

## Sales Compensation

The design of **Sales Compensation Plans** is an interesting challenge. It is important to recognize that Sales Compensation is one element of Sales Motivation. Comprehensive Sales Motivation elements include:

- President's Club
- Variable Compensation
- Monthly Rankings
- Special Awards
- Coaching & Training
- Opportunities for career growth

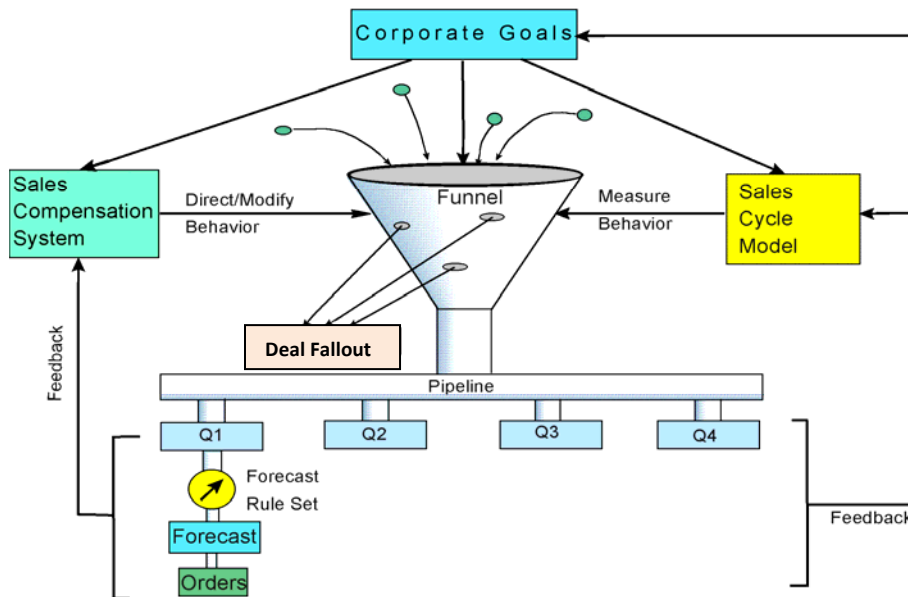
Focusing on **Sales Compensation**, the most important element, that is sometimes ignored by sales comp plan designers, is the alignment of the plan with **Corporate Goals**. While the members of the executive team are usually in synch on the goals, they often have important differences on the priorities for sales behavior. Or, the number of sales behavior goals grows to the point that they do not motivate sales reps at all. The Sales department is usually the most expensive and variable sales compensation is often 40% to 50% of that expense. This emphasizes the importance of getting the design right.

When the **Sales Compensation Plan** is not aligned with **Corporate Goals**, the results are high cost of selling, entering markets through Sales Accidents, high customer support costs and unhappy customers. It is odd then, that many companies do a poor job in this area. In addition, the plan needs to be transparent and easily understandable by the sales reps. The plan should also enable the company to attract high performers. A key attribute of successful Sales Compensation Plans is that 60% to 70% of the reps achieve or exceed quota. When the percentage of reps achieving quota falls below sixty percent, the result is high turnover. In Enterprise Solution selling, the time to get a new rep up to speed runs 6 to 9 months. The opportunity cost of replacing a rep that is producing and leaves is on the order of one half their annual quota. When sales turnover is high, the cost of selling zooms through the roof. Yet, CFOs and CEOs want to raise quotas to the point where turnover becomes an issue. This highlights the need to have Sales Compensation integrated with Quota Plans and Territory Management.

Some questions to ask about your Sales Compensation Plan:

- Does It Implement Corporate Goals?
  - Does It Drive Desired Behavior?
  - Does It Change with Corporate Goals?
- Does It Enable You To Attract & Retain Stars?
- Is It Easily Understood?
  - Three to Four Metrics Maximum
- What % of Reps Achieve Quota?
- Can you administer it easily & transparently (people, data, dispute process)

Chuck DeVita developed an **Integrated Sales Management Process** model more than 15 years ago. It integrates the key elements of Sales Compensation, Sales Behavior, Measuring Customer Commitment, Forecast Accuracy and Continuous Improvement in an easy to understand way. He has utilized this to improve performance in his roles as a company officer as well as in numerous consulting projects with clients.

