



Eight Traits of Highly Effective Incentive Compensation Plans

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Using incentives to motivate and reward great performance is not as straightforward as it seems. Creating a culture of measurement within your sales force can nurture a spirit of competition that takes your business to the next level. You can find the right mix when you focus on the factors that matter most. Keep these traits in mind when you design your incentive compensation plan and your business will reap the rewards.

Trait #1: The best plans give payees control

If your payees don't have any impact on a KPI, your incentive plan is useless. Make sure you aren't measuring sales people on factors they cannot control. While everyone in an organization should be concerned with things like profitability, your sales people have very little control over this. Do your sales incentive plans call for a 50% commission on booking and 50% on shipping, but your manufacturing plant is behind on orders? Is your inside sales rep compensated on qualified leads handed over to the field sales rep—or sales? ***Completely eliminate any measure that holds a sales person accountable for something they cannot control.***

Trait #2: Focus, focus, focus

It's tempting to try to measure all of the factors that make a great sales person and make performance against these measures the basis of your incentive compensation plan. But best practices dictate that you stay focused on the factors that truly make the difference. What is the **most** important thing a payee can deliver? Assuming you have the data to measure this, it definitely belongs in the plan. What's the second most important thing a payee can deliver? If you can measure this success factor, it **might** belong in the plan. The third most important thing? You'll need a strong justification for including it in the plan. The fewer targets in front of your payees, the more likely they are to concentrate on hitting them. A rule of thumb in incentive comp is that no more than three metrics belong in a plan—and fewer is better.

Trait #3: Consistency rules

Make sure the goals of the sales organization are aligned at all levels. Your sales reps may be compensated on revenue and new customers, but the sales managers may be paid on margins. In order to bring in more revenue, your reps will want to lower the price for a big order, or offer new customers a discount. On the other hand, your sales managers are being paid on profitability—which means the goals of the managers and reps are not aligned. Your plan shouldn't have metrics in conflict with one another—it will demotivate your sales force. Make sure your managers and reps are all pursuing the same goals.

Trait #4: The best plans are unambiguous

The best comp plans leave little room for subjectivity. Read your existing compensation plan as objectively as you can. Can there be **any** confusion about what a metric is measuring and how it will be measured? Is there room for debate about what "good" looks like and how to achieve it? If you find any ambiguity, go back and re-write the plan until it's crystal clear what success looks like and how it will be measured. Without clarity, your plan will not motivate superior performance, which negates the potential ROI of your incentive spend—even if performance happens to improve.

Trait #5: The stated objectives are achievable

If you were offered \$1 million to sink 10 half-court baskets in 10 shots, could you do it? ***After you missed the second shot, would there be any point in trying to sink the rest?*** A great incentive to perform an impossible task usually results in a minimal increased effort on the part of your payees—and sometimes it results in decreased effort. Make sure your goals are achievable or you'll lose your payees' engagement in the plan.

Trait #6: The best plans balance “carrots” and “sticks”

Payment caps demotivate the best payees from giving extra effort. Keep in mind that incentive pools benefit the company, ***not*** the payees—and they know it. The best sales people are highly competitive and will always wish to max out their earning power. They expect heroic effort to lead to heroic rewards. The usual benchmark in the best sales incentive compensation programs is that variable pay that is less 15% of the total pay isn't really a motivator. Without a reasonable amount of compensation at risk, your sales force won't be motivated to achieve peak performance. Also consider that non-monetary rewards can also be powerful motivators.

Trait #7: The comp plan isn't a substitute for supervision and management

Don't use your incentive compensation plan to measure basic job functions. If your sales people aren't performing core job functions up to snuff, then coach, train and motivate them to do so—and use your corrective action process. Use basic job performance metrics as qualifiers for incentive compensation—you never want to reward people who aren't doing their jobs to spec. Your sales people should achieve a minimum score on their adherence KPIs before they are eligible for commissions or bonuses. Don't treat these minimal KPIs as if they were part of the variable pay program—make them a doorway to variable plan participation.

Trait #8: Communication is key

Your reps should always know where they stand in relation to their goals. Is your plan clear and well defined in its goals and incentives? How do you communicate benchmarks? Communicate goals, challenges, and victories during your regular team meetings. Mail copies of the comp plan home and spouses can also get involved in keeping the sales person motivated and on track. Put in place additional tools to communicate where your sales team members stand, manage inquiries and disputes, allowing everyone to focus on achieving results.

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