

# Sales Compensation and COVID-19

*Should you make changes? When? How?*

By: Donya Rose

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THE CYGNAL GROUP

# Today's speaker: Donya Rose

See [cygnalgroupp.com](http://cygnalgroupp.com) for additional information and over 200 posts on sales compensation topics



Donya Rose has over twenty-five years of experience in leading the design and implementation of systems and processes to ensure alignment of sales results with top business priorities. She has led projects in sales target setting, measurement and forecasting, technology enabled selling, and sales compensation plan design. Today Donya focuses primarily on sales compensation plan design, and has designed hundreds of sales compensation plans since that became her focus in 1999.

Donya's consulting experience before founding The Cygnal Group 15 years ago includes three years with Towers Perrin/Willis Towers Watson's Sales Effectiveness and Rewards practice.

Donya is the sole consultant member of WorldatWork's Sales Compensation Expert Council. Other members include heads of sales compensation from major global companies including Cisco, Siemens, PayPal, Dell, and IBM.

**Donya's passion** is practical value-creating compensation plan design supported by thorough modeling to anticipate effects of proposed plans on individuals and the company.

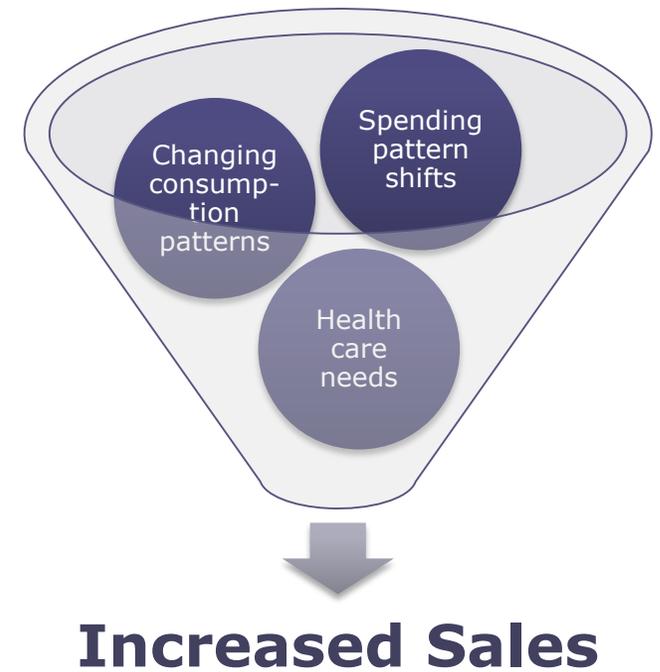
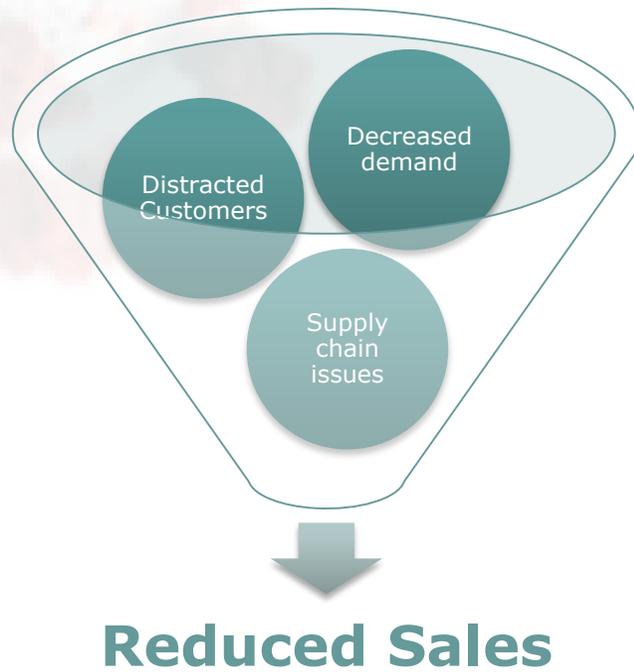
## Donya's credentials:

- WorldatWork Certified Sales Compensation Professional (CSCP)
- Master of Science in Operations Research and Systems Analysis from the University of North Carolina at Chapel Hill
- Bachelor of Science in Mathematics from Davidson College

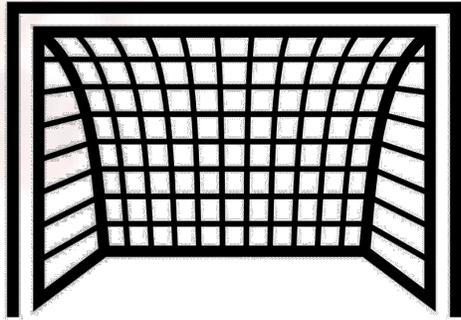
## Donya's recent speaking engagements and articles include:

- Presented at August 2019 WorldatWork Spotlight on Sales Compensation, "What To Do When the Goal Posts Move – Mid-year Plan Adjustments"
- Led a workshop for NC CEOs in June 2019, "Support Your Growth Plan With Aligned Sales Compensation"
- Presented at the May 2019 WorldatWork Total Rewards Conference, "Sales Compensation Success: The Secret is Preparation"
- Presented at the IBM Sales Performance Management Summit in June 2019, "Sales commission to goal-based incentive – when, why and how to make the change"
- Led two sessions at the 2018 WorldatWork Spotlight on Sales Compensation conference, "Practical Approaches to Predicting the Cost of Your Proposed New Plan," and "Balancing Stakeholder Interests to Create a Great Plan"
- Presented at the August 2017 WorldatWork Spotlight on Sales Compensation conference, "The End of Weighting: Relative Rate Plans to Direct Sales Focus"
- Presented at the May 2017 WorldatWork Total Rewards Conference 2017, "Small But Mighty: Sales Compensation Strategies for Sales Forces Under 100"
- Featured contributor to an article in WorkSpan magazine, "Cross Selling" (May 2017)
- Presented a WorldatWork webinar, sponsored by Xactly, in January, 2017, "Optimize Your Sales Compensation Plans to Drive Results"
- Presented, with Tom Notar, VP Corporate Sales and Financial Operations at Deltek, at the August 2015 Sales Compensation Spotlight Conference, "Multi-product Software and the Single Quota"

# *In the face of the COVID-19 epidemic, things are changing... differently for each business*



# To coordinate a response well, leaders will need to...



Set clear  
business goals  
for the response



Involve the  
right cross-  
functional team



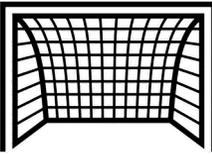
Communicate  
frequently and  
clearly

# Set goals for the sales compensation response

**Clear direction from leadership will ensure that any adjustments recommended are aligned with the best interests of the business and its key stakeholders**

**The priorities for a response will be different for every business**

- 
- ❑ *Incentivize continued aggressive focus on selling*
  - ❑ *Manage the cost of the sales team down*
  - ❑ *Focus sales efforts on the most important sales*
  - ❑ *Retain key talent*
  - ❑ *Cement the employee value proposition*
  - ❑ *Elevate the focus on existing customers and their challenges*
  - ❑ *Use sales resources well while they spend less time selling*
  - ❑ *Maintain a reasonable income level for salespeople*
  - ❑ *Manage run-away compensation costs due to high over-performance*



# Establish a cross-functional team



Leverage your existing  
sales compensation  
leadership group

...or establish a new group  
for the current challenge

Announce the group  
and its goals, along with  
timing for more details



# The team will then be chartered to...



## Manage exceptions

Establish and oversee an orderly and fair process for managing exceptions

- **Criteria** for considering exceptions (e.g., at least 20% of annual revenue for the territory lost due to external influences)
- **Process** to submit requests for exceptions
- **Frequency** for decisions (e.g., meet monthly during the 3rd week of the month)

## Recommend needed changes

Proactively make recommendations regarding...

- Sales compensation **plan** adjustments
- Sales **goal** adjustments
- Sales **responsibilities** in the near-term
- **SPIFFs** and other incentives

## Exceptions → Policy

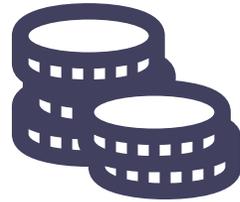
- ◆ The initial focus may be to review requests for exceptions as they arise
- ◆ Once exceptions reveal patterns, policies may be developed to address those that are most common
- ◆ Policies should also be formulated to anticipate expected shifts and key priorities

# We'll go deeper into some of the most common challenges



Quotas are now too high

Sales goals are unattainable by most of the salespeople



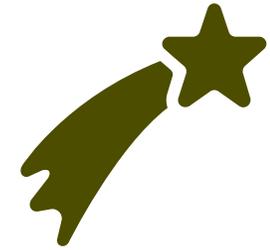
Sales income is in jeopardy

Salespeople are likely to lose significant income due to external events



Excess sales capacity

Sellers have time on their hands for the coming weeks/months



Quotas are now too low

Unexpected high attainment is resulting in run-away comp costs

# Example original plan for illustrations

**Quota:** 1,000,000

**Target Incentive:** 50,000

**Average commission rate up to quota:** 5%

Quota Attainment	Commission Rate
0% - 49.9%	4.00%
50% - 99.9%	6.00%
100% or more	10.00%

