

Is Your Sales Incentive Plan in Tip-Top Shape? It Might be Time for a Check Up

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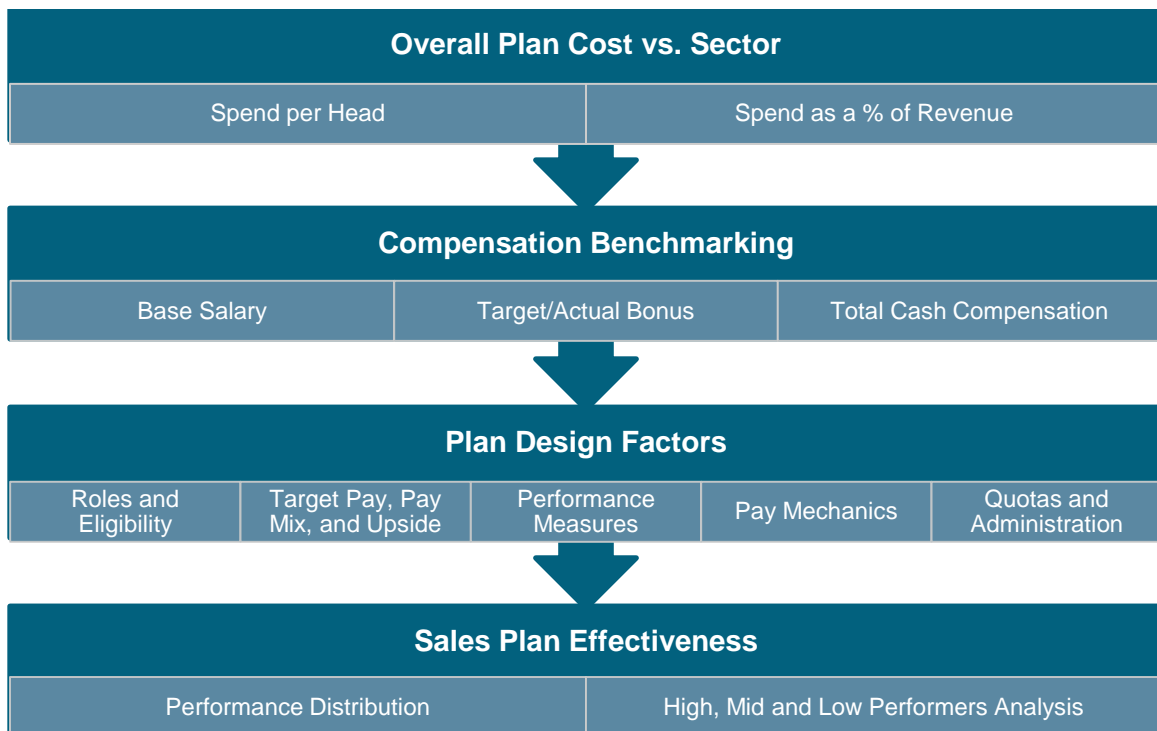
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Introduction

All business leaders face pressure to manage sales incentive plan costs while still delivering profitable growth. It's an annual challenge, yet few companies have an effective roadmap for assessing the health of their sales compensation plans. To assist our clients with this task, we've developed a new framework called the Sales Incentive Plan Health Check. Radford's unique approach for technology and life sciences companies allows us to provide insight into a number of critical design issues, including overall plan cost, compensation benchmarking, sales plan practices and sales plan effectiveness. The following chart illustrates the key plan design issues covered by our new health check program:

Sales Incentive Plan Health Check



To dig a bit deeper, the following sections outline the types of symptoms we look for, along with the diagnostic tools we use, to help clients uncover hidden sales incentive plan design concerns.

Overall Plan Cost vs. Sector

To some degree, it's always about the bottom line, which makes measuring the overall cost of your sales plan a great place to start any health assessment. Key symptoms to look for in this area include indications of a lack of investment in your sales team relative to performance levels and business growth rates, plus low levels of variable incentive pay relative to the market. And at the other end of the spectrum, companies should be on the lookout for bloated levels of spend as a percentage of revenue.

