



HR Guide to Sales Compensation

Introduction

GOAL

This guide will help you understand sales compensation terminology and enable you to credibly participate in conversations and project planning around sales compensation. More specifically, this guide will help you identify the roles where a sales compensation approach will add the most value. This guide will help you understand the goal and objectives of a sales compensation plan and how to evaluate success. By doing so, it will enable you to contribute towards the design of a sales compensation plan.

HOW TO USE THIS TOOL

You can use this tool as a resource to guide you through the sales compensation design process. It includes templates to reflect the setup of your own sales team as well as example questions for conversations with your leadership and sales workforce. Furthermore, it will help you to evaluate your sales compensation program. At the end, there's a final reflection activity.

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Sales Compensation vs. Regular Compensation

Let's first recap why sales compensation is different from other types of compensation. In general, sales compensation is aimed at incentivizing individual contribution to overall outcomes and therefore typically includes a high level of variable pay. This could include elements such as quarterly bonuses, commission or profit-sharing with the intention to drive sales performance.

Sales compensation impacts the pay of sales professionals in **four** main ways:

1

There is higher differentiation across earnings (either based on individual or a small team's performance).

2

Salespeople's payouts are based on goals and measures that are specifically chosen for their role and assignment.

3

Payouts for variable pay are more frequent as compared to non-sales employees at similar levels (either quarterly or monthly, as opposed to annual payouts for non-sales employees).

4

Sales compensation plans take more effort to design, document, calculate and pay. They should, therefore, be carefully considered, well-designed, and lead to real value for the business. Before taking a closer look at how to create sales compensation plans that actually add value, let's take one step back and have a look at what kind of roles could form part of a sales compensation plan.

Introduction to Sales Roles

Sales teams are typically made up of a wide variety of resources. While they share the same overarching goals, they do not all share the same responsibilities. See below for an overview of the ten basic sales roles.

Most sales roles are variations of these. We listed them as typical example roles from junior to senior positions, although these levels might vary across organizations.

| Example role | Typical responsibilities |
|------------------------|---|
| Sales agents | Sells a company's products and services from its headquarters either with the prospect initiating the sales process (inbound sales agent) or the sales agent contacts the prospect first (outbound sales agent) |
| New business developer | “Hunts” for new accounts, proving the business case for the company’s offerings, often unseating competition |
| Contract seller | Crafts responses to RFPs (request for proposals), matches company offering to customer needs, often creating large-scale long-term commitments |
| Account manager | Sells standard products or services to assigned named accounts, working to sell additional offerings and increase account profits |
| Product specialist | Supports the sale of a specific company product line with technical expertise |
| Territory manager | Sells standard products or services to all accounts in an assigned geographic territory |
| Sales manager | Manages and coaches individual contributor salespeople, assisting with strategically important opportunities |
| Sales executive | Determines the sales strategy, channel strategy, and resource requirements; responsible for sales results and the cost of delivering them |

Introduction to Sales Roles // Template

What sales roles are there in your organization?

Now that you have a better understanding of what some basic sales roles are, it's time to reflect upon your sales team. What sales roles do you have in your organization and what are their key characteristics? How do you rate their prominence? Use the template below to sketch your roles. In the first row, you can insert some of your sales roles and then fill in the respective key characteristics in the rows below.

Tip

Prominence is defined by the degree to which the customer's decision to buy depends on the contributions of this individual. It is usually rated on a scale of 1-5.

| | Role 1 | Role 2 | Role 3 | Role 4 | Role 5 | Role 6 |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Sales cycle length | | | | | | |
| Territory/portfolio assignment | | | | | | |
| Key accountabilities | | | | | | |
| Interdependencies | | | | | | |
| Prominence | | | | | | |
| Possible incentive measures | | | | | | |

Establishing Objectives

At this point, you have an idea about sales roles in general and about the sales roles within your sales team. But how do you design their compensation plan?

When you're getting ready to design your sales compensation plan, it's a good idea to start with your business leaders to help establish the overall goals. It's recommendable that all members of the steering committee and any other executive stakeholders have a chance to contribute to the goals for the sales compensation plans. You might include heads of product divisions, marketing, finance, and, of course, your senior sales leaders.

To establish objectives, you want to consider three questions:

1

Defining the current state: How are things currently structured and how successful are they? Do your current incentives drive the right behavior leading to performance and achievement of goals?

2

Defining the ideal future state: What changes do you need in sales focus and results in the coming year? What does success look like for the sales team and the different roles in sales?

3

Measurement: How will you be measuring the impact of your changes to processes? What metrics will you use to measure the success of your changes? (E.g., more deals in the pipeline, shorter sales cycles, higher value deals?)

1. Define the Current State

Firstly, you want to understand the current state. You are answering the question of how things are currently going, what is working, and what is not working. It is, thus, helpful to have conversations with the leadership. Feel free to bring the template completed above (the overview of your sales roles and their key characteristics) as input to this conversation.

Here, we provide a list of some of the things that you might further want to include in your discussion guide for the conversations with your business leaders. While each question here is a good one, keep in mind the overarching question, which is... what does 'better' look like for them in terms of sales focus, behavior, and results?

If they imagine getting through the next year with updated sales compensation plans, getting to the end of the year, and concluding that the plans had really been a success, what would they see changed in the behaviors, focus, and results of their sales organization?

Example questions for leadership

UNDERSTANDING OF THE PROGRAM

- How well do you think the salespeople understand the plans?
- Do you feel the plans are unnecessarily complicated or hard to understand? If you feel they are too complex, what suggestions do you have to simplify them?
- Are the plans driving the right behavior?
- Are you aware of planned changes in sales roles or priorities that need to be supported through the compensation program?

