Sales Compensation Programs and Practices

research

A report by
WorldatWork
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WorldatWork®
The Total Rewards Association

About WorldatWork®

The Total Rewards Association

WorldatWork (www.worldatwork.org) is a not-for-profit organization providing education, conferences and research focused on global human resources issues including compensation, benefits, work-life and integrated total rewards to attract, motivate and retain a talented workforce. Founded in 1955, WorldatWork has nearly 30,000 members in more than 100 countries. Its affiliate organization, WorldatWork Society of Certified Professionals®, is the certifying body for the prestigious Certified Compensation Professional® (CCP®), Certified Benefits Professional® (CBP), Global Remuneration Professional (GRP®), Work-Life Certified Professional™ (WLCP®), Certified Sales Compensation Professional™ (CSCP™), and Certified Executive Compensation Professional™ (CECP™). WorldatWork has offices in Scottsdale, Arizona, and Washington, D.C.

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Contact:

WorldatWork Customer Relations

14040 N. Northsight Blvd.

Scottsdale, Arizona USA

85260-3601

Toll free: 877-951-9191

Fax: 480-483-8352

CustomerRelations@worldatwork.org

Introduction & Methodology

This report summarizes the results of a July 2010 survey of WorldatWork members to gather information about current trends in sales compensation programs and practices. This survey focuses on the prevalence of base and variable pay programs as well as common practices used to administer and communicate these programs in today's workplace. A similar sales compensation survey was conducted by WorldatWork in 2009. Where possible, historical comparisons from data gathered in previous WorldatWork Sales Compensation Practices surveys are shown.

On July 12, 2010, the sales compensation programs and practices survey opened through an announcement in the WorldatWork *Sales Compensation Focus* newsletter. Text in the newsletter provided a brief overview of the survey and a link to the survey was also included. A follow-up reminder was e-mailed on July 21 and 28, 2010, to all participants from the 2010-2011 WorldatWork Salary Budget Survey and randomly selected members who had designated compensation in their title. The survey closed on August 6, 2010, with 682 responses. The final dataset was cleaned, resulting in a final dataset of 516 responses.

In order to provide the most accurate data possible, data was cleaned and analyzed using statistical software. Any duplicate records were removed. Data comparisons with any relevant, statistically significant differences are noted within this report.

The demographics of the survey sample and the respondents are similar to the WorldatWork membership as a whole. The typical WorldatWork member works at the managerial level or higher in the headquarters of a large company in North America.

The frequencies or response distributions listed in the report show the number of times or percentage of times a value appears in a data set. Due to rounding, frequencies of data responses provided in this survey may not total exactly 100%.

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Executive Summary

The environment for sales organizations in 2010 has been the most difficult in recent memory and the implications for managing sales compensation programs have been challenging. The driving reason for those making plan changes this year, as in 2009, was to improve the alignment between sales incentive pay and business strategy. Earlier in the decade, the alignment objective was much less prominent as a driver scoring only slightly stronger than mechanical drivers such as reducing plan complexity or adjusting measures and weights. In 2010, improving alignment was by far the dominant driver for making plan changes and is a clear indication that organizations are seeking greater precision in connecting business strategy to salesforce behavior through incentive compensation.

Still, in the midst of this turbulent environment, more organizations chose to stay the course and not make material changes to sales compensation plans this year. For the first time this survey found a majority of organizations making no change to sales compensation plans. Even more striking is 39% of organizations reported the economy had no impact on their sales compensation plans in the past year. As deep as the recession was, two in five organizations were able to weather it without any impact to their sales compensation plans. Clearly the economic impact of the recession was not evenly distributed across all economic sectors, and care should be taken in interpreting sales compensation trends in 2010.

Sales Compensation Design

- Primary Sales Roles – Nearly eight of 10 organizations are utilizing hybrid sales roles that include responsibility for both new business and existing accounts. Less than half of organizations reported using specialized sales roles that separated responsibility for managing existing accounts and new accounts.
- Pay Mix – Each of the primary sales roles including First Line Sales Managers, New Accounts, Existing Accounts and Hybrid roles had average pay mixes between 60/40 and 70/30. This range continues to be the most favored range since this survey began in 2005.
- Number of Performance Measures – Most organizations reported using three or fewer performance measures with nearly of third of organizations reporting using three performance measures on average. This did vary somewhat by organizational size as smaller organizations (fewer than 1,000 employees) were far more likely to use only one performance measure than larger organizations.
- Types of Performance Measures – Total revenue was the most prevalent performance measure for all sales roles except new account sellers, which was more likely to use new account revenue. Gross margin and key sales objectives were the next most common performance measures.
- Team or Individual Performance – Performance was measured on an individual basis for all roles except First Line Sales Manager, which was more likely to measure

performance on a team basis. Using both team and individual performance was the next most typical approach.

Process and Governance

- 2010 Plan Changes – More than half of respondents reported NOT making plan changes in 2010. This is the first time since the inception of this survey in 2005 that a majority of organizations reported making no changes to their sales compensation plans. This correlated with industry sector as Banking/Finance and Pharmaceuticals were most likely to report making no changes in 2010 (62% and 64% respectively).
- Reasons for Plan Changes – For those making plan changes, improving alignment was by far the most important objective (79%) — more than twice as important than changing performance measures to place more emphasis on new business or decreasing plan complexity.
- 2011 Plan Changes – Slightly more than half of respondents (51%) report plan to make changes to sales compensation plans in 2011. Organizations that made changes in 2010 were more likely to report plans for changes in 2011 (61%).
- Reasons for Plan Changes in 2011 – Better alignment continues as the most important objective for making changes in 2011 (83%). Changing performance measures to improve sales profitability is the second most important objective (41%) behind plan changes in 2011.
- Sales Compensation Philosophy and Documentation – A majority of organizations do not have documented sales compensation philosophies or documented guidelines governing the way in which sales compensation plans should be evaluated. Most organizations (78%) report having formal plan documentation governing plan terms and conditions.
- Board of Director Involvement – Board involvement in sales compensation is not the norm as 46% report the board having no involvement. About a third of organizations report moderate involvement (24%) or active involvement (11%) by the board.

Results and Analysis

Primary Sales Roles and Pay Mix

Figure 1: "Please indicate which sales roles are currently used in your organization." (Please select all that apply.) (n= 516)

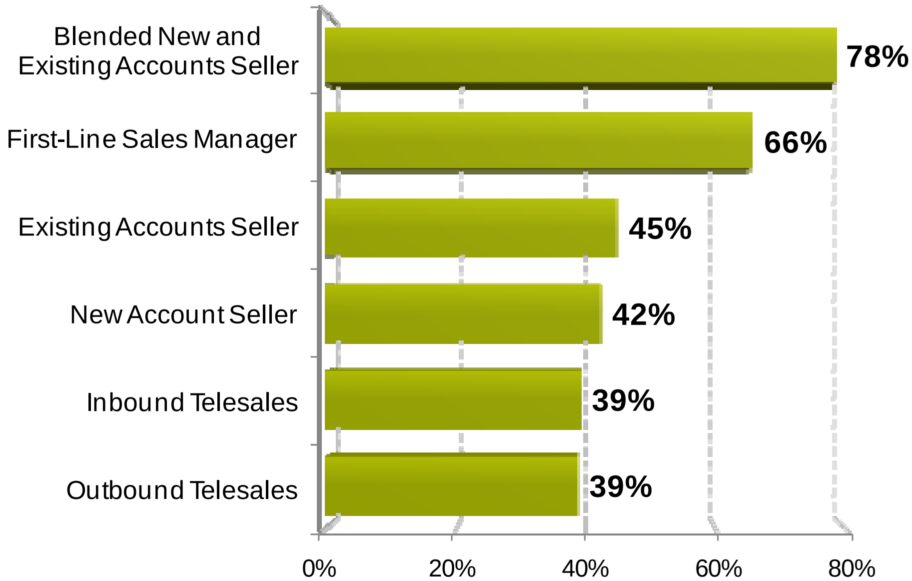


Figure 2: "Please indicate the average pay mix for the following sales positions in your organization based on their primary role." (n varies)

