10 Do's and Don'ts of Sales Force Compensation

The challenge of designing sales force compensation plans is to create an environment where sales people are motivated as powerfully and as transparently as possible – with as many obstacles as possible removed so they can maximize their results – and where the company's greater goals are also being met. Those goals could include achieving profitability targets, increasing revenue, controlling expenses, and recruiting and retaining the desired sales force.

When compensation plans are structured correctly, it is possible to achieve all of those goals at the same time. Sales people can be paid the maximum possible while ensuring that corporate expenses are covered and profitability goals reached. Goals of the sales team and executive management can be aligned, with it being clearly in everyone's interest to maximize revenue and control expenses. The company that structures its strategies correctly and with the right partner can gain a competitive advantage over other businesses by drawing the right people to the business almost magnetically.

Over the past 25 years, through designing and implementing a wide variety of merit-based compensation strategies and working with hundreds of companies, CompensationMaster's consultants have learned many lessons relating to structuring compensation. To optimize results of any compensation offering, here are some do's and don'ts:

Do's and Don'ts of Sales Force Compensation

Don't assume you know what your sales associates want.

Talk to them and ask what style of compensation they would like. When we do focus groups and online surveys of sales associates, we often see situations where managers are surprised by some of the things the sales force says. It's easy for perceptions to be skewed by a few vocal people, and even managers who do a great job of having their finger on the pulse can find that the needs of sales associates have shifted due to new competitors entering the market or economic changes.

It's important to consider issues beyond commissions, because those can have a powerful impact on motivation. The company may be spending money on benefits that are no longer wanted. Technology changes rapidly, and tools can become outdated fast. Marketing may be delivering collateral the sales force doesn't value the way it used to. Even office furniture and fixtures can make a difference. You want to determine if you are offering the combination of services and support the sales associates need – you can often identify opportunities to reallocate expenses to spend money on the things that matter more now.

Do take this opportunity to re-examine sacred cows.

Re-examine the company's business model. Why are people working for you rather than a competitor? What sets you apart? Do you have a clear, defined value proposition? If you do, your compensation plan should support your value. If not, you may have some changes to make.

Don't be afraid to question long-standing policies or services. Just because your sales associates negotiated for something years ago doesn't mean they still want or need it. Put everything on the table and don't be afraid to craft a vision that is brand new – even revolutionary. You'll be surprised at how much energy a brand new, crystal clear value proposition can create.

Do treat everyone fairly and consistently.

If you have longevity bonuses or other features built in that give one group of people a built-in advantage, this is a good time to remove them. The best way to be fair is to give everyone the same opportunity to excel – and to pay them based on current production, not what they did in the past or might do in the future. When you do this, you build in a level of transparency and trust that is deeply appreciated by your sales people.

Do offer a variety of compensation plans.

The reality is that not all sales people are the same, and what motivates them isn't always the same. Someone who has just joined your company will need more training; a top producer may want administrative assistance or more control over money spent on marketing and lead generation. Personal issues come into play too – someone who has college-age children or is getting close to retirement might be more risk-averse and prefer a compensation plan that offers greater security. Or they might be ready to go for broke and do whatever gives them the chance to make the highest income.

The simple fact is that offering a variety of compensation options makes your company more competitive – your sales associates can evolve their capabilities and grow in their careers, and get compensated appropriately. They don't have to leave your company to get a different style of compensation that is more suitable to their current situation.

Do use business modeling software to project results ahead of time.

When you are making significant changes to your company's sales force compensation, it is essential to know ahead of time the impact those changes are likely to have on total revenue and profitability. You can do projections in accounting software or

Excel, but using business modeling software such as CompensationMaster's makes it easier to see the big picture as well as interpret the nuances.

Do make sure the sales force wins.

Oftentimes, sales associates are reluctant to have commission structures changed because they believe any change involves money coming out of their pocket. But if your new plans are designed correctly, sales associates should be able to make more than ever before.

You also want to make sure they win on the support and services issues. This is one reason the focus groups are so important – when you know what the sales force cares about, you are better able to re-allocate expenses to give them what they want.

A sales force full of people who are powerfully motivated and have had disincentives to greater production removed is going to propel the company to increase revenue like never before.

Don't skimp on training managers.

Make sure your managers understand the vision and know how to sell it. If they don't fully understand the value behind your new plans, you won't get the results you are expecting. So make sure you invest in training them and getting them excited.

Don't make exceptions.

There will be people who push back about the new compensation plans. But don't make exceptions or special deals to keep them satisfied. That undercuts the whole structure of your compensation strategy and damages your integrity.

If there is a strong reason to create an exception, instead of making it an exception, consider making it one of your public plans. Hold it to the same standard of profitability as the other plans, and make it available to everyone.

Do measure results.

There are a variety of numbers you should track when you change compensation plans, including the increased productivity of people who are on the new plans, enhanced recruiting, retention of sales associates, and more. Start with a benchmark before you introduce the new plans and track important statistics over the year after you launch the new structure. You'll find it easier to report on ROI, as well as to see which offices or regions are surpassing others.

Don't neglect updating plans.

Merit-based compensation plans are not something you can design once and leave alone forever. They need to be updated regularly, partly to meet new competitive situations as other companies enter and leave your market, and partly to take into account the changes in the CPI and prices in your market. You also want to update plans whenever you make an acquisition or engage in a merger. This is the best way to keep your company nimble and aggressive in your market.

Summary

When you decide to restructure your merit-based compensation plans, you gain an opportunity to explore your company's value proposition, defining it more clearly and reinforcing the value you bring to your sales associates. You also acquire the ability to make your business substantially more nimble, getting everyone on the same page and moving powerfully in the same direction. That makes you better able to respond to competitive pressures and market changes. Of course, you should also gain a substantial increase in revenue, with solid gains from the current sales team becoming more productive as well as a boost from easier recruiting and retention.

David J. Cocks, Author

David J. Cocks is the president of CompensationMaster, a consulting firm that helps commission-based businesses develop and introduce true merit-based compensation plans that improve recruiting and retention, and better motivate the sales force while putting the company on a more secure financial footing.

Companies that have implemented CompensationMaster's proven approach to sales force compensation typically achieve impressive results:

- Revenue typically increases 30% on average with the same sales force in the year after the system is introduced.
- Profit is well above the industry norm.
- Sales force retention rates average over 97%.

CompensationMaster has assisted companies worldwide with compensation design strategy for over 60,000 sales associates. The company has offices in Charlotte, NC; Ottawa, Ontario; and Sydney, Australia.

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