

2010 Sales Compensation Planning Themes

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Many economists believe there are signs that the economy is moving away from the worst recession experienced in the last 80 years. If this is true, business leaders will return to the challenge of putting their companies on track to achieve profitable growth. With that background in mind, we have talked with sales executives in a variety of industries about the sales compensation plan revisions they have in mind for 2010.

Additionally, we have had involvement with two recent sales compensation practices surveys that provide data about revisions companies plan to make in their 2010 plans.¹ The results reported in those surveys have also contributed to our thoughts about 2010 design themes. Thus, the purpose of this Short is to provide CF's perspective on some key design challenges that sales leaders, HR/compensation professionals and sales operations executives should consider in their 2010 plan design efforts.

THREE MAJOR THEMES

Our recent conversations with sales leaders in a variety of B2B industries and recent survey data we have examined suggest three major 2010 sales compensation planning themes:

1) Get sales reps back in the money. Across many B2B industries, sales reps have experienced a substantial decrease in 2009 earnings when compared to 2008 earnings. This is largely substantiated by the fact that in most B2B industries only 45% to 50% of the sales force attained quota. As one top sales executive in the health care industry told us, "... goals (aka quotas) must be set so that our sales people have a reasonable opportunity to achieve 100% of their objectives and, thus, earn their target incentive."

2) Sharpen the pay for performance focus. We believe that top management is sharpening its focus on what type of sales performance to pay for. While there will be a strong emphasis placed on growth in 2010 and beyond, top management is looking to the sales force to sell more profitable business. A recent WorldatWork survey reported a 13 percentage point

increase (from 22% to 35%) in companies that are changing their sales compensation plans to place more incentive pay emphasis on sales profitability.²

3) Simplify plan mechanics. Generally speaking, we believe that top producing sales people understand how the compensation plan works. Thus, we believe the emphasis companies place on plan simplification is focused on two initiatives: first, reducing the number of performance measures in the plan (consistent with point above); and, b) improving tracking and calculation methods to facilitate plan automation (potentially reducing payout cycle time and errors in payment calculation).

DESIGN SUGGESTIONS

In light of these three major themes, we have the following suggestions:

- The old adage, "...the more things change, the more they stay the same..." pertains to 2010 sales compensation planning. The focus should be on: 1) confirming that the measures and the incentive weight placed on each are consistent with the job sales people are asked to do; and, 2) validating that the process used to allocate sales quotas will actually enable 90% of the sales force to gain entry into plan (achieve threshold) and, 60% - 65% attain/exceed quota, thus, earning the target incentive opportunity for their job.
- "Messaging" 2010 sales compensation plans to the sales force to gain maximum motivational mileage from the plans will be critical. To ensure that sales people are engaged and enthusiastic about their new plan, leaders/managers at all levels of the sales organization will need to be clear about how sales people must behave and perform to win under the 2010 plan. This is particularly true if new measures (e.g., sales profitability) are introduced into the plan and/or incentive weights have materially changed.

¹ Sales Compensation & Performance Management 2009 Survey Results, CSO Insights; WAW Survey of Sales Incentive Plan Revisions, November, 2009

² WAW Survey of Incentive Plan Revisions, November 2009