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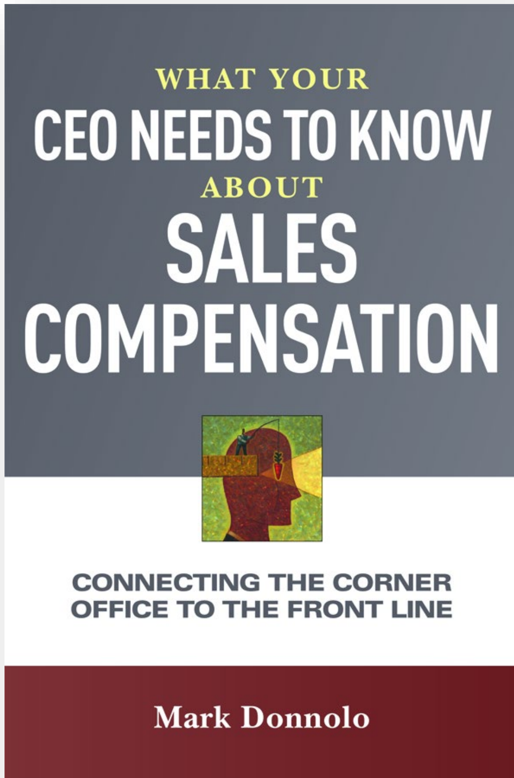

It's the single biggest expense for most organizations with the motivational power to move financial mountains, but many executives squander the opportunity sales compensation presents. *What Your CEO Needs to Know about Sales Compensation* is the first book to address sales compensation challenges from a C-suite perspective. It focuses on the top challenges in companies today, offers logical design approaches, and shares stories from executives in leading companies.

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CHAPTER 1

Your Revenue Roadmap: Driving Your Sales Strategy with Compensation

ON A CHILLY MORNING IN SACRAMENTO, I sat perched on a vinyl bench seat, warily eyeing my rolling workplace for the day: an 18-wheeler, windows fogged from the cold, vibrating slightly as its engine idled. My tour guide, Cliff, was a driver sales rep for a major brewing company. Cliff climbed into the cab and slid over to the driver's seat, and we pulled away from the distributor's warehouse toward a 10-hour day of sales calls to convenience stores, supermarkets, bars, and restaurants.

As we drove, we talked about how Cliff sold beer. He had been with the company for a number of years and was very successful, but he explained that his role had changed. "Two years ago, I was selling cases of beer to store owners," he said. "Now, I'm trying to make the beer they already have move faster. I check the signs, inspect the coolers, and try to get our beer in the best position." In addition to being a driver sales rep, Cliff had also become a bit of a marketer, since the company had changed his objectives a short time ago.

In the parking lot of a convenience store in a gritty urban neighborhood, Cliff dragged down a hand truck. I followed him to the back of the store and into a huge cooler that held cases upon cases of light beer, regular beer, and premium beer in 12-ounce, 16-ounce, and quart containers. Cliff looked through the stacks, pulled the expired boxes, and loaded them into the truck. He then lugged beer from the truck and packed it into the cooler. As he did this, he talked to the store owner about what was selling and what was not. Then he detailed the cooler display at the front of the store, making sure the facings of cans and bottles were aligned and that the packaging and tags for the week's specials were clearly displayed.

The brewery Cliff worked for had recently changed its sales strategy. The old approach was to sell as many cases of beer as possible, as often as possible, to as many retailers and restaurants as possible. Cliff and the other driver sales reps were paid cents per case commission to load more cases into the coolers, rotate the stock, and pull out old beer.

Eventually, the brewing company realized that pushing more bottles and cans into the back room of a retailer wasn't necessarily selling more beer to the customer. With competition at the point of sale increasing over the years, sales out were less driven by stocking the cooler and more driven by effective marketing. Strategically, what was important to the brewing company was selling beer to the end consumer. The company learned that the consumption of beer was driven by TV, radio, and social media advertising. Point of sale advertising, the company discovered, was another driving force.

For years, the company had missed the opportunity to mobilize the driver reps and had motivated them toward the wrong goal. It had mistakenly promoted a transactional model of selling into the back room. Finally, it realized what actually sold beer: product placement, use of signs and displays, and matching price points with competitors. But the question remained: How did that translate to the sales organization? How could this strategy convert to incentives that were meaningful to the driver sales reps? The quest for that answer found me undercover in a convenience store cooler, wearing a starched uniform with "Mark" neatly scripted above my left shirt pocket.

We worked with the company to determine how to motivate the sales organization with performance indicators that could ultimately steer consumer preference. The company moved its sales compensation plan off a purely volume-based plan and connected it to the metrics and activities that drove beer consumption. It developed performance measures that were focused on merchandising, such as the number of facings, the position of the product closest to the cooler handle, the placement of signage at the retailer, the positioning of large displays, and competitive matching. If its competitor's malt liquor was in 32-ounce bottles, then the company made sure its 32-ounce bottles of malt liquor were positioned right next to them, hopefully with a larger number of facings.

By understanding what influenced the purchase of beer and connecting it to something that was important to the driver sales rep, the company was able to change the behaviors of the reps and get them to sell more beer. Now, Cliff did not just talk to the store owner about how many cases of beer he wanted and yesterday's baseball scores. Cliff also talked to him about how the beer was selling and ideas he had about improving the marketing of certain products. Cliff talked about the positioning of the product and displays, and he had statistics on how much that could increase the volume. The store owner listened because he knew Cliff's advice was in his best interest.

