Compensation & Benefits Review

http://cbr.sagepub.com

Setting Sales Force Compensation in the Internet Age

Bill Weeks

Compensation Benefits Review 2000; 32; 25
DOI: 10.1177/08863680022097704

The online version of this article can be found at:
http://cbr.sagepub.com

Published by:
SAGE
http://www.sagepublications.com

Additional services and information for *Compensation & Benefits Review* can be found at:

Email Alerts: http://cbr.sagepub.com/cgi/alerts

Subscriptions: http://cbr.sagepub.com/subscriptions

Reprints: http://www.sagepub.com/journalsReprints.nav

Permissions: http://www.sagepub.com/journalsPermissions.nav

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

Setting Sales Force Compensation in the Internet Age

Bill Weeks
Vice President of Sales
Compensation
Prudential

Moving from product-based compensation to role- and team-based compensation is an important ingredient in having a successful sales force in the Internet age.

Find the relevant site, search out the product and options you want, click to add it to your shopping basket, enter your shipping and payment preferences, and the sale is closed. How can your sales force compete with that? What are the most profitable future roles for sales personnel? How do you pay them and still keep your prices competitive? How do you transition them to more appropriate pay plans?

Consider how your salespeople are organized in today's environment. Chances are that individuals are paid for selling a single product line. The more they sell, the better they are paid. Most are responsible for finding their own prospects, making appointments, preparing proposals, closing the sale, and servicing the account after the sale. In some industries, some roles may be delegated to others, but in most, sales personnel fill all the necessary roles. If they do not personally perform each function, they control its performance. The sales force "owns" the customer because they found the customer and control that relationship. All too often they hold most of the information about the customer, who seldom buys more than one product line from the company.

Their pay is product based; the more they sell, the more they make. Occasionally, the pay rates are modified to recognize customer retention or the size of the sale. Salespersons managing the account generally get credit for any sale made to that customer whether they were involved or not. Although minor changes are made to adjust rates or quotas, the pay plan has been in place for several years, and everyone involved is reluctant to adjust it.

Contrast this with an Internet-wise sales organization. An integrated team of individuals works together to position the company with the prospect, make the sale, and service the account. Customers approach the company based on the sales channel most appropriate for their current need—be it Internet, telemarketing, or face to face. All team members strive to deepen the relationship with the customer through the sale of multiple product lines and repeat sales. The team is paid on the value and growth of the relationships it supports, with each member specifically rewarded for his or her personal role. Supported by analysis of customers, their buying habits, and sales trends, each pay plan is adjusted annually to be attuned to market-level compensation and to focus on the best growth opportunities.

Future Roles for Sales Personnel

Sales of commodities are moving quickly to e-commerce, and more products are being pushed

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009
© 2000 E. William Weeks. Used with permission.

Individual Heroes

Many industries have relied on their sales force to handle the entire spectrum of sales roles: marketing, prospecting, preparing for and closing the sale, and providing sales-related services after the sale. This requires individuals with a wide spectrum of talents to compete successfully. These individuals are hard to locate, difficult to hire, challenging to manage, and expensive to retain. As they do not need the same degree of management as others, companies have not built the same degree of training and management into the sales profession as they do other areas of their companies. Sales managers tend to go in this same direction as well. The most successful ones have been those who can find and retain the individual sales superstars. In turn, sales management has become a role that is expensive to fill and challenging to manage.

Given the scarcity of those who can make it without more supporting talent, this approach comes with extraordinary recruiting and retention costs. Particularly given the movement of low-margin products to telesales and Internet, that approach will be difficult to continue in the future. Technology-intensive marketing, rapid product changes, and stiffening global competition will make it increasingly difficult for individual heroes to survive without more support. Organizations need to invest more talent and more capital within the sales organization to compete. The newer compensation approaches described here will support a move away from individual heroes to functional teams that can compete in this new environment.

into commodity status. As this trend escalates, companies will find that they cannot afford to pay sales-based income for face-to-face sales unless they can either dramatically increase the volume sold or incorporate higher margin services. The sales force that focuses on repeat sales of easily understood, readily duplicated products is fast becoming obsolete. Every face-to-face sales force must bring either larger volume sales or value-added advice and customized information to justify their high cost.

For those who know what they want, the Internet will enable rapid, low-cost purchases. For those who are dealing with critical issues and complex topics, the Internet will be the starting point for information. Successful sales teams will be those that help decision makers navigate through the information overload and guide them through the decision-making process to find the best fit for their needs.