EFFECTIVENESS OF THE PROGRAM

- Is our current sales compensation program delivering value? If not, why do you say so? If yes, what value do you believe it provides?
- Do you feel the plans are correctly focusing sales effort on the most important results? Are there concerns that the plans reward behavior that is not good for <company>, or penalizes the salespeople for doing the right thing for the business? If so, please explain. Are the plans driving unnecessary competition?
- How well do the plans support the attraction and retention of key talent? If there are issues, what are the most significant sticking points from the perspective of the salespeople?
- Is our compensation cost as a percent of revenue (or margin) acceptable in our business model?
- Are the most productive/value-creating people earning the most money? If not, please explain.
- Are the sales teams achieving the results we set out to achieve?
- What does our performance distribution curve look like? Are at least 50% of our people at or above target performance and compensation levels? Are fewer than 5% earning no incentives? Are a few people (about 10%) earning the fully leveraged incentive or more?

GENERAL

- What else do you think we need to consider as we think through options for next year's plans?
- What is the feedback from our sales employees related to the plan? Do they believe it is fair?

Besides getting your leaders' perspective, it's also important to have conversations with your salespeople to understand their points of view. Below, we provide a list of example questions to ask to get an understanding of the perspective of your salespeople.

We recommend using a five-point Likert scale for the closed questions ((1) strongly disagree; (2) disagree; (3) neither agree nor disagree; (4) agree; (5) strongly agree).

Example questions for sales workforce

GENERAL

- How long have you worked in your current role for your current employer?
- What is your current job: <list sales jobs>

UNDERSTANDING OF THE PROGRAM

- Compared to my target compensation for the year, I believe I will finish the year earning.... (well above target, above target, close to target, below target, well below target, not sure)
- I understand my incentive plan.
- I know how to maximize my incentive earnings for the year.
- I believe I have a good chance of exceeding my target incentive amount this year.
- The targets for the plan are fair.

- I understand how my quota was set.
- I know which type of sales are most important to the business.
- When I receive an incentive payment, I understand the connection between my results and my pay.

EFFECTIVENESS OF THE PROGRAM

- The incentive plan keeps me focused and motivated all year.
- I am motivated by the compensation plan to focus my effort on the sales that are most valuable to the business.
- The incentive plan supports collaboration where it's needed.
- The activities and results that will help me earn the most money are also the most valuable to the business.

SATISFACTION WITH THE PROGRAM

- I believe my incentive will be calculated accurately and paid on time.
- My manager understands how my plan works.
- To earn well with our incentive plan, I put the most effort into... (please rank your top three)
- For the work and results I contribute and compared to what I could earn elsewhere doing similar work, I believe I am paid... (*very well, well enough, less than I should be paid*)
- Text response question: Please add any further comments you feel would be important to those designing your compensation plans. Feel free to expand on your answers to any of the above questions, or to address issues not raised in this survey.

2. Define the Ideal Future State

What changes do you need in sales focus and results in the coming year?

As a result of the first phase, you now have a better understanding of what processes currently look like and what needs to change. You will try to find answers to the following questions.

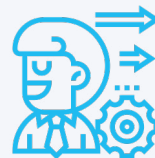
- Where should the salespeople put more focus?
- Where should they put less focus?
- What initiatives to enable more effective selling are being planned?
- Which of those initiatives could benefit from support in the compensation plans?

With these questions in mind, you can fill in the template in the following page. It will help you to map out the ideal future state.



GOAL

What do we want to see?



DRIVERS

How do we drive this behavior?



REWARDS

How do we reward for it?

2. Define the Ideal Future State // Template

You can find two examples in the first two columns below. In the remaining columns, you can fill in your own information.

| | Sales agent | Account manager | | | | |
|-------------------|---|---|--|--|--|--|
| OBJECTIVES | <ul style="list-style-type: none"> • Increase number of sales per agent | <ul style="list-style-type: none"> • Grow value of current accounts through cross-selling • Higher focus on volume deals with short payment cycle | | | | |
| DRIVERS | <ul style="list-style-type: none"> • Instant gratification through short-term incentives | <ul style="list-style-type: none"> • Implement incentive that rewards account value growth stant gratification incentives | | | | |
| REWARDS | <ul style="list-style-type: none"> • Monthly commission earned on each sale | <ul style="list-style-type: none"> • % share of revenue per account • Monthly commission for # of deals | | | | |

3. Measurement: How Will We Know if Our Approach Is Working?

Last but not least, you want to make sure to measure the impact of your efforts. You're basically trying to answer the following questions:

- A year from now, we expect something to have improved, something measurable – what is it, and what is the target? The target will link to the type of sales objectives you set earlier in the process. These could for example include, but are not limited to, the following ones:
 - Higher revenue
 - Revenue growth year on year
 - Increased number of deals
 - Better margins
 - Growth in key client accounts size
 - Customer retention
- What is the sales workforce's opinion on the compensation plan? How does it impact sales team retention, productivity per sales agent, average sales per agent? Does it drive engagement?

Reflection // Template

Once you have kicked-off your process of sales compensation design, take a moment to reflect upon your experience. Below, we listed a few questions for you. Take some time to think about them and feel free to take notes in the right column.

What are your three key takeaways?

Where there any AHA moments?

What surprised you most?

Did you encounter any discrepancies between the perceptions of different stakeholders (e.g., leadership versus workforce)?

Did you detect any other conflicting information?

What went really well?

What would you do differently next time?

Summary

You have reached the end of the HR Guide to Sales Compensation!

You now have a clearer understanding of sales compensation as well as of basic sales roles and their key characteristics. This helped you identify the sales roles in your organization where a sales compensation approach adds the most value. In the next step, you have established objectives in collaboration with your leadership and your workforce and have gained an understanding of their perceptions. Last but not least, you have reflected upon this whole process.

We wish you good luck applying these learnings in practice!

