

harnessing the

# power of sales compensation

An Analysis of 2008 Survey Practices

By Jerome A. Colletti, Colletti-Fiss LLC,  
and J. Mark Davis, Valitus Group Inc.

## QUICK LOOK

- ➔ Sales success brings the opportunity to offer an expanded line of products to multiple markets and customers.
- ➔ The proportion of compensation at risk typically reflects the degree of personal selling influence a seller exerts over the customer in a buying situation.
- ➔ Respondents indicated that the goal-setting process is critical to the successful launch of a sales compensation plan.

The sales compensation plan is one of the more powerful tools that top executives use to direct, motivate and reward the salesforce for its contribution to business success. In recent years, compensation professionals have become more involved with the sales compensation plan because top executives, particularly sales leaders, look to them for advice and counsel about best practices in job design, pay levels, incentive designs and plan management. Armed with knowledge about practices in these areas, compensation professionals can partner with sales leaders and other top executives to influence their thinking about how to harness sales compensation's motivational power and use it to effectively drive desired business results.



To gain a better sense of the priorities that companies assign to their effort to increase sales effectiveness through the use of the compensation plan, WorldatWork regularly conducts a survey of sales compensation practices among its members. The third such survey was conducted in the spring. Members were asked about their current sales compensation design and administration practices. An in-depth report is available to WorldatWork members on the Web site: [www.worldatwork.org](http://www.worldatwork.org).

This article summarizes the survey's key findings and suggests actions that compensation professionals can take to help their companies improve the investment in sales pay.

### Sales Role Specialization and Company Size

As companies grow in size and complexity, sales roles change. New companies start with a single product and a specific market/customer focus. Sales success brings the opportunity to offer an expanded line of products to multiple markets and customers. In turn, top management often rethinks go-to-market strategies and tactics. A common result is the use of multiple sales channels and expanded sales roles. Figure 1 shows that the prevalence of sales roles varies by company size. When companies are relatively small (1 to 499 employees), a blended sales role — defined as accountability for selling to existing customers and winning new accounts — is most prevalent. As a company grows to 10,000 employees or greater, the deployment of specialized sales roles increases.

Figure 1 also shows as companies grow in size from small to large:

- The new accounts sales role's prevalence increases by approximately 14 percent.
- The existing accounts sales role's prevalence increases by approximately 10 percent.

FIGURE 1: PREVALENCE OF SALES ROLES BY ORGANIZATION SIZE

Sales Roles Existing in Organizations				
Sales Role	Organization Size by Census			
	1 – 499	500 – 2,499	2,500 – 9,999	> 10,000
New Accounts	41.5%	45.5%	45.8%	55.9%
Blended Accounts	64.6%	79.2%	80.4%	75.4%
Existing Accounts	43.9%	52.5%	54.2%	54.2%
Outbound Telesales	15.9%	27.7%	39.3%	40.7%
Inbound Telesales	17.1%	25.7%	29.0%	42.4%
Application Engineers	20.7%	26.7%	31.8%	35.6%
Business Development	41.5%	53.5%	59.8%	59.3%
First Line Sales Manager	56.1%	69.3%	81.3%	83.9%

Generally speaking,  
**new account sellers**  
**have more pay at risk**  
 than other sales roles.

- Outbound and inbound telesales roles' prevalence increase by approximately 25 percent.
- The prevalence of sales support roles — application engineers (15 percent increase) and business development managers (18 percent increase) — also grows.
- Finally, effectively managing front-line sales resources becomes more important as companies grow in size and thus, the prevalence of the first line sales manager job increases by approximately 28 percent.

As existing sales roles change and new sales roles are added, the sales compensation plan must change to align with the business strategies and sales goals that created the need for their deployment. Pay levels, pay mix, variable pay plan structure and, particularly, the use of appropriate performance measures are the features of plan design that

compensation professionals can help sales leaders address.

### Pay Mix

For a sales job, the proportion of compensation at risk typically reflects the degree of personal selling influence a seller exerts over the customer in a buying situation. Generally speaking, new account sellers have more pay at risk than other sales roles. Figure 2 supports this practice. Also, it shows that the pay mix is mostly concentrated in three ratios, and the prevalence of those three ratios has increased in 2008 over the 2006 survey.

- The most common pay mix for a new account seller role is 50 percent salary/50 percent variable pay (50/50). Three pay mixes — 50/50, 60/40 and 70/30 — account for 52 percent of the practices of the 2008 survey participants, compared to

FIGURE 2: PREVALANCE OF PAY MIX

Pay Mix	Most Prevalent Pay Mixes					
	New Account Seller		Blended Accounts Seller		Existing Accounts Seller	
	2006	2008	2006	2008	2006	2008
50/50	13%	22%	-	-	-	14%
60/40	12%	16%	10%	14%	11%	-
70/30	12%	14%	15%	17%	16%	16%
80/20	-	-	10%	18%	11%	20%

**The existing accounts seller role is the only sales role in the survey that did not have a pay mix clustered around three ratios. The most common pay mix for this role is 80/20.**

only 37 percent reported by the 2006 survey participants.

