

# Data vs instinct

Perfecting global sales performance

A report from the Economist Intelligence Unit

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# Preface

*Perfecting global sales performance* explores how sales managers use data—or respond to the lack of it—in developing sales territories and incentive compensation plans. As the basis for the research for this paper, the Economist Intelligence Unit conducted a global survey of 229 executives to determine the key players responsible for sales plan development and approval, what sources of data are used in developing the plans and how successful incentive plans turn out to be. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. The author was David Coursey. Michael Singer edited the report and Mike Kenny was responsible for the layout. We would like to thank all of the executives who participated in the survey and interviews, including those who provided insight but did not wish to be identified, for their valuable time and guidance.

June 2012

## Interviewees

Kathleen M Mazzarella, executive vice-president and chief operating officer, Graybar

Kevin Surace, founder, chairman and chief executive officer, Serious Energy

# Executive summary

Getting sales territories and their associated incentive compensation plans perfect is a challenge even for the most seasoned of sales executives. This is primarily because there is rarely an unambiguously clear solution. Some of the information needed to make informed decisions may be difficult or even impossible for companies to assemble. Some executives might lack the right data, while others may not be using their data effectively. An enterprise that lacks comprehensive insights is likely to miss the equivalent of 5-10% of annual sales, according to Michael Dunne, an analyst with Gartner, a technology research firm. This is because of “lost opportunities that could have been captured through improved management of sales territories, quotas and compensation plans”, he says. As a result, key sales leaders typically employ a mixture of available data and intuition gained through previous experience

to guide their decisions. But do executives have adequate data to empower sales teams? By analysing a sampling of global sales strategies, this paper looks at how sales executives optimise their sales structures, territories and incentive plans. In December 2011, the Economist Intelligence Unit surveyed its proprietary global panel of senior decision-makers to investigate these trends through the prism of sales executives.

The principal findings of the survey and a series of interviews with senior experts are as follows:

- **Companies are paying sales teams for performance they are not receiving.** Managers often blame their problems on inadequately trained or motivated staff. But our respondents say that current planning mechanisms are not as effective as they could be, thus encouraging the wrong behaviour.

## Who took the survey?

The survey questioned 229 executives worldwide with knowledge of sales and/or marketing structure and resources. The respondents were based primarily in Asia (30%), North America (30%) and Western Europe (28%). Nearly six in ten (59%) respondents worked for organisations with global annual revenue of US\$500m or more,

and 16% hailed from organisations with global revenue of US\$10bn or more. Respondents represented a wide variety of industries, in particular financial services (18%), IT & technology (12%), manufacturing (10%), professional services (8%), and healthcare, pharmaceuticals and biotechnology (8%). ■

- **Six out of ten executives responsible for shaping sales territories say they rely more on data than instinct to drive decisions.**

Management experience, however, continues to play a significant role when data are incomplete or inaccurate.

- **Nearly one-half (48%) of incentive compensation plans do not achieve the desired results.** A significant number of respondents (38%) also say that their current incentive process “does not easily adapt to changing requirements”.

- **Senior sales executives rely more on current and historical data than on forecast data.** Nearly all (89%) respondents rely on current and historical data. However, a majority of executives (54%) say they rely either significantly or greatly on forecasts of market conditions to construct territory and incentive programmes. The best outcome is a combination of timely information, insightful predictions and support data. ■

# Introduction

If business is a form of warfare, salespeople are the corporation's foot soldiers, engaging customers and facing down competitors every business day. It is difficult to overstate the importance of ensuring that a company's sales team is in the right place at the right time. The sales teams also need to be in front of the right customer, with the proper motivation and information tools.

Organisations have been managing territories and compensation plans for decades—and should be experts at building them. Yet creating territory programmes and incentive compensation continue to present particularly complex challenges in an increasingly globalised market. Effective sales territories and incentive plans can be developed in many ways, reflecting a diversity of business needs and challenges. Our survey highlights the multiple factors that are often involved.

Nearly one-half (48%) of respondents report that their organisations' incentive compensation plans do not result in the desired behaviour. This suggests that executives have either missed the mark when building incentive programmes or have overestimated the abilities of their sales teams. Ineffectively designed sales territories may also be a factor contributing to this dissatisfaction. Some 42% of respondents identify an unequal distribution of sales opportunities as a challenge to their territory alignment. Indeed, every compensation scheme and territory structure ends up as a compromise. This balance typically exists between the number of people needed and the amount of resources available. It often works somewhat or well enough, but the compromise is rarely optimal for everyone involved. ■

## 1

## Creating ideal sales territories

Territories map how sales teams engage key clients and customers. Maximising the effectiveness of these territories essentially means supplying all sales reps with the right tools. This can be as simple as the amount of time to work their customer base at the level of contact necessary for optimal sales. However, not all territories are created equal. The complexities of territory planning make it hard for sales managers to assemble a complete strategy. Information may not be getting to the right decision-makers at the right time. Managers may not even be looking at critical data such as macroeconomic and geopolitical events, syndicated research about related products or industry association reports.

In our survey, 42% of respondents say the primary problem with their territory planning is “unequal opportunity distribution”. This perception of inequality may contribute to sales turnover or lacklustre performance. Respondents also report being burdened with a sales staff with unequal skill sets (34%) or challenges from the sales channel (32%) making it difficult for sales managers to optimise their territories.

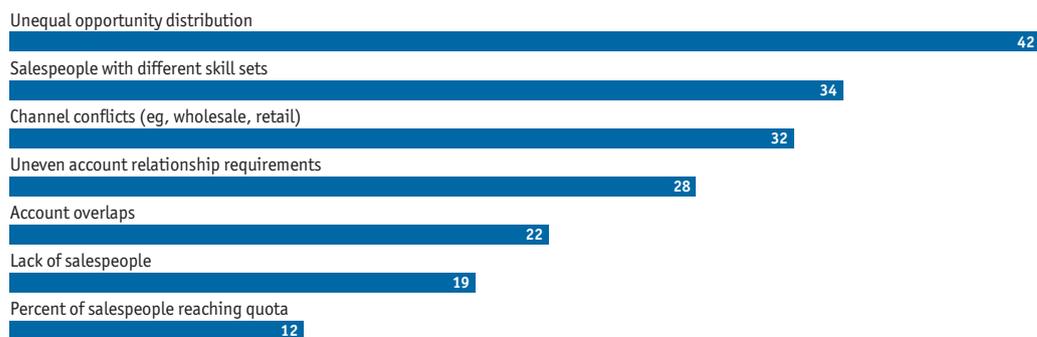
How might sales management maximise the performance of territories? When measuring the workload capacity of each salesperson, managers often employ historical sales tactics. Those recommended by Kellogg School of Management professors Andris A Zoltners and Sally E Lorimer



### Barriers to territory bliss

What are the key challenges with your current territory alignment?

