

Forget holiday turkeys or recognition plaques. Legal tender is still the preferred method for rewarding sales people. But if your compensation program is not in tune with your strategic operating plan, your sales engine may start choking and sputtering.

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IS YOUR COMPENSATION PROGRAM IN NEED OF A MAJOR TUNEUP?

by Mitchell Roye

Often confusing and not well understood, sales compensation is frequently relegated to a minor role in an organization's strategic planning process. At best, many sales compensation programs are designed as an afterthought. Even worse, business strategies of some companies are in part driven or limited by their existing sales compensation programs.

The result is sales compensation programs that are not in sync with and do not support the organization's strategies, goals and objectives. In more acute situations, the sales compensation program is actually at cross purposes with higher level goals.

For example, a division of a large and well-known public company recently set out to halt a rapidly declining profit level. However, it continued to reward its sales people for territory volume achievement. Through modification to the sales compensation program in the form of profit-focused sales performance measures, sales people are now encouraged and rewarded for increasing their territory profitabil-

ity. The company was able to stop the decline in profitability, and has actually increased its overall profit level.

Sales compensation design should not be the starting point to the strategic planning process, nor should an existing plan influence your business objectives. Sales compensation design is the sequential result of a well-developed business or strategic operating plan.



A well-designed operating plan is the primary document that establishes the vision and direction of the company. It does so in the form of specific quantitative and qualitative strategies, goals and objectives. It also establishes the framework, guidelines and philosophy for the compensation program.

In contrast, a compensation program cannot and is not intended to fulfill this role. In fact, sales compensation is actually a supporting tactical program. Sales compensation is intended to reward sales people for performing specific sales ac-

tivities that help an organization achieve its overall business and financial objectives. We can think of sales compensation, then, as an organization's business objectives translated into a pay system for its field sales people.

Sounds easy enough. So, why do many organizations have problems getting their sales compensation plans to work in concert with their business objectives? Quite simply, they do not structure the compensation plan to support the strategic operating plan. Or worse, they structure their strategies around existing compensation plans. The end result is an ill-constructed and misaligned sales compensation plan.

When your compensation plan is not in sync with your strategic operating plan, the result is similar to a cylinder misfiring in your automobile engine. The result to the overall organization is a loss of power, forward momentum and a unified performance. Ultimately, these organizations undoubtedly suffer and do not reach their true sales and competitive potential.

Five Steps to Better Mileage

If you need to enhance your compensation program, there is a specific process to follow. Here is a five-step process that, if followed in sequence, will help you align your compensation program with your business and financial objectives. It will also ensure that your sales people perform field activities that make economic sense and help attain corporate goals and objectives. Realize, though, that the following five steps are a simplified version of an otherwise highly complex and sequential process.

1. Establish Corporate Business Objectives.

Your first step is to establish your strategic operating plan. The principal items in this document are your financial objectives, including volume growth and profit level.

2. Develop Sales and Marketing Objectives.

Once you have established your overall corporate business objectives, your next step is to determine how you will accomplish them. Some of the key sales and marketing objectives you will establish include the selection of target markets and customers, and the corresponding volume and profit objectives for each, product mix strategy, strategic partnering plans, sales coverage and deployment plans, sales job definition and sales territory structure.

3. Establish Sales Performance Goals.

These are the specific quantitative and qualitative objectives on an territory basis that together work to support and achieve the larger sales and marketing goals.

4. Design Sales Compensation Program.

Once you have clearly established all of the objectives in the first three steps, you are ready to design the sales compensation program. The principal activities

you will address in this step include, but are not limited to such things as pay level (both base salary and incentive amount), ratio of base to incentive earnings, sales performance measures and their respective incentive weighting, incentive payout frequency and calculation period and sales compensation policies. Some examples of sales performance measures include volume, profit, product mix, new accounts, growth over prior year, order size and new product introductions.

5. Implement Compensation Program.

In this final, but key step, you will document your new program and then communicate it to your people in a formal training session.

By following this process, you will minimize or eliminate many of the symptoms and problems that plague many compensation programs. A well-designed sales compensation program starts with a clear and very specific definition of the business goals and objectives.

Like gas mileage in an automobile, sales compensation tends to reflect the overall performance of your organization. Typically, problems elsewhere in the organization surface in the sales compensation program. For example, unclear business objectives or poorly executed sales and marketing programs will surface in the compensation program in the form of the symptoms identified to the right. If your sales compensation program is ineffective then chances are there may be some unresolved or higher order issues in the organization. And, ineffective organizations, like an underpowered race car, will be left behind in the dust by the competition.

When your sales compensation program is tuned to your business plan, your field sales team will perform like a turbo-powered engine that will effectively accomplish the goals you establish.

Is Your Sales Engine Misfiring?

How do you know if your compensation program is improperly designed or misaligned with your business objectives? Here is a checklist of common symptoms that may indicate a design or plan alignment issue. See how many your organization has.

- * Missed volume and profit objectives
- * Sales force turnover
- * Self-directed and insular sales representatives (reluctance to change behaviors)
- * Hostile sales representatives
- * Similar sales performance rewarded differently
- * Over or under paying your sales people
- * Account turnover
- * Poor morale
- * Political infighting
- * Different understanding of the strategic operating plan
- * Missed sales quotas
- * Gap between management's expectations and sales rep performance
- * Distrust of management and of the compensation program

If you can identify any of these symptoms in your organization, you may have an opportunity to better design your compensation program and align it with your strategic operating plan.