

PERFECT SALES COMPENSATION STRUCTURE

November, 2018



KORN FERRY®



What we heard from Chief Sales Officers from a recent Hay Group survey:

Only **37%** feel confident about hitting their revenue target

68% say sales roles are more complex and require a greater need to develop career paths

Less than **50%** report that their sales teams are effectively equipped to sell in today's market

Just **19%** believe their sales force is focused on the right activities

79% would like their sales incentive plans to better differentiate top performers at their organization

Merely **31%** believe they currently have the right talent in place



Sales Effectiveness: The sales performance model

- World-class sales organizations look to align their business strategy and market focus to execute revenue growth. Sales organizations will group their sales functions in an organized and efficient structure to amplify results. **Our Sales Performance Model (SPM)** identifies the key sales practices needed to maximize objectives.

The Sales Performance Model



Symptoms of Incentive Disconnect

Turnover

Account
Turnover

Lost
Profitably

Quota
Attainment

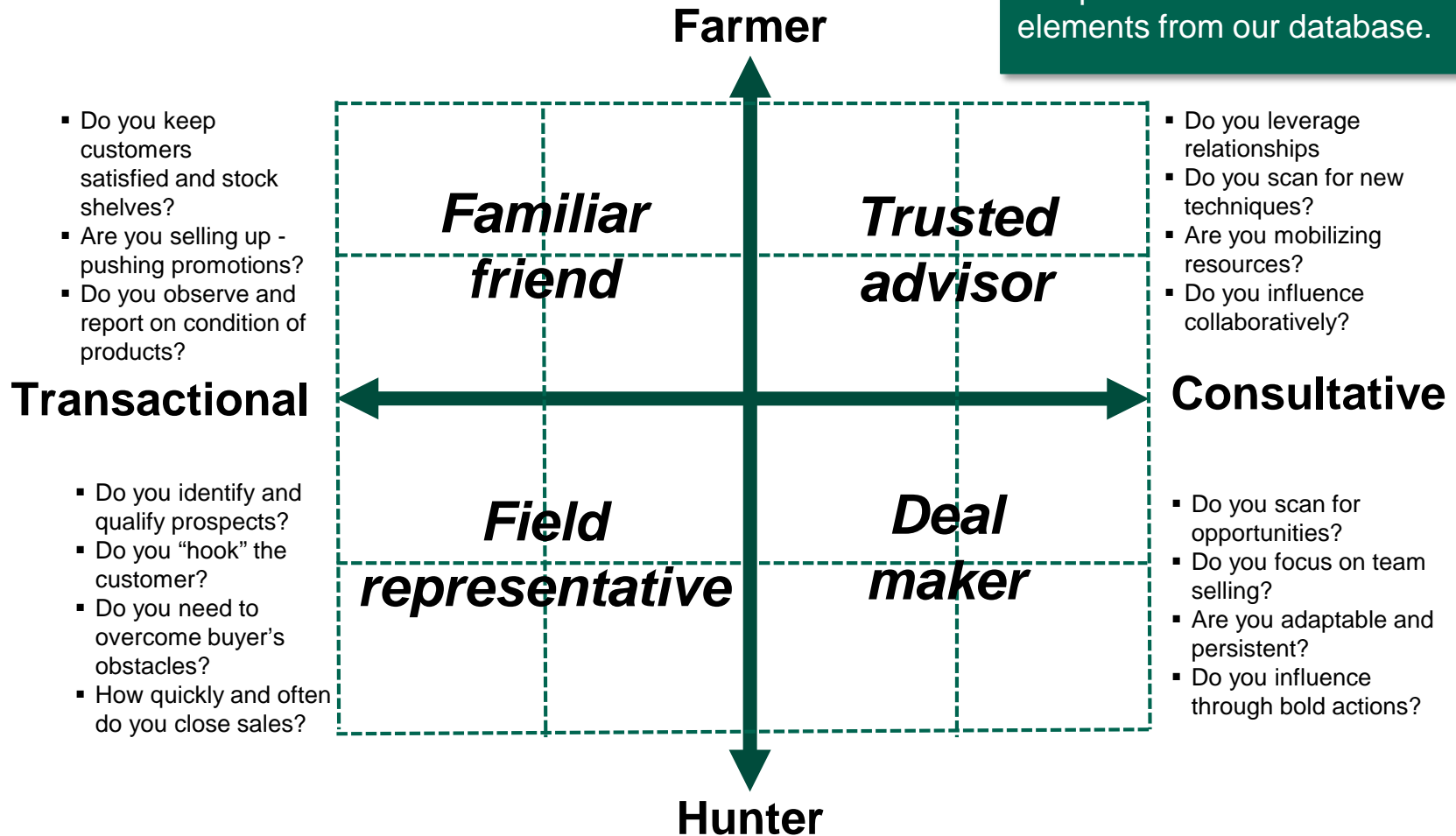
Limited
Pay
Differential

High
Cost of
Sales

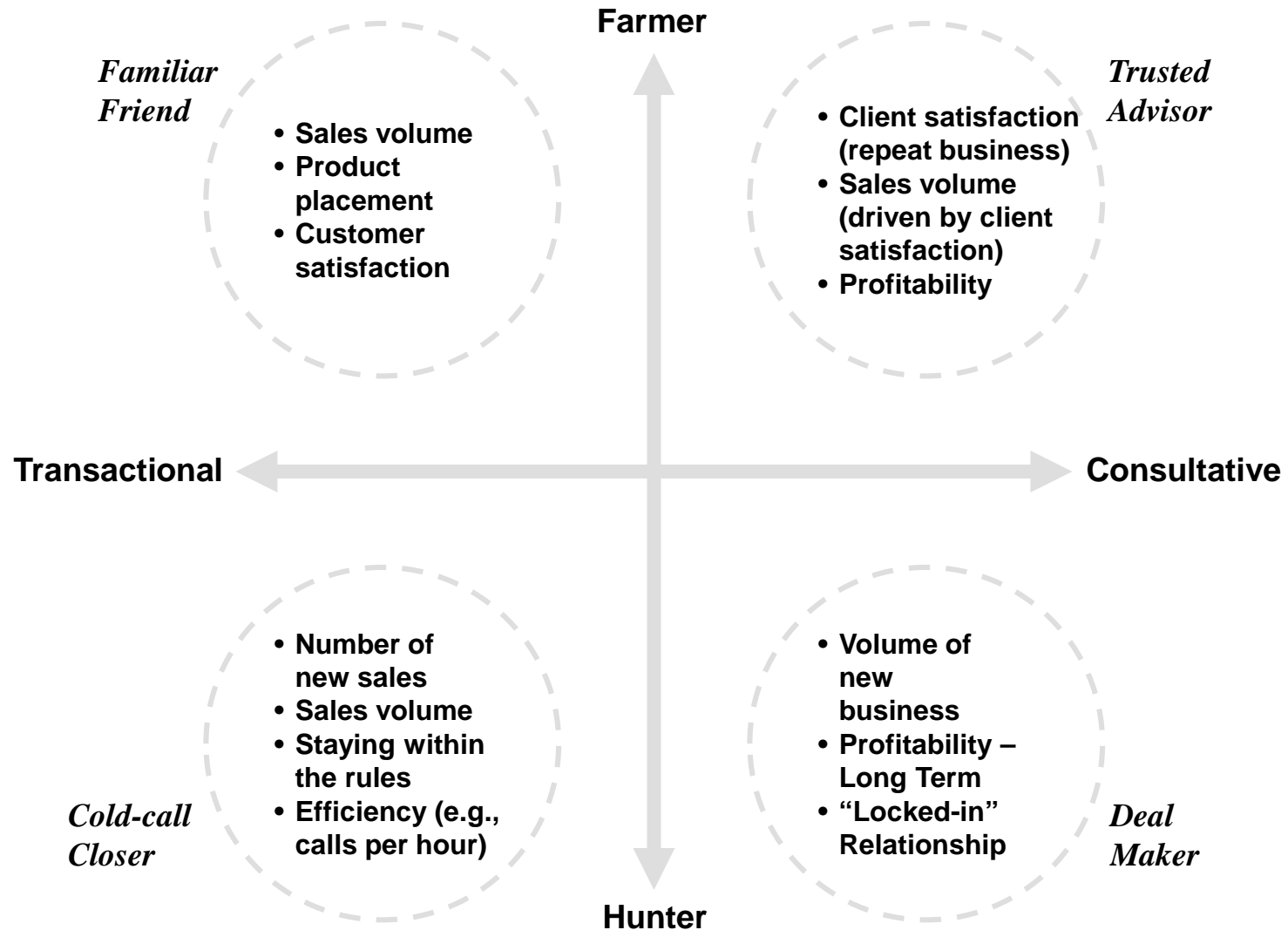
The roles sales value matrix

Once we determine the role, we can benchmark the roles to typical plan design, pay-mix, competencies and other elements from our database.

