ZS AND REALITY WORKS GROUP EXECUTIVE SUMMARY

Outside In:
The Rise of the
Inside Sales Team

ZS and Reality Works Research
on Inside Sales in High Tech
Outside In: The Rise of the Inside Sales Team

In high-tech, inside sales is hardly an outlier—according to new research from ZS and Reality Works Group, inside sales professionals at high-tech companies will be generating an increasing percentage of sales over the next two years.

The research reveals that although inside sales make up only 22% of headcount at large tech companies, 40% of these large companies plan to increase their inside sales headcount by 2016. Meanwhile, smaller high-tech companies and startups already generate 55% of sales from inside teams.

As the industry moves toward inside sales models, it will have a ripple effect across high-tech companies, changing how they motivate and reward sales teams, determine and align sales territories, and even how high-tech companies’ sales operations are configured.

This executive summary of the research presents the findings from the study, offers insights about what these findings mean, and provides a look into the future of inside sales at high-tech companies.
Introduction

“We’ve invested time and effort in our ongoing inside sales tools, training and effectiveness programs. This works to keep us current and competitive in the marketplace. Reps receive specialized training such as social selling that helps them improve their productivity and condense sales cycles to achieve higher revenue as well as develop and practice new skills. Investing in enhancing our locations and fostering community allows ADP to keep our reps motivated and retain them longer.”

—Liz Gelb O’Connor, Vice President, Inside Sales Strategy & Growth Initiatives, ADP

“SAP has recognized that for many of our buyers, inside sales is the channel of choice. As a result, we are looking to double our team [in 2015].”

—Tony Pante, COO Global Inside Sales, SAP

The high-tech industry is undergoing a major shift in how it sells products and services. The model of field-based teams leading sales with the support of inside sales staff is being turned on its head: Over the next two years, inside sales professionals will drive an increasing amount of sales.

A new survey by Reality Works Group, a sales consultancy specializing in modern sales models, and ZS Associates reveals that 40% of large technology companies plan to increase their inside sales headcount by 2016 (see Figure 1). Inside sales currently make up just 10% of sales at these large technology

Inside Versus Outside Field Sales

Mean Percentage of Total Sales Headcount

<table>
<thead>
<tr>
<th>Inside Sales</th>
<th>Outside Field Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>22%</td>
</tr>
<tr>
<td>Medium</td>
<td>44%</td>
</tr>
<tr>
<td>Small</td>
<td>74%</td>
</tr>
</tbody>
</table>

Plans to Shift Resources Over Next Two Years

<table>
<thead>
<tr>
<th>Inside Sales to Field</th>
<th>Field to Inside Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>22%</td>
</tr>
<tr>
<td>Medium</td>
<td>4%</td>
</tr>
<tr>
<td>Small</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: ZS Associates and Reality Works Group.

Figure 1. Large high-tech companies rely heavily on field sales forces at present, but inside sales will become more prominent over the next two years.
companies, compared with 55% of sales from inside teams at smaller companies and startups, according to the survey.

“This shift will affect how all high-tech companies approach drivers of sales force effectiveness, including motivating and rewarding these teams,” says Kyle Heller, a leader in ZS’s High-Tech practice.

By definition, inside sales roles are responsible for selling primarily by phone and online, with limited face-to-face contact. (In 2013, ZS noted the growing power of inside sales as IBM and SAP refocused and reinvested in their inside sales teams.1)

Three primary factors are giving momentum to inside sales:

1. Business-to-business (B2B) organizations are under margin pressure and are seeking more efficient ways to sell.

2. B2B buyers are becoming more comfortable using the Web, social media and email to inform purchasing decisions.

3. Videoconferencing and collaboration technologies let inside salespeople create customer intimacy without field interaction.

“As industry watchers and consultants based in Silicon Valley, we’ve seen a growing number of companies launching with an inside sales team, or a hybrid strategy,” says Anneke Seley, CEO of Reality Works Group and co-author of “Sales 2.0: Improve Business Results Using Innovative Sales Practices.”

