Wilson Group 2017-2018 Sales Compensation Practices Survey Report

WILSON GROUP, INC.

2017

Authored by: Tom Wilson, Susan Malanowski, Rhonda Farrington, and Lisa Nivison

Wilson Group 2017-2018 Sales Compensation Practices Survey Report

Table of Contents

Introduction and Executive Summary

We are pleased to present this special Report on Sales Compensation Practices. This document will provide you with a thorough examination of how sales compensation plans are structured for those in critical roles within a company. We hope you find the information of great benefit, and that this provides the necessary information and guidelines to help you assess and/or design highly successful sales compensation plans for your organization.

People in sales roles are becoming more critical to an organization's success. While they have always been important, they are becoming more central to the success of a company because of the increasing level of competitiveness in virtually every industry. While a company may believe that it has a winning strategy, the effectiveness of the sales people is often the determining factor of this success. Sales people translate your business strategy into "boots on the ground"; they communicate and build relationships with customers to achieve the company's desired results. Finally, they are often the link between the company and your customers, and can be the conduit from the customer on how well you are implementing your strategy, providing best-in-class customer service, and creating value for the customer.

It is often said that if you put a "good" person into a "bad" system, the system will win every time. Because sales compensation plans have such a high influence on the behaviors and beliefs of the sales force, it is imperative that it works well for both you and them. The purpose of this Report, therefore, is to provide you with information and guidance on how to design these plans so they work. They work for you and they work for sales people.

This Report is the summary of a special survey conducted by the Wilson Group in the Fall of 2017. We had approximately 20 companies participating in this survey representing a broad spectrum of New England industries – technology, manufacturing, financial services, professional services and retail. This Report summarizes the responses of these organizations. Because we know the importance of this information, we have supplemented the data with survey and research data from a wide variety of sources. These are listed in the Appendix of the Report and cited within the context. In this way, we feel we are bringing to you the latest thinking and insights on what makes sales compensation plans work, when to apply certain elements and features, and how to manage these programs so they create their intended value.

If you would like to discuss any questions arising from your review of this Report, want to discuss your specific situation or have questions, we here at Wilson Group would enjoy speaking with you. We look forward to discussing and helping you address the critical questions you have regarding your sales compensation plans. See the Appendix for background information on the Wilson Group.

Executive Summary

Key Insights Gained from this Survey and Research

1. **<u>WHY</u> Performance is rewarded is based on the business and sales strategy of the company, which at times is not clearly understood by sales professionals.**

Some people think that what gets measured gets done. But in fact, companies measure many things, and not everything gets done. Only those measures that have some form of reward or punishment associated with them get done. This is dramatically clear in sales compensation plans. Because people who are attracted to sales roles tend to value frequent and meaningful rewards, the compensation plans often have higher influence on their performance than what one might find in the operations, research or administrative roles of an organization. This came through in our survey results, in how much time and effort is invested in the design, management and assessment of these reward/compensation plans. There is stronger emphasis on identifying the right measures, in setting the right goals or quota, and in designing the mechanics of the sales compensation plan. Throughout this report there are many choices to be made in how the plans are structured. The important principle to an effective sales compensation plan is to remember **<u>WHY</u>** you are doing this – what are your critical objectives? We found in both the survey results and our direct experience with clients that those who are clear about these meaningful objectives, and make sure the plan is clearly aligned with these objectives, have ultimately a more effective sales compensation plan and successful sales people.

2. **Sales compensation is more than just a way to pay people, it encourages and reinforces behaviors – you get <u>WHAT</u> you pay for!**

The survey results and the additional research provided in this Report provide an important message. When you select certain measures, provide a specific amount of income based on a defined set of goals or quotas, and you supplement these with other elements of compensation, you can create a winning combination. Designed well, it will attract certain types of people – personally driven or collaborators, action oriented or relationship oriented, achievement focused or protective oriented, or many other definitions of behavioral attributes. Further, the plan document and how you communicate the plan can also have a dramatic impact on how people view their relationship with your company. Does the plan document and communication encourage people to achieve and provide them with helpful hints on how to win? Do these materials communicate that the company wants to protect itself from actions of irresponsible people or set goals that look good to top executives, finance and the Board, but are impossible to people generating new business? The companies that participated in this survey shared some of their best practices on how they encourage and reward key messages. We have described them throughout sections of this Report.

3. **Companies are continuing to put an emphasis on <u>WHERE</u> sales originate and how this supports their Go-to-Market strategy.**

We found from this research that companies are integrating their sales strategy into their sales compensation plans in a more direct and specific manner. For example, the use of targeted commission plans or modifiers to commission payouts based on whether the business came from an existing or a new customer have become more prevalent. A dramatic number of companies are looking to renew, expand and develop new business from their current customers. This is built into their sales compensation plans. Also important is the emphasis placed on acquiring "new logos" or acquiring new customers as part of their plans. These strategies were one of the most important insights we gained from this survey.

4. **<u>HOW</u> sales people are paid communicates the sales culture and strategy from incentive eligibility to payout opportunity.**

Sales incentive plans usually apply only to those in frontline or direct sales. These roles most typically utilize commission mechanisms to pay as a percent of sales relative to annual quotas, and bonus mechanisms that reward quarterly quota attainment or other achievements. It seems counterintuitive, yet most organizations today are providing merit increases to direct sales and sales management roles. A 3% increase in either base or on-target earnings seems miniscule compared to what some can earn in incentives. Although not captured in this Report, companies with sales roles that have 60% to 100% of their income based on sales performance may not be making merit increases available to their sales people. Merit criteria focus on the administrative elements of the role, such as preparing sales Reports, addressing customer concerns or learning about new products.

Although there is an emphasis on best practices, incentive design can be company specific and is defined by the business and sales strategy of the company. This is reflected in the performance measures used and how much weight is placed on them in determining the amount the sales person is paid. The use of the commission and bonus in combination with each to ensure your organization can successfully achieve growth or achieve other marketing objectives.

5. **<u>WHEN</u> salespeople should be paid is a strategic element in the design of the sales compensation plan.**

Companies may prioritize their own needs and systems rather than thinking about the impact of the pay frequency on the behaviors of their sales people. The competitive practice for companies to pay when an order is booked helps minimize the time between the sale and the payout. Further, new regulations on FASB ASC 606 are reshaping how companies determine and compensate for “recognized revenues”. When the incentive payments are high or highly dependent on the commission generator, the more frequently the company pays. However, this often reinforces a transactional as opposed to a developmental relationship with the customer. Sales people often like to live on their total cash compensation; they like the reinforcement of frequent rewards. This may run counter to a growth strategy to expand and develop existing customers and acquire longer-term deals. So, the challenge for sales management and the designer of sales compensation plans is how to create them in a way that encourages the actions that will lead to success and enable you to attract and retain people whose talents align with your company’s strategy.

Sales Strategy and the Design of Sales Compensation Plans

There are many ways to design a sales compensation plan, but not every way is “right”. There are fundamental business, behavioral economics, and practical principles that will determine whether a sales plan is effective or not. The key question is whether your sales compensation plan is encouraging the right behaviors to produce the desired results. It is just that simple and that important.

The design of the sales incentive plan therefore should follow the process outlined in the chart below.

While this Report will focus on the middle-stage: “Design of the Program,” much of the guidance on how certain elements of the sales compensation plans are structured is based on the preceding stages. Some of the questions that are helpful in establishing this background include:

1. What is your business and sales strategy, including:
    a. Growth or profitable growth
    b. From new or existing customers
    c. With retaining or expansion of the products/services within existing customers
    d. For short term contracts or long-term contracts
    e. Through personal initiative or collaborative action by those involved in the sales?

2. What are the roles and responsibilities of your sales professionals, including:
    a. Generating new leads or receiving leads from other internal/external sources
    b. Developing quick transactional relationships or building long-term relationships
    c. Controlling every element of the sales or collaborating with others to achieve the sale
    d. Retaining the client once acquired or handing the customer off to others to manage and develop over time
    e. Addressing the interest and preference of the customer or long-term needs and strategic imperatives?

3. Based on these factors, what are the critical objectives of your sales compensation plan?

These are some of the elements that define major differences in how companies design and manage their sales compensation plans. As you read this Report consider what is working within your company and where are your plans in alignment with (or not) your business strategy, desired sales process, and the roles of your sales professionals. Also, consider whether the talent that your sales compensation plan attracts and retains is consistent with your needs as a business going forward. In this way, the company can realize the benefits of a highly effective sales compensation plan.

Roles Eligible for Sales Incentives

Roles that have an influence on winning sales/revenue for the company are usually included in sales incentive plans. Direct sales roles are most common, followed by inside sales, sales management and account manager roles. According to Ron Burke and Scott Cullen of Towers Watson, jobs that play more of a technical specialist role tend to have less participation in sales incentives.[1]

Outside of direct sales, trying to determine measures with the best line of sight to the role's influence on the sale can be challenging. For example, should sales engineers be measured on individual or team revenue measures? The role could be organized to be aligned with the same accounts of a direct sales role or be expected to work with multiple sales people in a region. When line of sight is significantly removed from individual sales/deals, then it may be appropriate to remove these roles from participation in sales incentive plans. Instead these roles may be part of a general, corporate incentive focused on customer service or job specific non-sales goals.

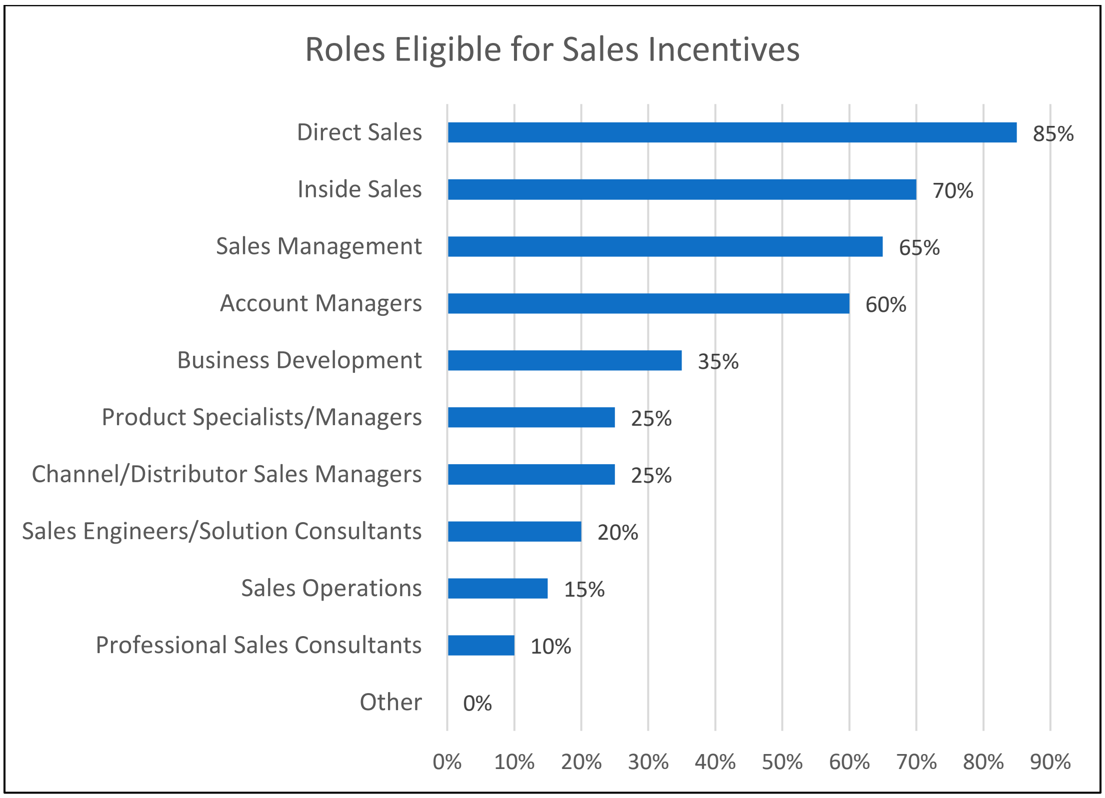

FIGURE 1: ELIGIBILITY FOR SALES INCENTIVES

In the Wilson Group survey, we collected information on three sales roles – Direct Sales, Account Management, and Sales Engineer. Throughout this document, we have provided commentary and survey results on each of these roles by topic, such as the use of accelerators, to compare the similarities and differences. For each of these sales roles, Account Executive, Account Manager and Solutions Consultant were the most prevalent titles. The following charts show the titles companies use under each of the broad categories of positions in the survey (Direct Sales, Account Management and Sales Engineer or Solutions Consultant). This will give you some sense of the different roles involved in the sales organization.

