

## What makes a good salesperson

### Using compensation to drive performance

Compensation and bonuses are a highly effective means of driving sales force performance to achieve company goals. Combined with other motivation techniques, compensation packages will drive salesperson performance and behaviour to directly support strategic and operational objectives.

A highly motivated sales force will always outperform a sales force with poor motivation and low morale, so compensation plans are an important part of getting the best out of costly sales resources. Rather than being a general morale-booster, specific compensation measures can be used to drive defined strategic objectives, such as:

- achieving revenue, profit or market share targets
- customer acquisition or retention
- maintaining or increasing growth rates
- supporting a product launch or entry into a new market
- matching order volumes to production/delivery capacity

In addition, the compensation package can be used to attract the desired type of salespeople to the organisation, and to encourage salespeople to develop solid customer relationships and present a professional image.

Properly structured, the compensation package should motivate each salesperson to “self-manage” to deliver the results the company wants. The sales manager then overlays this with reviews, performance management and coaching to bring out the best in each salesperson.

### Designing the right compensation plan

There are hundreds of ways of structuring compensation plans. The most appropriate package will be different in each company, and it might vary over time according to the changing needs of the business. Compensation might also differ between different territories or markets depending on local market conditions (such as what the competition are paying) or local culture.

Certain things are given, however. Any compensation plan needs to be simple, transparent and fair. If there is a variable element, then this must deliver top rewards for top performance, based on measurable results that are within the salesperson’s reasonable control. This creates a clear link between effort/skill, performance and reward, which is the key to an effective system.

This is not always easy. There are many situations that cause issues for an otherwise perfectly suitable sales compensation plan, as shown in examples in the table below.

Issue	Impact
Customer buying patterns are not reasonably predictable (market volatility)	Some salespeople will win and some will lose for no apparent reason, then the fortunes could change “randomly” the next year  Causes resentment and instability, leading to weakening performance
Different territories have different revenue potential	Same performance by different salespeople yields very different compensation results  De-motivates salespeople with low-potential territories, limits the overall
Product sales unexpectedly outstrip forecast by a large margin	Salespeople achieve their “acceptable” earnings levels too early, and stop working  Customer demand is unsatisfied, growth opportunities missed, possible customer defection to competition

Developing an effective compensation plan requires careful thought, taking into account the company's goals, the market dynamics and the structure of the sales organisation. It also requires a good set of sales forecasts to avoid over or under-rewarding performance, so some organisations structure their commissions or bonuses to encourage accurate forecasting.

Whilst commissions and bonus payments form the core of performance-related rewards, other non-financial measures (such as greater responsibility or accolades) can also be effective motivators. Special contests are surprisingly effective in driving specific behaviour to meet defined goals throughout the year – and these do not have to be financially rewarded.

## Steps to designing a compensation plan

Designing a compensation plan needs answers to several questions:

- what people do you want to attract?
- what results should be incentivised? – margin, sales of particular product type, customer retention, use of specific sales channels
- what is the market rate for the salesperson type and skillset?
- how complex and time-consuming is the sales process?
- is the salesperson in a hunting role (generally more difficult) or farming role (generally less difficult), is the sale generally the result of an individual or a team effort?
- what proportion of sales arise directly from the efforts of the salesperson, what proportion of sales would happen anyway?
- how predictable is the market? – if it is too variable then it might be better to limit the variable proportion within the compensation package
- what is the culture of the company and the local staff?
- how much production/delivery capacity exists within the company? – the compensation package could be used to vary the sales rate in line with production/delivery capacity
- when is the right time to pay commissions or bonuses? – e.g. when the order is received, upon receipt of payment
- and of course, how much cash is available to fund the incentive scheme?

Once all this is understood, a compensation scheme can be defined for each role, covering:

- the performance measures that will drive the incentive payments
- the split of fixed and performance-related income
- whether the commission rates are fixed or variable (e.g. increasing above a certain sales volume)
- whether goal-driven bonuses and contests should be included

At this stage, it is often useful to “back test” the incentive scheme against previous years' results to assess the financial impact of the new scheme. Experienced and/or influential salespeople can also be consulted to gain ground-level feedback and support. And of course it is always useful to assess whether the scheme can be effectively administered and simply communicated.

## Conclusion

An incentive scheme should be simple, easy to understand and demonstrably link reward with performance. It should drive the sales force to perform to their best ability whilst supporting the company's strategic and operational goals. Finally, it should support the delivery of great customer service and the formation of solid customer relationships.

## About LoganLea

LoganLea specialises in defining and implementing effective change within sales operations. Supporting business and sales leaders to manage, support and lead high performance sales teams and individuals. Our resource base