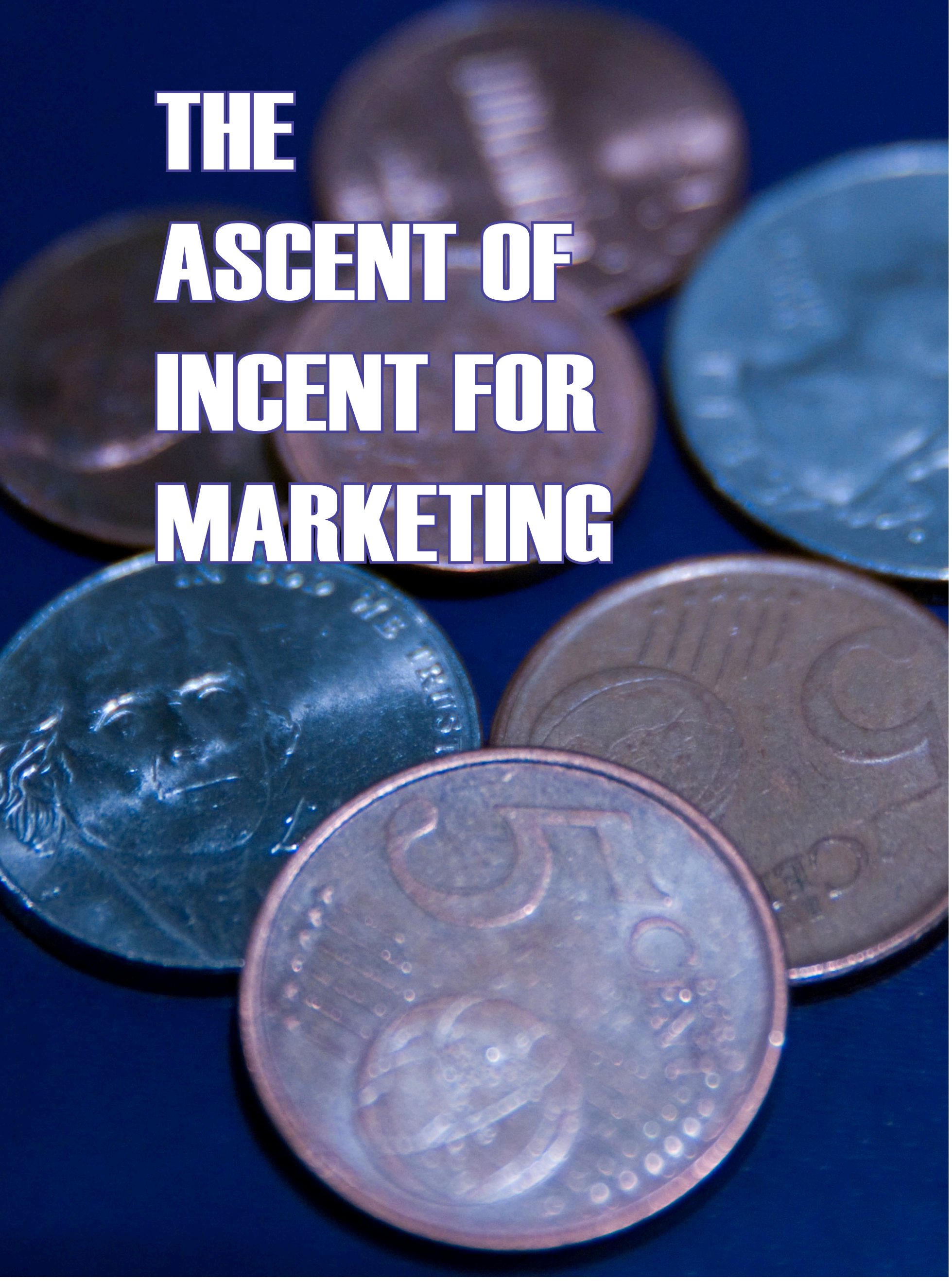
THE ASCENT OF INCENT FOR MARKETING



Sales people, cynics have said, are coin operated – driven solely by financial incentives. Marketing people, on the other hand, are generally salaried and have their attention fragmented across a range of different activities including some with only remote ties to revenue generation. Yet marketing and sales are co-dependent functions and their coordination is critical to any company's success. One pragmatic way of bringing the two into line involves rethinking the approach used to compensate Marketing people who, like their counterparts in Sales, also respond to incentives.

