
8 Things Wrong with Your Sales Compensation Plan

THAT WILL MAKE YOU LOSE YOUR TOP SALES TALENT.

The cost of sales rep turnover is real and much more than you expect. The cost of losing an average employee is 1.5x the fully loaded salary. The cost of losing a top performer can be 3x more than losing an average performer.

Additional costs can be related to:

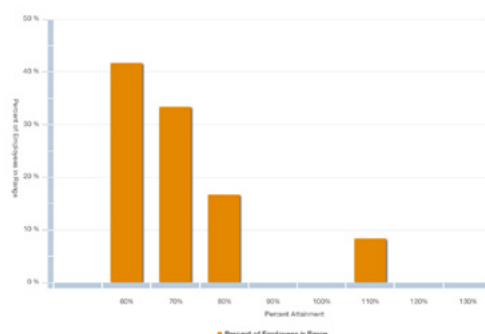
- Lost revenue because of open or inappropriately covered territories
- Overworked sales reps covering expanded territories
- Difficulties finding the right talent
- Cost of recruiting and training new hires
- Demotivation of remaining team
- Accounts and other employees also exit with that sales rep

Incentive compensation fuels the motivation that keeps your sales organization successfully running and growing. It is one of the tools you can use to keep your top sales talent engaged and focused on delivering your strategic vision. When your sales organization is challenged and rewarded for their effort they are more likely to be a dedicated employee. If you fail, they will seek other opportunities.

Let's look at some of the common issues that increase your risk of top talent leaving and solutions to mitigate that risk.

1. Inappropriate Quotas

When 70% or more of your reps are below quota, it is a sign that your quotas were set inappropriately. Quotas that are set too high can demotivate your sales organization. If your attainment distribution looks like this, your quotas may have been set wrong:



Notice in this graph the majority of the reps are way below quota, with only a few superstars at 110% of quota. Tracking this monthly will help you identify an issue long before the end of the year, allowing you time to evaluate and correct the problem.

Sometimes quotas are set too high because the company wants to ensure their goal is reached, so it gives the sales organization a bigger goal than the company's actual goal. For example, the company's goal is \$10m, the sales manager is given an \$11m quota, and the sales reps are given a combined quota of \$12m. In this example if the rep is at 80% of their goal, they are close to the realistic opportunity. But a sales rep at 80% of quota does not feel successful and becomes demotivated.

Other times there is a territory misalignment where a territory with low opportunity carries the same quota as a territory with a much higher opportunity. The rep in the low opportunity territory will not be making much, while their counterpart is making a great deal with much less effort.

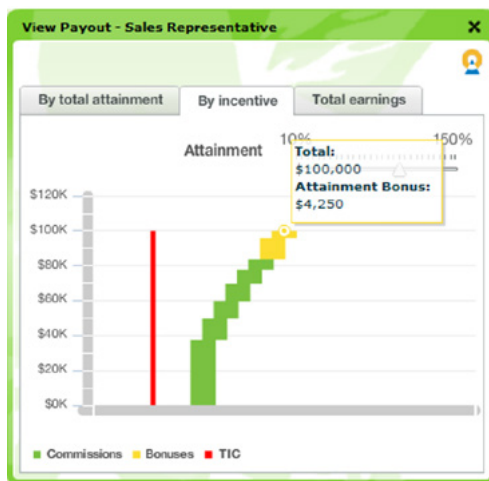
Solution: Keep in mind that quotas should be aggressive, yet realistic. Make sure your quota is fully allocated to the reps and the total of their quota equals your company's goal. To help determine the appropriate quota for each individual, evaluate the following:

- Opportunities in the pipeline
- Real opportunity in each territory
- Each sales rep's workload
- Each sales rep's performance last year
- Reasons why some reps attained their quota and others didn't
- Monitor attainment distribution monthly

2. Too Many Performance Measures

A measure will have a quota, goal or expectation in the sales compensation plan and a rate formula for the payout. When you have more than 3 measures, the sales rep's focus becomes fragmented. Your priorities will not be clear to them and they will not know where you want them to focus their time. You can also cause conflict of attention when you have too many measures. When there are too many goals, the sales rep will set their own priorities based on what will easily make them the most money, which may not match your priorities or strategy.

To make matters worse, there is an administrative burden on calculations of commissions on so many measures and the results are all too often not predictable.



Each block on this chart indicates the commission or bonus earnings for a performance measure. The red line indicates the planned target incentive compensation (TIC) amount. This commission plan does payout the correct TIC amount however with so many earnings possibilities it is unclear to the sales rep which performance measures they should focus on.

Solution: A good rule of thumb to follow is to have 3 or less measures that are clearly aligned with the company's strategic goals for the year. Make sure to have most of the incentive earning opportunity on attaining the primary measure that is the most important strategic focus for your company. This will clearly communicate to the sales force what is important and what you need them to focus on.

3. Unclear Job Roles

A job role is a category of positions that have the same or similar skills and responsibilities. When job roles are unclear and have overlapping functions you can have several reps tripping over each other and calling on the same account, which can lead to infighting over who gets credit for the sale or a prospect could be dropped because no one is working it. When job roles are not well defined, and include too many job functions, sales compensation plans become too complicated and cannot focus the sales rep on important priorities. All this can lead to higher costs, lost sales and valuable sales minutes wasted.

Solution: Any job role that has measurable influence over the actions of the customer leading to the sale should be considered for a sales compensation plan. However, for that sales compensation plan to be motivating you must be willing to allocate at least 15% of the Target Total Compensation (TTC) to the incentive portion of the plan. All customer facing or support job roles should be evaluated for the work that needs to be done and clearly define who is doing what for the prospects and customers. You may need to split existing job roles into new job roles, or create new job roles as your company matures.

