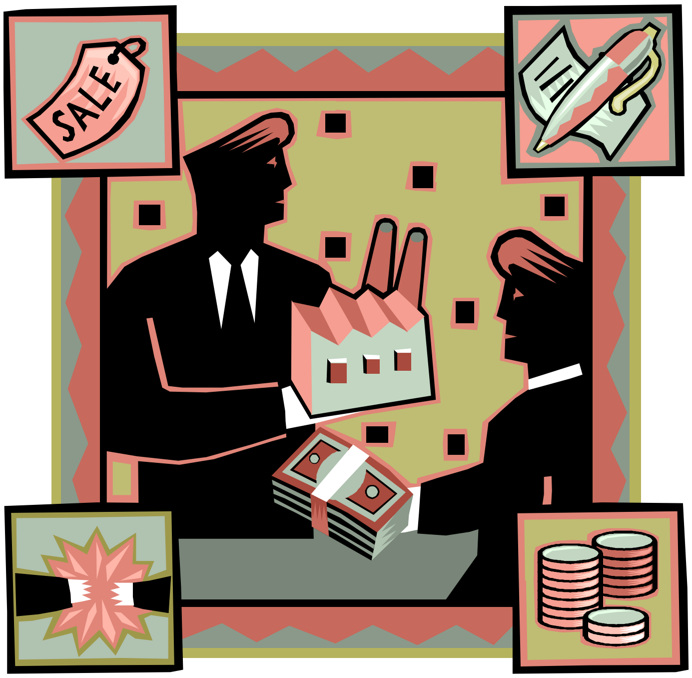


Rewarding Sales Performance

-- Aligning Sales Effectiveness and Total Rewards in Times of Organizational Change

By

Susan Malanowski

Rhonda Farrington

Tom Wilson

Wilson Group™

Table of Contents

Rewarding Sales Performance:

Aligning Sales Effectiveness and Total Rewards In Times of Organizational Change

I. Introduction

Organizational change creates both anxiety and excitement within companies. Perhaps one of the groups most impacted during major change (other than the executives) is the sales force. Changes in the functional responsibilities, sales process and sales compensation provide both significant challenges to retaining the commitment of the sales force and new opportunities for process innovations and revenue growth. Many companies concerned with retaining their current revenue stream decide to delay reorganizations or a merger, while others will choose to make bold changes knowing that there will be major issues ahead. For example, in an acquisition, an organization may retain two concurrent sales organizations for a period of time, but this often creates greater uncertainty and confusion over territory and account responsibilities. Other companies will merge the sales organizations and deal with the fallout of rapid change with retention bonuses, incentive guarantees, and increased communication. Regardless of the reasons, companies will ultimately need to align their sales organization and total compensation with whatever change has been implemented.

This booklet will address how to align the sales compensation plan with an organization that is undergoing major change. The types of organizational changes include:

- **A major realignment of the sales organization**, such as shifting from a product oriented sales organization to one aligned around markets. In this case the sales person moves from selling a specific set of products to a broad market area to selling a complete suite of solution oriented products to a limited geographic market.

- **A merger or acquisition** of another organization with an established sales organization.

- **A major shift in the sales strategy**, such as moving the sales professional from acquiring new customers AND managing current clients TO focusing on either generating new business OR managing and expanding current accounts. Another example is shifting the sales focus from a “systems implementation” product to one that is based on “subscription services.”

- **Changing sales account and market responsibilities** into focusing on tiers of account/market opportunities, such as assigning specific individuals or teams to national/major accounts, while others focus on direct sales to mid-markets, and others focus on internet or small unit transactional sales.

- **Creating or eliminating an independent sales organization** (i.e., distributor channel).

- **Divesting a part of the overall company** whose products are currently sold by the existing sales force.

At the point when major changes are being implemented, there are several important questions the sales force will have that can have a significant impact and potential barriers on their sales performance in the short term. These questions are:

- What products or services will I be selling under the new organization?
- What territory or accounts will I be assigned to?

- What sales resources will be reduced or added – product marketing, customer service, technical support, systems, etc.?
- Will my quota change?
- How much money will I be making?
- How often will I be paid incentives – more or less frequently?

The organization will first want to identify a target date to implement a new organization structure and compensation plan. The second step will be to determine if there are any interim changes that need to take place. There may be changes in reporting relationships, customer or territory assignments and product offerings. For example, two organizations may have previously been competitors for the same markets or customers, and now they need to redefine their roles and collaborate to retain key customers and grow market share. Who will be assigned to the key accounts and why?

While some companies delay making necessary organizational changes, there are some early warning signals that may be placing the company's market position at risk. If these exist, then the need to accelerate change increases. The new company should examine the following sales indicators for signs of trouble:

- Key financial goals have been missed over a period of time without any significant external reason.
- The volume of products or services purchased by important or strategic customers has decreased.
- The number and frequency of exceptions requested to the compensation program has increased.
- Managers are using more sales contests to encourage reaching very specific goals.
- Sales compensation is increasing while sales performance is decreasing.
- The turnover of new hires is high.
- Too many people share in the payout on a sale on which they had little impact.

Once the target date has been determined and interim organizational changes implemented, the company should begin the task of developing a new sales compensation plan. There are ten critical steps involved in the development of a highly effective sales compensation plan. This booklet will describe each of these elements, what decisions are needed, suggest alternative approaches and offer both conceptual and calculator tools for developing each element of the sales compensation plan.

The ten critical steps to the design of a highly effective sales compensation plan are:

1. Assess the effectiveness of the current sales compensation plan or plans in relation to what the new organization requires and what are best practices in the external market.

2. Translate the sales strategy into an approach to sales compensation and articulate the purpose and objectives of the plan.

3. Ensure that the key sales roles, accountabilities and desired behaviors are identified and understood.

4. Select performance measures that will encourage the desired results and behaviors needed to implement the sales strategy and achieve the company's sales objectives.

5. Develop an incentive mechanism, e.g., commission or bonus plan, that is:
    a. Consistent with the sales strategy
    b. Easy to understand
    c. A motivator for the sale force
    d. Accurate and cost effective to administer

6. Assess the total target incentive opportunity and mix based on the external market, the pay-to-performance ratio, the perceptions by the sales professionals and the impact by type of sale.

7. Analyze the project costs and financial impact of the new plan (i.e., return on investment).

8. Integrate base and incentive compensation with recognition.

9. Identify the other issues that may impact the effectiveness of the sales compensation plan – incentive guarantees, potential exceptions, effectiveness of quota/goals setting, sales crediting, windfalls, loss of major customers or contracts, etc.

10. Develop a highly effective implementation of the new plan design – plan and execute the communication and systems changes.

If you wish to discuss your situation, we at Wilson Group look forward to the opportunity to work with you. If you are considering reorganization within the company, changes to your sales strategy, implementation of mergers and acquisitions, etc. , Wilson Group's expertise will support your strategies and actions to build a stronger organization. There is more information about the Wilson Group at the end of this Report.

II. Step 1: Internal and External Assessment of Sales Compensation

Understanding the effectiveness and internal perceptions of current sales compensation in your organization is essential before making major changes. This will enable you to identify what needs to change and what can be retained going forward. In the case of an acquisition, favoring one organization's plan over another without a thorough assessment of each plan's effectiveness will likely impede the sales organization's commitment to the plan. This could impact the relationships between the two company's sales forces and key customers.

The following is a list of the steps that should be considered as part of this assessment. Depending on the situation and the organization, it may not be necessary to complete each step in detail, but these items provide an important "check list" for implementing change in the sales compensation plan. The assessment steps are described below:

1. Understand the company's business strategy and determine how well this is both understood and agreed to amongst all executives. Discuss with executives their perspectives and philosophy regarding the sales strategy and organization, and the implications of this strategy on the roles and responsibilities within the sales organization. (see Table 1)

2. Solicit the perceptions and feedback directly from the sales force regarding the existing sales strategies, processes, organizational structures, actual duties and responsibilities and their perceptions of their current compensation plan. This can be completed by survey, individual interview or focus groups. (see Table 2)

3. Gather and analyze employee compensation and sales performance data. Understand how much is being paid for each increase in incremental performance. (see Table 3)

4. Identify and inventory the provisions of all sales compensation plans. For some start-up organizations these could be individual offer letters containing documentation of the plans being applied. For large sales organizations, this will involve a comparative analysis of the sales plans for each area of the organization. Talk with a representative sample of those with individual plans to determine the sales representatives' understanding of the plan versus what the documentation describes about the plan, especially at the more senior levels of sales management. Make a summary chart comparing and contrasting key differences and similarities.

5. Gather and inventory job descriptions in both organizations. Identify job accountabilities and the interdependencies with other jobs. Compare and contrast similarities and differences between those in the sales organizations and those supporting it. (See Table 4)

6. Conduct an assessment of the competitive market in which you compete for talent. This is possible after you have reviewed the jobs in both organizations and identified the roles you will consider using going forward. They will then need to be matched to benchmark jobs in published surveys. It is important to collect data on all components of sales compensation - base salary, incentive/commission and total cash. Both target and actual total cash compensation will give you information on trends regarding payouts versus targets. Collecting data at all reported percentiles, such as the 10th, 25th, 50th, 60th, 75th and 90th will allow the alignment of pay and performance data, so that exceptional payouts under your plan can be targeted at the 90th percentile (are you paying too much or too little for high performance?). Target data will be less volatile and more representative of what is available in the market. If possible collect performance in addition to pay data, and use this information to determine the pay-for-performance ratios. (See Table 5)

Illustrated examples of several of these steps are shown below.

