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Sales Incentive Design

Best Practices, Observations & Insights

To Be Covered...

- Indicators that your sales incentive plans may not be working
- Sales incentive design best practice
- The design process – an overview
- Choosing the right performance measures
- The importance of Financial Modeling
- Post-mortem review
- When to use commissions, when not to...
- Straw Dog Model & Bonus Calculators Demo
- Your Questions

Indicators your sales incentive plans are not working well...

- Sales professionals do not believe in the credibility of their sales performance numbers used to calculate bonus
- They don't feel they are fairly credited for their efforts
- They routinely question their bonus payouts
- Your superstars don't believe their targets are achievable...
...Don Quixote' Targets
 - ✓ ***Too many sales professionals are not achieving threshold = no bonus***
 - ✓ ***Too many sales professionals are not achieving target***
 - ✓ ***Superstars are not getting significantly larger bonus than average payout***

Indicators your sales incentive plans are not working well...continued

- There is infighting between sales management and sales professionals regarding priorities
 - Sales pro's make the easy sale and don't go after more difficult and profitable customers
- Sales professionals and sales managers bonus objectives not aligned...
 - ✓ Sales professionals make "easy" sales , not inclined to sell less profitable products ...**e.g., sales pro plans based exclusively on sales volume**
 - ✓ Sales managers want more sales of more highly profitable products **e.g., sales manager incentive plans based mostly on profit**
 - ✓ Sales professionals and sales managers are at odds on priorities/objectives

Indicators your sales incentive plans are not working well...continued

- Sales managers believe their bonus does not reflect the performance of their district, region, product line portfolio
- After a certain point in the year, your superstars don't bring in any more business
- You have high turnover of your consistently strong performers
- Performance on one component influences payout on another i.e., linking components

Indicators your sales incentive plans are not working well...continued

- Sales pro's believe they're getting penalized for stuff they can't control
- Sales force seems too content with their targets, maybe they know something you don't?
- No arguments, too quiet out there...
- Performance reviews duplicate bonus payout results...
 - ✓ Reviews focus on "what" is achieved rather than "how" results are achieved...

Indicators your sales incentive plans are not working well...continued

- Plan communication launched several months after plan effective date...
- Business leader objectives are not aligned with sales incentive goals
- Business leaders think their sales incentive plans are working, sale force does not share their view...

Sales Incentive Design Best Practice

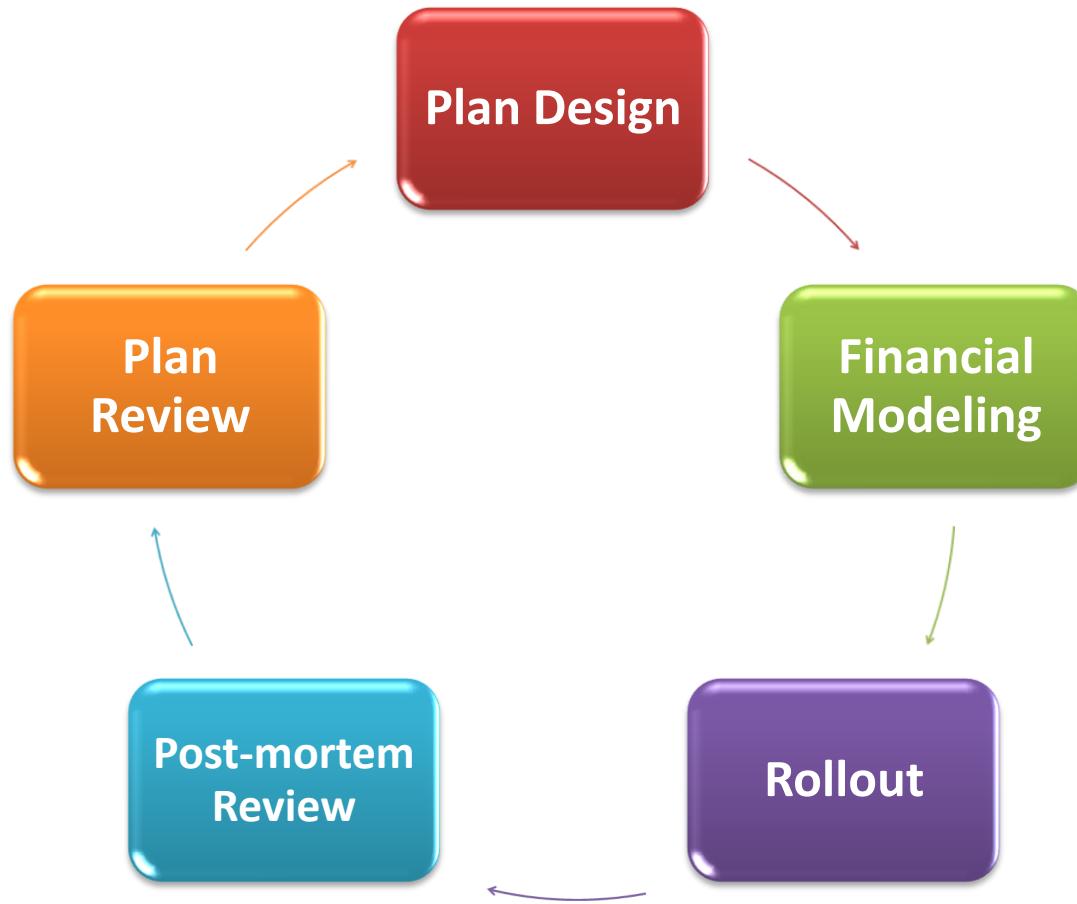
- Plans are simple | easy to understand...
- No more than 4 components max – fewer is better...
 - Components should never be less than 20% weighting
- Designed to deliver the business objectives
- Carefully considers the behaviors they're intend to drive
- Aligns goals across all levels of sales pro's and sales mgmt

