

Aligning Sales Compensation with Profitable Growth

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presented by



Sales compensation plans create value when the plan designs are right for the business priorities and the selling role

Motivated salespeople...

- Right risk/reward balance
- Right upside opportunity
- Straightforward compensation mechanics

focused on the most important sales...

- Measures aligned with company strategy
- Fair and attainable performance standards/goals
- Limited choice in how to make money

working collaboratively...

- Measured at the right level of aggregation (company, region, team, individual)
- Include the right sales crediting policies (layered, splits, ...)
- Individual and sales management plans aligned

to create value

- Appropriate cost of compensation at all likely levels of sales productivity
- Reasonable effort required to track, report and administer

The most effective sales compensation plans share the following features

Eligibility

- ❑ Eligible employees have direct influence over sales outcomes as their primary accountability

Pay Structure

- ❑ Total Target Cash aligned with market
- ❑ Pay Mix and Upside aligned with role prominence, generally with 20% - 50% of total target compensation in the incentive (25% - 100% of base)

Motivational value of plans

- ❑ Plan measures and mechanics are easy to explain and calculate
- ❑ Target incentive is earned by at least half of the salespeople
- ❑ Top earners earning 2-3 times target
- ❑ Recognition programs publicize and celebrate success

Incentive Mechanics

- ❑ Measurement period and pay frequency aligned with sales cycle length
- ❑ Sales credit and payment triggers aligned with core sales responsibility
- ❑ Payout curves tuned to focus meaningful compensation on improving the performance of the middle 80%
- ❑ Incentive form (commission/bonus) correct for business maturity and type of selling
- ❑ All incentive components funded out of target
- ❑ All incentive components uncapped except for MBO or teamed components

Plan Measures

- ❑ Measures aligned with top business priorities & based primarily on objective financial outcomes
- ❑ Measures under the direct control of salesperson
- ❑ Three or fewer measures focus effort
- ❑ All measures weighted at 20% or more at target

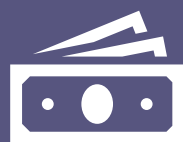
Risk mitigation

- ❑ Core plan measures tracked in company systems and based on financial results
- ❑ Windfall protection in place
- ❑ Plan governance processes are robust and well understood
- ❑ Plan documents are accurate and clear, and include Plan Provisions (Ts/Cs)
- ❑ Plans administered via well documented cross-trained system with few manual/discretionary processes

Hot topics in distribution sales comp – today's agenda



**Incentivizing
profitable
growth**



**Maximizing
your return on
your sales
compensation
spend**



**Rewarding for
long-term
value creation**



**Should our
plans look like
their plans?**



**Ask me
anything!**

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Select the right plan measures to focus salespeople on profitable growth

General guidance for selecting plan measures

Type of Measure	Examples	Guidance
Volume	<ul style="list-style-type: none"> ◆ Top line value (booking/order, revenue, cash collected) ◆ Number of units ◆ Margin value 	Always
Quality	<ul style="list-style-type: none"> ◆ New customer acquisition ◆ Sales of strategically important offerings ◆ Margin percent 	Usually
Collaboration	<ul style="list-style-type: none"> ◆ Team measures of volume or quality ◆ Lead referrals 	Sometimes
Future-focused	<ul style="list-style-type: none"> ◆ Pipeline ◆ Customer satisfaction ◆ Growth of strategic accounts 	Rarely

Comp plan ideas

- Include a margin value measure as the primary measure
- Increase payout rates on the top line sales for higher margin percents
- Reward for margin percent improvement in established accounts
- Pay more for sales of more profitable offerings
- Pay more for new customers with higher margin potential

Why new measures are very risky

Goals setting is fraught

- How can you set goals without a reliable baseline?
- Expected dispersion in attainment is also needed to design payout curves

Tracking and reporting are iffy

- The measure definition is likely still in flux
- Familiar reports, trends and patterns are not yet in place

Salespeople are more scared than motivated

- Without a personal baseline to reference, salespeople have trouble knowing what they will be able to produce

Options to mitigate the risk

- ◆ Track and report against the proposed new measure for at least six months before using it in the comp plan
- ◆ Restate recent history in the new measure for every salesperson and share it with them, showing them how their goals were set and helping them understand how they've been doing in the new measure

