

seven elements of an effective **global** sales compensation framework

By David Cichelli,
The Alexander Group Inc.

Having a solid
global sales
compensation
framework
will ensure
success with
a program's
redesign.

The movement toward greater global oversight of sales compensation practices was confirmed by the results of the “2011 Global Sales Compensation Practices Survey,” which was co-sponsored by WorldatWork and The Alexander Group Inc. What was long considered a compelling local compensation program, advances in design principles and automation tools now make sales compensation best practices accessible to the far reaches of the globe.

The survey results show that more than 90 percent of all companies make some type of change to their sales compensation plans on an annual basis. At least 70 percent of them make substantial changes, while a significant 10 percent to 12 percent conduct a major overhaul of their programs. While these are sobering statistics, they are the expected norm. The majority of large companies have many discrete sales

functions. And global companies have scores more. For those companies that want to provide sales compensation design assistance to these many varied and local sales teams, these statistics present a significant challenge. At the conclusion of each fiscal year, sales departments around the world want to tinker, redesign, abandon, revamp and tweak their sales compensation plans. If you wish to provide corporate assistance to these efforts, there is just not enough of you to go around. The solution: a global sales compensation framework to help guide this inevitable and necessary annual redesign process.

Why So Many Plans? And, Why Do They Change So Often?

A neophyte sales compensation observer may wonder: “Why do we have so many sales compensation plans?” A second question often follows: “And, why do they change



To facilitate and improve this expected annual redesign process, sales compensation stakeholders need a well-crafted and comprehensive global sales compensation framework to effectively update their plans for the next fiscal year.

so often?” Both observations are accurate and share the same strategic source: the need for sales alignment. In essence, a sales compensation plan is a management tool to ensure alignment between the company’s sales objectives and the charter of each sales job. As a result, every sales job gets its own sales compensation plan; thus, the number of plans. And, as strategic sales objectives change, the plans must change too; thus, the frequency of changes.

Companies that have numerous sales entities, country/region sales organizations and multiple sales jobs face a daunting redesign process at the end of each fiscal year. Sometimes these efforts are effective; sometimes they are not. To facilitate and improve this expected annual redesign process, sales compensation stakeholders need a well-crafted and comprehensive global sales compensation framework to effectively update their plans for the next fiscal year.



To read the “Global Sales Compensation Practices” survey results, click www.worldatwork.org/workspan.

The Seven Elements

To successfully manage global sales compensation programs annually, seven components are necessary:

- 1 | **Design principles:** Company-sanctioned rules for effective sales compensation programs
- 2 | **Governance:** Design, administration and approval authorities

- 3 | **Education and sharing:** Methods for educating sales compensation design stakeholders
- 4 | **Annual assessment:** Required analysis to assess program effectiveness
- 5 | **Quota and territory management:** Techniques to allocate and manage performance expectations
- 6 | **Sales crediting and revenue recognition:** Giving credit for compensation purposes
- 7 | **Automation:** Administration requirements and tools.

All seven of these elements should operate in a consistent manner on a global basis for all sales divisions.

1 Design principles

Corporate resources can achieve the highest impact/leverage by publishing a fully vetted set of corporate sales compensation design principles. These principles do not exist independent of the values and preferences of a company. While the topics are universal, their application is unique to each company. For example, a critical design principle is competitiveness of pay. Each company will have its own definition of competitiveness. For sales compensation purposes, this means a statement of preferred target pay as compared to market practices of labor and business market competitors. It also means establishing competitiveness levels for both outstanding performance and marginal performance. Once corporate sales compensation planners articulate this principle, then

the sales entities are expected to follow this principle.

To develop your own corporate sales compensation design principles, answer these questions:

- **Eligibility:** Which job types are eligible for at-risk/upside selling rewards? Which jobs are eligible for add-on plans?
- **Target total compensation:** Define target total compensation. What are the data sources for setting this number?
- **Pay mix and leverage:** How should the split between base and target incentive be set? How much upside earnings should be available for outstanding performers?
- **Individual/team/group:** What is the right application of individual, team and group measures?
- **Performance measures and weights:** What types and how many performance measures should be used? How should they be weighted? How and when should key sales objectives be used?
- **Measurement and pay periods:** How long should measurement periods be? How frequently should incentives be paid?
- **Quota distribution:** What percent should achieve and exceed quota? Which percent should not reach quota?
- **Formula types:** When should commission, bonus formula and linked designs be used?
- **Limits:** Under what conditions should a plan have thresholds or caps?

1 Status rules: How are new hires treated? What happens to in-process incentive earnings if a salesperson leaves the company or is promoted?

1 Benefits program treatment: What earnings level is used for life insurance, 401(k) deductions, vacation and other earnings-sensitive benefits programs?

2 Governance

With the approval of senior management, publish program authorities and governance protocols. For example, ensure that all local and sales compensation stakeholders understand their obligation to follow the corporate design principles. For the annual redesign process, suggest the use of multiparty sales compensation design teams, which include representatives from sales, marketing and finance. Assign administration of the program to accounting resources. Define the procedures and accountabilities for midyear changes and adjustments. Identify the leader of the annual design process.

3 Education and sharing

Provide ongoing education to current and future sales compensation stakeholders. Establish an internal sales compensation certification process to qualify those responsible for applying the company's sales compensation design principles. Sponsor an annual sales compensation summit where sales compensation designers and managers can present their programs — successes and near misses — and learn from others.