Sales Incentive Design Best Practices...

- Strong “Line-of-Sight” of job responsibilities and ability to impact bonus
- Financial modeling conducted to ensure...”You can afford the “Cost of Success”
- Highly differentiates bonus payouts of star performers from median performers
- Carefully thought out and executed communication plans to ensure participants understand how new plans work to get “buy-in”

Sales Incentive Design Best Practices...

- Performance accurately measured and tracked – progress against goals frequently reported
- Carefully thought out communication plans –
 - plan launch delivered one week prior to or week of plan effective date
- Plans reviewed periodically (every year at a minimum) –
 - To ensure they're driving the right behaviors
 - Rewarding the right outcomes and results
 - Align with evolving business objectives



Sales Incentive Design Process

Review Plans

Assess current plans

- Interview Business Head, Head of Sales, Head of Marketing, CFO, Business Controller
- Conduct market competitive analysis of sales force
- Interview sales force
 - Distribute questionnaires
 - What do they like about their current plans, what don't they like?
 - Ride alongs...accompany sales pro on sales/customer calls
- Review plan documents
- Did the plans work as intended? What worked? What didn't?

Understanding the Culture...

Design Considerations may include

- How long is sales cycle? (gestation period)
- “Hunter” vs. “Farmer” role
- Threshold
- Target
- Sales performance measures – measurement systems capabilities
 - What can we accurately measure and track?
- Commission plans vs. base salary + bonus
- Incentive components
 - Sales dollars invoiced vs. received?
 - Profit measures – Ask the question...How can sales pro's impact profit?
 - Team measures
 - New Business
 - Premium Products

Designing New Sales Incentive Plans

Financial Modeling

- Financial Modeling – Can we afford the cost of success?
 - Compares new plan to current plan
 - Same performance period(s)
 - Does new plan payout more or less than for same results?
 - Does new plan adequately differentiate reward based on performance?
 - Opportunity for critical amendments to ensure plan success
 - Component weightings
 - performance measurement choices

Importance of Financial Modeling

Rollout

- Well thought out and executed communication plans are key to success
 - Consider the culture of the organization/business unit...
- Timing of implementation is critical...ideally, communicate plan one week before or week of plan effective date.
 - Tiered or targeted rollout
 - Sr. Management
 - Sales Management
 - Sales Professionals
 - “Town Hall” meetings (at end of meeting)
 - ✓ Hand outs – Straw Dog Models, Plan Documents

Implementation & Rollout

Post-mortem Review

6 months after roll-out...

- Did we drive the right sales behaviors?
- Did we reward the right results and outcomes?
- Statistical analysis of bonus payouts...
 - What does the distribution of bonus payouts look like?