Because Cliff's compensation changed, his conversations changed. Because his conversations changed, the results changed. This retailer had struggled with the sale of premium beer brands in this particular market, but the store owner had seen a dramatic improvement in those sales over the past 24 months because of Cliff's marketing.

The company and Cliff had learned an important lesson about translating the new sales strategy to the front line. The customer had learned an important lesson about how to improve the results for his business, and together the company and the customer saw significant improvement in results, demonstrating the power of sales compensation and its connection to the sales strategy.

Aligning to the Strategy

One of the first things our firm does when we look at sales compensation is understand the sales strategy. We ask: *How should the priorities of the business be represented in the sales compensation plan?*

One of the ironies of sales compensation is that while it's a tactical program, it can churn up issues that are actually bigger misalignments of sales effectiveness. For example, Cliff's original sales compensation plan paid him for generating pure sales volume, an activity that was out of alignment with the company's strategy of positioning product competitively and playing an adviser role to help the retailer grow its business. A transactional plan like this would ultimately cause a breakdown in the company's ability to achieve its goals. Sales executives have to be able to distinguish between issues that are related to sales compensation and those that are indicators of bigger strategic challenges. They have to know when they have a sales process issue that needs to be fixed.

Mike Kelly, former CEO and president of The Weather Channel Companies, began his career years ago at *Fortune* magazine. There, Kelly worked directly with the business customer—sometimes the CEO of the company—who would have a personal preference for a business magazine, whether it was *Fortune* or *Forbes* or *Business Week*. Because the decision maker was at a senior level in the organization, it was important to understand the corporate strategy. When Kelly took over the sales organization of a new magazine, *Entertainment Weekly*, he took that customer orientation with him.

Traditionally, a magazine would research target companies and try to prove to clients and agencies that their audience was the right audience, as opposed to trying to connect customers and advertisers to the subject matter. But Kelly implemented a customized, consultative approach, connecting advertisers to entertainment marketing. Unfortunately, Kelly explains, "We over-customized it, and the organization had a hard time making money."

Entertainment Weekly was scheduled to be profitable after two years, but by year five it was still losing money and Kelly was feeling some pressure. "We would always point to our growth. Our circulation growth was great, our revenue growth was great, and everybody assumed, 'Okay, at some point or another we're going to get to profitability.' "

Kelly enrolled in an executive education class at Columbia University where he met Professor Larry Selden, who talked about an idea called *customer segmentation*. Selden told his class that the best companies understand not only who their customer is but also what their customer's needs are. They group their customers based on needs as opposed to what they want to sell them. By segmenting his customers, Kelly could understand the profitability of each customer and each customer segment. Then he could align his resources against those customer segments that were most profitable.

"It was revolutionary for me," says Kelly. "No one—and certainly no one in the magazine industry—thought that way. All revenue was good revenue. And we typically thought our biggest customers, our highest volume customers, were the most profitable customers."

So Kelly took the customer segmentation idea back to *Entertainment Weekly*, and his team analyzed the profitability of all of the advertisers and all of their segments. They figured out that cable advertising was starting to explode. Networks wouldn't let cable channels advertise on television because they thought they would steal viewers. So cable had to buy print advertising; it was the biggest, broadest reach they could get. *Entertainment Weekly* had a smattering of cable channel advertisers, but it hadn't been a big focus. Kelly and his team had concentrated on what everybody else was concentrating on: automotive companies and health and beauty companies. They were big advertisers that had a lot of appeal, but they were price sensitive. Kelly, however, realized that the cable television advertisers were actually *Entertainment Weekly*'s most profitable advertisers because they paid full price. This was because they were time sensitive—they had to be in certain issues of the magazine because a show was on a certain night—factors that compelled them to pay a premium.

Kelly completely changed how his organization thought about who its customer was, who its most profitable customers were, and how it should go after its customers. He realigned the sales force, putting more people on the most profitable categories with strong growth expectations and sales incentives and fewer resources, against the customers for whom it was really just a price buy. Kelly says:

> **We were supposed to lose money that year. We made money. And then we went on to have 30 percent CAGR [compound annual growth rate] for the next five years.**
>
> **I learned that sales is sales. But there are principles of finance that if you apply them to sales, including incentive plans, you can accelerate what you do. I've brought that to every other job I've had. We really try to understand who the customer is and what our value proposition is to that customer. Then we segment those customers so we understand who the most profitable ones are and who they aren't. We put our resources behind that profit.**

If your compensation plan doesn't align with the strategy and the segments you want to target, then you're going to be working at cross-purposes. It's hard work to get an organization, any organization, to start to think differently. And in most companies, sales is product-focused or platform-focused. They're going to go sell their product wherever they can. When a company becomes more customer-focused, all of a sudden it starts to define the product mix based on what the customer needs are.

