

Sales Compensation & Performance Management 2009 Survey Results and Analysis



Compliments of:



Jim Dickie
Partner, CSO Insights
Boulder, CO



Barry Trailer
Partner, CSO Insights
Corte Madera, CA

Copyright © 2009 CSO Insights
All Rights Reserved.

Terms & Conditions

Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be produced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher. For additional information, contact CSO Insights, 4524 Northfield Court, Boulder, CO 80301, Phone: (303) 530-6930, e-mail: jim.dickie@csoinsights.com.

The reader understands that the information and data used in preparation of this report were as accurate as possible at the time of preparation by the publisher. The publisher assumes no responsibility to update the information or publication. The publisher assumes that the readers will use the information contained in this publication for the purpose of informing themselves on the matters that form the subject of this publication. It is sold with the understanding that neither the authors nor those individuals interviewed are engaged in rendering legal, accounting, or other professional service. If legal or other expert advice is required, the services of a competent professional should be sought. The publisher assumes no responsibility for any use to which the purchaser puts this information.

All views expressed in this report are those of the individuals interviewed and do not necessarily reflect those of the companies or organizations they may be affiliated with, CSO Insights, Insight Technology Group, or Sales Mastery. All trademarks are trademarks of their respective companies.

Acknowledgements

For 15 years we have realized that our ability to gather, analyze and present our analysis of various topics is dependent on sales executives taking the time to share with us the metrics related to their experience the previous year. This has been true each year with respect to sales performance, and sharing which best practices they are leveraging to optimize how they sell. And it is true for the second year of us preparing this report on sales compensation and performance management. So once again, we say a sincere “Thank You” to all of the far-sighted industry professionals who unselfishly contributed their time and insights to the development of the research knowledge base used in the creation of this publication.

Next, we would like to thank the following sales performance management and compensation companies for their underwriting and thought leadership support for this project: Varicent Software, Xactly Corporation and Jerry Colletti of Colletti-Fiss.

Finally, we want to thank our research and editing team headed up by Kim Cameron and Laura Andrus.

Compliments of:



Contents

Introduction	1
Percentage of Reps Expected to Make Quota in Comp Plan Design.....	5
Percentage of Sales Force Achieving Quota.....	6
Average Annual Quota Assignment per Rep	7
Sales Compensation Spend as a Percentage of Annual Revenues.....	8
Utilize Accelerators in Compensation Plans	9
Percentage of Reps that Reach Accelerators	10
Impact of Compensation Plans in Driving Selling Behaviors	11
Selling Behaviors Impacted by Compensation Plans.....	12
Variable Compensation Payment Error Rate.....	13
Biggest Challenge When Rolling Out Compensation Plans.....	14
Going Forward Recommendations	15

“There’s something happening here...what it is ain’t exactly clear.”

*For What It’s Worth
Buffalo Springfield*

INTRODUCTION

Welcome to our 2009 Sales Compensation & Sales Performance Management (SC/SPM) report. 1,051 companies responded to this year’s survey and are reported in the aggregated results that follow. As seen below, the largest single segment--one-third was companies with annual revenues larger than \$1Billion. The next largest—one quarter—was the opposite end of the spectrum--firms with annual revenues less than \$50Million. The remainder was divided fairly evenly among the other three revenue brackets (see Fig. 1).

SC/SPM Study Participation by Revenues

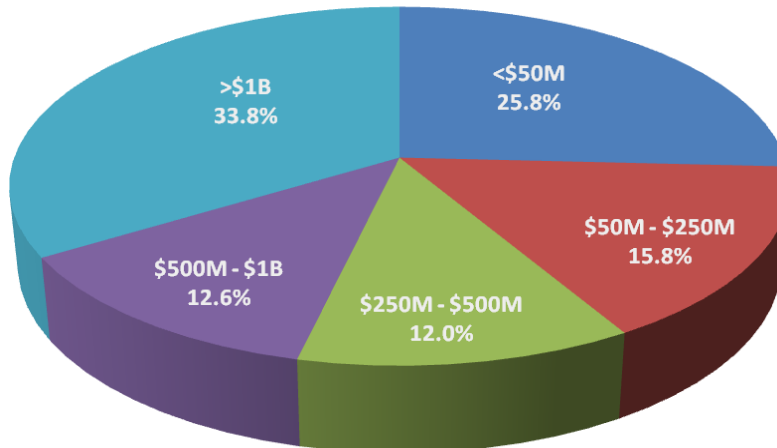


Figure 1

In the Fall of 2007 we had more inquiries from clients about quota and territory sizing than in the prior five years combined. This had not previously been a primary area of focus for us but in response to this growing interest, in 2008 we launched our inaugural Sales Compensation/ Performance Management survey. 286 firms responded to that first effort and we reported the results in a series of seminars and the final report: Closing the Pay/Performance Gap—Getting the Right Behaviors from Sales Teams.

For data gathering purposes for our 2009 study, we continued to utilize a web-based survey approach. Study candidates were prescreened based on their job function. The survey instrument was designed to be completed in approximately 10 - 15 minutes. Participants had the option to sign off from the site, return and continue where they left off if they needed to stop to get more information or had a time constraint. Also, “not applicable” and “do not know” were offered as acceptable choices for many of the questions since this information might have resided elsewhere in the organization (e.g., finance, HR).

2009 Sales Compensation/Performance Management Overview

In the pages that follow we present the Top Ten trends surrounding sales compensation and performance management, offering key findings and brief commentary on each. To complete this year's analysis and give an overview of the marketplace as a whole, we present the data aggregated across all responses received. For a complete list of all the metrics from the study, send an email to Laura Andrus at:

laura.andrus@csoinsights.com.

These top ten trends tell a story of what has happened in the past year. To say the least, given the financial slowdown on a global scale, the tightening of credit, the increase in unemployment, the disappearance of trillions of dollars of personal and corporate net worth, it has been a challenging time. And a hardening time as well. Here are a few examples supporting this contention:

- ❖ **Indicator #1—Target Compensation is DOWN:** In 2008, 62% of firms had target compensation greater than \$100,000 for reps at quota; the figure is 57% this year. The top three pay segments (i.e., comp >\$150K/yr) shifted 6.6 points down stream increasing the lowest three segments (see chart 11 in the slide deck).
- ❖ **Indicator #2—Variable Pay Component is DOWN:** Last year's plan showed highly leveraged packages (i.e., variable component >40% of total comp) at 57% of responding companies; this year the percentage of companies reporting high leverage is 43%.
- ❖ **Indicator #3—Sales Expenditures as a % of Annual Revenues is DOWN:** Marketing budgets have been frozen or cut in two-thirds of firms reporting this year. Combining this with lower targeted compensation, lower numbers of reps reaching accelerated commissions and higher quotas, a lower cost of sales as a percentage of annual revenues is to be expected and is reflected in the survey results.
- ❖ **Indicator #4—Sales Rep Assigned Quotas are UP:** As has been historically true, even as quota attainment figures are declining, average assigned quotas are increasing. The weighted average quota in 2008 was \$1,524,000. In 2009 it is an even \$2.0Million.
- ❖ **Indicator #5—Percentage of Reps Achieving Quota is DOWN:** The recent high water mark for quota achievement was 61.2% in 2008 (data gathered Q4 of 2007). In our 2009 SPO survey (data gathered Q4 of 2008) this figure had dropped to 58.8%. At the close of this survey (end of Q3 2009) the percentage of reps expected to meet/exceed quota is now 52.4%
- ❖ **Indicator #6—Nearly 1 in 4 Firms Expect <50% of Reps to Make Quota:** A new metric added this year asks what percentage of reps expected to make quota is built into the compensation plan's design. Answer: 23% have built this into their plans (see pg. 5).

