

Rethinking Sales Compensation Strategy

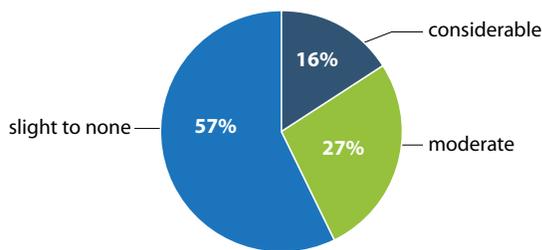
How companies are approaching pay program practices for a post-pandemic future.

The Covid-19 pandemic had a transformative effect on business. For some organizations, it prompted a complete rethinking of the operating model, while for others it acted as an impetus for growth, providing once-in-a-lifetime opportunities to enter new markets. For many, though, it was a chance to refocus and streamline, to make the business leaner and more efficient.

Prior to the crisis, B2B companies reported spending as high as 25 percent of their annual revenue on sales compensation. Enter Covid. The blow to the bottom line was sudden and unexpected, and companies needed to pivot quickly to adapt. Many instituted furloughs—and layoffs—to counter fast-declining revenues, and maximizing the rate of return on sales investments became critical to navigating the storm successfully.

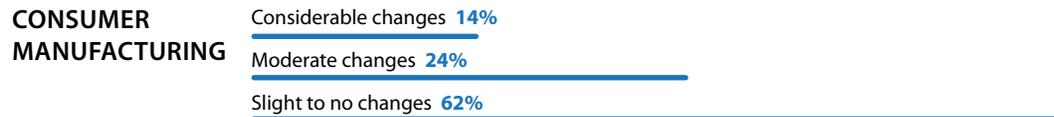
According to a survey of 231 U.S. business leaders conducted by Chief Executive Group and OpenSymmetry in March 2021, a number of CEOs report having made changes to their sales compensation strategies as a result of the crisis, with the majority (57 percent) reporting little to no change to their strategy.

Percentage of sales compensation strategies affected by Covid-19



The findings are even more interesting when looking at the data by industry: for instance, 68 and 62 percent of industrial and consumer manufacturing companies, respectively, report having made little to no change to their sales compensation strategy in 2020—that is 11 and 5 percentage points more than the average across all sectors.

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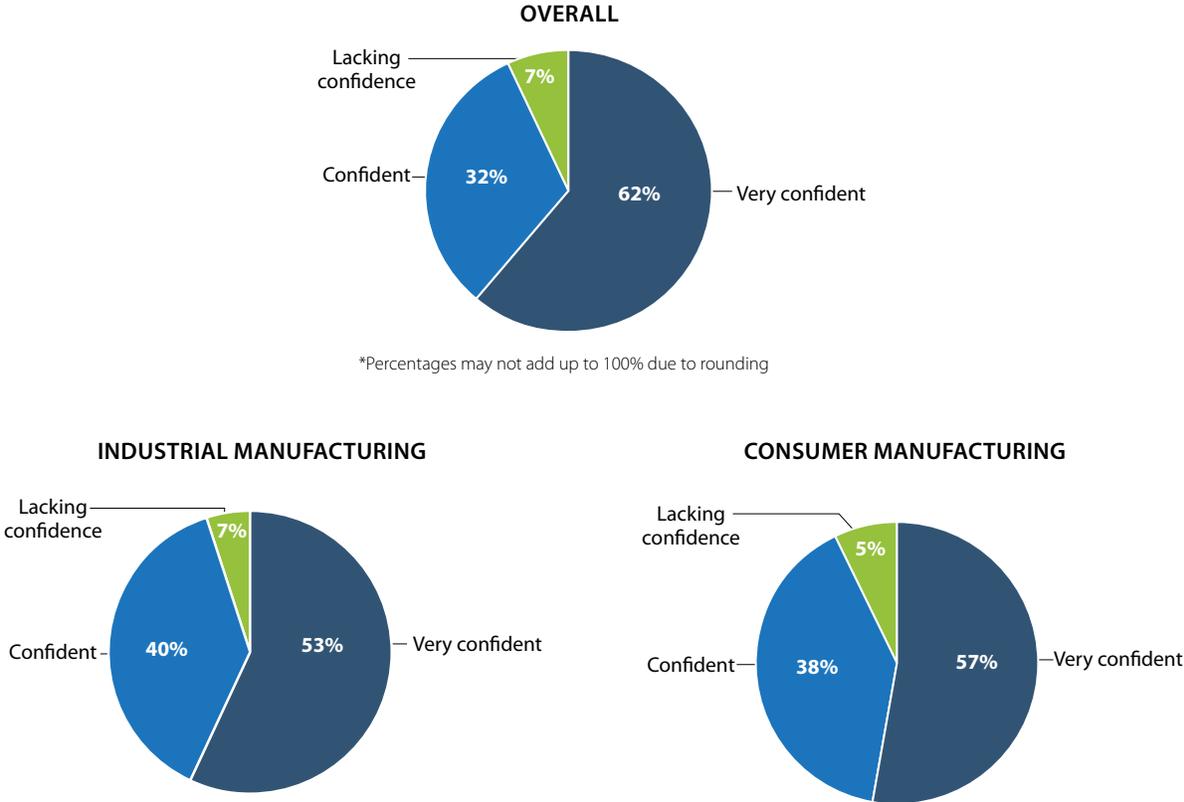