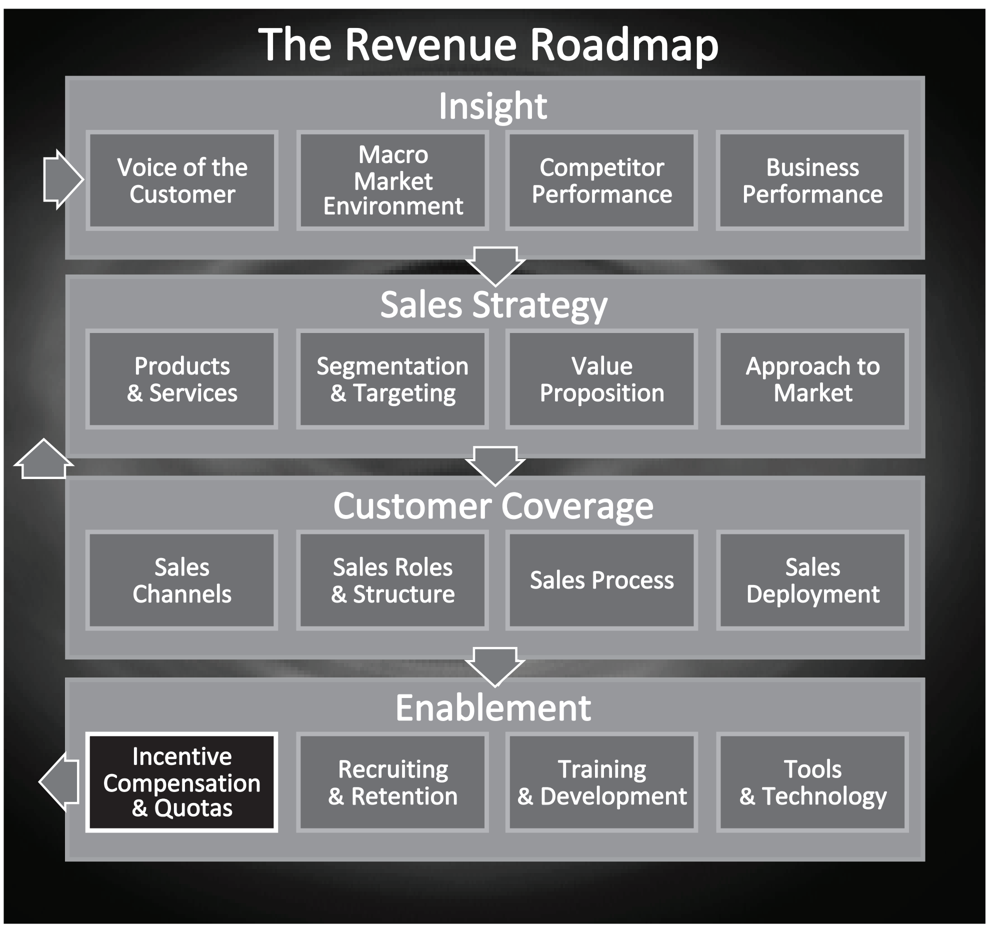
The sales compensation program can support that customer focus, run counter to that focus, or create confusion. In Kelly's case, the priorities of the sales strategy were well represented in the sales compensation plan, and it drove the desired behavior.

The Four Layers of the Revenue Roadmap: Connecting Your Sales Strategy and Compensation

When thinking about sales strategy and sales compensation, it's critical to have a framework. "The comp plan is the caboose, not the engine," says Doug Holland, director of human resources and compensation for ManpowerGroup North America, a global workforce solutions company. "Compensation should never be driving the strategy. The strategy drives the compensation. It's incredible, especially in times of stress, how that message can kind of get lost. Comp issues are often symptoms of bigger problems, and it's the easiest, most tangible thing to look at. The challenge is: Do we have the right job designs? Do we have the right people? Those are harder conversations. That's often the struggle with comp plans."

We developed the Revenue Roadmap from our decades of work with hundreds of high-performing sales organizations. The Revenue Roadmap identifies four major layers, or competency areas, and 16 related disciplines that must connect for the organization to grow profitably, as identified in Figure 1-1. Each of the layers is discussed in detail below.

FIGURE 1-1. THE REVENUE ROADMAP.



Insight

The first layer of the Revenue Roadmap, *Insight*, informs the organization about customers, the market, competitors and how the business is performing. Insight is the highest level competency. It involves understanding the voice of the customer, the macro market, competitor moves and performance, and the performance of the business. That understanding will drive certain decisions to the next downstream level, which is Sales Strategy.

Listening to the voice of the customer is a critical starting point. Sales leaders must understand the needs and expectations of their customers and their own performance relative to those expectations. That insight allows leaders to see any gaps and determine where they can improve value proposition, sales coverage, and the sales process.

Sales leaders also need to consider what's going on in the macro market environment, especially as it relates to their industry. Certain shifts in the economic environment can, over the long term, drive decisions about the sales strategy and how they might plan for where the market is going, as opposed to where they are right now.

In addition, it's essential to know how competitors are performing from a growth and financial perspective. Sales leaders also have to understand their competitors' offers to the market and how competitors are positioning their products and services.

Finally, sales leaders should look at the company's historic and projected revenue and profit performance. This evaluation should consider whether growth has come through the retention of current customer revenue, the penetration of customers through increased usage or additional products, or the acquisition of new customers. By understanding the business performance, they can see where they've been strong and where they've been weak, and they can adjust their sales strategy accordingly.

Sales Strategy

The second layer, *Sales Strategy*, defines the sales organization's action plan to achieve its goal. The sales strategy will drive decisions concerning product and service focus, concentration on certain markets (i.e., segmentation and targeting), value propositions, and the resulting approach to market.

First and foremost to the strategy, it's critical to define the core and strategic products and services the business provides. In many companies, these are developed based on the needs of certain customer segments. Too often, however, products and services are internally driven and may not align naturally with customer needs, requiring a significant change in the offer or value proposition.