Relationships will still matter, particularly where confidentiality, personal reputations, and style matter or where recommendations have clout. However, sales personnel who depend on relationships but provide minimal value-added advice and information are likely to see their incomes shrink. Relationships alone will not be sufficient to turn prospects into customers as the volumes involved will not be large enough to offset the low profit margins. Outside retail stores, prospecting systems that create volume such as seminar selling, workplace, or affinity marketing may be the only affordable approaches for low-margin sales to individuals.

In the future, there often will be three separate roles within the sales process, in stark contrast to the individual hero previously described. In most cases, those people filling these roles will be members of a team, which will proactively manage the entire sales process. Of the three roles, all sales channels will have marketing managers and sales closers. The third role, relationship managers will be prevalent mostly in sales channels selling high-cost, high-value-added products. Each of these roles will include individuals with a wide range of individual expertise, managerial positions, and support personnel.

Marketing managers are individuals who have the expertise to create, manage, and mine databases of existing or prospective customers. They hone in on persons or organizations that are appropriate candidates for each respective channel. They also focus on incorporating their sales knowledge into catalogs and web sites as well as sales proposals and other marketing materials. Top performers in this group are experts at the sequencing of information and customer queries, massaging multiple databases to squeeze out high-percentage prospects and creating sales materials that can be easily customized. These people oversee the creation of the successful web sites that attract viewers and make them into customers.

Sales closers are those who, together with a support team, create sales proposals and present and negotiate the sales proposition. These roles range from the "go-to" person among a telemarketing team to the multitalented group that most of us associate with sales of high-cost products to

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

Variable versus Fixed: Revisiting the Old Rules

Historically, sales plans have relied on high levels of variable compensation driven by sales results. In today's competitive environment, this approach may not be successful. Particularly when a company is between product development cycles, products are frequently noncompetitive because features or pricing are behind the market leaders. In a tight labor market, employees whose compensation is driven almost entirely by sales will be disadvantaged. Without substantial percentages of compensation in salary or percentage tied to historical results, a company's best sales personnel may leave for greener pastures.

Moving to a compensation mix that is higher in salary and lower in incentives will help employers retain their sales force. However, it changes the roles and skills required of sales managers. In the past, compensation managed the behavior of the sales force through commissions or multiple targeted incentives. Management could focus on recruiting, organization, and sales promotion and give minimal attention to managing performance and activities. Ignoring the opportunity cost, managers would often starve poor performers out of the job rather than manage their performance.

As more of sales compensation moves into salaries or stable compensation based on prior results, new sales incentives must be more sharply focused, and management will have to do more of the management job than it did in the past. With a significant cost to retaining poor performers, management must help improve their performance or manage them out of the role. Companies will also have to increase their commitment to training and development as their investments in new hires grow.

large corporations. The latter group is responsible for such sales as major consulting projects, new company benefit plans, new technology, or enterprise software applications.

Relationship managers are members of the sales team who work to maximize the sales potential of their assigned customer base. In the case of high-volume and high-value relationships, these individuals may actually be housed at the customer's location. In other types of relationships, they are responsible for a group of customers within a target market or geographic location. Both levels are responsible for maintaining and building the relationship between seller and buyer as measured by gross revenues, product volume, total profitability, or related measures.

One particular type of sales closer deserves separate mention. Work-site marketers today make a small percentage of sales. However, marketing in the workplace represents one of the best opportunities for increasing sales volume. An endorsement by one's employer, the perception of group volume discounts, and the convenience of buying at work add up to powerful motivation for more sales at an employee's work site. Some e-commerce companies such as SkyMall.com are also moving into work-site marketing via a company's intranet sites. With an increasingly tight labor market and extension of the workday, employers will be more inclined to be receptive to solicitation of their employees during working hours. Work-site marketing allows a sales team to approach multiple individual prospects at the same time, thereby reducing the costs of marketing while increasing sales-closing ratios. This can extend the life of low-margin products, which will otherwise become too expensive to market through face-to-face sales.

Critical Functions of Compensation Plans

Given those sales roles, what will sales compensation plans have to accomplish to reinforce the desired behavior of the sales force? Clearly, compensation is only one weapon in management's arsenal. Its value is its ability to target those results and activities that will drive higher levels of profitability. Sales incentives in future plans must encourage the sales force to focus on the customer, integrate with e-commerce, and support rapid change.

