply an income-producing entity, and, as a result, salespeople at OC firms are likely to switch to any employer who offers a more promising pay package and better products to sell.

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Who's Calling the Shots?

The policies and practices that make up a sales force control system can be categorized into eight components. These reflect the key questions senior management needs to ask about the way it conducts its sales business. How management answers can help determine whether it employs an outcome control system, a behavior control system, or some combination of the two.

System Component	Customers call the shots: Outcome Control	Managers call the shots: Behavior Control
1. Focus of performance criteria. Does management value how sales results are achieved (the effort expended) or simply the results themselves (the outcomes)?	Managers pay particular attention to bottom-line results.	Managers pay particular attention to the methods used to achieve outcomes.
2. Number of performance criteria. Does management judge salespeople using only two or three factors, or does it look at a dozen or more metrics?	Management evaluates a salesperson's performance according to a few observable metrics, primarily those controlled by the customer.	Management evaluates a salesperson's performance subjectively, using many criteria.
3. Degree of management intervention. Who makes the final decision on important issues related to sales assignments, the salesperson or the manager?	Managers offer relatively little supervision. Salespeople make final decisions.	Managers offer relatively heavy supervision and make final decisions.
4. Frequency of contact. Are interactions between salespeople and management easy to enact?	Managers and salespeople have little to no contact.	Managers and salespeople are frequently and extensively in contact.
5. Degree of management monitoring. Does management show serious interest in salespeople's call and activity reports, or are these just a bureaucratic requirement?	Management rarely monitors its sales staff.	Management constantly monitors its sales staff.
6. Amount of coaching offered. Does management suggest ways that salespeople can improve their selling skills and abilities?	Managers offer little to no coaching.	Managers offer frequent, heavy coaching.
7. Transparency of evaluation criteria. How objective, clear, and precise are evaluations at the company?	Evaluation criteria are very transparent.	Evaluation criteria are opaque.
8. Compensation scheme. Is the paycheck based largely on variable compensation triggered by outcomes? Or does it have a large salary component with a performance bonus driven by management's judgments?	A salesperson's compensation is mostly variable, keyed to customer-generated results.	A salesperson's compensation is mostly fixed, keyed to salary and management's evaluations.

Managers in OC systems are few and stretched thin, often because they are expected to generate their own sales as well as supervise. They often have minimal contact with their salespeople. In fact, they don't really manage their staffs in the traditional sense. Instead, they negotiate with their direct reports, seeking to convince them that what management wants is in the best interests of the sales team.

The culture in OC firms is competitive. When a sales rep makes a big sale, everyone knows it. Rewards are tangible – something the neighbors and mothers-in-law can see. This includes money, of course, but also trips, cars, merchandise, expense account lifestyles, and symbols of recognition such as plaques, trophies, or pictures in the company newsletter. Salespeople in these systems have no qualms about showing off their rewards because they know they may not always have them. If results fall off, they pay the price.

BC systems: The manager is king. Companies with BC systems evaluate and reward what salespeople bring to the job. Management measures what salespeople *actually* do – their efforts, activities, hours, expenses, and the like.

Your Sales Force Is Misaligned – Why Haven't You Noticed?

On the surface, inconsistent control systems can seem quite stable. That's because there are always people who not only survive but actually thrive in the inconsistent environment. These individuals' work experiences and sales results give them enough sense to use those parts of the system that work for them and ignore the components that don't. These people, over time, develop coping mechanisms and find opportunities in the contradictions in the system. Such salespeople aren't always homegrown; they may have honed their coping skills elsewhere. But what they may lack in political capital at the company, they make up for with some other asset—a deep Rolodex, for instance, or an industrywide reputation.

If a sales force has a lot of these people, and as long as they perform well enough to offset the nonperformers, an inconsistent control system can seem fine for quite a long time before the defects become apparent. It's usually not a sustainable situation, though. The stars will eventually retire, and as they approach retirement, they will slow down. Meanwhile, it's unlikely that the company will be able to hold on to enough of its most promising newcomers to replace the productivity of the senior salespeople. And recruiting the right kind of outsiders in any quantity will be impossible. When the situation does start to unravel, it will happen fast.

It measures what salespeople *can* do (theoretically, at least) – their knowledge, skills, competencies, and aptitudes. And it measures what salespeople *are* – their appearance, hygiene, education, age, and so on. Sales managers at BC firms also rely on a plethora of performance criteria, many of them subjective (How attractive is this salesperson?) or difficult to observe (How good are her closing abilities?). Indeed, the evaluation standards are often opaque, and the managers themselves may not be sure just how they apply them. The bulk of compensation in BC companies is fixed (capped salaries), and the variable component is tied to the attitudes, behaviors, and competencies that management prizes.