By Christine Crandell

A sales force is all about improving a company's top line performance. Marketing departments also have a hand in improving revenue. But it's not their only responsibility. Marketing is also about messaging, public image, product management, customer advocacy as well as other activities which influence sales, but only indirectly. Beyond that, Marketing is increasingly responsible for corporate strategy and constituent relationships – responsibilities whose ties to revenue generation are even more distant.

Their seemingly conflicting charters result in the two functions easily falling out of alignment, ending up with lost leads, resentment, and lack of cooperation. I've been there. The prevailing pattern is that Sales regards leads generated by Marketing as nothing more than lists of unqualified names; Marketing looks down at Sales as being ineffective in following up on the good leads they were given. In the end, Marketing people resign themselves to doing a campaign and that whatever comes out of it will just get thrown over the wall to Sales, while Marketing focuses on such lofty goals as building brand awareness.

In my experience, they both have a point. In a demand generation campaign, even though you have metrics to show how many of the leads were actually converted, Marketing is still reluctant to accept the fact that most of their leads are not high quality leads. And Sales really does tend to dismiss Marketing's leads in favor of ones they've developed on their own and to scapegoat Marketing when numbers are missed. The blame cycle begins.

THE BIG DISCONNECT

Although Sales and Marketing are complementary functions, their tools are different, and so are their cultures. Marketing listens; sales talks. Marketing is done at a distance; Sales is generally up close and personal. Marketing is focused on satisfying buyers; Sales is focused on pleasing sellers.

Marketing deals with understanding prospects' needs, designing the company's offerings to meet those needs, identifying potential customers, and reaching them with a message that prepares them for a successful approach by Sales. But the root of disconnect is not just their different charters and methodologies, it's the way the two are compensated.

As a general rule, people do what they are paid to do, and the pay for Sales personnel, who are often referred to as revenue junkies, clearly reflects that. Sales compensation plans are geared toward closing orders in the immediate quarter to meet annual revenue and margin goals. Their plans are made up of salary, commission, bonus and other incentives designed to motivate higher levels of revenue performance. For Marketing, however, the linkage between revenue and compensation is far from clear and it is further muddied by objectives which are on very different time horizons.

Demand generation, for instance, is focused on attracting customers by producing quality leads that Sales can close in this quarter and the next. Analyst relations and public relations, on the other hand, are focused on establishing the right market perceptions of the company and its offerings in the near and long term. Yet for all these functions, the compensation plan is the same: fixed salary plus a bonus based on company performance and on qualitative assessments of individual performance. As a consequence, institutionalizing a positive alignment between Sales and Marketing requires changing the way the Marketing team is compensated.

At two major technology companies where I was Chief Marketing Officer, we began addressing the issue by putting a competition plan in place to see how much of the pipeline the Marketing teams really could take credit for; and to have Sales openly recognize that. Instead of playing the traditional blame game, we looked toward the positive attributes of the process and to making it more a show of pride.

ALL TOGETHER NOW

In companies where Sales and Marketing are well-aligned, marketing's performance bonus includes two elements: a quantified marketing-generated revenue objective and a longer-term qualitative marketing goal. Marketing staff need to accept the fact that directly producing revenue really is a central part of their job, even it is not their only responsibility. And where Marketing is tasked with "lead generation" and "deal closing" activities – the two aspects of Marketing most directly involved in producing revenue – their compensation plans need to reflect those responsibilities.

In one case, we started with demand generation. Marketing not only wanted to take more credit for the pipeline, but also to outdo the industry's benchmarks for Marketing-generated pipeline, which are somewhere around 20-30%. By the time it was over, we had 60-70% of the pipeline Marketing-generated; they blew away the industry benchmark numbers. And Sales actually began to really want their leads instead of just taking them reluctantly.

