The Psychology Of Sales Comp

BEHAVIORAL ECONOMICS & COMPENSATION PLAN DESIGN

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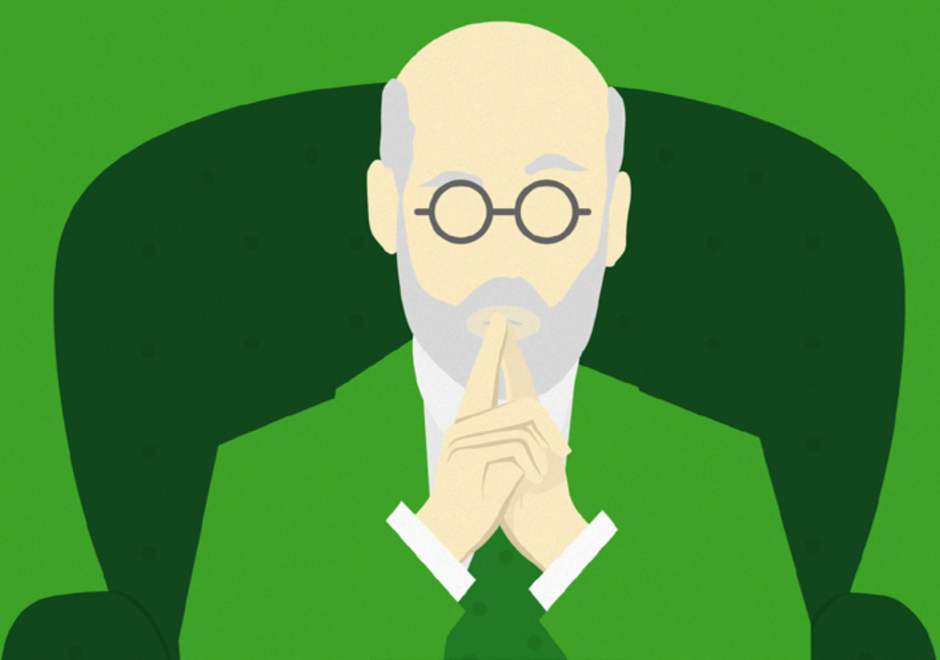

SIGMUND FREUD FAMOUSLY SAID...

"From error to error, one discovers the entire truth." Well, if there's one thing relatable in sales and incentive compensation management, it's errors, and while there's satisfaction in learning from and fixing errors, setting you up for success is preferred in this realm. Take a seat on the couch and we'll look through some paint blotches and get to the bottom of the psychology of sales compensation.

Behavioral economics is the field of psychology that aims to understand and describe why people act the way they do. Because on the one hand, people always have some reason for the decisions they make, but on the other hand, the reason isn't always what we'd naturally expect it to be.

Through study and observation, behavioral economics uncovers the core principles that drive the way humans act, serving as internal motivators we may or may not even realize are impacting our decisions. And by understanding these principles, we can better motivate others to engage in the kinds of behaviors we want to see.

This has huge implications for designing sales compensation plans. Behavioral economics principles can allow us to move beyond basic reward structures to get at even more fundamental motivators, enhancing employee productivity, morale, and sales.

In this ebook, we're going to take a look at a selection of principles from behavioral economics and consider how each one can be applied to incentive compensation management.

Applying behavioral economics to sales comp plans

These principles are all proven, effective ways to drive behavior, and they have direct application to sales. But it’s worth noting that while these principles of behavioral economics are true generally speaking, that doesn't mean they’re all equally true for every person. Different people feel different forms of motivation more strongly than others.

So a good sales comp plan should seek to incorporate a variety of these principles to make sure each sales rep has several forms of motivation that work for them.

Reward timing and hyperbolic discounting

In behavioral economics, *reward timing* refers to how the timing of a reward can significantly impact someone’s motivation to achieve that reward. Specifically, it finds that people tend to prefer immediate gratification whenever possible, so rewards that are offered as soon as possible have the greatest motivating power. And *hyperbolic discounting* highlights how people are frequently willing to receive a smaller reward overall if it means they can access it sooner.