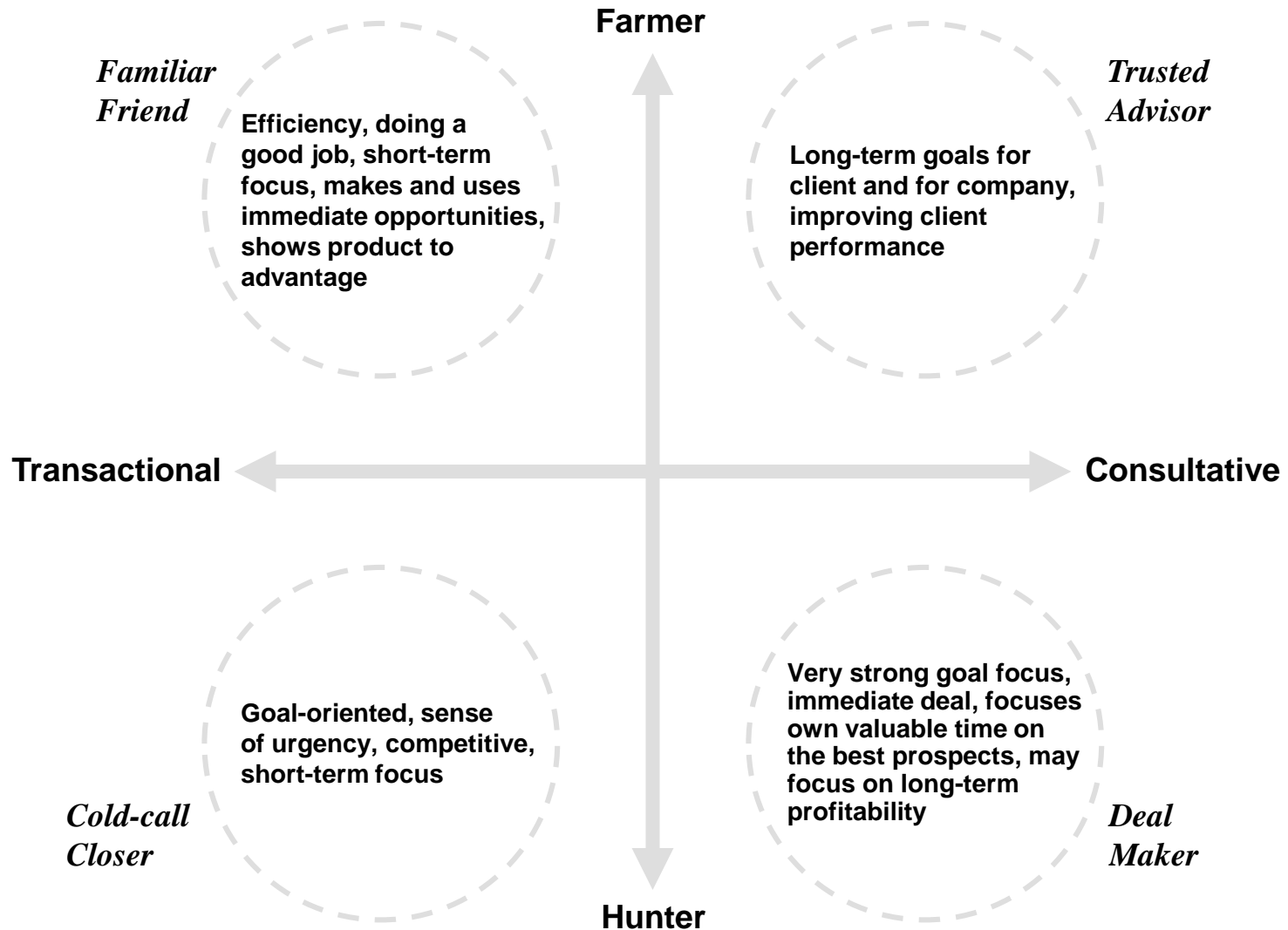
- Where are your roles in the matrix?



