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Can you drive growth with your sales compensation plan?

Ask yourself these three simple questions.

With today's corporate growth levels, numerous sales organizations are developing robust sales effectiveness strategies to properly position their resources in the most cost effective and efficient manner to maximize growth potential. Whether it be focused go-to-market strategies, operating structures, or sales role strategy, each of these initiatives can be complex and require change management prioritization. The level of impact remains unquestioned, but the level of commitment and effort can be significant. For those organizations that do not have the time or resources, there may be a more simplistic initiative that can motivate your sales organization to push for growth - The Sales Compensation Plan.

Although many organizations use compensation strictly to support their desired sales strategy, if focused properly, it can also direct and drive the organization's desired sales strategy towards growth. The following three questions, provide a quick "Growth Guide" to help determine to what extent, your sales compensation plan drives growth and whether you have room to rebalance.

Sale Compensation "Growth Guide" Questionnaire

Question 1.) In your sales compensation plan, what is the mix between base pay and incentive pay?

A. 60/40 or higher (higher meaning higher base salary/lower incentive)

B. 59/41 or lower (lower meaning lower base salary/higher incentive)

Growth Guide: Mix is defined as the percent of Total Target Cash (TTC) that is allocated to base salary vs. incentive. The more pay that is "at risk" or the larger the incentive to salary, the more aggressive the plan is considered.

If you answered:

A. 60/40 or higher - Your plan has a higher base pay to incentive mix. This means, you have more money tied to base pay and less variable incentive. This type of mix is commonly associated with a sales strategy that is more focused on establishing strong client relationships and maintaining accounts rather than driving aggressive growth. This does not necessarily mean your plan is not focused on growth, it means it is less aggressive with payouts on that growth if achieved. To become more aggressive towards growth, consider placing more pay at risk.

B. 59/41 or lower - Your plan has a lower base pay to incentive mix. This type of plan is considered aggressive in most industries and effectively drives reps' performance due to more pay being dependent on performance. This mix is commonly associated with a performance based plan which focuses on productivity (i.e. growth).

Question 2.) What is the total upside a sales rep can earn in your compensation plan?

A. 2:1 or lower

B. 3:1 or higher

Growth Guide: Upside is defined as the amount of increased earnings opportunity a rep can achieve at higher performance levels than their target performance level. A 2:1 ratio means reps earn 2 percent of target incentive for every 1 percent of quota they achieve over their goal (e.g., reps who achieve 120 percent of their quota would earn 140 percent of their target incentive). A 3:1 ratio means reps have the opportunity to earn three times their incentive target amount.

If you answered:

A. 2:1 or lower - Your plan is less aggressive and it provides good incentive for reps to push to achieve higher levels of performance but is not a true performance oriented plan. Sales reps will typically get to a certain attainment percentage and then level out their performance commensurate with their pay if they feel added effort is not worth the added dollars paid.

B. 3:1 or higher - Your plan's pay strategy is more aggressive and provides stronger motivation to drive reps' performance through aggressive payouts at higher levels of performance. Sales reps are very motivated by high earnings opportunities and will push for growth if they are continually paid at higher rates.

Generally speaking, upside is a function of the plan's mix (discussed in the previous question) and targets. Higher base salary to lower incentive pay usually means lower upside potential in terms of dollars. In addition, setting an objective over the target can influence the upside significantly.

Question 3.) Do you have an incentive cap in your compensation plan (exclude management by objectives and key sales objectives)?

A. Yes

B. No

Growth Guide: Plan mechanics can generally be described as the underpinnings of a plan. They are the design components that make a plan function. A company may have many other growth elements in its plan, but if it does not appropriately deal with links, hurdles, caps and thresholds, a plan can quickly become overly complicated and unfocused. This is especially true when it comes to incentive caps.

If you answered:

A. Be careful, your plan may be inhibiting reps' ability to earn money and, as a result, limit their drive to perform.

B. Your plan more effectively communicates the company's dedication to paying for performance and rewarding those who drive growth.

Note: There are many cases where incentive caps are necessary. For example, if you have a quota-based plan and lack confidence in your ability to set accurate targets, in many cases, it is advisable to use an incentive cap.

As with all sales organizations, there is not one discipline or component that drives sales growth. If you are continually looking to increase efficiencies and to properly drive growth, the simple message is, do not overlook your sales compensation plans.

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