6 months after implementation...

- What are your current systems tracking and reporting capabilities?
 - Which performance measures are credible with the sales force?
 - New measures – will your systems measurement capabilities be up to par at plan effective date? If not... measures should not be used as it can negatively impact plan credibility
 - Will sales professionals be provided with accurate and reliable reports?
 - **How often?**
 - **The more frequent the better!**

Choosing the right performance measures...

- Simplicity – four or less components, the less the better
 - Component weightings should never be less than 20%
 - Resist the temptation to link components
 - Keep incentive components independent
 - Negative reinforcement works well for extinguishing behavior, not driving behavior
- Pay for the right results and right outcomes, not activities
 - Caveat – paying for the right activities can make sense in limited and specific circumstances...
 - ✓ When sales professionals are new in role (e.g., first six months)

Choosing the right performance measures...

- Line—of—sight consideration
 - Ask yourself the following questions...
 - **Can sales professionals impact this measure?**
 - **Barometer - what was the sales force reaction to proposed measure?**
 - Resist temptation to incorporate complex profit measures to align with Finance goals!
 - **If sales professionals cannot impact chosen profit measures it's really profit-sharing**
 - **If target setting is fairly good, consider uncapping !**

Choosing the right performance measures...

Team components...be careful!

- Line—of—sight considerations
- Team measures may work...provided...
 - Sales professionals work together and depend on one another
 - ✓ **e.g., large multi-site accounts...**
 - Team selling behaviors are key to success of business model e.g., Sales Pro's work alongside Technical Service Pro's
 - If sales professionals work independently team measures can be a disincentive
 - ✓ **Too highly weighted team measures can protect weak performers**

Choosing the right performance measures...

- Impact of culture on incentive plan design...
 - What is commonly practiced in region? (e.g., NA, SA, EMEA, APAC, ANZ)
 - There are differences
 - Commissions are more common in China
 - Discretionary in Japan
 - Team components more common in Europe
 - What is most commonly practiced in industry sector?
 - What are business leaders' preferences?

Other plan design considerations...

- What is most commonly practiced in the industry sector?
 - A. Commission Plans?
 - B. Bonus + Incentive Target?
 - What are the difference between the two?
 - Commission payouts start from dollar one of sales or profit measure
 - Bonus + incentive target payouts start at threshold
- What are the business leaders' preferences?

Other plan design considerations...

Does new plan payout more or less for same results?

- Compare same performance period – new vs. current plan
- Statistical summary of payouts...
 - What percentage of sales pro's earn minimal bonus?
 - What percentage are hitting target? (around 50% - 65%)
 - If more than say 65%, targets might be too easy to achieve...
 - How much are your star performers earning as a multiple of median bonus payouts? (should be 2 – 3x times median payout)

Importance of Financial Modeling...

Does new plan payout more or less for same results?

- If it plan pays more overall, revisit component weightings
- If there are slope changes, are they in the right place?
- If median and below performer payouts are higher...
 - ✓ Possible design issues to be corrected
 - ✓ How good is target setting?...review
 - ✓ Conduct historic trends analysis

Importance of Financial Modeling...