“They’ve learned from and followed the example of a number of high-profile, cloud-native business successes,” she says. “For these companies, inside sales is the primary sales channel.”

Survey findings

According to the survey, at 90% of technology companies with more than $1 billion in revenue, inside sales teams sell to both new and existing customers, and 80% of these companies share coverage of accounts with the field (see Figure 2). At companies with revenues of less than $100 million, inside sales responsibilities are mixed, with 53% adopting models to sell only to new customers, 42% selling only to existing customers and many creating roles that sell to both.

Inside Sales Responsibilities by Company Size*

- Small Companies
- Medium Companies
- Large Companies

*Respondents may have chosen more than one option.

Figure 2. The sales responsibilities of inside teams vary greatly between small companies and their medium-size and large company peers.
In addition, 68% of these smaller technology companies surveyed say their inside salespeople have distinct ownership of territories and accounts (see Figure 3). As inside sales become ubiquitous, companies will need to assess the nature of inside sales deployment, including coverage of different customer segments, the best sales models for different products, phases of the customer engagement process and how each will affect compensation.

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**Inside Sales Roles by Company Size**

<table>
<thead>
<tr>
<th>Role</th>
<th>Small Companies</th>
<th>Medium Companies</th>
<th>Large Companies</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discrete ownership of territories/accounts</td>
<td>68%</td>
<td>50%</td>
<td>86%</td>
<td>74%</td>
</tr>
<tr>
<td>Shared coverage of accounts with the field</td>
<td>11%</td>
<td>43%</td>
<td>80%</td>
<td>37%</td>
</tr>
<tr>
<td>No field organization</td>
<td>0%</td>
<td>0%</td>
<td>32%</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Respondents may have chosen more than one option.

*Figure 3. Inside sales roles often have distinct ownership of territories or accounts, but this is more pronounced at small and medium-size companies than at large ones.*

Technology companies have varying fee structures that will further complicate the shift toward inside sales and these go-to-market challenges. For example, more than 90% of large software companies surveyed built their business selling software licenses with field sales teams, though they are also ramping up inside sales teams.

“These larger and more complex companies must figure out how to sell and compensate both license and SaaS structures in parallel, as well as how they’ll deploy their salespeople to accommodate both models,” Heller says.
Inside sales job design and challenges

One of the first steps in establishing compensation for inside sales team members is to clarify whether they are exempt or nonexempt from earning overtime pay. This is a source of confusion: Half of large companies surveyed classify their inside sales staff as exempt from overtime, while the other half of respondents classify inside sales as nonexempt [see Figure 4].

Confusion over federal labor laws and lawsuits filed against high-tech companies concerning overtime has made it difficult, at best, to discern how to address overtime for inside sales teams.2

"Bigger firms are finding out the hard way that the same overtime laws don’t always apply for inside sales teams as field salespeople,” says Chad Albrecht, who leads the Sales Compensation practice at ZS. “While inside sales roles are starting to look like those in the field, you need to identify when to treat them similarly, and when distinct treatment should exist.”

That treatment applies to how companies approach hiring, development and retention. The turnover rate for inside sales roles stands at 19% for technology companies, according to the ZS and Reality Works Group survey, which is higher than for outside sales roles.

"It’s absolutely critical to attract and retain talented inside sales professionals,” Heller says. “Companies need to consider retention strategies, competency models, coaching and career progression for inside sales, just as they do for their field sales organizations.”

According to Seley, part of the issue is a mindset that does not consider inside sales on the same level as field sales: “It is outdated to think of inside sales as a junior, script-reading selling organization,” she says.


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**Exemption Status by Company Size**

<table>
<thead>
<tr>
<th>Category</th>
<th>Nonexempt</th>
<th>Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Companies</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Medium Companies</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Small Companies</td>
<td>95%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Figure 4. Inside sales teams are far more likely to be exempt from overtime at companies with less than $100 million in annual revenue.
Inside sales compensation practices

For most high-tech companies, the predominant approach in compensation is to "closely link incentive pay to what they sell," Heller says.

