



HOW TOP SALES TEAMS MANAGE SALES COMPENSATION



Developing a sales compensation plan which accurately matches rewards and recognition with performance is not easy. It is never a one-size-fits-all solution and may need constant adjustments to meet market trends.

When done correctly, however, agile pay-for-performance comp plans can create engaged employees who buy into the merit-based culture of a company. Accounting for individual differences increases the chance that a compensation plan will stimulate the performance of all types of salespeople.

HOW TOP TEAMS MOTIVATE AND RETAIN THE BEST TALENT

Since **sales stars** are the most efficient component of a company's performance curve, many experts suggest that sales compensation plans should favor them. In many businesses, however, sales commission rates are capped and winner-take-all prize structures dominate the incentives. A primary cause is cost control, often directed by the finance department.

In this white paper we will focus on sales stars and why it can be a great idea to create an agile performance-focused sales compensation strategy to retain and reward them. We will also discuss what your company can do to deliver greater returns on investment and shift your sales-performance curve upward.

WHO ARE THE TOP PERFORMERS?

To understand your **sales team's performance** curve can mean sophisticated econometric methods, but an approximation can be achieved by calculating each salesperson's performance against sales targets and then creating a histogram of that data. From this, you'll have a rough understanding of whether your company's curve is below-average, normal (mostly core performers, with about equal numbers of under achievers and stars), or star-heavy.

The shape of the curve will suggest which incentives will give you the most leverage. In top teams, you should expect to see star-heavy results and from there you can also shape sales comp plans which are geared at your top performers.



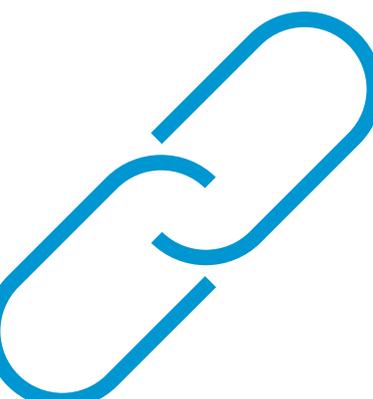
“The shape of the curve will suggest which incentives will give you the most leverage.”

HOW THE BEST SALES TEAMS USE SALES COMPENSATION STRATEGY TO CONNECT PERFORMANCE WITH PAY

Knowing how and when to reward sales success can be complicated. On top of this are the added questions around types of compensation and how to go beyond monetary motivations in order to grow and retain your high-performing salespeople.

If you fail to fairly connect payment with performance, you're going to lose your best people. The top salespeople can always get a job out in the marketplace, and if you don't have that strong link between pay and performance, they'll be disillusioned and they'll look at other offers.

Companies depend on their best sales professionals to generate revenue, and top salespeople depend on their companies to reward them in a consistent

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and fair manner. Building a compensation plan which adequately differentiates between high performers and those of average or low achievement rates is key to presenting a successful, sales-oriented culture and retaining your company's best sales people.

The top sales teams can combine data and analytics, new training methods, consistent feedback and incentives to give them an edge. They have developed a performance-focused culture within their sales department and understand how to motivate and connect with high-performing employees and the positive effects it can have on **growing core performers into stars of the future.**

Pay for performance means that you can shore-up a culture of performance and direct rewards, but only if your company has:

1. Identified the right performance measures
2. Checked that people are achieving against those expectations
3. There is a consistency in terms of their pay

The frequency of re-evaluating commissions and rewards of top performing sales teams and individuals is dependent on the marketplace. When you work in a marketplace such as tech, media or finance that's changing very quickly, you may need to look at your commission rates and your target setting on a monthly or quarterly basis. In other sectors it may be sufficient to re-evaluate packages on an annual basis.

The frequency of payout should be tied to two things:

1. The sales cycle. If you have a long sales cycle and you're trying not to pay out commissions too frequently, then you're going to have periods where people aren't earning anything. Additionally, if the payout cycle is too broad then it's not close enough to the transaction to be motivational.
2. The amount of variable pay that you have to be able to put out. If your strategy involves a plan that's only got 20% incentive and you're paying it out monthly, the payouts are going to be very small and they may not be material enough to change behavior. If you're going to pay out more frequently you need a larger variable component.

COMMISSIONS AND BENEFITS MODELS FOR HIGH PERFORMERS

In organizations where the linkage between pay and performance isn't clear or is flawed, you tend to see higher turnover. Not only do you lose sales people but you may lose the accounts that they take with them.

The best sales teams offer agile sales comp plans which can bend to market flows and retain a competitive edge. Formats include:

1. No ceiling on commissions.

Capping commissions when salespeople are achieving may control costs, but it also encourages high performers to quit selling. By eliminating caps your sales stars will know that all their efforts are rewards. The smarter they work, the more financial reward.

2. Overachievement commissions.

An overachievement commission rate can **help keep stars in the field during the fourth quarter** - often the period when customers are most ready to purchase. These are higher rates that kick in after quotas are met. For example, salespeople may earn a penny on a dollar with their regular commission rate until quotas are reached, but earn two pennies on a dollar on all sales above quotas.

3. Multiple Winners

A study by Noah Lim, Michael J. Ahearne and Sung H. Ham suggests **contests with multiple winners can grow sales efforts and performance more than contests with winner-take-all prize structures**. Leaders should offer at least as many prizes as there are stars in a sales force. This is because, growing the number of prizes in a contest ups the chances that an under-achiever or a core performer will win a prize instead of a star, which motivates high achievers to work even harder.



NON-MONETARY FORMS OF RECOGNITION AND MOTIVATION



The biggest motivator to most performance-focused sales people is feedback. By managers recognising the achievements of their top sales pros, the stars feel appreciated and willing to go that extra mile.

Gamification, prizes, points and donations can be other powerful ways to reward top performers.

While many salespeople prefer more autonomous roles without management responsibilities, providing training and the opportunity for advancement are important to retaining those selling stars who may want to grow with your company over years and decades.

Different incentives will appeal to salespeople at certain points on the performance curve. While this white paper has focused on one group, the higher performers or 'stars', we hope we've also shown how incentivising the best salespeople can help to grow the performance of your whole sales team.

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