To assess these issues, Radford typically examines a targeted view of our Sales Incentive Plan Practices data, which is collected as a supplement to participation in the Radford Global Sales Survey. Depending on company needs, we might look at a specific set of peer companies, your overall industry, or both. We recommend looking at both plan cost per salesperson and plan costs as a percentage of revenue. This approach allows you to identify specific opportunities for investment as well as high-level inefficiencies.

Compensation Benchmarking

Once a company establishes whether or not the overall cost of its sales incentive plan is at healthy levels, it can next turn to considering external factors like the market for sales talent. Missing the mark on setting competitive compensation levels is a serious issue. To attract, motivate and retain high-performing sales people, companies need to get sales compensation right at every step of the process, including base pay, variable pay, total cash compensation, and total direct compensation (including any long-term awards).

The first step to take in assessing competitive levels of pay is to develop an appropriate peer group, which can include both business rivals and companies competing for similar types of talent. Once a peer group is in place, we can begin to leverage data from the Radford Global Sales Survey to develop a holistic picture of how a company's overall approach to pay compares to the market.

Importantly, we work with companies to consider their specific strengths and weaknesses when it comes to compensation. Simply paying at the middle of the market or slightly better across all elements of pay may not be enough to move the needle in the race to attract top talent. Increasingly, companies look for opportunities to emphasize a part of their compensation program where they have a chance to be a market leader.

Plan Design Factors

There are number of factors companies can adjust to significantly impact the design and performance of their sales incentive plans, and sometimes, a small tweak can make a huge difference. While no single plan design feature is inherently good or bad, the proper application of plan design practices is critically important. Companies need to pick practices that align with their specific business needs and can be easily communicated to sales team members.

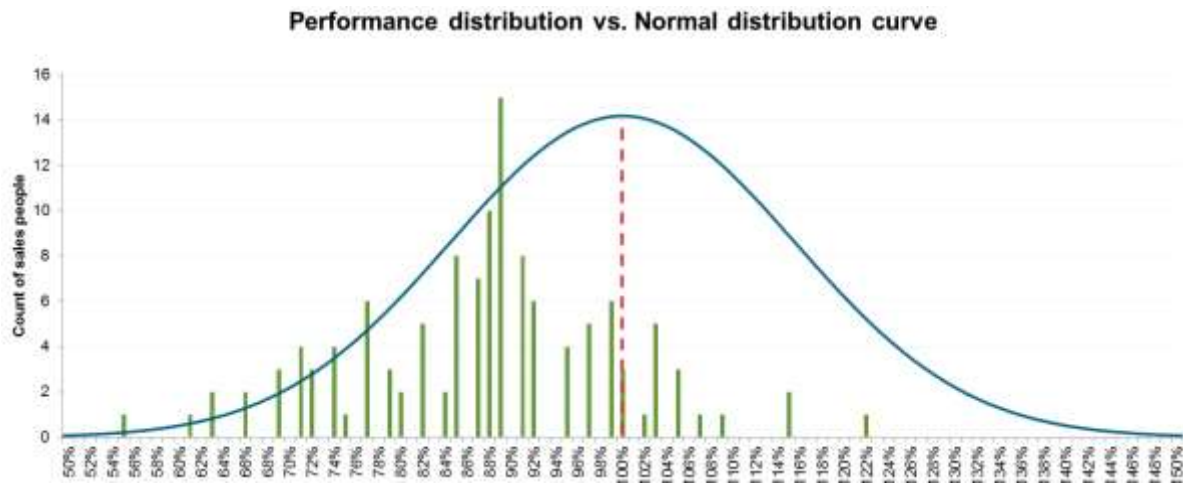
Using data from our Sales Incentive Plan Practices and Workforce Trends reports, we help companies examine issues like plan eligibility, metric counts and types, pay mix, quota setting, payout curve design, payout maximums and SPIFF policies, among many other topics.

Potential red flags in this area include the overuse of non-financial metrics, too many plan components and overly complex payout mechanics. Over time, particularly as your business grows, these red flags can pile up to make your sales goals harder and harder to attain. If your salesforce does not see a clear

line between their performance and compensation outcomes, it's a problem that eventually leads to the final critical step of our annual health check: sales plan effectiveness.

