

WHY IS IT SO HARD TO GET SALES INCENTIVE PLANS RIGHT?

BY DARREN TSE AND RON BURKE



Stating the obvious, nobody wants to get sales incentive plans wrong. The stakes are clear, with the upside directly linked to the top line. We're pretty sure that the challenge isn't lack of desire. We're also equally sure that the challenge isn't lack of resources or opinion, reflecting upon the many standing-room-only sales incentive meetings we've facilitated.

Sometimes the root causes of all-too-common problems are deceptively simple. Consider three characteristics of a common approach to reviewing sales incentive plans.

1. The year-end sprint: Just as certain as death and taxes, the end of the year

tends to be crunch season for sales compensation designers. We commonly see even the best managed companies perennially start business-as-usual reviews sometime in November. While it may be fine in a business-as-usual environment to consider minor incremental changes this late in the year, this just-in-time approach does not consider that most plans have a shelf-life of a few years, with many plans requiring more fundamental changes every few years to align with changing strategy, roles and priorities. Without changing the review cadence, companies can easily run down the clock and be left without enough

time to test and model changes before the new year starts. Much better to routinely start the process earlier in the year (ideally mid-year, but certainly not later than September) to allow time to support more meaningful changes when they are required.

2. Bottle it up: Do we really want to talk to the salesforce about their compensation? Wouldn't it be better to keep anything compensation related under wraps until we're actually ready to let the genie out of the bottle? Wouldn't this help minimize disruption and ensure we don't set any false expectations? We get it. We get the desire to manage messaging and communications around compensation. We also understand that it is often impossible to address all concerns, and that different people might have different definitions of what should be of concern. But we'd also argue that not knowing what the salesforce thinks about compensation won't change what they actually think. Plus, it makes it harder to ensure you are addressing their concerns when you implement changes. From the many words of appreciation we've received from sales reps for conducting interviews and focus groups on behalf of our clients, we believe that employees appreciate being included in the dialogue, even if all of their recommendations may not be acted upon.

3. We don't need a defined process, methodology or map: We live in a world of data, metrics and dashboards, and we've gone through waves of all sorts of process engineering and frameworks.

So, it is perplexing to us that when we ask clients about the process and methodology used to review their sales incentive plans, we often find skeletal to non-existent processes. This is in stark contrast to almost any other part of the business, where business processes are both well-defined and documented. Think, for example, of the process to establish the annual operating budget, the process for getting the long-term strategic plan approved, or the steps required to bring a new product to market. Why should sales incentive plan reviews be treated differently? Having a defined sales incentive review process is an important element in the governance of your sales compensation plans.

Consider a Different Way

Let's consider how a different way might look, where we break the paradigm of the year-end dash, open up channels of communication, and ensure there is a clear view of the route to the destination.

What if, in breaking with old habits, we allowed enough time to complete the sales incentive plan review (and potential redesign process) following a carefully thought-out and deliberate work plan every year, allowing for open dialogue — and a few unplanned detours — while making sure everyone is crystal clear on the destination? What if we saved Q4 for implementation rather than starting the entire review and design process? What if we had a clear, market-tested view of the destination, where we follow a process and methodology

to help us align compensation to five principles:

- **Reinforce strategy:** Does the incentive compensation program reinforce business and sales strategy and desired selling behaviors?
- **Align with roles:** How well do sales incentive plans reflect the nature of unique sales roles?
- **Maximize motivational impact:** To what extent do the sales incentive plans maximize motivational impact?
- **Support top talent attraction and retention:** How competitive are the sales incentive plans?
- **Support and enable effective governance:** Do the sales incentive plans provide a suitable ROI while enabling sound governance?

What Is the Downside to Approaching Reviews Slightly Differently?

Don't underestimate the value of a well-planned journey with a clear destination. Getting the salesforce to a sales incentive plan needs to go beyond merely finding the right technical solution. A well-planned and well-defined process helps create the environment to win hearts and minds. **ws**

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Approach	Biggest Risk	Outcome of Risk	Value Add
Starting earlier	May not need all the time	Finish early	Where bigger changes are required, can still complete the work in time for the new year.
Involving the salesforce	May not surface anything new	Confirms existing thinking	Potentially identifies new issues, helps you determine how you need to communicate the change.
Establishing a formal process	May not need all the steps	Streamline process, as needed	Clarifies who needs to be involved at what point, supports better decision making and time management.