Given that manufacturing as a whole suffered greatly during the shutdown, some shifts in how compensation plans were being managed would have been expected. However, according to manufacturing company CEOs, most program adjustments were made to the territories and the quotas to reflect the new reality, rather than to the plan itself.

These findings suggest CEOs of private companies remain confident that their sales compensation systems can withstand disruption to the degree encountered with the pandemic. Overall, 62 percent of CEOs reported being “very confident” their current sales compensation program is aligned to their go-to-market strategy—with an additional 32 percent saying they are “confident”.

That is a high proportion considering the about-face most organizations had to make in light of the pandemic restrictions imposed on sales teams. Processes and practices changed overnight, but the systems and plans used to support the objectives stayed the same. It is interesting to see, when looking at the data by industry, that in sectors where we observed the highest numbers of CEOs reporting they had made little to no change to their systems, we also see confidence levels in strategic alignment falling. Using the consumer and industrial manufacturing examples once again, confidence levels are down 9 and 17 percent, respectively.

CEO confidence in the alignment of their sales compensation program to their go-to-market strategy



Yet, few companies took a pause in 2020 to review their sales compensation practices in anticipation of changes that could disrupt the ongoing course of business permanently. But, the way business conducts sales in this post-pandemic era *has* changed. While anecdotal evidence shows minimal chances of U.S. businesses sticking to a fully virtual sales environment once pandemic-related restrictions are lifted, many companies have come to realize significant savings by instituting new ways of doing business, and sales compensation systems and strategies should therefore be revised accordingly.

IDENTIFYING OPPORTUNITIES

The way sales and business development are conducted have changed—likely for good. In fact, only 12 percent of the CEOs participating in our study confirm that they will revert back to their original sales compensation strategy once the pandemic has been contained. This suggests companies have an unprecedented opportunity to reexamine and improve on their pre-pandemic strategies to streamline the business well into the future. Part of this process entails revisiting compensation plans' alignment to the new model.

Some have already seized the moment. Matt Brubaker, CEO of San Diego, CA-based FMG Leading, says his professional services organization took time in 2020 to rework the compensation strategy to help the team gain a greater understanding of the revised objectives and provide much-needed motivation. For the company, that meant establishing a formula that could, on the one hand, calculate sales achievement and, on the other, provide a much higher degree of transparency into incentive compensation.

"We had forced our compensation structure into a model that was [supposed to be] sustainable in the long run but that exposed a handful of performance challenges where we had folks who were drawing more than they were generating or were lopsided, creating more value in one area and less in another," he said in an interview with *Chief Executive*, "So, you'd say, 'well, you know, Brubaker is a relatively low performer when it relates to sales, but his utilization rate and percentage is so high, he's actually carrying a little bit more volume than [other folks]. If somebody is billing \$6,000 a day at 80 percent utilization, that covers up a fair amount of their nut, if the formula's right. So, we had to figure it out."

His company, therefore, took advantage of the pandemic environment to rebuild the system, he explained. "I'm not saying we made it entirely formulaic, but we made it a lot more predictable."

Brubaker says taking the time to question and revisit the company's compensation system enabled them to generate 4 percent growth for the year—a stellar outcome considering the downturn many of his competitors experienced. "We left the year with a position of strength, which gave us the ability to really aggressively pursue growth," he said.

FMG Leading's experience underscored a compensation program best practice for SMB and large organizations: providing a clear and transparent view into compensation results and the way they're calculated. Taking the time to ensure you have the right reporting tools is essential in full end-to-end performance management. Having the right metrics in place is what enables an organization to analyze sales results and assess the performance not only of the sales teams but also of the plan's effectiveness and how it is performing. Is your company incentivizing the right behavior and achieving the intended results?

