A Practical Guide to Sales Compensation

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INTRODUCTION

THE IMPORTANCE OF PLANNING

The first thing you have to realize when trying to demystify the sales profession is that we sell all the time. Everything speaks and everything sells. First, you have to sell yourself. The way we look, the way we dress, the way we communication – it all shows people who we are If people don't buy into who we are, then they're definitely not going to buy the product or service we're trying to sell.

You don't solely work for your company. You work for yourself, first and foremost. Here's how I like to think of it: You are the CEO of You, Inc. John Preston, a professor at Boston University, once said, "The nicest thing about not planning is that failure comes as a complete surprise and is not preceded by a period of worry and depression." While that sounds like a liberating way to live life, let's face it: planning is crucial. Relative to sales compensation plans, actually having a plan is the best way to go. Compensation drives behavior. You are doomed to failure, not only in sales, but more specifically, unless your sales compensation plan is laid out and simple. In the profession of selling, compensation drives behavior

So what can adopting a plan do for you? Well, for starters, it can create incremental revenue opportunities. The proper plan can provide clear direction to drive your activities and those of your team. Planning also helps integrate new and virtual team members faster and more effectively. These days, everyone is plugged in, and working remotely is more and more becoming the wave of the future, so the more prepared you are to quickly and effectively integrate new members of your staff, the better. Not to mention, the new members will appreciate the efficiency and will feel they can rely on you and the plan. Also, effective strategies will enable management to make informed business decisions as they relate to sales.

Sales is the highest paying hard work and the lowest paying easy work, and having a plan only makes that work more effective. A study conducted by CSO Insights in 2012 found that 61 percent of sales executives listed increasing revenue as their first priority, while 56 percent valued increasing sales effectiveness. One way to easily increase your sales effectiveness is to adopt a sales compensation plan that works—for you and your team.

CHAPTER 1

PLANS: SUCCESSES AND FAILURES

As former chairman and CEO of General Electric Jack Welch once put it, "If you pick the right people, give them the opportunity to spread their wings and put compensation as a carrier behind it, you almost don't have to manage them." Mr. Welch's theory addresses the four fundamental pillars of a successful compensation plan.

First, you must attract top talent. In order to hire the best, you have to offer the best. Plans designed for average performers attract average sales team members. But instating a successful sales compensation plan allows an organization to attract and hire the best talent out there. Once the right people have walked in the door and signed the dotted line, the company's compensation plan ensures that it will retain these top performers. Happy employees tend to stay put, especially in a down economy. But you must be consistent and acknowledge those who deserve it.

Put yourself in the employee's shoes to better understand why this is so important. Have you ever felt undervalued, or that you've worked much too hard for the pay you received? Most of us have. And that feeling lies at the heart of the fact that compensation drives behavior.

Establishing negligible consequences for underperformance is a quick step to losing your top talent. Superstar sellers will not be attracted to or motivated by a plan designed to reward average performance. And why would the industry's best stay at a company that rewards all sales team members alike? It can sometimes be tough, but rewarding exceptional performance and penalizing poor performance is not only the intuitive thing to do, it reaffirms for your top performers that you stand true to your plan, the plan they signed on for.

Adding incentives can be a very effective way of motivating new employees or getting staff to support change when the company needs to change processes or business strategies. Incentives are an example of an activity accelerator that drives desired behavior. Common examples of behavior changes include pursuing new customers or new markets, changing product mixes, increasing gross margin or average sale size, or improving customer satisfaction

This goes for base salaries, too. Setting base pay ranges too high or too low is a surefire route to compensation plan failure. Those who don't perform sill manage just fine, so the incentive to sell more isn't there. It can also be a magnet for poor staff members looking for a crutch. And even a good salesperson will coast if there is no compensation motivation. If the base pay is too low, however, it can be very hard to attract an experienced salesperson who can also perform up to standard.

This is where using a short-term guarantee commission comes in. This means that for the first three to 12 months, while a sales representative gets to know the company and product or service, an income is still provided so he or she can keep the lights on. The company guarantees the rep a salary while he or she takes time to learn the business, set up calls, meet with clients and get the ball rolling. A high guarantee allows new hires time to build their client bases while earning their keep, and it must be competitive with other companies in the marketplace.

Once you have hired the best, retained them and rewarded those who have positively performed, you must align your sales force's activities with the company's strategic objectives. For example, for a public company, one objective is to increase sales that drive revenue and, eventually, profits. A sales compensation plan ensures profitable business that drives a positives attitude of well-motivated sales people that, in turn, drives a company's sales, profits, earnings per share and stock prices.

Namely, if you value accelerated growth, and it's profitable for your company, I strongly encourage offering accelerated compensation for growth—it's not only fair, but it can be a strong motivator for the sales team. What this means if you have a sales representative who has a sales goal of $1,000 that you're going to have accelerators that overachieve that quota. As a reward, rather than making commission on anything over $10,000, perhaps they earn one more percentage point on anything sold over, say, $100,000.

Regardless of the sales commission plan you adopt, the key is simplicity.

CHAPTER 2

HOW COMPENSATION DRIVES BEHAVIOR

To determine just how compensation drives behavior, let's get inside the mind of a sales representative. At the top of a sales representative's list of importance, you'd likely find that cash compensation—they're pay—is at the peak, along with benefits, the relationship he has with his boss, work-life balance, or how many hours he puts in, followed by promotions, career development, and finally, recognition.

