



HOW TO
**MAKE SALES
COMPENSATION WORK**
FOR YOUR COMPANY

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SALES
COMPENSATION
IS ABOUT
**MORE THAN
JUST THE
MONEY.**

While money will always be a major motivation for sales people, top sales people today are also looking at other benefits when considering a job offer.

At the same time, the sales compensation plan that your company uses must encourage the sales team to buy into and support the sales outcomes that your company has targeted. These are particularly important considerations for small to mid-sized businesses, which are growing while competing with larger companies that can have higher visibility to talented candidates.

In such an environment, you need more incentive in your sales compensation plan than just money if you truly want to motivate your team to succeed and contribute to top-line growth for your organization. To achieve this, sales compensation should support your company's desired outcomes by encouraging your sales people to interact with your market so that your image and targets are reinforced. In addition to the motivational benefits, a well-designed sales compensation plan will help you attract and retain high performing talent.



SALES COMPENSATION SHOULD ENCOURAGE **SALES PEOPLE TO MEET KEY BUSINESS OBJECTIVES**

A sales compensation plan that is not aligned with a company's key business objectives may be successful in motivating and retaining sales people, but it will not be successful at helping that company meet its goals. For many small to mid-sized businesses the goals of growth and improving financial performance are front and center, but these goals can also include other objectives that support the business at both long- and short-term horizons. Thus, designing sales compensation that persuades sales people to promote your company's key business objectives is a two-step process involving both alignment and reward.



ENSURE THAT YOUR SALES COMPENSATION **PLAN COMMUNICATES BUSINESS OBJECTIVES...**

Company education is an important part of communicating business objectives to the sales team, but to really create understanding and alignment, the sales compensation plan must reinforce those objectives. To ensure that this happens, a sales compensation plan should:

- Be written so that business objectives are a part of the plan, not a compliment to it. When you do this, your sales people know to expect that contributions are considered in light of how those contributions meet objectives.
- Define the accountabilities that sales people are responsible for and what performance measurements sales people must meet to earn compensation beyond what is included in the fundamentals, while tying these measurements to business goals.
- Base total cash compensation on selling performance by incorporating as many variables as are practical to calculate compensation as a function of meeting objectives.

... AND SPECIFICALLY **REWARDS SALES**
PEOPLE FOR MEETING THEM





Creating a hierarchy of your company's key objectives and ordering compensation according to how important it is to meet core targets can help sales people meet priorities and align their activities accordingly. This can also help your company benchmark how its sales compensation ranks against its competitors. Key areas within the sales compensation plan to look at include:

- **The competitiveness of base salary and commission structure.** These areas are fundamental to compare to ensure that your compensation plan is setting your organization up to make a competitive offer and attract top talent.
- **How commissions are calculated and the frequency of payout.** Revenue, gross, and net margin pay outs are some of the most common ways to calculate commission. When deciding which to use or whether to make a change, consider the perceptions of your current and prospective sales people and how the structure you choose stacks up to the competitors'.
- **Caps and tiers.** The practicality of incorporating caps and tiers in sales compensation depends to a great extent on an organization's size and cash flow. However, in all cases companies should try to ensure that the use of these compensation tools is at least in line with standards for the industry.

While your organization is considering these factors, you should also take into account how your organization's profitability relates to the profitability of the sales compensation structure based on future projections. When the opportunity arises to restructure sales compensation it may be attractive to take a risk on lucrative compensation to attract top talent, but as in all things your organization's objectives must come first and again, while monetary considerations are the backbone of your sales compensation plan today's top sales talents are looking for more.



BUILD FLEXIBILITY IN SALES COMPENSATION FOR **REWARDING BEHAVIORS AS WELL AS RESULTS**

In sales, the targets your sales team reaches can be just as important as the route they take to get there. To make sure that the methods your sales team is using compliment your company's long term objectives, a good sales compensation plan should incentivize behaviors in addition to incentivizing meeting targets. A certain degree of flexibility in the compensation plan is required in order to meet this goal. However, that flexibility can go a long way towards helping an organization attract and retain high sales performers. It can also help manage costs, since this flexibility can be tied directly to performance objectives.



ENSURE PAYOUTS ACCOUNT FOR THE LENGTH **OF YOUR COMPANY'S SALES CYCLE**

All else being equal, some sales people will tend to work more diligently as a key deadline for sales payouts draws nearer. This is less than ideal for an organization's cash flow, and can lead to uncertainty in sales targets. To overcome this problem, your company should look closely at its payout schedule to ensure that the average length of your sales cycle is aligned in a way that is beneficial both to your cash flow and to your sales people:

- Companies with shorter average sales cycles might consider making a certain number of closes in a given payout cycle part of sales compensation. Thus, sales people might not be eligible for a certain payout bonus unless a set commission basis has been accrued.
- Alternatively, companies with longer average sales cycles may wish to consider adding incentives for meeting targets within the sales cycle, such as number of presentations.
- Further incentives might be tied to making key sales numbers earlier in the compensation period as opposed to later in the period, making sales people eligible for accelerated payouts or other incentives.

Your organization may also want to take into account contingencies where payout adjustments may be warranted. For example, you may wish to consider paying out extraordinary commissions over time, versus at the next payout, where possible. Companies with long sales cycles may also wish to examine how a long-term payout schedule may impact prospective top sellers considering moving to a company but concerned about the length of time before commissions might be paid out.



