Contents

Drive Revenue And Motivate The Sales Force  Page 1

A Structured, Logical Approach To Sales Compensation Planning  Page 2

Key Elements Of Sales Compensation Design  Page 3

Win Stakeholder Buy-In  Page 4

Understand Stakeholder Goals  Page 5

Evaluate Plan Effectiveness  Page 6
Drive Revenue And Motivate The Sales Force

Of all the challenges that sales leaders face, one of the most critical is designing and managing a sales incentive program that aligns to and drives revenue goals while effectively inspiring and motivating the sales force. A sound, thoughtfully constructed sales incentive program is a cornerstone to consistent, scalable revenue growth.

A recent Forrester SiriusDecisions study showed that hiring sales talent is becoming increasingly expensive. In fact, close to one-third of high-performing organizations reported spending more than $51,000 per rep on recruiting costs.

With the cost of hiring reps increasing, you want to ensure your organization gains a competitive advantage by hiring the best sales talent. This guide explains what that requires and how Forrester’s SiriusDecisions Sales Compensation Design and Management Model can help.

![Internal Recruiting Costs Per New Sales Rep](chart.png)

Source: Forrester SiriusDecisions Command Center®
A Structured, Logical Approach To Sales Compensation Planning

An effective sales compensation plan is simple, straightforward, and mutually beneficial to sales reps and company leadership. It aligns to corporate goals and is free of onerous terms and conditions, giving salespeople the freedom and incentive to maximize their earnings. This, in turn, maximizes revenue growth for the firm.

Forrester's SiriusDecisions Sales Compensation Design and Management Model provides a structured and logical approach to creating and managing simple, well-aligned sales compensation plans that meet the needs of both the organization and salespeople. It guides CSOs and sales operations leaders through the critical components of compensation plan design and assessment, preparing them to become sales compensation subject matter experts.

By using the model:

• Annual plan reviews become more structured, thorough, and efficient.
• Sales gains greater autonomy in building and modeling plans.
• Sales is empowered to focus on the art of compensation design by simplifying the science.
• Sales organizations gain a continuous improvement loop in assessment, planning, and execution.

The SiriusDecisions Sales Compensation Design And Management Model

Starting with the compensation charter (described on page 3) to set expectations, the compensation team can use plan design and territory-setting research to build the annual plan. Deployment, management, and governance are the day-to-day management components of the model and are key to effective administration of a compensation program.
Key Elements Of Sales Compensation Design

To begin building a successful sales compensation plan, define and review the following:

- Corporate goals and objectives
- Pay levels
- Quotas
- Go-to-market strategy
- Pay mix
- Crediting rules
- Plan charter
- Leverage
- Policy
- Guiding principles
- Plan communication
- Sales roles
- Plan mechanics
- Health check
- Performance measures

Next, focus on developing and executing these plan elements:

- **Compensation Charter.** Build a sales compensation charter that defines the strategy and objectives of the compensation program and aligns compensation to overall business objectives. Along with a firm understanding of annual corporate goals, key inputs to the charter include the go-to-market architecture and routes to market.

- **Plan Design.** Understand how compensation impacts reps’ motivation so you can maximize performance. Foundational steps in plan design include assessing the level of impact reps have on each sale, along with the organization’s ability to validate that impact, and finding the optimal mix of pay structure and incentives.

- **Target Setting.** Understand the total target compensation expectations for each sales role and ensure that reps can achieve their targets within the territory assigned to them. Setting realistic, attainable quotas is key to the ongoing success of a compensation plan.

- **Deployment.** Ensure plan updates, communication, and sign-off happen in a transparent and timely manner. Sales reps may be anxious about the potential earnings impact of plan design changes, and clear communication gives CSOs an opportunity to provide reassurance and gain reps’ support in achieving corporate goals.

- **Management.** Set up the plan in a way that allows for easy performance analysis. Actively manage the program roster (i.e., plan participants) and be sure you can easily translate performance measures into payment calculations.

- **Governance.** Monitor the plan to ensure that it continues to meet company and employee objectives. Reviewing the plan formally at least twice a year is best practice. (See the Sales Compensation Health Assessment Scorecard on page 6.)
Win Stakeholder Buy-In

Even the best compensation plan ideas will be fruitless if the CSO and sales operations leader are unable to convince the CEO, CFO, and HR leader that the proposed changes will motivate sales, improve corporate performance, conform with commission budgets, and comply with the corporate culture and policies and applicable laws.

To better account for stakeholders’ interests and motivations, sales operations must take the time to understand the following:

- **Initiatives:** What programs and projects are stakeholders tasked with, and how do they gain credibility and recognition?
- **Challenges:** What business issues and pain points do they struggle with, and what could keep them from achieving their objectives?
- **Needs:** What business outcomes do these stakeholders desire?
- **Lexicon:** What vocabulary and critical phrases do they use when discussing initiatives, challenges, and needs?
- **Roles:** Which roles do these internal decision-makers play — e.g., champion, influencer, decision-maker, user, ratifier? Understanding these roles is essential to understanding the power each stakeholder wields.
- **Engagement:** Which phases of the decision-making process (i.e., education, solution, selection) is each stakeholder involved in?
- **Decision Drivers:** What are the financial, operational, or strategic factors that influence their decisions?