Through a focus on the customers, sales incentives will help companies capitalize on relationships to increase profit margins. Selling more to customers you already know helps improve product retention and lower acquisition costs.

In the insurance business, the limited statistics available suggest that customers who own two product lines (e.g., life or home insurance as well as auto) have double the retention rate over 10-year periods than those owning only one product line. Improving customer satisfaction also can drive a dramatic difference. According to a 1991

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

Xerox study, completely satisfied customers are six times more likely to repurchase than very satisfied customers.

To integrate with e-commerce, sales compensation plans must reward the specific role that each member of the sales team is focused on, be it finding the customer, analyzing needs, customizing the product, closing the sale, or managing postsale relationships. The three roles defined above will be further segmented and well-designed compensation plans that will highlight the specific functions of each player to provide clear motivation. Intranet applications will facilitate tracking and managing the relevant performance data and tie them into the payroll system. In addition to supporting specific roles, sales compensation plans must help integrate individual roles into a profitable team result. Without that feature, future sales compensation plans will function much like today's plans, which rely on individual heroes. Companies will continue to retain plans supporting individual roles, but they will slowly lose favor, as they cannot deliver the same level of talent that a sales team will.

With the continuing escalation in technology, product cycles continue to shorten. It is inconceivable that sales compensation plans using the typical commission, draw, salary plus incentive, or quota plan can last the 5 or more years they used to last. Newer approaches need to be introduced that accommodate rapid change without de-motivating the sales force. In turn, management needs to be comfortable that they can change plans to focus on new market needs without losing step with the market.

Cross-Selling Incentives

Perhaps the most effective pay method available to support the desired types of sales behavior is cross-selling incentives. This refers to compensation for making multiple sales, usually of different product lines, to the same customer. Payments may be made for selling multiple products at the time of the initial sale or paid over time as the relationship with the customer is further developed. This method supports the fundamental principle that the more needs satisfied per customer, the greater the stability, retention, and profitability of that customer.

Supported by both anecdotal evidence and sporadic research, that principle seems rather obvious. Unfortunately, most companies have built their customer databases around product sales, not customers, and they do not have complete customer information. Someone unfamiliar with the sales process would question why sales personnel need incentive compensation to reinforce this behavior. Why wouldn't a sales person go back to sell a second product to customers they already know rather than experience the high level of rejection they typically experience while prospecting for new customers? There are four primary reasons:

1. New sales focus. Most compensation plans emphasize new sales or new customers. Many discount the compensation paid on repeat customers. This approach is somewhat supported by the idea that a second sale to an existing customer is easier to make than the first sale to a new customer. However, it ignores the additional profitability that comes with a second sale. Most training programs also focus on prospecting for new customers rather than retaining existing customers.

2. "Greed factor." The greed factor also plays a role in discouraging cross selling, particularly in selling to individuals. Sales personnel recognize that they already receive a portion of all available funds from those to whom they have already sold. They assume that those prospects they have not sold to have 100% of their funds available for that specific product need, particularly because the product they are selling may replace any product already owned by that individual. The logic is that someone you do not already know is a better prospect than someone you have sold to because they can afford a more expensive purchase.

3. "Fear factor." Although training and compensation changes can usually overcome these assumptions, it takes time, as well as focused training, to overcome the fear factor. In the enthusiasm of the sale, the typical sales person promises to keep in touch with the client and correct any problems that might arise. He or she also may make rather optimistic statements about their company's performance or products. Although there are plenty of exceptions, most sales personnel lose touch with their customers, because they do not perceive a sufficient financial incentive to maintain a close relationship. They also fear being embarrassed over what they said or did not deliver if they were to go back to the customer to pursue additional sales opportunities. Rejection, which is part of prospecting, is easier to face than potential embarrassment over promises not kept.

4. Customer ownership. A fourth factor complicates the implementation of marketing strate-

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

gies that encourage cross selling. It is the feeling of ownership that the sales force has for its existing customers. In many sales environments, management has relied on its sales force to handle marketing, prospecting, and sales. Individuals in this environment often feel that because they found, wooed, and sold the customer, they "own" this relationship. In some cases, they prove this by taking the customer with them when they change companies. Companies that actively pursue cross selling frequently use several groups of sales personnel to make sales of different products. In those situations, the person who created the original relationship will feel that their relationship is being threatened.