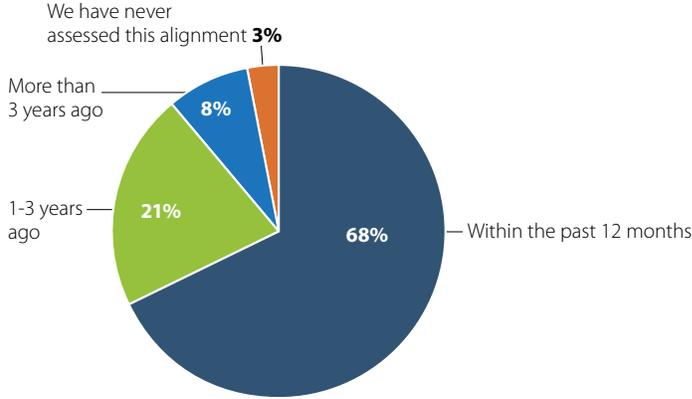
Some of the most common challenges encountered even before the pandemic came on the radar stem from the fact that many organizations still have systems in place that act as black boxes, with limited flexibility to make changes as needed or when urgent matters, such as a global pandemic, arise. Instead, companies should have the flexibility to review and make changes to their plans as they deem fit. Solutions that enable business users, rather than the IT department, to make adjustments within a few weeks rather than months, give businesses the ability to adapt more quickly in a crisis.

Ideally, plans should be reviewed for effectiveness and alignment annually. Making incremental adjustments on a yearly basis can help minimize the need for drastic changes in the case of a large-scale event. However, it's also crucial that the company has the ability to assess and pivot during a downturn or unexpected crisis should the situation require further adjustment. Often, changes put in place due to an unanticipated event make a real difference and end up remaining in place long after the event that prompted them, underscoring the need for a regular review and update process.

To what degree will your sales compensation strategy go back to what it was pre-Covid once the pandemic has been contained?



When was the last time you assessed the alignment of your sales compensation program/plans to your strategy?



COMMUNICATION AND ENGAGEMENT

For compensation programs to be effective, employees need to understand how the plan works and the strategy behind it. Communication and transparency are always critical, but they become even more important when changes are being made during a crisis period. Clear visibility into the adjustment and its impact on both personal and team levels will help foster engagement and higher motivation levels.

Current vendor solutions in the industry today offer features that can be leveraged for highlighting and illustrating what-if scenarios for members of the sales team. For instance, the use of real-time dashboards, utilization and ranking reports, and what-if tools enable a sales representative to see the path to the outcome they want to achieve. It's important, however, that these facets of the compensation system are set up correctly so that they fulfill their purpose. For example, they need to be communicated clearly and be made easy to navigate so as not to distract from a sales team member's client responsibilities.

For Mansoor Ahsan, CEO of Bridgefarmer & Associates, a midsize civil design firm, the review they conducted as a result of Covid highlighted many redundancies that the company needed to address to "maintain at least the same revenue goals" than the year prior, he says, noting the negative impact of the pandemic on his industry.

While this gave the company a chance to right-size the organization, "it was not as easy as I would have liked it to be, and a big part of that is because these folks had been with us for a number of years," says Ahsan.

But the company took the time to look at individual performances and where each person fit in and how well they were positioned in order to make difficult yet much-needed decisions—and then held one-on-one discussions with the staff to communicate the process.

"We met more regularly with the staff than we had in the past to keep them informed what has changed and how things are changing," he says. "There are certain things which are changing very rapidly. And then there are things which are not as rapid. The rapid changes are the ones which we keep our staff informed through various medias, whether we use Teams, zoom calls and alike."

For the slower changes, he says the company uses a system that allows leadership to see and measure the matrices where performances are dropping and assess whether it is a market event or signs that a tuneup is necessary inside the organization.

In the end, culture is crucial to success, and having a transparent, flexible and easy-to-navigate incentive compensation plan and system—one that is fully aligned to strategy and communicated clearly to staff—is key. The right system should enable sales teams to feel empowered to hit their goals and drive growth.

CONSIDERATIONS FOR CEOs AND THEIR LEADERSHIP TEAMS

When assessing the strength, flexibility and alignment of a sales compensation plan, several areas should be considered, including whether the current system can support the suggested changes in the timeframe required. Most vendor solutions support changes off-cycle... as long as they were set up with that agility in mind.

LINK TO COMPANY GOALS	Do your plan components, across all lines of business, drive your company objectives?
ACCOUNTABILITY	Does your plan hold participants accountable for results they control?
ALIGNMENT	Does your strategy promote team participation through collaborative measures?
CROSS-SELLING/UPSELLING	Does your plan create positive interaction between channels?
PAY FOR RESULTS	Does your system enable you to pay for business results (outputs) while managing the (input) activities?
SIGNIFICANCE	Do your participants perceive target incentive pay as obtainable and a substantial portion of total target pay?
SIMPLICITY	Does your plan use as few measures as possible with the simplest mechanics to increase focus among your team?
PAY DIFFERENTIATION	Does your system enable you to differentiate pay levels for excellence vs. average, and match to your culture and type of job role?
MEASURABLE	Does your plan contain measurable components based on robust data?
FLEXIBILITY	Does your plan design enable you to manage change situations swiftly and with agility?

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