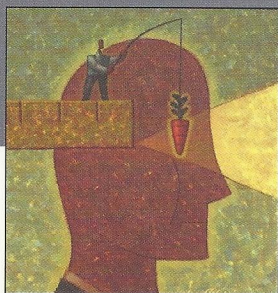


WHAT YOUR
CEO NEEDS TO KNOW
ABOUT
SALES
COMPENSATION



**CONNECTING THE CORNER
OFFICE TO THE FRONT LINE**

Mark Donnolo

What Your **CEO** Needs to Know About **Sales Compensation**

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to the Front Line

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Printing number

10 9 8 7 6 5 4 3 2 1

Contents

Acknowledgements	000
Introduction	000
CHAPTER 1	
Your Revenue Roadmap: Driving Your Sales Strategy with Sales Compensation	000
Aligning to the Strategy	000
The Four Layers of the Revenue Roadmap: Connecting Your Sales Strategy and Compensation	000
Insight	000
Sales Strategy	000
Customer Coverage	000
Enablement	000
Setting Your C-Level Goals	000
The Sales Compensation Diamond: The Facets of Evaluating and Designing a Sales Compensation Program	000
Determine Target Pay	000
Calibrate Pay Mix	000
Create Upside Potential	000
Establish Performance Thresholds	000
Develop Measures and Priorities	000
Define Levels and Timing	000
Design Mechanics	000
Align the Team	000

Set Objectives and Quotas	000
Institute the Governance Process	000
Operate the Program	000
Evaluate the Program	000
5 Questions You Should Ask Your Team About Sales Strategy	000
CHAPTER 2	
Lapdogs, Dobermans, and Retrievers: Motivating the Breed that You Need	000
What Breed Do You Need? Aligning Sales Roles to Revenue Flows	000
The Three Strategies for Revenue Growth	000
Sales Roles and Their Canine Counterparts	000
The Big Picture on Sales Roles	000
The Six Dimensions of Sales Roles	000
5 Questions You Should Ask Your Team About Sales Roles	000
CHAPTER 3	
The Reverse Robin Hood Principle: Differentiating Top Performers	000
The Building Blocks of Sales Compensation	000
Base Salary	000
Target Incentive	000
Pay Mix	000
The Reverse Robin Hood: Upside Potential	000
Factors Determining Upside	000
Thresholds	000
Thresholds Aren't for Everyone	000
To Cap or Not to Cap	000
5 Questions You Should Ask Your Team About Pay Mix and Upside Potential	000

CHAPTER 4	
Performance Metrics: Measure Twice, Pay Once	000
Performance Measures ³ (Cubed)	000
Measures	000
Level	000
Frequency	000
Performance Measure Pitfalls	000
Using Measures Without Clear Line-of-Sight	000
Measuring at the Wrong Level	000
Measuring What Can't Be Controlled	000
Measuring on a Sliding Percentage Scale	000
Using Conflicting Measures	000
Selling Incentive Plan Real Estate to Marketing	000
Misaligning Bookings and Billings and Losing Urgency	000
5 Questions You Should Ask Your Team About Performance Measures	000
CHAPTER 5	
Big Deals: Aligning and Motivating Strategic Account Sales	000
Defining Strategic Accounts	000
Sales Potential	000
Strategic Value	000
Understanding How the Customer Makes Decisions	000
Centralized Process	000
Preferred Provider Process	000
Decentralized Process	000
Promoting a Solution Sale	000
Motivating Creative Sales Roles	000
The Sales Crediting Balance	000
Measuring Mega Deals	000
5 Questions You Should Ask Your Team About Strategic Accounts	000

CHAPTER 6

A Quota Quandary: Setting Equitable and Profitable Sales Goals	000
Some Challenges with Quotas	000
The Forensics: Do You Have a Quota Issue or a Sales Effectiveness Issue?	000
10 Success Factors for Better Quotas	000
See Beyond a Single Number	000
Remember the People	000
Involve the Right Team	000
Don't Get Lost in the Legacy	000
Get a View from the Bottom-Up	000
Move Beyond History	000
Balance Market Opportunity with Sales Capacity	000
Fit the Methodology to the Account Type	000
Make Your Approach Scalable	000
Don't Over-, Over-Allocate	000
From History to Opportunity	000
5 Questions You Should Ask Your Team About Quota Setting	000

CHAPTER 7

Managing Sales Management: Understanding Roles and Rewards	000
Sales Managers Aren't Just Big Salespeople: What Does It Take?	000
They Understand How to Lead	000
They Strategize the Growth of Their Organization	000
They Are Creative at Planning and Systematically Solving Customer Problems	000
They Are Effective at Coaching and Developing Their Teams	000
They Sell in the Right Places	000

