RESEARCH BRIEF

# Sales Management's Role in Redesigning the Sales Incentive Compensation Program:

## An Insider's Guide to Achieving Your Objectives, Managing Multiple Stakeholders, and Avoiding Surprises

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## About The Sales Management Association

*The Sales Management Association is a global professional association focused on sales management's unique business and career issues. The Sales Management Association fosters a community of interest among sales force effectiveness thought leaders, consultants, academics, and sales management practitioners across many industries.*

*Through training workshops, online resources, and research materials, The Sales Management Association addresses the management issues of greatest concern to practicing sales managers. The Sales Management Association's focus areas include management leadership, sales force performance coaching, sales planning, sales process management, enabling technologies, incentive compensation, and sales force support.*

## Note to Members

# Sales Management's Role in Redesigning the Sales Incentive Compensation Program:

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### Overview

Picture this scenario: as a successful sales manager, you are working through a typical Monday. You have a new hire candidate to interview, an accounts receivable issue to resolve with your largest customer, and the monthly commit call is this afternoon. You are collecting the latest numbers from your team so that you can take the call on the way to catch a flight at the airport.

An e-mail pops up from the Vice President of Human Resources. The company is re-designing the sales compensation program for next year, and your participation is requested on the design team.

If you are like many sales leaders, you are immediately hit with one of several feelings:

*Gratitude* "We struggle to recruit the right people," you say to yourself, "And the best sales people we have are always at risk. A better sales compensation program may address these problems."

*Dread* It suddenly occurs to you: "The CFO must be trying to cut corners to reduce expense and drive profitability. Things will only get worse for the sales organization."

*Frustration* You realize: "As though I don't have enough to do? This will only clog my calendar!"




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But wait, there's more: The company is bringing in an outside consultant. You've never met them, and they will probably impact your business for two or three years to come.

These thoughts and feelings are not uncommon. Sales compensation is one of the most controversial topics to tackle. The math itself is not terribly difficult, but balancing the perspectives of sales, marketing, finance, human resources and the CEO to find the solution that will satisfy all and can be administered by patchwork systems in 80 countries is really, really hard. In all probability, that is what the consultant has been tasked with, whether it is openly acknowledged or not. The RFP may have mentioned "best practices" or "benchmarking", but alignment, consensus, and execution will be the real trick.

## Ten Considerations for Sales Management

Based on your reaction to the situation you have several decisions to make and several opportunities to impact the ultimate outcome. The purpose of this article is to outline the sometimes hidden levers and points of influence that exist throughout a sales compensation project, and provide an insider's perspective on how to use them to make your project successful. We will start with the fundamental strategic basis for the project and work sequentially through a typical project plan.

1. Understand why the project has been requested in the first place

As illustrated in the reactions above, there are a lot of negative pre-conceptions that come with a sales compensation re-design project. The best way to deal with these and set the project up for success is to identify the plan re-design objectives up front. If the CFO really does need to cut costs, the best thing to do may be not to fight her up front, but to broaden the discussion to cover all of the ways that cost of sales can be influenced, including pay, headcount, channel structure, customer size, sales process workload, and proposal close rate. Other "mandates" should be noted and listed. These could include things like "order linearity across quarters" from the CEO (which could be linked to his interactions with Wall Street and/or manufacturing capacity utilization), Sarbanes-Oxley compliance, improved growth, reduced turnover, support for new products, or integration of previously acquired organizations which have been operating independently. The more you know about these up front, the more prepared you can be for the discussion of alternatives. Paranoia about hidden agendas tends to create dysfunction in sales compensation design meetings.

2. Identify the client within your organization

If you have figured out the "why" behind the sales compensation redesign, the next important step is to figure out the "who". There may be three objectives that come out of the conversation in item 1 above: improve growth, create a globally consistent plan framework and ensure new high-margin products are represented. How might the tone and flow of the project be different if the VP of Human Resources is the leader of the project (and is providing the budget for the consultant's fees)? How about the CFO? Head of Marketing?

The ownership of sales compensation programs is evenly split in the marketplace between sales (or Sales Operations), Human Resources and Finance. Singular accountability and ownership by one of these functions over the others in your company may reflect a cultural bias of the organization (i.e., growth-oriented, compliance-oriented, and cost-oriented, respectively). Within the project itself, it may result in a disproportionate amount of time, money or priority being placed on one issue over another. Balanced perspectives working toward the overall success of the business create the best sales compensation programs. One technique that may help manage this phenomenon is the creation of design principles that will describe the successful sales compensation project and solution *before* you start. You may need to refer to these throughout the project to subtly remind people that they are headed off on an unproductive tangent. Another technique is to create a balanced steering committee that sits above the design team and must objectively review and approve the ultimate designs.