DEFINE EXPECTATIONS WITHIN **THE SALES COMPENSATION PLAN**

The best way to ensure that sales people perform according to expectations is to take out the ambiguity. Defining expectations for performance within the sales compensation plan is a good way to achieve this aim, as long as the expectations are credible, reasonable based on past and anticipated sales, and tied to incentives that motivate sales people to consistently work to improve individual contributions. There are many ways that performance expectations can be defined within a compensation plan, including:

- Building benchmarks into the sales compensation plan. If your company is in a position to do so, incorporating a sliding scale to recognize performance is an excellent way of clarifying what sales people can expect while motivating positive sales behaviors.
- Aligning costs and sales performance in a way whereby sales people who are able to achieve selected performance benchmarks at a defined margin are made eligible for additional incentives.
- Incorporating performance yardsticks as part of overall compensation, which can give sales people a clear view of what must be achieved in order to meet and exceed expectations and become eligible for bonuses or other incentives.



STANDARDIZE REWARDS **FOR OVERACHIEVEMENT**

If you are looking to reinforce positive sales behavior and make overachievement the standard at your organization, you should look into incentivizing overachieving sales behaviors. Your sales team will be more willing to go above and beyond if the rewards for doing so are made clear and consistent. To standardize your incentives for outstanding sales achievements, consider:

- Creating incentives large enough to motivate outstanding performance while being challenging enough to require above and beyond effort to earn.
- Systemizing rewards for overachievement. As opposed to temporary incentives and bonus roll outs, an ongoing system of rewards for superior performance can keep motivation—and sales—strong year round.
- Defining outstanding achievements within the context of company performance—that is, achievements that help your company meet its key objectives in definable ways are those that are most heavily rewarded.



SET CHALLENGING TIERS TO **MOTIVATE AND REWARD RESULTS**

Sales people who work at top performing companies are not always privy to “sales secrets” that support high growth by increasing sale value and close rates. In fact, small and mid-size companies seeking out these sales secrets may only be chasing a chimera. The real secret to sales success for companies looking to grow is setting challenges that sales people are motivated to meet through the dual functions of company culture and anticipated reward. A company culture that encourages sales people to look forward and aim for continually mounting sales goals is a successful culture that engenders sales success.



RECOGNITION PLANNING **AS PART OF SALES COMPENSATION**

Recognition from is a form of compensation that less successful organizations tend to miss. Compensation for overachievement does not necessarily have to equate to higher payouts. In fact, higher payouts for overachievement may not always be warranted. Incorporate recognition planning in your sales compensation plan by remembering not only to thank sales people individually when their performance deserves recognition, but singling out sales people who have put in an outstanding performance in front of their peers. Written notes of thanks from executives can also reinforce your sales compensation plan by providing additional motivation for your sales people.



PROTECT YOUR COMPANY—AND YOUR SALES **PEOPLE—BY ADDRESSING GOVERNANCE**

Even the best-drafted sales compensation plan can not address every possible outcome and the related compensation in a complex sales world. Still, a surprising number of compensation plans do not address what happens when questions arise. To protect your organization and its sales staff, plan governance should always be addressed within the plan itself, particularly as relates to these two questions:



WHAT HAPPENS WHEN A **COMPENSATION ISSUE IS RAISED?**

A sales compensation plan should always outline the procedure for finding the resolution to a compensation question. Sales people should be made comfortable in raising any perceived issues, and should know how to approach raising those issues professionally and in accordance with established processes. Ideally, all compensation questions should be routed to the sales manager first, but there should be a plan for where the sales person and sales manager go next if the resolution requires additional guidance. This may involve the sales director, another sales executive, or human resources.



WHO HAS THE FINAL SAY ON **COMPENSATION RESOLUTIONS?**

Although your sales compensation plan may already outline the procedures for addressing a compensation issue or question, it is important to recognize that many issues can be mitigated when the party ultimately responsible for resolving compensation disputes is clearly identified. Depending on an organization's size, this will usually be one or more of the executives responsible for sales departments. Sharing this information in the sales compensation plan can protect the organization's assets while potentially avoiding resentment from sales people who raise a compensation problem.



MODEL SALES COMPENSATION **BEFORE IMPLEMENTING A NEW PLAN**

Executing a model of a proposed sales compensation plan before implementation is a must. Many organizations have found that their sales compensation plans were more expensive or less effective than anticipated only after roll out, a costly error. When modeling a compensation plan, estimate expenditures against revenue for all possible scenarios. Be sure to take into account:

- The length of the sales compensation program, with models for outlay and projected revenue on multiple time horizons to predict cash flow.
- The anticipated percentage of compensation type offered as part of the plan, and how changes in these percentages may impact award and outlay.
- Profit/cost factors on multiple models based on changing activity.



CONCLUSION

Many factors are involved in making a sales compensation plan work for your company. Following best practices for compensation, such as basing compensation on organizational objectives, incorporating tiered incentives, and including non-monetary recognition can help your organization build a culture of overachievement that shows on the bottom line. With appropriate consideration and foresight, your organization can rejuvenate its sales compensation to keep sales people motivated to reach the next level.

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SalesForce Search is a sales recruiting company which specializes in the recruitment and placement of sales professionals. We work in nearly every industry sector from financial services to pharmaceuticals and believe our Hiring Process can help you find the right sales person for your organization. Sales is the most critical component of every organization and hiring great salespeople is challenging. We help companies save time and money by finding the right sales person quickly and ensuring your organization hits their sales targets.

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