10 minutes on... incenting cross sales

October 2013

What you need to know about emerging reward topics essential to your business

Brought to you by PwC

pwc

Why is cross selling a popular topic in relation to incentives?

Why are cross selling rewards so popular?

- Cross selling as a strategic objective appeals to organisations for a number of reasons. When done successfully, it can:
  - produce greater profit per customer
  - result in customer reliance, retention and loyalty
  - strengthen customer / provider relations
  - reduce the cost of sale; and
  - enhance the customer experience.
- Very often, companies value cross sell but struggle to execute. There are many potential explanations including a lack of, or a poorly articulated set of, integrated offerings; inadequate CRM systems; and gaps in skills or capabilities.
- Reward is often central to conversations about achieving cross sales objectives, despite the very real issues outlined above. Too often, incentives are seen as the 'holy grail' for overcoming these obstacles.
- This paper explores how reward can play a role in helping (or hindering) organisations to achieve their cross sales objectives.

Do rewards for cross selling work?

Central to successful cross selling is performance management and reward. However, this alone is not enough. Even with the most innovative performance and reward frameworks, attempts to encourage cross sell will fail when:

- the customer value proposition is unclear and there is a lack of coherent and integrated offerings
- the organisation's structure or systems prohibit effective cross selling (eg CRM and data analytics are inaccurate or inadequate)
- employees do not have the skill or capability to effectively execute (eg they do not understand complementary products, are unable to identify broader customer needs, or cannot detect customer perceptions of value)
- the environment is not supportive. Without the support of leaders and culture, the ability to successfully cross sell is considerably compromised

What happens when it goes wrong?

The most common critique is that cross selling can be easily confused with 'mis-selling' or 'selling for the sake of selling'. This, in turn, has the potential to destroy the customer experience and undermine customer / provider relations.

We agree that there are risks associated with inappropriate cross selling, and believe that poorly designed reward structures often exacerbate these risks. We also believe that well designed incentive programs can positively influence and increase cross selling behaviours without destroying the customer experience. It is for this reason that cross sell in the context of rewards is an important and topical issue.

It is our view that appropriate cross selling behaviours can be nurtured through considered performance and reward frameworks that align behaviours of all employees, not just front line staff. This paper focuses on how these frameworks might be structured to encourage cross sell in a way which adds real and sustainable value to both customers and organisations.

What are the right performance metrics?

There is no silver bullet in terms of a perfect performance metric for cross sell…

The first step to developing an appropriate reward framework is to ensure the desired performance outcomes are clear. Prior to thinking about incentive design, management needs to be clear on what outcomes / behaviours they desire, and what they should be paying for, over and above fixed remuneration.

The key to choosing the right metrics is finding those that can be easily measured, are supported by robust historic data, and are well aligned to the outcomes the organisation is trying to achieve. And because many sales incentive plans are based on complex measures, understanding the interdependencies between metrics is critical to success.

Finally as purchasing patterns are evolving , this necessitates a new way of thinking about how cross sell should be measured and rewarded in the future. Metrics that are appropriate now, may be inappropriate in 2 years time.

As an example, as companies are growing increasingly concerned with recurring revenue (as opposed to one off sales) how do you appropriately reward at the point of sale when the value of the sale may not yet be understood? By way of another example, as companies increasingly seek to serve their customers through multiple channels (eg direct, phone, online) how do you ensure that staff are incented to direct the customer towards the channel that best meets their needs as opposed to the channel that maximises their own personal income?

Performance Metrics	Advantages	Disadvantages	Circumstances best addressed by using this metric
Lead Conversion Rate	• Common and easy to understand • Only rewards for leads that are actually converted – not poor quality or un-convertible leads.	• Relies on a pipeline of qualified leads • Employees generating appropriate leads will not be rewarded where conversion capability is weak • Can be challenging to track.	• Where referrals are being made but not effectively executed.
Number of referrals	• Common and easy to understand • Explicitly encourages the making of referrals / leads • Easy to track / report on.	• Quality controls are needed to ensure rewards are not being paid on inappropriate referrals.	• Where referral activity is poor to non-existent.

