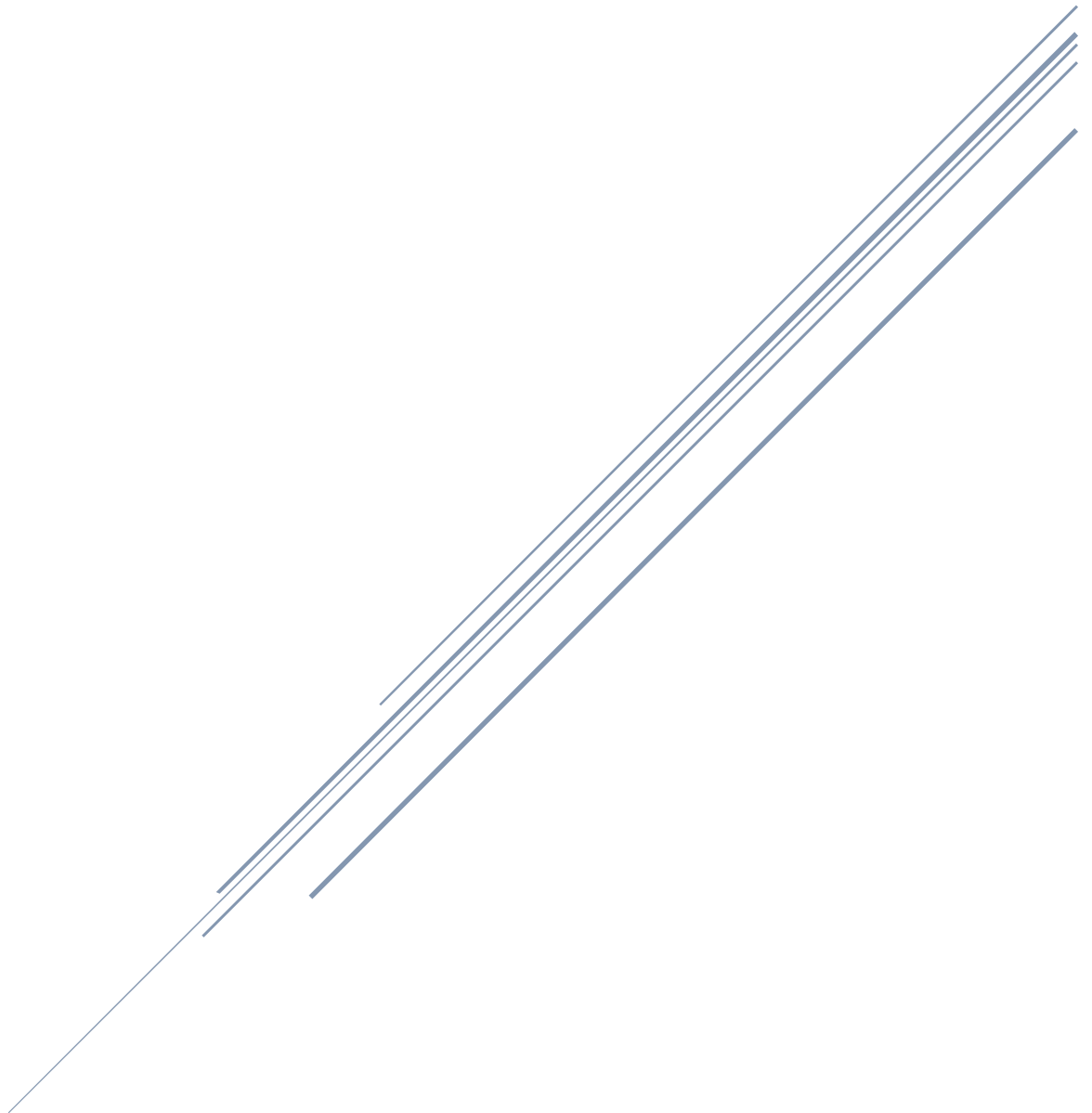




SALES COMPENSATION PLANS

Examples, Templates & Software Options



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Sales Compensation Plans

Examples, Templates & Software Options



Whether you're a CEO or a VP of sales, the sales compensation plan is probably the most powerful tool you have to insure you get the right results from your sales team.

If you have an ineffective sales compensation plan and want to make a switch from paying your sales people based on the sale to paying them based on the collection of the sale, extreme caution is required.

Any adjustments to a sales compensation plan require sensitivity and thoughtful method in your approach. As you consider the compensation options, we want to review thoughts processes and alternatives for developing (or changing) your plan.

Here are three key questions to ask about any potential change:

Is it simple?