If at all possible, try to avoid hiring what I call "coin-operated" sales people, meaning they respond only to pay incentives, which sales management uses to manipulate sales personnel actions. The sales force is somewhat immune to other forms of managerial oversight and the attitude is, "Unless it's in the pay plan, it won't get done."

This is why well-devised sales compensation plans work. And there are three tiers as to why: economic, social and self-construct. When it comes to the economics, it's not only about the money. Health protection, security, weather, physical safety and purchasing power all come into play too. Socially, employees like to receive positive recognition. They want to live in harmony. And self-construct is the person's pursuit of self-accomplishment, are they growing and maturing. In essence, do they feel like they're on the right track internally? When one or any combination of these components is misaligned, the results could be detrimental to the sales force's profitability. In short, the sales culture counts.

For example, how do you protect cash positions while balancing the seemingly contradictory problem of keeping sales costs under control and your sales force intact while revenues decrease? Compensating sales efforts appropriately is one solution for protecting margins, profit and cash. It's no secret that these have been turbulent economic times. An intelligent sales incentive program is one that compensates for achievement according to the company's business plan.

Vilfredo Pareto was a notable Italian economist who studied the distribution of wealth around the world. He helped us predict the imbalance of wealth distribution, namely that approximately 80 percent of most countries' wealth was controlled by 20 percent of the people. Today Pareto's theory is used to describe any scenario where the majority of the results are produced by a

minority of the participants. In sales, the "80/20 rule" is used to describe sales team performance—it describes a situation in which approximately 20 percent of a sales team produces nearly 80 percent of the total sales. To flip that around, the other 80 percent of the sales people are, in effect, only producing 20 percent of the team's sales. Of course, the ratio is not always 80/20. Sometimes it is 60/40, 90/10 or even 95/5. Regardless of the actual ratio, it only makes sense to compensate star performers and overachievers well for their results every quarter.

This is considered a new paradigm in sales, and there are seven steps to a successful sales compensation plan. First, you have to take the assigned quota for each sales rep and break it down to assignment per quarter. Assign a commission rate to that quota as if it were paid at 100 percent achievement. Determine what reduced rate you would be willing to pay for achievement of quarterly quotas for 70-, 80- and 90-percent attainment. Then decide what graduated commission rate you would be willing to pay for achievement over the quarterly 100 percent attainment for various levels like 110 percent, 120 percent, etc. When you sit back and watch the results come in for the first quarter this is implemented, you'll see that sales professionals achieving 70 percent of their quarterly quotas will receive the 70 percent. Those at 80 percent will receive 80 percent, and so on. But those exceeding 100 percent in any quarter should receive the effective rate of overachievement.

Here's a practical example of why this works: If you have ever tried to train a dog, you know that good behavior needs to be reinforced immediately and bad behavior, promptly discouraged. If you are teaching your dog to sit and the dog responds correctly, you immediately give him a treat. Withhold the treat—or hold out too long—and you've missed the window, failing to reinforce that behavior. Not to compare sales reps to dogs, but humans operate in essentially the same way: If they have a great month but are not rewarded until the end of the quarter or year, they lose the connection between results and compensation.

Why a floating commission plan works?

1. A Floating Compensation Plan can be accommodated to fit any of the ways you measure sales person goal attainment; sales, revenue, sales and revenue or profit.

2. Regardless of the economic fortunes of the enterprise, you keep incentive compensation proportional to measurables like sales, revenue or profits.

3. You conserve outlays of cash; you compensate those contributing higher value to the enterprise by compensating them proportionally higher. To prove the point, investigate your mean sales dollar of revenue and profit for all orders by quarter for the last year. Then contrast the mean percentage rate of commission payout for the entire sales force. You will see that higher commission rates are paid to sales persons that contribute less to the business.

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Source: Sales and Marketing Sales Management

Why a floating commission plan works?

4. You install a measurement mentality in the sales team that is based on quarterly performance, probably the same way you are compensated.

5. You want to keep sales force self-motivation always at peak levels. They will see, especially the 20% mentioned above, that they maximize their income by exceeding quota every quarter. Getting paid in the near term is an incentive too good to ignore.

6. The top 20% rightly will conclude they are being compensated at higher levels than the average and ordinary in the sales force.

7. Psychologically paying immediately following achievement has great motivating effect, especially if your sales force is highly driven for financial rewards for their successes.

