

Developing Sales Compensation Programs Like A Pro

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Scott Barton
Ken Wechsler



Your Speakers

Ken Wechsler



Scott Barton



Objectives for Today's Discussion

1. Build a Case For Change
2. Know the Steps and Components for a Plan Design Blueprint
3. Drive Rapid Plan Adoption



The Case For Change



What Problem Are We Trying To Solve

Our Plans don't drive the right behaviors

Our process takes too long, requires too many people

Effectiveness	Efficiency
Motivation	Profitability

Our sales people aren't motivated or engaged

We're spending too much for what we get



Sales Compensation Issue?



Case Study

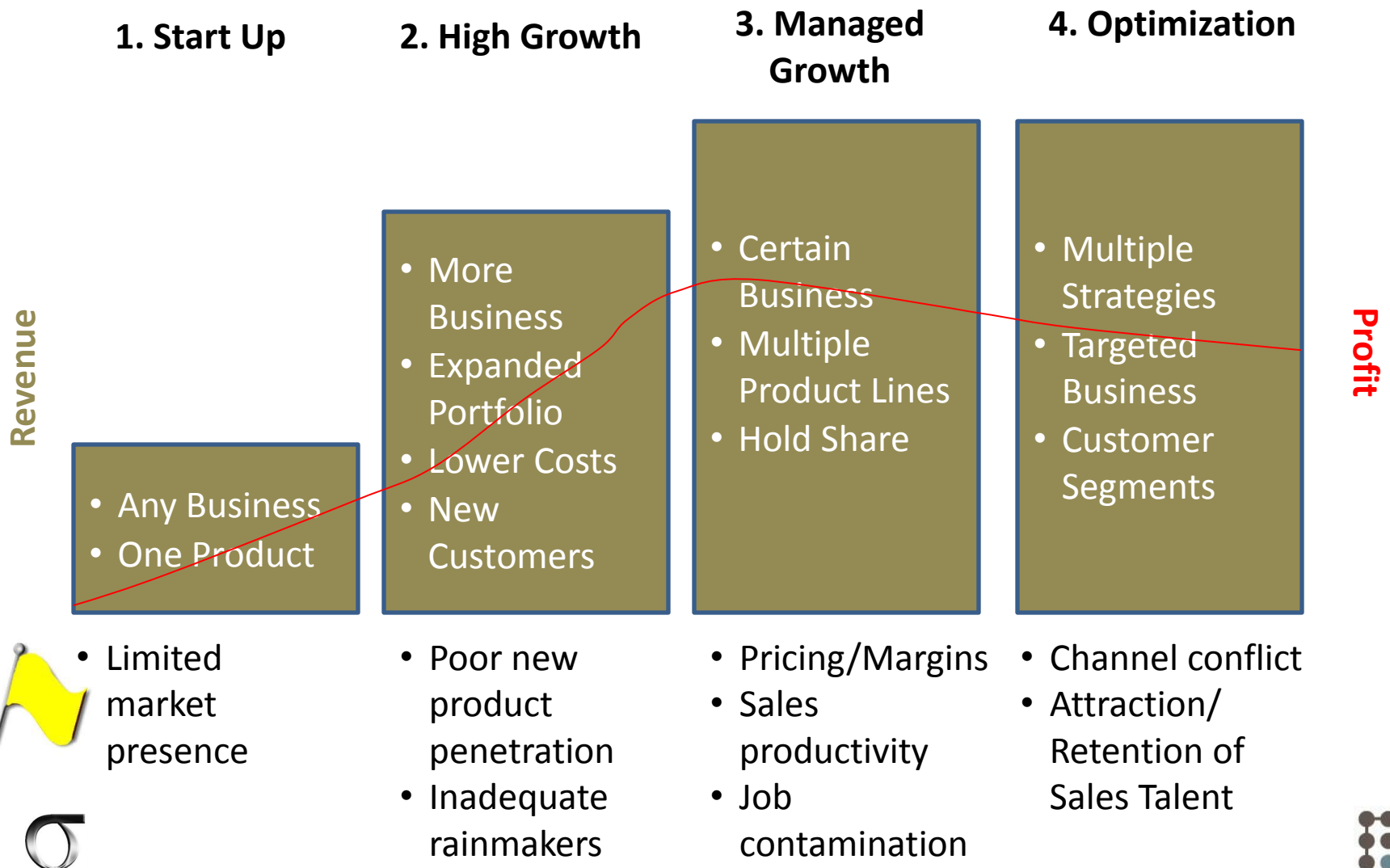


- Route Sales
- \$35k - \$65k Base
- 5% Commission

- Hunters turned farmers
- “Strategic” Account
- High concentration of ongoing business



Where is Your Strategy?



Strategy Drives Comp Design!

1. Start Up

- Low/no base salary mix
- Revenue
- Units
- Commission

“Just Sell”

2. High Growth

- Low-moderate Base Salary
- Revenue
- Quota
- Commission
- Bonus

“Sell within your assigned territory”

3. Managed Growth

- Higher Base Salary
- Multiple Quotas
- Bonus

“Sell to certain customers within your assigned territory”

4. Optimization

- Multiple Comp Plans:
 - Hunter
 - Farmer
- Multiple Quotas
- Team Measures

“Focus”