Is it aligned?

Is it immediate?

A sales compensation plan that fails to cover details about governing policies and procedures, including such important topics as how incentives are calculated and paid when a participating sales rep terminates employment, can become a [legal matter](#) for a judge to decide. Examples of recent lawsuits related to commissions:

['Star Wars' Director Rian Johnson Sued by Ex-Agent for Commissions](#)

[Hermès was recently named in Lawsuit for Allegedly Failing to Pay Commissions.](#)

[Zoey Deschanel Sued for Commissions on 'New Girl,' Hello Giggles](#)

[DELEON v. VERIZON WIRELESS Lawsuit](#)

[Sprint Nextel \(Retail Employees\) | Nichols Kaster, PLLP](#)

[Unpaid Commissions - The Rubin Employment Law Firm](#)

While this report does not offer legal advice, it should serve as a reminder of how a sales compensation plan and its documentation can be the difference between success and failure.

What might be missed in a plan document are policies and procedure details. With so much at risk for all parties, the rule of Keep-It-Simple-Stupid for a compensation plan is a little naïve.

This [Sample Direct Sales Rep Compensation Plan Template](#) is simple in nature but far from a finished plan. (Templates might save time, but we do not recommend them.)

Examples of administrative policies and procedures to include:

- ***Management's ultimate authority*** – This is a statement of management's final authority regarding any and all incentive plan administration issues.
- ***Plan effective dates*** – Include the effective starting date and if applicable, a termination date.
- ***Employee termination (separation)*** – When an employee separates from the company, what are they eligible for in terms of incentive compensation upon termination?
- ***Eligibility timing*** – Describe employee service requirements to be eligible for the sales incentive plan.
- ***Sales crediting*** – When a sale is credited (e.g., at booking versus invoice, versus shipment), how is it considered in the incentive compensation?
- ***Leaves of absence*** – How a leave of absence impacts quota attainment and incentive compensation.
- ***Job/territory transfers*** - How a job or territory change impacts quota attainment and incentive compensation.

- **Quota or goal adjustments** – Include statement of management's right to adjust quotas, as well as the defined process for requesting a quota adjustment.
- **Payment adjustment requests** - Include a defined process and timing for initiating and reviewing an incentive payment adjustment request.
- **Bad debt chargebacks** - Describe the details for how bad debt chargebacks impact paid commissions or bonuses.
- **Statement of confidentiality** - A statement that all aspects of the incentive plan are company confidential and proprietary.

SalesManagement.org offers a more comprehensive review in this white paper: "[Sales Compensation Plan Policies and Guidelines.](#)"



A well-designed sales compensation program reinforces an organization's strategic plans.

Unsuccessful compensation plans lead to:

- Failed product launches
- Lower revenue and profit margin
- Lack of growth and missed goals
- Costs over budget
- High rate of staff turnover

Successful compensation plans include:

- Sales compensation aligned to performance
- A motivated sales team

- Improvement in goal achievement
- Decision of plan-design is results-based
- There is an alignment in sales strategy

The strategic sales plan should act as a “road-map” for sales achievement. The plan should take into account the external conditions affecting the company’s ability to achieve sales results, as well as the type of sales techniques and approaches that are necessary to accomplish these results. Some of these conditions include:

- Market demand
- Market maturity by market segment
- Competitive conditions
- Economic conditions in the market
- Strategic objectives by market
- Types of sales effort/behaviors desired
- Current and desired sales structure
- Current and desired future skill needs
- Other factors which may impact on a company’s sales effort

Without a well-formulated sales strategy, a company’s sales efforts will be disjointed at best and highly ineffective at worst.

Salespeople, in general, will play by the rules given them to make commissions and bonuses — in other words, “win.” The sales compensation strategy, as it is driven through the compensation program, is meant to keep the players running in the right direction and prevent them from scoring touchdowns on the wrong end of the field.

A well-designed sales compensation plan answers five important questions:

- ✚ Who should participate?
- ✚ How much pay is appropriate?
- ✚ Compensation should be for what performance?
- ✚ When should they get paid? (Dates, frequency and tenure considerations.)
- ✚ In what form should they be paid?

It is difficult to create a sales compensation plan without being influenced by variables such as:

- ✚ Which lead sources result in the highest percentage of closed deals?
- ✚ Are your reps selling the most profitable products?
- ✚ What percentage of the time is your sales process being followed?
- ✚ Where do your reps tend to stall in the sales process?

✚ Which competitors do you lose the most business to, and why?