Table 1: Sample Executive/Management Internal Assessment Questions

Sales Strategy:

Who are your primary competitors? How would you describe your competitive position?

How do you compare to your primary competitors in terms of price, quality, service and innovation?

Which of the following is the most important to your success::

> The price of your products/services

> The quality and reliability of your products/services

> The effectiveness and responsiveness of your services

> Your leadership for innovation/customization and product/service design

How would you describe your competitive advantages and weaknesses?

What are your sales goals, including revenue, profitability, product mix, customer types?

What is the source of most of your revenue: product/service, area of the world, customers, etc.?

What must the sales organization do (same or differently) to meet the business and sales strategy?

Roles and Responsibilities:

To what extent is your sales person able to influence the sale?

Describe the key responsibilities of the sales representative.

To what extent do they need to coordinate the sale with others? Who? Why?

How much of their time is made up of non-direct selling activities? What?

Table 2: Sample Survey or Interview Questions to Sales Representatives

1. The annual total compensation for my job is competitive with similar jobs at other companies like ours.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

2. My annual total compensation is fair compared to others inside the company.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

3. As a new hire, I was paid appropriately while I was learning the job.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

4. The mix between salary and commission is appropriate for what I do in my job.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

5. I understand what actions I need to take in order to receive higher payouts under the commission plan.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

6. The commission formulas used to calculate my earnings are easy to understand.

1	2	3	4	5
Strongly Disagree	*Disagree*	*Neither agree nor disagree*	*Agree*	*Strongly Agree*

Table 3: Illustration of Internal Performance Based Analysis

Job Title	Employee Count	Performance Against Goal			Average Annual Compensation LFY				Incentive Mix	
		Avg Sales	Avg Goal	% of Goal	Base Salary	Commission/ Bonus	Spiffs	Total Compensation	Base	Incentives
Direct Territory Sales	53	$4,393,015	$4,065,646	108%	$67,725	$25,654	$1,614	$94,994	71%	29%
Product Sales	12	$943,476	$956,937	99%	$33,493	$44,226	$325	$78,044	43%	57%
Inside Sales	16	$647,212	$499,679	130%	$28,661	$30,033	$369	$59,063	49%	51%

% of Goal	Employee Count	Percent	Total Sales	Key Product Sales	% of Key Product Sales
Under 80%	2	3%	$309,087	$148,020	48%
80% to 89%	16	20%	$41,379,499	$566,790	1%
90% to 99%	8	10%	$15,853,821	$824,511	5%
100% to 119%	35	44%	$141,283,756	$6,287,296	4%
120% to134%	6	8%	$18,137,191	$1,488,349	8%
135% and over	13	16%	$34,093,977	$2,777,818	8%
Total	**80**		**$251,057,331**	**$12,092,784**	**5%**

Table 4: Role Accountability Matrix

Role Accountability for Performance Measures					
Performance Categories and Measures:	Strategic Accounts	Account Mgmnt (Mid-Tier)	Product / Technical Specialists Group 1	Product / Technical Specialists Group 2	Client Services
I. Generate New Business Opportunities					
Value of new business opportunities generated	High	High	High	High	Low
Number of leads from new customers	Low	High	High	High	Low
Number of leads from existing customers	High	High	Medium	Medium	High
Number of leads from product area	Medium	Medium	High	High	High
Number of referrals provided to others (collaboration)	Medium	High	High	High	Medium
II. Build the Value Proposition:					
Number of and type of educational sessions	Medium	Medium	High	High	Low
The quality account information	High	High	Medium	Medium	Low
Scope of services included in the proposal	High	High	Medium	High	High
III. Achieve the Contract Commitment / Driving Revenue:					
The $ size of the contract or order acquired	High	High	Medium	High	High
Ratio of price to standard pricing*	High	High	Medium	High	Medium
Type of service areas included in the contract	High	High	Medium	High	Medium
Win / Loss ratio	High	High	Medium	Medium	High
Cancellation or increase of contract	High	High	Medium	High	Medium
IV. Reinforce the Relationship:					
New signed contracts	High	High	Medium	High	High
Actual revenues to forecast	High	High	Medium	Medium	Medium
Customer satisfaction	High	High	High	High	High
Achievement of account objectives	High	High	Medium	Medium	High

Table 5: Illustration of an External Competitive Assessment

Survey Data								
Position Title	**Target Survey Total Compensation by Percentile 10th**	**25th**	**50th**	**60th**	**75th**	**90th**	**Base 50th**	**Incentive as a % Total**
Sales Exec 1	$63,477	$75,492	$84,897	$74,365	$95,638	$105,434	$48,501	52%
Sales Exec 2	$76,817	$97,971	$122,620	$128,099	$148,315	$189,711	$67,193	53%
Sales Exec 3	$126,129	$150,652	$184,171	$203,423	$217,159	$236,925	$93,553	51%
Sales Exec 4	$150,275	$176,[illegible]	$207,781	$230,481	$245,218	$265,101	$105,671	50%
Sales Exec 5	$175,018	$19[illegible],504	$222,280	$244,257	$255,463	$290,106	$121,148	53%
Natl Acct Mgr	$177,150	$1[illegible]99,088	$238,062	$258,751	$266,634	$294,964	$116,474	48%
Sales Mgr	$147,026	$[illegible]99,155	$243,421	$258,517	$281,604	$317,525	$129,676	55%
Sales Mgr Senior	$173,056	$[illegible]99,170	$237,566	$251,572	$279,258	$323,113	$135,655	55%
Dir Sales	$209,756	$2[illegible]7,123	$289,554	$303,520	$329,363	$377,333	$158,245	53%

How competitive is your total compensation?

Which are your jobs?
What are your career paths?

How does your pay mix compare?

Step 2: A New Sales Strategy

A successful sales compensation program is based on a disciplined process that is built on the company's sales strategy, sales roles, and total rewards philosophy and culture. The company needs to be clear about what it is trying to accomplish with the business before sales compensation should be redesigned. In its most basic form, the sales strategy must answer two major questions:

- *How does the company compete for and win business?* This may include the following strategies and examples:
  - **Cost/Price Leader:** Be the lowest cost (i.e., price) in the market.
  - **Integrated Solutions:** Provide products and services that are fully integrated to meet the needs of the customer; this is a full service suite of products and services.
  - **Innovative Solutions:** Provide the customer with customized solutions that create great value and address the critical needs of the customer.
  - **Operational Efficiency:** Provide the customer with products/services that are known for the quality, efficiency, and reliability.
  - **Value Creator:** Provide the customer with products/services that provide great value in relation to their costs and significantly improve the competitiveness of the customer.

- *What is expected from the sales force?*
  - **New customers:** Increase the market share of the company's products and services by acquiring new customers.
  - **Expand volume to existing customers:** Increase the depth and breadth of services provided to existing customers.
  - **Introduce new products to existing (or new) customers:** Expand the products and services used by current customers, especially through the introduction of new products to these customers.

Therefore, in times of organizational change, the organization must have an effective and cohesive sales strategy for the newly established sales force. If it will be a multi-stage process in your organization, then there will be many components to the strategy. The first and major part is the long term strategy and the second, more minor component will be the transitional strategy. The following is an illustration to chart the transitional strategy to reach the long term goal with a company undergoing the merger in 2014.