The organization determines how it will organize and prioritize customers and prospects through its segmentation and targeting. The most effective segmentation and targeting considers characteristics such as customer industry, sales potential, profitability, common needs, and overall fit with the sales organization's business. It's important that segmentation and targeting flow into a plan that's actionable by the sales organization. Simply defining the segment at a high level is not going to answer the sales rep's question: "*Who do I go see on Monday morning?*"

The value proposition goes beyond what the sales organization communicates to customers and articulates the organization's understanding of the customer's business and issues, what the organization can accomplish for the customer, and how the organization differentiates itself from the competition. The highest level value proposition is usually communicated at a company level. To be effective for sales, however, the organization must convert its value proposition to sales messages that can be communicated at the segment level, customer level, and deal level to adapt to changing situations and customer needs.

Finally, when developing the approach to market, sales leaders should incorporate decisions about products, services, target segments, value propositions, and potential sales resources into a plan that can be executed by the sales organization. The Customer Coverage layer converts that plan into action.

Customer Coverage

Customer Coverage, the third layer, identifies how the organization will use its channels, roles, processes, and resources to go to market.

Sales channels outline the overall routes to market, whether they're third party companies such as resellers, referral partners, or retailers, or whether they're part of the company sales force, which could include a range of sales jobs. Sales leaders need to base the selection of their sales channel mix on factors like how the customer prefers to buy, how channel partners might improve the overall product offer, their ability to reach customers in different markets, and the financial efficiency of using lower cost channels to reach certain customers or conduct certain types of sales or service transactions.

Within sales roles and structure, sales leaders must consider the types of sales and support jobs they're going to use and how the organization is structured around those jobs. Sales jobs typically align to customer segments and can range from global account management to field sales to inside sales. The structure may be developed around key segments—for example, the telecommunications industry or major accounts. It may also be defined around certain geographies, functional roles, or some combination.

Sales channels and sales roles integrate with the processes for working with customers. In fact, the best customer coverage models are built from the customer's buying process with a sales process and roles that reflect how the customer prefers to work. Sales processes lay out the common approaches for how the sales team identifies prospects, qualifies opportunities, develops solutions, manages the momentum, closes the sale, and implements the product or service for the customer. While sales processes vary widely even within a single sales organization, it's important to define the optimal or preferred sales process as a foundational point for the organization to manage and optimize performance.

Sales deployment maps the feet on the street and the level of sales resources needed for each of the sales roles by geographies, segments, or other forms of account assignment. Deployment is typically guided by a combination of sales capacity (available sales time and workload) to manage current accounts or sell to new accounts, sales role and customer alignments, and logistical factors like geography and travel patterns.

Enablement

Enablement, the final layer of the Revenue Roadmap, supports all of the upstream disciplines within Customer Coverage, Sales Strategy, and Insight. Enablement includes areas such as incentive compensation and quotas, which aligns sellers to the sales strategy. It also includes recruiting and retention, which define the current inventory of talent and determine how the organization is going to attract and retain the right talent for the long term. Training and development builds the capabilities of the organization for people currently in their jobs and for those in junior roles who will progress into key sales roles. Tools and technology provide leverage by enhancing the effectiveness of gaining Insight and implementing the organization's decisions around Sales Strategy, Customer Coverage, and Enablement.

Jeff Connor, chief growth officer for ARAMARK—a global provider of food services, facilities management, and uniforms—is involved in the sales compensation process. He says:

> **People confuse incentives with alignment, and they jump to incentives as the answer, as opposed to the hard work of alignment. When you look at the Revenue Roadmap, sales and incentive compensation is at the bottom. In my experience, when you talk sales compensation, everybody wants to just take big business objectives and assign incentives, as if the salespeople will go after anything where there's a buck.**
>
> **In reality, anybody who's ever worked on sales comp knows it doesn't operate like that. The alignment work—getting the correct insight, aligning it to the sales strategy—has to happen**

first. The last thing you do at the end of the day is work on the incentive plan. Confusing incentives for alignment happens all the time. People just go right to the ideas without understanding context. I think this idea of alignment is really important.

The Revenue Roadmap helps a company to align its strengths and ensure that everyone is firing on all cylinders. While it begins with Insight, all 16 disciplines in the Roadmap are connected, and the decisions and actions flow from one to the next. When looking at sales compensation, it helps to know where it fits within the overall framework, downstream from Sales Strategy and Customer Coverage. That's why issues in the upstream disciplines show up as symptoms in the sales compensation plan.

Sales compensation is inextricably connected to the other disciplines. For example, think about the document imaging business—copier companies. Over the past several years, they've gone through a major technological change, transitioning from analog equipment (copiers that make black and white copies) to digital networked equipment (machines that are connected to IT networks). That fundamental shift in technology has created a shift in the industry's business model, which has created a shift in its sales model.

In the days of analog copiers, Joe the copier sales rep would typically sell a copier to the office manager. That sales process was pretty transactional. He'd canvass office parks trying to get past the receptionist to find the buyer. He'd usually close the sale in a week or two, most likely by dropping the price of the hardware. His company would make it up later, selling supplies like toner and services over the term of the contract.

But Joe can no longer do that with a digital copier. Now he needs help explaining how the copier will integrate with the company's IT system. He's also not going to sell to the office manager anymore. Joe now will sell to the IT manager or perhaps the owner of the business. Or, Joe may sell to a team that's been put together to develop a request for proposal (RFP) on a document imaging system. In addition, he needs to elevate his value proposition and make the business case for why the customer should make a sizable investment with his company and how the customer will see a return on its investment.

That fundamental shift in technology has changed Joe's sales role. It also changed the sales strategy, because the buying process is extended out further. Joe no longer goes in and makes a sale in a week. It may take him three months. It's a much bigger sale, but it's going to take a lot longer. The sales compensation plan needs to fit.

