

SALES MANAGEMENT ASSOCIATION RESEARCH REPORT

Sales Organizations' Total Compensation Practices

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Research Report: Sales Organizations' Total Compensation Practices

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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 <http://salesmanagement.org>.

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INTRODUCTION

Incentive compensation is often the sales organizations largest expense, and it garners the lion's share of attention from salespeople and management when compensation related issues arise. But firms also make sizable investments in other forms of compensation on behalf of the sales force. These other forms of compensation include base salary, benefits related to health and retirement, non-cash recognition, and long term incentives such as stock options or profit sharing.

This research examines how sales organizations communicate the value of all of these compensation elements to the sales organization, and surveys a range of practices related to total compensation management.



SALES COMPENSATION PRACTICES

Of 23 firms studied, 16 (70%) make all salespeople eligible for variable incentive pay, and all participating firms use incentives for some portion of the sales force. The average portion of the sales force that is incentive eligible is 87%. (Fig. 1.)

In addition to incentive pay and base salary, 91% of participating firms offer health benefits to salespeople, 70% offer some form of retirement benefits, 57% provide non cash recognition or awards, 48% have an incentive trip, 35% provide a company vehicle, 30% offer long term incentives such as stock options, and 9% offer higher education grants. (Fig. 2.)

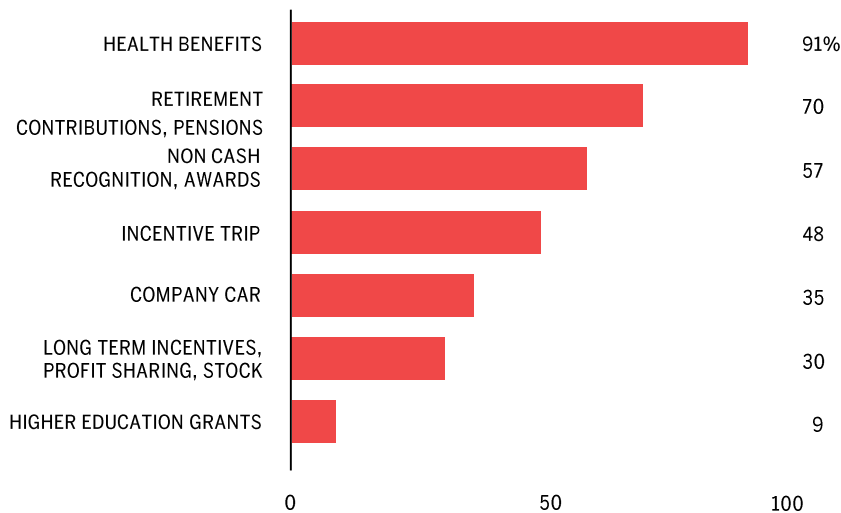
FIG. 1. INCENTIVE ELIGIBILITY

PERC. OF SALES FORCE ELIGIBLE FOR INCENTIVE COMPENSATION	
MIN	12
10 TH PERC.	40
25 TH PERC.	93
MEDIAN	100
75 TH PERC.	100
90 TH PERC.	100
MAX	100
AVERAGE	87.3

N= 23 FIRMS

FIG. 2. OTHER TYPES OF COMPENSATION RECEIVED BESIDES CASH

PERCENTAGE OF FIRMS THAT OFFER



N= 23



55% of participating firms consider the sales compensation programs to be effective overall. (Fig. 3.) In examining specific sales compensation plan attributes and their rated effectiveness, we found the highest percentage of firms (77%) consider their sales compensation plans effective at motivating salespeople. They are also likely to consider their plans effective at achieving financial performance goals (68% of firms do), and retaining the right salespeople (59% of firms). Participants are least likely to consider their sales compensation plans effective in achieving non financial strategic objectives, and attracting new sales talent (just 36% and 45% of respondents, respectively, consider their sales compensation programs effective in these areas). (Fig. 4.)