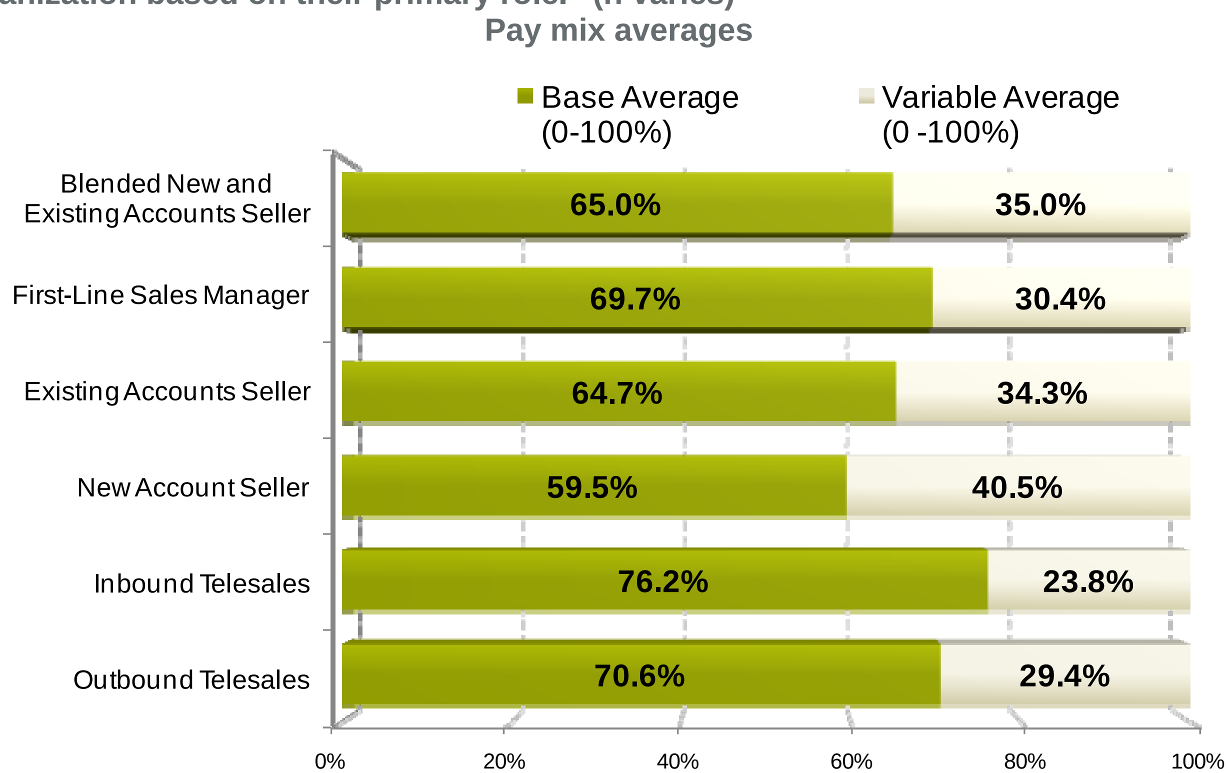


Figure 3: "How many performance measures, on average, are included in the sales plan for your organization's primary sales roles? " (n= 412)

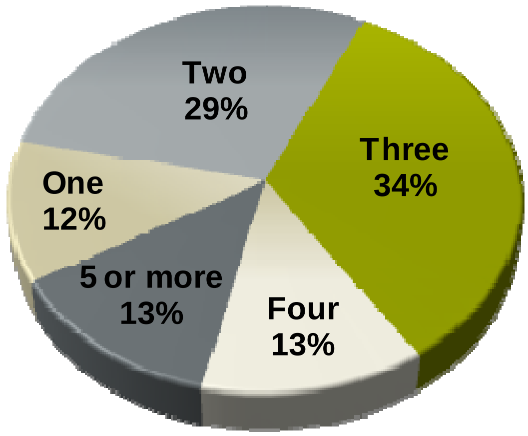


Figure 4:" Please indicate the performance measures used in your plan for primary sales roles." (Please select all that apply.)

	Blended New and Existing Accounts Seller (n=302)	First-Line Sales Manager (n=257)	Existing Accounts Seller (n=161)	New Account Seller (n=151)	Inbound Telesales (n=137)	Outbound Telesales (n=139)
Total Revenue	69%	74%	63%	76%	53%	57%
New Account Revenue	32%	20%	16%	83%	24%	27%
Existing Account Revenue	24%	16%	32%	14%	18%	18%
Unit Volume	14%	14%	11%	19%	15%	15%
Order Volume	11%	10%	12%	11%	14%	9%
Gross Profit ($ or %)	30%	36%	30%	30%	20%	15%
Price Realization	6%	6%	6%	5%	4%	4%
Select Product Sales	23%	22%	24%	18%	18%	22%
Number of New Accounts	18%	12%	6%	24%	18%	14%
Account Retention	16%	13%	28%	6%	10%	12%
Account Expansion	11%	12%	20%	5%	8%	11%
Customer Satisfaction	15%	16%	17%	11%	23%	14%
Key Sales Objectives or Milestones	34%	41%	34%	33%	34%	31%
Other	18%	22%	14%	19%	15%	12%

Figure 5: Number of performance measures included in a sales plan by the type of sales roles.

