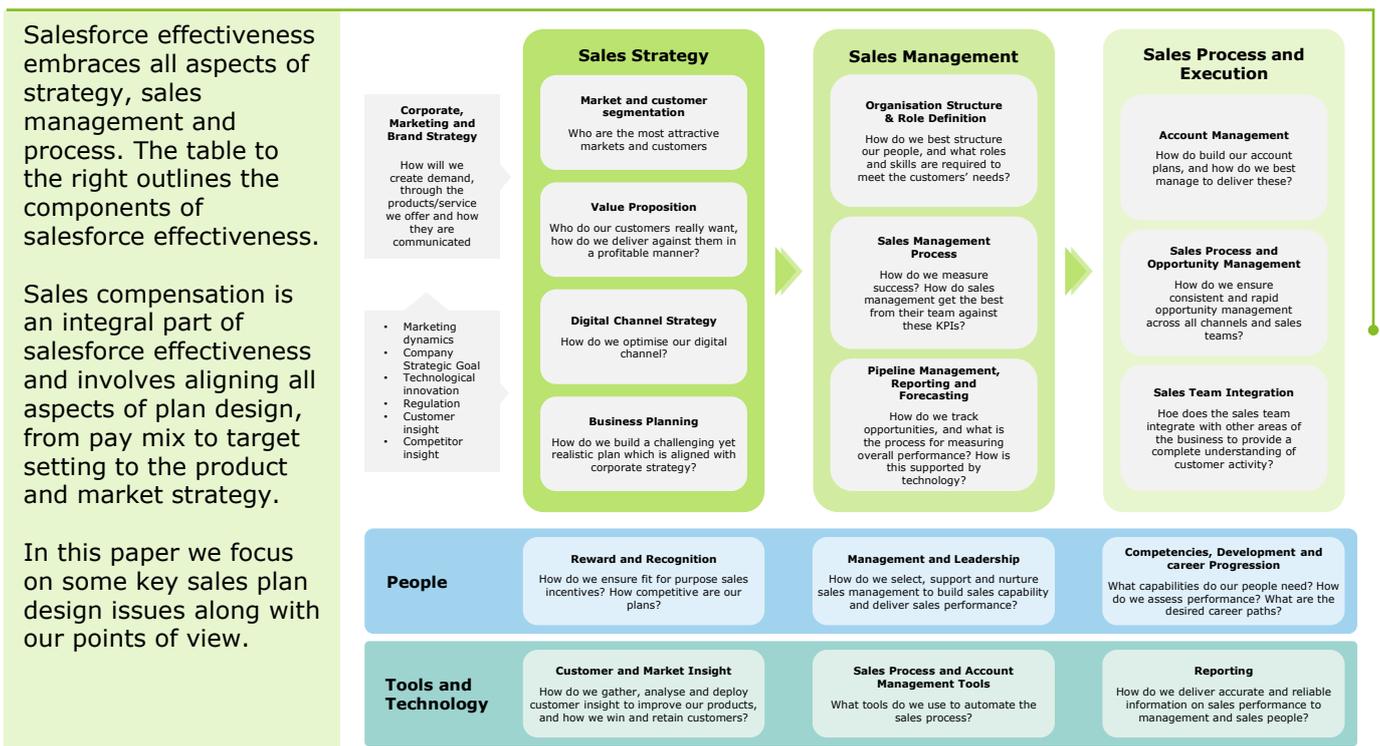




Sales compensation challenges and points of view





The challenge

Sales plans can easily become stagnant and detached from the company's market, product and or channel strategy.

The table to the right outlines in broad terms the key design parameters of a plan.

The pay mix, metrics, payout mechanics, payout timing, cost and governance of the plan are all interconnected variables that must be aligned.

However, the devil is in the detail. There are specific decisions and trade-offs that need to be made before a plan is truly fit for purpose.

