Rethinking Sales Compensation Plans in Professional Services: Part 1

Introduction

In professional services, the way we compensate our sales teams can have a great impact on a firm's long-term success. A Sales Compensation Plan is not only about motivating salespeople; it's about aligning their efforts with the company's goals, ensuring client satisfaction and project success, and driving sustainable, profitable growth.

This article is the first in a four-part series examining sales compensation in professional services. We'll start by exploring why the common practice of basing compensation primarily on revenue often leads to undesirable outcomes. In future articles, we'll look into profit-centric models, discuss balancing various incentives, and provide practical guidance on implementing effective compensation strategies in your firm.

The Allure and Pitfalls of Revenue-Based Compensation:

Historically, as many professional services firms moved away from a Partner led sales approach to a more dedicated sales force, they turned to revenue-based compensation models. This approach likely emerged from product-based sales environments, where volume often correlated directly with profitability. However, the unique nature of professional services - with its emphasis on knowledge, expertise, and long-term client relationships – perhaps demands a more nuanced approach.

Many professional services firms default to revenue-based compensation plans for their apparent simplicity. The logic seems straightforward: more revenue equals more compensation. However, this approach often creates unintended consequences that can undermine a firm's long-term success.

1. The Pursuit of Unprofitable Work

When salespeople are compensated primarily on revenue, they're incentivized to close deals at any cost. This can lead to several issues:

- Proposing Low-Margin Projects: Salespeople might chase large but less profitable projects, prioritizing top-line growth over bottom-line impact. For example, prioritizing a $1 million dollar contract with a 25% margin, rather than smaller projects with 45% margins. While there clearly needs to be a balance in deal sizes, and larger contracts do offer some value for the company – it should be the firm – through it's compensation model – determining what its book of business will look like.

- Misaligned Effort: Time and resources are spent pursuing deals that may look impressive but don't contribute as meaningfully to the firm's profitability. This can lead to high opportunity costs, where more profitable engagements are overlooked in favor of higher-revenue, lower-margin work.

- Client Expectation Mismanagement: In the rush to close deals, salespeople might overpromise or underprice, setting unrealistic expectations that strain client relationships and delivery teams. This can result in project overruns, scope creep, and ultimately, dissatisfied clients. This can also easily occur when a compensation plan or company emphasis is put on deadlines – such as a quarter close.

None of these potential pitfalls to revenue-based compensation plans go unnoticed for long. However, instead of rethinking the compensation model, many firms address these issues with approval processes or "deal desks." However, these reactive measures often slow down the sales process, demotivate the sales team, and create friction with potential clients. <u>The key is to align incentives from the outset, encouraging salespeople to naturally pursue the right kind of deals without excessive oversight.</u>

2. Short-Term Thinking at the Expense of Long-Term Value

Revenue-based compensation often pushes salespeople to focus on immediate gains rather than long-term value creation. This can harm the firm in several ways:

- Neglecting Relationship Building: The pressure to hit short-term revenue targets may lead salespeople to prioritize quick wins over developing deep, lasting client relationships. It might ultimately lead to higher client churn and missed opportunities for client expansion or referrals.

- Overlooking Smaller, Strategic Clients: Large, one-off projects might be favored over smaller clients with potential for steady, long-term growth. For example, a salesperson may choose to focus their effort on closing a one-time engagement for $500,000 rather than spending time to nurture a client that could provide $200,000 in annual revenue for several years.

- Resistance to New Offerings: Salespeople may stick to selling familiar, established services rather than promoting innovative solutions that could drive future growth but require more effort to sell initially. This could hinder a firm's ability to adapt to changing market demands and maintain a competitive edge.

3. Misalignment with Company Goals

While revenue is an important metric, it's rarely the ultimate goal for professional services firms. A primarily revenue-focused compensation plan can create disconnect between sales activities and broader company objectives:

- Profitability vs. Revenue: Salespeople may hit or exceed revenue targets while the company's profits stagnate or decline.

- Resource Allocation Issues: High-revenue projects might monopolize company resources, even if they're not the most profitable or strategically important engagements. This can prevent the firm from pursuing balanced growth and optimizing its resource utilization.

- Quality and Reputation Risk: The push for revenue might lead to taking on projects that are beyond the firm's capabilities, risking quality issues and reputational damage.

4. Impact on Client Satisfaction and Long-Term Success:

Perhaps most critically, a revenue-centric approach can negatively impact client relationships and the firm's long-term success:

- Misaligned Solutions: Salespeople might propose oversized or unnecessary solutions to drive up contract value, rather than focusing on what best serves the client's needs. This not only does a disservice to the client but can also lead to implementation challenges and dissatisfaction of both clients and employees engaged on the work.

- Post-Sale Neglect: Once a deal is closed, revenue-focused salespeople might quickly move on to the next prospect rather than ensuring the success of the current engagement. This can result in poor project outcomes, missed upsell opportunities, and damaged client relationships.

- Diminished Strategic Value: The pressure to sell might prevent salespeople from investing time to truly understand client businesses and become trusted advisors. In the long run, this reduces the firm's ability to provide strategic value and differentiate itself in the market.

Conclusion

While revenue growth is crucial for any professional services firm, using it as the primary basis for sales compensation can often lead to poor and inefficient outcomes. From the pursuit of unprofitable work and short-term thinking to misalignment with company goals and potential damage to client relationships, the pitfalls of revenue-based plans are significant.

In my next article, we'll explore an alternative approach: profit-centric compensation plans. We'll examine how focusing on profitability rather than just revenue can create a more sustainable, client-focused, and ultimately successful sales strategy for professional services firms.

By rethinking our approach to sales compensation, we can create systems that truly align the interests of salespeople, the firm, and most importantly, our clients. Stay tuned for the next installment in this series, where we'll look into the power of profit-centric compensation plans and how they can transform your sales approach.

About the Author:

John Quirk has over 30 years of experience leading successful professional services ◊rms. John has a proven track record of building high-performing teams, fostering award-winning cultures, and delivering exceptional client value. His previous white papers, including "The Professional Services Firm of the Future," "Unleashing Success in Professional Services," and "Talent Acquisition and Growth (TAG) Frameworkℓ ," have explored innovative approaches to talent management, metrics, and organizational success. You can ◊nd those papers and more at Quirk's Next Thing. You can reach John at john.quirk@gmail.com.