These are indicators of an extraordinarily adverse and difficult business climate. But if adversity is the mother of invention, perhaps this present environment will give birth to new compensation philosophies and approaches. For too long, successful sales reps have been defined by a narrow metric: revenue booked/quota attained. But does this truly define sales excellence? And is it best serving all constituents?

To answer this question requires consideration not of a single number, but three categories of numbers: 1) financial; 2) market potential; and 3) individual rep capacity. Companies rarely have perfect knowledge of these three areas and, therefore, often fall back on spreading the overall revenue number relatively evenly across the sales force, settling on a common average quota (e.g., \$1.5Million/rep) or arbitrarily assigning the same percentage increase to each rep's prior year quota or quota attainment figure (whichever is higher).

An argument could be made about the fairness of any of these approaches but, in each case, the individual and overall revenue numbers are an educated guess at best—an optimistic shot in the dark at worst.

Financial figures might suggest that higher margins and/or a more beneficial product mix could yield a healthier bottom line on the same or only slightly increased top line. A more accurate (and reliable) sales forecast on the exact same revenues could yield higher financial performance figures and translate into higher share price. Reducing overall cost of sales can be a legitimate financial target but not one an individual rep can control or even significantly impact.

What is the available market in a given territory or region? Marketing departments may subscribe to syndicated reports, apply statistics from various surveys, do their own research; but do companies ever really *know* what volume of business will be transacted and what share of this they will actually have a reasonable (or unfair) chance of winning? If they did, they could define more rational quotas rather than abdicating to an even quota spread across all territories. A rep booking \$2M in a territory with \$6M potential and four significant competitors could be doing an awesome job growing market share. Another rep bringing in \$2M in a territory with \$12M and only one major competitor could be getting consistently outsold and not know it.

And even if this were the case, perhaps \$2M/rep/year is all that is humanly possible to push through the system, given the demands of the sales cycle, as well as the paperwork and follow-up that each order requires. If so, the company might want to assign three or four more reps to this market's large relatively unchallenged potential. Or, they might wish to really investigate and removing internal barriers that prevent a rep from booking \$4-6Million/year, if available. The notion of actual sales rep capacity has not been meaningfully measured, but new systems now available, coupled with sales process and consistent coaching can help define and expand this important area.

Still, the current recession is showing that even really great reps calling on really qualified prospects will likely still encounter delayed deals and protracted sales cycles. Said another way, the main metric by which reps are measured is largely out of their control. Revenue is a result. But call activity, avoiding discounting, cross-selling/up-selling deals, and more can all be described as within the individual's control/influence.

These are the elemental components of Sales Performance Management—the flip side of the pay for performance coin.

However, you will see in the pages that follow, compensation has largely been a traditional affair: the carrot and stick could hardly be more traditional. But there are new systems, approaches and philosophies to supplement, if not supplant these traditional methods. Among these is the use of spreadsheets by a majority of firms in calculating and administering compensation plans. (see Fig. 2 below)

Approach for Calculating/Managing Commissions

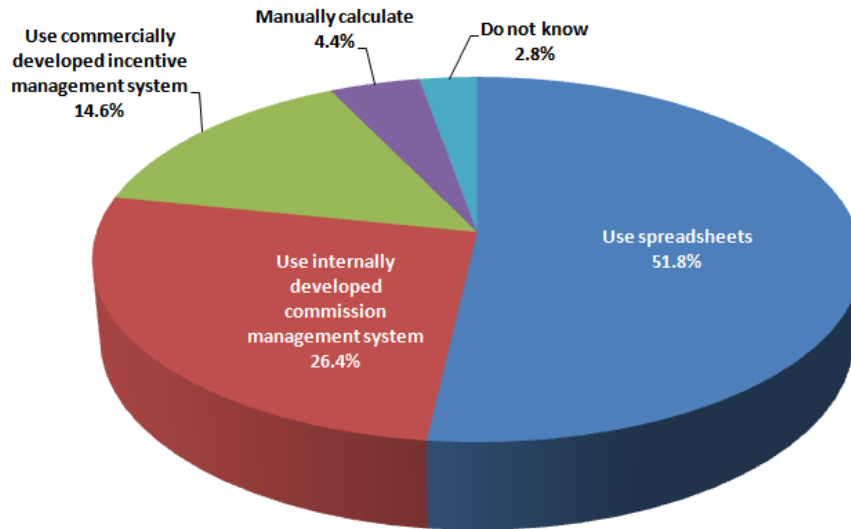


Figure 2

It should be noted, performance management metrics are essentially not available to firms limited to tracking/reporting via spreadsheets. We have seen for the second year now that a gap exists between behaviors sales managers seek and behaviors which sales reps routinely exhibit (see pg. 13).

We also see (pg. 15) that compensation plans are often designed with incomplete knowledge and deployed with unclear objectives. Sure, make the number, bring home the bacon. But how big, how much, with what margin and at what expense?

The findings and observations that follow offer some insights and raise even more challenges to be addressed. In the Going Forward Recommendations section at the end of this report, we offer suggestions on key elements we feel you should consider as you plan, deploy and manage your compensation plans and rep performance in 2010.

We encourage you to see what your peers are doing and then assess how your company may compare to them. If you have questions regarding the data presented in this report or the observations we have made, please contact us.

We hope the information presented in this analysis will help you to more effectively optimize your organization's sales compensation and performance management efforts. While we believe the issues raised have broad applicability, we encourage you to use this information only as the basis for brainstorming and goal planning sessions for identifying and prioritizing your pay and performance objectives.

Everyone can benefit from understanding the strategies and tactics other companies are using, but in the end, you must implement solutions that fit your specific business needs and not those of other firms.

Jim Dickie
Managing Partner
(303) 521 4410
jim.dickie@csoinsights.com

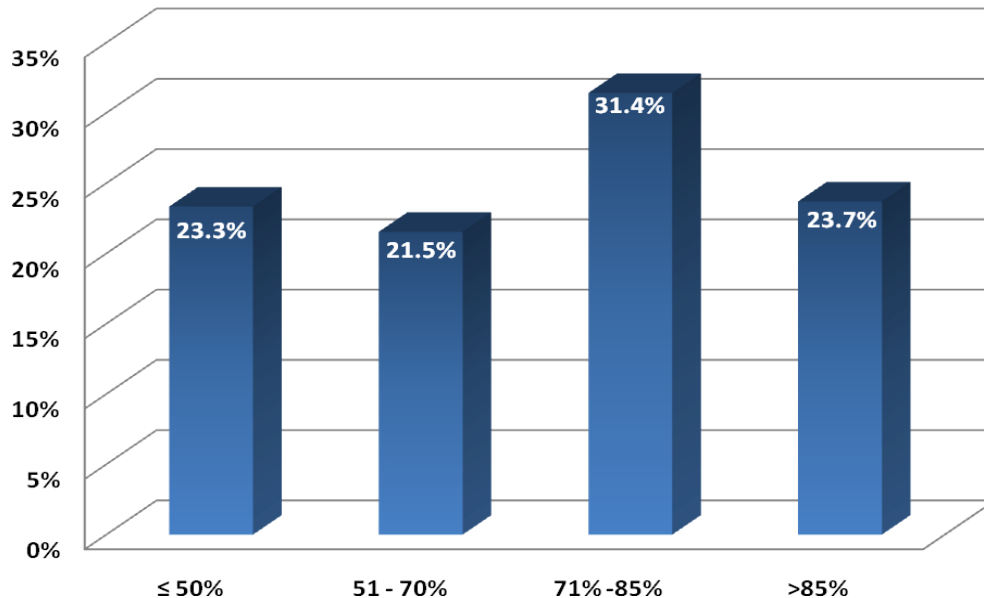
Barry Trailer
Managing Partner
(415) 924 3500
barry.trailer@csoinsights.com

For a complete list of the survey questions, e-mail kim.cameron@csoinsights.com

Sales Compensation/Performance Management – 2009 Key Trends

In your compensation plans what percentage of reps do you expect to make quota?

