

# Remedy Webinar



## Is Your Sales Compensation Plan Ready for the Economic Recovery?

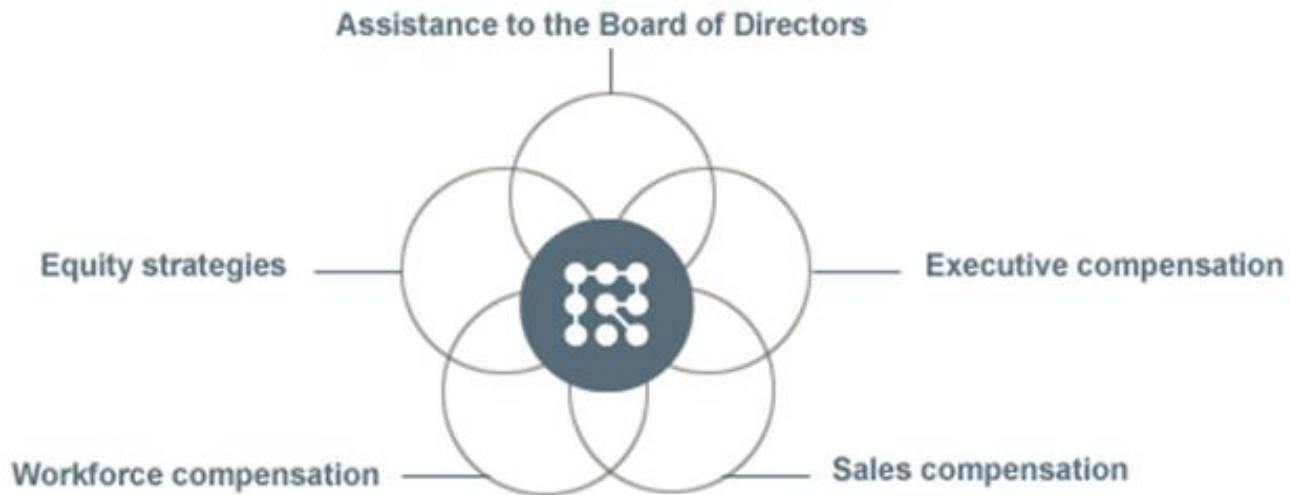
Practical Insights for the High Technology Industry

Ken Wechsler, *Principal*

September 24, 2009

## About Remedy

**Remedy is a leading compensation consulting firm, specializing in the life sciences and broad technology industries ...**



**CONSULTING | SURVEYS | CO-SOURCING**

## Today's agenda

---

- ▶ What are the key business challenges being faced by high technology companies today?
- ▶ What are the current sales compensation “hot topics?”
- ▶ Leveraging data collected by Remedy previously, what are the current sales compensation market norms?
- ▶ What kinds of plan changes are being considered?
- ▶ What factors should you consider in assessing your company's sales compensation plans?
- ▶ What are some basic tools you might use to improve your plans?

## Key Business Challenges

---

- ▶ Recent economic conditions and their impact on business results
- ▶ Difficulty setting accurate quotas in volatile economic environment
- ▶ Philosophical debate about revising quotas mid-year
- ▶ Shifting business priorities
- ▶ Emphasis on productivity...doing more with less
- ▶ Uptick in merger and acquisition activity and difficulty integrating sales forces
- ▶ Organizationally, an increasing number of “specialist” roles

## Sales Compensation “Hot Topics”

---

- ▶ Quota adjustments when business results are unexpectedly weak
- ▶ Assessing pay competitiveness in current fast-changing market
- ▶ Increasing the sales force’s stake in profitability
- ▶ Encouraging cross-selling and “bundling”
- ▶ Keeping pay plans aligned with shifting business priorities
- ▶ Rewarding customer satisfaction, penetration, and/or retention
- ▶ Increasing the productivity of new hires through effective on-boarding
- ▶ Team selling and its impact on sales compensation programs
- ▶ Finding the right balance of consistency vs. customization in plan design (across roles, business units, or geographies)
- ▶ Increased emphasis on cash incentives (where perceived value of equity has diminished due to stock price decreases)