Case Study

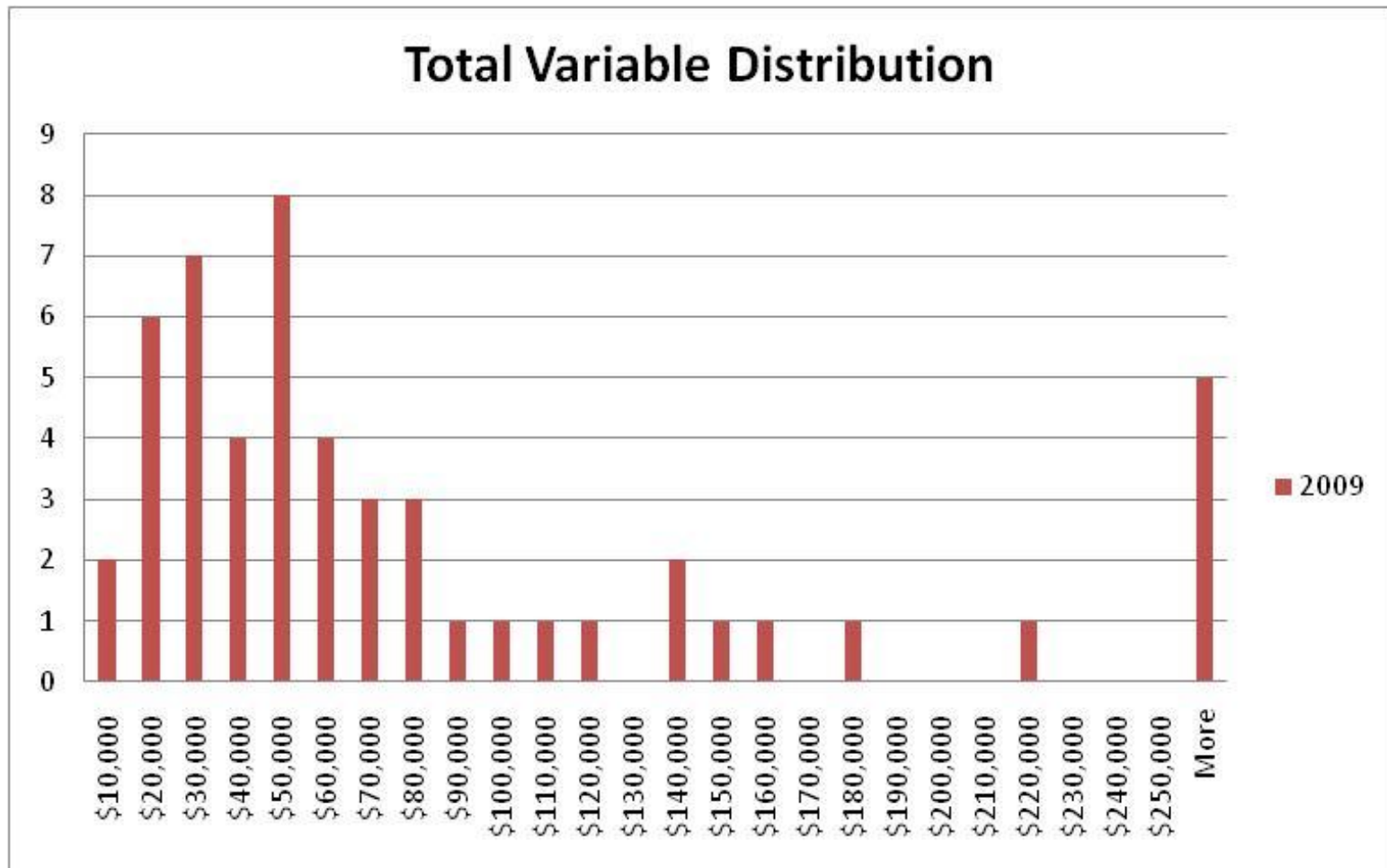


- IT Consulting Services Sales
- \$100k to \$120k Base
- 1.5% to 4.0% Commission + Bonus

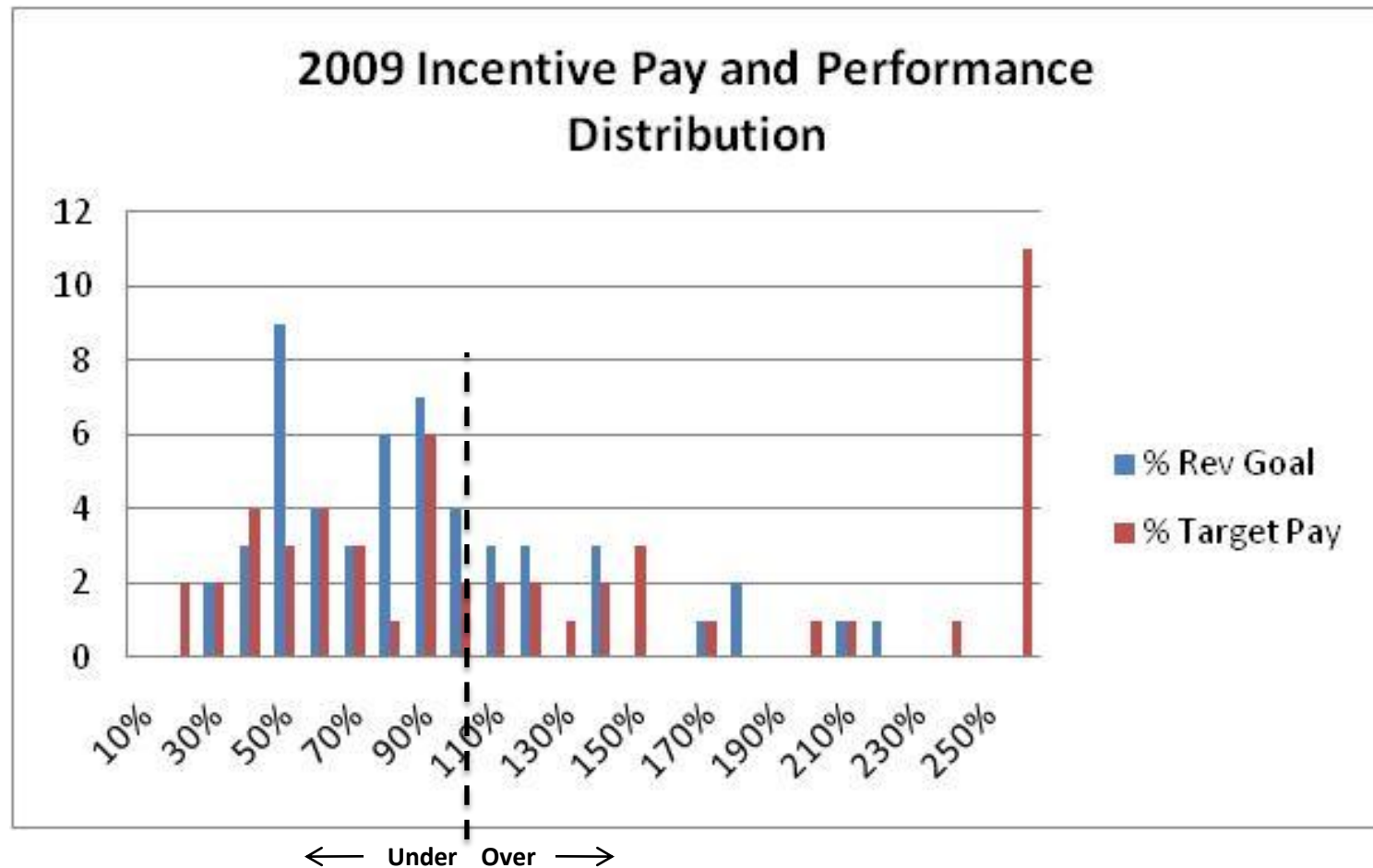
- Wide variations in performance
- Trapped by legacy business
- Turnover



