

## Sales Compensation Re-Design: Too Soon for 2008?



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David Cichelli of the Alexander Group is a leading expert on sales compensation. He is the author of “*Compensating the Sales Force*.” In this interview, David explains why companies need to conduct a comprehensive annual review of their sales compensation plans, and why it’s not too soon to start planning yours.

**Q: Some sales executives are constantly tinkering with the sales compensation program; others feel few changes are best. What’s the right answer?**

**A:** *Good question...well, neither is really correct. Sales departments are all about alignment, alignment between customers and product divisions. Both of these variables—for most companies—are in transition. A sales department is constantly fighting to maintain this alignment and thus avoids slipping into obsolence—the opposing force to alignment. The sales compensation program helps enforce this alignment. Thus, once a year, a sales department needs to check its “rigging” to ensure the sales compensation program is retaining the sales force and motivating the right types of sales behavior.*

**Q: I have heard you say that “tweaks” are bad, but “minor changes” are acceptable. What’s the difference?**

**A:** *A “tweak” is best described as a “non-contextual” change made outside a comprehensive design process. It’s these “tweaks” that can cause unanticipated glitches in the compensation plan. Minor changes are acceptable as long as all elements of the sales compensation program are reviewed by a cross-functional team of sales, marketing and finance management.*

**Q: Who owns the design of the sales compensation plan?**

**A:** *In our annual survey of sales compensation trends, the results remain pretty consistent year after year. For 45% of the companies, sales management “owns” sales compensation redesign. 25% use a cross-functional team. And, 24% assign the re-design task to HR. The remaining 5% are divided between finance and marketing. My preference: I like the idea of a cross-functional design team. It seems to work best.*

**Q: What’s the biggest mistake companies make with their sales compensation plans?**

**A:** *Sales compensation offers many trap doors to fall through, but the most common and negative mistake is using too many performance measures. The rule of “no more than three” is the best advice. And, these three or fewer measures should be related to sales results of the seller. The following measures should be*

*avoided: corporate or division measures, compliance measures and activity measures.*

**Q: If a company's fiscal year begins January 1, 2008, when should they start their re-design process?**

**A.** *Begin your re-design effort at the start of September. Give yourself one month to assess the current plan. One month to do the design work and the rest of the year to document, update your automation support and communicate the program to the field.*

**Q. How can readers get up to speed on this topic?**

**A:** *Let me recommend a one-day course offered by WorldatWork ([www.worldatwork.org](http://www.worldatwork.org)) called "Sales Compensation Design." It is offered three times in the fall at these locations: Princeton, NJ—Sept. 25<sup>th</sup>; San Jose, CA—Oct. 3<sup>rd</sup>; and Chicago, IL—Oct. 8<sup>th</sup>. I am the instructor for these classes. Bring the whole design team. It's worth it!*

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