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Keys to Developing the Best Sales Comp Structure
By Josh Miller, OnTarget Incentives Inc. | March 2016

The function of sales compensation within an organization is many things. Some say it's an art; others say it's a science. One thing that is inarguable, however, is that more than any other function in organizations, sales compensation is nomadic. In smaller organizations, sales leaders may define plan design and leave individual sales managers to calculate commissions for their teams. Some organizations strip out the distinct components of sales compensation and place them in separate parts of the organizations. Others keep sales compensation a complete group, with all relevant responsibilities kept within the group.

On one hand, it's possible to have human resources take responsibility for plan design, finance for quota setting, IT for any tool/software support, sales operations for deal crediting, accounting for payment calculations, and legal for plan documentation. On the other hand, one group under a single sales compensation leader can manage all of these responsibilities in-house. There is no universal or industry standard.

It's rare to find an organization that has intentionally thought this through and strategically decided on its sales compensation function. But it's hard to assign blame because sales compensation is often thought of as a necessary evil rather than a high priority. Therefore, it can often be helpful for a single individual in an organization who has the right level of authority to raise awareness of this issue and bring a recommendation to the table. But like many other decisions, there is no one-size-fits-all solution. The answer depends on your organization and resources.

What structure is best for your organization? Should you bring all this work together or keep it separate? If you do keep it together, where will you place that single sales compensation group? Let's step through the different elements of this decision sequentially:

1. **Does your organization have a dedicated plan design specialist or team? Or, are plan design decisions primarily made by sales leadership, perhaps with occasional outside consulting help?**

Companies with organizationally separate plan design specialists which are kept apart from those whose work they most directly affect likely aren't getting the most out of their valuable resources. Successful plan design requires many things, but at its most basic level, it requires knowledge of what data are available, as well as an understanding of territory and quota distribution techniques used within the organization. Keeping plan design specialists out of regular contact with plan administrators keeps them from getting regular feedback on what's working within a plan. Can plan design specialists get periodic plan assessment data? Of course. But plan design specialists are not being used to their full potential if they are not aware when sales behaviors are not meeting expectations. Keeping these teams connected helps.

2. **Has your organization implemented an incentive compensation management (ICM) tool for commission calculation? Or, are you using spreadsheets to manually calculate?**

ICM tools from software firms such as Xactly, Callidus, Synygy, Oracle and others are beneficial for many reasons. One benefit is they standardize the data used for your compensation plans for analytic purposes. If your plan design team isn't using your ICM tool, you're missing one of the most important benefits of having the tool: its ability to provide analytics data.

3. **If you have implemented an ICM tool, do you have staff members with configuration experience that you can rely on for troubleshooting or small plan changes?**

On the administration or IT side, if you have staff members who have gone through advanced training of your ICM tool of choice, or possibly even have implementation experience in their background, you have an advantage. This means you have the capacity to make mid-year or annual plan changes on your own, without requiring consulting help, provided that your plan changes are minor enough that your staff can handle them. This can be a major cost savings benefit.

4. **Do you, or someone within your organization, have experience on both the analytical side (finance, plan design) of sales compensation and the administration/implementation side?**

With this background, you may already have the leadership resource to develop a comprehensive sales compensation organization structure. If you don't have this, expect a long recruiting cycle and prepare to budget accordingly. Leaders with strong backgrounds in both plan design and implementation are rare.

Organizations that have these separate resources but don't effectively bring them together aren't often getting full value. Bringing these resources and sub-functions together under a single sales compensation function leader increases value. There is an advantage in having a single point of contact that can answer to both sales and finance leaders to best support the organization. Bringing together separately organized groups can take time. In the meantime, there are steps that organizations can take as short-term solutions:

- Appoint an executive as a taskforce leader to lead monthly meetings between the leaders of the separate sales compensation-related teams.
- In these monthly meetings, ensure that effective feedback loops are created between the separate teams. The plan design team should be made aware of administration issues that come up during a plan year so it can react accordingly.
- This process may help uncover whether any of the current internal team leaders would be suited to lead a new, unified sales organization structure.

But first, take the time to simply think through how best to structure sales compensation to support your organization.

About the Author

Josh Miller is managing principal of OnTarget Incentives Inc. in Phoenix.

Read the March edition of Sales Compensation Focus.

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