Aligning Sales Incentives to Drive Success in the Cloud

Guidelines for Technology Companies

By Jason Angelos, Ismail Mirza, and Matt Zink
The Cloud's Implications for the Selling Organization

The market for cloud-based services is a promising one:

- Cloud-based security services will make up nearly half of the managed security services market by 2015.
- SaaS revenue alone will grow dramatically worldwide, with a CAGR of 23 percent from 2010 to 2015; and
- The overall managed security services market, which includes customer-premise equipment (CPE), SaaS and cloud services, will reach nearly $17 billion by 2015.²

There is, however, a serious problem confronting most technology companies that have shifted to a cloud-based approach, from on-premise software companies to new cloud-based players: The launch of new cloud-based businesses strains a company's operational ability to deliver and scale, and requires a completely new set of go-to-market strategies and operational processes.

One key area that typically has not been able to keep pace with the demands of selling in the cloud is the company’s sales infrastructure, in particular its sales coverage and incentive models. "Selling in the cloud" poses critical implications for both these areas.

Consider, for example, the issue faced by one cloud-based seller of electronic data storage solutions. It found that, on average, more than 90 people were receiving credit for a typical cloud-based deal—three times as many as for past sales deals. The company's traditional sales infrastructure and incentive models were unable to keep pace with the changes required in this new cloud-based model.

The Importance of Setting the Right Incentive Structure

As companies build their cloud-based sales model, structuring the right sales incentive structure is becoming a critical consideration.

Key questions include:

- What is the most appropriate incentive structure?
- What roles are needed and how do they differ from current capabilities?
- How does the total target compensation picture change?
- What are the compensation implications for the traditional field organization, and channel partners who may either support or participate in cloud-based sales activities?

The incentive system in the cloud environment is significantly different from that of traditional annuity-based or bundled solutions revenue models. Companies in this space realize the need to align and design incentive models based on subscription revenue, renewals and customer retention. Further complicating matters, several traditional technology companies offer both cloud-based products and on-premise solutions, often creating conflicting incentives for the sellers accountable for selling bundled solutions (e.g., on-premise) and cloud-based offerings.

When moving into the cloud, Accenture has found that software companies should transition from traditional sales incentives paid on the basis of the unit price of the product sold (or the one-time bundled solution sold) to an incentive model based on a subscription-based revenue model, renewals and/or customer retention (similar to financial services or insurance businesses). Moreover, the role of an incentive plan in the cloud environment is to ensure the sales rep is not conflicted between a one-time, all-in-one bundled solution sale and a subscription-based or renewal-based sale.

It is common for high tech and software companies to formulate incentives for solution sales for total contract value and/or monthly recurring revenue. For example, in some companies—especially where there is no unit price of a product—a key basis for the sales incentive model is the lifetime value of the deal instead of the unit price of the product; the real focus, then, is on using recurring revenue measures that are proportionate to lifetime deal value.
The disruption to traditional sales incentive plans is particularly true for cloud-based Infrastructure as a Service (IaaS) sales models, where credit for selling a major data center, for example, is moved to a consumption-based sale, creating new levels of complexity. In general, receiving credit for selling a one-time software product or bundled solution contrasts sharply with receiving credit for selling a subscription based on ongoing activations, use rates or capacity usage. Each selling scenario has very different implications related to cost and the value proposition. Incentive plans need to ensure that the sales rep is not solely motivated to sell the larger, one-time deals at the expense of subscription-based deals where the revenue flow may be harder to predict precisely, and in any case, takes place over a longer time period.

**CASE STUDY**

**Reengineering Sales Incentives**

A leading provider of electronic data storage solutions adopted a cloud-based recurring-revenue model. However, this change revealed serious shortcomings in the company’s approach to sales coverage and incentives. Perhaps most telling, more than 90 people were receiving sales credit on a typical deal. The company reengineered its sales incentive program following an analysis of its coverage model, sales-credit rules and governance in the context of key sales engagement scenarios. Over the course of three years, incentive spend decreased from 5.5 percent of revenue to less than 5 percent, while revenue grew by 60 percent.³

FIGURE 1 | Spectrum of Cloud Go-to-Market Approaches with Partners
Source: Accenture analysis, Copyright ©2013 Accenture. All rights reserved.