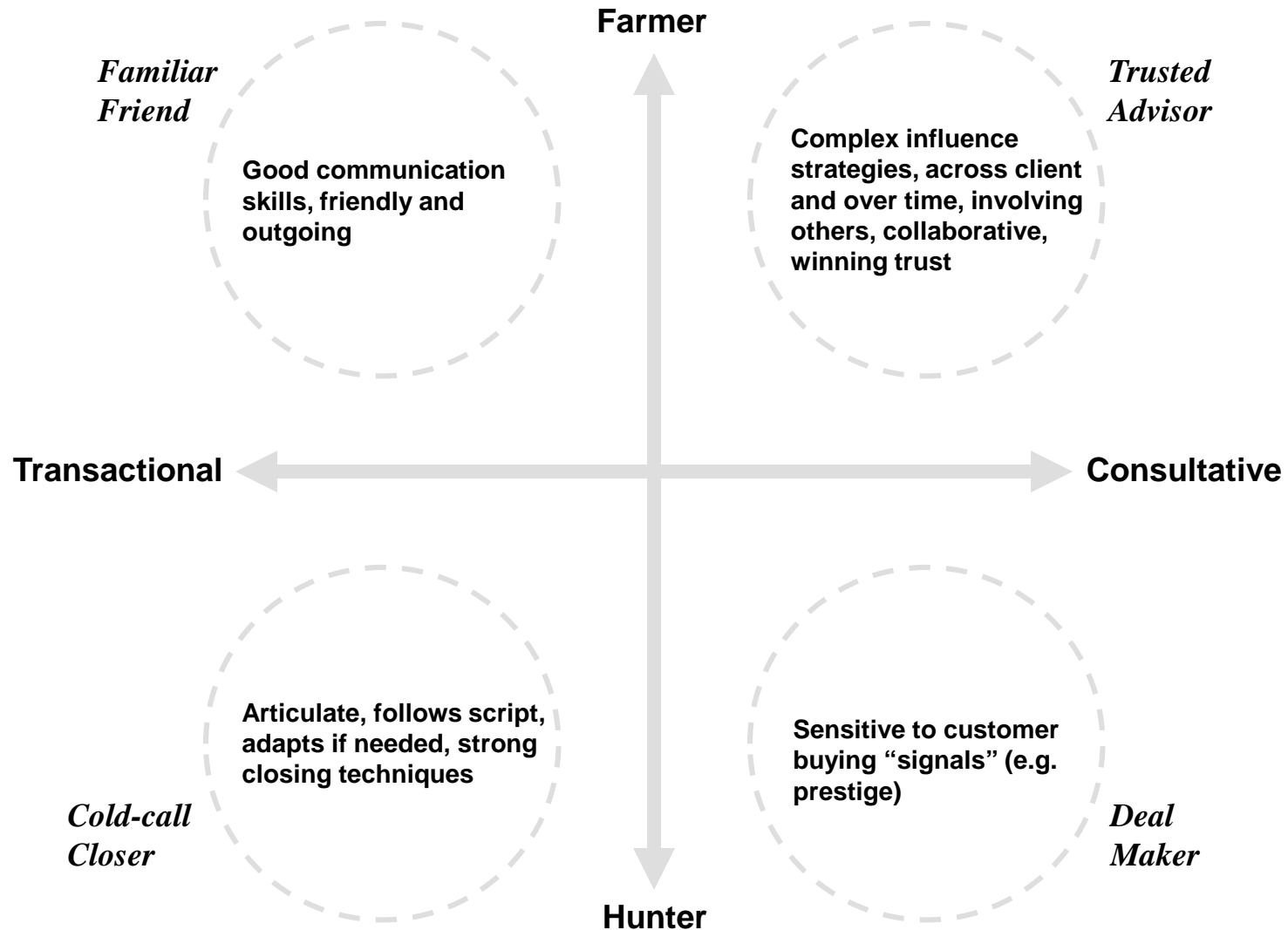
Sales Roles: Defining the Metrics of Success