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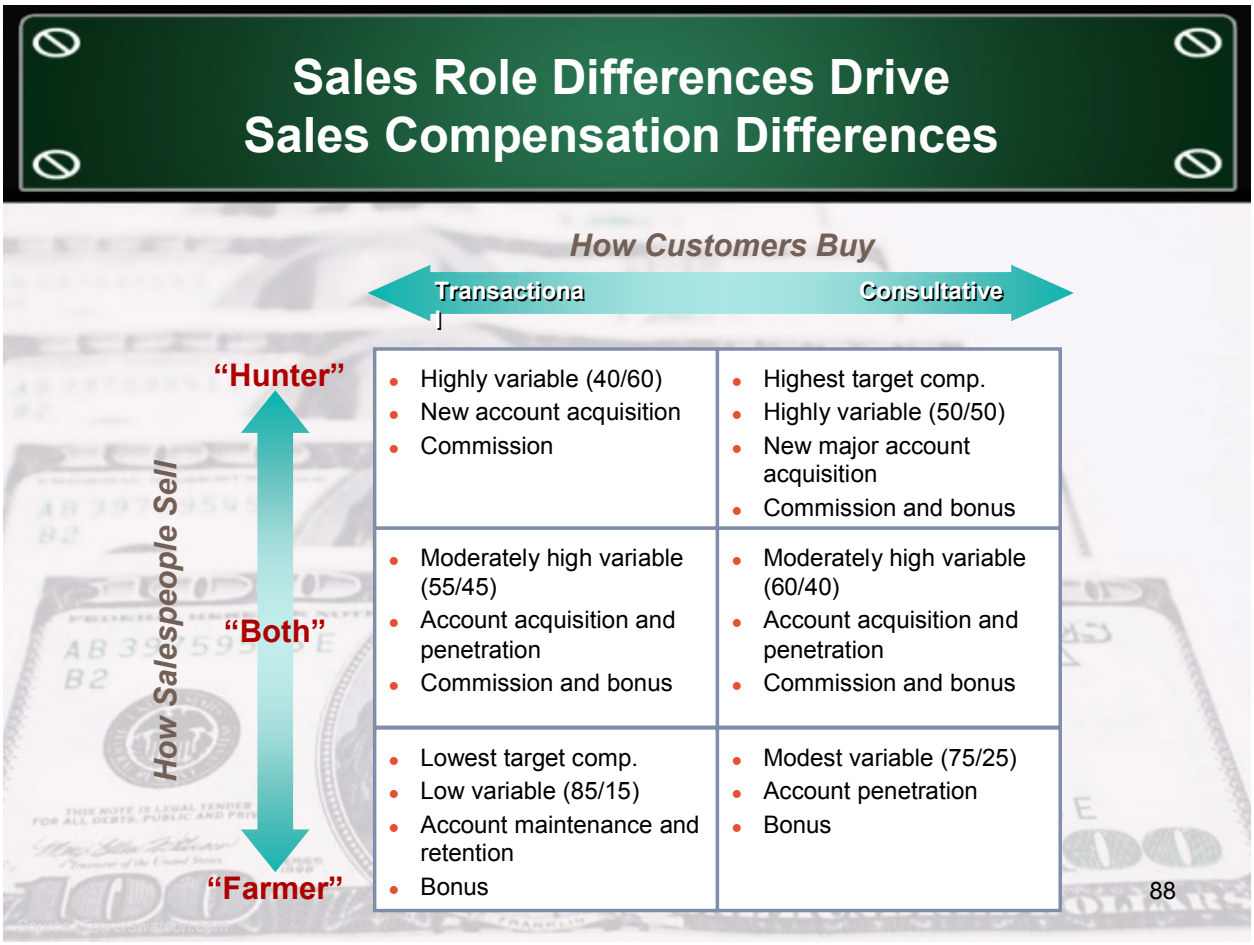
Source: How to Manage Sales Management

CHAPTER 3

SETTING THE FRAMEWORK

The best way to understand how to set your sales compensation framework is not only to understand how salespeople sell—but how customers purchase.

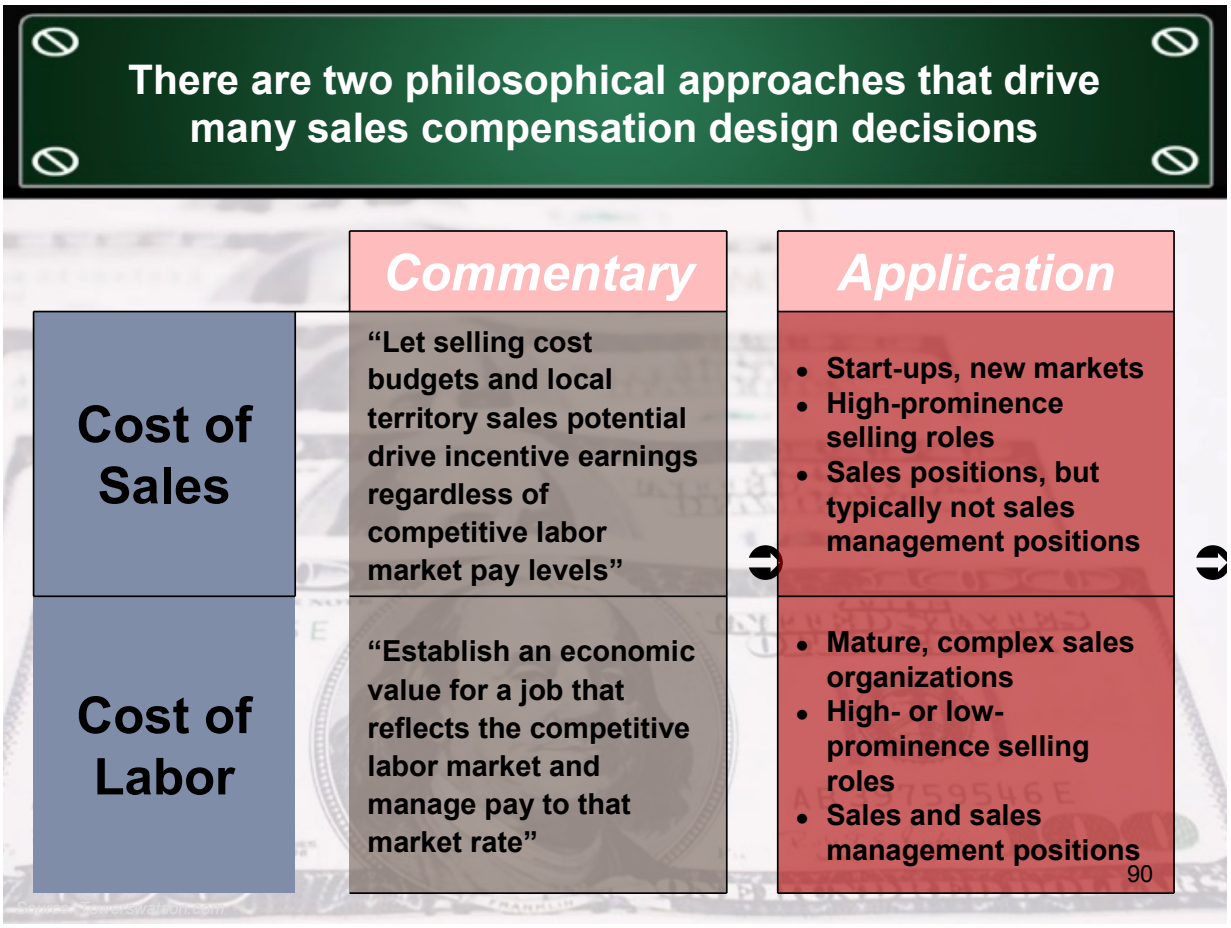
Most hunters are highly valued in sales and are the mostly highly compensated. In other words, these are aggressive people selling high-margin products.



