



As past recoveries have shown, companies that are able to maximize their opportunities to grow during this portion of the economic cycle will be well rewarded. Organizations need to pinpoint exactly how they want to grow and what they need to do to support that kind of growth during the recovery. Focusing and motivating the sales team to encourage the “right” kind of growth is extremely important to achieve this goal.

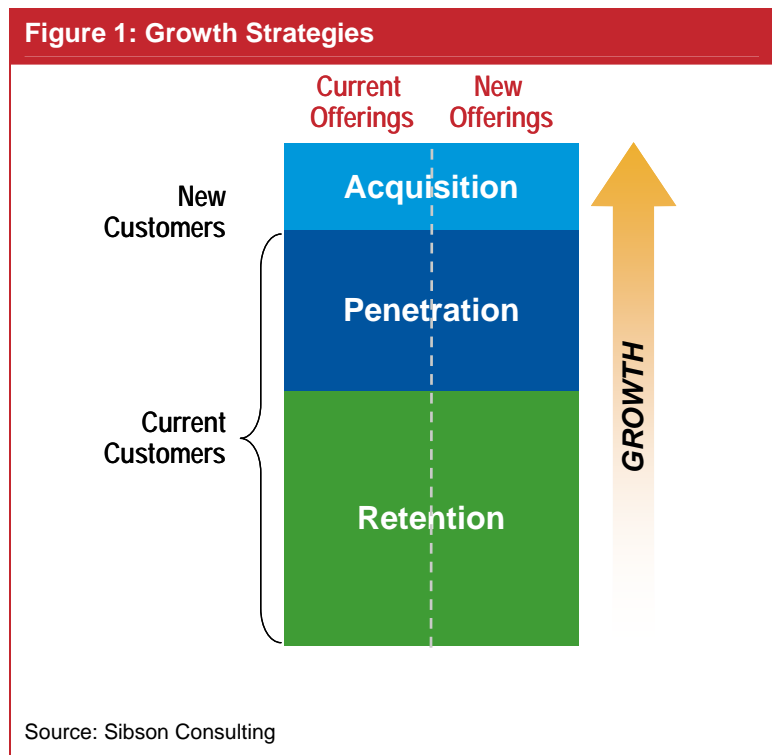
Understand the Growth Strategy

The first step in designing an effective sales compensation plan is to understand the company’s growth strategy and its implications for the sales function. Those responsible for developing the compensation plan need to be able to answer the question “Where is the growth going to come from?” As shown in Figure 1, there are various ways a company can grow.

Align the Compensation Plan with the Growth Strategy

The company’s overall growth plan needs to be applied to each role in the sales organization. For example, if growth is to be achieved by gaining new customers and expanding business with existing customers, then focusing the sales compensation performance measures on new customer revenue and the average number of products sold to each customer would support the growth strategy.

The best strategy is to pay for results within each sales rep’s span of control. This requires looking at the sales reps’ responsibilities, including the customers and the markets they cover, the products they sell and the step(s) of the sales process they own and influence. One good example is basing incentive pay on the number

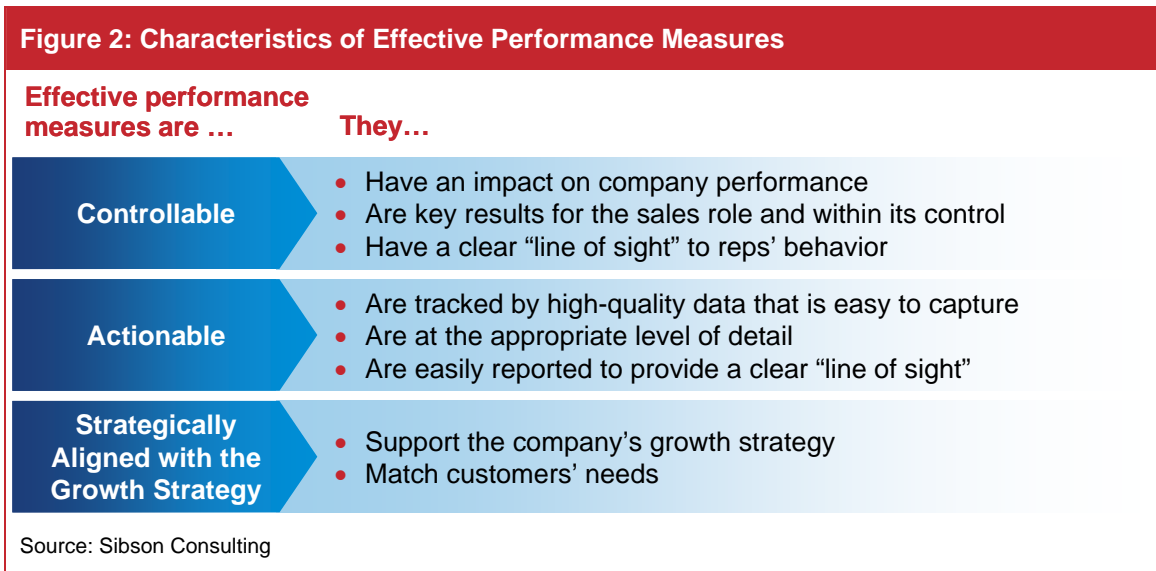


of qualified leads produced by a demand-generation rep — a rep whose sole responsibility is making outbound calls to set up meetings for the company's account executives.