4. Lack of Documentation



Your sales compensation plan is an important lever you have over your sales force to direct them on the activities that will deliver your sales goals. If you communicate it poorly by only providing the commission rates or worse communicate it verbally, you will not be able to reach your company's goals. Every rep creates their sales strategy based on how they will make money. When you don't provide the proper documentation for their sales compensation plan, they spend a lot of time guessing as to what you want them to do and how much they will earn. To make matters worse, without proper documentation you can also expose the company to a wage claim lawsuit and some state allows for double or triple damages. Talk about being expensive!

Solution: Provide the sales reps with a clearly written plan document that spells out all the rules of the plan, lists the quotas, rates, and terms and conditions and to increase motivation, show them clearly what they will make in incentive and what they have to do to earn it.

5. Failure to Measure

You get what you inspect. If you can't measure it or can't show them, you won't get it. It is that simple! Sales reps need performance reporting to understand where they are against their goals. Without it your reps will never understand where they are towards their goals and how much harder they need to work to reach the next level. Without this transparency, you leave your reps guessing and all that guessing is demotivating and a waste of time.

Solution: Provide details of every sale the rep made this month and show progress towards their goals. This gives the rep confidence in the sales commission plan and keeps them focused on selling.

Name		Q1	Q2
Sales Revenue	Goal	\$375,000	\$750,000
	Actual	\$508,770	\$1,017,540
	QTD Attainment %	135.67%	135.67%
	YTD Attainment %	135.67%	135.67%
	Annual Attainment %	33.92%	67.84%
Service	Goal	\$156,250	\$312,500
	Actual	\$182,499	\$364,998
	QTD Attainment %	116.80%	116.80%
	YTD Attainment %	116.80%	116.80%
	Annual Attainment %	29.20%	58.40%

6. Lack of Coaching

When it comes to coaching, the sales profession is analogous to professional sports. All top athletes have good coaches. You don't hear about a winning sports team without also hearing about the competency of the team's coach. Likewise in sales, top producers have sales managers who serve as great coaches.

As the saying goes, you need to take time away from chopping wood to sharpen your ax. Salespeople need to take time from day to day selling activities to hone their skills. A good sales coach makes this happen. Without a good coach, it's easy for sales team members to fall into a slump. If just one salesperson is down and out and not hitting their numbers, they can negatively impact the entire team and cause everyone to spiral downward. This creates an environment prone to turnover.

Solution: Not all sales managers have good coaching skills. Invest the time and money to ensure your sales managers know how to be effective coaches. Good coaches are able to coach sales team members differently based individual needs. You should be able to observe your sales managers coaching team members differently which will lead to improve performance quarter after quarter. If this is not happening, it may be time to train your sales managers on coaching skills.

It's also important that sales team members feel comfortable asking for the coaching they need. As much as it is incumbent on employers to ensure they have sales managers who know how to coach, it is important that salespeople are encouraged to request the coaching they desire; it's a two way street.

7. Lack of Recognition

In study after study, human resources organizations point to employee recognition as a pillar of low turnover. In sales teams, providing recognition is even more important because salespeople deal with so much rejection. When they do win a sale, if they don't receive recognition, it negatively impacts their morale. Imagine your salesperson's dinner conversation with their spouse after winning an important sale and receiving no recognition. Bill, your salesperson, asks his wife incredulously, "Do you know how hard I worked to win that opportunity? No one even said, 'Good job Bill!'" As with lack of good coaching, lack of recognition leads to low morale and high turnover.

In some companies it gets worse. Salespeople are only told about what they did wrong. Or even worse, they are told about what they did wrong in a public forum!

Solution: Catch people doing things right! Reward success with recognition, verbally and in writing, privately and in public, regularly and often. Have salespeople talk about opportunities they close at sales team meetings. Have your CEO send a congratulatory email. Celebrate success with some hoopla! It doesn't have to cost a lot of money either; non monetary rewards, like a hand written note of congratulations, go a long way. When you provide recognition and focus attention on successes, everyone on the team feels positive and you mitigate turnover.

8. Late or Inaccurate Payments

When payments are late, the company misses the opportunity to promptly reward the sales rep for the work they are doing and to reinforce the message of the commission plan. If you are using spreadsheets to calculate commissions, discrepancies can be found in 90% of them. These errors can be from an incorrect interpretation of the commission plan mechanics, the wrong measurement amount, calculating the wrong commission or bonus amount. Every time there is an error, your sales reps are chasing it down, especially when they believe it was money owed them, wasting valuable sales time. They will continue checking your calculations for months to come.

Solution: Automating your entire commission process from plan design through payment. Calculate and pay your commissions as close to the event the sales rep controls as possible to receive the most motivation for your incentive dollars spent. Provide detail commission reports which explain in details the incentive calculations.



Conclusion

You can retain your top sales talent by coaching them to succeed and rewarding them for their success. In this white paper we have covered common problems that lead to retention issues and tips that will help you retain your top sales talent.

Sales Motivator®, affordable, web-based software designed specifically for small and medium sized businesses, allows you to:

- Design powerful compensation plans
- Model your plans to forecast revenues and manage profits
- Automatically calculate commissions
- Pay your reps quickly and accurately
- Easily generate graphical commission plan documents and performance reports



To learn more about how Cornerstone Software can help you design a powerful incentive compensation plan that drives revenues, motivates your sales team, and allows you to more effectively manage costs and risks, visit us at www.cornerstonesoftware.com or contact us at 877-881-0001.

To learn more about how SalesNv can help you reduce sales team turnover and improve morale, visit SalesNv.com or contact us at 617.513.1923.

