

At a Glance

The majority of employers have reduced sales force headcount largely through not replacing staff that have left voluntarily.

Many employers have added or expanded special incentives for field forces (SPIFFs) to reinforce focus on short-term priorities, while also providing an opportunity to earn back some variable pay lost from core sales incentive plans.

Two-thirds of employers are taking actions to strengthen attraction and retention of sales professionals, knowing the temporary reprieve from turnovers will be short-lived once small signs of a recovery surface.

Strategies to Manage Sales Force Investments in the Global Recession

Update: April 2009


About the Survey

In early 2009, Watson Wyatt continued our ongoing research on the economic crisis by surveying HR and sales executives at 91 U.S.-based companies to understand what actions they are taking to effectively manage their sales investments (e.g., staffing, pay) in response to the recession. This is an update to our September 2008 report.

Introduction

Companies are forecasting continued weakness in business conditions through the remainder of 2009. More than 86 percent of companies indicated that they believe their business results will not measurably improve this year.

Last fall, employers tried to ride out the storm while making a series of changes to their sales plans and programs. These changes ranged from altering sales incentive plan designs to modifying sales territories to adding special incentives (SPIFFs) to ensure focus on short-term priorities. Only 23 percent resorted to headcount reductions. Fast forward five months and employers have been forced to take more dramatic action evidenced by 53 percent of



respondents indicating they have reduced sales force headcount along with other actions to align sales costs with economic realities.

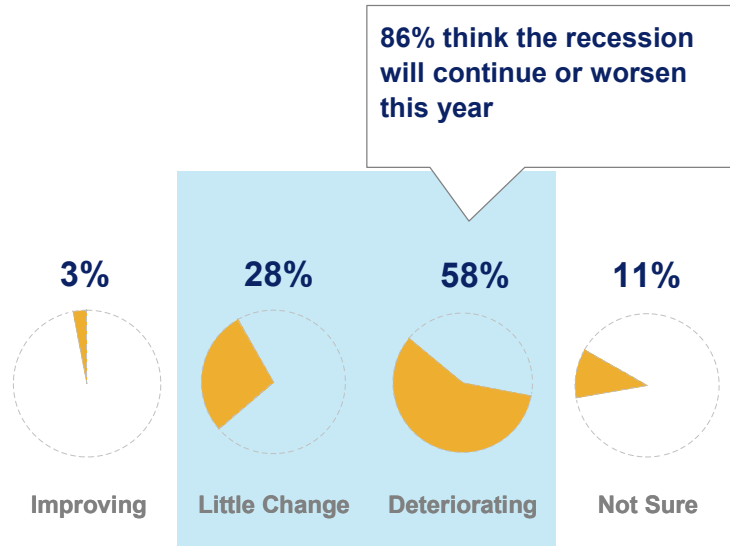
Our results also show that many respondents now are attempting to balance aligning sales costs with economic realities and keeping sales professionals motivated and focused on customers. More than two-thirds of employers surveyed are taking proactive actions to strengthen attraction and retention so that they are not left vulnerable once signs of a recovery appear.

Key Findings

- More than half of the respondents (53 percent) have been forced to reduce sales headcount, up from 23 percent five months earlier. However, only 21 percent are planning layoffs later this year.
- Companies that have taken action embarked on a bundled set of initiatives, usually coupling layoffs with sales reward program adjustments, territory realignment and modifications to sales goals.
- Employers who have reduced headcount were almost twice as likely to lower sales goals/quotas, modify sales territories and shift pay mix to more variable compensation as those who did not lay off staff.
- Forty-two percent of companies have introduced or expanded special incentives or contests (SPIFFS) to energize sales. This prevalence represents a decrease from 53 percent in September.
- Forty percent of employers have adjusted the design of their core sales incentive plans.
- Substantially more companies are lowering sales goals/quotas (37 percent) in 2009 compared to only 15 percent in September.
- Approximately two-thirds of companies are taking actions to strengthen attraction and retention of sales professionals to prepare for the recovery.
- More than seven in ten companies (72 percent) that have reduced sales headcount treat sales compensation expense as a budget line item (similar to a corporate bonus program).
- Even with the economic crisis, we see little change in the percentage of companies using a target sales compensation cost of sales approach (37 percent in 2009 vs. 31 percent in 2008).

