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REWARDING SALES EXCELLENCE

AUDITING SALES COMPENSATION TO IMPROVE PLAN EFFECTIVENESS
AND ASSESS RISKS, REWARDS, BEHAVIOR, AND RESULTS



Rewarding Sales Excellence

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Sales compensation plans are critical for driving sales performance, aligning sales activities with business objectives, and motivating sales teams. However, the complexity and variability of these plans necessitate regular audits to ensure they remain effective and aligned with organizational goals. In particular, when preparing for a new design project for the coming year, auditing the current plan(s) is imperative to ensure the success of your initiative. Auditing sales compensation plans can uncover risks, highlight areas for improvement, and ultimately drive better sales results. This whitepaper explores the benefits of auditing sales compensation plans, compares different audit approaches, and provides expert insights on optimizing these plans for maximum effectiveness.



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Benefits of Regular Audits

Enhancing Alignment with Business Objectives

Auditing sales compensation plans ensures that they are closely aligned with the company's strategic goals. By regularly reviewing plans, organizations can make adjustments to better support business objectives such as entering new markets, launching new products, or shifting strategic sales focus and tactics. This alignment helps ensure that sales efforts are directed toward the most critical areas with the greatest R.O.I. for the company's success.

Identifying and Mitigating Risks

Regular audits can identify various risks associated with sales compensation plans. These include financial risks, such as misalignment between sales performance and payouts, which can lead to high compensation costs without corresponding revenue growth. Audits also uncover behavioral risks, such as incentivizing undesirable sales behaviors that may harm long-term customer relationships.

Improving Sales Performance and Motivation

Auditing helps ensure that sales compensation plans are motivating, transparent and fair. By evaluating quota attainability, incentive structures, and payout fairness, companies can make necessary adjustments to keep sales teams motivated and focused on achievable yet challenging sales targets. This can lead to improved sales performance and reduced turnover.

Ensuring Compliance and Governance

Audits can also ensure compliance with internal policies and external regulations. This includes verifying the accuracy of payouts, adherence to plan terms, and the integrity of the data used to calculate incentives. Effective governance reduces the risk of fraud and maintains the trust of stakeholders, including investors, sales managers, salespeople, and customers.

What to Audit in Sales Compensation Plans

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Plan Alignment

Ensuring the compensation plan aligns with overall business objectives and sales strategy. This includes assessing whether the goals and incentives of the plan are driving behaviors that support the company's strategic priorities. If the goal is growth, the audit will identify any areas of weakness in the plan designs and what metrics would support both retention and new business to accomplish the required growth objective.

Tactical Execution

Evaluating the effectiveness of plan implementation and performance. This involves reviewing the processes and systems in place to administer the plan and identifying any inefficiencies or inconsistencies. Do the plans support sales behaviors that drive tactical execution? Audits hone in on the alignment of strategy with activities that when realized will improve sales results.



What to Audit in Sales Compensation Plans

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Incentive Design

Reviewing the structure and components of incentives to ensure they are motivating and aligned with desired behaviors. This includes examining the balance between fixed and variable compensation, the use of bonuses, and the criteria for earning incentives. Ensuring that the plan design supports customer requirements, focuses on the "right" products and solutions as well as supporting collaboration and information sharing with colleagues can all be assessed through an in-depth plan audit.

Performance Measures

Assessing the metrics used to measure sales performance and ensuring they are linked to business objectives is an essential element to sales success. This involves analyzing whether the performance measures are appropriate, attainable, and clearly communicated to the sales force. Identifying if you are rewarding the correct outcomes. Are the measures focused on areas where the salespeople are in control of the outcomes. Ensuring that the performance metrics are measuring accurately and consistently is critical to optimizing sales results.

Behavioural Impact

Analyzing how the compensation plan influences salesperson behavior and whether it drives the right activities for salespeople to achieve their assigned targets is a fundamental requirement of plan design. This includes examining whether the plan encourages short-term wins at the expense of long-term success. Does it initiate and reinforce desired sales behaviors that improve the probability of sales success?

Performance Link to Rewards

Ensuring a close and clear connection between performance and rewards is necessary to motivate salespeople. This involves reviewing the transparency and fairness of the payout process and whether high performers are adequately rewarded. Also, does the timing between performance and payout ensure that when faced with similar situations in the future, the behavior will be replicated again. Creating strong links between performance and reward is required for sales compensation plan success.