3. Understand the project scope

The consultants working with your team probably had extensive conversations about the scope of the project during the proposal phase. For their purposes, scope includes several things:

- The number of unique sales roles, or jobs, to be reviewed;
- The number of incumbents, or individuals in the sales organization, that are that are currently eligible for sales compensation;
- The number of countries around the world in which your sales force operates and the currencies in which you pay sales people;
- The amount - and quality - of data available; and
- The number of meetings required to conduct the design work.

Once these parameters have been established, consideration is given to which aspects of the sales compensation plan should change: eligibility, pay levels, pay mix, performance measures, upside, crediting rules, goals, formula mechanics, governance programs, administrative systems and communications media. A good consultant will do a thorough job of understanding all of these things up front in order to properly plan for the project. Of course, some companies don't have all this information up front. Even if both the company representatives and the consultant did a sound job scoping the project, there are always new issues that arise unexpectedly after the project is underway.

How you deal with those things will impact the success of the project. For example, if it was decided that the direct field sales organization was included in the scope of the work, but the telesales organization was not, what will you do if partway through the project, it is determined that it is necessary for paired field sales people and telesales reps to share goals and both have skin in the game? Will it stop the project? Will you make an executive decision to expand the scope and keep going? Does this change the list of stakeholders who need to approve the solution? Does your consultant need more interviews and data analysis to understand the telesales roles? In these situations, people often lose sight of the ultimate impact of the plan and make short-sighted decisions to keep the project moving and on-target in order to meet an arbitrary deadline for completion. Make sure the team carefully weighs discussions of unanticipated critical issues, instead of merely treating them as obstacles to be plowed over.

4. Confirm the accuracy of the data

Your sales compensation project can be completely derailed if the pay and performance data you provide to your consultant is flawed. Not only will you lose precious time in the assessment phase of the project, but the foundation of your proposed designs could also be completely eroded. For example, if you accidentally omit the spiff data when considering actual compensation received, the pay level recommendations could be skewed. If you were to transpose a line of data and have it carried through a thousand incumbents, you might have no idea (or worse, a completely opposite conception) how the proposed new plans would impact your top performers. If you provide the consultant out-of-date job descriptions, he might match your sales roles against the wrong market survey information and come back with completely inappropriate pay mix recommendations. Providing accurate data is a step that is worth doing and worth doing right. If it requires spending a half day with your financial analyst and the consultant, by all means do it.

5. Make sure the right people are interviewed

Your consultant is probably going to ask for a list of people who should be interviewed as part of the project. Your first thoughts might be "look, we know what we want to change, and the last thing we need is someone running through the organization stirring up the rumor mill." The reality is that you are probably paying a lot of money for this consultant's time, effort and advice. The first benefit of the interviews is further customizing the consultant's advice to your company and your sales people. The second benefit of the interviews is that it makes your people feel heard and valued as part of this process, and that is good for morale and employee retention. The third benefit of the interviews doesn't come until the end of the project when the consultant is helping you present the recommended solutions to the CEO for final approval. It is at that point when someone in the room who may hasn't been very involved in the project will ask "why couldn't we do it this other way?" You may defend the original design and object to the proposed alternative based on its impact on your people, but as a head of sales, your opinion may already have been discounted as too protective of your domain. The consultant, at that point, should be able to stand up and talk objectively about the financial and behavioral impact on Jane Doe, the top performing major account manager he interviewed who brought in a new multi-million dollar account last year in spite of many organizational obstacles and how this proposed change would have undermined that specific success. This drives the point home, reinforces the basis of the proposed solution and makes it real for all involved.

You should propose two people in each role for interviews. If possible, make them geographically diverse. If you have to choose between low performers and high performers, choose high. Mix in long-tenured sales people with new sales people who came over from top-notch organizations. There are always people in the organization who are outspoken. Feel free to add those people to the list, but you may want to prep the consultant to understand their biases up front.

6. Get the right people to the table

If the sales compensation design project has been structured properly, there are probably a few design meetings scheduled over several weeks. These design meetings should be attended by the entire design team. If you miss a meeting, decisions will get made without you, and it will cost you time and frustration to get the project back to the desired direction. On the other hand, if another member of the team misses a meeting, you may feel that you are cruising along without that troublesome naysayer, but it can come back to trip you up at the end of the process when that person's support is required for approval or implementation. Schedule the meetings up front, and hold them sacred. If someone can't attend, postpone the meeting. That will convey the seriousness and desire for continuity that will make your effort successful.

