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merging sales teams and compensation programs:

Finding an Almost Perfect Union

QUICK LOOK

- When making decisions regarding go-to-market and sales compensation alignment, it is essential to understand the rationale for the merger and the expected value to be gained.
- When considering a newly merged organization, we often begin with simple questions.
- When looking to integrate sales compensation plans, three compensation elements are considered most challenging to align: pay levels, pay mix and measures.

By Clinton Gott

In struggling and booming economies, thoughtful executives often focus on the strategic value of mergers and acquisitions. In today's slower economy, companies may acquire direct competitors at bargain prices. Or, they may acquire businesses with complementary products in order to improve account penetration or enter new geographic or vertical segments. While such unions have distinct advantages, they are often fraught with challenges, and in no functional area are these challenges more pronounced than in sales.

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Knowing when and how to align sales teams and compensation programs are key issues, not only for sales, but also for the overall company. To help business leaders create a feasible strategy for aligning sales teams and to identify the right approach for creating an equitable and effective sales compensation program, this article will explore the following:

- How merger strategies drive decisions about account coverage and sales compensation
- A simple framework for considering the timing and rationale for making alignment decisions
- Tactical strategies for integrating sales compensation plan elements.

As part of Watson Wyatt's research on this topic, we recently collected information from more than 30 companies with a high incidence of merger activity. Most participants came from high-tech industries, which are well-versed in this topic. Of those who responded, 93 percent had completed a merger in the past 12 months, and 46 percent averaged three or more acquisitions per year.

Strategic Intent: Why Companies Merge and Acquire

Attempting to select a combined sales compensation plan without understanding the strategic intent behind the merger is a classic example of putting the cart before the horse.

In our research and client experiences, we found four primary intentions behind mergers and acquisitions. Typically, companies are looking to acquire:

1. **Nonsales talent:** A primary goal in many mergers and acquisitions is to acquire key nonsales team members, such as senior leaders or unique research and development talent.
2. **Products:** The acquirer seeks to own a particular product or related technology to remove it as a competitor from the market.
3. **Account or sales relationships:** The acquired company may offer unique sales relationships with particularly attractive target accounts or industries.
4. **Sales talent:** The acquirer seeks sales talent with specific product/technology knowledge, geographic coverage or industry contacts.

Each of these reasons has different implications for a potential sales integration strategy. For instance, in the first case above, salesforce retention is not central to the strategic goal of the merger or acquisition, and so the strategy for addressing it becomes less relevant. In such cases, the primary human capital issue is finding the most fair and cost-effective approach to managing a reduction in the salesforce. However, in the final two cases, the salesforce is central to the merger. Here, handling sales alignment and the integration of the two compensation programs should be a pivotal early discussion in a merger.

However, in some cases it is less clear or certain how crucial salesforce integration and retention will be to the merger's success. The second scenario, which focuses on product or technology acquisition, is one such case. Results from our recent flash study shows that this also happens to be the most prevalent rationale for mergers, with 81 percent of respondents identifying this as a motivation for entering into one. (See Figure 1.) When a company acquires a product, one may question whether the acquired entity's salesforce is essential for selling the product or if the acquired organization's sales team can handle it.

In cases where the need for salesforce integration and retention is less clear, the framework discussed in the next section can help determine if the case for alignment is pressing.

Understanding When and Why to Merge Sales Strategies

When considering a newly merged organization, we often begin with two simple questions: Do the sales teams target the same accounts/buyers?

FIGURE 1: TOP REASONS FOR ACQUISITIONS

Reason	%
1. Acquire products	81%
2. Acquire other key talent, such as research and development	52%
3. Acquire account relationships	42%
4. Improve economies of scale	35%
5. Acquire sales team talent	32%

If the two firms as independent organizations did not cover the same accounts, then logically there is less immediate concern about aligning the go-to-market approach, strategies and resources deployed to sell a company's products to its customers.

If so, is it sensible to have two separate account managers? These questions strike at the root of the account coverage model and are critical to determine what makes sense in terms of allocating sales resources and roles.

