



Marketing Your Sales Compensation Plan

By Joseph DiMisa

Blood, sweat, tears and weeks of number crunching. That’s what it takes to design a great sales compensation plan. But once the plan design is approved, then what? Too many companies stop right there and fail to take the next step—marketing the plan to the sales force.

Unfortunately, no matter how elegant and seemingly intuitive the design, a sales compensation plan that is not properly implemented and communicated runs the risk of being misunderstood and underachieved. Even the best compensation plans must be “sold” to the field. If sales representatives do not have a clear idea of what to do and why to do it, they may continue in past patterns rather than change their behavior to take on the new set of challenges required to meet the new sales plan.

Research shows that five leverage points hold the key for improving the ROI of a pay and performance system. These include knowledge of base pay, total pay, performance, external market comparison, and access to pay information. So to boost pay satisfaction—and performance and productivity—open up the compensation “black box” and let the pay plan gain traction in the field.

Effective marketing starts with a clean message about desired sales goals and clearly communicates the objectives, metrics, and mechanics of the sales compensation plan, allowing sales reps to see the link between sales strategy, their behavior, and their earnings opportunities.

As critical as the message, is the medium in which it is delivered. Perhaps more so than any other employee group, sales reps need to get the message in a personal forum and format. Sales compensation is driven by the individual so the higher the touch in the communication, the more the message hits home and stays there.

Communication Essentials

Four topics must be addressed in any plan communication:

- 1 Strategic objectives
- 2 Plan components
- 3 Compensation mechanics
- 4 Incentive calculators/examples

Each topic interlinks with the others to deliver and support a comprehensive message about the “Why?”, “What?”, “How?”, and most importantly, “How Much?” of the sales compensation plan. The communication themes and approach should align the new sales compensation plan with the organization’s strategy and business issues. Including the four topics in plan communication helps sales representatives to more fully understand what results the sales organization must achieve in the plan year, what behaviors are required to achieve the results, and how success will be rewarded.



Strategic Objectives Explain the “Why”

Presenting a strategic overview to the compensation plan is fundamental. To buy into the plan and internalize it, sales reps must understand the strategies and business issues facing the company, and the role and response required by the sales organization to address these strategies and contribute to the company’s success.

The communication must explain both strategic and financial objectives, providing sales representatives with a clear understanding of how success is defined. The discussion of strategic objectives should also validate how the new sales compensation plan supports the strategies and objectives of the organization by driving the “correct” behaviors among the sales force. It is valuable to explain the compensation philosophy employed to develop and design the sales incentive plan. The discussion can further emphasize the key objectives and expectations for the sales organization’s performance over the coming fiscal year.

If the new plan differs significantly from previous plans, explain the key changes and/or enhancements to the new plan. Depending on the audience and the shift in sales strategy or compensation design, highlight key steps and/or the players in the design process. For example, if credibility is an issue, stress that focus groups or interviews with reps were integral to the design process. Differentiating the new plan from legacy compensation plans and explaining the methodology will help the field force fully appreciate the degree to which they may need to change their sales behaviors and activities to drive the company’s sales results, and ultimately, their own financial success.

Plan Components Identify the “What”

Next, outline the “nuts and bolts” of the new sales incentive plan, detailing included jobs, compensation levels (base salary and incentive), pay mix, performance measures, and measurement/pay periods.

Clearly defining the performance measures ensures that sales reps understand which products, types of revenue, and/or types of sales objectives to focus on. Explain the weightings for each measures (as a percent of total sales incentive) to let reps know where to focus their sales attention and energy. *Exhibit 1* shows a simple, but effective visual of what the plan components are and how they work together.