FIG. 3. PERCENTAGE OF FIRMS THAT CONSIDER THEIR OVERALL COMPENSATION PROGRAM EFFECTIVE

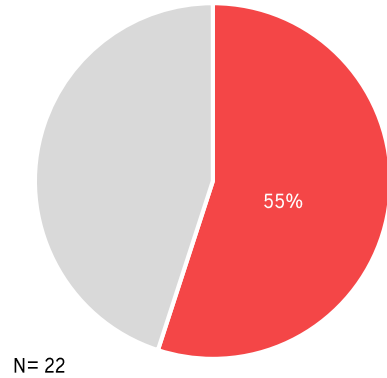
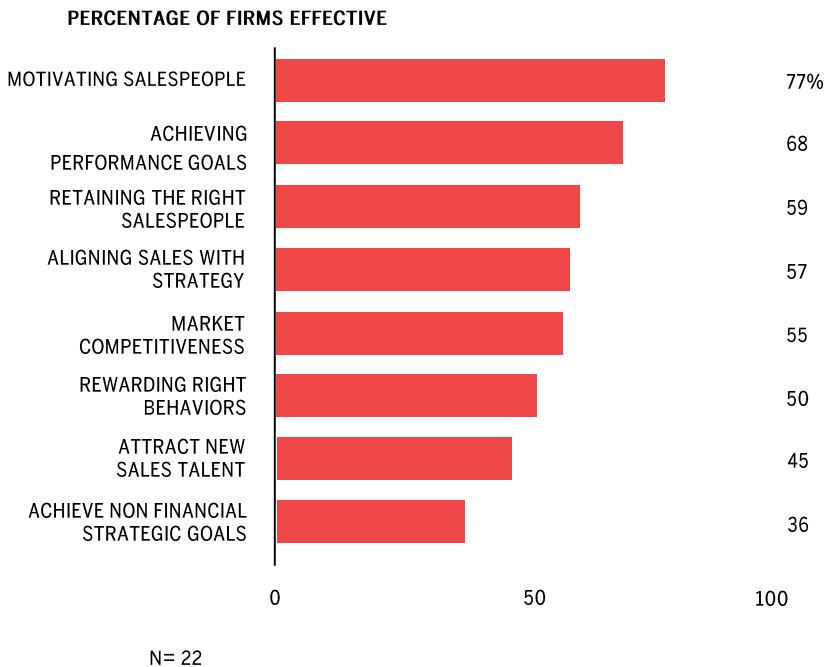


FIG. 4. SALES COMPENSATION PROGRAM EFFECTIVENESS, BY SPECIFIC OBJECTIVE



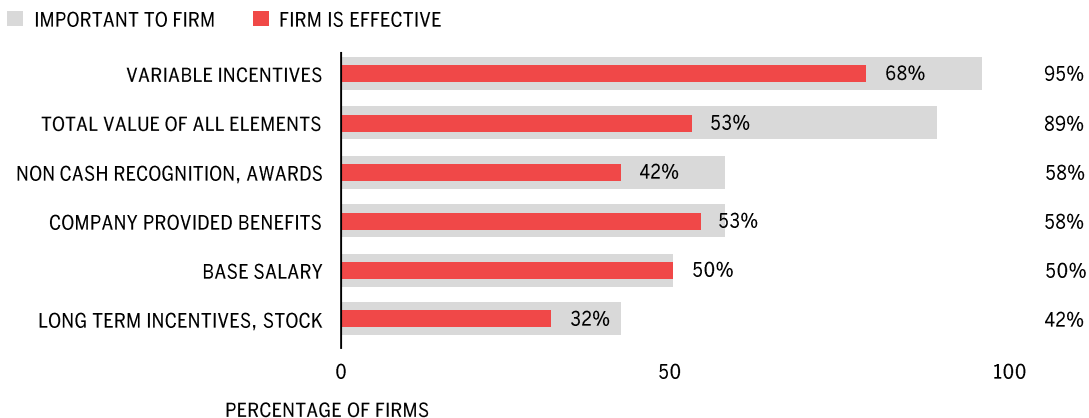
COMMUNICATING SALES COMPENSATION PROGRAM ELEMENTS

Respondents consider it important to communicate multiple aspects of their sales compensation programs to the sales organization. They are most likely to consider important the need to communicate variable incentive elements; 95% of firms consider this an important pay plan communication priority. It is followed closely by the need to communicate the total value of all compensation plan elements; a communication objective considered important by 89% of firms. Considered least important among the compensation plan elements we researched is long term incentives, including stock awards. Just 42% of firms consider this an important compensation plan communication objective.

Firms are most effective in communicating the variable incentive portion of the sales compensation program (68% of firms do so effectively). And, they are least effective in communicating the long term compensation elements of their programs; 32% of firms are effective in doing so.

Though 89% of firms consider it important to communicate the total value of their sales compensation program, just 53% of firms are effective in doing so. This gap between the percentage of firms that consider this communication objective important, and the percentage effectively communicating it is the largest of those we researched. Improving how the sales compensation program’s total value is communicated to salespeople therefore appears to be the single most important communication improvement priority for sales compensation managers. (Fig. 5.)