Select the top two.  
(% respondents)



Source: Economist Intelligence Unit survey, December 2011.

suggest that managers should first deduct time for holidays, sickness, travel, lunches, company meetings, internal “overhead” and other time spent away from customers. Then managers should divide the remaining time by the time allocated per customer. The number of customers that can be adequately supported by the salesperson will then

become clear. Some salespeople will end up above or below this median number of accounts, but a significant deviation (+/- 20%) may be unacceptable. The result may be a loss of sales, because of a lack of time for some salespeople to handle their accounts. There is also time wasted by those salespeople with too few customers. ■

## 2

## Aligning incentive compensation

Getting incentive compensation “right” is a complex task. Nearly one-half (48%) of our survey respondents say that their current incentive plan is not achieving the desired result. Their organisations are paying for a programme that does not meet their needs. An additional 38% say their compensation programmes are inflexible and unable to keep up with changes in the market. Worse, the misuse of executive incentive compensation plans (EICPs) may be encouraging salespeople to undermine themselves. A Wharton management study similarly found that reliance on static financial incentives can lead to “unintended

consequences that sometimes defeat the very goals they are designed to achieve”.

Lack of visibility into current sales performance or compensation costs by sales management may have a negative influence on strategies aligning incentives and compensation. Some 28% of respondents identify a lack of visibility as an important obstacle. A recent study by the Massachusetts Institute of Technology’s Sloan School of Management supports this finding. The study found that worker productivity improved as much as 6% when managers used data in real time to make decisions.

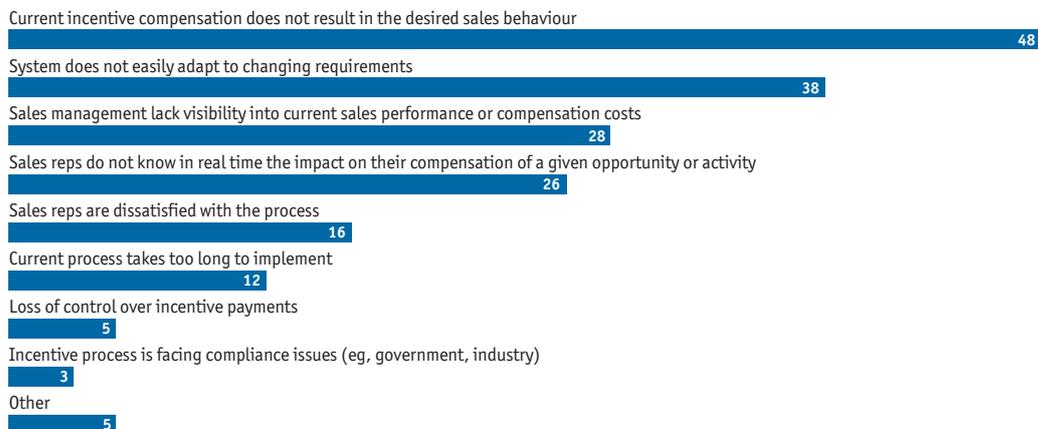


### Q Clogging incentives and compensations

#### What are the key challenges with your current incentive process?

Select the top two.

(% respondents)



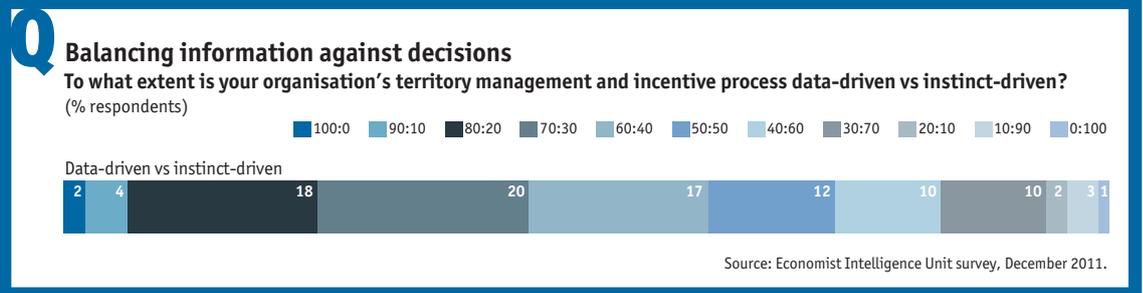
Source: Economist Intelligence Unit survey, December 2011.

Ill-considered changes in compensation plans can have a devastating impact on salesforce performance and morale. Companies often base too large a portion of compensation on sales-based incentives without considering sales data such as

forecast market conditions and competitive market intelligence. This can cause their top performers to become completely resistant to change, sometimes to the point of leaving the business. ■

## 3

## Data versus instinct



“If you base certain decisions solely on your own internal data, you may be missing important information that would affect the outcome of that decision.”

Kathleen Mazzarella, Graybar

Six in ten (61%) survey respondents report at least a 60:40 mix in favour of data over instinct when shaping sales territories and designing sales incentives. Such a mixture of data interpretation and sales management judgement could indicate that planning mechanisms are robust, but 38% of survey respondents note that their systems are not as effective as they could be. In addition, although organisations are awash in data these days, sales results may be hard to assemble from multiple sources. This can especially be difficult because the data are guarded and maintained by the salespeople themselves. Kathleen Mazzarella, executive vice-president and chief operating officer at Graybar, an electrical, communications and data networking products distributor, warns that companies considering themselves more than 60% “fact-based” may believe they are seeing a more comprehensive picture of their sales than is the case.

