Merging Sales Teams and Compensation Programs:
Finding an (Almost) Perfect Union

In both struggling and booming economies, thoughtful businesses often focus on the strategic value of mergers and acquisitions. In today’s slower economy, companies may be able to acquire direct competitors at bargain prices. Or opportunities may exist to acquire businesses with complementary products to improve current account penetration or the chance to enter new geographic or vertical segments. While core strategies and opportunities may vary, experience indicates that such unions are often fraught with challenges and must quickly demonstrate increased value and overall alignment to have a positive impact.

In no functional area are these challenges more pronounced than in sales. Knowing when and how to align go-to-market strategies and sales compensation programs requires an understanding of the tactical reasons behind a merger. Armed with that knowledge, business leaders can create a feasible strategy for aligning sales teams, and compensation professionals can identify the right approach to create an equitable and effective sales compensation program.

In this article, we will explore the following:

- How merger strategies drive account coverage and sales compensation decisions
- A simple framework as context for considering the timing and rationale for making alignment decisions
- Tactical strategies for integrating sales compensation plan elements

As part of our research on this topic, we recently surveyed more than 30 companies with a high incidence of merger activity. Most participants came from high-tech industries, which are well-versed in this topic. Of those who responded, 93 percent had completed a merger effort in the last 12 months, and 46 percent averaged three or more acquisitions per year. This article will share relevant findings and conclusions from this research.
Strategic Intent – Why Companies Merge and Acquire

Just as the reasons why companies enter into mergers and acquisitions are varied, the approaches for aligning sales strategies and sales compensation programs can vary widely as well. Attempting to decide on a combined sales compensation plan without understanding the strategic intent behind the merger is a classic example of putting the cart before the horse. In our research and client experiences, we find four primary intentions behind merger and acquisition events. Typically, companies are looking to acquire:

1. **Non-Sales Talent**: A primary goal in many mergers and acquisitions is to acquire key non-sales team members, such as unique research and development talent or senior leaders.

2. **Product or Technology**: The acquirer seeks to own a particular product or to remove it as a competitor from the market.

3. **Account or Sales Relationships**: The acquired company may offer unique relationships with particularly attractive target accounts or industries.

4. **Sales Talent**: The acquirer seeks sales talent with specific product/technology knowledge, geographic coverage, or industry contacts.

Each of these reasons has different implications for a potential sales integration strategy. For instance, in the first case above, clearly sales force retention is not central to the strategic goal of the merger or acquisition, and so the strategy for addressing it becomes less relevant. In such cases, the primary human capital issue is finding the most fair and cost-effective approach to managing a reduction in the sales force. However, in the final two cases, the sales force is central to the merger. Here, handling sales alignment and the integration of the two compensation programs should be a pivotal early discussion in any merger strategy.

However, in some cases it is less clear or certain how crucial sales force integration and retention will be to the success of the merger. The second scenario is one such case and focuses on acquiring a product or technology. Results from our recent study showed that this also happened to be the most prevalent rationale for mergers, with 81 percent of respondents identifying this as a motivation for entering into one (see Figure 1).
Figure 1 – Top Reasons for Acquisitions

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire products</td>
<td>81%</td>
</tr>
<tr>
<td>Acquire other key talent, such as R&amp;D</td>
<td>52%</td>
</tr>
<tr>
<td>Acquire account relationships</td>
<td>42%</td>
</tr>
<tr>
<td>Improve economies of scale</td>
<td>35%</td>
</tr>
<tr>
<td>Acquire sales team talent</td>
<td>32%</td>
</tr>
</tbody>
</table>

Specifically for product acquisitions, sometimes the legacy sales force is needed to help sell the acquired product; in other cases, a core sales force can add the acquired product to the main product bundle. In cases where the need for sales force integration and retention is less clear, the following framework can help determine whether the case for alignment is pressing or not.

Understanding When and Why to Merge Sales Strategies

When considering a newly merged organization, we often begin with two simple questions: do the sales teams target the same accounts/buyers? If so, is it sensible to have two separate account managers? These questions strike at the root of the account coverage model and are critical to determining what makes sense in terms of allocating sales resources and roles.

