

Sales Compensation & Performance Management Study 2015 Key Trends Analysis

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For this reason, we would like to thank the following thought leadership companies for their partnership and insights into sales compensation and performance management and how these practices are changing the way the game is played. We acknowledge [Accenture](#), [CallidusCloud](#), [IBM](#), and [Xactly](#) for their insights.

We owe a debt of gratitude to many colleagues, mentors, and advisors whose help made this project possible. To list them all would be impossible, but Jerry Colletti at [Colletti-Fiss](#) deserves special mention.

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2015 Sales Compensation & Performance Management Study Introduction

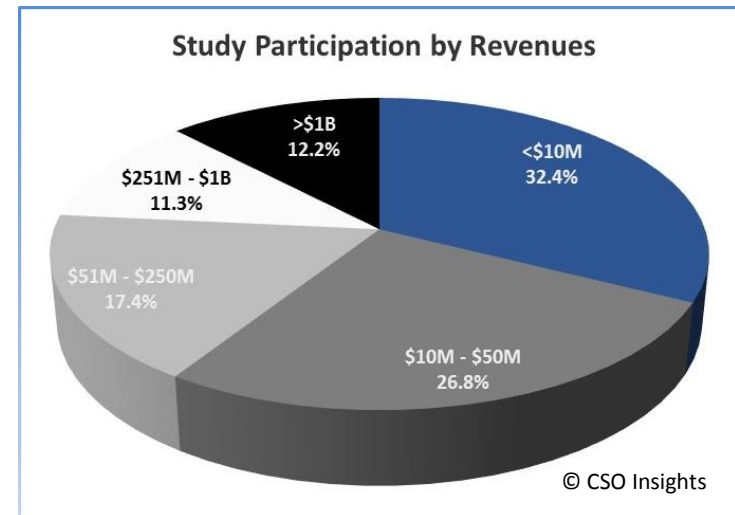
The data used for this analysis were gathered as part of CSO Insights' 7th Annual Sales Compensation & Performance Management study. As part of this research effort, we surveyed over 250 companies worldwide collecting information from over 70 sales compensation and performance management related metrics. For a detailed breakdown of the survey participants, contact [CSO Insights](#). The graphs in this report reflect the aggregated results from the study participants.

As shown in the graphic to the right, over one-half of firms responding to the study have <\$50M in annual revenues, the remainder run to >\$1B. Advisory Services clients seeking segmented responses based on factors such as industry, company size, country, and complexity of sales process—virtually every metric in the study—may obtain this information by contacting [CSO Insights](#).

What you'll read in the pages that follow is that when salespeople know exactly how to maximize their earnings, the percentage of annual revenue plan attainment was 97%. This datum provides a direct correlation between a well-designed compensation plan for the salespeople and the ability for an organization to meet plan.

In addition, respondents from organizations where frontline sales managers are not only equipped with timely and accurate information, but also reinforce behaviors that exceed expectations of their sales team, reported salespeople achieving quota by more than 32 points higher than those who didn't. The study results indicate that investment in frontline sales manager skills is as or more important than maximizing salesperson selling time in terms of making quota.

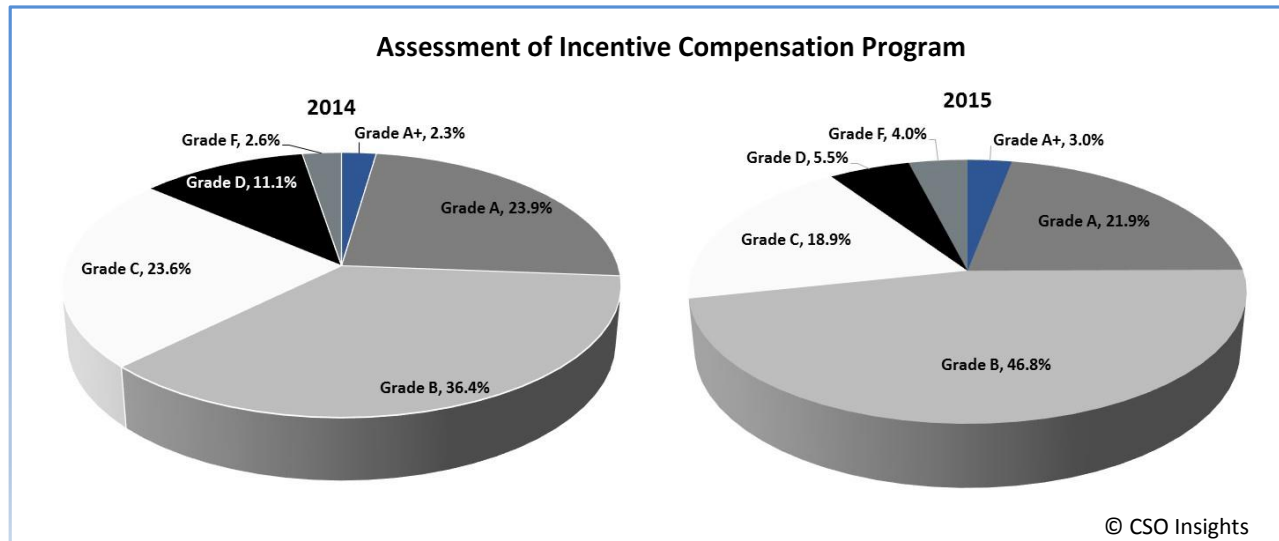
You will also find that overall salesperson turnover has dropped slightly from the 2014 study, down from 19% to 18%. While an improvement, this turnover rate is five times higher than the national turnover average, showing the mobility of salespeople versus all other workers. Simply stated, salespeople vote with their feet if they feel they're in a company that does not support their opportunity to be successful. Turnover represents not only lost productivity of the individual salesperson but is also a major distraction for every member of the sales team as the company backfills the vacancy and/or brings the new hire up to speed. In 2016, sales leaders would be advised to place a larger focus on hiring the right people, on-





going employee development practices, and, especially, salesperson retention to reduce turnover. (Note: 20% of responding firms do not target retention.)

We ended last year's report with a new metric, but thought it would be interesting to start with the grade companies gave their compensation and incentive plans this year versus last (see below).



As you can see, A+ had a huge 30% increase, but remains a tiny number (3%). A's slipped a couple points, C's decreased, and the biggest improvement was the reduction in D's; all of these reductions accrued to the B's. Before reading on, take a moment and ask yourself the same question we asked in our survey: What grade would you give your compensation/incentive management program(s)? The table below gives an idea of how key performance metrics vary along this subjective grading scale.



Key Performance Metrics as Related to Subjective Grading	A+/A	B	C	D/F
Consistently Drives Precise Selling Behaviors	25%	2%	0%	5%
Generally Drives Precise Selling Behaviors	72%	80%	56%	10%
Minimal or No Impact on Selling Behaviors	0%	9%	33%	55%
Do Not Know	3%	9%	11%	30%

Clearly, the primary point of compensation is to drive desired behaviors—in essence, trading dollars for the behaviors you want. As companies grow beyond a couple handfuls of salespeople (>10), then consistency and supporting systems become increasingly vital; the A and B players seem to have figured this out. Their results attest to this, as seen below.

Organizations with >10 Salespeople, Compared by Grade and Ability to Drive Desired Salesperson Behaviors	A+/A/B Consistently Drive Behaviors	C/D/F Generally Drive Behaviors
% of Salespeople Meeting/Beating Quota	62%	42%
Provide Managers with Timely/Accurate Process Metrics: Very Important/Mission Critical	90%	82%
Adequately or Exceeds Expectations with Providing Managers with Timely/Accurate Process Metrics	82%	38%

Nearly everyone sees the value in providing managers with timely/accurate metrics with which to coach; the difference is that A and B players make it happen and do not leave it up to chance.

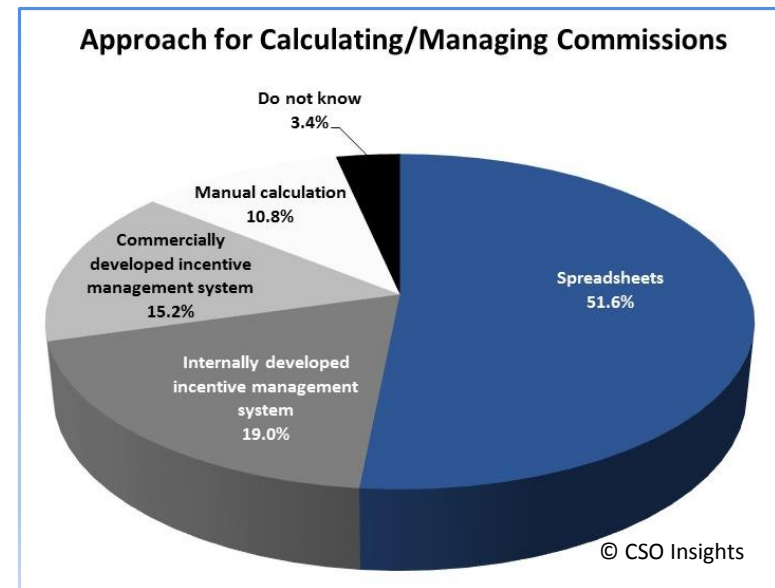
Similarly, top salespeople (and their managers) instinctively adapt to market changes when they see that what worked in the past is no longer working—or working as well. When there is an absence of capturing and analyzing data and the resultant shared learning from each sales cycle, then the entire process is slowed to individual trial and error. The benefits of teams, collective experience, and accelerated learning are that best practices and new winning tactics (i.e., behaviors) are identified earlier and executed consistently.



