SALES MANAGEMENT ASSOCIATION

Research Report

Managing Sales Compensation

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Research underwriters

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Research Report: Managing Sales Compensation
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The Sales Management Association is a global, cross-industry professional organization for sales operations, sales effectiveness, and sales leadership professions. We provide our members with tools, networking, research, training, and professional development.

Our research initiatives address topics relevant to practitioners across a broad spectrum of sales effectiveness issues. Our research is available to members on our site at www.salesmanagement.org.

In addition to research we publish best practice tools, archived webcasts, and expert content. Visit our website at http://salesmanagement.org to learn more.

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1 Research Summary

1.1 Research Objectives

Sales compensation overshadows other sales-related expenses, and at times dominates the sales organization's attention. Firms' ability to design, adapt, administer, and communicate their sales compensation programs is therefore a significant management concern. This research examines current sales compensation management practice, quantifies factors differentiating high and low performing firms in this area, and identifies emerging issues and management priorities.

1.2 Summary of Key Findings

Respondent firms are moderately successful in meeting high-level sales compensation program objectives, but do so at costs considered too high given sales results - just two in five firms say sales compensation costs are aligned with the results they generate. Many firms' programs fail to yield critical outcomes, such as providing salespeople with clear direction (58% of firms), retaining the best sales talent (45%), and aligning costs with results (41%).

These program outcomes are hampered by execution failures in many firms. Respondents' are best able to execute in four areas: consistently paying all payees accurately (67%), anticipating future plan change costs (67%), providing salespeople with information sufficient to understand pay and performance (65% of firms), and accurately budgeting future compensation expense (65%). Barely half of respondent firms (54%) communicate plan performance expectations in a timely fashion, have a clear dispute resolution process (54%), or handle salesperson assignments efficiently and accurately (51%). Even fewer establish effective quotas (41%), or quantify and track customer potential (39%). Just 38% of respondent firms deliver sales compensation plan documentation and quota assignments on time.

As a group, respondents' most important improvement priority is optimizing quota management. Our research compared respondents' ratings of effectiveness and importance for a range of sales compensation program execution elements. Quota management had the largest gap between rated importance and effectiveness (with an importance rating of 5.6, and an effectiveness rating of 4.5).

Senior sales leadership and sales operations are most likely to play a significant role in the overall management of sales compensation, and do so in 80% and 68% of firms, respectively. At least one of these two functions is significantly involved in 98% of firms. Together with finance and human resources, these four functions share accountability for various sales compensation management elements: finance is most often accountable for budgeting (in 49% of firms), sales operations for program assessment (49%) and administration (46%), and senior sales leadership for program communication (44%).

Slightly more than one in four (28%) pay disputes is considered complex. Though most disputes (72%) are quickly and easily resolved, a sizable fraction of those remaining (31%) take respondents more than two weeks to resolve. Almost half of respondents do not have a defined dispute resolution process. We see this as a significant issue, as any single sales compensation dispute has the potential to undermine sales force confidence in the sales compensation program, or subject the firm to potentially serious legal liability.

Our research suggests most organizations are ill-prepared for mid-year sales compensation program changes, though this exigency arises in almost all organizations. Especially troublesome are changes to compensation plan design, rated 3.8 on a seven-point effectiveness scale (where "1" is "not at all effective, "4" is "somewhat effective, and "7" is "extremely effective"). Effectiveness ratings for mid-year quota adjustments and salesperson assignment adjustments, while much more common, are rated as only marginally higher, at 4.2 and 4.3, respectively.

Respondents give low marks to their firms' use of technology to enable sales compensation management. No technology benefit among the six included in our research garnered effectiveness ratings higher than 3.5 on a seven-point scale. Technology is rated highest in helping to make fast, informed decisions (3.4), and lowest in integrating data between sales and marketing (2.5). Fewer than one-third of firms realize significant benefits from enabling technology in their sales compensation efforts. Just 32% use technology to minimize sales force time spent on low-value tasks related to sales compensation administration; 19% integrate sales compensation data between sales and finance departments; and only 9% can integrate data between marketing and sales.

On average, respondents use two separate technology applications each for the purpose of administering sales compensation programs. This figure excludes spreadsheets, which remain "extremely important" to 42% of respondents' sales compensation management efforts (and at least "somewhat" important to three-quarters of respondents).

2 Responsibility for Sales Compensation Management Within the Firm

2.1 Functions Involved in Overall Sales Compensation Management

Senior sales leadership and sales operations[1] are most likely to play a significant role in the overall management of sales compensation, and do so in 80% and 68% of firms, respectively. At least one of these two functions is significantly involved in 98% of firms.

Functions That Play a Significant Role in Sales Compensation Management

Percentage of Respondent Firms

Percentage of Firms Where Function is Significantly Involved in Sales Compensation Management

N=72 Firms

2.1 Among firm functional areas, senior sales leadership and sales operations are most likely to be significantly involved in sales compensation management.

Other functions likely to have significant management involvement are finance (51% of firms), and human resources

[1] We use the term "sales operations" to describe a set of activities that support sales force efficiency and effectiveness. Though many firms also use this moniker to describe internal sales support functions, its usage is not universal (as we've learned in previous Sales Management Association research). This report utilizes the term "sales operations" (or "sales ops") generically to refer to these various functions, even though formal names for similarly focused support departments vary significantly within firms.

(47%). In 12% of firms, other functions such as marketing, IT, and non-sales executive management play a significant management role.

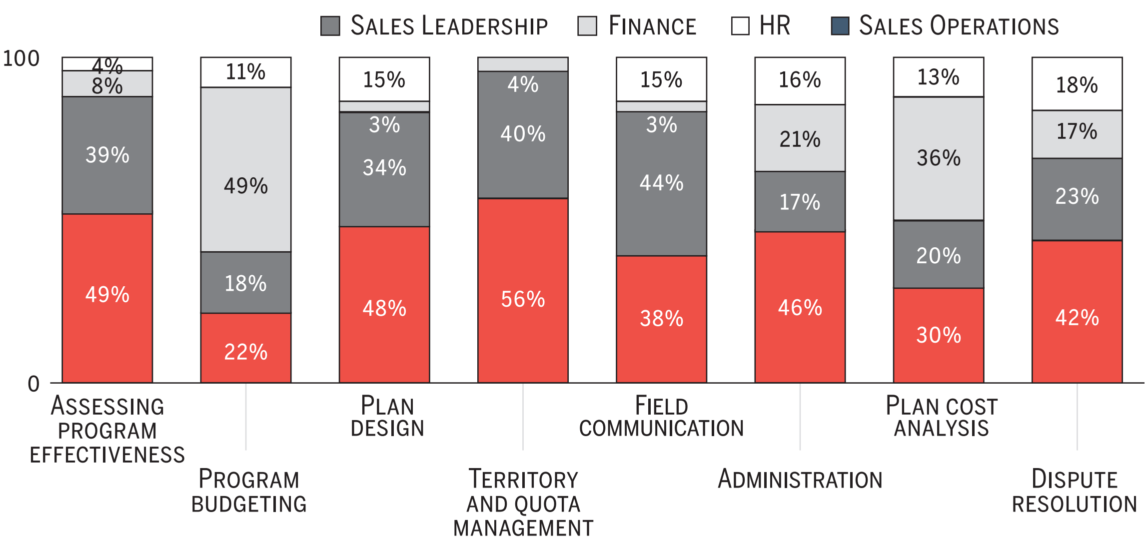
2.2 Accountability for Key Sales Compensation Management Activities

Sales operations, finance, human resources, and senior sales leadership are most accountable (among all other firm functions) for key sales compensation management activities. Sales operations is most frequently "chiefly accountable" for assessing program effectiveness (in 49% of firms), designing or revising plans (48%), assigning or revising salesperson assignments (56%), sales compensation administration (46%), and dispute resolution (42%).

