

What Makes Your Reps Tick?

Designing Effective Incentive Compensation Plans to Motivate Sales Reps

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Have you ever thought about what truly motivates your sales reps to produce? Is it their sense of personal accomplishment? Receiving company recognition? Or is it really all about the money? While factors vary by industry and company culture, there is one tried-and-true system to designing an effective incentive compensation package tailor-made for your business: Design for Six Sigma (DFSS).

A regional multi-line insurance company recently engaged SSA & Company to redesign its field incentive compensation process. Through extensive “voice of the customer,” industry benchmarking, and value stream analysis, SSA discovered that the compensation process itself was not broken, but rather the factors used to calculate incentive pay were poorly understood. So what were all of these factors? And how did they drive sales reps’ performance?

Typically, incentive compensation plans are passed on from one year to the next with a few minor tweaks to re-energize sales reps and motivate them to improve their individual performance and overall business performance. Rarely is a structured methodology used to decide what those tweaks should be; instead the decisions rely on a company’s incremental learning cycles or are purely driven by revenue growth. While historical perspective and future outlook are valid points of view, this “guess and check” method is inefficient and fails to capture all variables.

In following the DFSS methodology, SSA & Company held a series of focus groups to uncover key design elements and functional requirements for an optimized compensation plan. With participation from across the organization, SSA consultants analyzed these elements using a Quality Function Deployment (QFD) to prioritize opportunities and create innovative compensation plan solutions. Finally, all potential solutions were evaluated against management-defined success criteria using a Pugh Matrix. The result was a compensation plan that properly aligned individual and team objectives to those of the company as a whole.

The key factors of the redesigned incentive compensation plan included:

- **Less focus on annual contests.** While receiving company recognition by means of a prestigious trip or an annual “top producers” list was important to some, the majority of sales reps felt they needed more immediate recognition. Reps might make the necessary sale that puts them on a list of top producers in May, for example, and then have to wait until November for the contest year to close out. And with the reward trip scheduled in March the following year, they forget why they originally made the list. Additionally, the new generation of sales reps doesn’t appreciate the camaraderie among the ranks as the more seasoned producers do, so they don’t see shared lavish trips as a motivating factor. Holding more frequent contests with near-term recognition would motivate reps to produce at a higher rate.
- **Fewer levers: Too much choice creates confusion.** Sales reps and managers of all levels felt that the current plans were so complex that no one really understood which factors fed into the commission calculations. While offering various ways for reps to earn commission was considered a good thing, the unintended effect was that reps didn’t know what to concentrate on and as a result, they simply churned. Similarly, there were multiple opportunities to bonus. Reps and their managers each had three separate and sometimes conflicting opportunities to bonus on a monthly basis and four potential one-time producer development bonuses. Despite the supposed carrot, some of the monthly bonuses had minimal payout and were thus deemed ineffectual. In order to be a successful motivator, the compensation plan needed to include larger, albeit fewer, more meaningful bonuses.
- **Goal alignment.** The original compensation plan may have been designed to maximize results within each level of the sales organization but, when examined holistically, we realized several conflicting goals. Reps were encouraged to grow their book of business and obtain the next level of agent status while managers’ incentive pay peaked with bonuses earned by their entry-level reps. Managers were not incentivized to develop their reps and therefore encouraged rep behavior that would maximize their pay. Additionally, the existing overwrite structure awarded managers for past behavior, sometimes for several prior years, which left some managers sitting pretty while effectively doing nothing. The new compensation plan incorporated cascading goals with compensation for activity taken, not inherited or undeserved.

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Although the new compensation plan was surprising to some, most believed it to be just the catapult the company needed in order to motivate desired behaviors and boost product sales. Applying the same DFSS tools and techniques in another company or industry could produce a completely different outcome, but the end result would be the same; a robust incentive compensation plan tied to improved business performance.