

The Four Cornerstones of Effective Sales Compensation

By Greg Blyzniuk, TopLine Sales Compensation Solutions Inc.



Effective sales compensation is critical to the success of any go-to-market strategy. Yet the design and management of sales compensation is rarely easy. After all, determining how people are paid is a sensitive matter which can become increasingly complicated when reconciling the disparate needs of key stakeholders in Sales, Finance, HR, and Marketing.

To better manage this complexity and to keep the discussions constructive, consider the four cornerstones of effective sales compensation.

#1 – Alignment with Corporate Objectives

Sales compensation is an output of the business planning process. It is defined within the context of business strategy, and directly supports the achievement of corporate objectives. However, in order to best align compensation with strategy, care must be taken to distinguish between simply being “directionally consistent” with corporate objectives, and being in “lockstep”

To illustrate, consider a sales compensation plan that supports an aggressive growth strategy. One option in these circumstances is to use a flat commission rate, as salespeople earn more if they sell more. A second option is a plan which pays higher commission rates for new customers than for repeat business, and which offers attractive bonuses for exceeding quota. While one could argue that both plans are aligned with a growth strategy, the second demonstrates this alignment to a much higher degree.

Good alignment means that each component of the sales compensation plan maps directly to a corporate objective and significantly increases the probability that it will be achieved.

#2 – Not a Substitute for Sales Management

A well-designed sales compensation plan articulates corporate priorities for salespeople. It defines the context within which all decisions should be made, as well as the rewards for contributing to the achievement of corporate objectives.

As a result, there is a temptation to let sales compensation play a larger role in the day-to-day management of salespeople. Usually, this is in the form of rewards for good sales behaviour, such as booking appointments or passing leads, in place of actual sales results like revenue or margin.

While the judicious use of behavioural measures may be appropriate in some selling environments, relying significantly or solely on sales compensation to manage salespeople is risky at best. Sales compensation is a very compelling tool when the challenge is to focus personnel on specific goals. However, it is just that—a tool. It should never be considered as a substitute for sales management.

#3 – Execution

Even the best plan design will fail if poorly executed. Good execution is achieved by first setting clear expectations and then delivering on them.

In order to set and maintain expectations, rely on comprehensive documentation that is written in layman's terms and easily accessed. It should describe payment calculations, all related administrative policies and practices, and most importantly, the process for resolving payment errors.

To consistently deliver on these expectations, all related processes should be automated. With an abundance of feature-rich, reasonably-priced software solutions on the market, it is becoming increasingly difficult to defend the use of error-prone manual calculations or spreadsheet farms. Automation improves the overall integrity of the program and provides opportunities to re-deploy staff in value-add activities such as reporting and analysis.

Effective execution is good for sales productivity. It gives salespeople the confidence to fully engage in the selling process instead of wasting valuable time wandering through administrative back alleys.

#4 – Active Management

Active management refers to the regular, ongoing analysis of a sales compensation program.

The program's objectives, such as acquiring new customers or increasing the sale of higher-margin products, will dictate what reporting and analysis is undertaken. The focus should be on whether the plan designs are delivering the specific results that were intended.

Other analyses may include topics such as the correlation between pay and performance, the number and type of payment errors, the performance of new hires, the effectiveness of draw/guarantee programs, or a search for unintended seasonal or regional trends.

Active management of sales compensation provides a statistical, factual basis for evaluating the effectiveness of the program and for considering possible changes. Knowing whether, when, and how to implement a change will minimize contention and keep salespeople focused on overachieving.

Conclusion

These cornerstones provide the foundation needed to build and maintain an effective sales compensation program. Use all four to position your sales team for success.

About the Author

Greg Blyzniuk, founder of TopLine Sales Compensation Solutions, offers deep insights into the operational and strategic issues that are integral to effective sales compensation. With experience dating back to 1991, he has used his hands-on, practical approach to solve sales compensation challenges in a broad range of industries including telecommunications, software, retail insurance, e-commerce, manufacturing, distribution, retail, professional services and broadcasting.

About TopLine

TopLine Sales Compensation Solutions is a consulting firm dedicated to helping clients improve sales results by harnessing the full potential of their sales compensation plans.

To learn more about TopLine:

Call us toll free at: 877-883-5395

Email us at: info@TopLineSalesComp.com

Visit us at: www.TopLineSalesComp.com