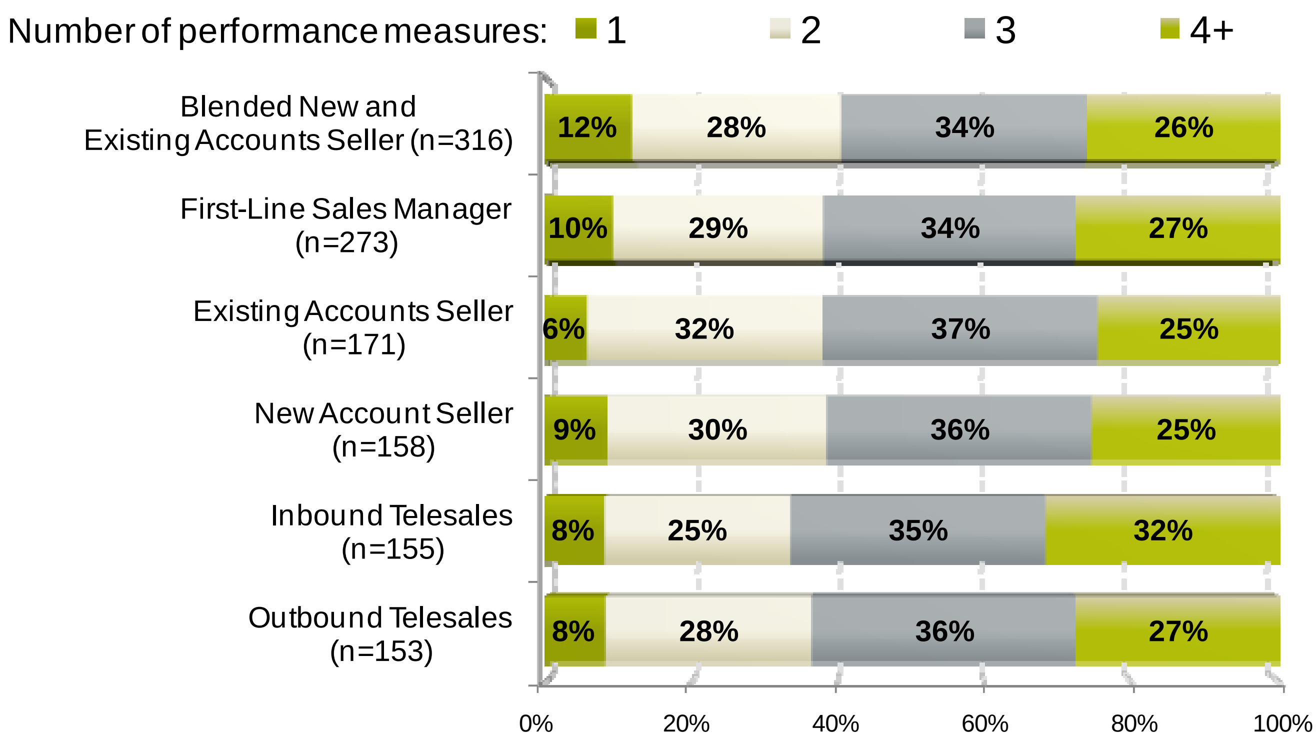
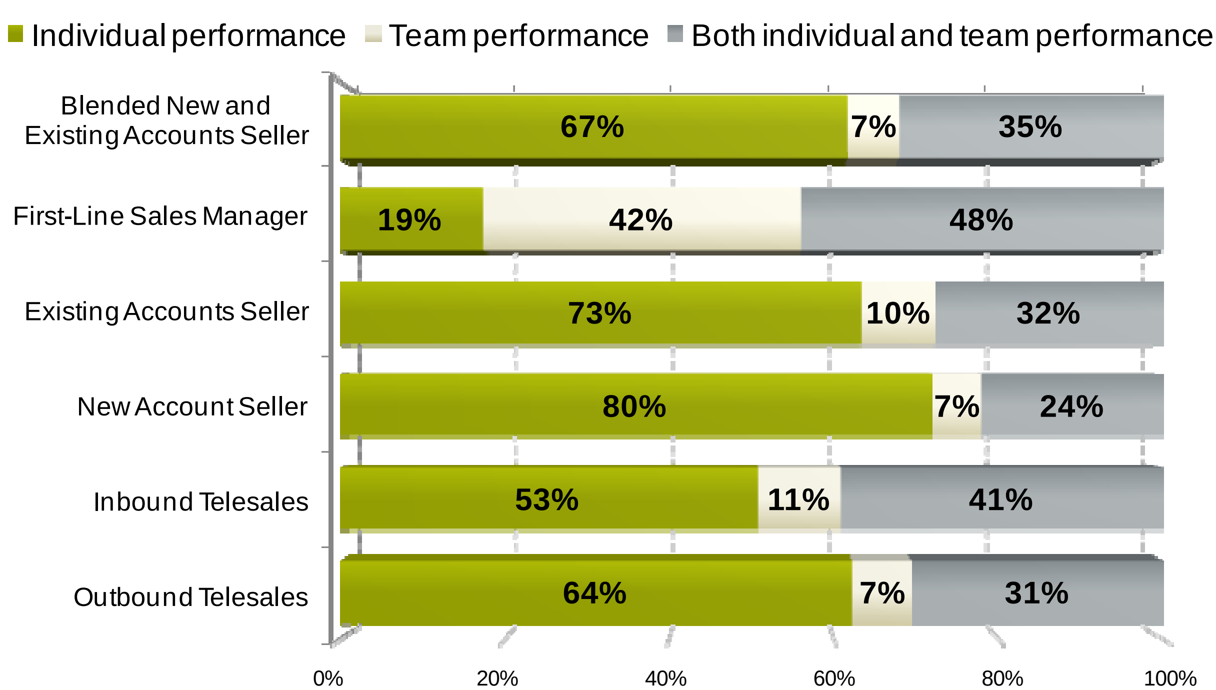
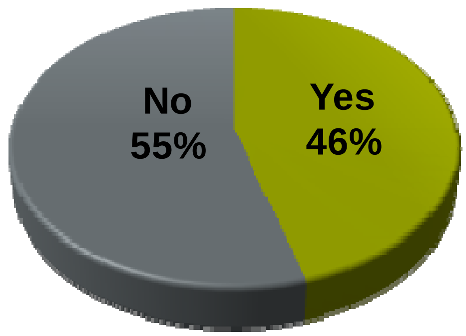


Figure 6: "Please indicate how performance is measured for your primary sales roles — on an individual basis, on a team basis, or both." (n varies)



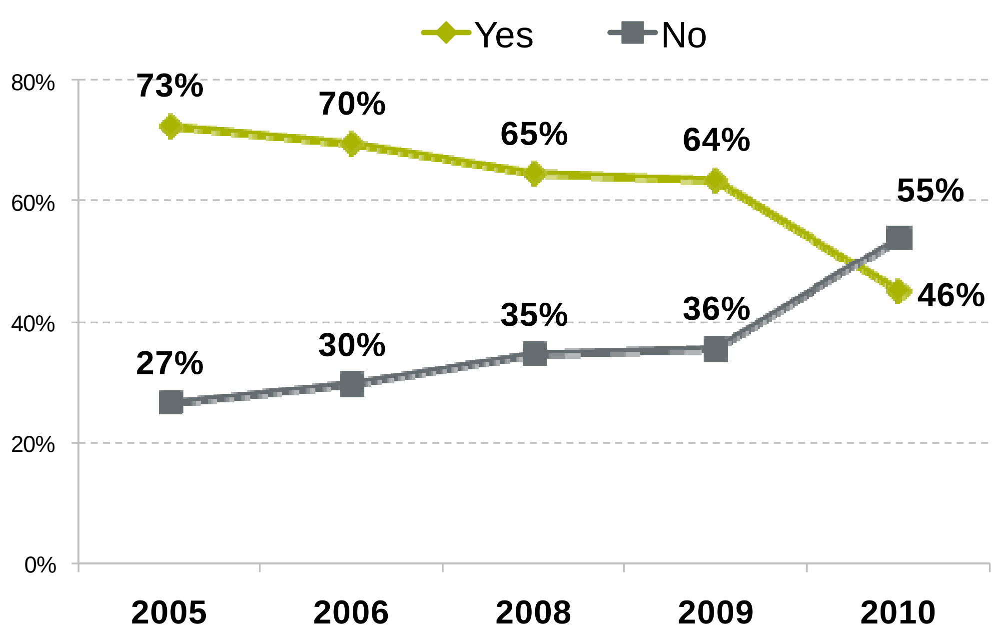
Your 2010 Plan

Figure 7: "Did you revise your sales compensation plan this year to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.? " (n= 361)



2010 was the first year in historical reference that more organizations chose not to revise their organizations sales plan (55%) than chose to revise their sales plans. See Figure 8 for the trend line.

Figure 8: Changes to the sales compensation plan, a 5-year overview:
Does your organization plan to change the sales compensation plan this year to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.? [1]



[1] The difference between 2009 organizations that revised sales compensation plans (64%) and 2010 organizations that revised sales compensation plans (46%) is statistically significantly. Statistical comparison testing was not conducted between any other years.

Figure 9: "If you revised your sales compensation plan this year, which of the following statements best describes the reason you made changes?" (Check all that apply.) (n= 162)

Only participants who answered "Yes" in Figure 6 received this question.

