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Be a Sales Compensation Leader

Attract, Motivate and Retain Top Sales Talent

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What keeps your Chief Revenue Officer awake at night?

- Achieving business unit growth goals.
- Staying ahead of customers' changing buying habits.
- Responding to competitor sales tactics.
- Ensuring the sales team is focused and motivated.

Fortunately, your CRO has many solutions to address these challenges, and a key solution is sales compensation. Getting sales compensation right has a consequential impact on sales success.

And this is where your opportunity lies – filling the role of an effective, strategic sales compensation program leader at your company.

Why Sales Compensation Matters

In the world of sales performance programs, sales compensation occupies the most prominent role. Sales compensation aligns sellers' efforts with company objectives. It's always "on," acting as a virtual supervisor confirming job performance expectations. It's an unambiguous statement of seller objectives. And, most importantly, it affects sellers' earnings.

Sales compensation is a powerful, motivating management program. Getting it right improves sellers' performance, but a poorly designed pay program can distract sellers and, in the worst-case scenarios, encourage efforts inconsistent with

89

Percent of sales reps leave because of compensation.

Source: SiriusDecisions

Sales teams spend over $800 billion annually on sales compensation programs.

management's objectives. Underpaying can cause turnover; overpaying drives up the cost of revenue acquisition and nonaligned plans can encourage sales efforts that hurt company outcomes.

Enduring Popularity

Sales compensation is a universally popular sales management program, and most sales personnel participate in an incentive reward program for achieving sales objectives. Regardless of industry or sales role, it has enduring popularity. Sales teams spend over $800 billion annually on sales compensation programs, almost five times the spend on digital advertising. *Source*: *Harvard Business Review*

Although more than 65% of companies rate their programs as effective on an annual basis, approximately 10% of all companies report their sales pay program as less than effective [*Alexander Group's Sales Compensation Trends Survey, 2022*]. There is a good probability that during a 10-year period, a sales compensation program will become "less than effective."

Why? Consider these reasons: plan features misaligned with company goals, complex and incoherent plan designs, poor administration and lax legal compliance.

Keen Stakeholders

Who cares about sales compensation? Surprisingly, a lot of your colleagues! While salespeople are the primary participant/stakeholders, here is a short list of the additional diverse population of keen sales compensation stakeholders.

- The **General Manager**, who wants to ensure sales team alignment with sales goals and achieve key strategic objectives.

- **Business unit leaders** want to confirm how sellers will best represent their products and services.
- **Sales leadership** wants highly motivated sales personnel to drive revenue production.
- **Sales supervisors** want a clear connection between sales efforts and sales rewards.
- **Product managers and marketing teams** want to ensure seamless alignment with production goals, marketing themes and digital communication.
- **Finance leadership** expects the pay program to be cost effective.
- **HR/compensation** is responsible for market pricing jobs.
- **Sales operations** manages the pay program on a day-to-day basis.
- **Commission accounting** processes the transactions to determine payouts.
- **Legal** wants all employee programs managed without violating company policies, regulatory rulings and state and federal legislation.
- And **IT** wants clarity on calculation rules.

200

Percent of sales reps' salary it can cost to replace them.

Source: Hire Velocity

Finally, of course, we recognize the ultimate stakeholders — the sellers themselves. Their wish list is simple: "Pay me for my performance." The added context includes: "Align my rewards with my sales objectives. Make payouts easy to understand. Pay me on time. Don't miscalculate the payout. And don't arbitrarily change the rules midyear."

Who Owns the Plan?

The challenge for sales compensation is that it has many "owners." As the stakeholder list suggests, different players have different accountabilities: plan design, program management, calculation administration, communication, reporting and assessment, automation and ethical and legal compliance. We would argue, without coordination of these diverse owners, sales compensation could falter and cause the pay plan to stop working or induce contrarian behaviors. In a worst-case scenario, a misdirected sales compensation pay plan could negatively impact the reputation of the company with glaring headlines.

