

FURTHER DEEP DIVE INTO SALES INCENTIVE PLANS

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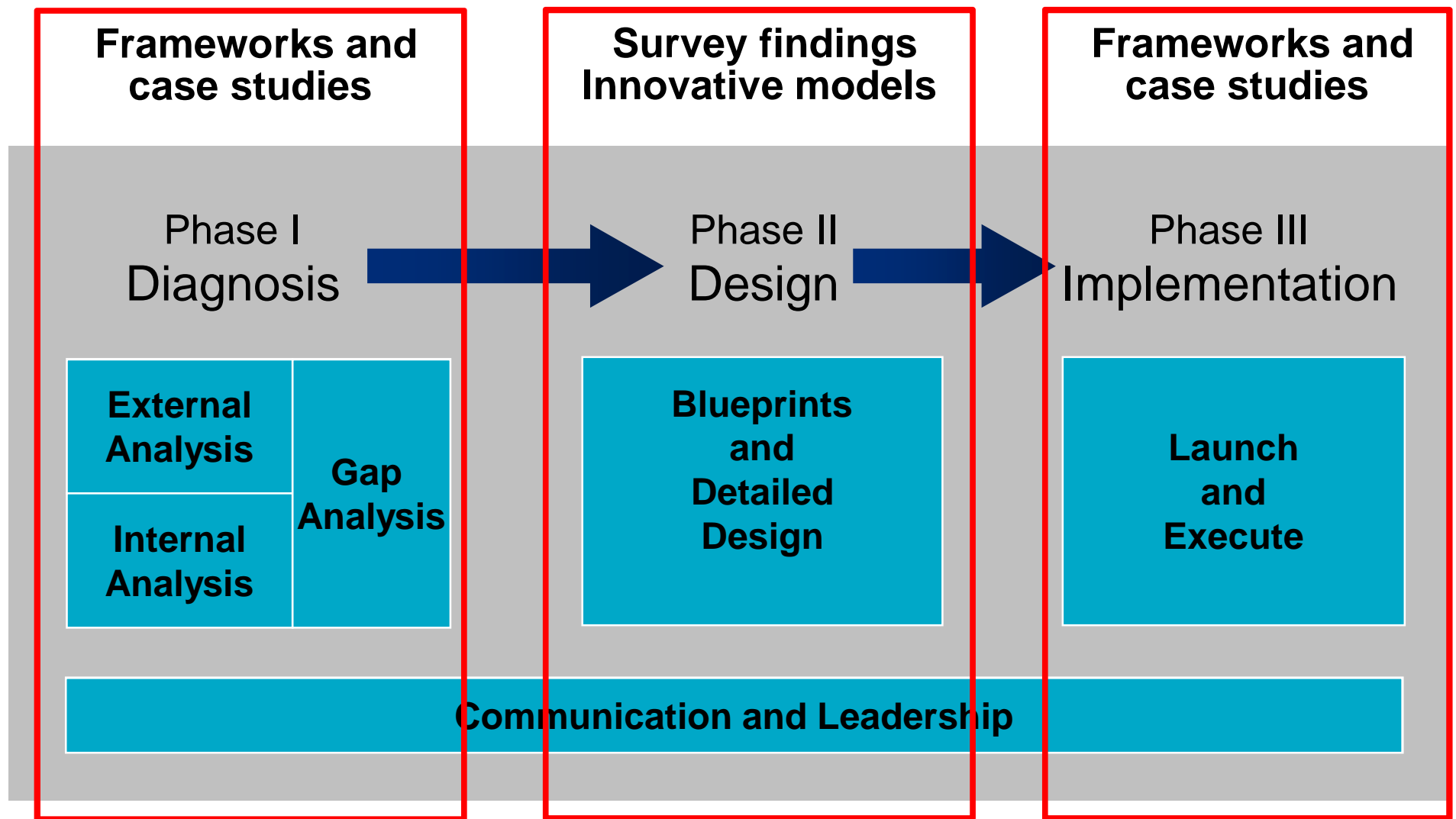
Objective of today's session

To equip forum members with tips/tools for the Sales Incentives journey by:

- Sharing experiences, case-studies, and learnings regarding successful sales incentive plan launches
- Discussing findings from the recent Sales Incentive Survey
- Sharing best practices within this room

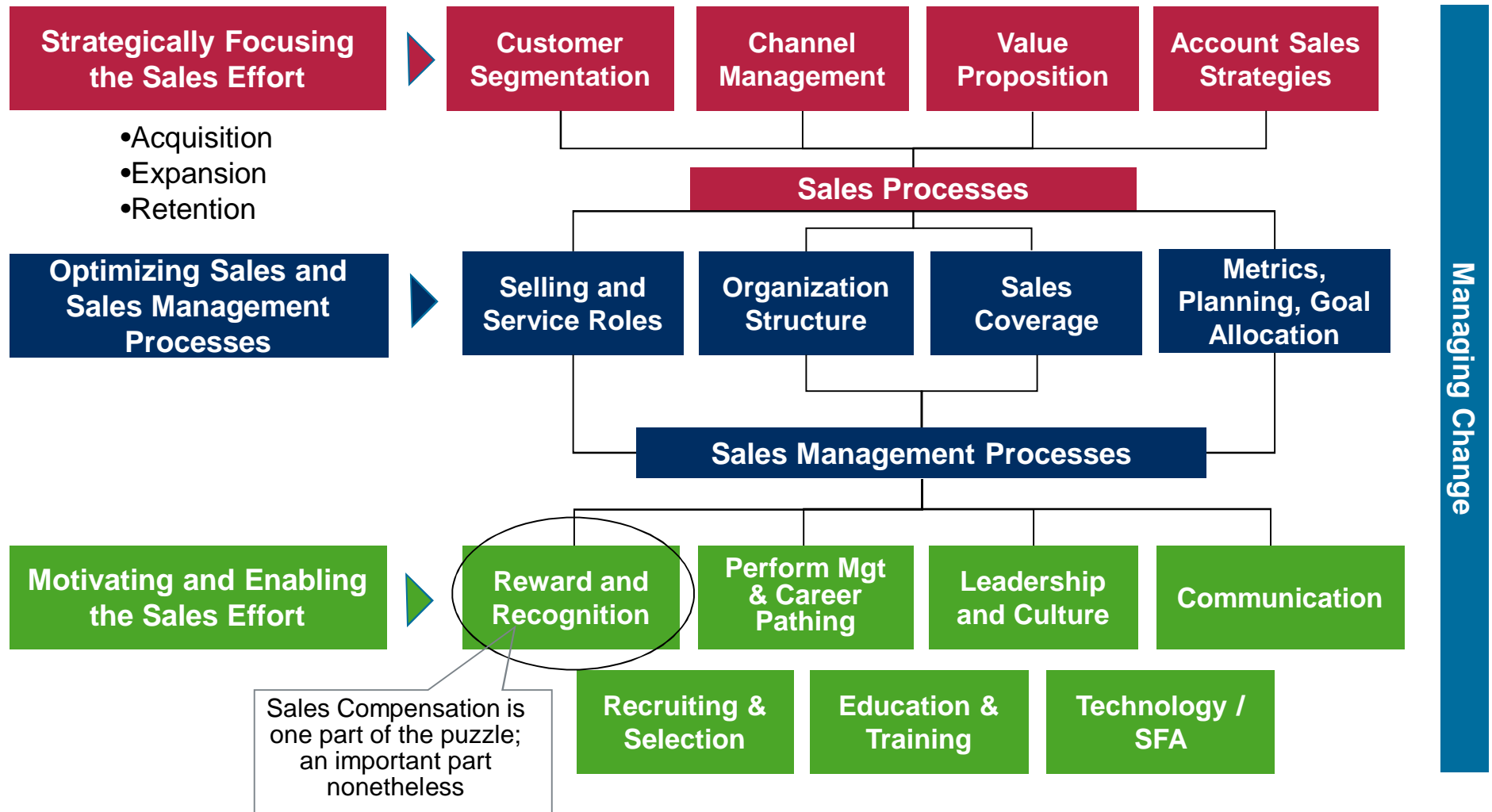
Process – a three phased approach

Diagnosis, design and implementation



The place of sales incentives

Helping to maximize sales force effectiveness



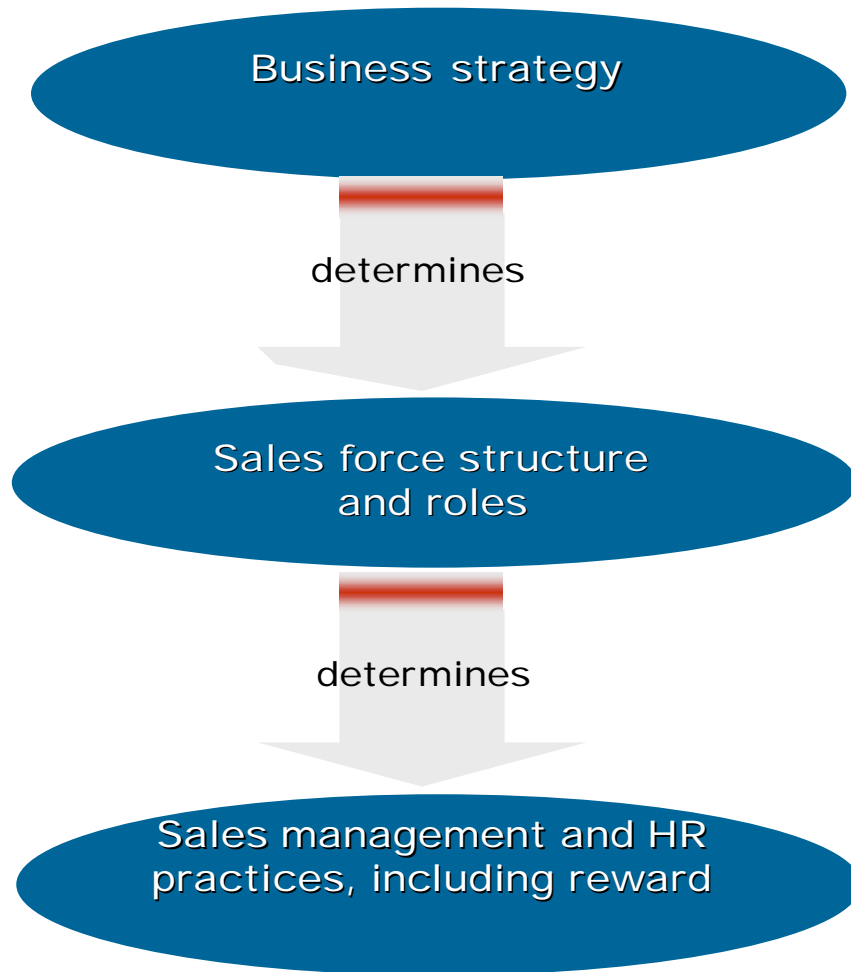
Diagnosis



Critical to get diagnostic right for HR to influence the SIP design space

- Can provide “A ha” / “Oh I see” insights to the effectiveness of the current plan
- Can help circumvent *“Nothing’s broken – we don’t need to review the plan” / “I told you we don’t need your interference”*
- Finance plays a critical role in this phase of data analysis – HR need to work closely with Finance
- **Some common diagnostic tools:**
 1. Executive interviews
 2. Focus groups
 3. Salesforce surveys
 4. Role analysis
 5. Sales prominence
 6. Performance distributions
 7. Compensation diagnostics
 8. SIP blue-prints

Diagnosis: The alignment model



The role structure is driven by the business strategy.

We need to understand what the business is doing, and how it is going to do it.

