



CONNECTING STRATEGY, TACTICS, AND IMPLEMENTATION

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**Sales Incentive Compensation  
Best Practices Research**

**Executive White Paper**

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## White Paper

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### Background

Growth Solutions, LLC, an independent sales management consulting firm, has recently completed a benchmark survey on sales compensation practices. The benchmarking effort was focused around sales compensation administration within sales organizations of 20 – 500 payees. The benchmarking study consisted of approximately 30 confidential, in-depth interviews with participating companies.

The scope of the interview covered the following topics:

- How companies develop, implement, and administer sales incentive programs
- How companies view sales incentive compensation; as a tactical administrative tool or as a strategic sales performance tool
- The costs associated with sales incentive program administration
- The issues and challenges faced in program design, implementation, or administration
- The characteristics and potential value of systems to help better and more cost effectively manage sales incentive programs

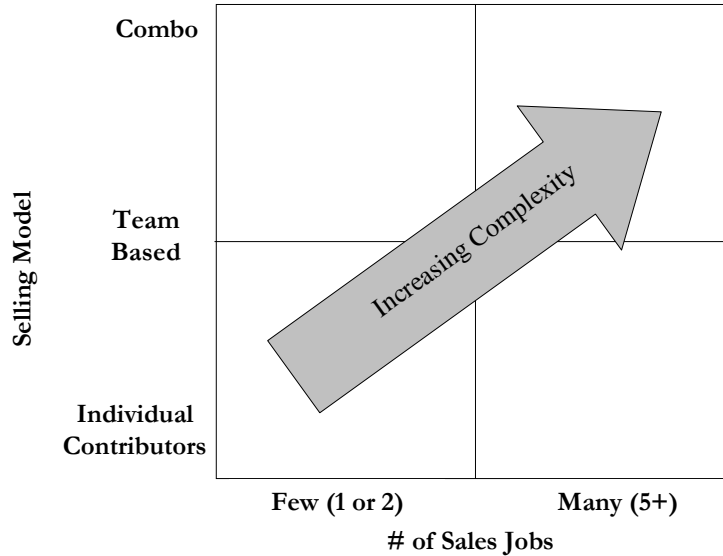
Growth Solutions, LLC has also completed complementary benchmark studies on sales management effectiveness.

### **I'm a VP of Sales, Why Do I Need to Read This White Paper?**

As a vice president of sales you appreciate that the sales incentive program is your most powerful sales management tool. No other single program will drive sales behavior and, ultimately, sales results to the same extent as incentives. This white paper will help ensure that you identify the best possible sales incentive tool and, most importantly, properly implement it to gain the greatest benefit.

### Sales Team Structure: To Be or Not To Be - “Complex”

Organizational complexity is not unique to very large sales forces. More than half of mid-sized sales organizations benchmarked have complex sales organizations and sales compensation programs. Organizational complexity was defined by the number of different types of sales jobs that exist within a company (e.g., field sales, telesales, national accounts, product specialists, market or industry specialists, channel specialists, etc.) and if/how the salespeople work together (e.g., individual contributors vs. team-based selling).



Organizational complexity was linked with a company’s age and rate of growth. Younger companies had less complex sales organizations and reported greater growth. To some degree this is intuitive – newer companies tend to serve developing/higher growth markets. However, it does raise a legitimate question:

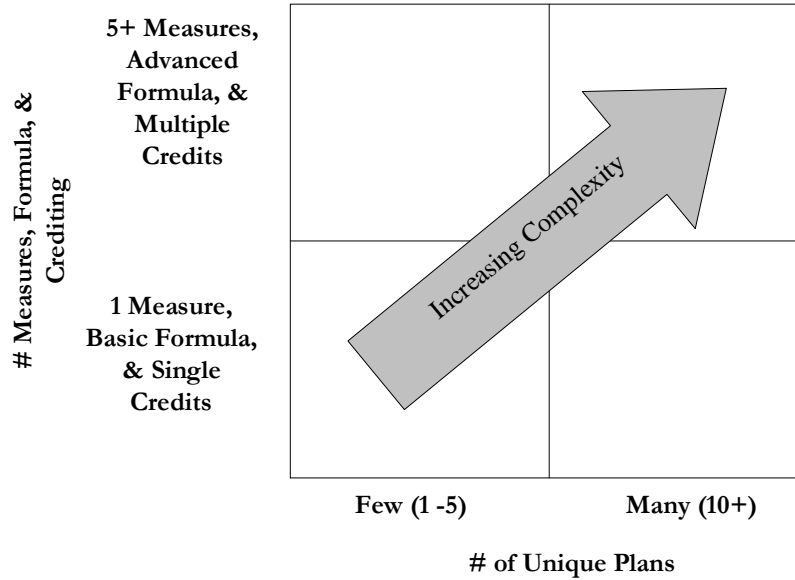
*Does sales organizational complexity diminish performance?*

Research suggests that complexity does, in fact, reduce sales performance. Some companies have recently been through a dramatic rationalization of their sales force to streamline the number of sales job positions from 12+ to a few. However, sales organization complexity is a reality for the majority of mid-sized sales forces today.