Potential Size of Revenue/Profit

Complexity

- Sell to (as End Customer)
  Sell to Partner for own consumption/business requirements

- Develop and Sell Co-offering
  Jointly develop or customize offerings with Partner OEM/Co-brand

- Sell Through
  Sell to end customer solely and/or jointly
  Opportunity to sell solution bundles with Partner
An additional issue that must be addressed is how to design appropriate sales incentives for channel partners. The use of channel partners is an increasingly important aspect of an organization’s cloud-based go-to-market approach, and one in which incentives must be carefully evaluated in order to include a value proposition for the partner ecosystem.

Basic approaches to working with partners, as shown in Figure 1, range from selling directly to the partner as an end customer (sell to), to developing and selling a joint co-offering with the partner, to selling through the partner (sell through) in a way that can be handled either solely or jointly.

The “sell to” model typically uses a standard product/solution offering and sales model similar to selling to the end customer. The joint co-offering requires a strong partner relationship and joint offer development teams, and typically has a longer sales process, with potential for ROI/deal attrition during that process. The “sell through” model requires forging an agreement with partners, with varying sales cycles, pricing and invoicing models, as well as varying degrees of investment and ROI.

Several questions need to be considered in determining how to structure a sales go-to-market approach and a corresponding incentive framework that works well for the company and its channel partners:

**Partner selling requirements**

- What type of support is required to go with/through a partner to help verify success?
- What type of “lifetime” support is required over the duration of a deal or offering?
- How closely dependent is success here on the “sell to” success at an account?
- What are the benefits, drawbacks and potential constraints of offering these services in a “shared” capacity?

**End-customer selling implications**

- What type of involvement is expected from an end-customer account manager (enterprise) in driving cloud-based sales/solutions?
- Are specialty roles needed, and if so, in what capacity, and how do they interact with end-customer account managers?
- What type of resource support is required to meet the above expectation?
- What implications does this have for the current field organization?

**Alignment against customers**

- How similar or different will the coverage model need to be in order to support cloud-based sales, given buyer value differences, structural differences and the economics of the business?
- Where can synergy and leverage points be achieved?
Several dimensions within the sales organization show the strain of adapting to a cloud-based approach and require extensive rethinking and redesign. In addition to sales coverage and incentive models, these dimensions include sales processes, tools, channel strategies, and pre-/post-sales support.

Based on our client experience and research⁴, we have identified seven critical areas of focus for companies as they rethink and redesign their sales capabilities to win in the world of the cloud:

**SEGMENT YOUR CUSTOMERS**
Leverage analytics and market research to segment customers based on cloud-specific criteria and their readiness and desire to embrace cloud-based products.

**AGREE ON A SALES MODEL**
Decide whether to leverage the existing sales model or design a new model for your cloud business. Each model has its own implications that need to be carefully addressed.

**DESIGN A COMPREHENSIVE CHANNEL STRATEGY**
Design an optimal multi-channel approach inclusive of cloud-based products and featuring a value proposition for the partner ecosystem in the new cloud business model.

**ALIGN SALES TALENT**
Hire and re-train talent to adapt to the fast and frequent changes in the sales cycle (including pre/post sales) and sales behaviors and activities.

**ALIGN SALES INCENTIVES**
Design incentives that ensure the sales rep or channel partner is not conflicted by incentives from one-time sales and does what is best for the buyer.

**UPDATE SALES PROCESSES AND TOOLS**
Re-design sales processes and supporting tools to allow for flexibility required by the varying process and sales cycle (mostly driven by customer’s current state and desired state) in the cloud business model.