Respondents are forecasting little improvement in business conditions for the remainder of 2009.

Figure 1 | 2009 Business Conditions



The majority of employers have responded to the downturn by taking multiple actions to better manage their sales investments.

Figure 2 | Actions Taken and Planned to Manage Sales Force Investments

	September 2008	February 2009	Future Actions Planned
Reduced sales force headcount	23%	53%	21%
Introduced SPIFFS	52%	42%	20%
Adjusted sales incentive design	49%	40%	18%
Modified territories	48%	38%	20%
Lowered sales goals	15%	37%	24%
Trimmed incentive funding	10%	18%	9%
Shifted pay mix	18%	11%	9%
Raised sales goals	30%	10%	3%
None of the above	5%	9%	8%

For those employers reducing headcount, almost half made additional adjustments to their deployment model, sales goals/quotas and reward programs.

Figure 3 | Actions Taken to Manage Sales Force Investments at Employers Reducing Staff

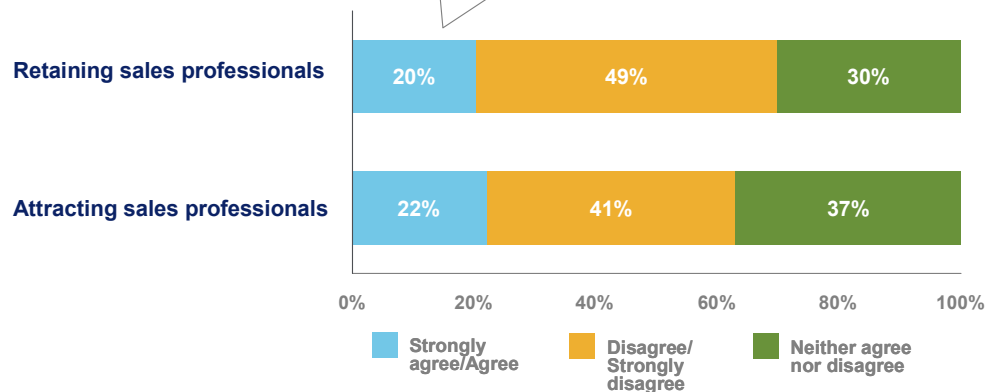
Many companies have taken a bundled set of actions in addition to headcount reductions

	Actions Taken
Lowered sales goals and quotas	50%
Modified territories or account assignments	48%
Introduced additional SPIFFs or contests to energize sales	44%
Adjusted the sales incentive designs formula or payout schedule	44%
Trimmed incentive funding for sales forces	25%
Shifted pay mix to more variable pay	17%
Raised sales goals or quotas	13%
None of the above	2%

Most companies are experiencing a reprieve from the pressures of sales force attraction and retention.

Figure 4 | Difficulty Attracting and Retaining Sales Professionals

Only 20% are having greater difficulty retaining sales professionals in 2009 vs. 2008



Even with a “semi-frozen” labor market, two-thirds of companies are still taking actions to strengthen their attraction and retention efforts for sales professionals.

Figure 5 | Actions Taken for Sales Force Attraction and Retention

Almost one-third of employers are adding or modifying their training and reward programs

Added or modified sales training	31%
Introduced additional SPIFFs and/or contests	31%
Lowered sales goals and quotas	27%
Adjusted the sales incentive design formula or payout schedule	27%
Increased use of productivity tools	14%
Offered new or upgraded new hire guarantees	11%
Increased target sales incentive levels	8%
Improved work/life balance	6%
Upgraded company cars or increased car allowances	4%
Increased stock option eligibility and grant levels	2%
Increased expense allowances	1%
Other	3%
None of the above	29%

Though sales turnover rates are low, top-tier sales talent is still in demand.

