



Sales Compensation - A guide for Sales Operations

A Summary of the November Sales Operations Forum

Poor quota setting, systems failure, weak communication and failed product management are some obvious reasons why sales compensation plans fail. The Alexander Group, the leading sales compensation consulting firm, asserts we must be equally concerned about the hidden causes of failure.

The Sales Compensation “Truths”

Sales compensation must be a hot topic because the room was full at the Sales Operations Forum. Matt Gallagher, Alexander Group Inc.®, challenged the audience to consider new ways to design and measure sales compensation.

The audience represented both large and small organizations, but all nodded in agreement when Matt listed the following “facts” about compensation planning:

- plans get hopelessly out of date quickly,
- management waits too long before considering a redesign,
- sales management is always looking for good compensation ideas,
- sales compensation does not belong exclusively to sales management.

The Hidden Causes of Failure

There are many reasons why compensation plans fail, and some are easily identified. However, Alexander Group asserts that less obvious—but equally problematic—issues can sabotage the success of a plan before it is even announced. These issues include job design errors that lead to a mismatch between jobs and the plan, and an overly complex plan that delivers mixed results.

Job design problems emerge as companies evolve and new demands on their sales teams emerge. Companies then find they are asking reps to do one thing, but paying them to do another. Job requirements are now out of synch with the compensation structure.

Overly complex and overloaded compensation plans can develop when a company loses focus and discipline during the planning process. The process often involves too many people, each with their favorite tactic for motivating sales or agenda. This is where Sales Operations can play a critical role, helping guide plan development and avoiding bias.

Start Here: The Desired Role Of Sales

To develop a plan that drives performance and avoids these pitfalls, Matt advises companies define the role they expect their sales team to play. He describes two roles, each at opposite ends of the spectrum of requirements: 1) the income producer owning the account and creating all or most of the value; and 2) the sales representative whose company maintains account ownership and produces the value.

Matt recommends income producers—classically reps in small startup’s, independent agents, and real-estate agents—be paid a percent of revenue with more upside (if not unlimited) income. “Pay for the point of persuasion,” he says. This model is typically used in variable labor environments with industry-driven expansion and contraction.

The typical territory rep found in high-tech falls into the category of sales representative. Matt advises companies use a “target pay model” to manage sales reps’ compensation using industry statistics and the labor market to determine appropriate pay. Many companies that should be using this model are locked into an income producer model beyond the time when they should have transitioned.

Support Your Corporate Strategy

Unfortunately many companies start with mechanics and treat compensation as a bag of tricks. Alexander Group advises clients to start with the problem they are trying to solve, use the definitions above as a foundation, and then build the plan to match corporate management objectives.

For these reasons a company’s annual plan assessment should entail more than a look at revenue attainment. A thorough assessment measures the plan against the revenue objectives and the design principles. Sales Operations can lead this effort, gathering data, conducting analysis, understanding HQ perceptions and issues and listening to the Field.

Next Steps

Matt advised the audience to get educated and get involved. Start with a market pay analysis and build a company pay report. Help sales management test plans against well thought out design principles. When possible, lead the design process and use the table below to avoid major issues.

Plan of Action	To avoid	Warning Signs
Force focus by limiting number of measures in your plan	Plan that is unduly complicated	Too many "roman numerals" in the plan
Better align plans with job focus. Limit upside.	"Mega" order (s) that creates huge payment	"Blow out" payments
Enforce rule: pay for the point of persuasion	Too many people get credit for a sale	Drive by doubling
Eliminate MBO's and expire guarantees	Local managers are able to "protect" people	MBO-ville and Guarantee-itis
Control access to field incentives	Over reliance on contests	Contest Mania
Sales Operations manages a well-planned process	Designs that are too complicated to administer	Crazed Commission Accounting

Answers to Typical Questions

- Q:** Should Sales Compensation payout amounts be unlimited?
- A:** Assess the role of the seller. Align unlimited payments to sellers that own the account and create value. Limit compensation in situations where the company owns the accounts and creates the most value.
- Q:** What % of target pay should be "at risk" and what % of earnings should be available for upside compensation?
- A:** The higher the influence of the salesperson, the higher the amount of "at risk" target pay and the higher the upside potential.
- Q:** What percent of sales personnel should achieve target pay?
- A:** 60% should achieve or exceed quota, the top 10% of sellers should earn or exceed excellency pay, and the bottom 10% enter a performance improve plan.
- Q:** Who owns sales compensation?
- A:** Sales management owns the compensation plan with other departments contributing key elements. Marketing provide product and sales objectives. HR contributes target compensation levels and corporate policies and IT supports the process with transaction processing. Sales Operations manages assessment, the process, metrics, and administration.

About the Sales Operations Forum

If you are interested in attending a future Sales Operations Forum meeting, contact Alison Chandless to register for our mailing list. (alisonc@kickstartall.com).

The Sales Operations Forum is exclusively for senior Sales and Sales Operations management. Each meeting's agenda include a discussion of relevant sales operations issues and solutions, as well a presentation by an industry expert. Meeting summaries are available at www.kickstartall.com.

About Alexander Group

Since 1985, Alexander Group has been helping clients achieve their revenue and profit goals by designing and implementing world-class sales coverage strategies and programs. Contact Chris Dooley at (415) 391-3900 for more information about this presentation.

Call KickStart For Help

Alison Chandless is the sales readiness expert on the KickStart Alliance, team of sales and marketing executives who help technology clients strategize and implement key revenue and market-share initiatives. Working with technology clients ranging from start-ups to Fortune 500 companies, KickStart consultants provide Positioning, Lead Generation, and Sales Readiness services. Find out more by visiting www.kickstartall.com.