As the sales profession progresses and matures by being heavily impacting by technology, the most highly compensated sales people are the hunter-consultative types.

This helps us to understand the best roles in which to place people. For example, an inside sales representative is more on the farmer side of selling, rather than the hunting, meaning he thrives mostly on account maintenance and retention, but he also responds well to commission. He fits both categories. The account manager, in contrast, works almost solely as a farmer, but can handle both transactional and consultative tasks. Other work types include territory manager and

account executive, both of which hunt for sales opportunities more than the other two types, only the account executive tends to work more on consultative projects than transactional. The territory manager can handle both.



Now let's take a look at the three major phases of designing a motivational sales compensation plan: assessment, detailed design and implementation.

The first step is to identify current sales effectiveness and compensation strengths and improvement opportunities relative to customer requirements, best practices benchmarks, contemporary business objectives, and requirements for profitable business growth.

Next, define or clarify the roles required to execute the go-to-market strategy. Then, design detailed incentive plan specifications for each eligible role. And finally, perform economic cost modeling to understand the projected cost of funding the new plans.

And the third phase is implementation. In order to implement the plan, establish a detailed communication and implementation strategy, including developing supporting communication and training materials. Set the changes in place by training management and staff, conducting pilot tests when appropriate and rolling out the new plan. To test the plan, monitor performance along the way and make any necessary adjustments.

Once the plan is designed using the three phases outlined above, there are a few essential elements to successfully develop the plan's framework. It is of utmost importance to have a sales strategy. Know what the business case is and what the business is trying to achieve. Once comfortable with the business's goals, spell out benchmarks and performance measures to help guide the focus of the sales force. The more detailed and targeted the plan is, the better. The next step is perhaps the most essential component: payout formula. This communicates to your staff what's in it for them. The payout formula lays out how the staff will be paid in terms of straight compensation or commission for sales.

And finally, governance details how managers and owners will resolve questions or conflicts that may arise over sales compensation issues not covered in the plan. As I mentioned, the more detailed the plan is, the better, so hopefully you will avoid any unforeseen pitfalls.

Realistically, though, the compensation plan won't be able to cover everything. Issues are going to arise, whether it's what constitutes a new account or what happens when several different people claim credit for a single sale. When a sales person brings a question to the sales manager, nine times out of 10 they will be able to resolve the situation. But when they aren't able to, there must be a plan of action to resolve unforeseen issues. Often, companies will form a committee comprising representatives from sales, human resources and finance to arbitrate such instances. Regardless, have a plan.

CHAPTER 4
SUCCESSFUL FORMULAS

When it comes to formulating a sales compensation plan, there are many options. Each has its own strengths and weaknesses. In this chapter, let's take a look at four forms of compensation plans, outlining the pros and cons of each, so you can determine the best plan for your business in order to reach its targeted sales goals.

Plan No. 1 is the "straight salary" plan. It's defined as a fixed annual income determined by the firm's owner or manager and is distributed equally among pay periods. The strengths are that it is simple to manage, provides a stable, secure income, and helps facilitate teamwork. Accounts and territory changes are easier, which promotes quality customer services. It's also clearly understood by all and managers can direct priorities. There's also very little, if any, impact when major cash comes in or goes out.

Straight salary plans, however, also limit sales staff incentives, and the top performers often subsidize the rest of the team, meaning the sales stars may not stay if they even decided to join the firm. This plan won't have aggressive sales. It's safe. And a more direct management of salespersons activity is required. In short, when a salesperson is guaranteed an amount, regardless of performance, compensation can't be used as a tool to shape his or her behavior.

Plan No. 2 is the "salary plus bonus" plan. It's defined by the firm's owner or a manager as a fixed annual salary, typically around 70 to 80 percent of the earner's W-2. A bonus is then paid usually once per year, sometimes twice or quarterly. Some of the advantages of the salary plus bonus plan are that it's a flexible plan for management, as the bonus amounts vary. It's easier to adjust for fast growth or loss for both parties, the sales rep and the company. The secure income is most of the earner's W-2. Also, account changes are easier and managers can direct priorities to balance long term.