Sales leadership is more likely to be chiefly accountable for field communication than other functions; it is chiefly accountable for field communications in 44% of firms. Finance is more likely to be chiefly accountable for program budgeting (in 49% of firms), and for cost impact analysis of plan changes (36%).

Functional Accountability for Sales Compensation Management

Percentage of Firms



N=72 Firms

2.2 Sales ops or sales leadership is most often chiefly accountable for program assessment and communication; finance most often leads efforts to budget sales compensation expense.

3

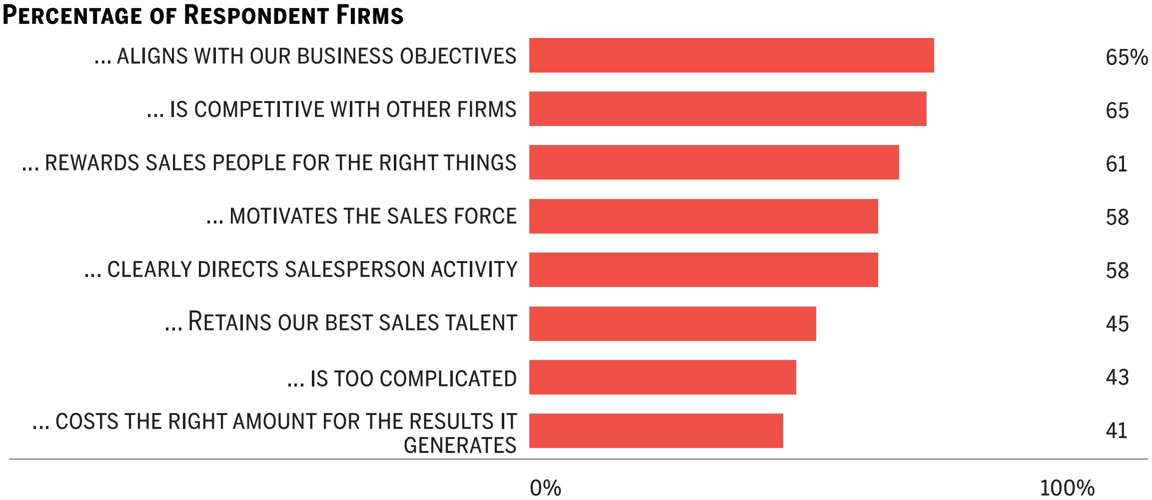
Firm Effectiveness in Achieving Incentive Compensation Objectives

Respondent firms are moderately successful in meeting high-level sales compensation program objectives, but do so at costs considered too high given sales results. Just two in five firms say sales compensation costs are aligned with the results they generate.

Respondents' effectiveness ratings for all high-level program objectives ranged from 4.0 to 5.0 on a seven-point rating scale (where "7" is best). Respondents are most effective in aligning sales compensation with business

Sales Compensation Program Attributes

Percentage of Respondent Firms



Percentage of Firms With Sales Compensation Program Attribute

N=72

3.0 Though almost two-thirds (65%) of respondents say sales compensation aligns with business objectives, and is competitive with other firms' compensation, far fewer (41%) believe sales compensation costs the right amount for the results it generates.

objectives (rated 4.9) and offering sales compensation competitive with other firms (4.9). Lowest rated is using sales compensation plans considered too complicated (4.0). (Complete ratings are provided in Appendix exhibit A.1.)

Just under two-thirds of respondents are effective at aligning sales compensation with business objectives (65% of firms) and offering sales compensation competitive with other firms' (65%). More than half are effective at using sales compensation to "reward salespeople for the right things" (61%), motivating the sales force (58%), and providing salespeople "with clear direction on what to do and where to focus" (58%).

Less than half of respondent firms' sales compensation programs are effective at retaining the best sales talent (45%), avoiding over-complicated plans (43%), and aligning costs with results (41%).

3

Program Execution

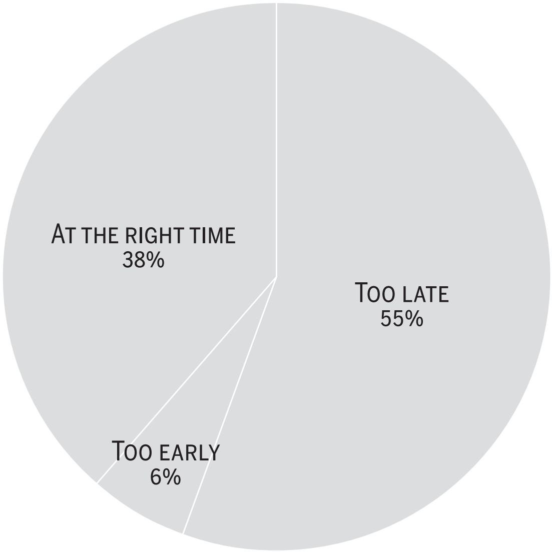
4.1 Plan Implementation

Just 38% of respondent firms deliver sales compensation plan documentation and quota assignments on time. Most firms (57%) are "too late" in delivering plans and quotas to salespeople (6% say they deliver plans "too early").

4.2 Program Participation

When Do Salespeople Receive Written Sales Comp Plan (and Quota, if Applicable)?

Percentage of Firms



N=72

4.1 Most salespeople receive sales compensation plans and quota expectations too late in the year.

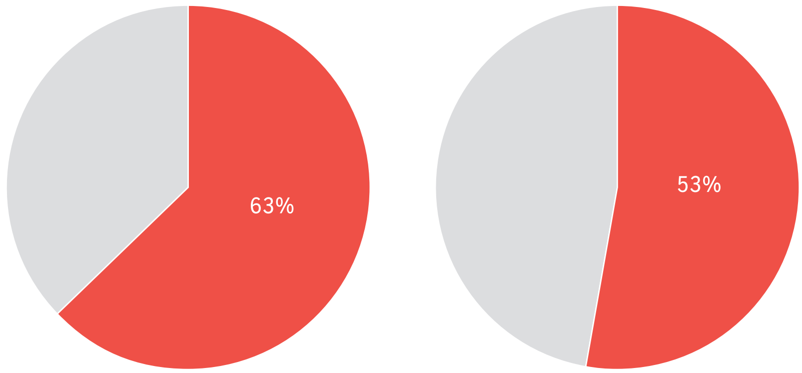
Fifty-three percent of respondent salespeople met or exceeded target sales compensation in the prior 12 months. ("Target" compensation describes total projected compensation, including base salary and incentives, for meeting performance expectations.) Rates of quota achievement exceed target compensation achievement rates; 63% of salespeople met or exceeded their primary performance quota.

