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2013 Strategic sales compensation survey

The Pay Paradox:
The missing link in sales compensation

"The Pay Paradox" — the "Missing Link" in sales compensation

Overview

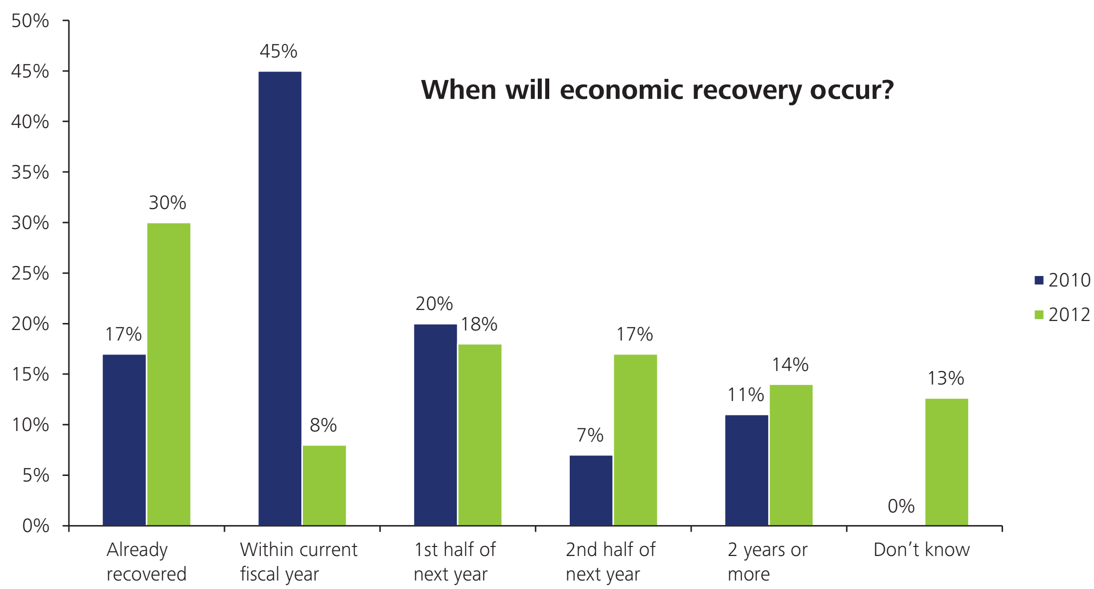
After several distressing years, the global economy seems to be finally showing positive signs. Of the 300 sales leaders who participated in our survey at organizations across the globe, they appear to be optimistic about where the economy, and in turn, their companies, are headed. Even though the recovery may be underway, these leaders are not satisfied with the productivity or performance of their sales forces. Results from the Deloitte Consulting LLP 2013 Strategic Sales Compensation Survey reveal a consistent lack of satisfaction in these areas over the past several years.

To combat this lack of improvement, sales leaders have continuously looked at tweaking or revamping their plans in an effort to jumpstart progress. While, they may be looking for the "perfect" compensation plan to drive the right behaviors and grow sales, unfortunately, evidence shows that such an approach may not provide desired results. Furthermore, frequent changes may inhibit growth and limit visibility into the true effectiveness of the sales force.

Sales leaders should take a step back and consider what really drives sales growth. Instead of simply revamping their compensation plans as a solution to sales issues, compensation plan redesigns should complement sales strategy and align behaviors with company objectives. By aligning elements of the employee lifecycle with the sales and company strategy, sales leaders should start to see the productivity and performance improvements they've been seeking.