7. Participate properly

You are a sales leader. You probably came up through sales. You know how to negotiate. You know how to get shipping costs packaged in over and above the "not to exceed" total budget of your customers. You are wily, cunning and occasionally devious. Check that at the door. The consultant working on your project should hold a balanced view of sales, finance and human resources priorities of the project. That person should ensure that all are being heard and represented. Much like the prisoner's dilemma, the first person to devolve into political maneuvering during the project can cause the entire design team to move back to their corners and personal agendas. State your objectives openly and early. If they conflict with the design principles, seek escalation. If rejected, seek alternatives, but do not try to manipulate the process for anything but the mutually agreed upon goals.

One of the most important, productive functions you will play as a sales leader in these design meetings is the accurate representation of your sales strategy to the rest of the organization. Human resources may not understand the finer points of your strategy; they may know only that you continue to hire people above the upper bound of the designated pay range. Finance may not understand how much teamwork is required to complete a full solution sale; they may simply feel that too many people are getting credit for each dollar of revenue. This is an opportunity (not a burden) to educate other people in the organization as to how your strategy aligns with the CEO's vision of the company's direction and the specific demands of customers in your target markets. This may require some preparation on your part, and the consultant should be able to help you. This is a chance to get people on board and rowing in the same direction.

8. Circle back to confirm goals

Lots of companies develop design objectives at the beginning of a project, but surprisingly few actually revisit those goals and grade their end solution at the close of the project. Time becomes a pressure, consensus gets developed, and the amount of man-hours invested may reach a point beyond anyone's imagination just a few months earlier. If the plan designs and cost models have been constructed correctly (around a flexible framework), it should not be a completely debilitating setback to revise a few elements of the solution to more closely adhere to the original design objectives. Again, this does not mean that people can wait and package in their pet initiatives at the last minute when no one can object. It is only meant to say close the loop on your objectives.

9. Test it

The cost modeling exercise conducted towards the end of the design phase should be your first opportunity to test-drive the new design. It should give you a macro view of the plan cost under various performance scenarios and it should give you a micro view of the plan's impact on individuals (usually assuming comparable performance to last year). This is a first cut at testing the plan to ensure it does what everyone thinks it should do. If there were cost management objectives set out at the beginning of the project, this should provide you reasonable confirmation that the plan meets those objectives, if not the first time around, then perhaps with a few modifications. If design objectives included increasing the pay:performance relationship or differentiation for top performers, these outcomes can be verified in the cost model as well. This test model should also provide a leading indicator for change management. The sum of the absolute value of all changes for individuals between the old plan and the new plan divided by the total expenditures (base and variable) under the old plan is known as a displacement index. If it is greater than 20 percent, the change you are attempting is too radical and risks seriously disrupting the performance of your sales force.

The systems that will administer the plans also need to be tested. The best way to do this is with a month or two of parallel computation. If your IT organization has been participating in the plan, they should have a head start on any systems enhancement or modification requirements. IT should also weigh in on the time and data required for proper testing.

10. Support it

The final step and last real opportunity to influence the success of the plan is the communication phase. This is the time to put any disagreements about plan design to rest and support the design the team has created. As a sales leader, you should represent the design as "ours", not "theirs". Help the implementation team shape the message, identify key influencers among the sales force, and deliver the pitch.

There will be challenges with any new plan. No plan is perfect. You will probably be asked to weigh in on appeals and exceptions after the implementation. It is important to remember that you are designing for the core 80% of the sales force, not the outlying 10% on either end of the spectrum. If you have done these things, you will not only have accomplished the objective of delivering a new plan, but you will have learned things about your organization and strengthened it along the way.

## About The Author

*Scott Sands is the Southeastern Region Sales Effectiveness & Compensation practice leader for Watson Wyatt Worldwide. He works with senior executives to align human capital structures and practices with business strategies in order to drive broad-scale organizational performance. He is an expert in Sales Effectiveness, Compensation, Marketing Program Implementation, Process Re-engineering and Change Management.*

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*Scott has helped build and transform companies across many industries, including technology, telecommunications, financial services, insurance, pharmaceutical, manufacturing, consumer products, business services, and transportation.*

*Scott holds an M.B.A. from The University of Texas with focus in marketing and organizational effectiveness. He also holds a B.E. with concentrations in electrical engineering and mathematics from Vanderbilt University. He has been a featured speaker at national and industry conferences on compensation, sales & marketing and organization change and has published numerous articles. He has facilitated seminars focused on the technology, engineering and healthcare industries. Scott recently co-authored WorldatWork's new book on sales compensation entitled* Sales Compensation Essentials.

 

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