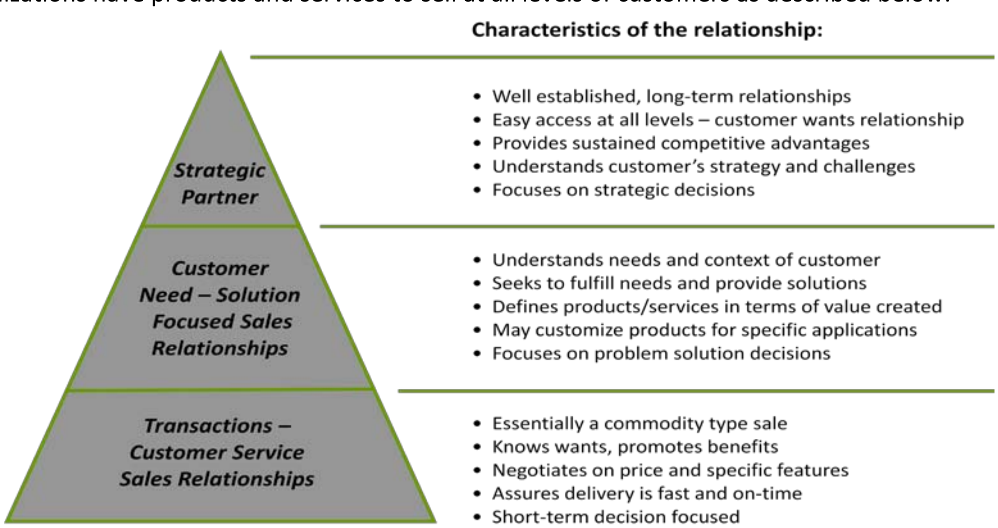
	FY2011 (pre-change)	**FY2012**	**FY2013**	**FY2014**
Total Sales Budget $M	100	110	122	135
Company 1	30%	33%	35%	40%
Company 2	70%	67%	65%	60%
Product X Budget	80	85	87	90
Product Y Budget	10	15	25	30
Other Products Budget	10	10	10	15
# Sales Reps	50	44	40	40
Rev per Sales Rep	$2M	$2.5	$3M	$3.25

Once the revenue and mix between products and/or business lines have been defined, the next major question is "How are you going to get there?" This gets to the fundamental sales strategy that is consistent with the firm's overall business strategy and core competencies. What does the organization do really well and where does it seek improvements? With an understanding of these factors, then the sales strategy can be refined. Organizational change is also a good time to carefully assess the areas for greatest growth and opportunity. The chart below illustrates how the strategy must address both types of customers – new versus current and the products and services being offered. It can be used to determine where to generate your business now and where you need to do so in the future. Once this basic sales strategy is defined, you can translate this framework into a new or enhanced sales organization.

		PRODUCTS/SERVICES *Current*	**PRODUCTS/SERVICES** *New*
CUSTOMERS	*Current*	**"Retention Sales"** *Retain/Grow base and renew contracts*	**"Leverage Sales"** *Expand through broadening solutions*
CUSTOMERS	*New*	**"Acquisition Sales"** *Grow the base of new clients with core products*	**"Development Sales"** *Create sales of new products to new customers*

In the prior examples, we described a newly formed company where their product Y was still seen as a relatively new product. They were focusing on increasing sales of product Y in current customers but with different buyers. They don't have to sell as much volume with product Y because the total sales price is significantly more than product X, however, they do have to sell the product in a different way and to a different level of customer. Desired sales are achieved by different types of customer relationships.

Often organizations have products and services to sell at all levels of customers as described below:



By reviewing current strategy and developing/refining new strategy, it is then relatively straight forward to describe a consistent philosophy on sales compensation for the new sales organization. For example:

> *The purpose of the Sales Compensation Plan is to reward sales professionals for achieving profitable revenue growth in strategic markets and accounts.*

The principal objectives of the Plan are to:

1. *Pay sales professionals competitive and attractive compensation for meeting challenging and achievable sales quotas,*
2. *Provide significant upside opportunity for exceeding quota,*
3. *Ensure that the Plan is easy to understand and administer,*
4. *Reward sales professionals based on each position's level of risk and reward and contribution to the sales effort, and*
5. *Enable the Company to attract and retain desired sales talent.*

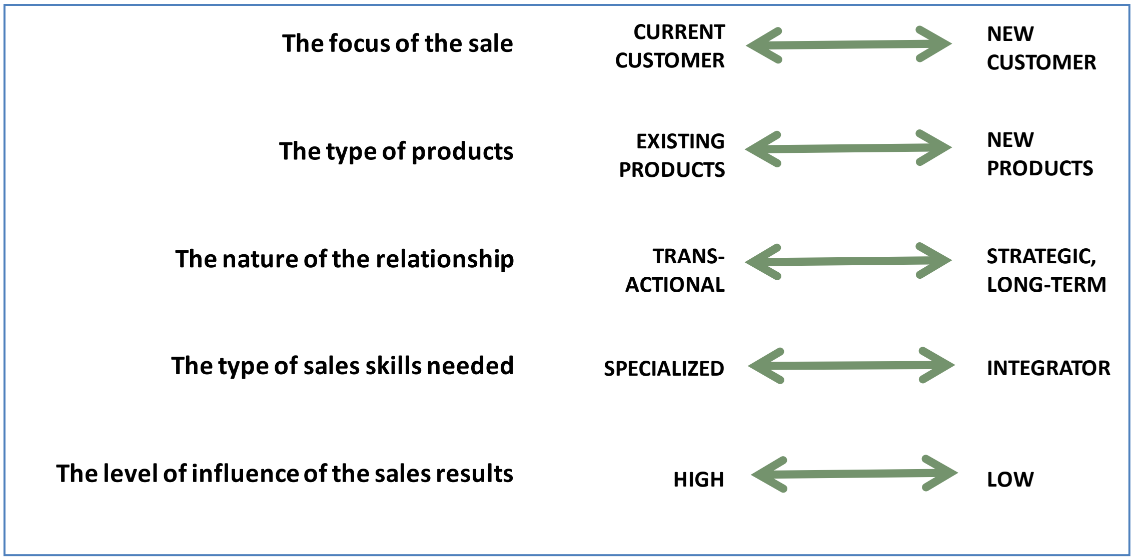
The Plan will support the sales strategy to:

- *Grow profitable revenue from both new and existing customers consistently,*
- *Develop business opportunities in new and expanded regions, and*
- *Achieve/exceed targeted Internal Rate of Return and payback business objectives.*

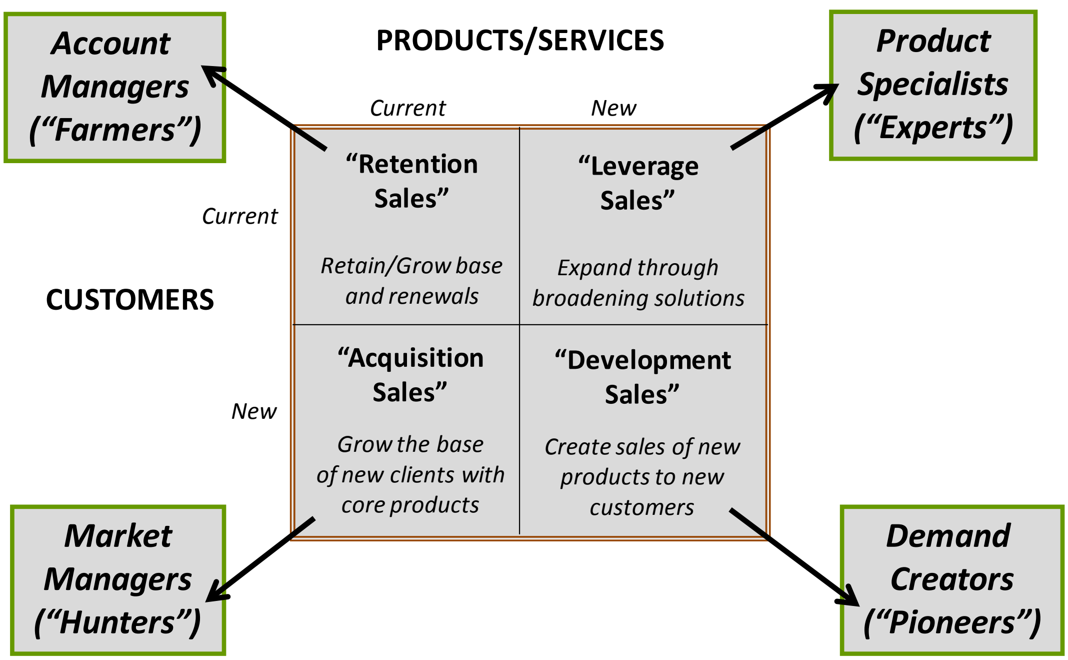
By developing a new strategy for the new sales force and developing a compensation philosophy, the next logical step is to determine the roles that are needed to execute as the organization transforms into a new "go to market" strategy.

III. Step 3: Sales Roles

For organizations that have gone through a significant change, the diversity of products and services being sold often increases. Sales professionals may now have new expectations for results that will require a significant change in behavior. This means that they will need to have the knowledge and skills to sell new products to existing customers or expand by selling existing products to new customers (or both) under a new strategy. In the table below, there is a description of what changes are needed in the selling process. This means that the sales focus may move from always selling to current customers to selling more often to new customers. New products may be added and these products mean a more strategic approach to selling these accounts. This may require a longer selling cycle or involve more people in the sales process from both the customer and the company. Because they are selling many products, rather than being the product expert, their role is more of an integrator in a solution. Working as a team with systems engineers and/or sales specialists, as well as other sales representatives, their influence on the sale is more complex and difficult to define. But, these changes are needed if the new business and sales strategies are to be successful.



Sales roles and accountabilities need to support the sales strategy, which defines the products and services to be sold and to whom. It helps reinforce the strategy by further defining what is expected of the sales force. The chart below shows how different roles may emerge from the examination of the sales strategy. These are the roles that will implement the firm's new approach to gaining market leadership.