Point solutions in sales analytics and sales performance management (SPM) systems are able to provide sales managers access to the performance data—not simply the sales results—that allow them to offer coaching and/or intervene when they can still make a difference. There are many factors that suggest salespeople need additional attention sooner rather than later: Sales cycles that are stalled beyond usual limits; deals that are forecast to close but have not gone through half the sales process steps; opportunities with close dates that have been moved out, or repeatedly modified; as well as countless others.

To further reinforce, support, and accelerate this virtuous cycle, the long lever of pay is applied—a positive reinforcement if ever there was one. But this is the exact point where the data break down: 41% of firms report they need improvement in providing timely/accurate metrics to their sales managers. And yet, 51.6% of responding firms use spreadsheets or manually calculate commission payments, as shown in the chart on the right.

Does this majority feel they can do it on muscle or sheer force of will? Or do they simply turn their backs on questions of performance improvement and judge how well things are working by the timeliness and accuracy of commission payments and the lack of complaints? It's an approach, but one that in today's hyper-competitive, rapidly changing, and increasingly demanding B2B environment is sure to leave these firms in the dust. Here's the good news: your firm doesn't have to be one of them!



With this foundation in place, here's a summary of key points that are described and discussed in the pages that follow:

- Compensation plans that are both understandable and have actionable payoff are more successful in motivating the sales force.
- Attention is needed to align quota size with the salesperson's perceived or real view of the compensation plan's attainability.
- There is a need for continued focus on developing and maintaining an environment of success for sales professionals to reduce turnover.
- Sales leaders should allocate territories according to the current skill set of the sales professional and the current needs of the customer.
- More precision in designing compensation plans is needed to deliver the expected salesperson behaviors and results.



- The transformation to a customer-centric sales force focus deserves more investment than the current rhetoric.
- A positive sales culture and identifying reps that need additional coaching pave the way for delivering the number.
- Modeling of proposed compensation plans via sales forecast analytics enables organizations to bring visibility to the probable financial impact of each plan.
- Performance dashboards should provide relevant sales process metrics in terms of normal variance versus instantaneous snapshots.
- Investment in sales manager skill sets is the key move to maximize the number of salespeople making quota.

The desired end state is a sales force that is clear on what is expected of them relative to behavior and performance. It is important that the sales force is equally clear on how behavior and performance are measured by receiving timely, individualized, and consistent feedback—along with pay—commensurate to and accurate for the performance delivered. With this list of key points in mind, read the remainder of this report and keep notes on how your firm, sales management team, and sales organization/operation measure up. Advisory Services clients have direct access to their [CSO Insights Analyst](#) at any time, and we encourage you to use this service.

Contact us if you have questions or comments regarding this report, want to know about companies that excel in a specific area, or how best to invest your sales enablement budgets. If you have any questions or comments on the information presented in this report, feel free to contact us. We wish you continued success as you wrap up 2015, gain new insights, and implement winning ways throughout 2016!

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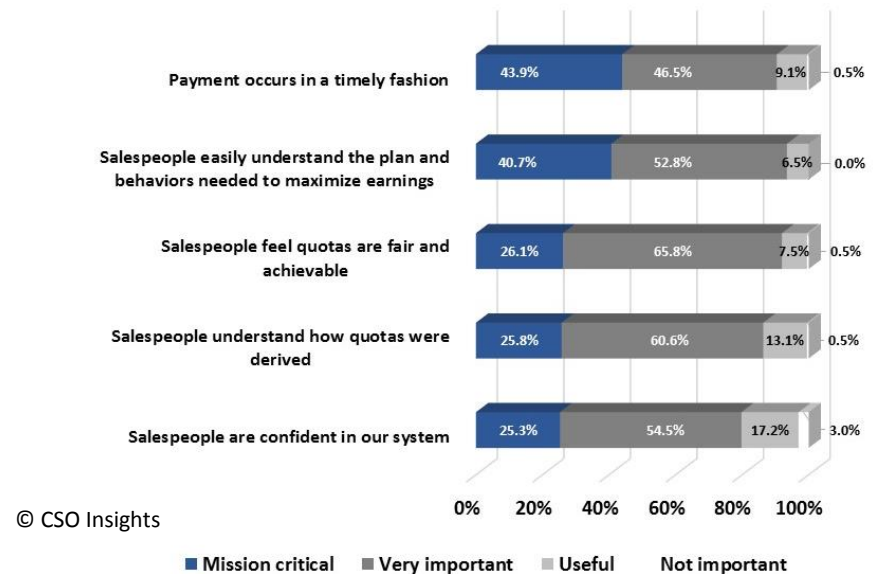
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Key Findings

- *Plan and execution apply to compensation plan design as much as to salesperson performance.*
- *No major disconnect between what is deemed important/vital and how plan designs actually deliver.*
- *Maximizing clarity of the plan correlates with maximizing salesperson and company achievement.*

Compensation Plan Design Objectives



Summary of Findings

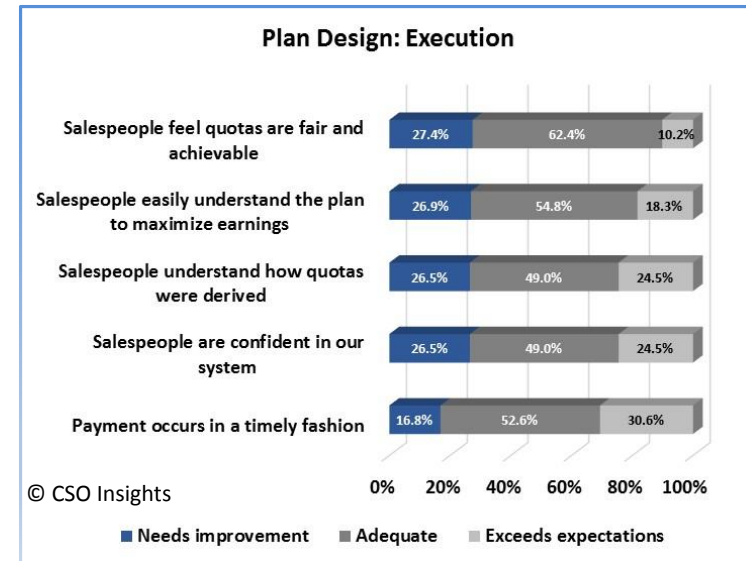
In prior years we've asked about factors used to evaluate compensation plans (e.g., ROI, salesperson satisfaction, salesperson retention, etc.). Then last year we added two new questions relative to: 1) compensation plan objectives and 2) execution against those objectives. We didn't write about these metrics because we wanted to look at them over a two-year span to determine if things changed or remained largely the same. Paying people in a timely fashion moved up a notch, but the figures about how important this is remained essentially the same. More than 90% of firms view this as mission critical or very important; it's a good bet that salespeople would agree!

However, salespeople also care about the other criteria rounding out this handful of objectives. There was some jockeying for priority but, overall, the sentiments expressed both years were that *all* these objectives are important. You can see above that only a fraction of respondents felt these criteria were not important. The "not important" numbers declined from last year, with the most significant being a drop from 7.3% to 3% in the area of "salespeople are confident in our system."



There is good alignment and real consistency among our survey takers on the importance of these plan objectives. As it turns out, companies also rate themselves fairly high in delivering on these plan designs. A quarter or more of responding firms reported exceeding expectations in three of the five areas (see Plan Design: Execution chart) and roughly a quarter or less felt the need to improve in any of the five areas. This represents significant alignment and suggests that real progress has been made the past few years, although work remains to be done.

For example, no firms reported that the need for “reps to understand how to maximize their earnings” wasn’t at least useful/important; 41% said having this clarity was mission critical. And yet, 27% still need to improve in this area—four years ago 33% of firms reported their salespeople were somewhat or completely confused about how best to maximize earnings.



This confusion correlates with—and likely translates to—poorer performance. For starters, we turn to the most common indicators managers look at: percentage of revenue plan attainment and percentage of salespeople meeting/beating their individual quotas. Although these are not the only tests of performance, we refer to them several times in this report, as they form a consistent basis of comparison and are easily understood and relatable.