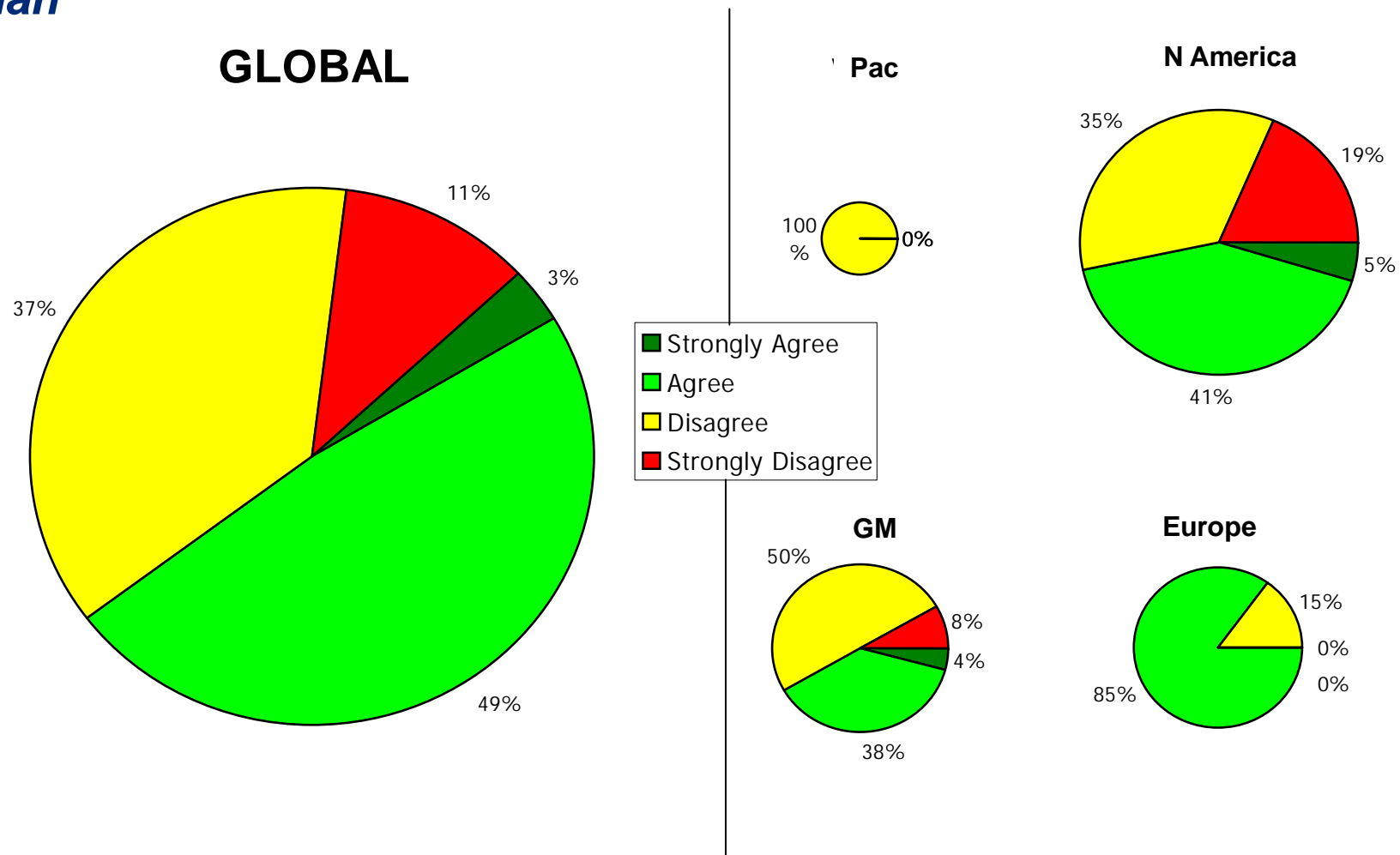
Then comes how does this effect the design of the role...

and finally how does this effect the reward structure.

1. EXAMPLE - Nine key themes from the executive interviews

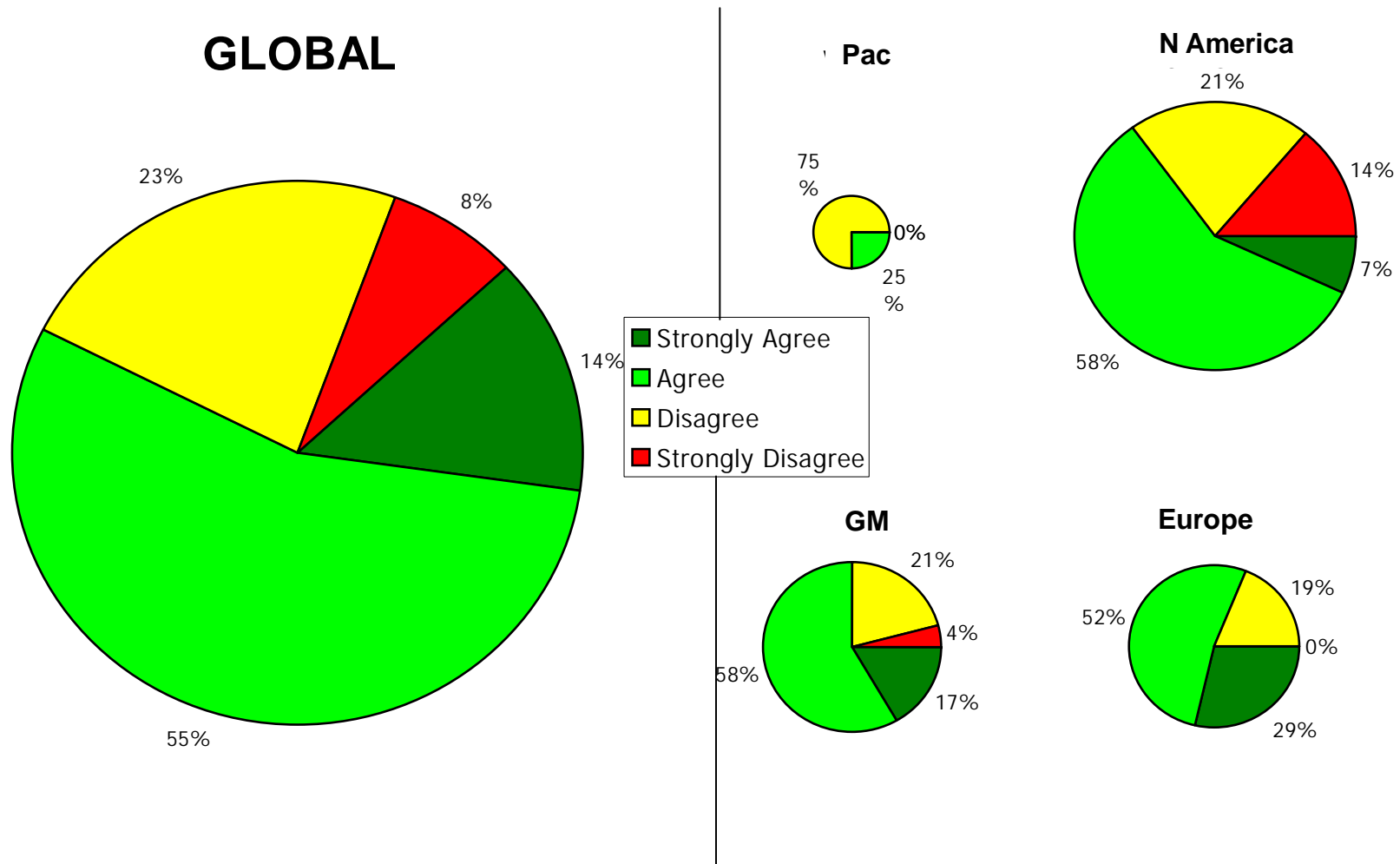


3. SURVEY EXAMPLE: *"I am satisfied with the current Sales Incentive Plan"*



**Nearly half the AM's were not satisfied with current plan.
Large majority in Europe were satisfied with current plan, while all AM's in A-NZ were dissatisfied**

“The current Sales Incentive Plan motivates me to strive for a higher level of performance”.



More than two thirds feel that current plan encourages them to achieve higher performance

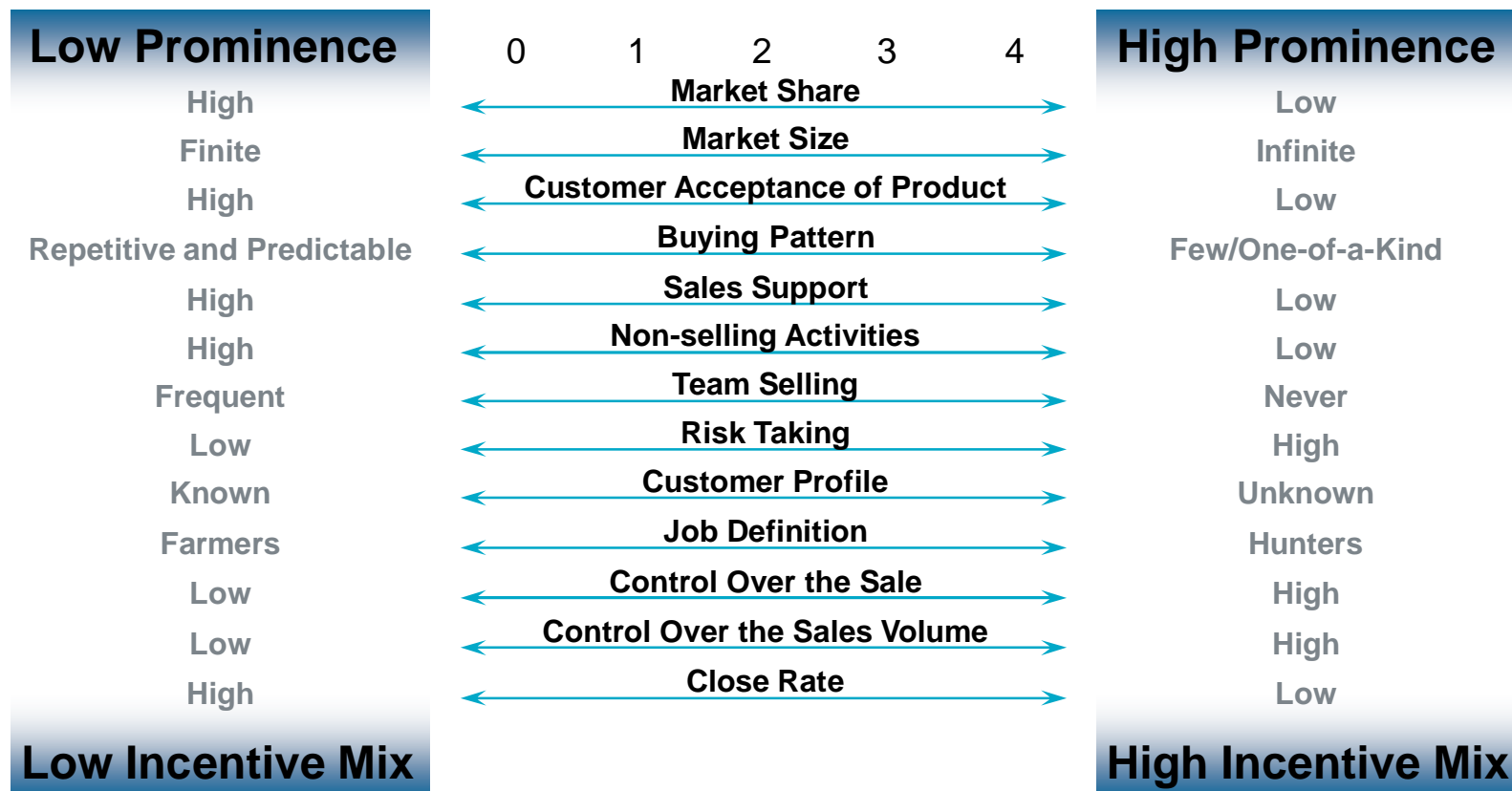
4. EXAMPLE – Role analysis summary

Role	# of staff	Role focus	Sales target	# of a/cts	Type of customers	Sales Strategy	Sales Prominence
National Sales Manager	1	▪ Sales management	\$\$xm	0	▪ n/a		▪ High
Distribution Manager	1	▪ Partial sales	\$km (ie z% of net sales)	12-15	▪ National and State distributors	▪ Customer acquisition (large national distributor) ▪ Rationalisation	▪ High
State Managers	5	▪ Hybrid – customers plus sales mgt	\$a to \$bm	4-5	▪ Large, state-based distributor(s) ▪ Reward accounts	▪ Growing volume from existing accounts	▪ Moderate
Account Managers - IT/Office	15	▪ Field sales	\$cm	80-100	▪ 60-80% retailers and 20-40% dealers	▪ Volume from existing national and dealer accounts ▪ Acquire dealer a/cts	▪ Moderate
Account Managers - HSM	3	▪ Field sales	\$dm	25	▪ Only independent dealers	▪ Volume from existing dealers ▪ Acquire new dealers	▪ High
National Account Managers	4	▪ Field sales	\$aa to \$bbm (OW = xm)	1 to 6	▪ Major national retailers ▪ National B2B	▪ Grow volume to existing customers ▪ Acquire new national accounts	▪ High
Business Development Managers	3*	▪ Field sales	\$gm (tbc)	4-5	▪ System integrators (SIs)/VARs ▪ Medium sized cororates	▪ Bid/tender management ▪ Acquire SIs/VARs	▪ High