Your current sales force will have difficulty accepting this new paradigm because it disturbs what is, from their perspective, a successful relationship and a source of continuing income. Particularly when compensation is commissions only, this belief will be difficult to change, at least until the compensation system moves off commissions only and the company gets serious about creating warm leads and maintaining customer relationships.

Cross-selling compensation may not have the immediate impact one might expect because of these factors. Compensation eventually will lead to changes in cross-selling results, but changes in training and management tactics also are needed to reduce the impact of these historically prominent operating behaviors.

Rewarding Cross Selling

There are three logical approaches for rewarding cross selling within compensation plans. One is additional compensation above the usual levels for a second sale to an existing customer. This can be in the form of higher commissions either on a percentage or a flat dollar amount. The rates payable should be based on paying a portion of the increased profitability that comes with these relationships. This approach has the advantage of being customer specific, but it brings a related disadvantage of requiring both data and systems to identify and pay on those relationships.

The second is incentive compensation payable for reaching cross-selling targets such as the percentage of customers who buy multiple product lines. The more product lines are sold, the larger the incentive that is payable. Although this approach requires data on which customers were cross sold, it does not require that the payroll system recognize individual customer sales so it is easier to implement than option number 1. The design challenge here is identifying appropriate target performance levels specific to your products and your markets. A historical spectrum of performance will give you some guidance. If this is not available, you can base incentives on results above and below company averages.

Another alternative is to base incentives on the percentage of total sales from each product line. This is a poor substitute for the above options but an acceptable place to start if your systems cannot support either of those approaches without substantial changes. It is preferable to use this alternative than to not include any cross-selling compensation. If you choose this route, the performance measurement used should account for the relative profitability of products sold. This can be accomplished by weighting sales volume figures or by using minimum sizes and/or maximum total volumes that count.

Although additional product lines sold to a customer bring more repeat sales and better retention, and therefore better profitability, the incentives must be carefully designed. If your sales plan allows it, a smart salesperson will quickly discern that a small, easily made, additional sale can greatly increase the income payable on the large volume sale already in force. The additional incentives could easily exceed the additional profitability expected in those situations. The compensation design needs to account for that behavior, and supporting information systems must be designed to track actual account retention. With this information, the compensation plans can be adjusted to align with actual performance.

Incentives for Relationship Management

To support relationship management activities, incentive compensation should revolve around retaining and increasing the current buying levels for a group of customers. A close relative of cross selling, relationship management is tied to increased income or profitability of the customers rather than the product mix attributable to the group. It is particularly well suited to those individuals who sell and manage relationships with institutions rather than individuals or households. Many larger companies actually house relationship managers from their principal suppliers to facilitate more rapid service and better understanding of their needs.

Designing incentives for relationship management shares many of the challenges of cross-selling incentives. It is often difficult to obtain sup-

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

porting data on which to set performance standards and associated incentives.

Customer versus Product Profitability

The newer forms of sales compensation discussed here require a better understanding of profitability at the customer level as opposed to the product level. An individual product may be very profitable when viewed across the entire customer base. However, it may generate substantial losses when looking at specific individual customers. Customers with particular buying or service characteristics will be unprofitable, and selling them more products may or may not make them profitable. As telemarketing, e-commerce, and better technology produce more customer data, market segmentation will become both easier and more profitable. What starts as a compensation design project often should be expanded to incorporate a product-pricing project.

Pay for relationship management should reward the maintenance and growth of revenue or profit from existing groups of customers. Although this pay element could be tied to all customers that a sales person relates to, it is preferable to focus on those who have a realistic opportunity to grow and who are likely to be more profitable if they add additional products. In other words, focus this pay on customers where it will motivate a deeper company/customer relationship. Ideally, pay should be given for reaching a target level of revenue per customer appropriate to some key customer characteristics such as assets, revenues, or number of employees. Once targets are in place, structure your incentives for improving the amount of revenue per customer averaged over the assigned customer base.

Target Market Pay

Hewlett-Packard recently made headlines when it stopped paying commissions for sales generating under $200,000 in revenues. By ending pay for small sales, Hewlett-Packard is sending a strong message about which target markets their sales personnel should be spending their time. Sales of all sizes take some minimum amount of time to close. Making small sales is not profitable for an expensive sales force when there are alternative ways to reach those prospects. Very few companies are equally facile or equally profitable at delivering product and service to customers of all sizes. Telesales and e-commerce can be used to concentrate on low-margin prospects, whereas direct sales talent focuses on high-margin customers.

