

Sales Compensation: The Big Picture

Setting Goals and Measuring Performance Are Key to Meeting Your Company's Long-Term Objectives

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Special to Direction

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A recent nationwide survey reported that companies in all industries have a more difficult time hiring salespeople than people in other job categories. It turns out, however, that finding talent is not the only challenge. Too many chief executive officers make the mistake of assuming that once the salespeople are on board, they should be off and running.

Once a company hires a salesperson, the next step is getting sales. When our Profit Enhancement Group (PEG) hires salespeople, we hear these questions at meetings "How do you pay your salespeople?" and "How can you get your salespeople to be more productive?"

PEG CEOs list these questions because they want to hear other members' answers and learn from their experience. Recently one of the PEG members, Jimmy Adams of Adams Transfer in Atlanta, took these questions a step further.

Dissatisfaction with sales results led Adams to review his sales compensation package. He took advantage of the opportunity available to him in a PEG to find out what his colleagues were doing that brought them good results. He asked all of the members of his PEG to share their sales compensation packages.

As Adams put it, "I want to be sure we are offering an attractive, competitive plan, but not overpaying our sales staff. The market is dynamic, always

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changing; and if we want the best salespeople in Atlanta on our team, we need to be sure we modify these agreements as the market dictates."

When the PEG went to critique Adams recently, Adams presented the group with a summary of his findings. This article highlights the information gathered from Adams' PEG, other companies Adams contacted and companies in other PEGs.

While a sales compensation plan alone cannot cause salespeople to achieve company goals, the important elements of compensation, especially the continual review of how the plan is accomplishing the company's goals, is key to successful sales performance.

A terrific sales compensation plan without careful management and communication catches a Management Growth Institute, Inc. (MGI) director's attention. "Inspect what you expect," MGI's founder David T. Barry repeated at almost every PEG meeting. It sounds simple. It's not always easy.

Compensation Planning Is Vital

Sales compensation stems from the sales strategy, tactics and goals that the company develops and communicates. Sales strategy, tactics and goals should be the biggest determinant of a sales compensation plan, and the best single way to operationalize the sales strategy.

Commissions and incentives have one function only—to reward the sales behavior that helps the company reach its goals.

Compensation should tie to the company's goals. Most sales organizations have a wide range of sales goals to choose from. Here are some standard goals:

- Gross sales.
- Profit margins.
- Number of new accounts.
- Penetration of existing accounts.
- New market segments.
- New products.
- Old products.
- Conquest sales.
- Sales increases in specific territories.
- Number of new leads generated by salespeople.

Engaging Your Own Employees Increases Customer Satisfaction

In the past, companies measured employee satisfaction and customer satisfaction as two separate processes. However, leading firms recognize satisfaction is no longer sufficient.

Companies are now linking employee engagement to customer loyalty and corporate performance for a clear view of the Service-Profit Chain.

"In today's professional environment, effective employees are an invaluable asset. Many companies realize the importance of 'engaged' employees as a first step toward increased productivity and customer satisfaction," according to Best Practices, LLC.

"However, companies face the challenge of understanding the link between employee engagement and productivity and customer satisfaction before they can capitalize on it. Human resource specialists and customer support professionals must examine this relationship and find ways to quantify it."

Many companies realize the importance of engagement as a critical measure of employee satisfaction, Best Practices researchers noted. High levels of engagement have been linked to increased levels of productivity and customer satisfaction. This connection has prompted these companies to take active steps to increase employee engagement in their respective workplaces.

Because few employees spend their entire careers with a single employer, efforts must be made to keep effective employees satisfied with their work and happy with the positions they hold, the authors noted.

"Top companies know that employees are one of a successful company's most valuable assets. Therefore, an increasing focus has turned to the engagement and empowerment of employees as a means to improve company performance. Leading companies are taking the first step toward increasing employee engagement—developing an effective performance measurement system."

The company said the Service-Profit Chain establishes the relationship between corporate policies, employee satisfaction, value creation, customer loyalty, and profitability. According to data revealed in a benchmarking report by Best Practices, a reduction in turnover rates by just two percentage points, can result in a savings of \$3 million annually.

Depending on the level of employees (supervisors versus front-line employees) and the reduction rate, this figure can escalate to a savings as high as \$40 million annually. However, although many companies realize the importance of "engaged" employees, few are able to effectively understand and capitalize on the linkage to productivity and customer satisfaction.

Highlighting Best Practices

The company said its "Employee Engagement and the Service-Profit Chain" report also highlights the best practices in identifying and improving drivers that are proving most effective in engaging employees in their jobs, their companies and their work groups.