# What to do if...

## ***Quotas are now too high***



### Questionable ideas

- ◆ Quota attainment bonus or SPIFF
  - *\$5,000 bonus on top of the current plan to all who meet/exceed quota*
  - *...or 110% of quota*
- ◆ Added acceleration over quota
  - *Additional 1% of sales for all sales over quota*
  - *...or over 110% of quota*

### Better ideas

- ◆ Soften criteria for President's Club
- ◆ Lower or eliminate thresholds\*
  
- ◆ Reduce quotas
- ◆ Add acceleration at a more in-reach attainment level
- ◆ Offer added quota credit and compensation for sales in a preferred category

*\*A threshold is a level of quota attainment below which no compensation is paid, typical in businesses with strong run-rate (repeat) business in the quota.*

# What to do if...

## *Quotas are now too high*



<b>Original Plan</b>	Quota Attainment	Commission Rate
	0% - 49.9%	4.00%
	50% - 99.9%	6.00%
	100% or more	10.00%

### Better ideas

#### Reduce quotas: Full reset

*The annual quota is reduced, and rates are reset, resulting in added compensation even for already-credited sales*

New quota: ~~1,000,000~~ 800,000  
Same Target Incentive: 50,000

Quota Attainment	Commission Rate
0% - 49.9%	<b>5.00%</b>
50% - 99.9%	<b>7.50%</b>
100% or more	10.00%

Note over-quota rate unchanged

#### Reduce quotas: Retain rates

*The annual quota is reduced, and rates are unchanged (implied target incentive is lower), but acceleration is available sooner*

New quota: ~~1,000,000~~ 800,000  
New Target Incentive: ~~50,000~~ 40,000

Quota Attainment	Commission Rate
0% - 49.9%	4.00%
50% - 99.9%	6.00%
100% or more	10.00%

#### Reduce quotas: Balance of the year

*H1 is over, and H2 is about to begin with a reduced quota, higher rates, and more accessible acceleration*

2H quota: ~~500,000~~ 400,000  
2H Target Incentive: 25,000

2H Quota Attainment	2H Commission Rate
0% - 49.9%	<b>5.00%</b>
50% - 99.9%	<b>7.50%</b>
100% or more	10.00%

Note over-quota rate unchanged

# What to do if...

## *Quotas are now too high*



Original Plan	Quota Attainment	Commission Rate
	0% - 49.9%	4.00%
	50% - 99.9%	6.00%
	100% or more	10.00%

### Better ideas

#### Add acceleration below quota

*Start the over-quota rate at a level below quota*

Same quota: 1,000,000  
 New de facto Target Incentive: ~~50,000~~ 56,000

Quota Attainment	Commission Rate
0% - 49.9%	4.00%
50% - <b>84.9%</b>	6.00%
<b>85%</b> or more	10.00%

#### Add credit for preferred sales

*Add credit and compensation for sales in an important category*

Same quota: 1,000,000  
 Same Target Incentive: 50,000, but expected payout 55,000

Same payout table for all sales

**+ 50% more credit for all sales into Segment A**

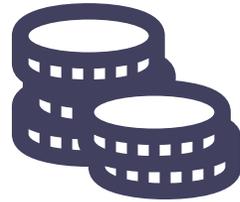
If typical Segment A potential is 20% of the quota, then added comp is about 10% of target at expectation

# Some of the most common challenges



Quotas are now too high

Sales goals are unattainable by most of the salespeople



Sales income is in jeopardy

Salespeople are likely to lose significant income due to external events



Excess sales capacity

Sellers have time on their hands for the coming weeks/months

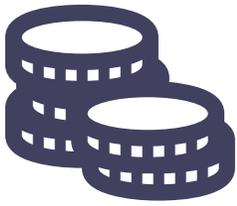


Quotas are now too low

Unexpected high attainment is resulting in run-away comp costs

# What to do if...

## *Sales income is in jeopardy*



### Questionable ideas

- ◆ Pay at target for a quarter or two
- ◆ Add acceleration or other incentives over quota

### Better ideas

- ◆ Remove gates and linkages
- ◆ Lower thresholds\*
- ◆ Create SPIFFs and contents to focus on the most important sale (or the first fully virtual sale!)
- ◆ Shift some incentive pay to non-financial measures
  - ❖ Value-creating activities (see p. 16)
  - ❖ Customer satisfaction / retention

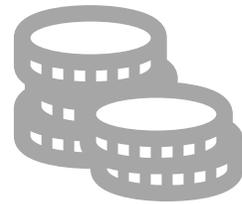
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# Some of the most common challenges



Quotas are now too high

Sales goals are unattainable by most of the salespeople



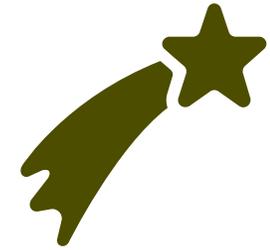
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# What to do if...

