

how to **sell** your **sales** **compensation** plan

By Joseph DiMisa, Sibson Consulting

Blood, sweat, tears and weeks of rigorous number crunching—that’s what it takes to design a great sales compensation plan. But, once the plan design and budget are approved, the compensation executive’s work is hardly done. Unfortunately, too many stop at this critical stage and fail to take the crucial next step—selling the plan to the salesforce.

No matter how elegant and seemingly intuitive its design, a sales compensation plan that is not properly communicated will be misunderstood and fail to deliver on its objectives. Even the best compensation plans must be “sold” to the field. If sales representatives lack a clear idea of what the new compensation plan is

designed to motivate them to do and the rationale behind it, many will maintain old patterns of behavior rather than take on the new set of challenges required to meet the new sales plan.

So what does it take to “sell” a sales compensation plan? Four key subjects must be addressed in any successful compensation plan communication effort:

- Strategic objectives
- Plan components
- Compensation mechanics
- Incentive calculators/examples.

Each of these four topics interlinks with the others to deliver and support a comprehensive message describing the *why*, *what*, *how* and, most importantly, the *how much* of the sales compensation plan.

The communication themes and approach should align the new sales compensation plan with the organization’s strategy and business issues.

QUICK LOOK

- ➔ Communication themes should align the new sales compensation plan with the organization’s strategy and business issues.
- ➔ Plan mechanics detail how incentives actually pay out, given the sales representative’s level of achievement.
- ➔ Many organizations use their written plan communication for dual purposes.



Including the four topics in plan communication helps sales representatives to more fully understand what results the sales organization must achieve in the plan year, what behaviors are required to achieve the results and how success will be rewarded.

Following is a closer look at each of these four key communication-plan elements.

Strategic Objectives Explain the Why

Presenting a strategic overview to the compensation plan is fundamental. To buy into the plan and internalize it, sales representatives must understand the strategies and business issues facing

the company, and the role and response required by the sales organization to address these strategies and contribute to the company's success.

The communication must explain strategic and financial objectives, providing sales representatives with a clear understanding of how success is defined. The discussion of strategic objectives should also validate how the new sales compensation plan supports the strategies and objectives of the organization by driving the desired behaviors among the salesforce.

