



COVID-19'S IMPACT ON COMP PLANS

FAQs: COVID-19's Impact on Sales Compensation Plans

Although COVID-19 (coronavirus) has not run its course yet, there is no doubt that it will impact sales for many months, perhaps even a year or longer. At this point, 2020 incentive goals/quotas have already been established and delivered to sales leaders/managers and salespeople. Obviously, those incentive goals were created without considering COVID-19's impact.

What do companies do when it is very likely that the goals/quotas they created are no longer attainable? Given that salespeople typically have an average of 50% of their expected compensation tied to sales performance, what does leadership do when they realize their sales team's compensation will be dramatically impacted, due to no fault of their own?

Here are FAQs sales leadership should consider before taking any action.

1. Should I make any changes to goals, quotas and/or compensation plans now?

- The complete impact of COVID-19 isn't clear yet, so making changes now wouldn't accurately reflect a thorough understanding of its impact. You don't want to make quick changes now only to later realize the changes you made aren't accurate.
- Despite rising concerns about the effect COVID-19 will have on their businesses, most U.S. companies appear to be taking a "wait and see" approach to adjusting their compensation plans.
- Adrienne Altman, managing director and North America rewards leader at the consultancy Willis Towers Watson, states, "As companies grapple with the volatility of financial markets and the effects of COVID-19 on their business and employees, we expect they will closely monitor how to align compensation, as well as their broader HR policies and practices, including merit increases."
- Altman believes that because so much of the impact of the virus is uncertain, "compensation committees and executives are not making immediate changes to their organizations' pay programs—at least for now."
- Most economists expect negative U.S. business growth, at least through the second quarter of 2020, but are optimistic about a recovery later in the year.

2. If it is wise to wait to make changes now, what should I communicate to my sales team?

- First, be honest and truthful. This pandemic, and its effects, are new to all of us and we are still trying to learn the severity and length of its impact.



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- While the coronavirus' impact on the economy came on quite suddenly, it's now clear that it will impact the economy and sales compensation for 2020 and perhaps beyond. Let your team know that you are already thinking about changes you may want to make for the short term and for all of 2020.
- If you intend to make changes, let your sales team know you don't have all the answers yet; but your intentions are to make the necessary adjustments.

3. Do I make my salespeople "whole" even though the company missed its goal?

- What does it mean to "make my salespeople whole"? It means you recognize that their previous goals/quotas are no longer possible, and therefore, their previous compensation at 100% of expected performance is no longer possible. It also means (with that understanding) you still intend to pay them what they would have made previously, but at a lower performance level (because COVID-19 has made it difficult for them to achieve their previous goals).
- It is a difficult choice to "make my salespeople whole" when the company won't be as profitable as previously expected.
- While it may not be financially, philosophically and ethically reasonable to "make your salespeople whole," you might want to consider at least a partial quota adjustment, given the extreme and external nature of the coronavirus.

4. If I decide to make changes to incentive compensation plans, what changes should I make?

- Adjust goals/quotas to what is now realistic. If you wait until the crisis has been resolved, you should have a good sense of how much impact it will have on your company, sales department(s) and individuals.
- If you don't want to adjust goals/quotas, there are a number of ways you can adjust your plan. Sales compensation plans have many levers that can be "pulled" and there is no one solution works for every company or role.
 - Adjust the payout threshold (the performance level where they start making commissions) to make it easier to earn commissions earlier. Even consider lowering the threshold to paying on every dollar.
 - Change the compensation plan and pay on activities/metrics, key performance indicators (KPI's) and/or management by objectives (MBO's).



COVID-19'S IMPACT ON COMP PLANS

- Provide a guaranteed minimum variable compensation. One version is a non-recoverable draw that allows them a minimum commission, that if not earned, they still get to keep.
 - Consider year-end adjustments. Your salespeople are probably already asking if you intend to do this. Although this doesn't serve as one of the best motivators (given they won't find out their real goal until the year is over), it will provide some motivation and it provides management with a safety net.
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- You risk losing their motivation. It is human nature to “give up” when a goal is unattainable. Your team will question whether their effort will matter, given that they don't have any realistic opportunity to earn any (or most of) their variable compensation.
 - It is very important to understand that sales reps take sales positions, in large part, due to earning potential. Top-performing sales reps look at that earning potential at 100% or greater of quota attainment – that is the way top reps should and do think.
 - While management could argue that the sales reps are still getting paid a salary, likely up to 50% of a rep's expected compensation could/will be lost. Your reps will only work as hard as necessary not to get into trouble.
 - Turnover will go up – after the crisis has been resolved, your sales reps will very strongly consider moving to one of your competitors or to some other company. Why? They paid attention to how other companies took care of their people during this difficult time. You will have saved money in the short-term and lost money in the long-term.
 - Why should the sales team be one of the few employees to bear the brunt for missed goals when it wasn't their fault? Other departmental positions will still earn the same salary.

The key to deciding how or if to adjust sales compensation plans during COVID-19 or any crisis is to understand what makes salespeople tick. If you stop and think about it, a salesperson accepts a sales role without knowing what half their income will be. They do so because they believe in themselves and their ability to execute. When circumstances outside of their control impact their ability to earn a decent living, special consideration should be made. Make sure you consider the costs, as well as the benefits, when making compensation decisions this year, as well as in the years to come.