Salespeople’s Ability to Understand How to Maximize Earnings as Related to Quota and Plan Attainment	% Salespeople Meeting/Beating Quota	% Annual Revenue Plan Attained
Salespeople Know Exactly How to Maximize Their Earnings—Needs Improvement	41%	80%
Salespeople Know Exactly How to Maximize Their Earnings—Adequate	57%	90%
Salespeople Know Exactly How to Maximize Their Earnings—Exceeds Expectations	61%	97%



This correlation is both direct and desirable; that is, what's good for the salesperson is also good for the company. When salesperson quota achievement is high but overall revenue attainment is low, or revenue attainment is high but the number of salespeople hitting their individual number is low, there will be both confusion and conflict. Making plans that are understandable and actionable pays off, literally.

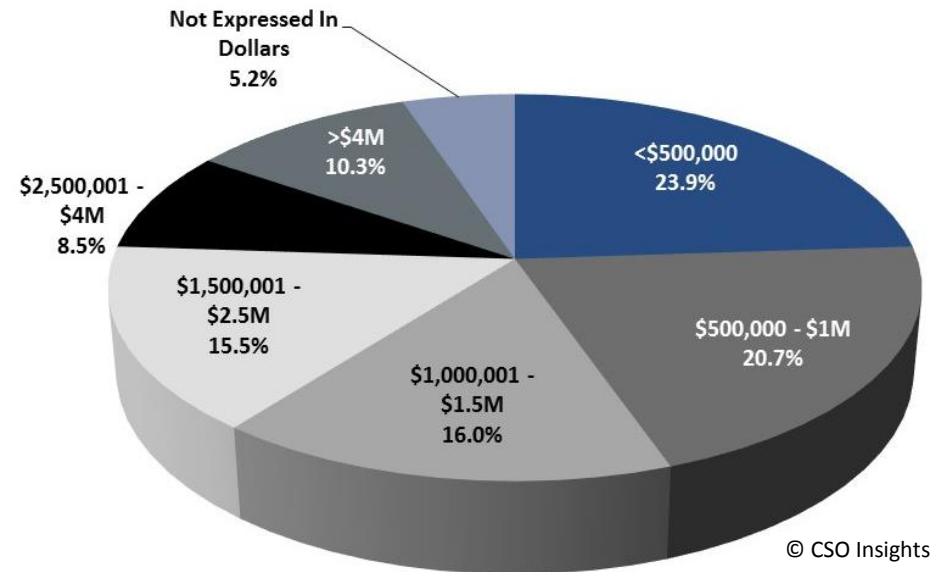
Later, we'll look at this important subject from a different angle (see page 15) as it relates to salespeople and their understanding of corporate goals/objectives.



Key Findings

- Just over 45% of organizations assign quota by adding a percentage increase over the prior year's plan.
- A similar percentage of salespeople do not believe their plan is attainable.
- Productivity programs intended to deliver higher quotas must start prior to the quota period.

Average Annual Quota Size



Summary of Findings

The \$1M to \$1.5M quota range shifted from 12.3% last year to 16% this year, but the overall weighted average of all quotas remained unchanged at \$1.57M. At the same time, those organizations that did not express quotas in dollars decreased from 10.9% to 5.2%, after prior years' stability (see table below). Quota size cannot be mentioned without discussing how quotas are assigned. The study reveals that 45% of sale leaders have taken the easy way out and simply applied a percentage increase over the prior year. A total of 38% of sales leaders tie existing and new customer targets to corporate objectives to help derive quotas, and 34% of respondents indicate they divide the annual revenue target by the number of salespeople and territories.

Quota Size	2011	2012	2013	2014	2015	Prior 4 Yr. Avg.	'15 to '14 YoY Chg.	'15 to Prior 4 Yr. Avg. Chg.
\$1M-\$1.5M	16%	16%	14%	12%	16%	15%	30%	11%
\$2.5M-\$4M	9%	10%	13%	9%	9%	10%	(8%)	(17%)
Not Expressed in Dollars	11%	11%	9%	11%	5%	10%	(52%)	(50%)



The study indicated that only 57% of salespeople believe their quotas are attainable, which is a problem since other research shows 60% of reps typically achieve/exceed quota for the company to make plan. Sales leaders should conclude that there is plenty of room for improvement when aligning quota size with the salesperson's perceived or real view of plan attainability. As noted earlier, salespeople migrate to where they feel they can be successful. With four in ten salespeople feeling their assigned quota is unrealistically high, the burden falls to sales managers to coach—and explain—how each salesperson can succeed (see Going Forward section for more on this topic).

Quota size is also related to average deal size. Basic capacity planning points to the fact that each transaction, regardless of size, consumes a certain amount of a sales professional's time. With an average quota attainment across all respondents of 54.6%, increasing quota size without implementing specific steps to improve salespersons' effectiveness (win rates) and productivity is an exercise in futility. The timing of these improvement programs also needs to be examined; they should be rolled out *prior* to the quota timeframe (e.g., Q4 training to prepare for the coming year quota assignment) equips salespeople with new skills/tools to meet their new plan. Often organizations assign a larger quota and then undertake productivity and effectiveness programs. This timing presents a productivity issue in which the salesperson and sales management team carry the higher quota prior to when the productivity programs become effective. Not accounting for the adoption timeframes and sales cycles can impact the ability to meet early quarters in the quota period. The rule of thumb is to start major productivity improvement initiatives at least six months prior to the quarter that it is intended to impact quotas.

When we looked at the size of the quota and compared it to the percentage of salespeople that achieved or exceeded their full year quota (see table below), there was not a strong connection between the two data points, except at the extreme high end (\$4M+). This suggests that it is not the size of the quota alone that influences the ability to make plan, but also the amount of opportunity in their assigned territory and the ability of the salesperson to capitalize on that opportunity.

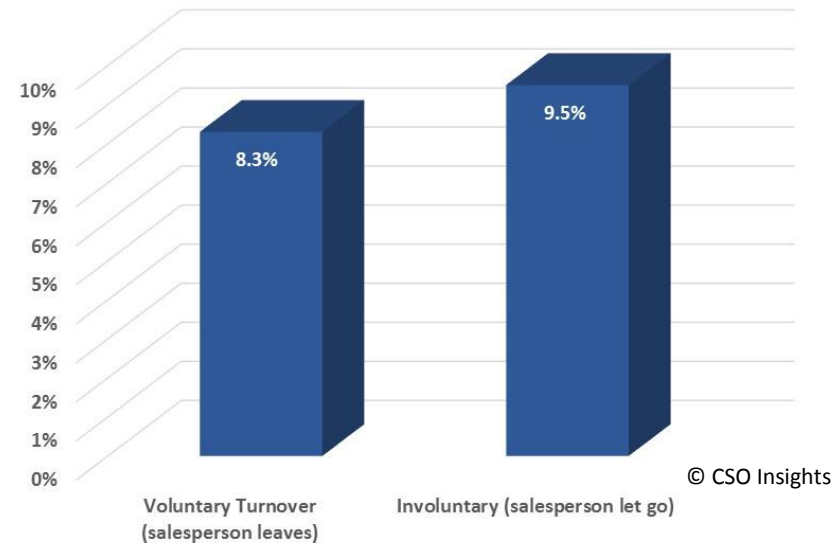
Quota Size	% Salespeople Meeting/Beating Quota
< \$500K	51%
\$500K - \$1M	59%
\$1M - \$1.5M	58%
\$1.5M - \$2.5M	52%
\$2.5M - \$4M	52%
\$4M+	33%



Key Findings

- *Salesperson turnover is five times higher than the U.S. national average.*
- *There has been a shift to more people being let go than are voluntarily leaving.*
- *Turnover can disrupt a sales organization for up to a year, so talent development and retention are key.*

Annual Salesperson Turnover Rates



Summary of Findings

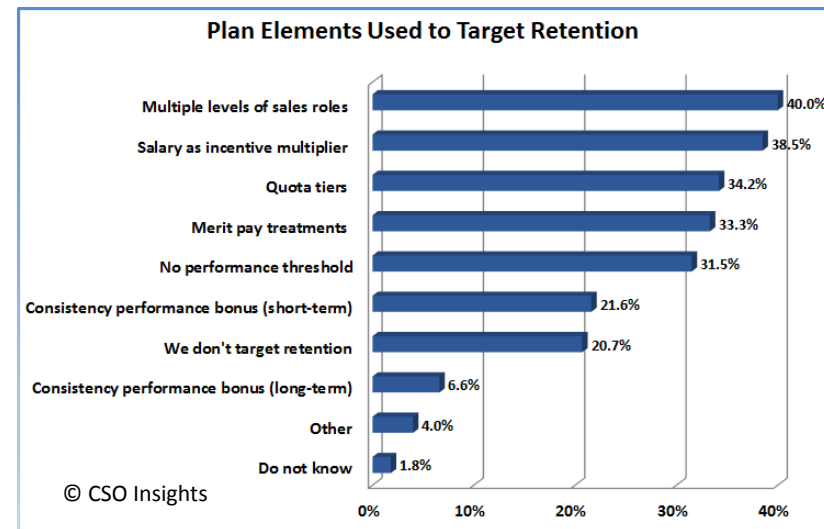
When it comes to salesperson turnover, things are looking better with a total turnover rate of 18%, one point lower than 2014 and well below the historic high of 30% pre-recession (2008). However, when turnover is looked at holistically, the 2015 salesperson turnover rate is five times that of the 2015 U.S. national average of 3.5% (Source: *August 2015 Bureau of Labor Statistics* report). This indicates the volatility of the sales profession itself—the sales leader’s perpetual search for the perfect salesperson, and the salesperson’s ongoing search for the perfect job. Given this reality, sales leaders should keep a close eye on salesperson turnover and a keen focus on retention.