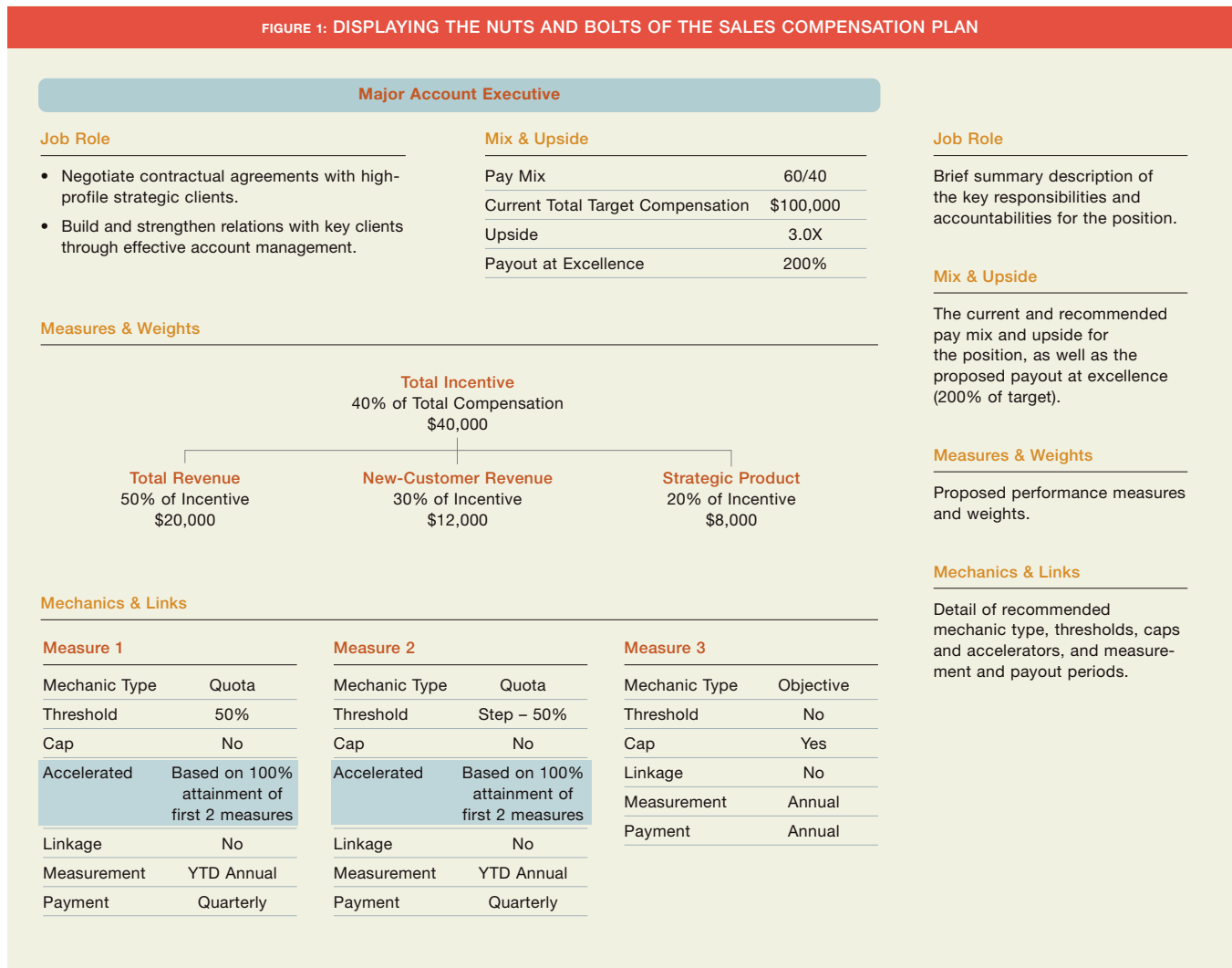
It is valuable to explain the compensation philosophy employed to develop and design the sales incentive plan. The discussion can further emphasize

the key objectives and expectations for the sales organization's performance during the coming fiscal year.

If the new plan differs significantly from previous plans, the key changes and/or enhancements to the new plan must be clearly explained. Depending on the audience and the shift in sales strategy or compensation design, key steps and/or the players in the design process should be highlighted. For example, if credibility is an issue, stress that focus groups or interviews with reps were integral to the design process.

Differentiating the new plan from legacy compensation plans and explaining the methodology will help the field force fully appreciate the degree

FIGURE 1: DISPLAYING THE NUTS AND BOLTS OF THE SALES COMPENSATION PLAN



Source: Sibson Consulting, A Division of Segal Co.

to which it may need to change its sales behaviors and activities to drive the company's sales results and, ultimately, its financial success.

Plan Components Identify the *What*

Next, outline the “nuts and bolts” of the new sales incentive plan, detailing included jobs, compensation levels (base salary and incentive), pay mix, performance measures and measurement/pay periods. Clearly defining the performance measures ensures that sales representatives understand which products, types of revenue and/or types of sales objectives to focus on. Explain the weightings for each measure (as a percent of total sales incentive) to let representatives know where to focus their sales attention and energy. Figure 1 on page 26 shows the plan components and how they work together.

Plan Mechanics Focus on the *How*

Plan mechanics detail how incentives actually pay out, given the sales representative's level of achievement. Include payout formulas and/or payout rate tables to emphasize payout levels for corresponding levels of sales achievement. Stress the selling points of the plan. Selling points might include no cap—unlimited earnings potential, accelerators, premiums for certain products, etc. (See Figure 2.)

Plan Calculators/Examples Illustrate *How Much*

No communication is complete without sample calculations of incentive payouts under different sales-achievement scenarios. As soon as most sales representatives learn of a new plan, they break out their calculators to understand how it will impact their bottom line, but not all of them get the calculation correct the first time.

Sample calculations are a simple way to control the errors so plan participants can understand the full value and potential of the new compensation plan. Examples allow representatives to see, in real terms, how the plan will affect them and what behaviors are necessary to maximize earnings and achieve the greatest rewards. (See Figure 3 on page 28.)