FIG. 5. IMPORTANCE AND EFFECTIVENESS OF COMMUNICATING COMPENSATION PROGRAM ELEMENTS
PERCENTAGE OF FIRMS THAT CONSIDER FACTOR IMPORTANT, OR CONSIDER THEIR FIRM EFFECTIVE



N= 19

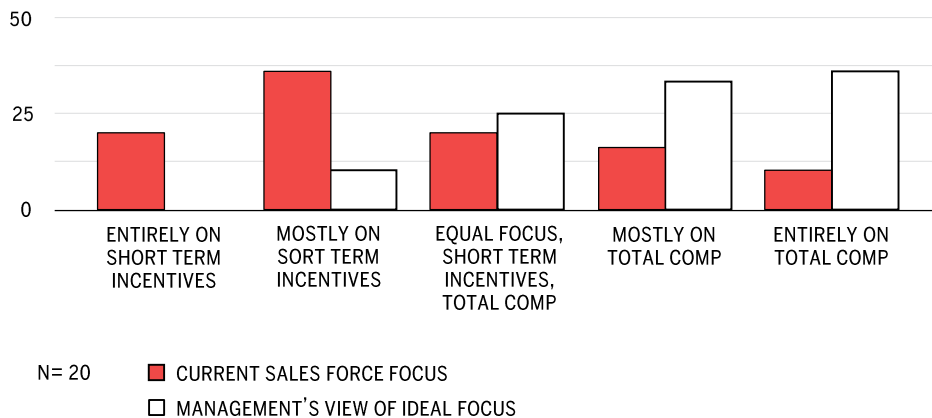


FOCUSING ON TOTAL COMPENSATION

Our research reveals a significant gulf between the sales force's focus on short term incentive compensation and management's desire for a greater focus on total compensation, and the combined value of all compensation elements, not just short term incentives. In 55% of firms, salespeople are mostly or entirely focused on short term incentives rather than total compensation. (Another 20% have equal focus on incentives and total compensation, and 25% are mostly or entirely focused on total compensation). Managers, on the other hand, desire the sales force to focus mostly or entirely on total compensation in 65% of firms. (Another 25% desire an equal focus on incentives and total compensation, and 10% desire a greater focus on incentives.) (Fig. 6.)

FIG. 6. SALES FORCE FOCUS ON SHORT TERM INCENTIVES VS. TOTAL COMPENSATION

PERCENTAGE DISTRIBUTION OF FIRMS



This gulf, between management's desire to focus salespeople on the total value of the entire compensation program, and the sales force's focus on the variable incentive portion of that program, appears to be widening. In the past three years, salespeople were more likely to intensify their focus on incentives, as was the case in 37% of firms, compared to 32% of firms in which salespeople increased their focus on total compensation (another 32% of firms had no change in the sales force's focus). In contrast, managers became more focused on total compensation in 47% of firms, and in only 16% of firms did managers become more focused on variable incentives (managers' focus did not change in 37% of firms). (Fig. 7.)



Our research projects that this trend of divergent focus between salespeople and managers will continue to widen, though at a slower pace. In the next three years, managers are projected to increase their focus on total compensation in 55% of firms, compared to just 5% of firms where managers will focus more on variable incentives 40% of firms project no change in managers' focus). Salespeople are expected to increase their focus on total compensation in 50% of firms, and increase their focus on variable incentives in just 15% of firms (with no change expected in 35% of firms). (Fig. 8.)