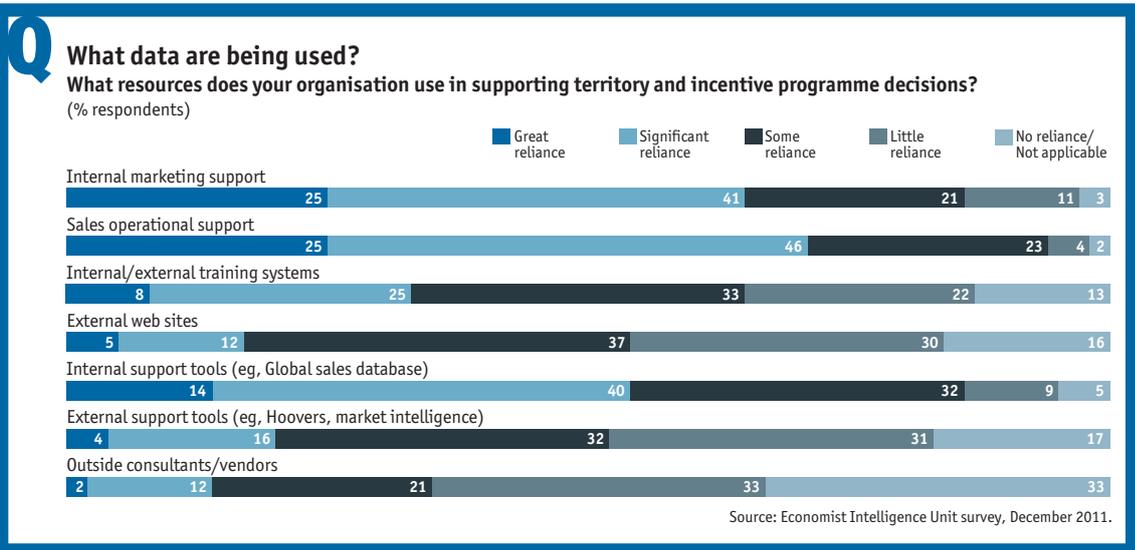
“Data can be misleading when they are incomplete or taken out of context,” says Ms Mazzarella. “For example, if you base certain decisions solely on your own internal data, you may be missing important information that would affect the outcome of that decision.”

Focusing on getting the right kind of data is therefore especially valuable. This is true when the full range of useful, and especially forward-looking, information such as syndicated data, market research, shipments and production plans are difficult to access or are completely unavailable.

While sales forecast methodologies are typically more scientific than a map and an educated guess, respondents remain unsure how to use their company's data to maximise productivity. A majority lean towards current or historical data to make decisions. According to our survey, current customer data are the overwhelming first choice as a data source when companies make territory and

“The facts, such as demographics and current customer concentration, should lay the path to success. However, most data are looking backward rather than forward and one cannot predict where a market, especially a new one, may go, regardless of the past.”

Kevin Surace, Serious Energy



incentive-planning decisions, with nearly eight in ten (77%) placing “great” or “significant” reliance on these data.

“Every company has tackled this issue, and to my surprise no one gets it right every time,” says Kevin Surace, founder, chairman and chief executive officer of Serious Energy, which develops

and manufactures green building materials. “The facts, such as demographics and current customer concentration, should lay the path to success. However, most data are looking backward rather than forward and one cannot predict where a market, especially a new one, may go, regardless of the past.”

**Case study:**

**Graybar: Preserving the long-term relationships amid territory realignment**

Graybar is an employee-owned company that distributes millions of electronics, communications and networking components across North America. Sales territories are managed among 240 distribution centres accounting for US\$4.6bn in annual revenue in 2010.

Long-term relationships are important to Graybar, which has been around since 1869. Tenure in territory can be a major predictor of sales performance. The longer a successful salesperson deals with the same customers, the better the salesperson is likely to perform against individual sales targets. This reflects the importance of personal relationships to the selling process. Territory changes create the risk—even the likelihood—of disrupting such relationships, and are handled with the utmost care and concern for the customers and salespeople involved. Ms Mazzarella stresses that Graybar is

careful to stay involved in the relationship when it needs to make changes in territory structure.

“Long-term relationships are important, particularly those that directly contribute to the long-term success of the business,” says Ms Mazzarella. “However, change is sometimes necessary, and it’s critical to minimise the disruption to customers when changes occur.”

The importance of relationship maintenance speaks for assigning teams of salespeople in any given territory and ensuring that, when possible, customers are exposed to more than one rep. To manage these relationships, Graybar taps into software tools that help salespeople to capture important information about its customers and share it among different sales reps even if personnel changes take place.

# 4 Informing sales executive decisions

Our survey confirms that the C-suite has the biggest influence over data-driven decisions. Sales executives may influence the territory-planning progress, but it is CEOs that hold sway over the final decision.

Companies that want to make sales performance more efficient need to supply their sales leaders, contributors and decision-makers with as much information as needed. It is therefore unsurprising

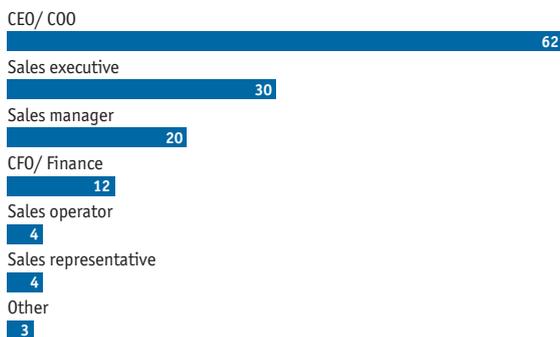
that respondents say they are using multiple sources of information to support their sales decisions. Sales managers to our survey identify internal marketing and sales operations support as their primary support. As much as 71% of respondents place great reliance on internal sources to identify sales opportunities, develop a consistent stream of new prospects and maintain customer contact information. ■



## Executive persuasion

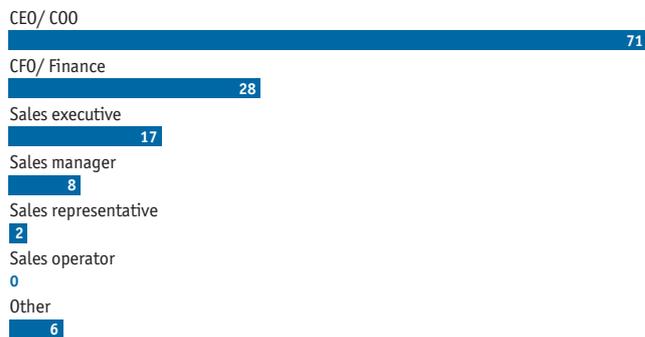
### Who are the key players in your current territory planning processes? —Territory planning: Final decision

Select all that apply.  
(% respondents)



### Who are the key players in your current incentive compensation processes? —Incentive compensation: Final decision

Select all that apply.  
(% respondents)