The ultimate responsibility for the sales compensation program is sales management, the leaders of the revenue function. However, the program needs a "leader" to oversee its assessment, design, management and automation.

Sales compensation needs an informed leader to ensure program effectiveness. We suggest you step forward to provide oversight and coordination among stakeholders, program managers, administrators and contributors. An exceptional sales compensation leader coordinates these diverse stakeholders, updates pay plans to serve evolving objectives and ensures effective operation of administrative systems.

Who should be the sales compensation program leader? This is an excellent role for you.

Revenue Growth Challenge

Revenue teams increase revenue growth, improve sales yield and, when possible, reduce the cost of selling. They have two customers.

The first and most important are the product divisions. In smaller companies with one product line, the general manager or president ensures the target buyer populations are the focus of the sales team offering the right value proposition. In larger companies, multiple business units would work with a single sales team to offer diverse products to a shared buyer population. As expected, different product divisions with unique sales objectives significantly increase the complexity of the revenue team's role.

The second customer is, of course, the buyers. They also have various purchasing needs and buying preferences. Some might have a high interest in making an immediate purchase, others not so much. Some may want extensive seller involvement; others are ready to purchase via the web.

For a revenue organization to succeed, it must successfully address the needs of divergent product divisions and self-directed buyer populations. The sales organization needs to be agile and adaptive. Strategy, allocation of resources and performance management programs need to adapt as product division objectives change, customers shift buying patterns and competitors successfully disrupt well-configured go-to-market plans.

Welcome to the constantly challenging world of the CRO.

6

Months it usually takes to fill an open sales position

Source: DePaul University

Revenue Management Levers

Now let's explore revenue acquisition solutions, including sales compensation.

Given the competing objectives presented by business units and diverse buyer populations, revenue management has significant planning and management tools to successfully direct the revenue team. These include strategy, structure and talent management techniques.

- *Revenue strategy* planning includes market segmentation (identifying buyer populations for sales coverage); value propositions (segment-tuned sales messages); and revenue motions (who says what to customers when).
- *Revenue team structure* includes channel design (direct and indirect); organization and job definition (reporting structure and job accountabilities); and sizing and deployment (how much headcount where).
- *Talent management* includes getting and keeping the best talent (sourcing, onboarding and enablement); metrics and quotas (performance monitoring and supportive improvement); and performance and rewards (where sales compensation sits).

Sales Talent Management: A Family of Solutions

Sales teams are the most performance accountable work unit within a company. Flush with sales goals and trackable outcomes, the revenue organization employs a family of performance management programs to measure and improve seller performance including:

- **Talent Recruitment:** Getting the right talent is a cornerstone of a successful sales team.
- **Onboarding:** Accelerating new hire success is a critical investment.
- **Enablement:** Enabling sales talent includes training, digital tools, vehicles, mobile enablement, virtual tools and Wi-Fi access.
- **Reporting:** Giving sales talent information they need to monitor and improve their own performance is a cornerstone of self-development.
- **Supervision:** Providing management support, performance oversight, personal encouragement and just-in-time learning are the hallmarks of a successful first-line manager.

- **Performance and Rewards:** Finally, managing performance includes annual performance appraisals, monthly sales performance reporting, recognition events, contests/spiffs
- **Sales compensation**

In summary, sales organization talent lives in a world of accountable performance, supportive feedback and continuous improvement. Sellers engage in sales performance accountability beginning with self-assessment, successfully advancing sales pipeline opportunities, manager review of sales outcomes, coaching sessions and incentive earnings. Sales compensation plays a contributing and pivotal role in sales performance accountability.

Design, Administration and Governance Principles

Well-executed sales compensation programs use proven design, administrative and governance principles. These principles help align program design, ensure process execution excellence and specify a governance framework.

