



How Effective Is Your Sales Compensation Plan?

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If you have a sales organization, you most likely have a sales compensation plan. How confident are you that your current plan is effective at delivering the results you desire? If you are like many executives, you may be wondering what you can do to create a plan that drives sales growth and improved profitability. It is not uncommon for executives to be frustrated by the results obtained and wonder if the commission plan needs tweaking. Before you tweak your existing plan, take some time to consider the following information.

What Is the Purpose Of A Sales Compensation Plan?

Beyond providing the process for paying your sales team, you should understand the overall purpose of a properly constructed sales compensation plan. Simply put, it is to drive desired behaviors to achieve specific outcomes. It tells the sales team what you value and what outcomes you are willing to compensate them for achieving.

Before you start designing a compensation plan, it is essential for you to consider the actual results you want to achieve. Is it increased revenue? Better profitability? More new clients? Improved client retention? Creating a plan that is aligned with your larger organizational goals and objectives will ensure that your sales team is engaged in the right activities in pursuit of the desired outcomes.



For example, if you have an organizational objective to increase business to net new clients, what are you doing to focus sufficient attention on achieving this goal? If your compensation plan is based upon revenue generation overall, how will this necessarily generate new client revenue? Even if your plan has an increasing payout for larger amounts of revenue secured, it may not distinguish between recurring revenue from existing clients and revenue from net new clients. What specific incentives exist in the plan to drive the outcomes you really want to achieve?

Take the time to establish clear objectives and measurable metrics that can be used to evaluate performance and monitor progress. For example, if you have an established sales quota for revenue, you may want to identify a specific amount that is attributable to net new client relationships.

It's Not What You Say But How You Pay

It is certainly important to provide clear communication about the goals and objectives of your business so that the sales team—and your organization in general—fully understand their role in achieving the desired results. Your top-performing sales professionals are great at analyzing their compensation plans to understand how to leverage them to maximize their personal earnings. It is critical to ensure proper alignment so that you reward the results you want. It's not what you say but how you pay that matters most.

Elements Of An Effective Sales Compensation Plan

There is no one cookie-cutter sales compensation plan that will address the needs of every organization. However, there are certainly common elements of successful plans. The goal is to incorporate some best practices into a customized program that will promote the objectives of your business. Take the time to be clear about what you want accomplished. Forget about the activities per se and focus on the outcomes. In the end, you compensate for results, not effort.



What Doesn't A Compensation Plan Do?

While a well-designed and executed compensation plan does provide a platform for directing behavior and rewarding results, it will not take the place of engaged management. It is the responsibility of your sales management team to conduct regular one-on-one coaching sessions with your sales professionals. During these meetings, they would review activity types and levels, techniques being utilized and progress toward the achievement of key objectives. These coaching sessions are the best method for ensuring each sales professional is properly focused and effectively utilizing the tools available to consistently deliver quality results. Great performance requires great leadership.

Where To Start

A good place to start is to take your existing compensation plans and compare them to your stated goals. Is there alignment? Are these plans producing the desired results? If not, where are the failure points? In what ways are your results not aligned with your goals? This elementary approach will illustrate where your sales team is focused based on what you told them (in terms of compensation). Remember, your sales professionals are looking to their compensation plan to make critical decisions about how to invest their time, which opportunities to pursue and what deals are worth winning. Be sure your compensation plan is pointing them in the right direction so you can achieve the results you really want.