Top Sales Compensation Mistakes
(And some good ideas, too)

Beth Carroll
Managing Principal
Agenda

Introduction to Prosperio Group
Six Fatal Sales Compensation Mistakes
Sample Incentive Structures and Mechanics

If you are interested in a free mini-assessment of your sales compensation plan, please see me after the session. I will offer this to the first 10 companies who come talk to me after the session.
Introduction to Prosperio Group
Prosperio Group works with companies of all sizes in all industries to maximize sales rep motivation.

**Prosperio Sales Compensation Consulting**
- Sales Compensation Consulting across all industries
- Broad-based Compensation and Performance Management Consulting
- Sales Compensation Software

**Prosperio Transportation & Logistics Consulting**
- Business Goal and Strategy Development
- Organization Structure Design and Role Clarification
- Career Path Development
- Incentive Plan Design and On-Going Change Management Support
- Compensation Management and Administration
- Freight Broker Compensation Survey

**Prosperio Training and Expert Services**
- Business analytics training for staff
- Excel training
- Professional speaking services
- Articles and Expert Opinions

**Prosperio Custom Survey Development**
- Custom Compensation and Benefits Survey Development and Administration
We have extensive experience across many industries, and a particular niche in Transportation.

138 Clients are from Beth’s 17 year career as a business and compensation consultant; 41 from 10 yrs with Towers Watson and 97 from 7 yrs with Cygnal and Prosperio Group.
We have worked with start-ups as well as industry leaders.

Distribution of Clients by Size (using Revenue)

- 0 - $2m: 6 clients
- $2m - $10m: 21 clients
- $10m - $25m: 20 clients
- $25m - $100m: 30 clients
- $100m - $500m: 20 clients
- $500m - $1b: 17 clients
- $1b - $10b: 30 clients
- $>10b: 7 clients
Six Fatal Sales Compensation Mistakes
The variety of sales compensation plans used by companies today is mind boggling...

- Straight commission plans
- Goal-based incentive plans
- Bounties
- Linear incentive payout tables
- Tiered incentive payout tables
- Team-based incentives
- Individual incentives
- Short-term incentives
- Long-term incentives
- Etc.
However, there are six fatal sales compensation mistakes companies make:

1. Not realizing that sales compensation is part of a complex and interconnected system.
2. Thinking that sales compensation is only about money.
3. Not thinking about unintended consequences.
4. Paying transactionally, using absolute goals, and expecting to get growth.
5. Thinking that everything you do is legal.
6. Not taking it seriously and following through.
#1 – Sales compensation is one part of a BIG PICTURE; designing in isolation is a HUGE mistake

Your incentive plans must be aligned with and support your...

- Business Objectives & Strategy
- Organization Structure & Roles
- Company Culture
- Desired Position in the Labor Market

- You need to define these things before even considering a commission rate!
Sales reps expect to be paid

How you choose to deliver that pay sends powerful messages about what the company desires and values

**Consider these two alternatives for paying sales reps:**

- **Company A:** 100% salary with discretionary year-end bonus
- **Company B:** 100% commission with strict rules about claw backs and a “charge” to the rep when support resources are added

*What impression do you have about these two companies from just their compensation plans? What does your plan say about you?*

**Focusing too much on “fair” often misses the point...**

- A sales rep should not get an incentive for everything they do; credit splitting can become a *nightmare!*
- Reconciling adjustments to the penny is very likely a waste of time, money and motivation (be sure you know what you are losing!)
Questions so far?
#3 – Sales compensation design is a constrained optimization problem; there are risks!

For every gain in a sales compensation plan, there is a corresponding loss.

Finding the right balance for your company takes considerable thought and **work**.

- *If you think sales compensation is easy or that anyone has a magic answer that works for everyone, you are deluding yourself.*

You also need to think about how your business will change in 5, 10, 15 yrs... are you setting yourself up for future problems with the plans you are using now?

- *Hint: if you are using an annuity scheme with your sales reps or a team-based pool, the answer is YES.*
#4 – “MORE” is not a goal; paying transactionally only tells people to do “more”

Flat rates have no acceleration

- The only way to double pay is double production
- Retroactive rates are easy to calculate but may create odd economics
- It drives sales reps to reach the bottom of the new tier, and may even push them to unethical behavior
- The company loses money on the sale that pays the new rate

Marginal rates are more complicated to explain, but often provide the best economic control for the company and best motivational value for the sales rep

Note that the pay curves can be designed to provide exactly the same payout at target performance (in this case $22,000 provides $770 in pay in all three methods)
Questions so far?
#4 – Using absolute (fixed) goals is simple, but more often than not... unfair

- When you hire your first sales person, you don’t really need to set a goal (you have no idea what that goal would be) so you decide on how much you can afford to split, and settle on a commission rate.