If the organization plans to provide any special incentives (for example, Special Performance Incentive for Field Sales [SPIFFS]) outside the new plan, they should be communicated separately. A separate, yet tandem, communication effort for such special incentives can create excitement about the extra “bells and whistles,” without distracting attention from the key messages and behaviors of the basic, new sales compensation plan.

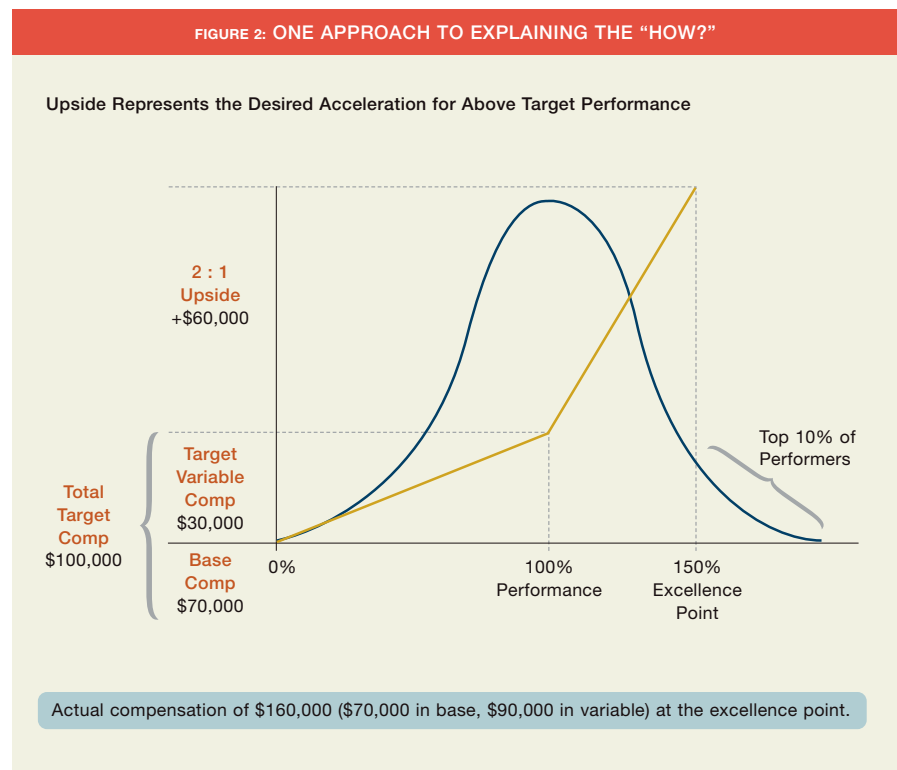
Method Matters

The manner in which basic messages are communicated can be as important

as the message itself. For example, employees prefer to hear messages directly from their supervisors. Yet most of the time, communication about pay comes through the grapevine. Unfortunately, what is passed on includes other people's impressions—and dissatisfactions—with the program. But, properly cascading information within the field salesforce can ensure understanding, dispel dissatisfaction and create a receptive, motivating environment.

An effective cascade starts at the top, with the head of sales outlining the “why”—the strategy and objectives behind the plan. The key is to really engage representatives in these messages.

Ideally, the new plan should be rolled out at the annual sales meeting, underscoring the linkage between the sales plan, the compensation plan and the required behaviors to make it all work. There is no underestimating the “rah-rah” effect of unveiling the annual compensation plan in conjunction with



Source: Sibson Consulting, A Division of Segal Co.

FIGURE 3: COMPENSATION PLAN CALCULATOR

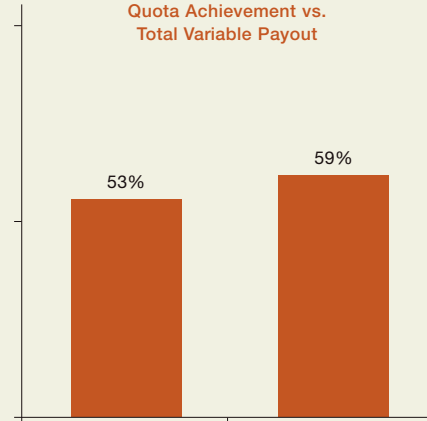
Total Year-to-Date Compensation \$122,728