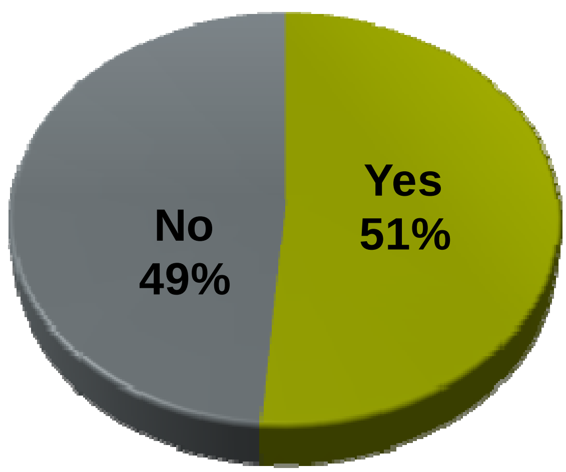
Option	Percent
To improve alignment between sales incentive pay and business strategy	79%
Changed performance measures – more emphasis placed on business development, winning new business, selling new products, etc.	35%
To decrease plan complexity, e.g., reduced number of performance measures, simplified incentive formula, etc.	35%
Changed performance measures – more emphasis placed on sales profitability	29%
To remain competitive in the market for top sales talent	28%
Incentive opportunity improved for overachieving plan, e.g., making overachievement financially appealing to top performers	25%
Improved compensation mix to be more incentive focused, e.g., increasing incentive opportunities for achieving target performance and decreasing base	20%
To reduce costs	9%
To improve incentive earnings potential, e.g., reduced minimum performance threshold	9%
To make more jobs eligible for sales incentive pay	6%
Revised compensation mix to be less incentive focused, e.g., incentive opportunity decreased for achieving target performance and increasing base	5%
To make fewer jobs eligible for sales incentive pay	4%
Other	7%

Similarly in 2009, respondents who revised their sales plan also cited the primary reason as "To improve alignment between sales incentive pay and business strategy." However, this was only 26% in 2009.

Figure 10: Top 5 reasons selected for this change to the sales compensation plan, a 3-year overview:

Option	2008	2009	2010	Difference 2009 to 2010
To improve alignment between sales incentive pay and business strategy	82%	74%	79%	**+5%**
Changed performance measures – more emphasis placed on business development, winning new business, selling new products, etc.	25%	35%	35%	**0%**
To decrease plan complexity, e.g., reduced number of performance measures, simplified incentive formula, etc.	37%	37%	35%	**-2%**
Changed performance measures – more emphasis placed on sales profitability	22%	35%	29%	**-6%**
To remain competitive in the market for top sales talent	26%	19%	28%	**+9%**

Figure 11: "Does your organization plan to revise its sales compensation plan for 2011 to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.?" (n= 382)



In 2009, 62% of organizations reported planning to make a change to their sales compensation plan in 2010.[2]

Of organizations that said they made meaningful changes to the current sales compensation plan (45%, figure 6), 61%[3] of those organizations stated that they also planned to revise their sales compensation plan for 2011.

[2] The difference between 2009 organizations that planed to revise the sales compensation plan for 2010 (62%) and 2010 organizations that plan to revise the sales compensation plan for 2011 (49%) is statistically significantly.
[3] Organizations that revised their sales plan in 2010 were statistically significantly more likely to report that they planned to make changes to their sales plan in 2011 than those who did not revise the 2010 sales plan.

Figure 12: “Which of the following statements best describes the reason your organization plans to revise next year’s sales plan?” (Check all that apply.) (n= 194)
Only participants who answered “Yes” in Figure 8 received this question.

Option	Percent
To improve alignment between sales incentive pay and business strategy	83%
Change performance measures – more emphasis placed on sales profitability	41%
Change performance measures – more emphasis placed on business development, winning new business, selling new products, etc.	36%
To remain competitive in the market for top sales talent	35%
To decrease plan complexity, e.g., reduced number of performance measures, simplified incentive formula, etc.	32%
To improve compensation mix to be more incentive focused, e.g., increasing incentive opportunities for achieving target performance and decreasing base	27%
To improve incentive opportunity for overachieving plan, e.g., making overachievement financially appealing to top performers	20%
To reduce costs	13%
To improve incentive earnings potential, e.g., reduced minimum performance threshold	7%
To make more jobs eligible for sales incentive pay	7%
To revise compensation mix to be less incentive focused, e.g., incentive opportunity decreased for achieving target performance and increasing base	5%
To make fewer jobs eligible for sales incentive pay	2%
Other	6%

Figure 13: Select reasons for a change to the upcoming sales compensation plan, a 3-year overview:

Option	2008	2009	2010	Difference 2009 to 2010
To improve alignment between sales incentive pay and business strategy	74%	84%	83%	**-1%**
To decrease plan complexity (e.g., reduced number of performance measures, simplified incentive formula, etc.)	37%	42%	32%	**-10%**
To change performance measures and place more emphasis on sales profitability	35%	40%	41%	**+1%**
To remain competitive in the market for top sales talent	19%	30%	35%	**+5%**

Sales Compensation Policy and Practice

Figure 14: Plan philosophy and documentation

"Does your organization have a documented sales compensation philosophy?" (n= 382)

"Does your organization have documented policy guidelines that govern the process, the manner and the frequency with which your sales compensation plan is reviewed?" (n= 381)

"Do you have a formal plan document that details the governing terms and conditions for your sales plan?" (n= 381)

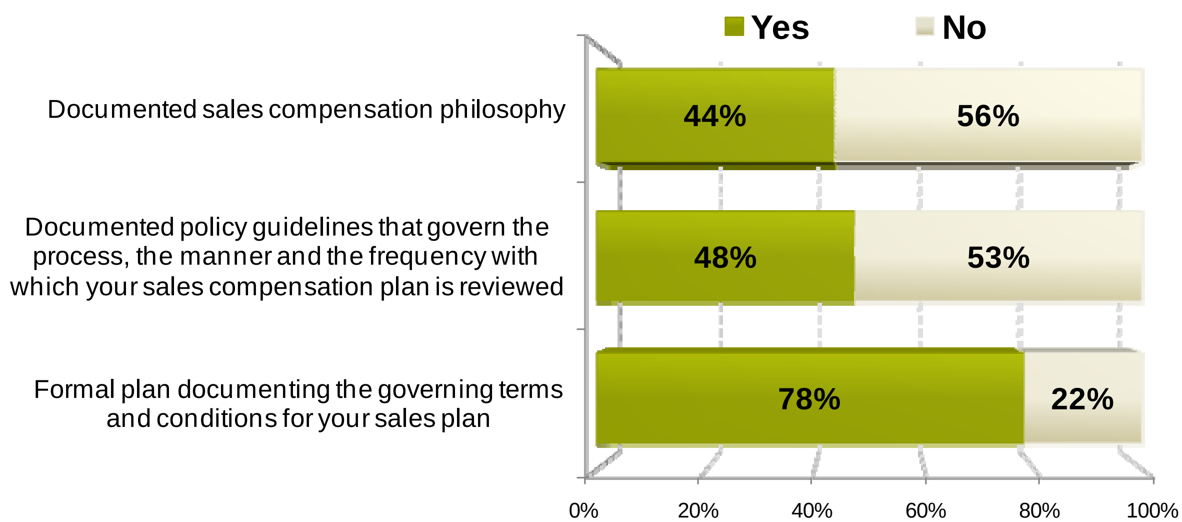


Figure 15: "How has the current business environment affected sales compensation plan design at your company?" (Check all that apply.) (n= 366)

Option	Percent
The economy has had no affect on our sales compensation plans	39%
Reduced quotas/sales goals	24%
More aggressive over-achievement incentive rates	16%
Lowered where we start to pay incentives (threshold performance)	14%
Adjusted pay mix – more aggressive	12%
Shortened the performance measurement period, e.g., from annual to quarterly)	6%
Adjusted pay mix – less aggressive	5%
Shortened the quota/goal-setting time horizon, e.g., from annual to quarterly)	5%
Other, please describe	11%

Figure 16: "Which statement best describes your Board of Director's involvement with sales compensation in your organization?" (n= 372)