Voluntary or involuntary turnover is a major disruption to a sales organization. When a salesperson leaves, it impacts existing customer relationships and territory coverage leading to lower revenue production in the short term. With salesperson ramp-up time to production reaching upward of six to nine months, a single salesperson leaving the organization can impact the frontline sales manager’s ability to make plan this year. Why all the volatility?



The sales professional's role in a complex B2B environment is a multifaceted position that requires a wide variety of competencies. As such, organizations are not always equipped to adequately enable, coach, and develop individual sales professionals. The path of least resistance for many organizations is to replace (involuntary) or manage out low performers. At the same time, these same challenges apply to retaining high performers that may feel they have maxed out or will only have even higher quotas to look forward to in the coming year(s).

The turnover data show a shift in the mix of voluntary and involuntary turnover over the past year. Involuntary turnover grew from 8.7% in 2014 to 9.5% in 2015, while voluntary turnover shrank from 10.6% to 8.3%. It appears sales organizations are doing a better job at retaining their core selling talent while replacing low performers to upgrade the skill set of the sales organization. In 2012, 52% of survey respondents reported a “no retention strategy” as a component of their compensation plan design. Today, this figure shrank to 21% as greater attention is being paid to retaining talent (see chart at right). These are the same as last year.



With 68% of sales organizations planning to hire additional salespeople in 2015, the continuing high turnover rate provides a huge challenge *and* opportunity for sales leaders. The challenge is to continue the focus on developing and creating an environment of success for their existing sales professionals. Investing in improving their frontline sales managers' coaching capabilities will have the highest impact on lowering voluntary departures. A [2015 Gallup study](#) indicated that 50% of people who voluntarily left their jobs did so because of their direct manager. Improving sales manager skill sets should become a priority if organizations wish to address voluntary turnover. The turnover rate also provides an opportunity for sales leaders to hire the right person for the role and educate and develop them according to the desires of the organization. To capitalize on this hiring opportunity, sales leaders must have a stringent hiring, onboarding, on-going coaching, and development systems in place. For example, sales organizations are utilizing assessment tools to identify candidates that are best fit to the company's culture and work environment in the hopes of hiring long term employees.



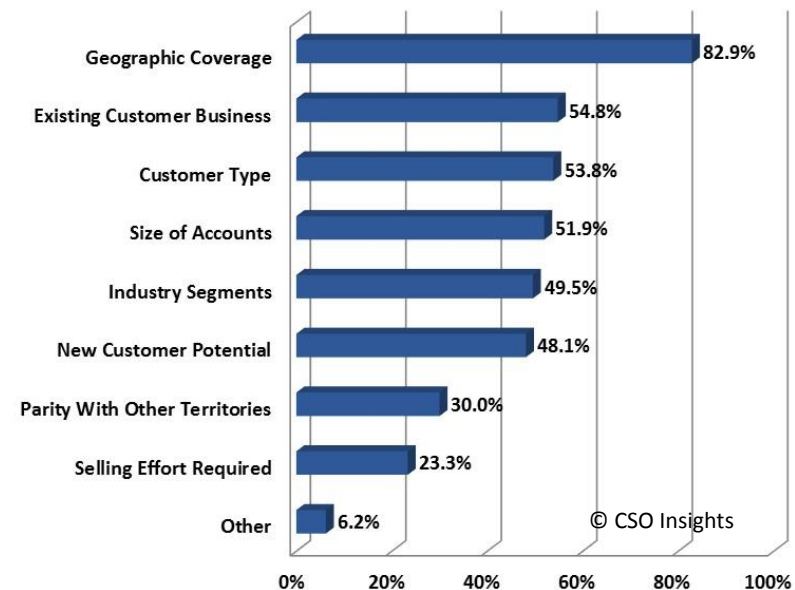
Key Findings

- *Geographic coverage remains the primary way frontline sales managers assign territories.*
- *Less than one in five of sales organizations uses a territory management application.*
- *Progress is being made to provide salesperson parity in territory opportunity.*

Summary of Findings

It's understandable that, historically, territory design has been dominated by geographic coverage; after all, knowing customers and where they were located was often the best information available. Still, it was surprising to see this factor jump six full points in the past year (see table below). Much of territory design still appears to be created by black magic. Only 18% of organizations use a territory management application, while 69% of territories are designed using spreadsheets or are created manually. With much of the territory design being done by hand, it raises the question as to the levels of consistency and predictability there are in territory assignment across sales teams. But there is a new kid on the block, perhaps a foreshadowing of things to come.

Factors Used in Establishing Territories



Factors Used in Establishing Territories	2014	2015	Year-Over-Year Growth Rate
Geographic Coverage	77%	83%	8%
Existing Customer Business	50%	55%	10%
Customer Type	53%	54%	3%
Parity With Other Territories	23%	30%	30%



The territory design factor that jumped the most from 2014 to 2015 is “parity with other territories” which grew by seven points—a 30% increase year-over-year. It appears that more emphasis is being placed on providing sales professionals with an equal opportunity to make plan. One can speculate that if more sales organizations adopted territory management applications, then the frontline sales manager would have an increased ability to create equitable sales territories for their staff. Basing territory design decisions on a systematic analysis of the territory (e.g., total addressable market, named accounts) provides the sales managers with the ability to hold better territory assignment conversations with their sales professionals without the real or perceived biases that occur in manual processes.

Geographic territories could be looked at as an antiquated approach to territory design. With the advent of cost effective video conferencing and real-time communication tools being physically close to a customer, geographic territories is not always the ideal choice for territory assignment. Instead, frontline sales managers could choose to allocate territories according to the current skill set of the sales professional and the current needs of the customer. For example, current customers need sales professionals with great account management capabilities, rather than a local person with business development skills. Skills nearly always trump locale in complex B2B selling.

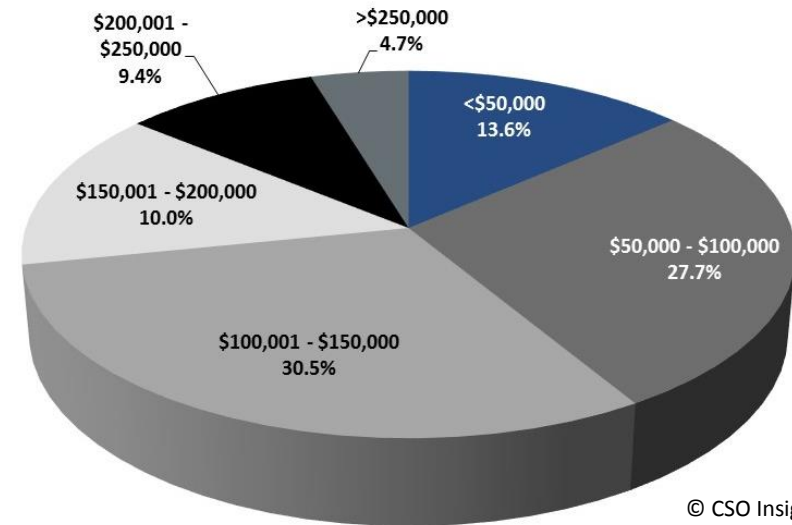
When designing the sales territories, the sales manager’s objective is to ensure 100% coverage of the geography and customer base while managing expenses to a given budget. The sales professional’s viewpoint is slightly different. The salesperson simply wants a territory that will offer a real opportunity to make the assigned quota. In any given region, a salesperson will inevitably be assigned the worst producing territory, as some territory has to have the least potential. Often to soften the blow, the frontline sales manager assigns the sales professional who has the “bad” territory a few named accounts outside this geographic territory to supplement production.



Key Findings

- *\$100K - \$150K is the largest bucket of targeted compensation and increased the most this past year.*
- *Total compensation as a percentage of total revenues falls into the 5% - 15% bucket for a majority of organizations.*
- *Compensation shows stronger correlation to revenue attainment than to salesperson retention.*

Total Targeted Compensation for Direct Sales Force



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Summary of Findings

As seen in the chart above, the largest bucket of targeted sales compensation falls into the \$100K-\$150K range, with nearly one-third (31%) of respondents—up seven full points from 2014. This change was also the largest of any in the past year, with the increase coming from the two lower segments. The upper three segments at \$150K+, representing nearly a quarter of respondents, were essentially unchanged (a half point change across all three) year-over-year. So overall, average pay ticked up a bit. Are firms getting what they're paying for?