Salary plus bonus plans, however, are a bit more complex to administer. They can create unclear goals, and often, sales representatives become successful without necessarily growing. Direct management is required more, and the plan somewhat limits salesperson incentive (with most of the income a guarantee). Most sales superstars shy away from a salary plus bonus plan because

this compensation model limits income upside and is more appropriate for a farmer/account manager type salesperson. They want a small salary with huge upside.

Plan No. 3 is the "salary plus commission" plan. It's typically defined by a firm owner or manager-set salary that makes up about 40 to 60 percent of the earner's W-2. Then, earners recent a percent commission from sold accounts, which is paid periodically, monthly, quarterly or twice per year.

The perks of this plan are that it provides earners with a "livable" base income, and then they are paid for performance. This provides incentive for assertive sales stars. Less direct management is involved, and it automatically adjusts. Bigger checks are tied to success, and the focus is on acquiring new accounts. This plan also helps owners with cash flow.

The drawbacks are that this plan is more complex to administer. It's a bit scarier for earners in that no sales equals no commission. With every man competing for himself, it can seem less like a team sales environment. It can be hard to change accounts and there is a limited ability to direct non-sales activities by the top salespeople.

Plan No. 4 is a "straight commission" plan. It's defined as a percentage of either sold/ accounts/products and the commission goes directly to the sales person. A recoverable draw commission plan is typically for a period of 90-180 days with a guaranteed salary and any accounts/products sold during this timeframe, the commissions are paid back to the company to recover monies paid. After the three to six month period the sales person goes on straight commission with no monthly compensation other than commissions paid.

If the earner's pay is between $3,000 and $6,000 per month, it's considered a draw. Commissions are paid twice annually every six months, where if six month commissions are:

The plusses of a straight commission plan are that they totally pay for performance, so they are a great incentive for superstar sellers. They can also create superstars. Non-performers are weeded

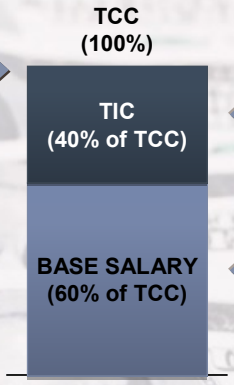
out. They automatically adjust, require less direct management and maximize the focus on income. Earners can see big checks if they are successful, and the focus is on new accounts.

On the flip side, no sales equals no commission, which can be quite scary to the earner. It's really tough to change accounts, there's almost no team selling, and there is very little ability to direct non-sales activities by the salespeople. It's a "when it's great, it's great" mentality, so you can develop longevity and loyalty among superstars. But it can also go equally sour in a moment's time.

Once you've determined the best plan for your sales team, introduce an effective compensation calculator. We will focus on target cash compensation (TCC) to determine the economic value of a job. It's composed of TCC, the targeted annual cash compensation level composed of the base salary "midpoint" plus the target incentive compensation (TIC). TIC is the amount for the achievement of on-target performance (i.e., 100 percent of goal). The base salary is the fixed portion of an earner's total cash compensation. Refer to the next two charts for additional explanation.

Pay mix is the proportion of TCC provided in base salary versus the target incentive compensation (TIC)

The sum of the base midpoint and the target incentive comp. (TIC) equals 100% of the target cash compensation (TCC)



In this example, target incentive compensation (TIC) represents 40% of target cash compensation (TCC)

In this example, the midpoint of the base salary range represents 60% of target cash compensation (TCC)

Pay mix represents a trade-off between urgency and control!

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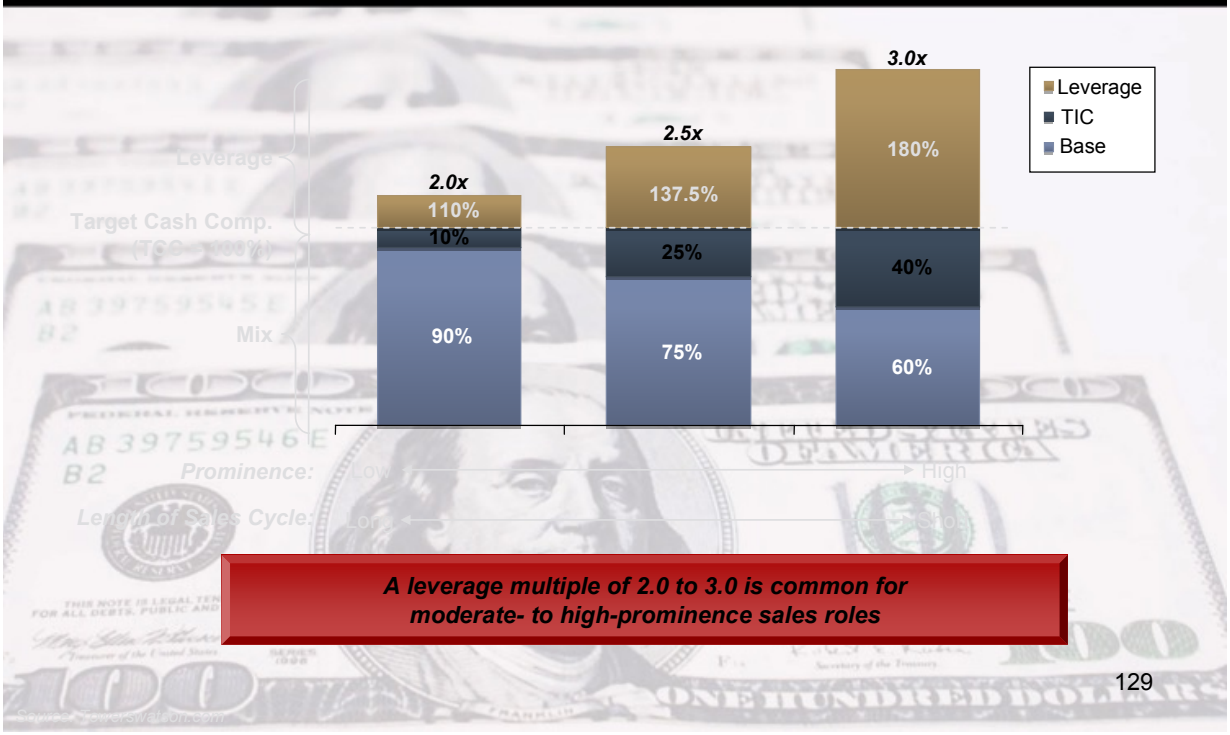
Pay mix and leverage work together to comprise the total cash compensation opportunity