# What are the Market Norms?

## Compensation Philosophy

**Base salary**

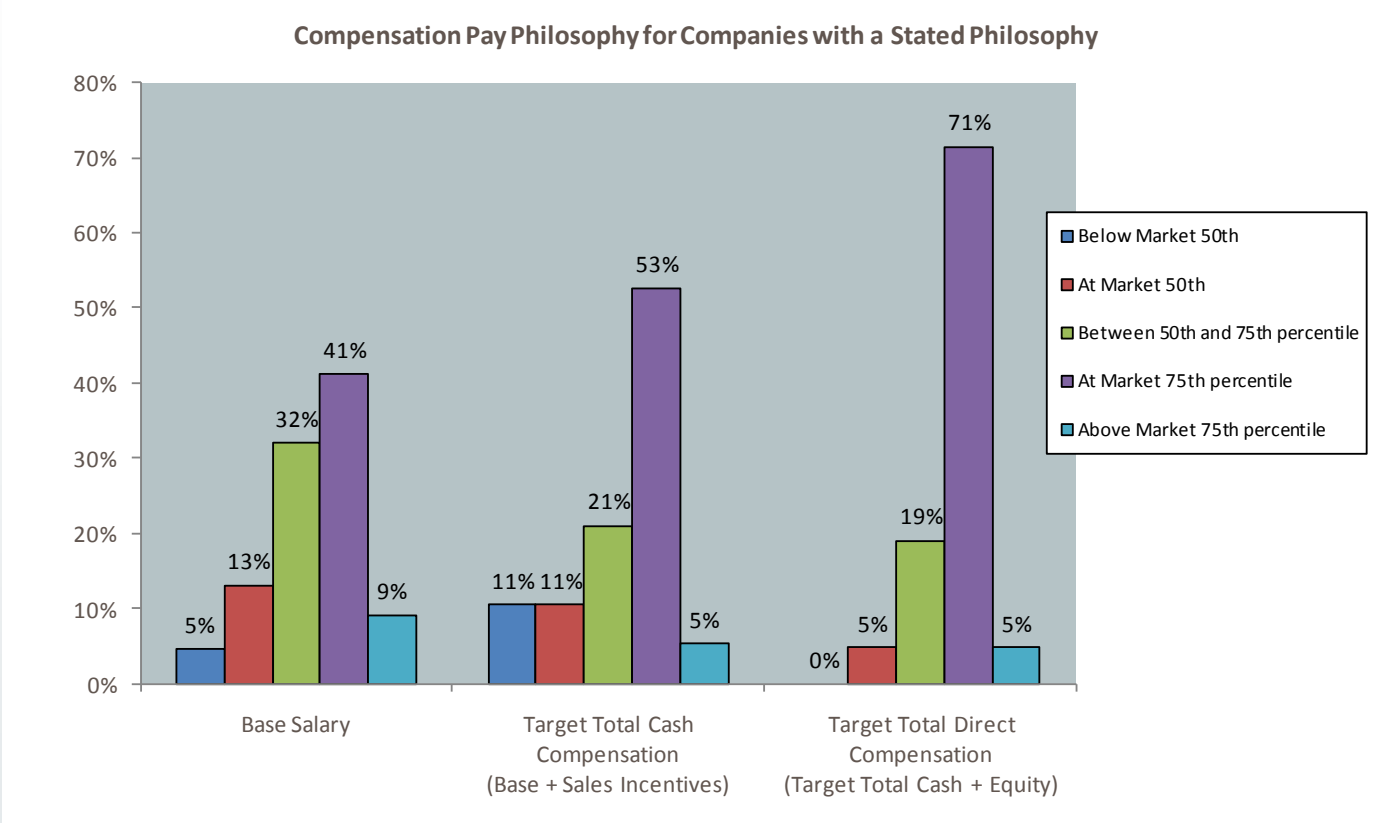
- ▶ Over 80% of companies have a stated compensation philosophy
- ▶ Most position either *between the market median and market 75<sup>th</sup> percentile* or *at the market 75<sup>th</sup> percentile*.