Seley says that "it is demotivating to give an inside salesperson a quota and commission plan, but make them dependent on field sales to close deals. If a team quota is in place, it is still important to carve out what inside reps are responsible for, and compensate them on that contribution."

About 95% of small companies reported using commission pay structures for inside sales teams, compared with 60% of larger tech companies, which prefer quota-based compensation (90%). Some 79% of small tech companies also use quotas to determine pay [see Figure 5].

Compensation Components by Company Size*

<table>
<thead>
<tr>
<th>Component</th>
<th>Small Companies</th>
<th>Medium Companies</th>
<th>Large Companies</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission</td>
<td>95%</td>
<td>81%</td>
<td>79%</td>
<td>95%</td>
</tr>
<tr>
<td>Quota-based</td>
<td>60%</td>
<td>71%</td>
<td>79%</td>
<td>90%</td>
</tr>
<tr>
<td>MBOs</td>
<td>0%</td>
<td>29%</td>
<td>40%</td>
<td>19%</td>
</tr>
<tr>
<td>Relative-based</td>
<td>5%</td>
<td>7%</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Respondents may have chosen more than one option.

Figure 5. More small and medium-size high-tech companies use commission plans than larger ones, but large companies are more likely to have a quota system as well.
Startups are more likely to be high-growth companies, and they want to link expenses closely with revenue, Albrecht says. “They are hunting for new business—and hunters are paid on commission.”

**Median Ratio of Incentive Pay for Top-Performing Inside Sales Reps***

*For most recent fiscal year.

![Bar chart showing median ratio of incentive pay for top-performing inside sales reps.](https://example.com/chart.png)

Figure 6. Small high-tech companies plan to pay twice their incentive target pay, while medium and large companies plan for a lower ratio.

Smaller companies also give greater rewards for their top performers: Smaller companies planned for top-performing inside salespeople to earn twice their target incentive pay, compared with 1.65 times incentive pay for the larger technology companies (see Figure 6).

“In smaller companies, inside salespeople are more likely to own accounts, and they’re truly influencing the final result,” Albrecht says. “At larger companies, inside salespeople are more likely to be teamed with a field person or part of a key account team, and have less of a direct impact on the overall result.”
Top inside sales compensation challenges

1. Quota-setting fairness

When asked to name the most significant challenges in compensating inside sales teams, quota-setting was respondents’ most pressing issue (see Figure 7).

<table>
<thead>
<tr>
<th>Most Cited Compensation Problems for Inside Sales Teams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quota-setting fairness</td>
</tr>
<tr>
<td>Competitiveness of total pay levels with the market</td>
</tr>
<tr>
<td>Sales forecast accuracy</td>
</tr>
<tr>
<td>Adequate opportunity to motivate and retain top performers</td>
</tr>
<tr>
<td>Plan complexity and/or rep comprehension of the plan</td>
</tr>
<tr>
<td>Efficient incentive compensation administration</td>
</tr>
<tr>
<td>Data availability to accurately assess performance</td>
</tr>
<tr>
<td>Effective communication of the incentive plan</td>
</tr>
</tbody>
</table>

Figure 7. Quota-setting fairness, competitiveness of pay levels and the accuracy of sales forecasts are the most often cited problems for managing inside sales teams.

According to the survey, 90% of larger technology companies and 79% overall use quota-based plans, making sales quotas the linchpin for inside sales motivation and retention. And yet, often companies oversimplify quota allocation by spreading growth evenly across the team, based solely on historical sales or what’s in the pipeline.

If quotas are too aggressive, sales motivation and productivity will diminish; set targets too low and sales teams lack motivation and compensation payouts will escalate faster than sales.