Percentage of Reps Expected to Make Quota



Key Findings

- ❖ Nearly one-quarter of firms plan for *fewer than half* their reps to make quota.
- ❖ The same percentage expects nearly *all* of their reps to make plan.
- ❖ Discrepancies are similar within industries and companies of the same size.

Commentary

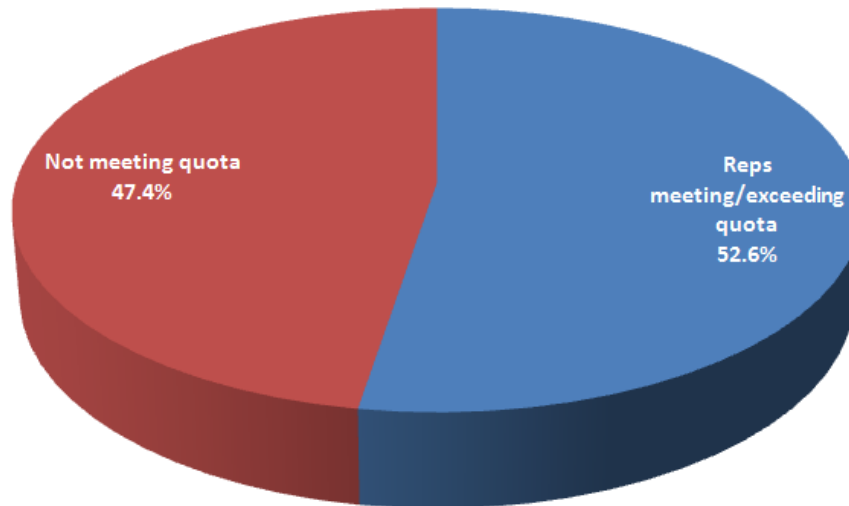
We have previously noted that quota setting and territory assignment have become increasingly complex as alternate channels (e.g., partners, OEMs, eCommerce) have entered the mix. Further, sales organizations have become more complex with product specialists, industry and/or major account overlays, and other layers of roles and responsibilities being added to the mix. (See <http://www.csoinsights.com/Blog/what-we-have-here-is-a-failure-or-do-we> to read more.)

Speaking to a group of compensation managers last year we were surprised to hear general consensus that <60% quota attainment “sounded about right.” In fact, this led directly to this metric being included in this year’s survey. As can be seen, there is no single right answer but designing for ~ 70% of your reps to make their number is was the average across all the survey participants.

Set the percentage too low (i.e., 20% of reps expected to make quota) and it’s unlikely the company can make plan. Set the percentage too high (i.e., 100% of reps make plan) and you may find cost of sales too high as a percentage of revenues. The pattern above was similar for various industries, though software had the highest percentage of plans designed for ≤50% achievement (23%) and financial services was second (11%).

What percentage of your sales force made their full year quota last year?

Percentage of Reps on Track to Achieve Quota



Key Findings

- ❖ Third straight decline in rep quota attainment down to 52.6% this year
- ❖ Rep quota achievement is not in line with planning assumptions
- ❖ Disconnect between what is expected and what is really achieved needs to be addressed.

Commentary

It is not surprising that in the face of the global economic slowdown and dramatic contraction of financial markets and credit lending that making the number has gotten tougher. What is surprising is how much tougher and seemingly how quickly quota attainment has fallen off from 62.4% in 2007 to 52.6% this year.

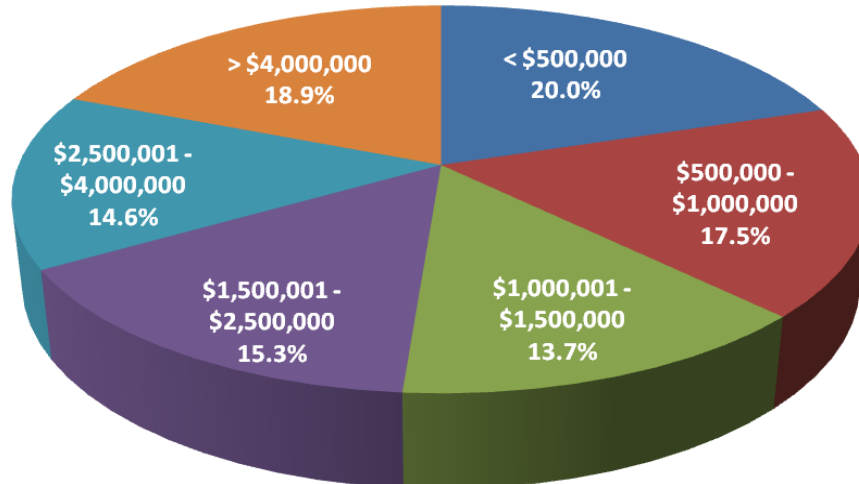
On the previous page we noted that on average revenue plans and commissions plans were developed based on 70% of reps making their numbers. The above numbers point to the fact that those assumptions were very optimistic.

Further, no matter how much you over-assign quota, if only half of your reps are succeeding, it will be very difficult for the company to reach its overall revenue goal. You do not want to see reps making their number and the company falling short on revenue. Conversely, you do not want quotas set unrealistically high and the company succeeding while the majority of reps fall short of satisfactory achievement.

This disconnect is something that needs to be addressed. As you will see later in this analysis, the tools used to administer these plans may not be up to the task of what needs to be accomplished.

What is your average quota assignment per Sales Rep?

Average Quota Assignment Per Rep



Key Findings

- ❖ Lower quota attainment may be the result of higher quota assignment.
- ❖ Quotas in general shifted up in the past year despite sluggish economic news.
- ❖ Single largest increase in quota was at the very highest segment (>\$4Million).

Commentary

A strange convergence of increased quotas, decreased economic activity and reduced marketing budgets have contributed to a “perfect storm” negatively impacting 2009’s results. At the start of this year, as part of our 2009 Sales Performance Optimization (SPO) study, we reported that 86% of the firms surveyed were raising rep quotas.