The newly developed organization may determine that it is time to break out of a "one size fits all" role or sales generalist to more specific roles. This means that people will need to become more specialized and focused on what is needed to implement the firm's strategy. If product Y in the prior examples is highly technical and difficult to sell, a Product Specialist may be needed whose role is neither represented by their current sales or systems engineer roles. More commonly, the sales generalist role or account manager coexists with market managers or hunters. During a sales reorganization, it becomes clear that new roles in the sales process emerge that then focus on the customer industry, geography or product. In comparing and contrasting these two roles of “Farmers” and “Hunters”, the Account Manager (or “Farmer") focuses on achieving revenue goals through existing customers, implementing strategic account strategies and is very concerned with profit margins. The Market Manager (or “Hunter”) is most concerned with the acquisition of new accounts and the implementation of marketing strategies. Their knowledge of market trends, buying dynamics, and competitor practices are often more important than their knowledge of the particular customer’s products, services and politics.

These roles are further defined in following chart:

Account "Managers"
(Farmers)

- In- depth knowledge of the client - its businesses, strategy, pressures and emerging needs.
- Strong, enduring relationships with decision makers/influencers.
- Viewed by customers as "their representative" with your company.
- Continually seeks new opportunities to build and expand products/services.
- Clearly shows how your products increase the customer's ROI, and enhances their competitive advantage. (i.e. value received)
- Can create clients into a "reference" account for others.
- Strengthens the relationship between the customer and company.

Market "Specialists"
(Hunters)

- In- depth knowledge of a target market (industry or geography) - current and potential customers, competitors, unique dynamics.
- Utilizes marketing programs to enhance reputation and generate new leads.
- Qualifies new business opportunities and requirements to win/achieve desired sales.
- Effectively transfers new client relationships to Account Managers.
- Continually seeks new opportunities to build and expand market awareness and business opportunities.
- Implements marketing strategies and creates desired market position for the company.

Product "Specialists"
(Experts)

- In-depth knowledge of specific products/technology and how they meet customers' needs.
- Actively supports Account and Market Managers to increase the demand by the customer, promoting the relevant competitive advantages.
- Solicits and utilizes customer and market experiences to strengthen the products' capabilities, customer utilization and knowledge of the sales organization.
- Effectively collaborates with sales and service staff to generate new business, train customers and resolve emerging issues.
- Becomes the "go-to" person for the products/services by both customers and the sales organization.

Sales support roles cannot be ignored during the reorganization process. In the case of a merger or acquisition, it is not unusual that the two organizations have very different approaches to sales support in their respective organizations. Or, with the development of new channel partners and internet sales capabilities, the roles of internal customer service people can change dramatically. The new organization needs to determine the new level of sales support, whether the requirements mean more of same, or more or less sales activities. Sales support can help significantly with the transition from the sales professional's perspective, but can add more organizational complexity from management's perspective. This is because the organization must now be careful in terms of the costs and investments made in sales overhead using roles such as telemarketing, customer service or account representative, sales assistants, lead generation, etc. as shown below:

	Integrated with Sales Force	***Independent of the Sales Force***
Current Customers	**Provides sales support services to sales accounts** **– *Sales Support***	**Handles account inquiries, services and sales activities** -- ***Account Management***
New Customers	**Generate & qualify sales leads – pass on to sales force** **– *Telemarketing***	**Generates leads and sales directly to customers** **– *Separate Channel***

Sales roles are defined by both what and how achievement compares to the sales goals. They usually include the scope of the responsibilities, such as who is generating leads, recording the order, tracking and reporting, etc. This way there is clarity around which roles are responsible for what type of responsibility or if they share, for example, generation of leads. Agreement and clarity starts with articulating and documenting the desired sales behaviors. Some of the most common behaviors sited for sales professionals are illustrated below.

Desired Sales Behaviors:

- Drive sales of our most profitable products.
- Prospect, qualify, develop and close new customers.
- Understand customer needs and context.
- Seek to fulfill customer needs in strategic ways that consider rate, volume and product application.
- Define company products in terms of a total solution and the range of products available.
- Assess how products impact customers – improve productivity, capability or business results..
- Address the customer problems with installation and use of our products/services.
- Support key market and product strategies.
- Make frequent contacts with customers – especially for one's "key accounts."
- Understand product trends and applications.
- Collect competitor activity and customer needs information.

Following the delineation of functional responsibilities between specialists, generalist, hunters and farmers, the number of levels is the next question to address. There are two considerations that impact the decision on the number of levels: business need and desired career progression.

In terms of business need, it is clear that higher level roles that carry more expertise and sales competency will cost the organization more. Can the organization support these costs compared to what is needed to effectively sell the company's products and solutions? What have job levels been within the organization in the past and were they effective? Is it more cost effective to train or hire those trained in sales, products or industry?

From the sales executive's career path perspective, he or she will want to understand the opportunities or expectations to move to senior level sales positions with higher total compensation or between sales functions. When there is a move between different functions, are these jobs at the same or higher level? A career path description in the form of a matrix can help distinguish and define differences.

Benchmark Position	Sales Executive I	Sales Executive II	Sales Executive III	Sales Executive IV	National Account Executive
Org Job Titles:	Sales Executive Mid-Market	Sales Executive Mid-Market	Sales Executive Enterprise	Sales Executive Enterprise	National Account Manager
Years of Experience	Up to 3 yrs	Up to 6 yrs (3-6)	Up to 10 yrs (6-10)	10+ yrs	10+ yrs
Type of Customer Relationship	Small to medium account; may involve managing current account or generate new accounts	Medium size and complexity account, that are generated by the SE and/or managed by the SE	Complex and strategically important account relationships; SE may be involved in generating new, renewing old, and managing a few key accounts	Large, complex account relationships, usually involving both technical and service relationships; SE is regarded as expert on the account, industry or key markets	Major, strategic accounts that involve multiple levels of decision making and relationship management; NAE usually leads teams to retain, develop and expand sales to a few accounts key to the company
Level of Knowledge	Has mastered the basic skills of sales and product knowledge	Strong competence in various tools, processes related to sales and company's products	Specialized knowledge; develops lasting customer relationships	Advanced Knowledge and skills from specialized training and experience	Highly specialized, in-depth technical knowledge, works complex business issues
Leadership Provided	Individual Contributor	Individual Contributor	May provide some leadership and assistance to less experienced	May lead team in market, key accounts or industry focus	Leads Industry or Account teams

V. Step 4: Performance Measures

During the development of the sales strategy, the desired results and behaviors needed to achieve it should become clear. For example, one group of the new sales organization may focus on achieving revenue goals through a large number of short term sales/contracts while another group may have fewer contracts that are larger and more long- term oriented. Further, some organizations are shifting their products/ services from a "purchase and implement" model to one that is established on a subscription basis. In this case, the sales revenues are significantly smaller on a per contract basis (through subscriptions), but the ultimate contract value may be the same or greater. The new sales strategy for the new organization may define the focus differently for various groups. There are important implications, therefore, on the measures of performance for each area.

The next step is to connect the desired results to the right measures. Are there good measures to work with? Now that there will be a new sales organization, what measures are currently used by the organization? To what extent do the business systems support the collection of this information? Measures are another set of major decisions to be made. There are a variety of situations that impact the identification and utilization of measures:

A. What is the appropriate line of sight level? Usually most individual sales compensation plans are very closely tied to individual cause and effect. However, there may be organizations where one broader measure is used in combination with the individual measure to ensure collaboration. For example, in addition to being responsible for individual sales, a smaller portion of one's incentive is based on the total revenue the team achieves relative to quota (see 6). This type of group measure may be very helpful to reinforce collaboration and dis-incent the "lone ranger" approach.

B. What should be the "balance" between individual versus group type measures? If a sales executive focuses on revenue achievement but that measure alone does not achieve the total strategy, then a second measure can help provide balance to the way time and talent are utilized. An example is if a solution or group of products need to be sold to be profitable, then both revenue and product mix must be achieved to get higher payouts. In this case the product mix is a function of a group, including the delivery or fulfillment team as well as the contract revenues. One type of measure emphasizes clear individual accountability and the other encourages collaboration and teamwork to meet the customer's goals. This "paradox" is displayed in a graphic illustration (see Table 6).

C. What should the metrics emphasize when the sales position does not have control or the information necessary to create the desired result? For example, "profitable sales" are important to organizations but sometimes profit information is only available to managers for either that individual sales executive or the manager's group of sales executives. Or, the profits are only determined after a product/system has been installed in the client's organization. These types of measures are attached to the manager and the manager shapes the results and behaviors of the sales executives without direct compensation or individual recognition. How does the sales compensation plan address both "results" type outcomes and individual "behaviors" or the process by which the results are achieved?

D. If specific goals or targets for revenue or other measures cannot be reliably set, how do you create behavioral measures at the individual level? If the new organization is now entering new markets, there may not be history to reliably set quotas or they may need to do other work at the start, such as building relationships and obtaining information about prospects. These measures can be used successfully provided there is a limited downside and upside opportunity to protect the company's financial risk. In this case you are focusing measures on the "drivers" of the desired results. The following tables show a framework for understanding this "value added" sales chain. (see Tables 7 and 8)

E. Regardless of the situation that best fits your newly combined sales force, there are some very important guidelines in the final selection of sales compensation measures:
   1. Use no more than three (3) measures for commission oriented plans,
   2. Avoid activity or personal development measures (e.g., call reports, account plans, etc.),
   3. Do not include measures that you cannot reliably and frequently measure.