**Target total cash**

- ▶ Over 75% of companies have a stated compensation philosophy
- ▶ Most position at the *market 75<sup>th</sup> percentile*

**Target total direct**

- ▶ Over 80% of companies have a stated compensation philosophy
- ▶ Most position at the *market 75<sup>th</sup> percentile*



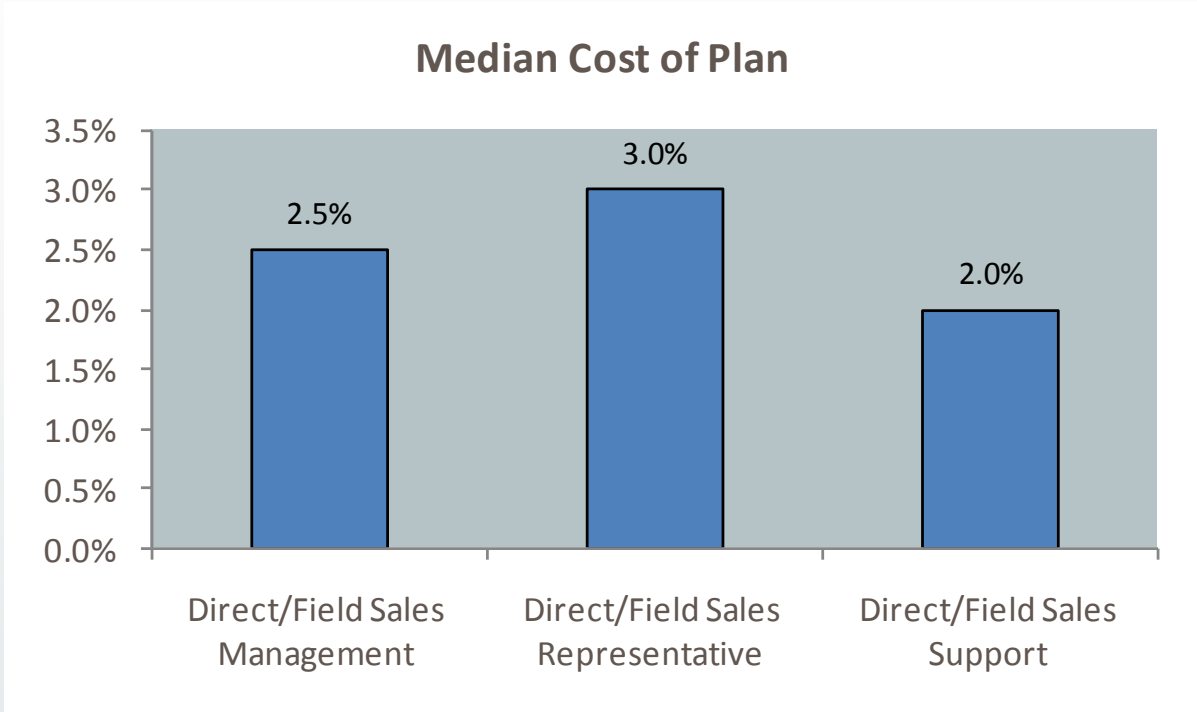
Source: 2008 HITECH Sales Incentive Practices Survey conducted by Remedy Compensation Consulting

# Market Norms

## Plan Costs

**Cash as a % of Revenue**

- ▶ Median cost of cash compensation is 2.5% for sales management
- ▶ Median cost of cash compensation is 3.0% for sales reps
- ▶ Median cost of cash compensation is 2.0% for sales support



