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and associates, inc.
E-MAIL sz@schuster-zingheim.com • PHONE 310 471-4865 • WEB SITE www.paypeopleright.com

SALES COMPENSATION STRATEGIES AT THE MOST SUCCESSFUL COMPANIES

Jay R. Schuster and Patricia K. Zingheim

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Do the financially best-performing companies have some special sales secrets? Yes and no.

A recent study of sales compensation programs in 75 companies indicates that, although they have no secrets, top performing companies *do* apply some common principles to the design, implementation and communication of methods to compensate their sales personnel.

The study was conducted in early 1985 and included US corporations that field direct national or regional sales campaigns through their own sales force.

The companies surveyed sell a wide range of products and services, and their sales departments range in size from a dozen salespeople to hundreds. No survey participant used distribution organizations to supplement their sales efforts.

The study involved a review of each compensation plan document, completion of a questionnaire by each participating organization, and either personal or telephone interviews with executives from each sales organization.

Seventy-five of the 300 invited companies provided information. These 75 were representative of the full range of original invitees in terms of performance, industry and selling structure.

The survey results indicate that the emphasis in US industry is on improved financial performance. The cost of fielding a sales force is high, and getting the most mileage from the sales dollars spent is critical.

Many sales executives have become disenchanted with merely following the sales compensation practices of their industry, simply because following industry practices has not always produced a differential advantage.

In addition, merely paying competitive compensation to sales personnel has not guaranteed selling success.

