Aon Hewitt
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When It Comes to Sales Compensation, Three Key Issues Are Top of Mind for Sales Leaders

At our recent Silicon Valley sales compensation event, we met with 70 sales and HR leaders to discuss driving sustainable growth through effective sales compensation plan design.

For technology and commercial life sciences companies, achieving rapid but sustainable growth is the name of the game. Unfortunately, high rates of growth create challenges for everyone involved in sales compensation plan design, including sales leaders, human resources professionals and finance alike. When revenue and teams grow quickly, sales leaders are forced to recalibrate quotas and incentives faster than most people might otherwise expect. It's a constant struggle to optimize performance, drive engagement and keep the cost of sales down.

With these challenges in mind, the attendees at our recent Silicon Valley sales compensation event joined us for a focused conversation on three key issues sitting firmly at the epicenter of driving sustainable growth through effective sales compensation plan design.

Issue #1 – Is Your Sales Compensation Plan Aligned With Your Company's Stage of Growth?

In our experience, most companies evolve through three distinct phases of growth: from start-up to high growth to managed growth. Knowing where your company stands within this lifecycle is often the first step in ensuring you'll be able to manage growth today and effectively transition to the next stage tomorrow. The table below highlights some of the common business issues clients face within each phase of growth and how sales strategies typically evolve from one stage to the next.

	Start-Up	**High Growth**	**Managed Growth**
Common Issues	▪ Weak/limited market presence	▪ Inadequate rainmakers ▪ Poor new product penetration	▪ Pricing/margins ▪ Sales productivity ▪ Job contamination ▪ Channel conflicts, crediting
Sales Strategy	▪ All business is good ▪ Single product ▪ Homogeneous market	▪ Land and expand ▪ Growing portfolio ▪ Customer management ▪ Horizontal segmentation	▪ Profitable business ▪ Multiple strategies ▪ Vertical segmentation ▪ Specialization and focus

Most attendees at our event agreed they come from companies in the first two phases of growth: start-up and high-growth. However, by the end of the day, some realized their sales strategies don't quite align with their current phase of growth and business needs. In many more cases, attendees over or underestimated just how far along they are within the business cycle. We emphasized the importance of benchmarking your company to the best-fit growth stage, which then lays a solid foundation for competitive benchmarking and building a strategically-aligned sales compensation plan.

Issue #2 – How Should Sales Jobs Evolve with Growth?

Taking a long-term view toward creating job profiles is essential when it comes to building compensation plans for salespeople, but this rings especially true for companies in start-up mode. To illustrate this point, we introduced the key concept of cost of labor and discussed the importance of thoughtfully benchmarking target total cash, base salary, pay mix, actual pay, and performance in the context of a job's value in the market.

One attendee noted that jobs at his company are different from traditional Silicon Valley technology companies. "What if our jobs are a bit different or more specialized from what we see in the market data?" he asked. It's common in this stage of a company's growth to have sales jobs that don't fit cleanly into predefined boxes. Some jobs may truly be different and not just in name. Often, in early-stage companies some sales roles are akin to a generalist, with responsibilities that span multiple job roles that might be found in the **Radford Global Sales Survey**. This issue highlights the importance of working across sales and human resources leadership to effectively profile each and every job, and to recognize any shortcomings relative to the company's evolving coverage strategy and competitive market practices. Validating job profiles and staffing levels sets the foundation for pay success by being precise about a job's economic value and recognizing the overall cost impact across the sales organization.

Part of the process of aligning sales compensation plan design with your growth strategy is planning ahead. All too often, workforce forecasting is neglected. At the meeting, we discussed how Radford's global workforce analytics database allows companies to plan ahead by looking at industry norms for headcount distribution across multiple job categories to assess pertinent jobs and cost-effective headcount ratios for the next stage of growth.

Issue #3 – Managing Quota Levels

Cost is only one side of the equation, and no sales compensation meeting would be complete without a discussion on quota levels and achievement trends. Mark Davis, co-leader of Radford's sales compensation practice, emphasized that an ineffective linkage between quotas and incentive pay can cause a direct hit to sales revenue and overall sales force effectiveness.

Attendees noted the challenge of adjusting quotas for the next year based on the current year's performance. For example, one person raised the question: "If you've got people who are hitting and exceeding their quotas this year, would you give them similar quotas the following year and let them overachieve again, or would you make modifications?" When answering this question, it's important to keep in mind that last year's performance isn't necessarily an indication of next year's performance. There may have been other factors that contributed to a salesperson's success that may or may not be likely to occur again the following year. Several meeting attendees referenced multiple factors when developing quotas for the following year, including their employee deployment model and the number of performance measures used in the plan. While only two people in the room said they adjust their quotas upward based solely on the previous year, the majority of those in attendance said their company struggles to manage an effective quota achievement distribution

We also asked the audience if it was common practice to overload quotas in order to hit overall revenue goals. Regardless of phase, a majority of companies said they do this, building in a buffer for those who fall below their quota goal and accounting for attrition that will occur throughout the year. Radford founder and partner John Radford, who co-facilitated the event, expressed his support for this approach, saying, "If you're not over-assigning on quotas, you're setting yourself up for a challenging year." However, as one attendee noted, "You can't sustain sales momentum if the majority of salespeople miss their goals when the company hits plan." Striking this balance is always the perennial issue when developing quota targets.

Next Steps

The rapid growth we see in technology and life sciences companies' sales organizations is good for business, but you can't take any shortcuts when it comes to investing in compensation plan design. Knowing where you land on the business phase continuum and understanding the compensation-related issues associated with your current and future growth stage will help your organization execute on the strategy.

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