5. EXAMPLE – Sales prominence: value add by channel

Channel		Major Retailers*	Dealers	Distributors	SIs	Corporates (ie direct)
Current Relative importance		VH	H	L (VH in 2015)	VL	VL
National Sales Manager	1	▪ Pricing and trading terms		▪ Pricing and trading terms		
Distribution Manager	1			▪ Sales ▪ Appointment ▪ Trading terms		
State Managers	5		▪ Crisis resolution	▪ Brand profile ▪ Promotions		
Account Managers - IT/Office	1 5	▪ Sales # ▪ Implementing promotional program ▪ Merchandising ▪ Staff training	▪ Sales ▪ Technical training ▪ A/c service			
Account Managers – HSM ~	3		▪ Customer training ▪ Sales ▪ A/c service			
National Account Managers	4	▪ Range ▪ Pricing & trading terms ▪ Promotions				
Business Development Managers	3*				▪ Bids/tenders	

5. FRAMEWORK – Sales prominence

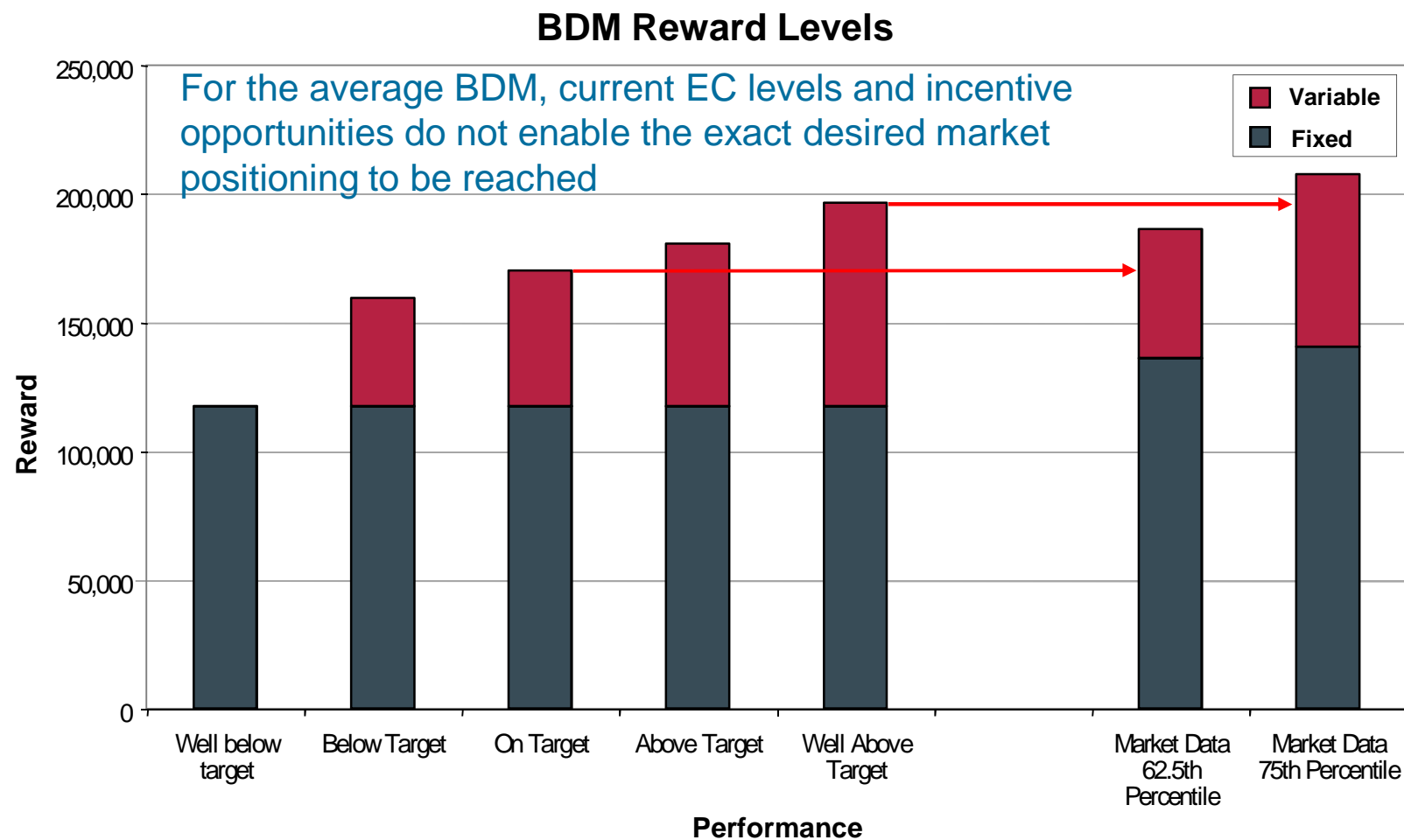


6. EXAMPLE - Remuneration Competitiveness Summary

How do our current pay levels compare to the market?

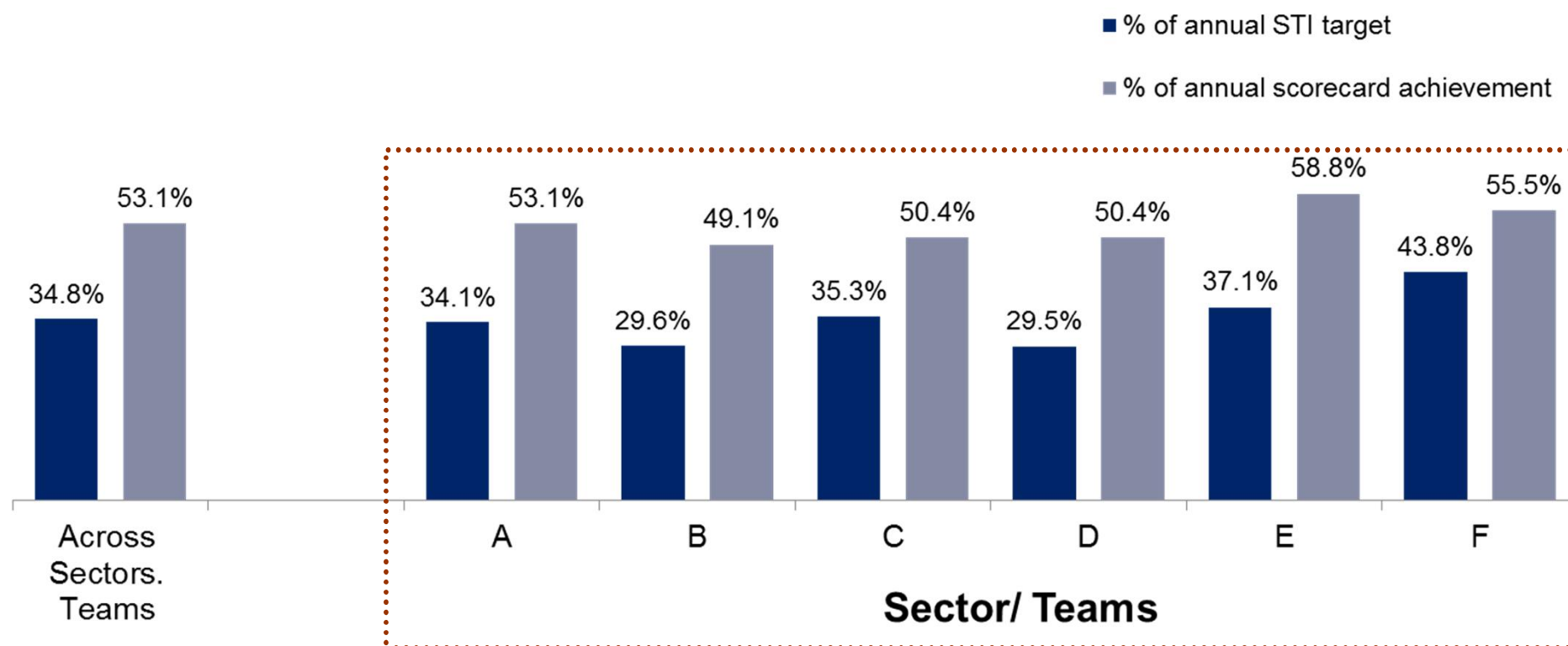
Role	Grade	On target performer			Outstanding performer**
		Total Target reward	Fixed pay	Variable pay*	Total Reward
National Sales Manager	7				
National Distribution Manager	5				
National Account Managers	5				
State Managers	5				
Account Managers, IT/Office	3				
Account Managers, HSM	3				
Business Development Manager	3			n/a	

6. EXAMPLE - Remuneration Competitiveness Assessment



7. EXAMPLE – Performance distributions

“At the 6-monthly mark, two-thirds of the sales force have achieved more than half of their annual sales target, yet only received a third of the bonus”



8. EXAMPLE – Blue-print of current plans

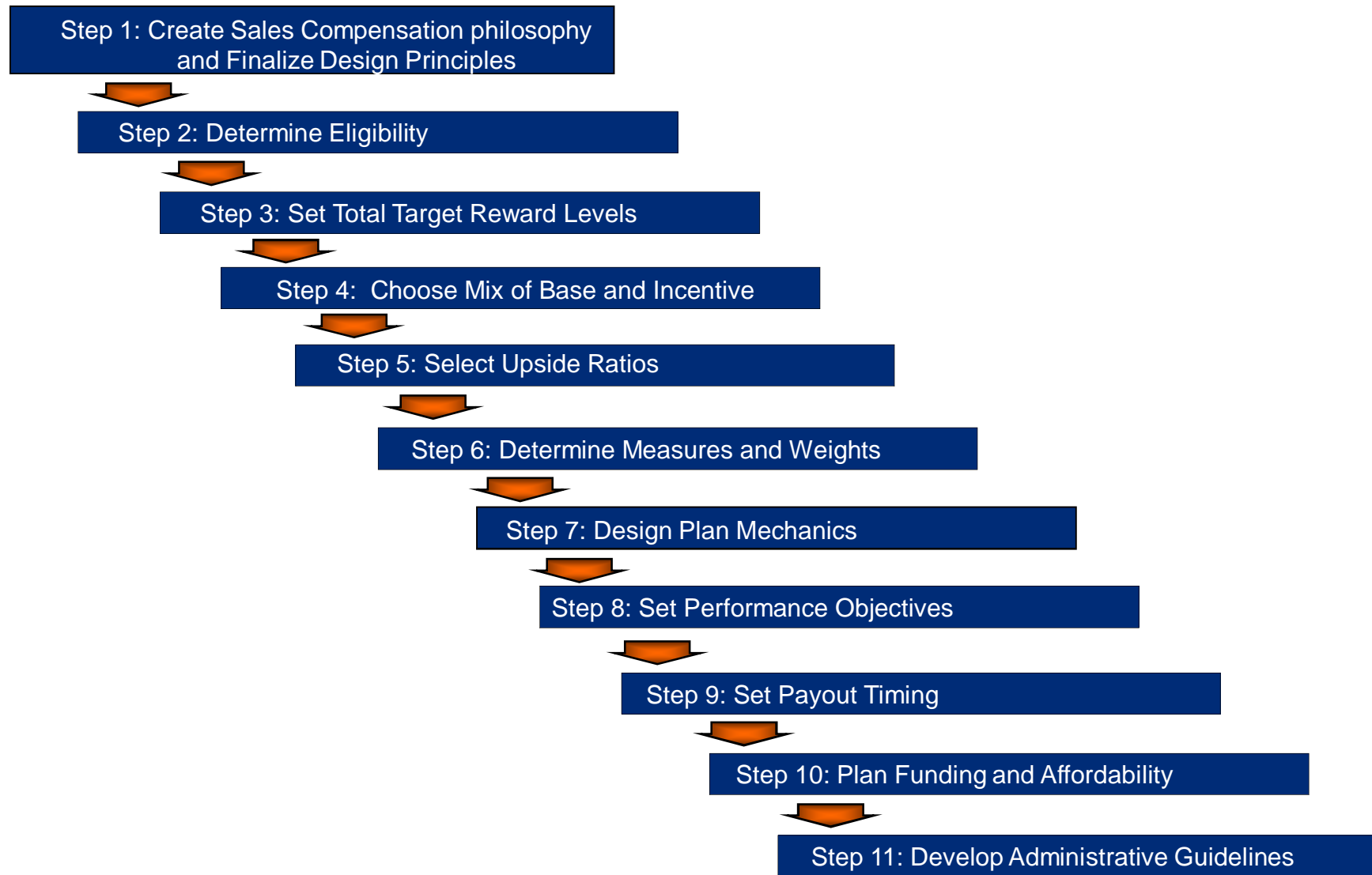
Element	Comments
Eligibility	<ul style="list-style-type: none"> All sales roles are eligible (currently excludes BDM)
Pay levels	<ul style="list-style-type: none"> Generally competitive at fixed pay; but lower variable pay opportunity Next SR cycle will require additional budget to bring fixed pay within ranges
Pay mix	<ul style="list-style-type: none"> Very low proportion of pay at risk, ie 96:4 for an Account Manager, 92:8 for the NDM and 89:11 for the NSM
Upside	<ul style="list-style-type: none"> Very limited upside, ie none for NDM and NSM and 1.2x for AMs
Performance measures	<ul style="list-style-type: none"> Only one performance measure (ie net sales) for AMs Individual weighting is 75 to 80% and team (ie state) is 20 to 25%
Plan mechanics	
- Threshold	<ul style="list-style-type: none"> A high performance threshold of 95%
- Slope	<ul style="list-style-type: none"> A 'step' performance and reward relationship with five zones – for AMs A 'drop dead' P&R relationship – for the NSM and the NDM
- Limits	<ul style="list-style-type: none"> Reward levels are capped
- Modifiers/multipliers	<ul style="list-style-type: none"> No modifiers
- Gateways	<ul style="list-style-type: none"> No gateways
Payment frequency	<ul style="list-style-type: none"> Paid six monthly – for AMs Paid annually – for NSM and NDM