Economic recovery underway

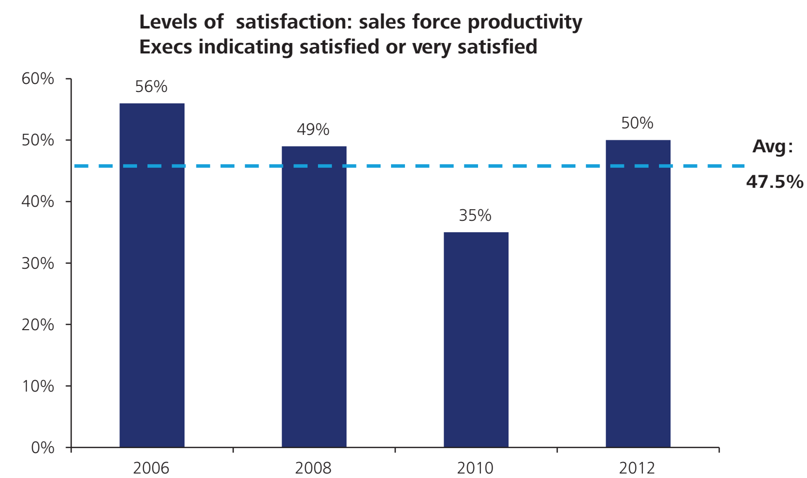
In the last two years, more sales leaders have become optimistic about where the economy is heading. Thirty percent (30%) of survey respondents believe the recovery has already occurred, while only 17% of executives felt that way in 2010. Almost three-quarters of respondents are confident the turnaround will likely occur by the end of next year.



Such optimism suggests corresponding improvements at the organizational level. Conventional wisdom would indicate that during the lean times of the past several years, sales forces have adapted, learning to do more with less, and have become well-positioned to exhibit strong performance as the economy continues to improve. Surprisingly, this has not been the case.

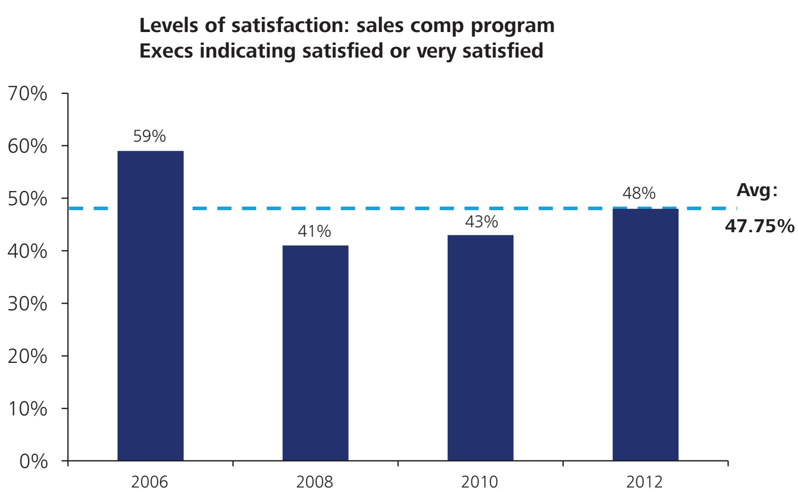
Satisfaction levels haven't improved

Over the last six years, only about half of executives have been satisfied with the productivity levels of their sales force, Source: Deloitte. These not-so-inspiring figures have not seen a bump as confidence in the economic recovery has increased. In 2013, only 50% of respondents indicated they were happy with sales productivity.

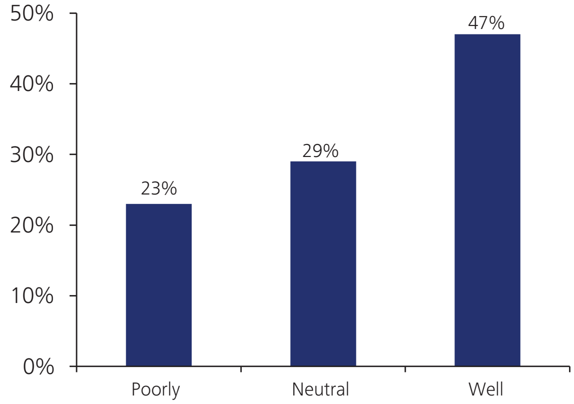


Although efficiency appears to have increased since the depths of the recession, there is much room for improvement.

Similarly, sales leaders' satisfaction with their compensation programs has not changed over the past several years. Again, roughly half of respondents indicated they were satisfied with their organizations' compensation programs, close to the average over the past six years.



Additionally, although generally satisfied, nearly one-third of respondents believe that their compensation programs do not effectively drive desired sales behaviors.



Sales compensation program
Rewards the right behaviors

Clearly there is a disconnect. Why do leaders generally believe that their compensation programs reward the right behaviors, yet they aren't content with their compensation programs or their sales forces' results?

There seems to be a "missing link" in the belief about what compensation plans can accomplish. This is particularly important given organizational actions undertaken to prepare for the economic recovery.