This discrepancy isn't necessarily indicative of quota and sales compensation misalignment, since many firms attach incentive pay to plan components other than, or in addition to, quota achievement. Our research did not collect incumbent salesperson earnings data in detail sufficient to further analyze these discrepancies.

Sales Compensation Program Participation

Percentage of Salespeople

4.2 On average, 63% of salespeople met or achieved quota, and 53% met or exceeded target pay in the preceding 12 months.



Met or Exceeded Performance Quota

Met or Exceeded Target Compensation

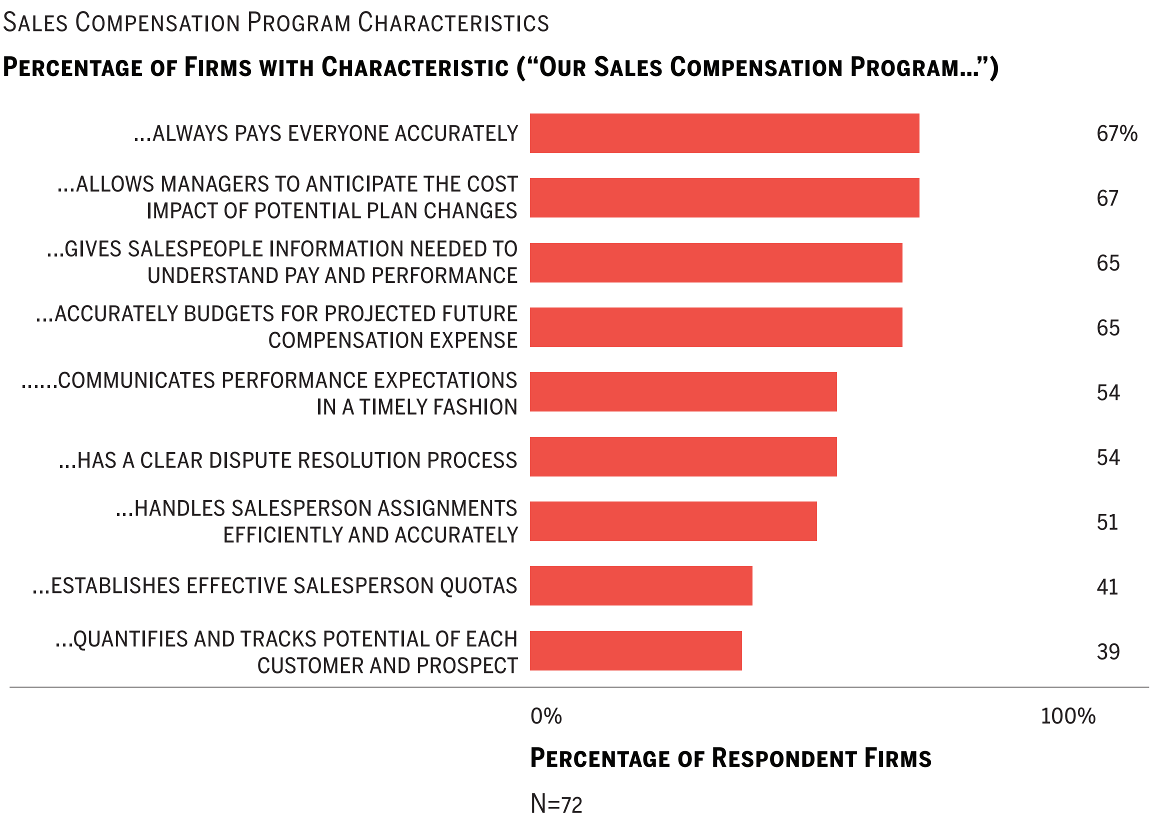
N=72 Firms

4.3 **Program Effectiveness**

Respondents' sales compensation programs receive moderately positive ratings on a range of characteristics included in the research. Eight of nine characteristics are rated between "4" and "5" on a seven-point scale, where "7" is most effective. Rated least effective is the ability to quantify and track customer potential (rated 3.8). Programs are rated best at providing salespeople with information sufficient to understand pay and performance, accurately budgeting future compensation expense, consistently paying all payees accurately, and anticipating the costs of future plan changes (all rated 4.8). (Complete ratings are shown in Appendix exhibit A.2.)

Given sales compensation's importance, a surprising number of firms did not deliver basic program attributes essential for program success. About two-thirds of respondents achieve the four highest-rated program characteristics: providing salespeople with information sufficient to understand pay and performance (65%), accurately budgeting future compensation expense (65%), consistently paying all payees accurately (67%), and anticipating future plan change costs (67%). Just two of the remaining attributes are present in more than half of respondents – and only just, as 52% of respondents indicate their programs communicate performance expectations in a timely fashion and have a clear dispute resolution process.

Attributes judged least effective and present in less than half of respondents were handling salesperson assignments efficiently and accurately (48%), establishing effective salesperson quotas (40%), and quantifying and tracking customer potential (39%).

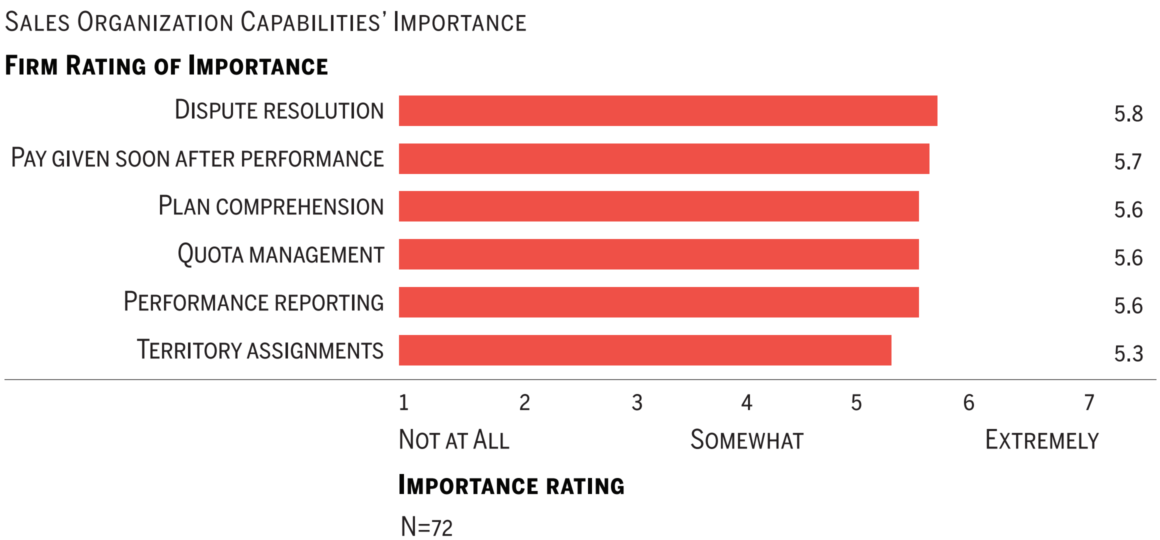


4.3 Fewer than expected firms meet essential sales compensation program benchmarks, such as always paying accurately (67%), communicating performance expectations in a timely fashion (54%), or establishing effective salesperson quotas (41%).