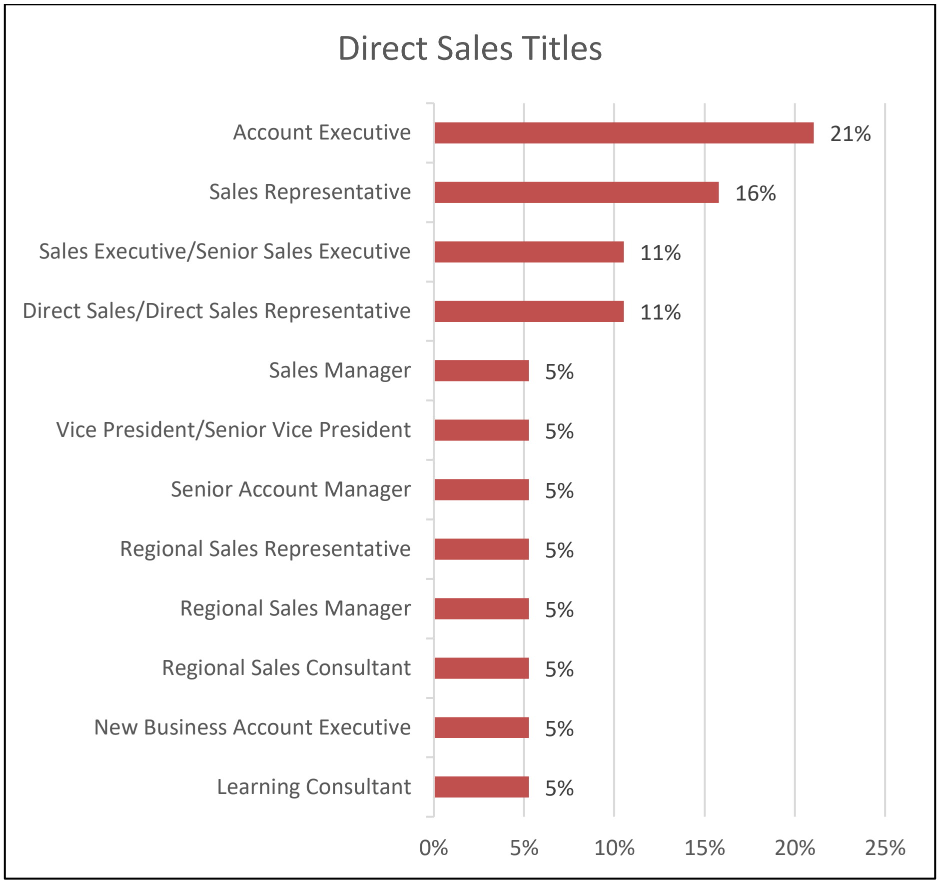

Figure 2: Titles in Direct Sales Roles

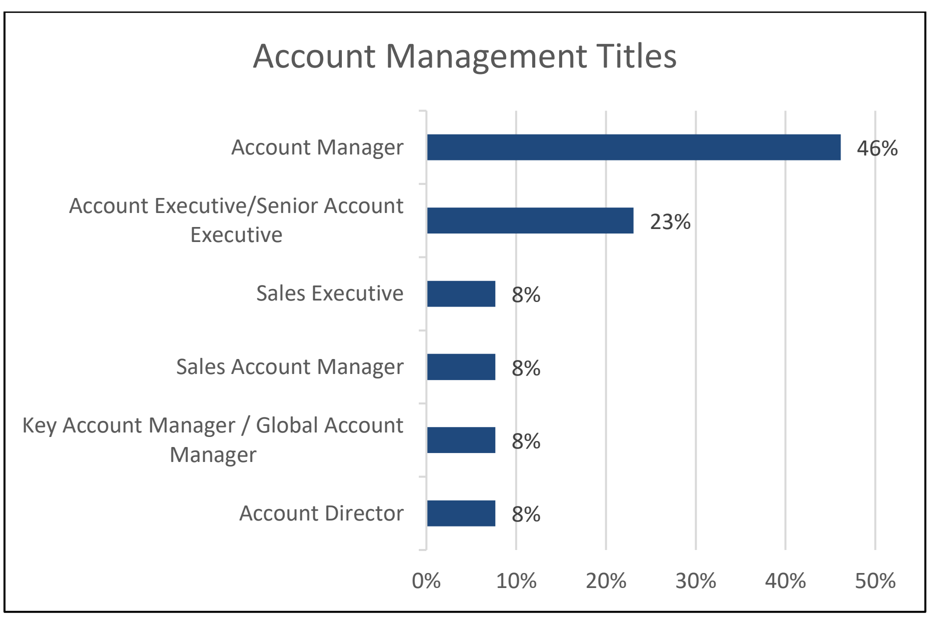

Figure 3: Titles in Account Manager Roles

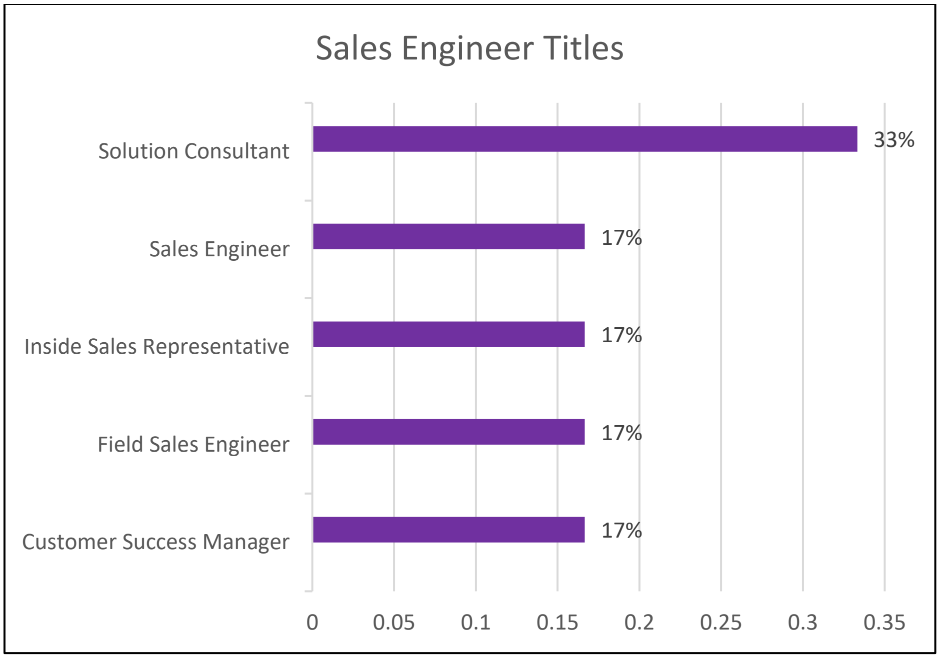

Figure 4: Titles in Sales Engineer Roles

The Desired Mix of Compensation

While the results of most surveys, including ours, are consistent about the relationship of base salary to incentive compensation (mix), there are some very important behavioral economic principles that need to be considered in the assessment or design of sales incentive plans. The table below shows the results from two surveys regarding the mix of compensation (as a percent of total on-target earning) for three positions (included in our survey).

Source	Compensation Element	For Direct Sales Representative	For Acct Mgmt. Representative	For Sales Engineer
Wilson Group Sales Survey	Base Salary	60%	70%	72%
	Variable Pay	40%	30%	28%
WorldatWork Sales Comp Survey[2]	Base Salary	57%	63%	
	Variable Pay	43%	37%	

Figure 5: Mix of Compensation by Sales Roles

On balance, the incentive opportunity is usually consistent with or slightly less than base salary. When creating a target incentive, you can use a fixed dollar or a percent of salary. The percent of salary is often the most common approach.

Too often clients get the math wrong. They think that 40% of total pay is the same as a payout target that is 40% of base salary. There are two ways to calculate this:

1. Calculate the target payout in dollars by multiplying 40% times the target total cash compensation you have for the position.

2. Translate the 40% of total pay into percent of salary. The 40% mix target equals 67% of base salary (Example: $100,000 total pay, with $60,000 in base and $40,000 in incentive. Divide the $40,000 by $60,000 and you get 67%. Make sense?).

Which number you use depends on what you want to communicate to the sales person and how you wish to budget and plan for the compensation expense. Once you have determined the right target incentive amount, the other elements of the sales compensation plan determine HOW the sales person will achieve this target. Before we examine the mechanisms for determining the pay, let's look more closely at what should determine the mix.

What should determine the right mix of compensation?

The answer to this question is based on three key factors – the market practice (i.e., what a company would need to pay to be competitive in the market), the nature of the task to achieve the sale, and the company's situation or philosophy. The previous chart (Figure 5) shows market practices, although this may differ by specific industry; in our experience, there may be some variation on these target ranges, but there are other factors that are more important in determining the right mix of compensation.

The nature of the task is described in the following chart (Figure 6). This chart provides a framework to consider when determining the right mix of base salary vs. incentive for your sales organization. Let's explore this through a series of questions you can ask about your sales process and roles:

1. **To what extent does the sales person influence the selection of your company for the contract?** In some roles, this is high. The sales person develops the contacts, relationships, determines the customer's needs, offers the right solutions, overcomes objections and closes the deal. In other situations, the sales person may be the quarterback of a team to develop opportunities, conduct demonstrations, orchestrate prototypes, guide the proposal development, and facilitate the decision.

2. **What is the size of the sales opportunity?** If the sale is relatively small perhaps under a few hundred dollars, then obviously this is considered a small opportunity. If the sale is a multi-year or a major expenditure requiring thousands or millions of dollars, then this is a large opportunity. The size of the sale clearly impacts who and what are involved in that sales process and what it will take to acquire the sale.

3. **How many customers does the sales person have?** When there are many customers, the sales person may have short-term or transactional relationships with the customer. They may or may not even need to know their name. When there are a few customers, then the relationships and knowledge of the customer's business conditions and pressures need to be deep. This defines how the sales person usually spends her or his time to get the desired results.

4. **How complex is the decision to make the sale?** A decision that is small and obvious is considered simple. A decision that takes a lot of analysis, comparisons, and demonstrations is complex. This is another key indicator impacting the level of effort and work of the sales person.

5. **How long does it take to complete a sale?** Simple, easy sales decisions can be made quickly. These do not require much effort, and the buyer usually makes the decision on an impulse rather than through a thoughtfully considered decision process. Decisions that are months to years in the making are obviously larger, more complex and more involved.

Examples of decisions at the lower end of the scale are things like personal purchases – books, music, household products, groceries, cosmetics. These may be made at home, in a store or on-line. Decisions that are at the higher end involve major capital equipment, long-term enterprise systems, major constructions or long-term service relationships. What kind of jobs does each require? Sales jobs that are like Mary Kay Cosmetics, a retail sales person, a subscription sales person, have a high mix of incentive pay. The key to successful sales performance (and desired sales income) is all about the effort, ingenuity and efficiency of the sales person and his/her time. In contrast, a sales role that has the opposite characteristics, like one who sells enterprise systems, major capital equipment or very long-term contracts, usually have a much smaller incentive opportunity in proportion to their base salary. In both cases the individual may be paid the same total cash compensation, but the way this is earned is very different. The mix reflect the very nature of the sales job.

Finally, the company's overall business and total compensation philosophy will define the level of risk, secured income, and income opportunity associated with different levels of performance. Certain positions require a total compensation that pay a premium or very competitive market position because of the challenges to achieve desired sales. One may have a salary that is competitive with the market (such as at the median) but a total cash compensation objective that is very high in the market (75th to 90th percentile) because of the value of the sales performance. Taken in combination, these are the factors that should lead to the "right" mix of total compensation.

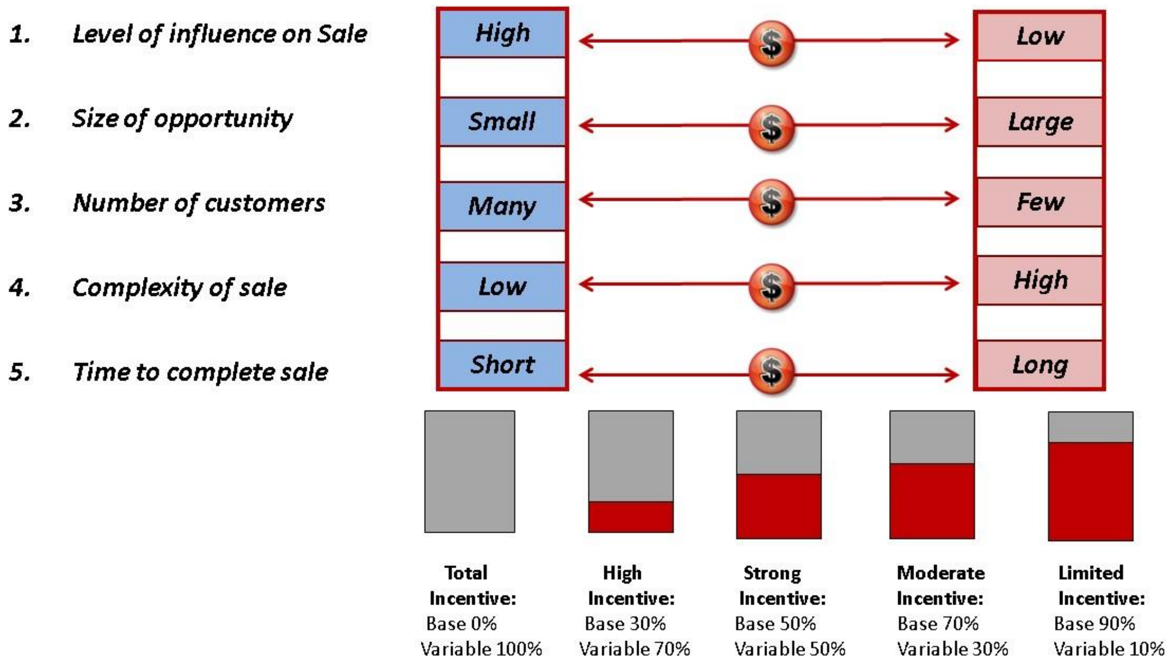

Figure 6: Determining the Right Mix of Compensation

Merit Pay and the Sales Person

Should sales people receive merit pay or salary increases like the rest of the organization? The answer to this question depends heavily on the structure of the sales person's compensation and how the company intends to retain a competitive mix of compensation.

