White Paper

Sales Performance Management challenges in the financial services industry

Watson Financial Services

IBM

SalesGlobe is a leading sales innovation firm that helps Global 1000 organizations grow profitably by developing and implementing strategies to improve sales effectiveness. Using Sales Design ThinkingSM, SalesGlobe develops differentiated solutions that help clients solve their biggest sales challenges. Areas of focus include sales strategy, performance management, incentive compensation, sales organization design and deployment, sales process innovation, go-to-market, customer segmentation, and channel strategy.

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Executive summary

Sales leaders in the financial services industry face unique sales performance management (SPM) challenges, including establishing individual commission rates, setting quotas, and paying equitable upside.

Challenge One: Incentivizing in unlevel playing fields

One of the biggest challenges sales organizations in the financial services industry face is matching compensation among the team in a selling environment where territory size and opportunity can be drastically different.

For example, imagine Joe and Sam are on the same sales team, and both have a target incentive of $100,000. While Joe's territory carries a $10M quota, Sam's territory has half the opportunity and therefore only carries a $5M quota. Rate-based plans won't work here because of the wide variability in the size of the books of business. Instead, a quota-based approach with individual commission rates (ICR) will "level the paying field" as it balances overall payouts at plan with the overall opportunity.

The calculation for ICR is target incentive divided by quota; for every 1% of performance, Joe and Sam will earn 1% of their target incentive. The rates for Joe and Sam will be drastically different because of the difference in their territories. Sam's ICR is 2%, and Joe's is 1%. At plan, however, both will get to their target incentive of $100,000. While Joe has a much bigger quota, the opportunity in this territory should also be greater.

Solution: Incentive compensation plans for financial services sales people are often based on individual commission rates. Avoid using a rate-based commission plan, where rates are typically the same across the team, because rate-based plans will magnify unlevel playing fields, rather than create an objective baseline. Use individual commission rates, instead, to balance earning opportunity and sales potential.

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Challenge Two: Setting quotas

Sales people in large financial services institutions tend to carry a large book of business, bring in large amounts of revenue, and are paid large amounts of incentive compensation. Because the books of business tend to be fairly high in revenue already, setting quotas for these sales people becomes difficult.

How can leaders determine reasonable expectations for not just maintaining the book of business but for growing it? Considering the huge incentive pay packages sales people in this industry receive, merely maintaining the business is not satisfactory. Sales people need to be paid for growing the business. And quotas, typically, should be considered a challenge for the sales person, with only 50% - 70% of the organization at or above their quota in a given year.

Solution: Setting quotas is a function of understanding what you want to pay for (for example, revenue, margin, or renewals) and making sure that behavior is linked to the overall strategy. Secondly, understand the data. Once you know what you want to pay for, align that part of the business with the annual operating plan. Then, identify whether you want to pay for growth or retention, depending on the business.

Sales leaders should recognize new business and growth differently than their retention business, and sales people should be paid differently for retained business vs. growth. Definitions of growth should be carefully outlined: new products in an existing account, new buyers within the existing account, or new logos, for example.

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Challenge Three: Paying equitable upside

The financial services industry, more so than many other industries, has a predominance of large salaries and large incentive payouts. Compensation expectations are high. (High tech was always known as an industry where sales people could earn a lot of money, but it pales in comparison to what people can earn in financial services.)

Management justifies large incentive packages by saying the sale is more complex. Also, management teams often feel if their best sales people aren’t motivated to sell for their company, they’ll leave for a competitor who will pay the high incentive amount and take the business with them. Deals in financial services are relationship driven, which means clients are more inclined to move with a sales person if he or she decides to leave the company. Talent retention, then, becomes just as much about keeping good sales people as it is about retaining clients (non-competes being famously hard to enforce).

Solution: Ensure you’re paying your top performers top dollar. Ironically, this begins by looking at what you’re paying your lowest performers. Many organizations overpay their underperformers, paying out incentives for minimal performance that should be covered by base pay. Consider shifting some of the dollars for lower levels of performance using mechanics like thresholds, ramps, and gates to fund your upside. Then, understand what top performance looks like: it should be the top 10% of your sales team. Create a plan that has an attractive upside (200%-300% of target incentive) for those top performers.

About IBM Watson Financial Services

IBM works with organizations across the financial services industry to use IBM Cloud, cognitive, big data, RegTech and blockchain technology to address their business challenges. IBM Watson Financial Services merges the cognitive capabilities of Watson and the expertise of Promontory Financial Group to help risk and compliance professionals make better-informed decisions in managing risk and compliance processes.

IBM SPM solutions portfolio includes capabilities and features for customers to plan, manage, and analyze sales performance leveraging the IBM Planning Analytics (i.e. IBM PA), IBM Sales Performance Management/Incentive Compensation Management (i.e. IBM SPM/ICM), and advanced analytics. IBM customers are enabled to make informed and optimized decisions throughout the sales lifecycle by leveraging a comprehensive SPM solution.

For more information

To learn more about IBM SPM, please contact your IBM representative or visit ibm.biz/IBM_SPM

About SalesGlobe

SalesGlobe is a leading sales innovation firm that works with Fortune 1000 companies focusing on sales innovation, sales strategy, and sales performance management challenges. Contact SalesGlobe at www.SalesGlobe.com
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