

Rewarding and Retaining “Strategic Account” Sellers through LTI (Cash) Plans

By: Jerry Colletti and Mary S. Fiss

Many companies deploy “strategic account” sales people to sell to and manage relationships with critically important customers (often referred to as national, strategic or global accounts). A recent SAMA survey¹ indicates that companies in 28 industries use that sales role in their business. The prevalence of strategic account sellers and the importance of the customers they interact with pose a particularly challenging retention problem for companies. With a cross-section of B2B companies, we have explored the feasibility of using long term cash incentive plans to reward and retain strategic account sellers. The purpose of this Short is to report on that experience.

THE CHALLENGE

The continuity of account coverage – that is, keeping in place the same Account Manager/Seller – is an important consideration in business success. This is particularly true in companies where a strategic account sales program is in the early stages of development. Additionally, building the business with strategic accounts often occurs over several years and, thus, early sales efforts may not be fully realized until two or three years down the road. A typical short term compensation plan for a strategic account seller looks as follows:

Plan feature	Practice
Target cash level	<ul style="list-style-type: none"> Assessed at median of labor market; +/- down in some cases based on authority to negotiate contract; authority to set prices
Salary/IC ratio	<ul style="list-style-type: none"> 60% salary/40% incentive
Quota practice	<ul style="list-style-type: none"> Companies use quotas (set by account; then roll-up)
Incentive plan structure	<ul style="list-style-type: none"> Commission/bonus represents 80% - 85% of target incentive MBOs represent 20% -15% of target incentive Newer/less mature programs allow for more incentive weight on MBOs
Prevalent performance measures	<ul style="list-style-type: none"> Total sales volume (\$s) Sales volume by line of business Profit MBOs
Performance threshold	<ul style="list-style-type: none"> Yes, majority of companies Paid from 1st dollar, about a third of companies Median performance threshold: 80% (of performance goals)
IC capped	<ul style="list-style-type: none"> No

This approach to compensation is fully appropriate for rewarding annual performance.

It does not, however, provide for reward of long term performance (and, potentially retention of top producers). While an alternative is to include strategic account sellers in a company’s equity plans (i.e., stock options), we believe and have seen cash LTI plans work much more effectively for these employees.

A SOLUTION/PLAN DESIGN

The goals of a long term (cash) incentive plan for strategic sellers are to: 1) reward performance accomplishments over multiple years; and, 2) encourage high performing sellers to stay with the organization (i.e., retain talent) over a longer period of time than might be the case without such a plan.

Our experience shows that the following factors are important to consider in the plan design:

- Plan period – typically three years; however, we have seen some plan designs based on a five year plan period
- Incentive opportunity – typically a “carve-out” of annual over-achievement dollars; e.g., if OA is 2.5x, the carve out may be .5x
- Actual earned long term incentive is a function of two variables: # of years of plan achievement or greater; and, actual earned incentive in those years
- There is no vesting and no funds are deferred for payment (there does, however, need to be accrual for future payment)
- The matrix below illustrates a design. Nothing is earned in Year 1 of the plan. The earnings opportunity increases as a multiple of actual earned annual incentive for the number of years quota is achieved. Payment is made at the end of Year 3; at end of Year 3 the plan can “renew” as eligible strategic account sellers start over.

		Number of Years Quota Achieved		
		1	2	3
Program Year	Y1			
	Y2	-0-	25%	
	Y3	-0-	40%	65%

¹ 2009 Report on SAM Compensation Practices