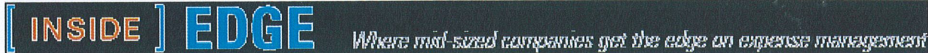
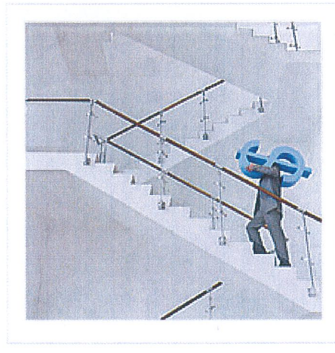


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The Best Way to Pay Your Sales Staff Now

By [Elizabeth Wasserman](#), October 19, 2010

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The sales staff at [DealerTrack](#) wasn't sold on how they were being paid.

The Lake Success, New York, maker of software for auto dealers had done several acquisitions. Now management wanted the combined sales force to push a new product, an all-in-one management program that could replace stand-alone applications for inventory management, leasing and the like, to the company's 17,000 auto-dealer customers.

But there was a hitch. Under DealerTrack's sales-compensation plan, most of the 120 sales reps got credit for selling the stand-alone programs but not for handing off clients to colleagues who sold the full solution. To make matters worse, the recession had some sales reps struggling to meet yearly sales quotas.

"We had some morale and motivation issues," says Karen Vacchio, compensation and benefits director at the \$226 million company.

Recognizing the problem, DealerTrack overhauled the way sales reps were paid. Reps became eligible for higher commissions earlier in the year and got bonuses when their clients bought the all-in-one dealership package.

When DealerTrack redid its incentive structure, the company joined nearly two-thirds of U.S. businesses that changed the way they paid salespeople in 2009, according to a survey by [WorldatWork](#), a human-resources trade group. In fact, 8 of 10 companies surveyed said they revise methods of calculating sales compensation every year.

The reason is clear: CFOs and finance departments use sales incentive pay to motivate staff to meet company goals, and in a competitive and volatile global economy, those goals change as quickly as the wind. "Change is part of the business landscape, whether it's because of difficult circumstances in the last few years or because of prosperous circumstances. All businesses need to adapt," says Jim Stoeckmann, WorldatWork's senior practice leader for sales compensation.

Sales compensation plans commonly detail the ways reps will be paid, what their roles are, how performance is measured and how the company will handle pay disputes. The trick for finance executives is coming up with the right mix of salary, commission and other incentives to increase sales and keep costs low, but at the same time, ensure employees get a reliable paycheck, even during down times.

Using Incentives to Drive Behavior

When a sales compensation plan is out of whack it shows: Companies can't attract and retain sales staff, reps are unmotivated, or sales compensation increases faster than revenue. Plans can sometimes be too rich. "If the top sales rep makes more than the CEO of the company there could be a problem," says Beth Carroll, principal at the [Cygnal Group](#), a sales compensation firm in Chicago and Chapel Hill, North Carolina.

To create a sales compensation plan that makes everyone happy, experts say companies need to:

Align rewards with business goals. To sell new products, set higher commission rates for those sales. Similarly, to land new customers, set commissions higher for new sales than on sales to existing clientele. "You don't want to end up with a disconnect between what you're rewarding people for and what the business is striving to achieve," says Mark Flavin, global practice leader for sales effectiveness and rewards at [Towers Watson](#), a professional services company.

Differentiate sales roles. The rep who lands major new accounts is the "big game hunter" because he or she directly influences sales, Flavin says. Other reps are "farmers" who maintain and up sell existing customers. Don't pay hunters the same as farmers. "You want to define and segment your hunters from your farmers, because if you blend them together you just get more farmers," says Carroll, the Cygnal Group compensation expert.

Set performance measures. Set relevant, controllable goals for sales staff, including goals for quotas, new accounts, revenue, new product sales or sales profitability. Compensation plans fail because performance measures don't support a company's overall business objectives or match a selling role, says J. Mark Davis, managing principal of the [Valitus Group, Inc.](#), a Tustin, California, sales consulting firm.

Use the profit motive to drive behavior. It's a science to design payout formulas that motivate salespeople to work harder, find more prospects and close more. Some companies go overboard, putting salespeople either on straight salaries or straight commission. But according to a 2008 WorldatWork survey, the most common sales compensation formulas mix base salary with variable pay. Regardless of the breakdown, top sales reps should earn heftier paychecks than underperforming colleagues. "Feed the eagles and starve the pigeons," Flavin says.

Designing a Plan to Meet Goals

Creating a sales compensation plan can be so contentious that sometimes companies bring in outside consultants to mediate.

That's what happened at [The Futures Company](#), where sales reps for the \$40 million strategic marketing consultancy were waiting too long to collect commissions and the company wasn't meeting strategic goals.

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The U.K.-based firm hired Valitus Group's Davis to figure out what to do. He interviewed managers, sales staff, and human-resources and finance staff, then worked with a team of stakeholders to develop a better compensation plan.

That plan, which took effect in January 2010, pays commissions to Futures Company sales staff more quickly, but also created new business goals. Under the old plan, reps were paid the same commission rate for their book of business whether they renewed annual subscriptions worth \$700,000 or more than \$1 million. Under the new plan, reps must achieve 70 percent of a targeted renewal base before earning a commission.

With the new plan in place, customer renewals increased in six months, making the \$49,000 the company invested in the process money well spent. "In the past, the sales team took renewals for granted," says Kevin Brown, CEO of the company's North America business.

DealerTrack also sought outside help for its sales compensation troubles, hiring Cygnal Group for a redesign. The consultants created a plan that retained sales reps' previous 40/60 split between base pay and a combination of commission and bonuses. But it replaced yearly performance periods with quarterly ones, allowing reps to hit higher commission rates earlier in the year.

To encourage teamwork, DealerTrack also divided its sales staff into generalists and specialists. Now generalists are assigned to geographic territories, with a portion of their pay coming from teamwork, and they collect bonuses if they refer to a specialist colleague to close a deal that helps the company reach overall goals.

"The whole idea is they get compensated in a way that encourages them to take some time to understand what the dealer needs," says Ana Herrera, DealerTrack's senior vice president of human resources, "even if it means they ultimately have to hand off the sale to a colleague."

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