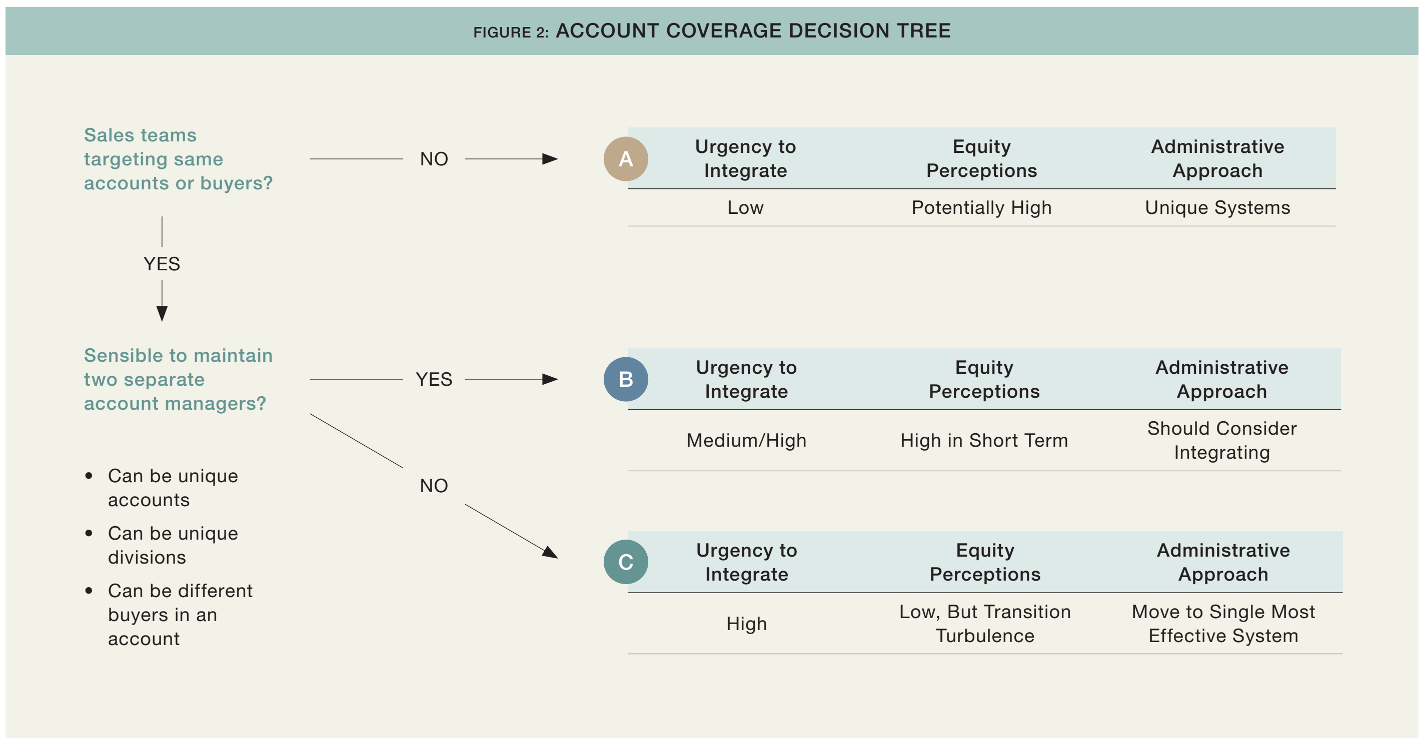
Fundamentally, in asking the first question, we are looking for commonalities within an account and the buyer base. If the two firms as independent organizations did not cover the same accounts, then logically there is less immediate concern about aligning the go-to-market approach, strategies and resources deployed to sell a company's products to its customers. However, if they did sell to the same buyers, the need for a clear strategy to align account coverage and compensation becomes more urgent. (For more discussion of go-to-market alignment and sales compensation, see "Survey Data: Go-To-Market Alignment vs. Sales Compensation Integration" on page 69.)

In this case, we move on to the second decision node: Does it make sense to continue with two primary contact points or should one ascend to an account manager role with the other in a supporting sales specialist position? This simple decision-making framework is portrayed in the Account Coverage Decision Tree in Figure 2.