Our survey indicates that 71% of the companies provide merit pay to their sales people in the same manner as they do other employees. Another 18% provide salary increases only periodically to retain a competitive base compensation, since most of the compensation is based on performance (aka sales). In other studies, published by Radford, Willis Towers Watson, and Mercer, the median is between 68% and 73% receive salary increases. The number is higher for sales managers (77% to 80%), which tend to have a higher base to incentive mix. It was interesting to note that this approach cut across all industries, which means that what determines the use of merit pay has more to do with the structure of the compensation program than the industry in which the company competes for sales talent.

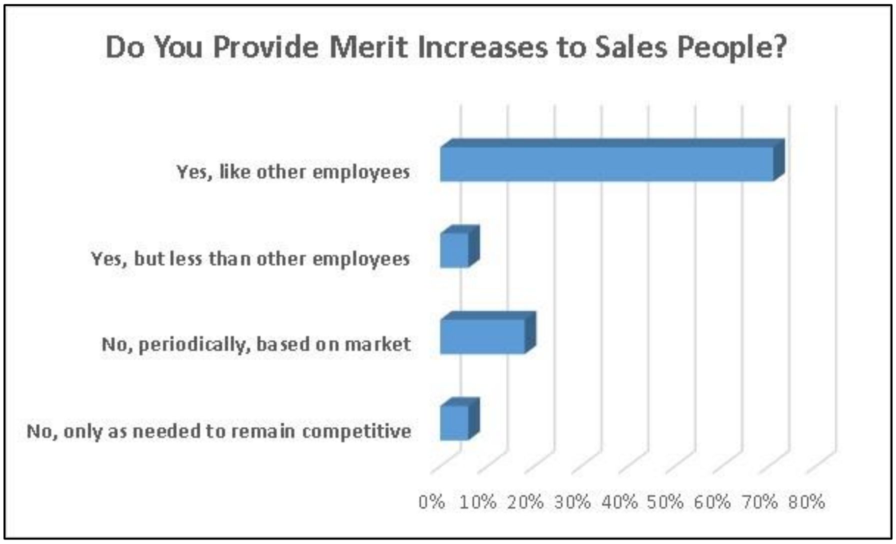

FIGURE 7: MERIT INCREASES FOR SALES PEOPLE

The key question is what kind of performance should be the focus of merit or salary increases?

To Provide or Not Provide

Ultimately most people need increases in their base compensation. However, the timing, number, and amount of payouts determines whether the person needs to live on their salary or their total cash compensation. In sales roles that have 60% to 100% of their income based on sales performance, the merit increase does occur, but they are infrequent. Individuals achieve a higher standard of living by either “selling more” or “riding price increases.” In the latter, if the company increases prices, and the commission rates remain the same, there will be an automatic increase in one’s take home pay as long as they achieve the desired level of sales. If most of the pay is provided through salary, then merit based salary increases are common, necessary and normal.

Based on What Performance?

From our experience, most of the salary increases are based on individual sales performance usually for factors not included in the incentive plan. These factors include getting sales Reports in on time, providing all CRM data on current activities and accounts, participating in sales initiatives and promotions (not included in a SPIFFF program), and doing the prospecting, qualifying and account management that do not always directly lead to sales.

How much – What is the market doing?

Most firms budget the same for sales people as they do other employees. This averages 3% and has been so for several years. In some cases, when a firm needs to play “catch up” on salaries, they provide pay increases in the 5% to 7% level, but this is rarer. If a company is hard pressed economically, we see pay increases at 2% or less, or they provide the market rate of 3% but only to top performers.

Performance Measures: You Get What You Pay For

One of the most critical elements of the sales compensation plan is the performance measures that are used to determine the total compensation. The performance measures translate the business and sales strategy of the company into terms that will influence the actions of the sales people. This is how the sales person adds value to the company and enables it to meet key objectives and its mission. These provide the end results on which the sales professionals use and prioritize their time.

The chart below (Figure 8) shows the prevalence of performance measures by sales role based on responses from this survey. In our previous studies, there was more emphasis on total revenues. What this data shows is that companies are placing greater importance on WHERE sales come from, not just the amount of sales. This means that the sales strategy for many companies is focused on retaining and developing existing customers, as well as expanding the number of new customers. This involves both direct sales and account manager roles. Also, there are often “Personal Goals” that lead to the type of sale, product mix, or implementation of clearly identified sales process objectives for the sales person.

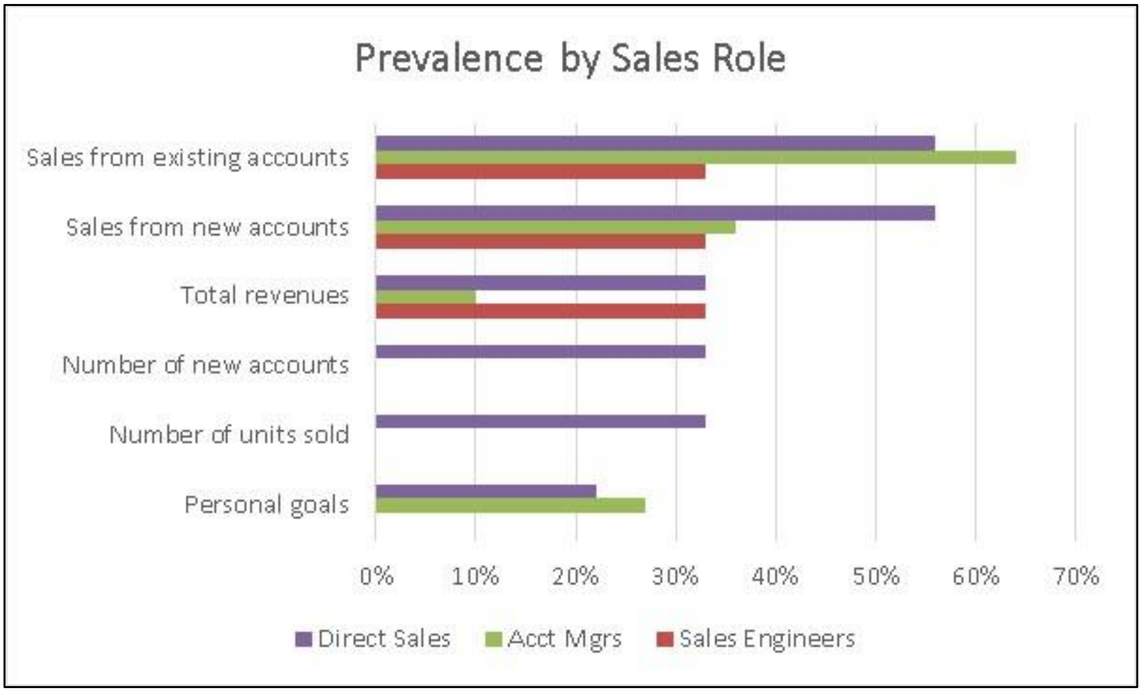

Figure 8: Type of Performance Measures by Sales Role

In a study conducted by WorldatWork on sales compensation, their data indicated a similar emphasis on the source of sales revenues.[3] The table below shows how the performance measures for generating business from new customers versus existing customers is defined by the sales role.

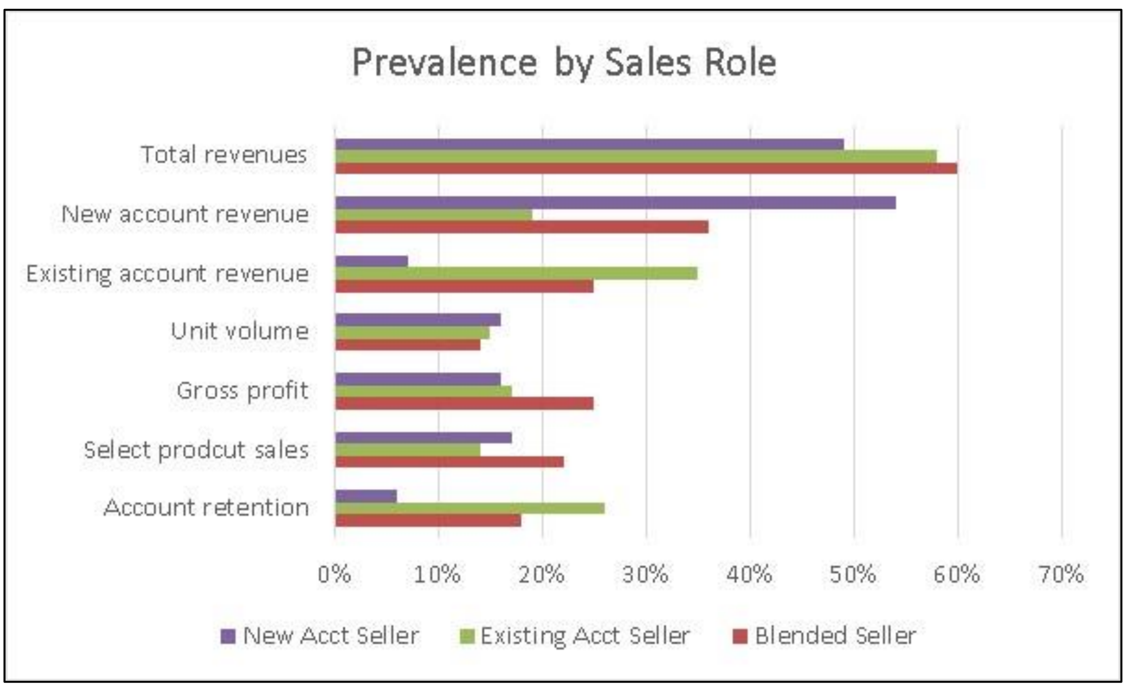

Figure 9: Type of Performance Measures by Sales Role (WorldatWork)

Finally, a survey conducted by The Alexander Group[4] indicated a very consistent message about the importance of generating business from existing or new accounts. In addition to total revenues, the performance measures used most frequently by those that participated in this survey show the following results:

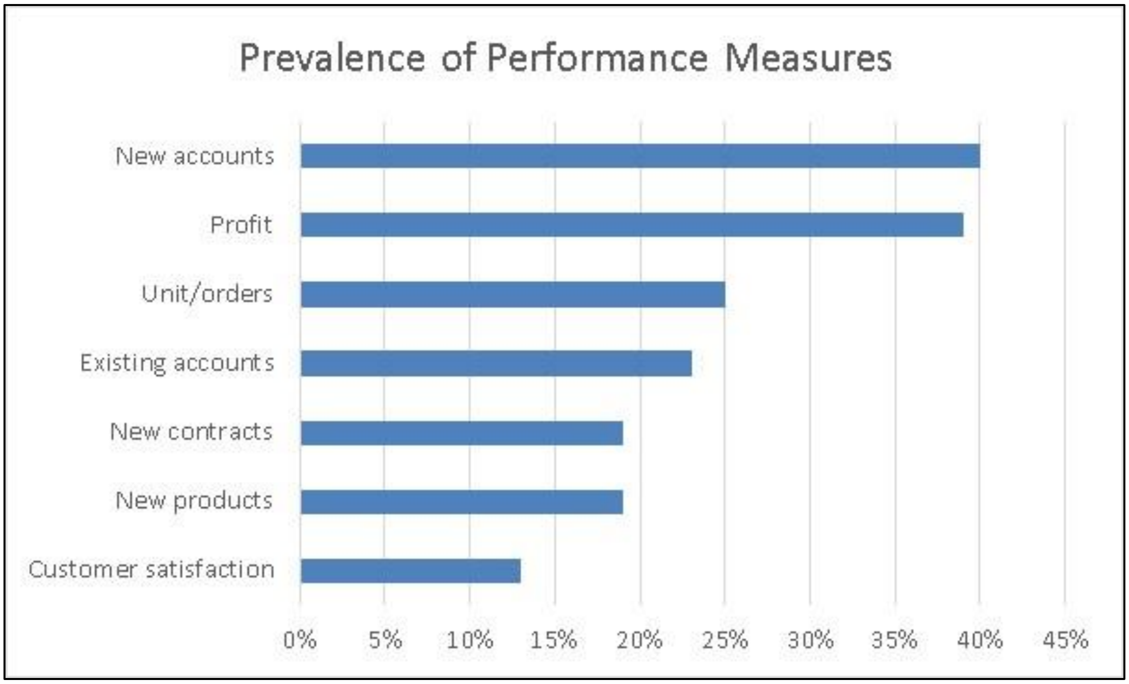

FIGURE 10: TYPE OF PERFORMANCE MEASURES BY SALES ROLE (THE ALEXANDER GROUP)

In conducting an analysis of our survey and the extent to which we could examine these trends in other surveys, we found that small companies tend to focus on one measure – **total revenues**. The sales professional is accountable for both new business and renewed or expansion of existing accounts. As companies get larger and the sales process becomes more complex, the sales professionals tend to specialize into the "hunter" and "farmer" or the new client sales and account management sales. In this situation, the emphasis of the sales compensation plan changes, and the measures include the emphasis on "new logos" or "customer retention, renewal, or expansion". In companies that have a major source of their business based on recurring revenues, renewal rates of customer contracts become critical to their success. Finally, the number of measures remains **between one and three**. While there may be special bonuses for performance achievements (e.g., meeting quarterly quota targets), the type of measures remains highly focused on the most important elements to the company. When the company expands the use of measure, the relative importance or attention becomes dissipated and sales performance frequently suffers. Therefore, the key is to keep the sales professional working in ways that align with the business's strategy and priorities.