Table 6: Consider both individual and team results when collaboration between individuals needs to be reinforced or individual measurement is unreliable

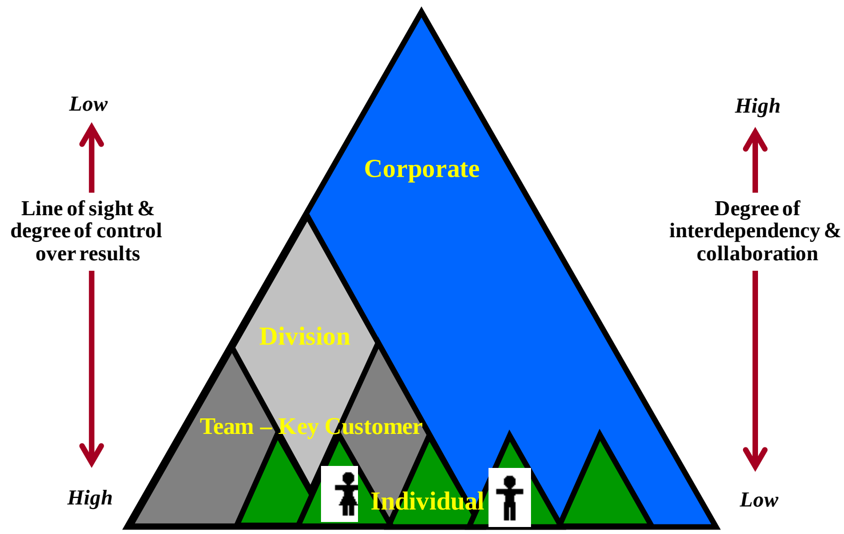


Table 7: A sample of sales measures to be considered - utilize those that reinforce the key performance drivers

SALES PROCESS	TYPE OF SALE	CUSTOMER SATISFACTION	SALES REVENUES	PROFITS
• Sales prospecting • Opportunity assessment • Sales call effectiveness • Demonstrations and customer assessment • Proposal preparation • Responsiveness • Overcome objections • Sales achievement	• New or current customer • Current or new products • Short or long term contract • Single product or system solution	• New or established • Renewal or expansion • Type of order – strategic, solution, need or transaction • Size of the order • Share of customer's budget • Level of customer involvement • Degree of customization • Product mix	• Sales orders - contracts • Recognized revenues	• Gross profit • Profit margin

Table 8: When do you reward behaviors or results?

*Focus on **BEHAVIORS** when:*	*Focus on **RESULTS** when:*
• New skills or behaviors are required	• People are highly competent
• Current performance is a long way from the goals	• Current results are relatively high
• Many intervening variables	• Direct relationship between the effort and achievements
• Long time delay	• Progress can be monitored frequently
• How to achieve the goals is not exactly clear	• People know what they need to do

VI. Step 5: The Incentive Mechanism

There are two categories of incentive mechanisms, either used exclusively or in combination:

Commission Plan: ***A percent of revenues or profits that is paid in relation to direct sales results***

Examples:

- Percent of revenue – 5% of revenue up to 90% of quota, 10% of revenue above 90% of quota, 12.5% of revenue above 100% of quota, 5% of revenue above 130% of quota
- Percent of profits – 10% of product A net sales, 5% of product B net sales and one and one-half times the commission rate once 100% of quota for each product is exceeded up to 150% of quota

Bonus Plans: ***A flat dollar amount or a percent of base salary or total compensation that is paid for the achievement of objectives***

Examples:

- Flat dollar - $3,000 for achieving 90% of quota, $6,000 for achieving quota and an additional $1,000 for every 5% above quota
- Percent of base salary – 5% of annual base salary for achieving the first quarter's quota, 10% of annual base salary for achieving all quarterly goals, 20% of base salary for exceeding all four quarter's goals.
- Percent of total compensation – 10% of target total compensation (base salary divided by 9) for achieving all product quotas, 50% of bonus at target for meeting threshold on product quotas, 250% of bonus at target for exceeding product quotas at 130% or more.

Of the ten steps to designing sales compensation plans in times of organizational change, the most time consuming step is usually gaining agreement on the mechanism. It is especially difficult if the organizations used different mechanisms prior to the merger or major reorganization. The reason is that the mechanism needs to satisfy at least four criteria, that often conflict, including:

- Consistent with the sales strategy
- Easy to understand,
- Motivating and meaningful to the sales force, and
- Accurate and cost effective to administer.

The following descriptions and examples cover five different commission models. Combinations of features or hybrids to these models can be used to best fit the strategy, values and philosophy of the organization. These are listed below, with a full description and examples to follow:

Commission Plans:	Bonus Plans:
Single Commissions	Performance Scorecard
Individual-based Commissions	Performance Unit Plans
Multiple Commission Rates	Interpolated Bonuses
Commission Rates with Bonus Kickers	Performance Matrix
Threshold vs. First Dollar Commissions	

Commission Plans:

A. Single Commission Rate (Product Revenue Commission Rates)

Description:
A single commission rate is developed for all products or only the product covered under the commission plan.

Features:
- Easy to understand
- Difficult to set the appropriate rate when a variety of products are involved with different margins
- Difficult to set target pay opportunity and account for differences in territories

Example 1 - Single Commission Rate Tiered Above Quota:
Employee A Illustration:

Product Commission Rate:	1.0%
Territory Opportunity:	$1,700,000
Commission Opportunity:	$17,000

Employee B Illustration:

Product Commission Rate:	1.0%
Territory Opportunity:	$1,000,000
Commission Opportunity:	$10,000

Example 2 - Single Commission Rate/Tiered Above Quota:
The commission rate is flat for achievement less than quota but then the commission rate doubles between 100% and 130% of quota. The commission rate returns to the base rate for achievement over 130%.

Employee Illustration:

Product Commission Rate:	1.0%
Territory Opportunity:	$1,700,000
Commission Opportunity:	$17,000

% of Quota	Commission Rate	Accelerator	Rate
0 - 99	Base Commission Rate	1x	1.0%
100 - 129	Base Commission Rate x Accelerator	2x	2.0%
130 +	Base Commission Rate	1x	1.0%

Example 3 - Single Commission Rate/Tiered Above Quota With Compression Below Quota:
The commission rate is compressed until target is reached. It is accelerated for over achievement and then returns to base commission rate for achievement more than 130% or another percent over quota.

Employee Illustration:

Product Commission Rate:	1.0%
Territory Opportunity:	$1,700,000
Commission Opportunity:	$17,000
Base Commission Rate:	($17,000/$1,700,000)/[70% + (30%*2)] = .7692%

% of Quota	Commission Rate	Accelerator	Rate
0 - 69	Base Commission Rate	1x	0.7692%
70 - 99	Base Commission Rate x Accelerator	2x	1.5384%
100 - 129	Base Commission Rate x Accelerator	3x	2.0376%
130 +	Base Commission Rate	1x	0.7692%

B. Individual-based Commission Rate

Description:
A target annual commission is developed and is the same or similar between incumbents in the same job.

Features:
- Target opportunity can be communicated
- Perceived complexity in communicating and administering

Example:
Employee A Illustration:

Target Commission:	$17,000
Quota:	$1,700,000
Base Commission Rate:	$17,000/$1,700,000 = 1.0%

Employee B Illustration:

Target Commission:	$17,000
Quota:	$1,000,000
Base Commission Rate:	$17,000/$1,000,000 = 1.7%

C. Multiple Commission Rates

Description:
Commission rates vary based on product family or new versus existing accounts. The commission rates can be consistent between sales reps or an individual commission rate.

Features:
- Different rates for different product families or new versus existing accounts
- Perceived complexity

Examples:

Product Commission Rate Illustration:

Non-Strategic Products Commission Rate:	1.0%
Strategic Products Commission Rate:	2.0%
Total Territory Opportunity:	$1,700,000
Commission if 100% Non-Strategic:	$17,000
Commission if 70% Non-Strategic and 30% Strategic:	$1,190,000 x 1.% = $11,900 + $510,000 x 2.0% = $10,200 = $22,100

Individual Commission Rate Illustration:

Non-Strategic Products Commission Rate:	17,000/ [$1,700,000 +($510,000 *2)] = .7692%
Strategic Products Commission Rate:	.7692% *2 = 1.5385%
Commission if 70% Non-Strategic and 30% Strategic:	$1,190,000 x .7692% = $9,154 + $510,000 x 1.5385% = $7,846 = $17,000

D. Commission Rates with Bonus "Kickers"

Description:

A flat bonus amount is paid for each achievement milestone reached. The commission rate can then remain flat or can vary based on other factors, such as new versus existing account sales.