- But then, that person leaves and you hire a replacement who “inherits” the accounts, and perhaps gets some accounts that have been sold by the owners. The job is now significantly easier than it was, and you have the nagging suspicion the new person is overpaid.

- Then, you decide to expand into a new territory, or sell a different product, and the person you hire for this task has an entirely different challenge.

- So, you adjust:
  - You may gift some accounts to the person with a harder job,
  - And you may pay a lower commission rate to the person who has been given house accounts, or who has a “primo” territory

Multiply this by 100 sales people, and you have a nightmare on your hands (and grounds for potential discrimination suit)...)
#4 – The answer is really simple...

- Absolute goals work only when there is a completely level playing field, and the field stays level.
  - Inside sales roles can pull this off longer than outside sales, but even then accounts can be gifted or inherited.

- Adjusting the commission rates or sales crediting rules is at best a temporary fix, and prevents the company from doing what is right for its customers and long-term health.
  - If you find yourself saying “I can’t move customer X from Rep A to Rep B (even though it’s the right thing for the customer and the company) because of the compensation plan” you have a goal problem.

- Even if the field IS level and stays that way, over time you should expect more production from your team...if you are using absolute goals and a commission payout, your only means of keeping the economics in balance will be to reduce commission rates.

...Change the Goals.
Questions so far?
In some states, you cannot “holdback” part of an earned incentive to a future date as a means of retention (CA, NY, are CT are especially particular about incentive laws)

- Purge the word “holdback” from your vocabulary - NOW
- Rephrase so that incentives are not earned until the future date trigger event (e.g., collecting money, clearing adjustments, payouts are calculated, etc.)
- Once an incentive is earned, it needs to be paid to the rep; they have a legal right to that money as soon as you say they have “earned” it...even if they leave the company!
- Even so...recent legislation in Maryland and Illinois ruled that commissions on booked sales were payable to the rep even after termination, even when the plan document stated that commissions were not earned until money was collected from the customer

California AB 1396, which went into effect January 1, 2013, requires all commission plans to be in writing with a signed copy given to each sales rep

- Lack of compliance could be a basis for a lawsuit under California’s Private Attorney General Act (PAGA) and Unfair Competition Law
- Note that a “Commission” is not the same thing as a “Goal Based Bonus”; CA defines a commission as “compensation paid to any person for services rendered in the sale of an employer’s property or services and based proportionately upon the amount or value thereof”

Because “commissions” trigger such legal scrutiny, we recommend avoiding the word “commission” altogether and instead using the word “INCENTIVES” when talking about any variable compensation
#6 – You can’t “half-ass” your sales compensation plan and expect it to work 100% for you

We’ve worked with hundreds of companies helping them develop new sales compensation plans

success depends on one thing and one thing only…

YOU NEED TO OWN YOUR SALES COMPENSATION PLAN

This means that you (and your leadership team)...

- Understand it... ALL OF IT and ALL OF ITS IMPLICATIONS
- Know why it is the way it is...you know the trade off decisions made and can explain these decisions to others (no plan is perfect)
- Know what data is needed to support it and have resources to get the data regularly
- Have tested the data against historical data so you know what type of payouts to expect both in aggregate and for each individual and at different levels of performance (low/high)
- Use care when setting goals – this part especially cannot be half-assed or you will blow up your plan economics and then come back and tell us the plan is “broken”, when it isn’t...the goals are!
- Have communicated it thoroughly to your reps, with examples
- Provide regular reports on progress and coach staff on how to improve performance
- Don’t change it at the drop of a hat or without adequate data or research – use SOP guidelines for on-going strategic management (we can give you a sample)
Questions so far?
Sample Structures and Mechanics
First, you must define the TTC, mix and leverage for each role

All figures are illustrative and not recommendations for any role that may coincidently carry a title similar to those below

Market Data, Compensation Philosophy and Pay History help determine the value of the job or “Target Total Cash” and the amount of pay at risk or “Target Incentive”. Salary ranges help provide for career paths and development opportunities. The Target Incentive defines what will be earned at 100% of goal. Role prominence and Compensation Philosophy drive the upside or “leverage” for the role.

