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Sales Resource Group

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OWNER ACCOUNTABILITY

SALES COMPENSATION DESIGN PROJECT SERIES • ISSUE #1

Sales Compensation Design Project

OWNER ACCOUNTABILITY

Ownership of the Sales Compensation Plan is a critical issue for a large organization. The use of incentives in compensation requires clear direction, assessable performance measures, the setting of fair and realistic targets, accurate and consistent tracking and reporting and payouts that are material and provide an appropriate return-on-investment for the company. Many individuals and groups play an important role in the design and evolution of Sales compensation within a company. Each must take accountability for their part in creating an effective Sales Compensation program. If used properly, incentives can be a potent force in eliciting desired sales behaviour and achievement of stellar results. If not managed well however, they can become a considerable waste of money and an exhausting source of management and field sales frustration.

The groups that should be active participants in the ownership of the plan and its processes include:

- CORPORATE LEADERSHIP TEAM
- SALES MANAGEMENT
- SALES OPERATIONS
- HUMAN RESOURCES
- FINANCE
- I.T.
- PAYROLL
- COMMUNICATIONS

Outlined within is a sample ownership structure for the Sales Compensation Plan at a fictitious company, Pentosa. It is based upon our understanding of the company, our background in working with organizations across industries in a competitive environment, and finally drawing on 35 years of experience in working with sales compensation in a multitude of sales environments. It should not be seen as prescriptive however, but rather as a starting point, which through further discussion regarding ownership can be amended to fully meet your needs for a Sales incentive framework.

In this document, ownership involves the accountability for outcomes, deliverables, documents, presentation and expected results. Ownership also has responsibility for allocation of resources and budget to achieve the results and meeting of pre-set deadlines...without fail.

The ownership accountabilities within Pentosa for the Sales Compensation Plan can be broken down into the following components:

1

Vision, Direction & Strategy

Overall responsibility for the vision, direction and strategy related to incentive compensation belongs to the Corporate Leadership Team. The business goals and objectives that form the direction of the company should be outlined clearly in the business plan, annual report or in the company strategic plan. These goals and objectives form the basis on which sales management then creates the sales strategy to which compensation must be aligned. It is critical to establish the link between rewards and direction in order to ensure that all of the sales and business units are driving behavior (e.g.: selling customer value) and expected deliverables (e.g.: profit versus volume) from the various plans across the corporation, in the same direction. The Leadership team owns solution-based selling and the rewards that go with it. The move in this direction has not only a process change management component, but also a behavioral and execution requirement. The Sales Compensation Program needs to initiate and reinforce these elements. Further, the skills and capacities required to change the fundamental relationships with customers to a value creation and solutions selling approach necessitates that the compensation program recognizes both the development of the core competencies (e.g.: written and verbal communications skills, customer service orientation) within the sales roles as well as rewards for the execution of differentiating competences (e.g.: analytical skills, partnership development) that are reflected in sales results.

> "The Corporate Leadership Team owns the solution-based selling and the rewards that go with it, necessitating a compensation program that initiates and reinforces the desired behaviors and outcomes."

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Sales Execution

Sales Management within each of the business units is the operational and tactical owner of the Sales Compensation Plan since it is the lever that they will use to change behavior and drive sales results through the sales roles as well as supporting roles (e.g.: supply chain, finance, marketing etc.). It is critical that the plan design be driven through this process, as failure to align compensation with the business unit goals and sales strategy can produce sales results or behavior that not only do not support the business plan, but may elicit inappropriate behavior. The main requirements of ownership in this area are:

1. Development of the guiding principles for incentive compensation design across the corporation and business unit
2. Communication of business direction & sales compensation alignment requirements
3. Identification of "key" business performance measures and targets
4. Identification and commitment to resolve organization dependencies or impediments
5. Plan design, document, communication and implementation
6. Approval of the plans, forecasts & targets

> **Sales Management is the lever that drives sales results through the sales roles, using the Sales Compensation Plan as the tool to change behavior and achieve strategic alignment with business unit goals.**

3

Design Process, Assessment of Current Plan & Competitiveness Requirements

Human Resources (HR) are the owners of the Sales Compensation Plan design and competitiveness process. As a consultative resource to the organization, it is their responsibility to coordinate and manage the design and development process and to ensure that the plans that are implemented are fair and equitable. They must also be managed within the allocated reward budget, and be competitive with other comparable organizations, in markets where the company competes for talent. HR, in their consultative role, may also facilitate the management sessions required to identify vision, direction and strategy. The payouts for sales achievement must also be reviewed (particularly new plans) to ensure that they are material relative to the effort that was required to deliver it. HR will participate and provide input to corporate sales policies and practices to ensure that they are consistent with employment standards and will engage in measurement and feedback systems development (e.g.: performance management, employee attitude surveys etc.) to ensure that the field sales and support organizations are heard and their opinions are considered in the design process.

