Sales Performance Management *Challenges in Manufacturing*

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Executive Summary

Sales leaders in the manufacturing industry face unique sales performance management (SPM) challenges, including aligning incentive compensation to the C-level goals, motivating sales people through a long sales cycle, and setting effective quotas despite irregular customer buying patterns.

Challenge One: Translating C-Level Goals to the Front Line

Every successful sales incentive plan is actually a communications device. Its job is to connect the strategic goals of the company to daily actions of the front-line sales representatives. In manufacturing, strategic goals include revenue growth, profitability, asset utilization, and inventory management. These metrics are critical for performance management as well as forecasting accuracy. It's essential to balance demand through sales with manufacturing capacity. If sales out-sells the company's ability to produce, it can affect customer experience and quality.

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For companies that manufacture consumable goods or goods that expire, forecasting accuracy is especially important to ensure freshness, minimize expired inventory, and reduce out-of-date returns from channels to the end-user.

While critical for the business, sales people cannot always control metrics that encompass broader manufacturing and logistics performance, like asset utilization and inventory management. Without the ability to assert control, these metrics lower the impact of the sales compensation plan. While some strategic goals require cross functional efforts, sales people should always have the ability to directly influence the metrics in their incentive compensation plan. Otherwise, sales leaders may find sales people doing what is easiest for them, even if it’s counter to the strategy; or doing nothing at all because they’re not motivated by any reward; or, perhaps the most damaging, the company could see their highest performers leave for a more rewarding environment.

Solution: When designing and managing an incentive plan, ensure measures are within the control of the sales organization and meet the needs of the C-level. If the company decides that it must include more complex, higher level measures (e.g., company profit, asset utilization, inventory management), it’s best to either allocate a minimal weight in the plan to those measures or use those measures as part of a performance management plan in which reps are managed to those measures and the correct behaviors rather than directly paid for them in the incentive plan.

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Challenge Two: Motivating Sales Representatives Through a Long Sales Cycle

Many manufacturing companies sell products which require significant capital expense from the customer and have a long sales cycle (e.g., heavy equipment, infrastructure). Sometimes these sales cycles can extend a year or more. Sales incentive plans must have the correct pay mix (the ratio between base salary and target incentive) to keep people motivated throughout the sales cycle. Often this means the pay mix is shallower for those long sales cycle roles, for example, 80% base salary and 20% incentive pay. The incentive plan must also have enough upside potential to make the long cycle worthwhile. Usually long sales cycles are associated with less pay at risk, so this is a difficult balancing act.

In addition to providing the right pay mix to sustain a rep through a long, complex sales cycle, sales compensation plans in the manufacturing industry must also offer enough incentive to attract and retain top talent. Some manufacturing companies that compete for talent with adjacent technology firms will have challenges with offering competitive upsides, which tend to be at the top of the incentive pay rankings for the tech industry.

Solution: Sales compensation and pay mix should be within motivational ranges and include sufficient upside potential. To the extent that talent pools overlap with the technology industry, manufacturing 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: Setting Effective Quotas

Quota setting success in manufacturing companies depends on the characteristics of products, sales cycles, and markets. For companies with significant product purchase volume, moderate sales cycles, and markets that tend to purchase at least once a year, quota setting can be based on indicators of potential for these markets that include prior annual purchase patterns and customer demographics.

For large capital expense products, quota setting can be difficult because of sporadic or episodic purchasing patterns. Many products are not continuously or frequently purchased by the customer. Heavy equipment or infrastructure products, for example, might only be purchased once every several years – or decades. For these situations, quota setting becomes a process that requires deeper investigation of customer characteristics and a profound understanding of individual customer needs.

Solution: To set proper quotas, the sales organization should use market-driven methods that include historic trends blended with indicators of future potential, such as customer demographics, and variations in characteristics for each territory (e.g., territory growth rates, territory penetration, territory competitive intensity). For large capital expense products and long sales cycles, the sales organization should employ account specific methods of gathering intelligence such as strategic account planning. While account planning is effective for creating strategies, it can also be valuable as input for quota setting.

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