Because performance evaluations and compensation are inextricably linked in BC systems, sales managers' words of guidance aren't all that different from their explicit directives. Salespeople in BC firms are attentive to any and all management cues. They talk about what the company wants, expects, and rewards – and what it will want, expect, and reward in the future. It's clear that, at some level, somebody is worrying about the numbers. But in the here and now, salespeople focus on, demand, do, and become whatever they think their first-line supervisors will work into their performance evaluations.

While salespeople at BC firms care about tangible, visible acknowledgements, much of their motivation rests on intrinsic rewards such as feelings of achievement, personal growth, and self-worth derived from solving problems, and the satisfaction of offering good service. Factors such as collegiality, training, potential for promotion, and office perks matter to them. And while sales reps in BC systems take the customer's side to some extent, they readily understand that the company must capture its fair share of value.

Of course, the two control systems are at extremes, and many companies function quite well somewhere in the middle, where the power of the manager and the power of the customer are in some sort of balance. Indeed, this is where most sales forces should be. Few firms should be turning over wholesale control of their salespeople to just the customer or just the sales manager.

Maintaining the balance, however, is difficult because people have a natural tendency to work toward the extreme that suits them. Over time, a company's most experienced, successful salespeople will generally push for an outcome control orientation—especially for OC-style compensation. They deliver results, and they know these results will usually trump the sales manager's concerns in the eyes of that manager's own boss. For their part, sales managers have a natural tendency toward empire building and want more obedience from their salespeople, so they will naturally push for a behavior control system. They will probably insist that salespeople involve them more in the selling process, hand in reports on sales calls, and so forth.

Taken singly, each incremental change lobbied for and made will seem reasonable. Collectively, such changes can spell disaster. Empowering salespeople to go get results has its virtues. Likewise, limiting salespeople's autonomy offers advantages. But managers may not see that trying to do both at the same time doesn't work. Eventually, various components of the sales force management system start migrating to different extremes. A company may use many criteria to evaluate its salespeople (BC style) but may also offer minimal or no monitoring and coaching (OC style) – and the system as a whole loses consistency. Because it happens slowly, many organizations are oblivious that their control systems have become misaligned.

Salespeople have learned to live with it – or have quit. Managers have come to accept it and perhaps like it. (See the sidebar “Your Sales Force Is Misaligned—Why Haven't You Noticed?”) Bringing all the elements of a sales organization back into alignment can be politically and financially difficult. And since firms aren't aware of the results they *could* be getting, they don't realize that their inconsistent control systems are hurting their performance.

Gauging Your Consistency

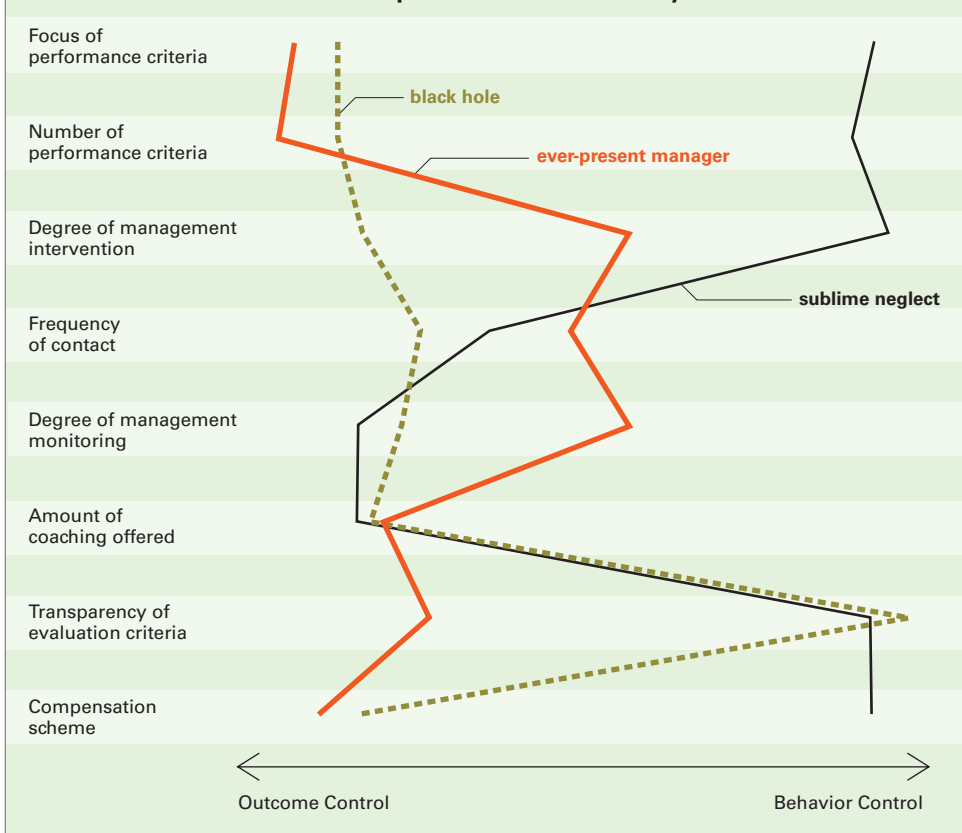
To get a sense of how consistent your sales management efforts are, it might be useful to render the system graphically. (See the exhibit “How Consistent Is Your Control System?”) For each of the system components, plot where your approach to sales force management falls on the outcome control–behavior control continuum. If your system is consistent, the points should fall roughly in a straight line. If your system isn't consistent, you will observe a pronounced zigzag design.

