



Editor's Note: This article is reprinted with permission from a chapter in the new book *Sales Compensation Made Simple* by Joseph DiMisa, senior vice president and head of the Sales Force Effectiveness Practice for Sibson Consulting. [*Sales Compensation Made Simple*](#) can be purchased from the WorldatWork bookstore. The book will also be available through Amazon.com starting in March 2010.

Sales compensation, or incentive pay, is a method or pay system that allows an organization to reward a salesperson for positive results. The method or system creates an output that typically is dollars paid to that person. Sales compensation enables management to align pay opportunity with the strategy and objectives of the business. If done correctly, compensation will help an organization attract, retain and motivate top salespeople. If done incorrectly, it can result in turnover issues, drive inappropriate behavior and/or increase uncontrolled sales costs. This chapter explains why it is important to align sales compensation with the overall business and sales strategies, and the seven essential steps in the incentive design process.

A Simple Design Process to Get You Started

As you begin the sales compensation design journey, you and your design team must be able to answer this question: What are the organization and/or the sales force trying to accomplish? Sales compensation design that proceeds without a clear answer will fail. Think about it this way: A sales compensation plan is put in place to motivate and reward certain sales behavior. The behavior can range from selling more products (“any sale is a good sale”) and retaining and renewing current contracts, to acquiring new customers. Before designing a plan, you must know what the organization wants to achieve. Without that knowledge, it is like asking a tailor to make you a suit, but then leaving the shop before your measurements are taken. You cannot create the end product without the right input first. Knowing the strategy is important because it:

- Helps you understand what the organization wants to do,
- Provides a road map and helps you define success, and
- Allows you to tie pay to the achievement of success.

(See the sidebar, “[Compensation Is Not a Substitute for Effective Management](#)” on page 3.)

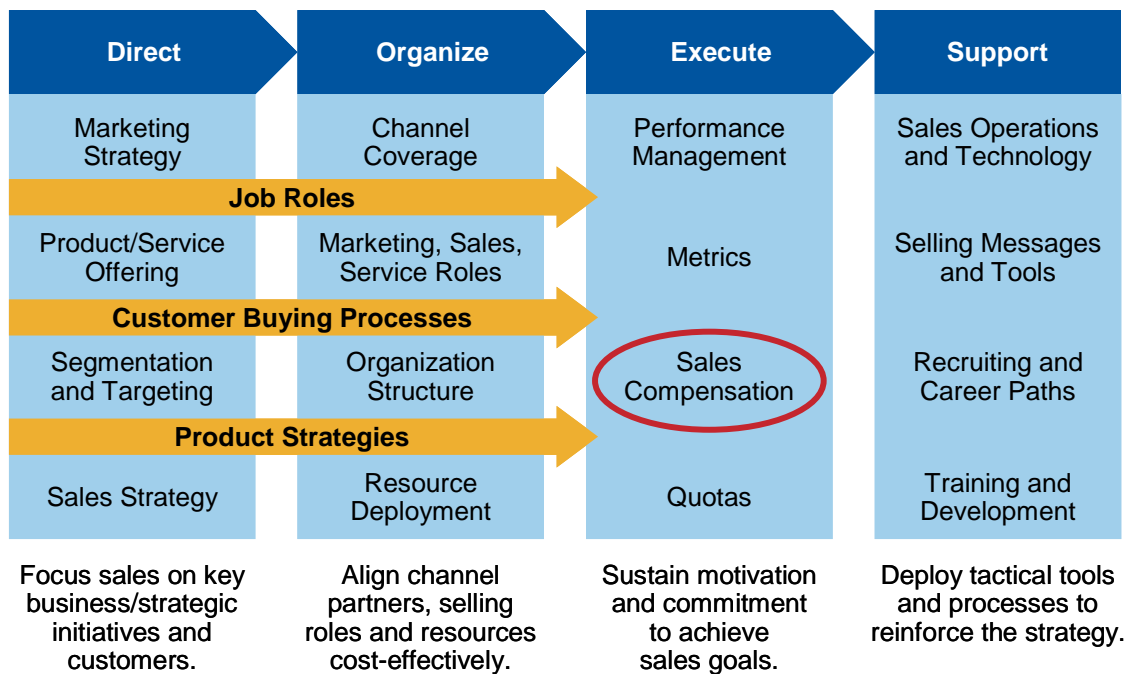
The Growth Management System and Optimal Sales Compensation Design Process

“Keeper” Chart No. 1: The Growth Management System

Plug a vacuum, hair dryer, air conditioner and microwave into the same circuit and that circuit most likely will blow. You can run to the box and flip the switch to get everything working again, but those appliances will more than likely power on, then sputter out again within minutes. Flipping the breaker does not fix the problem; it provides a temporary resolution. To really solve the problem, you need to go to the source: the various appliances, one of which needs to be switched to another circuit.