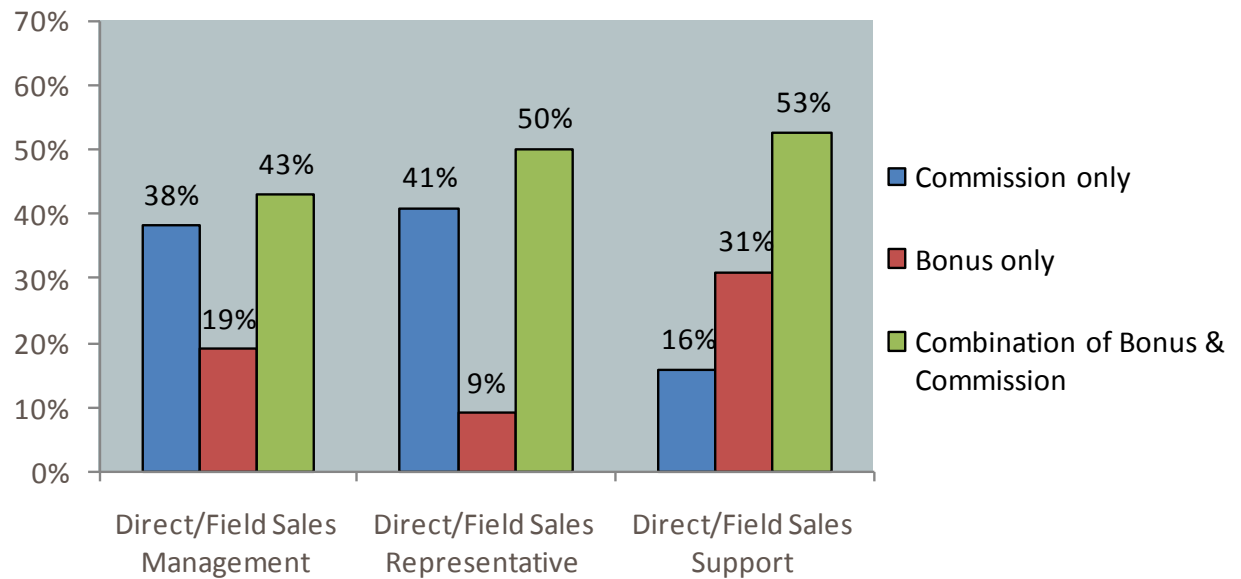
# Market Norms

## Type of Plans

### Plan Types

- ▶ *Sales Managers* = combination of commission & bonus-based plans, or commission only plans
- ▶ *Sales Reps* = combination of commission & bonus-based plans, or commission only plans
- ▶ *Sales Support* = combination of commission & bonus-based plans, or bonus only plans

### Primary Type of Incentive Plan



# Market Norms

## Minimums and Maximums

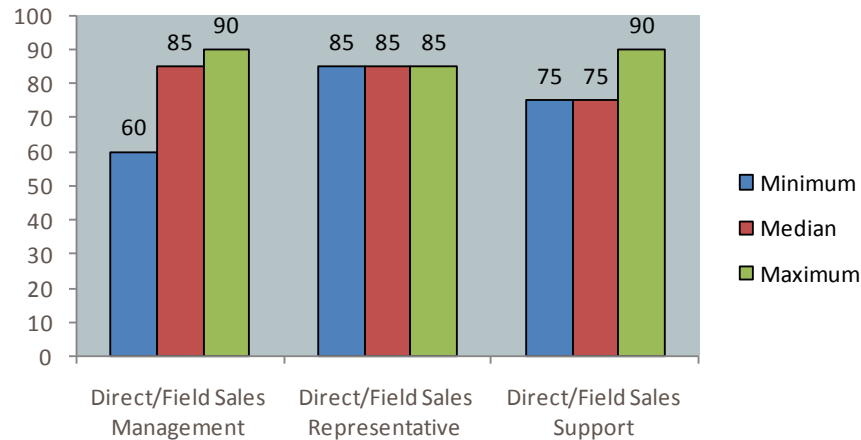
### Minimum Performance Requirements

- ▶ Only 14%, 5%, and 25% of companies require a minimum level of performance prior to incentive payouts for management, representatives, and support, respectively
- ▶ For those that do, 75% - 85% of goal is the norm

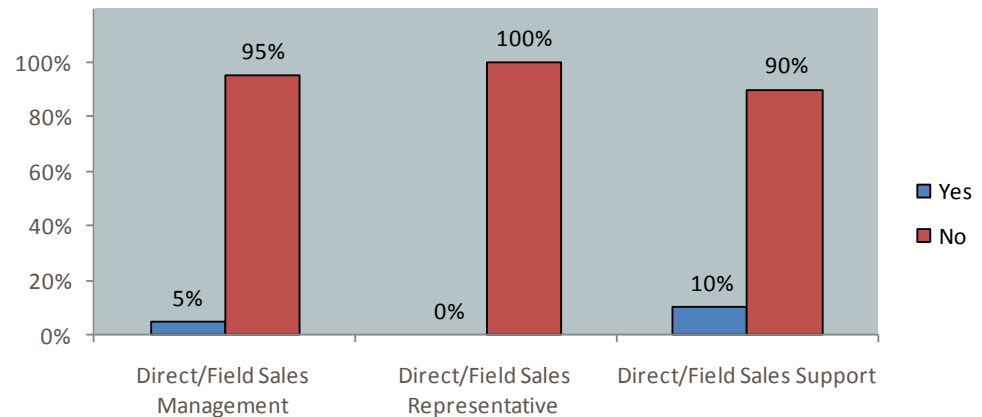
### Limits (“Caps”) on Pay

- ▶ Most companies do not limit the amount of incentives that can be earned

Minimum Level of Performance Required



Are sales incentives capped?