*Once the measures are identified for each role,
the initial weights may be assigned*

Principles for assigning weights to measures

- ◆ Weights should reflect the relative time or focus that is expected of the salesperson
- ◆ All weights at least 20% of the total – if a measure is not worth weighting at least 20%, it's not likely to motivate much and the associated incentive dollars would probably do more good reassigned to another measure
- ◆ All key accountabilities funded out of the target incentive – all kickers, SPIFFs and incentive opportunities not funded out of the target will be seen as over-and-above goals without appropriate risk tied to available upside

Team incentives may be useful when responsibility for sales is shared among members of a selling team

Mechanics

For a team incentive, a measure is defined for the entire team, and all members share equally in the reward generated by the team's performance

Appropriate when . . .

- ◆ Team membership is well-defined
- ◆ The team is small enough that each person feels s/he can make a meaningful difference in team results
- ◆ Team results can be measured reliably
- ◆ Members of the team depend on each other to sell

Not appropriate when . . .

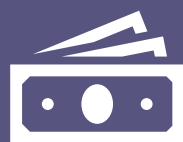
- ◆ Team members are linked only by reporting relationships (not shared effort on shared accounts or opportunities)
- ◆ The only real reason is to share the upside ("pooled lottery ticket")

Note that team measures may be combined with individual measures when team members back each other up, as in many Inside Sales teams.

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How much should your sales effort cost?

Are our salespeople selling enough? Are our goals reasonable?

Sales are up a bit, margins are down a bit, and sales comp is through the roof – we need sales comp to move with profits.



Are our commission rates right?
...too high? ...too low?

We're paying too many people each time we make a sale – how many people should we be paying?

How do we get more sales productivity for our comp spend? It's ok to spend this much, but only if we meet our sales goals!

Sales Efficiency Ratio

An important, but tricky, metric

$$\frac{\text{Sales Costs}}{\text{Sales Productivity}} = \text{Sales Efficiency Ratio}$$

The right numerator and denominator vary by business

- Sales Costs – what costs are included, and for which roles?
- Sales Productivity – how do you measure the sales team's contribution?

Comparisons give the ratio meaning

- Within the company (sales teams, regions, segments addressed)
- Across companies within an industry

Sales Efficiency Ratio – an example

Sales Costs

Who: Direct salespeople, 1st level sales managers, product specialists

Which costs: Base salary + total variable pay

Sales Productivity

Measure: Total margin value of sales

=

**Sales
Efficiency
Ratio**

- Keep the measure **consistent** across teams and years
- If there is **industry data** available, match their measures to make yours comparable
- **Compare** divisions, sales teams, years
- **Go deep** to understand why there are differences, seek effective practices, and challenge managers to improve their ratio
- Once it's stabilized and understood, SER can be **a good plan measure** for sales managers & leaders

The Sales Efficiency Ratio varies widely, but moves in predictable patterns



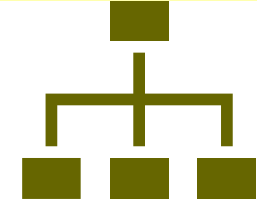
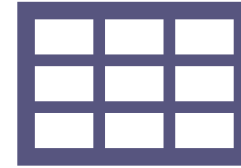
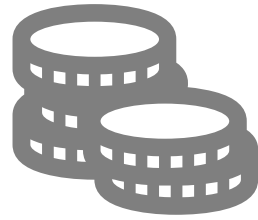
- ✓ Business maturity
- ✓ Segmented customer base with targeted teams by segment
- ✓ Complex sales model with specialized roles for lead gen, product specialists, etc.
- ✓ Lower margins make controlling comp costs essential



- ✓ Entrance into new markets
- ✓ Single selling role
- ✓ Higher margins make the “next” sale very valuable to the business



Ways to improve your Sales Efficiency Ratio



Webinar on predicting and assessing the cost of the sales team:
<https://cygnalgroupp.com/webinar-how-much-is-too-much-predicting-and-assessing-the-cost-of-the-sales-team-102/>

Increase productivity per salesperson

- ◆ Focus salespeople on the most valuable sales
- ◆ Make over-performance more attractive via added upside comp
- ◆ Reduce staff, increase book size, and increase sales per person
- ◆ Reduce overlay roles