	Transactional	Solution	Consultative	Enterprise
Rep Skillset	<ul style="list-style-type: none"> Product Knowledge Pricing, persistence 	<ul style="list-style-type: none"> Value proposition Solution flexibility 	<ul style="list-style-type: none"> Business acumen Value creation political skills 	<ul style="list-style-type: none"> Strategic positioning Leadership skills
Sales Cycle	Shorts			Long
Knowledge	Repetitive			Technical
Complexity	Simple			Complex
Customer Numbers	Many			Few
Performance Measure	<ul style="list-style-type: none"> Orders, revenue Number of accounts 	<ul style="list-style-type: none"> Revenue/growth targets Product and services sales 	<ul style="list-style-type: none"> Account profitability Line expansion 	<ul style="list-style-type: none"> Perf-based agreements Profitability Value
Payout Mechanism	<ul style="list-style-type: none"> Commission 	<ul style="list-style-type: none"> Commission Bonus 	<ul style="list-style-type: none"> Bonus/commission 	<ul style="list-style-type: none"> Bonus
Payout Timing	<ul style="list-style-type: none"> Weekly/monthly 	<ul style="list-style-type: none"> Monthly Quarterly 	<ul style="list-style-type: none"> Quarterly Semiannual 	<ul style="list-style-type: none"> Annual



Point of View: Commission versus Target-Based Plans



This is one of the more frequent issues we come across. There are clear advantages and disadvantages to using different plan types; the right model needs to be decided in the business context in which they are used.

Organisations typically use commission plans when introducing new products, entering new markets, or when having difficulty setting quotas accurately – but this often requires re-balancing territories to provide equitable earnings opportunities.

Organisations typically use quota-based plans in more mature businesses and markets, allowing for fewer plans designs and tailored targets, but over-engineered plans can weaken line-of-sight.

We contrast the operation of both approaches below



	Commission-Based Plan	Target-Based Plan
Sales Strategy	High growth; new business focus; transaction oriented	Moderate to low growth; maturing industry; focus on retained sales and penetration
Product/Market Focus	Single market/single product line	Multiple markets/broad product line
Sales Potential	Relatively equal sales potential; territory and account assignment	Unequal sales potential; geographic assignment
Sales Role	"Seller-driven," limited sales support; seller creates the business	"Team sales driven," multiple resources involved; seller plus overlay
Sales Process	Short or simple sales cycles	Longer or more complex sales cycles
Quota Allocation	Generally not reliable, limited data	Reasonably reliable, willing to do the work

It is important to consider the pros and cons of a commission model. Further, while we show the basic pros and cons below, it is worth noting that adjustments, such as individual commission rates, can be made to deal with some of the cons. So, our overall point of view: consider each approach carefully relative to your business model.

Commission Plans

Pros



- More effective in motivating sales of new products, or when entering new markets
- Reinforces the seller as an independent sales agent
- Simple and easy to understand
- Low administrative costs
- Good when you want the rep to simply close a deal and move onto the next prospect
- All products and services are of equal value to the company – no need to direct sellers towards certain products or product combinations (although plan adjustments can be made to accommodate this)

Cons



- Sales rep has control over how much he wants to make
- Is not conducive to building long term account relationships
- Reinforces transactional, commodised selling
- All sales and products treated equally
- Is a simple, 'one-size-fits-all' approach
- Provides little ability for management to influence sales behaviours
- Unpredictable compensation costs
- Often requires re-balancing territories to provide equitable earnings opportunities Territories with high volumes will receive higher payments and may require a different commission rate structure

Point of View: Pay Mix and Upside



Once the total pay levels are set against the market, companies then need to consider their sales process and internal needs to set the level of salary in total pay (the mix). As the level of salary decreases, reps are compensated for the higher level of pay risk they are taking on with more pay opportunity for high levels of performance.

Pay mix considerations



Setting the base/variable mix is strongly influenced by the influence of the salesperson during the selling process versus other contributing factors.