Section 1 Enter Base Salary and Total Target Incentive

Base Salary	\$85,000
Total Target Incentive	\$135,000
Total Target Compensation	\$220,000

Section 2 Enter License Revenue Quota

Annual License Revenue Quota	\$1,900,000
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Section 3 Enter Quarterly License Revenue Achievement

	License Revenue		
	Sales Credit	YTD Achievement	Earned Incentive
Q1	\$440,000	23%	\$18,758
Q2	\$558,000	53%	\$24,471
Q3			
Q4			
Total	\$998,000	53%	\$43,228

	Semiannual Bonus			
	Semiannual Revenue Target	Sales Credit	YTD Achievement	Earned Incentive
Q1 & Q2	\$950,000	\$998,000	53%	\$27,000
Q3 & Q4	\$950,000			
Total	\$1,900,000	\$998,000	53%	\$27,000

Section 4 Enter number of new accounts gained in each quarter.

	New-Account Bonus	
	Achievement	Earned Incentive
Q1	0	\$0
Q2	1	\$10,000
Q3	0	\$0
Q4	0	\$0
Total	1	\$10,000

	Total Incentive Compensation	
	Earned Incentive	YTD Achievement
Q1	\$18,758	14%
Q2	\$61,471	59%
Q3		
Q4		
Total	\$80,228	59%

Source: Sibson Consulting, A Division of Segal Co.


the annual sales goals, new-product introductions and other key messages.

Following the big-picture presentation, a large group forum is also effective for providing an overview of plan mechanics—not the nitty gritty, but the essential “how-the-plan-works” messages that link up with the strategy. Communicating this overview can

Many organizations use their written plan communication for dual purposes: communicating the plan details, as well as cramming in a laundry list of administrative guidelines. Such details often employ a heavy dosage of “legalese,” whether actual legal regulations or simply business processes that require formal language.

and guidelines available on the intranet for reference.

If the company prefers electronic communication over a hard-copy booklet and is inclined to go all electronic, make sure the compensation plan highlights and guidelines are also available in a downloadable PDF version—a printed copy in hand is often easier to reference than one on the intranet, particularly if the representative is forced to access the intranet on a slow speed connection from the field.

Doing a good job of “selling” a new sales compensation plan to the sales-force takes some work, but the rewards make the effort worthwhile: Field representatives likely will be more satisfied with their pay. They will understand why and how the plan rewards certain behavior. And the entire sales team will have the motivation to pull together to break through challenges and strive for peak performance. Given these outcomes, it clearly pays to market. 

Highlighting brochures or brief, to-the-point plan documents can deliver the critical messages most effectively, and safeguard against confusion or misunderstanding.

occur in regional or district break-out groups. These sessions can be both information/Q&A forums as well as working sessions where teams engage in discussing and tackling challenges.

Back in the field, a manager should schedule a one-on-one meeting with each representative to focus on how to succeed under the new plan. The two can engage in strategizing ways to maximize incentive opportunities.

Written Materials

Written communication should serve as a follow-up to the group and team rollout sessions. The material must echo the group messages and present the plan mechanics in clear, straightforward terms. Highlighting brochures or brief, to-the-point plan documents can deliver the critical messages most effectively and safeguard against confusion or misunderstanding. The challenge is to be succinct, yet comprehensive, hitting upon all key points critical to the success of the compensation plan and the sales organization.

But documents replete with formal, legal terms tend to be intimidating; they are challenging to read and understand. Faced with such a document, the audience often will skim it, possibly missing key messages. To avoid that outcome, a better approach is to create two documents. The first document is a plan description that markets the plan, containing the four essential topics (strategic objectives, plan components, compensation mechanics and incentive calculators/examples). The second document, a companion piece, includes administrative guidelines. The guidelines may be formatted as a list of “Frequently Asked Questions” that puts the legal requirements and other dry, but necessary, terms and conditions into a clearer, more easily understood format.

A final compensation plan communication strategy decision is whether or not to use the company’s intranet. The answer depends on how the salesforce accesses and uses the intranet.

In general, however, it is always a good idea to have the plan details

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