FIG. 7. CHANGE IN COMPENSATION FOCUS, PAST THREE YEARS

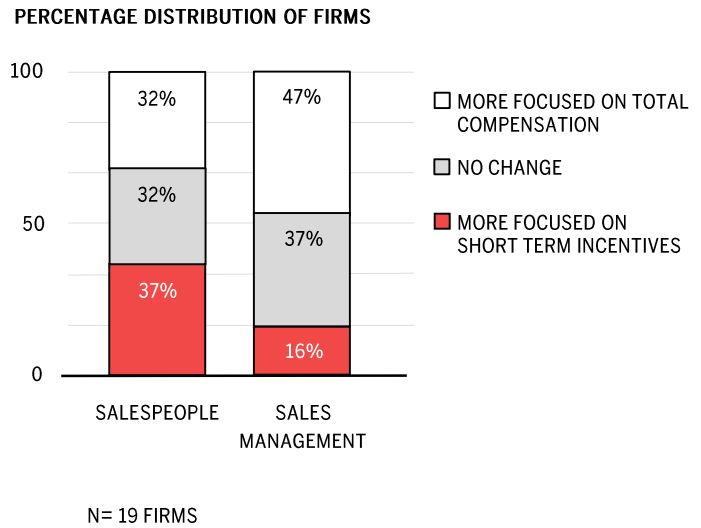
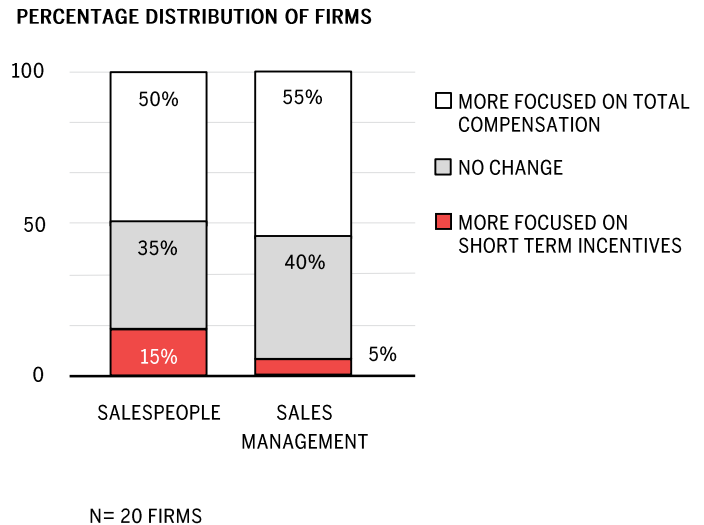


FIG. 8. CHANGE IN COMPENSATION FOCUS, NEXT THREE YEARS



IMPROVEMENT OPPORTUNITIES

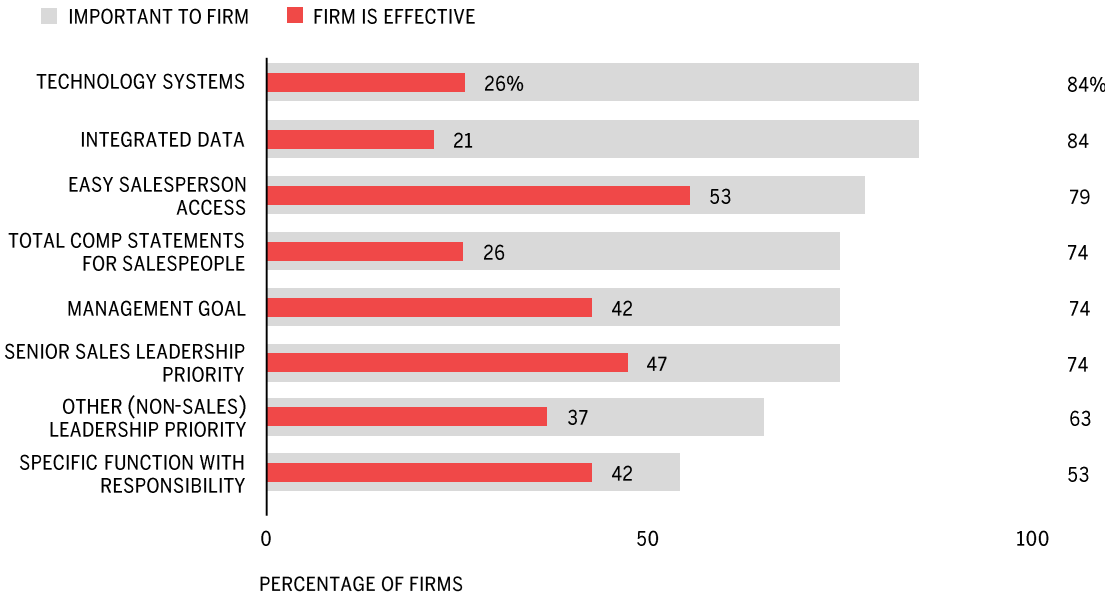
Management must consider how to close the widening gap between their desired focus on total compensation and the sales force's increasing focus on variable incentives, while improving their effectiveness in communicating the total value of their sales compensation programs.

Our research identified the elements considered most important in effectively communicating the value of total compensation. Six elements are considered important by at least 70% of firms. They are, in descending order, technology systems, integrated data, and easy salesperson access to information on total compensation, total compensation statements, management goals for effective communication, and prioritized emphasis by senior sales management.