A leverage multiple of 2.0 to 3.0 is common for moderate- to high-prominence sales roles

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CHAPTER 5
PLAN DEVELOPMENT

No sales compensation plan can be a success without practical development. There are four factors to consider when implementing a sales compensation plan: timing, people, analysis and ability to make changes. The first question you want to ask yourself is when do you want to put this plan into practice? Of course the ideal time is at the beginning of the first quarter of a new year, when you can start the year and your finances afresh, but in order to meet this target, you need to plan in advance. As Jim Stoeckmann, senior practice leader for sales compensation at worldatwork.org, says, "If you find yourself in the first quarter or later and have a sales force not focused on the goal, you're in trouble."

Secondly, you'll want to pull the right team together, and the members of your team should include a sales manager, someone from the field, a human resources representative, a finance representative and someone from sales operations. With that team in place, you'll combine various perspectives and allow each person to add his or her analysis on the current plan. The sales manager should offer feedback about how the plan is perceived by the sales force. Human resources will be able to compare your plan to what other companies are doing. The finance representative can give feedback on the cost of sales and whether sales representatives are paying their way.

After all this brainstorming and feedback, you will better determine whether your sales compensation plan needs to be updated. As Theodore Roosevelt said, "Appraisals are where you get together with your team leader and agree what an outstanding member of the team you are, how much your contribution has been valued, what massive potential you have and, in recognition of all this, would you mind having your salary halved."

CHAPTER 6

ALIGNING YOUR PLAN WITH COMPANY GOALS

Now, you'll want to align your sales compensation plan with your company's goals and objectives. In order to do this, just follow four simple steps: One, detail your costs. Secondly, you'll want to detail your compensation plan. Then identify the features of a best-case compensation plan, and finally, put it all together.

To detail your costs, it's no different than detailing your budget at home. You have to write it down. Ask yourself these easy questions: What is your range in base salaries? Variable compensation? How about travel, training and entertainment? And finally, how much do you spend on benefits? You'll also want to factor in your budget for your advertising and marketing staffs, and any other sales expenses you might have.

Tally this up. How much will each sales representative sell in a year? What's the percentage of sales costs per representative? Determine who the lowest-cost salesperson was as a percent of sales. Who was the highest? What gaps do you notice? After you ask yourself these questions, did your plan seem confusing at all? What actions might you want to take?

To detail your sales compensation plan, you'll want to first take a look at base salaries by percentage, dollar amount or range. What are your variable compensations? What perks or accelerators do you have? And what frustrations does your staff have with your current plan? What about management? What frustrations do they have with your current plan? And you? What frustrations do you have? Write this out, along with any other pertinent details, and really understand it.

CHAPTER 7
IMPLEMENTATION

Now, to implement an effective sales compensation plan, we'll take a look at the five key steps, the common mistakes owners of companies make, and we'll pinpoint common challenges.

The five key steps required in order to develop effective sales compensation plan are:

1. Develop communication and implementation strategies
2. Assess individual pay positioning and begin quota-setting
3. Develop communication materials
4. Train sales managers
5. Roll out incentive plans

When sales compensation plans fail, it is too often the result of a poorly conceived or executed implementation plan.

In order to develop communication and implementation strategies, you must first establish and charter the implementation team, including explaining all individual roles and accountabilities. Identify key messages and themes, and determine when and how you will facilitate the required training and communication events. The level of training required typically correlates to the magnitude of change represented by the new sales compensation plans. Then establish a very detailed rollout schedule and plan an effective date. You will also want to look at key milestones for each deliverable/activity, figure out training dates, and establish incentive plan conversion methodology and a transition period. Be sure to program IT systems for ongoing plan administration as well.

To assess individual pay positioning and begin quota-setting, take a look at individual sales staff relative to his or her role-competency levels. Slot incumbents accordingly into those roles and job levels. Then look at their current salary levels relative to the proposed base salary structure and determine if any individual salary adjustments are required. Establish sales quotas at business units, regional, and individual levels.