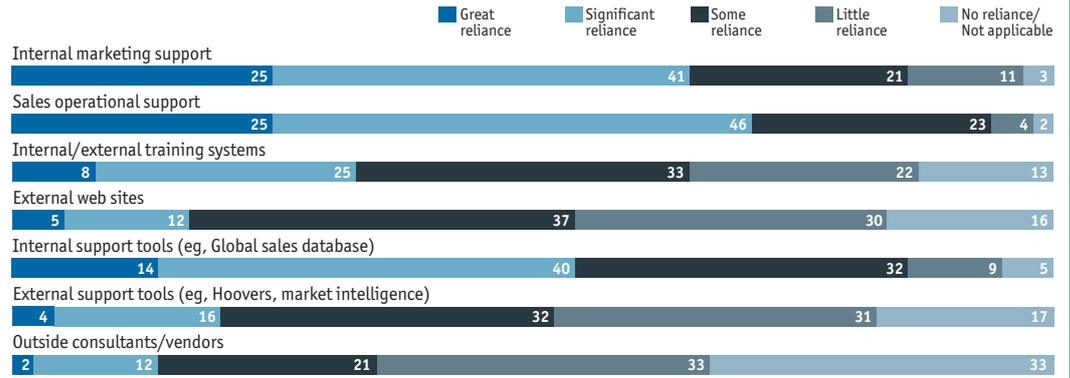
Source: Economist Intelligence Unit survey, December 2011.



### Supporting sales decisions

What resources does your organisation use in supporting territory and incentive programme decisions?

(% respondents)



Source: Economist Intelligence Unit survey, December 2011.

## 5

## Conclusion

Data are playing such a large role in how territory and incentive compensation plans are developed that it behooves companies to get a better handle on translating that data into actionable and effective plans. Data from multiple sources such as census information and zoning codes can help informed managers to create more accurate forecasts. However, simply giving managers access to data will not ensure that they make the best planning choices. A sales manager's greater acceptance of targeted and real-time data might provide some of the missing insight that previous sales experience or "gut instinct" cannot supply.

It is critical to co-ordinate sales territories and incentives to ensure that the right people are in the right places. As a result, some international businesses are continually refining their strategies for structuring sales teams' territories and resources based on changing market conditions.

However, changing territories and compensation plans without considering all possible sales data can disrupt sales results and employee retention.

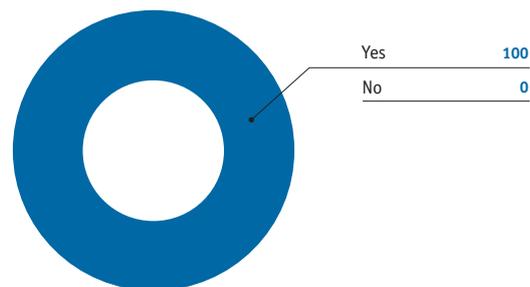
If executives are unhappy with their company's incentive compensation plans because they fail to produce the desired results, what is standing in the way? Most if not all of the key challenges to territory or sales incentives noted in the survey are difficult to overcome. The combination of market forces and the challenges of dealing with a human salesforce are sometimes irreconcilable in harmonising compensations.

However, even companies with ineffective territory and incentive plans could benefit substantially from the value of better and perhaps more data. The best outcome may be a combination of timely information, insightful predictions and support data. ■

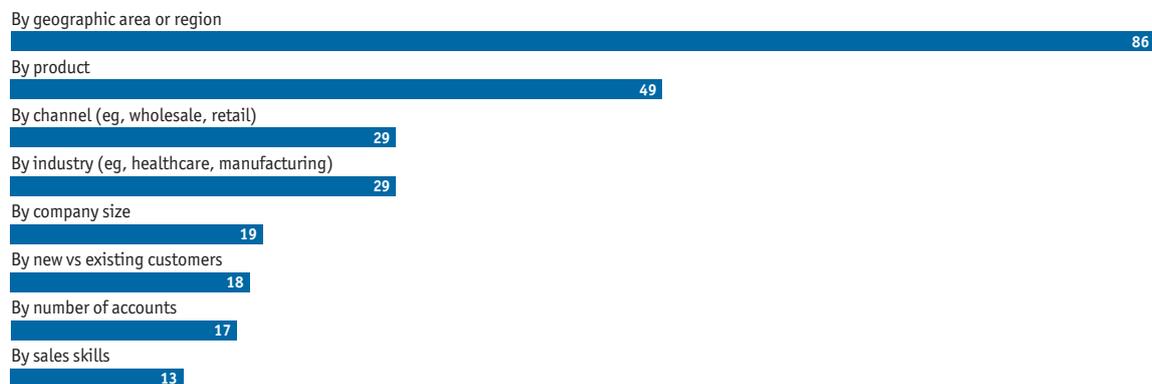
# Appendix: Survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

**Does your job function include knowledge of your organisation's sales and/or marketing structure and resources?**  
(% respondents)

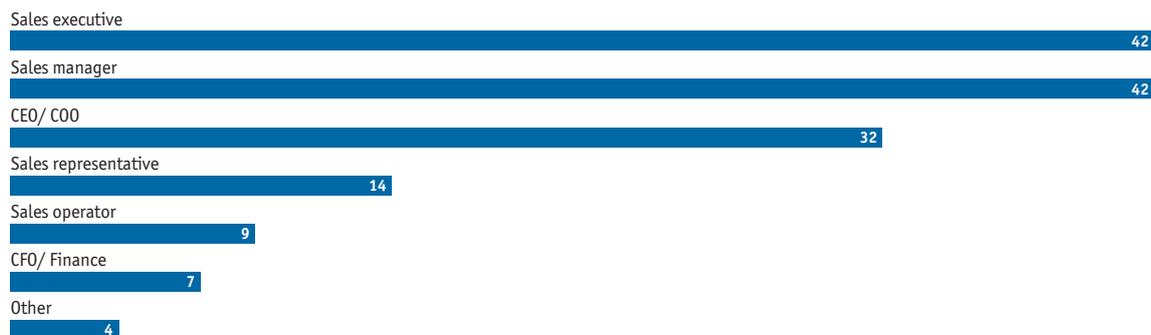


**How do you segment your markets to define your sales territories?**  
Select all that apply.  
(% respondents)



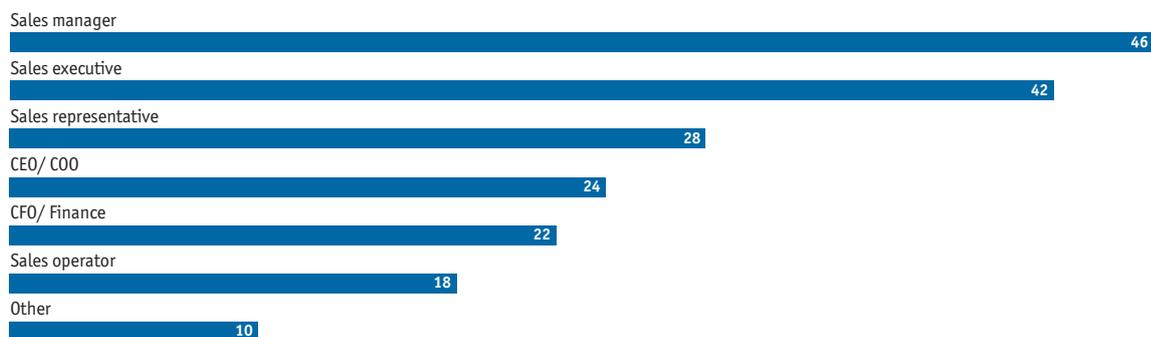
**Who are the key players in your current territory planning processes? —Territory planning: Lead**