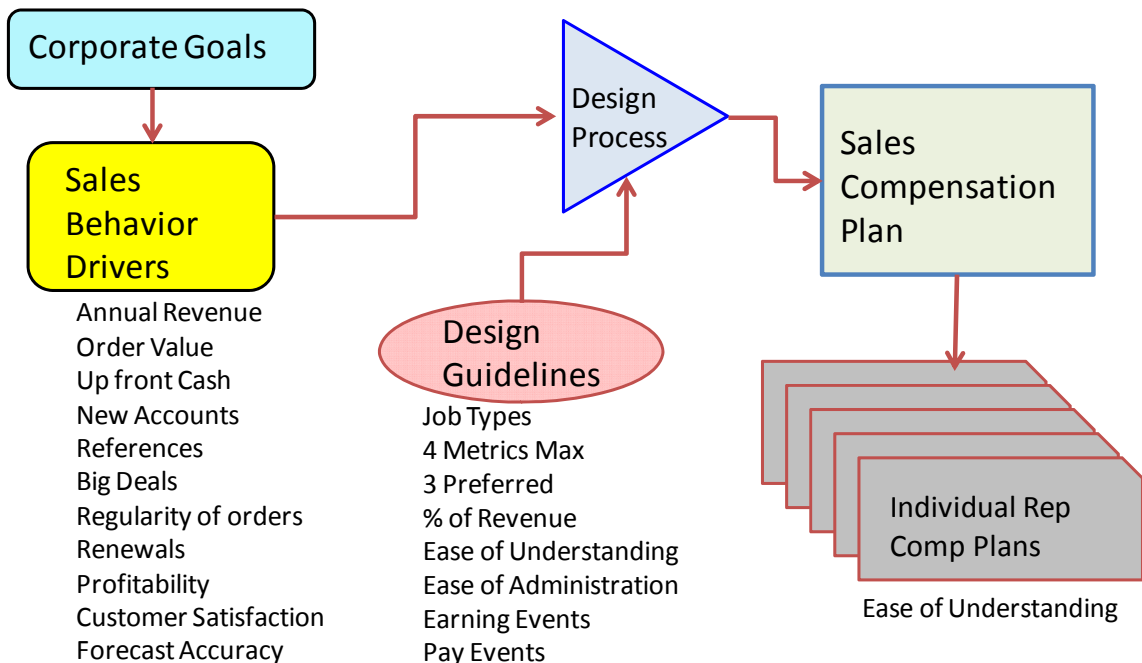


**Sales Compensation Metrics** can be various depending in the industry, company maturity and focus issues. Here is a list of many of the metrics we see being implemented:

- Annual Revenue
- Order Value
- Renewals
- Up front Cash
- New Accounts
- References
- Big Deals
- Regularity of orders
- Profitability / gross margin
- Customer Satisfaction
- Forecast Accuracy
- Expense control
- MBOs
- Contests and SPIFS as appropriate

As we said above, the challenge is to select two, three or four (max) to drive sales behavior. It also important to recognize that when you choose a particular metric, there may be unintended consequences. For example, if you pay more for high margin orders than for low margin orders, you might see overall order rates (and total revenue) decline.

The diagram below shows a simplified view of the Sales Compensation Design Process.



**Corporate Goals** set the **Sales Behavior Drivers**. **Design Guidelines** define the job types eligible for variable pay, the number of metrics, the % of revenue to be spent on variable compensation, the Earning Events, the Pay Events, and administration rules including exceptions and dispute resolution.

It is important to have transparency such that the reps feel they are getting paid what they deserve, according to their individual plans. This implies that accurate and timely reporting be implemented. It is also key that the Pay Events be as close in time as possible to the Earning Events (such as Order Booking) to maximize the motivational impact of variable pay.

For additional insight into your sales compensation plan, contact Chuck DeVita, President of Growth Process Group at 408-252-5518 or [cdevita@growthprocess.com](mailto:cdevita@growthprocess.com).

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