



Sales Compensation Plan Design Assessment

Market Assessment and Best Practices

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Sales Compensation Plan Design Assessment

Defining the Sales Role

A clear definition of the organization's sales roles is critical to an effectively designed sales compensation plan

Sales Role	Success Factors	Compensation Framework
<i>Prospector/Closer</i> <ul style="list-style-type: none"> • New customer acquisition • Cold calling or prospecting • Little post-sale effort 	<ul style="list-style-type: none"> • Revenue volume • Gross margin volume/% • New account sales volume • Unit sales volume • Order size 	<ul style="list-style-type: none"> • High variable pay and upside earnings potential • One or few performance measures • Individual measures are most appropriate • Commission oriented • Most frequent payouts
<i>Account Management</i> <ul style="list-style-type: none"> • Retain and grow accounts • Identify and address customer needs • Significant post-sale effort • Penetrate customers with new services/products 	<ul style="list-style-type: none"> • Revenue volume & growth • Market share • Account share • Account profitability • Product mix • Customer satisfaction and loyalty 	<ul style="list-style-type: none"> • Low variable pay and upside earnings potential • Few performance measures • Individual or team measures • Bonus oriented • Least frequent payouts

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Defining the Sales Role

Framework for Organizing Sales Function to Achieve Maximum Sales Effectiveness

Activity	Lead Role at High-Growth Companies	Lead Role at Other Companies
Prospecting	NBDs (New Business Developers)	NBDs
Lead qualification	NBDs	AMs
Needs identification/solution development	AMs	Both AMs and NBDs
Proposal Development	Proposal Center	AMs
Closing	NBDs	NBDs for new prospects and customers up for renewal; AMs for current customers
Postsale account maintenance	AMs for existing customers NBDs for new customers	Sales support staff
Customer entertainment	NBDs	NBDs
Routine business planning	Both AMs and NBDs	Both AMs and NBDs
Sales administration	AMs	AMs
Nonsales administration	Sales administrative support	Sales administrative support

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Plan Design Component	Market Prevalence
Pay mix Base salary to target incentive	<ul style="list-style-type: none"> • Sales Executives: 65 / 35 • Sales Managers: 65 / 35 • Direct Sales – New & Existing Accounts: 60 / 40

Best Practice:

Higher Incentive Amount Should be Considered When	Lower Incentive Amount Should be Considered When
<ul style="list-style-type: none"> • Selling is focused on new accounts • Selling is primarily direct • Role requires a high degree of skill • Product/service price is high • Internal career opportunities are limited 	<ul style="list-style-type: none"> • Selling is indirect • Selling is a team effort • Company or product is a start-up • Sales cycle is long • Advertising is a strong factor in influencing sales • Internal career opportunities are high

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Pay Mix Implications

- Direct sales roles should have higher leverage
 - Higher leverage creates significantly more motivation to sell
 - Opportunity to have incentive maximums provide greater upside opportunity
 - Will attract, retain and engage sales personnel who are more risk oriented
 - Allows top performers to earn top pay
 - Better alignment of pay and performance
- Shifting to higher incentive level will be challenging for the organization
 - Reduction in base required
 - Communication of plan redesign

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Plan Design Component	Market Prevalence
Cash incentive mix Commissions to bonus	25 th percentile: 70 / 30 Median: 100 / 0 75 th percentile: 100 / 0

- **Best Practice:** Decision points for using a bonus versus commission payment:

Bonus	Commission
<ul style="list-style-type: none"> • Cost of labor philosophy • High goal-setting confidence • Mature business/industry • Low or high prominence • Unequal territory sizes • Territory manager or account management role 	<ul style="list-style-type: none"> • Cost of sales philosophy • Low goal-setting confidence • Immature business/industry • Moderate to high prominence • Equal territory sizes • New business acquisition role

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Plan Design Component	Market Prevalence	
Leverage Upside incentive opportunity for a sales job in addition to the targeted incentive pay for above-target performance; typically expressed as a multiple of the target cash incentive	Sales Executives: <ul style="list-style-type: none"> • 1X – 14% • 1.5X – 17% • 2X – 28% • 2.5X – 6% • 3X – 16% • 3.5X and higher – 6% • Other – 13% 	Direct Sales: New Accounts: <ul style="list-style-type: none"> • 1X – 16% • 1.5X – 14% • 2X – 28% • 2.5X – 5% • 3X – 21% • 3.5X and higher – 12% • Other – 4%
	Sales Managers: <ul style="list-style-type: none"> • 1X – 10% • 1.5X – 19% • 2X – 28% • 2.5X – 8% • 3X – 14% • 3.5X and higher – 10% • Other – 11% 	Direct Sales: Existing Accounts: <ul style="list-style-type: none"> • 1X – 14% • 1.5X – 17% • 2X – 32% • 2.5X – 4% • 3X – 17% • 3.5X and higher – 11% • Other – 5%