The primary objectives of sales compensation plans are to drive desired behavior, recognize achievement, and retain top talent. This year, two-thirds of organizations reported their incentive programs “generally” drove precise selling behavior (up from 57% in 2014), while an additional 9% of incentive programs “consistently” drove precise selling behavior (down from 12%). In the remaining quarter of organizations, the compensation and incentive programs had little or no impact on selling behaviors. The table below shows that “generally” is better than “minimally,” but nothing is better than “consistently.” Of further note, the highest involuntary turnover—double that of the minimal impact group—is in the “consistent” group, suggesting they are less tolerant of undesired selling behaviors.



Compensation Plan Impact on Driving Precise Selling Behaviors	Minimal or No Impact	Generally Driving	Consistently Driving
% of Annual Revenue Plan Attained	86%	90%	93%
% of Salespeople Meeting/Beating Quota	43%	56%	76%
Voluntary Salesperson Turnover	11%	7%	10%
Involuntary Salesperson Turnover	8%	10%	17%

The top three selling salesperson behaviors driven by sales compensation and incentive programs are selling into new accounts (60%), retaining existing business (59%), and farming more from existing customers (50%). Frontline sales managers' behaviors impacted by compensation and incentive plans are meeting assigned territory revenue targets (49%), proactively identifying which salespeople need extra coaching (40%), and fostering a positive team sales culture (40%).

The study showed an interesting connection between targeted compensation and voluntary turnover. Seen below, as the target compensation grows, so does the level of voluntary turnover until the \$250K level. The voluntary turnover number suggests compensation may not be the only driver of salesperson loyalty. There's strong market demand for salespeople who can command higher levels of compensation because of higher competencies, experience, track record, etc. Sales leaders need to design specific development, recognition, and retention plans for their highly skilled sales staff. The table also shows how total compensation levels correlate to the percentage of revenue goal attainment. With one step back at the \$200K-\$250K level, revenue attainment increases with increases in targeted compensation. Remember the admonition: correlation is not causation. It is still intriguing to consider that compensation may have a stronger relationship to driving company revenue goals than influencing salespeople to stay.

Target Compensation	Voluntary Turnover Rate	Revenue Goal Attainment
<\$50K	5.9%	80%
\$ 50K - \$100K	6.9%	85%
\$100K - 150K	9.3%	91%
\$150K - \$200K	10.6%	92%
\$200K - \$250K	11.3%	87%
\$250K+	10.2%	95%



Key Findings

- *No change in priority and little change in emphasis year-over-year.*
- *Customer-centric remains an ideal that seems to receive more talk than investment.*
- *Discrepancy in focus and goals seems to have increased.*

Summary of Findings

2014 was the first year we asked this question, so it became the stake in the ground against which we would measure progress over the next year. One year later, there has been so little change it causes us to wonder what, if any, progress has been made.

The order of the Key Areas of Focus for Fiscal 2015, as shown in the graphic above, is exactly the same as last year. Optimists would say the lack of movement demonstrates consistency; pessimists might suggest that these key areas were not areas of focus during the previous year. One thing that *has* changed is the dramatic fall-off between the first key area—Maintain/increase market share—and everything else. The total difference between the first area of focus and the third—Align corporate goals with sales goals—was 21 points; this year it's nearly 26 points.

This says that maintaining/increasing market share is even *more* of a focus this year than last year and is at the expense of all other areas. But there is an inconsistency, an inherent contradiction, in these figures. How will market share increase if focus decreases on the other areas listed? Here's an analogy we've seen over the years in our Sales Performance Optimization study. A top ranking objective each year (trailing only behind

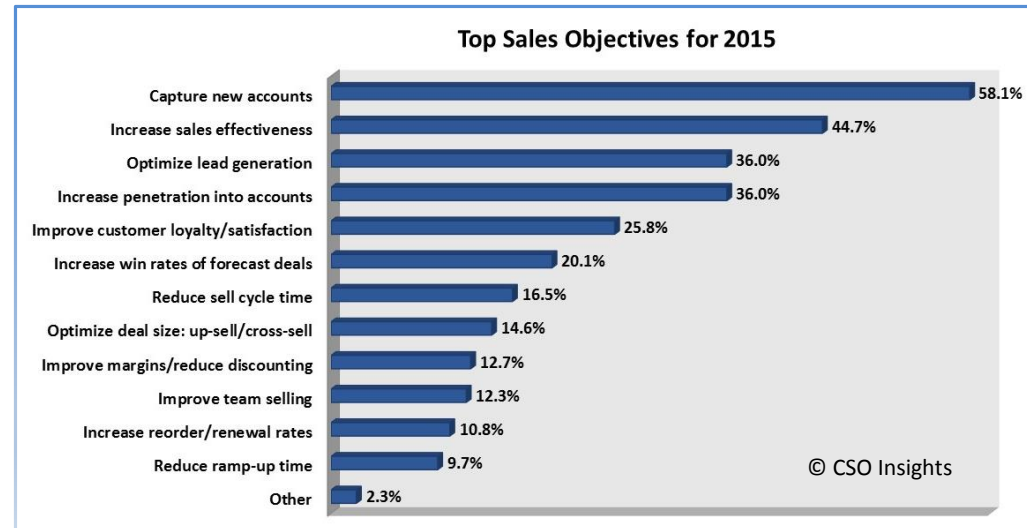
Key Areas of Focus for Fiscal 2015





capture new accounts) is increase sales effectiveness, followed by a list of other initiatives, as shown in the graphic to the right. But to realize increased sales effectiveness, organizations have to do some or all of the other things listed.

Similarly, to maintain/increase market share, companies need to do many, if not all, of the things listed below this key objective going forward. And if we're talking about market share, improving/maintaining customer satisfaction would certainly seem to rank high. "Putting the customer at the center of everything we do" is a common refrain heard from senior management and echoed through organizations—in much the same way, "Our people are our most important asset." The latter phrase is often invoked just before layoffs following poor quarterly performance.



Despite the static nature of this list, becoming a "modern customer-centric sales organization" actually lost ground over the past year. Maintaining/increasing market share outstripped customer-centricity as the number one priority by 4:1 last year. This year it does so by better than 5:1.

Clearly, this isn't the only way to increase market share, but hanging onto and growing customers in today's business environment would seem to require greater attention to, and focus on, customers—not just outcomes. The third key area of focus—improving sales forecast accuracy—is certainly deserving of focus as the performance in this area remains lackluster. But will it increase market share?

There could be other factors weighting these responses and their interpretation. After all, this is only the second year of data. But given this discussion, let this serve to stimulate your own thinking, questioning, and assigning of priorities to focus your compensation plan upon.



Key Findings

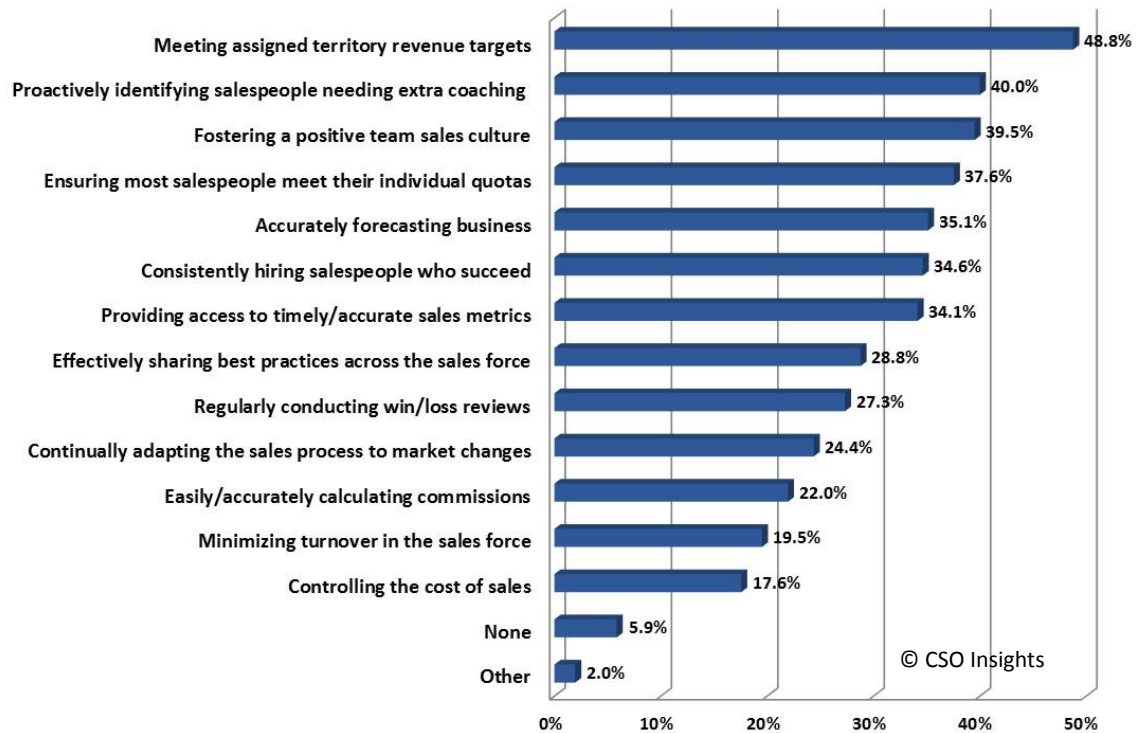
- *Not surprisingly, making the number remains job #1.*
- *Coaching and culture moved up significantly over prior years.*
- *Doing the right things helps deliver the right results.*

Summary of Findings

Unlike the prior metric, which is a relative newcomer that was first introduced last year, this metric has been included since 2008. Eight years ago, proactively identifying salespeople needing extra coaching was first, followed by fostering a positive sales team culture. However, it wasn't until 2011 that meeting assigned revenue targets and ensuring salespeople meet their quota were added. Making the number has been in first place ever since.