EXHIBIT 1: DISPLAYING THE NUTS & BOLTS OF THE SALES COMPENSATION PLAN

Major Account Executive

Job Role

- Negotiate contractual agreements with high profile strategic clients
- Build and strengthen relations with key clients through effective account management

Mix & Upside

Pay Mix	60/40
Current TTC	\$100,000
Upside	3.0X
Payout at Excellence ¹	200%

Measures & Weights

Total Incentive 40% of Total Compensation \$40,000		
Total Revenue 50% of Incentive \$20,000	New Customer Revenue 30% of Incentive \$12,000	Strategic Product 20% of Incentive \$8,000

Mechanics & Links

MEASURE 1		MEASURE 2		MEASURE 3	
Mechanic Type	Quota	Mechanic Type	Quota	Mechanic Type	Objective
Threshold	50%	Threshold	Step - 50%	Threshold	No
Cap	No	Cap	No	Cap	Yes
Accelerated	Based on 100% Attainment of first 2 measures	Accelerated	Based on 100% Attainment of first 2 measures Based on MPS	Linkage	No
Linkage	No	Linkage	No	Measurement	Annual
Measurement	YTD Annual	Measurement	YTD Annual	Payment	Annual
Payment	Quarterly	Payment	Quarterly		

Job Role: Brief summary description of the key responsibilities and accountabilities for the position.

Mix & Upside: The current and recommended pay mix and upside for the position as well as the proposed payout at excellence (200% of target).

Measures & Weights: Proposed performance measures and weights.

Mechanics & Links: Detail of recommended mechanic type, thresholds, caps and accelerators and measurement and payout periods.

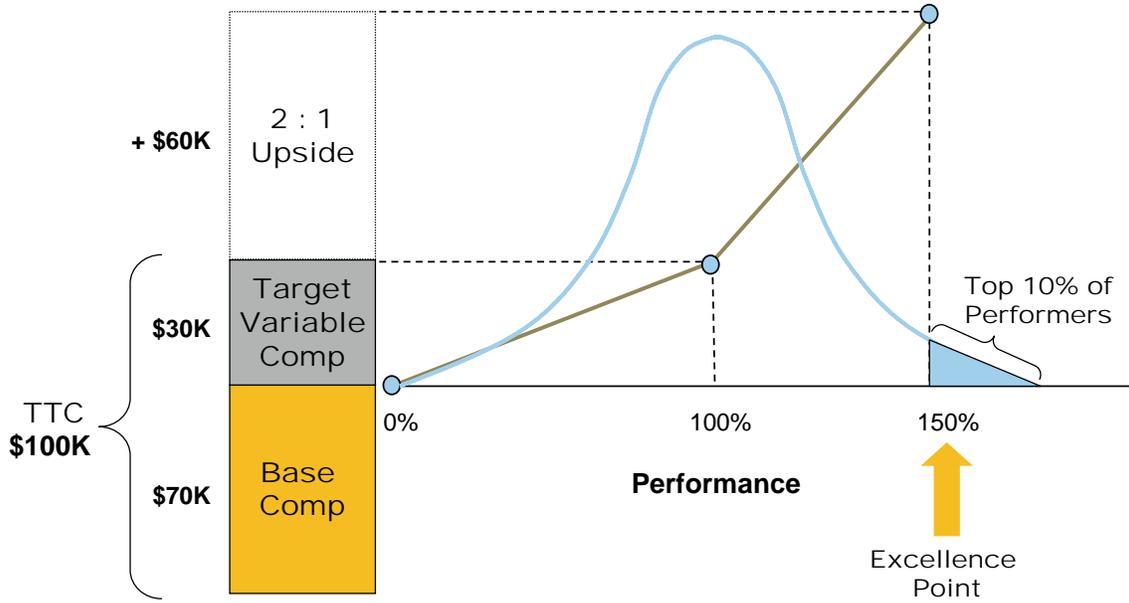
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Plan Mechanics Focus on the “How”

Plan mechanics detail how incentives actually pay out, given the sales rep’s level of achievement. Include payout formulas and/or payout rate tables to emphasize payout levels for corresponding levels of sales achievement. Stress the selling points of the plan, e.g., no cap—unlimited earnings potential, accelerators, premiums for certain products, etc. See *Exhibit 2* for an illustration of a payout curve that communicates the earnings opportunities available under a plan.