The important learning from the comparison of market practices is that companies are translating their business strategies for growth into how the sales professionals are rewarded. Sales compensation plans that go beyond the simple measure of total revenues/bookings, tend to select additonal measures that are based on where the sales come from and the number of units and/or profitability of the sale. This then communicates what is important for the sales person to emphasize as they start each day. Who are you going to call on and what are you going to try to achieve this day?

Pay Mechanisms

Overview of Pay Mechanisms

In combination with other elements of the sales compensation plan, the mechanism brings to life four important criteria of an effective sales compensation plan:

- In alignment with the sales strategy
- Easy to understand
- Motivating to sales people
- Affordable

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

Commission: 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, 15% of revenue above 130% of quota
- Percent of profits – 10% of product A net sales, 5% of product B net sales and then one and one-half times the commission rate once 100% of quota for each product is exceeded up to 150% of quota

Commissions are used as a mechanism when we want to create a direct tie to the sale and reward differences in revenue or bookings. According to Ron Burke and Scott Cullen of Towers Watson, High Tech and Telecoms use commission mechanisms more often than other industries. From a recent survey conducted by Towers Watson in the UK, other industries use a formulaic bonus approach.[5]

Bonus**:** 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 quarters' goals.
- Percent of total compensation – 10% of target total compensation 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.

The use of a bonus reduces the direct link of the payment from the sale and usually includes features of hard thresholds and hard maximums or both. Organizations may utilize bonus mechanisms when there are many roles participating in each sale and they want to reduce the direct compensation expense from a sale. According to the Mercer report Sales Compensation Effectiveness Best Practices & Trends, bonuses are most prevalent when there is a long sales cycle.[6]

In our survey, the mechanisms reported for Direct Sales, Account Management and Sales Engineer Plans consist of both commission and bonus mechanisms. Very few firms use only a bonus plan for any of these three sales roles.

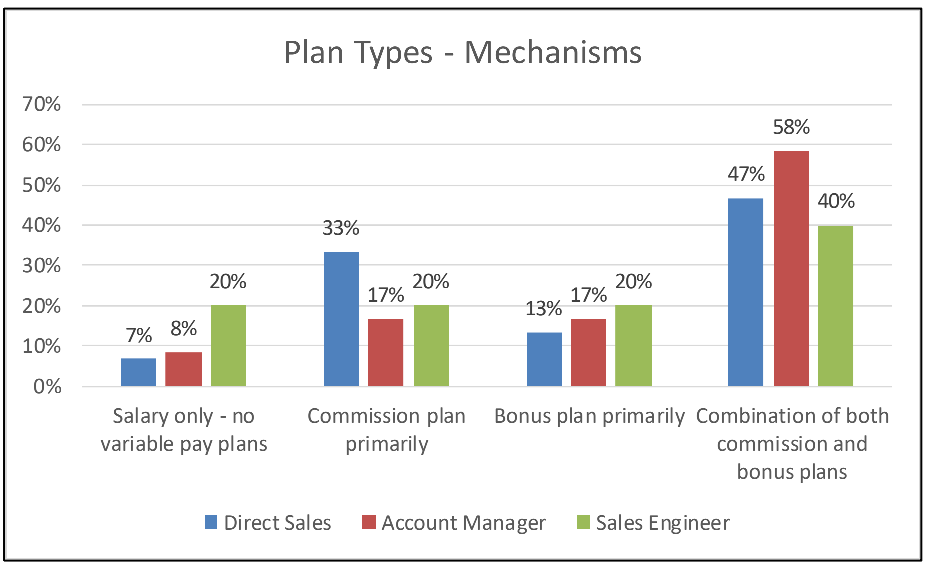

FIGURE 11: TYPE OF PLAN MECHANISMS

The benefit of using both bonus and commission or hybrids, is that not all measures in an incentive plan can be measured as a commission. Several examples of measures that best fit with bonus plans are:

- Growth in quarterly revenue
- Percent of renewals achieved
- Number of qualified sales leads generated
- Number of new logos acquired
- Percent of contracts won
- Individual performance goals/activities
- Timely updates to ERP/CRM system data
- Accuracy of forecasted sales

Therefore, when both commission and bonus mechanisms are used, the bonus measure often varies from the commission. In our survey, Account Managers usually have some measure of personal/individual performance in the bonus but for Direct Sales, overall corporate performance was most frequently used.

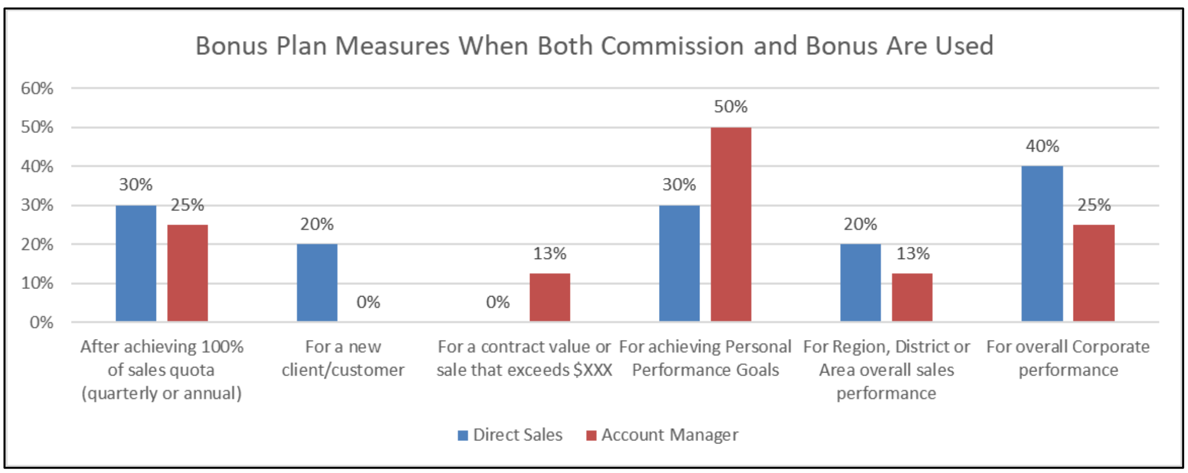

FIGURE 12: MEASURES WHEN BOTH COMMISSIONS AND BONUSES ARE USED

Common Types of Commission Models

A straight or flat rate commission is when the commission rate is based on the product or sale, e.g., for every sale you receive 3% of the bookings or revenue. These mechanisms are used when quota is difficult to assign or due to the sales cycle. If there are a small number of large sales with long sales cycles or many, small sales with a very short sales cycle, incentives may be most easily paid as a bonus.

Tiered rate commissions are based on attainment and therefore require a quota of number of sales or revenue/bookings. They are used to motivate the sales person to achieve more at each tier.

Individual commissions or variable rate commissions are used to provide an expected or stated opportunity for commission earnings. For example, you will earn $20,000 if you achieve your quota by the end of the year (paid throughout the year). It is referred to as an individual commission rate when the quotas vary by sales person but the incentive opportunity at target is the same. The concept behind this is that although the quotas vary, it will take the same amount of sales effort and time to achieve these quotas either due to size of territory, number of possible accounts or variations in product revenue.

Where things get complicated is when we add other measures to a tiered commission model. The simplest approach is to pay an additional bonus or commission for the additional measures, such as paying for the sales of strategic projects. However, if it is an add-on to expected earnings, the sales person does not feel any pain for not achieving it. In other words, the sales person can sell what they normally do and still achieve their target incentive.

In a presentation at the 2017 WorldatWork Sales Compensation Conference, Donya Rose provided a relative rate model for incorporating additional measures and "creating the pain" if sales people do not change their behavior and results to include these other measures. For example, if a sales person makes his or her quota but does not sell any strategic products, they make less than their target incentive. Using the relative rate model, one can easily add measures and the model will adjust by the weight of each measure. This model is also a benefit for seeing how little or how much additional measures could impact sales person behavior by weight. Anything less than 10% is likely not going to have any impact on behavior.

Performance Distribution and Pay for Performance

The Use of Accelerators

Accelerators, uplifts or points of inflection in the incentive payout structure are primarily used to motivate sales people to achieve more, and usually for above quota attainment. It also causes low performers (those below quota) to be paid less. Accelerators involve a change in the commission rate by some amount. When accelerators are used, at least one point of inflection is at 100% of target performance.

In addition to quota attainment, commission rates can be accelerated to reward sales people for selling a mix of products, strategic products, selling into strategic market segments and multi-year contracts (e.g., 3-year contracts pay more than 1-year contracts).

The use of accelerators creates the payout curve when you plot percent of target incentive against percent of performance/quota. Accelerators used below quota increase risk (limited payout) and accelerators above quota increase the amount of reward (significant payout) creating an incentive payout curve. Below quota, accelerators act as soft thresholds that control costs for poor performance.

When examining the prevalence by sales role in this survey, we find that Account Managers tend to have only one accelerator point if any are used. Direct Sales accelerates two or three times and Sales Engineers one or two times. The industries that do not tend to accelerate for Account Managers and Direct Sales are professional services, retail and insurance.

The use of three accelerators was shown by respondents in three different industries. Those in technology use at least one accelerator. According to Scott Barton of Radford in the Article "Accelerating Sales Without Breaking the Bank"[7], multi-tiered accelerators are preferable for technology companies because these companies can manage compensation costs across performance levels than others who use just one accelerator. According to the Mercer Sales Compensation Effectiveness Best Practice & Trends Report, three inflection points is the maximum recommended.[8]

The use of hurdles is not prevalent from the responses received from this survey. They were reported as used for Direct Sales and more limited for Account Managers. They are not used for Sales Engineers. According to the Mercer Report, when used, they recommend no more than two hurdles.

Thresholds and Caps

The design of sales plans generally does not include "hard" thresholds but pay from dollar one. When they do occur, they are most prevalent for Account Managers and Sales Engineers and less so for Direct Sales. When thresholds are used, there was a wide range of responses in the survey and not a pattern by job. They clustered between 70% to 85% and 95% to 100%. These thresholds make no payments for below a defined amount, e.g., 70%.

A soft threshold is when there is a lower commission rate paid at a tier somewhere below 100%. It is a tool used for managing the pay of low performers. Both types of thresholds can cause cash-flow issues to sales people on annual quotas with relatively low base salaries.

According to a Towers Watson sales survey cited earlier, thresholds are used in 70% of plans and start at 80% or higher. They say that high thresholds signal that it is achievable whereas lower thresholds signal more doubt or variability in the market.

Hard caps or maximums in any form are not prevalent in sales incentive plans according to the responses we received. We find that soft caps are most helpful when quotas are difficult to set accurately or there are other factors outside of the sales person's control that cause windfalls. According to the Mercer report cited earlier, they recommend a soft cap at 300%.

A soft cap is often referred to as a decision point. When the sales person reaches a certain very high point of performance (and payout), management then has the right to:

1. Continue to pay according to the established commission or bonus schedule
2. Reduce the incentive pay to a previous, basic level of payout
3. Not pay or pay in something other than cash for this achievement (e.g., restricted stock units)

According to the UK Towers Wyatt survey, 60% have a cap but the authors feel that one should avoid having a cap because it tells salespeople to stop selling ("Trends in Sales Force Incentive Practices" Ron Burke and Scott Cullen, Towers Watson). Instead they support decelerated payouts above a certain level as a better protection mechanism. They also observed that new business direct roles lend themselves to uncapped plans as compared to account management roles. The high-tech industry is also least likely to cap plans.