Example:

Product Commission Rate:	1.0%
Territory Opportunity:	$1,400,000
Commission Opportunity:	$17,000
Effective Commission Rate to 100%:	1.2142% =17,000/1,400,000
Effective Commission Rate from 100% to 130%:	1.7142% = 7,200/420,000

% of Quota	Commission Rate	Amount	Type
100%	Product Commission Rate 1%	$14,000	Commission
100%	Flat Rate Bonus for Achieving Quota	$3,000	Flat Bonus
130%	Product Commission Rate 1%	$4,200	Commission
130%	Flat Rate Bonus for Achieving 130%	$3,000	Flat Bonus

E. Threshold versus First Dollar

Description:

Threshold is the first point of achievement at which a payment is made/due or the hurdle the sales representative must achieve. All achievement beginning at the threshold or above is eligible for payment. First dollar means that commissions are paid at the first level of sales or achievement.

Features:

- Thresholds often perceived negatively by sales reps but necessary when there is a need to control costs

Examples:
Threshold:

Quota or Territory Opportunity:	$1,700,000
Threshold 30%:	$510,000
Commission Opportunity:	$17,000
Commission Rate:	1.4285% on $1,190,000

First Dollar:

Quota or Territory Opportunity:	$1,700,000
Commission Opportunity:	$17,000
Commission Rate:	1.0000% on $1,700,000

Bonus Plans:

The following descriptions and examples cover four different bonus models. Although the tendency of most sales organizations is to use commission mechanisms, organizations will use a combination of both commission and bonus. For example, pay commission monthly based on revenue and pay bonus quarterly based on quarterly revenue growth, recognized revenue, product mix, etc. Collectively between mechanisms, the number of measures should be three.

A. The Performance Scorecard Plan:

A performance scorecard is most often used when facing the following challenges with the performance measures:

1. Integrates multiple measures
   -- Individual
   -- Group (i.e., Regional, Strategic Accounts, Business Unit, or Corporate)
   -- Product revenues – new products, core products, etc.

2. Not all measures are valued the same – they can be weighted strategically

3. Want to provide a range of performance levels and payout opportunities (not just a binary – yes/no – assessment of performance)

4. Need a common mechanism that can be used in various situations – balance the need for consistency with flexibility

5. Revenues are sufficiently "unpredictable" that a commission structure may result in serious under or over payments and you can't effectively correlate pay with various levels of revenue performance

Explanation of the Illustrative Performance Scorecard Model:

The performance scorecard displays performance measures and desired performance levels with five achievement levels of performance established for each measure (80, 90, 100, 110, 120).

The scorecard provides for multiple performance measures, weighted based on significance (60%, 15%, 25%).

A score is determined by selecting the achievement level for each measure, multiplying by the weight of the measure and then summing all measures' scores to come up with a total performance score. For example, 60% x 100 = 60, 15% x 110 = 17, 25% x 90 = 23. All three scores add up to a total of 100 points.

Eighty (80) is the threshold level of performance. A score below 80 does not provide any credit for that measure and, depending on the weight of the measure with a below threshold score, could result in no payout.

Illustrative Performance Scorecard

		Threshold		Target		Exceptional		
Performance Measures	**Weight**	**80**	**90**	**100**	**110**	**120**	**Result**	**Score**
Individual Revenues	**60%**	**$280K**	**$360K**	**$450K**	**$620K**	**$830K**	***$460K***	**60**
Group Revenues	**15%**	**$2.8M**	**$3.6M**	**$4.5M**	**$6.2M**	**$8.3M**	***$7.0M***	**17**
Percent of Revenue from Emerging Products	**25%**	**4%**	**6%**	**8%**	**10%**	**15%**	***7%***	**23**

= Actual Performance

Total Score: **100**

Total Score	*% Payout Opportunity Table*
0 - 79	0%
80 - 88	80%
89 - 97	90%
97 - 103	100%
104 - 110	115%
111 - 115	130%
116 - 120	160%

B. Performance Unit Plans

A less common application is using units instead of currency to measure the sales executive's results. A threshold and target number of units is set for each measure and the results are measured against target. Each measure has a different weight based on the target compensation attributed to each. The relationship of threshold to target can also vary by measure. Each measure's unit and threshold compared to target also varies.

	Performance Level				**Per Unit**	**Annual Opportunity**		**% of Target**
Number of:	**Threshold**	**Target**	**Results**	**% Achieved**	**Bonus $s**	**Minimum**	**Target**	**@ Total**
Number of Individual Units Sold	100	500	400	80.00%	$20.00	$2,000	$10,000	59%
Number of Group Units Sold	1000	4500	6200	137.80%	$0.62	$622	$2,800	16%
Emerging Business Units % Total	20	40	30	75.00%	$105.00	$2,100	$4,200	25%
Total						**$4,722**	**$17,000**	**100%**

Common Applications:

- ✓ Pricing is variable or not within sales person's control
- ✓ To emphasize volume of units to be consistent by sales person
- ✓ Price per unit can be accelerated or a higher bonus per unit for units sold above target

C. Interpolated Bonus Plans:

A formula driven bonus that pays a defined dollar amount for each percent of achievement.

This illustration shows only several key payout points however the bonus payout can be calculated for each unit, sales or percent change in results. The model functions like a target commission plan. There can be a maximum payout (hard cap) or de-accelerated payout (soft cap) as a maximum.

% of Quota	% of Target Bonus	Annual Bonus $s
6.00%	1%	$170
45.00%	40%	$6,800
85.00%	80%	$13,600
100.00%	100%	$17,000
105.00%	115%	$19,550
110.00%	130%	$22,100
120.00%	160%	$27,200

Common Applications:

- ✓ When territory or account size varies and a target incentive needs to be paid by job or person
- ✓ Jobs that support the sale as a team and the quota is a team or group revenue
- ✓ Need to tightly control sales incentive expenses

D. Performance Matrix

Two measures are used and are dependent on each other in order to achieve a greater payout. In this example it is group and individual measures.

Matrix

Group Revenue $s		Threshold: $280K	$360K	Target: $450K	$620K	Exceptional: $830k
$8.3M	Exceptional	$15,000	$17,000	$19,000	$24,000	$29,000
$4.5M	Target	$10,000	$15,000	$17,000	$19,000	$24,000
$2.8M	Threshold	$7,000	$10,000	$15,000	$17,000	$19,000

Individual Revenue $s

Common Applications:

- ✓ Need to link two measures
- ✓ Minimum (threshold) and maximum defined

VII. Step 6: Total Incentive Opportunity and Mix

Both market data and the development of the incentive mechanism help guide the decision regarding the appropriate mix. The higher the incentive portion of the sales person's total compensation, the more influence he or she should have on individual sales. The table below illustrates the impact that influence, size of the sales, complexity and number of customers will have on a decision mix.

When the order size is large, the number of customers are few, the complexity of the sale is high and the sales professional has limited sales persuasion; hence the incentive should be a relatively small percent of total compensation (and in turn the base salary would be relatively high). Examples of this include those in the aerospace and defense industry. In software, most sales professionals have a high level of influence on sales but may have some complexity and a longer sales process. The mix for these jobs tends to be between 50% and 60% incentive.

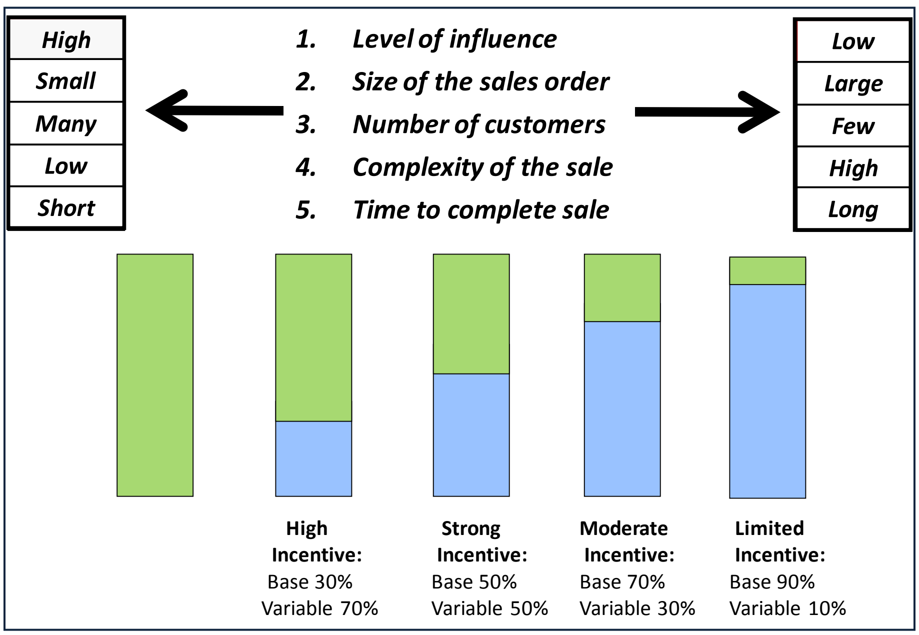


Table 5 on Page 9 illustrates how market data can provide mix information and how opportunity above and below target can be aligned with survey data. The market data should guide the appropriate pay mix as well as how the organization has structured the role and sales process.