Select all that apply.  
(% respondents)



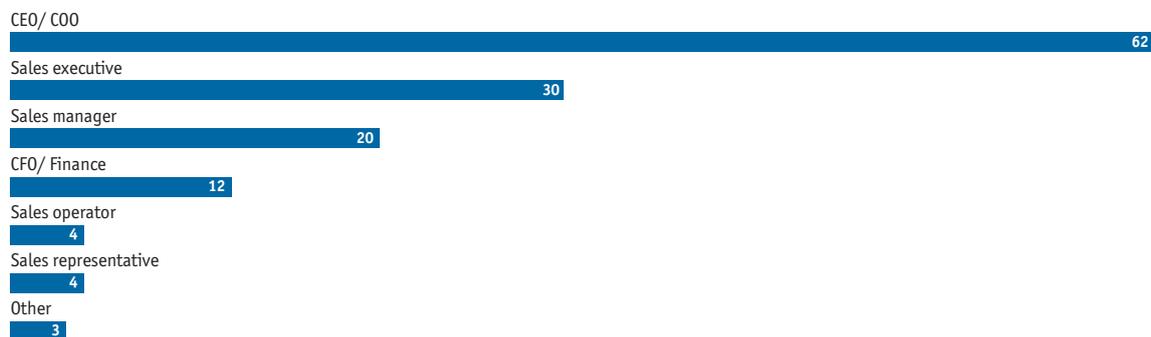
**Who are the key players in your current territory planning processes? —Territory planning: Significant contributor**

Select all that apply.  
(% respondents)



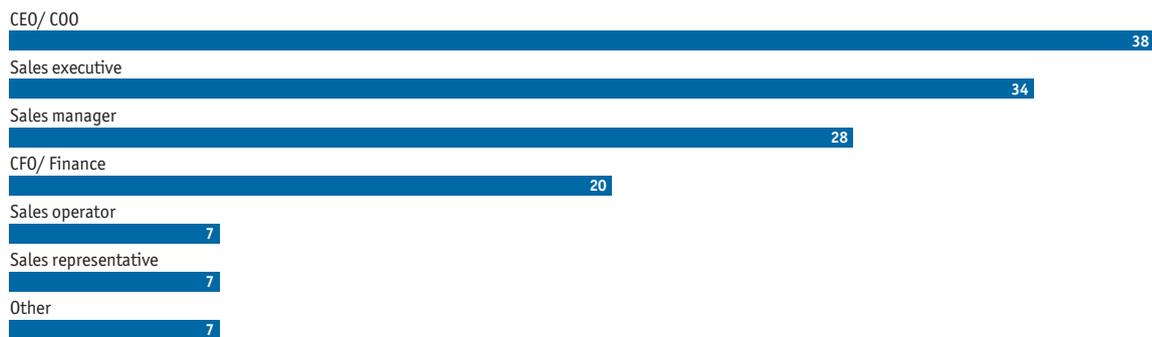
**Who are the key players in your current territory planning processes? —Territory planning: Final decision**

Select all that apply.  
(% respondents)



**Who are the key players in your current incentive compensation processes? —Incentive compensation: Lead**

Select all that apply.  
(% respondents)



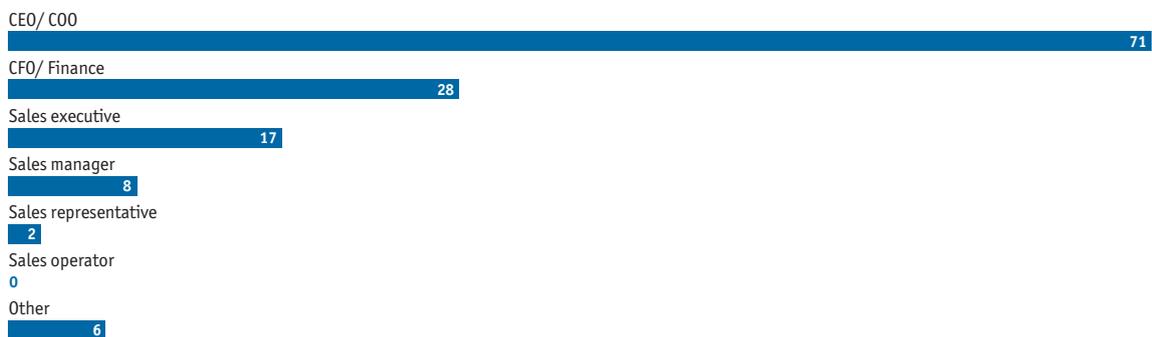
**Who are the key players in your current incentive compensation processes? —Incentive compensation: Significant contributor**

Select all that apply.  
(% respondents)



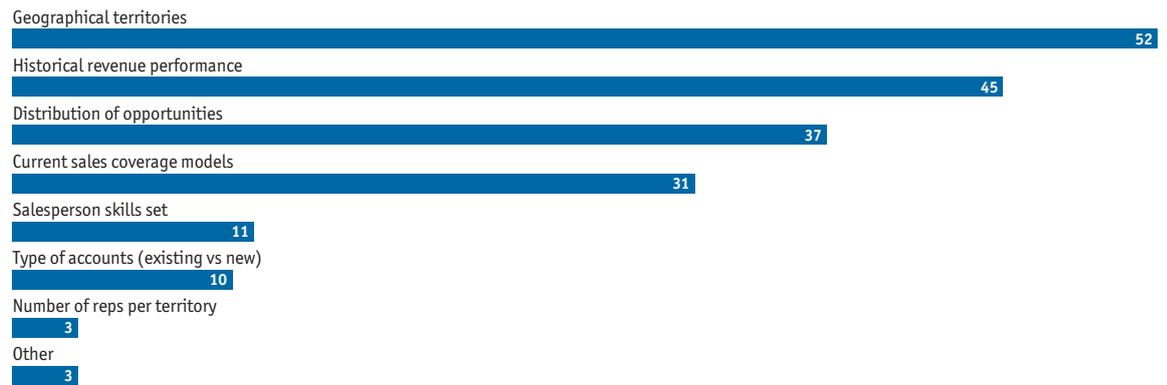
**Who are the key players in your current incentive compensation processes? —Incentive compensation: Final decision**

