Shaping Sales Incentives: Three Tips for Success

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As manager distribution teams begin chipping away at 2015 goals, a key driver of success will be well-structured compensation packages. Unfortunately, many firms' sales compensation practices are poorly designed.

Strategic consultant Margolis Kass Advisors found in a June 2014 study that compensation is a primary cause of distribution staff leaving an asset management firm. And when a manager's sales function is compromised, whether due to poorly structured compensation, a poisonous firm culture or reasons outside the firm's control, it creates unnecessary stress, while breeding resentment between the sales and portfolio-management teams.

The following are three themes that asset managers should take into consideration to establish a better, equitable compensation structure for sales professionals.

Comp Structure Should Reflect Firm's Culture

Senior management must develop a clear-eyed understanding of their firm's institutional DNA and then craft a sales function and compensation system that reflect that culture.

For example, is the firm a fast-paced, highly competitive entity? Or is the pace slower, with a greater premium placed on collegiality, teamwork and inter-departmental support? We believe that successful sales professionals will embrace and ultimately thrive in one of those environments, but not both.

Therefore, senior management should be upfront about the culture with sales professionals at the time they are hired and structure their compensation with incentives reflecting that culture. Distribution executives should take a hard look at salespeople's compensation packages to make sure that they are properly setting priorities and encouraging the behavior that senior management wants to promote.

Carrots and Sticks

While it may be counterintuitive, an overly generous base pay package for institutional salespeople can undermine a firm's asset-gathering campaigns. Effective salespeople must be able to adapt when the pressure is on, so management should maintain an appropriate mix of incentives with which to inspire the sales team to thrive.

Base salary should provide salespeople with a level of security, but it should be sufficiently low to keep the sales team engaged and motivated. A quantitative bonus based on assets raised is an essential component of an effective sales compensation schemes.

Executives should also consider a qualitative bonus to reward salespeople for success other than assets raised. Senior management can reward a salesperson for achieving other types of measurable success within the sales process such as attaining a specific number of site visits, getting shortlisted with consultants and institutions, and securing invitations to finals presentations. That may be the best way to motivate the sales force even when an individual or team has not met specific asset-raising goals due to external circumstances.

Acknowledging Reality

Portfolio managers are intimately familiar with the phenomenon of an unforeseen event or macroeconomic issues unfairly affecting a company's stock price. Salespeople encounter similar frustrations when a firm's strategy falls out-of-favor with the market or an institution's investment committee runs out of time and therefore postpones the vote to hire the manager until the next quarterly meeting.

In cases such as these, senior management needs to be sensitive to the fact that, through no fault of their own, salespeople's assets-raised metric will not always accurately reflect their effort, contentiousness and professionalism.

There is not one correct approach to sales compensation that fits all firms. We do believe that compensation must maintain a strong commission component based on assets raised. But senior management must also factor other variables and qualitative elements into the compensation equation and find creative ways to incent their sales team. Those firms that strike the right balance when creating their compensation packages will undoubtedly have a leg up on competitors with poorly structured compensation.

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