4.4 Execution and Improvement Priorities

Respondents rated dispute resolution most important among six distinct execution categories included in the research (it received a rating of 5.8 on a seven-point scale, where "7" is most important. All six categories were rated high in importance, with ratings between 5.8 and 5.3 for territory assignments, the lowest-rated category.

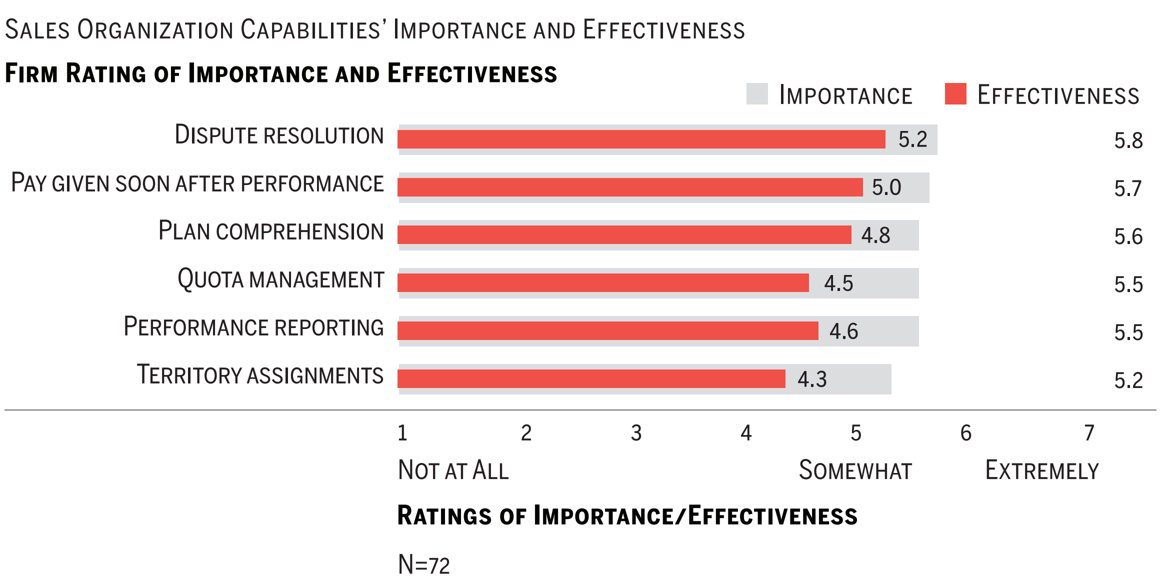
Respondents' corresponding effectiveness ratings for each element are significantly lower. These are also provided on a seven-point scale, where "1" is "not at all effective," "4" is "somewhat effective," and "7" is extremely effective." Firms are least effective



4.4.1 Resolving sales compensation disputes is considered most important among execution priorities included in the research.

in assigning territories (a rating of 4.3), and most effective in resolving compensation disputes (5.7). The largest gap between rated importance and effectiveness is for quota management, with an importance rating of 5.6, and an effectiveness rating of 4.5.

We developed an "Importance and Effectiveness Matrix" by plotting importance and effectiveness ratings in an x-y scatterplot. By forcing each axis' midpoint to the mean rating, it's possible to organize each

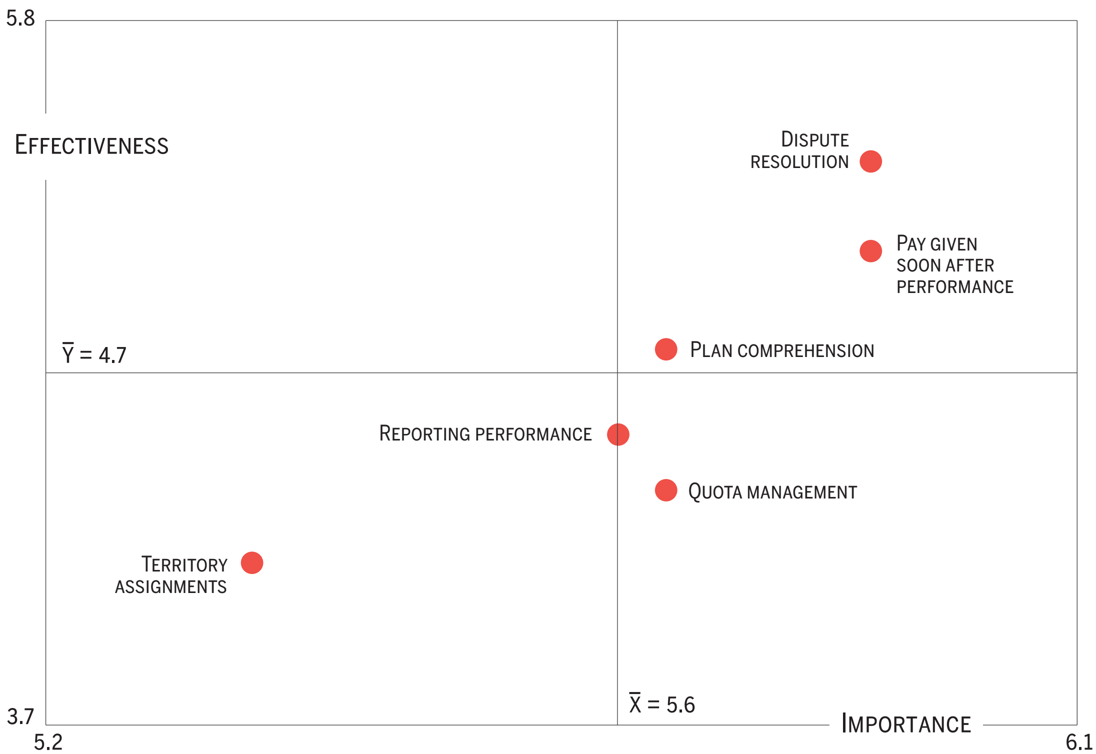


4.4.2 Ratings of effectiveness are markedly lower than importance ratings for sales compensation execution elements. The largest gap in rated importance and effectiveness is in quota management.

execution element into one of four improvement priority quadrants. The most important of these is the bottom left quadrant, which shows elements rated in the top-half of importance, and the bottom-half of execution effectiveness. By virtue of its location in this quadrant, quota management represents the most important overall improvement priority for respondents as a whole.

