

Sales Management by Incentive: Trust for Sale

by Robert E. Hall, EnAct Group Executive, Carreker Corporation

“A customer has a right to know what the incentives are when the selling broker recommends a particular fund family.”

Stephen M. Cutler
Head, SEC
Enforcement Division

“The central issue is, does the customer know that a broker or registered representative has a conflict of interest?”

Lori Richards
Director, SEC
Division Examinations

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In most industries, including financial services, there has been a steady march toward increased use of sales incentives. The idea is simple and powerful: use variable pay to reward those who produce more sales. Feed the producers and starve the non-producers. This approach unleashes the powerful market forces of self-interest to motivate, direct and manage sales behavior. For customers who have always had a healthy skepticism of sales people, this has reinforced a concern that salespeople might try to get them to buy something they don't need or even want.

In recent years we have seen a new twist on incentive comp: Figure out which products or services are most profitable to the enterprise and provide additional incentive for selling these products.

This has surfaced a new concern for customers. “Not only might I end up with a product I don't need, but now they might get me to select the product that is best for them, but not for me. In fact, I might end up paying a lot more for helping them move their doggy products.”

What if the very product being pushed is the very one that least fits the customer's needs or preferences? What if the sales organization has been given additional incentive to sell that product? What if the needs of the sales organization are in fact driving the recommendations to the customer?

This is exactly what a lot of the brokerage industry has been charged with – not only in the sales area but in the research area as well.

But this disconnect is not confined to financial services. I was recently working with a wholesaler to retailers. The wholesaler's sales people were concerned that as certain of its product manufacturers placed higher pressures and incentives to move their products, the sales people were increasingly driven to do what was good for the wholesaler and its manufacturers. As a result, customers were growing skeptical of their advice and recommendations.

It has been said that loyalty is what's left when the bribes are all gone. For many organizations, the incentive plans increasingly seem to operate as bribes. Incentives should reward behavior that is mutually beneficial. Bribes are rewards for doing things that are only good for one party – often at the expense of another, while incentives get people to do things viewed as positive and productive.

The big risk is that as customers find themselves on the receiving end of an increasingly incented sales force, their trust diminishes, and along with it their regard for the brand. Customers are not so naïve as to suppose sales people to be totally objective in their recommendations. But they would be grateful to not be purposely misled to the worst choice for the gain of the sales person.

As customers come to experience sales and service recommendations that are not just reasonably biased but purposely opposed to their best interests, then the cost of influencing and selling customers will increase.

Which leads to an interesting dynamic: the cost to produce continues to decline in a world with systemic overproduction, but the cost to market and sell increases. If we are not careful, we will create an economy of low-cost production that cannot offset the high-cost of trustless sales and marketing. The absence of loyalty and trust will make it difficult to get repeat sales, lifetime customers, and recurring revenue.

Recent research from Forrester shows that only 26% of customers are interested in buying their next product from their current financial services provider. It shows that as organizations grow larger and better known, their customers trust them less, and are less loyal to them.

No longer is the question, “Do customers realize there is a conflict of interest?” They do. The question is, “Can your organization deliver recommendations to customers that they in turn will perceive to have objective and value enough to enhance loyalty, generate recurring revenue, and thus lower the cost of sales over time?”

So much of what has dominated the headlines has been the cost of settling litigation for biased recommendations. But the loss of influence with customers and the resulting impact on the cost of sales, marketing and service will make litigation costs look small. Over time, the cost of putting trust up for sale will add more cost to the business model than most organizations can stand.

Loyalty is what's left when the bribes are all gone. High cost of sales is what's left when the loyalty is all gone.