To establish a competitive compensation level and base-to-incentive mix, companies should benchmark each inside sales role against comparable roles in the market using third-party or custom surveys.

“Developing a measure of customer-level sales opportunity has been the biggest difference maker I have seen,” Heller says. “Setting and testing quotas using a sound measure of available sales opportunity completely changes the discussion.”
2. Pay competitiveness

The second-most cited compensation challenge was establishing a competitive pay level for inside sales teams.

“In certain geographies, there is so much competition for experienced inside sales professionals that salaries and commission plans have gone through the roof,” Seley says.

Not only is competitive pay essential in motivating sales teams, but as in all sales roles, it is essential in hiring and retaining the best salespeople.

“If you don’t appropriately pay for the top sales talent—and instead match their pay to a more junior role such as a customer service or sales development rep—you’ll get what you pay for,” Albrecht says.

3. Sales forecast accuracy

Sales forecast accuracy is a concern for 42% of respondents. Generally, it is one of the biggest drivers of effective quotas and inside salesperson motivation. An unrealistic sales forecast (usually with overaggressive targets) is the most commonly reported cause of ineffective quotas, often resulting in a sales force that is underpaid, disengaged or unmotivated.

“It’s difficult to realize the benefit of the plan design and quotas on salesperson motivation if the sales forecast is too aggressive,” Albrecht says.

Heller says that creating sales forecasts needs to be a rigorous analytical exercise, supplementing market and pipeline data with historic salesperson, product and customer data.

“There are numerous analytics products now available to help sales and finance managers with quota-setting and forecast accuracy,” Seley says, “but it’s still important to apply critical thinking to make sense of the data.”
On the horizon

The sales landscape continues to change rapidly: Social selling, online communities and a host of collaboration platforms allow inside sales staff to respond to prospective customers efficiently and effectively. Additionally, tools for sales acceleration, productivity measurement and analytics are proliferating. Changing business models, technologies and customer preferences are prompting high-tech sales organizations to rethink the way they design and deploy sales resources.

Companies that can nurture both inside and outside sales teams—and level the playing field in terms of career development, progression and compensation structure—will have a competitive advantage.

“Technology companies have entered an age when a LinkedIn connection could hold as much sales power as a face-to-face meeting,” Heller says. “Each company needs to evaluate its sales structure, design and compensation model, and get this right.”
About the Experts

Chad Albrecht is a Principal with ZS in Chicago. Chad leads ZS’s B2B Sales Compensation practice. He has helped numerous clients create and implement motivational sales incentive plans and set fair and challenging sales quotas. Chad’s clients include companies in the high tech, medical device, hospitality, manufacturing and business services industries.

Anneke Seley, founder and CEO of Reality Works Group, is recognized as a pioneer and thought leader in the field of inside sales. She is the designer of Oracle’s global multibillion dollar inside sales organization and co-author of *Sales 2.0: Improve Business Results Using Innovative Sales Practices*.

Kyle Heller is a Manager at ZS Associates in San Francisco, and is the Sales Compensation leader in ZS’s High Tech practice. He is a Certified Sales Compensation Professional (CSCP) whose expertise includes plan design, goal setting, plan administration and plan health checks. Kyle is a frequent speaker at sales compensation conferences and previously co-chaired ZS Associates’ Compensation Conference. In addition, Kyle has authored several articles on incentive plan design best practices and trends.
About ZS Associates
ZS Associates is a global leader in sales and marketing consulting, outsourcing, technology and software. For more than 30 years, ZS has helped companies across a range of industries get the most out of their sales and marketing organizations. From 21 offices around the world, ZS experts use analytics and deep expertise to help companies make smart decisions quickly and cost-effectively. ZS comprises multiple affiliated legal entities.

About Reality Works Group
Reality Works Group is a recognized pioneer in digital/social and inside sales strategy and implementation consulting. Reality Works Group has helped more than 500 companies—from startups to global enterprises—design, launch and measurably improve process-driven and technology-enabled sales teams.
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