Select all that apply.  
(% respondents)

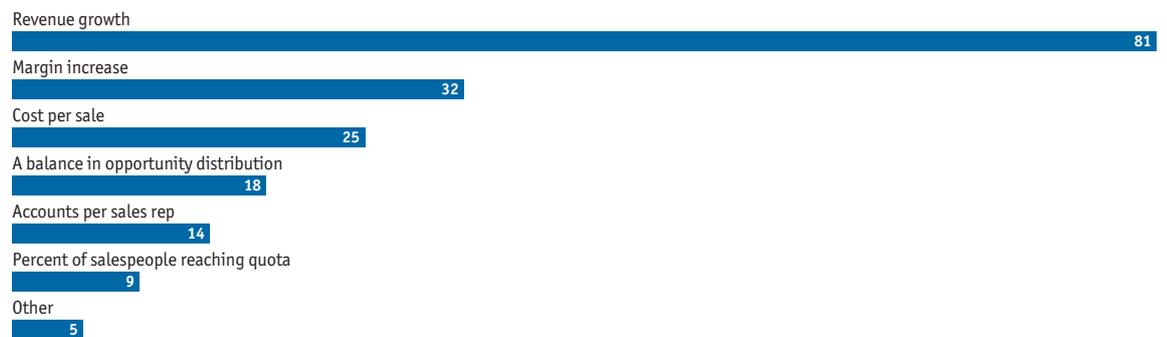


**What are the decision-making criteria guiding quota allocation?**

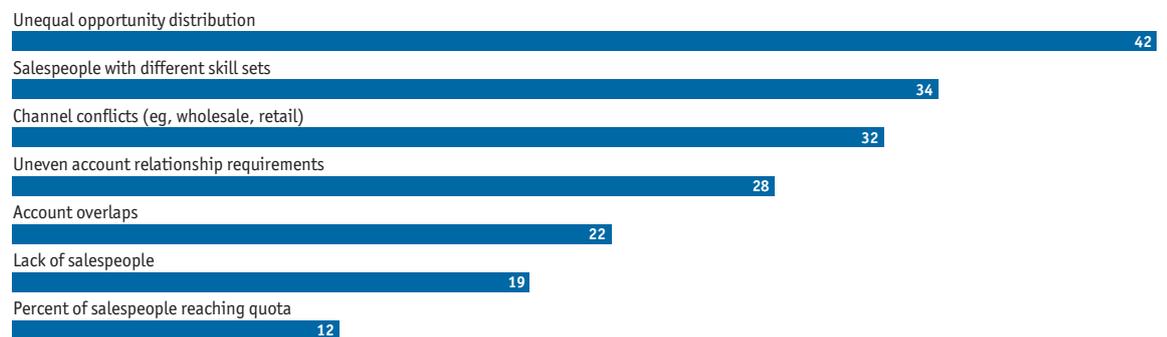
Select the top two.  
(% respondents)

**How does your organisation measure territory optimisation?**

Select the top two.  
(% respondents)

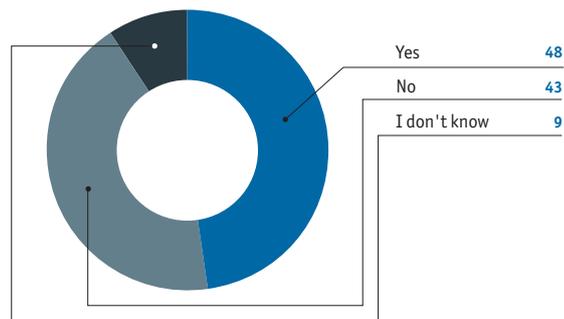
**What are the key challenges with your current territory alignment?**

Select the top two.  
(% respondents)



**Is your company conducting any experiments with its sales territory structure?**

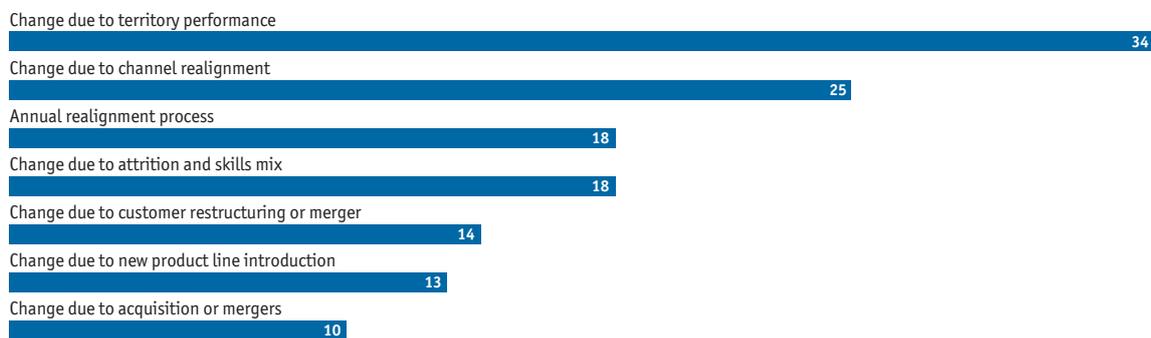
(% respondents)



**What would be the primary motivators for any changes in your organisation's territory structure?**

Select the top two.

