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Rapid Sales Compensation Design

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Rapid Sales Compensation Design

Presented by:

The Sales Leadership Forum
www.TheSalesLeadershipForum.org

and

SalesGlobe
www.SalesGlobe.com

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Dear Members of The Sales Leadership Forum:

This report on Rapid Sales Compensation Design provides our members with exclusive insights on this topic from our sessions and research. The Sales Leadership Forum is a sales leadership community and sales effectiveness advisory organization that provides its members with exclusive access to senior sales and marketing executives in leading growth companies, actionable research, and best practices consulting through SalesGlobe. We work with our academic partners from leading business schools and our board of advisors from member companies to provide services that directly address member needs to increase sales productivity and profitable revenue growth.

The Sales Leadership Forum provides the following services to member companies:

Senior Executive Community. Community and sessions with senior executives in sales, sales operations, human resources, marketing and general management from leading companies across industries. Forum sessions bring executives together for member-driven discussions on hot topics, access to best practices and advisors, and relationship building. Sessions are held both in-person and via live web.

Sales Compensation Community. Community and sessions that include sales, sales operations, human resources and compensation experts. Sessions focus on the in-depth exploration of important issues in sales compensation and are held in-person and via live web.

Sales Operations Community. Community and sessions that include sales, sales operations, human resources, and compensation executives and experts. Sessions focus on in-depth exploration of important issues in sales operations to drive sales performance and are held in-person and via live web.

Coaching and Counsel for Management. Sales effectiveness coaching from our leadership team who is experienced in working with organizations across industries in areas that include sales strategy, growth planning, performance management, sales channel management, sales organization design and development, sales productivity improvement, and incentive compensation.

Fast Cycle Research. Focused research and surveys on topics of interest to members, or issues for which they need quick input.

Match Making. Connections within the member group to confidentially gain information and facilitate discussions on hot questions from members.

Consulting and Advisory Services. Project-based consulting services in areas that include sales strategy, market coverage, job design, sales operations management, sales productivity improvement, sales compensation and quotas. Consulting and advisory services are provided by SalesGlobe and The Sales Leadership Forum to corporate members and non-members and scoped to address their needs upon request.

This report on Rapid Sales Compensation Design is based on a webinar held by The Sales Leadership Forum. We hope you find this information valuable. For additional perspectives and answers to questions, please visit www.TheSalesLeadershipForum.org, www.SalesGlobe.com or contact us at (770) 337-9897.

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Introduction

In this report from The Sales Leadership Forum, we explore the topic of rapid sales compensation design through a session conducted with a panel of sales compensation experts.

Sales compensation is a major driver of behavior and performance in a sales organization, and therefore a major force behind growing revenue. It's one of the best tools a company has, yet too often it's not given enough careful consideration during the design, implementation or communication phases.

Without connecting the plan into a strategy or a clear design process, issues arise. Too often people dump all the problems on the table and try to figure how to approach them. In those situations, the best thing you can do is understand the challenges and start to bring some logical approaches to them, one by one.

We see a number of sales compensation challenges that are consistent across organizations. Many of these challenges, however, are not all truly sales comp related but difficulties in other parts of the organization that will trickle down to sales comp and require attention from a pay standpoint.

1. *Differentiating top performers.* How do we make sure the top people are actually paid the most and we're not overpaying the lower performers? Making sure there's a significant difference in target and actual pay for the true performers is critical for attracting and retaining the top talent.

