

Sales Compensation Plan Tip Sheet

We know it can be difficult to create a sales compensation plan. A wide range of organizational considerations can come into play, including goals, administration, and even emotions and motivations.



If you're struggling with designing a plan, want to transition to a new model, or even just want to know more about the nuances of sales incentives, this tip sheet can help.

Focus on simplicity.

The more understandable your model, the less time salespeople will spend poring over their commission statements or bombarding sales management or finance with questions. Simplicity also prevents a culture of mistrust, which can happen if salespeople are put on the defensive.

Complexity also creates an unnecessary burden for other functional areas, including finance and human resources. Simple models make it easy to report numbers to employees, and help avoid disputes or the potential for a dispute resolution process.

For more information about designing simple sales compensation plans, [read our blog here](#).

Balance future goals with today's realities.

Understanding your current circumstances (i.e., your starting point) and your future goals (i.e., your destination) can make your path to success clearer. When you're design your plan, it's important to know four things:

- **Are there expectations and promises to keep?** A preexisting compensation plan means that salespeople have established motivations and monetary expectations—which are likely impacting individual deals in the pipeline. Changing these things should be taken seriously, as distrust and hard feelings can have lasting effects on the culture.
- **What is the makeup and purpose of your existing team?** Is it specialized in a particular sector or industry? What are their levels of experience? Have you built your sales team to maintain market share or expand into new arenas?
- **What are your future goals?** Are you trying to recruit more of a particular type of client? Are you looking to cross-sell existing clients? What actions do you want to motivate?
- **How can you move forward with the least amount of complication?** Is it possible to have your existing sales team adjust to the new targets? Is it easier to leave the plan and team as-is, and build a new team?

Consider onboarding and the stresses of new hires.

Let's say you determine that the best course of action for your sales goals is hiring a new sales team, with a unique sales compensation plan. That team will run in tandem with your current team and your current plan.

Knowing that, how will your compensation plan attract the ideal talent pool? It may help to consider the skills, experience, and subject matter knowledge you'd like your talent to have. Then you can research similar jobs and compensation plans. The more competition there is in the hiring landscape, the more competitive your sales compensation plan will need to be.

Additionally, what types of struggles will these new hires face? How long will it take for them to build pipelines and get settled into the role? Good compensation plans will take into consideration the difficulties new hires will face. For example, salary might be higher at the onset, and tail off after time. This would give a new salesperson time to settle in, while also putting a timeline on when they'll need to start generating revenue.

Make sure the compensation plan document is clear.

The clearer your compensation plan document, the better. It should be thorough, yet concise, and it should have as little legalese as possible. Clarity can ensure positive effects inside your enterprise, including:

- **Easy communication of incentives and compensation to new hires.** Including examples to illustrate real-world scenarios can be helpful here, as executives can walk new hires through the examples during the onboarding process.
- **Simpler calculations of payouts for sales and finance teams.** We noted this a little bit in the simplicity section, but it holds here. No salesperson wants to learn their expected commission on a given deal is drastically off-base, and no finance team member wants to be the one to break the bad news.
- **Clearer understanding of processes for salespeople.** Salespeople should be able to interpret processes related to their employment, including items like dispute guidelines and resolution and contract termination and its impact on future commissions.

Because you don't want to trade simplicity for unseen operational risk, finance and legal should review the document. That will go a long way to ensuring the document says what is intended and that it can feasibly be calculated and administered. In certain scenarios, having an external consultant review the compensation document can be helpful too.

Triangulate a sweet spot between three points.

Particularly if you're building a brand new compensation plan, you'll want to focus on finding a sweet spot between three points:

- **Point 1: The synthesis of the best elements of all known compensation plans in your target space.** To recruit salespeople, you'll need to be able to compete with other plans. This will not only give you an edge if a recruit is on the fence, but will also help to entice salespeople currently working with the competition.
- **Point 2: The synthesis of the compensation plans and levels of individuals viewed as target hires.** To onboard your ideal team members, you'll need to design a plan that matches their experience and expertise.
- **Point 3: The appropriate premium for the risk of taking this role vs. staying put.** A strong sales compensation plan will consider a salesperson's status quo as well as the risks assumed when taking on a new job. Your plan must address these inertial hurdles if you want to achieve your sales goals.



We hope this tip sheet has been helpful for you, and we thank you for reading it.

If you'd like additional assistance in designing your sales compensation plan, 8020 Consulting can help. Our team of experienced financial consultants can help you build a custom plan design to help you achieve your sales goals.

If you'd like to contact us, you can reach us [online at 8020consulting.com](https://www.8020consulting.com), or call us anytime at [855.367.8020](tel:855.367.8020).