Design

The image features a vertical composition of four distinct color bands. The top band is a solid, deep navy blue. Below it is a band of a slightly lighter, medium blue. The third band is a vibrant cyan, and the bottom band is a very light, pale blue. The boundaries between these bands are not straight horizontal lines but are wavy, creating a sense of fluid motion. The word "Design" is positioned in the upper left area of the top navy blue band, rendered in a clean, white, sans-serif typeface.

Mercer's Methodology to Sales Compensation Plan Design

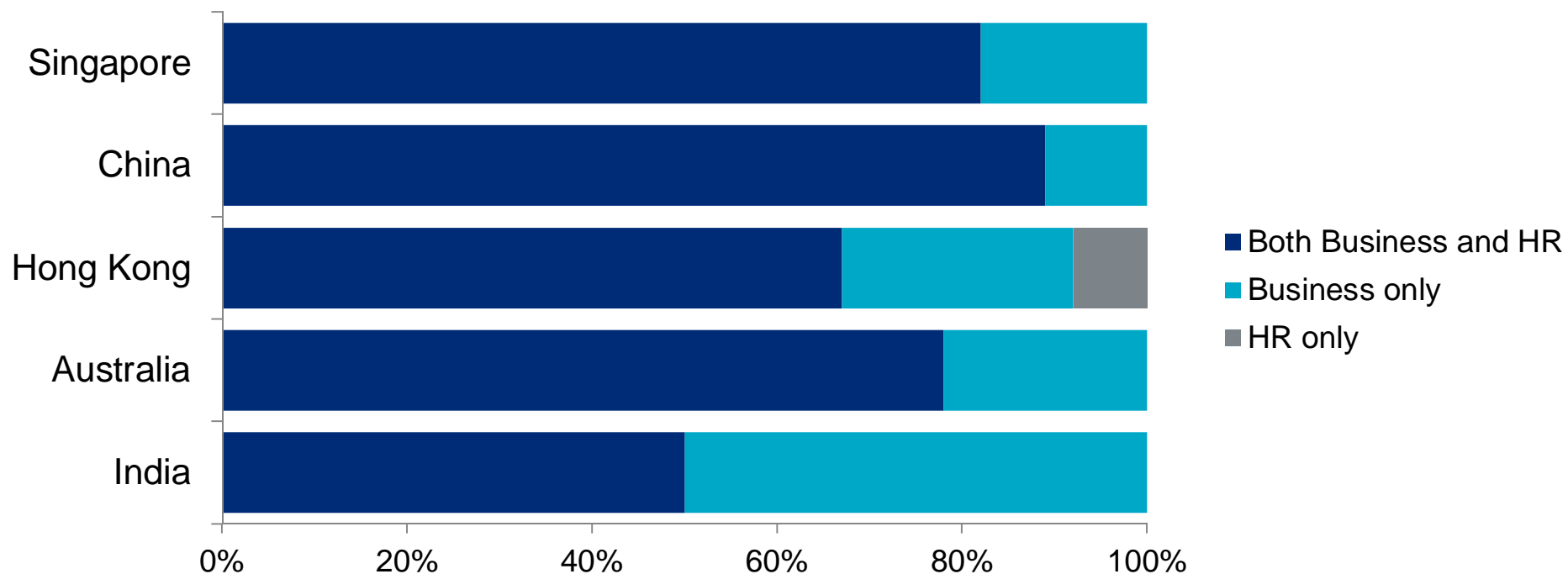
11 Step process



Decision #1 – Design Principles

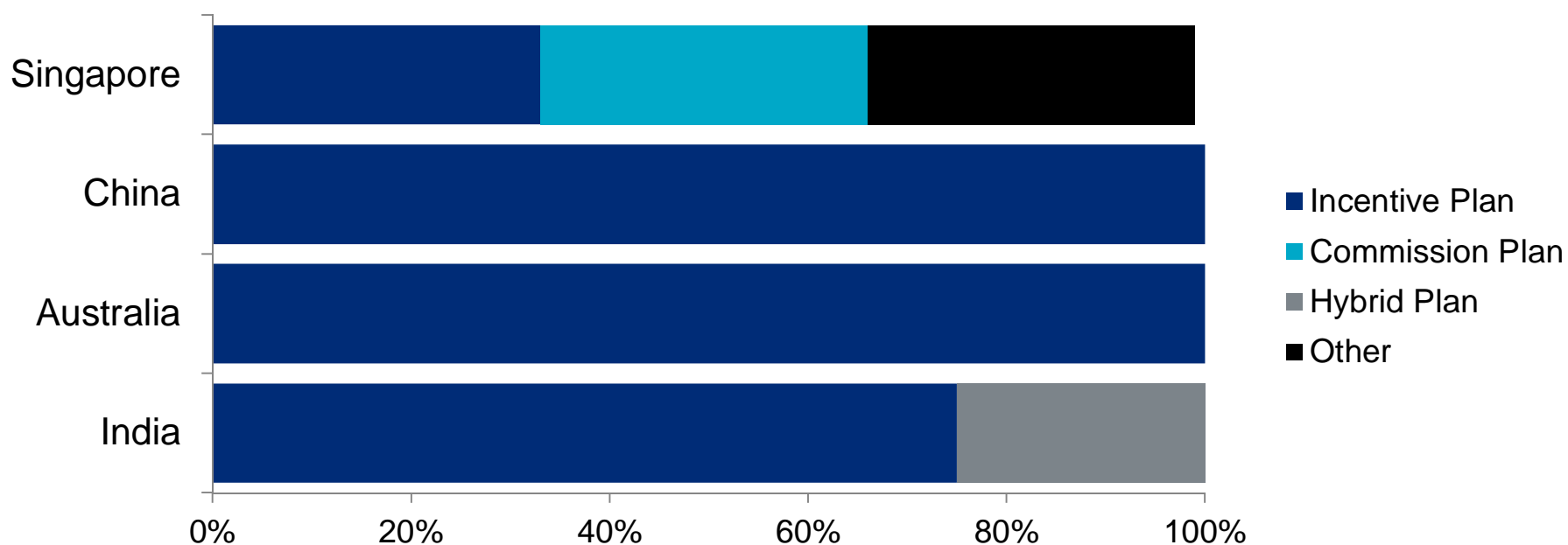
Majority companies in all countries have both Business and HR involved in designing the sales incentive plan

Both inputs from Business and HR are helpful to align goals across all levels of sales personnel
Business and HR provide strong “Line-of-Sight” of job responsibility and measurement that impact incentives



Decision #1 – Types of plans

Which categories that best describe Plans?



- All survey respondents in China and Australia indicated that their Plans are considered as Incentive Plan
- Singapore survey results gave mixed responses as the categories that best describe Plans are split equally among Incentive Plan, Commission Plan and Other
- 75% of survey respondents in India indicated Incentive Plan to describe their plans

Other includes: Based on company performance. Due to insufficient data, Hong Kong survey results are excluded

Decision #2 – Eligibility

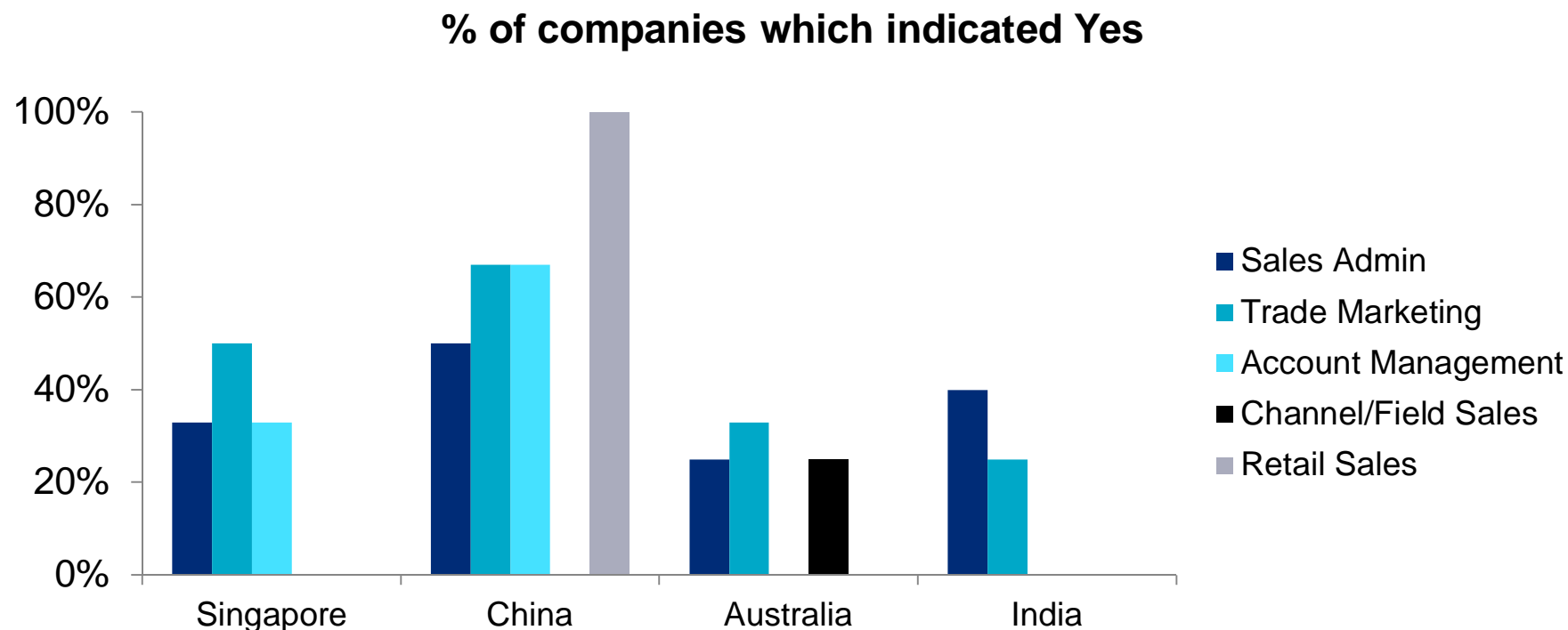
Which functions are covered by the Plan?