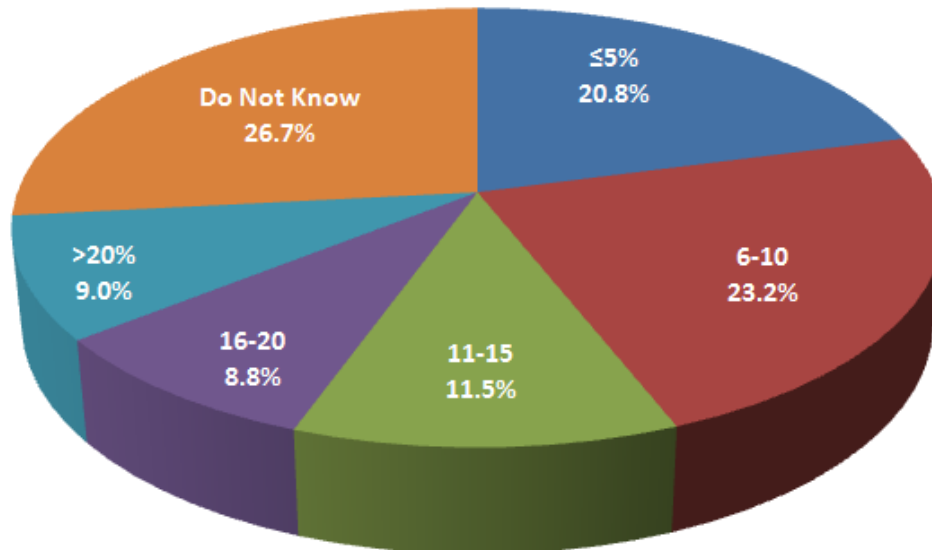
The figures above represent a breakdown of the average quota assignments. Of note is a six point increase in the upper half of the quota ranges shown (>\$1.5Million)—from 42% last year to 48.8% this year. The lowest range did, in fact, increase two full points from 18% to 20%. But the next two ranges both contracted from a combined 40% in 2008 to 31% this year.

We have repeatedly cautioned our research clients against trying to “expense control/cut your way out of this recession.” Despite the inherent resistance to cutting headcount in sales, we repeatedly were asked over the past year about sales staff reductions and ramp-up times for experienced reps. At the same time, this year’s Lead Generation Optimization (LGO) study revealed 67% of companies expected the same or lower marketing budgets.

In summary, quotas and revenue targets are up, quota attainment is seriously down and marketing budgets are frozen or reduced. You gotta ask the Dr. Phil question: “So, how’s that workin’ for you?”

What is your sales compensation as a percentage of revenues?

Sales Compensation Spend as Percent of Revenues



Key Findings

- ❖ Sales comp as a percentage of revenues is down 50% at the high-end range.
- ❖ Sales comp as a percentage of revenues is up 70% at the low range.
- ❖ Do not know comprising one-quarter of all responses may be biggest surprise of this metric.

Commentary

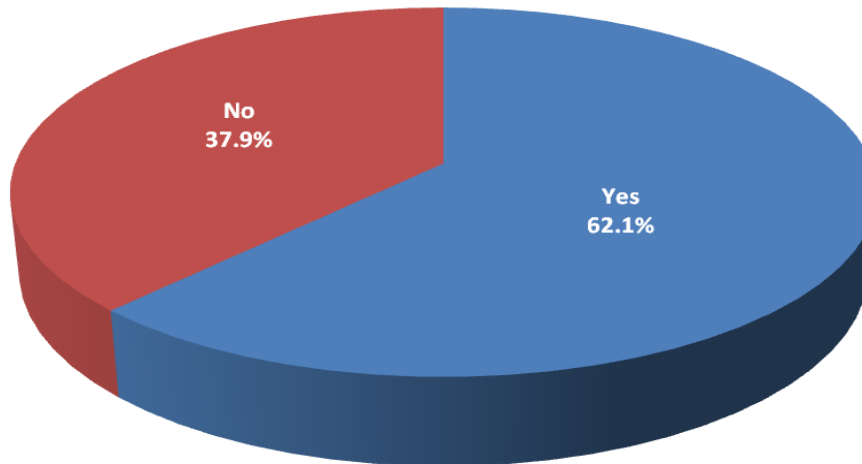
Last year twice as many firms (19%) reported sales comp outlay >20%; only 12% reported ≤ 5% of revenues. Sales compensation outlay over annual revenues is inversely proportional; 12% of companies with revenues <\$50M reported compensation less than or equal to 5% of revenues; 15% reported compensation at >20% of revenues. Companies with annual revenues >\$1Billion reported 27%, and 6%, respectively.

Still, these were the extremes and the numbers were generally more consistent across the other ranges. For example, 6-10% of revenues is seen as the leading segment above aggregated across all respondents. This was also the leading segment for firms in the <\$50M, \$50-250Million and \$501-\$1Billion ranges. 26% of companies with revenues in the \$200-250Million reported compensation spend at 11-15% of revenues. And as noted above, <5% was the leading segment for firms >\$1Billion.

What is surprising is the large number of Do Not Know responses. One-third of the largest firms offered this answer, down to 21% of the smallest firms. This may be another example of sales, marketing and finance looking at compensation and performance figures in parochial ways with little or no thought given to other functional interests and/or measures.

Do you use accelerators as part of your compensation plan?

Utilize Accelerators In Compensation Plans



Key Findings

- ❖ 6 of 10 firms use accelerators in their compensation design.
- ❖ Accelerators more popular with software and telcos; less popular with professional and financial services.
- ❖ Larger firms more likely to favor accelerators than smaller firms.

Commentary

Accelerators are a way of recognizing excellent (i.e, above average performance) while at the same time, telling reps what is important to the company and motivating them to pursue these results. It is possible to tie goals to corporate strategic objectives but we did not explore this. In our survey group, 62% of firms offer accelerators to their commission plans. These accelerators kick in when 101-125% of assigned quota has been reached at two-thirds of companies reporting their use. An additional 23% of reporting firms' accelerators kick-in between 50-100% of plan. The remaining 10% divide almost evenly, either activating at <50% or >125% of plan.

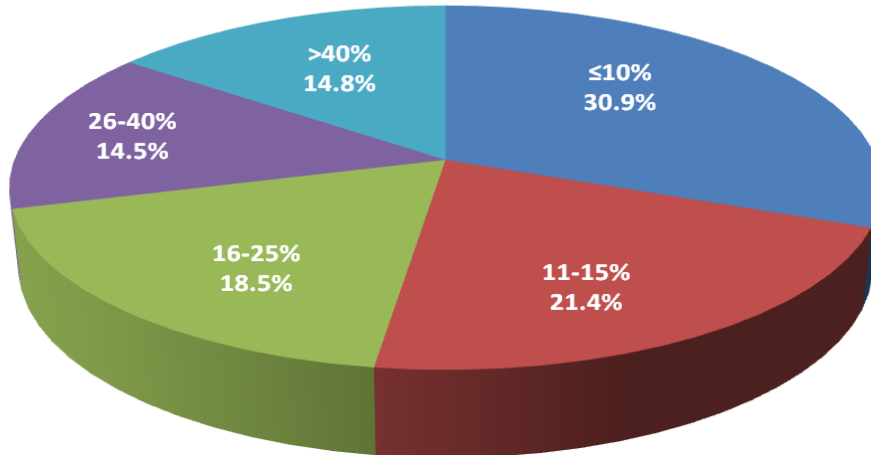
Two-thirds of larger firms utilize accelerators while only one-half of smaller firms do. The break point seems to be above ten (10) sales reps. There certainly can be a number of contributing factors to this but two seem fairly obvious. First, most accelerators are tied to a contest of some sort. Sure, % of quota attained applies to even a single individual as well as to numbers of individuals, but another component is fueling the competitive juices to see who reaches premium levels fastest, most often, etc. It's just not that exciting if there are only one or two of us in the race.

Second, accelerators tend to indicate more sophisticated and/or complicated compensation schemes—a feature that seems to be part of the price of admission in moving up from small to medium-size business.

Sales Compensation/Performance Management – 2009 Key Trends

What percentage of your sales reps reached accelerators?