What are the right performance metrics? (continued)

There is no silver bullet in terms of a perfect performance metric for cross sell…

Performance Metrics	Advantages	Disadvantages	Circumstances best addressed by using this metric
Share of wallet	• Measures cross sell performance on relative terms • Truest measure of how well a company is performing relative to peers.	• Extremely difficult to measure • Complex metric that can be difficult to understand or explain • Critical to measure client revenue on an ongoing basis, not just one off sales.	• Where cross selling behaviours are relatively sophisticated.
Number of products/ services per customer	• Common metric • Holistic metric that considers the customer from a cross-business perspective • Can be tailored to target strategic or non-core products • Easy to track / report on.	• The focus on volume may pose a risk of over-selling • May create bias towards selling low cost / easy-to-sell products • Can be difficult to provide transparency if CRM is prohibitive.	• Where customers hold a small number of products • Where complementary or non-core products are not being sold in sufficient volumes (eg common amongst newly integrated / acquired businesses).
Product mix	• Focuses on balance of products, rather than volume • Holistic metric that considers the customer from a cross-business perspective • Encourages selling of hard-to-sell and non-core products.	• Relies on a sophisticated understanding of customer needs and product offerings • Requires complicated incentive mechanic as it is usually a relative rather than an absolute measure.	• Where customers typically hold one type of product • Where a complementary suite, or full range of products, would enhance the customer experience.

What are the right performance metrics? (continued)

There is no silver bullet in terms of a perfect performance metric for cross sell…

Performance Metrics	Advantages	Disadvantages	Circumstances best addressed by using this metric
Total revenue/ profit from cross sales – individual or team	• Encourages growth in cross sell revenue • Team revenue can encourage collaboration around cross selling behaviours.	• Measures 'what' cross selling takes place, rather than 'how' cross selling is performed • Less alignment to customer experience / needs • May result in 'double counting' revenue for reward purposes • Requires a decision around whether revenue or profit margin from cross sell will be measured.	• Where opportunities to grow revenue through cross sales are not fully exploited • Best used in conjunction with a non-financial measure (eg 'voice of the customer' or 'collaborative behaviours').
Voice of the customer	• Customer centric measure • Reflection of how under / over / appropriately serviced customers feel.	• Relies on a strong customer feedback system • Can be difficult to obtain an individual or portfolio based measure.	• Where enhancing the customer experience is the driver behind encouraging cross sell • Where performance against 'harder' sales metrics is strong.
Collaborative behaviours	• Measures 'how' cross selling is performed (rather than 'what') • Can discourage cross selling that produces poor customer outcomes.	• Relies on strong performance management capability to make meaningful • Does not explicitly measure cross sell performance, rather the underpinning behaviours • Subjective to measure and can end up paying out for behaviours that do not result in any increase in profit or revenue.	• Where cross selling is desirable but poses a risk of driving contra behaviours (eg those that compromise the customer experience or relationship) • Usually best used in conjunction with a financial measure.

What are the most common incentive plan mechanics?

Once performance metrics are defined, incentive plan mechanics can be determined. Choosing the right mechanic is not easy. We outline a few suggestions on how this might work and what to be careful of…

Plan Features	How this might work…	What to be careful of…
Revenue Share	An employee's incentive is calculated as a percentage of cross sell revenue, at either an individual, team or organisational level.	• There is a risk that this arrangement places too much emphasis on cross selling at the expense of other business priorities. • Consider whether cross sell revenue is measured on an individual basis, or aggregated into team. • There is a need to fully understand the impact of cross selling on profit margin to ensure that the organisation is remunerating on the basis of profitable and quality revenue.
Commission Splits	Sales commission is split between the two (or more) involved parties to reflect respective contributions to the sale. The split can be pre-determined by the business, or determined through a steering committee process at year end.	• It is important to recognise the relative contributions of involved parties whilst maintaining a degree of equality to ensure it is compelling to all involved. • Embedding some form of governance / arbitration is required where commission splits are negotiated on a case-by-case basis.