Many of these elements are ineffectively delivered by most firms. Just 21% provide the integrated data required to report on total compensation; just 26% effectively offer salespeople a total compensation statement; and just 26% have effective technology required for communicating total compensation. (Fig. 9.)

FIG. 9. IMPORTANCE AND EFFECTIVENESS OF COMMUNICATING COMPENSATION PROGRAM ELEMENTS

PERCENTAGE OF FIRMS THAT CONSIDER FACTOR IMPORTANT, OR CONSIDER THEIR FIRM EFFECTIVE

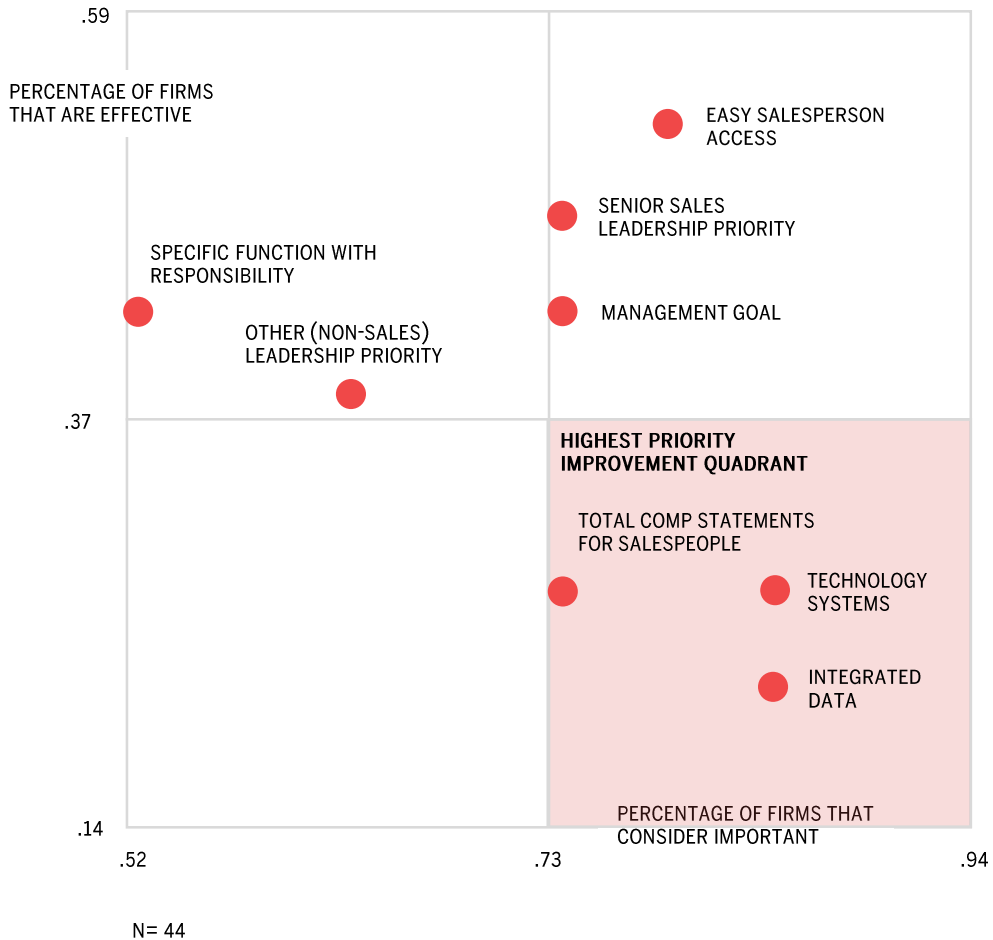


N= 19



These last three elements - in addition to being those least effectively executed by respondents - are also among those considered most important to effectively communicating total compensation's value. As such, they should be considered management's most important improvement priorities in seeking to address effectiveness gaps in communicating total compensation's value to the sales force. (Fig. 10.)

FIG. 10. FACTORS AFFECTING EFFECTIVENESS IN COMMUNICATING VALUE OF TOTAL COMPENSATION
 PERCENTAGE OF FIRMS THAT CONSIDER FACTOR IMPORTANT, CONSIDER THEIR FIRM EFFECTIVE



CONCLUSIONS

Firms emphasize variable incentive compensation when communicating to salespeople the value of the sales compensation program. But they consider the total value of all compensation elements almost as important. And our research suggests the importance of communicating total compensation's value is growing in management's eyes.