- Note:
- SA: Sales Administration
 - TM: Trade Marketing
 - AM: Account Management
 - C/FS: Channel/Field Sales
 - RS: Retail Sales

Aspect	Singapore	China	Hong Kong	Australia	India
Companies reporting same plan across career stream.	<ul style="list-style-type: none"> • SA (83%) • TM (67%) • AM (50%) • C/FS (17%) • RS (0%) 	<ul style="list-style-type: none"> • SA (71%) • TM (71%) • AM (43%) • C/FS (43%) • RS (29%) 	<ul style="list-style-type: none"> • SA (75%) • TM (100%) • AM (50%) • C/FS (25%) • RS (0%) 	<ul style="list-style-type: none"> • SA (100%) • TM (75%) • AM (50%) • C/FS (75%) • RS (0%) 	<ul style="list-style-type: none"> • SA (100%) • TM (80%) • AM (60%) • C/FS (60%) • RS (20%)
CAREER STREAM: EXECUTIVE	<ul style="list-style-type: none"> • Insufficient data 	<ul style="list-style-type: none"> • SA (25%) • TM (25%) • AM (25%) • C/FS (50%) • RS (0%) 	<ul style="list-style-type: none"> • Insufficient data 	<ul style="list-style-type: none"> • Insufficient data 	<ul style="list-style-type: none"> • Insufficient data
CAREER STREAM: MANAGEMENT	<ul style="list-style-type: none"> • SA (25%) • TM (75%) • AM (75%) • C/FS (75%) • RS (0%) 	<ul style="list-style-type: none"> • SA (20%) • TM (47%) • AM (73%) • C/FS (80%) • RS (13%) 	<ul style="list-style-type: none"> • SA (14%) • TM (29%) • AM (71%) • C/FS (86%) • RS (0%) 	<ul style="list-style-type: none"> • SA (20%) • TM (20%) • AM (40%) • C/FS (80%) • RS (40%) 	<ul style="list-style-type: none"> • SA (0%) • TM (0%) • AM (33%) • C/FS (100%) • RS (33%)
CAREER STREAM: PROFESSIONAL	<ul style="list-style-type: none"> • SA (20%) • TM (60%) • AM (60%) • C/FS (100%) • RS (0%) 	<ul style="list-style-type: none"> • SA (14%) • TM (36%) • AM (71%) • C/FS (93%) • RS (7%) 	<ul style="list-style-type: none"> • SA (13%) • TM (25%) • AM (75%) • C/FS (88%) • RS (13%) 	<ul style="list-style-type: none"> • SA (17%) • TM (17%) • AM (50%) • C/FS (83%) • RS (33%) 	<ul style="list-style-type: none"> • SA (0%) • TM (0%) • AM (71%) • C/FS (86%) • RS (14%)
CAREER STREAM: PARA PROFESSIONAL	<ul style="list-style-type: none"> • SA (40%) • TM (20%) • AM (80%) • C/FS (80%) • RS (40%) 	<ul style="list-style-type: none"> • SA (27%) • TM (27%) • AM (73%) • C/FS (82%) • RS (0%) 	<ul style="list-style-type: none"> • SA (25%) • TM (25%) • AM (50%) • C/FS (50%) • RS (50%) 	<ul style="list-style-type: none"> • SA (50%) • TM (25%) • AM (50%) • C/FS (50%) • RS (50%) 	<ul style="list-style-type: none"> • Insufficient data

Decision #2 – Eligibility

Are sales employees that are eligible for the Sales Incentive Plan, also eligible for the Variable Bonus Scheme?



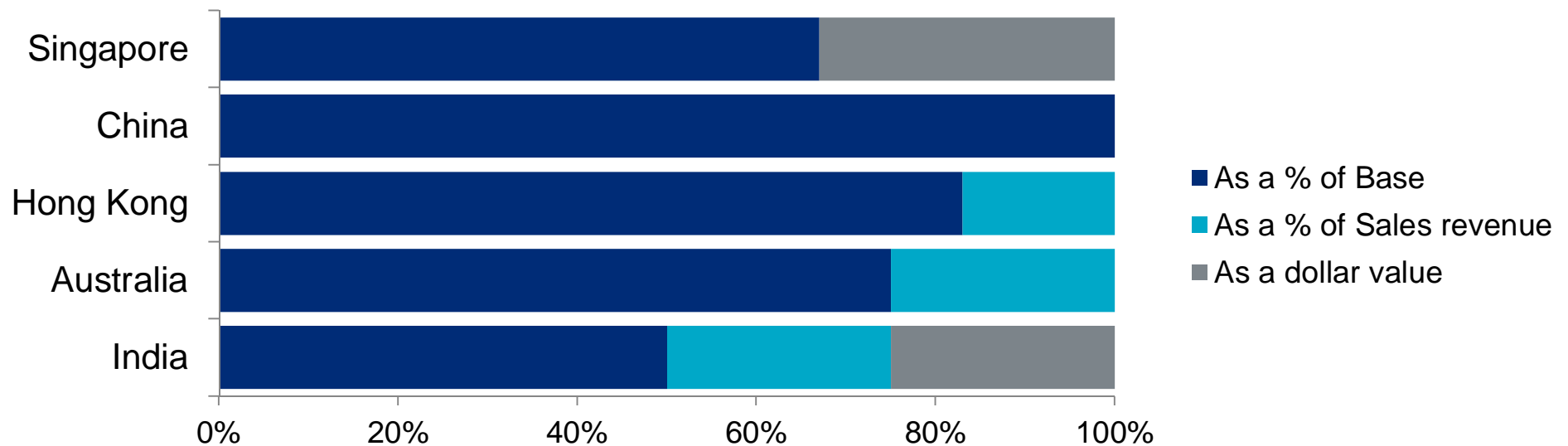
- According to survey, China is the only country with more than 50% of the companies' sales employees eligible for both Sales Incentive Plan and Variable Bonus Scheme (for various function)

Due to insufficient data, Hong Kong survey results are excluded

Decision #3 – Pay Levels

How are Target Incentives calculated?

50-100% companies in all countries calculate Target Incentives as a % of Base Salary

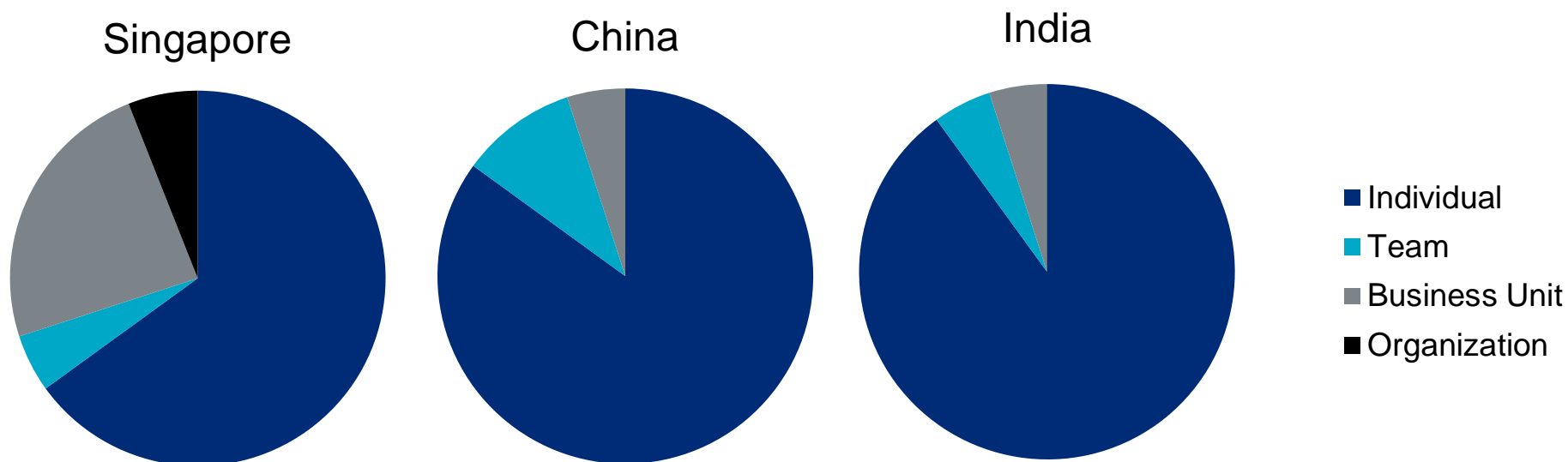


Decision #3 – Pay Levels

Who has influence on the payout (Average)?

65-90% companies indicated that individuals had most influence on the payout on average

More influence from individuals indicated that there is a bigger emphasis on individual performance results as compared to team or business units in companies surveyed

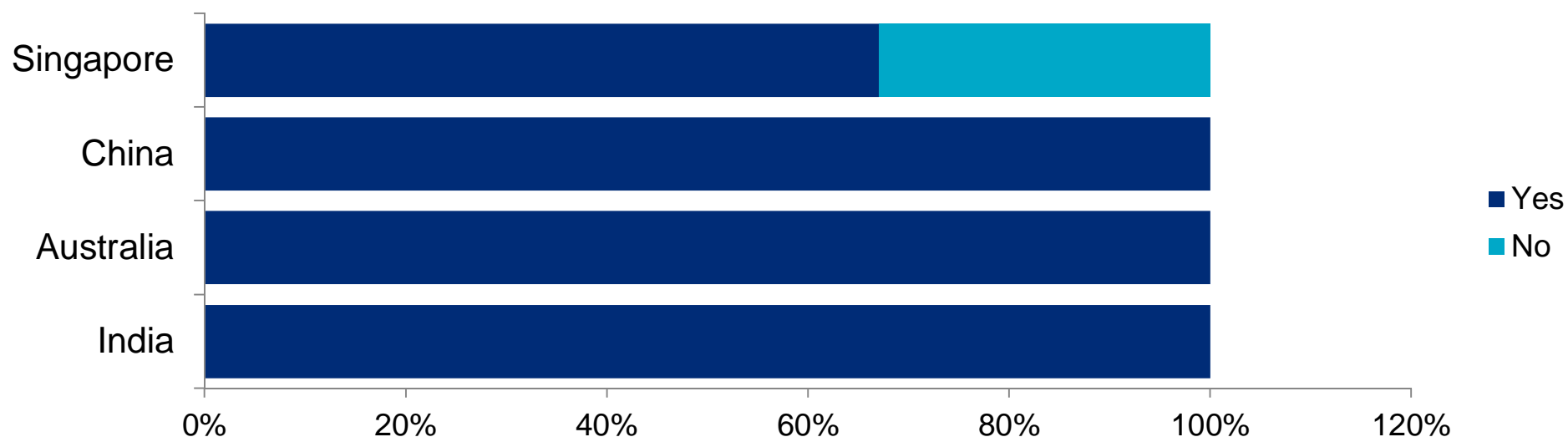


Due to insufficient data, Hong Kong and Australia survey results are excluded

Decision #5 – Upside

Is there a cap on the incentive payout amount to an individual?

Nearly all companies (except in Singapore) have caps on the incentive payout amount to an individual

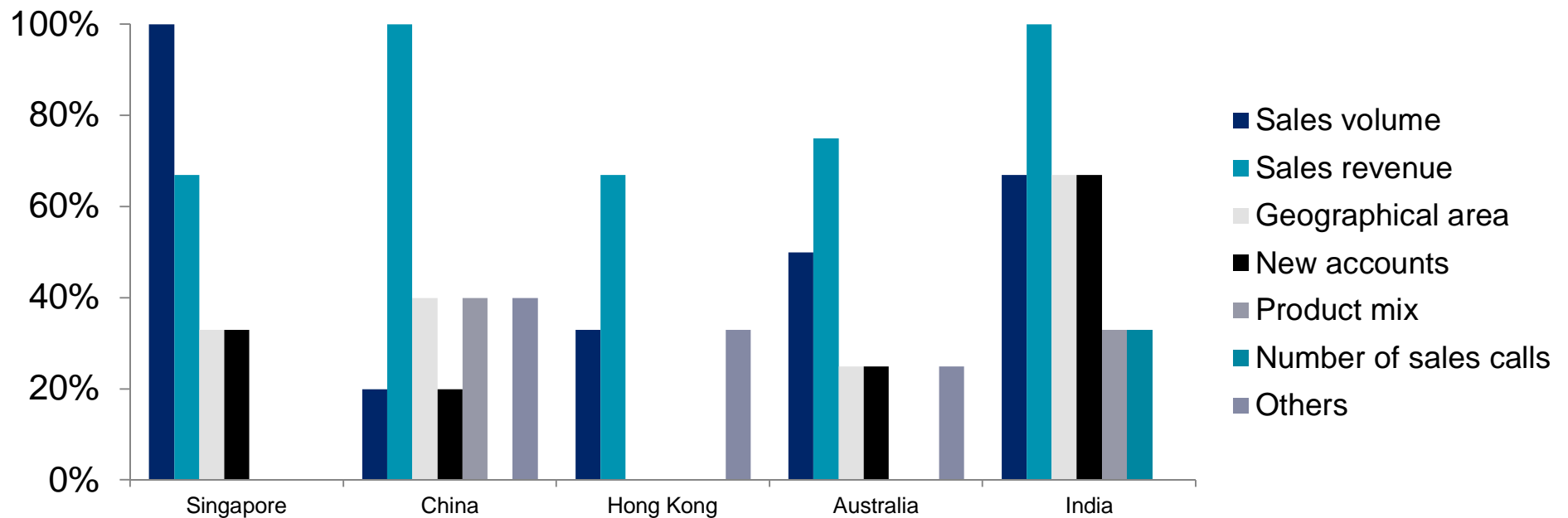


Due to insufficient data, Hong Kong survey results are excluded

Decision #6 – Performance measures

How are quotas defined?