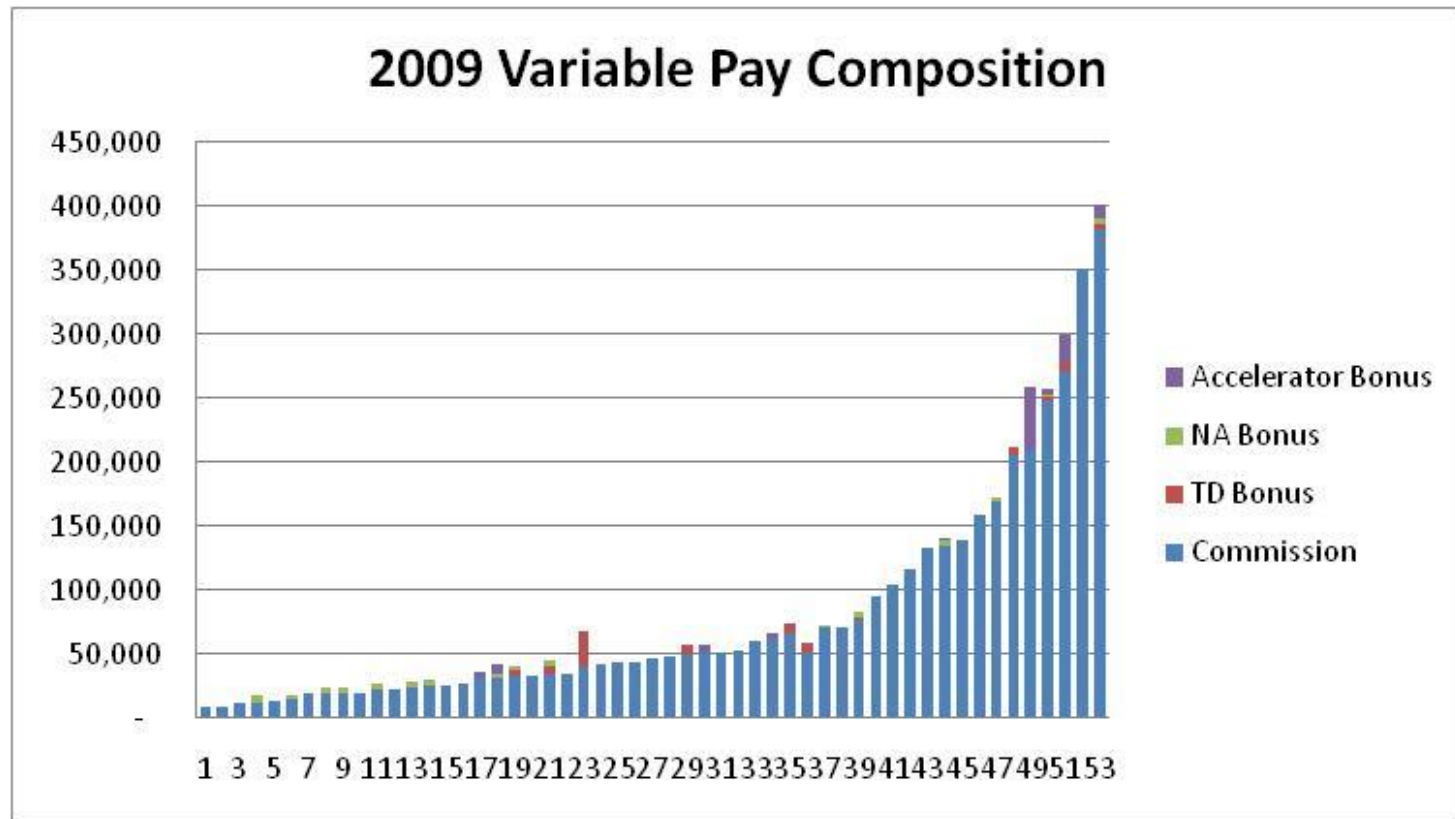
Left-skewed Distribution



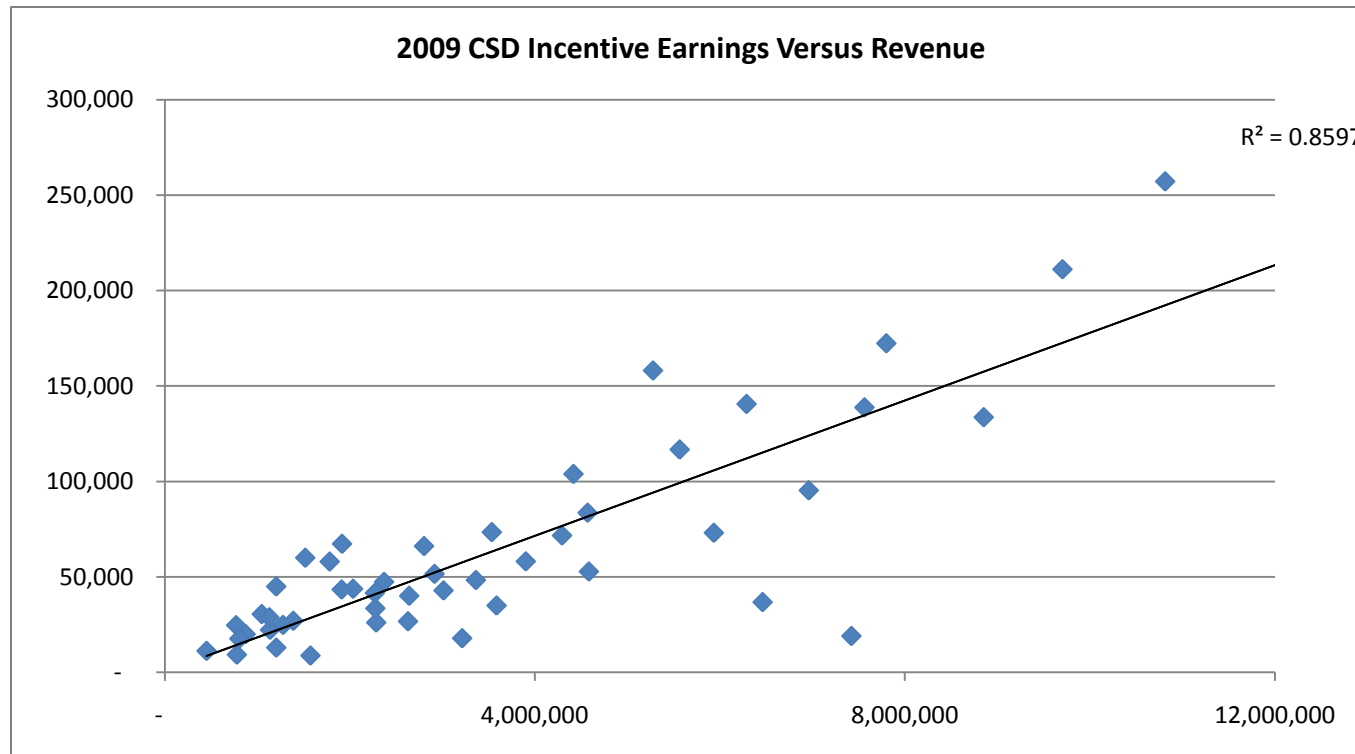
Pay and Performance Not Aligned



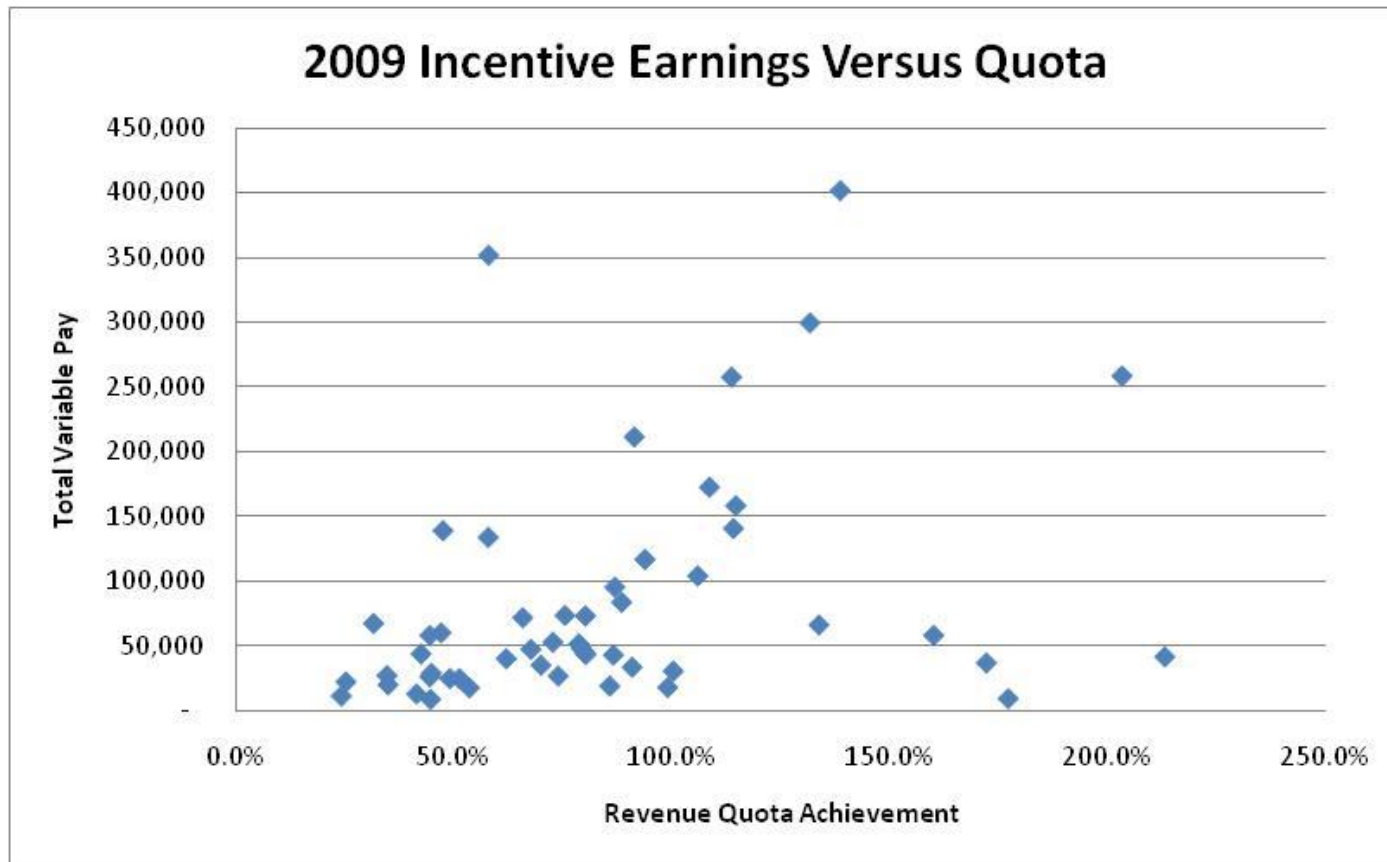
Bonus Measures = Little Impact



GP Influence on Incentives



No Correlation Between Pay and Quota



Score Card



Should Be	As Is
High-margin, high-growth business	● High-volume, low-margin business
Health care, federal and state government, select F1k	● Wide mix in industries served
New customers	● Lack of consistent focus between pre- and post-sale
Motivating, market-competitive pay levels	● Motivating pay levels
Positive program ROI	● Poor goal alignment