# Market Norms

## Slope of the Payout Curve

### Payout Curves

- ▶ *Sales Management* = about the same tolerance for underachievement, slightly more upside for overachievement.
- ▶ *Sales Reps* = proper risk/reward relationship below and above plan
- ▶ *Sales Support* = proper risk/reward relationship below and above plan

Percent of Target Sales Incentive Earned at Each Level of Quota/Plan Performance - Average			
Level of Quota Attainment	Direct/ Field Sales Management	Direct/ Field Sales Representative	Direct/ Field Sales Support
75%	64%	65%	69%
80%	69%	70%	74%
85%	75%	76%	79%
90%	82%	83%	84%
95%	89%	89%	89%
100%	100%	100%	100%
105%	118%	112%	112%
110%	129%	121%	123%
115%	143%	133%	137%
120%	154%	143%	148%
125%	165%	154%	160%

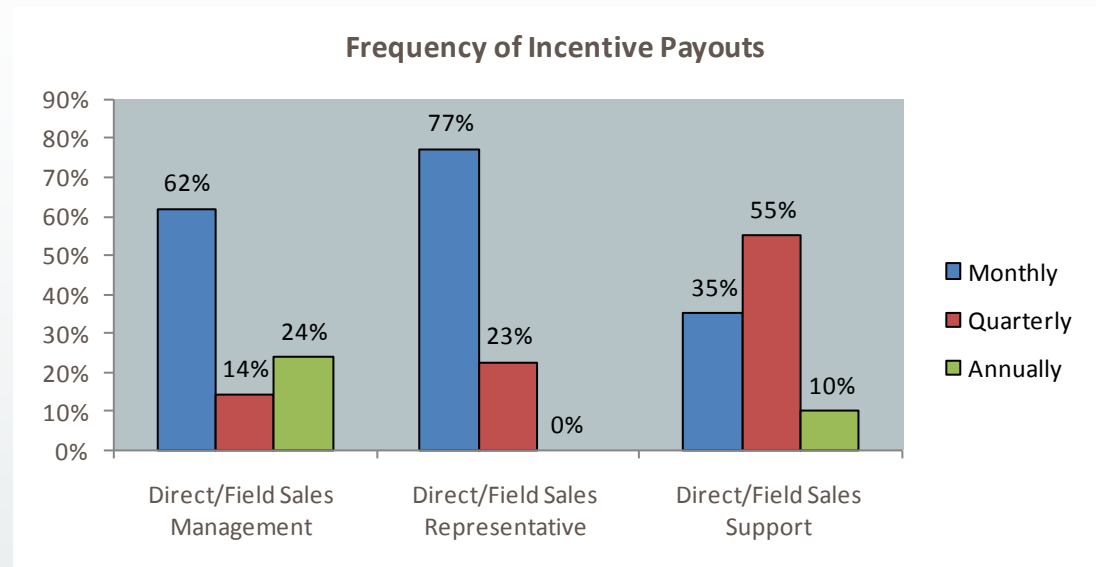
Multiple of Target Sales Incentive Earned Relative to Performance - Average			
Level of Quota Attainment	Direct/ Field Sales Management	Direct/ Field Sales Representative	Direct/ Field Sales Support
75%	0.9	1.0	1.1
80%	0.9	1.0	1.1
85%	0.9	1.0	1.0
90%	0.9	1.0	1.0
95%	0.9	1.0	1.0
100%	1.0	1.0	1.0
105%	1.1	0.9	1.0
110%	1.2	0.9	1.0
115%	1.2	0.9	1.0
120%	1.3	0.9	1.0
125%	1.3	0.9	1.0

# Market Norms

## Payout Frequency

**Payout Frequency**

- ▶ *Sales Management* = Monthly
- ▶ *Sales Reps* = Monthly
- ▶ *Field Support* = Quarterly
  
- ▶ Although monthly payouts are most common across sales positions, sales representatives are generally paid more frequently than sales managers.