More weight on base when

- Selling is more of a team effort
- Heavy use of advertising and promotion
- Product requires little sales effort
- Job includes many non-sales duties
- Longer sales cycle
- Emphasis on relationship management

More weight on incentives when

- Job requires high level of skill; influence on sales process is high
- Company is not well-known; competition is strong
- Product price is high versus competition
- Low advancement opportunities with company
- Market opportunity is significant



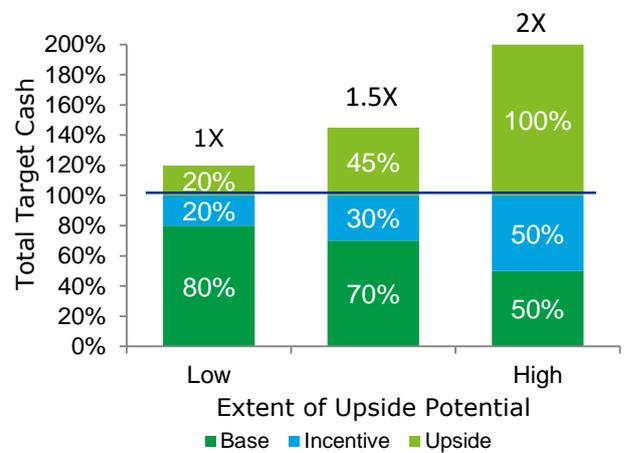
Companies typically benchmark the total pay levels against the market, while mix is considered an internal strategic decision and the market is used as a reference.

Pay philosophy



After the pay mix is set, pay levels targeted towards top performers (upside) needs to be determined.

Upside Earnings – Key Considerations



Rule of thumb is that, for every dollar of salary reduced from target compensation, companies offer 2x-3x in upside earnings opportunity.



If the salary levels are lower in the mix compared to market, the upside levels will usually increase compared to market giving rise to greater pay differentiation.



Point of View: Reporting and Governance



Sales incentive plans need to be monitored and adapted to changes in a company's strategy. Typically, companies review their compensation plans on a periodic basis with key stakeholders owning different roles in the process. Others are assigned the task of ensuring that plans are functioning as intended and reporting on their effectiveness.

Design process



The design process typically requires the participation of key stakeholders with assigned roles to meet periodically.

- Characteristics of best-in-class companies:
 - Increasingly cross-functional design process
 - Formal design calendar
 - Clear input and decision-making accountabilities
 - Implementation strategy includes the appropriate level of change management (senior level buy-in and cascading communications)
 - Communicated in a timely manner (prior to or within the first month of the period)
 - Plan documentation distributed to employees includes the program policies, plan documents for the job, and individual plan acknowledgement forms
 - HR maintains a file (physical or electronic) of sales incentive plans



Trends

- Increasingly centralized managed process for design, administration and reporting – some centers of excellence
- Clearer articulation of operating model and RACI (Responsible, Accountable, Consulted, Informed) for cross-functional participants across activity sets
- More checks and balances to ensure both strategic alignment and best practices for plan designs



Reporting & managing cost exposure

To better understand the relationship between performance attainment and incentive design, organisations are conducting scenario-based financial modeling to forecast expense and refine designs.

- Best-in-class companies:
 - Regularly model performance scenarios against plan designs – before design finalization and during the course of the year
 - Analyse CCOS (Compensation Cost of Sales) by rep performance quartiles
 - utilise pay-and-performance dashboards by sales role: trends in payout levels, achievement levels, CCOS, VCOS, turnover, top accounts, etc.

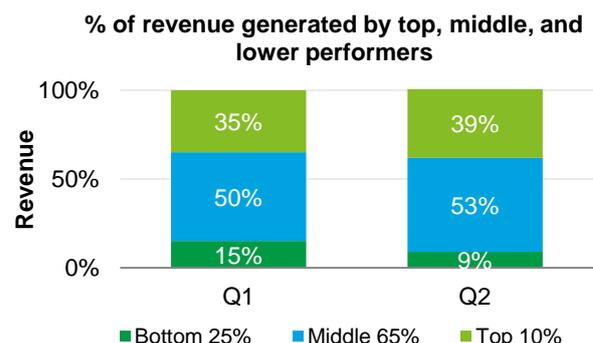


Trends

- Increases in Target Total Compensation and competition have pushed organisations to put more pay-at-risk in recent years
- As the Finance function has become more involved in the design and management of sales compensation programs, organisations are becoming more sophisticated in modeling pay variability and exposure based on performance scenarios and pay mix

Our point of view on this is simple: take note of best in class practices and assess where your company is falling short. We generally recommend a quarterly scorecard is built, bespoke to each company and plan, that tracks plan performance against key metrics. Some example outputs are shown below.

