

## **7 Steps to Designing a Winning Sales Compensation Plan** **by Janet Gregory**

Sales compensation always seems to send a shiver down the spine, like finger nails on the blackboard or a bitter cold breeze. Sales compensation is really quite the opposite and can forge strong ties between departments in the planning. Designing, revising or revamping sales compensation plans is daunting straight forward task that can coalesce the key objectives of the company. There are seven fundamental steps to designing a sales compensation plan:

### **1. Review the sales job description.**

Most companies think they know what the job of sales is. In reality it is one of the most frequently changing roles in the company. In order to achieve success a sales team must adjust to multiple factors: internal, customer, competitive, economic, market, political and more. In this step, ask stakeholders in sales, marketing, business partners, customers or others to independently define the role of a sales person in your company; more stakeholders surveyed will yield a more complete description.

### **2. Identify the plan objectives.**

Start with the end in mind. Poll finance marketing, sales and human resources for the measurable outcome they would like to see from sales people. Objectives will differ by group and will generally fall into several useful categories such as business objectives (step 3), compensation level (step 4), incentive objectives (step 5) and field assignment (step 6).

### **3. Identify controllable, measurable job elements**

The outcome from this step is to establish the primary driver(s) for the sales compensation plan, also known as targets, assignment, objectives or quotas. This is the most challenging step of the process. Step two of the process provided key business objectives. Select one (and no more than three) key objective that will drive the compensation plan. Work collaborative to unite the key departments around the company objectives. Test the selected objectives: 1) Are they controllable by sales? 2) Are they measurable by finance? 3) Are they challenging yet realistic?

### **4. Establish level of compensation**

The outcome from this step is a compensation matrix with job position (or job responsibility) on one axis; the other axis contains salary, incentive and TTC (total targeted compensation at 100% of plan). Step two yielded critical information to determine compensation levels, such as: industry comp averages, salary-to-incentive mix, cost of sales and past compensation levels.

### **5. Determine method of compensation**

There are only three fundamental sales compensation plans: straight salary, straight commission or a combination. Today 75% of companies use a combination plan. Straight salary plans typically earn less than straight commission or combination plans. There are four basic building blocks with options to choose from in each:

- 1) Salary
- 2) Incentives, such as commission, draw, bonus, profit sharing, award travel, gifts, and stock options

3) Benefits, such as paid vacation, insurance, housing or moving expense, company car, tax or legal assistance, pension or 401k matching, etc.

4) Expenses, covering things like travel, cell phone, DSL, home office, supplies, laptop, airline clubs, etc.

**6. Test and establish administrative process**

Involve Finance early in the process. Even the best comp plan will crumble if it cannot be administrated. The acid-test is to take actual sales performance from the prior year and compute the compensation impact with the new plan. Sales management involvement provides the sales test.

**7. Install plan and distribute regular dashboard measurements**

Comp plans should be designed to motivate sales people, stimulate sales and recognize achievement. Create a dashboard that will be regularly updated that shows individual and group performance to the objectives. Performance, achievement and recognition should be highly visible. Sales people thrive on recognition for achievements, consideration as a valued employee and self-expression through individual contribution.

The prospects for your sales year look bright when you have a well designed compensation plan to guide the way.

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Sidebar:

## Using Incentives for Results

Looking for tangible results? Incentives are not just for sales people any more! Incentives are great human resource tools. They can drive tangible results like increased product sales, better safety records, improved problem resolution, reduced rework, product line focus, professional service expansion, and the list goes on.

Why aren't incentives used more often? Most companies will say that budget was the biggest factor. Simple math: no budget = no incentive program. A properly designed incentive program has a track-able and well defined Return on Investment (ROI).

**Return.** Start with the end in mind. What is the measurable outcome to be achieved? What are the consequences if this outcome is not achieved? What are the advantages if the outcome is overachieved? Don't forget the obvious last questions ... Is the outcome worthy of an incentive program?

The return will determine the value of an incentive program. The budget is a direct reflection of the value of the return. Simple math: budget = % of return.

**Investment.** Who has control in establishing and delivering the outcome? That is, who should be targeted for the incentive program. What will motivate this target group of employees? Incentives range in cost from financial, indirect financial or non-financial incentives. You have a broad selection from financial incentives like cash, gift cards, prizes to indirect financial incentives like paid vacations, time off, or company financed insurance programs (taxes, will preparation, complete physical) or non-financial opportunities to advance, recognition, job enjoyment.

Incentive programs can be a big win for the company, employees and customers. Simple math: effort + results = rewards.