Employee Information		Qtrly Sales Bonus Opportunity				Current Sales Incentive Plan						Option 1		Option 2		Option 3		Option 4	
						Threshold		3rd Quarter Sales Bonus											
Loc.	Position	Weight	Threshold	Target	Total	% of Target	Amount	Target	Actuals	% of Target	Payout	Amount	% Var.*						
NJ	Business Development Manager	100%	2,500	10,000	10,000	85%	951,222	1,119,085	1,067,658	69.4%	7,702	7,702	---	7,702	---	7,702	---	7,702	---
CA	Business Development Manager	100%	2,250	9,000	9,000	85%	413,995	487,053	428,882	20.4%	3,625	3,625	---	3,625	---	3,625	---	3,625	---
MA	Business Development Manager	100%	2,250	9,000	9,000	85%	555,987	654,102	575,347	19.7%	3,582	3,582	---	3,582	---	3,582	---	3,582	---
OH	Business Development Manager	100%	2,250	9,000	9,000	85%	1,331,916	1,566,961	1,618,222	121.8%	9,883	11,133	12.6%	11,722	18.6%	11,465	16.0%	11,061	11.9%
ON	Business Development Manager	100%	2,250	9,000	9,000	85%	3,742,974	4,403,499	3,830,799	13.3%	3,147	3,147	---	3,147	---	3,147	---	3,147	---
CA	Business Development Manager	100%	1,750	7,000	7,000	85%	448,197	527,290	481,620	42.3%	3,969	3,969	---	3,969	---	3,969	---	3,969	---
NC	Business Development Manager	100%	1,750	7,000	7,000	85%	533,422	627,555	800,657	283.9%	12,793	13,793	7.8%	17,654	38.0%	19,568	53.0%	20,516	60.4%
PA	Business Development Manager	100%	1,750	7,000	7,000	85%	423,751	498,530	497,898	99.2%	6,956	6,956	---	6,956	---	6,956	---	6,956	---
WI	Strategic Account Manager	100%	2,500	10,000	10,000	85%	9,539,291	11,222,695	10,583,231	62.0%	7,151	7,151	---	7,151	---	7,151	---	7,151	---
IL	Strategic Account Manager	100%	2,250	9,000	9,000	85%	9,539,291	11,222,695	10,583,231	62.0%	6,436	6,436	---	6,436	---	6,436	---	6,436	---
MA	Strategic Account Manager	100%	1,750	7,000	7,000	85%	9,539,291	11,222,695	-	Agreement	3,172	3,172	---	3,172	---	3,172	---	3,172	---
PA	M-Scan Specialist	100%	1,750	7,000	7,000	85%	754,779	887,975	958,228	152.7%	8,661	9,661	11.5%	10,769	24.3%	10,961	26.6%	10,877	25.6%
Totals Net Variance										NA	77,077	80,327	4.2%	85,885	11.4%	87,734	13.8%	88,194	14.4%

* Percentage variance from current bonus plan payout.

Example: Financial Modeling

■ When commissions work...

- Short sales cycle/gestation period
- New markets
- New products / new business
- Pure hunter roles
- Business development roles
- Hybrid sales mgr roles that have direct sales
- Territory sizes or growth goals very similar

When to use commissions...

- When commissions don't work
 - Long gestation period (e.g., 1+ years)
 - Mature markets
 - Declining markets
 - Pure farmer roles ...“relationship management”
 - National accounts / very large chain accounts
 - e.g., Best Buy, Costco, Home Depot, Wal-Mart...
 - Targets are highly differentiated by territory, accounts, region etc.

When not to use commissions...

- Straw Dog Model

- Purpose: simple one-page illustration of incentive plan; components, features, criteria, and bonus opportunity
- Captures incentive plan design in easy to understand format versus plan legal documents
- Facilitates buy-in...

Example: Sales Incentive Design...Straw Dog Model

2012 Sales Incentive Plans - Straw Dog Models

Incentive Measurement				Payout Frequency	Quarterly Commission		
Level	Unit	Component	Weighting		Threshold [▲]	Target! [!]	Maximum
Individual	Portfolio of Accounts	Total Sales Revenues vs Quarterly Target	100%	Quarterly	1,125	4,500	Uncapped
		Quarterly Premium for Achieving Quarterly Sales Target ^{\$}	Premium	Quarterly	NA	1,000	NA
Can Vary	Can Vary	Key Performance Indicators	Premium	Quarterly	NA	750	NA
Quarterly Opportunity Totals =					1,125	6,250	Uncapped
Annual Opportunity Totals =					4,500	25,000	Uncapped

[▲] Sales Thresholds: = 50% of Quarterly Target, or 106,250; Target = 212,500

Payout at threshold: 1a = \$1,125; 1b = \$875 i.e., 25% of quarterly target payout.

[!] Annual commissions add up to 18K and 14K for achieving annual sales target.

Kickers:

^{\$} Sales professional eligible to receive quarterly premium payment for achieving quarterly sales target.

- premium for achieving quarterly target = 1000/quarter

Commission Rates *	Threshold	75% of Target	Target	125% of Target	> 200% of Target
1a	\$ 0.0106	\$ 0.0212	\$ 0.0424	\$ 0.0635	\$ 0.0706
Commission Payouts	Threshold	75% of Target	Target	125% of Target	> 200% of Target
1a	\$ 1,125	\$ 2,250	\$ 4,500	\$ 7,875	\$ 19,125

* Commission rates may vary from table above based on actual quarterly total sales revenue targets.

