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What Finance Professionals Should Know About Sales Compensation[©]

Each year more than 90% of all companies change their sales compensation plans.

As planning for next year gets underway, sales compensation will again be on the table for the vast majority of companies. If you work in finance, here are six suggestions on how to work the sales department to develop new plans for next year:

- **Expect changes.** Sales departments need to update their sales compensation plans each year. Performance measures must be realigned to serve shifting revenue, profit and product strategies.
- **Make it “pay at-risk.”** Sales compensation, by definition, is pay-at-risk. Two-third of all sales personnel should exceed quota and target pay, while one-third should not.
- **Limit eligibility.** Pay-at-risk should be limited to salespeople who: 1) have customer contact, and 2) persuade the customer to act in a positive economic way that benefits the company.
- **Manage costs.** “Income producers” (stockbrokers, mortgage origination specialists and multi-level marketers) get a percentage of revenue generated. In contrast, “sales representatives” have pay-at-risk and cross-fund each other: i.e., below-quota performers fund the upside earnings of over-quota performers.
- **Simplify the designs.** Every unique sales job will have a unique compensation plan, but keep the plans simple by limiting the number of performance measures to three or fewer. No matter what, don’t use corporate, group, compliance or any other non-sales-event measures.
- **Control crediting.** Finally, limit the amount of double, split, future and following credit. Complex crediting is too confusing and susceptible to abuse.

David Cichelli has taught thousands of professional students how to design effective sales compensation plans. His new book, *Compensating the Sales Force*, provides practical advice on designing and implementing winning sale compensation plans. Visit www.compensatingthesalesforce.com to learn more.