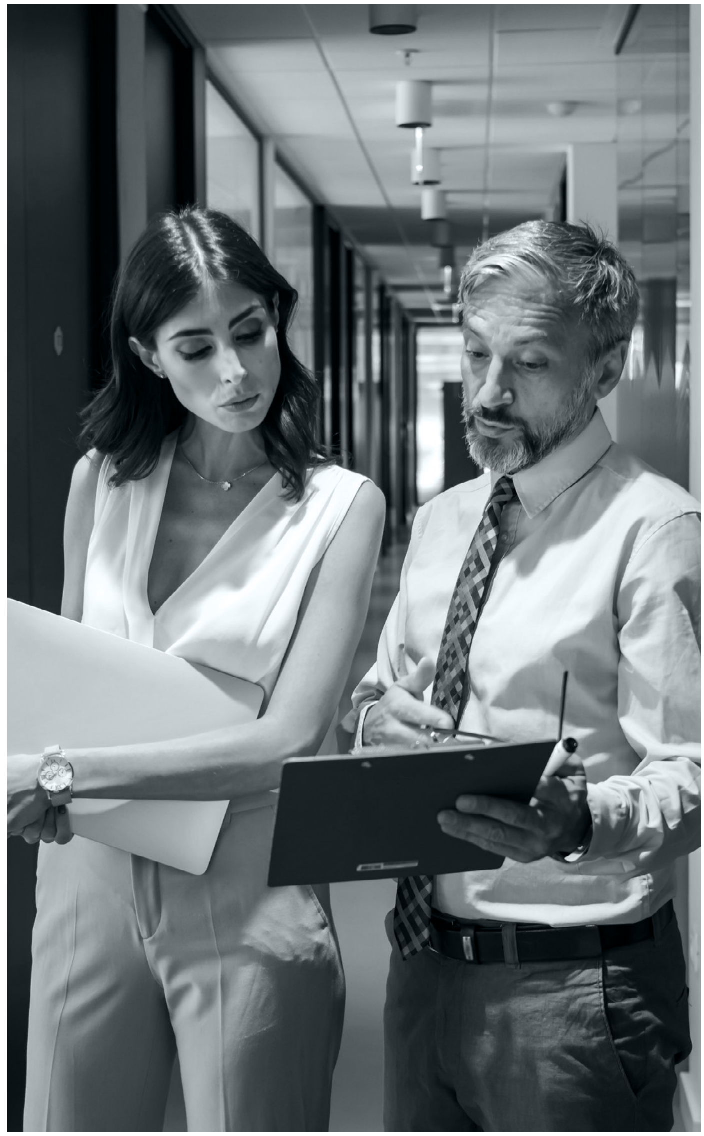
Design Principles.

Sales compensation design principles help guide the design of aligned and motivational sales compensation plans. These principles are universal and apply to all sales jobs. Each job will have its own unique sales compensation plan, yet will be consistent with these design principles:

- **Eligibility:** The sales job needs to have customer contact and be responsible for persuading customers to purchase to be eligible for sales compensation.
- **Target Pay:** Target pay is determined by the company's preferred competitive labor market position. Use industry market surveys to set the target pay level for each job.
- **Mix and Leverage:** Set the pay mix — the split of the target compensation — by the *degree* of seller persuasion. The more influence by the seller, the lower the base salary component. Set leverage — upside earnings — so that the pay plan rewards the best sellers equal to or better than the 90th percentile pay levels in the marketplace.
- **Performance Measures:** Select output measures of sales results. Use no more than three measures. Weight the measures based on their strategic importance.
- **Quotas:** Assign quotas based on historical sales results and future potential.
- **Pay and Performance Periods:** Align the payouts to be consistent with sales cycle length. Use cumulative year-to-date results to reward performance on an annual goal. Make payouts monthly or quarterly.
- **Account Assignments and Crediting:** Establish account assignment and reassignment practices and policies. Ensure quota adjustments reflect practical implications of account changes. Credit sellers at the point of their final influence. Split sales credits if one or more sellers impact the sales outcome.
- **Contests and Spiffs:** Use contests and spiffs for unique sales campaigns. Ensure they align with the sales pay plan. Avoid overuse of these programs.

