

# taming the BEAST: *aligning* **global sales** *incentives*

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It's old news: the world is getting smaller. An ATM card works just fine in Ulan Bator, Mongolia, a latte tastes the same in Kuala Lumpur, Malaysia, and the FedEx box in Tierra del Fuego, South America, could just as easily be in Dubuque, Iowa. For better or worse, a lot of things are starting to look alike and work alike all over the globe. So why is a sales compensation plan in Argentina completely different from one in France? Does it have to be that way? Probably not.

## Why Change Now?

The impetus for change comes from one of three areas described in detail below:

**Pursuit of a Unified Global Sales Strategy**  
 Building a global brand involves more

than consistency of message and marketing. It means ensuring that customers have a consistent customer experience. For many companies selling to businesses, that experience is largely in the hands of the direct salesforce. If the salesforce has different priorities in different parts of the world—priorities supported by the sales compensation plans—customer experience will differ, and the brand may suffer. For example, your company may be investing heavily in a new flagship product that will not be contributing significantly to current-year revenues or profit but that requires large-scale adoption or is critical to its future market position. If that product is not emphasized consistently in the sales compensation plans in various regions, adoption will suffer, and your marketing strategy may be compromised. Furthermore, the understanding of which customers are global and which are local needs to be shared across regions. Some accounts require global account management, with a consistent approach to sales-credit allocation between the global account manager and

## QUICK LOOK

- Increasingly, global companies are bringing the same consistency of design and operation to their HR processes and sales processes that they have brought to other areas of their operations.
- There are three reasons for the change: pursuit of a unified global sales strategy, a drive for operational efficiency and a need to manage risk.
- The authors believe the barriers to effectively assessing and rationalizing global sales compensation plans are often lower than they appear.

local resources. For other accounts, there may be no benefit to global account management or credit sharing. Most companies start off by addressing cross-region sales-credit splits on a case-by-case basis. But as the number of these cases increases, the administrative burden of dealing with them, and the potential for overpayment, can increase exponentially. Credit-split policies that operate automatically, without management intervention, can represent a significant savings of time and money. And as customers' procurement operations become more global, local price negotiations can put global profitability at risk if the customer is suddenly able to buy some products at a lower price in certain parts of the world.

Another dimension to pursuing a unified sales strategy is sales culture. Successful sales organizations take a deliberate approach to determining what kind of a sales culture they want to have and then implement it consistently. A competitive, dog-eat-dog, highly leveraged culture may be right for one company, and another may opt for a more collaborative, consultative, team-oriented culture. Whatever the choice, companies are increasingly finding it beneficial to have a degree of consistency in the global sales culture. And if the compensation is at odds with the desired culture, it will be hard to get there. “You get what you pay for.”

While there is merit to the argument that local differences in markets, products, laws, culture and compensation norms make consistency difficult to achieve and not necessarily optimal, it is also true that regional markets, like in the EU, are making national differences less relevant and greater consistency of design more appropriate.

#### A Drive for Operational Efficiency

To maximize shareholder value, senior leadership needs a consistent set of metrics with which to manage sales performance across countries. Sales compensation data can be a good source, but only if the assumptions underlying the data are the same from country to country. There is a trend toward shared services or centralized administration of sales and compensation data that creates pressure for plan-design consistency. In other words, if plans are consistent, they can use the same data, and if the data is consistent, it can be used to manage the business.

As companies continue to invest in upgrading their systems, data quality is improving around the world. In the past, it may have been possible to measure individual results in the United States (and pay sales compensation based on

those results), but not in other regions of the world. So the salesforces in those regions may have had to rely on team measures or subjective performance evaluations, making the sales compensation plans less effective. As the data becomes available to objectively measure individual results, companies need to take advantage of the consequent opportunity to improve their sales compensation plans.

their corporate HR and global sales operations departments to provide answers to the following questions:

- Do we have consistent sales compensation policies?
- Are we following sound sales compensation design and administration practices?
- Do our sales compensation plans align with our global business strategy?

*If the process of **global** plan assessment and redesign is managed well, balancing the need for corporate **consistency** with legitimate local needs for flexibility, the results can be impressive.*

A “softer” side of global business optimization involves examining the effectiveness of incentive systems around the world on the basis of alignment with known best practices in motivation and direction. Corporate HR may get the call to evaluate global sales compensation plans simply because they do not motivate effectively or align with job responsibilities or strategy, or are simply not clearly understood.

#### A Need to Manage Risk

An increase in internal auditing activity, driven in part by Sarbanes-Oxley, is awakening corporate HR and finance departments to the need to curtail governance risk from loose sales crediting and discretionary payments in various parts of the world.