Straw Dog Model...

- **Promotes line—of—sight!**

- Enables sales pro's and their managers to accurately calculate their commissions or bonus and get instant feedback
- Sales pro's and their managers can model/forecast what their commissions or bonus would be based on various performance scenarios

Bonus calculator...

Commissions and Bonus Calculator: 2012

Name:	John Doe
Position Title:	
Quarter:	1st
Performance Year:	2012
Date:	9/4/12

Incentive Components	Bonus Parameters			Bonus Opportunity		
	Weighting	Threshold	Maximum	Minimum	Target	Maximum
Total Sales Revenue Commission	100.0%	50%	NA	\$1,125	\$4,500	Uncapped
Target Premium	NA	100%	100%	NA	\$1,000	\$1,000
Key Performance Indicators	NA	NA	100%	NA	\$750	\$750

Incentive Components	Bonus Parameters		Results			Total Amounts
	Threshold	Target	Results #	Net Δ Credit	% of Target	
Portfolio Sales Results: $X \leq 50\% \times \text{Target}$	106,250	212,500	125,000	106,250	58.8%	1,125
Portfolio Sales Results: $50\% \times \text{Target} < X \leq 75\% \times \text{Target}$	106,250	212,500	125,000	18,750	58.8%	397
Portfolio Sales Results: $75\% \times \text{Target} < X \leq 100\% \times \text{Target}$						
Portfolio Sales Results: $100\% \times \text{Target} < X \leq 125\% \times \text{Target}$						
Portfolio Sales Results: $X > 125\% \times \text{Target}$						
Kicker for Achieving Quarterly Sales Target @		Target = 212,500				
Key Performance Indicators (KPI's) ^						
						Total Payout = \$1,522

Bonus Calculator

Commissions and Bonus Calculator: 2012

Name:	John Doe
Position Title:	
Quarter:	2nd
Performance Year:	2012
Date:	9/4/12

Incentive Components	Bonus Parameters			Bonus Opportunity		
	Weighting	Threshold	Maximum	Minimum	Target	Maximum
Total Sales Revenue Commission	100.0%	50%	NA	\$1,125	\$4,500	Uncapped
Target Premium	NA	100%	100%	NA	\$1,000	\$1,000
Key Performance Indicators	NA	100%	100%	NA	\$750	\$750

Incentive Components	Bonus Parameters		Results			Total Amounts
	Threshold	Target	Results #	Net Δ Credit	% of Target	
Portfolio Sales Results: $X \leq 50\% \times \text{Target}$	106,250	212,500	212,500	106,250	100.0%	1,125
Portfolio Sales Results: $50\% \times \text{Target} < X \leq 75\% \times \text{Target}$	106,250	212,500	212,500	53,125	100.0%	1,125
Portfolio Sales Results: $75\% \times \text{Target} < X \leq 100\% \times \text{Target}$	106,250	212,500	212,500	53,125	100.0%	2,250
Portfolio Sales Results: $100\% \times \text{Target} < X \leq 125\% \times \text{Target}$						
Portfolio Sales Results: $X > 125\% \times \text{Target}$						
Kicker for Achieving Quarterly Sales Target @		Target = 212,500		Yes		1,000
Key Performance Indicators (KPI's) ^						
						Total Payout = \$5,500

Bonus Calculator

Commissions and Bonus Calculator: 2012

Name:	John Doe
Position Title:	
Quarter:	3rd
Performance Year:	2012
Date:	9/4/12

Incentive Components	Bonus Parameters			Bonus Opportunity		
	Weighting	Threshold	Maximum	Minimum	Target	Maximum
Total Sales Revenue Commission	100.0%	50%	NA	\$1,125	\$4,500	Uncapped
Target Premium	NA	100%	100%	NA	\$1,000	\$1,000
Key Performance Indicators	NA	100%	100%	NA	\$750	\$750