Elements ranked in the top 50th percentile for importance are sorted on the right half of the chart; those ranked in the top 50th percentile based on effectiveness are forced to the top half of the chart.

SALES COMPENSATION MANAGEMENT IMPORTANCE EFFECTIVENESS GRID



N=72

4.4.3 AN "IMPORTANCE-EFFECTIVENESS" GRID HELPS TO VISUALIZE RELATIONSHIPS BETWEEN RESPONDENTS' IMPORTANCE AND EFFECTIVENESS RATINGS. IT PLOTS EFFECTIVENESS AND IMPORTANCE RATINGS FOR EACH SALES COMPENSATION MANAGEMENT EXECUTION ELEMENT ON AN X-Y AXIS. EFFECTIVENESS RATINGS ARE ASSIGNED TO THE VERTICAL Y-AXIS, AND IMPORTANCE RATINGS TO THE HORIZONTAL X-AXIS. THE TWO AXES INTERSECT AT THE RESPECTIVE MEAN REPORTED VALUE FOR EACH SCALE (5.6 FOR IMPORTANCE; 4.7 FOR EFFECTIVENESS; BOTH ARE FIVE-POINT SCALES). EACH ELEMENT IS THEREBY FORCED INTO ONE OF FOUR QUADRANTS, AS ILLUSTRATED ABOVE.
THE UPPER-RIGHT QUADRANT REPRESENTS ELEMENTS WITH RELATIVELY HIGH RATINGS FOR BOTH IMPORTANCE AND EFFECTIVENESS. IN RELATION TO OTHER CATEGORIES, RESPONDENTS WILL LIKELY SUSTAIN FOCUS IN THEM.
ELEMENTS IN THE LOWER LEFT-HAND QUADRANT ARE RELATIVELY LESS IMPORTANT, AND PERFORMED LESS EFFECTIVELY THAN OTHERS. IN RESOURCE-CONSTRAINED ENVIRONMENTS, FIRMS ARE APT TO REDUCE OR OUTSOURCE SUPPORT FOR ELEMENTS IN THIS QUADRANT.
THE UPPER LEFT QUADRANT INCLUDES ELEMENTS OF RELATIVELY LESSER IMPORTANCE, EXECUTED WITH RELATIVELY HIGH EFFECTIVENESS. ITEMS IN THIS QUADRANT ARE TYPICALLY MONITORED TO ENSURE CONTINUED EFFECTIVENESS.

The lower-right quadrant contains sales compensation management elements executed with relatively low effectiveness, yet considered highly important. Elements in this quadrant are management's most important improvement priorities.

4.5 Dispute Management

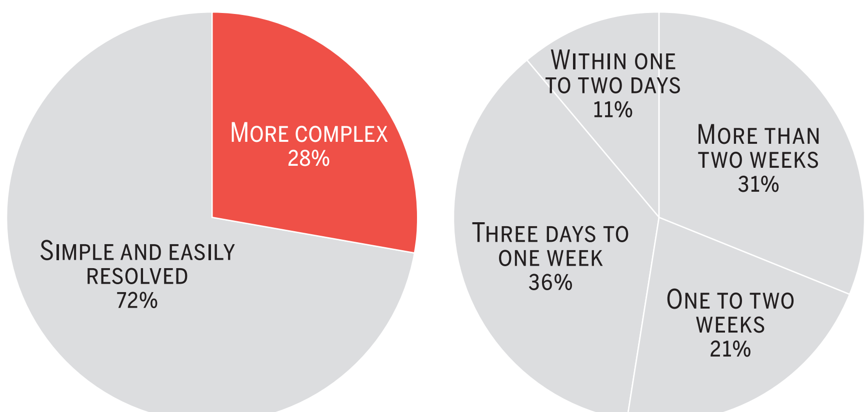
Rated as the most important program attribute, dispute resolution can be particularly troublesome for sales compensation administrators. Yet only a slight majority of respondent firms (54%) have a clear dispute resolution process.

Though most disputes (72%) are quickly and easily resolved, a sizable fraction of those remaining (31%) take respondents more than two weeks to resolve. Any single sales compensation dispute has the potential to undermine sales force confidence in the sales compensation program, or subject the firm to potentially serious legal liability.

4.5 Slightly more than one in four (28%) pay disputes is considered complex. Of these, about two-thirds (67%) take more than one week to resolve.

Sales Compensation Dispute Resolution

Percentage of Disputes



Dispute Complexity **Complex Dispute Resolution Time**

N=72

4.6 Accommodating Mid-Year Changes

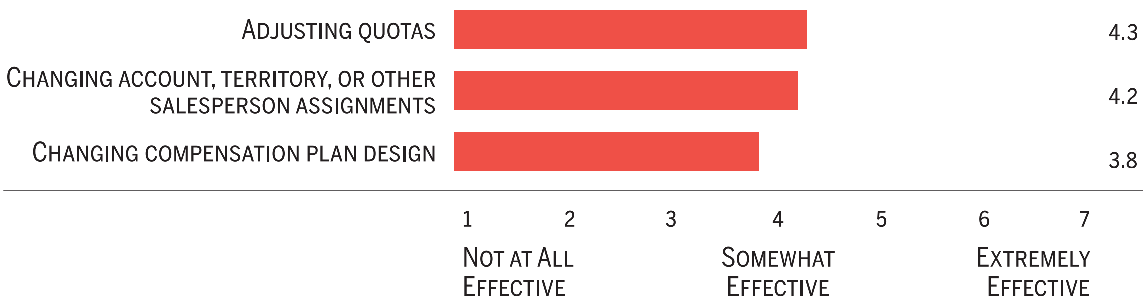
Though firms avoid mid-year sales compensation program changes when possible, they are sometimes necessary to accommodate changing market conditions, recast performance projections, or other circumstances. Our research suggests most organizations are ill-prepared for this exigency.

Respondents show only low-to-moderate effectiveness in executing mid-year plan changes. Especially troublesome are changes to compensation plan design, rated 3.8 on a seven-point effectiveness scale, where “1” is “not at all effective, “4” is “somewhat effective, and “7” is “extremely effective.” Effectiveness ratings for mid-year quota adjustments and salesperson assignment adjustments, while much more common, are rated as only marginally more effective, at 4.2 and 4.3, respectively.

Just 34% of firms consider themselves effective in handling mid-year quota adjustments. Firms are even less likely to effectively manage salesperson territory assignments (31%) and sales compensation plan changes mid-year (28%).