As indicated in the chart above, a majority of leaders' preparations involve how they incent their sales forces (beyond growing sales staff), from adjusting targets and quotas, restructuring incentive opportunities, and changing their incentive plan designs. Organizations are not seeing the expected improvements, however, and have been trying to diagnose the cause.

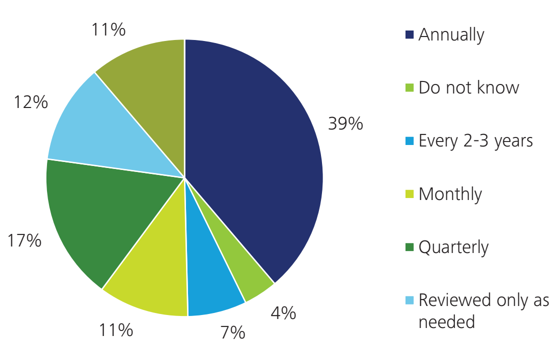
Oftentimes, sales leaders make changes to compensation plans to address the perceived source of lackluster productivity and performance, Source: Deloitte.

Planned organizational changes in the next year

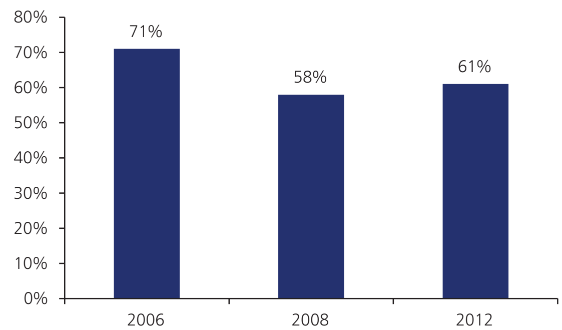
Plan review cycles are frequent

Revamping the compensation program is often seen as a quick fix to sales organization issues. More than half of respondents indicate that they review their compensation plans on at least an annual basis, and some even more frequently. Leaders may be looking for the “secret sauce” that can provide the “perfect” plan: driving desired behaviors while delivering results.

Frequency of comp plan review



Change made to plans within last 2 years



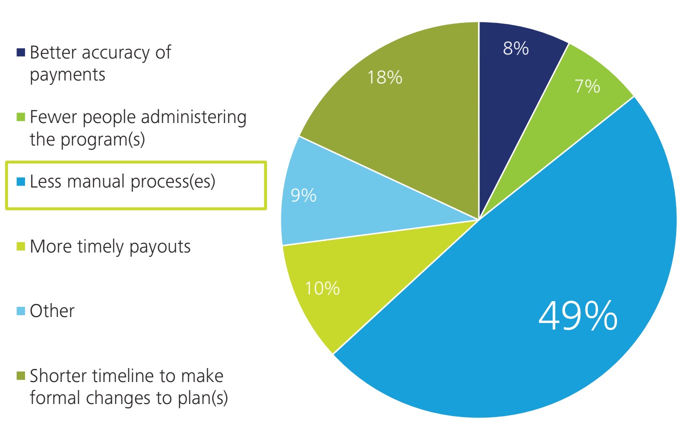
From 2012 survey only

While regular compensation plan reviews are sensible, the majority of organizations surveyed are not content to keep the same plans in place over a longer period of time. Instead, they tinker with plans on a regular basis, deeming the plans themselves as the cause of low satisfaction rather than looking at the bigger picture. Over 60% of respondents have made changes to their compensation plans within the last two years, consistent with response rates in the past. Leaders may not be giving their plans a chance to generate improvements before they are ready to make the next change.

Compensation plan changes alone don’t drive change

Beyond not knowing if their previous compensation plans are really working, it is clear that making compensation plan changes in a vacuum does not result in improved sales performance. This is particularly true given that one of the many desired compensation plan improvements is to decrease manual processes, yet 53% of organizations report using spreadsheets to administer their programs. Many executives are changing their compensation and incentive programs rather than investing in infrastructure improvements.

#1 desired improvement to comp program



Beyond that, roughly half of sales organizations that made compensation plan changes within the last year met or exceeded sales goals. Similarly, about the same percentage of companies that have made no changes within the last three years have met their goals. Without considering other factors, it is apparent that changing the compensation plan alone is not the magic formula.