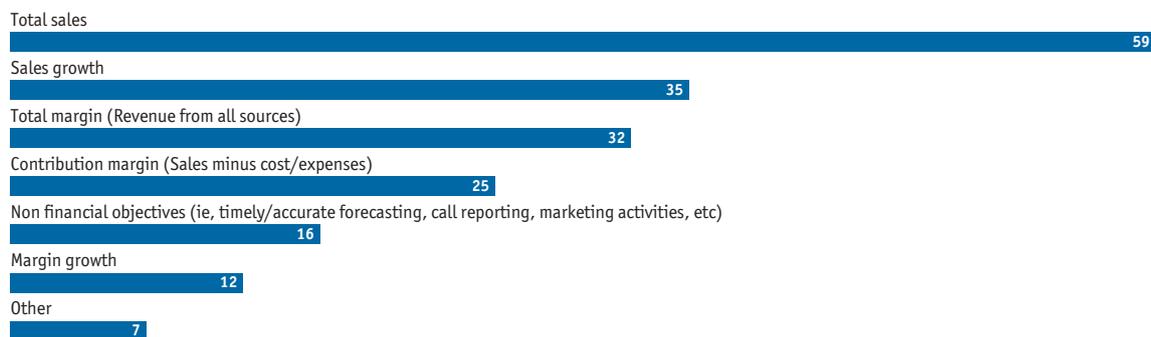
(% respondents)



**What is your incentive compensation plan based on?**

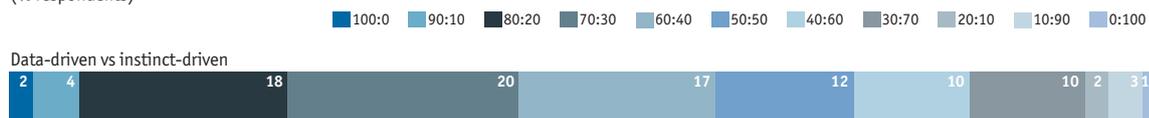
Select the top two.

(% respondents)



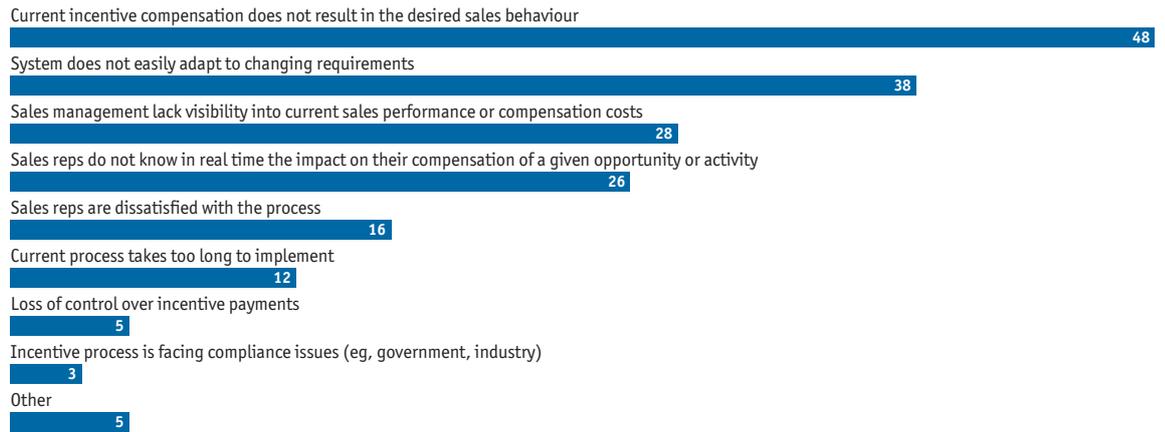
**To what extent is your organisation's territory management and incentive process data-driven vs instinct-driven?**

(% respondents)



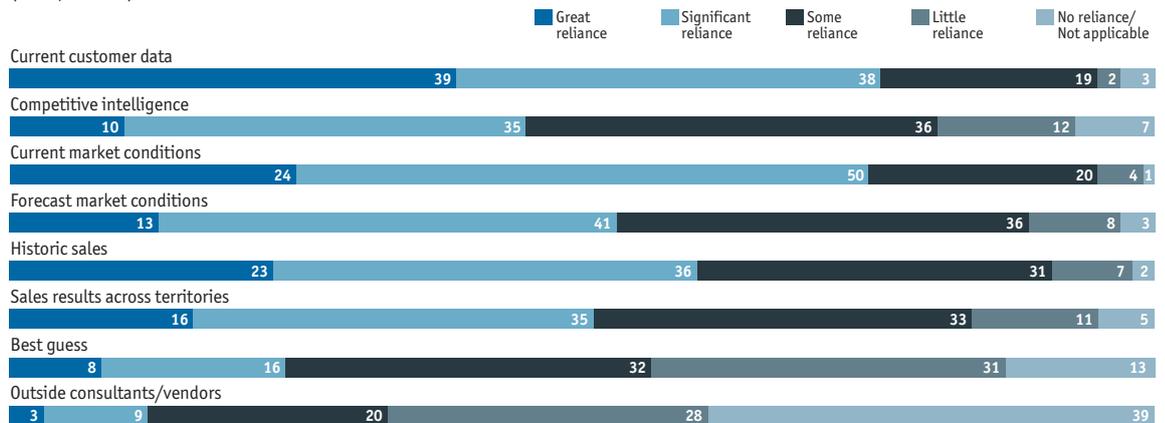
**What are the key challenges with your current incentive process?**

Select the top two.  
(% respondents)



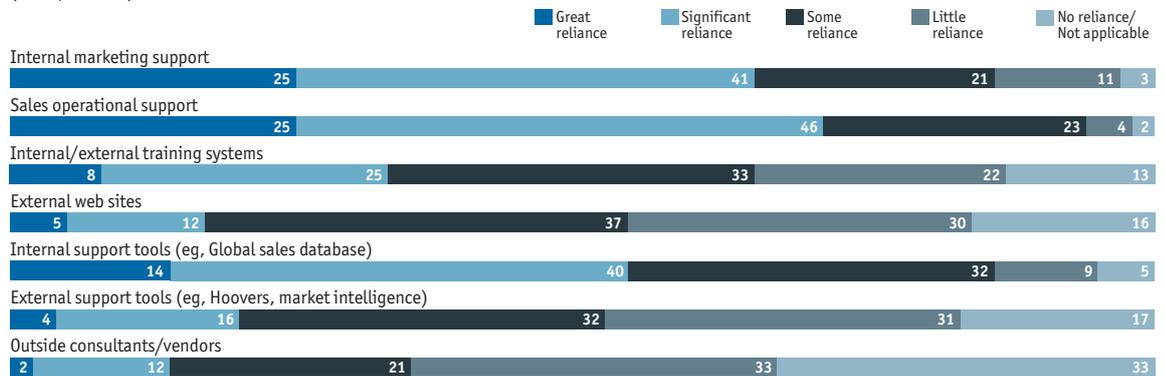
**What sources of information does your organisation use in making territory and incentive programme decisions?**

(% respondents)



