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Sales Compensation FOCUS

9 Steps to Create a Shiny New Comp Plan for Your New Sales Role

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You have a new sales role on your team. Maybe it's your company's first foray into Inside sales, or maybe you just approved a requisition for a new channel manager role. Even if your business has several sales roles already, when you have a new role you'll probably need a new compensation plan. To set things up correctly from the start, follow these steps:

1. **Document the key characteristics of the role**
   Sales compensation is role-based compensation, so it will be important to understand what the person in the role is expected to do, as well as the skills and experience he/she needs. These role characteristics will help you match the role correctly to market data and determine the appropriate total compensation level.

2. **Establish target cash compensation (TCC)**
   In addition to external compensation survey data, also consider the pay levels of similar roles in your business, the pay levels of the person's managers and subordinates if applicable, and the pay level required to attract outside talent to the role.

3. **Determine pay mix**
   The primary determinant of pay mix is the degree to which the salespeople in the role cause the results on which they are measured, independent of the brand, the breadth of the product offering, the pricing, the product features, etc. The more direct influence the salesperson has on the sales results, the more risk (and upside) is appropriate in the plan. For a new business salesperson with a great deal of personal influence over sales results, the pay mix may be 50/50 (50% of TCC in the base at midpoint and 50% in the incentive at target). For an inbound inside role with responsibility to respond well when the phone rings, but little control over the calls that come through, the pay mix may be more like 80/20. For most sales roles, the range of appropriate pay mix is from 50/50 to 80/20. Pay mixes more incentive-rich than 50/50 may result in aggressive and short-term sales behaviors and limited ability to manage the sales person other than through the compensation plan. Pay mixes more base-rich than 80/20 rarely provide enough risk and upside to effectively focus behavior and drive results.

4. **Select incentive measures**
   Select one to three measures of sales contribution that reflect the top priorities of the role. Ideally, they are financial measures that may be tracked in your existing system's sales plans and should always have a volume measure (such as revenue, margin dollars, units sold, bookings). They should usually have a measure of sales quality in recognition of the fact that not all sales dollars are equally valuable to the business (such as margin percent, new account sales, sales of important new offerings). Sometimes it is appropriate to include a measure that rewards collaboration (such as team results). In the case of long-cycle sales roles, a sales milestone objectives measure may be used. Remember that the measures are there to focus effort, so fewer is better, as long as the key accountabilities of the job are covered.

5. **Weight the measures**
   Each measure is assigned a weight so that they add up to 100%. The weights should reflect the relative time that management would like to see spent on each measure. For example, if a salesperson has one measure for total revenue and another for new account revenue, and if the intention is for the salesperson to spend about two days per week in pursuit of new accounts, then a weighting of 60% on total revenue and 40% on new account revenue would be appropriate.

6. **Determine the payout rates**
   For each measure, first assign a goal or quota for what performance is expected. The goal should be a challenge, but one that is attainable by a salesperson in the role who is doing a solid job. The "base rate" for the plan is then calculated as the target incentive divided by the goal value. For example, if a salesperson has a $40,000 target incentive for a revenue goal of $800,000, then the commission rate would be $40,000 / $800,000 = 5%. The plan may be communicated as a commission (percentage of what is sold), or as a goal-based incentive or bonus. That same plan could be paid as $400 for each 1% of the goal achieved, so that at 100% of goal, the salesperson has earned 100 percentage points x $400 = $40,000. Most early-stage businesses tend to use commission plans where the payout for each sale is clear. More mature businesses may move to a goal-based incentive with a stronger emphasis on goal attainment, and potentially with different combinations of target incentives and goal amounts from one person to the next, even in the same role.

7. **Adjust the rate with accelerators and decelerators**
   To reduce payouts for under performance, consider the use of thresholds (a level of performance below which no compensation is earned) or decelerators below goal (e.g., pay 80% of the base rate calculated above up to 50% of goal, then 120% of the base rate from 50% to 100% of goal). To motivate goal attainment, accelerate the payout over goal; typical over-goal accelerators range from 150% to 400% of the base rate. Calibrate your acceleration to offer two to three times the target incentive for truly outstanding ("excellence") performance. And consider decelerating the rate over excellence to protect against runaway payouts due to questionable goals or windfall sales.

8. **Test the plans**
   Do some calculations to check the payouts across the full range of likely outcomes, and make sure the results seem fair to both the salesperson and the business, and adjust acceleration and deceleration as needed to correct problems revealed by the testing.

9. **Communicate**
   Document the plans clearly, with good examples, so that the salesperson understands them and finds them motivating, even exciting. Be sure to leverage that teachable moment when the plans are communicated to discuss the salesperson's earnings goals, and the opportunities in the territory or assignment that will enable that person to meet the goals. Maximize the motivational value of the plans throughout the year with great reporting, coaching (if performance flags) and celebration of successes.

About the Author

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