EXHIBIT 2: ONE APPROACH TO EXPLAINING THE “HOW”

Upside Represents the Desired Acceleration for Above-Target Performance

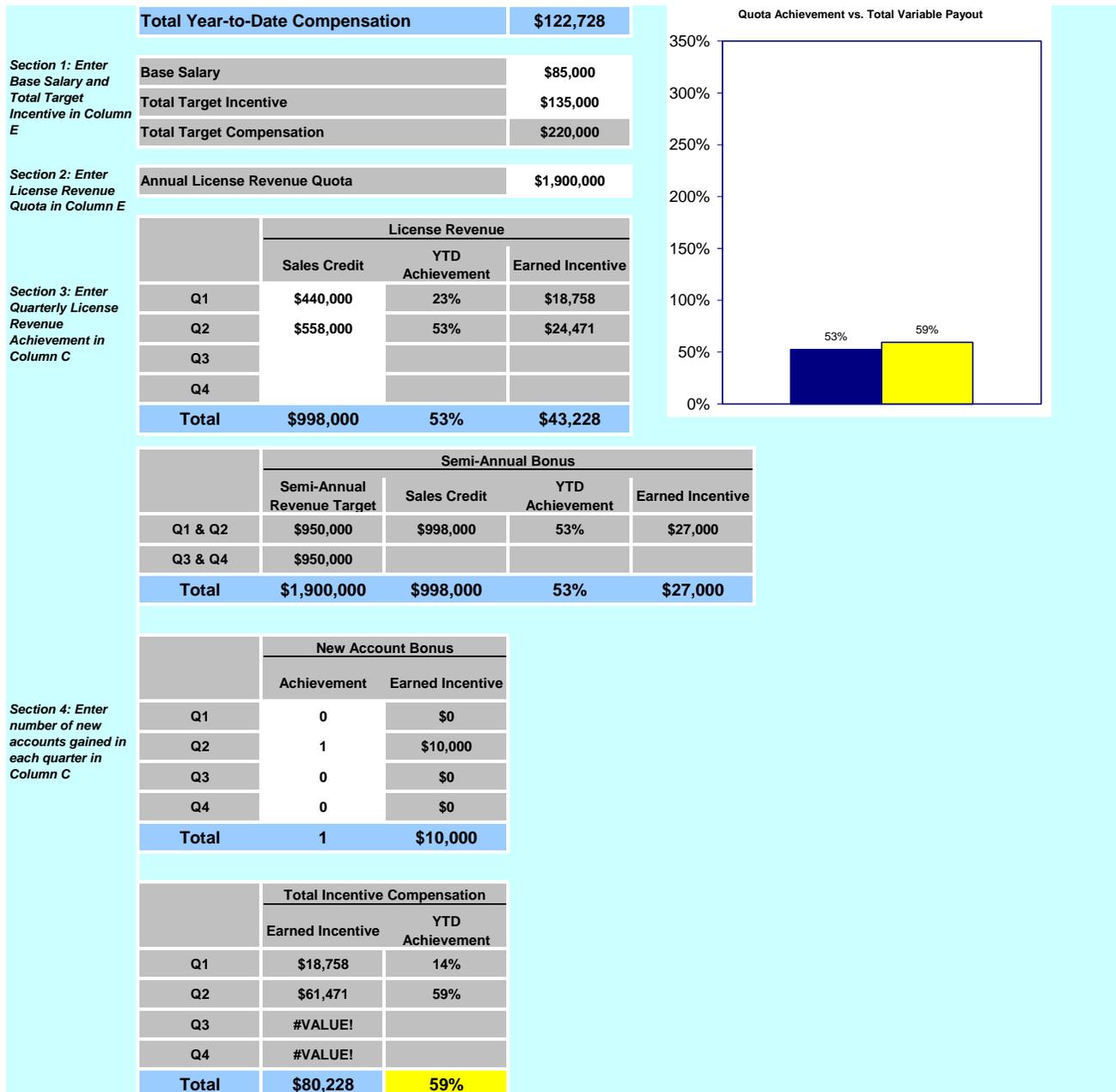


Actual compensation of \$160K (\$70K in base, \$90K in variable) at the excellence point.