Reduce average payments

- ◆ Pay less for under-performance
- ◆ Dial back acceleration for over-performance
- ◆ Assign more selling responsibility to lower pay / junior roles

Segment customers or offerings

- ◆ Manage down selling cost for lower value sales
- ◆ Focus high-cost resources where return/potential is greatest

Increase span of control

- ◆ Work with fewer sales leaders for the same sales team

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Be clear about what salespeople should be doing to create long-term value

Illustrative Example

What	How
Build strong, lasting customer relationships	<ul style="list-style-type: none">• Focus on customer success• Become a trusted advisor
Identify new prospects & opportunities	<ul style="list-style-type: none">• Prospect strategically• Identify unmet needs• Gather market intelligence
Enhance the company's reputation	<ul style="list-style-type: none">• Professionalism & integrity• Seeking referrals & testimonials
Drive profitable and sustainable growth	<ul style="list-style-type: none">• Sell the value (not just the price)• Promote higher-margin offerings• Upsell/cross-sell thoughtfully• Negotiate mutually beneficial agreements
Internal collaboration & knowledge sharing	<ul style="list-style-type: none">• Provide feedback to product/service teams• Mentor and train new salespeople• Contribute to sales strategy

Select a few incentives to reinforce important behaviors

Illustrative Example

What	Incentive ideas – pick 1 or 2 most important
Build strong, lasting customer relationships	<ul style="list-style-type: none">• Reward retention: Higher rates for sales after year 1, or bonus based on # or % of retained accounts
Identify new prospects & opportunities	<ul style="list-style-type: none">• Reward new revenue streams: Higher rates for new accounts, or new revenue streams in an existing account, or the growth in the margin value of existing accounts
Enhance the company's reputation	<ul style="list-style-type: none">• Testimonial bonus: Monetary bonus for compelling customer testimonials
Drive profitable and sustainable growth	<ul style="list-style-type: none">• Reward growth in identified strategic accounts: separate incentive component for strategic account growth• Reward for lifetime value of key accounts: bonus for specific lifetime value milestones for the account
Internal collaboration & knowledge sharing	<ul style="list-style-type: none">• “Long-term Value Creator” Award: Public recognition and reward for notable contributions to the long-term value of the company

But you can't stop with the comp plan

To ensure salespeople are effective at creating long-term value, make it a priority for the whole organization

Aligned Marketing
& Offerings

Customer
Experience Focus

Metrics & CRM
System

Sales Training and
Enablement

Hiring and
Onboarding

Leadership Modeling

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Sales comp is role-based comp, so the plans should be different if the roles are different

The same job title may have a different set of key accountabilities at different stages in the life cycle of a business

Job titles

- ◆ Territory Sales Rep
- ◆ Regional Sales Rep
- ◆ National Account Manager
- ◆ Product Specialist
- ◆ Sales Manager
- ◆ VP Sales



Stage of business

- ◆ Startup (mostly hunting for new customers)
- ◆ Early growth (some established customers, still introducing the company)
- ◆ Established (known brand, solid customer base)
- ◆ Market leader (well penetrated, default choice for many)

Role profiles capture key characteristics of each selling role

	Questions	Illustrative Example for a New Account Development Role
Sales Cycle	<ul style="list-style-type: none"> What is the length of time from identification of an opportunity to a closed deal? 	<ul style="list-style-type: none"> 6 – 18 months
Territory/ Portfolio Assignment	<ul style="list-style-type: none"> How is this person’s responsibility defined (geographic territory, named accounts, customer type, etc.)? 	<ul style="list-style-type: none"> Vertical markets / segments May have geographic sub-slice
Key Accountabilities	<ul style="list-style-type: none"> What 2 – 5 things is this role expected to contribute? 	<ul style="list-style-type: none"> Acquire new profitable relationships Offer full spectrum of services
Interdependencies	<ul style="list-style-type: none"> Who else besides this salesperson is needed to close the typical sale? 	<ul style="list-style-type: none"> Pre-sales Solutions team Own company senior management Finance
Relative Prominence	<ul style="list-style-type: none"> How much does the customer’s decision to buy depend on the contributions of this individual? 	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>
Possible Incentive Measures / Goal size	<ul style="list-style-type: none"> Based on the rest of the role profile, what are the best potential measures of sales productivity for this role? 	<ul style="list-style-type: none"> Revenue Gross margin Number of new customers

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Appendix 1

Mid-year plan changes



***You established your goals, you designed your plans,
and then things changed...***

Your market
softened (or
soared!)