After being added as a response option, salespeople meeting their assigned quota has had a solid lock on second place. Little wonder, as our Sales Management Optimization survey showed that these top two management behaviors are both measured *and* compensated (see chart on the next page). Creating a positive sales culture is only measured in 42% of firms; only one in eight firms (12.6%) measures and compensates this behavior. For this reason, it's all the more surprising to see this response and "proactively identifying reps needing extra coaching" elbowing

Management Behaviors Impacted by Compensation Plans

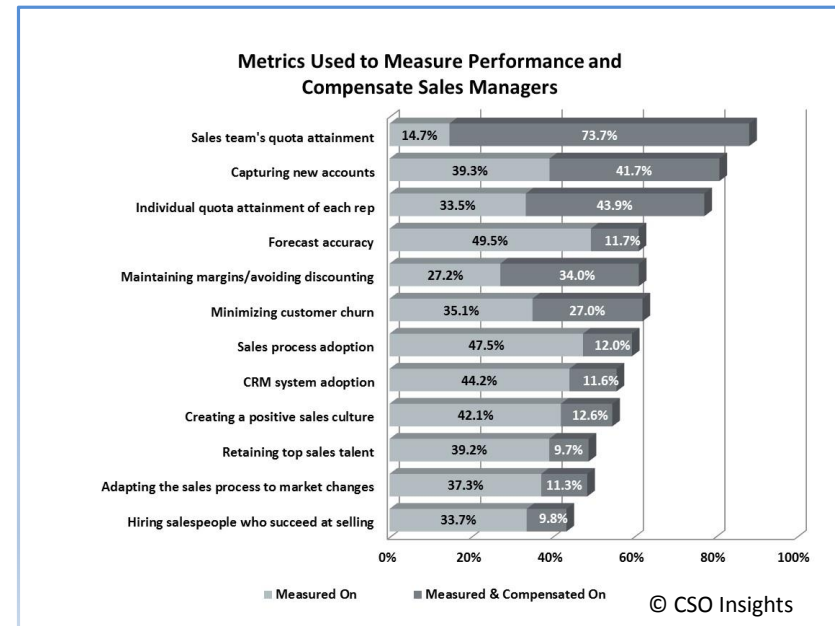




salesperson quota attainment into fourth place. Perhaps messages regarding the value of coaching and an engaging and supportive sales culture are catching on.

Is there justification for them doing so or is this simply a “feel good” exercise when making the number is really what it’s all about? The news—good news really—is that these activities (making the number and coaching) are not mutually exclusive. To the contrary, we’ve been reporting in papers and conferences over the past few years that positive formal coaching outdistances informal by wide margins. But can these competing metrics play nice together?

We looked at the percentage of salespeople meeting/beating quota and revenue plan attained where various combinations of the metrics shown at the right were applied (see table below). The survey asked participants to check all of the metrics that applied to their firm, so theoretically, all of the metrics could be checked. The typical number for measured was ten; measured and compensated was three.



However, when constructing the table below, we chose firms where the metrics shown were selected and the others were *not* selected. It’s interesting to see how the results tracked in these cases.

Various Combinations of Sales Compensation Metrics Selected as Related to Quota and Plan Attainment	% Salespeople Meeting/Beating Quota	% Annual Revenue Plan Attained
Sales Team's Quota Attainment Selected	57%	93%
Creating Positive Sales Culture Selected	58%	95%
Sales Team's Quota Attainment/Creating Positive Sales Culture Selected	59%	97%
Creating Positive Sales Culture/Proactively Identifying Salesperson Needing Coaching Selected	60%	100%



Two things are noteworthy. First, once again, you don't *do* numbers; the number is a result of *what* you do and how *well* you do it. Second, it's clear that a positive sales culture and identifying reps that need additional coaching not only do not get in the way of making the number—they *pave* the way to doing so.



Key Findings

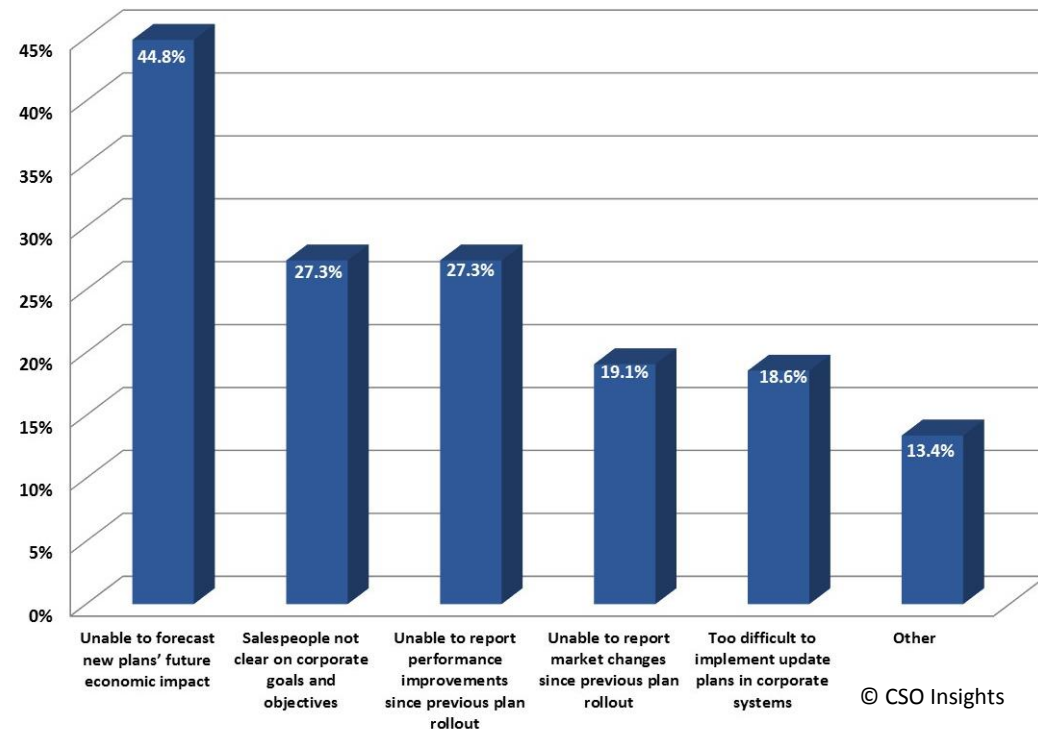
- *Inability to forecast the impact of changes to the compensation plan is a persistent challenge.*
- *Sales professionals' understanding of how to maximize their earnings correlates with better performance.*
- *Corporate goals/objectives do not seem to ignite nor extinguish the level of sales professionals' engagement.*

Summary of Findings

Anticipating the impact of changes to the compensation plan has been the perennial and persistent challenge. A total of 45% of respondents this year marked this as their biggest challenge, less than the 52% high-water mark of a few years ago (2012-2013) but up three points from last year.

Somewhat surprisingly, the numbers are not dramatically different for firms reporting using a commercial compensation/incentive management system versus those operating manually and/or on spreadsheets. The inability to forecast impact remains first among challenges, within two points of one another (45% commercial versus 47% spreadsheets/manual). It appears the challenge is not figuring out what Plan A versus Plan B versus Plan C will cost based on certain performance assumptions; using the “sandbox” capability within commercial applications or simply

Biggest Challenges When Rolling Out Sales Compensation Plans





running the numbers via spreadsheets will serve up what commissions will be paid. The difficulty is in forecasting what sales will *actually* be generated by Plan A versus Plan B versus Plan C.

Also, perennially in second place (the past five years) is salespeople not being clear on corporate goals and objectives; in other words, “just pay me.” Does understanding the company’s goals and objectives matter? Does anyone really care? Revenue attainment for both groups (clear versus not clear) were identical: 88% of plan; apparently the reps not being clear on corporate goals/objectives did not keep them from selling, nor did being clear on corporate goals/objectives enable them to sell vastly more.

A better measure may be sales professionals’ ability to interpret the plan and understand how best to maximize their earnings. Theoretically, this would also maximize the company’s results but are often disconnected.