## ***You have excess sales capacity for a quarter or two***



### Good ideas



**Build pipeline** so that well qualified prospects are ready to pursue when the time is right



**Leverage virtual tools** to strengthen customer relationships



**Train** salespeople in company offerings, sales skills, presentation skills



**Encourage mentoring** between more and less experienced sellers



**Deploy salespeople** to help with product development as the voice of the customer



**Create virtual working teams** to improve sales processes and tools



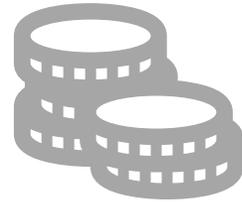
**Clean up** customer lists, sales activity records, etc.

# Some of the most common challenges



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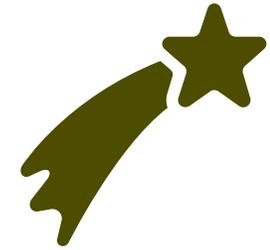
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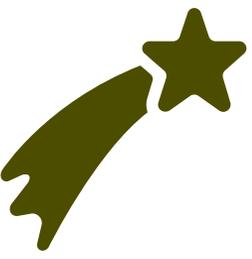


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# What to do if...

## ***Quotas are now too low***



### **Questionable ideas**

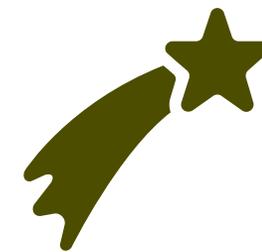
- ◆ Raise quotas selectively  
*When sales come that “weren’t in the quota,” raise the quota to “cover” the excess sales*
- ◆ Cap the plans  
*Use the Management Discretion clause to announce that no salesperson will be paid more than 200% of their target compensation*

### **Better ideas**

- ◆ Live with it
- ◆ Bring windfall and management discretion clauses in the plan into effect
- ◆ Limit quota credit in any one month or quarter, and pay the balance based on a regressive rate table
- ◆ Limit total variable pay in any one year, paying the balance in future years
- ◆ Reduce or eliminate accelerators over “excellence” performance levels
- ◆ Move to a simple flat commission plan for a quarter or two

# What to do if...

## Quotas are now too low



### Better ideas

#### Use the provisions in your plan

*If plans include safeguard clauses in the plan policies section, this may be the time to bring them into effect*

- **Limited or no involvement** clause protects against credit or payment when a salesperson had little to do with deal acquisition
- **Windfall** clause limits payment in the case of unexpected large deals
- **Management discretion** clause gives management the right to adjust quota, credit or plan mechanics in their sole discretion
- **Maximum credit per deal** limits quota credit for any one deal without capping total payout
- **Maximum payout % margin** limits the cost of compensation to a reasonable portion of the expected margin on the deal (potentially across all sales roles)

#### Limit quota credit per month or quarter

*Limit quota credit for any one month/quarter and pay the uncredited sales at a less accelerated straight-line rate*

No one quarter may contribute more than 50% of the annual quota

For sales subject to this limit, the balance of the sales value is paid at 5.00%

E.g., a 600,000 quarter is paid as follows:

- 500,000 relieves quota and is paid on the standard plan
- 100,000 does not relieve quota and is paid at 5% (comp value = 5,000)

#### Limit quota credit per month or quarter + regressive rate on "excess"

*Similar to the idea to the left, but create tiers for paying the balance*

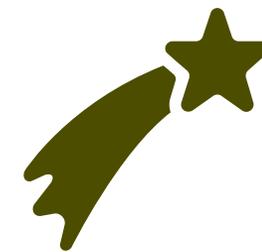
No one quarter may contribute more than 50% of the annual quota, and the balance is paid based on the table below

Quarter Sales over 50% Quota	Commission Rate
0 – 0.99M	2.50%
1M – 2.99M	1.25%
3M or more	0.50%