There are three common patterns of inconsistency. The most frequent type of mismatch is characterized by “the ever-present manager.” An example of this would be a company that generally uses an outcome control system – managers focus on a handful of important results when evaluating sales reps' performance and calibrate compensation accordingly – but that has interventionist managers (BC style), who have regular contact with salespeople and monitor the reps' activities intensely. Yet for all their interactions, the managers don't coach as much as a true behavior control system calls for. In this system, salespeople will resist management's interference and will try to focus on pay and bottom-line sales figures. Meanwhile, managers will try to correct salespeople's “excessive” focus on generating “unprofitable” orders, will complain that salespeople are uncooperative, and will struggle to redirect salespeople's attention to whatever the managers think should be done. We found just this situation at a company selling premium graphic services. Because the firm's clients differed

How Consistent Is Your Control System?

To find out where your company falls on the outcome control–behavior control continuum, consider each of the eight basic system components and indicate which camp you fall in (or closest) to. If you can plot a relatively straight line, your system is well balanced. If the line zigzags, you need to take a closer look at how your sales function works.

Common patterns of inconsistency



in size and needs, salespeople had to tailor their product pitches to each buyer and occasion. The reps were paid largely on commission and were evaluated on a handful of sales performance indicators, which encouraged them to do whatever they had to in order to make the sale. But they also had to contend with interventionist managers, who worked overtime to find out what the salespeople were doing and would frequently tell them to do something else. The friction this created sapped everyone's energy, to the customers' detriment. Fortunately, the firm's sales managers recognized the problem in time and made an effort to intervene less.

Another common mismatch, "sublime neglect," is characterized by a BC system that doesn't provide salespeople with sufficient coaching from and contact with management. Salespeople don't know what management thinks and how they should behave – and the customer is not

Many companies try to keep the paychecks in line with the hierarchy. This is dangerous.

empowered to fill the vacuum. At one company we studied, a health management firm, the sales management system's values, metrics, and evaluation were essentially about behavior control. But the managers who were supposed to coach and monitor salespeople were largely absent; they had their own selling responsibilities. So it was difficult for the sales reps to obtain the guidance they needed to work effectively. The company's frequent rotation of sales managers aggravated the problem: The salespeople constantly had to adapt to new and idiosyncratic demands from new chiefs. (Remember: If the boss is king, his whims must be taken seriously.)

The third common type of inconsistent system, "the black hole," is characterized by a fundamentally OC system with opaque evaluation methods. Salespeople feel like the organization is focused only on results; how those results translate into individual performance evaluations (and corresponding pay raises and other rewards) is a mystery. Salespeople in companies with these characteristics are cynical about a culture they consider arbitrary and political; high performers become frustrated and lose motivation. That was the case at a large bank in West Africa we studied. It employed close to 4,000 salespeople, who called on individual customers for deposits. The typical salesperson was a college graduate with little or no banking experience. In theory, a sales rep's performance was evaluated strictly in terms of the volume of deposits he or she obtained each month; each rep had to hit a set

target. In practice, however, many salespeople missed their targets yet kept their jobs. Some even got promoted ahead of superior performers. The salespeople sensed that evaluations were based on the branch manager's whims. The high performers felt unfairly treated, and many eventually left the company.

