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Does Your Sales Compensation Plan Drive Growth?

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IN the current economic environment, many companies are scrambling to modify their sales organization in order to take advantage of increased growth opportunities. They are pursuing various strategies that range from increasing salesforce size to creating specialized sales roles targeted specifically at key growth segments (e.g., customers, markets or products).

Each of these strategies is a sound approach, and if done appropriately can prove very valuable over time. Unfortunately, a significant investment of time and money is necessary to create new positions, train supplementary skill sets and hire additional talent before the effectiveness of the strategy can be determined. In the meantime, the sales organization remains impaired and runs the risk of making large expenditures with little return.

The good news is there may be a more basic solution that can provide almost immediate results without costing precious time and money. To find that solution, look no further than your sales compensation plan. Although many organizations use compensation strictly to support their desired sales direction, as a primary driver of sales rep behavior it can also initiate, direct and drive the organization's desired sales strategy.

The following quiz will help you determine to what degree your sales compensation plan drives growth and whether it is a contender for a makeover into a sales growth plan.

take the QUIZ

SALES GROWTH QUIZ

To take this quiz, choose the appropriate answer to each question based on your understanding of your business's sales compensation plan. Focus on the key sales role (the role that is most prominent within your organization). Then review the assessment guide portion of each question.

To achieve the most accurate results, ask your sales managers and/or reps to answer these questions as well. For best results, answer the questions for each sales role. Remember, there are no right or wrong answers. This quiz is designed to help you determine your plan's aggressiveness and potential to drive growth.

1 Growth Component #1 — Target Pay

How does your total target compensation (TTC) rank compare to the market?

(A) Higher (B) Lower (C) Do not know

ASSESSMENT GUIDE: TTC is the on-target earnings reps would receive if they met 100 percent of their objectives. TTC consists of base pay and incentive target. Base pay is a fixed amount that is paid regardless of performance, while incentive pay is paid out at varying levels according to reps' achievement against defined objectives.

If you answered:

(A) Your aggressive compensation plan will allow you to quickly attract top talent that is heavily focused on selling whatever is required to earn large payouts.

(B) Your plan's strategy is less aggressive and more likely to attract talent that is interested in your company's value proposition, not just in earning cash.

(C) It is time to benchmark your plan against the competition and determine the message being sent to prospective reps.

It is important to note that quotas higher or lower than the market can affect the perceived value of your pay targets. The most optimal way to drive a growth focus is to match high TTC with high quotas. (See Figure 1.) This strategy sends a clear message that if reps are willing to work hard, they will be compensated well. What does your pay strategy communicate?

2 Growth Component #2 — Mix

How is the mix between base pay and incentive structured?

(A) **60/40** or higher (higher meaning lower base salary/higher incentive)

(B) **59/41** or lower (lower meaning higher base salary/lower incentive)

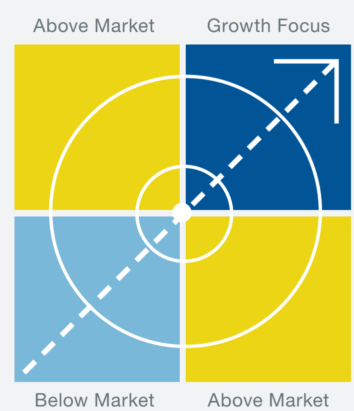
ASSESSMENT GUIDE: Mix is defined as the percent of TTC that is allocated to base salary vs. incentive. The more pay that is "at risk" or the larger the incentive to salary, the more aggressive the plan is considered.

If you answered:

(A) Your plan has a high mix or lower base pay to incentive. This type of plan is considered to be fairly aggressive in most industries and effectively drives reps' performance. Depending on the type of measures used in the plan, this is commonly associated with a heavy focus on growth.

(B) The plan has a less aggressive pay mix with more money tied to base and less variable incentive. This type of mix is commonly associated with a sales strategy that is more focused on establishing strong client relationships and maintaining accounts rather than driving growth. This does not necessarily mean your plan is not focused on growth, it means it is less aggressive with pay strategy. To become more aggressive, consider placing more pay at risk.

Figure 1 | Target Pay and Target Quota Correlation



3 Growth Component #3 — Upside

What is the total upside a rep can earn on your plan?

Ⓐ 2:1 or lower Ⓑ 3:1 or higher

ASSESSMENT GUIDE: Upside is defined as the amount of pay reps earn if they produce more than their target. A 2:1 ratio means reps earn 2 percent of target incentive for every 1 percent of quota they achieve over their goal (e.g., reps who achieve 120 percent of their quota would earn 140 percent of their target incentive). A 3:1 ratio means reps have the opportunity to earn three times their incentive target.