Motivational Impact

We all are different in what motivates us. What motivates one person may be ambivalent to another. Evaluating whether the plan effectively motivates salespeople to achieve their targets requires a review of stakeholder needs and participant input on plan influence. There is a distinct difference between reward and incentive type sales plans. A plan that pays out a reward at the end of a performance period, may be appropriate in some circumstances. However, this type of plan does not influence sales behaviour. It does not communicate what the organization values, nor does it tell the salesperson where to focus their time and effort. Plan audits review and identify the sales paradigm to determine if the design and structure will influence behaviour on a daily basis. This includes assessing the perceived fairness and competitiveness of the compensation plan.

Communication and Comprehension

Assessing how well the plan is communicated to the sales force and whether it is understood, and the participants will comprehend the link between their efforts and achievement of the company business objectives is an important feature of plan audits. This involves reviewing the clarity and frequency of communication and whether salespeople know what is expected of them. The audit reviews media used, key messages and expected outcomes in the assessment.

Administration, Governance, and Risk

Reviewing the governance structure and identifying any administrative risks that could impact plan effectiveness. This includes ensuring that the plan is administered consistently and that there are controls in place to prevent errors and fraud. In the complex landscape of the current business environment, solid plan governance is not a nice to have. It is critical to ensuring participant trust, customer experience and fiduciary responsibility to shareholders.

Shallow and Wide Audits

A shallow and wide audit examines the sales compensation plans across different sales groups/divisions at a high level. This approach is useful for identifying broad trends and common issues that may be affecting multiple areas differently across the organization. It allows for a quick assessment of the overall effectiveness of the plans and highlights areas that need more detailed investigation. These can be accomplished in a matter of weeks. They help to create a roadmap for changes in approach or where to focus attention when the issues are greater.

Benefits

- **Quick Identification of Major Issues:** Provides a broad overview, helping to quickly identify widespread issues or areas of concern.
- **Resource Efficiency:** Requires less time and resources compared to deep audits, making it suitable for initial assessments.

Drawbacks

- **Limited Depth:** May miss specific, deeper issues within individual plans or divisions.
- **Superficial Insights:** Offers limited insights into the root causes of identified problems.

Narrow and Deep Audits

A narrow and deep audit focuses on a specific sales division or a particular aspect of the sales compensation plan, such as goals, metrics, or behaviors. This approach involves a detailed analysis of the components of the plan, including the data used, expected outcomes, and areas needing change.

Benefits

- **In-Depth Analysis:** Provides detailed insights into specific issues, allowing for targeted initiatives and plan improvements.
- **Root Cause Identification:** Helps identify the underlying causes of problems, leading to more effective solutions. Enables the team to focus on specific aspects of the plan design to improve sales results.

Drawbacks

- **Time-Consuming:** Requires significant time and resources, making it less suitable for initial assessments.
- **Limited Scope:** Focuses on a narrow area, potentially missing broader issues affecting other areas of the organization.



Approaches to Auditing Sales Compensation Plans

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Insights:



"Effective sales compensation plans require ongoing evaluation to ensure they are driving the right behaviors and results. Audits provide the opportunity to fine-tune these plans and address any issues before they become significant problems."

- Donya Rose, The Cygnal Group .



"Sales compensation plans need to be regularly reviewed and adjusted to reflect changes in the market, the sales process, and business objectives. Regular audits are a critical part of this process, ensuring that plans remain effective and aligned with company goals."

- Beth Carroll, Prosperio Group.



"Regular audits are essential for ensuring that sales compensation plans remain aligned with business goals and are effective in motivating sales teams. They help identify risks and opportunities for improvement, leading to better sales performance and organizational success."

- David Johnston, Sales Resource Group Inc.



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Sample Case Studies



Sample Case Studies:

Demonstrating Improved Outcomes from Audits

Case Study 1: Tech Company

A technology company conducted a shallow and wide audit of its sales compensation plans across multiple divisions. The audit revealed inconsistencies in quota attainability and payout structures. By addressing these issues, the company improved quota alignment and fairness, leading to improved sales performance, increased quota achievement and reduced turnover.

Case Study 2: Financial Services Firm

A financial services firm performed a narrow and deep audit focused on the data and metrics used in its sales compensation plan. The audit identified inaccuracies in the data used to calculate incentives, leading to overpayments. By correcting these issues and implementing more robust data governance, the firm achieved significant cost savings and improved the accuracy of its payouts.



IN CONCLUSION..

Regular audits of sales compensation plans are essential for ensuring their effectiveness, mitigating risks, and driving better sales results. By choosing the appropriate audit approach—whether shallow and wide or narrow and deep—organizations can gain valuable insights and make informed adjustments to their sales strategies and incentive compensation plans. Expert insights and case studies demonstrate the tangible benefits of these audits, from improved alignment with business objectives to enhanced motivation and performance of sales teams. Investing in regular audits is a strategic decision that can lead to sustained success and growth for any organization. ◆

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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