Best Practice:

The most common leverage multiple for most sales positions is 2x. The targeted upside incentive for direct sales is typically higher than sales employees with less influence on sales.

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Plan Design Component	Market Prevalence
Quotas Sales performance goals defined by management	<ul style="list-style-type: none"> Average sales representatives expected to meet or exceed quota: 70%

Best Practice:

When developing sales quotas, executives must understand expected average sales per representative.

Approaches to quota setting:

- Historical productivity
- Forecast method
- Sales representative participation in quota setting
- Territory potential

A recommended quota distribution target is based on two-thirds of the sales force achieving or exceeding quota and one-third falling short. This performance distribution allows cross-funding of incentive upside to top performers by shifting a share of the low performers' incentive pay to the top.

Performance Level	Performance Level Definition	% of Sales Force at or Above
Excellence	The outstanding level of performance for which the defined upside leverage is earned	10%
Target	The expected level of performance (i.e., 100% of goal) for which the target incentive compensation amount is earned	50% to 60%
Threshold	The minimum level of performance for which an incentive is earned	90%

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Plan Design Component	Market Prevalence
Performance measures	<p>Most common performance measures for sales roles:</p> <ul style="list-style-type: none">• Revenue: 75%• Sales to new customers: 49%• Sales to existing customers: 41%• Net income/profit margin: 31%• Sales of new products and services: 25%• Sales to key/strategic accounts: 20%

Best Practice:

The primary objective is typically to increase sales volume or profit contribution. Secondary objectives include increasing market share, selling a balanced mix of products/services, introducing a new line of products, or increasing customer satisfaction. Tie the bulk of incentive objectives to the primary objective. Secondary objectives should be tied to proportionally smaller incentive components or through base salary adjustments.

No single performance measure should be weighted less than 15%.

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Plan Design Component	Market Prevalence
Number of performance measures	<ul style="list-style-type: none">• One: 20%• Two: 26%• Three: 26%• Four: 13%• Five: 8%• More than five: 7%

Best Practice:

Most companies report between one and four performance measures. Slightly more than half use two to three measures. Compensation plans are generally more effective with three or fewer measures. Best practices reveal that performance measures should be:

- Aligned with business objectives
- Measurable (ideally, quantifiable)
- Results-based rather than activity-based
- Tied to individual performance or to a carefully defined team with “shared dependency” in the sales process
- Relevant and controllable by the individual
- At least 20% weighting (relative to total target incentive)

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Plan Design Component	Market Prevalence
Scope of performance measures	<ul style="list-style-type: none">• Only individual performance measures: 60%• Individual and team performance measures: 17%• Individual and corporate performance measures: 10%• Individual, team and corporate performance measures: 7%

Best Practice:

Performance plans are most effective with performance measures that individuals can directly influence.

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Performance Measures for Account Managers

Account Managers Often Held Responsible for Generating Sales From Customer Portfolios

	High Growth Companies	
Metrics	Top Performers	Other AMs
Total revenue	50%	64%
Number of units sold	47%	25%
Revenue growth (\$ or %)	39%	51%
Total margin (\$ or %)	26%	30%
Margin growth (\$ or %)	26%	19%
Revenue from new products or services (\$ or %)	25%	18%
Specific mix of products	22%	18%
Specific quotas by product or product type	21%	28%
Number of sales orders/contracts processed	20%	16%
Total sales from new accounts (\$ or %)	19%	15%
Number of new accounts sold	14%	13%
Revenue from new accounts (\$ or %)	13%	10%
Number of accounts sold	9%	8%

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Should a sales incentive plan include company and/or department performance measures, in addition to individual measures?

- Performance plans are most effective with measures that individuals can directly influence. Performance measures should be clearly aligned with the sales role. Companies should take care not to enforce team or corporate measures on sales roles that are essentially handled by individuals
- The majority of companies only include individual performance measures. Survey results show that less than 20% of organizations include team and or corporate measures for direct sales positions

Best Practice:

Performance plans are most effective with performance measures that individuals can directly influence.