In this situation, looking at the Revenue Roadmap, the offer to the market has changed the Sales Strategy. The value proposition has to shift as well as the approach. The Customer Coverage also changes. The sales roles likely evolve; Joe now has a systems engineer to work with him because the engineer understands the specifics of the technology that didn't exist before. But having a systems engineer isn't enough. The organization must evaluate its current inventory of sales talent as well, including Joe, to determine if these people have the skills required in their new sales roles and if they need to be trained, coached, or replaced.

As the organization makes those changes, the sales compensation plan starts to pop like a circuit breaker. If this company has a compensation issue—perhaps people weren't hitting their quotas or people weren't earning as much or as quickly as they used to—it's likely because the plan was designed for a different sales model.

The incentive plan for the analog world was a fast cycle compensation plan that supported a quick sale. Because Joe could make a sale in a week in the analog world, he probably had an aggressive commission-based plan with a lot of pay at risk. That plan promotes aggressive selling behaviors. But now Joe meets with a customer and tries to sell a complex networked product that requires the evaluation of an entire customer sales team and may take three to six months to sell. If Joe's rhythm is geared to a one-week sales cycle because he's motivated by a very aggressive commission plan, guess what will happen? The sale will break down, and he's probably going to lose it.

These are the kinds of inconsistencies to look for as the upstream and downstream alignments shift. We see this situation play out over and over in different industries, from technology to manufacturing to business services. Where the business evolves, sales evolves as well, and sales compensation must evolve to support that change.

Setting Your C-Level Goals

We recently worked with a multibillion-dollar company to help design its sales compensation program. Rather than starting with the plan, we started with the business strategy. We met with the company's CEO, president, and all the heads of sales and asked them about the priorities for their business. Here's what they said:

- **Gain greater productivity from existing resources:** *"We want to drive twice as much sales productivity three years from now."*
- **Drive a sales-oriented culture:** *"We need to break the complacency in our sales culture."*
- **Promote cross-selling of our portfolio:** *"We want to execute our strategy of offering our full portfolio of solutions based on customer needs."*
- **Structure for solution selling:** *"We need to build the sales organization of our future with one face to the customer."*
- **Align to high-value segments:** *"We want to align our best sales resources with the right buyers further up in the organization."*

These priorities gave us a clear direction for the business, which we could then translate to Customer Coverage and sales compensation.

The company wanted a more sales-driven culture. They gave examples of people coasting through December instead of driving sales all night, every night until December 31.

The company had a multiproduct portfolio, but its salespeople tended to focus on what they knew or what they had traditionally managed. As expected, they did what their compensation plan told them to do. They sold transactionally on price rather than consultatively on value, and they sold to the price-sensitive buyers in the middle of the business rather than working at a more senior level.

To make the connection between these business priorities and compensation, the company's leadership focused on their priorities for the design of the compensation program. They knew what they needed to accomplish. However, once they got down deep into the compensation work, the team started getting uncomfortable, making comments like, "Do we really want to do that?" and "I'm not comfortable with this measure," and "Finance is not going to support that upside." Then it was easy for us to say, "Look, here's what you want to accomplish as a business. We're going to have a hard time going back to the CEO saying we missed a couple of important points." Nobody wanted to return to the CEO with anything that didn't support his goals for the business. The C-level to front line connection was made. The strategy for the business was now well-supported by the sales compensation plan.

As sales executives determine priorities for their business related to sales compensation, they need to set their *C-Level Goals*. These will define the major priorities for the organization that will be converted to the sales compensation plan. Those priorities provide clarity for how they will design the plan and the behaviors that the plan will drive in the organization. Once set, the C-Level Goals will force answers to the key questions that will lead to the program's success. They will also help overcome resistance as sales leaders become deeply involved in the design of the compensation plan.

While the Revenue Roadmap defines all your possible destinations, the dimensions illustrated in Figure 1-2 help you to make the right strategic alignments and stay on track.

FIGURE 1-2. C-LEVEL GOALS.

There are five C-Level Goal areas that can describe a company's strategy. It is important to articulate these from the C-level to the organization. This helps to separate the critical few from the trivial many that can emerge from an overall examination of the 16 disciplines of the Revenue Roadmap.

Most organizations can concentrate on building programs that support these five major areas:

1. *Customer*. The Customer dimension describes priorities in terms of buyer types and segments. What or who are the right types of companies and buyers for the business?

2. *Product*. The Product dimension identifies which offers will get the most focus. What products and services should be emphasized? Which are strategic and which are critical for cash flow? What are the priorities for cross selling?
3. *Coverage*. The Coverage dimension articulates the major methods of matching sales resources to each customer segment. What are the routes to market? What is the role of third-party channels? What will the sales organization look like?
4. *Financial*. The Financial dimension specifies monetary goals. What growth results are necessary for revenue, profit, and market share? How is the return on investment measured—with improvements in the organization and sales programs?
5. *Talent*. The Talent dimension defines who the sales organization needs in its coverage roles to reach its goals. What types of skills will execute the strategy? What's the talent inventory? Where does the organization need to build strength? Where does it need to source new talent?

Looking at the complexities of the growth plan, setting the priorities around the Customer, Product, Coverage, Financial, and Talent goals can provide clear direction for a range of sales effectiveness programs, including sales compensation.

Bob Brennan, former CEO of Iron Mountain—a Fortune 1000 information management services company—has been through similar challenges with his sales organization. "The way

I've always thought about it is: Where is a dollar a dollar, and where is a dollar not a dollar?" says Brennan. "How do you want to incent the right behavior? I think about sales compensation from a perspective of what's strategically important to the business and how we can motivate people to that end."