To develop communications materials, develop detailed incentive plan documentation, including governing terms and conditions. Submit T&C documents for legal review. You may need to develop supporting communication materials, including:

- Executive announcement
- Manager training materials
- Detailed presentations for managers to use with sales staff
- Earnings calculators
- FAQ documents
- Linkages to and develop content for company intranet
- Plan details
- Performance and incentive earnings dashboard

Sales managers are integral to your company's success. They must be trained effectively and efficiently, so you will want to conduct sales management training on various topics, such as the underlying sales compensation philosophy, the company's incentive plan rationale and objectives, and the process used to design these plans. You'll likely also train managers on key elements of the incentive plans, the implementation schedule, and sales quotas and performance expectations. It's also important that the sales managers understand their roles in the rollout process.

To roll out the new incentive plans, sales managers should hold training sessions for sales personnel, including geography-based overview presentations, role-specific breakout sessions, and one-on-one sessions between managers and sales reps in order to clarify questions and communicate quotas. Open communication is important here so everyone is on the same page. At this stage, managers will want to collect "plan agreement" forms, which are parts of the plan document, the new incentive plans will take effect, (THIS SENTENCE DOESN'T FLOW OR SOUND RIGHT TO ME??) and you'll want to conduct post-implementation audits.

Now let's take a look at some common mistakes company leaders make when implementing new sales compensation plans:

1. Commission/bonus payout is not based on revenue, margin or overall cost and expense structure.
2. The base salary is too large of a percentage of the total compensation, so the sales team is not motivated to sell.
3. The plan is a legal contract that can't be changed without due process.
4. The plan does not provide the proper incentive for the right behavior.
5. The accelerated commission or bonus paid for attainment after exceeding goal is too high.
6. There are too many components or measurements—it's too complex for the sales team to understand.
7. The plan is designed by a manager or executive who has little or no experience in developing sales compensation plans.
8. The time limits for commission payments are not specified.
9. The type of revenue (i.e., product, services, maintenance or royalties) for which commissions are paid is not clear.

To further these types of issues, there are typically two types of main challenges: business and technological. Some business challenges include an excel-based system for managing sales compensation that is no longer meeting the company's needs adequately, changing or working with large amounts of data (100 or more sales professionals) in a spreadsheet becomes a nightmare, or sales reps are "flying blind" with no real-time visibility.

Technological challenges arise when companies have separate CRM and sales compensation systems, and when there is a desire to leverage and extend sales force automation investment.

If you avoid these common mistakes and business and technological challenges, and provide a clear plan with strong communication among managers and reps, you will be on your way to a successful roll-out of a successful sales compensation plan.

CHAPTER 8

MAXIMIZING RETURN ON INVESTMENT

In order to maximize the return on your sales compensation investment, you'll want to be sure that compensation is just one driver of sales force effectiveness. In other words, the behaviors of your sales team, and your company's business objectives should play equal roles to your success as does the compensation plan. In order to be sure this is the case, your managers should place emphasis on goal setting, job design and role clarity, so each rep knows his or her role very clearly. It's also important to focus on account planning, access to information and data, performance management and training and development.

Return on investment (ROI) refers to the relationship between what is gained, and the resources used to achieve that gain. Typical examples include revenue generated or "R" (sales compensation expenditure) or "I," contribution margin generated (sales compensation expenditure).

The first lesson in your company's ROI is to define the desired "return" for your company. What is it you would like to get out of this business and what are you comfortable with? This must be defined in the context of your overall business strategy.

In order to being an ROI analysis, you must obtain a definition from management by soliciting stakeholder input at the outset of the plan design process. Gain consensus and reveal divergent thinking. Then confirm that the agreed-upon definition is measurable through discussions with owners of order transactions and database administration, etc. And finally, build the measurement tool or tools (i.e., dashboard) to support the relevant and practical definition.

There are five issues that may arise to get in the way of maximizing your ROI: wrong performance measures, too many performance measures, poor calibration of the pay-performance curve, the reps don't understand the plan, or the goals aren't attainable.

But there are five things you can do in order to avoid these mishaps or "leaks."

First, say a representative exerts effort, the company pays him, but the results for both are less than desirable. To prevent such a leak, define critical objectives for the company for the plan

period. For each objective, decide what "success" is, i.e., the metric that could be used in a sales compensation plan. Verify that each metric can be tracked and measured, and then for each job, narrow down the list to mission critical measures which align with required corporate results.

Or what if a sales rep exerts effort on non-critical measures, the company pays out, and key financial results fall short? In this case, you need to ask three questions: Is this the only job that controls this variable? Is this the most important job that controls this variable? And is there another way to manage accountability for the measure in this job? If more than three measures seem necessary, consider the job itself: Has it become too broad? Are there too many disparate responsibilities to focus adequately on any?

Here's another issue: Say the pay curve does not have a "steep enough slope;" It may not motivate sales reps to make the effort required to move quota achievement higher. To prevent the leak, be sure to design a plan so that payouts to "excellent" performers (those in the 90th percentile) are between two and three times the target. Also, take a look at historical quota achievement patterns and determine the performance level that typically represents the 90th percentile of performance for a given sales job. You won't find this answer by surveying your competitors; it is unique to your company.

When reps do not understand the compensation plan, and they don't understand how to make money under the plan, so they are not motivated by it. They "get a check, but have no idea how it was earned," in other words. To prevent this leak, again, design a plan that can be simply explained in one paragraph. Then train managers to understand and communicate the plan proactively and clearly. Communicate the plan in the context of strategy and job role, and create focused communication materials. Separate the plan document from the legal and policy documents, as these can be very confusing. And keep in mind that communication is not a one-time event through one medium, but a multimedia process over time.