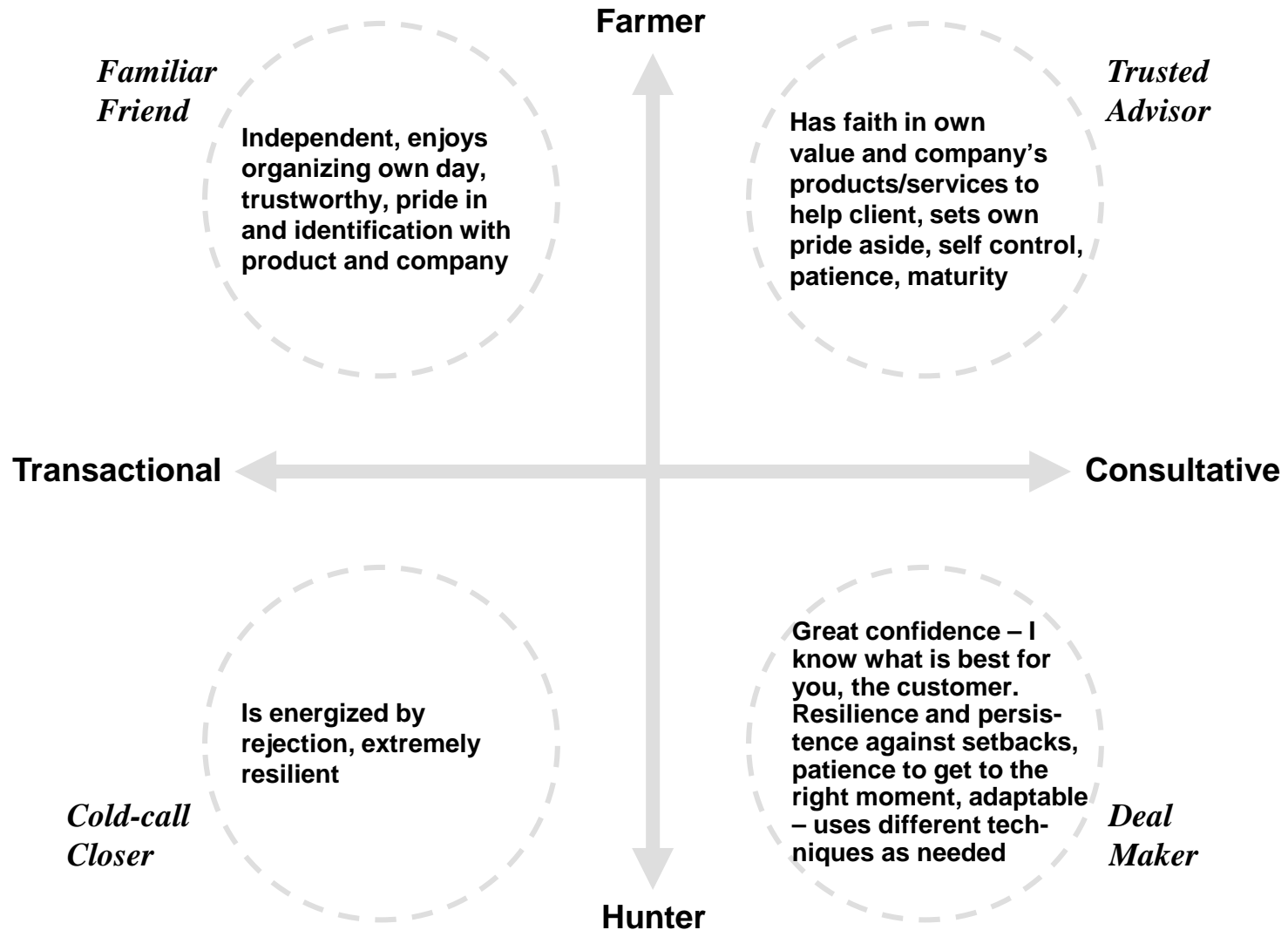
Sales Roles and Competencies: What does Achievement Look Like?



Sales Roles and Competencies: What Type of Influence Skills are Required?



Sales Roles and Competencies: What does Self Confidence Look Like?



We develop the whole person: Korn Ferry's Four Dimensions of Leadership and Talent



The Sales Function is Arguably the Most Sensitive to Change

A company could experience any number of changes in their sales organization:

1. Go-to-Market Strategy
2. Operating Model & Structure
3. Sales Roles & Talent Strategy
4. Performance & Productivity
5. Implementation & Support

Maintaining and improving the behaviors of sellers, to align to the sales model, is the best mechanism to ensure short-term success.