Brennan asks the same three fundamental questions at each of his touch points in the compensation design process:

1. How does what we're trying to sell strategically fit?
2. Do we have the ability to execute?
3. How can we drive strong returns on the presumption that it fits strategically and can be executed?

He wants clear alignment between what is most profitable for the company and what the salesperson is directed to do. His goal is to give incentives proper weighting. For the goals that fit with the strategy and can be executed with the highest return, he is willing to pay significantly more.

"As a CEO I want to understand the targets that align with our priorities," he explains. "If you start with a product in our portfolio that's worth a dollar, which other products are worth more or less than a dollar? How can we align the financial, key performance indicators, and motivators with those levels of value?" Brennan looks for consistency in strategic alignment as well as for areas where sales programs can improve the sales organization's ability to execute.

Iron Mountain first got into the business of cloud-based storage in 2002 through partnerships with LiveVault and Connected.

The company used its data protection sales force to sell LiveVault and paid the sales force a premium to get these businesses started. In retrospect, says Brennan, "It was disruptive to what we were already selling—media vaulting—because one was a replacement technology for the other. Plus, we were trying to teach a logistics salesperson to sell a software-based solution." Looking to the future, Iron Mountain knew it had to be in the digital storage services business. To get there, the sales compensation plan had to drive the sale of those services, even though the company knew this could disrupt its business a bit. "That's where sales compensation works very well for us."

There was another moving part: Iron Mountain's consulting organization was born essentially to be a sales support mechanism. Over time, the consulting business established its own identity and its own sales force to sell consulting. "Consulting was supposed to drive sales of storage products, but the organization organically spread its roots," Brennan says. Like many technology organizations from software to hardware, the strategic priority of services enabling the sale of the core product has reversed, with services "going native" and taking on a life of its own. "It's there to stay and isn't in major conflict with the strategy, but it would have been helpful to remember those design principles," Brennan notes.

On the financial goal dimension, Brennan is also focused on the quota setting process and how it links to incentive compensation. For every employee, the quota touches either commissions for salespeople or bonuses for P&L leaders and corporate staff.

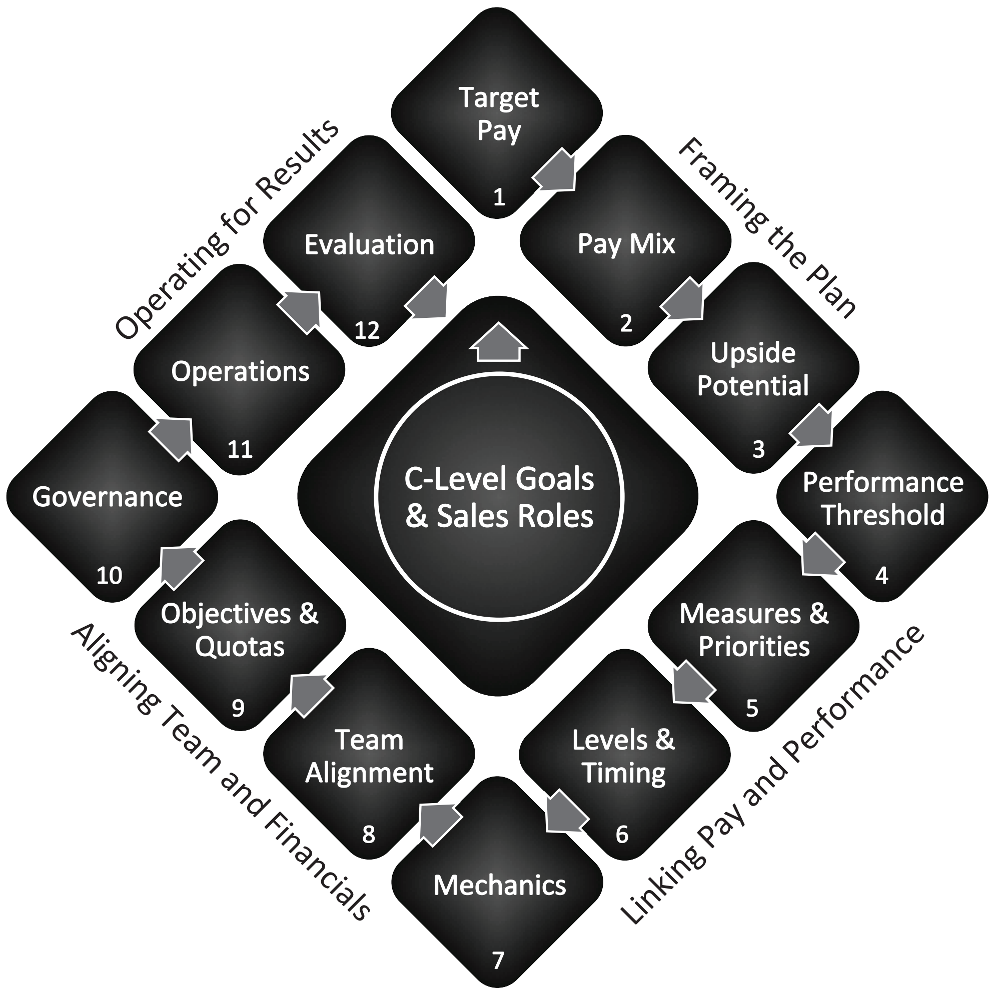
"Leadership has a very clear sense of my priorities as they go into target setting," says Brennan. "There are some product lines which are very strategic to us where I think we can execute. The target setting itself is something I'm reasonably involved in, but not deeply. They understand my predilections going in and should demonstrate some thought about those as they set quotas and targets for comp. I get concerned if it's too easy to make a good living here, but far too hard for top performers to make a great living."