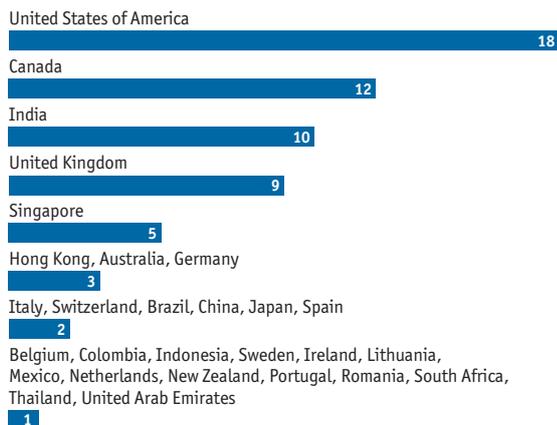
**What resources does your organisation use in supporting territory and incentive programme decisions?**

(% respondents)



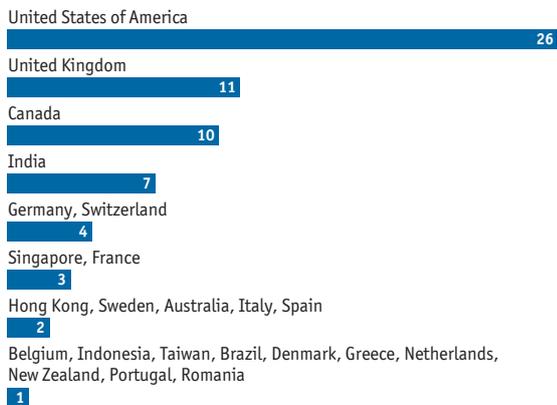
**In which country are you personally located?**

(% respondents)



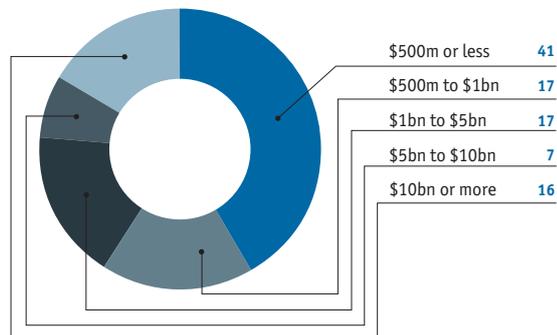
**In which country is your company headquarters located?**

(% respondents)



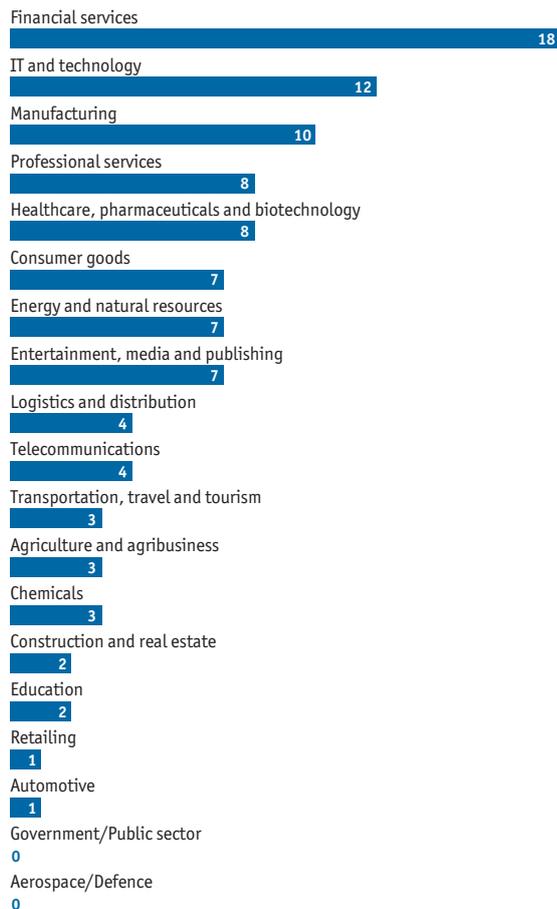
**What are your organisation's global annual revenues in US dollars?**

(% respondents)



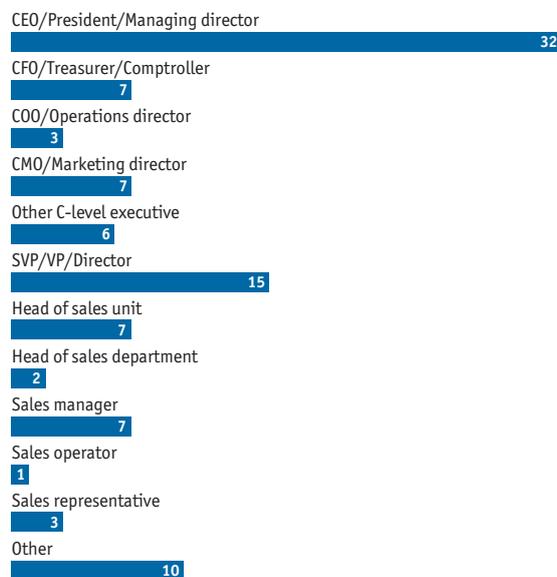
**What is your primary industry?**

(% respondents)



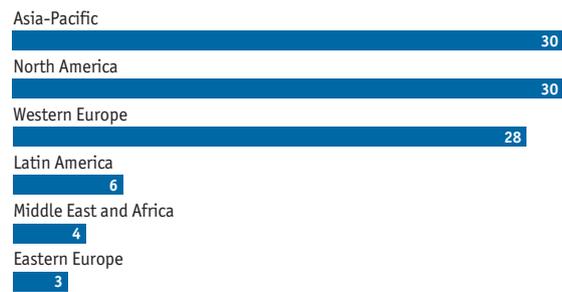
**Which of the following best describes your title?**

(% respondents)

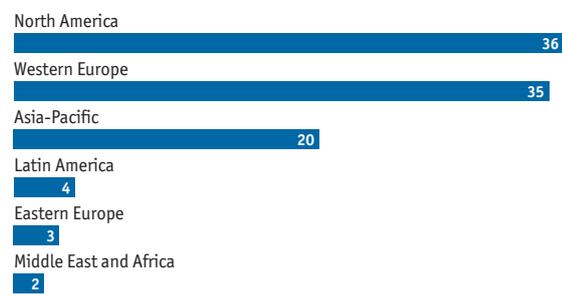


**In which region are you personally located?**

(% respondents)

**In which region is your company headquarters located?**

(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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