Three possible scenarios can come from this decision tree: separate accounts, same accounts with two points of contact or same accounts with one central point of contact. (See Table 1 on page 70.) Each scenario considers the strategic urgency to integrate, equity perceptions that can cause morale or turnover issues and the administrative approach that can either help realize economies of scale or, conversely, serve as a source of inefficiency.

When considering time frames for integration, we typically define the parameters in the following ways:

- **High urgency:** Consider aligning compensation plans within the first 90 days of the merger. The goal in



this case is to have an aligned, go-to-market model as soon as possible, along with clear role definition and appropriate sales compensation integration.

- **Medium urgency:** As sales teams can exist without immediate alignment, the current compensation plans can remain, at least for the immediate future. But plans should be revisited for better alignment and administrative ease within the first year of merging.
- **Low urgency:** Sales teams are separate and can remain so, particularly as accounts/buyers are not common. However, plans should be revisited as part of the normal assessment and design cycle. No more than two years should pass from the point of merger without a review or reassessment.

Plan Integration Approach

Studying the strategic intent of the merger and determining the needs for account coverage alignment will naturally drive the philosophy of an integrated sales compensation approach. There are typically four approaches an organization may use:

1. **Maintain the status quo**. In this case, the current plans remain in their current state. This is often the approach when the urgency to align and integrate is low. At some future point, all sales compensation plans should be reviewed and potentially modified, but in the near term, the status quo is acceptable.
2. **Implement a force fit**. As implied, this condition describes moving (or forcing) one team onto the other team's plan design. This approach is often quick and can be carried out at the point of transfer, but results in extensive cleanup time after the fact. Also keep in mind that the organization forced onto the new plan will usually respond fearfully. Generally, force fitting comes with a risk of poor morale and turnover. Excellent communication and change management are required to make this transition as smooth as possible.
3. **Allow for flexibility**. This approach attempts to align plans in general but allows for some special cases where unique plans or legacy approaches are justified. For example, if transitioning someone from a forward-looking contract/bookings metric to one tied to near-term revenue, companies may allow for a transition plan to bridge the gap and gradually modify behavior. For example, a company may move someone on a 100 percent booking metric to one with 75 percent on booking and 25 percent on revenue, with an eventual goal of even greater weighting on revenue. Note that a flexible approach may ease morale issues caused by sudden change, but the company usually bears an extra administrative burden to accommodate it.
4. **Collaborate**. This is the optimal approach that all integration efforts should aspire to. As part of the annual or biannual compensation assessment and design cycle, all sales teams within a company should have their plans reviewed via a structured assessment and design process. As this is often a time-consuming and highly participatory effort, most companies do not use this approach at the initial point of integration. Collaboration, however, is essential as the merged entity progresses and, in the long run, will result in the most optimal plan designs.

TABLE 1: POSSIBLE SCENARIOS FROM DECISION TREE

Scenario	Urgency to Integrate	Equity Perceptions	Administrative Approach
Scenario A - Separate Accounts	• Low as sales teams likely do not interact • May consider cross-selling opportunities	• Similar jobs with very different pay levels may cause equity perceptions if discovered	• Simple approach: can continue paying on separate systems • Long term: should consider administrative efficiencies
Scenario B - Same Accounts - Two Points of Contact	• May be targeting different buyers in the same account	• Different pay levels for similar jobs will cause equity concerns • Degree of difference drives the need to integrate	• Different plans can operate on different systems • Long term: consider administrative efficiencies
Scenario C - Same Accounts - One Central Contact Point	• Teams are calling on the same buyer; need unified front • In the worst case, internal equity issues may arise • At a minimum, customers will likely perceive the salesforce as disorganized	• Immediate integration; requires strong communication and wise choices • Final designs must relieve equity concerns	• Common plan, common administrative system • Typically, the system from the company whose plans most resemble the new integrated plan is the right option

Aligning Compensation Elements: Risks and Strategies

When looking to integrate sales compensation plans, our research identifies three compensation elements that are considered most challenging to align: pay levels, pay mix and compensation plan measures.