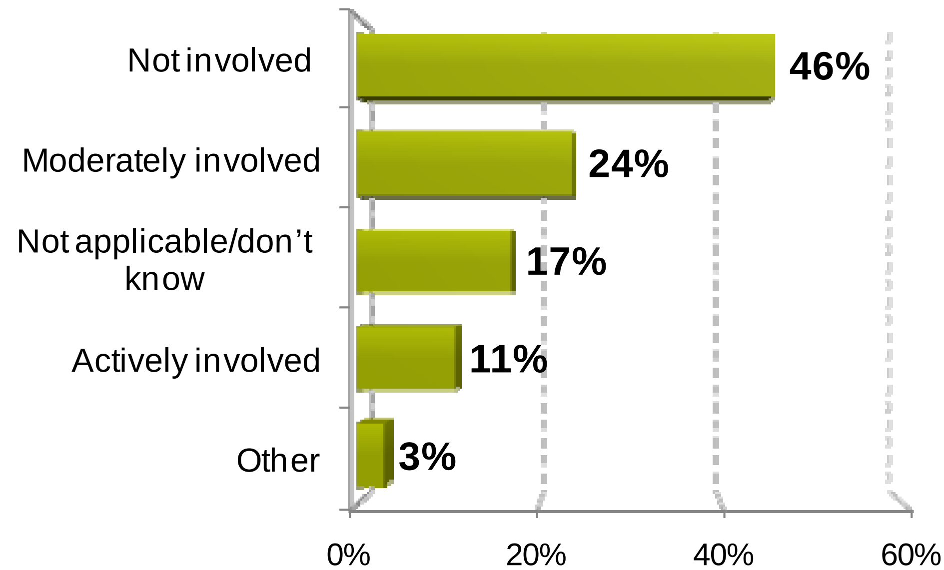


Figure 17: "Which statement best describes the change in your Board of Director's involvement with sales compensation in your organization?" (n= 372)

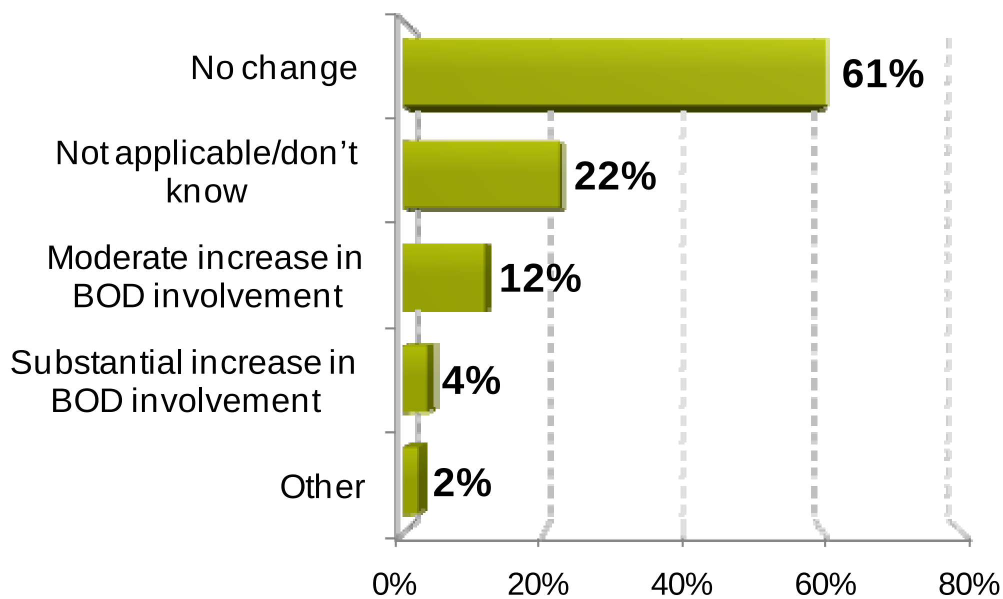


Figure 18: "In your organization, which of these stakeholders has ultimate approval authority for a change to the sales compensation plan?" (n= 373)

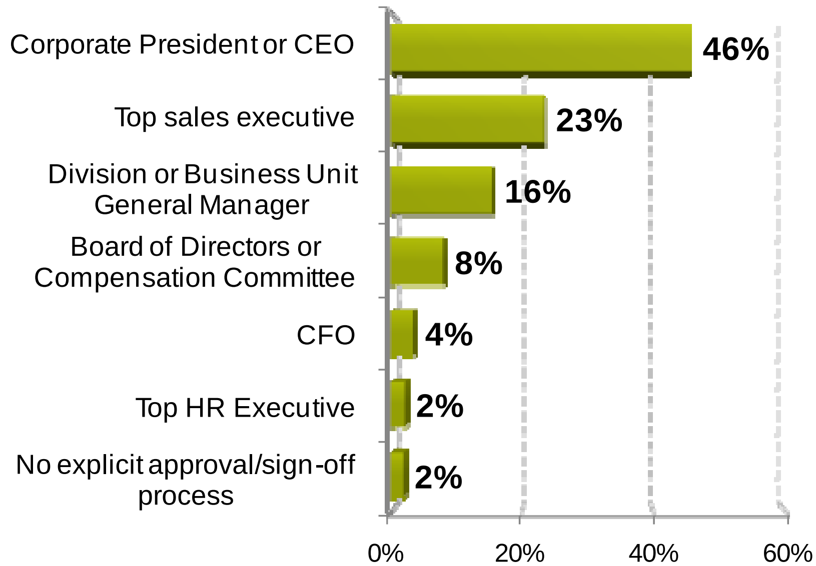


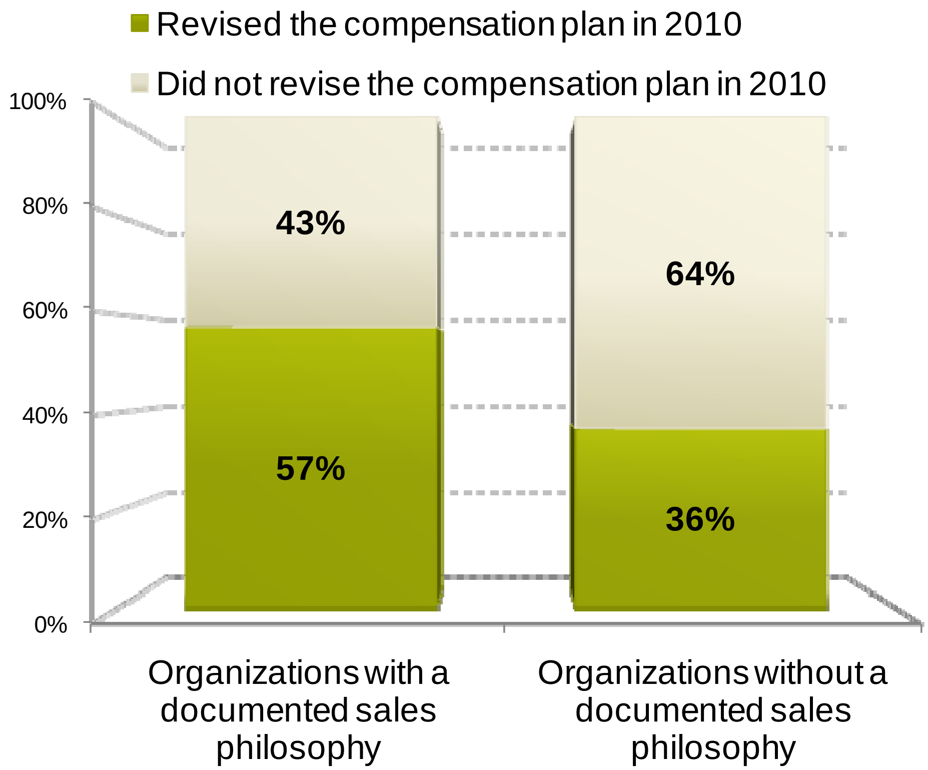
Figure 19: "If your most recent sales compensation plan launch was a success, please indicate which of the following critical success factors most contributed to the successful launch." (Check all that apply.) (n= 322)
"If your most recent sales compensation plan launch was not successful, please indicate which of the following critical success factors were most lacking." (Please select all that apply.) (n= 42)

Option	Launch was successful	Launch was *not* successful
Consistent messaging from management	38%	31%
The composition and involvement of the design team	36%	19%
Gaining buy-in from sales managers through effective training and communication	36%	40%
Salesforce input at the beginning of the design process	29%	24%
An effective goal-setting process	25%	40%
Gaining buy-in from sales reps through effective training and communication	24%	31%
Automated sales compensation plan administration	8%	17%
Customer input at the beginning of the design process	2%	5%
Other, Please describe	10%	21%

Only participants who answered "Our most recent sales compensation plan launch was not successful" (13%) received the choices pertaining to an unsuccessful sales launch.