A compensation plan may draw attention to more profitable products and motivate the sales team to push through friction points. A sales compensation plan designed to achieve unreachable goals will dishearten instead of empower a sales team.

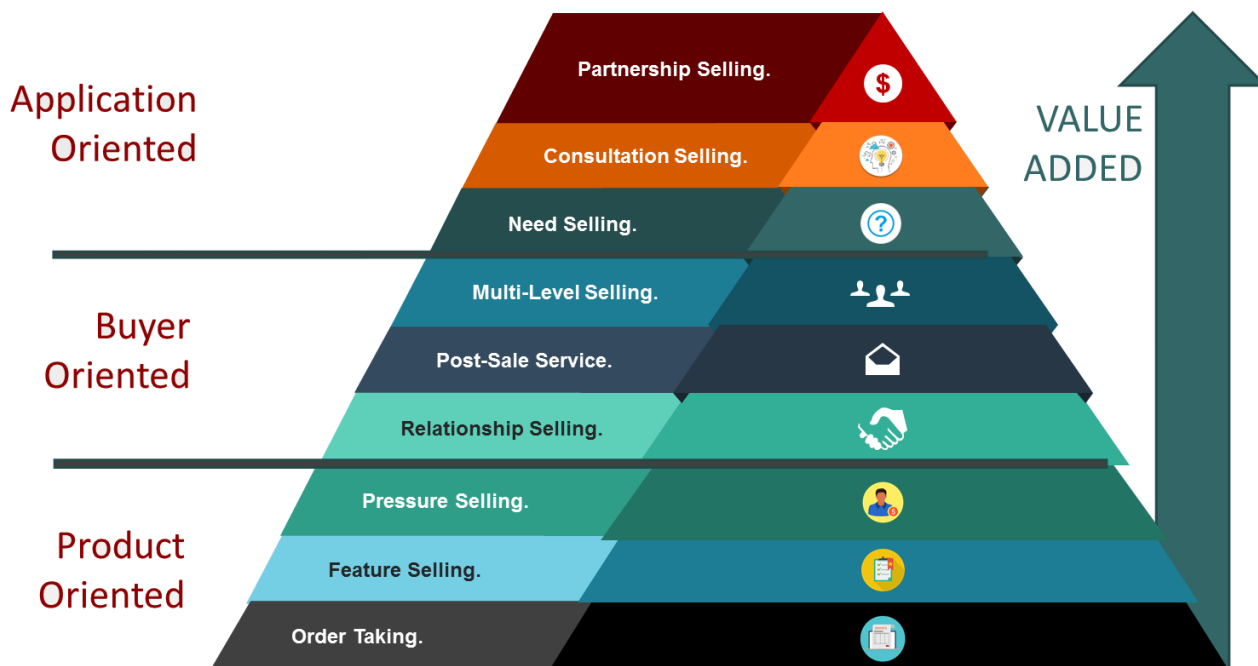
The Sales Approach Pyramid

The sales approach pyramid [describes](#) different types of sales approaches from “order taking” on the bottom to “partnership selling” on the top.

When you go to McDonald’s, you experience **order taking**; the customer simply peruses the options and selects which item(s) he or she would like.

When Boeing sells its aircraft to an airline, **partnership selling** is involved; Boeing has a limited number of large customers to whom it sells its product (i.e., jet airliners), and the customer has input into the product design from the development stage.

The Sales Approach Pyramid



This process helps to ensure that the customer's requirements/specifications are met and that the customer will ultimately buy the product when it is produced. [Other](#) examples of sales approaches include:

- **Feature Selling** – furniture, electronics
- **Pressure Selling** – automobiles
- **Relationship Selling** – insurance, stocks
- **Post-sale Service** – office equipment, copiers
- **Multi-level Selling** – computer systems
- **Need Selling** – determine the customer's need and supply products in order to satisfy them
- **Consultative Selling** – determine customer's goals & build or repair products to enhance business

The sales approach pyramid is important when developing or revising a sales compensation plan. All selling is not equal. The infographic shows how personal selling requires different skills sets than partnership selling. Consider the roles and expertise before implementing a plan and avoid mismatches with compensation vs. performance.

A sales compensation plan is not a solution in and of itself.

Recruiting and developing a sales team is the foundation for success.

The new world of connection and multi-generational workforces challenges many conventional notions of sales management, using the metrics-driven, process-oriented lens through which many have been trained to see the world.

For instance, it is possible to measure success by meticulously tracking data on sales, identified predictors of success, and look for people whose traits and skills closely resembled those of top sellers.