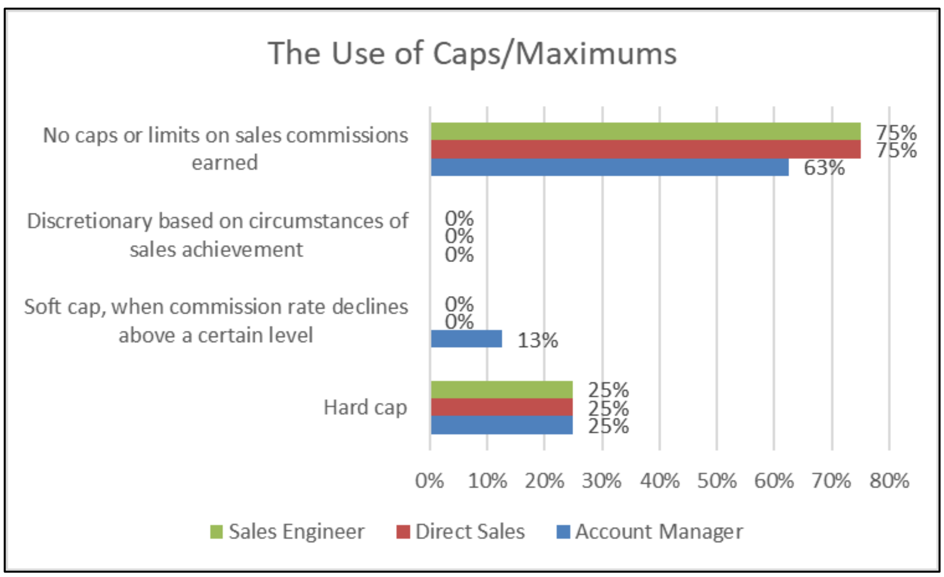

FIGURE 13: THE USE OF CAPS/MAXIMUMS

Payout Opportunity

Measuring payout opportunity by performance level is an important step in evaluating and redesigning sales plans. In the Wilson Group survey, only 30% of respondents indicated that they did or could measure payout levels by quota achievement for each of the sales roles. For those that did, the payout levels by quota performance were the same for each of the three roles at most performance levels until one reached 200% of quota. Here the Direct Sales role had significantly higher payout opportunity. Results of this survey for the Direct Sales role are higher than other references we examined.

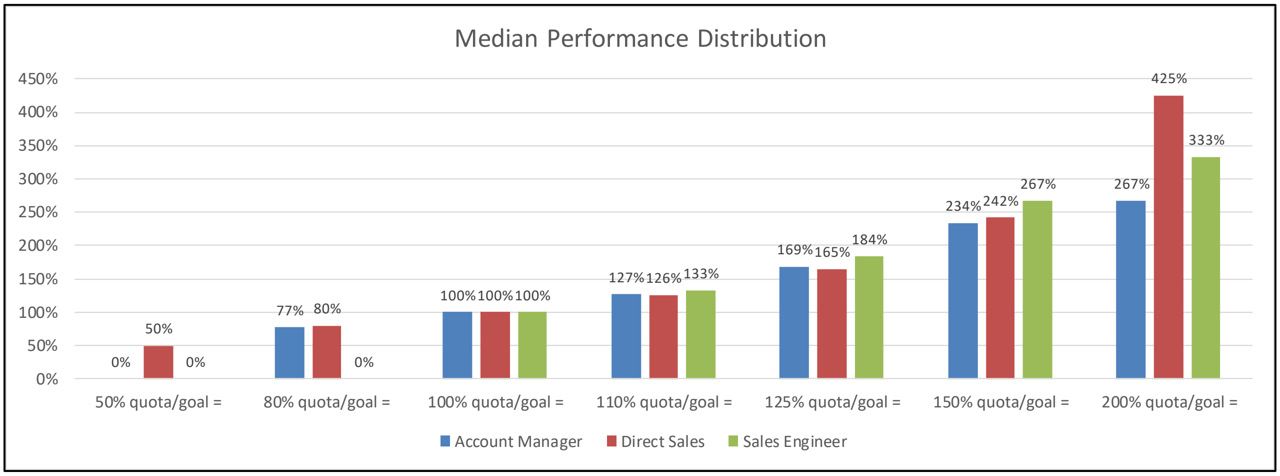

FIGURE 14: PERFORMANCE DISTRIBUTION

The payout percent relative to the exceptional level of performance indicated was similar for both Account Manager (200%) and Direct Sales (190%). According to Scott Barton of Radford, technology industry standards typically define this exceptional level as the top 10% of sellers.[9]

In the 2014-15 Wilson Group Sales Compensation Survey we asked the same question for Account Managers and Direct Sales roles. In that survey, Account Managers had more risk (payout at 63% for 80% of sales target) and high payouts (357% for 200% of target). In the same survey, Direct Sales had similar payouts for overachievement as Account Managers at 200% of quota.

For Sales Engineers we examined other sales compensation surveys. They indicated that approximately one-half of sales engineers have the same payout levels as direct sales roles. This is consistent with our observations in this survey for most payout levels. In our experience, Sales Engineers can be organized and paid based on group or regional performance or paired individually with Direct Sales, depending on the technical nature of the product and how many products the Sales Engineer is required to know. In the case where they are paired with Direct Sales, these roles have the same level of risk and reward but when paid on regional quota, the risk and reward levels are more like sales management.

The Towers Watson Sales Survey of UK organizations found that most respondents pay their top performers less than 2 times (200%) the average incentive payout. Burke and Cullen expected to find upside to be 2 to 3 (200% - 300%) times the target incentive but only 40% of respondents fell within this range.

Median Base Salary and On Target Earnings

Based on all responses, Direct Sales has the highest median Total Target Compensation and Account Managers the lowest when all three roles are compared.

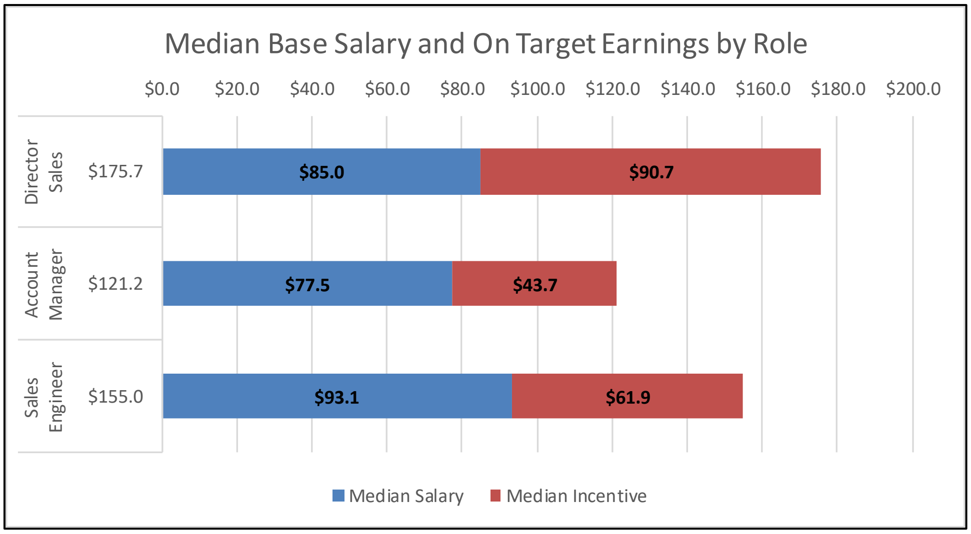

FIGURE 15: MEDIAN COMPENSATION BY ROLE

In our experience and according to responses, manufacturing, media, and retail on target earnings are significantly less, by almost one-half to those in technology, professional services and insurance.

The most prevalent typical experience level for these three jobs covered 50% to 80% of our survey respondents - Account Managers and Sales Engineers 5 to 7 years of experience and Direct Sales 3 to 5 years.

When Commissions and Bonuses are Paid

Payout frequency of an incentive is based on several criteria:

1. <u>How much the incentive is as a percent of total compensation</u>. The more the incentive is, the shorter the time frame. The purpose is to create a situation where incentive is part of a sales person's short-term spending and is needed to live on. Otherwise, if it is not paid frequently enough, sales people may learn to live on their base salary, think of the incentive as discretionary income and adjust their sales behaviors accordingly. If it is a direct sales role with at least 40% of incentive as a percent of total

compensation, this usually supports a monthly payment schedule as available to be paid.

2. When funds are available to be paid to the sales person and the company's cash flow. The responses to the survey indicate that most respondents pay when sales are booked rather than when collected. While the company may not have the funds on hand, they want to minimize the time between the sales and payout and know it is a competitive practice. In the case of paying when booked, the sales plan document will usually indicate commissions are an advance but not earned until the customer has paid (protects against paying more than needed to terminating sales people). From another perspective, we have worked with organizations that cannot afford to pay in advance of collecting from the customer. This can create financial challenges but may be balanced with higher incentive opportunity. In addition, revenue comes in all "shapes and sizes". For example, some software revenue is based on use not a contract or committed revenue value. The company may not know what they will collect for six months or more.

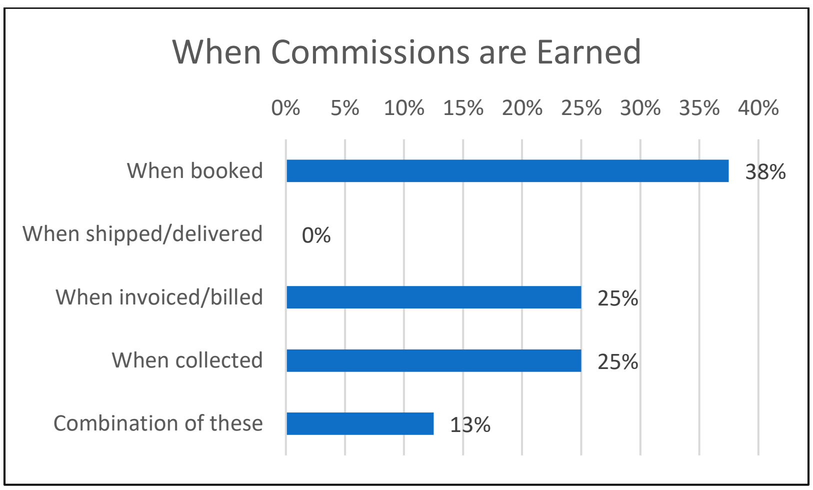

Figure 16: When Commissions are Earned

3. The measurement period of the metric or when the sale is counted. If a metric is best measured at the end of a quarter, this usually results in quarterly payments. When measures have different measurement periods, payout frequency can be a combination of monthly, quarterly and annual periods.

4. The number of measures. The use of multiple measures can result in longer times between payments because the performance data needs to be collected, verified and updated.

5. The amount of the payment. If the total target incentive divided by the timing is a small number, then usually the payout frequency will decrease. This issue comes up most in bonus plans that organizations think should be paid quarterly and then realize that after withholdings, it is not enough to be meaningful.

Commission Payout Frequency

Monthly was the most prevalent frequency for all three roles. We are also not surprised by some account managers being paid quarterly. Account managers tend to have less incentive as a percent of total compensation and may be measured more on a quarterly basis.

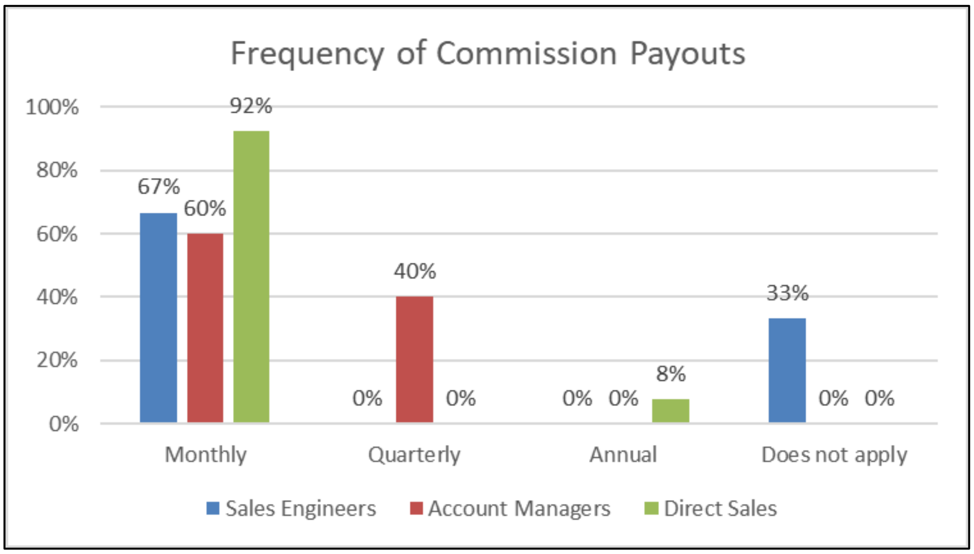

Figure 17: Frequency of Commission Payouts

Bonus Payout Frequency

From the responses, when bonus is used with a commission mechanism, bonus is an annual payout. The timing depends on the measure. In our experience, we find that measures of profitability may be one of those measures that payout annually. In the survey responses, Direct Sales roles were spread evenly between three responses: monthly, semi-annually and annually.