Which System Do You Need?

System consistency isn't the whole story. Your straight line also needs to be in the right place on the outcome control–behavior control continuum. The location will depend on your company's situation—the constraints it faces and the resources, strategy, internal culture, and time horizon it has. It will also depend on the environment in which you operate. Firms need to bow to local cultural and legal norms. Outcome control systems are much better received in some cultures (such as the United States, Canada, Argentina, Italy, southern Nigeria, or parts of India) than in others (such as Sweden, Japan, or Korea). A firm with global reach, therefore, should have multiple control systems for its various sales forces. That said, our study indicates there are general

situations that clearly call for an OC system and others that require a BC system.

When outcome control fits. As a general rule, outcome control fits when your salespeople have a substantial influence on results—that is, when their skills and efforts are the biggest determinant of sales. This is equivalent to saying that sales force elasticity is high (changing sales campaigns or salespeople would have a big effect on results). When sales reps make that big of a difference to the bottom line, it is worth it to give them autonomy and to pay them handsomely to do what they do. Specifically, OC is the right system in the following situations.

- *Customers need information.* When customers are solving a new problem or contemplating new solutions to existing problems, they need a great deal of information. They don't know what they don't know, but they realize their decisions have high stakes. Such customers will take their time, gather information, and process it. In this situation, a good salesperson slowly and invisibly frames the customer's thinking – and an OC system will ensure that the rep is putting forth his or her best effort.

- *The sale is open.* In some companies, certain sales transactions have an air of predictability or presale momentum. The firm with the biggest advertising budget or the lowest price usually takes a commanding lead over its rivals. But in many sales situations, it's hard to forecast who will win. That's when a good salesperson can sway decisions. As in the need-for-information scenario, an OC

system can inspire salespeople to work their hardest and think more creatively.

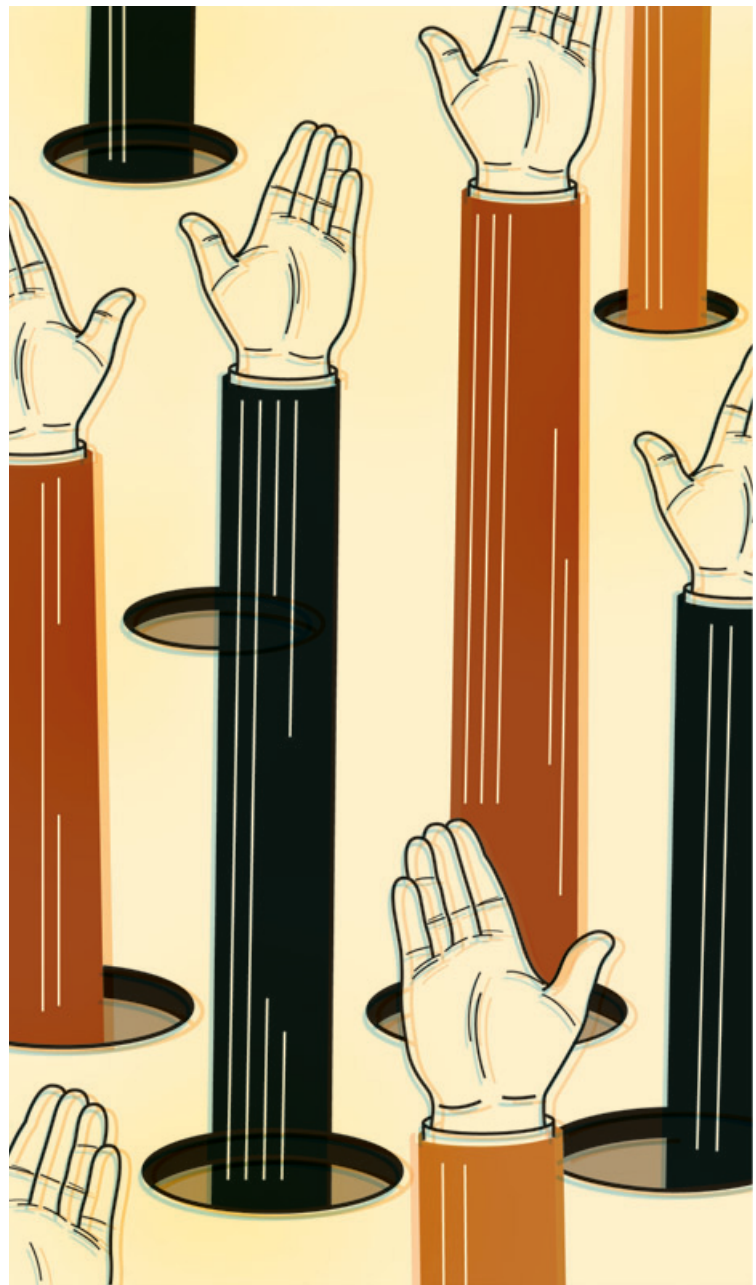
- *Customers trust the salesperson.* In some industries, customers can forge strong ties to a salesperson and will buy whatever he or she recommends. For instance, customers will let a great salesperson from an investment services firm frame their thinking. They trust “their” financial adviser. Such advisers are more likely to be working in an OC system than in a BC system.

