10 | 2017

workspan
The Magazine of WorldatWork®

How HR Can Help Sales and Finance See Eye-to-Eye

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A company's sales compensation program has an effect on a wide range of stakeholders — the salespeople, the leaders from finance and sales, the HR team and the customers. These groups usually represent viewpoints aligned to their role-specific mission and business objectives. In many sales compensation plan discussions, battle lines are drawn between leaders from two prominent groups — sales and finance.

At the risk of oversimplification, sales leaders tend to fight for more rewards, more incentives and more glorious pay outcomes. They see salespeople as uniquely talented; they're the drivers of a company's fortune and often deserving of significant compensation. Meanwhile, finance leaders often see sales compensation as a cost center and a variable budget line item that can swing widely and uncomfortably out of control.

By Clinton Gott, Better Sales Comp Consultants

… Excessive cost containment can stifle the vibrancy of a high-performing sales organization leading to low morale, top sales talent turnover and declining results.

Most stakeholders appreciate the value of a strong sales team, but many may question whether the company is getting the best return on its sales compensation spending. Are top performers rewarded enough? Or, perhaps the overall cost structure is simply too rich?

Many compensation managers have been through design team struggles as both sales and finance personnel push their respective agendas forward, sometimes failing to see other stakeholder viewpoints or often espousing corporate-based urban legends. Like many of life's situations, the true answers and best solutions are found in reasoned and balanced perspectives.

How We Got Here

It can be helpful to understand how organizations come to experience increasing conflicts between sales and finance leaders. An August 2017 *workspan* article, "How to Evolve Plan Designs for Growth," describes such a story. It begins with startup-phase compensation plans, which are frequently based on absolute commission-based designs and created by sales leaders. These designs are simple and appropriate — for a short time. In many cases, deal sizes grow and productivity rises, resulting in some sellers soon earning incentives far beyond their comparative labor market levels. In response, the sales incentive pendulum can swing widely toward more cost-controlled designs. Commission rates can drop or newly-minted goal-based plan designs can start to include unreasonable stretch goals, high thresholds, muted accelerators or even caps. The sales leaders bemoan the "good old days" when salespeople were perceived to be highly motivated and well-rewarded. Finance leaders may feel vindicated that sales compensation costs are under control and budgets are in order. However, excessive cost containment can stifle the vibrancy of a high-performing sales organization, leading to low morale, top sales talent turnover and declining results. The reaction to those pitfalls leads to more belt-tightening, yet more restrictive incentive plans and a cycle of perpetual mediocrity.

The story described is one where sales compensation plan philosophies and designs swing widely from pro-sales to pro-finance. The necessary solution comes from finding compromise and balance — plans that cost effectively reward an energized sales team. We believe this is the role of human resources or, in some cases, sales operations. Compromise isn't easy — it requires openly considering the true situation, building consensus and leading a collaborative process to create better sales compensation plan designs.

Approaches for Finding Balance

In working with many sales organizations and effective HR stakeholders, those who have the most influence and drive toward balance follow a proven course of action:

- **Focus on strategy.** HR responsibilities cover a wide range of functions, including tactical ones such as regulatory requirements and basic market pricing. They are necessary but not inherently strategic. The HR leaders who help drive sales compensation outcomes need to be comfortable operating at a more strategic level as well. This includes a thorough understanding of a company's business strategies, including growth objectives, account segments, customer needs and product opportunities. This emphasis also includes how the sales roles uniquely support these strategic topics, which then helps inform the sales compensation plans to best drive them. For example, market pricing can help inform pay levels, but it's essential to identify where the best talent and most high-priced talent will yield the strongest results. Similarly, if new products or deal types are being developed, what measures do we need to drive them? A classic example includes software companies moving from perpetual deals to subscriptions; they often wrestle with questions about deal agnosticism and the use of all commodity volume as a primary measure. Being grounded in tactical elements is the essential competency for HR personnel, but staying keenly focused on the strategic side is what creates enhanced value.
- **Focus on the process.** There's a proven process for identifying and enacting appropriate sales compensation changes, as described in the July *workspan* article "Sales Compensation — Creating an Effective Plan Quarter by Quarter." The process includes diligent assessment steps needed to clarify the current sales compensation plan situation and set the stage for revamped incentive plans. Assessment steps break out broadly into quantifiable analytics and qualitative inputs. In terms of analytics, human resources can help ensure a solid foundation of rigorous examination, even if performed by finance or sales operations. Analyses help shed light and build common understanding. Key analytics include compensation cost of sales (CCOS), quota attainment, pay differentiation, and pay-for-performance correlations.