Pay levels

In many cases, the two independent companies may have similar job roles at very different pay levels. This is commonly found when a large firm acquires a smaller one where pay levels (and potentially titles) are elevated with little regard to market practices or appropriate pay philosophies.

Common risks

- Different total target cash (TTC) levels for similar jobs represent the biggest equity concern.
- People assign their own subjective value to the level of pay awarded — this is clearly a hot button during integrations.

Best practices strategies

- Value the job family with objective market data and identified strategic significance. This approach identifies the core function of the role, such as named account representative, rather than varying titles that

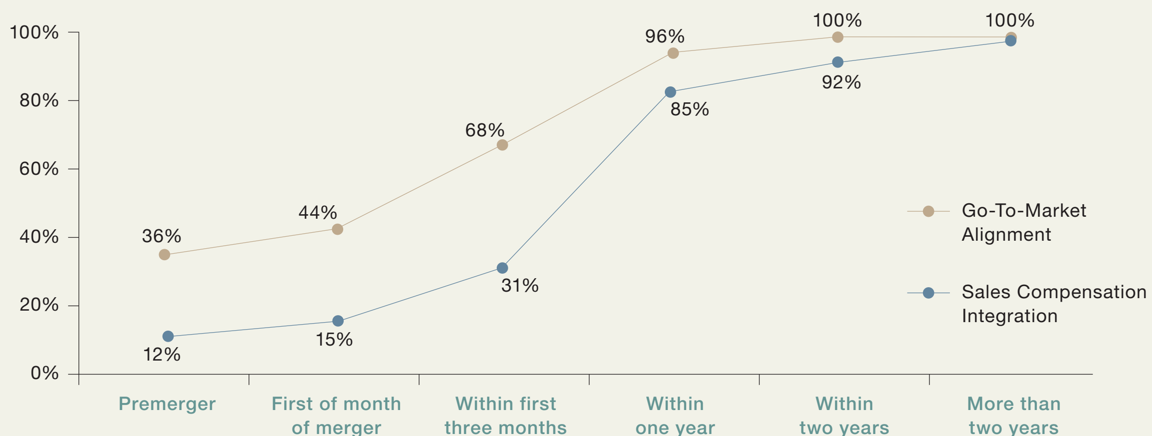
SURVEY DATA:

Go-To-Market Alignment Versus Sales Compensation Integration

Companies often struggle not only with the question "How should we integrate?" but also with "When?" and "In what order?" Market benchmarks that speak to both these aspects are often sought, and we have included this analysis in our research. Figure 3 shows that very few companies have well-structured go-to-market or sales compensation approaches at the moment the merged organization comes into being. Of the two, go-to-market alignment typically leads: within the first three months, almost seven in 10 companies have determined how accounts will be covered, whereas only three in 10 have considered sales compensation integration. However, by the end of the first year, most companies have made significant progress on both counts.

When reviewing factors for a successful merger, our research shows that having a clear go-to-market strategy is the most significant factor identified. Interestingly, the degree of similarity in compensation plan designs for the two independent companies did not factor either way in determining a successful outcome. These results reinforce the notion that effective sales compensation programs are dependent on clear strategy and effective sales role definition. While in-depth discussion of this topic is beyond the scope of this article, initial energies should be invested to define and rationalize the optimal go-to-market strategy as early as possible in a merger integration effort.

FIGURE 3: **MARKET BENCHMARKS**



may exist, such as strategic account representative, major account representative, etc. Such titles found in two organizations may actually be the same job, requiring one match in an appropriate market survey.

- Create pay ranges for flexibility. From the prior example, if the strategic account representative and the major account representative are similar roles but represent truly different experience or skill level, a company can develop a wide pay range for named account roles. The strategic account representatives would generally be at the higher end, with the major account representatives toward the lower end.
- If the TTC warrants reduction, consider a one-time, offsetting payment to keep them at the same level for the first year. If paid at the end of the first year, this payment can also serve as a retention vehicle during the crucial first year of an integration effort. Assuming lowering TTC is the right decision, the impacted sales representatives may then consider transition options or will have found ways to maximize upside and earnings.
- Focus communications on the overall employee value proposition with all employees; even sales representatives value things beyond cash, such as career track and company affiliation.