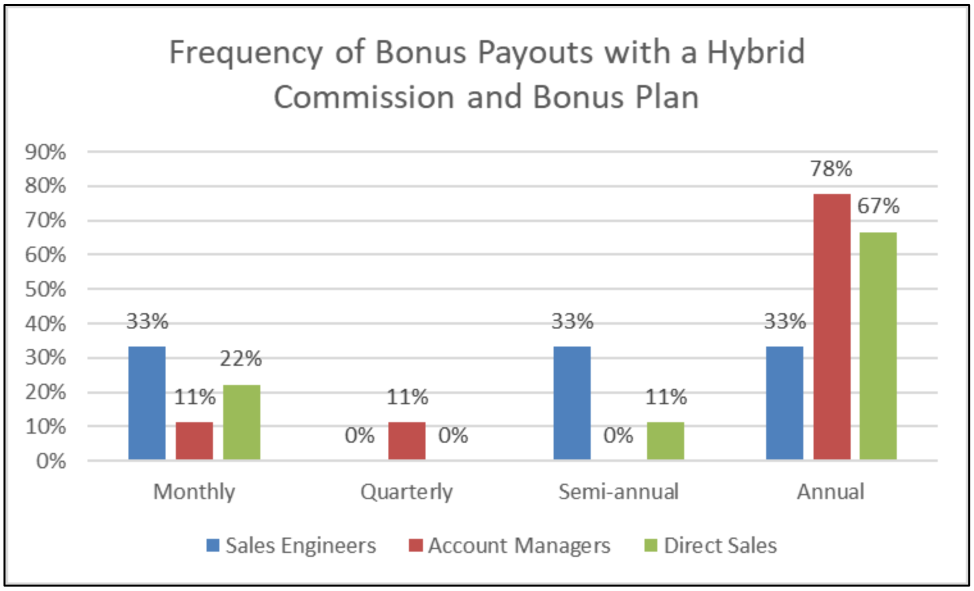

FIGURE 18: FREQUENCY OF BONUS PAYOUTS

In determining a pay frequency, considerations include ensuring appropriate sales person cash flow, providing a significant enough payment, timing payout as close as possible to the time of the sale, and the ability to be administered effectively.

Finding the Right Quota

Perhaps one of the most important and challenging elements of sales compensation is the sales quota and how it is set. The sales quota (or the sales goals) directly links the sales person with company goals and often defines the probability by which the sales person will achieve his or her desired income. Quotas that are set high may look good to some in the company, but may not be viewed as achievable by the sales person, resulting in a demoralized sales team.

The quota setting is often a source of frequent conflict between the sales and the finance functions. Finance is concerned with over payment, setting the bar so low that the cost of sales becomes significant. Sales wants people to "win" and achieve their sales target, because the motivational impact of the lack of achievement makes managing the sales team (retaining and motivating) more difficult. The behavioral economic principle here is that the sales quota should be BOTH challenging and achievable. A key task therefore is to examine your company's actual performance distributions and determine whether the quotas are effective.

Analysis of Performance Attainment

An indication of whether the quota is set right or not is to look at the distribution of performance across various quota achievement levels. Regardless of role, responses to the Wilson Group survey indicated that performance in 2016 was most prevalent in the 85% to 100%, followed by 61% to 85%. Approximately 25% to 35% of people in these roles overachieved. The following table shows the percent (median) of quota attainment by sales role.

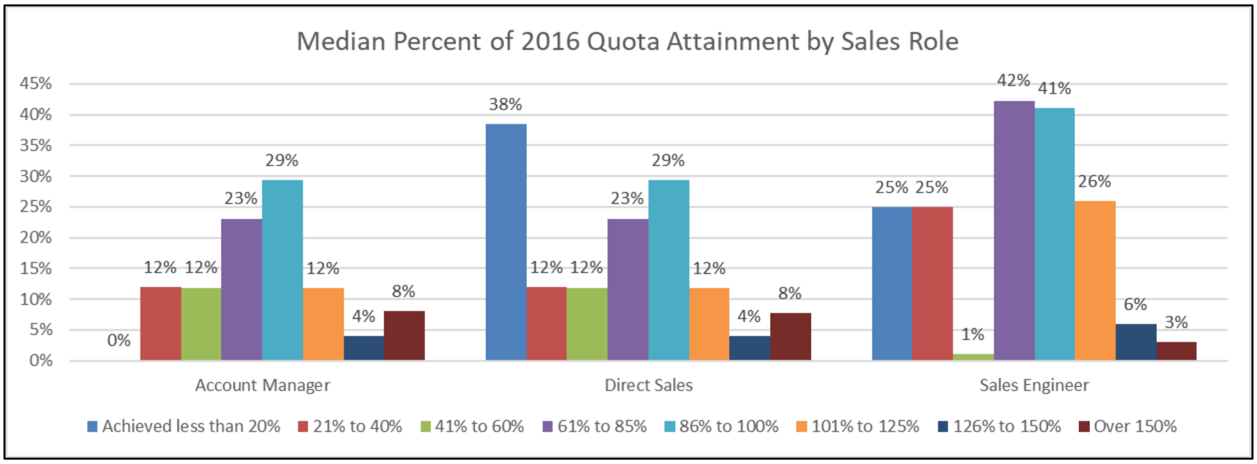

FIGURE 19: QUOTA ATTAINMENT BY SALES ROLE

What does this mean in practical terms?

Most of the surveys, including this Wilson Group sales compensation survey, show that successful sales incentive results are distributed as shown on the graph below. Essentially this shows that:

- 10% of the sales team does not meet the minimum threshold of the company (this is usually defined between 25% - 50% of the sales goal)
- 20% - 30% achieve between threshold and target or quota performance
- 60% or more achieve quota or greater
- 10% of the sales team exceed the target by more than 25%

However, we have seen clients where there are few people who achieve quota, times when over 90% achieve quota, and an unusual pattern where there is a bi-modal distribution – two groups (low achiever and high achiever). On further analysis we found that the low achievers were the new sales people and the high achievers were the long-standing sales people. The reason this existed was because the long service sales people "cherry picked" the best clients when there was turnover, and the new sales people were left with either the most difficult clients or untested clients. This fact showed an inherently dysfunctional sales compensation practice.

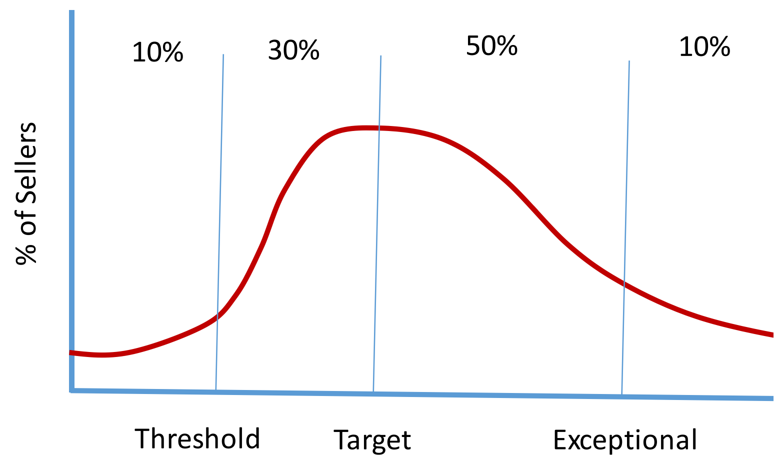

FIGURE 20: DISTRIBUTION OF TYPICAL PERFORMANCE

Studies conducted by Wilson Group, The Alexander Group, and reported in the Harvard Business Review have shown that the average number of sales people achieving quota is about 60%. While this varies by industry (the range appears to be between 51% and 66% according to HBR), this is generally a good standard for setting expectations. The extent to which your sales team falls well below this or well above this, then the root causes may be in how you set your sales goals/quota or the market position of the company.

Quota Setting

Quotas/targets and a sales person's belief in that they are fair and achievable can have a significant impact on whether they make the effort needed to achieve or exceed quota. The four most common quota methodologies reported, in most prevalent order, are:

1. Bottom-up/Top-down Method – Understand account potential and adjust based on top level expectations
2. Account Planning – Based on account opportunity that is within a sales rep's territory/vertical assignment
3. Historic Allocation – Growth target above last year's performance; does not consider territory/vertical potential
4. Strategic Allocation – Goals are set based on the strategic requirements and projections of the company.

5. Hedging Strategy – Goals that are set for each individual add up to more than is needed by the company. This permits some individuals to not achieve their goal, or if they terminate, the impact is minimized on the achievement of the overall sales group.

As Joseph DiMisa acknowledged in his article "Quota Setting in Today's Market", there is no right or wrong approach to setting quotas.[10] The bottom-up, top-down method is seen to have the best blend of corporate expectations and opportunities within accounts. When a hedging process is used, the true measure of success is whether the goals for each individual are achievable. While this works well in many environments, there may be cause for concern if people believe this is inherently unethical, and management loses credibility to set meaningful targets. Like many things in life, all should be in moderation.

Terms and Conditions – To Serve and Protect

The terms and conditions section of the sales compensation plan, which dictates how and when compensation is paid, is as important as making sure the document clearly articulates how a sales person earns their sales incentive compensation. These elements are important, so the sales person knows the conditions that are tied to his/her sales compensation, and the document protects the company's interests. Clarity of the key elements is perhaps more important than what the elements mean.

Paul Wallace of Wallace Management Group defines a set of key terms and conditions when writing a sales compensation plan.[11]

Term and Condition	Definitions
Commission Earned	When the company recognizes that commissions are earned – between when the sales person completes a sale and when the company is assured the sale will close and revenue will be collected.
Commission Paid	Commissions are paid at some fixed point after the commissions are earned. This time lag allows the company to prepare commission statements and checks on a regular cycle. It also offers additional confidence that customers will not cancel the sales on which commissions are paid. Commission payment cycles usually fall at the end of the month or quarter in which the commissions are earned or sometimes in the month or quarter immediately following the period in which commissions are earned.
Recovery of Payments	Sometimes customers will rescind a sale after commissions are paid, or by mistake the company overpays or makes incorrect payments. For these situations, companies need to include a clause that allows your company to recover overpayments. This term may also be used to define recovery of draws or payments resulting from misrepresentation by the sales person.

Disputes	Disputes can arise from disagreements on the amount of commissions, when commissions are earned, shared commissions or territories. Determine who is the final arbiter. It is recommended that dispute responsibility should fall on the vice president of sales or president of the company/business unit to make the final call.
Shared Commission Credit	Shared commission credit across multiple sales people should be clearly articulated in the plan. Consider the situations that arise when a sale is spread across multiple territories or when more than one sales person makes key contributions to closing the sale.
Windfalls or "Bluebirds"	On occasion, business comes in without significant work or contribution by the assigned sales person, based solely on the company's reputation. In the case of true "bluebird", the company should reserve the right to pay all, partial or no commission.
Misrepresentations	The company should reserve the right to deny commissions on any business that results from misrepresentation on the part of the sales person or the customer.
Acceptance of Transactions	The company should also reserve the right to accept or reject any transaction brought to it by the sales person. The company should decide what is acceptable business, not the sales person.
Partial Year Participants	Over the course of a year, new sales people will be hired, fired, resign/retire and be reassigned to new territories/responsibilities. Companies should address how commissions will be handled in these situations. Some examples of definitions: • ***New sales people*** will be paid commissions on business they close and for which they made a direct contribution. • ***Sales people assigned to new territory*** will be paid full commission on business they closed in their old territory. Full commissions will be paid on business they initiate and close in their new territory. Split commission or partial commission (according to value of their contribution) will be paid on all other business in old and new territories. • ***Sales people assigned to new responsibilities (non-sales tasks)*** will be paid full commission on business they closed in their old territory/vertical. Split commission or partial commission (according to value of their contribution) will be paid on all other business in the old territory/vertical. • ***Sales people who retire*** will be paid full commission on business they closed in their old territory. Split commission or partial commission (according to value of their contribution) will be paid on all other business in the old territory/vertical. • ***Sales people who resign or are fired*** forfeit unpaid commissions and commission credits upon leaving employment of the company. (This clause should be reviewed with your company's employment attorney to ensure that it conforms to applicable laws.)
Plan Changes	To allow the company to adjust to changing market conditions, include a clause that allows the company to change or amend the sales compensation plan at any time.
Plan Interpretation	Situations will arise that do not fit neatly into the sales compensation plan as it was envisioned or written. Include a clause that defines who will interpret the plan in these situations. It is recommended that interpretation of the plan be assigned to the vice president of sales.

Figure 21: Definition of Terms

These terms and conditions should cover most situations. The company may want to include additional terms that address specific needs for its business. It is important to present a balanced and reasonably fair document to your sales team. If the sales plan has too many administrative terms and heavily favors the company, it may discourage sales person motivation. However, a sales plan with too few terms may leave the company exposed to sales people who take advantage of the company.[12]

FASB (Financial Accounting Standards Board) ASC 606: Is Your Company Affected?