Drawn from primary and secondary research of the world's leading companies, data and insights in the study include:

- According to an extensive study performed by the Metrus Group, the cost to replace an employee ranges from .41% to 2.41% of the annual salary.
- Development Dimensions International data from a Fortune 100 Manufacturing client shows a dramatic 1,000 increase in errors among disengaged vs. engaged employee populations.

Leading companies are increasing employee engagement by developing effective performance measurements.

accountable for engaging their employees. This is in stark contrast to the 35% of the full benchmark class that holds managers accountable. Findings and metrics were collected from surveys with companies including: AstraZeneca, 3M, Freescale Semiconductors, BAI, Microsoft, the Tennessee Valley Authority, Texas Instruments, Verizon and more.

For example, a case study of Tennessee Valley Authority summarizes how measuring employee engagement through a Cultural Health Index and aligning employees through the use of scorecards and performance measurement systems enabled TVA to determine the ROI of employees. TVA then used the CHI index results to improve engagement further.

Deploying Metrics at Verizon

Verizon utilized company-wide surveys to form the foundation for index metrics used to benchmark improvements in employee engagement.

In order to assess engagement levels, Verizon developed a survey-based system. Every month, Verizon randomly surveyed a number of employees and tracked the results of the survey alongside productivity, customer satisfaction, and customer loyalty measures.

Because of the frequency of the survey administration, Verizon has been able to keep up with the changing needs of a characteristically fast-paced environment. With the results of each survey administration, Verizon has built on and expanded the statistical models it uses for measuring employee engagement levels.

The surveys ultimately help create an index that Verizon uses to benchmark and track improvements. Successful implementation of the survey-based index method has helped Verizon develop action planning by identifying what dimensions need improvement and their relative priority while also forecasting the impact of improvements.

Verizon has uncovered many tenets of engagement, including:

- Engagement occurs when employees are committed, willing to recommend, and provide outstanding customer service.
- Include multiple questions for each dimension in the model to make certain the right aspect of engagement is being measured.
- After the surveys are scored on the index, analyze the data further to establish relationships between productivity, safety, absenteeism, and customer satisfaction.

Finally, Verizon's Employee Engagement Index has also been successful in a number of other ways. For example, Verizon has established a correlation between the Engagement Index and customer satisfaction.

A complimentary summary is available at www3.best-in-class.com/trr807.htm. ■

- Top performers rank cross-functional teams and councils as the most effective vehicle to help employees understand how their—as well as team and/or business unit—efforts contribute to corporate performance.

- 75% of high-performing companies hold managers

How important these goals are to the company determines the commission paid. For example, one PEG member wanted to increase sales of office and industrial moves. They created incentives for household salespeople who brought office and industrial references that were later closed.

When the sales plan changes (e.g., adding new goals), that's the time to change the sales compensation plan.

Factors Influencing Compensation

Companies develop effective sales compensation plans by taking into account the key factors that influence the sale of their products. Understanding these factors and how they influence the company's sales leads to setting compensation that motivates salespeople and benefits the company.

Consider these factors when you are building a sales compensation package:

The experience of the sales person. An inexperienced sales person requires more attention and training and is less able to close sales without this added support. A plan should include a reasonable training time with a higher salary and a schedule for moving from salary to commission.

The length of the sales cycle. The national account cycle requires a different compensation plan than selling household moves or office and industrial moves. As a general rule, the longer the sales cycle, the higher the base salary and the lower the commission.

Individual versus team sale. Many companies recognize that to get the best performance from a team they need to reward all the team members, not just the sales representative. Care should be taken to develop rewards that motivate the whole team and to communicate team rewards clearly.

Some moving companies involve everyone in the sales process and reward everyone, with the greatest reward coming when the company exceeds goals.

The perceived value added by salespeople. The best salespeople add value by showing the customer how

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the product solves a problem for them. They distance themselves from the competitor who only offers low prices and doesn't find a way to identify a solution for each customer's problems.

A sales manager and/or sales team must continually review won and lost sales opportunities and adjust the sales tactics so that the customer sees value in the sales person. Something as simple as the sales person's attention to precious antiques or family treasures can close a sale.

Other factors may negatively affect the success of a sales compensation plan. Make sure to monitor whether these factors are working against the plan.

Local conditions. A competitor's compensation creates pressures to match or better the package; lack of or minimal competition gives a company more leeway.

Industry practices. A moving company may participate in a market where price drives decisions. Exceptionally skilled management of salespeople can change the selling

environment by developing tactics to emphasize quality over price.

CEO expectations. Many PEG member CEOs have driven the sales for their companies. They motivate themselves. When they hire salespeople, they expect a carbon copy.

When the sales person does not measure up, they are quick to criticize and slow to understand the importance of training and setting challenging goals which cause salespeople to stretch more each year.

