

Questions and Answers

Sales Compensation with David Cichelli

dcichelli@alexandergroupinc.com



David Cichelli, senior vice president of the Alexander Group and leading expert on sales compensation, answers questions submitted from readers of his book, *“Compensating the Sales Force,”* McGraw-Hill.

Q: You begin your book, “Compensating the Sales Force,” with an affirmation that “sales compensation works.” What are your thoughts on the pros and cons—the rewards and benefits versus the risks? If it is true that pay for performance works, why aren’t all companies adopting such a system?

A: Companies use a wide variety of incentive compensation programs for a diverse array of jobs. Incentive compensation continues to be a mainstay of contemporary management practices. Sales compensation holds an almost legendary status as an expected part of the employment equation. However, sales compensation is a management choice. It’s neither a birthright nor a requirement. In fact, in my view, sales compensation programs are cross elastic with supervisory practices. Frankly, a well-supervised work force does not need an incentive program to be effective, and that observation is true of sales compensation. But its use is widespread and prevalent. Almost 85% of all companies with sales personnel provide a reward program tied to sales results. A famous—if somewhat inelegant—argument was made against incentives by the author Alfie Kohn in his book *“Punishment By Rewards.”* But, generally, most sales management teams believe that incentives help bring focus to the efforts of a dispersed workforce...the sellers of the company.

Q: What are in your opinion the biggest problems and challenges in sales compensation management? Is there a key to success?

A: Sales compensation is a very noisy device. It is hard to establish, keep current and administer effectively. We find that sales compensation programs tend to fail due to: 1) **Obsolescence.** Sales compensation plans must be continually updated to help maintain strategic alignment with the company's goals. Most sales compensation specialists consider an unchanging sales compensation plan as a failure of sales management. 2) **Complexity.** Sales compensation plans are an easy “mark” when sales management is looking to get the attention of the sales force. However, too many measures—more than 3—doom a sales compensation program as it becomes overly complex.

Q: How do you feel about using spiff bonuses? How many spiffs are too many? Is it possible to avoid encouraging an unwanted behavior of employees pushing spiffs at the expense of the customers?

A: I consider spifs, contests and campaigns an integral part of the sales management's tool kit. Here are the rules for appropriate use of these programs: 1) Budget of all programs should not exceed the total earnings of the sales force by 3%. 2) Spifs should be used for "doing something new for the first time." 3) They should not be used to spike performance during a period. 4) They are narcotic in nature: The more you use them the more you need to use them. Moderation of use with healthy hoopla is the best prescription for success. And, 5) avoid the use of "chance" to determine winners and payouts—it's unethical to do so: This is an employment relationship, not Las Vegas.

P.S. You might want to check the spelling of "spiff." I spell it with one "f." It means Special Performance Incentive Fund. However, others use two "f"s. Check Wikipedia for a nice discussion on the spelling.

Q: Territory segmentation seems to be a very common question. I often see territories divided by geography, industries and products, as well as account size. The best territory segmentation strategy surely depends on individual circumstances, but what are your thoughts on different scenarios when a particular segmentation should be used?

A: Here is the rule regarding sales segmentation: Sales organizations need to be organized around buyer populations. The members of a buyer population should share similar needs, respond in the same way to seller delivered value propositions and share the same selling cadence. Sales segments define a sales organization.

Q: Many companies often wonder what the Return on Investment (ROI) of incentive compensation system is. Most articles and research on the Internet are either sponsored or written by vendors and it is hard in most cases to truly measure the savings and improved performance as a result of that new system. In your experience, what could be the return expectations of well-designed plans?

A: Before you make the change; the ROI will be a guesstimate. Since no one conducts a double-blind test to confirm the value of sales compensation, we live in the world of anticipated behavior changes. My test of program effectiveness prior to introduction is the degree of "alignment" between product divisions and buyer/sales segments. The sales compensation program should ensure alignment of field efforts between these two moving parties. However, you can conduct an after the fact ROI by evaluating performance and payouts. This is a very helpful exercise.

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