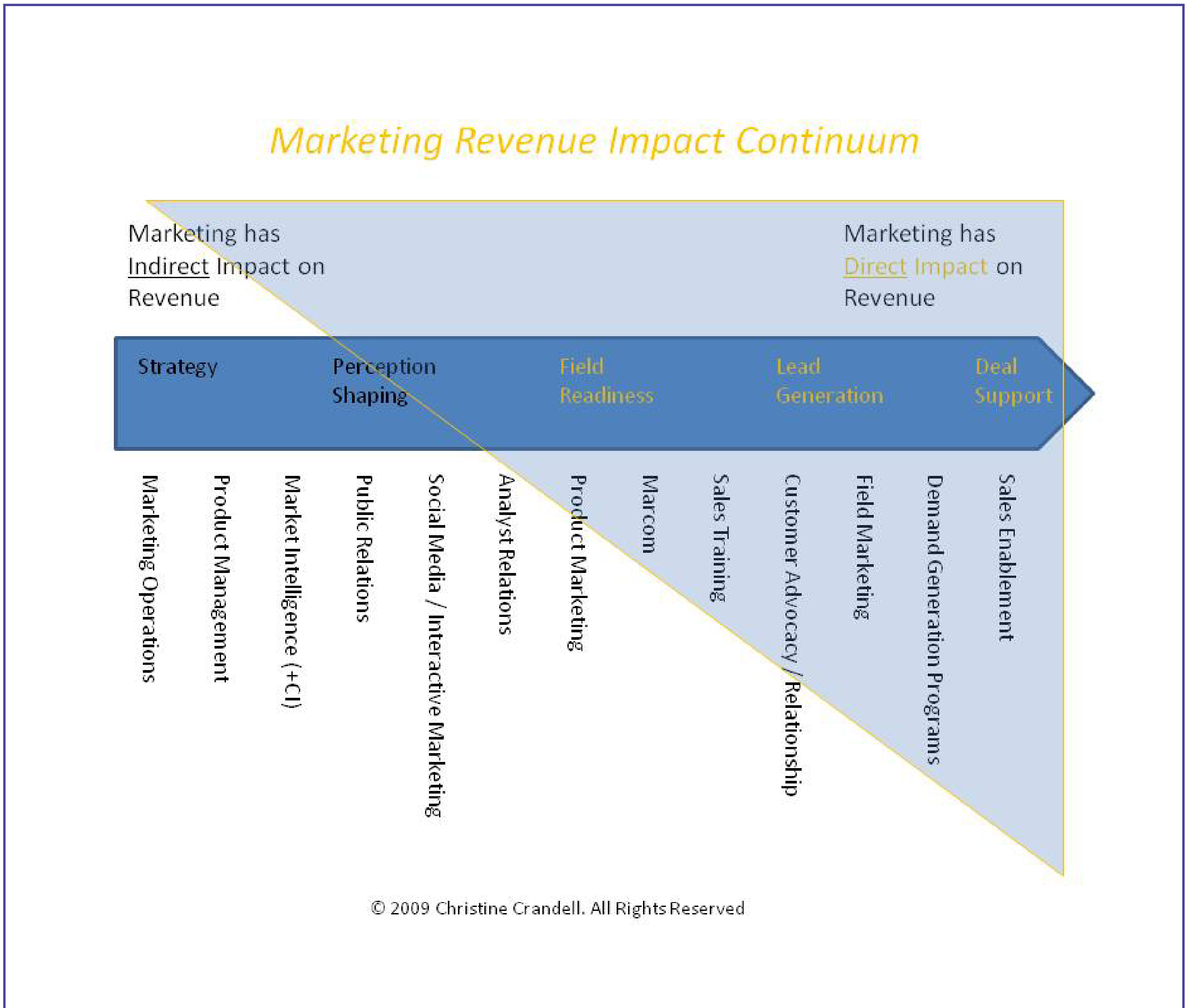
In another case, too much of our Product Marketing's time was being spent on 'content creation.' At least in their minds, that excused them from going on the road and actually visiting customers. It was a serious matter because, at that time, Product Marketing didn't really have a deep enough understanding of why customers actually bought from us, what our value proposition was for them, or how they actually used what we sold them.