Companies who recognize revenue will be affected by the new standards issued by FASB under ASC 606. While the intended goal was to simplify and harmonize revenue recognition practices, the result is that companies must completely re-evaluate when and how they account their revenue. All annual and interim reports of public companies reporting to U.S. GAAP and IFRS standards filed after December 15, 2017, must comply with the new requirements, e.g., for companies whose financial year ends December 31, 2017, they have until the end of 2017 to put a solution in place. Privately held companies must comply by December 15, 2018.

How will companies who recognize revenue be affected? Scott Davidson, CFO of Hortonworks says, "It impacts every aspect of how you go to market and run the business, requiring changes in systems, processes and Reporting both internally and externally to investors both public and private. It's a very heavy lift for us."[13]

The new standards are based on one overarching principle: companies must recognize revenue when goods and services are transferred to the customer, in an amount that is proportionate to what has been delivered at that point. That's easy to do when you're selling widgets, but poses problems in the digital economy, where service relationships can change drastically over time.

For starters, subscriptions change frequently. Whether a customer upgrades or downgrades a new module, or adds more seats, contract changes are just what happens. In our experience, every subscription contract undergoes an average of four changes over the lifespan of the contract.

Today the requirements for reporting recurring revenue—a critical metric for evaluating a company's financial performance—vary across all sorts of different industries and markets. These new regulations are intended to level the playing field.

The latest Price Waterhouse Coopers survey on the topic is not reassuring: 75 percent of public companies they surveyed are currently assessing the impact of the new standard but “have not yet started implementing.” Just over half of the companies they surveyed “have not even chosen a method of adoption.”[14]

The Revenue Recognition standard updates U.S. Financial Reporting requirements to better align with how Reporting is done internationally. Driven by the Financial Accounting Standards Board (FASB), it has been designed to converge the way that companies report revenue with a single, principle-based approach.[15]

There’s been a lot of focus placed on the standard in general – *but*, not so much on how it changes commissions accounting through what’s known as “the cost of obtaining a contract.” To be technically accurate, it can also impact other types of contract costs, such as those incurred to bid or create proposals or even legal fees. However, the biggest impact by far is on commissions.

Companies who pay commissions and want to stay GAAP compliant, here is an at-a-glance “before and after” view of what’s happening with commission accounting:[16]

Before	After
Companies typically expense their commissions in two ways: 1) as a period cost at the time of sale; or 2) over the life of the contract. Either way works, if you’re consistent.	Incremental costs of a contract must be capitalized at inception and expensed “systematically” as you deliver the goods or services.
Companies only need to aggregate payments to the rep level, and about 85% of companies do this on spreadsheets.	Companies need to account for commissions to a much higher level of detail. You can’t just aggregate to the rep level. You need to account for commissions to the customer and – most likely – the order level. This means that you need a lot more insight into transactions than you can get from a spreadsheet.
You probably capitalize the costs (along with associated payroll taxes) as contracts are closed.	You will need to capitalize the cost as an asset, requiring more judgments and estimates on the part of accounting – for example, regarding the expected customer lifetime.
Commissions are expensed at time of payment.	You need to expense commissions over time on a systemic basis that’s consistent with the transfer of goods or services to your customer.

FIGURE 22: GAAP ACCOUNTING COMPLIANCE

What types of sales incentive plans are covered under ASC 606?
ASC 606 covers all types of incentive plans. In fact, the only way to sidestep the regulation is by doing away with commissions altogether and paying your sales team entirely by salary, which is not something many organizations would consider since compensation is key to driving the right sales execution and behaviors.

How far into the future should I amortize commissions?
Regardless of when you pay your sales team for reporting purposes, commissions paid to sales people need to be spread across the period when the customer receives the benefit of the service or goods. Therefore, there are a host of factors to consider, such as the length of the contract and the anticipated customer churn rate, so that in certain circumstances (such as when the average lifetime of a customer is two or more years), a company may decide to amortize commissions over periods longer than the initial contract term. However, if sales commissions are also paid for contract renewals, then the commissions paid to acquire the contract should be limited to the initial contract term.[17]

Plan Communication

Organizations should be concerned not just with the development of meaningful sales compensation plans but with how well their sales compensation plans are understood by sales people. How good is your organization at implementing sales compensation plan changes? What are some of the issues you have faced?

Each year, approximately 90% of organizations make changes to their sales compensation plan.[18] With changes to compensation ranging from minor adjustments to significant and even major changes, it is essential to communicate these changes effectively to ensure the changes are successful. Minor adjustments may not require a fully executed communication plan however, whenever change will affect the incentive compensation paid to sales people, it is best to build a comprehensive communication plan to drive the message.

We have often been asked to review the sales compensation plan document for clarity and completeness. What we find when we read this document is that it appears to have been "written by attorneys for attorneys." If your plan document is the primary means by which you communicate the sales compensation to your sales people, read this from their point of view. Does this engage and inspire them? Does it make clear how they can earn significant income for doing things that truly benefit the company? Do they see themselves in alignment with the company's goals? Too often, the definitions and terms of conditions appear at the beginning of the document, and not until you get considerably into the Appendices or Attachments do you see how the plan works.

It may be that the way you communicate the plan is through other means, then the Plan Document just serves as the backup, compliance related requirements so that everyone understands the elements. However, it is important that the plan document doesn't indirectly or inappropriately communicate the message that "We really don't want to pay you, but if you do these things, I guess we'll have to!"

A critical point that both legal and administrative managers know, the sales person must sign the Plan Document. This verifies that they have read the document, and it is now binding on them and their performance.

Determine what tools and systems effectively communicate the sales plan and earnings opportunity. Avoid communication issues by creating a timeline, engaging sales leadership, and clearly articulating the meeting objectives and agenda needed to deliver an effective communication plan.

Once you have developed the communication plan, create the tools to successfully roll out the plan. These include building sales leadership materials, train-the-trainer materials, the sales plan document and a sales calculator. These tools are essential to ensuring the message is clear and those who will be affected by the plan changes have the information they need to be successful.

Next, it is important to train those who are responsible for delivering the message to ensure a consistent representation of the changes. This could include sales management who are not directly delivering the training but are going to reinforce the changes with the sales people after the training is complete. It is essential that the training the sales people receive is thorough. This can be managed by making sure enough time is scheduled for questions from the sales people, engaging the audience to ensure the sales plan changes are understood, clearly articulating the sales strategy then showing how the sales plan changes tie directly to the strategy. Ensuring sales person expectations are clear is essential.

Lastly, consider how you will evaluate the ongoing effectiveness of the plan to ensure the right behaviors, outcomes and results. Once the changes to the sales plans have been rolled out, and the new fiscal year has started, check back in with the sales people and examine the criteria your organization uses to determine sales effectiveness.

Administrative Systems

Still using Excel to manage your sales payments? It may be time to consider Sales Performance Management (SPM) software to enhance sales execution and operational efficiency.

Sales Performance Management (SPM) software, as defined by Gartner, comprises tools and process functions that automate and unite back-office sales processes. It is implemented to improve sales execution and operational efficiency. Capabilities include sales incentive compensation management (ICM), objective/quota management and territory management, as well as talent management functions like appraisal/evaluation management, training, hiring/onboarding, sales coaching systems, gamification and sales performance recognition systems. SPM solutions also provide modeling and analytics capabilities to help businesses evaluate sales assumptions and trends in sales outcomes.[19]

There are many different SPM software providers offering both Cloud applications and traditional on-premise software. According to Karen McCandless, editor of the GetApp blog, the benefits of choosing a cloud-based sales management solution tend to outweigh the advantages of custom-built software.[20] This is because SaaS deployments:

- Cut down on implementation and training time
- Reduce the burden on IT support
- Enable more predictable pricing
- Provide better scalability, allowing you to add or remove individuals on demand
- Enable the company to make updates easily and quickly

Below are 10 of the top Cloud Based SPM Software Vendors:

Company	Website
CallidusCloud	www.calliduscloud.com
IBM	www.ibm.com
Iconixx	www.iconixx.com
Nice Systems	www.nice.com
Optymyze	www.optymyze.com

Company	Website
Oracle SPM	www.oracle.com
QCommission	www.qcommission.com
Salesforce Work.com	www.salesforce.com
SAP Cloud for Sales	www.sap.com
Xactly	www.xactlycorp.com

FIGURE 23: TOP CLOUD BASED SPM SOFTWARE VENDORS

When it comes to identifying your SPM needs, Patrick Stakenas, a former Gartner research director, now president and CEO of Determine, recommends that sales leaders should evaluate the type of sales organization that they have, what their philosophy is, and what corporate objectives they are trying to achieve – for example, are they in close mode, recover mode or acquisition mode. This will provide some initial steer for what they will then be looking for from a solution.[21]

"If you're in growth mode, for instance, you are probably going to need less coaching tools, but you are going to need more incentive compensation or territory tools, or objective and quarter management tools," he says. "If you are in recover mode, you are going to need more coaching tools and you are going to need more sales training and appraisal management tools to help bring the sales force along. If you are in acquisition mode, you are going to need collaboration tools to bring the sales forces together. So, evaluate the type of sales force that you have, the type of environment that you're in as a company, and then approach it with an understanding of what you're trying to accomplish – whether you're trying to expand territories, and be more aggressive with compensation, or trying to coach and nurture your sales reps to be better performers."

In addition to carefully considering how you plan to use the SPM software, do your due diligence when choosing a vendor. Read reviews and ask questions from customers going through implementation and those currently using the SPM. Look at ratings from trusted sources and do side by side comparisons to understand the strengths and challenges of the various SPM solutions. Consider how a new SPM solution will integrate with any systems you currently run. Finally, when you purchase a new system resist the temptations to implement it quickly and abandon the existing system. Run the new program in parallel with your current systems until you are sure the new system is effectively understood and operating well.

Critical Elements of Plan Effectiveness

Throughout this Report we have examined in detail the many elements involved in designing and managing a sales compensation plan. While on the surface this appears to be a simple task, one quickly finds out the design is a sophisticated process. The design of an effective sales compensation includes a clear understanding and grounding in:

- The strategy and key success factors of the business
- A clear definition of the roles, responsibilities and desired behaviors of your sales professionals
- An understanding of common marketplace practices and ways you want to create a competitive advantage
- Behavior science and behavioral economic factors on how to optimally influence desired behaviors.

In our survey, we asked participants to define what elements were most important to them in the design of their sales compensation plan. Many who answered this question thought about this in terms of what other organizations do, and what they do to differentiate themselves. Others saw this question as defining what would be most important to the sales professional and the company. Both perspectives are appropriate.

The survey results are shown below. This clearly indicates the importance of having competitive total compensation levels. Companies favor not having a cap on the sales income opportunity and providing meaningful payout opportunities. Most firms believe that their plans are simple. And finally, they believe they have found the right balance between individual performance and team performance. These are clearly important elements of a successful sales compensation plan.

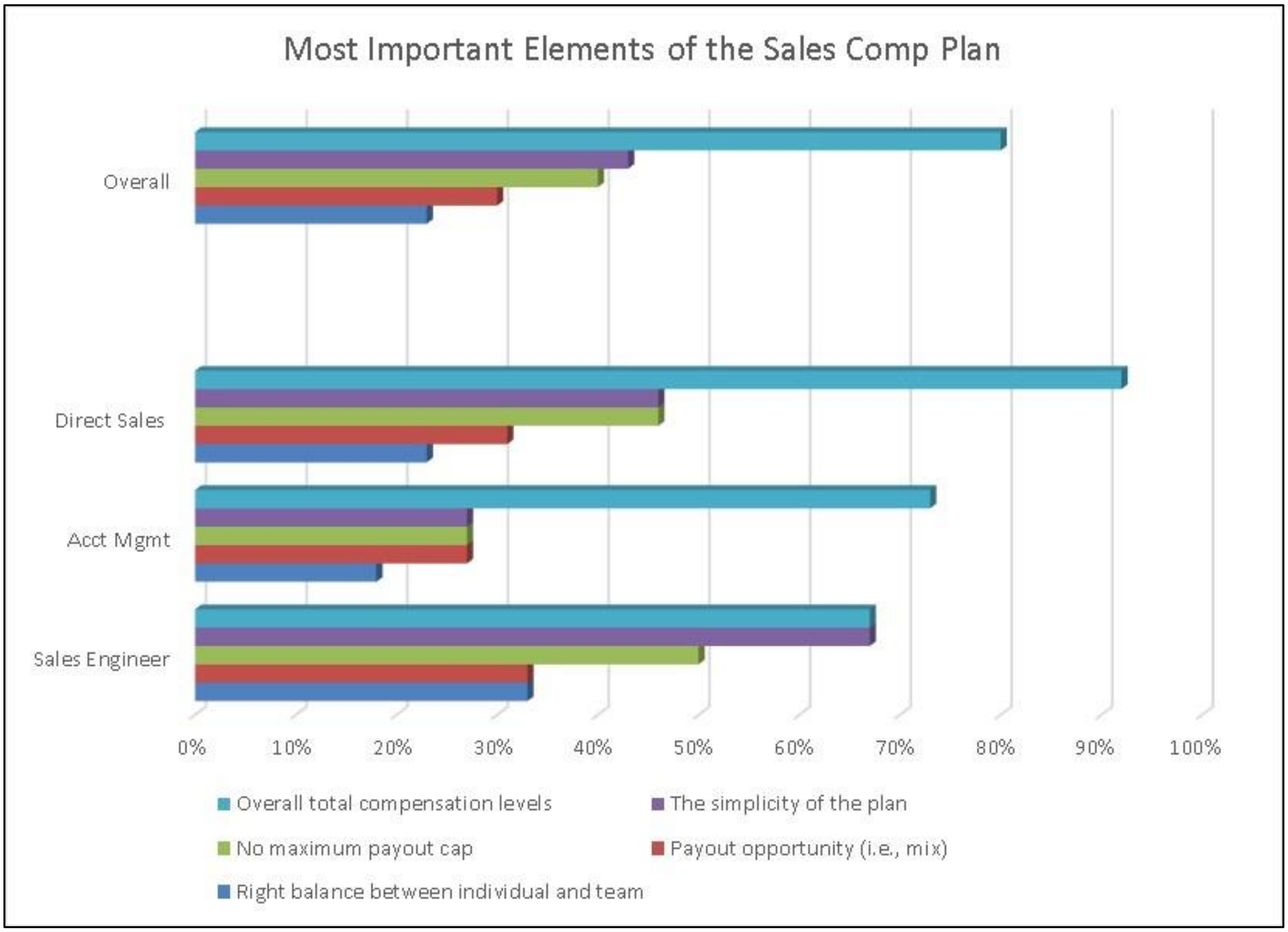

FIGURE 24: WHAT MAKES THE SALES COMP PLAN EFFECTIVE

To summarize the characteristics of best practices, our experience and data from this and other surveys, show that there are five (5) characteristics of these plans.