With the depth of customer and product information now available, companies can use focused performance measures to focus its face-to-face sales force on the "sweet spots" among its potential customers. By paying reduced compensation on sales per performance unit made to customers outside the levels attributable to preferred customers, it also increases the profitability of those groups. This contrasts with the typical sales commission structure, which increases the rates payable as the quantity of sales increase. As a general design principle, compensation rates are usually set at the highest level for outstanding performance. Within a target market pay structure, the highest rates payable are set for sales made to the most preferred customers, in line with the profitability of those customers. In this approach, the table of rates payable more closely resembles a bell curve than an upward slope.

Paying for Customer Satisfaction

Another method of increasing focus on the customer is to pay for customer satisfaction. Unfortunately, it is a struggle to design fair performance standards for customer satisfaction within incentive compensation. In high volume sales situations with proven customer survey instruments, customer satisfaction statistics may be useable. If a survey can be adversely influenced by one or two customers having a bad day, it should not be included in compensation.

Even when the survey is well established and there are enough responses to give it validity, setting performance standards and incentive breakpoints is a challenge. Customers' expectations have a strong influence on their definition of satisfaction. Those expectations are heavily influenced by other personal buying experiences. Although a few clicks within an Internet site may bring more information on customer satisfaction, the issue of expectations versus standards will continue. Our expectations for shopping on the Internet have changed drastically just in the past 2 years, and there is every indication that the pace of change will continue if not accelerate.

During my consulting experience, several companies considered adding customer satisfaction to their sales compensation plans. After much discussion, the decision was always the same: leave it out for now, but add it to a recognition program. Standards of fairness for inclusion within recognition do not need to be as high. With time, your sales force will become comfortable with the measure and it can be reconsidered. Recognition programs that reinforce compensa-

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

tion drivers are important tools for managers but often overlooked.

As a contingency factor, customer satisfaction can fit nicely within sales compensation. Typical sales compensation plans pay higher rates for superior levels of performance. Top-level performers should do more than simply selling more; they should also generate superior levels of customer satisfaction. Integrate this concept by requiring some standard of no unresolved customer complaints, no market conduct issues, or a minimum level of customer satisfaction before paying top rates to those who sell the most.

Integrating with E-Commerce: Team-Based Compensation and Compensation for Functional Roles

The three primary sales roles of marketing managers, sales closers, and relationship managers include a variety of more definitive functional roles such as prospecting, proposal writing, training, product specialists, and managers. In large sales organizations, these will be separated into individual positions, in contrast to the consolidated positions in smaller sales groups. Performance measures and associated performance standards can be set for each of these positions based on individual functions. Traditionally, compensation for these positions would tend to either a commission or quota system on one end or a salary with or without subjective incentives on the other end. In the age of e-commerce, both these approaches miss the mark.

Salaries plus incentives targeted around performance expectations for the individual job will motivate performance like commission plans but without their disadvantages. For instance, those persons whose roles include prospecting can be paid on leads generated or sales conversion ratios. Those recruiting new sales personnel can be paid on new hires meeting selection criteria and initial sales results achieved. Although these kinds of measures risk paying on unproductive activities, those activities can be traced to sales results and the compensation targeted accordingly.

With a salary set at 50% to 75% of total expected compensation, income stability is maintained through this approach, whereas sufficient funds are still available to pay meaningful incentives. With a portion of total incentives tied to team-based sales results, each position is focused on personal responsibilities and the success of the sales team. Well-designed team-based compensation not only encourages sharing and handoffs but also incorporates peer pressure to improve overall results.

This move to a more fixed expense structure is in keeping with the move from an "individual hero" approach to a team-based sales organization. It stabilizes income, allows more of the upside profits to go to the company, and clarifies who owns the customer. In turn, it focuses accountability for individual sales functions and allows easier identification of problem areas. From a market conduct perspective, it should reduce the pressure to make inappropriate sales while maintaining a high degree of motivation.

On the downside, this approach requires a move from the current compensation structure, with all the ramifications that come with change. Some top earners will not be comfortable under this system given the perceived loss of independence and likely reduction in earnings potential. In those situations, it may be appropriate to grandfather those individuals under their current compensation plan. This should be implemented only with the understanding that their performance expectations, including market conduct and customer satisfaction, will continue to be raised in line with the balance of the organization.

