Managing Performance through Sales Compensation in Tough Times

By: Jerry Colletti and Mary S. Fiss

The current economic recession shows few signs of abating. While the effects of the recessionary economy will vary by industry and by company, research and our conversations with sales leaders suggest that sales compensation plans must reflect new economic realities. As early as January, 2008, we outlined actions that sales leaders should take if the economy took a turn for the worst.[1] Continuing with our theme that sales leaders must be proactive in their efforts to effectively manage their company's investment in sales compensation cost, this Short offers suggestion about how to manage with sales compensation in the current tough times.

CURRENT ECONOMIC REALITIES

In 2009, sales reps will experience an economy in which there may be fewer buyers, the sales cycle is longer, and order size is likely to be smaller than previous years. The current economic recession is seen as more severe than the one triggered by the dot com "bust" in 2001. In 2009, many sales people are likely to experience one of the most challenging business periods of their careers. Understandably, sales people – particularly those in jobs with 30% to 50% of their pay at risk -- are concerned about the likelihood that they can earn their target variable pay. Sales leaders will need to be consistently proactive throughout 2009 in positively "messaging" the plan and demonstrating to sales people how to win through it.

CONFIRMING ATTAINABILITY OF BUSINESS OBJECTIVES

At the outset of the plan year, the most important action sales executives can take is to confirm that sales goals are realistic and attainable through reasonable selling effort. This means that sales leaders must be in a position to explain where (markets/customers) and how (selling strategies and tactics) the sales force can achieve assigned goals. In a web-based survey conducted among our readers in November 2008, 38% of respondents indicated their companies were making a change in performance expectations for 2009. Ideally, this means that companies have aligned incentive compensation opportunity with business plans/quotas that are realistically attainable in the current economic environment.

INCENTING AND REWARDING "FAST START" RESULTS

Over-achievement (OA) accelerators are a common feature in many compensation plans. In tough economic times, sales leaders should confirm that the OA accelerators provide a financially attractive incentive to get off to good start in Q1. Also, if there is both quarterly and YTD performance OA accelerators, the allocation between the two should be validated. Too much emphasis on YTD OA could result in a shortfall of achievement in the early quarters.

VALIDATING CURRENT PLAN AT MID-YEAR

While making no change to the sales compensation once the year has begun is best practice, 2009 is not going to be a typical year for most companies. With that in mind, it would be wise to carefully review results at mid-year to determine if a "tweak" or modification is required to the plan. There are three warning signs that would suggest that management needs to take corrective action through sales compensation when times get tough:

- Slower Q1 performance – compared to current plan year; compared to same quarter prior year(s).
- "Run rate" performance shows a substantial number of sales reps (e.g., 70%) may not make/exceed goal
- Below plan and lower participation rates affect all channels, all regions and, thus, is not an aberration

[1] Jerry Colletti and Mary S. Fiss, 2008 Sales Compensation: What to do if the Economy Takes a Turn for the Worst, January, 2008, CF e-Newsletter (aka "Short")

© 2009 Colletti-Fiss, LLC