

Sales Compensation Planning



Making commissions a real incentive - a Case Study

A well-structured commission plan not only motivates a sales force but also ensures that their effort is directed into achieving the organisation's strategic and tactical objectives. Creating a scheme that balances all aspects of an organisation's needs, from hunting to farming and across diverse revenue streams and markets, requires careful planning. With a wealth of practical experience in designing and implementing compensation plans coupled with unique access to market data, we can design the most cost effective scheme for your organisation, which in concert with the right sales support and education, will ensure your sales forces delivers on their targets

This case study looks at the Compensation Planning, carried out on behalf of a major technology vendor and reseller. To protect the innocent, we will call them Solutions Incorporated (SI).

Motivating salespeople through their commission payments is common practice but the real question is:

**Are your sales staff really motivated,
and if so, to do what?**

In a constantly evolving business climate, sales commission plans need to change to ensure your staff keep pushing hard to achieve the company's current objectives.

Background

As an established company, SI has already negotiated the move from hardware vendor to solutions provider, although still profitable, revenues have been fairly flat for the past few years. SI decided that they needed some external expertise to ensure that their Sales Compensation Plan for the new year would revitalise their sales force and help drive the company forward into a new period of growth.

We specialise in collecting and publishing sales market data for the IT industry. As such, the recent ICR European Sales Practices survey indicated that the OTE and base/incentive split for SI's account managers was very much "on market", however their performance was below expectation.

Over the years, the sales environment at SI had softened, with some staff being rewarded for effort, rather than purely on results. And although there were processes like a structured sales cycles and sales forecasting methods, it was obvious that SI needed to change their sales culture to one of "live or die by your number". In our experience, sales force motivation is the key to ensuring that Account Managers reach target. Although building a sales driven culture is more important than designing the right compensation plan, either will fail without the other being right.



The Approach

Just as no two companies are the same, no two compensation plans are ever the same. Each plan needs to be carefully designed to ensure that there is goal congruence from sales executives up to senior management and that the desired balance between product and services revenues is obtained to provide an effective vehicle for managing and improving sales behaviour.

As such, the first stage of the assignment was to work with sales management and sales staff identifying and teasing out an understanding of the current issues, to ensure that these do not obstruct the company's sales strategy.

In order to effectively analyse the feedback, the results of the interviews are categorised as follows:

- Vision, direction and business strategy
- Business acquisition and development
- Organisation and culture
- Policies, procedures and controls
- Existing sales compensation plan issues
- People related issues

In common with most organisations, this analysis highlighted a number of potential problem areas, internal conflicts and bad practices that had developed over time.

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"increasing your sales revenues"

Revenue or Margin

One of the main issues for SI was “how to structure the sales incentives”. To date, the sales compensation, as is typical for a reseller, had been based on margin. However, this was at odds with the company’s goal of increasing revenue.

The relative merits of margin versus revenue based measurement were defined as:

Margin	
Pros	Cons
Focus on Margin	Can be difficult to measure
Tangible basis for payment	Possible defocus on revenue
Can lead to higher profit	
Revenue	
Pros	Cons
Focus on growth	Less focus on margin
Simple to measure	Difficult to control profit
Good definition of value	

Recommendations

In the case of SI, the decision was to implement a two-tier compensation plan with revenue as the primary performance measure and margin goals set to act as gatekeepers to the sales club and over goal multipliers. In addition, run rate business was separated out from the new business targets so that differential rates could be applied.

This change to a revenue based model was only one of the suggested improvements to SI’s sales compensation plan. A wide ranging but cohesive set of new initiatives were recommended including:

- Enhanced quota setting procedures involving both top down and bottom up planning
- Introduction of a stand-alone half year target, to provide more immediate impact for the changes
- Changes to ensure only revenue that can be recognised in the current year counts towards quotas, with quarterly accelerators to bring forward multi-year service deals.
- Over goal multipliers modified to ensure that they reward outstanding achievement and not provide high earning levels for “blue birds” or for unrealistic quota setting.
- Introduction of team events hosted by the account managers who win large deals.
- Formalise the performance management process to ensure sales staff have the training, coaching and support necessary to achieve their targets and then take personal responsibility for doing so.

- Improve internal systems to ensure sales people and management have a clear view of booked revenue and margins.
- Coach sales managers on roll-out and objection handling from sales staff.

The Results

The final rewards and recognition scheme for SI was structured as follows, to ensure that the multitude of relevant factors were taken into account in managing sales behaviour.

Recognition	Intrinsic awards <ul style="list-style-type: none"> • Team events for winning the deal
Contests	Focussed effort <ul style="list-style-type: none"> • Product mix incentives • Quarterly incentives

Over-goal Incentive	Based on outstanding performance
Target Incentive	Based on on-target performance <ul style="list-style-type: none"> • Revenue • Growth revenue • Margin
Base Salary	

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