- The most common pay mix for a blended accounts seller role in 2008 is 80/20. Three pay mixes — 60/40, 70/30 and 80/20 — account for 49 percent of the practices of 2008 survey participants. In the 2006 survey, 35 percent of the participants reported using these pay mixes for the blended accounts seller role.
- The existing accounts seller role is the only sales role in the survey that did not have a pay mix clustered around three ratios. The most common pay mix for this role in 2008 is 80/20; however, 14 percent of the participants in 2008 reported using a 50/50 mix, while 36 percent reported using either 70/30 or 80/20. The use of three pay mixes for each sales role accounts for approximately

50 percent of the survey participants' practice. That suggests, and the survey data show, the practices of the remaining 50 are diffused across the 96 other pay-mix alternatives. The fact is that while a sales role's charter and accountabilities — particularly the degree of personal selling persuasion — strongly influence the selection of pay mix, other considerations come into play. Those other considerations — industry practice, company size, compensation philosophy, etc. — clearly impact the decision about pay mix for a particular sales job. The 2008 survey results about pay mix, however, are consistent with best practices for these roles. Thus, it suggests an appropriate starting point in a conversation between sales and HR/compensation about pay mixes to consider for sales jobs when a plan redesign process is under way.

## Key Performance Measures

Most survey respondents report using three or fewer measures of performance in the sales compensation plan. This finding is consistent with best practice and results reported in the 2006 survey. Figure 3 on page 26 shows the prevalence of performance measures used by the sales role as the basis of variable pay determination (commission, bonus or both). Generally speaking, these findings are consistent with prior surveys (2004 and 2006). Companies continue to emphasize the importance of achieving sales financial goals: revenue and margin (gross profit). There is, however, one notable exception in the findings. That exception is the increased use of key sales objectives, particularly for the blended (new and existing) accounts sales role. There is a 10 percentage point increase in the reported use of key sales objectives in the 2008 survey when compared to the results reported in the 2006 survey.

In the 2006 survey, key sales objectives ranked third or fourth in use. In the 2008 survey, key sales objectives ranked second or third. The increase in both the rank and use of them in sales compensation plans is largely explained, we believe, by the increased focus companies place on the quality of sales efforts and performance, and the desire to reward for that accomplishment. For at least the last decade, annual merit pay increases for salespeople, if available at all, have been very modest. To ensure that salespeople are focusing on the right sales activities, which contribute to sales results that deliver economic value to the business, top sales executives look to the use of key sales objectives to communicate and reward strategic selling priorities.

Typically, key sales objectives represent 10 percent to 20 percent of the incentive opportunity. While modest

FIGURE 3: PREVALENT PERFORMANCE MEASURES BY SALES ROLE

Most Prevalent Performance Measures by Role					
Performance Measure	New Account Seller	Existing Accounts Seller	Blended New & Existing Accounts	First-line Sales Manager	Business Development
Total Revenue	26%	34%	55%	55%	34%
New Revenue	25%	15%	29%	25%	22%
Key Sales Objectives	20%	22%	35%	38%	27%
Gross Profit	14%	15%	27%	31%	15%
New Accounts	16%	-	25%	-	17%
Renewal Revenue	-	15%	-	-	-
Other	-	-	-	19%	-

in comparison to the 80 percent to 90 percent of variable pay available for sales financial performance, a key sales-objective incentive is sufficiently large (relative to a merit pay increase) to direct and motivate behavior. The challenge, of course, is to confirm that the behavior motivated is positively related to future sales financial results (revenue growth, margin contribution). Compensation professionals should pay particular attention to this challenge because too often key sales objectives are inappropriately used, and thus valuable sales incentive pay dollars are misused.

### Successful Implementation

Companies with successful sales compensation plans devote time and support throughout the organization to the implementation initiative. Frequently, sales compensation plan change is one of the most demanding and time-consuming efforts that a company undertakes. This is particularly true if a company does not change its plan on a regular basis (e.g., annually), and therefore may not have the experience to know how to approach a new plan launch in an effective manner.

The 2008 survey focused on gathering information about the launch practices that survey participants believe result in successful or unsuccessful implementation. Figure 4 reports the top three

FIGURE 4: TOP THREE ACTIONS AFFECTING PLAN LAUNCH

Action	Successful Implementation	Unsuccessful Implementation
The composition of the design team (i.e., involving the right stakeholders)	43%	-
An effective/ineffective goal-setting process	17%	24%
Salesforce input/lack of salesforce input at the beginning of the design process	13%	12%
Access/lack of access to relevant external sales compensation survey data	-	15%

actions that make a plan launch either successful or unsuccessful. Interestingly, the top-rated factor contributing to the successful implementation of a new compensation plan is the composition of the design team. In recent years, WorldatWork sales compensation courses and webinars have emphasized the importance of using multi-functional teams in the design and implementation effort associated with a new plan. The survey results suggest that survey participants and their companies are following this advice.