Mid-Year Plan Change Effectiveness

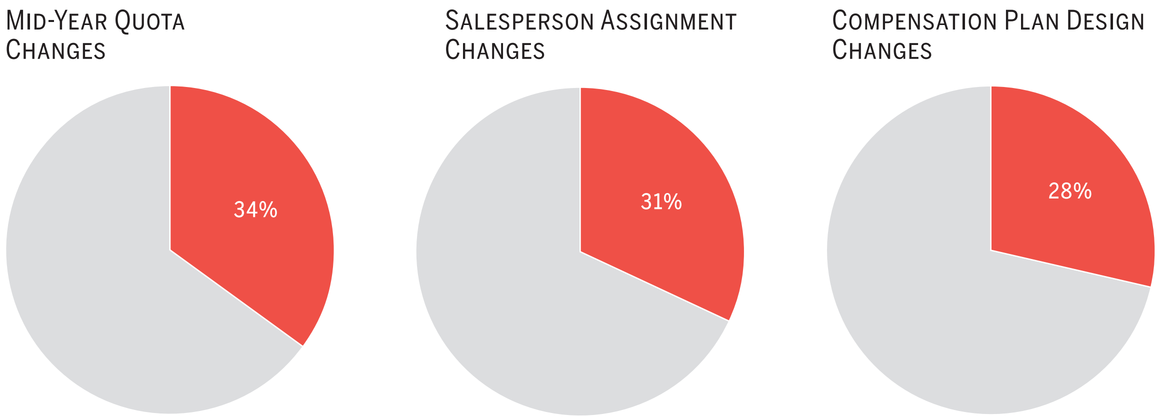
Average Firm Effectiveness Rating



Firm Effectiveness Rating

N=72

4.6.1 Firms find it troublesome to accommodate mid-year changes to quotas, territories, or plans.



Percentage of Firms Effective at Mid-Year Changes

N=72

4.6.2 Just 34% of firms are effective in accommodating mid-year quota changes. Firms effective in changing salesperson assignments or sales compensation plans are even scarcer (31% and 28%, respectively).

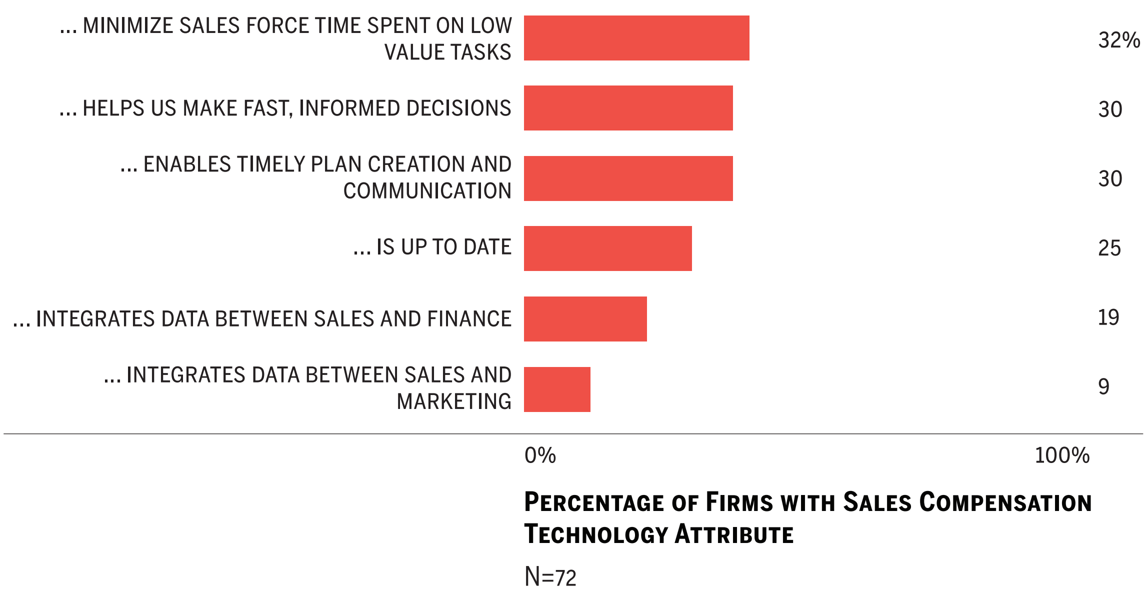
5

Enabling Technology

Respondents give low marks to their firms' use of technology to enable sales compensation management. No technology benefit among the six included in our research garnered effectiveness ratings higher than 3.5 on a seven-point scale, where "1" is "not at all effective," "4" is "somewhat effective," and "7" is "extremely effective." Technology is rated highest in helping to make fast, informed decisions (3.4), and lowest in integrating data between sales and marketing (2.5).

Respondents' Sales Compensation Technology Attributes

Percentage of Respondent Firms



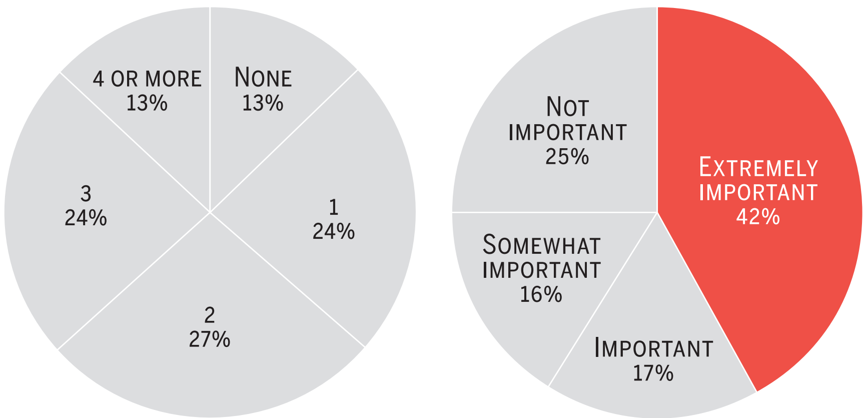
5.0.1 Respondents give low marks to their firms' utilization of enabling technology for sales compensation management.

Fewer than one-third of firms realize significant benefits from enabling technology in their sales compensation efforts. Just 32% use technology to minimize sales force time spent on low-value tasks related to sales compensation administration. Just 19% integrate sales compensation data between sales and finance departments; and 9% can integrate data between marketing and sales. (Ratings are provided in Appendix exhibit A.3.)

5.0.2 Firms use (on average) two separate applications to manage sales compensation, in addition to spreadsheets, which remain "extremely important" for 42% of firms.

Sales Compensation Management's Enabling Technology

Percentage Distribution of Firms



Number of Applications Used (Excluding Spreadsheets)

Importance of Spreadsheets in Managing Sales Compensation

N=72

On average, respondents use two separate technology applications each for the purpose of administering sales compensation programs. This figure excludes spreadsheets, which remain "extremely" important to 42% of respondents' sales compensation management efforts (and at least "somewhat" important to three-quarters of respondents).

