Further, today's sales organizations are often fully integrated with other formerly disconnected customer contact units such as Customer Service, Contracts, Customer Finance, and Collections. In other words, while the classic sales job still exists for many companies, the territory salesperson traveling from one account to another is just one more member of a much more varied and complex sales coverage system.

For conventional purposes, we will continue to refer to today's sales coverage system as the "sales force," fully recognizing the expanded characteristics of today's sales departments.

Regardless of the complexity of the sales organization, the sales force continues to serve its primary charter of identifying, securing, and servicing customers. The sales department has at the apex of its objectives what no other department has: the responsibility to manage the profitable revenue growth from the company's customers.

WHY SALES COMPENSATION WORKS

Some non-salespeople assume sales representatives are solely money motivated. They believe the best (and only way) to manage the sales force is with an overly lucrative sales compensation program. Of course, this is not true. This monetary-centric view of sales representatives promotes a cursory view and inaccurate assumption about sales representatives. It can lead to some false and unfortunate conclusions about the importance of the sales compensation program.

The source of effective management has many competing theories. While the names and themes of these theories might vary, they all subscribe to at least two critical elements: *leadership communication* and *performance measurement*. Great sales compensation plans optimize both of these elements: communication ("this is what's important") and performance measurement ("your incentive payment for last month's performance"). However, clear communication messages and measurement systems don't always fit tidily into a sales compensation plan. There are other and more powerful ways to manage salespeople. For example, day-to-day, hands-on committed sales supervision is considered the best "system" for optimizing sales performance.

A typical conversation between the first-line supervisor and his or her sales charges would sound something like this: "Now, ladies and gentlemen, we are on the line here to achieve this month's sales objectives. I have a commitment from each of you to reach your monthly quota. It's important to me, and it should be important to you. At our next sales meeting, we will put the numbers up on the board to see who we *cheer* and who we *sneer!* If you are having any trouble closing a deal, I can help you. Call me, and we will schedule joint sales calls. Remember, your success is my success!"

This pitch by the first-line supervisor shows the importance of leadership communication (". . . it's important to me, and it should be important to you . . .") and performance measurement (". . . at our next sales meeting, we will put the numbers up on the board to see who we *cheer* and who we *sneer* . . ."). Notice, no mention of money was made, but a heavy dosage of personal accountability and peer pressure is evident.

Interestingly, this vignette illustrates how sales compensation is considered "cross-elastic" with effective sales management. In other words, the better the sales supervision the less the need for aggressive incentive plans to manage sales performance. Further, sales compensation is not a birthright of salespeople. We estimate that 20 percent of all sales personnel are paid with a salary-only program without any variable pay plan.

Regardless of the pay plan, high-performing sales organizations feature ongoing leadership communication and robust performance measurement systems, whether these functions are found in the sales compensation plan or projected through effective sales management, or are a combination of both.

Yes, we agree, the economic transactional value of the incentive compensation dollars *does* provide motivation for increased performance. However, we consider it complementary to other factors such as pride of performance, supervision, affiliation, and goal accomplishment.

Well-run sales departments treat sales compensation as one of several levers of effective management. Along with other management tools, sales compensation can play a contributing role to successful sales production. However, it cannot be the only factor because alone it cannot provide leadership, commitment, and purpose of endeavor that effective sales management can so ideally provide.

THE POWER OF SALES COMPENSATION

A well-designed sales job and sales compensation program can provide dramatic improvement to a company's sales results. When products, customers, sales leadership, jobs, measures, and rewards are in alignment, sales results can be more than remarkable. Sales compensation can provide the right focus on revenue growth, profit improvement, product focus, account penetration, and solution selling.

