

Common Sales Compensation Plan Design Mistakes

Five Common Mistakes to Avoid as You Design Your 2009 Compensation Plans

By Dennis Spahr and Jonathan Minor

Benjamin Franklin (or some say Albert Einstein) once said, "The definition of insanity is doing the same thing over and over and expecting different results." Well, pardon us for saying so, but many of us who design sales compensation plans are insane.

Each year we all face more demands on our time. If sales compensation design is something we've done before, we are inclined to repeat the process we used in the past. Unfortunately, by doing so, we may also repeat the same mistakes year after year.

Mistake 1: Not Allowing Sufficient Time to Assess and Design the New Plans

You may have good intentions, but starting the assessment and design process in September when "everyone is settled after their summer vacations" doesn't provide enough time to fully vet sales compensation plans before January implementation.

At a recent Sibson-sponsored Software Sales Compensation Forum, most of the participating companies reported beginning their assessment and design *eight to nine months prior to the plan effective date*. Starting the process early in the year allowed these leaders to gather the necessary pay and performance data, solicit input from the various business and sales managers, and work with Finance to ensure the plans were cost-effective. A better time to start the sales compensation assessment and design process is when people are settled after their *spring* breaks in April or May.

Mistake 2: Including Too Many (or Too Few) People in the Design Process

In an attempt to include input from all key stakeholders across three business units, one organization recently had 27 people attend the first Design Team meeting. After a painful three-hour meeting reminiscent of a political debate, the vice president of human resources and the three business unit leaders agreed to use a smaller design team consisting of eight people. The new design team included personnel from HR, sales management, sales operations, finance and IT. Between meetings, the team members worked with their various departments, business units, and colleagues to represent stakeholder needs.

Conversely, having too few people (or the "wrong" people) on the design team can be equally challenging. One Sibson client shared how her design team completed all the sales compensation plans only to have the director of sales operations (who was not on the Design Team) request a second round of design sessions. Despite having two representatives from sales operations on the team, this organization realized they should have included the director in the meetings to address the key issues relating to administration of the plans.

Mistake 3: Not Adjusting the Plans to Account for Changes in Sales Roles

Sales organizations change as customers' needs change and so should the sales compensation plans. Unfortunately, those responsible for designing the sales compensation plans may not always be aware of changes in job roles and, therefore, miss the opportunity to make the proper adjustments to the plans. One global sales compensation manager recently discussed how she avoided this mistake by beginning her sales compensation review process in March (avoiding Mistake 1) and meeting with the various business and sales leaders to review their sales organizations. During her meetings, she learned how three of the sales roles were changing to support the new sales strategy. With this information, and with time on her side, she was able to adjust the sales compensation plans to align with the roles and the sales strategy going forward.

Mistake 4: Creating Overly Complex Plans

As plans attempt to account for all aspects of a sales strategy, they are far too complicated to effectively drive sales rep behavior.

At a recent sales compensation meeting, one sales compensation manager shared his experience with overly complex plans. His organization's sales compensation plans contained on average nine incentive measures. Over the years, the organization had added measures each time there was a new product or

service. Because leadership still wanted reps to focus on core products and services, they also kept the original incentive measures. This organization had unwittingly created complex compensation plans that resulted in confusing messaging to sales reps. As you might expect, this sales compensation manager and his team are spending this fall simplifying their plans for 2009.

Mistake 5: Overlooking the Importance of Plan Communication

At the end of the sales compensation design process, we are proud, hoarse and mentally exhausted. But our job isn't finished yet. Unfortunately, at the end of what is at times a long and difficult process, many of us overlook the importance of communicating with the sales force.

Organizations most effective at communicating their plans craft simple messages around the following three areas: 1) The Business Need for New Plans, 2) The Plan Design Approach, 3) Key Plan Changes.

Addressing each of these areas helps the sales force to understand why plans are changing, build confidence in management's approach to design, and clarify upfront the degree to which things are changing. It's important to create concise plan messaging and communication documents well in advance of the plan start date.

If you are new to sales compensation design, we invite you to learn from those who have gone before you and avoid the five common mistakes listed above. If you're a veteran of sales compensation design and you've made one of these mistakes, just remember this quote from Henry Ford, "{Mistakes are} the opportunity to begin again, more intelligently."

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