Last significant metric change	% of organizations meeting/exceeding goals
3 or more years	50.5%
2 or fewer years	56.0%
Less than 1 year only	50.7%

To be fair, there are some ways that sales leaders can drive improved performance through changes to the compensation program. Namely, organizations that set quotas for their sales reps are not only more likely to exceed sales goals, but they also tend to do a better job of driving the desired sales behaviors.

Though modest in both cases, an additional 8% of organizations that utilize quotas exceeded sales goals last year compared to those that do not, according to this year's survey.

% of organizations exceeding sales goals	
Use quotas	29%
Do not use quotas	21%

Based on findings from the 2013 Strategic Sales Compensation Survey, only 21% of executives whose companies do not use quotas felt their compensation program drives desired sales behaviors. Compare that to nearly half of executives in those organizations where quotas are used to measure sales performance, and it becomes clear that quota usage can be an effective way to manage the sales force.

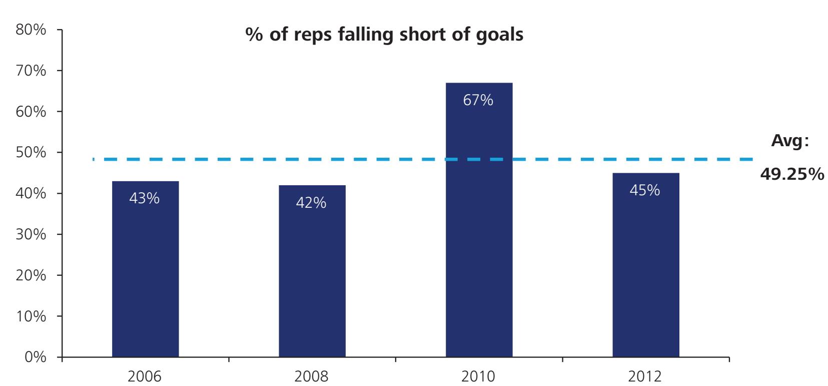
Comp program drives desired behaviors	
Use quotas	49%
Do not use quotas	21%

Focus on the full employee lifecycle

By now it is apparent that focusing solely on the compensation plan may not drive the improvements sales leaders are seeking. For years, sales leaders have been using the compensation plan as a major catalyst to alter behavior and increase productivity. This strategy simply hasn't worked. While better than years past, 45% of representatives are still falling short of their goals — according to the Strategic Sales Compensation Survey results. Somewhere, something in the system is broken and it may not start with the compensation plan.

Sales leaders should shift their focus upstream, and first analyze their overall company strategy. They should then evaluate their sales objectives and align goals with that strategy. While this seems simple, frequently it seems that organizations' go-to-market strategies are neither aligned, nor well-defined enough for sales reps to execute them. This will likely help achieve desired performance and productivity levels.

Once the strategy is finalized, leaders should then focus on defining the required sales roles against the market. Fitting the compensation plan to a role that isn't well suited for the company's needs may not necessarily improve desired results, no matter how well designed the plan is.



Management should also consider the full employee lifecycle in helping to improve the sales organization:

- **Recruiting and hiring** should be enhanced via a data-driven process to help select individuals who are best-matched to different sales roles required to meet customer needs
- **Onboarding processes** should be designed so that sales reps are better prepared to achieve desired results in their jobs and become proficient more quickly
- **Development and readiness** should focus on improving the field force based on the skills and behaviors that have been statistically shown to lead to achievement in each role
- **Performance management**, incentives, and rewards should be aligned to engaging and motivating the field force
- **Retention** policies should be enacted to help organizations better retain the talent they have worked so hard to attract

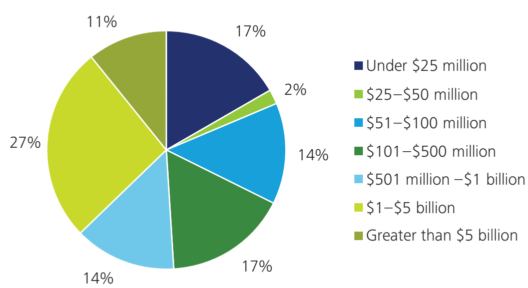
The sales compensation plan certainly fits into this lifecycle, and will play an important role in delivering results. When focusing on those plans, organizations should:

- **Garner top-down support** — Execution and sustainability of decisions become difficult if sales leaders aren't interested in addressing the problems or don't agree with recommended solutions. Leaders and managers should agree on the need for plan updates
- **Focus on desired results** — Define objectives by role, and then define metrics. Once this is done, collect data. Without good data it's a challenge to identify or confirm problem areas, quantify recommendations, and continually follow up and monitor progress
- **Think comprehensively** — Consider the elements of sales force effectiveness when making changes in a particular area or when looking to make improvements in productivity — no one element stands alone, including compensation!
- **Involve the sales force** — Be inclusive. Have the sales force represented on the design team or involved in the interviews. It will likely make the understanding of the overall issues richer, and future buy-in from the field more feasible. Be transparent in execution
- **Give it time to work** — One of the biggest mistakes organizations make is to keep tinkering with the plans, instead of strategically changing them based on sound data and analysis, and then giving them a chance to work. Once changes are made, focus efforts on enabling the sales force to achieve desired outcomes
- **Keep it simple** — Sales plans should not be overly complex. Sellers may become frustrated with complex plans and spend a good deal of time "shadow tracking" to confirm they are getting paid properly, which can erode trust and lower morale
- **Communicate, communicate, communicate** — Too often, a tremendous amount of effort is expended on plan or systems design while communication is neglected. It pays to make sure the sales force understands why changes were made, the intricacies of the plans, what new behaviors or results are expected, and how success is defined and measured

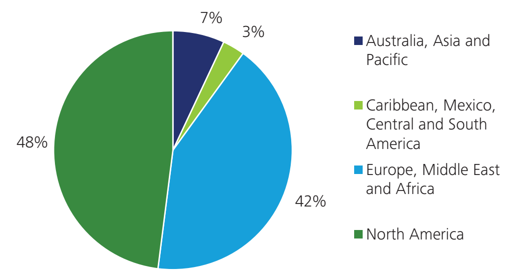
Overall, leaders should realize that compensation plans are not the "quick fix" or "go to" solution for their organizations' issues and realize that it fits into a bigger picture. When they do so, they will be more likely to see the results they've been seeking.

2013 Strategic sales compensation survey demographics

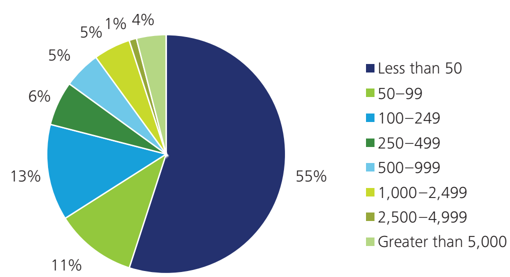
Participants by annual revenue



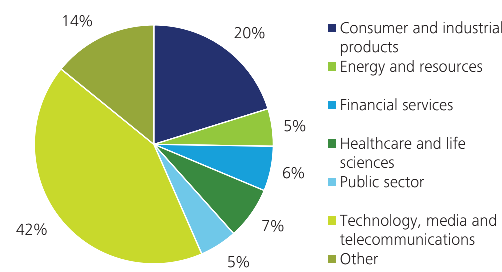
Participants by region



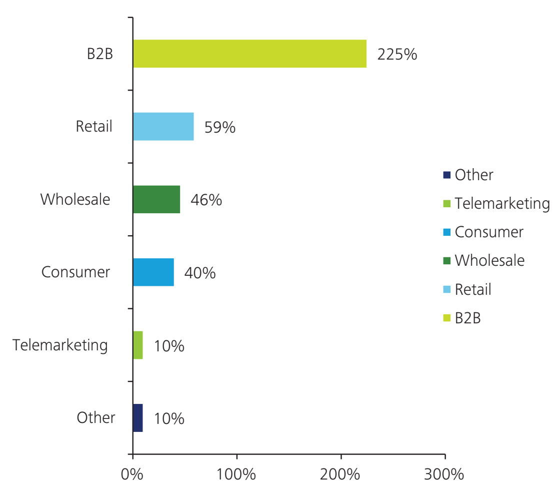
Participants by size of sales force



Participants by industry



Market channel representation (all that apply)



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