If sales compensation programs are so powerful, why do they seem to be so "noisy"? In a league of their own, like no other compensation program that the company has, sales compensation programs seem to produce a disproportionate amount of challenges and conflicts. Why is that? There are several reasons. Some issues are to be expected, but others are a result of poor design and poor alignment. Here are examples of some challenges and conflicts:

1. *The chief executive officer (CEO) and the chief financial officer (CFO) are unhappy that the sales compensation program is too costly while the company is performing below objective.* This is not an

uncommon situation. Before concluding that the sales compensation plan is overpaying, you might want to look at the cost of sales. A high cost of sales might be a result of overstaffing and not overpayment to individuals. If actual payouts are too high, then examine the quota system first. Perhaps quotas are too easy.

2. *Product management wants greater product focus from the sales force.* Product managers want to put extra incentives in the sales compensation plan to promote specific products. Product focus is a legitimate measure for sales compensation purposes; however, prior to making changes, product managers have to make good on their own responsibilities, including rationalizing the product offering, segmenting customers, and providing sales messages for unique buyer populations.
3. *Salespeople complain sales quotas are too difficult.* Sales quotas should be difficult. That's their purpose—to stretch performance. Sales compensation is not an appeasement program.
4. *Salespeople seem to ignore components of the sales compensation program.* This is often the result of a poor sales compensation design, not a motivation issue. A poor design is frequently a reflection of strategy and alignment confusion by senior management. Too many measures, inappropriate measures, or unrealistic objectives will cause sales personnel to ignore one or more components of an incentive plan. Solution: new job definition and a new sales compensation design.
5. *The company spends too much money administering the pay program.* Using low-power tools such as desktop software will cause an increase in headcount for program administration. This may not be the fault of the incentive program, but may be a problem of failing to provide proper information technology (IT) administrative support to the program.

Sales compensation *is* noisy. Sometimes the design is at fault, and sometimes it's an issue of alignment. It can even be just a by-product of an effective program. As a sales compensation designer, this book will help you sort out what problems are real and what are not, where the solution resides, and how to make the right changes.

JOB CONTENT—THE SOURCE OF SALES COMPENSATION DESIGN

When asked about the origin of a sales compensation program within a company, the response might include the following: "It's always been that way" or "It's the industry practice. We follow what others do."

These reasons may sound compelling, but they do not provide a strong rationale for designing effective sales compensation programs. Historical practices, sometimes known as legacy solutions, are often no longer contemporary with market realities or support a sales model that no longer exists.

What about industry practice? Follow industry practice only if your company is identical to your competitors and if they have found the ideal sales compensation solution. However, the likelihood that your products, customers, and customer coverage strategy are identical to your competitors is, at best, remote. So, following what others do in your industry is usually not an effective strategy. As we will learn later, the design of the sales compensation plan is unique to every company.

Effective sales compensation begins with the proper strategy alignment and ends with effective job design. There are several points where sales management *must* achieve alignment before reaching the sales compensation program. The right products must be aligned with the right customers. The right sales jobs must be aligned with the right buyers. The sales jobs must have clarity of purpose—alignment to the sales task—and the performance measures must have alignment with the job content.

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Once sales management provides proper alignment among customers, products, and sales jobs, then sales management can craft a sales compensation plan to support the *aligned* sales strategy. As we will learn in Chapter 4, sales compensation design is driven by job content. Get the job right and the sales compensation design is easy. Conversely, create a confusing, misaligned sales job and no sales compensation plan can be successful.

SALES JOBS AND SALES PROCESS

The art and science of crafting effective sales compensation programs rest with a commanding competency in sales job design—assessment, evaluation, and construction. Job design errors are the No. 1 culprit in sales compensation plan failure.

Sales management configures sales jobs to serve a preferred target buyer population. All sales processes comprise five key components. Depending on the products, market, and customers, sales management will define the sales job within the context of these five components:

- *Demand creation:* Stimulating the market.
- *Buyer identification:* Finding the decision makers.
- *Purchase commitment:* Securing the order.
- *Order fulfillment:* Delivering the product or solution.
- *Customer support:* Providing ongoing support after the initial purchase.

Each step of the selling process contributes to securing and keeping customers. The sales job is often involved in each step of the sales process; however, the level of involvement varies significantly from one company to another and from one sales job to another. The following are descriptions of how sales personnel may be involved in each step.