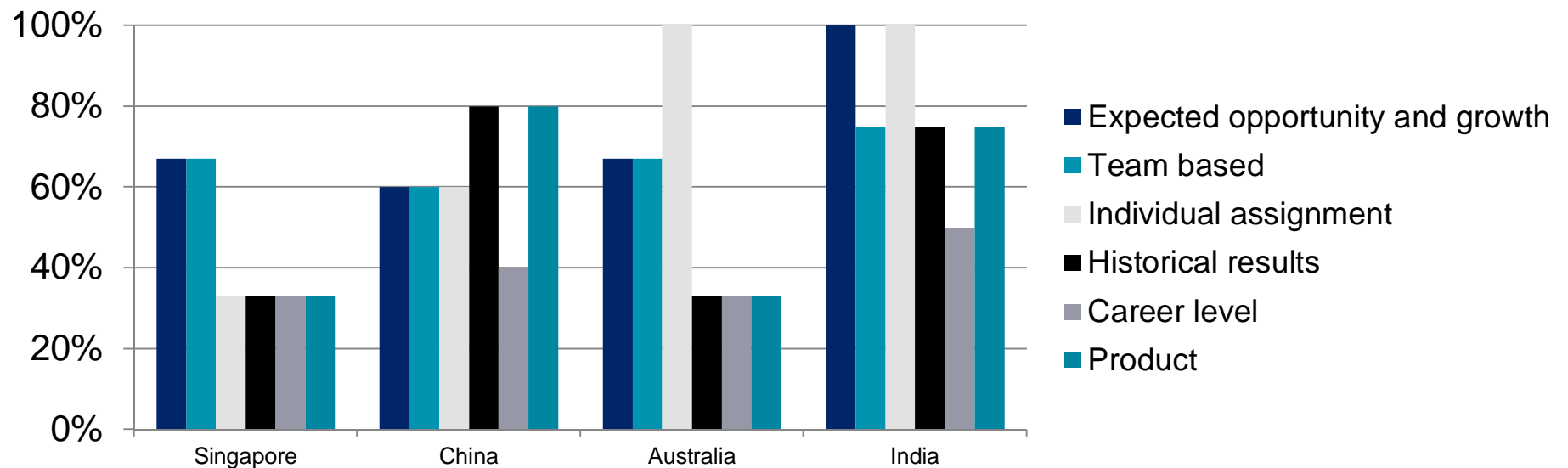
67-100% companies in all countries define quota by sales revenue



Decision #6 – Performance measures

What are quotas based on?

% of companies which indicated Yes for basis of quota



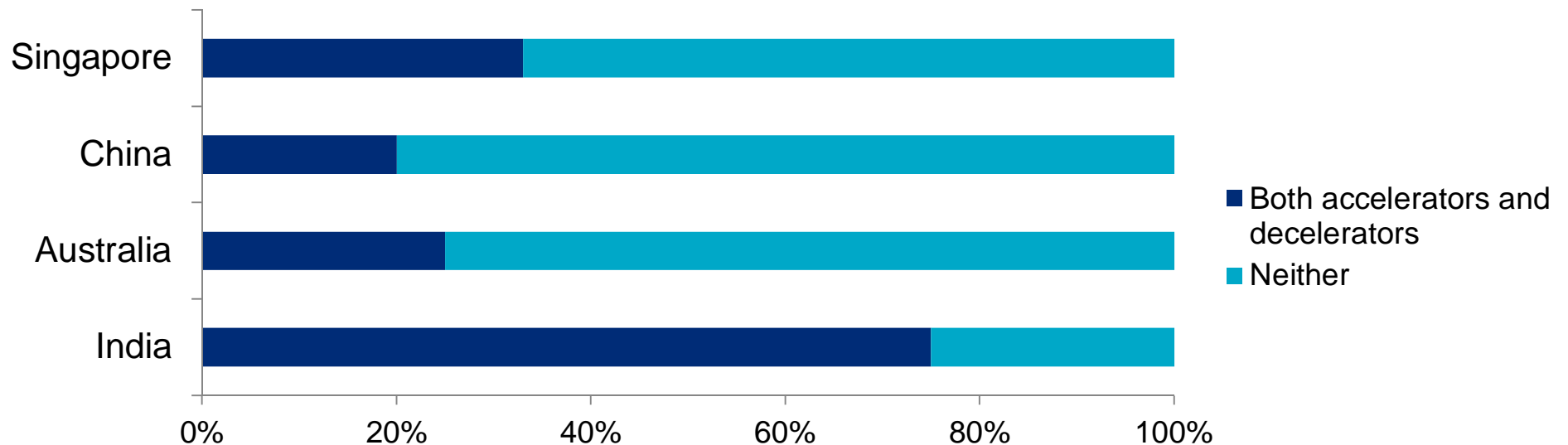
- More than 50% of the companies in China and India use all 6 basis of quota (Expected opportunity and growth, Team based, Individual assignment, Historical results, Career level, and Product)
- Singapore survey results showed that companies put more emphasis on Expected opportunity and growth and Team based as the basis of quota (67% each)
- Australian survey results indicated that Individual Assignment is the most significant base for quota (100%)

Due to insufficient data, Hong Kong survey results are excluded

Decision #7 – Plan mechanics

Do Organizations have accelerators and decelerators built in their sales incentive plan?

With the exception of India, only **about a third** of the companies incorporate accelerators and decelerators in their sales incentive plan



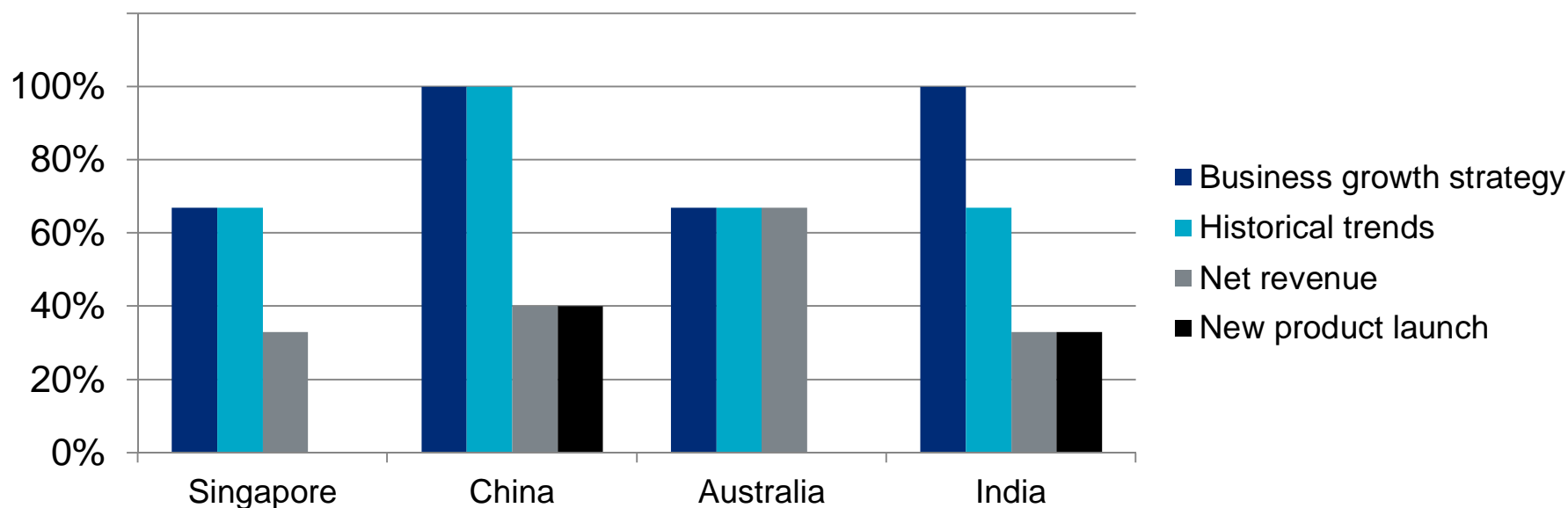
Due to insufficient data, Hong Kong survey results are excluded

Decision #8 – Performance objectives

What is the forecast methodology to define quotas

More than two-thirds
use business growth strategy and historical
trends as forecast methodology to define
quotas

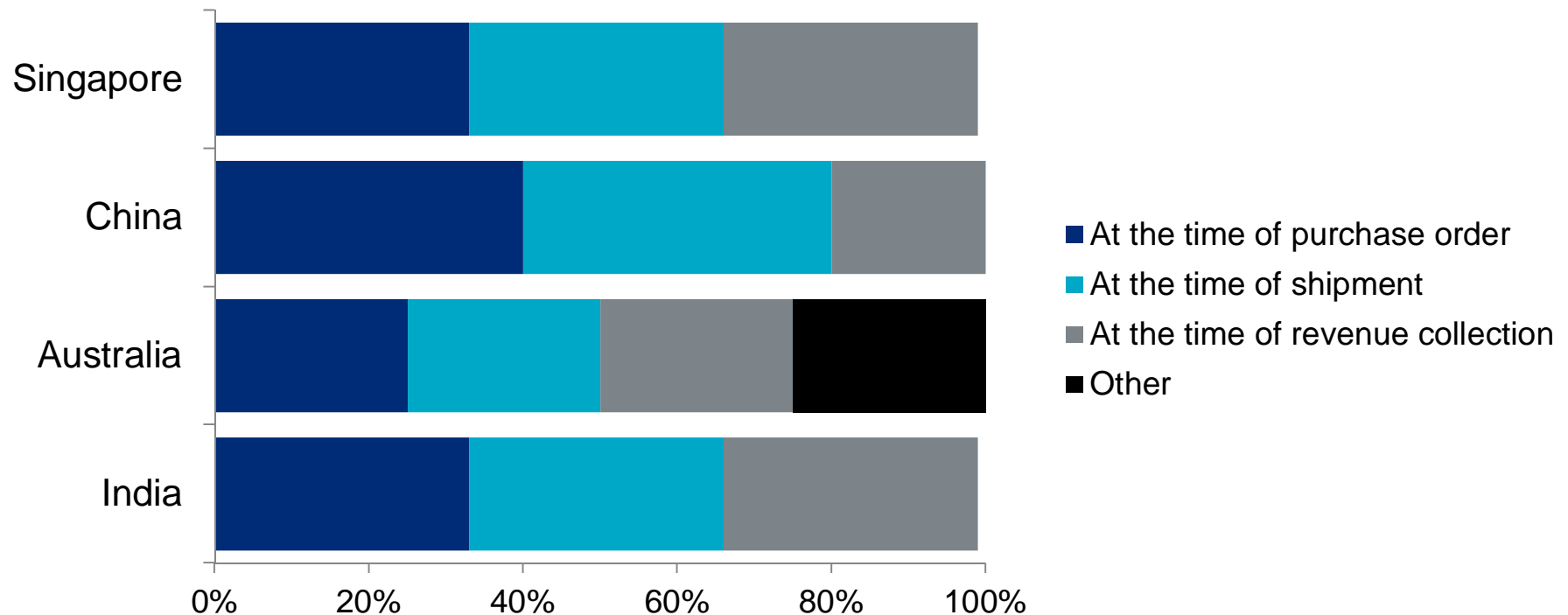
By combining business growth strategy and historical trends, companies can have both forward and backward looking view in defining quotas, giving a holistic and strong performance objectives that impact incentives.