- *There are many ways to close the deal.* An OC system works when you know that many different behaviors can be effective in generating results. In that case, why impose management’s favorites? OC also fits when you don’t know which behaviors work and which don’t. For instance, the insurance industry relies heavily on OC systems because it is dealing with both classic customer interactions (constant, cyclical demand for products like life insurance and car insurance) as well as niche sales situations (insurance plans for people with certain preexisting health conditions).

The OC firm must permit its salespeople to be independent, which can be difficult. One of us ran a meeting of sales managers in a would-be OC firm. For 20 minutes, it proved impossible to get down to business. Why? The managers wanted to complain about how disrespectfully their subordinates treated them. The comments from one salesperson about a manager’s ugly ties were bad enough, the managers said. But when one sales rep reminded everyone in a meeting that the top sales performer that year had earned more than the manager? Well, that was outrageous, the managers said. In truth, real OC firms wouldn’t consider such behavior outrageous. They would celebrate it—even if the top salesperson made more money than the CEO.

Many companies are like the one we advised: They try to keep the paychecks in line with the hierarchy. This is dangerous. If management in an OC system announces caps on income—or worse, imposes them after a sales campaign is under way—it will cost that company more in the long run than it will save. If your internal culture cannot accept that someone who is “just a salesperson” might be autonomous and wealthy (just like an entrepreneur), OC is not for you. This is a major reason why OC firms are less common in many national cultures, such as France and Germany, both of which place great importance on hierarchy.

Finally, for an OC system to work properly, you need an excellent accounting system. It should be timely (you



can't wait too long to pay people), accurate (you don't want to have to reissue paychecks), and appropriate (reflecting who is selling what to whom). Many firms simply cannot measure outputs well enough by themselves to operate an OC system; they have to invest in information systems that can do the work for them. An express-delivery firm we worked with spent millions to reconfigure its IT system, which could only track packages from warehouses to recipients. The new system tracks packages from senders—right down to the individual who made the delivery request—and links the information back to the salesperson who then targets that individual. Similarly, drug companies work with third parties, such as IMS

Health (a provider of market intelligence to the health care industry), to collect information on filled prescriptions from pharmacies. The drug companies then match the data to individual physicians (in the United States) or to physician groups (in Europe) and, further, to the salespeople who call on these doctors and medical groups.

When behavior control fits. In general, you need a BC system when your salespeople can't figure out what to do with their autonomy. Otherwise, customers' demands will drive your salespeople to errors that will rebound to your detriment. Specifically, BC systems are a good match in the following scenarios.

- *Your salespeople lack experience.* It takes both *savoir faire* (know how to do) and *savoir être* (know how to be) to master sales in the field. Without these aptitudes, inexperienced salespeople will flounder and take shortcuts, even some unethical ones. If they manage to survive at the company, they will retain the suboptimal habits that got them where they are. This is a major reason why the insurance industry is under regulatory pressure in many countries. Because of the field's reliance on outcome control and the inexperience of many sales teams due to high

turnover, many sales reps are selling the wrong products to the wrong people. Government demands for compliance are really calls for behavior control in an industry habituated to outcome control. Switching to a BC system, however, is not a complete solution. Junior salespeople who will initially thrive under a behavior control system will chafe as they gain experience. That's why many insurance companies run two sales forces in parallel—one OC, and one BC. Salespeople are funneled into the OC system only after they have proven themselves in the BC system. Interestingly, firms that have utilized these twin tracks have discovered that many salespeople never really want to leave the BC system and that many of the salespeople in the OC system voluntarily switch back to BC. By running parallel systems, firms can accommodate their sales reps' changing needs without losing talented, experienced people.