Getting Started



Data Matters



Networking



The Path Forward



Getting Started



PARTICIPANT INTERVIEWS



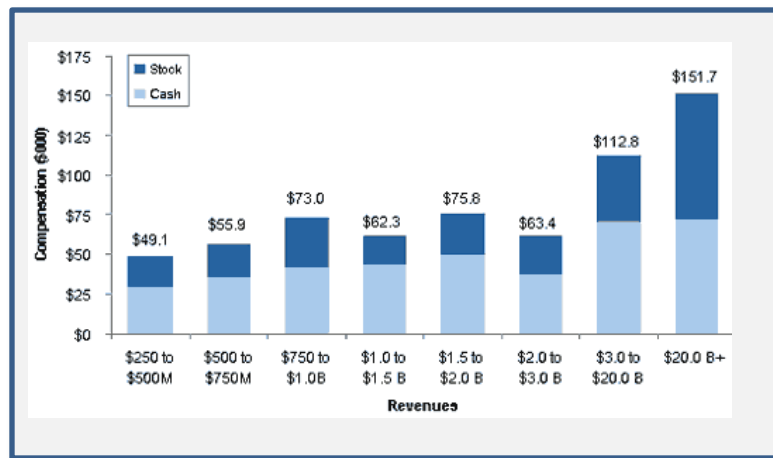
- Cross-section of assignments, tenure, performance
- Market characteristics
- Types of deals won and lost
- Job role and interdependencies
- Leverage and hurdles
- Plan effectiveness
- Communication and support



Getting Started



DATA ANALYSIS



- Three full-years' pay and performance history
- Pay distribution
 - Frequency
 - Percentile Points
- Quota attainment distribution
- Pay composition



Getting Started



NETWORKING



- Business Leadership
- Field HR
- Outside Experts
- Analysts
- IT
- Communication



Getting Started



THE PATH FORWARD



- Design Team
- Calendar
- Agenda
- Milestones and Deliverables
- Decision Accountabilities



The Plan Blueprint



Plan Design DNA

2010 Account Manager Sales Compensation Plan

Your Focus: Account managers focus on incremental revenue opportunity from target accounts. Incremental revenue includes all eligible products, strategic products, new service contracts and subscriptions.

2010 Cash Targets

Base Salary = 65%	Target Incentive = 35%	Target Total Compensation = 100%
\$110,000	\$60,000	\$170,000

2010 Performance Goals

Measure	Description	Weight	2010 Goal
Total Target Account Revenue	Total revenue booked in the account	60%	\$1,750,000
Strategic Product Revenue	Total revenue from PS35, PS90 and Z11	20%	\$500,000
Subscription Bookings	Credit for each subscription booked based on A, B and C contract class	20%	105 Contracts

Pay Mechanics

Measure	Description	Payment Schedule	
		Performance Score	Payment Rate*
Monthly Goal Achievement: Weighted-average achievement of three performance goals	Year-to-date achievement provides Performance Score • Monthly goals and attainment are cumulative • Monthly YTD achievement must be >70% for incentive eligibility • Maximum monthly payment is 100% of target incentive w/ year-end true up • Maximum annual rate is 200% of the target incentive	≥150%	200%
		120% to 149.9%	175%
		110% to 119.9%	130%
		100% to 109.9%	100%
		80% to 99.9%	80%
	70% to 89.9%	60%	
	<70%	0%	

Job Role / Responsibilities

- Skill level and sales complexity
- Points of sales influence



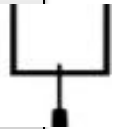
Target Pay and Pay Mix

- Base salary and target incentive
- Target incentive for threshold and excellent performance



Performance Measures and Goals

- Credit events and hierarchy
- Performance period
- Goal-setting methodology



Pay Mechanics

- Transaction or event driven
- Pay distribution
- Payment period
- Contingencies