Unachievable goals can reduce motivation so that performance fails to reach real potential. To prevent the leak, develop policy to limit quota over-assignment: both the level at which it occurs, and the magnitude. Then create a process to allocate goals based on sales potential and workload

which will better spread the top-down forecast. The result will be that more sales reps will carry more realistic goals, and more people will get closer to achieving their individual goals. Just be sure the plan has a reward for top performers, even in a year where overall performance is low.

In summary, use a commonly agreed on measure of ROI that reflects your company's important strategic objectives for the plan year. Make sure the plan is focused, and uses only several mission-critical measures of success. Design the plan so that sales reps and managers will earn significant dollars only by delivering desired results. Communicate the plan clearly, and in a context that ties it to the job role, the sales strategy, and the overarching business objectives.

CHAPTER 9
MONITORING AND EVALUATION

There are many ways in which you can successfully monitor and evaluate your sales compensation plan. To calibrate your compensation compass, closely align compensation with company goals, significantly and consistently rewarding high performers, and penalize poor performance. Motivate the right behaviors at the right times, and make sure the plan remains easy to understand and administer.

Here's where the value of the exit interview (when a sales representative chooses to leave the company) comes into play. First off, they must be confidential and formal. Be sure you keep a close eye on turnover patterns. Identify the root cause of why people leave the company; it can be a powerful tool to assist in the design of a new compensation plan. Perhaps most importantly, they can provide insights into management and other employees.

A few questions to consider:

On what was your decision to leave the company based?
What was your most and least satisfying experience?
Were regular performance reviews conducted with you?
If the situation were different, would you consider staying?

Performance measurement should be based on discrete performance measurement and cumulative year-to-date (YTD) performance measurement.

Discrete performance measurement considers performance in a given period only, without regard to performance in previous periods within the year, and is commonly used when there are little to no spikes and valleys in period-to-period performance or business cycle, when salespeople can't manipulate the order stream, and when short-term focus is appropriate.

Cumulative performance measurement considers performance in the current period, as well as prior periods on a YTD basis, and is commonly used when significant spikes and valleys in period-to-period performance or business cycles exist, sales representatives can manipulate the

timing of the order stream, and incentive earnings from period-to-period require smoothing. It's desirable to focus the sales force on full-year goals and results.

CHAPTER 10
BEST PRACTICES

Let's outline four best practices of sales compensation plans. First, invent on discount percent. Then, vary commission rates. When it comes to varying commission rates, all products are not created equal. Representatives will take the path of least resistance and gravitate to the higher-value products. Pay on margin. And create special payment incentive for fast sales (SPIFS). They can move obsolete products, encourage learning about new products, allow for quick, competitive responses, can be fun, and they work.

There are a few distinguishing structural issues to consider in developing an effective plan. First, will it scale? Should the sales commissions be capped or unlimited? How will the sales management be compensated? Also keep in mind the timing of the payout, relative to the sale or invoice. And what is the appeals process?

Once you have these answers, you'll be able to better tell who and what is your company's best bet, based on coming up with the right plan, hiring the best employees for the job, and finding common ground so each party is happy.

Looking for a recommendation? A good starting point is typically straight commission (33 percent with kickers up to 40 percent) or straight commission, 75/25, in which sales people pay their own expenses and an equal portion of the team's expenses.

"KICKERS"

- Straight commission - tiers
  - $0-150K per year, OS gets 33% of total
  - $150-200k, OS gets 35% of total
  - $200-250k, OS gets 37% of total
  - $300k+, OS gets 40% of total

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Keep in mind that to have a successful company, employees must be happy. Here's a look back at what we've determined employees want:

1. A job that's rewarding with lots of money
2. Work that's fair
3. Consistent and timely pay
4. Never changing (if above are true)
5. Efforts within their control
6. Easy and clear to understand expectations
7. Objective performance review
8. A roll that motivates them to grow
9. Accurate sales reports and feedback

Employers want:

1. Motivated sales team
2. Consistent (same plan) for all
3. Profitable firm ready to expand
4. Long-term customer relationships
5. Proudly brag (to potential clients)
6. Longevity and loyalty
7. Employees who are willing, dedicated, and committed to the team
8. A plan that's easy to manage and calculate
9. Rewarding with lots of money to lose
10. Fair (equitable to all)
11. Changes only when necessary
12. Easy and clear to understand
13. Objective performance reviews
14. A roll that creates personal motivation to change, stretch and grow

You can see that a lot of these wishes overlap, and sales compensation bound for success is the way to achieve these goals. Overall, sales compensation plans are most important to the sales people. It's how they get paid and take care of their families. It's the most challenging thing, however, for owners to create. But once it's created and executed well, it's the No. 1 component of the business that will keep good employees. Then, once you've implemented a successful plan and strategy, you are free to tout to others that it's an ideal plan for a successful team.

A few rules of thumb for review: Make sure you communicate at all times. Try to keep the plan easy and clear, and don't change it unless absolutely necessary. Remember that no two firms have same plan.

Employers must think like the employees (What would they want? What will keep them happy?). And employees must think like the employer (What's reasonable given how many sales people are on the team?)

When coming up with your plan, in summary, remember to involve the whole team. Every branch of your company should be involved in this ever-important decision. Consult with the sales representatives; after all, they will be impacted greatly by the decisionS made. Compile good data, so you're making decisions based on fact, not on guesses. Come up with a way to test the plan, and once it's tested and tweaked, commit to the success of the plan.