Salespeople’s Ability to Interpret the Plan and Understand How to Maximize Earnings as Related to Quota and Plan Attainment	% Salespeople Meeting/Beating Quota	% Annual Revenue Plan Attained
Salespeople Know Exactly How to Maximize Their Earnings	58%	91%
Salespeople are Somewhat Confused About How to Maximize Their Earnings	46%	83%
Salespeople are Completely Confused About How to Maximize Their Earnings	*	*
Firms Where Salespeople do Not have a Variable Pay Component	*	*

*Too few to report

It would appear that it is much more important for salespeople to clearly understand what’s in it for them, communicate this early/often, and be sure these personal productivity measures are tied to corporate objectives rather than the other way around. In other words, having sales professionals be crystal clear on corporate goals and objectives but somewhat hazy on how these should direct their actions and how these translate to individual earnings correlates with lower performance results. We present tactics for crystalizing sales professionals’ understanding of how to maximize their earnings in the Going Forward section (see page 29).

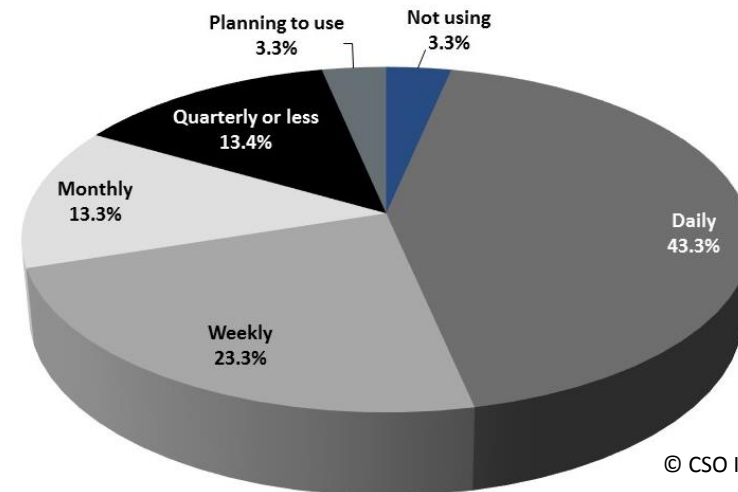
Further, sales professionals who possess a clear understanding of corporate goals/objectives (versus those who don’t) doesn’t seem to be the key to firing up engagement. We compared groups that viewed understanding the corporate goals and objectives as a challenge against those that did not, and the level of engagement was a virtual tie at 75%.



Key Findings

- *New metric: dashboards clearly have caught on with sales management.*
- *One-quarter of respondents check dashboards monthly or less frequently.*
- *Dashboard readouts should be tied to sales process definitions.*

Frequency That Dashboards are Used to Review Performance Metrics



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Summary of Findings

This metric was added to determine whether and how often sales management uses dashboards. As seen above, 96% of respondents either use or are planning to use dashboards to keep an eye on performance. In answer to the first question, clearly dashboards have caught on. In answer to the second question regarding frequency, the largest segment of current users is checking daily, while the remaining 50% do so weekly, monthly, or less frequently.

Reporting has been the weak link of CRM systems since they came into being. The most frequent complaint is that huge quantities of data are required to be entered *into* these systems, but little information is received *out* of them. Dashboards address this complaint in two ways: first by preliminarily setting up a dashboard gauge that automatically displays indicators of sales activity/performance which eliminates the need for managers to write queries or create reports; second, dashboards display information graphically rather than through a series of spreadsheets.

Many standard (i.e., most common) indicators come predefined in CRM systems such as calls this period (day, week, and month), new opportunities this period (number, dollar value), etc. But are these the most useful measures for a company? Peter Drucker said, “The problem



with management is that they're measuring the wrong things." Sales activities are among the easiest things to track/report/display, but are they the "right" things? Sure, a basic level of activity (quantity) is needed on an ongoing basis, but you also want the *quality* of the activities to be consistent—or consistently improving. Blitz campaigns are famous for being high on activity, low on quality. You want a balance of both.

This is where sales process comes in as well as a critically important, but often overlooked, aspect of dashboards. In addition to reporting activities and results such as bookings this period plotted against plan (e.g., 30% of plan with 35% of the year gone by), process measures can be tracked and reported. For example, if you have a five-step sales process from initial sales qualified lead to close, the CRM system's dashboard can report what the distribution of opportunities is throughout the pipeline/sales funnel, total dollar volume, etc.

The second important bit of information about gauges, and one often overlooked and/or underappreciated, is to be useful, they must tell you what's "normal" or, in a sales sense, "healthy." A temperature gauge on a car reporting the engine is 210 degrees is informative but not particularly useful (see Figure 1). A gauge showing that 210 degrees is within the normal operating range (see Figure 2) is much more useful information.,

To determine "normal" requires that measures be kept against a standard definition—degrees (°F or °C) in the temperature example. Sales process examples include: average time in each process step, minimum dollar and deal volumes in each step/stage, buyer actions/evidence to advance to next step, etc.

With these basic building blocks in place, the exciting concept of alerts offered by analytics programs can now be brought to bear. Managers can set limits to be alerted when something is out of bounds—or heading that way. Just as a temperature gauge can turn on a warning light when the red zone is reached, an analytics program can send a salesperson and/or sales manager an alert when an opportunity has been in step one (initial contact) for 72 hours with no action, when the normal response time is 36 hours. Or, an alert can be sent to the salesperson at 24 hours and an escalation to his/her manager in 30 hours.

To wrap up this discussion, there is one more vital notion, which is the history of a readout (i.e., metric) versus the instantaneous value. Knowing today that a salesperson has a fallout rate of 25% of his/her deals this week is useful; knowing he/she has been averaging 50% fallout over the past three months is much more important and a basis for inquiry/discussion/coaching. This final thought also brings up the point that for feedback to be meaningful, it also must be timely. You'll want to be sure your frequency of review is appropriately tied to the metrics being tracked.



Figure 1

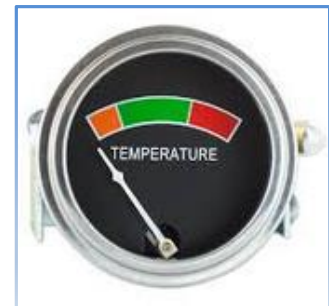


Figure 2



Key Findings

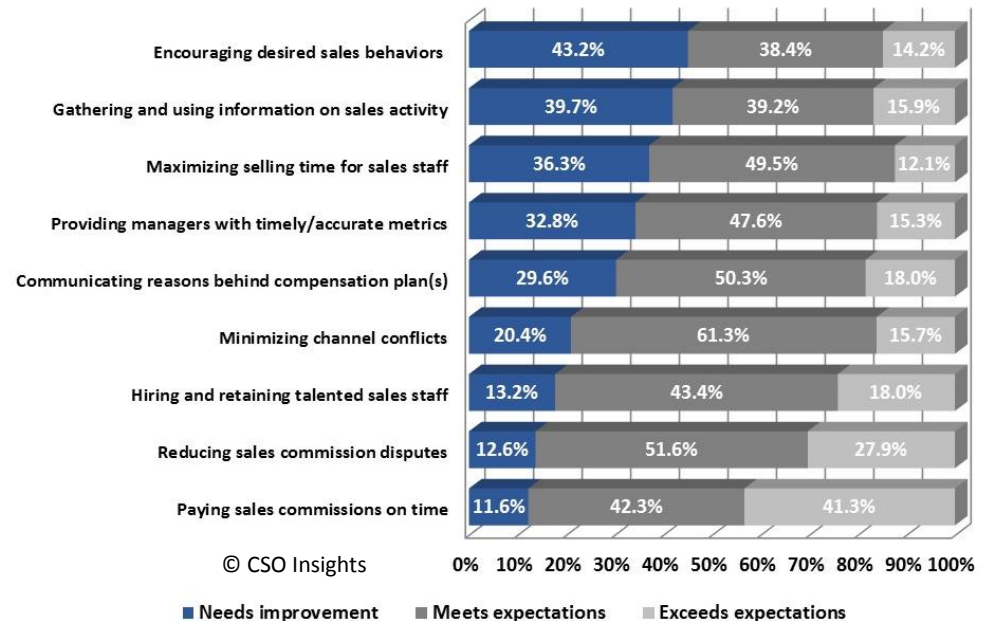
- *Progress has been slow and steady over the past few years in these activities.*
- *Limiting encroachment on selling time remains a top priority.*
- *Pairing Sales Performance Management activities may speed things up.*

Summary of Findings

The good news is that progress is being made in these important sales performance activities, and the numbers are steadily improving. The bad news is that the progress has been glacial. Incentive and Compensation Management (ICM) and Sales Performance Management (SPM) are spoken in the same breath, “ICM/SPM,” much the way people frequently say, “sales and marketing.” And like sales and marketing, there can be a real gulf between what’s happening in ICM versus SPM.