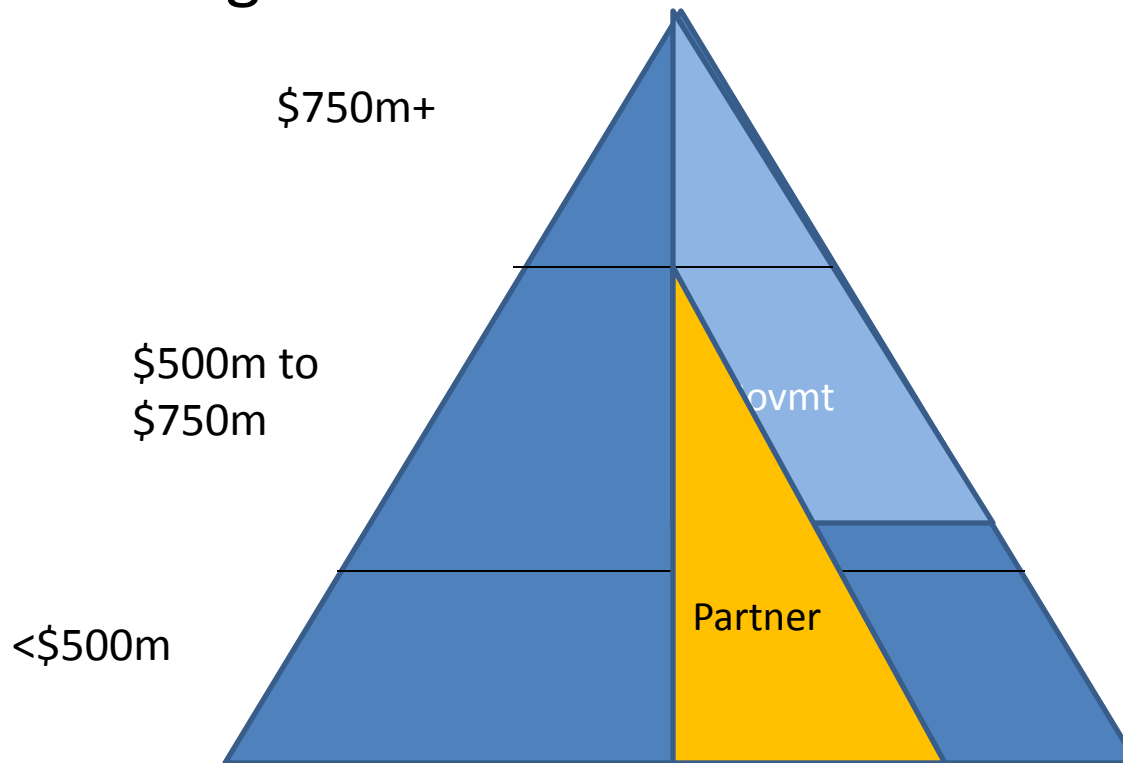
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Alignment with Job Role



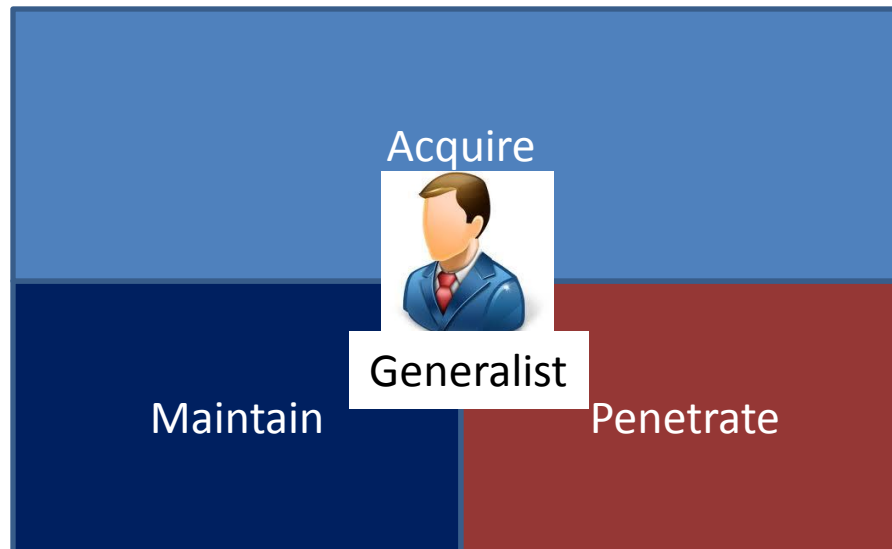
Customer Segments



Alignment with Job Role



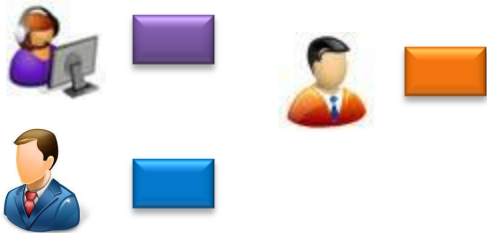
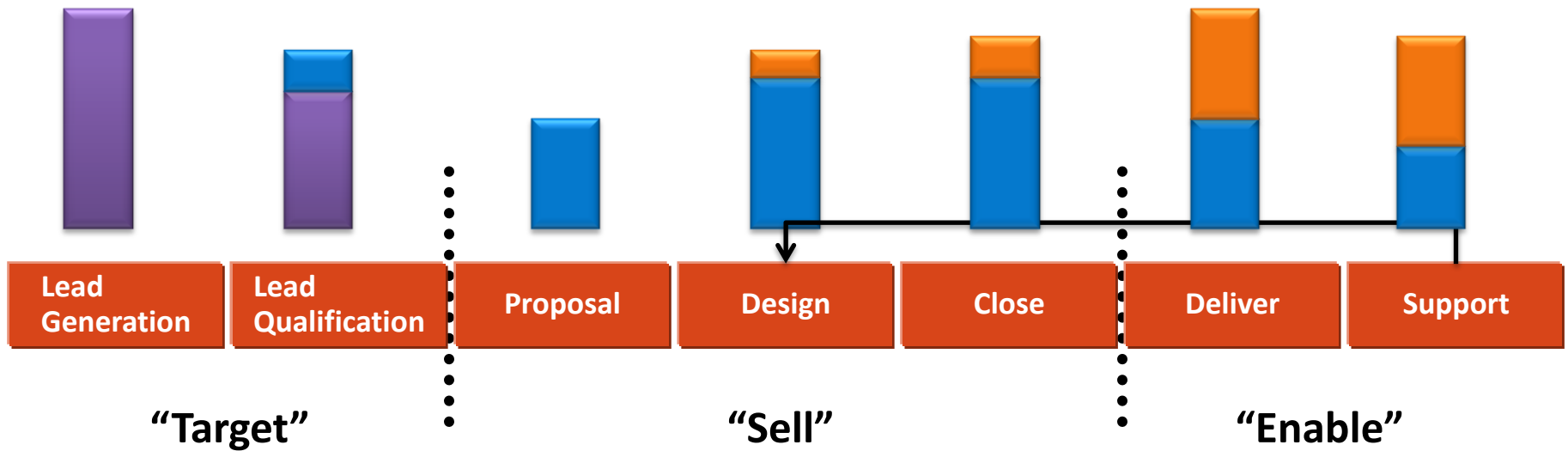
Market Coverage Strategy