Not surprisingly, nearly all of the companies with complex sales organizations also had complex sales compensation programs. These programs create a heavy demand on those responsible for administering these programs, but as one participant put it:

*“We are more concerned with sales behavior than administration . . . administration must adjust.”*

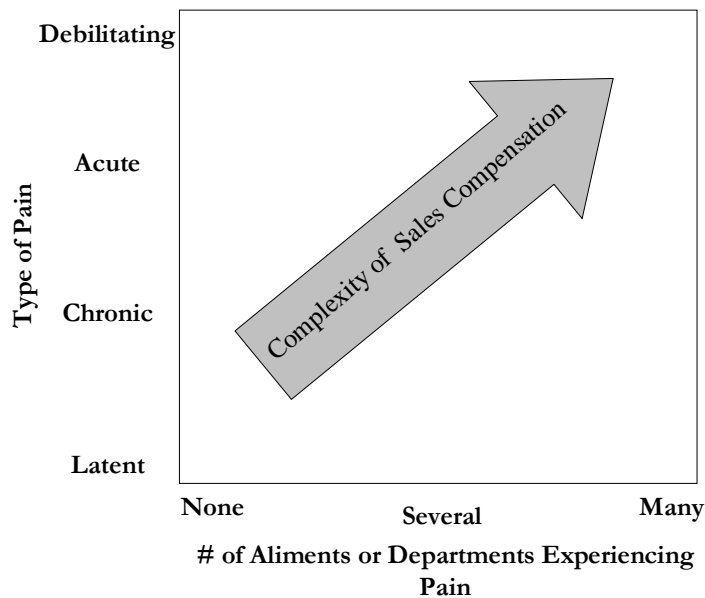
Program complexity was defined as a combination of the number of unique plans (more = complex) and the number of incentive measures, types of formula, and crediting rules.



Interestingly, a few companies that had very complex plans per the above chart did not perceive their program as being complex. These companies’ sales incentive programs have been fairly stable over the years; thus, familiarity has created a perception of simplicity. However, these organizations also tend to take a more tactical view with regard to program administration; their familiarity with “as is” may prevent them from adequately considering what these programs could or should be.

**Complexity May Be “The Nature of the Beast,” But It’s Painful**

Companies with complex sales compensation programs report more and elevated levels of “pain” associated with managing and administering their programs.



Complex sales compensation programs have a ripple effect throughout the organization, as follows:

- **Executive Management** has “pain” with the lack of flexibility in aligning sales force pay with new company goals
- **Finance** has “pain” with the lack of program predictability, cost overruns, and reliance on one individual for accurate administration
- **Sales Administration** has “pain” with the tedious, low value-added, and error prone manual processing that must be routinely completed to pay the sales force
- **Human Resources** has “pain” with the lack of control and consistency
- **IT** has “pain” in trying to automate the sometimes ill-defined and often frequently changing business rules related to sales incentives on legacy systems

*“Our IT liaison says our program is getting out of control. The sales administration staff cannot keep up with workload demands and the sales force only gets quarterly commission reports.”*

As suggested in the above quote, the greatest degree of pain is actually, but often unknowingly, borne by vice president of sales and the sales management team. More than three-quarters of the participants indicated that they experience a loss of sales focus as result of their sales compensation practices. Specifics include the following:

- Inability to provide real-time and accurate feedback to sales reps on their performance to goals and incentive earnings (e.g., show progress to all plan elements with updated credits/returns)
- Inability to pay salespeople more frequently or quicker after the close of the pay period due to resolution of data hiccups, manual “work arounds,” payroll delay, etc.
- Inability to provide detailed commission statements and frequent reports on performance along with the check
- Inability to include transfers, which have a big impact on every territory, into the monthly reports to reps and daily sales reports to managers
- Limited ability to run contests and recognition programs since they must be manually administered
- Misallocation of staff – need administrators to run the program but prefer to redeploy administrative headcount/resources to sales & revenue generation

### Complexity Can Also Be Costly

On average, the annual direct cost to administer the sales compensation program is \$1,140 per payee (direct costs include personnel who administer the sales compensation program, as well as any associated system/IT costs). Annual indirect costs (those costs associated with sales force time reviewing/fixing incentive payments, etc.) are higher—averaging \$1,319 per payee. However, those organizations with complex sales compensation programs may have indirect costs of up to six times the average.

*“Reps spend 5% of their time in checking/fixing commission statements, and managers as much as 10%—we have an issue of the sales force turning into accountants.”*

A separate survey by Growth Solutions, LLC on sales management effectiveness confirmed the administrative “pain” that sales managers live with day to day. We found that one-third of first-line sales managers’ time (or 79 days per year) was spent on internal administration. In contrast, sales managers spend only 60 days per year working to improve the performance of their salespeople (e.g., setting expectation, coaching, etc.).

