

Does Your Sales Incentive Plan Really Pay for Performance? Ask These Questions to Find Out.

Step away from the spreadsheet. You may be missing simple but important signs your sales incentive plan isn't functioning as well as you intended. First, you need to ask the right questions.

With so much of a salesperson's compensation delivered through variable, performance-based pay, sales leaders need to continually monitor pay-for-performance mechanisms to ensure they are working at their fullest and fairest potential.

To that end, last year [we examined](#) three quantitative assessments sales leaders can undertake to determine how well their pay programs are aligned with performance. These steps include examining overall performance trends and conducting various team-wide and incumbent-level analyses. In this article, we decided to look at the same challenge from though a more qualitative lens. Specifically, how can sales leaders best engage with key stakeholders across the business and ask the right questions to evaluate pay-for-performance links.

While qualitative measurements are less objective (and can fall prey to the squeakiest wheel getting too much attention), that doesn't mean sales operations and compensation professionals should ignore them. They often reveal where additional quantitative digging is needed. We recommend taking a closer look at the eight areas below to better evaluate the overall effectiveness of your sales compensation plan:

1. Are your performance metrics aligned with stated company goals and messages?

Continuing to pay for top-line revenue growth at all costs while the senior management team talks over and over again about profitable growth is a clear disconnect. When business priorities change, the sales compensation plan must follow. This seems obvious, but far too often sales leaders and managers are forced into a reactive position. Pay close attention to how your C-level leaders communicate. If their tone shifts, be proactive and ask if sales plans need to be ready to shift as well.

2. Is your team aware of and comfortable with sales plan exceptions?

It's important to gather regular feedback from stakeholders on issues relating to sales plan exceptions. A good question to ask of your sales team is whether exceptions were anticipated in the design of your incentive plan or whether they pop-up as surprises. Good sales compensation plans will allow you to comfortably manage to the rule, not exceptions— but room for *some* exceptions is usually needed.

3. Is your plan administration well thought out or reactive?

Ask yourself: Does it take an inordinate amount of time and resources to calculate incentives accurately and on-time each performance period? Also, how easy is it to implement new policies or plan design

tweaks? If you have problems with plan administration, accuracy or timeliness, it's important to determine the cause. It's easy to point the finger at system constraints, such as an inability to capture required performance data, but plan design issues (e.g., overly complex incentive plan mechanics or crediting rules) and user non-compliance (e.g., unreasonable exception requests) can also be part of the problem.

4. What do managers outside of sales think?

It always makes sense to interview select stakeholders from your sales team for anecdotal insights into what is working well and what is not. However, valuable insights can also be gained by soliciting input from other functional leaders in HR, marketing, finance and operations— particularly if cross-functional coordination in the execution of the sales process is required for business success. Make time to listen to other functions and to enroll them in your thinking about sales strategy and incentive plan design.

5. Would a survey of your sales force help?

Surveying your entire sales team can yield the statistically significant insights you need to confirm, deny or augment interview findings. This approach is usually most relevant following the introduction of a new plan or when a known change is being planned for implemented in the near future. Importantly, whenever you survey your employees, you must be prepared to share at least some survey results and respond to any areas of concern identified by the survey.

6. What do your customers think?

Don't be afraid to ask key customers for input, as this can yield amazing insights into sales force behavior and the team's alignment with your business strategy. Two key questions to ask include: "What do you need and value most from our sales resources?" and "How well are we delivering on those priorities relative to the competition?"

7. Are you experiencing above-normal regrettable turnover?

If so, compensation alone is rarely the culprit. However, it is often helpful to review exit interview notes to determine the extent to which pay is a contributing factor. Separately, if are you having difficulty attracting new talent into the organization, it could be that your sales compensation plan isn't competitive relative to your peers or difficult for recruits to understand.

8. Is your plan in sync with your stated sales compensation philosophy?

Just as your sales compensation plan should align with your business strategy, it must also align with your stated compensation philosophy. This includes basic guidance around such things as how to align target pay levels to the market, the use of commissions vs. quota-based bonuses, caps on upside incentive potential, and the desired dispersion in incentive pay between top and average performers. In other words, are your statements and actions in sync?

Constantly monitoring the performance of your sales incentive plan in order to optimize your investment in sales force compensation is imperative. Don't rely on data alone— instead, let it guide you into asking the right questions of your team, peers, leaders and customers, and then use those qualitative insights to dig even deeper into the data.

If you have questions about your sales compensation plan and want to speak with a member of our consulting group, please write to consulting@radford.com.

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