

# Key Sales Incentive Plan Practices

A WorldatWork  
Survey Brief  
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research



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# **Key Sales Incentive Plan Practices: An Update**

## **Survey Brief – October 2006**

### **Introduction and Methodology**

With the onslaught of the recent SEC Executive Compensation Disclosure rules and the necessity of disclosing the highest paid employees, no matter what level or rank, it is more important than ever to stay abreast of current trends and practices in sales compensation.

In addition, compensation professionals can distinguish themselves as primary business partners by being current on best practices and understanding how these practices can drive business success. Armed with this knowledge compensation professionals can effectively partner with their organization's sales management to influence thinking about investment decisions in sales pay.

To assess the current environment and look into future sales compensation practices, WorldatWork conducted its second sales compensation survey of its members, the first was in late 2004. Members were asked about their current sales compensation designs and practices, and about their intentions for change (if any) in the future. The answers to these questions are summarized in the following survey brief.

This survey was sent electronically in October 2006 to 4,331 WorldatWork members. There were 440 responses received, for a response rate of 10 percent. The demographic profile of the survey's respondents is similar to that of the WorldatWork membership as a whole. The typical WorldatWork member works at the managerial level or higher in the headquarters of a

large company in North America. Ninety-five percent of the Fortune 1000 companies employ a WorldatWork member.

### **Executive Summary**

In general, the results of the 2006 survey are consistent with the 2004 survey. Specifically, the design features of sales incentive plans continue to reflect limited eligibility for secondary sales roles, performance measures are more typically limited to two or three and total revenue continues as the most dominant performance measure. Management and administrative practices for sales incentive plans also reflect continuity in the level of front-line manager support in sales plan rollouts and also in the topics included in plan rollouts. Improved alignment with business objectives and decreased complexity continue as top objectives sought by organizations making sales incentive plan changes.

New account sellers are more likely to have more aggressive pay mixes. In addition to strong differences in secondary sales position eligibility for sales incentives, the survey reflects that *when* these positions are eligible, pay mix is much less aggressive and more likely to include team-based measures.

New questions added since the 2004 survey include those on individual versus team performance measures and board of director involvement. The data for primary sales positions reflects a strong focus on individual performance measures, as expected. The data also appears to reflect board of director involvement by this key stakeholder in sales incentive plan design. Trends in these important areas will be watched in subsequent surveys.

Somewhat surprisingly, the number of respondents in 2006 reporting no intention to change sales incentive plans grew to one third of all respondents, up from 27 percent in 2004. Companies reporting no plans for front line manager support grew to 9 percent, up from 6 percent in 2004. Given the importance of the front line leader in sales management and in change efforts in general, the survey would suggest that some organizations have an opportunity for improvement in this area. Improving support for front line managers in a new incentive plan rollout may be more important than any other single change organizations can contemplate in order to improve the effectiveness of the sales compensation plan.

The 2006 Sales Incentive Plan Practices survey provides useful insight and should be helpful to compensation professionals looking to expand their role and influence in working with sales management in their organizations to influence sales compensation strategy.

### **It's All in the Design**

#### ***Who***

As one might expect, most non-sales functions are not eligible for sales incentive compensation. However, for at least 11 percent of respondents, customer service professionals are included in the plan. Perhaps this is due to the fact that customer service often involves cross selling or marketing of products with both existing and new customers and sales incentives can provide motivation for improved performance. These findings remain similar to those of the 2004 survey.

#### ***What***

Experts disagree on the appropriate mix of base pay and variable pay to create the optimum performance environment. Perhaps surprising for some, respondents indicated their programs are designed to include half of the overall total compensation in base pay and half in variable pay. This mix was followed closely by those with a 60/40 base/variable pay split and 70/30 base/variable pay split, equally.

In addition, the survey found that for nearly 65 percent, paid vacation *is* available, but it is based solely on the salesperson's base pay.

#### ***How***

Sales incentive compensation, no matter how well it's designed, is nothing without appropriate and ongoing performance measures in place. As such, according to two thirds of the survey respondents, at least three performance measures are important for sales compensation success and total revenue is the most commonly reported performance measure across all primary selling positions and secondary selling positions, though this is slightly lower than the more than 60 percent of respondents who indicated this in 2004. Figure 1 shows the types of performance measures used by survey respondents in detail (rounded to the nearest percent.)

In addition, primary sales positions tend to have performance based more so on individual, rather than team-based measures, while secondary sellers are based on a combination of individual and team-based performance measures.