We also found that vice presidents of sales spent a comparatively small portion of their time on internal administration (about 20%). This statistic further indicates that the vice president of sales is disconnected from some of the administrative challenges and costs within their own organization.

*“The whole administrative issue isn’t understood by the VP Sales. [She] has no idea what it takes each month to manually administer the plan and the sales time that is consumed in the process.”*

Several companies with a very low administrative cost per payee believed that they needed to invest more than they currently do to ensure they keep the sales force focused on the right things.

*“We are not spending much and not getting much. Reps lack plan documentation and regular reporting on earnings. The company lacks any ability to analyze what’s happening and what, if anything, needs to be changed.”*

Systems and processes to reduce both direct and indirect costs (\$2,459/payee annually - \$205/payee/month) would be a good investment and should demonstrate a strong return on investment.

### **In the End, the Sales Compensation Program Must Work ...**

Although sales compensation complexity leads to pain and stress within an organization, it is a mission-critical program and it must work. We found that, in most companies, the sales compensation program is *perceived* to be working by management; however, one-third of the companies surveyed indicated that it was not working well—a very high “defect rate” for a mission-critical program. We also learned that most companies believe their compensation administration systems pay salespeople accurately; however two-thirds of companies were not satisfied with their system (most frequently their systems were customized Excel spreadsheets and Access database). The primary improvements sought include the following:

- More frequent and enhanced reporting of sales results and incentive pay to the sales force
- Elimination/automation of manual and tedious administrative work (e.g., credit adjustments, data entry, management of multi non-integrated data files – quotas, credits, hierarchy, etc.)

- Ability to track and administer other performance metrics (e.g., account profitability, product-specific incentives, etc.)
- Enhanced control over the program
- Greater flexibility to change the program in response to business needs
- Less reliance on a single individual to ensure program integrity

### **... But, You Need to Expect More from Your Administrative System**

The purpose of any sales incentive program is to drive the right behavior, yet more than three-quarters of companies indicate they have lost some sales focus based upon their sales compensation practices; ironic for sure, but certainly not humorous for a vice president of sales. As expected, the most common culprit is the administration system—lack of real time performance reporting, inflexibility, etc.

*“A great administrative system will produce an incentive check that gets no more attention than a pay stub related to your salary. It has to be so simple and trusted that the salesperson merely glances at it as they place it in their briefcase to be filed.”*

As indicated in the above comment, the vice president of sales is often focused on getting commission checks cut accurately and timely, which largely gets done at most sales organizations (although not without super human effort on the part of sales administration and finance in many cases). But a focus on issuing checks accurately and timely is too narrow, too tactical; it fails to recognize the strategic element of incentive compensation. As a result, there is a missed opportunity to transform the sales compensation administrative system into a sales performance management system.

### **...And Look for Opportunities to Simplify the Sales Organization and Comp Plan**

Simple sales structures and streamlined sales compensation programs are better correlated with sales growth/performance and are typically administered more efficiently. Obviously, companies must avoid the “tail wagging the dog”—having administrative simplicity drive sales structure and the design of the sales compensation program. However, the proliferation of sales jobs and the resulting sales compensation complexity needs to be challenged as to whether they do, or are likely to, substantially grow revenue and profitability. Often, solid execution against the basics of sales management (setting expectations, coaching to improve performance, and holding sales staff accountable to their expectations) can accomplish more than a myriad of specialized sales positions and highly complex sales compensation programs.

To execute against these basics, sales managers and their people must have accurate and real-time information on their performance and where they stand relative to their sales goals, other performance criteria, and incentive earnings. In short, a sales performance management system is required.

### **Best Practice Recommendations**

Sales and Finance executives should demand an administrative system that will enable the organization to leverage incentive compensation as a strategic tool to drive performance and, as a result, increased revenues. The system should provide near real-time reports and analysis to executives and sales managers to reflect how the sales organization is performing and to help identify trends, issues and opportunities. In addition, it should provide the accuracy, full audit capability, process and workflow controls, and security demanded of financial systems in order to help companies avoid non-compliance with Sarbanes-Oxley requirements.

Sales representatives should have frequent reports that provide attainment, ranking and commissions earned; these reports will stoke the competitive fires and help motivate reps to achieve better performance. Reports should be delivered frequently during the pay cycle so reps have the ability to adjust their focus and behaviors to positively affect an outcome. On-line commission reports should include transaction detail so reps better understand how their commission was calculated. This will help reps build trust in the system, leading to less time reconciling commission statements and more time focused on selling.

Finally, system administrators should be empowered to “own” the system so they can adjust or modify plans as needed to keep the sales organization aligned with corporate sales goals. Administrators should not have to rely on IT resources to implement changes to their plans – instead they should be able to administer any changes required.

Leveraging a flexible, automated incentive compensation system and less-complex compensation plan design and structure, Sales organizations will recognize many tangible benefits, including:

- Increased performance
- Increased revenues
- Better plan modeling
- Better retention of sales talent
- Better alignment of sales team to corporate goals
- Better reporting and analysis