#### Challenging Questions from Senior Leadership

In response to this changing environment, business leaders have been challenging

- Are the differences in the sales compensation plans around the world serving a purpose? Or are the differences random and a source of inefficiency?
- Do we even know what the sales compensation plans look like in each of our organizations?

These are reasonable questions. But headquarters’ departments are often ill equipped to answer them. First, they may have no authority over the distributed sales organizations, which generally report to a country manager or regional vice president. Second, lack of familiarity with local market conditions, distribution, laws, languages and culture can make it difficult to assess or even understand the plans. And finally, the corporate departments may not have the sales compensation expertise or manpower to undertake a global assessment.

#### The Challenge May Not Be as Daunting as it Seems at First

If the process of global plan assessment and redesign is managed well, balancing

the need for corporate consistency with legitimate local needs for flexibility, the results can be impressive.

The primary benefits of this approach are increased sales effectiveness and efficiency. But there are spillover effects as well. Sales compensation knowledge transfer to local and regional resources, improved communication and sharing of best practices among those resources, and enhanced trust and respect between corporate HR and global sales operations departments and the regional sales organizations are significant benefits, as well.

### Keys to Success

The following factors are critical to the success of a global approach to sales compensation: Leadership and clear direction; an open and collaborative process; rigorous data analysis; and follow-up and oversight. They are explained in detail below.

#### Leadership and Clear Direction

In most organizations, skepticism and distrust are the natural initial reactions to the announcement of a change of this type. Change is difficult and distracting, and the words “We’re from headquarters and we’re here to help,” may send people running for the exits. So the announcement that there will be a global sales compensation assessment should come with assurances and evidence that the process will be collaborative. Similarly, local managers need to understand what the value of participation will be to them locally. They need to hear more than the fact it will help align with the corporation’s overall global strategy. Rather, they need to know how it will help them achieve their results and objectives locally. At the same time, it must be clear at the outset that participation is not optional. And that message must come from the top.

Senior management must also be clear about the results it expects to achieve. These should be as specific as

## Structuring the Process

Project and team structure are the keys to achieving the appropriate level of collaboration. Here are some elements you should consider:

### A. Establish Clearly Chartered Teams and Subteams, i.e.,

- a. **Project-Steering Committee** - This is a very small group of senior leaders who set the direction, kick off the project, review the findings at a high level, set and ensure compliance with the principles and process, and approve the plans. If there is a global sales leader, he or she must lead this team, and two or more team members should have experience managing the business in different parts of the world. The team should also have senior HR representation.
- b. **Project-Management Team** - This team structures and manages the process, collects and summarizes documents and data, directs analysis of historical pay and performance, and proposes principles and platform plans based on its findings, to be modified by the other teams.
- c. **Regional Design Team(s)** - Each region should designate a small team from sales, sales operations and/or human resources of two or more of the major countries in the region. It will help drive the plan assessment and develop platform plans for the major sales job types in the region.
- d. **Local Plan Designers** - Each country must assign one or two plan designers, typically from human resources or sales operations, who will be responsible for working with the regional design team and the local sales leader to finalize the sales compensation plans for that country. These people must ensure that the final plans meet the needs of the local sales organizations while adhering to the unifying principles and platform plans.

### B. Conduct Regional Plan-Design Meetings

Experience has shown an effective way of achieving balance between consistency and flexibility is to center the assessment and design process around day-long regional plan-design meetings. Local plan designers from each of the countries in the region travel to a central location with the purpose of putting together first-draft plans for the sales jobs in their countries. The agenda for the day should look something like this:

- a. Introduce senior leadership and conduct direction setting.
- b. Briefly present the cornerstones of sales compensation theory and sales compensation terms (mix, leverage, commission, bonus, target incentive, etc.).
- c. Review findings from interviews and data analyses of each country’s plans (i.e., plan strengths, weaknesses and inconsistencies; challenges common across organizations; unique situations).
- d. Review and understand draft compensation principles, and modify as appropriate.
- e. Review and understand platform plans and design alternatives.
- f. Then, as a final step at the end of the day, the local plan designers work in teams of two or three to modify the platform plan designs to create first-draft plans for each sales job in their organizations. The regional design team and project-management team collaborate in these discussions to answer questions, offer suggestions and challenge design choices. [\(cont. on page 48\)](#)

(cont. from page 47)

The local plan designers then take their draft plans back to their countries and review and modify them with the local sales leaders and country managers.