Sales compensation design review / adjustment provides the framework for driving behaviors through incentives.



Commission Plan: Profitable Growth

Plan Design Overview

- Monthly Commission with quota combines simplicity of a commission with a management-defined quota to help drive year-over-year growth
- Commission rate is applied only to the dollars earned in the tier – avoids holdback issues

	Monthly Tier Structure	
Measures (component)	Tier 1 = 3%*	Tier 2 = 5%* (6%* if unit goal is met)
Revenue (Primary Business Line)	\$1 - \$135,000 ^{1*} (Quota)	\$135,001 – Uncapped*
Measures (component)	Commission rate = 5%*	
Gross Margin (Cross Sell business line)	From \$1-Uncapped	

*Illustrative Rates & Tiers



Commission Plan: Building Territories

■ Plan Design Overview

- Quarterly tier structure for product sales
- Tiered on meeting quota at dollar 1
- Quarterly sales quotas
- Premium commission rate paid at end of year for product sales and quarterly for service sales
- YTD earned less YTD paid
- For the first 6 months, we will have a monthly draw based on monthly performance against quarterly commission
- No cap

Commission Rates by Country

Measure	Commission Schedule	Canada	US	France	Belgium	UK	Germany	Russia
Quarterly Product Sales	Tier 1	1.0%	1.0%	0.2%	0.4%	0.5%	1.0%	0.3%
	Tier 2	2.0%	2.0%	0.4%	0.6%	0.8%	2.0%	0.5%
	Tier 3	3.0%	3.0%	0.6%	1.0%	1.0%	3.0%	1.0%
Quarterly Service Sales	Tier 3 (paid at dollar 1)	3.0%	3.0%	0.6%	1.0%	1.0%	3.0%	1.0%



Scorecard Plan: Beyond Generating Demand

- Plan Design Overview
 - Quarterly payouts on Sales performance
 - Annual payouts on Personal Objectives
 - Payouts capped at 200% of target incentive opportunity for Sales and 150% for Personal Objectives

Sales Bonus Framework			Performance - Payout Matrix			
Measures (component)	Frequency	Weight		Threshold	Target	Stretch
Sales (individual or team)	Quarter	60%	<i>Perf:</i>	80%	100%	150%
			<i>Pay:</i>	50%	100%	200%
Personal objectives	Annual	40%	<i>Perf:</i>	80%	100%	150%
			<i>Pay:</i>	50%	100%	150%

Sr. Sales Rep: Direct Drive plans

- Example pay levels:

- \$80,000 base (100% of proposed control point)
- \$19,000 incentive target
- Target \$14,000 for quarterly commission.
 - \$1 for every \$330 in gross sales below quota
 - \$1.15 for every \$330 in gross sales above quota
- Target \$5,000 for annual bonus:

Total Cash	
Year 3	\$90,927
Year 2	\$76,175
Year 1	\$87,560
Target	\$100,809
Stretch*	\$112,809

Cross Sell Bonus	Perf.	\$500K	\$667K	\$834K	\$1,000K	\$1,167	\$1,334K	\$1,500K
	Payout	\$1,250	\$1,667	\$2,084	\$2,500	\$3,333	\$4,166	\$5,000
Target Account Growth	Perf.	4%	6%	8%	10%	12%	14%	16%
	Payout	\$1,250	\$1,667	\$2,084	\$2,500	\$1,667	\$2,084	\$5,000



Plan framework overview

National Brands		Regional Brands	
Business Development Manager	<ul style="list-style-type: none"> • 20% leverage • Bonus on target account growth and gross profit 	Regional Sales Director	<ul style="list-style-type: none"> • 30% leverage • Bonus on revenue attainment, cross-selling, target account growth
Senior Sales Rep	<ul style="list-style-type: none"> • TBD 	Regional Sales Manager	
		Senior Sales Rep	<ul style="list-style-type: none"> • 25% leverage • Commission on volume shipped • Bonus on cross-selling, target account growth
		Sales Rep	
		Trainee	<ul style="list-style-type: none"> • 5% leverage • Team volume achievement