1. **The sales compensation plan should clearly link to the company's strategy and priorities.**
   This means that the focus on generating business may include retaining and expanding business from current customers, acquiring new customers, or a combination of both. This factor is reflected in the performance measure and the roles for those engaged in sales actions. The key message is to examine what you are paying for and assess whether you are placing sufficient emphasis for your organization to be successful.

2. **The compensation plan should attract (and retain) the kind of people you want and reinforce the behaviors you want.**
   One of the most difficult elements in sales compensation plan is to know whether the plan is truly encouraging and reinforcing the right behaviors. As we discussed earlier, the measures that receive the strongest linkage to the reward systems will likely get more attention than those with little clear impact on behaviors. Sales people (like most people) will interpret what you want from their experience lens. So, the question is whether the sales organization has the kind of talent it needs in the roles that it wants for the work that must be done. Does the plan emphasize "hunters" or "developers", does it emphasize personal initiative or collaboration and effective communication, and does the plan encourage transactions or solutions to customer challenges? There is no "right" model of performance, it depends on your business. There is no "ideal" person, as people may be oriented in various ways. Does the sales compensation plan enable you to attract the talent you want to do the things you want done?

3. **The sales goals should be both challenging and achievable.**
   There is much research on the dynamics of setting challenging goals. Those that are inspired by these goals, and motivated to achieve them most likely see them as also achievable. When they don't, or no longer believe they are achievable, they often set their own targets for achievement that may or may not be consistent with the company's priorities. Conversely, when sales goals are easily achieved, then sales professionals may pace themselves through the time period or find other avenues to generate challenge. Most successful sales people are goal achievement oriented. They want to achieve something that is meaningful, and then be rewarded for this outcome. The sales goals or quotas, the complexity of the measures and sales process, and the relationship of their performance to their payout are all important factors in keeping the sales professional engaged, motivated and driven for success.

4. **Payouts should be meaningful from both the individual and company's perspective.** The performance that achieves the incentive payout reflects the return on the investment of the sales compensation plan. The company views this as the cost of doing business. They want to make sure the costs to achieve the desired revenues and customer profitability are within an acceptable range. From the sales professional's perspective, he or she will need to engage in many actions and time/talent investments in order to realize the income they seek. For them, it is the "return on effort" that is important. In both cases, they are looking for results that justify what was needed to make the investment. This is important to understand when considering the costs of sales and the level of action needed by the sales professional. If there is a belief that the return is worth the investment, then, they will engage again. If not, there will be a problem.

5. **The plan should be simple but not simplistic.** A consistent message we hear from clients when we're engaged in assessing or developing sales compensation plans is to make the plan simple to understand, implement and manage. The simplest plans, however, often are not effective in driving the business in the desired direction. Conversely, sales compensation plans that attempt to do too many things, address too many elements of the business, will also not be effective. So, the plan should be simple to understand, and be effective in encouraging and appropriately rewarding the desired results. It is just that simple and that important.

Appendix

Sources of References

Anaplan, *Accounting for Sales Incentives Under ASC 606,* https://www.anaplan.com, April 12, 2017.

Barton, Scott, April 2015, *Accelerating Sales Without Breaking the Bank*, https://Radford.aon.com/

Burke, Ron and Cullen, Scott, Willis Towers Watson – HR Matters – Trends in Sales Force Incentive Practices, towerswatson.co.uk, December 2014

Cichelli, David, The Alexander Group, Inc., *Sales Compensation Trends Executive Summary*, www.worldatwork.org , 1-4-2013.

Cichelli, David, The Alexander Group, Inc., *Are Sales People Coin Operated?* Article – Web, https://www.ntcassoc.org , February 2010.

Cichelli, David, The Alexander Group, Inc., *2017 Sales Compensation Hot Topics Survey*, Sept., 2017

Clarkson, Joe and Tse, Darren, Willis Towers Watson, *4 Levers to Help You Communicate Your Sales Comp Plan,* www.worldatwork.org *, January 2014.*

Davey, Neil, *What sales performance management tools do you need?,* https://www.mycustomer.com, March 7, 2016.

DiMisa, Joseph, Sibson Consulting, *Quota Setting in Today's Market*, www.worldatwork.org , January 2013.

Egloff, David, TransUnion, *Has Sales Compensation Become Too Complex?* Workspan Magazine, WorldatWork, February 2016.

Farrington, Rhonda, Malanowski, Susan, and Wilson, Thomas, *Rewarding Sales Performance*, www.wilsongroup.com , June 2011

Greco, Jenna, The Alexander Group, Inc., *The Best 5 Ways to Communicate Your Sales Comp Plan,* www.worldatwork.org, September 2017.

Havely, Jill and Randall, Jon, Willis Towers Watson, *Tips for an Effective Sales Compensation Plan Rollout – How to Manage Change and Communication,* www.worldatwork.org , November 2016.

Hightower, Randy, Pasko, Bob and Terry, Malika, IHG, Sales Conference Handout – *Working Collaboratively to Deliver Effective Sales Communication*, Print and Presentation, August 2017.

Hilbert, Melissa A. and Travis, Tad, Gartner – *Magic Quadrant for Sales Performance Management*, https://www.gartner.com, March 28, 2017.

Johnson, Jacob, The Alexander Group, *Avoiding 3 Pay Mix Pitfalls*, www.worldatwork.org, September 2017.

McCandless, Karen, *How to Choose the Best Sales Management Software*, Blog, https://www.gartner.com, 3/23/16.

Mercer, Sales Compensation Effectiveness Best Practices and Trends,

Meisenheimer, Mike, The Alexander Group, *The Pursuit of Sales Compensation Automation: 4 Steps for Success*, Workspan Magazine, WorldatWork, November 2016.

Ostrow, Peter, Aberdeen Group, *Beyond the Quota – Best-in-Class Deployments of Sales Performance Management*, www.aberdeen.com , January 2014.

Rose, Donya, Xactly Corp, WorldatWork Sales Compensation Conference, *The End of Weighting Relative Rate Plans to Direct Sales Focus*, 8-13-17.

Rossi, Shawn, Mercer, *Sales Compensation Effectiveness Best Practices and Trends*, Presentation-Montreal Roundtable/Print, March 26, 2014.

Ruckes, Walter (VP, Sales & Channel Engagement), BI Worldwide Total Rewards for Sales 2013, *Improving Results with the Right Mix of Rewards*, www.biworldwide.com

Pang, Albert, *AppsRunTheWorld,* https://www.appsruntheworld.com ,June 30, 2016.

Proskauer*, Common Pitfalls to Avoid When Drafting Global Comp Plans*, www.proskauer.com, February 2010.

Price Waterhouse Coopers and Financial Executives Research Foundation, *Revenue Recognition Survey-Readiness update, impacts and remaining challenges*, ASC 606, Web, 2016.

Sales Management Association Sales Comp Plan Policies and Guidelines, www.salesmanagement.org, November 2010.

Wallace Management Group, http://www.wallacemanagement.com , November 11, 2009.

Wasserman, Elizabeth, *How to Set up a Sales Compensation Plan*, https://www.inc.com 12-16-09.

Wilson, Thomas B. *Wilson Group Sales Compensation Survey Report 2014-2015,* November 2014.

Wilson, Thomas, *The 5 Essential Drivers of Success for Sales Compensation Plans*, Print/Web www.wilsongroup.com , October 2014.

Willis Towers Watson, *CSR General Industry Sales Compensation Survey Report - Short Term Incentive Analysis*, PDF, 2016.

WorldatWork and Underwritten by Open Symmetry, *Sales Compensation Programs and Practices Report*, www.worldatwork.org, October 2016.

WorldatWork, *Sales Compensation Practices Survey*, www.worldatwork.org, May 2012.

Xactly Corp, *Sales Compensation Administration Best Practices*, www.xactlycorp.com, 2015.

Xactly Corp, *Sales Incentive Compensation 101-For Emerging Companies*, eBook, www.xactlycorp.com, 2013.

Xactly Corp, *Revenue Recognition*, www.xactlycorp.com, February 2, 2017

List of Figures

Overview of Wilson Group

Our Mission:

"To help our clients assess, develop and implement performance systems and total compensation plans that translate strategy and values into action."

Primary Services:

- ✓ Executive total compensation
- ✓ Board of directors' governance structure and compensation
- ✓ Sales effectiveness and total rewards
- ✓ Employee total compensation and rewards
- ✓ Special studies in market trends and practices

Key Differentiators:

- ➢ Our expertise – You will work with highly seasoned, experienced professionals
- ➢ Our collaborative approach – We engage our clients in a collaborative, open communication fashion
- ➢ More cost effective – Highly customized, value added to address just what the client needs
- ➢ Innovative insights – Simplifies complex data into easy to understand information and actions plans

Leadership and Primary Network:

- Thomas B. Wilson, President, twilson@wilsongroup.com
- Susan Malanowski, Principal, smalanowski@wilsongroup.com
- Rhonda Farrington, Principal, rfarrington@wilsongroup.com
- Our Network of additional specialized resources:

  Compensation Insights – A National Network of Boutique Compensation Consulting Firms

  Marsh & McLennan Agency LLC – Executive Benefits

  ISP Advisors – Global Equity Compensation

Contact us at: www.WilsonGroup.com
978-371-0476
info@wilsongroup.com

[1] Burke, Ron and Cullen, Scott,Willis Towers Watson – HR Matters – Trends in Sales Force Incentive Practices, towerswatson.co.uk, December 2014

[2] WorldatWork, *Sales Compensation Practices Survey*, www.worldatwork.org, May 2012.

[3] WorldatWork, *Sales Compensation Practices Survey*, www.worldatwork.org, May 2012.

[4] Cichelli, David, The Alexander Group, Inc., *2017 Sales Compensation Hot Topics Survey*, Sept., 2017

[5] Burke, Ron and Cullen, Scott,Willis Towers Watson – HR Matters – Trends in Sales Force Incentive Practices, towerswatson.co.uk, December 2014

[6] Rossi, Shawn, Mercer, *Sales Compensation Effectiveness Best Practices and Trends*, Presentation Montreal Roundtable/Print, March 26, 2014.

[7] Barton, Scott, April 2015, *Accelerating Sales Without Breaking the Bank*, https://Radford.aon.com/

[8] Rossi, Shawn, Mercer, *Sales Compensation Effectiveness Best Practices and Trends*, Presentation Montreal Roundtable/Print, March 26, 2014.

[9] Barton, Scott, April 2015, *Accelerating Sales Without Breaking the Bank*, https://Radford.aon.com/

[10] DiMisa, Joseph, Sibson Consulting, *Quota Setting in Today's Market*, www.worldatwork.org, January 2013.

[11] *Wallace Management Group, November 11, 2009*

[12] *Wallace Management Group, November 11, 2009*

[13] *Xactly, Revenue Recognition, February 2, 2017*

[14] *Revenue Recognition Survey, Price Waterhouse Coopers, 2016*

[15] *Xactly, Revenue Recognition, February 2, 2017*

[16] *Xactly, Revenue Recognition, February 2, 2017*

[17] *Anaplan, Accounting for Sales Incentives Under ASC 606, April 12, 2017*

[18]*The Alexander Group, Inc. 2017*

[19] *Gartner, 2017*

[20] *"How to Choose the Best Sales Management Software", Karen McCandless, March 23, 2016*

[21] "*What sales performance management tools do you need?", Neil Davey, March 7,2016*