Fundamentally, in asking the first question, we are looking for commonalities within an account and the buyer base. If the two firms as independent organizations did not cover the same accounts, then logically there is less immediate concern about go-to-market alignment. However, if they did sell to the same buyers, the need for a clear strategy to align account coverage and compensation becomes more urgent. In this case, we move on to the second decision node: we need to ask whether it makes sense to continue with two primary contact points or if one should ascend to an account manager role, with the other in a supporting sales specialist position. This simple decision-making framework is portrayed in the Account Coverage Decision Tree (Figure 2).
Figure 2 – Account Coverage Decision Tree

Three possible scenarios (Figure 3) can come from this decision tree. Each one considers the strategic urgency to integrate, equity perceptions that can cause morale or turnover issues and the administrative approach that can either help realize economies of scale or conversely serve as a source of inefficiency. Each scenario is set out in more detail below:

Figure 3 – Possible Scenarios from Decision Tree

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Urgency to Integrate</th>
<th>Equity Perceptions</th>
<th>Administrative Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ Separate Accounts</td>
<td>• Plans can remain unique</td>
<td>• Similar jobs with very different pay levels - equity perceptions may be a challenge if discovered</td>
<td>• Simple approach - continue paying on separate systems</td>
</tr>
<tr>
<td></td>
<td>• Consider cross-selling needs</td>
<td></td>
<td>• Long term - consider admin efficiencies</td>
</tr>
<tr>
<td>Scenario B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>➢ Same Accounts</td>
<td>• May be targeting different buyers in same account</td>
<td>• Different pay levels for similar jobs will cause equity concerns</td>
<td>• Different plans can operate on different systems</td>
</tr>
<tr>
<td>➢ Two Points of Contact</td>
<td></td>
<td>• Degree of difference drives need to integrate</td>
<td>• Long term - consider admin efficiencies</td>
</tr>
</tbody>
</table>
### Scenario C

<table>
<thead>
<tr>
<th>Same Accounts</th>
<th>Teams are calling on the same buyer - need unified front</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Central Contact Point</td>
<td>Immediate integration - requires strong communication and wise choices</td>
</tr>
<tr>
<td></td>
<td>Common plan - common admin system</td>
</tr>
<tr>
<td></td>
<td>Typically, the system from the company whose plans most resemble the new integrated plan is the right option to use</td>
</tr>
</tbody>
</table>

When considering timeframes for integration, we typically define the parameters in the following ways:

- **High urgency**: Consider aligning compensation plans within the first 90 days of the merger. The goal in this case is to have an aligned go-to-market model soon as possible with supporting role definition and sales compensation approaches in place at this time.

- **Medium urgency**: As the sales teams can exist without immediate alignment, the current compensation plans can remain, at least for the immediate future. But plans should be revisited for better alignment and administrative ease within the first year of merging.

- **Low urgency**: Sales teams are separate and can continue to remain so, particularly as accounts/buyers are not common. However, plans should be revisited as part of the normal assessment and design cycle. No more than two years should pass from the point of merger without a review or reassessment.

### Plan Integration Approach

Studying the strategic intent of the merger and determining the needs for account coverage alignment will naturally drive the philosophy of an integrated sales compensation approach. There are typically four ways to describe the approaches an organization may pursue:

1. **Status Quo**: In this case, the current plans remain in their current state. This is often the approach when the urgency to align and integrate is low. At some future point, all sales compensation plans should be reviewed and potentially modified, but in the near term, the status quo is acceptable.

2. **Force Fit**: As implied, this condition describes moving (or forcing) one team on to the other team’s plan design. This approach is often quick and can be carried out at the point of transfer, but results in an extensive clean-up time after the fact; the organization that is forced on to the new plan will usually respond fearfully. Excellent communication and change management is required to make this
transition as smooth as possible. Generally, force fitting comes with a risk of poor morale and turnover.

3. **Flexibility:** This approach attempts to align plans in general but allows for some special cases where unique plans or legacy approaches are justified. For example, if transitioning someone from a forward-looking contract metric to one tied to near-term revenue, companies may allow for a transition plan to bridge the gap and modify behavior more gently. A flexible approach may ease morale issues caused by sudden change, but the company usually bears an extra administrative burden to accommodate it.

4. **Collaboration:** This is the optimal approach that all integration efforts should aspire to. As part of the annual or biannual compensation assessment and design cycle, all sales teams within a company should have their plans reviewed via a structured assessment and design process. As this is often a time-consuming and highly participatory effort, most companies do not use this approach at the initial point of integration. Collaboration, however, is essential as the merged entity progresses and, in the long run, will result in the most optimal plan designs.

### Aligning Compensation Elements – Risks and Strategies

When looking to integrate sales compensation plans, our research identifies three compensation elements that are considered most challenging to align – pay levels, pay mix and measures. We will examine the risks and strategies for each in more detail:

**Toughest Plan Element 1 – Pay Levels**

In many cases, the two independent companies may have similar job roles at very different pay levels. This is commonly found when a large firm acquires a smaller one where pay levels (and potentially titles) are elevated with little regard to market practices or appropriate pay philosophies.