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Figure 1

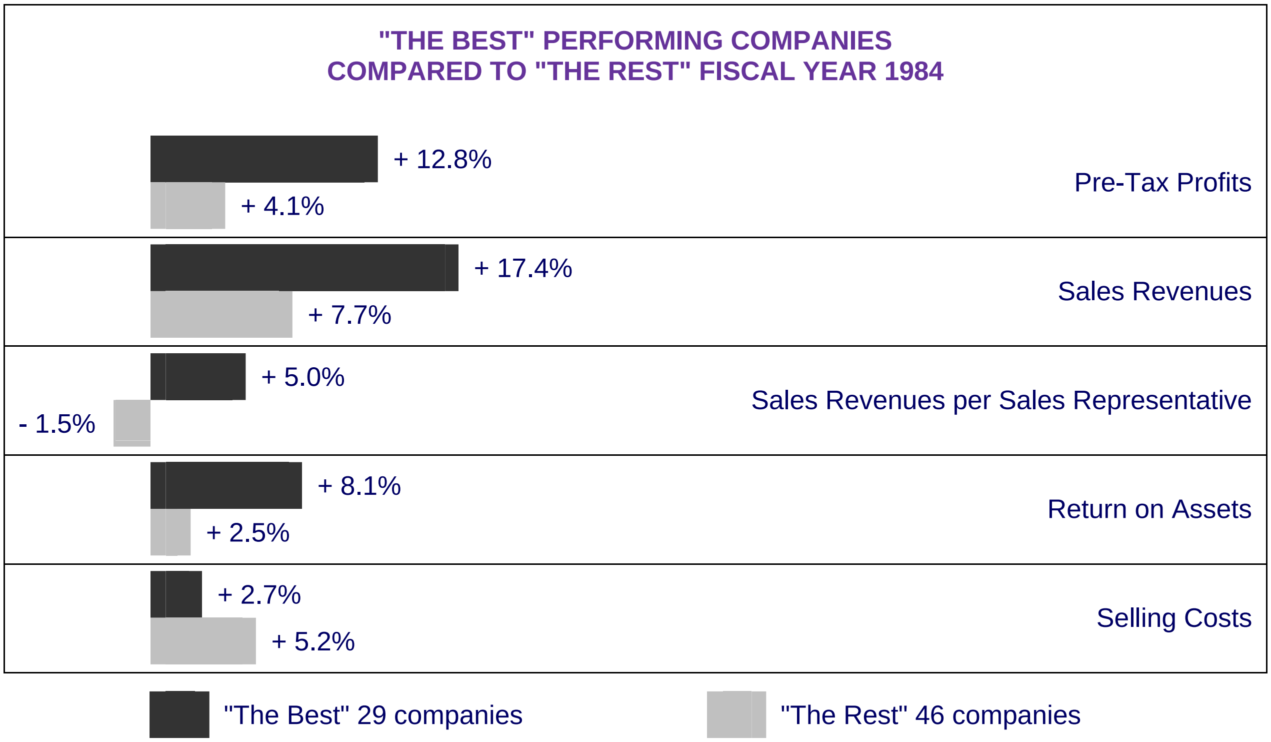
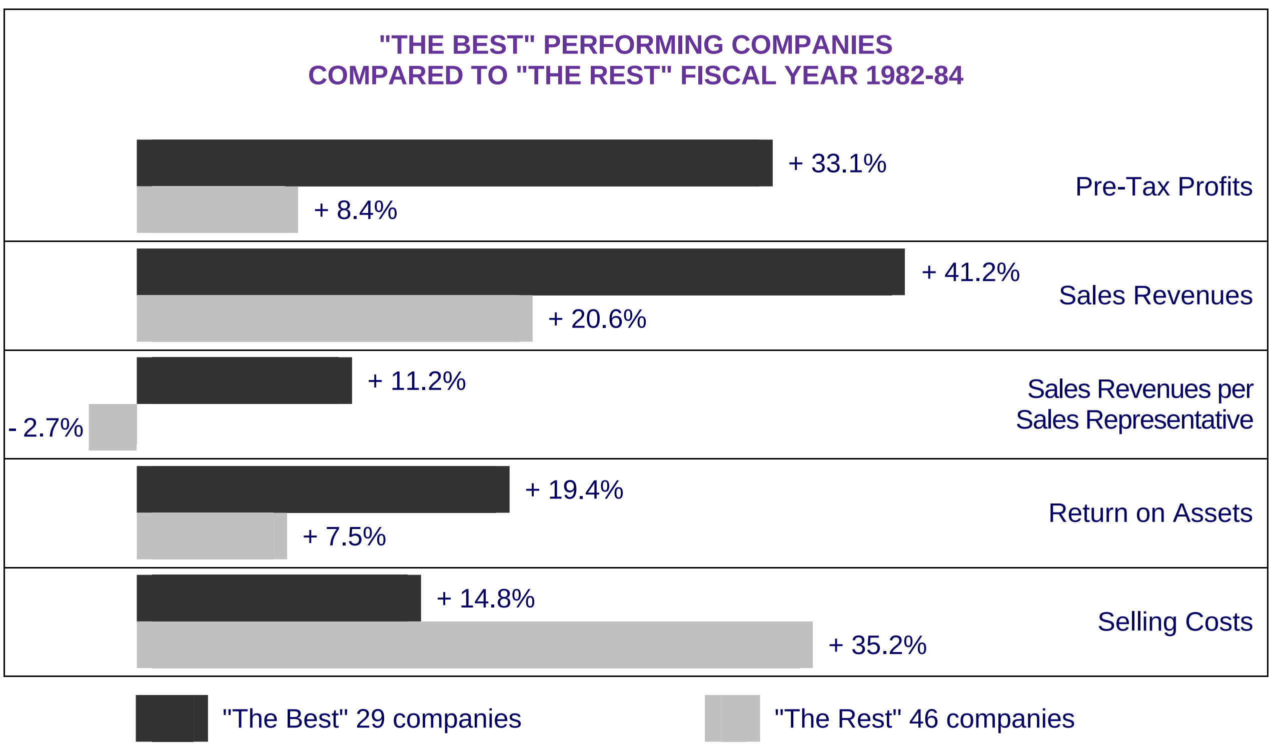


Figure 2



Sales compensation plans are frequently the first object of blame for selling failure. Plans are often changed in an effort to improve failing sales, and additional compensation dollars are spent to attract better sales personnel.