Due to insufficient data, Hong Kong survey results are excluded

Decision #8 – Performance objectives

At what point are sales credited?



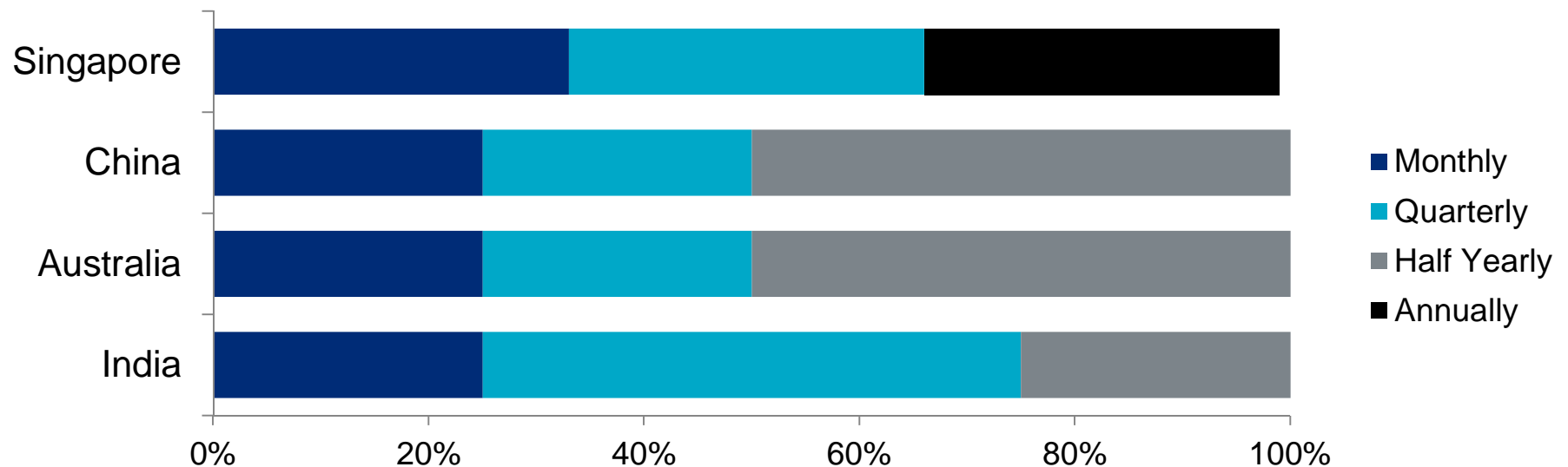
- Generally, there are mixed responses from companies surveyed on the point where sales are credited with roughly similar % of each response
- About 25-40% of companies in different countries indicated time of purchase order or time of shipment as the point where sales are credited
- 25-33% of companies indicated time of revenue as the point where sales are credited. Australia survey result is the only one with non-sales measurements as a response

Other includes: "Not all measurements are sales based." Due to insufficient data, Hong Kong survey results are excluded

Decision #9 – Payout timing

What is the payout frequency?

In general, companies in different countries employ different payout frequency with regards to sales incentives



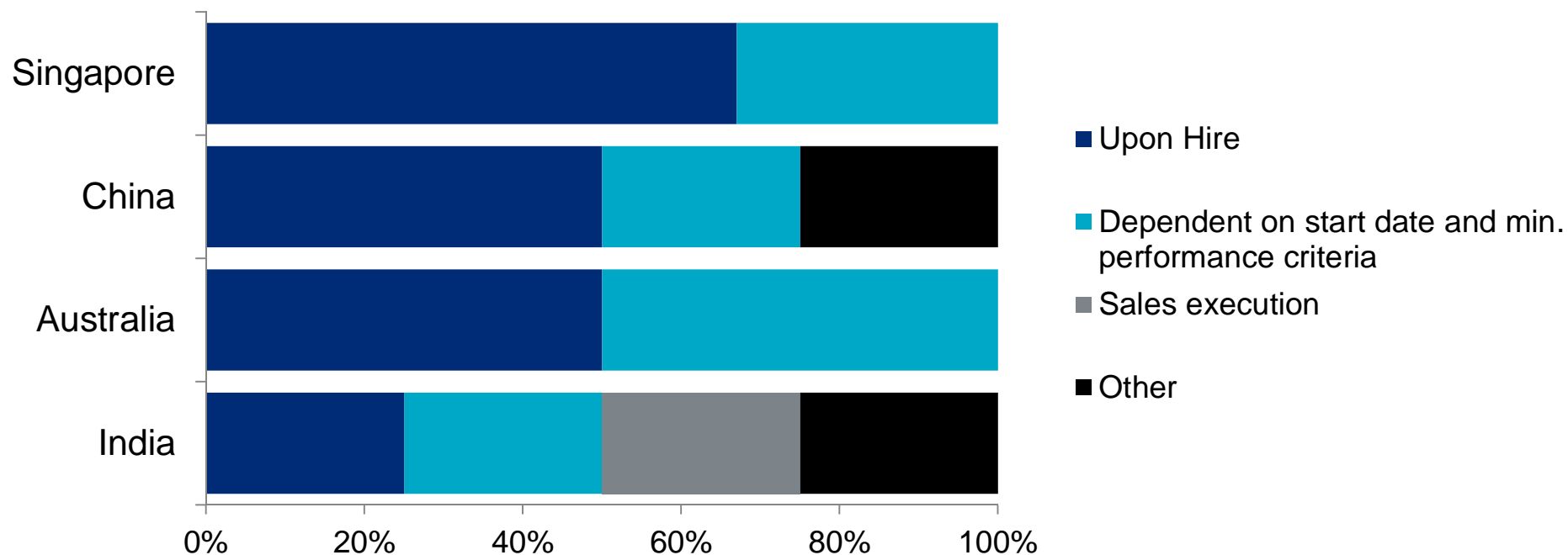
- Singaporean companies generally pay incentives on either monthly, quarterly or annually (33% each)
- Chinese and Australian companies generally pay incentives every half a year as per survey results (50%)
- Indian companies generally pay incentives every quarter as per survey results (50%)

Due to insufficient data, Hong Kong survey results are excluded

Decision #9 – Payout timing

When is new employee eligible to receive incentives?

50-67% new employees in all countries except India are eligible to receive incentives upon hire



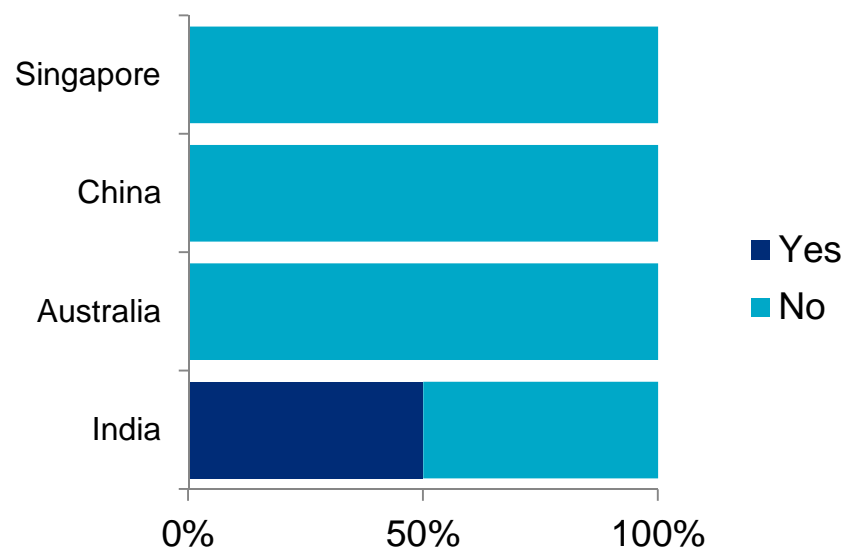
Other includes: No deduction in terms of D&A or After one month of joining. Due to insufficient data, Hong Kong survey results are excluded

Decision #10 – Plan Funding and Affordability

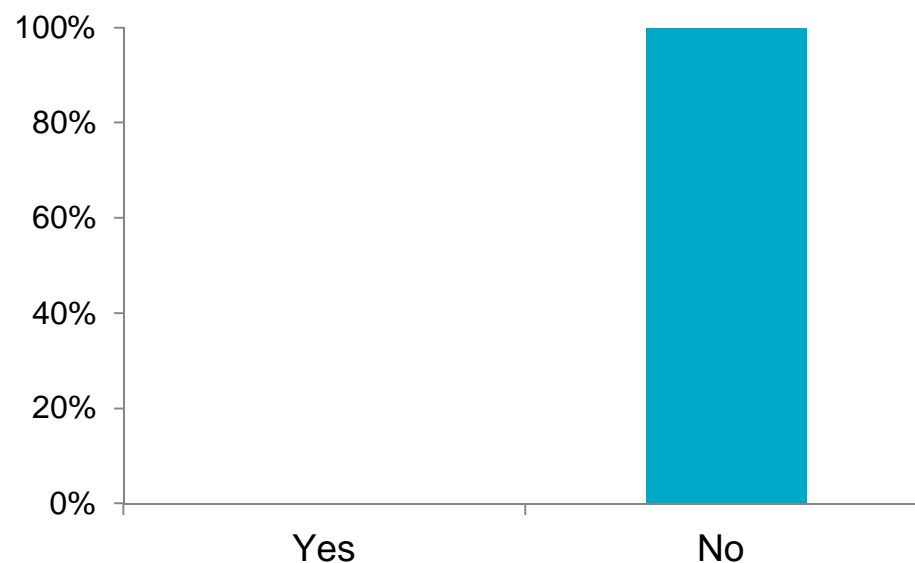
100% of companies in all countries except India have no claw back on their incentive payouts

None of the surveyed companies in all countries practice “draws” for employees in their plan

Is there a claw back on the incentive payouts?



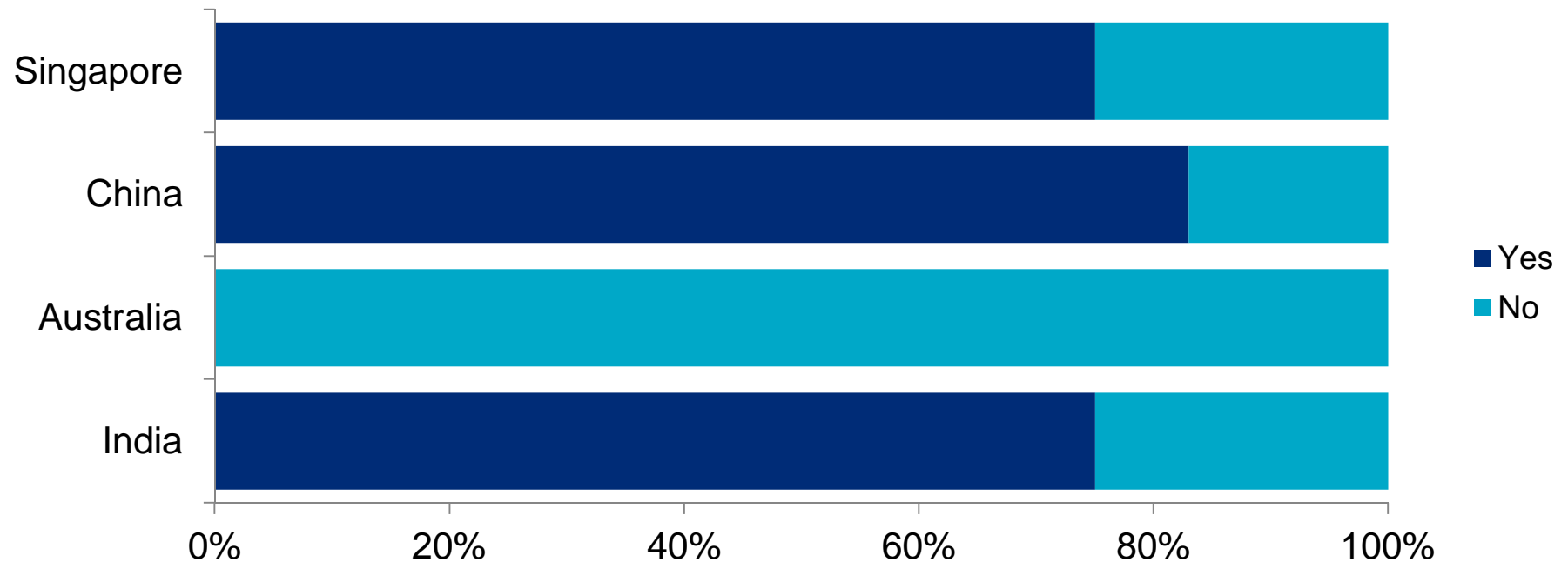
Do Organizations practice “draws” for employees in their Plan?



