

Dumb Down Your Pay Programs

Want an effective compensation plan? Simplify

An exasperated sales rep recently handed me a 20-page document and said, "Just look at this compensation plan. I can't make any sense out of this." His confusion was warranted. There was way too much complexity to grasp within the encyclopedia-sized compensation plan.

Unfortunately, this is often the norm. So how can sales departments keep their compensation plans from becoming so convoluted?

To be successful, any compensation plan must have a clear link between sales performance and sales rewards. The number-one complaint from the field is that this link is either too hard to understand or missing altogether. The more complex the plan, the less likely salespeople are to recognize this link between performance and rewards. Here are five ways to fix a compensation plan and ensure that your salespeople are actually motivated by it.

CLEAN UP THE JOBS Decontaminate the sales jobs by measuring time and eliminating non-selling and nonproductive activities. Executives at one major telecommunications company were shocked to learn that the largest use of their sales reps' time was internal meetings. With more focused sales jobs, management can substantially reduce the need

for complex sales compensation plans.

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THREE'S THE MAGIC NUMBER Give yourself a goal: no more than three performance measures in your sales compensation plan. Too many measures dilute the impact of the incentive dollars. When asked to describe how the sales compensation plan worked at a major transportation company using six measures, a leading salesperson dismissed the plan by saying, "Frankly, I don't understand how it works. I sell what I can, and they send me a check."

can't be a parking place for every company measure. Follow these rules: Reward output measures such as sales volume, profitability, product mix, and account objectives; do not reward input measures

such as number of calls made or marketing activities; and don't put in galactic corporate measures such as corporate profitability, business unit customer service measures, or earnings-per-share measures. Only use measures the salesperson can affect, because it's not right to hold salespeople's pay hostage to corporate performance numbers.

HOLD SUPERVISORS ACCOUNTABLE Don't try to use the sales compensation plan to "supervise" the sales force, and don't expect it to terminate poor performers or to teach good selling habits.

You are reaching a crisis stage when field managers reject a sales initiative because it isn't rewarded in the sales compensation plan.

TIGHTEN SALES CREDIT RULES Limit credit splits, duplicate crediting, and credit following. Eliminating these wherever possible makes crediting easier for your salespeople to understand. Avoid the common crediting errors such as "landlording" where sales reps get credit for all sales in their territories regardless of who sold the customer. And never double credit simply for appeasement purposes.

Increased complexity in sales compensation plans most often occurs because of the good intentions of management. But with each effort to serve various objectives, the pay plan becomes more complex. Sales planning for 2004 is just about here. Now is the time to simplify your sales compensation plans.

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