What Motivates Managers?	000
Role and Recognition	000
Career Map	000
Investment	000
Rewards	000
Sales Compensation	000
Long-Term Incentives	000
A Few Sales Compensation Ideas for Sales Managers	000
Establish Pay Mix with a Longer View	000
Do a Simple Roll-Up	000
Look at Team Participation	000
Shift Measures Down the Income Statement	000
Get Objective	000
5 Questions You Should Ask Your Team About Motivating Managers	000
CHAPTER 8	
Making Change: Communicating and Implementing the Sales Compensation Plan	000
Change Management Key Steps	000
Start Strong	000
Craft the Change Story	000
See the Organization's View	000
Get the Change Forecast	000
Leverage the Learning Modes	000
Follow the Process	000
5 Questions You Should Ask Your Team About Making Change	000
CHAPTER 9	
The Role of the C-Level: Getting Involved in the Right Way	000
C-Level Involvement in the Sales Compensation Process	000
Providing Strategic Direction	000

Getting Involved in the Process	000
Reviewing, Approving, and Supporting the Program	000
Asking Good Questions	000
5 Questions You Should Ask About Your Executive Involvement	000
CHAPTER 10	
Your Strategic Sales Compensation Report Card: Grading Your Plan and Taking Action	000
Grade Your Plan	000
Time for Action	000
Index	000

Acknowledgments

THIS BOOK IS THE RESULT of a team effort of several talented individuals and many of our clients who have worked with us over the years and who specifically contributed their insight and advice. Some of those clients we identify in the book. Others, and their revealing situations, are described in the stories from our personal experiences with them in the board room and on the front line. We share both challenging times and rewarding times with our clients and I found that sharing those in this book helps bring this essential topic to life for executives, sales leaders, and the sales organization.

I owe much to Collette Parker, who leads content and communications for SalesGlobe and also works directly with our clients on consulting engagements. Collette played a major role in working, writing, and editing with me to bring together our experiences to achieve a specific goal: to write a book on sales compensation that is interesting without being academic, that contains all the information an executive needs without being technical, and that helps our readers to be strategic thinkers and effective questioners when it comes to making the connection between the strategy of the business and the sales organization. Collette stayed true to our goal while keeping me in line when I constantly questioned whether we were pushing our ideas far enough and poking sufficiently at the well-worn academic com-

pensation traditions to make it relevant and real-world enough for our readers. Thank you, Collette for your shared vision, dedication, and commitment to excellence.

Instrumental to our efforts is Carrie Ward who has worked tirelessly over the years to lead and conduct great work for our clients. Carrie has helped us to make a difference in client sales organizations by understanding and addressing their challenges, focusing on creating actionable solutions, and pushing new development, some of which is highlighted in this book. Thank you, Carrie for your leadership, tenacity, and quality.

Our SalesGlobe team and partners including Carrie Ward, Collette Parker, Laura Wentworth, Amy Szymanski, Alyssa Roper, Eileen Gold, Ron Cox, Al Kabus, Alan Gibbons, Mo Bunnell, Summer Bondurant, Warren Shiver, David Alexander, Goutam Challagalla, Frank Lloyd, Steve Bistriz, Eddie Birchfield, Glen Kallas, and Rick Reynolds made significant direct and indirect contributions through our client work together, collaboration on strategic initiatives, and input on book content. Thanks to our teammates.

Of course, I owe more than I can re-pay to my family who has tolerated my relentless drive and quest for creativity over the years and who has always been there to support and inspire. My parents Paul and Christina Donnolo set the example, engrained in me the belief that anything is possible, and have cheered me on with unconditional love for over half a century. Blythe Donnolo, my wife, has been there with me through over twenty years of thick and thin and still supports, believes, and loves. Isabel and Olivia Donnolo, my daughters, have given me renewed energy

and purpose, clarified the importance of setting good adult examples (which is a continued challenge), and helped me to understand why it's so important to have a balanced life and not just talk about it.

Thanks for picking up this book. I hope you'll find it not only informative and instrumental in your work, but also perhaps a bit memorable and entertaining.



What Your **CEO** Needs to Know About **Sales Compensation**



Introduction

THE OFFICE LIGHTS FLICKER ON at seven o'clock Monday morning. The early risers arrive and the staff trickles in. The CEO, vice president of sales, CMO, and vice president of human resources sip their first cups of coffee, bleary-eyed from Sunday evening's conference calls. The office chatter starts. In an hour, the phones will begin to ring. A few miles away, manufacturing has been busy at the line for a couple of hours by now.

Despite the bustling activity, everything will come to a halt if the next sale isn't made. "Sales" is the top line on nearly every income statement. Without sales, the funding runs out, the stock doesn't trade, the lights no longer burn, and the office chatter falls silent.