**Figure 1: Please indicate the measures used in your sales incentive plan. (Check all that apply.)**

Performance Measure	Primary Sales Jobs			Secondary Sales Jobs
	New Account Seller	Existing Accounts Seller	Blended New and Existing Accounts Seller	
a. Total revenue	33%	47%	54%	31%
b. New revenue	27%	18%	27%	7%
c. Renewal revenue	6%	13%	14%	4%
d. Gross profit	17%	24%	26%	16%
e. Price realization	3%	2%	4%	0.70%
f. Units sold	10%	12%	15%	7%
g. Select product sales	13%	15%	17%	6%
h. New products	10%	11%	11%	4%
i. Outdated products	1%	0.70%	1%	0
j. New accounts	18%	11%	17%	5%
k. Retained accounts	3%	15%	14%	6%
l. Account expansion	6%	13%	13%	4%
m. Customer satisfaction	5%	9%	9%	10%
n. First order	1%	0.50%	2%	0.20%
o. Order volume	5%	6%	7%	2%
p. Approved bidder	0.50%	0%	0.20%	0%
q. Approved vendor	0.70%	0.20%	0.70%	0.20%
r. Contract commitment	3%	0.20%	5%	2%
s. Key sales objectives or milestones	19%	20%	25%	13%
t. Design win	2%	2%	2%	1%
u. Other (please specify)	5%	6%	7%	5%

### **Practice Makes Perfect**

#### ***Alignment with the Business Strategy***

Professionals in various industries all around the globe are beginning to place more and more emphasis on aligning total rewards/HR strategies with the overall business strategy. While this may present a challenge, more than 44 percent of respondents indicated a desire to align at least the sales incentive plan with the business strategy. But surprisingly, 33 percent indicated no intent to change the plan at all in the next year. (This question allowed for more than one choice.)

#### ***Preparing for Change***

It is interesting to note that when a company does decide to make a change to its sales compensation plan, there seems to be a fairly even division among those who prepare their managers and those who don't. Nearly 25 percent of respondents provide communication about the new plan to sales employees, *but no orientation or training for managers*. However, 27 percent and 28 percent respectively, have managers participate in face-to-face meetings and/or participate in informal, local

meetings to facilitate their understanding of the changes, which one can presume would enable managers to better field questions from

employees regarding the new plan. Figure 2 shows the topics addressed during management training.

**Figure 2: Please indicate whether the following topics are addressed during your organization's efforts to prepare frontline managers to effectively manage with a new/revised sales incentive plan?**

Possible Training Topics	Addressed	Not addressed	Not applicable
a. Company business objectives and go-to-market strategy	87%	7%	6%
b. Company's sales incentive pay philosophy	71%	22%	6%
c. Why the company has a sales incentive pay plan	48%	44%	8%
d. Rationale for the changing the sales incentive plan	86%	6%	8%
e. Comparison of the old sales incentive plan versus the new plan	72%	18%	10%
f. How the sales incentive plan ties to the company's business objectives	83%	11%	6%
g. The competitive labor market(s) data the company used to set sales incentive pay levels	35%	56%	10%
h. How the sales incentive opportunity is determined for an employee's particular job	50%	43%	8%
i. The "fundamentals" of sales incentive compensation (e.g., definition of terms, mechanics of sales incentive pay calculation, sources of performance data used in calculations)	56%	37%	7%
j. The administrative provisions of the new sales incentive plan (e.g., impact of territory changes, quota changes, leaves of absence, termination, etc.)	68%	23%	9%
k. How to talk with employees about the plan (e.g., what to say/what not to say)	50%	41%	9%
l. How to explain why various performance measures were selected for use in the plan	64%	30%	6%
m. How to execute performance planning with sales employees eligible for participation in the plan (e.g., how to set performance objectives)	55%	38%	8%
n. How to coach employees to "win" under the plan (e.g., effort and behavior required to realize a sales incentive payout)	52%	39%	8%
o. How to have an effective conversation with employees about their payout under the plan for the performance attained	50%	42%	8%
p. How to talk with employees about sales incentive compensation and career planning (e.g., what employees can look forward to in higher level positions)	35%	56%	9%

### ***Staying Informed***

Historically, there has often been much consternation about which groups (e.g. human resources, c-suite executives) should be in on the decision-making process of the sales compensation plan or strategy.

However, with new regulations and legislation requiring more transparency, it seems logical that the

board of directors would want to, at least, be informed about the sales incentive process. And the survey results (40 percent) prove just that. Only 30 percent say the board has *not* delved into sales compensation plans and practices. However, just less than 11 percent say the board actually becomes somewhat involved in the review/approval process.

## **Survey Respondent Demographics**

### **Number of Employees**

Less than 100	10.4%
100 - 499	9.0%
500 - 999	9.5%
1,000 - 2,499	11.1%
2,500 - 4,999	12.1%
5,000 - 9,999	16.0%
10,000 - 19,999	9.7%
20,000 or more	22.0%

### **Industry**

Agriculture, Forestry, Fishing & Hunting	0.5%
Mining	0.3%
Utilities	2.3%
Construction	0.3%
Manufacturing	21.5%
Wholesale Trade	1.5%
Retail Trade	2.3%
Transportation & Warehousing	2.6%
Information	9.0%
Finance & Insurance	15.9%
Real Estate & Rental & Leasing	0.8%
Professional, Scientific & Technical Services	15.9%
Management of Companies & Enterprises	1.0%
Administrative & Support & Waste Management & Remediation Services	0.8%
Educational Services	0.5%
Healthcare & Social Assistance	4.1%
Arts, Entertainment & Recreation	1.0%
Accommodations & Food Services	0.8%
Other Services (except Public Administration)	2.8%
Other	16.2%

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