For sales compensation, this means that small but frequent rewards will tend to be more motivating to sales reps than bigger rewards that are spaced further apart. This doesn’t mean you should remove long-term rewards entirely—those certainly have their place. But supplementing bigger rewards with smaller rewards that can be given out more often will go a long way toward enhancing morale and keeping up motivation.

This can look like small bonuses given out quarterly or even monthly for reaching specific milestones. Or short-term performance contests with immediate rewards given to top performers.

It can also be hugely beneficial to provide sales reps with a way to see exactly what they've earned the moment they earn it. Even if they don't actually receive their commissions in their bank accounts at that moment, the simple ability to see what they've just earned can have tremendous motivational power. To do this, you'll need a high-quality incentive compensation management (ICM) platform like **Performio**.

Social proof and competition

Social proof and competition are two closely related principles of behavioral economics that work well together for motivating behavior. Social proof refers to the tendency people have to imitate others, particularly when they're uncertain about what they should be doing themselves. And *competition* refers to the innate drive people have to measure and compare themselves against others, aiming for superiority.

In the context of sales, this means that underperforming sales reps will want to imitate better performing reps with the goal of ultimately outperforming them. This is especially true when they see others receiving praise or recognition for specific (and preferably imitable) actions they've taken. And when they receive such recognition themselves, it serves as a powerful way to enforce their behavior and keep them on the path of something they're doing right.

At the most basic level, this means being quick to give out individual praise wherever it's deserved, even for small things, and doing so via public methods that others will see. But you can also foster healthy competition among the whole team by setting up public leaderboards that compare the performance of each sales rep. In **Performio**, adding these leaderboards is as simple as clicking a button.

Non-monetary incentives

Behavioral economics recognizes that people are driven by a wide variety of different types of rewards, not just monetary compensation. We've just covered how praise and recognition can serve as motivating factors, and other **non-monetary incentives** can include things like personal growth or a sense of achievement.

This can be applied to sales compensation via symbolic rewards, like a salesperson of the month, as well as via opportunities for advancement, like access to training and certification programs. You can also offer non-cash incentives in the form of things like extra paid time off so high performers can enjoy a longer vacation.

Additionally, non-monetary incentives can be thought of at both the individual level and the group level. At the group level, for example, they can include things like spontaneous catered lunches to reward strong recent performance and bigger group activities that take place less frequently, such as during your **sales kickoff**.

Goal-gradient effect

The *goal-gradient effect* describes the tendency for people to become more motivated the closer they become to reaching a goal. And not only does motivation increase, but so does the amount of effort people exert as they come closer to achieving their goals. Additionally, they experience a positive feeling of accomplishment every time they complete a goal.

This principle can be leveraged and effectively applied by breaking larger goals into a series of smaller incremental goals. And better yet, if each of those smaller incremental goals come with a small reward, it can further reinforce the reward-timing principle.

One example of how you could apply the goal-gradient effect in a sales comp plan would be to include tiered rewards that increase in value every time a sales rep crosses a specific sales milestone, such as a small bonus at 25% of the target, slightly larger bonuses at 50% and then 75%, and of course the full reward once the target is completed.

Gamification

Gamification refers to the application of game-like elements and principles to non-game contexts in order to motivate behavior. We see gamification frequently used, for example, in apps designed to help people accomplish things like learning new languages or achieving fitness goals. Gamifying activities can significantly improve engagement and help people feel a sense of accomplishment as they progress through a series of activities or work toward a goal.

While gamification is not strictly a psychological principle in itself, it fundamentally operates as a culmination of multiple behavioral economics principles—namely, all the ones we've discussed up until this point. So it's worth considering in this context how we can use gamification to motivate sales activities.

If you want to go all in on gamifying your sales comp plans, there are many whole platforms dedicated to doing just that, like **SalesScreen**, **Spinify**, and **SmartWinnr**. But you can also apply gamification principles in smaller ways.