### Organizational Satisfaction With Compensation Plan

Indicate each role’s assessment of the current compensation planning process and the current sales compensation plan.

![Organizational Satisfaction With Compensation Plan Diagram](image)

Source: SiriusDecisions Command Center®
Understand Stakeholder Goals

Conflicting objectives among stakeholders can make the sales compensation design process difficult to facilitate. To achieve consensus, sales operations must ensure that the concerns of all stakeholders are acknowledged, understood, and addressed:

- **CEO.** Achieving balance across corporate revenue goals, protecting margin, and managing expenses are top priorities for the CEO. Remember that the CEO must sell the compensation plan to the board of directors. If the CEO isn’t comfortable, plan proposals will not move forward.

- **CSO.** The CSO is the plan’s champion. Although he or she receives guidance and assistance from other executive stakeholders, the CSO is ultimately accountable for the plan’s success or failure. The CSO must have confidence that the plan will attract, retain, and motivate top sales talent and keep sales accountable for achieving its targets.

- **CFO.** Usually the most conservative stakeholder, the CFO needs to trust that the CSO will manage compensation fairly and objectively and that changes in compensation plan design are based in facts, not hyperbole.

- **HR Leader.** The senior HR executive often serves as the arbiter between sales and finance when there is disagreement on compensation design ideas. The HR leader must have confidence that sales compensation plans comply with corporate policy and laws and ensure that they follow the intent of senior leadership’s overall compensation philosophy.

Understanding these basic organizational needs and finding a way to assimilate them into the plan design ensures that all stakeholders will feel comfortable that their needs have been met and confident that excellent sales compensation plans have been created.

Implementing A Sales Compensation Plan: Three Key Steps

1. Ensure that compensation plans do not become overly complex. Anyone in sales should be able to understand and explain them.

2. Train sales managers and other sales leaders first. At the end of training, have them explain the plan to the plan designers. If they struggle, then the plans are too complex.

3. When communicating plans to sales reps, build credibility by having the same sales managers and sales leaders conduct the training sessions.
Evaluate Plan Effectiveness

Assessment is critical to the success of any sales compensation plan. Regular assessment helps ensure that the plan drives desired results, conforms to financial models, and supports retention and growth strategies. Reviewing the plan formally at least twice a year is best practice.

Forrester’s SiriusDecisions Sales Compensation Health Assessment Scorecard can help organizations continuously evaluate compensation plan effectiveness and make improvements. It allows sales organizations to assign a rating and level of change required for each input into the plan (listed on page 3).

The SiriusDecisions Sales Compensation Health Assessment Scorecard: Sample Results

<table>
<thead>
<tr>
<th>COMPONENTS</th>
<th>Role/Segment 1</th>
<th>Role/Segment 2</th>
<th>Role/Segment 3</th>
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Results Key:
Level of Change: ○ Not Applicable, ● Minimal, ○ Moderate, ○ Significant, ○ Meets

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The scorecard includes a four-level rating system (“meets,” “partially meets,” “does not meet,” and “not applicable”) that can be used to assess each component against targets or expectations. Separate ratings can be provided for each sales role covered by the compensation plan. If there are distinct compensation plans for individual sales segments (e.g., regions, industries, offerings), the assessment can be expanded to cover each plan.

For each component that receives a “does not meet” or “partially meets” score, determine how serious the issue is and how much of a disruption it would be to make changes. Assign an owner to lead improvement efforts for the components requiring further review or changes.

Sales operations should support each finding in the assessment with a summary of key supporting facts, conclusions drawn from them, and recommendations for action. Prioritize these recommendations to create an action plan that addresses what steps the organization should take to improve results, and when it should take them.

ACHIEVE LONG-TERM SALES SUCCESS

Designing a successful sales compensation strategy takes time and commitment. Yet the potential benefits — greater clarity, tighter alignment with business goals, and increased sales rep motivation — can create a virtuous cycle that accelerates your path to predictable and scalable revenue growth. By using the steps outlined in this guide to build and maintain a sales compensation plan and communicate your vision to stakeholders, you lay a solid foundation for your sales organization and the company as a whole, and build credibility and trust.
Forrester helps sales leaders succeed through hands-on guidance and proven strategies, processes, and tools that drive repeatable, predictable, and scalable revenue growth. Our SiriusDecisions Research supports sales executives with strategic insights and functional best practices on key priorities, including:

- Transforming your sales strategy
- Improving prospecting and lead generation
- Driving profitability through channel sales
- Designing executional processes that drive growth
- Optimizing sales organizational design and investments
- Improving sales productivity
- Attracting and retaining top sales talent

For sales operations leaders, our research, tools, and advice help accelerate success in key areas including:

- Revenue engine alignment
- Sales measurement, reporting, and analysis
- Sales compensation design and management
- Sales technology
- Sales planning
- Roles, responsibilities, and structure
- Sales process design and management

GET IN TOUCH

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