

# Identifying a 'Complex' Sales Environment

## Results of a Special Member Survey

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Cost reduction efforts of the past few years have left many organizations with fewer employees who interact with customers, and those remaining “customer-facing” employees often have multiple and diverse duties. If 2004 marks the beginning of a business recovery then, to optimize sales effectiveness, management has to address the special set of challenges presented by these resulting hybrid jobs. As companies begin refocusing on revenue growth, the role of the sales force in achieving that growth will be re-examined.

To help companies understand how changes in today’s business environment are affecting contemporary sales compensation, WorldatWork conducted a survey of its membership who have responsibility for sales compensation plan design and administration. The survey’s principal purpose was to identify sales compensation issues and challenges that the participants believed were complex and, thus, required innovative solutions. A secondary purpose for the survey was to identify those areas in which the compensation professional may need to strengthen his or her knowledge or skills to help management effectively address these challenges. (See “About the Survey” on page 52.)

## Survey Findings

When asked to identify the topics that are most important to their companies, respondents’ top picks were:

- How to determine plan ROI
- How to cost the plan formula(s) prior to finalizing the design
- How to plan for and address complex communication issues
- How to design plans for hybrid sales jobs

- How to determine and use the right quota allocation process when sales quotas are used.

It is important to understand how the complexity of each challenge is viewed, as it suggests that addressing the challenges may require expanded capabilities beyond a practitioner’s current experience or skills. Figure 1 on page 52 shows the five topics that respondents indicated as “advanced.” Three of these five topics (international plans, integration of plans and return on investment) are key to companies’ ability to implement the revenue growth initiatives expected in the next few years.

Note that this list of advanced topics differs slightly from respondents’ list of the topics that are most important to their companies. While three of the five complex challenges remained on the list, the order of importance changed materially. (See Figure 2 on page 52.) For example, “How to determine ROI” moved from third to first place, and “How to plan for and address complex communications issues” moved from fifth to third place. Therefore, organizations’ revenue growth initiatives suggest the likelihood of personal development opportunities for sales compensation professionals — especially in their ability to assess sales compensation plan ROI and implement and communicate plan changes.

One challenge not selected by survey participants as an advanced topic was, “How to cost plan formula.” However, it was listed as a challenge second in importance, tied with communication. This could be further evidence of management’s interest in improving the financial return from sales compensation plans.

## Identifying Themes

These findings reinforce several fundamental “themes” about successful sales compensation plan design and management. While important in both good and bad economic times, these themes are critical as companies alter their sales model — from protecting/maintaining business to opening new markets/winning new business — to gain a growth advantage. Ultimately, that shift will require a rethinking of plan design. The survey results suggest the growing importance of the following propositions.

### Sales Compensation Is a Business Investment

In the past couple of years, some companies have successfully shifted from thinking about sales compensation as an expense (to be minimized) to that of an investment in improving overall sales effectiveness and, thus, achieving increased volume and quality of sales.

Focusing the sales force on the right behaviors and actions and providing an opportunity for significant incentive payouts for above-goal performance are investments that can pay high dividends. Because many organizations

### QUICK LOOK

- ⇒ To help companies understand how changes in today’s business environment are affecting contemporary sales compensation, WorldatWork conducted a survey to determine plan design and administration challenges.
- ⇒ It is important to understand how the complexity of each challenge is viewed, as it suggests that addressing the challenges may require expanded capabilities beyond a practitioner’s current experience or skills.
- ⇒ The survey reveals some of the competencies requiring mastery in today’s changing environment.

## About the Survey

WorldatWork invited 1,440 members to participate in this special survey. The survey drew responses from 285 members (a respectable 20-percent response rate) from a range of industries and company sizes. Fifty-six percent of the respondents were comprised of three industry sectors:

- Manufacturing
- Finance and insurance
- Professional scientific and technical services.

About 40 percent of the respondents were senior-level executives (officers or senior directors) at their companies. Large companies (those with 5,000 or more employees) represented about 25 percent of the respondents.

Survey participants were presented with a list of 14 challenges, asked to rate the challenges in terms of their importance and then asked to indicate whether each challenge was perceived as “advanced” or “complex.”

continue to view sales compensation as an expense, sales compensation professionals have the challenge of changing the organizational dialogue so that sales compensation is evaluated based on plan return on investment (ROI). Thus, knowing how and when to help management make ROI-based plan design changes is a critical competency for the compensation professional.