What does this have to do with sales compensation? Plenty. You can change your compensation plans in pursuit of better results but, in the end, if compensation issues (e.g., “Am I getting paid enough?”) are really caused by something else (e.g., are quotas too high?), fixing compensation is not going to help. The breaker will blow again. Certain graphics can cause the proverbial light to go on, illuminating a concept and fostering understanding. My introduction to the Growth Management System, illustrated in Figure 1, brought an early epiphany. If you take only a few things away from this book, make this chart one of them.

FIGURE 1: THE GROWTH MANAGEMENT SYSTEM



The Growth Management System captures in one place the pathway or approach to integrating sales compensation with organization and sales strategy. High-performing sales organizations — those that consistently lead their industry in terms of revenue, operating profit and total shareholder return — identify and successfully address their overall growth strategies. In

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doing so, they develop systematic approaches to sales that group and link all critical factors to four key groupings, which in turn govern the following four actions:

- **Direct:** The strategic course the company wants to take with its customers and products.
- **Organize:** The way a company structures the organization to meet its directional goals.
- **Execute:** The means by which an organization plans to tactically implement its organizational and directional goals (this is where compensation comes into play).
- **Support:** The tactics, technology and processes the organization deploys to equip itself to realize the strategy.

Figure 1 above illustrates the key disciplines for all four groups. In all, 16 areas need to be addressed when managing a sales organization; any of these can cause a circuit malfunction within the sales organization.

The Growth Management System highlights how market factors and business strategy drive sales execution and incentive compensation. To build growth capability, successful sales organizations develop and align their ability to direct with a strategy, organize around target markets, execute to the objective and support the organization.

Upstream strategic decisions and downstream tactics must align. Within the execute circuit, compensation is an important component that is built upon strategic elements and supported by other groups.

Pay Is Not Always the Problem

Organizations too often point to sales compensation as the source of or solution for a variety of problems. If an organization has high turnover or is not meeting sales objectives, it is easy to conclude that compensation is the culprit: “We need to pay people more to keep them,” or “They won’t sell more unless they’re paid more.”

You have likely heard these comments around a conference table. On the surface, pay seems like a logical place to start; in reality, it is the worst place to start. Remember: Compensation is how you motivate and reward. If reps are exiting in droves or seriously underperforming, paying them more might ease the problem for a while, but it would not fix the problem because you have not made the proper diagnosis. You need to look at all the disciplines that come before compensation to figure out the issue. To dive right into changing the compensation plan without understanding where the problem is or how other areas affect your compensation plan design can bring your system to a standstill — and even cause it to blow — if not today, then later down the road.

Several years ago, I was asked to fix the compensation plan of a company suffering from major turnover in the direct sales force — more than 45 percent annually. Some unofficial exit interviews suggested that reps were disenchanted with their pay. They felt the value of their

Compensation Is Not a Substitute for Effective Management

Sales compensation may complement other forms of pay, but the distinguishing factor is that sales compensation recognizes and rewards the unique responsibilities of a salesperson’s job. In no way, shape or form is compensation a proxy for managing sales professionals. Managers need to manage reps by teaching, motivating and driving behavior. Compensation then becomes the means to focus reps on the right goals and reward behavior that produces sales results.

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rewards was not commensurate with their sales efforts: “Tough job, low pay” was the refrain. The director wanted some benchmarking and a more profitable sales compensation design. Following the Growth Management System, my team assessed all of the disciplines in the organization, not just the compensation plan. We also looked at exactly who was leaving and their tenure. Our conclusions: First, pay was not the issue. The true problem was misalignment of the sales channel with customers and products. Second, the job roles in those channels had to sell complex products, but the sales representatives lacked the experience and know-how to sell these products. As such, their pay and compensation plan was fine, but it was not paying out properly due to a misalignment of channels and job roles. Additionally, the turnover was occurring primarily with representatives who had less than two years of tenure. Reps who made it past two years typically stayed because they had built up sufficient skills to make their sales. If they could not gain those skills, they were being starved out (low pay) and leaving.

