

Incenting and Rewarding Cross-Selling through the Compensation Plan

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Increasingly, top executives believe that the economy is improving and customers – both consumers and businesses – are stepping up their purchases. Research shows that a significant percentage of companies are focused on increasing revenues and doing so includes specific objectives for capturing new accounts and cross-selling products/services within existing accounts.¹ With this background in mind, the principal purpose of this “Short” is to offer ideas and best practices techniques for incenting and rewarding cross-selling results through the compensation plan.

Common Situation

Business unit sales forces within large organizations often resist enterprise-wide cross-selling initiatives. This aversion to cross-selling is frequently due to the sales reps’ unwillingness to share access to customers – either relationships they have or information about the purchasing practices in those accounts. This can be very problematic for a company’s growth aspirations in changing markets where the bundling of products from different business units is critical to sales success. Rewarding sales people and their sales leaders solely on the basis individual business unit sales results can derail cross-selling strategies and initiatives.

Challenges

The effective implementation of a cross-selling initiative can improve customer retention and revenue growth. However, before jumping to changes in incentive compensation that support cross-selling efforts, we find successful companies address and resolve the following questions:

- How much overlap is there in the customer base for the products/services that are offered by the company’s business units?
- What are the similarities and differences in the sales processes for the products and services sold?
- To what degree is product expertise (e.g., product specialization) required?

- What is the sales cycle (i.e., time period from lead to close) and deal size typically associated with each business unit’s products/ services portfolio?

Answers to these and other pertinent questions will clarify the sales model required for cross-selling success. Starting with clear job accountabilities for the sales roles involved with cross-selling will increase the likelihood that the right changes are made to incentive compensation.

Incentive Compensation Approach

Consider this example as a point of reference to incent and reward sales reps in two different business units for cross-selling results.

- Sales Rep A (in Business Unit 1) is assigned responsibility (quota) for the product/product line that is the focus of a cross-selling initiative
- Sales Rep B, in Business Unit 2, does not represent these products, however, there is potential for the products to be sold in the rep’s assigned territory/accounts

The approach to incentive compensation for Sales Reps A and B is as follows:

- Incentive pay is “funded” by Business Unit #1 – the BU that will directly benefit from cross-selling success. The fund is based on an estimate of incremental sales (and margin) attributable to cross selling results. It is additive (i.e., not part of target cash compensation) for Sales Rep B.
- The incentive rate (frequently a commission) used to reward Sales Rep B is determined based on the business plan developed by the Business Unit #1 for sales delivered by sales resources outside the BU (i.e., Sales Rep B). The rate calculation may be as simple as dividing incentive budget for the product plan (outside the BU) by total product plan outside BU.
- Sales Rep A (the accountable sales person for the product line’s sales) receives quota credit for all sales whether or not it occurs in his/her territory. Thus, the more opportunities Sales Rep B identifies for team selling or directly sells, the greater the benefit to Sales Rep A and Business Unit #1.

¹ CSO Insights, Sales Performance Optimization: 2010 Going Forward Analysis