At the root of sales is a team of tenacious souls squeezed in middle airline seats without upgrades, walking the hallways of major corporations, making outbound calls to semi-qualified prospects, pacing customer reception areas waiting for a chance to have that critical conversation about the customer's needs, and generally wearing out the soles of their Cole Haans. Each year, on average, they experience eight to 10 times more rejection than acceptance from their prospective customers. Yet they persevere—most with continued optimism—in pursuit of the close, the add-on sale, the contract renewal. Most of them are driven by a

quest for three things: personal accomplishment, recognition, and compensation, sales compensation . . . commission . . . bonus . . . the deal that makes their year and the company's year.

The sales compensation plan is one of the most significant drivers of performance in the sales organization and represents one of the single largest expenses a company incurs, commonly tens or hundreds of millions of dollars each year. It's a thin but vital long-distance line that keeps the daily connection between corporate growth and the rep on the street. It guides and motivates the actions of the sales organization more than any other single factor. It trumps leadership messages, sales strategies, sales management, and sales training. If there is a hard wire between the customer's office and the corner office, sales compensation is it.

But if the plan's message isn't clear or to their liking, sales reps will interpret it in their own financial interest. As a corporate leader, you'll get what you measure and what you pay for—and it may not always be what you expect.

While its impact can be direct, the compensation plan is a fine blend of art and science that has long been a point of conflict within companies. Everyone has an opinion about sales compensation and everyone is an expert, yet few agree on the best approach to drive performance toward the company's objectives. Sales, sales operations, human resources, and finance regularly engage in battles over questions like:

- ◆ Does the plan represent our business objectives?
- ◆ Are our highest paid salespeople actually our top performers?

- ◆ Is the plan too expensive?
- ◆ Can we better motivate our organization to pursue the sales strategy?
- ◆ How can we promote more of a performance-oriented sales culture?
- ◆ Can we make the plan simpler to understand?
- ◆ Can we make the plan easier to administer?
- ◆ Are sales quotas penalizing our best performers?
- ◆ How can we set quotas that better represent the sales potential in our markets?

Too often, these battles lead to sales compensation programs that are compromises between parties, ultimately leading to underperformance in the business. Above the fray, senior executives look on, often asking only the most general questions. Many of these senior executives, concerned about the next quarter and the remainder of the year, miss opportunities to use sales compensation as a tool to drive growth.

What Your CEO Needs to Know About Sales Compensation focuses on the top challenges in companies today; offers logical leadership approaches, tools, and models for dealing with each of these issues; and shares stories from top sales executives in leading companies.

Before we address these challenges, we'll take a look at the big picture around the *Revenue Roadmap* as an important foundational point. Too often, sales organizations start with commissions and try to figure out how much they can alter payouts either to

save money or to drive behavior in a different direction. But that's exactly the wrong place to start. We want to start by asking the big questions: *Where are we going with the business? What's important to accomplish from a strategic perspective? How do our sales roles support our goals? How does sales compensation align with the strategy and sales process?* We'll build on a base of big questions and share some examples from real companies and their C-level executives who leverage the power of sales compensation.

We recently worked with the CEO of a large insurance company who understands the connection between sales compensation and company growth. He says that what happens on the street absolutely has to be aligned with overall objectives. One-off situations at the street level undermine the overall organization. Everything has to be aligned to the objectives of the company down to the details in the field. Pay for performance runs unbroken from senior management to local management to the sales teams.

This CEO looks at the measures that sales management and the sales team can control that are critical to the business. He looks at sales compensation from a strategic perspective and understands how it impacts his objectives around growing shareholder value. He gets involved in the process by challenging his organization's thinking and asking tough questions. His questions move beyond "Will this cost us less than last year?" and aim for answers around alignment to the strategy, impact on key customer segments, emphasis on strategic products, and building the capability to attract and retain the right sales talent for the business.

What are the right questions to ask of your organization? In our 25 years of working with Fortune 1,000 companies, we've consistently seen challenges in the following areas, and we've organized this book around these top challenges, discussing each in its own chapter:

1. Driving the sales strategy with compensation
2. Motivating the right sales roles
3. Differentiating top performers
4. Aligning performance measures with business direction
5. Structuring strategic account incentives
6. Setting equitable and profitable sales quotas
7. Motivating sales management
8. Communicating and implementing the sales compensation plan
9. Getting the C-level involved in the right way

Throughout this book, we'll explore each of these challenges from a leadership perspective. In addition to our own analysis, we include thoughts and stories from executives in high-performing sales organizations on the sales compensation challenges they've encountered over the years and what they've learned.

The final chapter of the book, "Your Strategic Sales Compensation Report Card: Grading Your Plan and Taking Action," will be an opportunity for you to literally grade your organization's approach to sales compensation based on the challenges that have

been discussed. Compare your grades with those of other sales organizations and see where you can improve. As you design plans for the future, think about the strategic connection between the corner office and the front line, and discover how your organization can magnify the impact of one of its most powerful programs.