- *You need to protect your brand.* Many companies have a legitimate need to control how salespeople present their products or services. Your firm may have, or may be trying to build, high brand equity. Or it may be selling a product or a service that is dangerous if it's used incor-

What Price Are You Paying?

In many industries, a salesperson must call on a prospect at least four times to get that first order. The sales rep's efforts after the fifth call boost sales dramatically, but, eventually, the orders taper off. At that point, any extra effort the salesperson expends has little, if any, payoff. A smart (or well-managed) rep instead turns his attention to another goal. Each time the salesperson eyes a new target and investigates ways to approach the threshold for that target, he needs to muster his resources (time, energy, attention, and so on).

Here is where inconsistent control systems do their greatest harm: They send the message that too many things need the sales rep's attention. Lacking a sense of priorities, the salesperson dissipates her resources trying to meet too many goals. She does some of everything because everything is important. In the end, she never passes the threshold performance in whatever goal she's pursuing. Yet she's still expending resources, making investments that won't offer returns. After all, customers don't give salespeople partial credit for their good intentions and fragmented efforts.

In an inconsistent system, salespeople feel like there is no overall logic, no unified direction, to their efforts. They get worn down and worn out. For in-

stance, a salesperson, in an attempt to cover every base, might decide to play it safe and respond to every signal that emanates from management. Suppose that she were expected to make lots of sales calls and write detailed reports on each. She probably wouldn't be able to make enough calls to generate the sales expected of her, and she wouldn't be able to write very informative reports because she couldn't spend enough time per call. If she decided to respond to only some of management's cues, she would run the risk of choosing the wrong ones to follow.

In an inconsistent environment, morale gradually declines. Because the sales rep can't get a succinct message about what is expected of him, he experiences a gnawing sense of "I don't know how I'm doing, let alone what I'm doing." He is consumed by the feeling that there is no way to satisfy all the players—the company, the district manager, the customer. He becomes frustrated and unmotivated, which may lead to his withdrawal and lower performance. Sales managers in inconsistent systems may notice increasing use of unethical practices as their sales reps take shortcuts to deal with conflicting demands. Eventually, this dysfunctional dynamic is reflected in the bottom line: The company's sales expenses creep ahead of the competition's.

rectly. In either case, it is critical for your salespeople to present your product or service in excruciatingly correct detail. Misrepresentation, either by omission or commission, is unacceptable. This may be partly why pharmaceutical and chemical industries rely on BC systems to manage their sales forces.


• *You have high nonsales priorities.* Behavior control is the right choice when you want your salespeople to set high nonsales priorities, such as participating in new product development. While such efforts contribute indirectly to current sales and directly to future sales, an OC system—with its focus on the here and now—will encourage salespeople to neglect them. In general, the more you want your salespeople to act like your marketing or strategy people, the more you need to tweak their job descriptions, alleviating for them the burden of closing sales to create their paychecks. Behavior control systems are also better for firms that want to develop leaders and managers. Indeed, that's why we often see OC firms poaching people from BC firms: The OC companies don't have the right kind of system to grow good sales managers.

• *It's hard to assign sales credit.* BC systems impose fewer demands on accounting than OC systems do, and many firms use behavior controls simply because their sales records don't tell them how much each individual contributes, which makes it difficult to find a workable variable-pay formula. In situations like this, managers can avert endless disputes with their sales staffs by using behavior

controls. In some cases, the problem is not so much that a good pay package can't be designed; it's that no one can agree on what the appropriate drivers are.

People often find it easier to adapt to behavior control systems than to outcome control systems. That's because BC systems conform to people's natural instincts to create hierarchies—but they require far more overhead. Behavior control not only imposes salaries on salespeople but also requires a large number of powerful managers who, in turn, need a sensitive, thorough information system that tracks salespeople, their territories, and their competition. Without such a system, managers can't craft effective sales strategies and measure their results. BC only works when you know which behaviors to ask for and which behaviors to discourage.

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Ultimately, managing a sales force comes down to helping your salespeople align their priorities with the company's. The best sales force management system—customer is king, manager is king, or some balance of the two—is the one that fits your selling process, time horizon, mission, culture, and information systems. Weigh all the elements pulling you left (OC) or right (BC). In most cases, the best choice will be a consistent system that's somewhere in the middle. 

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"Personally, I can wait for the right kind of endorsement."

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