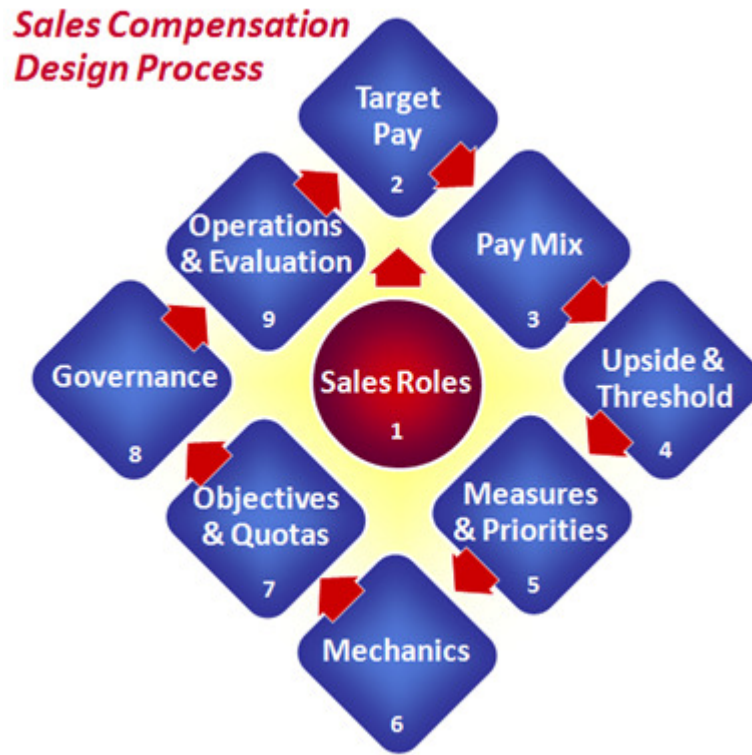
2. *Solution selling.* Many companies focus on selling products and services, but as the markets become more competitive customers demand more. We see selling a solution as a way to manage those customer needs, a more effective way to be able to offer our product, and a path to differentiating our company. So how do we represent that in a sales compensation plan?

3. *Keeping the organization engaged.* During challenging economies it is critical to keep the organization engaged. In the most recent downturn there was a 10% shift back in the number of reps at quota or above compared to a normal year. That year begged the question: "How do we keep the organization in the game rather than having them ride the storm out and just get through the year?"

If people are missing the marks with their sales compensation, how can we use the plan or other programs to keep people pushing ahead? If we have a lot of people at 85% performance or 90% performance to quota, how do we get them up a couple of points incrementally?

Designing an Effective Plan

Sales compensation is often approached haphazardly by companies resulting in inconsistent plans that produce poor results. The Sales Compensation Design Process is a best practice approach, developed over hundreds of sales compensation programs, that covers each of the major sales compensation elements. The process can be used to assess a current program and to design a new program. Our report covers several components of the process.



1. Sales Roles. Sales jobs and critical success factors that provide the foundation for sound sales compensation design.
2. Target Pay. Target total compensation levels that consider market rates and internal company value.
3. Pay Mix. Salary and incentive ratios that reflect the sales role and sales environment.

4. **Upside & Threshold.** Incentive for top performers and plan entry points that differentiate for achievement.
5. **Measures & Priorities.** Performance metrics and weights that clearly communicate business priorities.
6. **Mechanics.** Specifications that link pay to performance across all attainment levels.
7. **Objectives & Quotas.** Market-based quotas, equitably set to enable greater overall organization performance.
8. **Governance.** Policies and processes to manage program operations according to the design.
9. **Operations & Evaluation.** Ongoing program management, performance evaluation, and planning.

If time constraints are not an issue, we encourage you to go through the full process and hit all the essential steps. Sometimes, however, we need a rapid sales compensation design approach – a simpler approach to looking at a sales compensation plan under the pressure of the clock. So how can you do this relatively efficiently?

Sales Compensation Imperatives: A View from The Sales Leadership Forum

There are five points to consider around the objectives, the roles and differentiation, and the measures and the mechanics. We can abridge the process for efficiency and still retain its power.

We recommend that companies consider the following key points when evaluating and designing their sales compensation programs in an efficient manner.

1. **Clearly define the sales strategy and roles, and align your compensation plan.** Sales strategy and sales roles provide the foundation for the direction and actions of the business. Sales compensation should align with the sales strategy and motivate the sales organization.
2. **Differentiate top performers.** Make sure your plan rewards top performers competitively with the industry and significantly differentiates them from the average and low performers. Don't over pay for low performance; instead, use those funds to invest in attracting and retaining the right talent.