Percentage of Reps that Reach Accelerators



Key Findings

- ❖ Less than 1 rep in 10 reaches accelerators in 31% of firms reporting.
- ❖ Less than 1 rep in 4 reaches accelerators in 70% of firms reporting.
- ❖ Quota attainment and accelerators are unexpectedly decoupled from quota levels.

Commentary

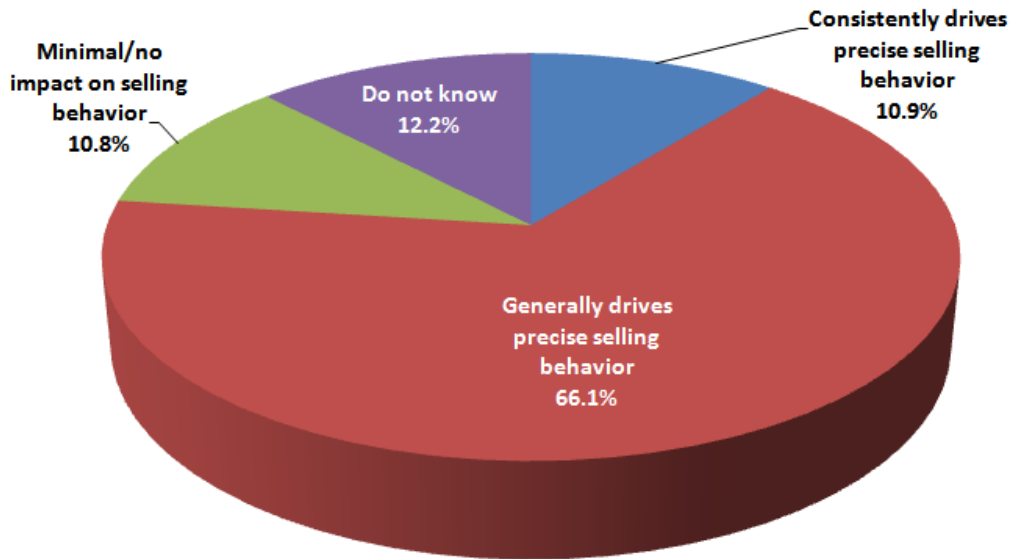
The purpose of accelerators in compensation plans is to incent and reward exceptional performance. Assuming a level playing field and equitable quota assignments, those reps that achieve sales bookings above and beyond certain thresholds are more generously compensated.

But do these programs truly incent performance if their benefits are realized by just a handful of reps? Do accelerators promote higher overall quota striving and, therefore, higher quota attainment? Do accelerators increase the cost of sales as a percentage of revenues? And do lower quotas necessarily translate to higher quota attainment? These are just a few of the questions we had in mind when we added this question to this year's survey.

Interesting to note, with respect to the first of these questions, the lowest accelerator reaching group ($\leq 10\%$, dark blue segment above) and the highest ($>40\%$, light blue segment above) tied for lowest cost of sales as a percentage of revenues with just over one-half of responding firms reporting $<10\%$ of revenues. However, the lowest group was also dead last in percentage of reps meeting/exceeding quota—38%. While highest group averaged 65%! This group also had the highest average quotas with 45% at or above \$2.5Million per rep. Apparently accelerators do not always work.

What impact does your compensation plan have on driving selling behaviors?

Impact that Compensation Plans have on Selling



Key Findings

- ❖ More than three-quarters of firms feel their comp plans are driving the precise selling behaviors desired.
- ❖ 1 in 8 firms have no idea what impact, if any, their comp plans are having on rep behavior.
- ❖ Generally upbeat assessment may be more positive than warranted by actual rep behaviors that are reported.

Commentary

As seen above, two-thirds of firms responding to this year's survey feel their compensation plans generally drive the specific selling behaviors they seek. And this seems to be generally true, if selling to new accounts is what they're after; a comparable 63% of firms see this as a direct result of their compensation plan.

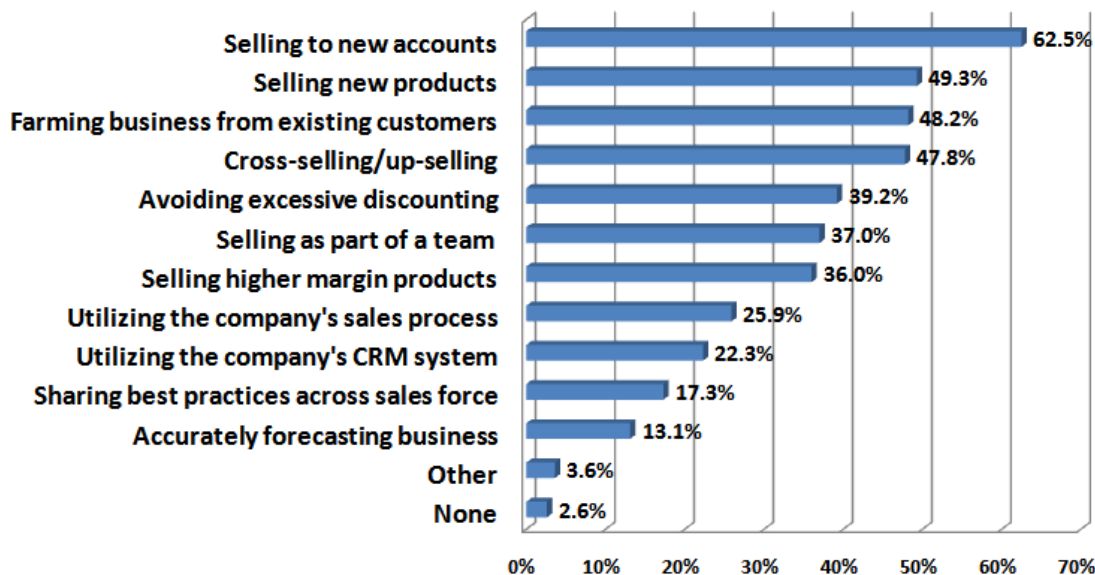
Cross-selling/up-selling accounts, farming additional business from existing customers and selling new products tie for second in the 48% range. Then things fall off pretty dramatically (see chart next page).

Want your reps to consistently utilize the company's selling process? Well, yes, but only 23% of these generally happy firms report this occurring. Looking to share best practices across your sales force? 15% of firms report this happening as an outcome of compensation design. See value in having an accurate forecast? Of course, but only 12% of firms report this being positively driven by their comp plan.

An alternative interpretation of the situation is that companies elicit the behaviors they reward. Traditionally, signing up new customers, selling new products and maintaining/farming existing relationships have aligned companies' desires with reps' proclivities. But modifying their behaviors (i.e., following process, sharing practices, accurately forecasting) haven't been part of the natural order of things—and to a large extent still are not.

Which selling behaviors is your compensation plan motivating/encouraging?

Selling Behavior Impacted by Compensation Plans



Key Findings

- ❖ Reinforcing existing behaviors rather than motivating desired behaviors seems to be the case.
- ❖ Actual behavioral impact levels much lower than overall assessment of comp plans' impacts.
- ❖ The number of behaviors influenced mirrors the relatively short list of metrics rewarded.