Salespeople are much less likely to focus on the value of total compensation than they are to focus on their variable incentive compensation plan. This gap in focus between management's emphasis on total compensation, and the sales organization's focus on variable incentives is growing, and expected to widen.

Management can close this gap, and better communicate the value of total compensation to the sales force, by focusing on three core improvement areas suggested by our research. These are: improving integrated data sources that enable total compensation reporting, enhancing technology platforms, and developing impactful total compensation statements for salespeople.



RESPONDENT DEMOGRAPHICS

Firm Size

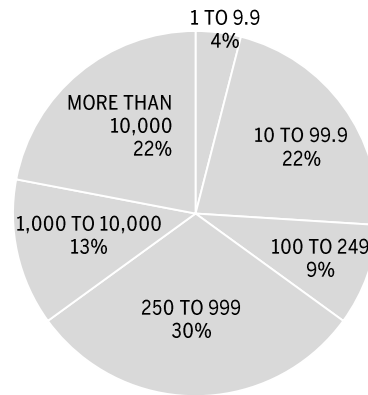
Twenty-three participating firms ranged in size from small to very large, though skewed toward larger firms. Seventy-four percent of respondents' firms have annual revenue in excess of US\$100 million; 22% are firms with annual revenues in excess of US\$1 billion. (Fig. 11.)

Job Role

Respondents are predominately sales operations leaders in their firms. Sales operations, effectiveness, and related sales support roles represent 61% of respondents. Nine percent of respondents are first-line sales managers (i.e., they directly manage salespeople). An additional 22% are senior sales leaders, managing sales managers, and 9% are in non-sales-related management positions. (Fig. 12.)

FIG. 11. RESPONDENTS' FIRM REVENUE, US\$MILLIONS

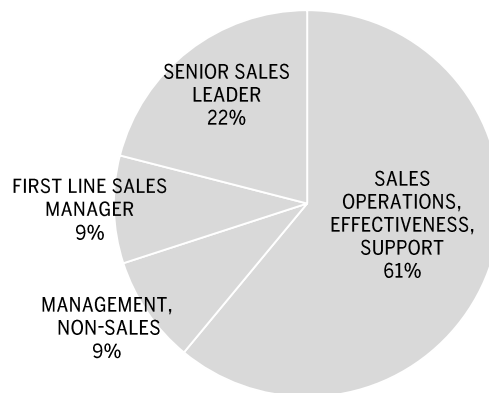
PERCENTAGE DISTRIBUTION OF RESPONDENTS



N= 23

FIG. 12. RESPONDENTS' JOB ROLE

PERCENTAGE DISTRIBUTION OF RESPONDENTS



N= 23

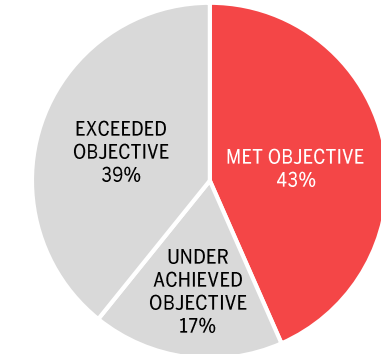


Firm Performance

Eighty-two percent of respondent firms met or exceeded firm sales objectives in the preceding 12 months. Respondents were asked to rate their firm’s achievement of sales objective based on a seven-point scale (“1” for far underachieving objective; “4” for met objective; “7” for far exceeding objective). We use this performance rating approach in order to normalize company performance across large and small firms, and high and moderate growth sectors. (Fig. 13.)

FIG. 13. FIRM SALES OBJECTIVE ACHIEVEMENT, PRIOR 12 MONTHS

PERCENTAGE DISTRIBUTION OF FIRMS



N= 23

Sales Force Size, Structure, and Management Span of Control

Respondents firms have an average of 284 directly-employed sales managers, and 2,007 salespeople; this represents an average manager to salesperson span of control of 7.1. Corresponding median values are 400 salespeople per firm, and 80 managers per firm. (Fig. 14.)

FIG. 14. RESPONDENTS’ SALES FORCE SIZE

	SALES- PEOPLE	SALES MGRS.
MIN	6	1
10 TH PERC.	15	2
25 TH PERC.	100	12
MEDIAN	400	80
75 TH PERC.	1,650	225
90 TH PERC.	4,650	540
MAX	17,000	2,000
TOTAL	46,166	6,539
AVERAGE	2,007	284

N= 23 FIRMS

