Advocating a Cadence to Sales Incentive Plan Assessment
By

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"There are two possible outcomes: if the result confirms the hypothesis, then you've made a ***measurement****. If the result is contrary to the hypothesis, then you've made a discovery".*
- *Enrico Fermi*

The world of sales incentive design is populated with a variety of agendas. Those agendas are as diverse as the stakeholders involved with the plan design, and are reflected in their expected outcomes. However, a common requirement is shared by all stakeholders and executive leaders: the plan should support and reward the results and behaviors for which it has been designed. This is the key criterion for "success". Yet, many companies do not have a defined and consistent process for regularly determining the degree to which their sales incentive plan is truly effective in contributing to the desired results. Essentially, these companies have not set a cadence to a process of sales incentive plan assessment; those who have not miss the opportunity to truly optimize performance results from their plans.

PURPOSE OF THIS WHITE PAPER

The data and analytics associated with a complete plan assessment are described in detail in other publications.[1] While there are important business and sales productivity benefits to frequent plan assessment, we have found there are many companies that do not value formal plan reviews. The reasons for undervaluing plan assessment range from "too time consuming to do" to "we're concerned that findings may require out of cycle plan change, which is frowned upon here". The purpose of this white paper is to provide a foundation for advocating regular assessments of the sales incentive plans aligned with the company's financial reporting periods (rather than only one

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[1] Jerome A. Colletti, Mary S. Fiss, Ted S. Briggs and S. Scott Sands *Sales Compensation Essentials (*WorldatWork Press, 2006), Chapter 5; Joseph DiMisa, Sales Compensation Made Simple (WorldatWork Press, 2010), Chapter 8

assessment at plan year-end), including the benefits realized and identification of potential problems that may result if such reviews are not performed.

KEY QUESTIONS

Questions about "how the plan is performing" or "how our people are doing under the plan" arise frequently at various levels in the organization, from the C suite to first line sales managers. Senior executives may question payouts versus results, while sales management wonders if their top sales people are the most highly compensated. Human Resources speculate about the degree to which the plan is operating as intended, and finance is concerned about frequent plan exceptions. Legal wants to know if internal control and audit requirements of Sarbanes-Oxley ("SOX") are being met. To answer these concerns, most companies engage in ad hoc analyses rather than engaging in a formal ongoing process that can be used either in a single business entity or across sectors or business units of a complex organization. While these unplanned analyses may be useful on an interim basis, we believe a more formal approach is required because a company's investment is sales incentive pay is significant and, thus, worthy of frequent, regular assessment attention.

WHAT'S INVOLVED

When assessing the effectiveness of a sales compensation plan it is important to understand its objectives. This means that the objectives for the plan and expectations for results have been agreed to as part of the design process and confirmed as the plan is being finalized. Typically, measuring the success of a sales compensation plan requires addressing strategic, financial and human resources objectives. A year-end (or, near plan year-end) assessment using this holistic approach is optimal in order to ensure compliance with SOX audit requirements, and to align with the company's fiscal year business review. While it may be impractical to complete more frequently, a complete assessment based on a defined set of criteria alleviates risk management concerns, provides a solid foundation for the design of next year's plan(s), and can be used on an ongoing basis to assess the impact of any changes.

Completing periodic assessments during the year is equally important. These assessments provide the opportunity to evaluate the effectiveness of plan launch, and determine the degree to which each plan component is functioning as designed early enough to make changes if required. In order to ensure that a plan assessment or review can be complete efficiently throughout the year (typically coinciding with financial periods and payout periods), it is critical to agree on the process and tools that will be used. This should include the key three or four key analyses performed regardless of business or sales channel so that learnings can be shared across the enterprise leadership team. Failure to do so may mean that important inconsistencies or drawbacks in the plan are not recognized and addressed in time to make a difference in sales behavior and business results for the subsequent financial or plan period.

OVERVIEW OF ASSESSSMENT SCOPE

While there are several types of analyses that may be completed, generally speaking, the core assessment should include financial analyses, a competitive pay review, and, in many cases, a survey of the sales population (particularly sales management). No matter what format the analyses take, they should seek answers to at least these key questions:

- ☑ Is target total cash compensation aligned with the company's philosophy of pay? To its desired competitive position?
- ☑ Do the members of the sales force fully understand the structure of their compensation plan?

- ☑ Do all members of the sales force fully understand their performance expectations? Do they understand how these expectations relate to their compensation plan and to the company's total goal?
- ☑ Is the organization performing as expected on the compensation plan?
- ☑ Are all components of the plan operating as expected?
- ☑ Is payout correlated to performance? (Are par performers earning target or above, "best" performers earning upside as anticipated and marginal performers earning significantly less than target?)
- ☑ Does goal attainment significantly differentiate top performers from average and marginal performers? Is performance distributed as expected across the organization?
- ☑ Is the company performing as expected with regard to attaining its sales goals?
- ☑ Are total pay levels and incentive pay levels positively correlated with business (revenue, volume, profit, market share) performance?
- ☑ Has the company provided accurate and timely performance data on each measure to corporate? To each participant?
- ☑ Has the company performed as expected on market, customer and financial metrics?

KEY OUTCOMES

The purpose of the assessment is to determine the degree to which the plan is operating effectively, and supporting the objectives for which it was designed. The hypothesis is, of course, that the plan is "fine". However, as Fermi said, "if the results confirm the hypothesis, you've made a measurement…." This is optimal, but, further, if it does not, "you've made a discovery". Both outcomes are valuable to the organization, both in terms of productivity and messaging. Consider:

- If the assessment indicates that the plan is performing as designed, and is producing the results anticipated, the results can serve as the basis for period over period analyses such as pay vs. performance or ROI
- If, on the other hand, the outcome of the review/assessment suggests inherent issues with the plan in any of several areas (e.g., financial results, performance, productivity, competitiveness or governance), the analyses should be a foundational aspect of plan design moving forward.

In either case, there may not be any such thing as "too much detail" relative to the process and data used for the analyses.

SUMMING UP

Particularly in the current business environment, risk management is a key concern for both senior executive and their Boards. With that is mind, there is no time like the present to either confirm or establish an appropriate cadence to sales incentive plan assessment at your company.