# Market Norms

## Performance Metrics

**Most Common Metrics**

- ▶ *Sales Management* = Revenue and sales effectiveness measures
- ▶ *Sales Reps* = Revenue and new accounts
- ▶ *Sales Support* = Revenue and margin and customer satisfaction

**Sales Managers – Top 3 Metrics in Addition to Total Revenue**

- Product Specific Revenue
- New Product Revenue
- Gross Margin/Number of New Accounts/Expense Control/Forecast Accuracy

**Sales Representative – Top 3 Metrics in Addition to Total Revenue**

- Product-specific revenue
- New Product Revenue
- Number of New Accounts

**Sales Support – Top 3 Metrics in Addition to Total Revenue**

- Product-specific revenue
- New Product Revenue
- Gross Margin/Units sold/Customer Satisfaction

# Market Norms

## Changes Considered for Next Year

### Top Changes Considered

- ▶ Increasing target incentive levels
- ▶ Increasing minimum performance requirements
- ▶ Increasing the number of performance metrics

### Potential Changes

Specific incentives for new product launches - increasing

Target sales incentive opportunity - increasing

The number of performance metrics – increasing

Minimum performance requirements – increasing

Eligibility for base salary merit increases – decreasing

# Assessing and Improving Your Plans

---

- ▶ Sales compensation plans are an important contributor to achievement of your financial, customer, and employee goals
- ▶ Done right, a good sales compensation program can:
  - **Communicate** performance expectations very clearly
  - **Focus** attention on the most important goals
  - **Motivate** people to perform and maximize selling effort
  - **Correlate** compensation expense with business results
  - **Attract and retain** great sales talent
- ▶ How might you assess the effectiveness of your existing sales compensation plans? What reference points can be used?
- ▶ On the pages that follow, we present scorecards you can use to assess your company's plans

# Scorecard #1: Support for Business Objectives

How well does your current plan support your business objectives?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. Revenue goals <ul style="list-style-type: none"> <li>- Overall revenues</li> <li>- Revenues by product or product category</li> <li>- Revenues by customer or market segment</li> </ul>	_____
2. Profitability goals <ul style="list-style-type: none"> <li>- Overall margin percentage</li> <li>- Product mix</li> <li>- Customer penetration (add-on products, service contracts, etc.)</li> </ul>	_____
3. Customer goals <ul style="list-style-type: none"> <li>- Target customer acquisition</li> <li>- Customer satisfaction/retention</li> </ul>	_____
4. Financial goals <ul style="list-style-type: none"> <li>- Sales compensation expense to budget</li> <li>- Sales compensation expenses as a % of sales</li> </ul>	_____
5. Human Resources goals <ul style="list-style-type: none"> <li>- Attraction/retention of strong sales talent</li> <li>- On-boarding and career progression</li> </ul>	_____

# Scorecard #2: Pay Levels and Differentials

How effective is your plan in terms of the link between pay and performance?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. Target performance results in expected pay levels	_____
2. Excellent performers realize appropriate pay levels	_____
3. Poor performers are sent an appropriate pay message	_____
4. Pay levels are not affected (up or down) inadvertently due to territory size, account assignment, or other factors	_____
5. Total compensation expense correlates to overall sales performance to budget	_____

# Scorecard #3: Employee Perceptions

How effective is your plan in terms of employee perceptions?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
1. The plan is perceived as fair and equitable	_____
2. Employees understand the plan	_____
3. There has been minimal controversy about the plan	_____
4. Employees do not believe some territories have a natural advantage or disadvantage under the plan	_____
5. Employee morale is high	_____
6. Employees find the plan motivating, and exhibit behaviors that demonstrate this	_____

# Scorecard #4: Technical Soundness

How effective is your plan in terms of overall technical soundness and consistency with market best practices?