Plan Calculators/Examples Illustrate “How Much”

No communication is complete without sample calculations of incentive payouts under different sales achievement scenarios. As soon as most sales reps learn of a new plan, they break out their calculators to understand how it will impact their bottom line, but not all of them get the calculation correct the first time. Sample calculations are a simple way to control the errors so plan participants can understand the full value and potential of the new compensation plan. Examples allow reps to see, in real terms, how the plan will affect them and what behaviors are necessary to maximize earnings and achieve the greatest rewards. *Exhibit 3* displays an illustrative Compensation Calculator.

EXHIBIT 3: COMPENSATION PLAN CALCULATOR



If the organization plans to provide any special incentives (e.g., SPIFs) outside the new plan, communicate them separately. A separate, yet tandem communication can create excitement about the extra “bells and whistles” without drawing attention from the key messages and behaviors of the new sales compensation plan.



Successful Communication Methods

The format used to communicate the message is as important as the message itself. Research shows that employees prefer to hear messages directly from their supervisors, yet 80 percent of the time, communication about pay emanates from the grapevine. Unfortunately, what gets passed on are other people’s impressions—and dissatisfactions—with the program. Within the field force, cascading communication can ensure understanding, dispel dissatisfaction, and create a receptive, motivating environment.

An effective cascade starts at the top, with the head of sales outlining the “why”—the strategy and objectives behind the plan. The key is to really engage reps in these messages. Ideally, the new plan should be rolled out at the annual sales meeting, underscoring the linkage between the sales plan, the compensation plan, and the required behaviors to make it all work. There is no underestimating the rah-rah effect of unveiling the annual compensation plan in conjunction with the annual sales goals, new product introductions, and other key messages.

Following the big picture presentation, a large group forum is also effective for providing an overview of plan mechanics—not the nitty-gritty, but the essential “how the plan works” messages that link up with the strategy. Communicating this overview can occur in Regional or District breakout groups. These sessions can be both information/Q&A forums as well as working sessions where teams engage in discussing and tackling challenges.

Back in the field, a rep’s manager should schedule a one-on-one with each rep to focus on how to succeed under the new plan. The two can engage in strategizing ways to maximize incentive opportunities.

Written communication should serve as a follow-up to the group and team rollout sessions. The material must echo the group messages and present the plan mechanics in clear, straightforward terms. Highlighted brochures or brief, to-the-point plan documents deliver the critical messages most effectively, and safeguard against confusion or misunderstanding. The challenge is to be succinct yet comprehensive, hitting upon all key points critical to the success of the compensation plan and the sales organization.

Many organizations use their written plan communication for dual purposes—communicating the plan details as well as cramming in a laundry list of administrative guidelines. Such details often employ a heavy dosage of “legalese,” whether actual legal regulations or simply business processes that require formal language. Documents written in formal, legal terms tend to be intimidating; they are difficult to read and understand easily. Faced with such a document, the audience often will skim it, possibly missing key messages. The solution is to create two documents, a plan description

that markets the plan, containing the four essential topics, and a companion piece that includes administrative guidelines. The guidelines may be formatted as a list of “Frequently Asked Questions” that puts the legal requirements and other dry, but necessary terms and conditions into a clearer, more easily understood context.

The final issue may be to intranet or not to intranet. The answer depends on how the sales force accesses and uses the intranet. It is always a good idea to have the plan details and guidelines available on the intranet for reference. However, if your company prefers electronic communication to a hard-copy booklet, make sure the plan highlights and guidelines are also available in a downloadable PDF version—a copy in hand is often easier to reference than one on the intranet.

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What is the gamble involved in marketing the sales compensation plan? Field sales will likely be more satisfied with their pay. Reps will understand why the plan rewards certain behavior. The entire sales team will have the motivation to pull together to break through challenges and strive for peak performance. Given these outcomes, it clearly pays to market.

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