Select Comparisons

Figure 20: Organizations with a documented sales compensation philosophy and revisions to the sales compensation plan for 2010 (this year).
"Did you revise your sales compensation plan this year to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.?" (n= 355)



Organizations without a documented sales compensation philosophy were less likely to make meaningful changes to their sales compensation plan this year.[4]

[4] Organizations without a documented sales philosophy were statistically significantly less likely to revise their current sales compensation plan.

Figure 21: Number of performance measures included in a sales plan by organization's sales compensation philosophy (documented or undocumented).

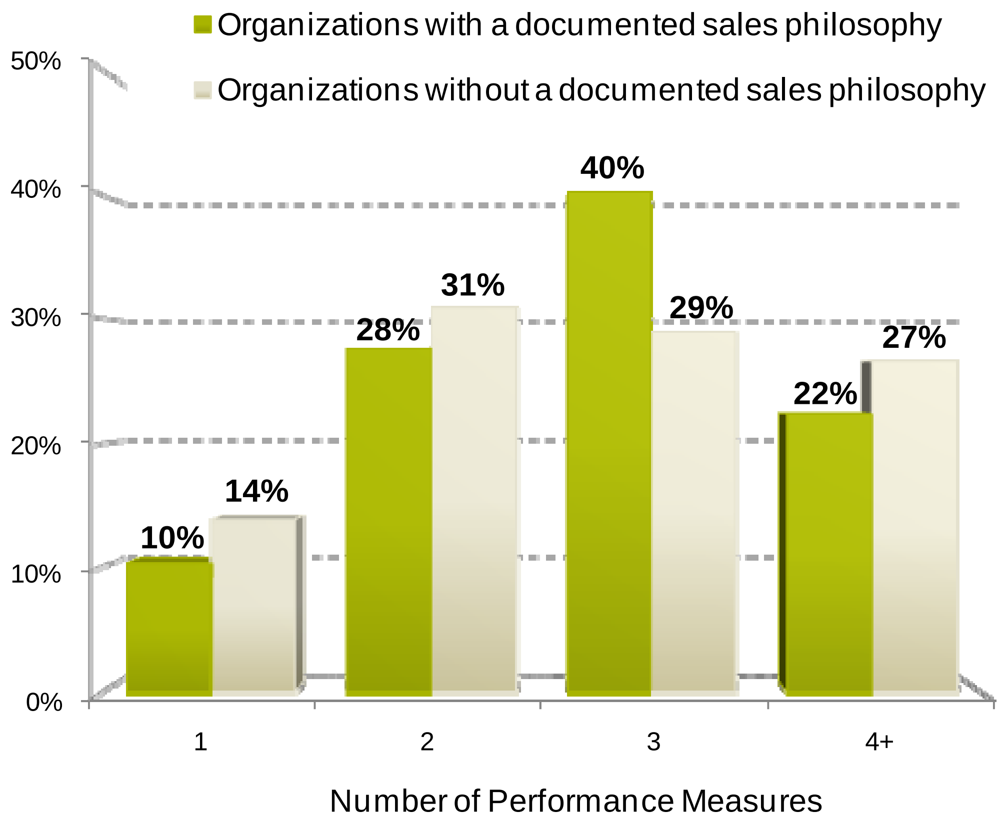


Figure 22: Revisions to the current sales compensation plan by leading industries. "Did you revise your sales compensation plan this year to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.?"

Industry	Made changes to the sales plan	Did not make changes to the sales plan
All Other Manufacturing (n=57)	46%	54%
Information (includes Publishing, IT Technologies) (n=38)	53%	47%
Finance & Insurance (n=37)	38%	62%
Computer and Electronic Manufacturing (n=29)	41%	59%
Pharmaceuticals (n=11)	36%	64%

Figure 23: Revisions to the 2011 sales compensation plan by leading industries. "Does your organization plan to revise its sales compensation plan for 2011 to include meaningful changes such as changes in measures, eligibility, mix, leverage, weights, etc.?"

Industry	Plan to revise for 2011	Do not plan to revise for 2011
All Other Manufacturing (n=57)	61%	39%
Information (includes Publishing, IT Technologies) (n=38)	51%	49%
Finance & Insurance (n=37)	39%	61%
Computer and Electronic Manufacturing (n=29)	43%	57%
Pharmaceuticals (n=11)	58%	42%

Figure 23: Number of performance measures included in a sales plan by organization size.

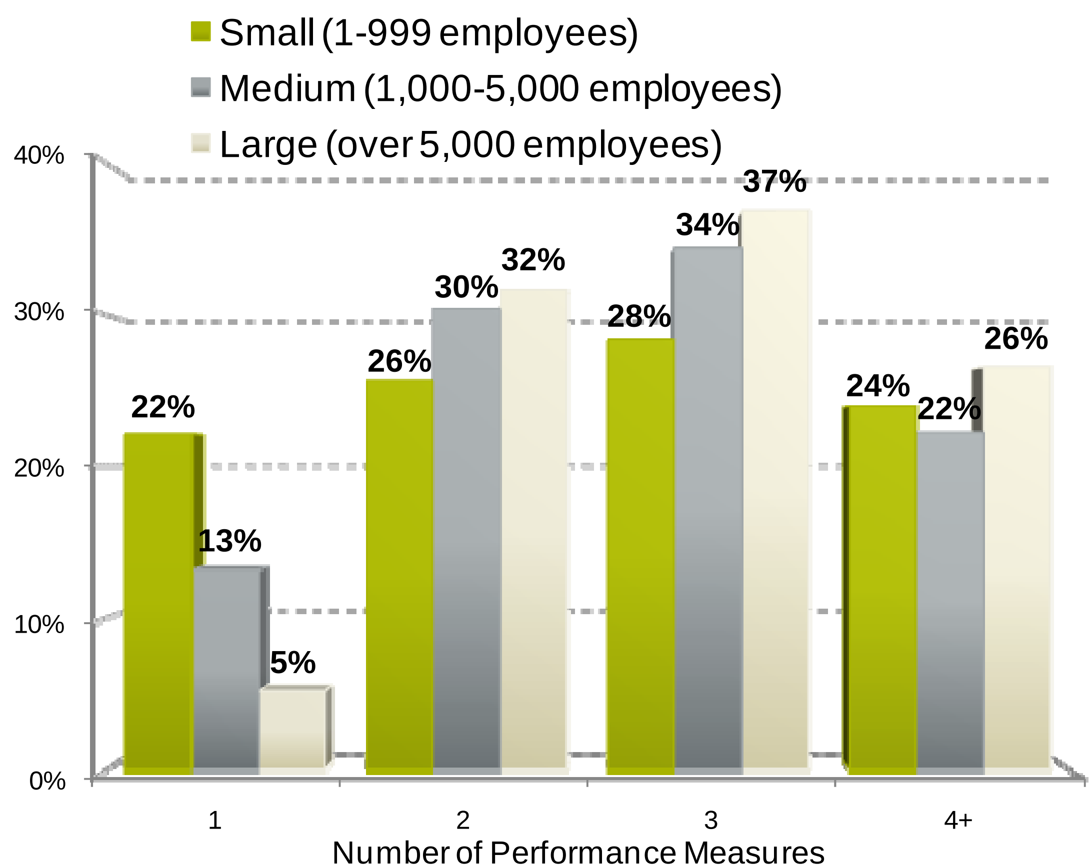


Figure 24: Documented sales compensation philosophy by organization size. "Does your organization have a documented sales compensation philosophy?"[5]

