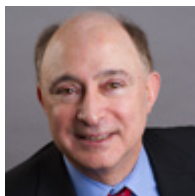




Rethinking Sales Compensation



Compensation is probably the most discussed aspect of sales and the biggest chunk of the \$900 billion that U.S. companies alone spend on selling. An estimated 85% of companies use incentive plans which, on average, account for about 40% of total sales compensation.

Yet, in a survey of 700 firms, a whopping 20% reported that their comp plans had “minimal or no impact on selling behavior,” 12% said they “do not know,” and less than 9% said their pay plan “consistently drives precise selling behavior.”

That’s a lot of wasted money and managerial effort. One reason is that sales comp is typically based on some conventional wisdom that, in my experience, is often false. Here are three assertions that merit re-examination as you consider your sales plan for the coming year:

“*Money is the Only Motivator*”: You hear this in the often repeated assertion that salespeople are, like vending machines, “coin operated.” But examine this

assumption. Are others in a firm not motivated, among other things, by money (unlike you or me, for instance)? Are sales reps somehow genetically distinct and immune from other factors that affect behavior in organizations: priorities, processes, pride, professionalism, and so on? In numerous studies of consumer behavior, risk perceptions, and responses to different framing of rewards, behavioral economics shows that people are, alas, not simply rote profit-maximizing machines. Do people suddenly become different people when they join a sales force?

Anyone who has ever managed in a market with hierarchical cultural traditions, for instance, knows the value that salespeople and others put on titles, rank, and other nonmonetary impacts on behavior. Across cultures, recognition ceremonies reflect this human need, as does feedback to reps about performance. People are social creatures concerned with their standing and how they perform relative to others. As I’ve heard more than one salesperson say, “we work for money, but strive for recognition.”

Money matters. But the point is that the right comp plan is a necessary but not sufficient cause of getting the selling behaviors you want. You can’t substitute money for management. That’s why

ongoing performance reviews are a necessary complement to compensation and a key (but often neglected) sales management responsibility. Any comp plan is part of, not a substitute for, ongoing performance management practices in a sales force. People manage people.

“Comp Plans Must Be Simple”: Behind this assertion is an implicit view of salespeople: they may not be bright enough to understand a “complex” plan. But this view is contradicted (often by the same person making the simplicity assertion) by fears that a complex plan will drive gaming behavior by reps who maximize income with minimal effort.

I have yet to meet the sales force that, in the aggregate, does not understand within a month the economic implications in their comp plan. It’s a core human trait: if a policy determines how you will eat, you will study it in detail. Moreover, available data across firms indicate no significant difference in the percentage of reps who meet and beat quota under more or less complex plans.

Will some reps game the system, any system, complex or simple? Yes. As one CEO told me, “Salespeople become experts in their pay plan, regardless of its simplicity or complexity, and you can count on unintended consequences.” But then the issue is crafting a coherent win-win plan, not fear of taxing sales peoples’ brains. In a strategically effective plan, the company profitably acquires a good customer when the salesperson wins a bonus or commission. Also, more sales situations increasingly involve inherently complex bundles of activities: data analyses, team sales efforts, product-plus-service offerings, multichannel approaches, and so on. You can pretend the complexity isn’t there in your market and customer buying processes, but it is.

“We Pay for Results, Not Process”: It may seem tough-minded and “empowering” to say to reps, “It’s up to you to figure out the best way to sell and I’ll pay you for the outcomes.” But the process for providing rewards is always at least as important as the level of pay itself.

For one thing, a pay process reflects strategic

choices and management norms, explicit or implicit. Incentive plans are always important company communications about what’s really important and are read that way by the sales force. At many firms, salespeople receive big bonuses for results. But the basis of the bonus (e.g., orders booked by an individual rep) contradicts what the company, its espoused strategy, and sales managers say they want (e.g., referrals, joint presentations, or other aspects of cross-selling). The result is demotivation or, worse, motivation toward the wrong type of sales effort. In turn, this can hurt both customer satisfaction and ethical norms. Consider the sales results, versus process, at Wells Fargo.

Like other people, salespeople want to maximize rewards and they want to know why they succeeded or failed in achieving a goal. In fact, they want to use that information to make more money next month, next quarter, next year. The process for clarifying or ignoring these cause-and-effect links affects future behavior. We may “pay for results, not process,” but if we ignore process in a sales environment, we often don’t get what we’ve already paid for.

Like it or not, your sales compensation plan is always part of motivational and ongoing performance management practices (good, bad, or indifferent) in your firm. Those three factors—money, motivation, management—interact and they affect both selling behaviors and strategy execution. They must be linked in an effective pay plan, and that’s a big part of what leaders—in sales and the C-Suite—get paid for. ■

Footnotes:

¹ “Sales Compensation and Performance Management: Key Trends Analysis,” CSO Insights.

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