Not surprising are the results reported on the goal-setting process. Twenty-four percent of survey respondents reported an ineffective goal-setting process contributes to unsuccessful plan implementation, making it No. 1 on that list. Correspondingly, 17 percent of the survey participants reported an effective goal-setting process contributed to successful implementation of

a plan, thus making it No. 2 on that list. Regardless of the way it is viewed, clearly, the goal-setting process is an important consideration when launching a new sales compensation plan.

Generally speaking, sales employees look to their immediate supervisor for information about a new sales compensation plan. In the 2006 WorldatWork survey, it is interesting to note that when a company does decide to make a change to its sales compensation plan, there seems to be a fairly even division among those who prepare their managers and those who don't. The 2008 survey shows that companies are improving their practices to equip frontline managers with the information and skills needed to effectively launch a new sales compensation plan. Approximately 60 percent of the respondents indicated that they provide some form of direct training for their sales managers in how to

FIGURE 5: GAPS IN SALES MANAGER TRAINING

Sales Manager Training Topics	Rank Importance	Rank Addressed	Ranking Variance
How the sales incentive plan links to business objectives	1	1	0
Company business and global talent management strategy	2	3	-1
Rationale for changing the plan	3	2	1
How to communicate with employees about their payout under the plan	4	9	-5
Company sales compensation philosophy	5	4	1
How to manage performance planning and set appropriate goals	6	13	-7

implement a new sales compensation plan among their sales staff. However, Figure 5 shows that there is a sizable ranking gap for two topics that deal with helping managers effectively manage their sales staff under a new plan. The findings suggest that companies have their work cut out for them in two areas that we believe contribute to the successful launch of a sales compensation plan.

The first area — how to communicate with sales employees about their payout under the plan — is at the heart of understanding how to behave and perform differently under a new plan to achieve or exceed the target incentive earnings opportunity. Sales employees look to their immediate supervisors to gain an understanding of what they have to do differently under the new plan compared to what they may have been doing under the previous plan. Frontline sales managers should be equipped with a crisp message about how their sales employees should approach their sales role under the new plan to maximize the earnings opportunity.

The second area where there is a significant gap between the importance attached to a topic and its ranking in terms of how it affects plan implementation is performance planning and goal setting. As we pointed out earlier in this article, respondents indicated that the goal-setting process is critical to the successful launch of a sales compensation plan. The fact that the reported gap is so large suggests that companies continue to struggle with how to improve the process for allocating fair and equitable goals to salespeople. At a minimum, we believe that companies must view the process of allocating goals to salespeople as one that will never be perfect and, thus, requires a commitment to its continuous improvement.

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### Methodology

In January 2008, surveys were sent out to 8,691 WorldatWork members with responsibility for sales compensation. In addition, an invitation to participate was included for members and nonmembers in the *Sales Compensation Quarterly* e-newsletters. A total of 416 members responded.


The typical respondent works as a compensation manager or specialist

and reports to a vice president/director of human resources. Respondents were nearly evenly distributed across small, medium and large organizations. Further demographic information about the survey respondents reflects that 31 percent of respondents reported the size of their organizations' salesforce as greater than 500 employees; 44 percent of respondents worked for organizations with more than \$1 billion

in sales revenue. More than half work in an organization that employs more than 2,500 employees, and the two largest industries represented in the survey are manufacturing (27 percent) and financial/insurance (12 percent).

## Conclusion

Sales compensation represents a significant opportunity for the HR/compensation professional to make a meaningful contribution to the business as a whole and, specifically, to the effectiveness of the sales organization. As the results of this survey indicate, sales compensation is not static. Instead, it is a dynamic business tool that must change as a business grows and changes. To be a valued contributor to the success of a company's sales compensation plan, the HR/compensation professional must become familiar with best practices in jobs, performance

measures, incentive formula design, and plan administration and management. This requires a thorough knowledge of the inner workings of the company's salesforce, particularly the sales process and the roles involved in that process. With that knowledge in hand, the HR/compensation professional is more likely to be positioned as a valued business partner whose active involvement with sales compensation is sought. 

## ABOUT THE AUTHORS

**Jerome A. Colletti is a managing partner at Colletti-Fiss LLC, has been a WorldatWork member since 1972 and is a member of the WorldatWork faculty. He can be reached at [jerry@collettifiss.com](mailto:jerry@collettifiss.com) or 480-483-1480.**

**J. Mark Davis is managing principal at Valitus Group Inc. and also is a WorldatWork faculty member. He can be reached at [j.mark.davis@valitusgroup.com](mailto:j.mark.davis@valitusgroup.com) or 714-505-9122.**

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- "Pay mix"
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