We concluded that the best way to encourage our product marketing managers to develop that understanding was for them to partner with the Sales team, help them close deals; and tie that activity to their compensation. Once they realized that their bonus – which is a significant part of their overall compensation package – was tied to their product's pipeline, they found they had to physically get out and go on sales calls to have a real impact on the close rate. After one or two quarters, everyone understood that if they really want their bonus, there was really no other way.

every Marketing function to its impact on revenue. So Sales and Marketing had to agree on each marketing function's impact on company revenue and set realistic objectives for each. With a shared understanding of these objectives, the stage was set for tying marketing compensation to the company's revenue performance and for institutionalizing the alignment of incentives between the two.

But to make the new system work, Marketing's contribution to revenue goals, as reflected in its performance bonuses, needed to be both measurable and time-bound. That required connecting

DO THE MATH



The chart above shows, stylistically, the agreed-upon linkage between different Marketing activities and Sales results, along with their relative impact on Marketing's bonus pay. The compensation metrics will be somewhat different for every company depending on its sales cycles, product life cycles, product price, marketing functions and other variables. For us, the metrics included product revenue pipeline, close rate, product revenue booked versus planned, and others.

In the case of product managers, we concluded that seventy-five percent of the performance bonus should be based on achieving specific revenue metrics; the remaining twenty-five percent was then based on measures reflecting market perceptions and field readiness.

For Marketing's sales/channel enablement function, the performance bonus was structured with seventy-five percent based on the percent of sales quota achieved, and twenty-five percent based on the Sales organization's satisfaction with the enablement function.

Along those same lines, to better institutionalize alignment, seventy-five percent of the bonuses for demand generation and field marketing were based on achieving a specific dollar volume of Marketing-generated pipeline leads within a specified time period; the remaining twenty-five percent was based on Marketing objectives related to campaign effectiveness.

Finally, we based fifty percent of the bonuses for channel marketing on the actual amount of Marketing-generated channel revenue pipeline, with the remaining fifty percent based on channel partner satisfaction and other channel strategy objectives.

WHAT WE LEARNED

Most people who try this approach find, as we did, that the initial reaction of Marketing teams toward this new compensation model is one of hesitancy. After all, Marketing professionals have not historically thought of themselves as extensions of the sales closing process, nor do their more recent responsibilities, which are increasingly remote from Sales, appear as factors in these pay calculations. But it is precisely because of today's mushrooming responsibilities of the Marketing function that its priorities need to become more firmly anchored in the company's ultimately delivery of product to the marketplace.

However, even with the understanding that people are slow to embrace the idea of having their compensation plans changed around, we discovered that some ways of going about it seem to produce better results than others. Among them:

- Tie Marketing compensation to the company's revenue goals versus specific sales teams' quotas.
- Solicit visible organization support of the CEO for this change, along with the CMO and CRO.
- Inform everyone in advance about the change in compensation to make sure that all stakeholders clearly understand what metrics are being used and why.
- Expect Marketing team members to resist this change for many reasons, including not clearly understanding how their jobs direct influence revenue.
- Solicit Human Resources to help implement the compensation changes and to reduce the risk of attrition and employee dissatisfaction.
- Have the metrics that go into determining the revenue portion of bonuses calculated by an independent third party, like Finance.
- Make sure the revenue goals for the various Marketing functions add up to exceed the amount of Marketing-generated pipeline that Marketing's leadership signed up for.
- Set your initial Marketing-generated revenue goals low, and then increase them every quarter.
- Anticipate that some Sales teams will misinterpret this change as "Marketing now works for me." Re-educate them early and often.
- Be transparent about marketing's goals, performance, metrics and the team's overall performance. Encourage sales to follow suit. Transparency encourages process adherence, honesty and collaboration.