<table>
<thead>
<tr>
<th>Role Name</th>
<th>Working Target Total Cash</th>
<th>Base %</th>
<th>Incent %</th>
<th>Min Base Salary</th>
<th>Mid Base Salary</th>
<th>Max Base Salary</th>
<th>Target Incentive</th>
<th>Leverage</th>
<th>Excellence Incentive</th>
<th>Excellence Total Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Rep I</td>
<td>$ 50,000</td>
<td>70%</td>
<td>30%</td>
<td>28,000</td>
<td>35,000</td>
<td>42,000</td>
<td>15,000</td>
<td>3.00</td>
<td>45,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Sales Rep II</td>
<td>$ 75,000</td>
<td>70%</td>
<td>30%</td>
<td>42,000</td>
<td>52,500</td>
<td>63,000</td>
<td>22,500</td>
<td>3.00</td>
<td>67,500</td>
<td>120,000</td>
</tr>
<tr>
<td>Sales Rep III</td>
<td>$ 125,000</td>
<td>70%</td>
<td>30%</td>
<td>70,000</td>
<td>87,500</td>
<td>105,000</td>
<td>37,500</td>
<td>3.00</td>
<td>112,500</td>
<td>200,000</td>
</tr>
<tr>
<td>Ops/Sales Mgr</td>
<td>$ 125,000</td>
<td>60%</td>
<td>40%</td>
<td>60,000</td>
<td>75,000</td>
<td>90,000</td>
<td>50,000</td>
<td>3.00</td>
<td>150,000</td>
<td>225,000</td>
</tr>
<tr>
<td>President/Branch Mgr</td>
<td>$ 175,000</td>
<td>75%</td>
<td>25%</td>
<td>104,800</td>
<td>131,000</td>
<td>157,200</td>
<td>44,000</td>
<td>2.00</td>
<td>88,000</td>
<td>219,000</td>
</tr>
<tr>
<td>Carrier Rep I</td>
<td>$ 50,000</td>
<td>80%</td>
<td>20%</td>
<td>32,000</td>
<td>40,000</td>
<td>48,000</td>
<td>10,000</td>
<td>2.00</td>
<td>20,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Carrier Rep II</td>
<td>$ 60,000</td>
<td>80%</td>
<td>20%</td>
<td>38,400</td>
<td>48,000</td>
<td>57,600</td>
<td>12,000</td>
<td>2.00</td>
<td>24,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Carrier Rep III</td>
<td>$ 70,000</td>
<td>80%</td>
<td>20%</td>
<td>44,800</td>
<td>56,000</td>
<td>67,200</td>
<td>14,000</td>
<td>2.00</td>
<td>28,000</td>
<td>84,000</td>
</tr>
</tbody>
</table>
Then, allocate the incentive across different performance measures, assigning weights that reflect company priorities.

<table>
<thead>
<tr>
<th>Element #1:</th>
<th>Element #2:</th>
<th>Element #3:</th>
<th>Element #4:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Financial</td>
<td>Individual Strategic</td>
<td>Team or Company Financial</td>
<td>Key Objective or Top Performer Bonus</td>
</tr>
<tr>
<td>50%</td>
<td>30%</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

Modifier or Qualifier on Financial measures
Modifier or Qualifier on Strategic measures
Modifier or Qualifier on Collaboration measures

An Element is the fundamental component of an incentive plan and is defined by:

- What is being measured (e.g., margin, new customers, load count)
- The relative emphasis in the plan (weight)
- The scope of measurement (individual, small team, division, company)
- The mechanics used to calculate the incentive (retroactive commission, linear goal-based incentive)
- The pay frequency and performance period (quarterly with annual true-up)

One of the most profound “ah ha” moments comes when companies realize that they can do more than one thing with their incentive plan...but you only get here after defining strategy and narrowing the focus to key outcomes.
Questions so far?
Example: Goal-based Commission

<table>
<thead>
<tr>
<th>% of goal attained</th>
<th>Commission Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% to 50%</td>
<td>0%</td>
</tr>
<tr>
<td>50% to 99%</td>
<td>2.0%</td>
</tr>
<tr>
<td>100% to 124%</td>
<td>3.0%</td>
</tr>
<tr>
<td>125% to 149%</td>
<td>4.0%</td>
</tr>
<tr>
<td>150% +</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

The commission could be marginal or retroactive, depending on the economic and motivational needs.

Using this approach allows for unique goals to be established to reflect different books of business, but still pay more to those with higher volume.

If the goals do not vary by person or role, then you simply have a tiered commission plan.

It is also possible to phrase a goal-based incentive as a personalized commission rate

For example, two reps have target payouts of $10,000 but different productivity expectations:

- Joe’s goal is $1,000,000 so his “personal rate” is 1%
- Sally’s goal is $500,000 so her “personal rate” is 2%

(Note: for a variety of reasons, this approach is not recommended)
In this example, a commission based on three tiers of production is modified up or down based on the average margin % attained.

<table>
<thead>
<tr>
<th>Monthly Production</th>
<th>Marginal Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $10,000</td>
<td>0%</td>
</tr>
<tr>
<td>$10,000 - $19,999</td>
<td>10%</td>
</tr>
<tr>
<td>$20,000 +</td>
<td>20%</td>
</tr>
</tbody>
</table>

$15,000 in monthly production with a 23.5% average margin % would pay $625

$5,000 x 10% = $500 x 125% = $625
The value inside the cells can be:
- % of target incentive (as shown),
- a fixed $ amount (e.g., $1,000), or
- a commission rate (e.g., 4%).

