

# Hope Has a Low ROI\*

By: Jerry Colletti and Mary S. Fiss

The best that can be said about the current state of the economy is that it could take an upturn by the late fall, 2009 and, thus, we could see meaningful business growth beginning in 2010. In the interim, companies in most industries are faced with the challenge of how to manage their business in these trying times. Doing so means holding on to customers and eking out growth wherever possible.

Although we are told that senior executives – including Chief Sales Officers – are looking for signs of hope in the economy, we believe that hope has a low ROI. This means that hoping for improvement is not likely to make it happen. Now is the time to begin planning for sales compensation plan change. The purpose of this Short is to provide our readers with useful ideas about sales compensation planning for the second half of 2009 and beyond.

## Four actions to consider are:

### 1. Early plan assessment

Topic	Description
Rationale	<ul style="list-style-type: none"> <li>Confirm message was received and understood</li> <li>Validate right behaviors and performance</li> <li>Identify early needs for action, if any</li> </ul>
When	<ul style="list-style-type: none"> <li>Within 30 days of new plan launch; and,</li> <li>After first payout under new plan</li> </ul>
What	<ul style="list-style-type: none"> <li>Financial results</li> <li>Leaders'/managers' feedback</li> <li>Employees' feedback</li> <li>Focus attention on proportion of incentive pay earned by plan component vs. design/intent; and, distribution of earning across sales force</li> </ul>
Outcomes and actions	<p>Two possible scenarios</p> <ol style="list-style-type: none"> <li>Plan working as expected</li> <li>Plan not working effectively – action required</li> </ol> <p>Actions to recommend to executive management</p> <ul style="list-style-type: none"> <li>Change requires more time – stay the course</li> <li>Revisit plan design/re-launch</li> </ul>

### 2. Increase OA opportunity

Topic	Description
OA definition	Overachievement incentive opportunity, also referred to as leverage ratio, is amount of incentive pay associated with performance excellence.

Topic	Description
OA structure	The leverage ratio and the slope of the payout line between target performance (quota) and excellence performance offers significant opportunity to reward truly outstanding performance.
Typical leverage ratios	Customer service roles = 1 to 1:25:1 Account management roles = 1.50 to 2.0:1 Business development roles = 2.0 to 3.0:1
Aggressive ratios	Depending on change in job charters and shift in workloads, consider 25% to 100% increase over typical practice

### 3. Refine the performance period and incentive opportunity

Topic	From	To
Performance period	Discrete, standalone periods	Cumulative, YTD results
Incentive opportunity	Equally distributed across performance periods	<ul style="list-style-type: none"> <li>Distribute consistent with typical proportion of business achieved by quarter</li> <li>Allocate across 5 periods, i.e., 4 quarters + year's results</li> </ul>
Payment calculation	Each period's performance stands alone; no opportunity to make-up lost incentive opportunity	<ul style="list-style-type: none"> <li>YTD total performance provides opportunity to make-up incentive pay in later periods</li> </ul>

### 4. Rethink quota assignment practices

- Confirm assumptions associated quota assignments, e.g., business forecast/projections; reasonableness of workload model
- Confirm process used to allocate quotas or performance goals – same used by all front line managers?
- Use "early assessment" process to identify performance to date vs. quota results – determine if results are consistent with expectations; if not, change could be an alternative
- If adjustments to quotas or goals are considered, review feasibility of back-end loading adjusted numbers (Q3; Q4)

### Summing Up

Sales compensation planning and plans will need to be flexible in light of economic uncertainty. Restructuring or modifying plans must address new realities, namely the focus on cost reduction, productivity improvement or both.

\*Portion of this article are based on Jerry Colletti's March 17, 2009 to Columbus (OH) Compensation Association