3. **Keep your plan simple and clear.** Pay for three or fewer performance measures that match the strategy, and don't put any less than 10% of target incentive on any one measure. Use plan mechanics (e.g., commission or quota bonus structures) that are simple and clear with minimal use of modifiers such as hurdles, gates, and links.
4. **Formalize the solution selling process and use sales compensation to support it.** Beyond the headlines of solution selling, define what it means to your organization, the sales process, and how the organization should work with customers. Don't hard-wire sales compensation to solution selling unless the process and skills are well developed and opportunities exist in all markets.
5. **Develop a market opportunity driven quota setting process.** Quotas are the lynchpin between pay and performance. A well-designed sales compensation plan can be rendered ineffective with poor quota setting. Make sure your quotas represent the growth opportunities in each market rather than a future projection from historic performance.

In This Report

In addition to our research and recommendations, this report features a panel discussion from several sales compensation executives.

Panelists include:

- **Pablo Dominguez**, Senior Director of U.S. Sales Operations, Avaya
- **Robyn Perry**, Director of Global Sales Compensation, Avaya
- **Mark Donnolo**, Managing Partner, The Sales Leadership Forum and SalesGlobe

We hope the findings in this report provide valuable insight for your business. If you have questions or require assistance in addressing sales compensation design challenges in your organization, please contact us at www.TheSalesLeadershipForum.org, www.SalesGlobe.com or (770) 337-9897.

Panel Discussion

Pablo Dominguez

Senior Director of U.S. Sales Operations, Avaya

Robyn Perry

Director of Global Sales Compensation, Avaya

Mark Donnolo

Managing Partner, The Sales Leadership Forum and SalesGlobe

The Sales Leadership Forum conducted a panel discussion with several experienced sales and compensation executives to explore last minute sales compensation design.

MARK DONNOLO: First of all I want to thank you both for being here. We do appreciate it. I know you have a ton of experience in sales compensation so we're looking forward to talking with you about it.

Topic One: Articulating Your Objectives

MARK DONNOLO: How do you look at change at Avaya, and what drives any shifts in the plan?

PABLO DOMINGUEZ: That's a good question. For us, we try to keep the North Star really around what the strategy is for the business. Our fiscal year starts October 1, so the whole process starts in January after the end of our Q1 or calendar Q4 end.

There's a nine month planning cycle, so a lot of time is spent with the CEO and his executive staff to really understand where Avaya is going in the marketplace, our strategy, and which customer segments we want to be in. Are we rolling out solutions? How do we want those solutions to mix with our existing strategy?

From that we start to build what the coverage model looks like and how we are going to deploy resources. Then the sales comp plan really is one of the last things we talk about, even though it's one of the first things that everybody likes to jump to. "How am I going to pay people? We hope to roll out a new product and I want to pay them more for this."

Robyn has done a very nice job of coaching the leaders that sales compensation is really the caboose; it's not the engine. While it tends to be the solve-it-all solution for everybody, it's really not, right? We need to solve how to run the business and drive the business first, understand how we want

to go to market, and then let the sales compensation plan structure really be the vehicle for executing on the strategy. That's important for us.

MARK DONNOLO: You're getting a head start then. I think nine months ahead is insightful, especially for a lot of organizations that will pop up at the last minute and say, "Hey, we have to look at the sales compensation plan." It's been talked about during the year, but it hasn't really been part of an evaluation or planning process.

PABLO DOMINGUEZ: Yes. And I'm not going to lie to you, because it sounds like, "Oh wow, you start nine months ahead. Everything must be perfect and everyone is aligned." But just like in every company, the executives change their minds a lot. For example, recently Robyn was hosting a call with the international and U.S. theaters, and finance and operations were saying, "We're three weeks away from the launch of the new plan and the end of the year. Here are the critical changes that we are aligned on. Is everybody prepared for communications? Are we ready to start rolling out quotas next month?"

And a lot of the international sales leaders and the U.S. leader started questioning some of the decisions that we had aligned on in July. "Is this the right decision? Should we maybe change the mechanics of the plan? Should we go to this third measure vs. this measure we took out?"

And you're sitting here thinking, "We've got three weeks left. It's not like it's a quarter to go."