The Sales Compensation Diamond: The Facets of Evaluating and Designing a Sales Compensation Program

What happens when the sales leadership team takes a hard look at its sales compensation plan? Do they talk with their calculators? Is a spreadsheet the primary conversation piece? Too often, executives and managers either take a gut feel or an overly analytical approach to sales compensation design. Think about what happens at meetings about sales strategy or sales roles when the question of sales compensation comes up. People start talking about whether the commission rate should be increased or decreased. Comments like "Let's put an accelerator in place to drive performance. Maybe we need to uncap the plan or add a threshold for the low performers" fly through the room.

The team has just started with the middle of the process and is on its way to a nonstrategic answer. They should transition to the sales compensation design process only once they've aligned their Revenue Roadmap disciplines. The *Sales Compensation Diamond* is shown in Figure 1-3. Once the C-Level Goals and

FIGURE 1-3. THE SALES COMPENSATION DIAMOND.



sales roles have been established, there are four facets—the sides of the diamond—in the process of evaluating and designing a sales compensation program. These are framing the major components of the plan, linking pay and performance, aligning the team and financials, and operating the plan for results. We've developed this process over the course of designing thousands of incentive compensation plans. The facets contain steps the organization can use in two passes. First, the organization should work through these steps while analyzing the plan, gathering technical, strategic, and behavioral information about the performance of the plan. Then, the organization should go back and follow the steps while designing the plan.

Before starting on compensation, set the foundation of C-Level Goals and sales roles. Sales role definition is a direct output of the Customer Coverage level in the Revenue Roadmap and the C-Level Goals. Understand the sales roles and the key requirements of every job to isolate the critical strategies and success factors of each. Pinpoint the job's customer, product, and sales process roles as well as any marketing, operations, or management roles.

Similar to effective performance measures, a sales leader should be able to take a well-designed sales compensation plan and identify the specific job that the plan supports. She should also be able to take a compilation of sales compensation plans and describe the sales strategy of the entire sales organization. If the plans are designed well, they directly reflect the organization and sales strategy. Are all of the roles in the organization clearly defined according to their critical factors? Do they cover the entire sales strategy without gaps or conflicts? If not, the team must go back to the Revenue Roadmap.

Once the goals and roles are clearly articulated, it's time to walk around the other 12 steps of the diamond, each described below.

Determine Target Pay

Consider the relevant labor market. The market targeted for talent may be different from the market in which the business competes for customers. Depending upon the strategy, a sales organization may not source people from the same talent pool as its competitors. Within the relevant labor market, a company may choose not to pay at the same level or in the same way as its labor market competitors. The strategy and value proposition to the sales talent are factors that help determine target pay for each role. Target pay for each role results in a *Target Total Compensation* (TTC), which will be the starting value that will flow through the design of the incentive plan. Has the organization defined its relevant labor market? Is it aiming toward the organization and roles of the future, or is it referencing past strategies or assumptions?

Calibrate Pay Mix

Pay mix defines the proportion of salary and incentive at target performance, meaning performance to goal or quota. The total of the salary and incentive at target should equal the TTC for the job. Pay mix varies by job type in an organization and is driven by about 10 factors that include sales process characteristics, types of sale, and types of customers. For example, a role that is focused on new customer acquisition for midsize accounts likely has more incentive pay as a percentage of Target Total Compensation (perhaps 50 percent base salary and 50 percent target incentive) than a role focused on current customer management for major accounts (perhaps 70 percent base salary and 30 percent target incentive). Do pay mixes align by role? Are there any plans with significant pay at risk driving aggressive behaviors that are out of sync with the desired sales process? Are plans with high base salaries creating a pay entitlement culture?

Create Upside Potential

Upside potential is the incentive pay available to top performers, typically the 90th percentile, and is often determined as a multiple of target incentive. Upside is a critical component to help the organization attract and retain the best talent in its market. Define high performance for the organization. Are the top earners really the top performers? Do we significantly differentiate incentive pay for top performers from average performers?

Establish Performance Thresholds

Threshold refers to the entry point of achievement where the plan begins to pay incentive. Threshold usually represents the minimum acceptable level of performance, below which a rep would not typically stay employed with the organization. A company may have a hard threshold, in the case of an account manager with a significant base of retained business. Or it may not have any threshold, in the case of a new business developer for whom every sale is incremental growth. What's the minimum acceptable level of performance for a rep to keep her job or to earn any incentive? Are underperformers overpaid?

Develop Measures and Priorities

Performance measures define the focus areas that are most important for each role. Each measure should represent the most significant pieces of the sales strategy that the role can control. A challenge for many organizations is determining which few of many possible measures should be included in the sales compensation plan, which should be part of the performance management program, and which should simply be core expectations of that job. Do the measures represent the top two or three financial and strategic priorities for each job? Has the message of the plan been diluted with too many measures, creating a buffet plan from which reps can pick and choose? Do reps have significant control over each measure in their plans?

Define Levels and Timing

For each measure, the organization must define the level at which that measure will be tracked for the plan. For example, the organization may define a revenue measure for a sales rep at an individual level or a region level. Each measure will also be measured and paid on a certain timeframe, for example, monthly or quarterly. The decisions around measurement levels and timing can have a direct impact on rep behavior. Measure too high and the rep may have little control. Measure too frequently and the cycle may be out of sync with a long sales process. Do your measurement levels match with your reps' ability to impact those measures? Does the frequency of your measurement and payment match the rhythm of the sales cycle, or is it unnaturally speeding or slowing the cycle?

