



Improve your competitive advantage during economic downturns

In challenging economic times, a well-crafted performance-based compensation plan can be a long-term competitive advantage. When times are lean most companies focus on improving their relationships with their installed customer base. It can also be a time to capture some strategic accounts from a competitor that is not tending to its installed base. How to motivate your sales force to these ends is partly a function of how they are rewarded.

These two concept beg three questions—

- 1. Is your sales compensation plan aligned with your business strategy?**
- 2. Are you getting the best return out of every compensation dollar?**
- 3. Does your plan help you attract and retain your most talented people?**

One "No" and your sales compensation plan may need a tune-up or a complete overhaul. Follow these ten steps to get your sales compensation plan in tune with your business strategy.

1. Make sure compensation is the problem

Research consistently shows that the work itself and a good relationship with the boss provide the greatest rewards to all types of employees. You as manager must develop close and supportive relationships with your sales staff. Few sales people are primarily motivated by money; you must understand what does motivate them.

Sales incentive plans do not create talent, improve work ethic, lead to better-trained staff, nor are they a substitute for leadership.

2. Define the salespersons' roles in the sales process

If you don't have them, write job descriptions. This will establish differences where they exist among positions based on the complexity of the position or differences in role. For example, if opening new accounts is critical and so is maintaining and growing existing accounts, are they performed by the same or different people (with different Comp Plans)?

3. Determine what you should pay for

Identify your business goals, behaviors and results. For example:

Business Goal	⇒	Sales Person's Behavior	⇒	Company Results
Increase margins to Y% on current accounts and sell X# of new accounts.		Sell higher margin products to current accts and find new accounts.		Average Y% gross margin on sales to current and acquire X new accounts.

Make sure the sales *results* are tied to the *behaviors*, which are in turn tied to the *business goals*.

4. Involve your sales team

Communicate your objectives clearly and ask for input to gain the support of your sales staff. ***You need most of the sales team's support and acceptance, not passive resistance, for the plan to be successful.*** Example, a revered member actively against the plan can delay or destroy its adoption.

Effective sales compensation should focus peoples' behaviors to beneficial company results.

5. Benchmark competitive levels of compensation

Match your sales jobs in published surveys. Published surveys are the most reliable source of data because of sample size, scope and accuracy of data. If you can get verifiable data from your competitors or industry association, use it. Gather the following data for each of your positions:

- Average base salary,
- Total compensation,
- Targeted incentive compensation,
- Base salary vs. incentive “mix”

Example sources for benchmarking your pay system—

- Culpepper Sales Compensation Survey
(<http://www.culpepper.com/info/cs/surveys/>)
- 2008 Consumer Products Sales Compensation Survey by the Western Management Group
(www.WMGnte.com)
- Phone Works VP Sales Compensation Report of Chief Sales Offices in B2B technology companies
(<http://www.phoneworks.com/resources/benchMarks/benchMarkVPSales2006.htm>)
- Linking Customer Satisfaction and Compensation
(www.gantrygroup.com)

6. Determine the right salary vs. incentive “mix” for your positions

The “mix” (base salary percentage vs. incentive percentage) of your sales staff’s total compensation should be appropriate for the level of independence and persuasion they exercise. The more responsibility (prospecting and qualifying, as well as closing) and personal or intellectual resources they need to make the sale the greater the “incentive/performance” portion of their total compensation. For example, if the company provides all leads and allows no negotiation by the salesperson (this is order taking) then an incentive component is inappropriate.

7. Design the incentive component simply

Keep it simple! *Don't try and incent everything with money.* If you can't explain it so the salesperson understands it, it won't work. Reward only that which is easily measured, ties to the strategy and is under the salesperson's control. For example, in some contexts it is correct to pay for leads generated even if all of them don't close.

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- ❖ Determine the two or three most important results you want to pay for. Decide on a payout. It can be a bonus, a commission or both. For example: “The salesperson will receive x% of the margin on each sale for all margin in excess of y% of the net sales price. In addition, they will receive a bonus of z% for every new account in excess of their new account quota.” [Don't forget the Sales Manager in this scheme – they should participate in enabling the sales people meet their/the company's goals – this is often called an “over-ride”, the incentive for the Manager.]



- ❖ Ensure that the behaviors you're rewarding are consistent with the business plan. Look for any possible unintended consequences or surprise behaviors, which may result. Adjust the plan to eliminate or reduce these behaviors.
- ❖ Determine the minimal level of "acceptable results". This becomes the point at which payout of incentive compensation begins. Assign any limits and clarify the timing of payouts. Ensure adequate feedback and objective reporting mechanisms are in place to measure results. It is often good to require sales people to report their efforts in specified ways in order to get their earned rewards, ex. when implementing a Sales Force Automation tool you can require that the reports on which compensation is based must come from the SFA, i.e., they must learn to use the SFA correctly.

8. Communicate the proposed plan to your sales staff

Show the "framework" or formula or draft to the sales staff and ask them for feedback. *Don't use any numbers.* This will keep them focused on what the plan is meant to achieve and they won't be distracted by its imagined impact on their compensation. [However, be prepared with realistic examples if the discussion is too focused on imagined negatives. See #9 below.]

9. Test the plan before you use it! This is Critical

Use the input you have received from your staff to modify the plan where it makes sense. *Plug in the numbers using historical data and projected targeted levels of achievement.* Select the numbers that provide both (externally) competitive compensation at targeted levels of achievement and an affordable share of the "cost of sales". "Cost of sales" can include some marketing expenses and gratuitous sales that occur due to the company being well known, large installed and/or repeating customer base, etc. Be reasonable and expect the same from the sales people. Let them know of #9 and that any problems will be fixed if they are material.

10. Evaluate the Plan.

Track the plan over a period of time. Determine whether it's creating the behaviors and driving the sales objectives you originally intended. If it is not, modify it and continue to evaluate its impact.

The development of a sound-sales compensation plan coupled with supportive, coaching relationships will produce rewarding experiences for everyone. Your comp plan for your sales force is just one of several aspects of modifying your sales and marketing activities to survive and prosper in a slowing economy. Contact Stephen B. Garner to learn how to raise your sales in a slow economy www.e-m-a.com, 503-313-4342 or 503-657-5859 / sbgarner@e-m-a.com.

Mr. Stephen B. Garner is the President of **Effective Marketing Associates** (www.e-m-a.com), which he founded in 1983. He has over 28 years of experience in management consulting with a sales and marketing focus.

His specialty is developing, implementing and training managers for Customer Lifecycle Management, Sales and Marketing integration, and Sales Automation/CRM programs or applications. He has implemented these business-improving activities in diverse sales/marketing contexts. Over the last eleven years about one third of his work has been devoted to integrating Sales Force Automation and Customer Relationship



Management Systems into various distribution and channel environments. His experience ranges from service and financial companies to many different high technology, manufacturing and distribution companies and industries.

He has a **B.S.** in Biology from **Princeton University**; a **Master of Science** degree in Biology and Human Physiology from the **University of Oregon**; and an **M.B.A.** in **Marketing** from the **Amos Tuck School of Business, Dartmouth College** (rated best MBA program in the USA by *The Wall Street Journal* in 2007).