E.g., a 4.5M quarter would be paid 0.5M on the standard plan + 25k for the first 1M over 50% + 25k for the next 2M over 50% + 5k for the last 1M over 50% = core plan payment + 55k

# What to do if...

## *Quotas are now too low*



### Better ideas

#### Pay over time

*Limit total variable pay in any one year, paying the balance over the next few years*

Maximum payout is 300% of target for current year sales with the balance to be paid in future years and subject to the same limit

#### Decelerate over "excellence"

*Pay the highest commission rate right above quota, decelerating around 90<sup>th</sup> percentile performance*

Pull down the accelerator at a high level of performance to a level below the immediately-over-quota rate and above any rate from 0% to 100%

Quota Attainment	Commission Rate
0% - 49.9%	4.00%
50% - 99.9%	6.00%
100% - 149.9%	10.00%
<b>150% or more</b>	<b>6.00%</b>

#### Move to a flat commission plan

*During the surge in demand, move to a simple flat commission (e.g., for a quarter or two)*

For the coming quarter, all sales will be paid at the Tier 1 rate of 4.00%

*Note that if different salespeople had different rates based on the combination of their quota and target incentive, then use each person's former Tier 1 rate as their flat commission rate during the period*

# Overall, how do you know it's time for a change?

## Live with it

When the effects are unpleasant but not "dire," usually a comp effect vs. budget of 10% or less

## Consider SPIFFs and incentives outside the plan

Corrective action is necessary, usually a comp effect of 10-20%, or a business goal miss that is big enough to be a board-level discussion

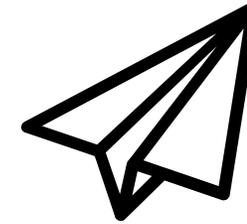
## Consider adjusting plan structure (weights, measures...)

Only if business priorities have changed significantly due to the changes in market conditions or product availability

## Change quotas, implement guarantees, consider furloughs

Only when the stability of the sales force is threatened and/or the viability of the business is at stake

# Communicate clearly and frequently



**WHEN:** ASAP

**WHO:** Senior leadership

Key messages:

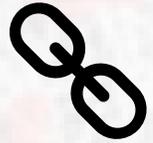
- ◆ We are aware of the current challenge and monitoring...
- ◆ If we believe the effect will be \_\_ or greater, we expect to implement \_\_
- ◆ We have tasked \_\_ to review exception requests and recommend any needed changes

**WHEN:** Soon, then frequently

**WHO:** Sales comp governance team

Key messages:

- ◆ Sales focus, as always, is on supporting our customers' success; in today's world that means...
- ◆ The exception process is... (process for raising requests, timing for decisions)
- ◆ We will consider changes to \_\_ (sales measures, linkages, quotas, rates) only if \_\_
- ◆ We will update you \_\_ (frequency)
- ◆ Please raise your questions or concerns with your manager, or email to [salesquestions@ourco.com](mailto:salesquestions@ourco.com)



# Links to more information

## Recent posts worth reading

### From ZS

- ◆ **How Sales Leaders are Tackling Coronavirus Fallout**  
<https://info.zs.com/thecarrot/how-sales-leaders-are-tackling-coronavirus-fallout>
- ◆ **Coronavirus Response: Four Ways to Adjust Your Sales Compensation Plan**  
<https://info.zs.com/thecarrot/coronavirus-response-four-ways-to-adjust-your-sales-compensation-plan>

### From Korn Ferry

- ◆ **A Sales Compensation Response to COVID-19**  
<https://www.linkedin.com/pulse/sales-compensation-response-covid-19-coronavirus-joseph-dimisa/>

### From The Alexander Group

- ◆ **Revenue Leadership Actions for Disruptive Times**  
<https://www.alexandergroup.com/insights/revenue-leadership-actions-for-disruptive-times/>

### From SalesGlobe

- ◆ **Leading Through COVID-19: Addressing Your Real Sales Challenge**  
<https://bit.ly/3dhDhdw>

### From WordatWork

- ◆ **COVID-19: Should You Protect Sellers' Pay**  
<https://www.worldatwork.org/workspan/articles/covid-19-should-you-protect-sellers-pay>

## Book an hour to talk it through

Book directly via google calendar (easiest, but requires a google account)

<https://cygnalgroup.com/office-hours/>

View Donya's calendar and request an available slot via meeting invite

<https://cygnalgroup.com/calendars/donya/>

## For more sales comp answers

Visit the Cygnal Group web site with searchable posts, articles, videos and podcasts on over 200 sales compensation topics

<https://cygnalgroup.com>