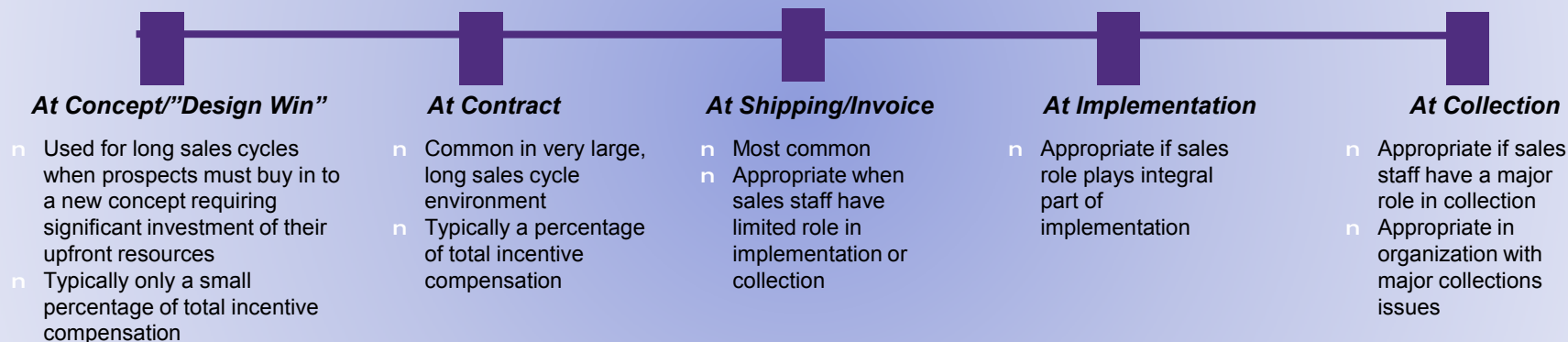
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Plan Design Component	Market Prevalence
Length of performance periods Performance periods & payout periods work together	<ul style="list-style-type: none"> • Annually: 47% • More frequent than annually: 53% <ul style="list-style-type: none"> • Quarterly: 30% • Monthly: 19% • Other 4%

Best Practice:

Use more frequent than annual performance periods when sales cycles are short and sales employees have no motivation to move orders from one period to another.



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Plan Design Component	Market Prevalence
Sales credit timing Defines when and how much of a sale is awarded to an employee	<ul style="list-style-type: none">• When order is booked or order is signed: 23%• When order is invoiced: 23%• When payment is received: 17%• When order is shipped: 12%• When order is delivered, installed or accepted: 9%

Best Practice:

To avoid morale problems and legal complaints, sales crediting rules should be clearly documented and communicated to all sales incentive eligible employees.

Specify what commissions are legally due to a sales representative if he or she is promoted or transferred or if employment is terminated.

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Plan Design Component	Market Prevalence
Performance threshold	<ul style="list-style-type: none">Percent of companies with a minimum performance threshold for incentive payouts: 44%

Generally, threshold should be set so that two-thirds of sales employees will attain threshold. For the Account Manager role, TransitCenter should review past performance on each of these performance measures. If more than two-thirds of the sales employees are attaining 95% of the goal, then it is possible the goals are set too low. A review of quota setting methods could be useful.

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Cash incentives generally paid as a percent of sales revenue, units sold or profit	<ul style="list-style-type: none">• Flat rate: 16%• Accelerated ramped: 49%• Hybrid (accelerated and decelerated): 7%• Variable commission assigned to difference products and services: 18%• Individual commission: 8%

Best Practice: Commissions are most effective when paid to employees who directly influence sales.

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Plan Design Component	Market Prevalence
Maximum incentive caps and payout limiters	<ul style="list-style-type: none"> Percent of companies using maximum incentive caps or payout limiters: 30% <p>For companies using a maximum incentive cap, the most common techniques are as follows:</p> <ul style="list-style-type: none"> Maximum on incentive earnings in a performance period: 73% Windfall policy: 19% Decelerating payout rates above a certain level: 8% Restricted house account: 6% Other: 9%

Best Practice:

Use maximum incentive caps only when employees could achieve unexpectedly high sales through deceitful methods or if a company is unable to produce products and meet service demands beyond a certain sales level.

Questions

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