6

About the Research

6.1 Research Approach

This study aggregates participating firms' responses to a web-based survey. The Sales Management Association developed the survey and recruited participants from our membership and broader audience of sales managers and sales operations professionals. In exchange for participating, we offer respondents advance copies of the detailed study report.

Before reporting results, we eliminate invalid or ineligible responses, and sometimes contact respondents to clarify their responses. Survey results are only reported in aggregate, and never in a way that would compromise the identity of any single respondent. All individual respondent data are treated with strict confidentiality.

6.2 Research Timing and Scope

This research represents summarized data from 72 participating firms directly employing more than 95,000 sales professionals. Data were collected between June and September 2016. Respondent demographics and descriptive information are summarized at the end of this report.

6.3 Research Underwriters

This study was made possible in part through the underwriting support of Anaplan, and AON Hewitt. The Sales Management Association underwriters provide annual financial support to the Sales Management Association. Underwriters may suggest research topics, participate in ongoing research projects, and encourage participation or otherwise promote research initiatives.

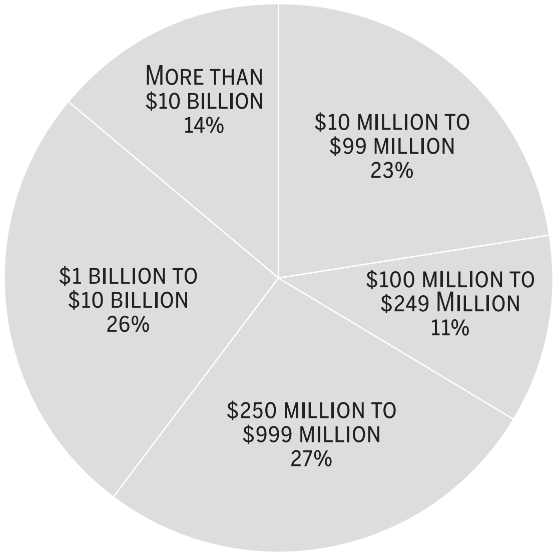
Underwriters are not involved with research administration, data collection, analysis, interpretation, or report development, unless explicitly noted in the report. Also, unless noted, underwriters do not pay a research-specific fee or directly commission research initiatives.

The Sales Management Association is grateful for the support underwriters provide to our research efforts.

7 Respondent Demographics

Respondents' Annual Firm Revenue (USD)

Percentage of Respondents



N=72 Firms

7.1 Respondent firms annual sales revenue ranged from US$10 million to more than US$10 billion.

7.1 Firm Size

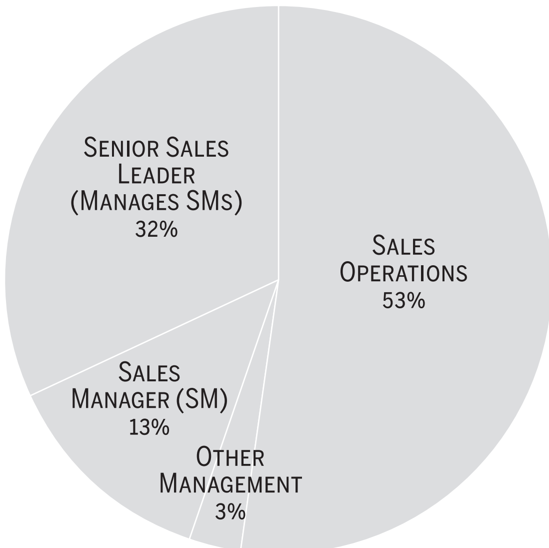
Seventy-two participating firms ranged in size from small to very large. Seventy-seven percent of respondents' firms have annual revenue in excess of US$100 million; 14% are firms with annual revenues in excess of US$10 billion.

7.2 Job Role

Respondents are predominately sales operations leaders (53%) in their firms. Thirteen percent of respondents are first-line sales managers (directly managing salespeople). An additional 32% are senior sales leaders, managing

Respondents' Job Role

Percentage of Respondents



N=72 Firms

7.2 Respondents are predominately sales operations leaders (53%) in their firms.

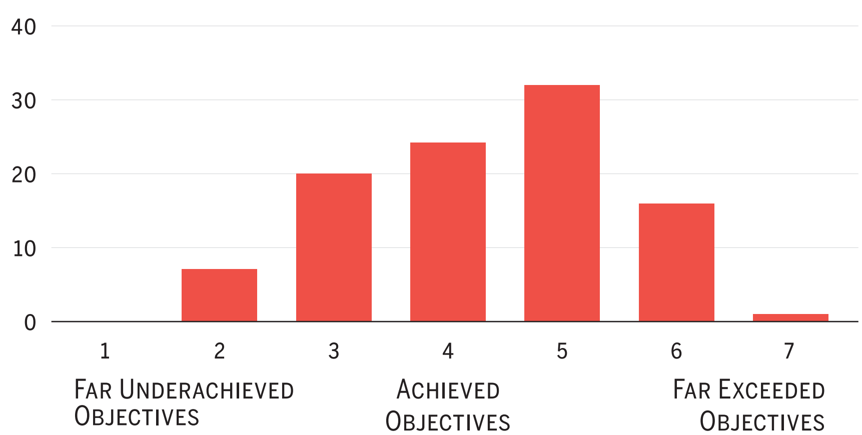
sales managers. Three percent are in non-sales-related management positions.

7.3 **Firm Performance**

Seventy-three percent of respondent firms met or exceeded firm sales objectives in the preceding 12 months, and 76% met or exceeded profit objectives in the same period. Respondents were asked to rate their firm's achievement of profit and sales objectives based on a seven-point scale (where "1" is far underachieved objective, "4" is met objective, and "7" is far exceeded objective). We use this performance rating approach in order to normalize company performance across large and small firms, and high and moderate growth sectors.

Respondents' Sales Objective Achievement

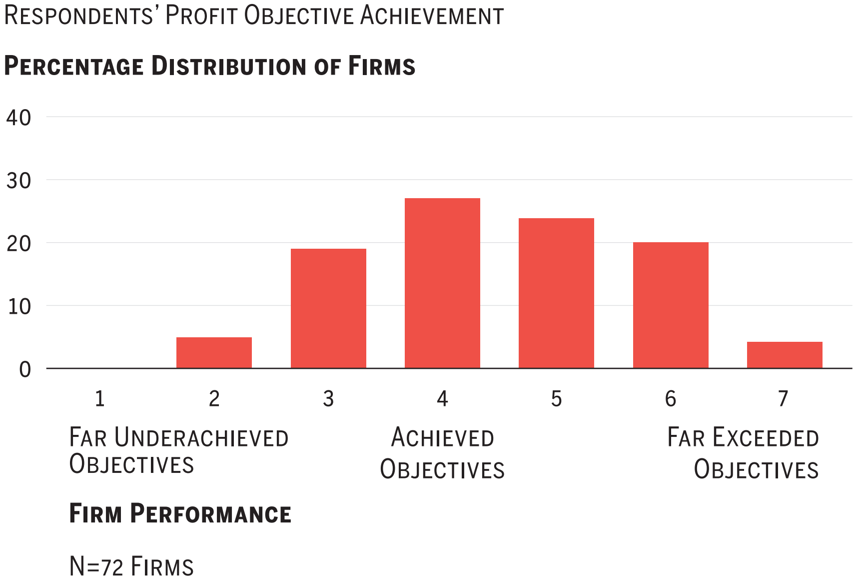
Percentage Distribution of Firms



N=72 Firms

7.3.1 Seventy-three percent of respondent firms met or exceeded firm sales objectives in the preceding 12 months.

Twenty-four percent of respondents rated profit objective achievement in the highest two levels ("6" or "7"); 17% of firms rated sales objective achievement in the highest two performance levels.