We've already discussed the value of leaderboards as an application of the competition principle, and that certainly qualifies as an example of gamification. Another small but meaningful example is simply providing a progress bar that allows reps to see exactly how far along they are and how far they have to go toward reaching their goals. Both of these features are included in **Performio**. Other elements of gamification you can incorporate include setting up a system of points that sales reps accumulate for various sales activities, badges they can earn for particular achievements, and challenges offered weekly or monthly to accomplish specific mini goals.

Anchoring

Anchoring refers to the tendency people have to form a cognitive bias toward the first piece of information they learn about something, using it as an "anchor" or reference point for their future actions. Once an anchor is set, it can be very difficult for people to adjust away from it. The principle of anchoring can be summed up by the common expression that "first impressions last a lifetime."

For sales comp plans, the anchoring principle means that you want to set initially high (but still achievable) targets for sales reps to reach. Doing so ensures that the reference point set in reps' minds is one that encourages them to sell as much as possible. If you end up needing to lower those targets, their anchor will still be set on the higher target, encouraging them to still reach that target if at all possible.

Additionally, since the first piece of information introduced tends to be what sticks, this means you should present your plans in a way that starts with the big goals, and then works its way down toward the smaller incremental goals along the way.

Scarcity and Exclusivity

Scarcity refers to how people tend to place a higher value on things that are (or are perceived to be) limited in availability. And exclusivity adds onto this the desire people have to be part of a select group that gets to participate in something not shared by the broader population. These principles work together to make it such that the rarer something is and the more difficult it is to acquire, the more they tend to want it.

Scarcity and exclusivity are used all the time in sales to convince customers to buy via limited-time offers and exclusive deals. But the same principles can be equally applied to sales comp plans.

For example, you can make "limited-time offers" for special sales incentives that are only applicable for a select time period. Reps will be extra motivated to reach whatever goals are needed to acquire these special rewards, as they won't always be around to earn. Another example would be to offer exclusive rewards to top performers with a limited number of slots available, such as dedicated parking spots or attendance to exclusive company events.

Loss Aversion

In behavioral economics, *loss aversion* refers to the principle that people generally prefer to avoid losing something they already have rather than gaining something new. According to Daniel Kahneman and Amos Tversky, who introduced this principle, the psychological pain of losing is roughly twice as powerful as the pleasure of gaining. This means that people tend to work even harder to prevent losses than they do to acquire new rewards.

In sales, the clearest example of this principle at work comes in the form of clawbacks on commissions or bonuses for sales that are canceled. When highlighted properly, this can motivate sales reps to ensure that they're pursuing high-quality leads and that they're invested in long-term customer relationships.

You can also employ this principle by offering small ongoing commissions that continue for as long as a customer remains active. Sales reps will come to expect these commissions as a regular part of their income, and they'll be very motivated to ensure they continue.

Another way to achieve this psychological effect simply has to do with framing. Rather than presenting a reward as a bonus that they can earn, you can present it as a standard bonus they should expect—but which can be lost if their performance suffers.

However, extra care should be taken with this particular principle. Although loss aversion is a powerful motivator, it can also be a source of stress for sales reps, especially if it's overused. Be careful not to apply this principle to the point that you end up harming morale.

Motivate behavior and drive sales with Performio

Applying these principles of behavioral economics to your sales comp plan can be a great way to motivate sales rep behavior, boost morale, and drive sales. But to do it effectively, you need an ICM platform robust enough to handle whatever you throw at it.

Performio is built to handle complexity in sales comp plans. It allows you to capture and accurately calculate any level of nuance you need to include, without becoming cumbersome or difficult to manage.

And Performio comes standard with features that take advantage of these psychological principles, such as the leaderboards that encourage healthy competition, the progress bars that show reps' advancement toward goals, and the real-time updates that show what they'll earn for any completed sales activity.

Ready to see what Performio can do for your organization?
Request a demo today.

Request A Demo

DRIVE SALES PERFORMANCE

WITH EFFECTIVE SALES COMPENSATION PLANS