Be sure to scale the corners to reflect different strategic priorities or economic value:
- In this case, high margin $ production counts more than high margin %,
- But both are required for the top payout.
Examples: Secondary Metrics

Example #1: A sales rep Development Metric is common for managers, and uses a tiered goal-based incentive mechanic.

<table>
<thead>
<tr>
<th>% of Goals attained</th>
<th>% of TIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%-40%</td>
<td>0%</td>
</tr>
<tr>
<td>40%-49%</td>
<td>25%</td>
</tr>
<tr>
<td>50-59%</td>
<td>50%</td>
</tr>
<tr>
<td>60-69%</td>
<td>100%</td>
</tr>
<tr>
<td>70-79%</td>
<td>125%</td>
</tr>
<tr>
<td>80-89%</td>
<td>150%</td>
</tr>
<tr>
<td>90-99%</td>
<td>200%</td>
</tr>
<tr>
<td>100%</td>
<td>300%</td>
</tr>
</tbody>
</table>

Example #2: A Weighted Average can be done as either a stand alone metric that yields a % of target incentive earned, or as a modifier to another element.

<table>
<thead>
<tr>
<th>Dispatcher Quarterly Objectives</th>
<th>Target Points</th>
<th>Total Points Earned for Performance Level Attainment</th>
<th>Total Points</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Does Not Meet Minimum</td>
<td>Meets Minimum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Margin %</td>
<td>20</td>
<td>&lt;20.8%</td>
<td>20.8%-23.2%</td>
</tr>
<tr>
<td>Margin $ Per Load</td>
<td>20</td>
<td>&lt;111</td>
<td>111-128</td>
</tr>
<tr>
<td>Load Count</td>
<td>20</td>
<td>&lt;438</td>
<td>438-513</td>
</tr>
<tr>
<td>Teamwork/Attitude</td>
<td>40</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example #3: A simple Bounty can help reward for new customer acquisition. Consider the linkages you may want to create between sales and operations.

<table>
<thead>
<tr>
<th>Sales Rep Bounty</th>
<th>Operations Team Bounty</th>
</tr>
</thead>
<tbody>
<tr>
<td>When a new customer reaches $6,000 in margin...</td>
<td>When a new customer reaches its 10th load shipped...</td>
</tr>
<tr>
<td>$1,000 bounty is paid</td>
<td>$100 is paid to each truck hunter on the assigned team (3 on team)</td>
</tr>
</tbody>
</table>

There are many different performance measures which can be used as secondary metrics; this is only a small sample.
Checklist of plan design decisions – for each role you must define ALL of these things for a full design

- Target Total Cash
- Pay Mix and Leverage
- Salary bands and levels
- Performance Measures and Weights
- Goal measurement method
- Payment method
- Sales crediting rules (who gets credit for what and how much)
- Calculation of performance measures (e.g., with or without fuel surcharge)
- Point of credit (shipment, delivery, invoice, payment)
- Performance period
- Timing of payments
- Threshold and Excellence Levels and payouts at same
- Qualifiers, Modifiers, Kickers and Depressors
- Cross-gates or ties

And, you must consider how each decision for one role affects the decisions of the other roles...does the system as a whole work?
Checklist for Plan Performance Reviews

- Are we achieving the results we set out to achieve?
- Is our compensation cost as a percent of revenue (or margin) improving?
- Is the plan motivating?
  - Do sales reps understand their plans?
  - Do they see them as fair?
  - What do they say the plans drive them to do? And is this what we want them to do?
- Are we attracting and retaining the talent we need?
- How does our performance distribution curve look?
  - Are at least 50% of our people at or above target performance and compensation levels?
  - Are fewer than 5% earning no incentives?
  - Are a few people (about 10%) earning the fully leveraged incentive, or more?
- Are the most productive people earning the most money?
- Have sales roles or key accountabilities changed enough that we need to reinforce the changes with updates to the compensation plans?
The ability of the compensation plan to affect sales results is dependent on effective plan administration.

- Clearly communicated business strategy
- Sales compensation plan
  - Aligned with business strategy
  - Well documented
  - Well communicated
  - Well understood

- Sales Rep behaviors

- Business results

- Performance reporting
  - Frequent
  - Accurate
  - Easy to understand
  - Right level of detail

- Compensation
  - On-time
  - Accurate
Final Questions?
For a free mini-assessment, come see me!

Beth B. Carroll, CCP, GRP, CSCP
Managing Principal
Prosperio Group

+1.815.534.9204
beth.carroll@prosperiogroup.com

www.prosperiogroup.com