7.3.2 Seventy-six percent of respondent firms met or exceeded firm profit objectives in the preceding 12 months.

7.4 Sales Force Size, Structure, and Management Span of Control

Respondent firms have an average of 163 sales managers and 1,340 salespeople; when calculated in aggregate, management span-of-control is 8.2.

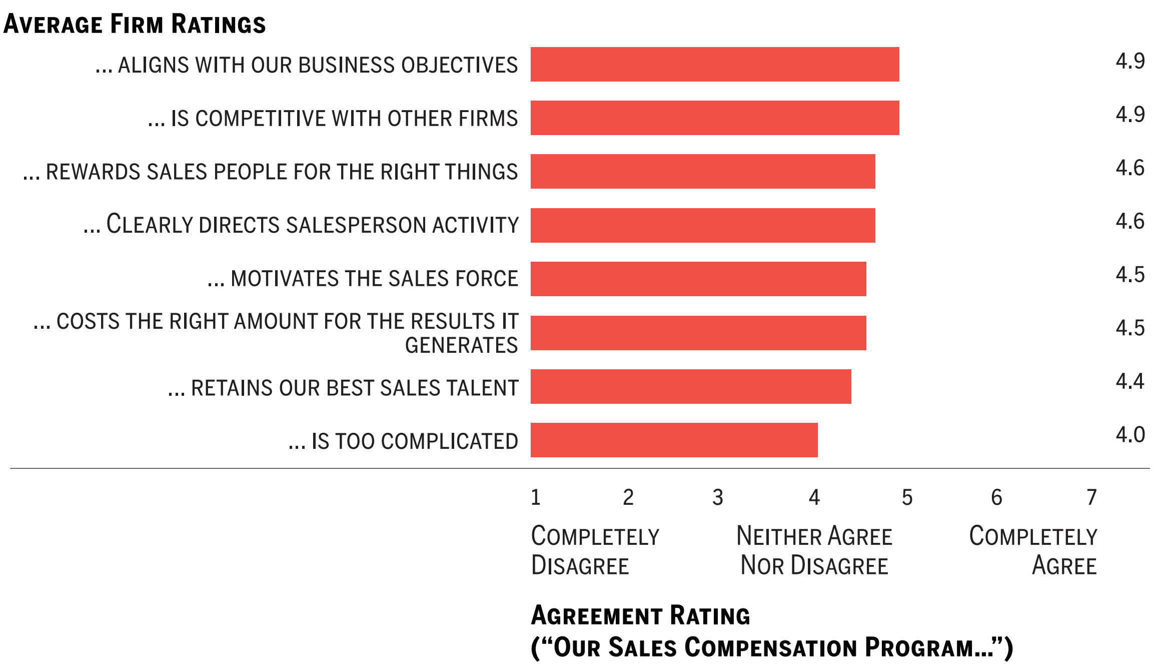
Corresponding median values are 150 salespeople per firm and 20 managers per firm.

Sales Force Size

	Number of salespeople	Number of sales mgrs.
Min	10	1
10th percentile	15	2
25th percentile	30	5
Median	150	20
75th percentile	650	90
90th percentile	3,400	330
Max	33,000	4,125
Average	1,340	163
Total	95,150	11,590

Appendix

Sales Compensation Program Ratings



N=72

A.1 Respondents' sales compensation programs receive moderately positive ratings for meeting high-level program objectives.

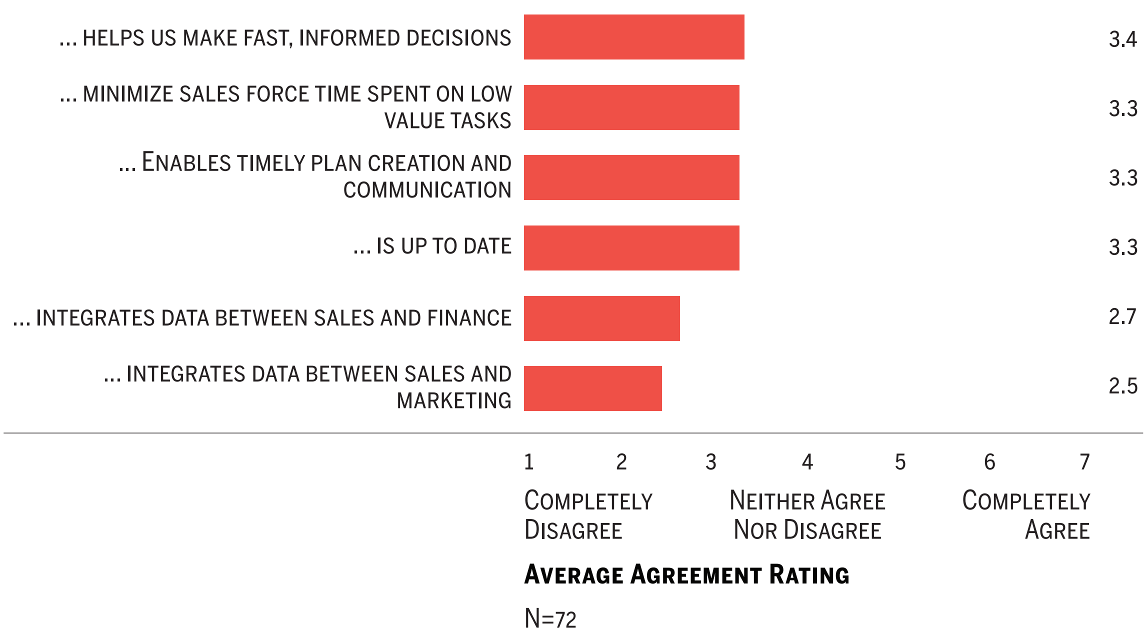
Sales Compensation Program Characteristics

Average Firm Agreement Rating ("Our sales compensation program…")

A.2 Respondents' sales compensation programs receive moderately positive effectiveness ratings across a range of characteristics.

Respondents' Ratings of Sales Compensation Technology

Average Firm Agreement Rating ("Our Sales Compensation Technology…")



A.3 Respondents give low marks to their firms' use of technology to enable sales compensation management.