Incentive Components	Bonus Parameters		Results			Total Amounts
	Threshold	Target	Results #	Net Δ Credit	% of Target	
Portfolio Sales Results: $X \leq 50\% \times \text{Target}$	106,250	212,500	300,000	106,250	141.2%	1,125
Portfolio Sales Results: $50\% \times \text{Target} < X \leq 75\% \times \text{Target}$	106,250	212,500	300,000	53,125	141.2%	1,125
Portfolio Sales Results: $75\% \times \text{Target} < X \leq 100\% \times \text{Target}$	106,250	212,500	300,000	53,125	141.2%	2,250
Portfolio Sales Results: $100\% \times \text{Target} < X \leq 125\% \times \text{Target}$	106,250	212,500	300,000	53,125	141.2%	3,375
Portfolio Sales Results: $X > 125\% \times \text{Target}$	106,250	212,500	300,000	34,375	141.2%	2,427
Kicker for Achieving Quarterly Sales Target @		Target = 212,500		Yes		1,000
Key Performance Indicators (KPI's) ^						
						Total Payout = \$11,302

Bonus Calculator

Commissions and Bonus Calculator: 2012

Name:	John Doe
Position Title:	
Quarter:	4th
Performance Year:	2012
Date:	9/4/12

Incentive Components	Bonus Parameters			Bonus Opportunity		
	Weighting	Threshold	Maximum	Minimum	Target	Maximum
Total Sales Revenue Commission	100.0%	50%	NA	\$1,125	\$4,500	Uncapped
Target Premium	NA	100%	100%	NA	\$1,000	\$1,000
Key Performance Indicators	NA	100%	100%	NA	\$750	\$750

Incentive Components	Bonus Parameters		Results			Total Amounts
	Threshold	Target	Results #	Net Δ Credit	% of Target	
Portfolio Sales Results: $X \leq 50\% \times \text{Target}$	106,250	212,500	250,000	106,250	117.6%	1,125
Portfolio Sales Results: $50\% \times \text{Target} < X \leq 75\% \times \text{Target}$	106,250	212,500	250,000	53,125	117.6%	1,125
Portfolio Sales Results: $75\% \times \text{Target} < X \leq 100\% \times \text{Target}$	106,250	212,500	250,000	53,125	117.6%	2,250
Portfolio Sales Results: $100\% \times \text{Target} < X \leq 125\% \times \text{Target}$	106,250	212,500	250,000	37,500	117.6%	2,382
Portfolio Sales Results: $X > 125\% \times \text{Target}$						
Kicker for Achieving Quarterly Sales Target @		Target = 212,500		Yes		1,000
Key Performance Indicators (KPI's) ^						
						Total Payout = \$7,882

Bonus Calculator

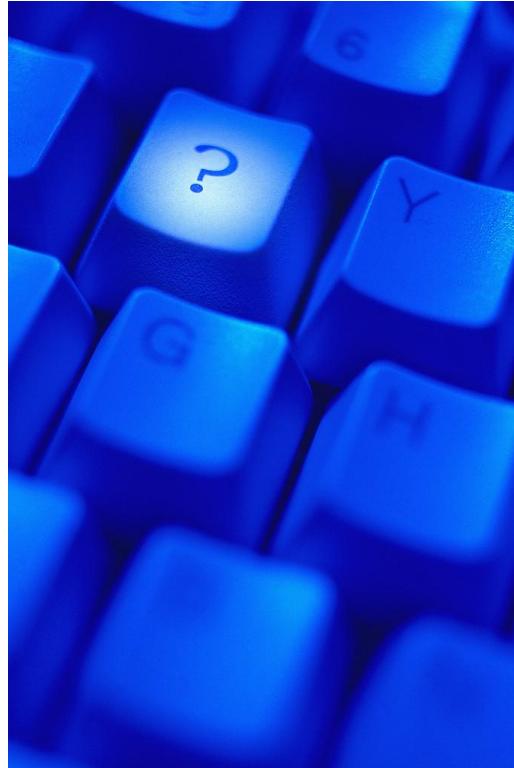
Sales Incentive Payout Summary: Annual Bonus Totals

Name: John Doe

Position:

Quarter	Q1	Q2	Q3	Q4
Target	212,500	212,500	212,500	212,500
Results	125,000	212,500	300,000	250,000
Commissions	1,522	4,500	10,302	6,882
Target Premium		1,000	1,000	1,000
KPI's				
Quarterly Totals	1,522	5,500	11,302	7,882
Annual Grand Total				\$26,206

Bonus Calculator



Your Questions