Plan Terms and Conditions

- Purpose
 - Avoid confusion when the unexpected arises
 - Protect company and employee
- Development
 - Set in advance and defined in writing
 - Approved by the company's legal counsel
- Two main types
 - 1. Incentive plan qualifiers
 - 2. Employee administration



Plan Qualifiers The “Sales Event”

Timing	Explanation
Prior to sale	Milestones
Booking	When order is accepted by company
Shipment	Order leaves company
Invoice	Bill is sent to customer
Installation	Product is installed at customer site
Payment	Monies are received from customer by company
Combinations	Any of the above



Concepts of Proper Communication

- Plan based on company strategy / objectives
- Change ideas from multiple stakeholders
- Heavily tested from many perspectives
- “Ownership” of sales management
- Multiple communication levels



Face-to-Face Roll Out

Event	Media	Key Messages
National / regional sales meeting	<ul style="list-style-type: none"> • Prepared presentation • Concept video / slides • Q&A 	<ul style="list-style-type: none"> • Supporting strategy • Rationale for changes • Expected results • Schedule
District / local meeting	<ul style="list-style-type: none"> • Prepared presentation • Slides / overheads • Handouts • Written plan document • Q&A 	<ul style="list-style-type: none"> • Objectives to meet • Key plan changes • Plan mechanics • Examples • How to maximize pay
Supervisor's personal meeting with salesperson	<ul style="list-style-type: none"> • Notes on key messages (prepared outline) • Written plan document • Earnings impact report • Memo of receipt to sign • Q&A 	<ul style="list-style-type: none"> • Pay plan details • Personal pay impact • Required behavioral changes



Written Plan Document Sections

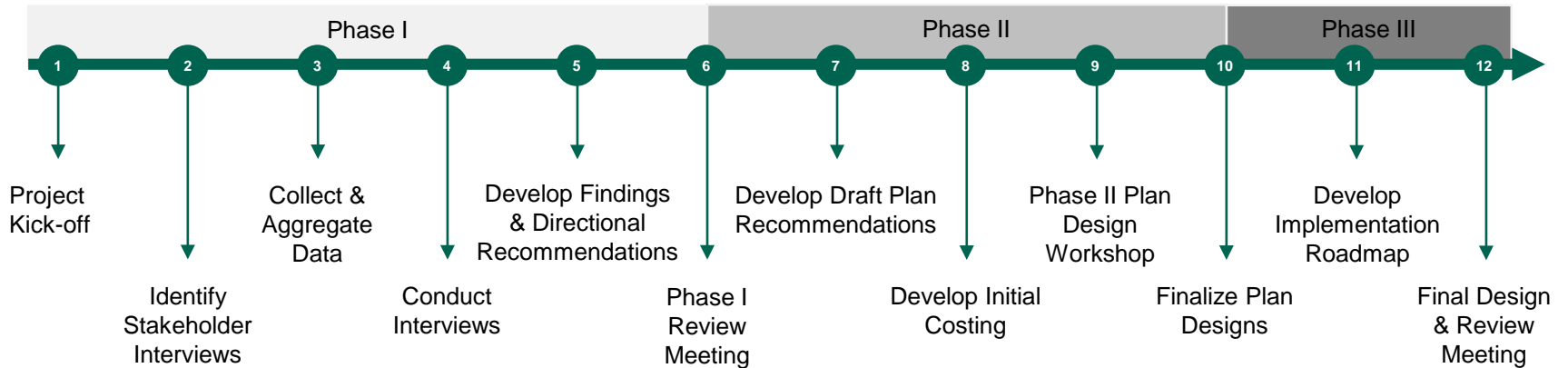
- 1 Company sales strategy
- 2 Plan objectives and core job responsibilities
- 3 Summary of plan features
- 4 Detailed plan components
- 5 Calculation examples
- 6 Plan qualifiers
- 7 Administrative provisions
- 8 Appendix



Ongoing Communication

- Reinforce the theme
- Accompany performance statements
- Include other specific information

Project Roadmap: Where are we today?



- The Project Team has completed:
 - 70+ data items gathered across 13 LoBs/Groups [“Areas”]
 - 5 stakeholder interviews and 12 focus groups
 - Development of findings (in-progress)
- Our conversation today will influence the following two phases of work

Thank you

