

**Compensation Change Techniques:
What to do in Times of Business Uncertainty
By: Jerry Colletti and Mary S. Fiss**

In a previous Short, “2008 Sales Compensation: What to do if the Economy Takes a Turn for the Worst”, we suggested using one or more of five change strategies to “keep sales reps in the compensation game.” The purpose of this Short is to describe techniques that could be used to operationalize those change strategies.

RESET THE TOP LINE GOAL

Frequently, business plans are finalized two or three months before the beginning of a fiscal year. The data and assumptions used to arrive at a revenue forecast should be revalidated when the economy shows signs of a significant slow down. For example, if a computer peripherals marketer projects a 15 to 17 percent increase in sales, but the market is growing at half that rate then the logic associated with the original estimate should be reexamined (e.g., new product launch, added new channel). Making a logic defying prediction will likely have a negative impact on sales reps’ efforts and performance.

Also, how the top line sales goal was allocated should be carefully examined. Too often we find that “over-assignment” of quota cascades down the sales organization. It is important to confirm that a 2% over-assignment does not turn out to be a 10 to 12 percent over-assignment to sales reps.

RE-SET THE PERFORMANCE RANGE

Our research shows that an increasing number of companies use performance thresholds in their sales incentive compensation plans. Typically, the payout threshold is set at a point where 90% of the sales reps can gain entry into the incentive plan. In tough economic times, it is important to monitor sales rep performance relative to threshold; thus, two trends should be tracked relative to prior year(s):

- % of sales force at threshold
- % of sales force between threshold and target (quota)

If a substantial percent (e.g., 30% to 50%) of the sales force is below threshold (compared to prior year) and relatively aggressive sales goals have been assigned, consideration should be given to lowering the threshold level. At the same time, the excellence performance level should be re-examined. If 5 to 10 percent of the sales force had overachieved quota in prior years and at the current business “run-rate” no sales reps will over achieve, the excellence performance level may have been set too high.

RESET INCENTIVE RATES

Resetting incentive rates often goes hand-in-hand with adjustments to the performance range. Essentially, there are two alternatives to consider: (1) Make no change to the target annual incentive opportunity; however, lower the threshold to reduce how much incentive is actually earned at the threshold point (e.g., if threshold was 90% of quota at which point 80% of incentive was earned, a reduction to a 70% threshold may result in only 60% of incentive earned); (2) Reduce the leverage ratio (upside opportunity) – if, for example, the ratio has been 3:1 in prior years at 125% of quota, the reduced ratio might be 1.5:1 at 115% of quota – the cost of overachievement at excellence is less, however, the rate per point of overachievement in the later scenario is actually greater and, thus, a potential selling point to the reps.

USE SPIFFS (OUTBOARDED FROM THE INCENTIVE PLAN)

Many companies prefer not to make a change to the sales compensation plan during the course of a fiscal year regardless of the economic climate. The rationale for not changing the plan is that it sets a dangerous precedent which potentially undermines a pay for performance culture. To maintain plan integrity, therefore, an alternative approach is to use a SPIFF (special performance incentive for the field force) which provides cash incentive opportunity (over and above the incentive plan) for achieving complimentary, not competitive performance objectives. Examples would be: winning new accounts (at some defined dollar level), or selling a new product.

SUMMING UP

Regardless of the changes made to the plan, it is important to involve sales leaders early on in the process and have their commitment to the implementation communication. The ultimate success of a plan change in challenging economic times is largely determined by the ability of sales leaders to clearly articulate how their sales people can continue to win (earn the incentive opportunity) under the revised plan.