Key Factors	Effectiveness Assessment (Hi-Med-Lo)
Plan complexity	_____
Clearly stated plan objectives	_____
Pay for performance linkage	_____
Performance distribution (quota setting effectiveness)	_____
Plan format (commission vs. bonus)	_____
Incentive-impacting performance metrics	_____
Salary to incentive mix	_____
Leverage (upside pay for “excellence”)	_____
Payout frequency	_____
Quota measurement (discrete periods vs. cumulative)	_____
Thresholds and caps	_____
Balance of team and individual metrics	_____
Number/frequency of exceptions	_____

# Common Technical Design Flaws

---

- ▶ How can you avoid common pitfalls like these?
  - Having a salary-to-incentive mix that is wrong for the role
  - Insufficient upside
  - Sub-optimal performance factors
  - Thresholds that are too lenient or non-existent
  - Caps, when other tactics can be more effective
  - Payout frequency out of synch with selling characteristics
  - Using the wrong incentive format (commission vs. bonus)
  
- ▶ A series of “best practices” tools and methodologies for making sound design decisions and optimizing plan effectiveness are included in the Appendix to this material
  - These practical, experience-based concepts should be useful to you in considering modifications to improve your plans for 2010

## In Closing...

Thank you for letting us share some ideas with you today

What questions do you have about any of the concepts presented?

What are the most pressing sales compensation issues your company is facing?

**Ken Wechsler, SPHR , CCP *Principal***

Remedy Compensation Consulting

12340 El Camino Real Suite 400

San Diego, California 92130

**P** (858) 755-8675

**C** (858) 692-1723

[kwechsler@remedycomp.com](mailto:kwechsler@remedycomp.com)

[www.remedycomp.com](http://www.remedycomp.com)

# APPENDIX

---

Practical tools and decision-making frameworks  
for improving your plans

# Improving the Plan: Use the Right Levers

<b>Cash</b>	<p><b>Commission</b>            Immediate sale-by-sale or day-by-day results            Often volume oriented</p>	<p><b>Bonus</b>            Measurable goal-oriented aspects of performance requiring consistent reinforcement            Often strategic</p>	<p><b>Salary/Performance Review</b>            Less quantifiable (the “how”) aspects of performance</p>
	<b>Noncash</b>	<p><b>Contests</b>            Temporary priorities and action items that require “hype” to attract attention</p>	<p><b>Recognition</b>            Distinguished or “role model” performance</p>
	<p><b>Immediate/ Short-Term</b></p>	<p><b>Sustained/ Medium-Term</b></p>	<p><b>Ongoing/ Long-Term</b></p>

# Improving the Plan: Determine the Right Mix

**Appropriate Salary:Incentive Ratio**

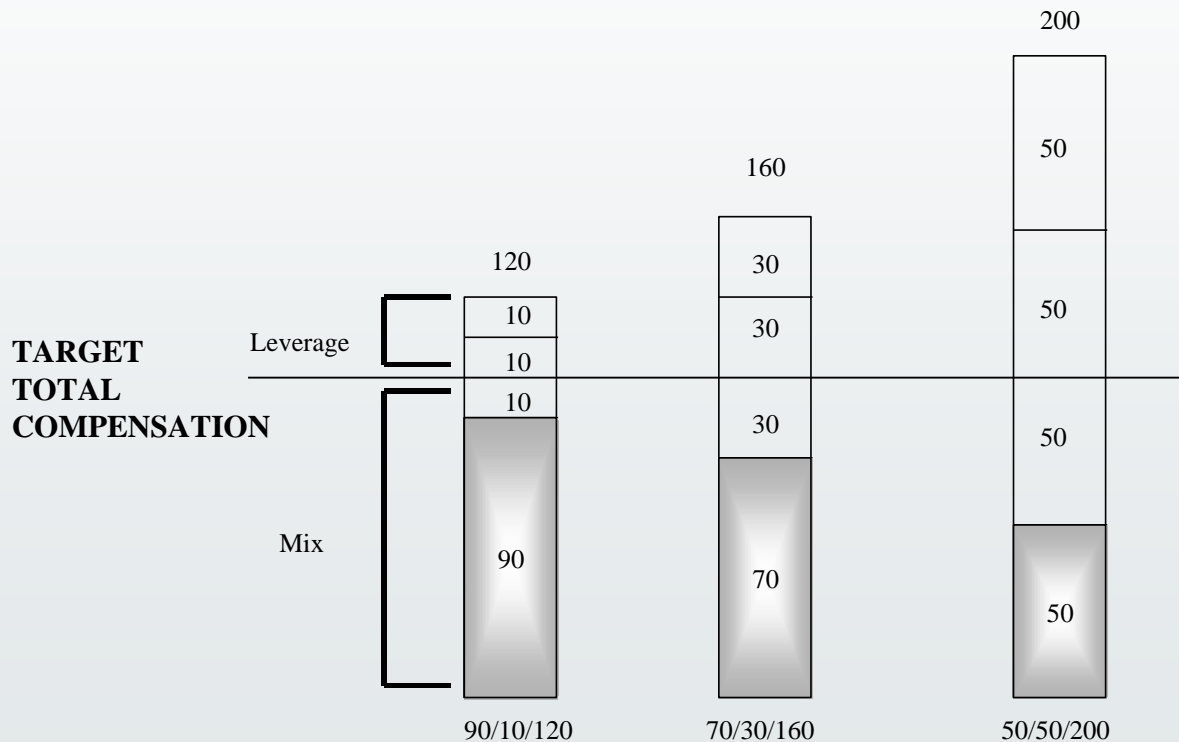
<b>Importance of Personal Persuasion vs. Other Sales Drivers (Advertising, Price, etc.)</b>	High	Around 80:20	75:25 to 60:40	50:50 to 0:100
	Medium	90:10	80:20 to 65:35	70:30 to 60:40
	Low	Consider salary only or small bonus	90:10	85:15 to 75:25

