
Quarterly Bonuses: A great motivation strategy

**GET YOUR SALES FORCE FOCUSED AND DELIVER
CONSISTENT RESULTS QUARTER AFTER QUARTER**

A quarterly bonus in a sales compensation plan is a great way to encourage extra work, gets the sales team excited about reaching their goal and rewards them for attaining it. Just like any other component in a sales compensation plan the bonus must be well thought out and applied in the right manner to be effective.

The quarterly bonus needs to be associated with a [realistic yet challenging goal](#) that is aligned with your corporate strategy. If the goal is so aggressive that the sales reps don't believe it is achievable then it becomes a de-motivator instead.

Adding in a quarterly bonus to your sales compensation plan helps focus the reps to stay on target each and every quarter and provides extra motivation when done properly. This creates better results for your company. Here are things to consider when adding a quarterly bonus to a sales compensation plan:

1. What should the bonus be applied to?
2. What will the attainment measurement period be?
3. How much should the bonus be?
4. When will the bonus be paid?

What is the bonus for?

You should only place a bonus on an existing measure in the sales compensation plan. Best practice is to reward the sales rep for attaining the goal they control. When creating the sales compensation plans, the corporate strategy is reviewed and performance measures are selected to be in the plans because they are aligned with achieving those goals. Thus the bonus should be used to increase the awareness of the importance of one of those measures and reward for consistently attaining an important part of the company's strategy quarter after quarter. If you tack on a bonus that is unrelated to what they are being paid commissions on it will be a distraction from their primary commissionable measure and you will not achieve your strategic goals.

Just like any formula in the sales compensation plan, the rep should have control over attaining the goal associated with the bonus. Some companies want to include a company profit bonus in their sales compensation plan. The rep will pay no attention to that bonus, it will provide no "incentive" because frankly they can't control it. They will be pleased if it is achieved but they will perform no specific actions to achieve it because they don't feel control over it. Since the bonus provides no additional incentive for them to do anything beyond their base duties, it is not a wise use of your incentive dollars.

Attainment measurement period

The attainment measurement period, is the period of time to which the goal applies. You can have a discrete goal such as quarterly, where the goal resets each quarter, known as Quarterly attainment period or you can have a cumulative goal also known as Year to Date attainment period. The table below shows both options for a \$1,000,000 annual quota.

	Q1	Q2	Q3	Q4
Quarterly	\$250,000	\$250,000	\$250,000	\$250,000
Year to Date	\$250,000	\$500,000	\$750,000	\$1,000,000

Quarterly attainment measurement period: Every quarter the goal is reset and the credit to the goal starts over. So if they miss the first quarter goal of \$250,000 they do not get the bonus for the first quarter, but the credit accumulation starts over for the second quarter goal, which is reset to \$250,000. The problem with this type of goal is that it can lead to your sales reps "gaming" the commission plan. If your sales reps has the ability to stall when deals close and it doesn't look like they will make the current quarter's goal, they may attempt to hold the sales for next quarter so they would have a better opportunity to make the next quarter's bonus.

Year to Date attainment measurement period: The rep must hit their goal every quarter to get their bonus, if they miss the first quarter, they must make up the amount they missed the first quarter by and the full goal for the second quarter in order to get the bonus in the second quarter. Based on the table above, the rep would have to be at or above \$500,000 in Q2 to make the Q2 Bonus. This really puts emphasis on the items you already put in their sales compensation plan and keeps them motivated to stay on track. If they missed the first quarter but make it up in the second quarter, only pay the bonus for attaining the second quarter year-to-date goal, which means don't pay them for missing a quarter

How much should go to a quarterly bonus?

When reviewing your sales roles, a Target Total Compensation (TTC) amount is determined. This amount is the total compensation the sales rep will be paid including their base and the target total incentive amount if they hit 100% of their goal. Just like any payout in your sales compensation plan, the bonus has to be a big enough amount to be persuasive. Typically that is at least 15% to 20% of their total incentive portion of their pay. Less than that and it will not incent any behavior, it will be too small to notice. It is also very common for the bonus to be a flat dollar amount, if they make or exceed the goal they get the bonus dollar amount.

The quarterly bonus must be included as part of the Target Total Compensation number when you are modeling your business expenses. Its omission is a very common budgeting error that could lead to unexpected costs.

When should you pay a quarterly bonus?

The answer to when to pay a quarterly bonus sounds obvious, but it isn't. It is best practice to pay a sales rep as close to the point of persuasion as possible, meaning pay it as soon as it is earned. A quarterly bonus should be awarded when the rep reaches their quarterly goal. So if they reach their quarterly goal after the first month in the quarter, pay them then. Some companies want to wait until the end of the quarter to pay the quarterly bonus, but with any incentive it is most effective and motivating when it is paid as close to the event as possible. It reinforces a desired outcome.

When used correctly a quarterly bonus is a very nice addition to a sales compensation plan. It provides extra motivation and focus for the reps to deliver consistently what is most important to your business which equals greater results for your bottom line. Lastly, don't forget to include the terms and conditions of the bonus in the [sales compensation plan document](#) that you give to each sales associate.

Cornerstone Software, Inc. is the developer of Sales Motivator,® a web-based, self-service software solution that lets small- and medium-sized businesses design, administer and communicate great sales compensation plans.