Commentary

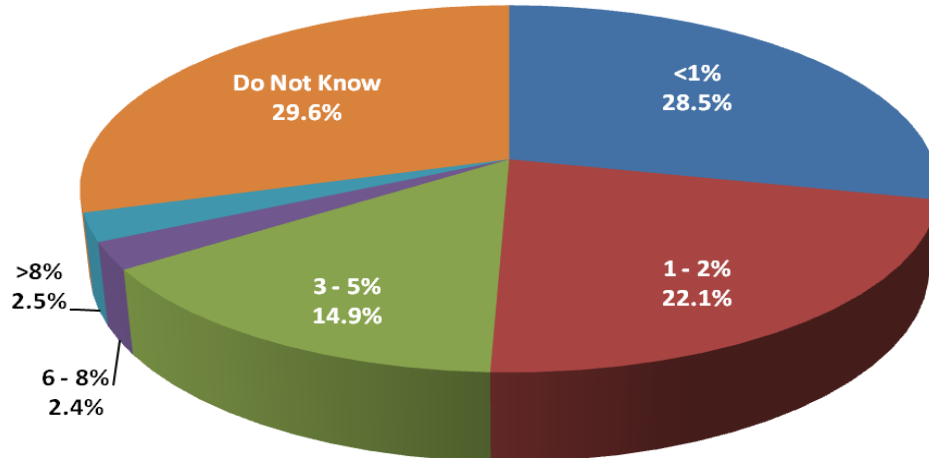
As noted in the prior metric on the estimated impact of compensation on rep behavior nearly 80% of firms feel their plans are driving their reps to perform (i.e., behave) as desired. And yet, even the highest rated behavior—selling to new accounts—are 14% lower as an outcome. The next three behaviors fall off another 14%. So 77% of firms feel the comp plan is driving desired behavior but less than 50% report those specific behaviors being positively encouraged. What's the deal?

The maxim, what gets measured gets managed, may find application here. While the behaviors noted above are desirable, we see a clear fall off in their being exhibited. A separate metric in this year's survey may suggest why this is occurring. Nearly half (48%) of responding firms report their comp plans track three or fewer (1-3) metrics (see chart 24). It is a safe bet that *one* of these metrics—perhaps the **only** metric—is quota attainment. A second metric very likely is product mix; this could be percentage of services, partner revenues, and/or new products or accounts.

In nearly half of all companies that's it. There's no significant encouragement of, for example, selling higher margin products because *there is no reward for doing so*. It may be measured, even encouraged, but it is not part of the equation when computing pay. Even in companies with a baker's half- dozen metrics, it is unlikely metrics are in place to track, measure, improve and reward performance with respect to those desired behaviors shown in the graphic above.

What is your estimated error rate in variable compensation payments?

Variable Compensation Error Rate



Key Findings

- ❖ Getting commission payments out on time and correctly seems not to be a problem.
- ❖ Accurate and timely payments shouldn't be confused with behavior shaping payments.
- ❖ Lack of transparency and real-time reporting limits the leverage of commission payments—even if accurate.

Commentary

Nobody is going to argue the importance of getting paychecks correct. It's imperative and any time it doesn't happen, things will come to a grinding halt until corrected. But, as seen above, for one-half of all companies reporting, the systems are working pretty smoothly and for another 15%, the error rates are still between 3-5%. The wheels will not be stopped often or for long in these companies. It should also be pointed out that for 30% of companies responding, the answer is Don't Know.

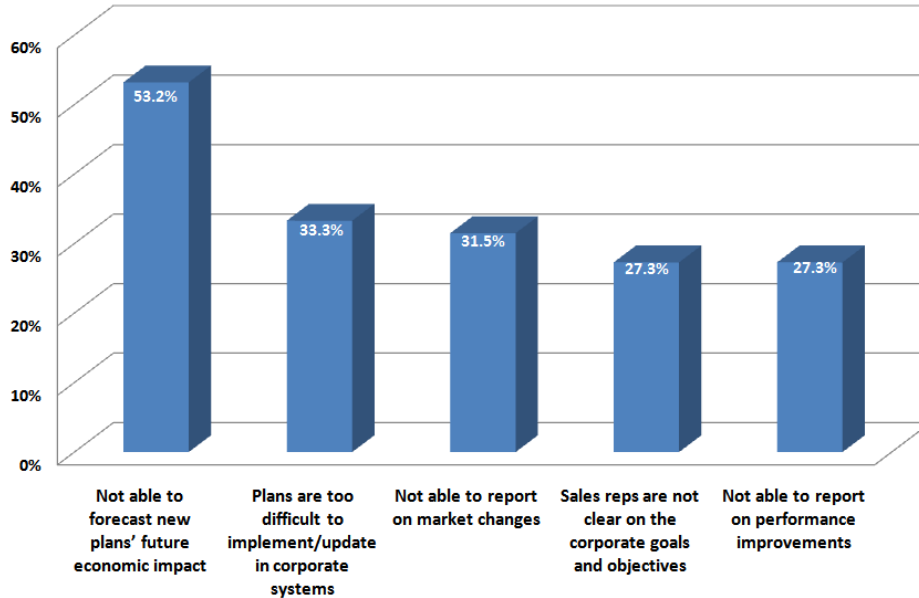
This year's survey data reveal that just over one-half of all companies compute their commission payments using spreadsheets. Even one-quarter of the very largest firms (i.e., >750 sales reps) do so. While accuracy does not appear to be a problem—65% of these firms report <5% error rate—there are significant limitations to this approach. For starters and almost without exception, these spreadsheet mechanisms have evolved over time. The formulas that drive the eventual payouts are barely visible to and/or understood by the operations people that use them, let alone the sales reps that are the recipients of them.

As is seen in the next chart, this translates into myriad significant management issues. For now, suffice to say, the pay is right but this comes at the cost of selling time corrupted by the need for shadow accounting (i.e., reps maintaining their own books/records); laborious processes to reassign accounts and/or territories; lack of insights into individual performance improvements; no direct link between what I as a rep can control and what I can earn; and more. But, hey, the error rate is low and we already own the spreadsheet software.

Sales Compensation/Performance Management – 2009 Key Trends

What are your biggest challenges when rolling out your compensation plans?

Biggest Challenges When Rolling Out Compensation Plans



Key Findings

- ❖ Biggest single issue is inability to forecast the impact of the compensation plan design.
- ❖ Plan and market complexity make real-time adjustments difficult, thus limiting possible responses.
- ❖ Larger corporate and strategic goals are not linked to individual day-to-day activities.

Commentary

As seen above there are numerous sales management issues associated with the roll out of each year's compensation plan. Clearly the most common and immediately significant is the inability to accurately forecast what the economic impact will be of modifications to the existing plan. This inability to conduct "what if" scenarios, to compare various schemes based on widely varying assumptions and/or levels of execution limit managers' ability to optimize sales performance.

For sales ops, one-third of respondents report that including certain sales behaviors (e.g., consistent use of the CRM system, contributing best practices to the sales knowledge base, selling higher margin deals) may be desirable, but the fact is they're just too hard to incorporate into the current pay computing system. And these limitations are in play before the plan is even launched. Once turned on, there are even fewer tools to alert managers that the market has moved, other than to learn long after the fact when this is reflected in lower bookings.

But wait, there's more. In today's marketplace, companies are challenged to present a consistent face and message to both customers and prospects. And yet a quarter of companies report an inability to provide a clear link between corporate goals/objectives (other than sell as much of our stuff as you possibly can!) and the individual reps in the field and/or on the phone that are connecting with customers each day.