Alignment with Job Role



Sales Process and Time Allocation



Target Pay and Pay Mix



- Pay Philosophy
- Competitive Benchmarking
- Leadership Input
- Target Pay Framework
- Modeling and Impact Analysis
- Migration Strategy
- Communication Strategy



Good Practice

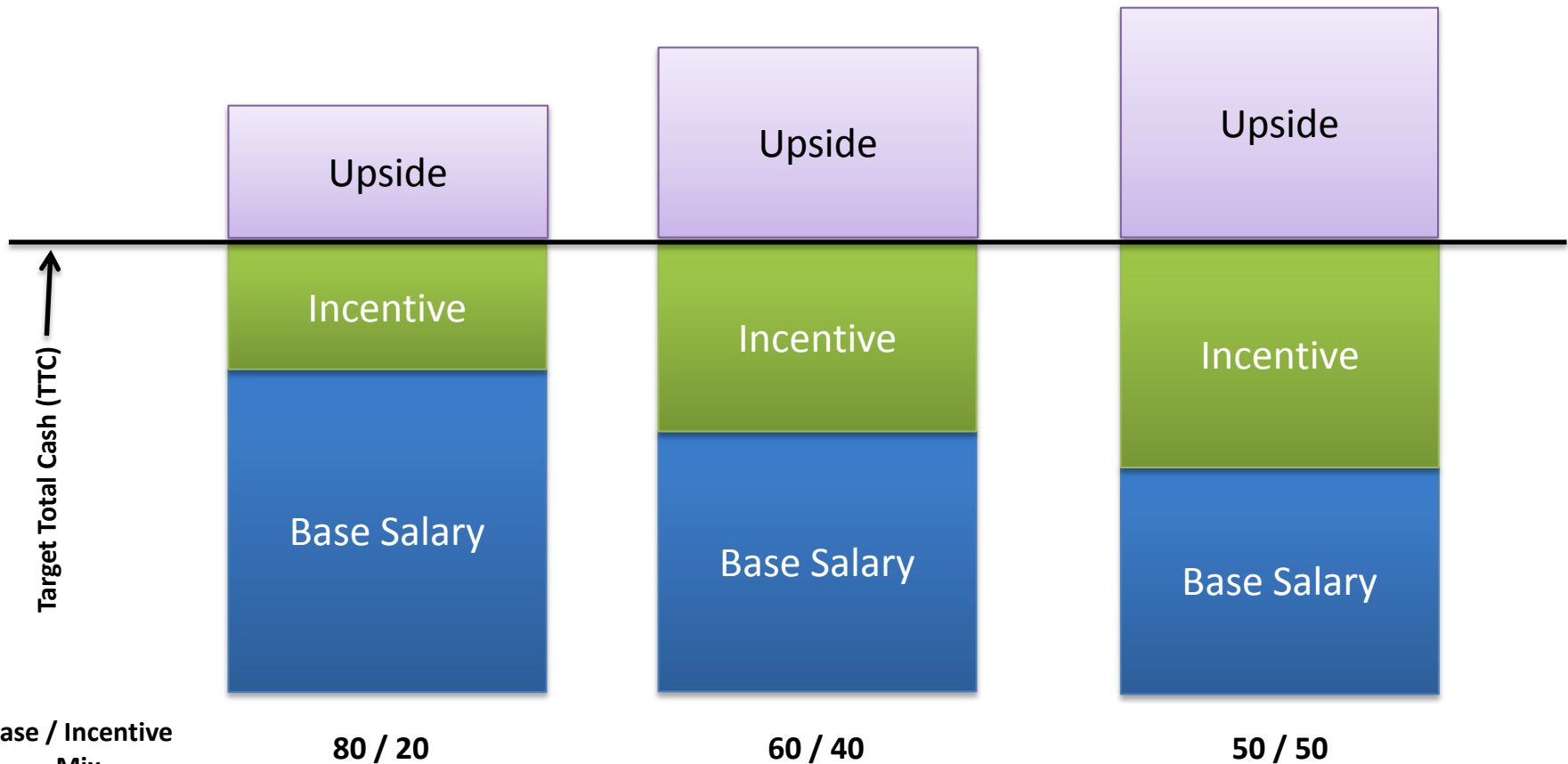
- Well-articulated philosophy with consideration for different markets and operating environments
- Consistent, logical and multi-sourced benchmarking
- Alignment of framework with organizational pay structure
- Leadership support and line management promotion
- Knowledge of local labor statues



Pay Mix, Risk and Upside



Illustration



Pay Mix, Risk and Upside

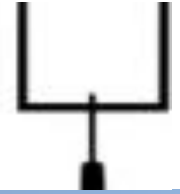


Good Practice

- Mix and pay delivery align with competitive benchmarks
- Pay mix considers:
 - Market share and growth opportunity
 - Brand equity and marketing influence
 - Competitive intensity
 - Customer buying patterns
 - Sales cycle
 - Teamwork and leverage
 - Sales role and role content
 - Sales culture



Measures and Goals

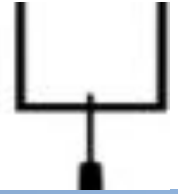


Typical issues:

- Poor correlation to revenue unless “pool” funded through recognized revenue
- Limited variability
- Limited cash flow during long sales cycles
- Difficult to delineate across multiple points of influence
- If goal based, limited goal reasonableness and reliability
- Dilutes prospecting and deal-making emphasis
- Limited variability



Measures and Goals



Good Practice

- Emphasis on financial outcomes that align with the business goals
- Job has high degree of influence over the outcome
- Measures and goals represent competitive practice
- Systems can provide timely, accurate reporting



