

Sales Incentive Plans – Timeless Do’s and Don’ts

Article by John Huggart, Principal Consultant, Streamwise

A reward and incentive plan can ignite the passion of those in your team! A 2003 study by the International Society of Performance Improvement established that incentives can boost performance by anywhere from 25 to 44%. However there is no “one size fits all” approach for plan design. Instead, careful and commercial crafting is required to engage and inspire the best of your team. Consideration needs to be made for the mix of short and long term components, the alignment with business strategy and market relativities.

At its best, your team will be engaged, and feel empowered and motivated by your incentive plan to produce exceptional results! But remember, an incentive plan should support and complement your existing or desired corporate culture. It is not a quick fix for failure in leadership, communication or personal motivation.

Whilst there is no “off-the-shelf” system, it is worthwhile considering these timeless Do’s and Don’ts, and interesting trends and ideas emerging for incentive schemes.

THE 9 “Do’s”

1. DO make it clear

Your incentive plan needs to be clear in its communication so you can avoid doubt, dispute or mis-interpretation. Provide worked examples to make it easy. Specify what is included in the revenue calculation such as delivery, taxes or service, and how gross margin is derived. Specify the source of the measure, and if the measure applies to “new” business be specific in respect to the definition. Your terms and conditions need to address the “what if” questions. How incentives are calculated if a representative leaves, or commences during the plan. What if the representative has to “nurse” a territory due to staff turnover? When are incentives paid? And does the company have the right to vary the plan?

2. DO align with business objectives

Does your incentive plan reflect your business objectives? What is most important to you, gross revenue, gross margin or product volume? Are incentives payable on order, delivery, invoicing or cash receipt? Are new accounts more valuable than repeat business? Which products or services should be promoted? This approach requires some effort in clarity but can create higher impact than broad based revenue incentives.

3. DO it together

A component of the plan may be based on team goals. This promotes teamwork and provides constructive internal tension to ensure each member of the team is contributing. Team based incentives are most helpful where teams are working closely or there is frequent need to “nurse” territories or prospects through the sales process. Also, the incentive principles should apply through representatives and leaders to ensure motivation is aligned.

4. DO more than the paycheque

A great plan can include non-financial incentives. Reward and recognition could include participation in an “achievers” club comprised of representatives who have achieved 100% of annual target. The achievers may enjoy an end of year sales conference at an attractive local or overseas location. This provides both a reward and valuable networking and learning opportunities within the business. It can also be simply shouting the representative a dinner out, or organising a team event to celebrate a win. You can enjoy “money can’t buy” experiences, such as race car driving or ballooning, for individuals or teams. Inviting representatives to join executives at an industry event can provide recognition. And training or conference opportunities may meet representative’s long-term career aspirations.

5. DO it personally

There is an opportunity with any incentive plan to meet personal needs and desires for recognition. This can be achieved in simple ways such as by handwriting a thank you note or personal recognition by a senior leader in a team meeting. Another way to engage the sales representative at a personal level is by involving their partners in the rewards. A partner invitation to an end of year conference or team dinner can be a powerful source of motivation.

6. DO it big

Sales can be a financially rewarding profession, and so it should be when business objectives are being met. Some organisations may “cap” incentives to ensure total earnings are fair relative to other personnel, or to ensure that an opportunistic sale does not lead to an exaggerated bonus. An uncapped plan, if commercially appropriate, can drive spectacular performance, and also attract and retain sales staff motivated by the opportunity to earn substantial incomes in return for their substantial efforts.

7. DO be flexible

Things change, and an effective incentive plan can provide for these circumstances. An example is if the team is a long way short of target, and representatives start to “discount” any likelihood of earning attractive incentives. In this case additional “spot” incentives can harness the team’s enthusiasm. A similar approach can be taken to address product mix issues, such as increase incentives for sales of slow moving lines, for products where there is no supply constraint, or for external events such as regulatory or market shifts. Also a team “contest” can focus the team’s hearts, minds and wallets.

8. DO it over the threshold

Where a base salary or retainer is provided it may be appropriate to oblige a threshold level of performance before incentives accrue. This is sometimes referred to the “keep your job” performance. This compares to incentives which are payable from the first sale.

9. DO it the right way

Incentives are typically awarded on the basis of “what” a representative achieves such as sales compared to target. However progressive incentive plans will recognise “how” these sales were achieved. At a simple level the plan may oblige the representative to observe the company code of conduct. In some cases the plan may reference company expected values and behaviours. In environments where misrepresentation is possible there may be qualitative measures that ensure that what the representative has sold is capable of delivery by the company.

The 6 “Don’ts”

1. DON’T lose control of gross margin

If the plan is revenue based then there should be strict discount policies to protect planned margins.

2. DON’T bet the brand

If you value your brand you need to consider avoiding commission only representatives that may damage prospect or customer relationships. The alternative is strict process and quality control

3. DON’T lose quality

If there is a risk of representatives over promising ensure that incentives are only payable on proposals that have been approved by operations

4. DON’T make it too hard

If the targets are unattainable you may lose talented team members who are seeking attainable incentive earnings. You may end up relying on team members who can “get by” on base salary

5. DON’T make it comfortable

Find a balance in base and on-target earnings based on the market. And don't pay incentives for updating CRM or account plans – that is doing the job

6. DON'T complicate

The plan should be simple to read and calculate the opportunity for commissions

NEW IDEAS

Engage - Invite a top sales performer to provide input to your incentive plan design. This will promote ownership and engagement

Beyond the Sales Team – there are emerging trends to expand the potential participants in incentive plans to include channel partners and even customers as well as the sales team. This creates substantial business alignment, and the ability to create and leverage valuable relationships, subject to appropriate probity

Online – there are several vendors of integrated online points and reward systems that can enhance your incentive plan, or broaden its base to include internal sales, sales support and other roles in the company.

Points can be earned for good work and deeds, and nominated not just by leaders but also by colleagues to enhance teamwork and reward “above and beyond” efforts

CONCLUSION

Does your Sales Incentive Plan work for your business and your team? The right plan can deliver profitable growth and the wrong plan can cost you time and money.

Streamwise can review your existing plan, or design a new Sales Incentive Plan that is specific to your business and market. We have specific experience in design, implementation and execution of comprehensive reward and incentives systems in a variety of business environments for sales teams, sales support and channel partners.

Call Streamwise today to find out how your business can boost sales performance with the right Sales Incentive Plan.

About John Huggart

John has more than 20 years experience in generating profitable growth as CEO, General Manager and National Sales and Marketing Manager for listed and multi-national organisations and fast moving private equity and start-up organisations.

M: 0408 084755

E: jhuggart@streamwise.com.au