Instead of training new recruits by having them tag along on a successful salesperson's calls, you will find it more effective to create a regimented training program that gives them firsthand experience with the products, services, and technology and then trains them to nurture systematically, serve and develop leads.

The power of a compensation plan not only works as a motivator for salespeople to sell more but also act in ways that support a company's evolving business model and overall strategy.

“What's the best sales compensation structure to use?”

This is, of course, a complicated question where consultants can easily respond with “It depends.” As you can see from the chart below from

[OpenView](#), the answer can depend on roles, experience required, the level of autonomy, the level of difficulty and requires us to look again at The Sales Approach Pyramid.

- How complex is your sales cycle?
- How much influence do reps have on the buying decision?
- Is your model primarily inbound or outbound?
- Is the focus of the role primarily hunting (outbound), farming (growing existing business), or catching (inbound)?

Base Salary / Variable Split

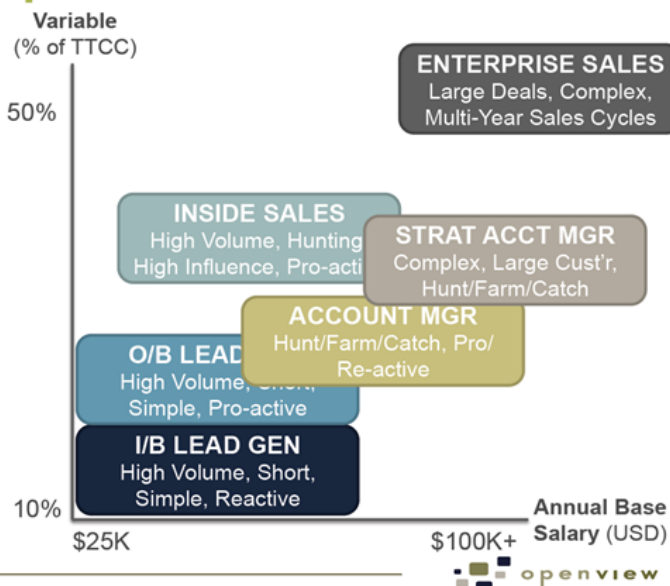
HSG
Hanna Strategy Group

What Determines Base Salary:

- Level of Difficulty
- Level of Autonomy
- Experience Required

What Determines Variable Comp:

- Complexity of Sales Cycle
- Influence on Buying Decision
- Inbound vs. Outbound
- "Hunting" vs. "Farming" vs. "Catching"



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The ideal sales compensation plan is created and tailored to the type of business and the company's growth stage. As an example, a start-up typically has three key stages:

1. Customer acquisition
2. Customer retention and success
3. Sustainable growth

SIMPLICITY:

The best plans use as few as three variables to measure sales representative's performance and incentives. One example would be to do the following:

123

- Determine the sales quota (\$) & commission (%)
- Determine a hurdle rate when the commissions start
- Pay an accelerator for dollars above quota

Beyond a compensation plan, the right performance metrics for a sales representative can keep the sales representative focused. Performance metrics can include:

Quantitative Metrics Variables:

- ✓ Volume of sales in dollars
- ✓ Total profit generated
- ✓ Number of new accounts opened
- ✓ Number of 'calls' made to existing accounts
- ✓ Dollars spent entertaining customers

Other Variables:

- ✓ The extent a sales representative promotes business
- ✓ Accuracy of sales orders
- ✓ Reporting promptness
- ✓ Knowledge of the business
- ✓ Team player?

Performance Metrics to Watch:

- ✓ Average Deal Size
- ✓ Winning Percentage
- ✓ Average Days in Pipeline
- ✓ Average Time to Close
- ✓ New Opportunities per Month (NOP)
- ✓ Average Monthly Pipeline Size

Measuring performance of sales representatives based on these statistics requires a commitment to track, share and rank the team against each other.

Sales Compensation Software:

It may be time to move away from spreadsheets and make software a central component of your sales compensation plan.

At some point, using an approach that is based on “Excel & email” to manage sales commissions will begin to crack. There does not appear to be a magic number of staff for when the system begins to break. For higher volume sales organizations with more complex commission plans systems can stop working well with fewer than ten sales reps. Large sales organizations with a few transactions per rep per month, by

contrast, can sometimes get away without an incentive compensation management tool with a team of more than 75.

Indicators that you might be overdue for a software management system for sales compensation:

- You are paying out more than \$1 million in annualized commissions. If true, commission-related expenses are enough that you can't afford not to track in a centralized system.
- Your commission plan references more than 1,000 rows of data each month. A small number of misallocated deals across a handful of sales representatives will create serious errors in your commission calculations which will force you to redo calculations manually for half the team.
- If one or more of your staff spends a week per quarter calculating and managing sales incentives, a software solution will have a positive impact on operations, decision making, and profit. A professional sales tracking software solution should allow you to cut costs while providing the benefits of a robust, centralized system that consolidates all compensation management workflow in one place.