Increased raw
material costs mean
prices must increase

Delayed new
product
introduction

Stock-outs
due to supply
issues

A competitor is
poaching your
best sales talent

An acquisition
resulted in a
new offering

Overall, how much change do you make mid-year?

For more information and examples see: <https://cygnalgroupp.com/c19-mid-year-adjustments/>

Live with it

- When the surprise is unpleasant but not “dire,” usually a comp effect vs. budget of 10% or less

Consider SPIFFs and incentives outside the plan

- Corrective action is necessary, usually a comp effect of 10-20%, or a business goal miss that is big enough to be a board-level discussion

Consider adjusting plan structure (weights, measures...)

- Only if business priorities have changes significantly due to changes in market conditions, product availability, merger or divestiture

Change quotas

- Only when the stability of the sales force is threatened and/or the viability of the business is at stake

Appendix 2

Examples of comp plans for distribution roles



Typical Distributor Selling Roles & Pay Mix

Roles

Typical Pay Mix

	% base	/	% variable
Territory Sales Rep	60%	/	40%
Regional Sales Rep	65%	/	35%
National Account Manager	65%	/	35%
Product Specialist	70%	/	30%
Sales Manager	70%	/	30%
VP Sales	75%	/	25%





Common Performance Measures

Distributors and wholesalers pay on a variety of measures,
but the most common are the following:



Gross Margin
amount



Gross Margin
%



Unit Volume/
Revenue

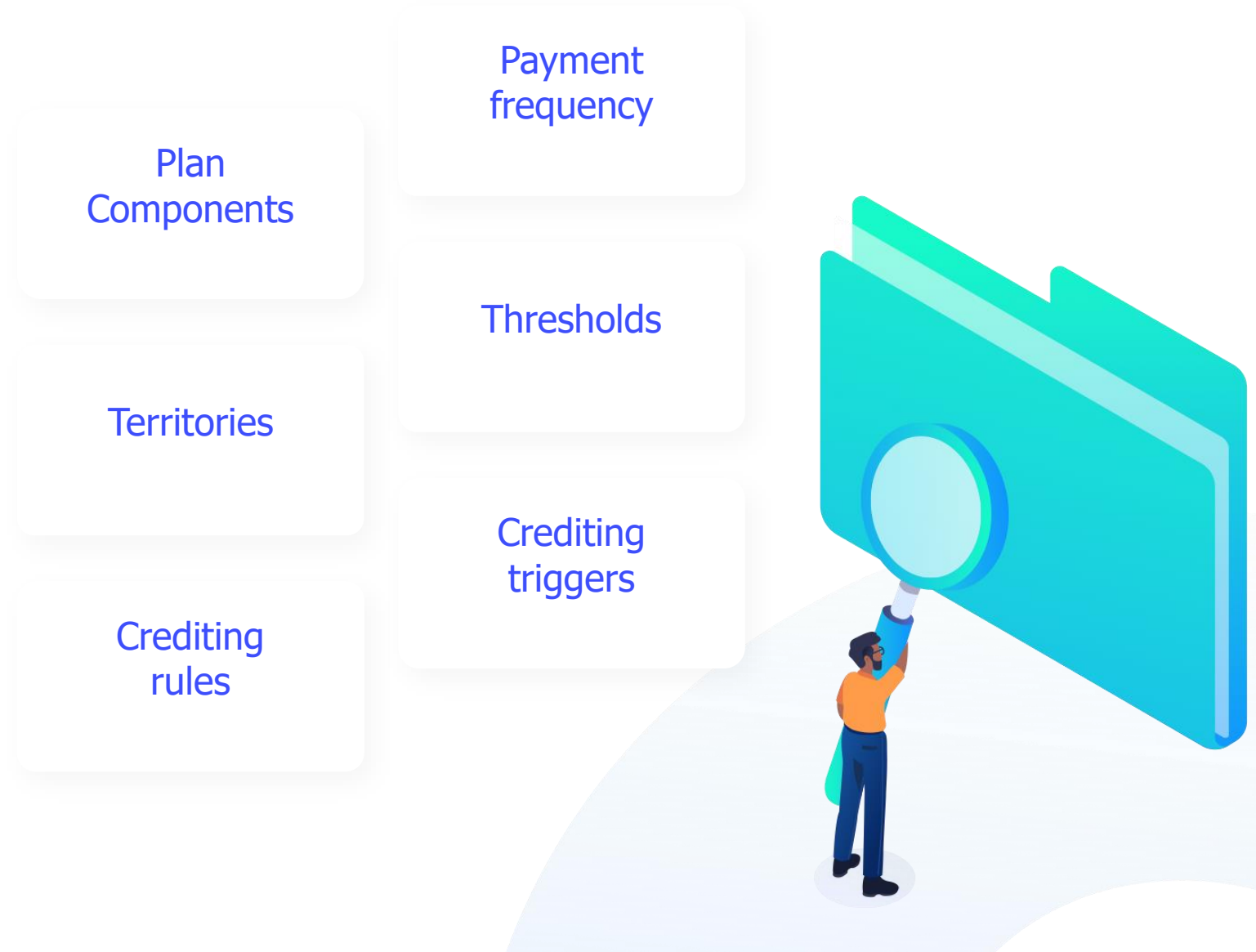


Services
Revenue





Comp plans features that matter





Sample Plans

Gross margin at the transaction level

**Roles:**

Sales reps

**Best for:**

Even territories or earlier stage companies where goal setting is difficult

**Things to consider:**

This type of plan may reduce the ability to optimize territory assignments for growth since re-assigning accounts reduces sales opportunity and compensation for reps.

Actual Gross Margin %	Commission Rate on Gross Margin \$
1%	1%
2%	2%
3%	3%
4%	4%
5%	5%
6%	6%
7%	7%
8%	8%
9%	9%
10%+	10%



Sample Plans

Goal-based commission plan with tiered rates

**Roles:**

Sales reps, Sales Managers

**Best for:**

Emphasis on goal attainment via tiered rates

**Things to consider:**

Sales leadership would likely need to each have their own rate table derived from the quota and their target variable compensation.

Gross Margin Quota	\$2,000,000
Target Total Cash Comp	\$150,000
Pay mix (base / variable)	60% / 40%
Target Variable Comp	\$60,000
Base Commission Rate (BCR)	3%

Gross Margin Quota Attainment		Commission Rate in range
From	To	
0%	50%	2.4%
50%	100%	3.6%
100%	150%	6%
150%	uncapped	4%



Sample Plans

Bonus type plan on Gross Margin \$ with a threshold

**Roles:**

Account Executive, Sales Managers, VP Sales

**Best for:**

Roles with a significant run rate business, transactional selling

**Things to consider:**

Plan is paid as a percent of base salary per percentage point of goal attained allowing management to rearrange territories as needed and preserve total compensation.

Gross Margin Quota	\$4,000,000
Target Total Cash Comp	\$150,000
Pay mix (base / variable)	67% / 33%
Target Variable Comp	50% of base salary (\$50,000)

Gross Margin Quota Attainment		Payout Rate in range
From	To	
0%	90%	0%
90%	100%	5% of base salary for each 1% attainment
100%	110%	10% of base salary for each 1% attainment
110%	uncapped	8% of base salary for each 1% attainment



Sample Plans

Two component mixed plan with mixed bonus & commission



Roles:

Account Executive, Sales Managers, VP Sales



Best for:

Companies with both a standard and strategic product portfolio



Things to consider:

Plan illustrates a method for emphasizing a strategically important product category by assigning a weight that is greater than that product's share of the quota. This plan is also a powerful tool for leaders to monitor and incentivize selling across an entire product portfolio.