Administrative Principles.

Successful sales compensation programs rely on numerous administrative and management systems to function correctly. Numerous players contribute to an effective process, including field managers, sales operations, commission accounting, internal auditing and IT, who provide automation solutions. Here are the process principles for effective program management:



- **Compliance:** A sales compensation program must follow its own rules, policies and practices. This includes crediting rules, calculations, reporting and company ethics and legal compliance.
- **Timeliness:** The sales compensation plan needs to provide rewards in a timely fashion. Once the company recognizes a sale for sales credit purpose, the pay plan should issue the incentive payment quickly and consistently with payout time commitments.
- **Accuracy:** The calculation of the incentive payments should be transparent and accurate.
- **Audit Practices:** Since significant sums of company monies flow through the incentive plan each year, regular internal audits will ensure the pay plan is following its own policies and administrative practices.
- **Governance Principles:** These principles outline responsibilities and actions to ensure the success of the pay plan.
- **Decision Makers:** Important decision makers need a process to influence and oversee the sales compensation plan. A responsibility charter specifies leaders' roles and ownership – division general manager, CRO, business unit leaders, finance, HR and legal.
- **Assessment and Review:** Regular program assessment and review will ensure the pay plan is contemporary with company strategy and expected sales outcomes.
- **Program Accountability:** "The buck stops here." The various program contributors have defined roles.

- — General manager drives company strategy.
- — Sales leadership defines the expected sales compensation outcomes.
- — Finance ensures program cost effectiveness.
- — Commission accounting produces the incentive payments and reports.
- — HR ensures competitive pay levels.
- — IT manages the calculation system.
- — Sales operations manages the pay program on a day-to-day basis.

- **Exceptions:** An identified management group addresses requests for exceptions to policies. These require documentation, review and a multilevel approval.

Completing this course series will help you immediately drive more impact, regardless of role. Better data, deeper analysis, stronger alignment, new design techniques, and a roadmap for better governance are all things to expect within the first three months. Best of all, you and your team will have a proven and independent framework for proven practice strategies and confidence in executing them.

Program Leader Role

We know sales management owns the sales compensation program. But who is responsible for ensuring all the diverse elements of the program are working correctly? The sales compensation program leader plays this role.

> **95% of WorldatWork learners think their courses are simple and easy to understand.**
>
> *Source: WorldatWork*

Take your next step with WorldatWork

The new Sales Compensation course series from WorldatWork delivers a framework and core skills that will enable you and your colleagues in sales and finance to build sales compensation plans that motivate business growth.

The three courses cover each essential phase of the process, from strategy alignment to developing, building, costing, and communicating the sales compensation program and there is a specific focus on "what works" and what drives desired results, as well as strategies to continuously evolve and improve program performance.

The course series will also help you learn or review the body of knowledge for WorldatWork's Certified Sales Compensation Professional exam and receive the industry recognized CSCP certification designation.

Sales compensation is too important to leave to chance – develop in-house expertise and see the benefits multiply each year for your sales team and business overall. Learn more about the new Sales Compensation Course Series here.

2.5m

Number of open sales positions in the United States

Source: ZipRecruiter

This single point of contact helps coordinate all the contributing resources, elements and constituents to ensure the program is operating in an optimal manner. The role is less about which department provides this leadership. This function could be sales operations, HR or finance.

A sales compensation program leader provides oversight to all the elements of a successful program: design, assessment, management, administration, audit and automation. While individual departments and assigned personnel will execute sales compensation program components, the sales compensation program leader will ensure they work as a unified whole. This individual/function will provide the foundational governance to monitor, improve and operate the sales pay program.

Establishing Your Charter

The easiest path to program leader status is executive sponsorship; senior leadership appointing you as the leader. What if senior management support is absent? Your next step is to present a winning case to stakeholders to assign you as the program leader. How do you accomplish this? By being competent, compelling and consequential.

