

June 2007

THE PROFESSIONAL AND BUSINESS WOMAN'S JOURNAL

COMPENSATION

Sales Manager's Cheat Sheet Is True Performer

As a sales manager, you know that sales incentive compensation plans should provide the financial rewards necessary to motivate sales professionals to take the initiative, apply the energy and deploy their skills to move a prospect to a buyer.

You also know that too many sales compensation plans fail to meet that goal. They fail due to questionable quotas, overly complex formulas, poor tracking mechanisms and misalignment with the company's strategy.

So how do you develop effective sales incentive compensation plans? Follow this five-step cheat sheet.

Step One: Define the Strategic Mission. Your company's strategy must drive both the design of the plan and the key performance indicators measured by the plan.

Therefore, ask yourself such questions as: What is the marketing vision for the company? Are you opening new markets or introducing new products? Are you in a mature market that is becoming commoditized? Are individual product margins good but volume too low? Or conversely, is revenue growing every year but profits are lagging?

Step Two: Design the Plan. Keep it simple. Complex sales compensation plans frustrate your sales team and those who must manage it. Keeping it simple, however, requires serious work and thought.

Here are the biggest issues around the design phase of sales compensation plans.

- *Key Performance Indicators.* This is where sales managers go crazy and build plans that monitor and reward every-



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thing they think sales people should do. Wrong! Good sales compensation plans focus on only three performance measurements, based on your strategy.

In general, there are three categories of performance indicators from which you should choose your three measurements: 1) production goals that include goals based on revenue, margin or units, 2) sales effectiveness goals that focus on new accounts opened, product mix, up selling and cross selling and 3) customer relationship goals that reward account retention, customer satisfaction and market share.

The three performance indicators you choose must also be aligned to your strategy. This is the point where most sales plans fail. They choose too many performance indicators and/or the indicators chosen do not align with and

advance the company strategy.

- *Base Salary vs. Variable Component.*

One of the most difficult aspects for management is deciding the percentage of base salary vs. the variable component of a sales incentive compensation plan. Management always worries about overpaying on a base salary and underpaying on the variable/incentive portion.

Before you make any decisions, ask yourself what type of sale drives your profit. Does making a sale depend upon the relationship with the customer or does the product you sell drive sales? Would a defecting salesperson take their accounts with them due to relationships or is your product or service the real value to the customer?

Companies that sell commodities and have serious competition earn revenue due to the efforts and relationships built by their sales representatives.

Knowledge-based businesses, such as consulting, earn revenue through the skills and knowledge of their consultant/sales reps.

In both cases, the customer buys from you because of your sales representative and would follow him/her to their next company. If this dynamic exists in your company, the variable portion of the compensation be high; it is a reflection of the reality that your salesperson drives relationships and should be rewarded accordingly.

If, however, your product has unique value or you have limited competition and customers remain with your company despite sales rep defections, then the variable component of the compensation plan should be lower.

In general, relationship-driven sales

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Covering Massachusetts, New Hampshire and Rhode Island

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plans should have a lower base to variable ratio (50/50) while product-driven companies have ratios closer to 70/30 base to variable.

- *Quota Assignments.* Sales quotas/goals should promote active selling and energize the sales staff. The sales reps must believe that the quotas/goals are attainable. In general, you should establish quotas that you realistically believe 60 percent to 70 percent of your team can reach. Remember, when assigning quotas, to take revenue seasonality into account. Quotas begin with the sales forecast for the year and are only as realistic as the overall annual revenue forecast.

Step Three: Compensation Plan Implementation. How you handle the implementation of the compensation plan is a major factor in how your sales team will respond. Sales reps must trust the new plan.

How you position, communicate and implement the plan affects their trust level. The new plan must be documented

and should include examples of how the new plan will affect their earning potential. Quota, territory and account assignments must be fair and equitable and documented.

You should also develop a transition plan that addresses how the team will move from the existing plan to the new plan. Will you move cold turkey to the new plan or will you have leveling guarantees to ease the team into the new plan?

Leveling guarantees can have real benefits, retention being one of them, but you can't delay the goal of the compensation plan, which is to meet company revenue/profit objectives.

Step Four: Management and Administration of the Plan. How you manage and administer the plan builds trust. Tracking and reporting results must be frequent and accurate. The formulas and calculation methods must be transparent to the sales reps.

Avoid, wherever possible, paper calculations and massive spreadsheets that

often confuse and frustrate sales reps. Consider purchasing sales incentive management software. Remember that as compensation plans change, job descriptions and performance evaluations are also likely to require adjusting. Managing to the plan should also include a well-thought-out coaching plan to coach individuals to success.

Step Five: Evaluation of Plan. Building your sales incentive compensation plan is not a once-in-a-lifetime event. You should annually review the results against your strategy and expectations of the plan and make needed adjustments. Reexamine your company strategy and then start the process again.

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