But I think the planning process is continual until you actually communicate it. Because you might have someone from the product house say, "I told you I wanted to pay this product differently." And maybe you structured the plan to have a separate measure or a multiplier or something. But what we find is that it's very difficult to corral the leaders and have them stick to something. So we are going to be tweaking things almost up to the last minute, which I guess is appropriate for this topic. But I think the overall structure – she's done a very good job of keeping that consistent from the decisions made a couple of months ago. Even though the mechanics might change slightly with three weeks left to go in the year.

MARK DONNOLO: I know one question that comes up is: where do you stop? How do you put an end to it? Someone said recently, "It's as if our sales leaders have free reign to continue to change things all the way up until the last minute." We really need to end it at a certain point and move ahead. Is there a way you've found to do that?

PABLO DOMINGUEZ: I think you've got to be positioned well in the organization. I think the sales compensation function has to be seen as a leadership role that has authority to push back. If it's not, I think it's going to be much more difficult. The sales leaders or the others will run wild.

If you're set up in your organization to have that leadership role, it's just a matter of saying, "Guys and gals, it's T minus three weeks, these are the decisions we aligned on. Here's why we can't make a change. Here are the cost implications. Here are the ramifications. We're going to move forward. If it's a tweak – change this accelerator, change this threshold level – you can do this until after the plan rolls out. But as far as large structural changes, we've made it clear."

I don't know if you've ever seen that movie Armageddon where there's an asteroid coming in and there's a little plane on the computer, where, if the asteroid passes that point the earth will blow up. Robyn sort of set that up for the sales compensation design changes. She has said, "Beyond this date it is not feasible to make structural changes because quotas can't be set on time. You won't be able to pay people on time because you've got to redo the structure of the Oracle or Callidus or Excel or however you're calculating sales compensation."

You lay out exactly what the implications are, right? So if the business says, "I value your opinion but we do want to make the changes."

Then you've got to make it very clear. "Ok, guess what? You're not going to pay people accurately in month one; or quotas won't be out until month two."

They can think through it and say, "What is the business rationale for the change? Are we willing to take that risk for the change we've requested?"

MARK DONNOLO: Good point. So the wheels start coming off at a certain point, if we go beyond that.

PABLO DOMINGUEZ: Correct.

TSLF Member: We definitely have this problem. We have constant change. We just recently went through a pretty large change and we're just trying to get our arms around some things. We definitely had that issue ongoing.

MARK DONNOLO: It seems, and Pablo you described it well, that having the authority to push back and let people know what the implications are, that things really do start to fall out.

Have you been successful in being able to push back effectively?

TSLF Member: Yes. One of the key things I think you hit on is making sure that we have leadership buy-in. If we don't have leadership buy-in, it's very difficult for us to limit the process.

And a lot of times what we've noticed is what you've mentioned before, where we are trying to do the compensation plan as the forerunner rather than trying to support what the sales strategy is. I think sometimes we get it backwards. We try to flip flop that to indicate we need to know what the strategy is and we're really here to help set the behavior vs. drive that behavior. I think that's something that's really important.

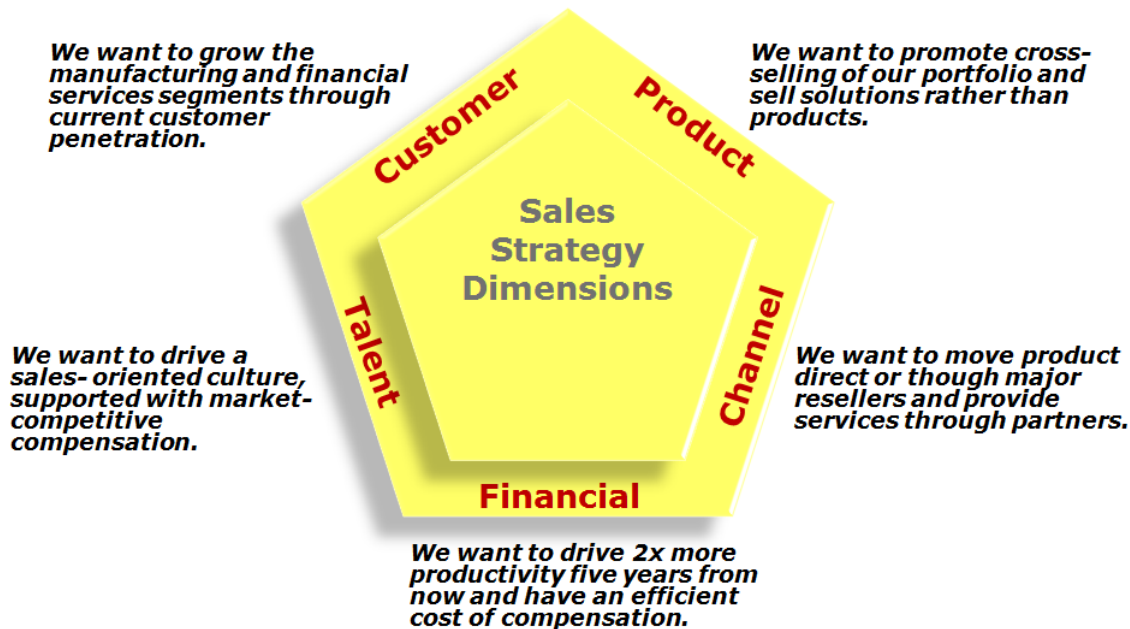
But I think at this point the success we're seeing is making sure we're

