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6 REASONS TO RETHINK SALES COMPENSATION PROGRAMS

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Many organizations are enhancing their sales compensation programs to better meet the needs and challenges of the modern world. But how exactly are companies rethinking their sales comp programs in response to these factors?

Specifically, we see six reasons prompting organizations to make these changes:

1. The need for more agility to manage within an environment of high growth and/or rapid change.
2. Less certainty about the influence and contribution of the sales role.
3. Changing perspectives on the type of sales culture needed to drive success.
4. The limits of the "keep it simple" rule.
5. A sea change in sales channel optimization and customer engagement.
6. A growing pressure to modernize traditional sales talent hiring approaches.

1

Building Sales Compensation Agility

Organizations are seeking three different types of agility:

Talent deployment agility. Companies that ramp up headcount throughout the year need the agility to reassign accounts and/or territory patches as new hires come on board, without sales compensation getting in the way. For example, we observed one such organization executing plans for rapid growth and scaling up its salesforce both domestically and globally. The company took three important actions to create the needed talent deployment agility. First, they transitioned from a sales commission design (where the seller is paid a percentage of actual revenue) to a quota-based incentive plan approach (where a percentage of quota attainment determines the percentage of target incentive earned). This gave them the agility to redeploy highly seasoned talent to some of their smaller but higher-growth accounts and markets, without impacting compensation. Second, they introduced more frequent windows for reviewing and adjusting assigned accounts/territory patches and recalibrating sales goals accordingly. Third, they took a less purist approach to pay mix differentiation by role, streamlining differences to make it easier to move talent between roles.

Goal-setting agility. Several of our clients are entering new markets (geography/segment/solution) where market demand is dynamic and fast changing. In these markets, forecasting demand over a full-year period is challenging. Consequently, until their ability to forecast improves, they are using shorter time horizons for goal setting (half yearly or quarterly). At the same time, they are introducing controls to avoid a potential scenario where lumpy goal attainment delivers higher rewards than consistent performance over the same performance period.

Decision-making agility. At one of our clients, leadership was spending an inordinate amount of time resolving debates regarding how to address the impact of unusual events and circumstances on sales compensation. The need for leadership intervention slowed decision-making and created a perception of low transparency and fairness, which in turn affected salesforce morale. The solution? The company developed a clear set of governance guidelines that anticipated unusual circumstances and transparently laid out how they would be handled. With the new governance in place, decision-making bottlenecks have been avoided, communication is viewed as more transparent and valuable leadership time is freed up.

To Review or Not to Review

Do you need to overhaul sales compensation governance? If you have trouble answering any of these questions, it may be time for a review:

1. To what extent do we have clear, detailed and widely accepted sales compensation principles that guide our approach?
2. Who is accountable for sales compensation in our organization?
3. How many sales incentive plans do we have, covering how many participants and at what cost?
4. How effective are our sales incentive plans? Do they drive the right behaviors? How are we mitigating against driving the wrong behaviors?
5. How will we handle unusual circumstances (e.g., unusually high sales attainment, unexpected loss of a major account, pricing change, unusual external market change that affects goal attainment, etc.)?

2

Operating in an Uncertain Environment

For a growing number of companies in today's digital and data-driven world, the initial sale involves persuading the customer to embrace a particular platform, solution or service. Often, there is no upfront usage commitment and therefore, no known contract value at the time of close. This selling scenario presents two areas of uncertainty: uncertainty regarding the dollar value of the sale at close, and uncertainty about how much the selling role can influence usage levels that will ultimately drive actual revenue. Addressing these uncertainties is somewhat less of a sales compensation challenge when the selling role is a hybrid (hunter/farmer) position responsible for building an ongoing book of business. However, when the seller is in a pure hunter role, companies wrestle with how best to reward the winning of a new account, when the revenue value of the new relationship a) is not yet known, b) may not be known for many months, c) has potential to change over time and d) may depend on how well other roles (technical onboarding, account management, customer service, etc.) engage with the customer. To address these challenges, we see companies taking the following actions:

- Paying a bonus upon closing of a new account, often within a tiered bonus structure based on indicators of the quality and likely future value of the sale (e.g., strategic vs. non-strategic, scale/footprint, nature/breadth of solutions adopted, etc.).
- Providing a defined post-close time window during which the hunter role will earn revenue credit against an assigned revenue goal. Some companies take this approach a step further and establish clear triggers for applicable post-close revenue credit time windows based on the nature of the sale (e.g., longer window for deal types with materially longer ramp-up cycles and/or need for a longer period of seller post-sale). This sales crediting approach has an additional benefit: Because sellers know they will earn revenue credit for any portion of the post-close time window that carries over into the subsequent performance period, it removes any incentive for sellers to hold back on closing deals late in the performance period. Of course, this approach does require the ability to track revenue post-close on a *per deal* basis.

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3

Thinking Differently About the Sales Culture

Conventional best practices for sales incentives plan (SIP) design dictates that metrics should be set at the individual seller level whenever possible. However, one of our clients decided on a very different approach after observing some troubling behavior: Sellers representing different solutions were competing against each other for available client budget and high performers were resentful of any weight on team level measures because it reduced their overall payout. Sales leadership recognized that to successfully win and grow large global accounts, they needed to transform their culture from one characterized by a mercenary attitude (i.e., "everyone for themselves") to a culture of high collaboration across roles and geographic boundaries.