Due to insufficient data, Hong Kong survey results are excluded

Decision #11 – Administrative guidelines

Discretion: Is there any quotas revision in case of major changes?



- Generally, there are mixed responses from companies surveyed about the presence of quota revision in case of major changes
- Most Singaporean, Chinese and Indian companies employ quota revision with 75-83%
- None of the Australian companies surveyed employs quota revision in case of major changes

Due to insufficient data, Hong Kong survey results are excluded

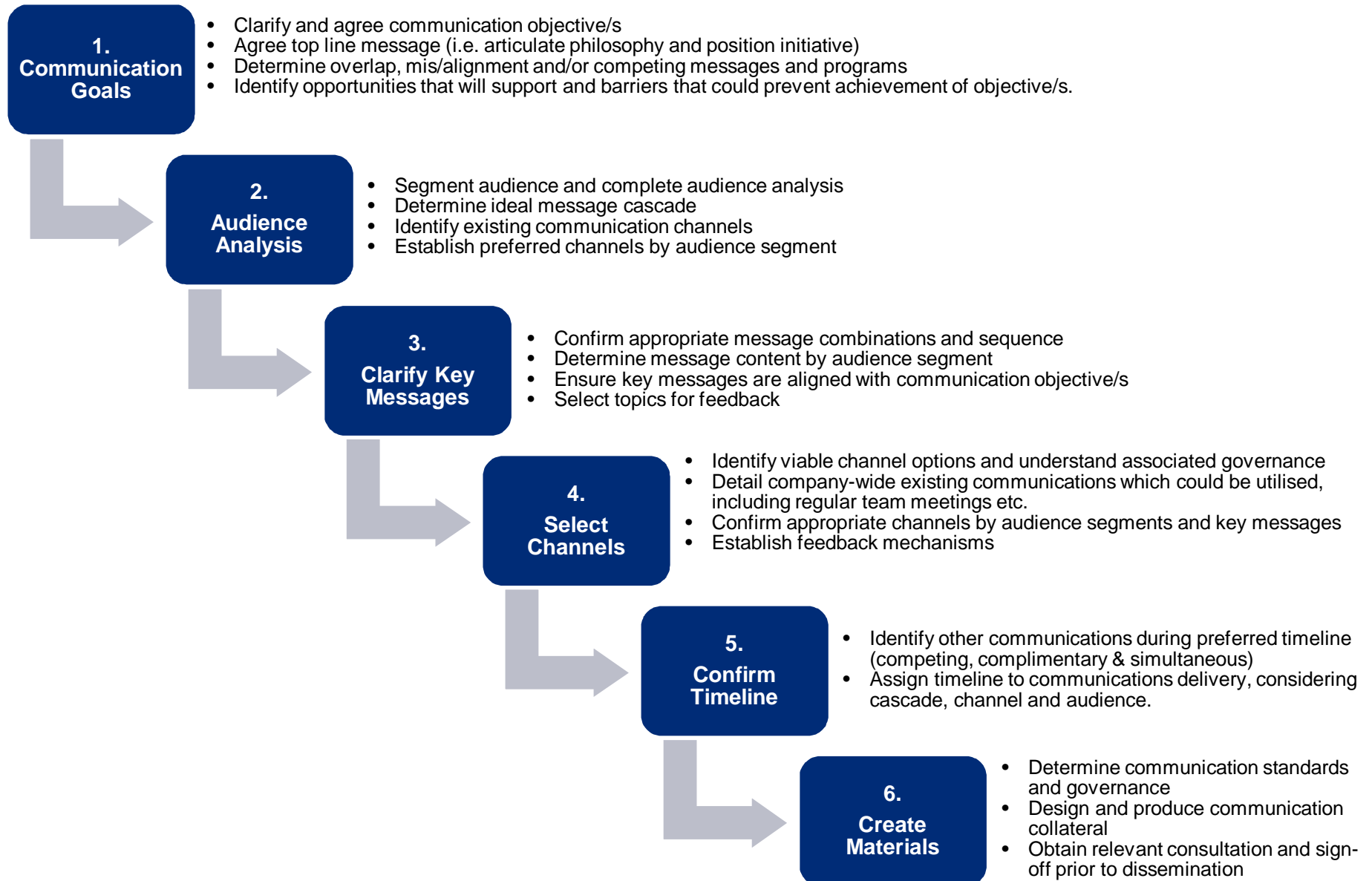
Implementation



Key aspects to consider during Implementation planning

- Communication is critical
- Financial modelling and scenario testing
- Document plan rules and make them available to sales force
- Incentive calculators and tools
- Program ownership and governance

Designing the Communications Plan



Implementation: Communication plan

Communication Channel - template

Target audience	Communication channel (examples)					
	Initial briefing at conference	Team briefing	One on one briefing – by manager	Intranet FAQ	Induction programs	
Group # 1						
Group # 2						
Group # 3						
Group # 4						

Implementation: Communication plan

Key messages - template

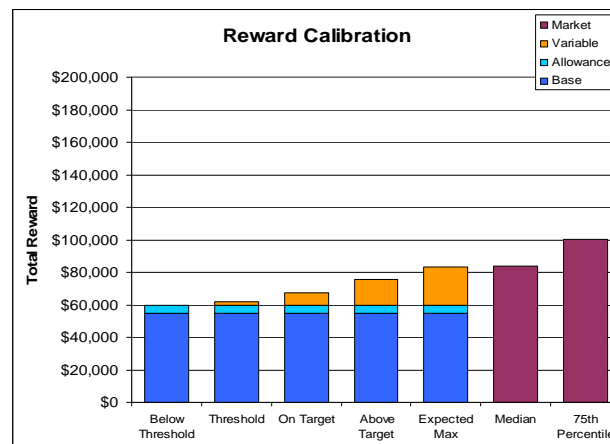
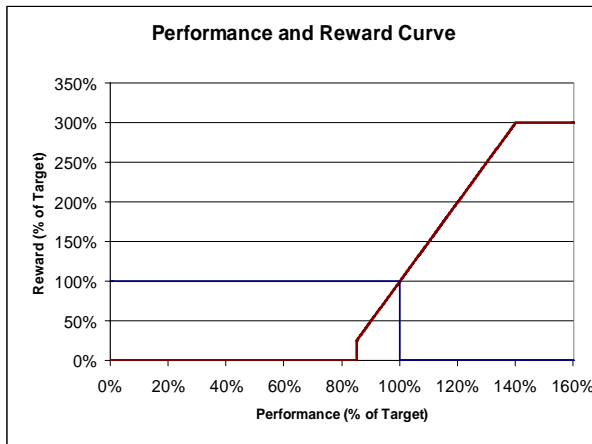
Target audience	Key messages (examples)				
	More pay for performance	Earnings upside	Market competitive	More pay at risk	Role specific rewards
Group # 1					
Group # 2					
Group # 3					
Group # 4					

Plan Funding and Affordability

Specimen incentive calculator

	Pay Level & Mix				Hi-Tech Market Median	Market Comparison		
	Proposed Future	Current (Target)	Variance: Proposed Future & Current			Variance: Proposed Future & Market		
			%	\$		%	\$	Competitiveness
Base Salary	55,000	52,000	106%	3,000	-	-	-	-
Superannuation	4,950	4,680	106%	270	-	-	-	-
Employment Cost	59,950	56,680	106%	3,270	70,100	86%	-10,150	Within Market Range
Target Variable	7,700	2,550	302%	5,150	-	-	-	
Total Rem (Target)	67,650	59,280	114%	8,370	83,800	81%	-16,150	Within Market Range
Pay Mix	89:11	96:4	-	-	84:16	-	-	-
On-target Variable as % of Fixed	13%	4%	-	-	20%	-	-	-
On-target Variable as % of Base Salary	14%	5%	-	-	-	-	-	-

Weighted Scorecard - Discrete Elements						
	Measure	Weighting	Target	Actual	% Achieved	Payout
KPI 1		70%	\$3,000,000	\$3,000,000	100.0%	\$5,390
KPI 2		30%	100%	100%	100.0%	\$2,310
KPI 3						
KPI 4						
KPI 5						
KPI 6						
	Total	100%				
	Overall Performance	100%				
				Overall Score	N/A	
				Overall STI Payout	\$7,700	



Performance vs. Reward Calibration				
P/R Curve	Capped	Upside		300%
Performance		Reward		
Percentage	Dollar	Percentage	Dollar	
Below Threshold	50%	1,500,000	0%	-
Threshold	85%	2,550,000	25%	1,925
On Target	100%	3,000,000	100%	7,700
Above Target	120%	3,600,000	200%	15,400
Expected Max	140%	4,200,000	300%	23,100

Product - Mix Metric					
Category #	Product	Target	Actual	% Achieved	VW Score
1		\$1,960,000	\$1,960,000	100%	50%
2		\$1,300,000	\$1,300,000	100%	33%
3		\$390,000	\$390,000	100%	10%
4		\$270,000	\$270,000	100%	7%
				0%	0%
Overall Score					100%

Matrix Mechanic(expressed as % variable pay for Product-Mix KPI)				
% achievement - volume weighted aggregate	110%	105%	100%	95%
	0.0%	0.0%	45.0%	90.0%
	0.0%	0.0%	30.0%	60.0%
	0.0%	0.0%	15.0%	30.0%
	0.0%	0.0%	3.8%	7.5%
	0.0%	0.0%	0.0%	0.0%
	1	2	3	4
Number of product categories > 100%				

Matrix Pay-Out				
% achievement - volume weighted aggregate	110%	105%	100%	95%
	\$0	\$0	\$3,465	\$6,930
	\$0	\$0	\$2,310	\$4,620
	\$0	\$0	\$1,155	\$2,310
	\$0	\$0	\$289	\$578
	\$0	\$0	\$0	\$0
	1	2	3	4
Number of product categories > 100%				

Pay-Out Calculations		
Inputs: % achievement - volume weighted aggregate	Y-Axis	100%
Number of product categories > 100%	X-Axis	4

Product - Mix STI Payout equals \$2,310 i.e. 30% of overall Target STI

Administrative guidelines

- Section 1: Plan Description

- 1.1 Introduction
- 1.2 Plan Objectives
- 1.3 Eligibility
- 1.4 On-Target Earnings and Pay Mix
- 1.5 Performance Measures and Targets
- 1.6 Timing
- 1.7 Calculating your Incentive
- 1.8 Recognized Sales Revenue
- 1.9 Individual Performance Management

- Section 2: Plan Rules

- 2.1 Confidentiality
- 2.2 Plan Period
- 2.3 Plan Amendment or Termination
- 2.4 Eligibility
- 2.5 Terminations
- 2.6 Disqualification
- 2.7 Annual Leave
- 2.8 Sick Leave, personal leave of absence, unpaid leave
- 2.9 Employment Rights
- 2.10 Dispute Resolution
- 2.11 Superannuation
- 2.12 Taxation
- 2.13 Determination of Incentive
- 2.14 Timing of Payments
- 2.15 Performance Targets
- 2.16 Bluebirds
- 2.17 Blackbird

Summary



Conclusion

Get aligned ... and stay aligned

- **Customise for your business**
 - Don't just copy what someone else is doing
- **Review the plan when your business changes**
 - Don't just 'tweak' things every year
- **Well begun is half done!**
 - Focus on the Diagnostic
- **Keep the plan as simple as possible.**
 - Be careful about adding complexity
- **Communicate, communicate, communicate!**
 - This is as much about engagement and change management as it is about the design
- **Monitor and evaluate the plan**
 - Make it a regular, formal process
 - Assess and report the ROI
 - **Lather, rinse, repeat – always repeat!**



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