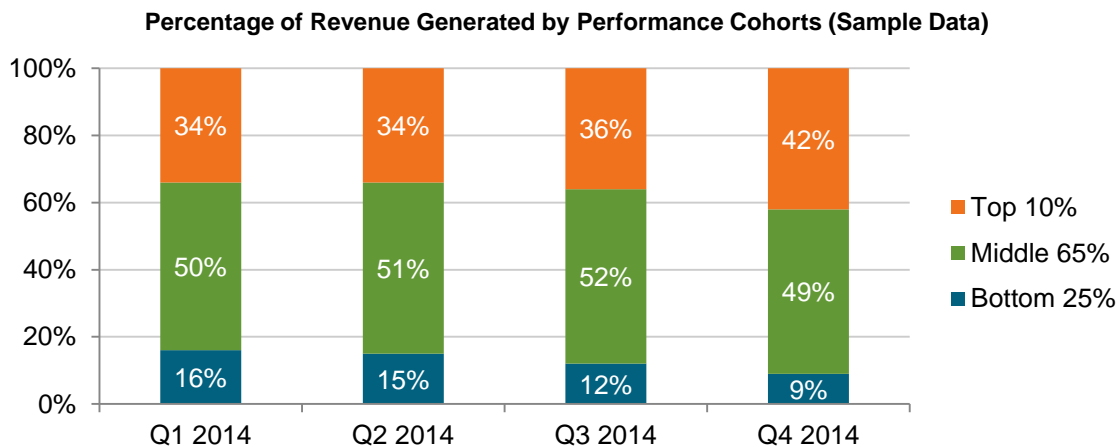
Sales Plan Effectiveness

The effectiveness of sales plans can be measured in a number of ways, including the distribution of quota attainment rates among sales team members, the percentage of revenue delivered by high and low performers and assessing potential coverage gaps between sales team deployment and available market opportunities. For our annual health check, we start by examining the distribution of quota attainment rates, as illustrated in the chart below.



Negative symptoms to look for include highly-variable performance rates with no discernable pattern and a large number of sales reps failing to meet performance targets. Data of this nature suggests sales targets could be misaligned to market realities or the size of sales territories. Furthermore, it could mean that sales team members have uneven sales enablement resources or lead flows. In any event, regardless of the underlying cause, motivation problems are likely on the horizon.

We can also look at the relative contribution of your sales team members by high, medium and low performers over current and historical periods, as illustrated in the chart below.



This type of analysis can serve to alert business leaders that the attainment of overall sales results is becoming increasingly reliant on the performance of a concentrated group of top performers. Data of this nature points to a number of potential follow-up questions: How do we design sales plans to retain critical talent that might play an ever-more important role in driving sales results? And what type of plan changes need to be made to uplift performance within the mid-level cohort?

Ultimately, the ability to combine Radford's robust and timely market data on pay levels and practices with a company's detailed historical sales performance information creates a rich environment for analyzing methods to improve sales plan performance. Against this backdrop, interesting strategies begin to emerge for our clients.

Conclusion

The line between business strategy and business results usually isn't as clear as we would like. However, when it comes to the design of sales incentive plans, companies have a tremendous opportunity to start tackling this challenge. Yet, few companies actually examine their sales plans in a meaningful way as often as they should. Our Sales Incentive Plan Health Check provides a quick and effective means to check the pulse of your sales compensation program. By looking for a specific set of symptoms across a well-defined roadmap of diagnostic tools, we give companies the tools they need to understand if major or minor fixes might be needed up ahead.

To learn more about Radford's consulting, benchmarking and workforce analytics capabilities in Europe and the Middle East, please visit: radford.com/emea/

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About Radford

Radford, an Aon Hewitt company, is the leading provider of compensation intelligence and consulting services to the global technology and life sciences sectors. Our market-leading surveys, equity valuation expertise and strategic consulting help Compensation Committees and human resources leaders address their toughest challenge: attracting, engaging and retaining talent in innovation-based industries.

Radford offers clients a comprehensive suite of solutions, integrating unmatched global data capabilities with high-powered analytics and deep consulting expertise to deliver market-leading guidance to more than 2,600 organizations annually— from Fortune 100 companies to start-ups.

Headquartered in San Jose, CA, Radford has professionals in Bangalore, Beijing, Boston, Brussels, Frankfurt, Hong Kong, London, Philadelphia, San Francisco, San Diego, Shanghai and Singapore. To learn more, please visit radford.com.

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