The best sale happened during the hiring interview. Candidates who are good bargainers and sellers of themselves often demand comfortable compensation packages. They

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benefit and the company doesn't. Goals and monitoring can prevent this situation.

Choosing the Right Plan

The components of sales compensation consist of: base salary; commission; draw against future commission (may

Sales commissions, incentives and bonuses should reward desired sales behavior from the sales force.

be recoverable or non-recoverable); tools such as sales equipment, transportation, etc.; incentives; annual bonuses; and sales contests.

There are no right or wrong sales compensation plans; only effective or ineffective ones. Effective sales compensation plans help drive the sales goals. When sales goals change, the sales compensation plans follow suit.

Remember that sales commissions, incentives and bonuses should reward desired sales behavior from the sales force.

Let's say a new competitor enters the marketplace. One of the new sales goals might be to collect competitive intelligence on them and monitor and influence the customers' perceptions of them. The salespeople are well positioned to do this.

By adjusting the sales compensation plan to provide an incentive for intelligence gathering, salespeople gather that intelligence. The intelligence leads to a new product which competes with the new player.

Now the sales compensation plan supports the new product introduction by dropping the incentive for competitive intelligence and replacing it with an incentive to sell the new product.

The new product is wildly successful in segment A of the market. Six months later, though, data shows that the product is not selling in segment B, and in fact the competitor seems to be getting a foothold there.

With another adjustment, setting an incentive for sales to customers in segment B and reducing it for segment A, the company goals can be achieved.

Some Compensation Plan Examples

The variety in the following examples shows how essential good management is both to communicate the plan and to monitor that the plan produces results. Each example represents an actual moving company with identifying information removed.

The company image description attempts to give a flavor of how the company appears to the public. In each case the company has been successful at growing revenue

profitably. In addition, in each case the most successful years have occurred when effective sales management was in place.

Company A —

Company Image: Serve the local market branch by branch.

The branches are distributed in very different markets and the company adjusts its product offerings to match the market. It also varies its compensation plans for salespeople depending on the market.

At one branch, salespeople receive a salary (enough to live on) plus commission plus car allowance. At another branch, salespeople receive full commission after a period of time. The company establishes the period of time based on the experience level of the new sales person.

At one branch all salespeople generate leads. At another branch salespeople rarely generate leads.

Company B —

Company Image: Increase revenue, beat the competition.

Sales compensation varies. Some salespeople are on commission (based on retained revenue), some have a partial salary depending on product lines sold. They also receive car allowance, cell phone, and business related expenses.

Salespeople receive an incentive for large moves that have lower than average discounts, for moves where the lead is self-generated, and for additional valuation sales.

Company C —

Company Image: Growth with quality.

Salespeople receive base plus commission plus incentive based on van line customer survey scores along with incentives based on

van line bookings, retained revenue and for self-generated leads, with a higher percentage for telephone estimate without inspection.

Incentives vary by year depending on what the company wants to emphasize for the salespeople. All commissions and incentives are described clearly in the contract with extensive detail. Salespeople sign a contract which describes their plan.

Company D —

Company Image: Serving the customer as a team.

Salespeople are paid a salary. Most sales are done on the phone without a visit to the household. All employees work on moves as part of their training in the company and as needed during the busy season.

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Regularly reviewing measures to see if goals are being achieved makes or breaks a compensation plan's effectiveness.

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Sales is everyone's job. Salespeople receive the same benefits as other employees. The company regularly communicates the status of goal achievement. The company provides bonuses to the sales team based on exceeding goals.

Company E —

Company Image: Focus on special products.

Each sales person is paid base plus commission. Their individual plan shows the percentage paid on various products. Different salespeople have different goals for different products. The plan also provides a chart of what they will earn for the whole year if they make their quota and then if they make the next level and one level above that. Each sales person has a signed contract on file.

Company H —

Company Image: Focus on national accounts.

The company pays salespeople with a consideration

for experience and length of service. Pay is a combination of draw plus commission, settled at different intervals. Compared with other companies in the sample, this company pays lower percentage commissions.

Salespeople receive a car allowance and when eligible health benefits and 401K benefits. Each salesperson receives a long formal document which lists the specifics of the responsibilities, territory, compensation and bonuses, benefits, and expenses. The salesperson must initial all pages and sign the document.

Successful companies choose a sales compensation package for salespeople that produces profit for the company, supports sales strategy and goals, and reflects the realities of the local market. The package also, treats salespeople fairly in the context of the marketplace, incorporates measures, and encourages their productive activity.

Reviewing these measures on a regular basis to see if company goals are being achieved makes or breaks the effectiveness of the compensation plan and the long-term performance of the company. ■