To drive this culture change, they decided to turn the SIP on its head to drive a "shared fate" mindset. First, they clarified the new growth strategy and how sales roles needed to work together to execute the strategy. Then, they established team-level goals and shifted the weighting of individual/team metrics from 80/20 to 40/60 — clearly driving home the message that "we succeed/fail together." The new approach reenergized regional sales leaders and their teams. An important nuance for this particular business is that there are constraints on inventory, so the company is continually making strategic decisions regarding which customer will receive the inventory and at what price. Under the old SIP, sales roles and geographies competed for inventory and resented corporate decisions that "robbed" them of sales attainment. Under the new SIP, everyone is keen for corporate to optimize the value of strategic assets.

4

Recognize That "Keep It Simple" Works Great . . . Until It Doesn't

Another best practice mantra for SIP design is "keep it simple." Generally, this is excellent advice. For example, having too many metrics, hurdles and gates dilutes sales focus and introduces complexity that tends to reduce salesforce understanding and engagement. With this in mind, many companies design their SIPs around a single measure: revenue. This singular focus on top line growth can work well for many years. However, several of our clients are looking for creative ways to introduce a more strategic focus into their sales comp plans. Although the specifics will vary, the consistent objective is to drive greater focus on the strategic value of sales, not just the volume of sales. For some companies, this is about driving a focus on more strategic accounts; for others, the focus is on selling more strategic products; and for others, it's about driving higher margins. We see clients utilizing techniques such as sales credit accelerators, payout modifiers and supplemental "bounty" plans to drive the right focus and excitement.

For example, one client replaced the MBO component of their SIP design with a contract negotiations bonus, which successfully motivated account managers to have challenging — but necessary — conversations with customers. The resulting gain for the company exceeded all expectations.

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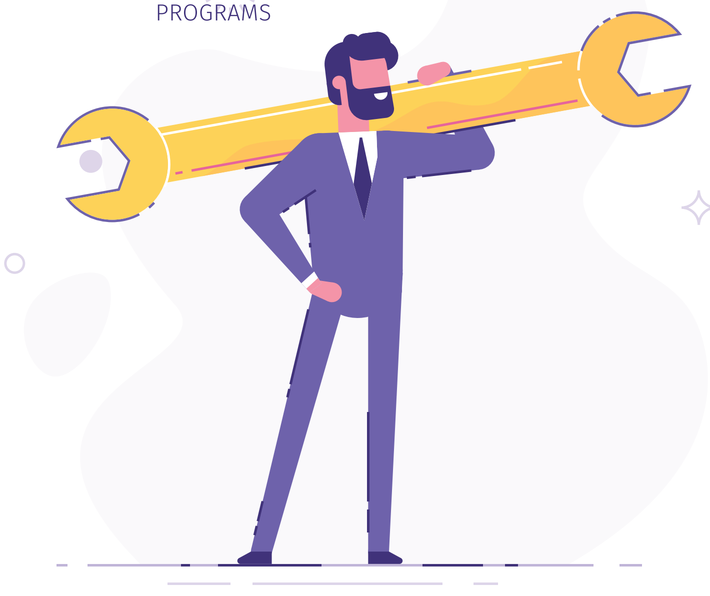

As companies embrace new strategies for competing in a modern world, they are rethinking their SIP designs and, in some cases, bucking conventional wisdom.

5

Adapt to Change in Sales Channel Optimization and Customer Engagement

Just as cloud-based technology has fostered the explosive growth of e-commerce, artificial intelligence (AI) is fostering a new world of tech-enabled customer service and self-service, significantly reducing the need for the intervention of a seller and the cost-of-sales for the mass-market customer segment. Add in the impact of data engineering and it's clear that new non-selling roles are having a more prominent impact on cost-of-sales, post-sales support and ongoing customer engagement. Although some clients are exploring the implications for SIP eligibility of these non-selling roles, our advice is to keep SIP eligibility firmly focused on roles that are directly involved in selling. That said, for some non-selling roles, we do see clients considering the use of payout modifiers tied to salesforce and/or sales team attainment as a way to create a shared fate between salesforce success and non-selling roles.

6

Rethink Traditional Hiring Approaches. They Aren't Working

One of our clients was faced with a frustrating reality: After hiring a number of "star performers" from larger competitors, each with a proven track record of success at their previous employer, they found the former stars struggling to be successful in their new company environment. Eventually, the company came to the conclusion that they needed to rethink the "traditional" sales role profile — and define a new *sales success profile* tailored to their current needs. The company invested time and effort to develop and validate a success profile supported by online psychometric testing and interview-based assessment tools. They are now hiring candidates with a complement of skills and preferences better suited to delivering faster ramp-up and selling success. Although this example is not about a sales compensation action, we include it as an example of how clients are rethinking past assumptions and realigning levers of salesforce effectiveness. As we all know, not *everything* is solved by sales compensation.

Moving to Modern SIP Designs

As companies embrace new strategies for competing in a modern world, they are rethinking their SIP designs and, in some cases, bucking conventional wisdom. The types of changes these companies are pursuing include rethinking sales roles and success profiles, rethinking the type of selling culture they need to be successful (and what SIP design will best foster desired culture), and rethinking how to drive strategic imperatives that go beyond driving top-line growth. We encourage you to engage in some "rethinking" of your own and identify ways to make your organization's SIP design more modern and effective. **WS**

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