Moving to a more fixed expense structure requires that managers manage. Included in this requirement is the critical function of managing the sales plan to keep individual and team performance at high levels. In less mature organizations, such measures as customer retention, customer satisfaction, or customer-to-prospect ratios can be used to reward team performance. Ideally, team-based compensation is based on cross-selling or relationship-based results that are closely tied to overall profitability. This portion of the pay structure should compose at least 10% of overall target compensation to have a meaningful impact.

Market-Level Compensation

For a number of reasons, market-based compensation plans are a growing trend in large corporations for nonsales positions. High on the list of their advantages is their ability to move the tension over what an individual is paid from a personal issue to a data integrity issue. The same approach can be used in sales compensation. Market-based compensation moves the discussion from the salesperson saying, "I know company x pays a higher rate for these sales," to the company saying, "the market pays x for this job and we are willing to pay our good performers at

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

that level." This moves the company from a defensive position to at least a neutral position.

Moving to market-level compensation supports the move to a more fixed-cost structure, as discussed above. It requires that a company is willing and able to pay consistent with some reference point within the market. Usually set at median or third quartile, it requires a definition of performance as well. Paying an established sales force at market median for bottom-level performance is an effective recipe for going out of business.

Except in start-up situations, good performance generally is paid at market median, top-level performance near the top of the market and poor performance in the lower first or second quartiles. Paying at levels above those ranges requires a company to have economies elsewhere that its competitors do not, unless sales in this channel or product are intentionally set as loss leaders.

It is important to set some definitions for model performance levels (minimum, good, and outstanding) as you develop your compensation plan. This enables testing your plan design against objectives and managing it over time. One important overall test is to project your overall profitability by applying your historic spectrum of performance against the total compensation payable at each level.

Once you have set performance standards, you can match target income levels to performance levels and back into the incentives and salary to be paid at each level. Although market-based compensation seems like an obvious answer, implementation is often a challenge. It requires reliable and readily available market data. Ideally, those market data come with a description of performance to enable a match between levels of compensation and performance. In those rare situations in which performance data are available, it is tempting to rely on them and complete the compensation plan design. To have a plan with any long-term viability, however, it is important to determine relative profitability at various performance levels before you finalize the incentives payable.

Performance Scoreboard Plans

Having a sales compensation plan that lasted 5 or even 10 years was not unusual in the past. Now that product life cycles are often in the 6-month or even 6-week range, the traditional approaches to most sales plans cannot accommodate the pace. Although product cycles seldom necessitate immediate compensation changes, the sales organization and its emphasis must become more flexible than it has been. Performance scoreboard plans are one vehicle that can accommodate rapid change, particularly when based on market-based compensation.

Performance scoreboard plans incorporate a salary with incentives based on results compared to targets or objectives. Each performance factor is assigned a weight as a share of 100% of incentives in line with its value to the organization. When the target is reached, the par payment is due. Payments are reduced below target levels and accelerated above target levels.

The illustration in Exhibit 1 is based on beginning incentives at 81% of objectives and paying the maximum incentive at 120% of objectives. Each percentage point of objective between 81% and 120% is worth 5% of target incentive. One hundred and fifty percent exceeds the 120% maximum, so it generates the maximum of two times the target incentive pay for that factor. A total of 88% of objectives pay 5 x 8 or 40% of target incentive. Seventy percent is below the minimum of 80% and does not generate any incentives, and 110% is 30 x 5 or 150% for 50% of the target pay for that performance factor.

Two issues typically surface around this approach: paying someone for reaching only 80% of target performance and capping incentives when performance exceeds 120%. Possible responses to these concerns are as follows:

Paying Incentives for 80% of Goal. By applying a balance on either side of the target pay, the company is taking a downside risk equal to the upside risk that the employee takes. This is a fair

EXHIBIT 1
Factor Weight as Percentage of All Incentive Pay Results to Goal (%)

Value (from 0 to 2.0, 1.0 = par)

Contribution to bonus (weight x value)

Factor	Weight	Results versus Goals	Value	Contribution
A	.30	150	2.0	.60
B	.30	88	.4	.12
C	.20	70	.0	
D	.20	110	1.5	.30
TOTAL	1.00			1.02

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

tradeoff. Most traditional compensation plans will pay a reasonably competitive income for performance at 80% of goal. To be a fair match, a performance scoreboard plan must pay some incentives at that level. Modeling against other plan designs can help settle the levels at which incentives begin and end as well as their gradient.