**RECALIBRATE ON CUSTOMER EXPERIENCE AS AN IMPORTANT RESPONSIBILITY OF THE SALES FORCE**
Update sales processes (and incentives) to be inclusive of the support phase, so the seller is involved throughout the lifecycle of the cloud product and takes accountability for nurturing the customer for growth.

---

⁴ Jellison, Sovie and Glick, Accenture, “Where the Cloud Meets Reality.”
Guidelines for Designing an Incentive Compensation Structure

In dealing with these issues, Accenture has developed several guidelines for designing an incentive compensation structure that can work effectively for cloud sales, particularly for companies selling both traditional and cloud-based offerings:

1. Incent cloud capture by making the cloud business a meaningful part of the representative’s total incentive compensation. Establish credit practices to ensure sellers do not favor CPE over cloud, but rather encourage doing what is best for the buyer.

2. Drive a more balanced mix between cloud and CPE through performance measures that help “normalize” the incentive value of the two; for example, offering front-loaded credit, or establishing a contract life value.

3. Design plan measures that drive contract term, seat volume and revenue.

4. Design simple, scalable, transparent incentive mechanics (e.g., rate times volume equals pay).

5. Align pay with commitment and deployment by having sales credit triggers that include multiple events. Options include aligning credit and incentives with implementation milestones for long-cycle implementations, or with consumption or activations for usage-based revenue recognition.

6. Support sales credit for both company-hosted and partner-hosted sales.

7. Adequately and repeatedly train sales management to clearly communicate the total value proposition to the field reps, but assure them they will not lose out if they sell a subscription over CPE.

While each company must consider its own unique influencing factors and business conditions, these guidelines could be important considerations in devising the incentive compensation solution that best aligns with its strategic intent.
Cloud-based products

Tools

Channel strategies

Sales support
Effective sales of cloud-based products requires a clear understanding of business requirements, and a coherent sales model that considers sales processes, tools, incentives, channel strategies, and pre-/post-sales support. An appropriate structure for sales incentives is a critical ingredient in the mix.

By effectively aligning sales processes and incentives with the specific characteristics of the cloud business model and market needs, leading on-premise companies can close and deliver cloud-based products and services in a way that rivals their pure-play competition, meets customer expectations and begins to build customers for life.
Contact Us
To learn more about how Accenture can help your organization improve its sales coverage and incentive plan alignment within the cloud-based environment, please visit www.accenture.com/customer-operations.

About the Authors
Jason Angelos is a Managing Director for Accenture Sales & Customer Services. He can be reached at jason.angelos@accenture.com.

Ismail Mirza is a Senior Manager for Accenture Sales & Customer Services. He can be reached at ismail.mirza@accenture.com.

Matt Zink is a Manager for Accenture Sales & Customer Services. He can be reached at matthew.zink@accenture.com.

About Accenture EHT
Accenture’s Electronics & High Tech industry practice works with the world’s largest and most innovative high tech companies in an increasingly complex digital ecosystem.

From Information and Communication Technology, Medical Equipment Technology through to Aerospace and Defense we help clients in one of the world’s most dynamic group of industries to find new ways to: capitalize on the mobile broadband revolution, explosion of connected devices, and the related shift to cloud computing; navigate the new competitive playing fields driven by integrated ecosystems; drive value through analytics, mobility, and workflow technologies. We maintain the march towards globalization as our clients continue to recognize the importance of emerging markets and focusing on the impact to business and operating models, talent sourcing, channels, and supply chains. And our deep industry knowledge, dedicated innovation centers and Global Delivery Network enable us to invest in forward-looking assets, solutions and services that help our clients drive profitable growth and deliver high performance.

About Accenture
We are one of the world’s leading organizations providing management consulting, technology and outsourcing services, with more than 323,000 employees; offices and operations in more than 200 cities in 56 countries; and net revenues of $30.0 billion for fiscal 2014.

Our four growth platforms—Accenture Strategy, Accenture Digital, Accenture Technology, Accenture Operations—are the innovation engines through which we build world-class skills and capabilities; develop knowledge capital; and create, acquire and manage key assets central to the development of integrated services and solutions for our clients.