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These new practices have little proven record of success, however. Frequently, the new sales compensation plan adopted by one company is being replaced by another company down the street that blames the rival's plan for its sales downfall.

Just changing plans may not be the answer, but for companies that do want to make a change there is no shortage of possible alternatives.

The variables of sales compensation plan design that differ according to the relative financial success of the 75 companies studied include the following:

- How the plan is designed, implemented and administered
- Performance yardsticks applied to award determination
- The mix of base salary or guaranteed draw and variable incentive compensation used
- The actual comparative blend of total cash compensation earned based on selling performance.

Other possible alternatives in the area of sales compensation plan design did not significantly influence the financial performance of the company.

PLAN DESIGN AFFECTS SALES RESULTS

Properly designed compensation plans can actually affect what salespersons do. Unless we accept this premise, it makes no sense to concern ourselves with how people who sell products and services are compensated.

Figure 1 divides the survey organizations into two categories: "the best"—those 29 companies that markedly improved performance in 1984—and "the rest."

Figure 2 provides information on the performance of the same organizations during the period 1982 through 1984 so that we can be assured that performance has been sustained.

These tables show measurable performance differences between the two groups of companies. Companies in "the best" category improved their performance significantly more than the organizations in "the rest" category.

Figure 3 outlines the differences in each of the four alternative plan design areas introduced earlier. Companies that improved financial performance the most financially are clearly designing sales compensation plans differently than the poorer performers.

> The most successful corporations produced sales compensation programs that integrated the company's business goals with appropriate performance measurements, incentives large enough to make outstanding performance worthwhile and awards that reflected the varying degrees of sales accomplishments.

Although it is not reasonable to say that sales compensation practices alone caused the differences in performance, the sales compensation practices applied by "the best" companies were different from those used by "the rest."

The business principles followed by the best-performing companies are as follows:

Sales compensation rewards achievement of corporate performance priorities. The objective of the sales compensation plan is to pay money for the successful integration of the selling job with the business goals of the company.

The prime goal of the sales compensation plan is to extend the objectives of a particular company to the selling process. This approach is sound, practical business practice.

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Figure 3

DIFFERENCES IN SALES COMPENSATION PLAN DESIGN		
SALES COMPENSATION PLAN FEATURE	**"THE BEST"** **(29 companies)**	**"THE REST"** **(46 companies)**
Design, Communication, and Administration Methodology	Sales compensation design begins with tying sales compensation goals to the business objectives of the company in a direct way. The selling job is subsequently carefully defined in terms of responsibilities, accountabilities, and goals. Communication and administration is the responsibility of Sales supervisor with frequent executive sales performance audits conducted.	Sales compensation plan design closely follows industry practice. Sales compensation plan design process not specially integrated with the business plan of a single company. The selling job is often reflective of incumbent rather than to the corporate plan. Little communication and administration exists. Audit seldom conducted in time to intercept sales performance problems before they occur.
Application of Performance Yardsticks	Both qualitative and quantitative performance measures are used to communicate performance priorities for upcoming performance period. Often profit is used as a supplementary yardstick to revenues. Measures directly extend corporate sales goals to sales job and tie sales representative into the overall business plan of the company. Team measures are often used to reward cooperation and team selling.	Only quantitative goals are used and these are nearly always sales measures. Heavy emphasis on exceeding prior year's sales performance with little information about what selling lob will face in upcoming performance period. Setting of goals is a sales responsibility and is not tied to corporate business plan. Emphasis on individual selling and often competition between sales representatives.
Mix of Fixed and Incentive Compensation	Prime emphasis is on the economics of the selling task rather than competitive compensation. Incentives offer very high cash compensation for excellent selling performance. Little emphasis on competitive compensation and base salary or draw is measurably below competitive compensation for industry. Emphasis is on paying for sales success.	Sales compensation plan design usually begins with a survey of competitive compensation levels in the industry. Compensation plan developed to pay competitively but not to reward outstanding performance. Total cash compensation is often "capped." Most sales representatives earn competitive compensation and few excel in selling success. Base salary or draw is 65% to 90% of total cash compensation.
Actual Total Cash Compensation Paid	Total cash compensation varies dramatically based on sales performance. Over 25% of sales representatives earn more than competitive cash compensation and 20% earn less than competitive.	Little actual variation in total cash compensation. Only a few earn exceptional compensation and few receive no incentive. Most are paid retention levels of compensation. All sales personnel, both good and poor performers, are paid within "acceptable" limits of compensation.