If you answered:

Ⓐ Your plan is less aggressive and it provides a large incentive for reps to push to achieve higher levels of performance.
Ⓑ The plan's pay strategy is more aggressive and provides stronger motivation to drive reps' performance

Generally speaking, upside is a function of the plan's mix (discussed in the previous question) and targets. A lower mix (higher base salary, lower incentive) usually means lower upside potential in terms of dollars. In addition, setting an objective over the target can influence the upside significantly.

4 Growth Component #4 — Measures and Weights

What percentage of your incentive compensation plan is on a revenue measure?

Ⓐ Less than 50 percent

Ⓑ Greater than 50 percent

ASSESSMENT GUIDE: The types of measures you use in your plan provide a clear direction for your company's sales strategy. Plans that focus on some form of revenue — whether it is acquisition, penetration or retention revenue — are generally more focused on bottom-line growth.

If you answered:

Ⓐ Your plan is not as focused on revenue and therefore growth of revenue may be lost.
Ⓑ Your plan has a high share of target incentive on revenue and therefore is more focused on pushing reps to drive revenue growth.

5 Growth Component #5 — Plan Mechanics

Do you have an incentive cap in your plan (exclude management by objectives and key sales objectives)?

Ⓐ Yes Ⓑ No

ASSESSMENT GUIDE: Plan mechanics can generally be described as the underpinnings of a plan. They are the design components that make a plan "go." A company may have many other growth elements in its plan, but if it does not appropriately deal with links, hurdles, caps and thresholds, a plan can quickly become overly complicated and unfocused. This is especially true when it comes to incentive caps.

If you answered:

Ⓐ Be careful, your plan is inhibiting reps' ability to earn money and, as a result, is limiting their drive to perform.
Ⓑ Your plan more effectively communicates the company's dedication to paying for performance and rewarding those who drive growth.

With this said, there are cases where incentive caps are not desirable, but are necessary. For example, if you have a quota-based plan and lack confidence in your ability to set accurate targets, it is probably best to put a cap on your plan until the quota-setting process is more dependable.

THE MORE CLEAR the line of sight is, the more easily reps can determine the selling behaviors the company wants them to demonstrate.

6 Growth Component #6 — Line of Sight

Can reps calculate their own payment after a sale is made?

Ⓐ Yes, reps know or can estimate how much a deal is worth to them in terms of commission or incentive payout.

Ⓑ No, reps cannot individually calculate payouts.

ALL THOSE DIRECTLY INVOLVED

in customer-facing activities that helped drive a sale should receive some form of credit for their efforts.

ASSESSMENT GUIDE: Line of sight gives the sales reps the ability to see the direct connection between their performance and compensation. A plan that has clear line of sight allows reps to quickly estimate the amount of money they will earn for selling their products or services. The more clear the line of sight is, the more easily reps can determine the selling behaviors the company wants them to demonstrate (e.g., driving growth).

If you answered:

(A) Your plan has a distinct line-of-sight and helps reps see the fruits of their labor on an immediate basis.

(B) Consider simplifying your plan to the point where reps can easily determine how their efforts translate into incentive earnings.

7 Growth Component #7 — Crediting

Does your plan allow for 1) multiple sales rep crediting, 2) teaming among reps and/or 3) cross selling and lead sharing?

(A) None of the three (B) One of the three

(C) Two of the three (D) All three

ASSESSMENT GUIDE: Crediting is the manner in which you recognize sales reps for their efforts in selling to an account. Generally speaking, all those directly involved in customer-facing activities that helped drive a sale should receive some form of credit for their efforts.

If you answered:

(A) Consider how involved members of the team are in the sale and provide them more incentive to drive a sale and work with others.

(B) (C) or (D) Your plan is more focused on teaming and incenting all reps who are involved.

With multiple crediting, a company is generally more concerned with ensuring a sale is made and an account is fully covered. The trick to crediting is to keep an eye on the coverage model (how your sales resources cover accounts) and your compensation cost of sales.

Conclusion

You now have a good idea how your sales compensation plan stacks up with individual growth components. With all sales compensation plans, there is no one component that truly defines your total strategy — there are many moving parts, as demonstrated by this quiz. In addition, there are other sales effectiveness strategies (beyond compensation) that help drive growth (e.g., segmentation and targeting, job role design, channel strategies). ws

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