Design Mechanics

Mechanics create the connection between performance and pay. It's the area most sales executives jump to first rather than working through the previous steps. If your team is starting here, then they've missed half the process.

While mechanics can seem complex with various rates, hurdles, gates, accelerators, and point systems, they can be divided into three types. A *rate-based mechanic* (also known as a *commission*) usually pays a certain percentage of revenue or gross profit, or a certain dollar amount, per unit of sale. A *quota-based mechanic* typically pays a target incentive for reaching a specific quota or goal and may scale its payout above and below that performance level. A *link* creates a relationship and interdependency between two measures or mechanics. For example, attainment of a goal for a product mix measure can result in a multiplier that links and magnifies the payout of a total revenue commission. Are the plan mechanics easy to understand and calculate? Do they create an alignment to goal attainment, or can a rep simply earn to a level where she's comfortable? Are old commission rate structures causing the organization to work backward by structuring territories (an upstream discipline) to manage pay levels (a downstream discipline)?

Align the Team

A full sales compensation program includes a range of sales, sales support, and management roles. To work together as a team, plan designs must interface as a complete system. This alignment point checks for how sellers will work together as teammates and peers in the sales process that may include business developers, account managers, field representatives, product and market specialists, sales support, and channel partners. This alignment point also checks for vertical integration from the front line up through each layer of management. Does the program promote teamwork, or does it have points of potential conflict? Are managers and the front line operating with congruent measures, or are their priorities not intersecting?

Set Objectives and Quotas

Quotas are the linchpin between the sales compensation plan and performance. Objectives and quotas should be market-based, representing the relative opportunity in each account assignment or territory, and should be created with a process that's well understood by reps, optimally incorporating their input. Over time, quota processes for an organization usually move from more internally- or historically-based approaches to more market-based approaches as the market and organization become more developed. In early stage companies or in newer markets, an organization may allocate the same goal to each rep, with the assumption that each has similar market opportunity and sales capability. While this may hold true over a period of years for a new business developer with an unbounded territory, usually the normal growth of accounts will accumulate to create an installed base of recurring or expected revenue for each rep that will vary by territory or account assignment. Reps with more established accounts may carry a larger installed revenue base than those with newer accounts.

For many companies, looking at historic performance and projecting a trend forward seems to work for a period of time. However, they quickly learn that they're either saddling their highest performers with ever-increasing goals or they're overpaying reps who manage large bases of slow growth recurring revenue while under-rewarding the brave new business developers bringing in new customers. Does each rep own a portion of the total business plan that represents a stretch level of achievement? Are quotas forward-looking or steeped in history? Do reps understand and buy in to the objective setting process?

Institute the Governance Process

Beyond the core design of the sales compensation plan are processes and policies for operating the broader program. A good governance process is like the constitution of the sales compensation plan that advances it from a set of plans to an effective and impactful program that helps the company grow. Without a clear approach to governance, the organization will probably create the governing laws throughout the year as it goes, sometimes in a reactive mode.

At their worst, some of these situations can create serious liability for the company in the form of employee challenges or suits for disagreements and misinterpretations of the plan. We've all heard of courts awarding millions in favor of sales employees who were bilked out of commissions for a major deal that the company thought was outside the reps' control and outside the plan. Does the company have a well-defined sales compensation constitution? Does this constitution consider the wealth of information the company likely has about past plan operations practices? Is the governance process clear or subject to interpretation, opening the company to increased risk?

Operate the Program

With the sales compensation program developed, the sales organization is ready to operate. The first step is communications and rollout. Actually, communications should start back during the plan evaluation process, with employee and stakeholder input, and continue through the design process with testing and socialization. If the communications process starts with the program introduction, the leadership team may be in a catch-up position.

Operating the program throughout the year will draw from all of the strategic connections made, components designed, and governance established. From a tactical standpoint, technology may also be leveraged to track performance, administer pay, and provide a communications portal for the reps and management.

Evaluate the Program

Program evaluation should be an ongoing and regular process throughout the year, drawing upon the dashboard and tools to monitor relationships between pay and performance, attainment of goals, and differentiation of high and low performers. How does the program operate now? What improvements can be made? How is the plan communicated to your participants? What is the support process to regularly inform and reinforce your messages? Is there a regular plan evaluation process installed to view the performance and impact of the plan at any time, or is it a mad scramble to compile pieces of information from different sources?

Keep the Sales Compensation Diamond in your pocket; even have it laminated for your team, because we guarantee you'll refer back to it, especially when you get deep in the conversations on design and analysis. One of the keys to great sales compensation design is having a playbook for your team that everyone references to make sure you've considered each step. With your team's playbook defined, you can then layer in your strategic alignments, business performance and results, best practices from similar businesses, and the creativity you'll need to develop an impactful solution for your business.

5 QUESTIONS YOU SHOULD ASK YOUR TEAM ABOUT SALES STRATEGY

1. **How effectively have we articulated our priorities around target customers, core and strategic products, channel mix, sales talent, and financial growth?**
2. **How well does our compensation plan reflect decisions made in our Revenue Roadmap and C-Level Goals?**
3. **Which challenges are uniquely related to sales compensation, and which may be indicators of larger strategic issues?**
4. **How will the design of our plan help us to reach our objectives?**
5. **Have we followed an evaluation and design process that logically covers all the bases?**