SPM offers the promise of not only tracking results, which can only be *monitored*, but also reporting on behaviors, which can be *managed*. Identifying the sales behaviors that, if improved, will provide the biggest gains is the stuff of SPM. SPM is the answer to the CSO’s question: what lever can I pull to improve results? And yet, SPM lags in focus, adoption, and realization of its huge potential. The list above has not changed order in the past five years; that is, no single ability (e.g., maximizing selling time) has leapt ahead over that half-decade. These abilities and values remain in lockstep, moving ahead ever so slightly. In 2011, 47.6% of respondents needed improvement in encouraging desired selling behaviors—8.8% exceeded expectations. As seen above, these numbers are now 43.2% and 14.2% respectively.

Ability to Perform Sales Performance Management Activities





So progress is being made and trending is in the right direction. But is there something that can be done to pick up the pace? Maximizing selling time and minimizing “corrupted selling time” (i.e., non-selling activities) have comprised a constant drumbeat from CSOs over the past few years. This certainly makes sense; after all, the more time salespeople spend in front of/on the phone with customers, the more opportunity they have to close some business.

The first row in the table below shows the percentage of salespeople meeting/beating quota when maximizing selling time needs improvement, meets, or exceeds expectations. There is some improvement as the ability to maximize selling time improves. Now, look at the second row where encouraging desired selling behaviors is paired with providing managers timely/accurate metrics. There are huge leaps between the needs, meets, and exceeds columns.

Ability to Perform SPM Activities % of Salespeople Meeting/Beating Quota	Needs Improvement	Meets Expectations	Exceeds Expectations
Maximizing Selling Time	52%	56%	56%
Providing Managers With Timely/Accurate Metrics and Encourage Desired Selling Behaviors	43%	57%	75%

The numbers are equally compelling when comparing the same groupings to determine the percentage of overall revenue plan attained.

Ability to Perform SPM Activities % of Revenue Plan Attained	Needs Improvement	Meets Expectations	Exceeds Expectations
Maximizing Selling Time	86%	87%	91%
Providing Managers with Timely/Accurate Metrics and Encourage Desired Selling Behaviors	84%	87%	99%

The numbers suggest creating more selling time is incrementally positive but that pulling a combination of SPM levers at the same time can be significantly better. The suggestion here is to first get your sales process defined and integrated into the CRM system so that actual performance data across the sales team can be captured. Then use the analytical capabilities of the SPM system to look for where leverage (i.e., which levers) exist. You’re looking for differences—salesperson versus salesperson, region versus region, period versus period, etc.—to see highs and lows. Then begin to experiment with which SPM activities, especially in combination, yield the best results. Do more of these and less of simply chanting,



“You have to get out and sell more.” Instead, be a coach, providing timely, objective, consistent, relevant, and individualized feedback to really turbocharge your sales professionals’ performance.



Going Forward Analysis

The old goalsetting maxim was: *Plan your work; work your plan.*

A corollary to this is: *Those who fail to plan are planning to fail.*

OK, enough of the sayings. The fact is, the data do support rational compensation plans that are clearly understood and regularly inspected. This can't be news but, for whatever reason, these are in the minority again this year. A CSO of a very large and well known computer manufacturing company once told us, "The reason I was made Vice President of Sales is that I'm the best at implementing last year's plan." Although he was being somewhat self-effacing, he was being completely honest.

And he's hardly alone. A total of 45% of the companies responding to this year's survey indicated they set the coming year's quota by simply adding a percentage to the current year's plan. With this as a starting point, quotas are divvied up, some accounts and/or numbers negotiated, and the sales team is turned loose to make it happen. Lather. Rinse. Repeat. Year after year.

Do the data point to a better way? Short answer: Yes.

Although much of this has already been *reported* in the preceding metrics, it's time to wrap this up and *recommend*. The top quartile of companies in this year's survey shared the following characteristics: met or exceeded annual revenue plan ($\geq 100\%$), salespeople understand how to maximize their earnings, and they are able to provide sales managers timely/accurate performance metrics.

Ability to Perform SPM Activities % of Revenue Plan Attained	Top Quartile	Rest of World (Bottom $\frac{3}{4}$)
Overall Revenue Attainment	106%	87%
% Salespeople Meeting/Beating Quota	77%	48%
Voluntary Turnover	5%	11%
Involuntary Turnover	9%	11%

Let's get specific. Jerry Colletti, an advisor to CSO Insights on this report from its beginning, is recognized as a veteran of sales compensation planning, an author of books on the subject, and a sought after speaker and advisor. We asked him what guidance he would offer to break out of



the habitual repetitive practices outlined above of simply adding a percentage to this year's target—regardless of actual attainment—then spreading it around in regional and individual quotas. Here's what Jerry had to say:

"To maximize achievement of your business plan:

1. Build measures into the plan that salespeople can impact;
2. Assign quotas that are reaching (i.e., stretch) yet attainable, that first line managers can explain; and
3. Provide measures for managers to coach their reps on how they would/will hit their number."

We believe the implications of Jerry's comment for building and implementing plans that drive business success are:

Build in measures salespeople can impact.

Whatever measures comprise the CSO's target of responsibility (e.g., total revenue, gross margin, etc.), translate them into performance measures that the salesperson can impact. As we've reported in prior years, generally, three to four measures are desirable, five is the max. If you have more components than this, some or all will be of little consequence (e.g., 5% of variable component) and salespeople will simply ignore them and "take the hit," figuring they'll make it up on other components they can actually impact. Tying a salesperson's compensation to an overarching corporate objective is simply out of the salesperson's control, and he/she will either waste time trying to do something about it or, more appropriately, simply ignore it.

Assign quotas the manager can explain.

Managers should not only understand the methodology by which quotas were developed/assigned but also be able to explain it to the salespeople. A friend of mine returned to college to earn her teaching certificate. The professor, a veteran of decades of teaching, shared this insight: "Often teachers ask a student to explain a concept back to them (e.g., how to solve a math problem) and the student says, 'I get it, I just can't explain it.'" The professor said, "I have one word for that: bullshit." Ditto for sales plans that sales managers accept and pass on but cannot explain.

Arm your managers to coach their salespeople.

Top performers figure out what they need to do to maximize their results. You don't want to forget about these salespeople, as they still deserve coaching, but they'll likely know how they're going to make their number. For the remainder of the team, the manager should meet individually with each salesperson, explain the quota and how it was developed/assigned, and strategize how to make his/her number. This conversation is not just about activity (e.g., number of calls, etc.), it also includes how to organize the territory and accounts, the mix of new and existing clients,



congruence with/deviation from ideal customer criteria and what this means in selling motions, the mix of products/services to meet revenue and margin requirements, etc.

This is often described as developing a “cadence” for executing the plan. Following this and implementing a compensation management system is critical. The manager should review performance measures on a regular cadence as well. As noted earlier (see page 24), daily may be too often, but monthly is the minimum.

For smaller sales organizations (i.e., 15 or fewer salespeople), Jerry Colletti recommends that the sales manager(s) carry at least a couple of accounts for a quarter to “test drive” the new plan before it’s rolled out to the entire team. If there are problems or areas of uncertainty, they can be surfaced and addressed without upsetting or, worse, distracting the sales team.

Everyone plans to plan; they just don’t get around to doing it. This is a mistake that costs organizations lost traction every day. If you’re thinking about moving away from the use of spreadsheets, revising your approach to the coming year, adding rigor and discipline (and frequency) to your coaching/reinforcement/enforcement efforts, know that the data are on your side. We began this section with an old saying and will end with one from Ring Lardner:

“The race is not always to the swift, nor the battle to the strong—but that’s the way to bet.”

The year ahead holds enormous potential and, with it, possible peril. Many things can go wrong and likely will; some will inexplicably also fall in your favor. But planning, preparing, testing, and staying the course are your best bets to arriving at this time next year with a happy tale to tell—progress that’s been made, clients that have been won and well served, and beyond that, yes, another year and its number. You can chase after it or you can be deliberate and put the pieces in place to get ahead of it. Determine how to put these three steps into action, or get help doing so. It’s not a sure thing, but it *is* the way to bet! CSO Insights [Advisory Services](#) clients should set an appointment with their analyst to review this report’s findings and discuss ways to maximize their own compensation planning and performance management efforts.

If you have specific questions about benchmark data or need introductions and/or data-based recommendations, we’re here to help.

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About CSO Insights

CSO Insights is dedicated to improving the performance and productivity of complex B2B sales organizations. We measure and analyze the behaviors, metrics and strategies behind world-class sales performance, providing our members with the research, data and expertise required to build strategies for sales performance improvement.

With over 20 years of sales research experience, the CSO Insights team is comprised of respected analysts with decades of success as sales practitioners and sales executives. This unique perspective, along with our wealth of sales performance metrics and benchmarks, gives us the exceptional ability to collaborate directly with sales leaders around the world to explore the best practices, strategic trends and next generation capabilities driving sales performance.

Our research, data, and expertise help sales leaders create and execute strategies to find more, win more, and keep and grow more business. CSO Insights' annual sales and marketing effectiveness studies have become industry standards for sales leaders seeking operational metrics, data, and analysis, most notably: the *Sales Best Practices Study*, *Sales Performance Optimization Study*, and *Lead Management and Social Engagement Study*.