In merging organizations there may be variations in mix. The organization needs to develop one mixed target by job. These situations require significant analysis of "what ifs" and a determination made as to how to either increase incentive to increase leverage or base pay to decrease leverage. Total cash compensation will also need to be in a similar range. When incentive is folded into base compensation, it is usually not converted on a dollar for dollar at target, but rather below target using judgment and discretion. It is important to be consistent between the sales professionals. This is because the risk associated with the variable portion of pay is eliminated when it is transferred into base salary.

When implementing a new compensation plan that requires a reduction in salaries, with an increasing leverage in total compensation, one needs to consider several factors. First, how much will potentially be lost to the sales professional and how quickly can one recover from this loss. If the commissions are paid monthly, similar to the salary, then the impact may be minor. If the incentives are paid less frequently or the payouts are delayed (resulting in a perceived significant loss in personal secured income), then an alternative may be to convert a portion of the salary into a "forgivable-draw" against the future incentive earnings. By forgivable, we mean that the company will not attempt to recover the "draw" that was paid if the individual leaves the company. In this alternative, the incentive earnings are used to offset the salary, which may decline overtime as the incentive payments increase. This usually takes two or three years to fully implement.

When implementing significant changes that involve adjustments to have mix at an appropriate and consistent level, before and after statements are recommended so that sales professionals can understand the changes and adjust their spending appropriately.

VIII. Step 7: Cost Analysis

The cost analysis provides a picture of current and proposed payouts at different performance levels. This payout modeling for the changing organization is very important to ensure a pay for performance link and that all outliers have been considered. The organization should consider its level of risk with outliers and be prepared to address them.

The illustration below is a simplified cost analysis, sorted by performance level. It provides an important benchmark result at the bottom of the page - bonus as a percent of total revenue (i.e., this is the pay-to-performance ratio). A separate analysis will check payouts below and above the prior payouts compared to pay at those levels.

Illustrative Cost Analysis

Summary Comparison of Current and New Plan at Current Performance Achievements:

Employee Performance Level	Employee Count	Current Plan Bonus Payouts	New Plan Bonus Payouts	Difference
Under 70	2 1%	$10,815	$0	-$10,815
70 to 79	2 1%	$13,693	$8,558	-$5,135
Threshold: 80 to 89	**18 9%**	**$125,603**	**$98,410**	-$27,193
90 to 99	60 31%	$499,826	$462,098	-$37,728
Target: 100 to 109	**87 44%**	**$847,515**	**$832,607**	-$14,908
110 to 119	18 9%	$155,596	$211,185	+$55,589
120 to 129	4 2%	$52,888	$88,146	+$35,258
Exceptional: 130	**5 3%**	**$57,211**	**$190,703**	**+$133,492**
Total	**196 100%**	**$1,763,148**	**$1,891,938**	**+$128,559**
Percent of Target Revenue: $1.7 Billion		**.10%**	**.11%**	**+ 7.3%**

IX. Step 8: Performance Recognition

Often sales performance recognition programs are thought of as an after fact and their financial impact is not considered. The purpose of the recognition program is to encourage and recognize sales behaviors and results - whether direct or indirect – between the “pay checks.” They often serve to supplement a strong sales compensation plan, and address issues that the current plan cannot deal with effectively. By understanding the costs/payouts and the degree of impact they have on the results and behaviors the organization is trying to achieve, recognition programs can be assessed and designed within the context of total rewards and behaviors.

The decisions regarding the recognition program address the following:

- The type of behavior and result being encouraged e.g., sales of emerging, difficult to sell products.
- The frequency of the reward, e.g., every quarter there is a different contest.
- There can be multiple tiers from frequent and lower cost rewards to annual and big ticket rewards, such as trips.
- The level of the reward needs to be consistent with the amount of effort, e.g., $100 is not a significant enough reward for selling products worth $100,000, even though a commission is paid.
- The reward needs to be meaningful to the sales executive, e.g., an iPad may be the latest gadget everyone wants but may not be what most sales executives want.

The following are Ten Guiding Principles of effective recognition programs:

1. The performance that determines whether one receives a special recognition award is very clear.

2. The criteria should encourage and reinforce those actions/behaviors that are critical to the organization’s strategy and desired culture.

3. The process for selecting individuals and making awards should be simple, fast, and highly reliable.

4. The awards should be meaningful to the performer and reflect the value of the contribution.

5. The process should be viewed as fun, exciting and strengthening the culture of the organization.

6. The program may have tiers that blend everyday actions with strategic contributions and accomplishments. It should blend with informal practices by managers and others, it is not a substitute for effective management.

7. Individuals should be selected for the awards based on what they accomplished, not by “who they beat” internally – keep the program from being viewed as a “zero sum game” by using a wide variety of tools.

8. The process by which one is notified and receives awards should create a celebration, not an embarrassment.

9. The process needs to be administered in an easy to use, highly engaging process that reinforces both the “personalization” and the “integrity” of the process.

10. The process should change and develop different forms over time. It should remain fresh and flexible, and reflect different themes and priorities of the organization as well as incorporate lessons learned from past experiences. Recognition is a dynamic process.

In determining what to do with differences in recognition or "spiffs" within the organization – pre and post the change process -- the new sales compensation philosophy should provide meaningful guidance to drive these decisions. It is easier to add recognition to the organization that was lacking, rather than take it away from those who have it. However, the recognition plan should reflect the new compensation philosophy and desired culture of the new organization.

There are different types of recognition programs, and some of the most common and effective are noted below:

- Bonus payouts for achieving one's quarterly, year-to-date quota performance.
- Bonus payouts for annual business goals.
- President's or Chairman's club based on a combination of sales and customer satisfaction metrics.
- Closing a major new, multi-year contract.
- Being one of the first to close sales on new products.
- Closing a new deal with a key target company prospect.
- Being one of the first to complete new sales account plans or account documentation.
- Contributing to the positioning and closing.

X. Step 9: Issues and Barriers to Sales Effectiveness

Depending on the organization, the terms and conditions that indicate how the organization handles unusual situations can be a significant issue. The saying "the devil is in the details" is appropriate here and especially when the organization is undergoing major changes. Successful organizations that navigate through these issues tend to form a centralized committee of senior managers to help with all situations that involve interpretation and judgment. In fact, a committee such as this may also have the responsibility to oversee the design and development of the new sales compensation plan. The committee should be made up of senior sales managers who are well respected by the sales professionals and will be expected to use and rely on the sales compensation philosophy to guide them in their decision-making. Also representatives from Finance, Human Resources and Marketing are frequently involved in this team. In addition to designing the plan, the committee should have an on-going responsibility to minimize and prevent exceptions and to provide recommendations for interpretations or enhancements to the new plan. It is also helpful to establish ground rules that the committee uses to determine how they will resolve impasses and disagreements and how they will work as a team.

One of the common issues of ineffective sales compensation plans is when too many people share in the payouts with little true impact on performance; this is also known as horizontal crediting. This is when a sale involves a geographic sales executive, national account manager and product specialists or overlay to finalize the sale. Each expects to receive credit for the sale and be paid an incentive under each of their plans. If one or more of these sales executives are in accelerators at the point of a sale like this, the organization could end up with a significant cost of sale attributed to just this one sale. Therefore horizontal crediting can be problematic. It is best to have sales crediting well defined and articulated. Sometimes this is difficult because the situations may vary by vertical, product or geography. Without a clear policy it could negatively impact sales collaboration with sales specialists withholding their participation in team sales efforts. This situation creates a "sub-optimal" condition where everyone in the company loses.

The following is an example of a sales crediting policy:

> *"The assigned Sales Executive is the default account leader for all opportunities that are identified and worked within their assigned regions. When a multi regional account spans beyond their "home" region, the following rules apply:*

1. *Major influencers and sales cycles are managed <u>within</u> the home region, but the product is clearly shipped and implemented in a territory <u>outside</u> the home region: Local Sales Executive receives 75% quota and commission credit; Remote sales executive receives 25% quota and commission credit.*
2. *Major influencers and sales cycles are managed <u>outside</u> the home region, and product is implemented <u>outside</u> the home region. This new opportunity must be clearly defined and forecasted by the local Sales Executive: Multi Regional Sales Executive receives 25% quota and commission credit; remote Sales Executive receives 75% quota and commission. This assumes that both parties are making a significant contribution to the sales process.*
3. *Major influencers and sales cycles are managed <u>outside</u> the home region and product is implemented <u>outside the home region with a proposed change to existing account management and existing splits</u>. These are an existing customer of the remote Sales Executive that have had a history of ongoing revenue that has factored into the regional quota. These changes must be clearly defined in the beginning of the year. As part of the process changes to the existing split agreements will result in a quota adjustment between regions. There is a pre-assigned split or quota transfer in these accounts."*

Another issue that impact some organizations are large, multi-year deals. If these deals are not common, then, revenue recognition and/or the contract value need to be determined. To comply with many regulatory accounting regulations, the company should make commission payouts as it recognizes the revenues generated by the sales professional. This policy should consider:

- Is there any cap or maximum?
- What is the timing of the payments?
- Does the commission rates diminish or adjust to quota attainment at the time of the payment?
- How much quota is retired initially?
- What if the contract is pre-maturely cancelled?
- What if the implementation costs exceeded the planned profitability of the contract?
- What is the impact of price discounting on the contract value?

