

Sales Compensation Checklist

One of the most critical errors made within the sales organization of a business is not crafting a sales compensation plan that effectively motivates and rewards performance as it drives bottom-line financial results.

You must create a plan that motivates the salesperson and drives them to the behaviors that lead to the desired revenue growth, achieving both company and individual goals. If you aren't familiar with this method, it can be difficult to know where to start. Here are some questions to help you develop the best sales compensation plan for your organization:



Are your organization's compensation plan(s) bringing the desired results/behavior you seek?

The bulk of sales incentives need to focus on the primary measure that aligns most closely with your company's strategic goals.

1. Desired result = large sales growth
Compensation: Larger commission percentage and/or bonus for achievement at and above quota
2. Desired result = client retention
Compensation: Higher commissions for retained sales
3. Desired result = New product (or vertical) offering
Compensation: Higher sales commission percentage on new product (or vertical) sales
4. Desired result = Increased sales of high-margin products or services
Compensation: Higher sales commission paid on high-margin products or services vs. lower-margin product or services



How often do you change your sales compensation plans?

Compensation plans are not static documents. They need to be reviewed annually to ensure you are driving desired behaviors based on the goals for the year. If your salespeople are being compensated well, this should directly align with the company's achievement of their revenue goals.



How do you pay your sales reps?

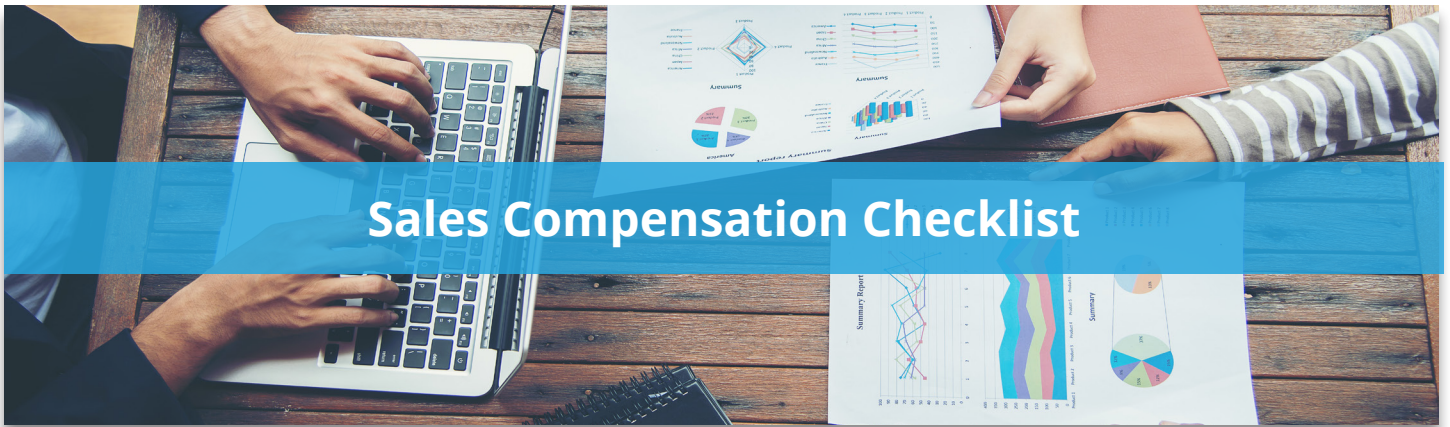
Salespeople are wired differently. They do not take a role for the base salary; rather they take the role focused on attaining or exceeding their assigned goals – they essentially bet on themselves because they believe they can maximize their earnings based on their performance (via variable sales compensation). Variable compensation can take many forms (bonuses, SPIFF's, draws, commissions, etc. – and each variant can be used to motivate different types of behavior).

Typically, the best mix for not only compensating your salespeople, but also attracting top sales talent is 50 / 50:

- 50 percent base salary
- 50 percent variable (commissions, bonuses, awards, etc.)

If you tend to lose top performers, this may be a red flag indicating you have an inadequate compensation structure.

To make sure your salary is aligned with your market and industry, use tools like PayScale to check market rates.



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How do you communicate your sales compensation plan to sales team members?

After thoughtfully developing your sales compensation plan to help you and your reps achieve your goals, you must also communicate it with your sales team. Provide each sales rep with a spreadsheet detailing numeric breakdowns of the plan, along with a written plan outlining the components of their compensation. Encourage questions but expect some pushback, especially if there are substantial changes from previous plans. Provide feedback and guidance, and be open to suggestions for how the plan can evolve. Compensation plans should be looked at each year to assure they align with the sales goals. Lastly, and perhaps most importantly, after delivering each compensation plan, ask each sales rep what activities it will take to maximize the plan. If you receive the correct answer, you have done a good job designing and delivering the plan. If you receive the wrong answer, explain what was misunderstood.



Do your salespeople sign their annual compensation plan?

Not only should your compensation plans be written, they should also be signed by each salesperson. The written plan should include their goals, financial compensation breakdown, clearly defined sales territories, terms regarding manipulation of the plan, etc. When a salesperson signs a compensation plan, they are committing that they have read it, understand it, and are all in. It's a much easier conversation for everyone if there are future questions on performance when a compensation plan has been signed, verifying understanding and agreement. This should be done every year.



What's the Bottom Line?

The ideal sales compensation plan motivates your reps to take responsible actions that help them – and the company – make the most money. If you have written your plan correctly, reps will be motivated to do exactly what you both want: they will make money when you do!