Gross Margin Quota	\$3,000,000 total		
Target Total Cash Comp	\$150,000		
Paymix (base / variable)	67% / 33%		
Target Variable Comp	\$50,000 (50% of base salary)		

	Standard Products (80% weight)	Strategic Products (20% weight)
Gross Margin Quota	\$2,800,000	\$200,000
Target Variable Comp	\$40,000 40% of base salary	\$10,000 (10% of base salary)

Gross Margin Quota Attainment		Standard Products (80% weight)	Strategic Products (20% weight)
From	To	Rate	Rate
0%	90%	0%	5% of Gross Margin from 0% to 100%
90%	100%	4% of base salary for each 1% attainment	
100%	110%	18% of Gross Margin above quota	10% of Gross Margin over 100%
110%	uncapped	9% of Gross Margin above 110%	

Appendix 3

Support for long-term value creation beyond the comp plan

More detail for organizational support of long-term value creation

page 1 of 2

Leadership Modeling

Leaders must consistently talk about customer lifetime value, not just this quarter's numbers.

Celebrate *relationship wins*, renewals, customer success stories — not just "big deals."

Senior leaders should show patience for longer sales cycles when it's building high-quality, sticky customers

Sales Training and Enablement

Train salespeople to **sell solutions and consult**, not just pitch products.

Offer **business acumen training**: help reps understand the customer's financial and operational challenges.

Equip them with **case studies, ROI calculators, value selling tools**, etc.

Train them to **identify and nurture high-potential accounts**, rather than chasing easy, low-value wins.

Align Marketing and Product Teams

Marketing must create materials that support value-based selling: (e.g., Total Cost of Ownership calculators, customer success stories, whitepapers).

Product and pricing teams should give salespeople flexibility to bundle products or create multi-year programs that benefit both sides.

More detail for organizational support of long-term value creation

page 1 of 2

Customer Experience Focus

Customer service, logistics, and operations teams must be aligned with sales to deliver great experiences.

If a salesperson sells a "long-term partnership" but deliveries are late and support is poor, it undercuts everything.

Sales should **stay involved post-sale** — at least lightly — to ensure smooth onboarding and customer success.

Metrics and CRM Systems

Track and report **customer retention, profitability per account, cross-sell penetration, NPS scores, QBR completion rates**, not just revenue.

Use CRM systems to:

- Track relationship depth (number of contacts known inside the customer)
- Track multi-product adoption
- Track customer health metrics

Hiring and Onboarding

Hire for relationship skills, not just "closers."

Screen for candidates who can think long-term — ask about customer success stories in interviews.

Onboard new hires with a strong focus on understanding the company's long-term value proposition and partnership philosophy.



The Cygnal Group's exclusive focus is sales compensation

The Cygnal Difference

Senior experienced professionals lead every engagement, attend every meeting, and finalize every deliverable. The person who sells you the engagement will be with you every step of the way. Our thought leadership is solid and well recognized.

Repeat engagements have taken us beyond best practice theory. We have a track record of repeat engagements that is rare in consulting with many clients choosing to engage us year after year. This means we were there to see what happened next, learning from experience the power of simple, practical plans.

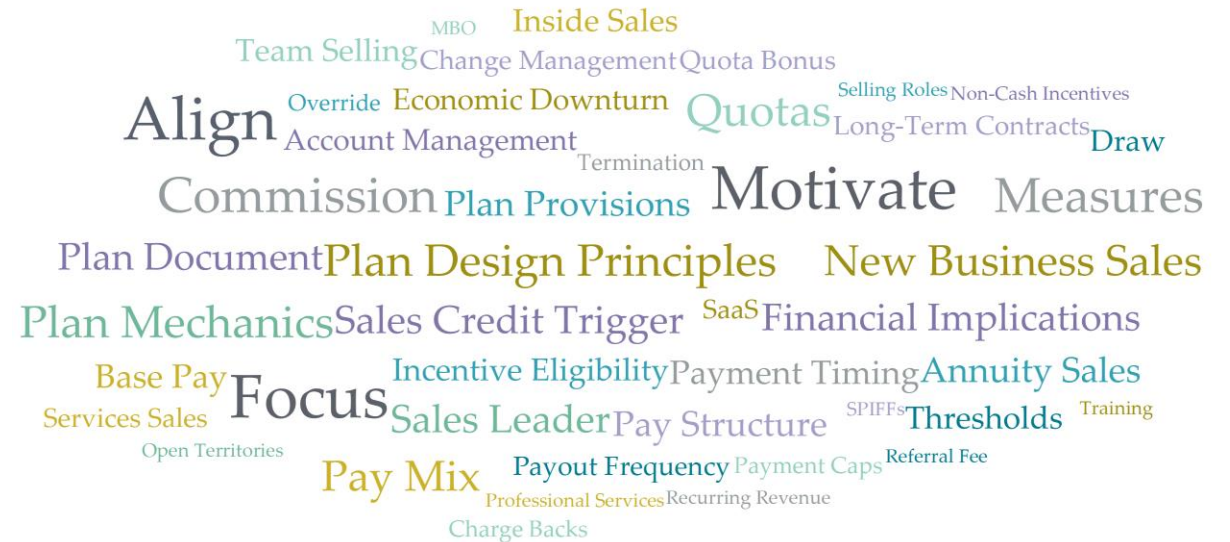
We are serious nerds, on a first-name basis with your numbers. We see the