As we presented our findings, I could see the wheels starting to spin in the minds of the executive steering committee. It was not compensation, but the *strategy* that was causing the issues. We redesigned the channels and job roles and made only minor modifications to the compensation plans (with no change to target pay levels).

(See the sidebar, “Keep It Current.”)

The Information You Need and Where to Find It

The Growth Management System raises some questions: Where do you get the sales effectiveness information identified in the chart? What resources are available to get a handle on the organization’s strategies?

A good place to start may be with sales, sales operations, finance, marketing, HR and, in some instances, IT. These resources likely have the data you need

and can access it fairly quickly. If you work for a smaller company and do not have the resources, then you may need to look at the business plan or query senior executives to get the information.

Seek out the following types of information:

- **High-level organizational strategies:** Are there any organizational influences, issues, points or information that may affect planning (e.g., additional hiring, mergers and acquisitions, anything out of the ordinary)?
- **Organization’s overall plans to segment and target customers:** What is the organization selling? How much effort is needed to make the sales? How long is the selling process? The answers to these questions help determine appropriate pay mix or optimum length of payout cycles.
- **Sales channels:** Which channels are being used? Some are more valuable than others or have higher costs. This will help you match jobs with channels and understand why benchmark jobs in salary surveys may have higher or lower compensation levels.
- **Job roles that target customers:** What job roles are you benchmarking? What do they do? What experience is needed? What competencies are needed?

Keep It Current

As the business changes, so must sales programs and compensation plans. Companies typically move through several growth phases as they mature. In each phase, the company uses unique sales strategies, coverage approaches and sales compensation plans. If the organization does not recognize these changes in its market, competition and business environment, programs that previously were effective become ineffective, putting the company at a competitive disadvantage.

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- **Overall revenue/product commitment:** What are the overall quota or product commitments (as opposed to individual quotas)?

Figure 2 provides a more detailed data request list.

FIGURE 2: SAMPLE DATA REQUEST

<p>General/Demographic Data</p> <ul style="list-style-type: none">• Employee name• Employee number• Manager name• Job title• Assignment number• Region/location• Full- or part-time designation• Compensation program• Company start date• Position start date• Term date <p>Quantitative Data</p> <ul style="list-style-type: none">• Year-to-date pay and performance data by incumbent for current year and at least the past year• Year-to-date revenue and/or profit by customer/account (as available) for current year and at least the past year• Organization and/or region-level performance data• Sales forecast versus actual sales by company, business unit and product for current year and at least the past year• Relevant performance reports that are regularly provided to the sales organization• Headcount by role and location• Turnover data• Currency conversion rates used for revenue crediting and compensation	<p>Qualitative Data</p> <ul style="list-style-type: none">• Copy of current sales compensation plans, including all plan descriptions and performance criteria (current year and previous years, if different)• Job profiles/data• Company business plan document• Field training documents• Field presentations• Marketing plans• Recognition program documents• Other contest/product rewards• Other incentive program documentation• Organization charts• Exit interview information <p>Individual Pay and Performance Information (Annually)</p> <ul style="list-style-type: none">• Base pay• Actual sales performance for each performance measure in the sales incentive plan (e.g., volume, profit dollars, profit margin, profit growth)• Actual incentive compensation attributable to each performance measure in the sales plan• Sales performance goals for each performance measure in the sales plan• Target incentive compensation based on performance goals for each performance measure in the sales plan• Other incentives paid (e.g., any other rewards outside the incentive plan)
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“Keeper” Chart No. 2: The Optimal Sales Compensation Design Process