### Sales Compensation Must Support Changes in Sales Process and New Customer Relationship Management Roles

Effective sales compensation plans are designed based on each sales job’s charter and key accountabilities. Besides the sales force, there is increasing complexity for many industries in the sales process and involvement of other resources in

customer management. Effective sales compensation plans must address this increased complexity. Compensation professionals need the ability to advise management on which jobs should be included in sales compensation plans, why eligibility is appropriate and how incentive schemes should be structured. This is another competency that compensation professionals need to master to reward success in today’s complex sales environment.

### Successful Compensation Plans Are Framed by Sound Sales Management Programs

While sales compensation is an important management tool to direct, motivate and reward sales success, it must be viewed as part of a larger sales management process. Respondents indicated that the design and definition of sales jobs, as well as the allocation of sales quotas, also are top priorities. These respondents clearly recognize the need to sharpen their knowledge and skills relative to the impact of various sales management programs on sales compensation. Understanding this is key to helping management improve plan effectiveness. Developing a holistic understanding of a company’s sales management programs and the interdependence of each program is a required competency for the sales compensation professional.

### Honest Communication Is Required

Candid communication is essential to the success of any total rewards program.

Yet this is a deceptively complex challenge. Survey respondents recognize the importance of addressing communication issues, and they affirmed several situations in which effective communication is a must:

- Dealing with global plan implementation
- Managing the integration of sales compensation plans as a result of M&A activity
- Managing the implementation of new sales plans.

FIGURE 1: FIVE MOST PREVALENT ADVANCED TOPICS

“In your opinion, is this an ‘advanced’ topic?”	
	YES
How to provide leadership or direction to design of international plans; specifically, design issues addressed globally vs. locally on a country basis	97%
How to integrate plans as a result of merger, acquisition or internal integration of business units	95%
How to determine plan ROI	86%
How to design plans for hybrid sales jobs (those involving both account management and new business development)	80%
How to plan for and address complex communication issues (e.g., substantially altering the mix, changing from commission to bonus, mid-year plan changes, etc.)	77%

FIGURE 2: FIVE TOPICS MOST IMPORTANT TO COMPANIES

“How important is this topic to your company?”		
	Rating*	Advanced Topic (Yes)
How to determine plan ROI	4.2	86%
How to cost the plan formula(s) prior to finalizing the design	4.1	69%
How to plan for and address complex communication issues (e.g., substantially altering mix, changing from commission to bonus, mid-year plan changes, etc.)	4.1	77%
How to design plans for hybrid sales jobs (those involving both account management and new business development)	3.9	80%
When sales quotas are used, how to determine and use the right quota allocation process	3.8	73%

\*5 = Very Important; 1 = Not Important

Survey respondents labeled these three issues as advanced topics, while communicating the implementation of new sales plans was rated as the second most important.

Ultimately, salespeople judge a sales compensation plan on this simple rule: Can they make more money under the new plan than the old plan? But management's objectives and rationale for a plan change are never quite that simple, nor are the concerns of the sales force always that transparent. Therefore, it is critical that the real reasons for plan change are identified and clearly communicated to the sales force.


Communication activities and messages also must be carefully considered in the context of an overall pay implementation plan, especially when global or M&A integration is involved. Success as a sales compensation professional depends on having a competency and understanding of how communication strategies and tactics are created and executed, thus ensuring a new sales plan's success.

## Summing Up

Practitioners likely will face a new round of issues and challenges designing and implementing sales compensation if the early signs of change in the economy are, in fact, permanent. To meet management requirements and be successful in sales compensation, every compensation professional with responsibility for sales compensation design should ask, "What am I doing to continually improve my mastery of the tools and techniques required to provide innovative compensation solutions to complex selling situations?" The survey suggests that some of the competencies requiring mastery in today's changing environment include:

- Knowing how and when to help management make plan changes to improve sales compensation ROI

- Having the ability to advise management on which jobs should be included in sales compensation plans, why they are appropriate and how their incentive schemes should be structured
- Developing a holistic understanding of a company's sales management programs and the interdependence of each program to achieve success
- Understanding how communication strategies and tactics are created and executed to ensure a new plan's success.

As business recovery accelerates, the challenges that compensation professionals face in addressing contemporary sales management issues likely will increase in urgency. Now is the time for compensation professionals to assess their capabilities and proactively create personal development plans to prepare for a changing sales compensation landscape. 

## ABOUT THE AUTHORS

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