The obvious benefits software can offer include making it easier for your sales staff to do their job and for your customers to do business with you. Here are a few key points to make a case for an upgrade to compensation software.

1. Sales management software can automate many time-consuming manual tasks. This frees up time and allows you to concentrate on more important jobs.
2. By improving the visibility of sales activities through reporting functionality, it is easier to identify what is going wrong (and right) and adapt as needed. The access to activities also means improved accuracy and better forecasting.
3. Increased awareness empowers leadership to better manage pricing strategies through pricing optimization functionalities, and pulling in information from your email system will ensure smooth and transparent communication with clients.

Key functionalities to look for sales compensation software include the following:

- ✓ Sales analytics
- ✓ Lead/contact management
- ✓ Email integration
- ✓ Sales forecasting

- ✓ Pricing optimization
- ✓ Predictive analytics
- ✓ Collaboration
- ✓ Reporting

There is a select group of companies who work in the sales incentive management space. These are often referred to as ICM (incentive compensation management) solutions or, alternately, SPM (sales performance management) providers. Among the long list of options, here are nine top contenders to consider:

- [Xactly Incent Enterprise](#)
- [CallidusCloud Commissions](#)
- [Compgun](#)
- [ICONIXX](#)
- [Xactly Incent Express](#)
- [NetSuite Incentive Management](#)
- [QCommission](#)
- [Cognos Incentive Compensation \(Varicent\)](#)
- [Excel Sales Commission Template Software](#)

A warning about software for sales compensation plans -

Once in place, the sales representatives will very likely create their own spreadsheets to calculate exactly how much they're going to make on their W-2. The spreadsheet will be looked at every single day. These sales representatives are excellent to have as they are goal oriented and



understand how to stay driven. Those on the team who do not make this effort should learn how or move on to another company.

Even with ICM software in place, since they will be creating their own spreadsheets to track results, it is in everyone's best interest to put it together for them. Offering this spreadsheet gets you closer to getting exactly what you want, instead of miscommunicating what you think you want. A commission plan may be misinterpreted and have your team misaligned with company goals.

Alignment and clarity of direction are more powerful than any all-hands meeting or a 1:1 in your organization.

Here are a few sample spreadsheets and templates for your convenience:

- [Sales Commission by Revenue from One Click Commissions – xls Template](#)
 - [Sales Commission from Excel-Skills.com - xls Sample](#)
 - [Sales Commission Tracker – xls Sample](#)
 - [A Very Simple Sales Commission Calculator – xls Sample](#)
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Successfully implementing changes and adjustments to a sales commission plan requires a high level of proactive communication, clarity, and persuasiveness. There should be no surprises. It is more effective for management to engage top performers individually for input on potential changes. It is also important to reinforce the need for achieving acceptable profit levels and the rationale behind any changes to the plan.

Planning, designing, and implementing a sales compensation plan may seem a daunting task to entrepreneurial companies with so much on their plates. It remains one of the most critical elements to success. Defining key results and following simple steps, an organization can implement a plan that supports a motivated, successful sales team while contributing to a healthy, growing bottom line.

About the Author:

Over the course of her 20+ year career, Elizabeth has "been there and done that". Her experience includes: Business Founder & Owner, Entrepreneur, President, Principal, VP of Sales & Marketing, Consultant and Executive Advisor for numerous successful businesses. As a business owner she grew her own business from \$4M to \$16M in annual revenues in under 4 years. Throughout her career, Elizabeth's work has focused on business and relationship development.

Elizabeth is a proven driver of revenue, profitability and accountability. She is a complex B2B sales expert, adept at motivating teams from a revenue perspective with innovation, flexibility, and responsiveness to competitive and changing market conditions. She is driven by a passion for making businesses more successful.

As a trusted executive advisor Elizabeth builds revenue while strengthening your most valued relationships. Her extensive experience in managing strategic growth in challenging business environments, coupled with the hands-on insight to reenergize teams, makes Elizabeth a valued asset to executives who want to drive better results throughout each client experience.

Elizabeth is a member of The Executive Network of Seattle, Center for Advanced Manufacturing Puget Sound, and Washington Technology Industry Association. As a member of these and past organizations, her committee work has included the Business Mentors, New Member Orientation and Community Service committees, along with executive workshops.

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