4 Annual assessment

Specify the annual assessment methodology, including testing for strategic alignment, evaluating market pay levels, graphing pay and performance outcomes, documenting job changes, listening to incumbents and analyzing return on incentive payouts. And, as part of this annual assessment, the sales compensation design teams need to establish their

review plan: dates; accountabilities; and expected outcomes.

5 Quota and territory management

Each year sales teams reconfirm and adjust sales territories and then assign quotas. This integrated process produces an expected performance objective for each salesperson for the next fiscal year. Rules about the allocation of quotas and the fairness of territories need to be part of the sales compensation principles. For example, can a sales team over-assign quotas (as compared to the corporate objective) or underassign quotas? Can quotas and territories be changed midyear? If yes, how will these changes affect the sales compensation program?

6 Sales crediting and revenue recognition

For global companies, the rules related to sales crediting and revenue recognition help ensure that sold business gets correctly allocated to the right business unit and the right sales personnel. For the most part, there is little confusion over crediting and revenue recognition; however, in some cases, ownership questions can arise. For example, how is revenue recognized and who gets the sales credit when one sales team sells the solution in one global region, and the product is shipped and installed in another global region? Sales compensation planners need to pay particular attention to rules related to double crediting, too. In such cases, more than one sales resource helps persuade the customer to purchase. Normally, in this situation, both parties would participate in either a credit split if they are paid a commission or a double credit for bonus formula plans. Year-end analysis should show this type of double crediting to be less than 15 percent of the actual recognized revenue.

7 Automation

Most companies use a combination of desktop solutions, such as

From Global To Local

Jointly sponsored by WorldatWork and The Alexander Group Inc., more than 115 companies participated in the “2011 Global Sales Compensation Practices Survey.” The following lists practices from “most global” to “least global.” Seventy-eight percent of all companies require central program approval, whereas only 41 percent follow a global model for contests and spiffs.

- 1 Program approval (78.07 percent)
- 1 Pay plan competitiveness philosophy (77.78 percent)
- 1 Sales compensation plan design principles (73.51 percent)
- 1 Job evaluation at the global level (68.37 percent)
- 1 Sales compensation formula mechanics (67.52 percent)
- 1 Annual updates to the sales compensation plan (67.52 percent)
- 1 Pay mix by job (64.96 percent)
- 1 Identifying competitor benchmark companies (64.10 percent)
- 1 Sales compensation program assessment (64.04 percent)
- 1 Performance measures at the global level (62.39 percent)
- 1 Annual sales recognition event (58.40 percent)
- 1 Technical to the automation system (57.02 percent)
- 1 Payout administration/calculation support (53.51 percent)
- 1 Quota-setting practices (45.61 percent)
- 1 Contests and spiffs (41.23 percent).

Labor and Employment Regulations

While practices vary by country, here is a listing of the most common regulations affecting sales compensation design:

Government Regulations and Restrictions

- Signed plan acknowledgement
- Base pay increases: mandatory increase requirements
- Dispute resolutions rules: duration and topics
- Plan changes: restricted or consent required, or notification required
- Base pay reductions: restrictions; consent requirements; or notification requirements
- Local language requirement of plan documents

Labor/Works Council Practices

- Works Council's approval for plan design, base pay, target compensation
- Requirements: for cost-of-living increases; signed plan acknowledgments; local language of plan documents
- Restrictions on changing quotas, base pay reductions, changing target compensation

spreadsheet and database software and custom applications, to manage sales compensation administration. Today, sales compensation administrators have a wide array of available commercial solutions to improve the administration and tracking of incentive payments. Some of these solutions arrive as dedicated software installed on company servers, or bought via the “cloud,” also referred to as software-as-a-service (SaaS). Many backbone data systems used by large employers have incentive automation modules. And, still others will outsource the program administration. The movement toward commercial solutions is accelerating as sales compensation program managers see such solutions as both an enabling device and an effective oversight tool.

These seven elements are necessary for any successful global sales compensation framework.

Meeting Local Needs

Numerous factors suggest the need for locally defined sales compensation programs, including laws, employment practices, philosophies, past practices and cultural norms. Companies are obligated to comply

with labor and employment laws. In some countries, these requirements range from having the sales personnel sign an incentive plan up to and including allowing the employee representative works council to review and approve changes to the incentive plan. Other legal considerations for some countries restrict pay reductions — relevant when attempting to change the pay mix by reducing the base pay and increasing the incentive opportunity. Legal considerations can change unexpectedly; therefore, corporate compensation planners need to be current with local labor and employment law as guided by local legal counsel.

Local variations required by philosophies, past practices and cultural norms present more complex considerations. We often learn that management philosophy typically reflects the thinking of current local leadership. No past pay practice should dictate future solutions. And, finally, no cultural imperative is static. Fortunately, sales compensation planners can look to the actual job content to continue their work. Sales compensation plans follow job design.

As the jobs are deployed, the sales compensation plan is constructed to support the strategic intent of the job. To the extent that philosophies, past practices and cultural norms have become part of the job, then job content will dictate their importance in sales compensation solutions.

Creating Your Global Sales Compensation Framework

Engage with senior leadership to present your case for a global sales compensation framework. Ensure you address the seven elements of a successful framework. Finally, follow local laws and accommodate local practices as evident in the job content. **WS**

David Cichelli is senior vice president at The Alexander Group Inc. in Scottsdale, Ariz. He can be reached at dcichelli@alexandergroup.com.

resources plus

For more information, books and education related to this topic, log on to www.worldatwork.org and use any or all of these keywords:

- Global sales compensation
- Sales compensation plan
- Performance measures.