- **Competent:** You know the subject of sales compensation and its intricacies. Sales compensation is a learnable subject; however, it has many elements and subcomponents. There are multiple means to gain sales compensation domain knowledge: experience, books and classes.

  Gain experience by helping others conduct assessments, gather and analyze market data, cost model new plan designs and help prepare plan documentation and communication collateral. Each fiscal year planning cycle provides another opportunity to gain advanced competencies.

  Consider these books for additional learning: *Compensating the Sales Force, Third Edition* (Cichelli), *What your CEO Needs to Know About Sales Compensation* (Mark Donnolo), and *Sales Compensation Solutions* (Chad Albrecht, et al).

  If you prefer a traditional classroom learning experience, WorldatWork's new sales compensation course series covers everything you need to know and sets you up to achieve the Certified Sales Compensation Professional designation, a rigorous certification that distinguishes you from industry peers.

- **Compelling:** You are the advocate for an effective sales compensation program at your company. You're also an advocate for yourself. You will have to demonstrate to stakeholders why the company needs a sales compensation program leader; and why they should assign this role to you. You will need evidence: a full inventory of current worldwide plans, an assessment of current practices plan by plan, comparison to market indicators, review of plan clarity and alignment with company objectives, insightful multiyear quantitative metrics, a suggested governance model and an annual sales compensation planning schedule. Finally, to demonstrate your subject matter expertise, you should conduct sales compensation training sessions with senior leaders. Educate them on how sales compensation works and market trends, review the company's practices — what's working and what is not working — and suggest a list of program improvement opportunities.

- **Consequential:** Your efforts should result in improved sales outcomes. Administrative improvements are noteworthy but improving seller results is the test of your impact as the sales compensation program leader. Present multiyear trends showing growth in sales, reduced cost of selling and successful strategic results. Provide quarterly updates on sales outcomes, program exceptions, quota performance, sales crediting compliance and account reassignment impact on pay.

Process and Program Management Skills

In addition to your sales compensation domain knowledge, you will need to offer strong process and program management skills. Process skills are the art of bringing together divergent stakeholders and helping them reach consensus. The most successful sales compensation plans have support from sales, marketing, finance and HR leadership. Having these leaders participate in sales compensation planning and design sessions ensures awareness, engagement and commitment.

Program management skills require fully documented time-task charts with accountabilities and due dates, including monthly administration and payments, audits, assessments and the annual redesign process. Communicating the program management schedule and milestone to stakeholders will increase confidence in the pay plan and in you as the program leader.

Continuous Assessment

The health of the sales compensation program requires continuous assessment, both qualitative and quantitative.

Qualitative assessment includes meeting with senior leadership to confirm how well the current sales compensation plan aligns with company objectives. Interviews with field managers help evaluate program application. Interviews and surveys of plan participants provide insights into program application and adoption.

Quantitative assessment requires performance data to reveal quota performance, pay dispersion and labor market alignment.

Here are three charts you need to prepare:

1. Market Comparison Chart
2. Pay and Performance Dispersion Chart
3. Quota Outcomes

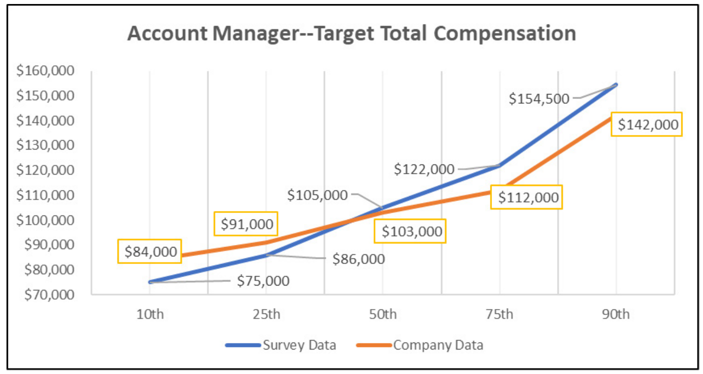


Chart 1: Market Comparison Chart

Compensation planners want to ensure target pay levels are competitive with labor market rates and consistent with internal company practices.