RECOMMENDATIONS GOING FORWARD

As noted at the beginning of this report, 2008 was our first foray into the sales compensation and sales performance management arena. You are likely familiar with the expression, “The more things change, the more they remain the same.” While the business climate has become much more challenging in the past eighteen months and the environment “harder” with respect to sales reps, much of what we observed and recommended last year remains firmly intact.

We can begin our look forward with the notion of Sales 2.0 which was first introduced October 2007; the Sales 2.0 concept was introduced at that original conference in San Francisco and has gained additional traction in four subsequent conferences since. Simply stated, S2.0 suggests a new generation of sales reps and of selling. Process-oriented, technology (especially Internet) enabled, and synchronized with buying processes, Sales 2.0 recognizes the need to not only make more calls but to make better sales calls. This generally means changing habitual behaviors and embracing new tools and resources to increase productivity.

The number one key to improved performance is coaching. However, Figure 3 shows that for the second year in a row, less than half of organizations surveyed reported that their sales managers are seriously influenced and/or motivated by the current compensation plan to ensure that their reps are getting the level of coaching required.

Management Behavior Impacted by Compensation Plans

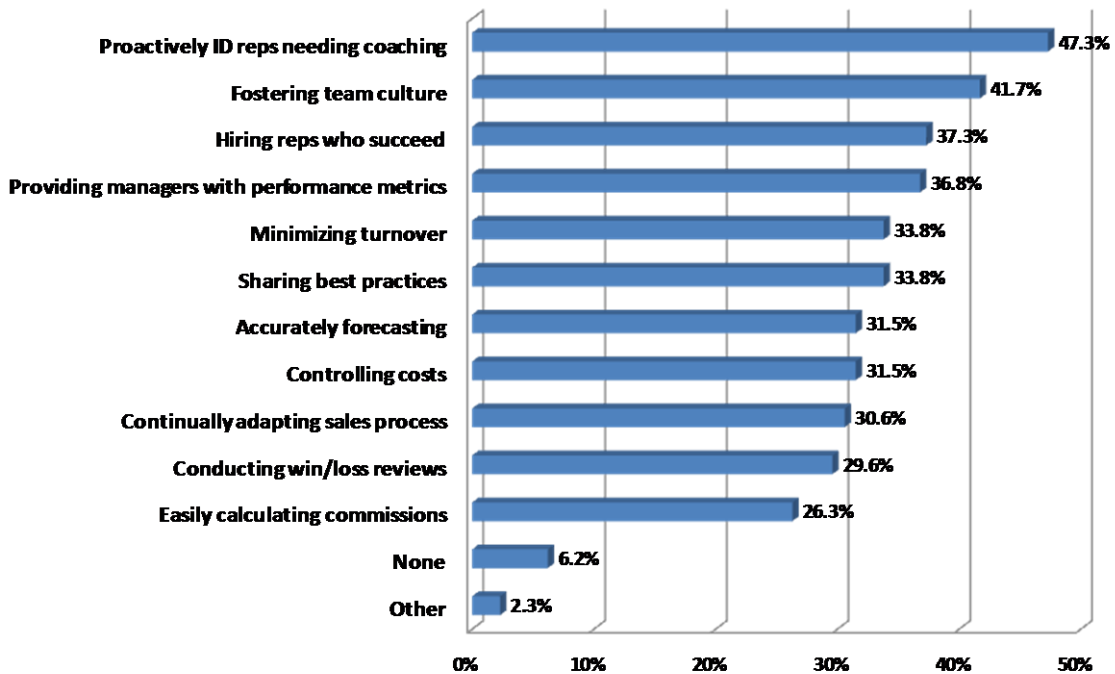


Figure 3

Every business is different and there are certain behaviors that should be measured as part of base salary versus variable. It is conventional wisdom that the comp plan tells reps what is important and what they are supposed to do. But that is not exactly accurate. The comp plan tells reps what's important to accomplish; that is, what results will be rewarded. But the comp plan does not tell reps *what* to do or *how* to do it. The result is trial and error, usually on an individual basis, with little accurate, consistent, relevant, timely or individualized feedback.

Managers lacking specific insights into individual sales rep performance metrics are often relegated to cheerleading or threatening. Senior and sales management outline high level objectives tied to strategic corporate goals. For example, "We are planning a 10% growth in revenues, a 15% growth in operating profits and an overall increase in customer satisfaction; these will enable our company to maintain its industry leading performance as well as position us for future success." However, as seen on pg. 15, one of the major challenges in rolling out new compensation plans is clearly tying corporate objectives to sales rep actions.

Rather, reps are simply assigned individual quotas and the comp plan tells them how much they'll be paid for meeting/exceeding their goals. Reps now know *why* they should be motivated but does each rep know what to do next and how to do it best?

SPM: THE KEY TO IMPROVED SALES PERFORMANCE

The need to wring every possible opportunity from prospect to pipeline to successful close has put additional emphasis on sales analytics and manager dashboards. These are proving increasingly popular in theory though questions remain about how much they're impacting the way managers manage. These dashboards are able to provide some insights into how reps, regions, business units, product lines, etc. are performing. Sales processes form the foundation for these dashboards, enabling the collection and reporting of specific performance metrics.

For example, a company has a six step sales process that takes a qualified lead through to a closed contract. Specific seller actions are defined for each step (e.g., Determine the need: clearly identify return, cost-benefit, justification); and, increasingly, buyer actions for each step are also defined (e.g., Discuss why this project is being considered: justification, implications, consequences). The process provides a sales roadmap; it tells the rep *what* to do.

Other key resources can be tied to specific actions to inform/educate the rep on *how* to do these tasks. Various labeled guided selling, marketing libraries, and/or best practices resources can serve up context sensitive questions, call and proposal templates, and much more.

Essential components are now in place: a defined process with clear steps, tasks and associated guides; a CRM system to record progress against process milestones; consistent use of the system by reps to record their own and the buyers' actions; and now powerful analytics engines to aggregate and assimilate this data and display it as information. So far so good. Reps now know *why* they should be motivated (money), *what* they're to do (process), and *how* they should do it (resources).

Are we there yet?

One more element remains: *how well* am I doing? Everything up to this point comprises the elements of process: why, what and how. But the goal is process *improvement* and this requires a feedback loop. There are five tests for feedback to be meaningful. It must be: accurate, consistent, relevant, timely *and* individualized. Lack one of these elements and the feedback may be interesting, but it is not meaningful.

CLOSING THE LOOP

Incentive/compensation management systems have served to ensure individuals are being paid accurately (i.e., decimal is in the right place) with the “hope” of directing behavior. Process management systems have captured and codified milestone steps, tasks and reported progress in the “hope” of encouraging improved performance.

Releasing the potential of your sales force, rep by rep, comes at the intersection of these two equally compelling, and separately inadequate systems. So far our discussion has pointed to the deficiencies of compensation management not being linked to what a rep does, only what the rep has accomplished. Process management and opportunity management systems (OMS), as standalone solutions or as part of CRM, capture and codify tasks, but do they really serve up best practices?

True best practices come from those deals that close as forecast with desirable margins and optimized rep reward/recognition, all items known only to the compensation system. Knowing what a rep was paid *de facto* means the company knows precisely what the customer bought, which is generally far removed from what was forecast in the Opportunity Management System.

What are referred to as “best practices” are often really “best opinions” because they lack consideration of the final/actual transaction. Deep discounting may help accelerate deals that are “stuck” or in jeopardy of being lost, but low/no margin deals may not pass the CFO’s litmus test of what is acceptable. Seen in Figure 4 below, Sales Performance Management closes the loop by combining both systems and presenting complete information at their intersection.