Pay Mechanics

$$\frac{\pm \sqrt{(5)^2}}{2(1)}$$

Transactional versus Event-driven Sales

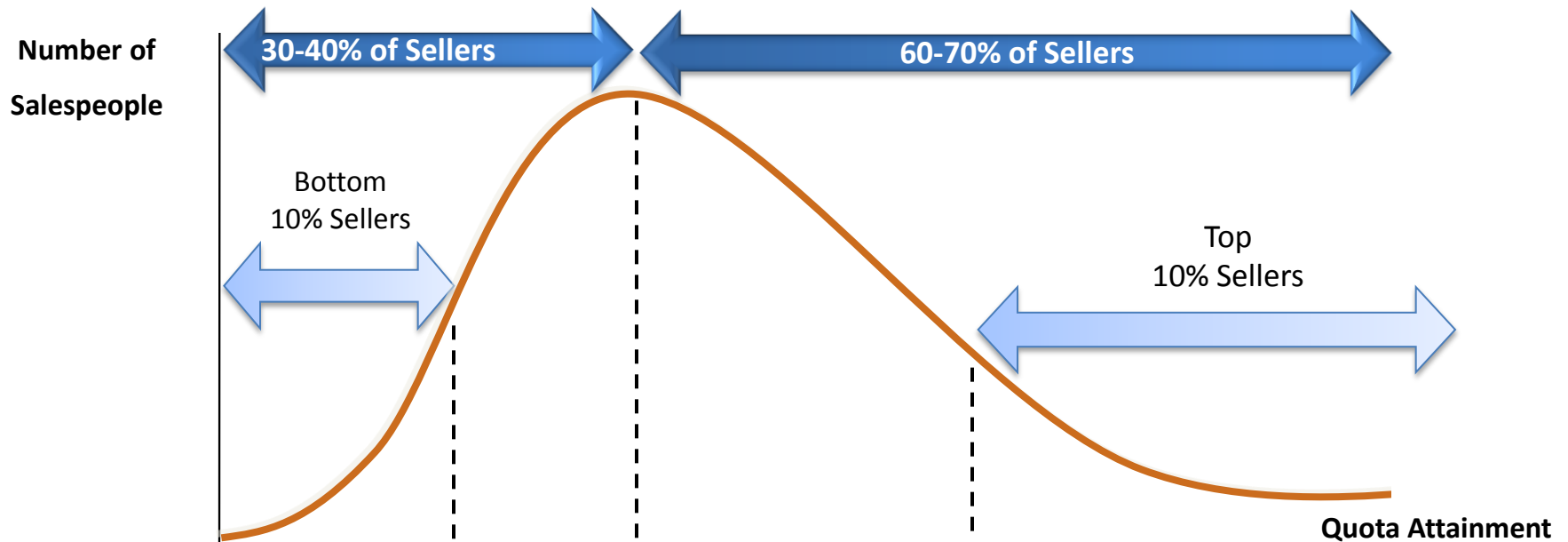
Operating Model	Commission	Goal-Based Bonus
Sales Strategy	<ul style="list-style-type: none"> • High growth • New business focus • Transaction-oriented 	<ul style="list-style-type: none"> • Moderate growth • Maturing industry • Relationship oriented
Product / Market Focus	<ul style="list-style-type: none"> • Single market • Single product line 	<ul style="list-style-type: none"> • Multiple markets • Broad product portfolio
Sales Potential	Relatively equal potential across assignments / territories	Unequal sales potential across assignments / territories
Sales Role	<ul style="list-style-type: none"> • Hunter / market maker • Limited sales support 	<ul style="list-style-type: none"> • Team-based sales • Account manager with FAE
Sales Process	<ul style="list-style-type: none"> • Short cycle • Simple process 	<ul style="list-style-type: none"> • Long cycle • Complex cycle
Quota Allocation	<ul style="list-style-type: none"> • Limited data / rationale • Unreliable 	<ul style="list-style-type: none"> • Strong process and rationale • Generally viewed as reasonable



Pay Mechanics

$$\frac{\pm \sqrt{(5)^2}}{2(1)}$$

Performance and Pay Design Points



Threshold represents minimal performance. 90% of incumbents should surpass the threshold.

Target represents the expected level of average performance. 65% of incumbents should achieve target. 33

Excellence represents the level of achievement expected from only the top performers. Approximately 10% of incumbents should achieve excellence.



Pay Mechanics

$$\frac{\pm \sqrt{(5)^2}}{2(1)}$$

Threshold

- Set a minimum performance standard
- Avoid paying for run-rate business

Linked

- Tie the payment of one measure to the outcome of another
- Avoid paying target while missing a sales goal

Multiplier

- Credit or discount the payment of one measure based on the performance of another
- Encourage focus on a supplementary measure

Cap

- The point at which incremental performance no longer provides incremental pay
- Avoid paying more for diminishing returns



Pay Mechanics

$$\frac{\pm \sqrt{(5)^2}}{2(1)}$$



Good Practice

- Number of “moving parts” in the plan aligns with current reporting systems
- Mechanical approach supported by logic
- New mechanical approaches thoroughly tested prior to launch



Plan Launch



Documentation

- Detailed documentation
 - Plan objectives,
 - Performance period,
 - Eligibility,
 - Target sales opportunity,
 - Plan components and payout timing,
 - General provisions and acknowledgement
- Participant acknowledgement
- Complete in advance of the plan period (i.e. start of the year / quarter)



Systems Readiness

- System and options for support
- Web-based documentation and calculator
- Ongoing access to pay and performance results
- Reporting policies and procedures

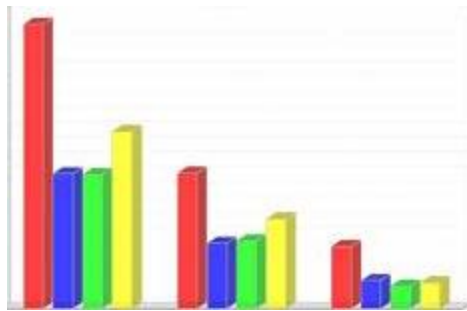


Management Readiness

- Management Buy In
- Expertise – Plan Advocate
- Ongoing Coaching



How Can We Help?



Field Surveys and
Benchmarking



Plan Design
Workshops



Process
Enablement





NewSigma, LLC

sbarton@newsigma.com

415-279-6494 (office)



kwechsler@remedycomp.com

858-755-8675 (office)