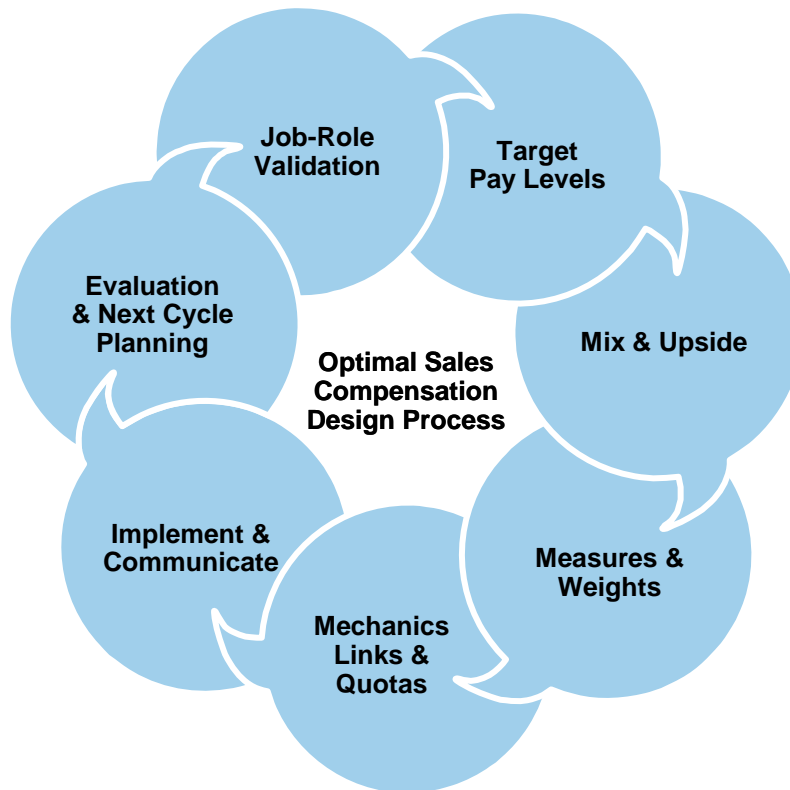
The Growth Management System focuses attention on the complete sales organization; the second “keeper” chart outlines and focuses on the components that come into play when designing sales incentives and measuring a plan’s effectiveness. The Optimal Sales Compensation Design Process lays out the fundamental process for sales compensation design.

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As such, it establishes the foundation for all that follows. The Growth Management System shows that effective compensation evaluation and design is driven by an understanding of the organization's decisions on strategy and market coverage. The Optimal Sales Compensation Design Process takes that concept to the next level, illustrating the seven aspects to address when evaluating and designing sales compensation plans.

As shown in Figure 3 below, effective sales compensation or the optimal design process starts at the top position with "job-role validation" and moves clockwise, ultimately coming full cycle to the "evaluation & next cycle planning" step. These seven steps create a simple yet potent process for sales compensation design. Once you understand these steps and the proper questions to ask the sales team or organization, you are well on your way to fashioning an effective design.

FIGURE 3: THE OPTIMAL SALES COMPENSATION DESIGN PROCESS



Every step has a role and is important to the process. It is important to stay focused on this process. Also, steps cannot be skipped, as they are sequential. Think about it: You cannot get to 8 p.m. until you have moved through the morning and afternoon. It is the same thing with sales compensation. You cannot start talking about the measures in a plan and the commission rates until you have determined whether the job is eligible and what the mix of base pay and incentive will be.

The balance of the book from which this article is reprinted discusses each aspect of the process, explaining the methods compensation professionals use. Remember that all aspects of the optimum design process tie back to strategy; if you do not know your strategy, stop right here. There is no point in taking any more steps if you have not taken the critical first step. Anyone who has been involved in sales compensation for any period of time likely has encountered the

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Growth Management System and Optimal Sales Compensation Incentive Design Process, or similar charts with different names. The source of a chart and its title do not matter — it is the concepts that count. The “keeper” concepts from these two charts are:

- Get a handle on how your organization directs, organizes, executes and supports strategy in the sales organization.
- Make sure any blips in sales performance truly are compensation-related before embarking on incentive redesign.
- When you set out to monitor a sales compensation plan or design a new approach, let the components of the optimal design process guide your effort.

Editor’s Note: *Sales Compensation Made Simple*, the book from which this article is reprinted, offers an insider’s look into sales compensation design from interactions and observations about how sales organizations do — and do not — work to concepts, process charts and graphics. Designed for audiences who need a basic understanding of sales compensation design, *Sales Compensation Made Simple*, by Joseph DiMisa, senior vice president and head of the Sales Force Effectiveness Practice for Sibson Consulting, provides quick access to key questions that will bring readers up to speed to confidently participate in discussions, knowledgeably ask questions and bring insight to the plan design critique.

Sales Compensation Made Simple can be ordered from www.worldatwork.org/bookstore or call 877-951-9191. Use priority code FLRBK2010 when ordering. The book will also be available through Amazon.com starting in March 2010.

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