Metrics	Market	Client
On-Target Incentive/Commission: Total as % of Revenue	2.5%	0.9%
Actual Incentive/Commission: Total as % of Revenue	2.3%	0.6%
Base + On-Target Incentive/Commission: Total as % of Revenue	7.0%	4.5%
Base + Actual Incentive/Commission: Total as % of Revenue	6.6%	3.9%



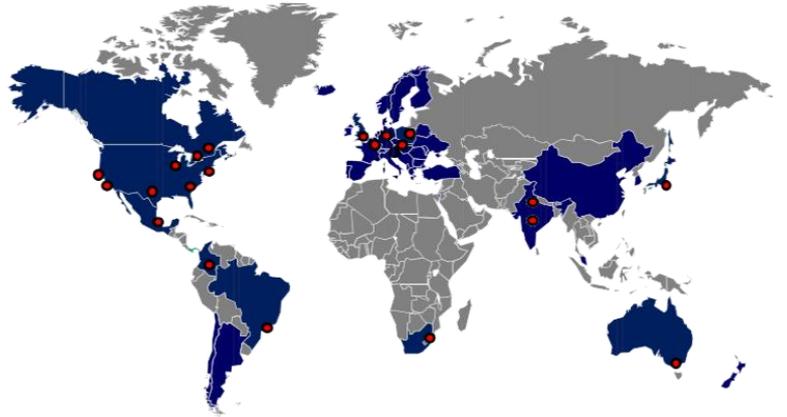


Deloitte Consulting's Sales Compensation Strategy practice assists companies with their global sales compensation needs. Our experience covers multiple industries and sectors, which includes global and regional compensation expertise and sales compensation design, strategy through full scale implementation.

Our Sales Compensation Practice



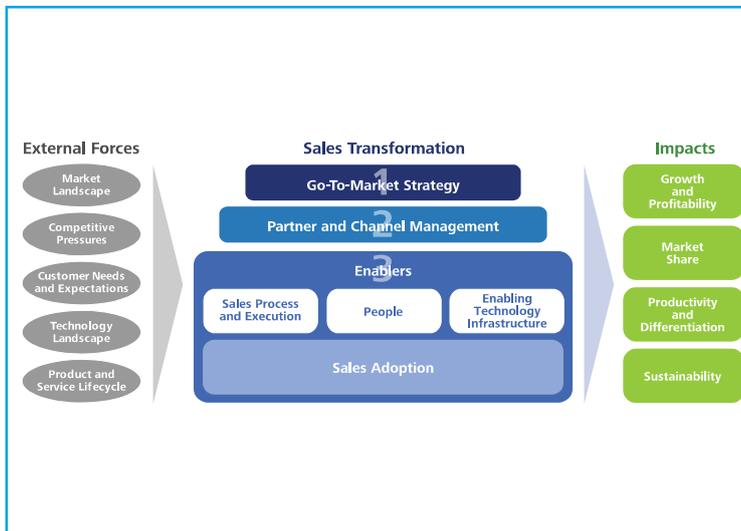
- 300+ Practitioners in over 20 countries
- 2nd largest dedicated global Sales Effectiveness practice
- Serve B2B, consumer products, industrial, distribution, services and high technology industries
- Extensive work in sales compensation plan assessments, design, benchmarking and implementation
- Proprietary Sales Effectiveness templates, tools and accelerators
- Possess relationships with key SPM (sales performance management) vendors including Callidus, IBM/Cognos, and Xactly



Deloitte's Sales Compensation Capabilities



Sales Effectiveness Framework



Benchmarking

Competitive assessment and alignment with business strategy

Aligning Incentives with Business Strategy

Motivating targeted selling behaviors through plan metrics, weighting, targets and objectives

Supporting Effective and Accurate Plan Information

Timely, accurate and transparent calculations

Motivating the Sales Force via Plan Communication

Building trust and motivating sales efforts through understanding and buy-in of the new plan

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