Pay mix

Pay mix, which describes the relationship between base salary and target incentive, helps drive how aggressively and urgently a salesperson will not only identify but close a sales opportunity. Ensuring each sales role has the right mix is essential in order to target customers appropriately, align sales rep efforts to buyer needs and pace sales efforts to the required sales cycle time.

Common risks

- Significant mix differences may represent strategic inconsistencies in any given role; the levels of desired sales aggression may vary.
- Mix impacts base salary and target variable incentive, which means that cash flow (base salary paid every two weeks) and upside opportunity (usually a factor of target variable incentive) are impacted. In sales compensation circles, the ability to earn upside beyond target pay is usually the key factor that drives someone to consider a career in sales.

Best practices strategies

- Determine the desired aggressiveness for the role. Market data can inform this decision, as can interaction with relevant industry groups. However, the final mix determination should match the unique sales aggressiveness required for a company's particular role.
- If the base warrants reduction, consider using a short-term, nonrecoverable payment to make the base whole. Similar to the total pay reduction, the company can offer the dollar amount represented in the base drop as an end-of-year retention bonus to keep talent through this critical period.
- Allow salespeople to transition to roles that best fit their skills, interest and risk-reward profile. It is a wise practice to allow salespeople to transition to roles within a company rather than let them find it somewhere else.

Compensation plan measures

Compensation plan measures should align with the overarching company strategy, as these measures are the behaviors that salespeople should pursue to help the company achieve its core results. When a measure changes, the entire focus of a salesperson's role may also change.

Common risks

- Companies need to ensure selected measures focus on the right behaviors, and should not expect behaviors that are not measured to be pursued.
- Companies must be able to track the measures selected.

Best practices strategies

- Communicate the strategic intent behind measure changes — the "why" and the "what." In sales compensation plan rollout materials, best practice says to include the overall strategic vision being enforced by the sales compensation plans rather than just details on the design of the new plans.
- Ensure measures can be impacted by salespeople. Measures must pass a simple sanity check — "How can

TABLE 2: BEST AND WORST PRACTICES

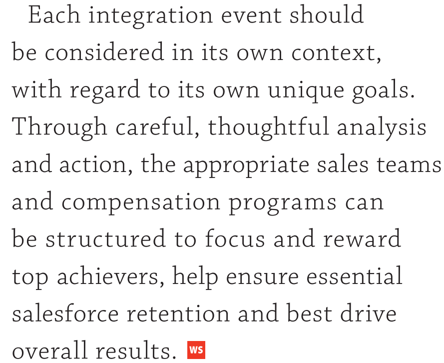
Best Practices	Worst Practices
1. Early focus on an integrated go-to-market strategy	1. Moving too quickly — too much change
2. Early identification of the new sales leadership structure	2. Failing to follow (and publicize) an inclusive plan review and design process after the merger
3. Continued payment of legacy plans at merger onset (as appropriate)	3. Failing to communicate the integrated go-to-market vision
4. Customized approach for each integration	4. Lack of a clear decision-making framework

a sales representative impact this measure?" For example, companies often attempt to include profit as a metric, but a wise question is whether a sales representative controls pricing or any relevant inputs into margin. If not, measuring on revenue or the towline number salespeople drive can serve as the best proxy for profit.
- Ensure measures can be tracked. The best case calls for tracking a measure for six to 12 months before using it in a compensation program.

Conclusion

The optimal way to approach any change strategy includes first understanding why the merger was pursued. Understanding the reasons for the merger helps business leaders move forward in determining when and how to align sales teams and compensation programs.

Table 2 summarizes some of the best and some of the more problematic practices that can be used in a company's change strategy.



Each integration event should be considered in its own context, with regard to its own unique goals. Through careful, thoughtful analysis and action, the appropriate sales teams and compensation programs can be structured to focus and reward top achievers, help ensure essential salesforce retention and best drive overall results. ws

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