- Length of Sales Cycle:** Long ..... Short
- Primary Customer Type:** Current/Existing ..... Nonbuying/New
- Number of Accounts:** Few ..... Many
- Responsibility for Service:** High/Heavy Involvement ..... Low/None
- Sales Channel Configuration:** Indirect ..... Direct
- Nature of Sales Role:** Consultative ..... Transactional
- Product Maturity Level:** Established ..... New

# Improving the Plan: Provide the Right Upside

General rule:

- ▶ **2:1 ratio**—for every dollar at risk, the plan should be able to pay twice as much for high performance



# Improving the Plan: Reward the Right Factors

**A reward factor should be “high” in at least two areas**

Performance Factor	Control by Salesperson			Impact of Factor			Ability to Measure		
	High	Medium	Low	High	Medium	Low	High	Medium	Low
1.									
2.									
3.									
4.									

# Improving the Plan: Use Thresholds Appropriately

## ► Lower Thresholds

- Significant pay-at-risk in target total compensation
- Developing or underdeveloped quota-setting process
- Individual-based performance measures
- Volatile business
- Desire to have all sales representatives finish “in the money”

## ► Higher Thresholds

- Salary is predominant portion of target total compensation
- Well-defined, proven, established quota-setting process
- Team-based performance measures
- Mature, established business
- Desire large compensation spread between “eagles” and “adequate” performers

# Improving the Plan: Use the Right Format

---

## ► Commission

- Rewards territory size
- More difficult to manage to “target” compensation
- May minimize focus on quota attainment
- Direct link between production and reward
- May not reflect level of effort

## ► Bonus

- Rewards achievement of expected level of performance
- Easier to manage variable amounts of pay-at-risk
- Increased focus on quota attainment
- More likely to reflect effort—if quotas are set properly

## Improving the Plan: Use Team Incentives Wisely

---

- ▶ Companies using team incentives generally do so for the following benefits:
  - Customer service is enhanced, e.g., the effort is truly a “team sell,” requiring input from employees with special expertise
  - To support and encourage collaboration and cooperation among salespeople and between sales and other employees
  - “Producers” in the group help others and there may be peer pressure to perform
  - Fewer “arguments” over measurement and tracking of results
  - May align sales force more closely to management’s reward system

# Improving the Plan: Use the Right Pay Frequency

<b>Considerations</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Annually</b>
Relative size of incentive amount	Moderate to large (target incentive is at least 30% of salary)	Moderate (target incentive is at least 20% of salary)	Small (target incentive is less than 20% of salary)
Ability to track and measure results	Easy to count results and evaluate performance	Actual sales or progress toward sales can be measured easily	Difficult to assess progress toward objectives
Length of selling cycle	Day-to-day or week-to-week	Sales usually closed in a few months	Several months; sometimes longer than a year
Importance of results for full year	Low	Moderate	High