



DOES YOUR COMPANY HAVE THE RIGHT SALES COMPENSATION STRATEGY AT THE RIGHT TIME?

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Moving into the second half of 2007, companies are currently assessing where they are from a revenue achievement standpoint. They'll use this as the milestone moment to revisit their operational goals in a variety of areas. One of the key gauges to tweak on the corporate dashboard is the company's sales compensation strategy and supporting commission plans. If you're in the midst of this reassessment, here's some food for thought---sales compensation issues are often, in reality, business alignment issues in disguise. Further, no single compensation program more directly impacts employee performance than a well-defined sales commission plan. Consider the following issues and their possible root cause (reference: "Workspan" Journal, 1/05):

Symptom	Potential Root Cause
Need for a more assertive "sales culture"	If there's a lack of edge to the company or sales team due to market position, flat/low/no sales, or---conversely, the company is finally ready to accelerate sales with new products---do all employees have accountability through a well-constructed performance management process? Clear goals? Short, line-of-sight reward programs that gets everyone owning revenue, margin, EVA and profit goals?
Low sales productivity	Market(s) typically change over time. Products have life-cycles. New sales skills may be needed. Has the sales compensation plan been revised to reflect these conditions?
Need to increase more solution (or strategic) selling	Increased complexity in the sales process may require different skills matched to the job. Also, does the commission plan design address complexity and sales cycle?
Customer churn	Sales personnel are rewarded for new customer acquisition. Does the sales plan support current customer retention, penetration, upsell, service? Who owns the ongoing current customer relationship from a continuing revenue generation standpoint?
Channel conflict	Adding new channels (direct sales, distributors, resellers, etc) to accelerate growth without considering potential overlaps (and price erosion will cause reps to be less

	focused. Does the plan clearly define success for sales personnel who own indirect channels?
Need to increase team or cross selling	As companies grow in size and product line/service solutions, the mix of opportunities and skills required to address those opportunities can distract from account ownership and closing the deal. Ultimately, does the commission plan direct and reward the right behaviors? Are some non-commission employees involved and are roles clearly defined?
Top earners aren't the top overall performers	If you're the CEO, wouldn't you want your top sales performers to earn more than you? Do you create accelerated, over-achievement commission plans that directly reward top performers? And, from a performance perspective, does the plan differentiate key metrics that are most important to the business---limiting rewards for customer base versus new customer acquisition, increasing fixed cost pay based on customer service survey results (both internal and external customers).
Sales personnel don't understand or buy into the plan	Are product lines and services clearly defined? Is the plan too complex in its mix or split commissions or regional overlap or payout methodology or...?
Commission overpayment	As companies move to maturity, plans need to be revised. Or, do you have an annual plan that simply doesn't account for rapidly changing market/business conditions? Is the commission plan overpaying for retained customer revenue and underpaying for new growth?

As these examples portray, sales commission plans are a key lever in guiding and influencing employee performance. At the early signs of sales compensation problems, companies too often go straight to the structure of the plan instead of looking at a broader range of considerations, starting with the overall sales strategy and whether the right roles (and people) are in place to support that strategy.

Having an occasional third party's perspective in the sales strategy and its supporting tools keeps a company honest to the end goals of driving revenue and profits. Every company is unique in its business culture and approach to its markets. At Bridgepoint, we advise a wide range of clients, especially companies who are early into their revenue generation stage, as to how they can strengthen their operations in the areas of financial and human resources services. Devising sales compensation programs that address the needs of the business, at every key stage, is critical to a company's success. We can help.