The following is an <u>example of a multi-year crediting policy</u>:

> *"For large multi-year deals, the sales professional will receive 100% of quota credit when the annual contract is invoiced. The sales compensation committee reserves the right to structure commission payments to support the deployment and execution of the technology. Large deals exceeding $500,000 may be paid as follows: 50% commission paid upon invoice and 50% of the commission will be paid in equal portions in the following twelve months based on the achievement of the following:*
>
> 1. *Appointment of project staff by the customer.*
> 2. *Training of the staff and end users.*
> 3. *Rollout of products to the end user specified by the customer.*

<u>Windfalls</u> occur when a major account is lost for no internal sales reason (e.g., the company was acquired), the company is unable to ship the products or meet the customer's commitments, etc. In these cases, the individual sales professional is impacted very negatively because of actions over which he or she had no influence. Addressing these situations can be very costly under plans with accelerators for over achievement. A statement in the summary plan description that first describes what would be a windfall and that the company will review and may modify payments under this situation should be sufficient to address these situations.

<u>Exceptions</u> are requested by the sales manager if there does not seem to be appropriate return from the effort they achieved or they are close to crossing an accelerated threshold. Complaining should not be tolerated, and reinforced by giving into the sales professional. Clear policies and procedures should cover most situations and

practiced consistently will eventually stop this behavior. A telltale sign of this getting out of hand is when people comment "the sales force is running the company".

Other areas that often need to be addressed are the following:

1. How are incentives calculated and when are they paid?
2. How are quotas set and reset?
3. When is an incentive earned and what documentation, contact, etc. must be satisfied before being paid?
4. Does the sales professional need to sign the compensation plan before being paid under the new plan?
5. What are the responsibilities of the job related to account plans, reporting, etc.?
6. How are issues escalated and who is responsible?
7. How are charge backs/returns handled?
8. How are sales professionals paid during leaves of absence and disability and at termination of employment?

XI. Step 10: Implementation of the Plan

It is better to have exceptional implementation of a mediocre plan design then to have mediocre implementation of an exceptional plan design. In fact, much of the research on sales compensation plans clearly demonstrate that when the sales force has a full understanding of the new plan, their performance exceeds those in companies where the plans are not well understood. This understanding comes from both the launch of a new sales compensation plan and how it is reinforced and improved over time.

Implementation first involves planning and executing on the financial, systems and operational areas of the plan. Prior to announcing the plan to the sales force, all supporting financial and technology systems and people must understand and be prepared to measure and pay under the plan. Most likely budgeting and quota setting may have been going on outside of the plan design efforts. When organizations are changing, there is greater likelihood for error, misunderstanding and last minute issues. Ensure that there is enough time available to implement or delay it. If the plan normally starts January 1 and the organization just finished the plan design January 20th, delay the effective and implementation date of the plan. Another idea is to calculate payments under their old and new plan and pay the greater of the two until full implementation can occur.

The second part of implementation is to tie together the sales strategy, sales compensation philosophy, quotas and the sales plan in multiple communications. It will require multiple and varying formats of communication to provide a positive introduction and understanding of the plan. Management communication in order to gain their commitment is first, followed by communication to sales professionals. Following the communication blitz, the sales force should be tested for understanding and commitment. Where there are shortfalls, additional communication needs to be provided immediately to maintain positive momentum. It is difficult for sales professionals to achieve their quota or sales plan if they do not understand the plan. For merging organizations, misinformation or negative rumors seem to flourish more than in more stable organizations. Avoid being defensive and focus on the positives of the new organization, e.g., no one lost their jobs, pay opportunity has increased for payouts over target, there is greater clarity about one's area of responsibility, etc.

Illustrative Implementation Work Plan

- ✓ Test the plan with select representatives and managers.
- ✓ Consider the impact on other functions.
- ✓ Approval to implement.
- ✓ Develop tools to communicate and administer the plan.
- ✓ Develop the communications materials for the new plan.
- ✓ Communicate the plan to sales management and plan participants.
- ✓ Implement the new compensation plan.

XII. Summary

The opening line in Tale of Two Cities by Charles Dickens (1859) was:

"It was the best of times; it was the worst of times."

This quote captures the conflicts and complexity of reorganizing a sales force. For some the change will create significant new opportunities for the sales force - new products to sell, more resources to support their sales efforts and more total compensation over target. There are also forces that are threatening the survival of many sales professionals and sales management whose unaligned sales practices, poor performance, account landlording, etc. will not be supported under the new plan and sales strategy. These are challenging times for this type of sales professional.

For sales forces experiencing significant change, the following are our suggestions for a successful transition.

1. **Ensure consistency and commitment to a new, comprehensive sales strategy.**
   If the new sales strategy is well understood and there is buy in and commitment to it, then half the battle has been won. The difficulty is ensuring the process by which it was developed and the communications around it, have been comprehensive, involving and open.

2. **Identify, describe and communicate the new organization and sales roles.**
   Don't assume prior roles and documentation will work with a new strategy; spend the time defining and getting feedback on the roles. The documentation should be functional, behavioral and/or competency based, and results oriented. The ideal sales professional profile should be described and candidates with the proper fit and demographics selected for these roles.

3. **Communicate the progress on an ongoing basis.**
   Provide an opportunity for sales professionals and management to participate in some way in the design and implementation process. Utilize surveys, focus groups and one on one meetings in this

effort. Define and communicate how sales professionals can make a contribution or difference during the transition and what kinds of behaviors you expect. Sales professional want to be involved, to know that their input is valued and when the rules of the game are changing, what they need to do differently. Provide regular updates to the sales force on areas of successes as well as strategic challenges. Ask for their input and ideas.

4. **Thoroughly test and model the new plans.**
   Ensure you have identified difficult and unique situations and how you are going to communicate in a positive way. Many organizations do not take the time to fully test the impact of the plan at extreme performance levels and have gotten stuck with underperformance or high costs. Monitor results and take one midcourse correction if necessary.

5. **Ensure the Board of Directors is aware of the new plan.**
   Especially in public companies and well established private firms, many sales organizations have been surprised with negative Board of Director reaction to the plan. Then they are scrambling to redesign. Your new plan will be more favorable to the board if it starts with sales strategy, roles and philosophy and then demonstrates how the sales compensation is in alignment. The process for development and gaining commitment will also reinforce the thoughtful and strategic approach your organization utilized in the process.

We hope you have found the information and insights presented in this Report to be meaningful in understanding your situation. If we at the Wilson Group can be of assistance to you and your organization in assessing, designing or implementing a new sales compensation plan for your sales force, please contact us. We are ready to help your organization implement its new strategy, build a winning culture, and achieve the market leadership that you seek for your organization.

XIII. About the Wilson Group

Our Mission: To help our clients assess, develop and implement performance systems and total compensation plans that translate their strategy into action and their values into practice.

Our Services: We develop customized assessments and designs with our clients for:

- Executive and Board of Director total compensation
- Sales effectiveness and total rewards
- Employee total rewards
  - Variable compensation – cash-based and equity participation
  - Base salary programs – market, job and competency-based
  - Performance measurement and management
  - Performance recognition programs and practices

Clients/Markets: We work with top executives, boards of directors, sales executives and human resource executives at growing companies that are seeking to implement strategic change. Primary industries include:

- *Technology – hardware, software and systems*
- *Life Sciences – Medical devices, bio-technological and pharmaceutical*
- *Financial services – banking, insurance, investments*
- *Retail services and consumer products*
- *Manufacturing*
- *Professional services*
- *Education – colleges and universities*

Key Differentiators: What clients say about working with us:

- You will work with highly seasoned, experienced professionals
- We integrate reliable market, benchmark and best practices data
- We develop innovative, practical and long-term solutions
- Our consulting process is one that is collaborative, engaging and efficient
- We work with you to develop new, critical internal capabilities
- We build strong, long-term relationships with our clients

Thought Leadership: We have authored four books, contributed chapters to 12 others, and has published over 30 articles. We have been quoted in leading business publications, such as the Wall Street Journal, Financial Times, Boston Globe, and the Boston Business Journal.

Contact us:

30 Monument Square, Suite 214
Concord, MA 01742
978-371-0476
rfarrington@wilsongroup.com
smalanowski@wilsongroup.com
twilson@wilsongroup.com

Top 10 Requirements for a Successful Sales Compensation Plan

1. The program has strong, visible support by senior management.

2. Performance measures are aligned with the key drivers of the business's success strategy.

3. Measures are clear, reliable and focused. People "trust" the data.

4. Participants know what actions to take to achieve desired results; outcomes are within their sphere of influence.

5. The performance goals are challenging, achievable and reflect improvements in performance.

6. Participants can track progress frequently.

7. Efforts to achieve progress are reinforced and celebrated; barriers are eliminated or resolved quickly.

8. The payout levels are meaningful--both opportunity and actual experience.

9. The payouts are provided frequently enough to retain the continuous attention of the participants.

10. The program improves over time:
    - Better goal setting
    - More reliable measures
    - Faster, more frequent feedback
    - Coaching and competencies to achieve results
    - Celebration of achievements