
Sales Compensation: Creating Performance Clarity

A prospective client called several days ago and asked: “What should I pay a great performer and what should I pay a salesperson who doesn’t meet expectations?”

Assessing sales compensation effectiveness from the perspective of expected market pay levels is far too limiting. Sales compensation should be evaluated within the context of the entire performance and pay range for the job performed and results delivered. Furthermore, sales compensation plans and pay levels should be created or critiqued in the same way that one assesses any other investment geared toward making money or improving future business.

Companies expect a substantial revenue and profit return on their investment in sales compensation. For example:

- A company that pays a 10% commission invests \$1.00 to net \$9.00 – a 9:1 return on its commission investment.
- A company that provides a \$25,000 bonus opportunity to a field sales representative for generating \$2,500,000 in revenue does so in the expectation that it will receive \$100 for each dollar of bonus paid.

So how do you increase the odds of getting a substantial return on sales compensation and achieve a reasonable compensation cost of sales? First, you build a clear understanding of how sales resources influence the sale so that your sales force is precisely focused on factors that matter. Supporting the sales effort through astute organizational definition and performance-driven pay creates the link between sales effort and delivered results.

Every bit as important as incorporating the drivers of performance into the sales incentive plan is the creation of an effective connection between pay and results. This means you need to make sure total pay is incentive-weighted and variable compensation is leveraged – configured to produce market-leading payouts for high performance. Low performers must be paid meaningfully below market, creating significant performance-based incentive payout differentiation. Aligning your incentive payout profile with the marketplace doesn’t adequately pay “winners” like winners and “losers” like losers.

You can reveal the amount of incentive payout differentiation in your sales incentive plan by examining your incentive payout multiples. Compare your payouts for high performance to the awards paid for low performance. The high performance payout divided by the low performance payout is your incentive multiple. The multiples across your performance distribution (e.g., “target” vs. “minimum acceptable,” “excellent” vs. “target,” and “outstanding” vs. “excellent”) should accelerate, recognizing the value of



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achieving increasingly difficult performance levels. You can test your incentive payout differentiation against the market by comparing your multiples to the market's 50th vs. 25th, 75th vs. 50th and 90th vs. 75th percentile incentive payouts.

Best-practice companies have high performance sales cultures. Their strategies for acquiring and retaining business are aggressive. Losing profitable revenue growth that was hard won isn't acceptable. Goals at the salesperson level are stretched.

High performing companies are intolerant of, and pay stingily for, below goal performance. Rewards for high performance are significant. Their incentive payout at "outstanding" performance is at least four times the award at "target" performance and as much as twenty-five times the payout at "minimum acceptable" performance. But, they also know that sales compensation alone won't drive high performance. And so they employ an integrated approach toward performance management, emphasizing sales leadership, training, sales focus, communication, performance measurement and pride of achievement.