For each job, prepare a percentile comparison chart.

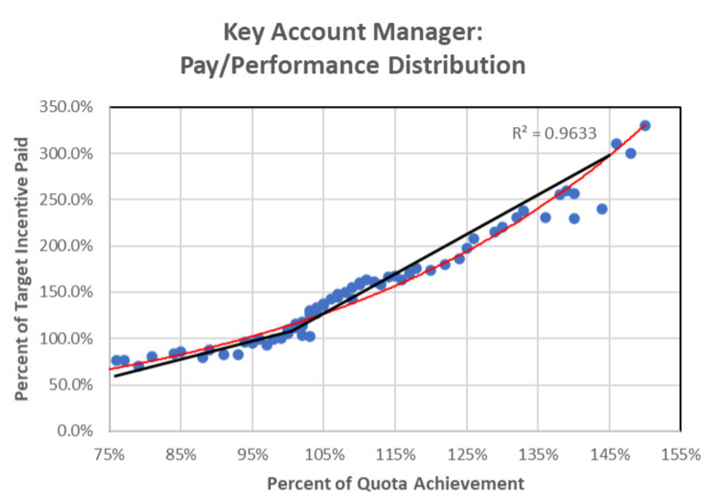
Of interest, the pay variance between the company's target pay level and the market is almost alike at the median (50th percentile): $103,000 for the company's data and $105,000 for the survey company's data. However, looking at the full data set, the account manager's target compensation levels are above the market for pay practices less than the 50th percentile, and less than the market practices above the market 50th percentile. This confirms that looking beyond the median or average is necessary when assessing labor market pay data for sales jobs.

Why Prepare? This chart provides a visual picture of the competitiveness of the company's target pay practices. Another version of this chart displays actual annual payouts versus market practices. Again, prepare this chart for each job. Compensation managers should correct variances between company practices and survey data consistent with pay increase policies and cost limitations.

Chart 2: Pay and Performance Dispersion Chart

Does pay match performance? The best method to evaluate pay/performance distribution is to plot actual practices. In the following chart, performance is expressed as percent of quota achievement. Plot each participant's pay/performance outcome: how they performed and what they got paid.

As the R^2 of .9633 suggests, there is a close connection between pay and performance. However, above 100% quota, several performers were paid below the target payout trend line. Next step: Investigate why these high performing sellers received less than the anticipated payout. While this example displays variance between pay and performance, the difference is minor. Most likely, the cause is non-consequential but worthy of investigation. Make suitable corrections if necessary.



Here is an example of a poor relationship between performance and pay:

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In this commission plan, there is a very low R2 of .3649 suggesting a minor relationship between pay and performance.

Why Prepare? The pay/performance dispersion chart shows how the pay plan paid each participant as compared to expected payouts. Any variance requires further investigation to determine the source of the disparity between pay and performance.