Figure 6 | Actual vs. Target Sales Turnover Rates

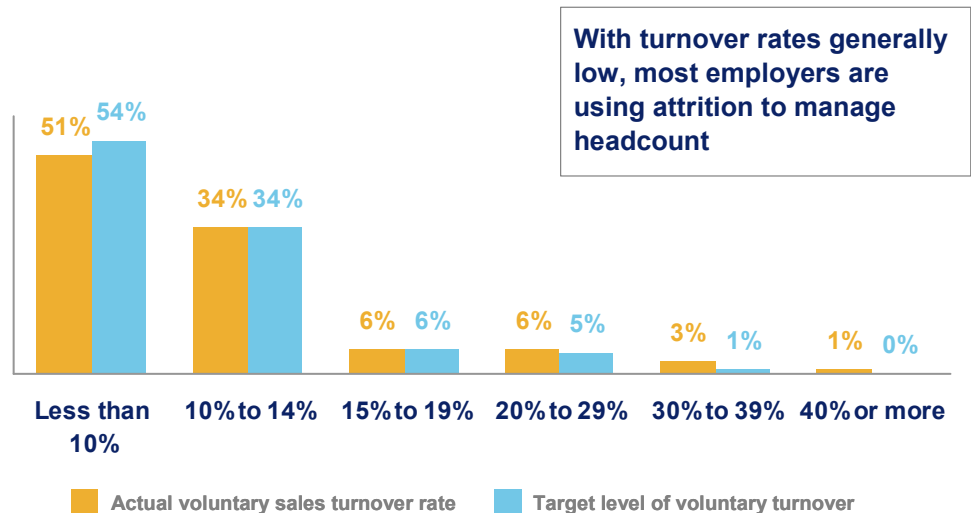
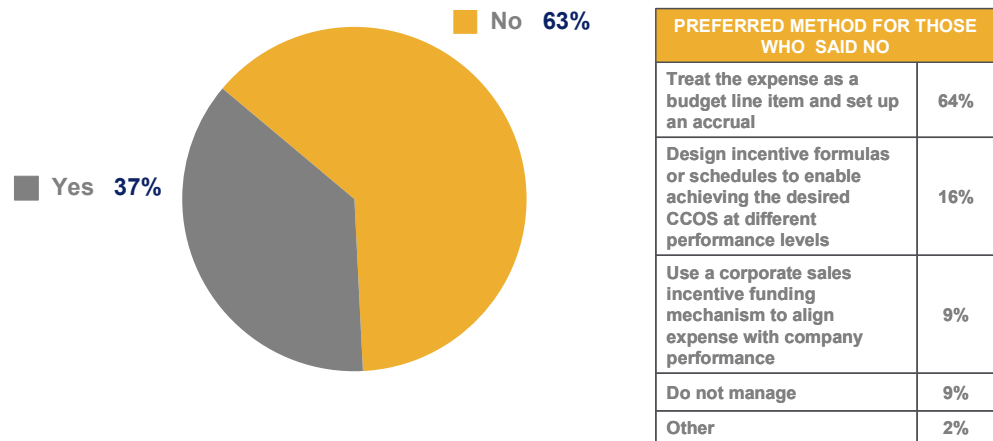


Figure 7 | Companies with a Predetermined Targeted Compensation Cost of Sales (CCOS)



Conclusion

Last fall, companies responded to the recession by taking a series of actions centered on modifying territories and their sales incentive plans, along with expanding the use of SPIFFs. Multiple actions were required to effectively manage sales investments without further jeopardizing revenue generation. As the economy worsened through the winter, companies were forced to take more severe action with more than half reducing sales force headcount. And while employers are now experiencing a temporary reprieve from attraction and retention challenges, they are still very sensitive to the need to have their sales force well positioned once recovery begins. As companies project out for the remainder of 2009, fewer than 25 percent are planning to continue the series of actions executed over the last six months. Instead, companies are starting to shift their focus back to sales productivity optimization and growth.

The biggest challenge for employers appears to be balancing what can often be competing objectives. They need their sales force to focus on customers when their total pay may be dropping, while at the same time continuing to monitor sales force costs. But companies are also realizing the need to take a longer-term view and take the steps needed to prepare for recovery. They understand that the only real path out of the recession is to grow revenues rather than use short-term remedies or cut their way to growth.

Watson Wyatt Worldwide

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 7,700 associates in 32 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

For more information on sales effectiveness and compensation services, call Watson Wyatt at 800.388.9868 or visit watsonwyatt.com.