Limiting Incentives at Results. At best, target performance levels are a good estimate of probable performance levels. When management and sales personnel determine them together, some momentum is created to reach the goal. When actual results exceed 120%, or some similar level, it is likely that something occurred or was applied that could not be predicted. In most cases, results above 120% can be attributed to a change in the marketing environment or a poor initial estimate of performance. Paying your sales force extraordinary incomes for results above that level is seldom in line with their relative contribution to that performance.

Generally, results above 120% in one performance factor also drive high results in other factors. So, although the compensation seems to be capped based on one result, the overall payment is probably increased as well. If the total incentive payments are quite 150% to 200% of target incentives, the pay will be pretty generous if you use the two times the target incentive as a maximum. Lower maximums may be appropriate depending on the job and the incomes being paid by peer companies.

Performance scoreboard plans enable a tight focus on the best indicators of performance and integrate clear performance standards. By pegging targeted income to achieving 100% of target performance level, you send a very clear message about expectations and your willingness to pay market-level compensation. Whenever a change is appropriate, management can adjust the weights of the factors or replace the factor definitions. In contrast to other compensation designs, this plan pushes those under the plan to change their behavior, but it does not require them to learn a new compensation plan.

Overall, this plan enables great flexibility within a plan framework that is easy to keep consistent and competitive. Aside from measuring potential new performance measures, the administration of the plan remains the same. In turn, those under the plan who perform at the same relative level as they did in the past receive the same relative incentive pay. In my experience, performance scoreboard plans are some of the best compensation designs available to accommodate organizational or environmental changes.

Transitioning to New Forms of Compensation

Most new plans are put in place to change the behavior of those paid under the plan. Once your plan design is completed, the impact on current sales personnel should be determined. Is their projected income going down or up compared to current income based on the same relative level of performance? Looking at incomes under the old versus the new plan, and the total amount of money being spent under the two systems for the same performance, provides a good estimate of the overall impact. It is important to give those affected the time needed to change their behavior. It is much cheaper to help transition current employees into a new job than it is to replace them.

Basing any transition incomes payable on the new plan design is highly preferable to using guarantees, the better of the two plan incomes, or some adjustment to the old plan design. Using the new plan factors immediately moves the discussion away from the merits of the new plan versus the old plan and focuses behavior as directed in the new plan. Using the typical approach of the better of the incomes generated under the old versus new plans assures that you will not be done introducing the new plan until the transition period is over.

To be more specific, begin by looking at midrange or good performers, then determine what additional income is needed to maintain the same total income until they have time to change their behavior. Then adjust the performance standards or increase the bonus rates temporarily until the transition period is over. By building transition around your good performer, some exceptional performers may make more income than you intend them to temporarily. This is in your best interest as these people will readily accept the new plan design and help you sell it to others.

If your estimate of the time needed to change behavior exceeds a year, your new plan probably includes performance standards that are too aggressive. It is better to back off the performance expectations at the time of introduction than to have very long transition periods. If you emphasize the likelihood of future change, you can always adjust the plan in future years. Drastic cuts in incentive incomes included to intentionally take money out of the system create a different dynamic beyond the scope of this article. Publishing your transition plan at the time of

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009

plan introduction will help people manage their incomes and behavior. Having some sort of transition plan is preferable to implementing a plan that does not align with reasonable performance expectations.

Moving from product-based compensation to role- and team-based compensation is an important ingredient in having a successful sales force in the Internet age. By incorporating flexible plan designs that encourage a focus on the customer, sales compensation plans can create a win-win agreement between your sales force, your company, and the customer. Customers will be better served, and there will be a better fit with company economics and an easier match with our rapidly changing marketplace.

Bill Weeks is the vice president of total compensation for Prudential, with responsibility for Prudential's sales and sales management compensation plans. He is also the human resources relationship manager between corporate compensation and Individual Insurance and Financial Services. Since joining Prudential in 1998, he has helped design some 45 new sales compensation plans for positions ranging from call center personnel and personal lines agents to agency managing directors and product wholesalers. Prior to Prudential, Weeks was a compensation consultant for LIMRA, a financial services' industry trade association. His client list included insurance companies, financial service firms, banks, auto clubs, and brokerage companies located between Los Angeles and Budapest. He holds a bachelor's degree from State University of New York and a master's degree from Syracuse University. He has authored many articles on sales compensation and has been a frequent speaker at a variety of financial services and general industry conferences and seminars.

Downloaded from http://cbr.sagepub.com at SAGE Publications on December 2, 2009