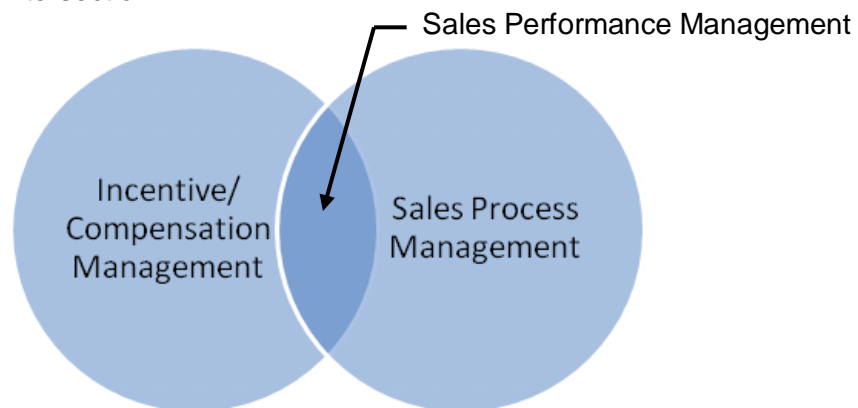


Fig. 4

Analytic engines can then pinpoint what tasks each rep is performing well and which s/he needs to improve. These could include what things an adjacent rep is doing to yield higher margins, shorter sales cycles and/or higher forecast accuracy. Over time, real best practices can be identified and incorporated into MBOs or other aspects of the compensation and incentive reward system.

WHAT “BETTER” LOOKS LIKE

This year’s survey and, in particular, the ten trends presented in this report highlight the various disconnects and inconsistencies between desired and reported behaviors in more than a thousand companies. This is today’s reality; but if we are to move beyond the “hard reality” of today and emerge both strengthened and enlightened by the experience the following elements should be part of your compensation and SPM plans:

Look for accuracy, ease of use and multi-dimensional tracking. Incentive and compensation management is about more than simply getting the decimal in the right place and getting checks out on time. Beyond accurately calculating payments due, you also want the ability to easily model various comp plan scenarios, and to do so based on multiple desired behavioral metrics.

Align pay to performance and profits. Visibility into actual performance enables sophisticated fine tuning such as paying differently on higher margin products and services; varying (e.g., reducing) incentive based on discount percentage; creating competitive SPIFs and contests and varying commission rates by product to reward the specific behaviors that contribute to bottom line results.

Excel is amazing and amazingly limited. Everyone has experienced the power of using today’s spreadsheets for various calculations. Still, today’s fast moving business environment requires companies to be able to readily adapt and foresee the implications of doing so. Excel allows you to calculate complex formulas but not to integrate various dimensions of performance from other enterprise systems (e.g., ERP, CRM, etc.). Additionally, Excel-based comp plans have seen error rates on average of 3% - 8%, and using spreadsheets sales reps lack real-time visibility via the Web.

Mine the gold in your systems information. Powerful analytics geared toward mining historic data enables true process improvement. Reliable post-sale data tied to pre-sale process metrics, for example, can identify: individual and collective forecast variances; historic close rates when certain buying influences are/are not involved in the sales process; which products have sales cycles short enough to still impact this period’s results; etc.

We work for the money but live for the strokes. Not all rewards are financial. Recognition and reward programs can be more than simply monetary. Your comp plan can also include points awarded for desired or exemplary behavior, not simply revenue bookings. Travel awards, merchandise certificates, gift cards (e.g., Starbucks, Amazon, etc.) can enrich the work experience and give impact when saying “Well done!”

Sales 2.0 requires Sales Management 2.0. Today's sales reps face increased demands from buyers, competitors and increasingly complex products/services. Coaching reps to improve performance and providing meaningful feedback requires more of managers than simply barking, "Make it happen!" Dashboards and other graphic performance displays enable sales management to spot key performance indicators early and offer reps relevant and appropriate guidance.

Put the power in the hands of the users. In the past business intelligence systems were expensive, complex, and run/maintained by IT. Today's new Sales Performance Management systems are lightweight, offer pre-packaged content and can be modified on the fly by end users. Having the ability to see what you want/when you want and doing so based on real-time data supports more agile and informed decision-making and higher adoption rates of the tool by both reps and managers.

Increase adoption of CRM. Single sign-on and access to incentive data directly from CRM systems drive and motivate behavior literally at the point of sale. With compensation schemes/rules tied directly to each active opportunity, "what if" scenarios for possible customer solutions can show potential commissions and rewards payments, enabling reps to focus time and energy on configuring deals for maximum results.

Benchmark for success. Leveraging Sales Performance Management intelligence (via analytics and services) allows you to monitor and assess the health of your sales pipeline and revenue generating performance. Establishing compensation benchmarks provides a basis for continually increasing sales effectiveness, productivity, and profitability, which together drive competitive advantage.

CONCLUSION

Sales is about more than simply "making the number." Hitting top-line revenue targets is essential, as is maintaining bottom-line profits. Doing so through appropriate, efficient and effective sales activities has proven to be an even more daunting challenge in the past eighteen months.

Still, to progress in this desired direction, compensation plans needn't become needlessly complex, just because you can track three dozen metrics doesn't mean you should. At the same time, these plans needn't remain hopelessly simplistic, or worse, reward unacceptable behavior simply because the only metric being applied is total revenue.

While manufacturing, logistics and back office operations were completely overhauled by the quality movement along with process improvement and automation, sales has remained blissfully untouched--until now. CEOs and CFOs, Boards and activist investors are no longer willing to hope sales appear. They are looking for consistently improving revenue numbers and basing plans on forecasts that need to become increasingly accurate. Today's sales forecasts vary wildly from actual results, creating a whipsaw effect throughout companies. At the same time, sales remains the largest uncontrolled (and undisciplined) expense area for most companies. New Sales Performance Management systems enable real-time performance visibility while recording,

computing, comparing, and improving performance over time. The ability to serve up these reports on multiple metrics, not the handful that most plans are restricted to today, enables managers to truly coach their people. And it enables companies to truly elicit the behavior they desire.

If you would like insights into how other companies are successfully dealing with this issue, please contact us or visit our web site: www.csoinsights.com.

Again, research clients desiring to have a deeper dive into the study findings, by company size, industry, level of budget, etc. should contact their CSO Insights analysts to set up a one-on-one briefing.

Jim Dickie
Managing Partner
(303) 521 4410
jim.dickie@csoinsights.com

Barry Trailer
Managing Partner
(415) 924 3500
barry.trailer@csoinsights.com

About CSO Insights

[CSO Insights](#) benchmarks the challenges faced by today's sales and marketing organizations, tracking trends in the use of people, process, technology and knowledge to improve sales effectiveness. Each year, CSO Insights surveys thousands of Chief Sales Officers to learn the challenges they see as most critical. They also review offerings from solution providers to retain the position of the experts on options for CSOs.

About Varicent Software Incorporated

Varicent Software Incorporated delivers the most innovative sales performance management solution addressing the needs of business professionals across the entire enterprise. High performing companies relying on Varicent for better visibility and control of their complex variable compensation programs, automating the assignment of territories, the collection and approval of quotas, and reporting and analyzing sales performance include Waste Management, Linksys by Cisco, Sherwin-Williams, Manpower, Autodesk, Getty Images, Starwood Hotels, Time Customer Service, and many others.

For more information contact Paulson Lan at plan@varicent.com or visit www.varicent.com