patterns and diagnose the issues using beautiful and compelling visual analytics that make the answers come alive for your business leaders.

We love our work with edge-of-the-seat personal interest in our clients' hardest puzzles. Once we have understood your biggest challenge, we can't help working on it until it's solved.

We scope carefully, right-sizing the engagement to ensure client needs are met via an efficient process that shortens engagement duration and keeps fees in check. We change scope rarely, and more often reduce it than increase it.

We sell answers, not hours. We understand that our clients want sales compensation plans that meet the needs of their business. Our hours, trips and deliverables can be part of making that happen, but they are not our product. All of our design engagements include unlimited access to your Engagement Manager for the first year with your new plans.



The Cygnal Group's product:

More effective selling by your sales team enabled by better sales compensation plans.

More about Donya Rose

See cygnalgroupp.com for additional information and over 200 posts on sales compensation topics



Donya Rose has over twenty-five years of experience in leading the design and implementation of systems and processes to ensure alignment of sales results with top business priorities. She has led projects in sales target setting, measurement and forecasting, technology enabled selling, and sales compensation plan design.

Today Donya focuses primarily on sales compensation plan design, and has designed hundreds of sales compensation plans since that became her focus in 1999.

Donya's consulting experience before founding The Cygnal Group 15 years ago includes three years with Towers Perrin/Willis Towers Watson's Sales Effectiveness and Rewards practice.

Donya's passion is practical value-creating compensation plan design supported by thorough modeling to anticipate effects of proposed plans on individuals and the company.

Donya's credentials:

- WorldatWork Certified Sales Compensation Professional (CSCP)
- Master of Science in Operations Research and Systems Analysis from the University of North Carolina at Chapel Hill
- Bachelor of Science in Mathematics from Davidson College

Donya's recent and upcoming speaking engagements and articles include:

- Presenter at the WorldatWork Sales Compensation Conference in August 2025, "All About Acceleration"
- Featured speaker for the May 2025 SHIFT Conference sponsored by Modern Distribution management, "Aligning Sales Compensation with Profitable Growth"
- Panelist for a February 2024 webinar hosted by the Sales Management Association, "Improving ROI on Sales Compensation"
- MC for the August 2024 WorldatWork sales comp conference, and also led a session "Sales Comp Leaders Check in on Their 2024 Plans. How Are You Doing?"
- Major contributor to the SAP Insights article, "Compensating Sales for Consumption-Based Pricing"
- Major contributor to the August 2023 WorkSpan magazine article, "What Trends Will Affect Sales Compensation in 2024?"
- Led a session at the August 2023 WorldatWork Sales Comp Conference, "Sales Comp for Consumption-based Selling"
- Led a session at the November 2022 Billion Dollar Sales Roundtable hosted by the National Association of Distributors and Wholesalers, "Solve Your Sales Compensation Puzzle"
- Led a session at the August 2022 WorldatWork Sales Comp Conference, "Steady Selling for Stable Revenue - Linearity Incentives that Actually Work"
- Joined a panel discussion hosted by Modern Sales Pros in July 2022, "Secrets from the Sales Leaders"
- Presented at the August 2021 WorldatWork Spotlight on Sales Compensation, "How Much Should the Sales Team Cost - how the return on sales expense is being measured today"
- Led a panel discussion for the August 2020 WorldatWork Spotlight on Sales Compensation conference, "Pandemic Rx: Let's Recover Together"