What are the most common incentive plan mechanics?

Once performance metrics are defined, incentive plan mechanics can be determined. Choosing the right mechanic is not easy. We outline a few suggestions on how this might work and what to be careful of…

Plan Features	How this might work…	What to be careful of…
Hurdles	Plan hurdles prohibit full or partial payment of incentives (at an individual, team or organisational level) if cross sell metrics are not met. Metrics could include product mix, cross sell revenue targets or behaviours.	• Embedding cross sell into hurdles sends a message that cross sell is very important. This may be so, but considering the importance of cross sell in the context of all business priorities is recommended.
Modifiers	An individual's incentive is modified up or down depending on performance against cross sell behaviours.	• The measurement of behaviours is generally done once or twice per year, so it is less practical to apply a modifier to payments which are made more frequently (eg monthly or quarterly). • Behaviours are only meaningful in reward when performance management capability among leaders is strong.
Deferrals	A portion of an individual's incentive is withheld for a certain period and subject to performance measures linked to retention of products acquired through cross sell.	• This mechanic may pose administrative challenges depending on the frequency of incentive payments and the level of integration between client/customer management and reward systems.

What else should be considered?

When determining the best approach to incenting cross sell, consider enabling factors and the potential of non-traditional rewards…

Non-traditional rewards

Financial incentives are not the only reward systems available to encourage cross sell behaviours. In fact, due to the questionable return on some financial incentives, we are seeing an escalation in the use of non-traditional reward systems.

Firstly, there has been a trend in recent years to increase the use of non-monetary rewards to encourage cross sell (eg movie tickets, shopping vouchers, flights, hotel bookings, etc).
This approach is typically used to support campaign based sales and can be very effective.

Secondly, many organisations have gamified this concept, whereby virtual items (eg points) are assigned to players for demonstrating specific behaviours or actions (eg making a referral, executing a cross sale). Points are then converted to prizes. Typically, gamification takes digital form and creates a level of competition amongst peers to enhance engagement.
It is often executed via smart phone apps, and online channels – such as social media.

Finally, we have seen examples of organisations creating 'buddy' programs to promote cross sell behaviours. An example of this is where two individuals representing alternate product lines engage in a 'day in the life of' experience, or a temporary role swap to understand how their buddy, or the products they represent, can add value to their customers . This can be extended by embedding joint accountability for cross sell in each buddy's scorecard or performance measures to create a mutual interest.

Other enablers

Whilst performance and reward frameworks are important, we believe there are other important HR levers:

Learning & Development	*It is important that Learning & Development models foster cross selling capabilities*
Leadership Behaviours	*Leadership support and role modelling of cross selling behaviours is key*
Organisational design	*Organisational design should promote / nurture cross sell opportunities rather than create barriers*
Culture	*Diffusing a culture where staff guard their client / customer relationships at the expense of cross selling is an important step*

In summary

Reward can be a powerful facilitator of cross selling objectives but to be effective, reward frameworks should: include performance metrics that are specific to the business circumstances being addressed; should be tailored to discourage mis-selling / over selling and to enhance the customer experience; and should align all staff behind the same objective (ie frontline and back office staff). Finally, effective rewards are necessary but not sufficient – other enablers should be given equal consideration.

How PwC can help

To have a deeper discussion about these issues, please contact:

Sydney

Emma Grogan
Partner
Ph: (02) 8266 2420
Email: emma.grogan@au.pwc.com

Debra Eckersley
Partner
Ph: (02) 8266 9034
Email: debra.eckersley@au.pwc.com

Alena Mackie
Director
Ph: (02) 8266 0696
Email: alena.mackie@au.pwc.com

Melbourne

Della Conroy
Partner
Ph: (03) 8603 2999
Email: della.conroy@au.pwc.com

Os Smyth
Director
Ph: (03) 8603 0042
Email: os.smyth@au.pwc.com

Hong Kong

Sean Colvin
Partner
Ph: +852 2289 3474
Email: sean.colvin@hk.pwc.com