Elements of the ownership component for Human Resources include:

1. Data collection on plan performance, sales results & analysis of payouts
2. Facilitate the management review of the Sales Compensation Framework as part of the business planning process each year
3. Issue identification to ensure proper resolution of plan design problems
4. Organizational input/feedback to the designs and process
5. Market data collection, survey participation and competitive market through benchmarking
6. Evaluation of sales performance measures
7. Development of design alternatives
8. Review and selection of preferred alternatives with corporate and field management
9. Plan document development and production

While HR owns the design and development process, many other groups (sales management, sales operations, finance, IT, communications) must participate in the process and may have responsibility for deadlines and deliverables for components within the overall design and development process. Commitments in this regard must be made with consideration of the impact that lateness in delivering the plan will have on field staff morale and management credibility.

4

Costing Analysis & Program Audit

Financial and profitability aspects of the plan design payouts and the audit of plan performance once implemented (to ensure that it is being administered properly and that payouts are correct) are owned by Finance. Once the design of the Sales Compensation program is completed, and prior to implementation in the business units, there is a costing step that must be undertaken to ensure that the plan payouts are appropriate relative to the requirements for profitability on sales. The costing will also assist in setting/evaluating incentive budget requirements and in establishing the cost-of-goods-sold. The costing analysis is the due diligence component of the plan approvals and will form part of the information provided to management when they meet to approve the plan design.

After the plan has been rolled-out to the field, the Finance department will conduct periodic audits of the sales crediting, calculation of incentive and payouts under the plan. These audits are typically done at the end of a performance period or fiscal year end. They are performed using a standard practice to ensure comparability of the results. The audit process should be decided upon and communicated at the beginning of the fiscal period to ensure that everyone understands the measurement process. Responsibilities will include:

1. Costing of the plan designs against hypothetical or historic performance levels
2. Preparation of a costing summary to support approvals
3. Input into setting of targets/quotas based upon required corporate financials
4. Development of an audit process and conduct of periodic audits to ensure proper crediting of sales and payouts

Once the targets have been set for the year, there should be no adjustments to the targets or achievement levels without a meeting and agreement of the senior management and governance team. These types of adjustments create major credibility problems in the field and reduce the incentive value of the program.

> **"Finance ensures that the Sales Compensation program's payouts are appropriate and profitable, safeguarding the company's financial health through rigorous costing analysis and periodic audits."**

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5 Performance Tracking & Reporting

Ensuring that sales are logged appropriately, that credit for the sale(s) is given to the correct individual(s) that are entitled under the plan and that the reporting is accurate and reaches the recipient is under the ownership of Sales Operations/Shared Services Administration. This group should have access to the plan designs to ensure that proper credit is assigned and where appropriate, split between salespeople. They will also ensure that credit is given at each of the appropriate sales levels and teams. In reporting results, they are responsible for the quality of the data and ensuring that management and salespeople have the reports necessary to be satisfied with the plan administration. This element is essential.

In the design and development stages of plan changes, Sales Operations/Shared Services Administration will participate through providing sales performance information, assisting in the design process and ensuring execution of support tasks as assigned by sales management in providing data and reports, analysis and participation in meetings. Sales Operations/Shared Services Administration also has the responsibility for dissemination of sales targets/quotas for compensation purposes.

Sales Operations/Shared Services Administration should also take responsibility for the Sales Compensation Plan administration and should make any adjustments as required to sales transactions. If anomalies are found during the audit process, once resolved, this group should make the changes to the data. In the event that conditions in the sales environment require changes to either the targets or achievement levels, Sales Operations/Shared Services Administration should make the changes to the targets approved by management and communicate the changes to the field. In this way, there is only one caretaker of the information systems and one group handles questions regarding the rationale. Responsibilities will include:

1. Sales credit, credit splits and adjustments to credit for compensation purposes
2. Support of the forecasting and target setting process
3. Administration of the Sales Compensation Plan including sending information to payroll for payment of incentives
4. Management of the Pentosa SPM administration system
5. Support of the sales compensation design process
6. Assist in the rollout of the sales compensation plan to the field.

5

(continued...)

Sales Operations / Shared Services Administration will play a pivotal role in the overall design process by ensuring that the information required and the process support to maintain momentum in the design effort is provided. Further, establishment of this function will result in greater consistency in the information, less time wasted by salespeople verifying their sales credit and compensation calculations and improve the credibility of the organization.

> Accurate and consistent tracking and reporting are under the purview of Sales Operations/Shared Services Administration, ensuring that sales credit is given appropriately and that performance is transparently and timely reported.

David Johnston is President of Sales Resource Group Inc. He has a broad, international consulting background and offers experience, active participation and a Sales Resource Group approach to consulting with clients. David has nearly 30 years' experience consulting for organizations in diverse fields, such as broadcast and print media, pharmaceuticals, telecommunications, information technology, retail, manufacturing and financial services.

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