getting executive buy-in. If we don't have that it makes it really difficult.

MARK DONNOLO: When you go down to the next level, we get to the question about strategy. As we look at where the organization is going over the next year, the elements that may show up in the

3. Channels. If you're working in a multichannel environment, establish a balance between direct and indirect sales and how they work together.
4. Financial. Clarify financial objectives, what you want to accomplish within the business

Dimensions of the Sales Strategy



compensation plan tend to be the following:

1. Customers. Determine the focus for certain markets or certain types of customers in terms of acquisition of new customers or penetration.
2. Products. Determine which products or services are priorities for your organization.

- and the financial parameters.
5. Talent. There may be certain people objectives we want to accomplish in terms of certain types of talent, or retaining certain types of people or building out certain types of sales roles or parts of the business.

Those five elements – customers, products, channels, financial and talent

Driving Sales Force Productivity in Competitive Markets



- *Sales Strategy*
- *Sales Process and Coverage*
- *Sales Compensation*
- *Sales Leadership Development*

SalesGlobe provides management consulting, operational services, and leadership coaching to business to business sales organizations to increase their performance. We work with organizations dealing with challenging growth issues to develop actionable solutions that produce near-term results.

Services. We can help you drive profitable growth in your business through:

- **Sales Productivity Improvement Programs.** Implementing proven levers to increase revenue per rep in your organization.
- **Sales Compensation and Incentive Design.** Developing methods to motivate and drive performance with your sellers.
- **Sales Organization and Sales Process Design.** Creating the most effective roles and sales process for your strategy.
- **Sales Coverage Strategy and Channel Management.** Aligning the right channel mix and programs for your partners.
- **Sales Leader Coaching and Development.** Building capabilities from your first line sales managers and up- the lynchpin to performance.
- **Sales Operations Improvement and Management.** Optimizing and operating the critical support roles for your organization.
- **Major Deal Strategy.** Coaching and planning with your account teams to close those hard-to-win deals that are critical to your forecast and results.

The Sales Leadership Forum. We sponsor The Sales Leadership Forum, a leadership and advisory organization of senior sales executives. Our Board of Advisors includes executives from top companies and business schools.



What Makes Us Effective? We apply years of experience from our team which has led and supported hundreds of sales effectiveness programs across industries. We focus on real improvements to achieve substantial ROI. Some typical results:

- **Sales capacity and productivity increases** of 20% or more, through improvements in sales coverage and sales process.
- **Sales compensation payout improvements** for top performers with overall return on expense of 10% to 20% or more with better alignment to business strategies.
- **Sales growth increases** of 10% to 15% through improved customer acquisition, penetration, and churn management.

Clients. Our team works with major domestic and multi-national companies across industries including technology, manufacturing, business services, telecommunications, media, financial services, and healthcare.

Team. We focus experts, with decades of experience, on your initiatives. Our team includes professionals who have operated organizations and who have consulted with numerous complex organizations on challenging sales effectiveness issues.

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