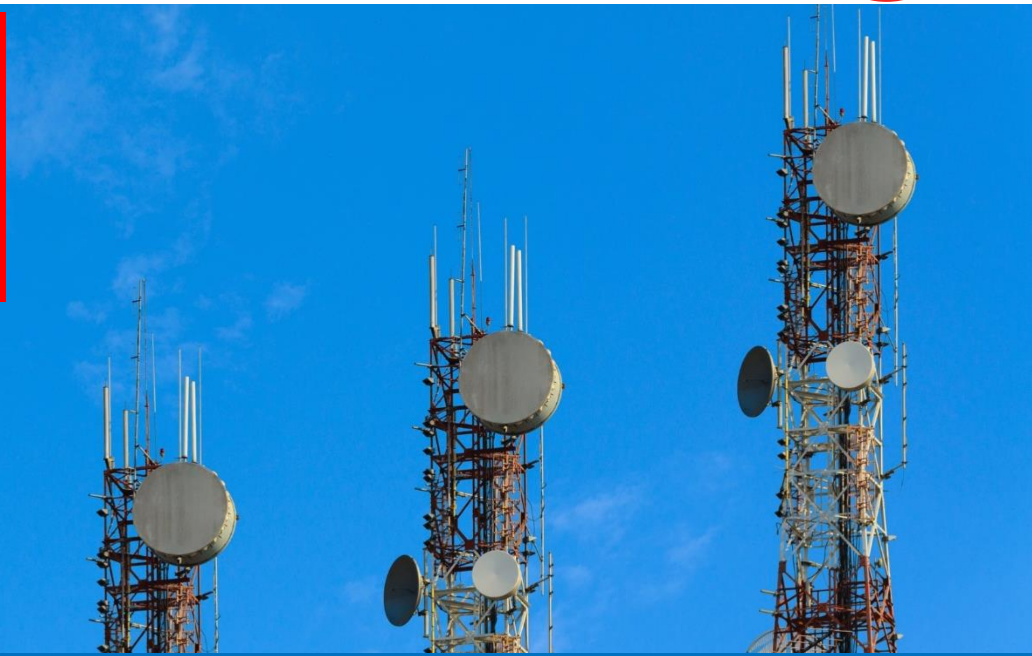
Sales Performance Management *Challenges in Telecom*



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Executive Summary

Sales leaders in the telecom industry face unique sales performance management (SPM) challenges, including shifting sales roles, pay competitiveness, and selecting the right performance measures.

Challenge One: The evolution of the industry has shifted sales roles.

The telecom industry itself has shifted over the last generation, away from being utility providers -- traditional voice services or plain old telephone service (POTS) -- to providers of a range of communications and technology services. As the communications demands of residential and business markets have expanded, the industry has had to evolve, becoming more sophisticated in its offers and sales strategies. Telecom companies now offer a range of services such as voice, data, video, home security, wireless, and managed services, among others. The evolution of the

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industry has mandated an evolution of the type of sales resource, from a utility-type role to a sophisticated high tech role. With such a large product range, sales leaders are challenged with how they define roles and how they hire and retain the right talent.

Solution: Telecom organizations have had to re-build their sales infrastructures to align with a new world. Sales organizations have realigned around markets (e.g., consumer, small business, enterprise, interconnect, and verticals within those) and have had to shed their product-specific structures to provide a seamless portfolio of services to each segment. Roles have also expanded to specialized sales roles (acquisition, account management, renewal, win-back) and sales support roles (systems engineers, customer care) increasing the complexity of the customer engagement model and sales performance management.

Challenge Two: Telecom must keep pay mix competitive.

Telecom now competes with high tech software industries for sales talent. Because of high tech software's larger profit margins, they can pay more in total target compensation and offer more upside potential. Telecom may not have the same margins, but these companies have to create incentive plans that attract and retain top talent, as well as motivate the correct behaviors. Telecom companies can have good upside depending on the profitability of the business, but not the same as high tech. Telecom might pay 150%-200% in upside, but software can pay 300%.

Solution: Telecom may not have the glamour of high tech, but it has its own unique qualities it must identify, company by

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company, and offer to the market. To the extent that talent pools overlap with the technology industry, telecom should consider building a more innovative and competitive package, including strengthening their broader employee value proposition beyond incentive pay in areas like job content, career path, intangible rewards, and other long term incentives.

Challenge Three: Performance measures must match the shifting sales strategies.

Companies question whether to pay for total billed revenue (TBR -- the entire base of business including the growth) or net billed revenue (NBR -- new revenue on top of what the company already has). The TBR versus NBR debate has been going on for several years. Another major measurement factor is managing churn. Telecom is a continuous-flow business, unlike an industry such as manufacturing, which can be episodic and sporadic. Telecom companies shoot for 90%-plus retention rates. To manage churn, telecom companies have big win-back groups. When customers try to cancel a telecom service, the win-back groups make it difficult. As the industry evolves and telecom companies offer more products and services, sales organizations are challenged with the mix of products they mandate the reps to sell. Most telecom services companies now bundle three services: voice, data, and video. Many now also offer home security. Sales leaders want their reps to sell a bundle of those 3-4 offers, but forcing that bundle into the performance measures creates behaviors that are not customer-centric. Reps find themselves forcing a "triple play" onto customers who just want one or two products. This product mix also adds complexity to the sales incentive plans. Sales organizations get into elaborate mechanics, for example point systems, to try and motivate and manage all the service bundles they have. (This is mostly at the consumer/small business end.) Telecom companies selling to large companies often add network management to their services offerings. Telecom companies selling to very large companies also can add wholesale services to their offer (selling their network access to other providers). These offers raise other challenges, including a long sales cycle.

Solution: With a range of possible performance measures in often very complex businesses, the organization should start with understanding its own revenue model and the behaviors it's trying to drive. For example, roles should be aligned to the revenue flows that comprise the sales strategy. This will provide the foundation for the sales compensation program. Despite the complexity of product lines and pricing packages in telecom, the company must decide which top three measures it will pay for and which can be managed by sales leadership to minimize plan complexity and increase the impact of pay.

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