A sales compensation plan contains many components that need to be aligned with the growth strategy, the most important of which are:

- **Performance Measures** These are the metrics that drive the incentive part of the plan. Because performance measures (and the associated quotas that control pay) are the heart of the compensation plan, selecting the most appropriate measures is a top priority in achieving alignment. The number of performance measures should be kept to three or less so each one receives sufficient attention. If the individuals who are designing the plan understand the company's growth strategy and its implications for key sales roles, a short list of potential measures should be obvious.

As shown in Figure 2, effective performance measures are controllable, actionable and strategically aligned with the company's growth strategy. Although vetting the final measures and getting them approved can take time, especially if new measures are being introduced, the results will be worth the effort.



- **Upside** This is above-target pay for people who exceed their goal or quota. Upside should align with and support the organization's growth strategy by being triggered by revenue and/or profit growth. Although many sales functions focus on the thresholds at the low end of the performance distribution curve, paying more attention to top performers' upside is a better way to achieve alignment and drive growth. Designing a payout curve that pays \$2 for each \$1 of pay at risk for the top 10 percent of performers is the baseline for a growth-focused, pay-for-performance sales compensation plan. This can be adjusted up or down based on many considerations, including profitability, goal setting accuracy and compensation cost of sale (CCOS) target. If the compensation plan has more than two performance measures, place the most significant upside on the measure or measures that are most closely aligned with the company's growth strategy (e.g., new product revenue or new customer revenue).
- **Crediting Rules** These control how people receive credit against their goal or quota. In addition to performance measures and upside, crediting rules can also be used to focus a

* See "Understanding CCOS: 'What is the Right Cost of Sales for My Company?'" *Perspectives*, June 2010: http://www.sibson.com/publications/perspectives/Volume_18_Issue_2/understanding-ccos.html.

compensation plan on growth. Because growth often requires the acquisition of new customers, crediting rules can be aligned by favoring new customers. For example, to encourage additional sales, a compensation plan can award a \$2 credit for every \$1 of revenue sold to a new customer or for new products sold to existing customers. Another example is to pay a car insurance agent an 8 percent commission on policy renewal revenue and a 10 percent commission on new policy revenue.

Extra care and consideration should be taken when using crediting rules, as they can quickly cause confusion and conflict. It is essential to make certain the sales organization can accurately track and measure the crediting rules and that clear criteria exist for how they apply to the various sales reps involved in a deal. As with performance measures and upside, avoid having too many crediting rules. There should be no more than two per plan to avoid confusion, and they should be strictly prioritized.

Could an outsider look at the company's sales compensation plan and understand its growth strategy? This is an excellent litmus test to determine whether the sales compensation plan and the key components of the company's growth strategy are properly aligned.

Use Quotas

Much to the chagrin of compensation plan designers, quota-based plans can be trumped by the quotas themselves because most sales reps will quickly focus on the goal and their perception of its fairness. Aligning quotas to support an organization's growth strategy is commonly accomplished by setting stretch goals that entice sales reps to overachieve and/or setting a specific quota for growth (e.g., in terms of new customer revenue or number of new customers). The following are best practices for setting quotas:

- **Be fair** Because "perception is reality," quotas need to be reasonable in the eye of the sales reps. Thus, they must balance company goals as dictated by the board and what is feasible given market conditions and the company's position within them. If the goal appears too onerous, reps can check out. If it appears too easy, the company's CCOS may rise excessively. To support the compensation plan and its growth incentives, the individuals who are designing the plan need to take the time to resolve the field and corporate views.
- **Target the average performer** No doubt, top performers can carry a significant load of the growth goals, but they are small in number compared to the center of the performance distribution curve. Being able to motivate and move that center a couple of points to the right will be key in helping the company achieve its goals for growth. As such, it is essential to spend time analyzing the target quota and making it as accurate as possible.

Many companies allow quotas to be over allocated — the sum of the quotas exceeds the goal provided for the organization — as they are rolled down the sales organization. By the time they reach the sales reps, they can be unreasonable. Allowing for a maximum overage, or over allocation, of 15 percent from top to bottom is a good benchmark for most business models.

Use Communications for Buy-in and to Jump Start Results

Designing a growth-focused compensation plan is not the end of the solution. Just as a compensation plan supports the company's growth strategy, it must be supported by an effective communication plan that gets off to a fast start and produces results quickly. These communications need to be:

- **Focused** The communication plan must clearly connect the compensation plan's key features to the company's growth strategy, focus on the positives and upside pay for *both* good and great performers and answer their question "What is my reward for growth?"

- **Multi-pronged** Because people learn in different ways, it is important to use a variety of communication methods and media, including one-on-one plan review meetings with the sales manager, online frequently-asked-questions/tutorials, question-and-answer sessions and, of course, plan documents. It is also important to use a mix of in-person, phone and online vehicles, as well as scheduled and self-service/on-demand events.
- **Timely** Reps in the field should completely understand the plan within 30 days of the start of the plan period. This includes quotas and goals for plans that have them. This provides a foundation by focusing the sales organization on growth at the beginning of the performance period, in time to make progress and achieve results. It is extremely hard to achieve growth goals, especially aggressive ones, after losing 10 percent or more of the time in which the reps have to meet them.

Conclusion

Companies need to achieve the “right” kind of growth during an economic recovery. One way to ensure that this happens is to design a sales compensation plan that rewards reps who do the right thing. This requires understanding the company’s growth strategy, making sure it and the sales compensation plan are aligned and using quotas and communications to help the plan succeed. Companies that take these steps will greatly increase their chances for success in the months ahead.

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