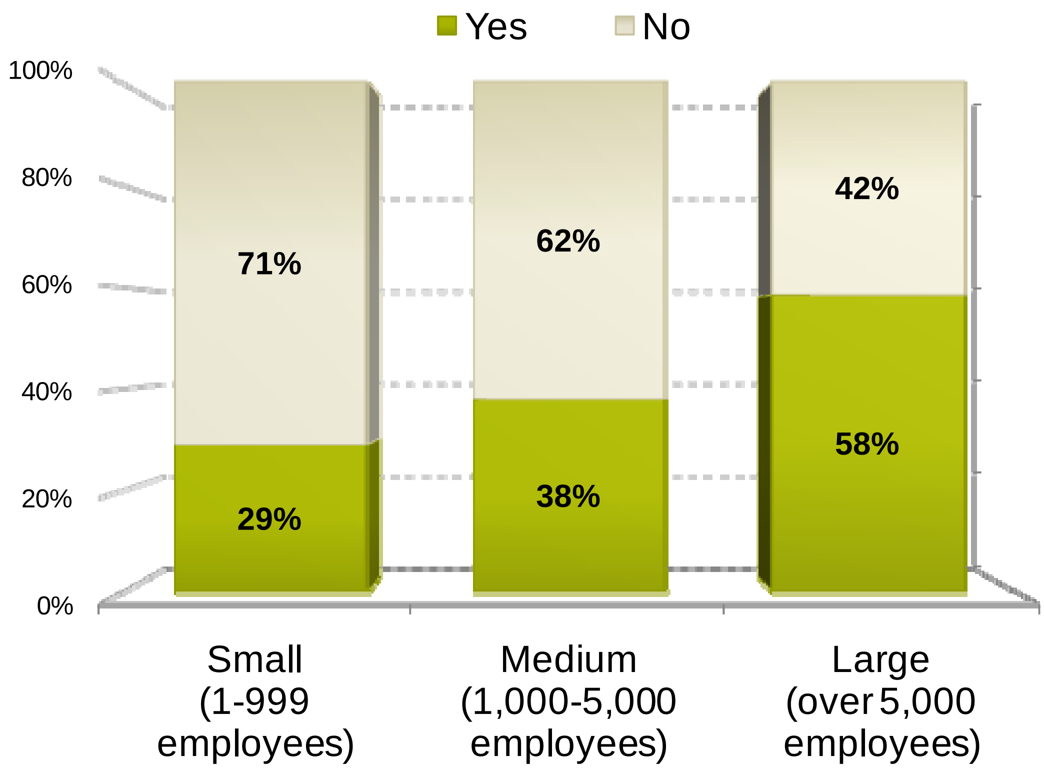


Figure 25: Changes to the sales compensation plan for this year by organization size. "Did you revise your sales compensation plan this year to include meaningful changes such as changes such as changes in measures, eligibility, mix, leverage, weights, etc.?"

Organization Size	Made changes to the sales plan	Did not make changes to the sales plan
Small (1-999 employees)[6]	30%	70%
Medium (1,000-5,000 employees)	46%	54%
Large (over 5,000 employees)	55%	45%

[5] Small- and medium-sized organizations were significantly less likely to have a documented sales compensation philosophy while large organizations were significantly more likely to have a documented sales compensation philosophy.
[6] Small- and medium-sized organizations were significantly less likely to make meaningful changes to the sales compensation plan this year.

Demographics

Figure 26: "Your organization is:" (n= 374)

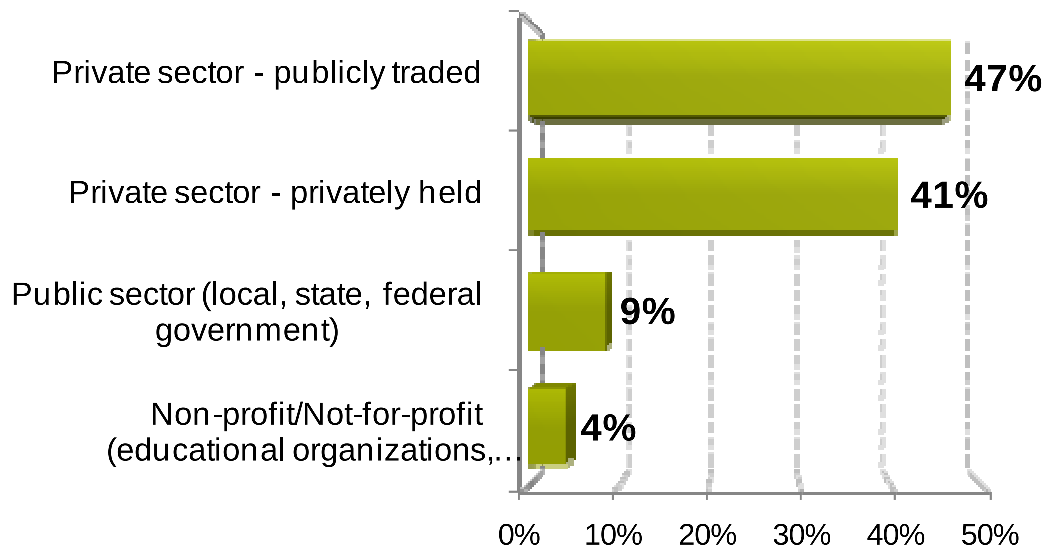


Figure 27: "What is your role/level?" (n= 374)

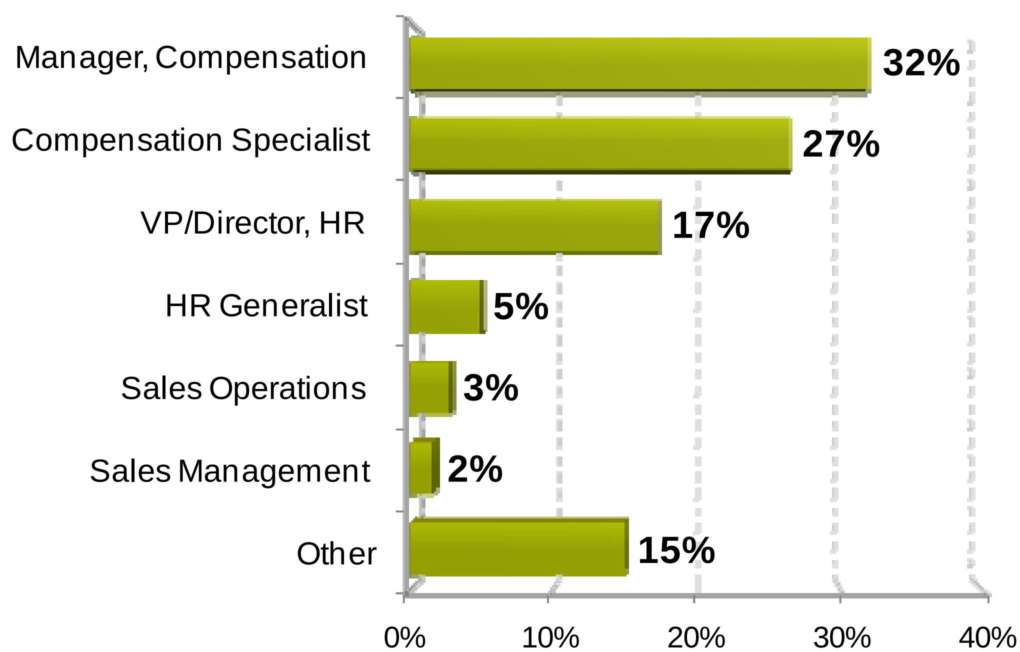


Figure 28: "What is your supervisor's role/level?" (n= 367)