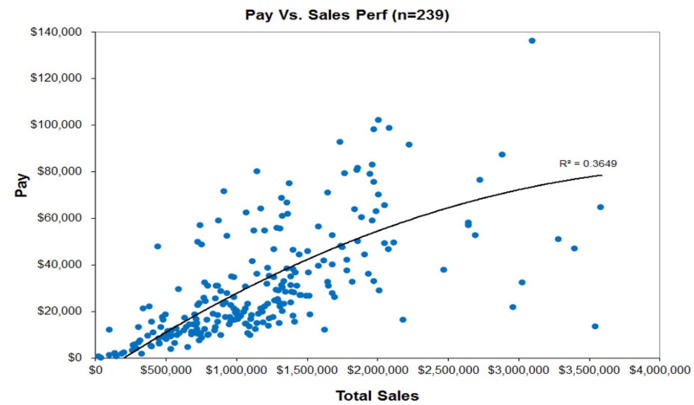
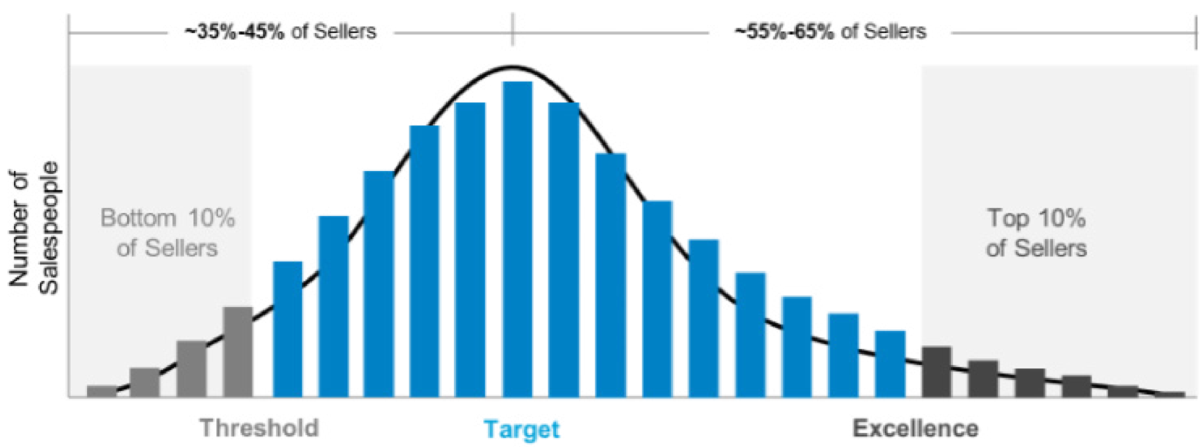


Chart 3: Quota Outcomes

Many sales compensation plans tie payouts to quota performance. This places a heavy burden on ensuring the quotas are equitable, reasonable and balanced. No quota system is perfect. However, well-functioning quota systems produce a preferred distribution of performance.

While practices vary, most sales executives anticipate that 55% to 65% of all sellers will achieve quota. Although this may be the objective, the outcome is closer to 50% of the sellers' achieving quota. [Source: The Alexander Group's *2022 Sales Compensation Trends Survey*]



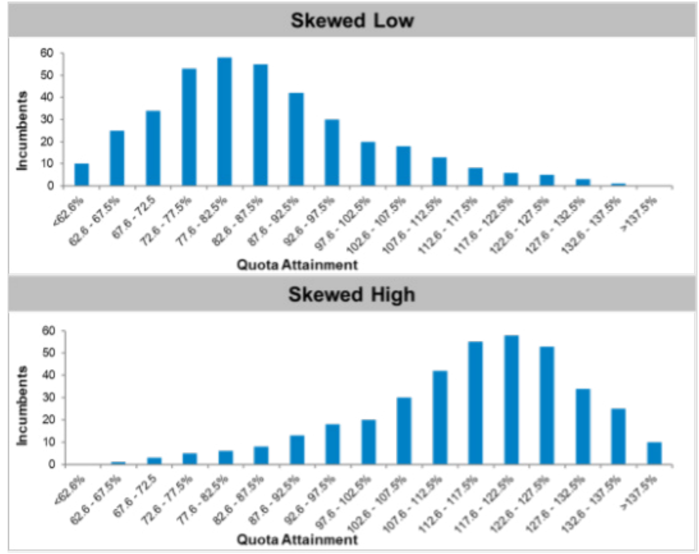
Best Practice/Desired Quota Distribution

- 90%-95% of salespeople reach threshold level
- 80%-85% of salespeople perform between threshold and excellence level
- 55%-65% achieve or exceed target or "at-plan goals"
- 5%-10% of salespeople reach excellence level
- Bottom 5%-10% enter performance improvement program

When plotting actual results, look for any skewing of the data:

Too much skewing left means the quotas are too hard. Too much skewing right and the quotas are too easy.