Performance measures are a reflection of the actual selling job that must be done. Many goals that lead to eventual financial success cannot be measured only in quantitative terms.

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As a result, evaluations of sales compensation plans should measure what the selling job must accomplish during a particular time period. This approach may require a combination of both quantitative and qualitative performance measures.

Incentives must be large enough to make outstanding performance worthwhile. If the sales compensation plan is designed to extend corporate business goals to the selling process, if performance yardsticks are selected so the measures are appropriate, and if results are to be forthcoming, the plan must be financially worthwhile to the employee.

To accomplish this, a substantial portion of cash compensation must come from successful performance—which means that a major portion of compensation opportunities should result from financial incentives.

Actual awards should reflect differences in success. In top-performing companies, cash awards were granted according to measured differences in actual performance.

These differences communicate to sales personnel that top performance is worthwhile and that inadequate performers must either improve their performance or leave the organization.

Figure 4

CHECKLIST COMPARING SALES COMPENSATION PLANS		
CHECKLIST QUESTION	**"THE BEST" PERFORMING COMPANIES**	**"THE REST" OF THE COMPANIES IN THE STUDY**
1) Is sales compensation plan a direct reflection of corporate performance priorities?	**Yes**, always integrated with corporate goals.	**No**, often not on extension of corporate business goals.
2) Does sales compensation plan design follow traditional industry practice?	**No**, reasons for plan are reflections of what a particular company wants to do.	**Yes**, external practice dictates design strongly.
3) Are both qualitative and quantitative performance measures used?	**Yes**, yardsticks measure whatever it takes to do the selling job.	**No**, only sales revenue is used as a performance measure.
4) Is the emphasis only on individual sales performance?	**No**, often teamwork is required to earn incentive awards.	**Yes**, often internal competition is encouraged and rewarded.
5) Is emphasis on paying for performance?	**Yes**, rewards are based only on performance.	**No**, what other organizations pay is of prime importance.
6) Does base pay or draw comprise most of total cash compensation?	**No**, emphasis is on variable incentives that permit significant rewards for excellent performance.	**Yes**, base pay or guaranteed draw assures a certain compensation level. Less compensation depends on performance variation.
7) Does total cash compensation vary according to performance?	**Yes**, actual rewards vary considerably between performance periods.	**No**, little opportunity for variation exists because fixed compensation costs in plan design are high.

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The sales executive who wishes to evaluate his or her sales force compensation plan to see whether it has been designed in conformance with the best-performing plans can do so.

Figure 4 is a checklist that asks a series of questions concerning sales compensation plan design. The answer in each area is given for "the best" performers and "the rest."

This list should serve as a starting place for seeing whether the executive's current compensation plan needs further review.

A periodic audit of compensation practices can help keep the sales compensation plan and business goals and realities in focus.

Many factors interact to impact the performance of companies throughout the country. Selling, however, is paramount and makes the compensation of the sales force an important priority in the top-performing US companies.

Patricia K. Zingheim and Jay R. Schuster are partners in Schuster-Zingheim and Associates, Inc., a pay and rewards consulting firm in Los Angeles (310-471-4865). They are recipients of WorldatWork's 2006 Keystone Award, the highest honor in the total rewards profession. They are the authors of three books, *High-Performance Pay* (WorldatWork, 2007), *Pay People Right!* (Jossey-Bass Publishers) and *The New Pay*. Their Website is www.paypeopleright.com.

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