**Common Risks**

- Different total target cash (TTC) levels for similar jobs is the biggest equity concern
- People assign their own subjective value to the level of pay awarded – this is clearly a “hot button” during integrations
**Best Practices Strategies**

- Value the “job family” with objective market data and identified strategic significance
- Create pay ranges for flexibility
- If the TTC warrants reduction, consider a one-time offsetting payment to “make whole” – this can be accounted for as a retention bonus at the fiscal year-end
- Focus communications on overall employee value proposition

**Toughest Plan Element 2 – Pay Mix**

Another important aspect that may vary is pay mix, which describes the relationship between base salary and target incentive. The pay mix is one component that helps drive how aggressively and urgently a salesperson will seek not only to identify but close a sales opportunity. Ensuring each sales role has the right mix is essential to target customers appropriately, align them to their buying needs, and pace sales efforts to the required sales cycle time.

**Common Risks**

- Significant mix differences may represent strategic inconsistencies in any given role – levels of desired sales aggression may vary
- Mix impacts base salary and target variable incentive, which means that both cash flow (base salary paid every two weeks) and upside opportunity (usually a factor of target variable incentive) are impacted

**Best Practices Strategies**

- Determine desired aggressiveness for the role
- Similar to TTC, if the base warrants reduction, consider using a short-term non-recoverable payment to make the base whole
- Allow salespeople to transition to roles that best fit their skills, interest, and risk-reward profile

**Toughest Plan Element 3 – Measures**

Compensation plan measures speak directly to the focus of a role and should align with the overarching company strategy. Measures are the behaviors that salespeople should pursue to help
the company achieve its core results. When a measure changes, the entire focus of a salesperson’s role may change as well.

**Common Risks**
- Need to ensure selected measures focus on the right behaviors – and do not expect behaviors that are not measured to be pursued
- Must be able to track the measures selected

**Best Practices Strategies**
- Communicate the strategic intent behind measure changes – the “why” and the “what”
- Ensure measures can be tracked – best case calls for tracking a measure for six to 12 months before using it in a compensation program

**Conclusion**
This article has provided a logical and structured approach for determining how and when to align sales strategies and compensation plans after a merger or acquisition. The optimal way to approach any change strategy is to first understand why the merger was pursued and to define the go-to-market approach for covering accounts. Understanding those aspects helps determine the urgency required in addressing the plans and identifying potential risks that may exist.

The table below summarizes some of the best and some of the more problematic practices that can be used in a company’s change strategy:

<table>
<thead>
<tr>
<th>Best Practices</th>
<th>Poor Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Early focus should be on an integrated go-to-market strategy</td>
<td>1. Moving too quickly – too much change</td>
</tr>
<tr>
<td>2. Early identification of the new sales leadership structure</td>
<td>2. Failing to follow (and publicize) an inclusive plan review and design process after merger</td>
</tr>
<tr>
<td>3. Keep paying legacy plans at merger onset (as appropriate)</td>
<td>3. Failing to communicate the integrated go-to-market vision</td>
</tr>
<tr>
<td>4. Customize the approach for each integration</td>
<td>4. Lack of a clear decision making framework</td>
</tr>
</tbody>
</table>
Each integration event should be considered in its own context, with regard to its own unique goals. Mergers that feature two independent companies targeting the same accounts and buyers have the most urgent demands and greatest risks. While patience and thoughtful integration are always required, these opportunities should feature a clearly articulated go-to-market strategy as soon after the formation of the new organization as is possible, along with clear sales role definitions. From clear roles, the appropriate sales compensation programs can be structured to focus and reward top achievers, help ensure essential sales force retention, and best drive overall results.

SIDE BAR
Survey Data: Go-To-Market Alignment vs. Sales Compensation Integration

Companies often struggle not only with the question “how should we integrate,” but also with “when” and “in what order.” Market benchmarks that speak to both these aspects are often sought, and we have included this analysis in our research. Figure 4 shows that very few companies have well-structured go-to-market or sales compensation approaches at the moment when the merged organization comes into being. Of the two, go-to-market alignment typically leads: within the first three months, almost 7 in 10 companies have sorted out how accounts will be covered, whereas only 3 in 10 have considered sales compensation integration by this time. However, by the end of the first year, most companies have made significant progress on both counts.
When reviewing factors for a successful merger, our research shows that having a clear go-to-market strategy is the most significant factor identified. Interestingly, the degree of similarity in compensation plan designs for the two independent companies did not factor either way in determining a successful outcome. Effective sales compensation programs are dependent on clear strategy and effective sales role definition.

About the Author
Clinton Gott, Principal, is a cofounder of Better Sales Compensation Consultants. He is based in their Los Angeles offices and can be reached at gott@bettersalescomp.com or 310-968-3408.