Why Prepare? Quota charts can identify successful quota practices. They will also identify quota systems that are hurting sales compensation outcomes. Unfortunately, these charts will not answer "why" the quota system is not functioning correctly. But they will identify when quota for a specific job is misaligned with the preferred outcome. More investigation is necessary to identify the source of the quota variance from preferred outcomes.



Managing the Annual Design Process

Ninety percent of all companies change their sales compensation plans on an annual basis. Most of these changes are minor adjustments to the current pay plans. And, as stated before, about 10% embark on a major redesign effort.

Job focus changes drive minor changes, often changing the performance measures and their weight for a specific plan. Changes in sales strategies, mergers and acquisitions, and woefully dated sales compensation plans drive major changes to the pay program.

Best practice is to adopt an annual review process, which uncovers the need for minor and major changes. Follow these steps for the annual design cycle:

Step 1. Fact Finding and Assessment.

Gather all the performance data. Create analytical charts. Interview field managers and sales personnel confirming job content and extent of current program alignment with assigned job duties. Analyze current pay practices compared to labor market data. Review compliance of policies on sales credits, account reassignments and program exceptions. Interview senior executives to discover successes and challenges with the current pay program. Collect sales objective themes for the next fiscal year.

Step 2. Senior Leadership Steering Committee.

Meet with senior stakeholders — sales, marketing and finance — to confirm the company's sales compensation principles. Provide feedback on current program performance. Share sales performance analytics. Reach consensus on the next fiscal year pay program objective.

Step 3. Design Committee.

Convene a sales compensation design committee of six to eight professionals from sales, sales operations, product management, finance and HR. Have this committee review

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the current program and confirm senior leadership's objectives for the next fiscal year. Review all plans. Adjust where necessary. Design new plans as required. Cost the new designs given various levels of projected performance. Determine potential impact on individual sellers' pay for the next fiscal year. Review and secure approval of the preliminary designs with the senior leadership steering committee.

44%

Percent of sales reps that plan to leave their jobs in two years.

Source: Deloitte

Step 4. Implementation and Communication.
Develop an implementation schedule. Create formal plan documents. Develop participant rollout collateral. Train field managers. Conduct cascading communication messages beginning with the CRO, who communicates the new fiscal year ambitions. Have field leaders present plan feature summaries. Direct first-line sales managers to meet one-on-one with participants to explain the new pay plan and how they can succeed.

Step 5. Automation.
Ensure the automation team has plenty of time to update the plan calculations, new policies and crediting rules. Test the automation solutions well in advance of first payouts to address any calculation errors or reporting challenges.

Your Sales Compensation Career

There are multiple points of entry for a sales compensation career. It might be as an analyst helping to gather and report performance data, interviewing field sellers and preparing assessment reports.

It might be a single-year assignment to help with any of these redesign efforts: fact finding, assessment, steering committee support, design team engagement, implementation schedule, communication collateral and automation confirmation.

Or it might be a mid-career assignment helping your company reach its revenue goal. Being the sales compensation program leader for several years can propel your career in HR to becoming the leader of total rewards, a sales operations' executive or a revenue finance leader.

Finally, for companies with thousands of worldwide sales personnel, sales compensation expertise can open the door to becoming a vice president-level contributor with a department of sales compensation professionals. In this role, you will help numerous sales teams reach their sales objectives with the right sales compensation program.

These are just a few examples, but don't doubt that the opportunities are out there, and the expertise is always in-demand.

Summary

Sales compensation at your company needs your help. Get educated with sales compensation books and courses like those offered at WorldatWork.

Then advocate for yourself and offer your services. Provide a framework for effective program assessment, design and adoption. Work with your colleagues to set your company up for success and your sales team up for goal achievement – let the result of your work speak for itself.

Every company needs a sales compensation program leader. We want that to be you!

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