Topic	Common Statement	Balance Check	Balance Enablers
1 Focusing on budget rather than CCOS	"Plans are running hot to budget."	Variable incentives are variable — budget only matters in regard to the results generated. If a company doubled sales results tomorrow, the company should willingly exceed the budget.	Measure plan payouts and results using CCOS (total base plus actual incentive/total volume results).
2 Failing to acknowledge the potential for windfall results	"Salespeople drive all results and deserve their variable pay — even for gigantic totally unexpected deals."	Windfall or bluebird deals happen. They sometimes include other participants, even from the C-suite, and salespeople sometimes benefit beyond their control or impact.	Perform big deal analysis: how they happened and were the results expected in the quota. Consider large deal clauses or regressive accelerators (not caps).
3 Attempting to minimize upside	"Reps are paid too much for things beyond their control. Our accelerators reward outcomes rather than drive behaviors."	Upside absolutely matters. In many cases, high-performing, direct, field salespeople should be able to triple target incentive. Accelerators rarely are the primary cause of cost overruns.	Consider base and variable when evaluating CCOS. On a 50/50 pay mix plan, a 2x accelerator is the CCOS break-even acceleration point.
4 Using excessive quota over-allocation	"We need to stretch our reps — 20% to 30% over-allocation is reasonable."	A recent BSC/WorldatWork quota study suggests about half of companies overallocate; no more than 5% to 10% is ideal.	Analyze your quota attainment. You should see 50% to 60% above goal, which creates a healthy sales culture and further success.
5 Pushing for too many plan measures	"We need salespeople focusing on all products. We should carve up their incentive and set goals for each."	Compensation plans should have no more than three measures. Carving up target incentives excessively distracts, makes success harder, and can lead to salespeople rebelling against new products rather than celebrating them.	Examine the number of plan measures. Consider specialist resources to help drive certain products. Consider well-reasoned multibucket plan designs to drive total and particular product results.

Help interpret the analysis findings and complete the assessment story with robust interviews — business leaders, functional stakeholders and, of course, the salespeople themselves. Common interview topics include sales strategies, customer buying needs, product opportunities, sales roles and how they work together, sales compensation plan performance and needs, and supporting programs like quota setting. Today's business world moves faster than ever; examining a robust list of topics, annually at a minimum, will consistently create the right foundation. This work then sets the stage for a collection of design team meetings where plan options are considered and new plan decisions finalized.

Focus on best practices. Seek to understand sales compensation practices or seek external participants to share them. The best designs are anchored in the most appropriate and powerful best practices. Sales and finance leaders may be stuck in a mode of "how we've always done things" or "this worked at my last company." HR managers should consider cross-industry best practices in sales compensation, not just what competitors are doing in their market. For example, Better Sales Comp Consultants recently worked with a fast-moving consumer-goods organization that saw its growth stall because it used only absolute commission plans for its route sales representatives. By looking outside its industry, the organization discovered how goal-based plans can better drive growth and allow the organization to engineer more efficient capacity-based route designs. Leveraging cross-industry best practices led to the right solution and a path to improved growth rates.

Five Common Biases That Need Balanced Perspectives

When considering topics that are particularly prone to biased points of view, we have identified five topics that often require a serious sanity check to counter biases, build consensus and strike the right balance.

- **Finance — Focusing on budget rather than CCOS.** Variable incentive plans by definition should have variable budgets; when salespeople do better or worse than expected, incentive payouts should increase or decrease. The key is measuring the results generated from the sales compensation spend and Compensation Cost of Sales is an ideal metric.
- **Sales — Failing to acknowledge the potential for windfall results.** Unusually large deals are rarely baked into quota and often involve resources beyond the primary seller. That can lead to unjustifiably excessive payouts which can "break" a plan's intentions and cause knee-jerk reactions to institute caps or reduce accelerators.

Stretch goals reduce payouts, thus aligning to finance objectives while potentially increasing the chances that sales managers can meet their personal, overall goals.

- **Finance — Attempting to minimize upside.** Often related to excessive payouts from windfall deals, finance can attempt to stifle the upside energy in the plan by creating subdued acceleration. We had one recent software client overly concerned about accelerators; they wanted to pay only a 1x rate above goal and use discretion to determine any upside payouts. Fortunately, our strong and repeated efforts to discourage this idea were successful. Upside drives the salespeople, and formulaic accelerators matter.
- **Sales and finance — Using excessive quota overallocation.** This is one where both parties can actually collude. Stretch goals reduce payouts, thus aligning to finance objectives while potentially increasing the chances that sales managers can meet their personal, overall goals. Tread carefully as excessive stretch goals can result in a sales culture of failure and greatly diminished results.
- **Product management — Pushing for too many plan measures.** It's not just sales and finance biases to consider; product managers often want their slice of the sales compensation pie. But too many measures (more than three) dilutes focus, makes the sales job tougher, and, in extreme cases, makes salespeople actively bemoan new product additions. More products should mean greater sales opportunities, but this can ruffle feathers it simply raises the number of sales hoops (product goals) one needs to jump through to earn the same reward.

It's challenging to avoid bias in many of life's situations, including in the working world, as people sometimes overfocus on needs only tied to one's specific role rather than the greater good. Companies should aspire to build consensus perspectives and find balanced solutions, and we believe HR stakeholders are uniquely positioned to drive successful plan-design outcomes. Stay focused on your business strategies, use quantitative and qualitative rigor to ensure a common understanding of the current situation, and anchor recommended solutions using the most applicable best practices. Ultimately, when sales results are optimized within an appropriate cost structure, all the various stakeholders can join together on the winning side. ws

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