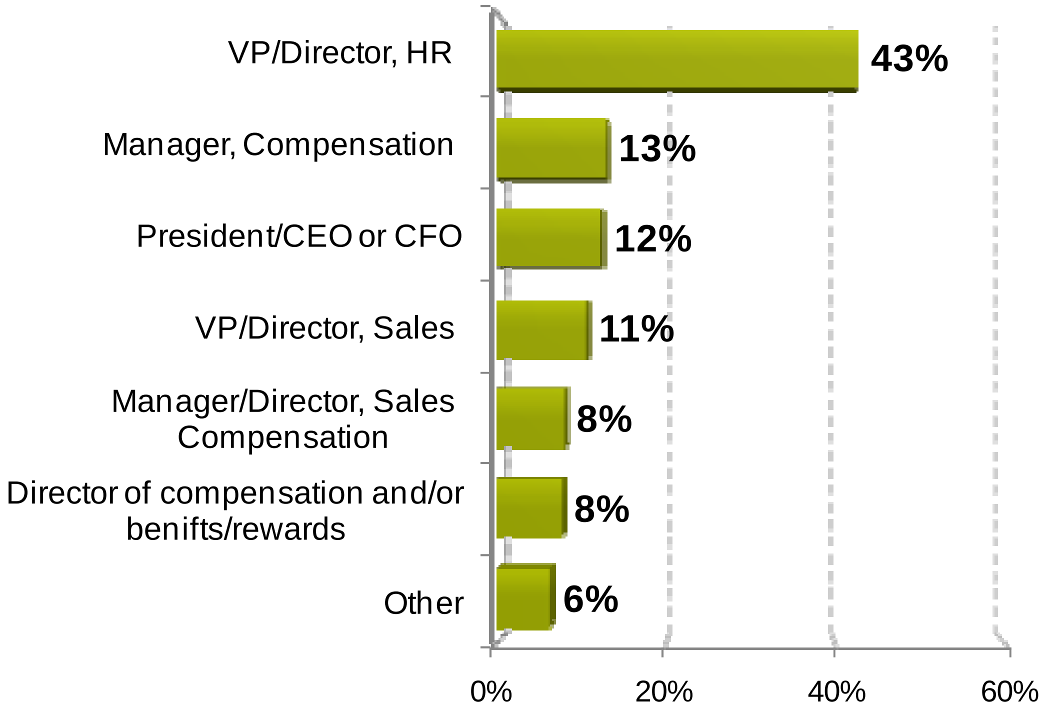


Figure 29: "How many employees work for your entire organization worldwide? (FTE Census)" (n= 371)

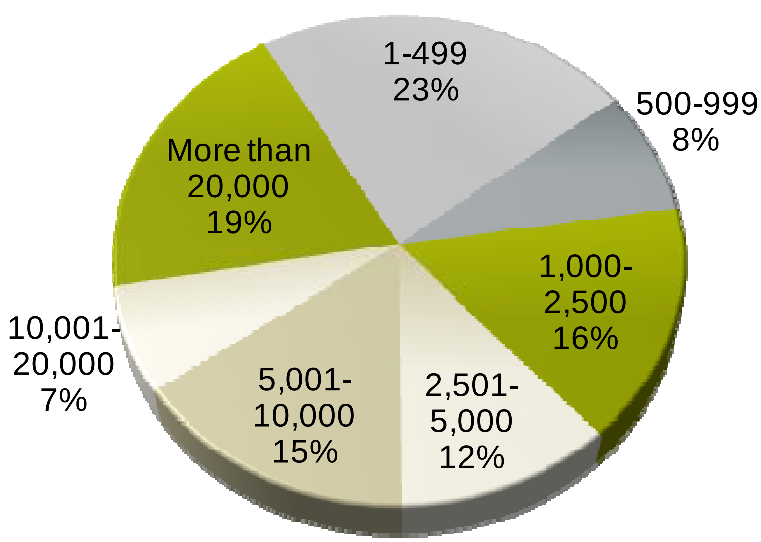
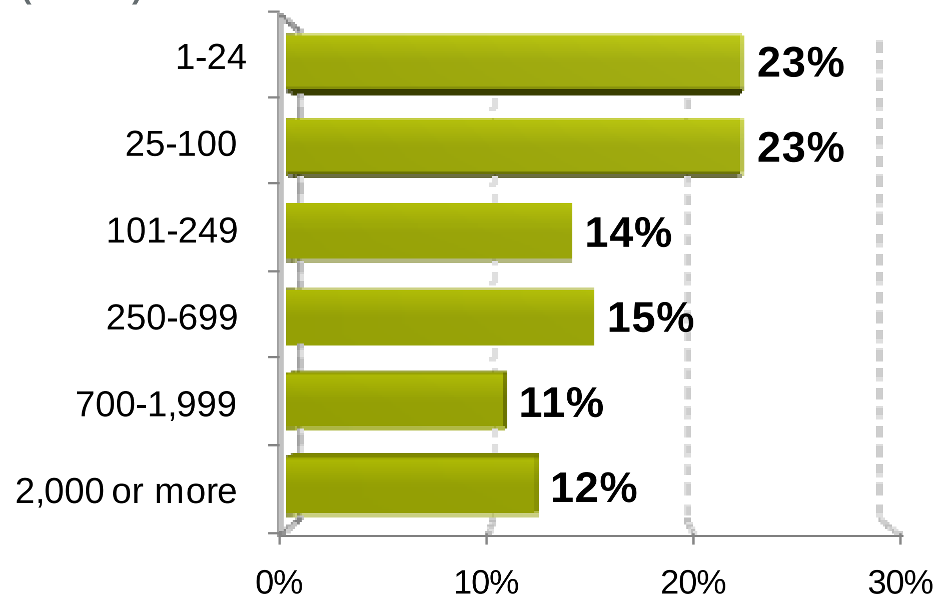


Figure 30: "Please choose one category that best describes the industry in which your organization operates:" (n= 369)

Option	Percent
All Other Manufacturing	15%
Information (includes Publishing, IT Technologies, etc.)	12%
Finance & Insurance	11%
Consulting, Professional, Scientific & Technical Services	9%
Computer and Electronic Manufacturing	8%
Healthcare & Social Assistance	5%
Retail Trade	4%
Pharmaceuticals	3%
Wholesale Trade	3%
Transportation	2%
Other Services (except Public Administration)	2%
Educational Services	1%
Agriculture, Forestry, Fishing & Hunting	1%
Mining	1%
Arts, Entertainment & Recreation	1%
Accommodations & Food Services	1%
Construction	1%
Warehousing and Storage	1%
Real Estate & Rental & Leasing	1%
Other	19%

Figure 31: "What is the total size of your SALES organization in number of employees? (FTE Census)" (n= 365)



Nearly half (46%) of organizations included in the survey had a sales organization of fewer than 100 employees.

Figure 32: "What was net total SALES revenue of your organization for the most recent fiscal year? (Report in U.S. dollars)" (n= 348)
"What is your organization's net total SALES revenue target for the current fiscal year? (Report in U.S. dollars)" (n= 345)