

Getting HR Involved in Sales Compensation Plan Design



It is a common situation heard by MRA's Compensation Department: "As the compensation manager of my company, I am seen as an expert in pay, but with the sales department I am brought into the process too late. I end up fixing the messes and communicating the plan to the participants, no matter what I think of it. How can my department play a more useful role in sales compensation planning?"

These differences make the development of sales compensation strategies different. First, the process of planning or revising a sales compensation program is powerful and "noisy" within the sales department and the organization. Even with the best of intentions, plans often have unexpected outcomes. When the plan is established, the resulting costs are not variable. This makes it critical to establish the "right" plan. Next, determining the sales compensation plan must be driven by job design—there should be one plan for each type of sales role. Mistakes can be costly in many ways: profit, morale, legal issues, to name a few. Sales compensation is the most highly litigated area of compensation. Sales compensation plans need constant attention. Finally, it is important to accept that sales compensation does not belong to HR—but the HR department can play an important role in its success.

The trend in compensation in the U.S. is to focus on total rewards, that is, all elements of the job that can be rewarding. The categories are generally all forms of pay, benefits, career development, and the work experience (including work/life balance issues). The relative value of these four areas is often different for high performing sales professionals so fitting the sales force into a total rewards model requires special consideration. For example, sales careers typically last seven to 15 years. Individuals who are building their careers in this field are sometimes willing to forego work/life balance during this stage of their lives in order to build a base for later success.

If HR wants to get its foot in the door of sales compensation planning it is important to first understand:

- Who does the sales compensation program "belong" to? Who should be the "owner" of the annual design process? How should exceptions to the plan be handled?
- How should the design decisions be made and who should have final approval for the plan?
- What is the best role for the HR department?



It is important to admit that sales compensation is different. Unlike virtually all other compensation problems, HR departments and compensation professionals often have been excluded or their role has been minimized in the design and updating of sales compensation systems. What do you need to know in order to bring value to the process and get in the door?

Sales compensation is different because:

- Some amount of pay, often a large amount, is at risk. It must be earned and re-earned.
- The sales force is often given difficult sales goals (referred to as quotas).
- Sales compensation plans provide significant upside earning opportunities.

The sales compensation program has a greater impact on the organization than any other pay program, except perhaps executive compensation. Sales plans can become outdated very quickly and require constant attention. HR can expedite redesigns to avoid problems caused by sales managers who wait too long to do so.

Making Yourself Indispensable

Human resources/compensation professionals can be very valuable to the sales department. The first step you need to take is to educate yourself. Knowledge and credibility must be clearly visible. Without flaunting it, you must know more about the process than they do. If the definitions for “total cash compensation,” “mix,” “leverage,” “upside earnings,” “commission” and “bonus” are not on the tip of your tongue, you are not ready to take on the sales department. Knowing the textbook definition isn’t enough. You must really understand what these terms mean to the sales department and the organization.

Human resources/compensation professionals can lead the sales compensation plan design process. This is a big role that may include these key tasks:

- Establish and facilitate a Design Committee.
- Supply total compensation information and create a comprehensive market pay report.
- Assess the plan using best practices in sales compensation analytical techniques.
- Establish principles and plan governance.
- Conduct pay/performance analysis.
- Provide new sales compensation management solutions.
- Test solutions and their outcomes against principles.
- Lead the program assessment process.
- Coordinate annual review and redesign effort.

These are significant contributions that you can make without taking over the process, threatening the sales department, or becoming a minor player.

If all else fails and the sales department is quite resistant to the inclusion of a human resource professional—even one with significant knowledge of sales compensation—take these steps and the sales management team will invite YOU to their next meeting:

- Analyze the current plan.
- Collect market data.
- Interview the field sales staff (carefully consider this, however).
- Call a meeting to report your fact-finding results.

Sales management is usually receptive to good sales compensation ideas. In the human resources/compensation role, the value of HR can be much greater than simply providing survey information. HR input with the following tasks can be critical to success:

- Determining the appropriate pay mix—the relationship between target base and target incentive.
- Setting the most important performance measures.
- Determining formula type (base pay only, commission only, base plus commission and/or bonus).
- Determining how to credit sales.
- Setting payment periods and performance periods.
- Deciding eligibility for inclusion in the sales compensation programs.
- Deciding how many plans are correct for the type of sales jobs.
- Using different plan elements including thresholds, caps, ramps, accelerators, etc.
- Determining the upside potential (e.g. maximum payment possibility for highest level of performance).
- Setting rules for quota and territory changes.

How fast you get to the sales compensation table and how effective you are when you get there are determined by the time and effort you put into learning sales compensation principles and practices.

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