The regional design meetings have three key benefits:

1. They promote compliance with the leadership direction and root out unnecessary inconsistency and poor plan design, and do so without being overly directive.
2. They provide local plan designers the opportunity to network with one another and build relationships that foster knowledge sharing, collaboration, consistency and sharing of best practices.
3. They maintain local ownership of the final designs.

### C. Establish Guidelines for Which Decisions Will Be Global, Regional or Local

While there is usually much more inconsistency in the sales compensation plans of most global organizations than is necessary, there is some inconsistency that exists for sound business reasons. Figure 1 offers preliminary guidance on which decisions to make globally, regionally or locally. It should be modified to suit the particular needs of your organization.

FIGURE 1: DECISION GUIDELINES

Design Decision	Decision Making Authority		
	Global	Regional	Local
High level strategic direction	●		
Sales strategy	●	●	●
Pay philosophy, e.g., total target cash compensation (TTC) & mix vs. market	●	●	
Market pay benchmarking	●	●	
Set target pay levels for each job		●	●
Performance measures	●	●	●
Incentive form, i.e., commission vs. bonus	●	●	
Performance ranges			●
Payout curve shape	●	●	
Percentage pay at threshold and excellence	●	●	
Crediting rules	●		
Plan policies	●		
Quotas			●

● Primary Responsibility      ● Secondary Responsibility

possible and will differ by organization. Consider these examples:

- “Ensure global alignment with the corporate goal of achieving 12-percent market share in the education market during the next five years.”
- “Increase focus on quarterly sales results and decrease focus on annual.”
- “Ensure plans align with the new global account-management program and support cross-regional team selling and collaborative design products.”
- “Increase pay for performance and incentive pay differentiation.”
- “Ensure all plans are in compliance with best practices in design, administration and governance.”

Clear leadership direction will prove invaluable in focusing a geographically dispersed assessment and redesign effort.

#### An Open and Collaborative Process

Assuming a clear direction has been established and participation is not optional, the benefits of a highly collaborative process far outweigh the risks. No sales incentive plan will be fully successful if it is not supported and “owned” by local sales management. And depending upon each company’s information systems, it is likely that local organizations will be administering their own plans. In most cases, sales incentive plans will be most successful if many of the final details are determined locally, as modifications to “platform plans” developed globally or regionally, and are in alignment with “principles” set globally. See Structuring the Process on page 47 for more detail.

#### Rigorous Data Analysis

In a surprising number of sales organizations, perceptions of the strengths and weaknesses of the sales compensation plans are driven by anecdote alone. Sometimes the organization has never been shown objective analysis of its

own data. As a result, perceptions are usually incomplete and often inaccurate. Here is a sample of some statements heard through the authors' experiences that have turned out to be wrong:

- "We pay well below the market."
- "A lot of people are getting windfalls."
- "We're double-comping."
- "Nobody earned any incentive in 2004."
- "Top performers are earning a lot more than bottom performers."
- "Achieving 105-percent attainment is very rare."

If companies design their incentive plans based on inaccurate information they are likely to design plans that risk overpayment or underpayment and that do not drive performance. Despite challenges, data analysis must not be optional.

The reasons why companies often fail to do basic data analysis are innocent enough. The data may be difficult to assemble, the people assigned the task often do not understand the purpose of the work well enough and everyone has their "regular job" to do. Besides, everyone knows what the data will show, right?

Regardless of the obstacles, the project-management team must persist and perform a few simple analyses on each country's historical pay and performance data. So that the analyses are consistent across organizations, a single individual or team should conduct the analyses for all countries. Securing complete data in a timely manner from local resources is likely to be one of the more frustrating aspects of the project, but the insights are likely to be powerful, and the risks from not doing the analyses are too great. The analyses can be presented at the regional design meetings and will provide compelling guidance for plan redesign.

To the extent that there are sensitivities about differential pay levels from one country to another, many of the more pertinent elements of the analyses can be presented on a relative basis. For instance, each of the following data

points is helpful to the design process, but does not require explicit data about local-country pay levels:

- Mix of pay between base salary and incentive compensation
- Distribution of performance (percentage of goal attained or percentage of average performance)
- Distribution of payouts (percentage of target incentive or percentage of average incentive)
- Correlation analyses between incentives (percentage of target or average) and performance
- Degree of differentiation in incentive earnings (ratio of top 10-percent earners to the average).

### Follow-Up and Oversight

After region-level and country-level staff have finalized incentive plan designs for individuals in their organizations, in collaboration with the centralized project-management team, the final step of the journey is follow-up and oversight. The final plans should be reviewed by corporate human resources or global sales operations for compliance with direction, strategy and compensation principles. If this step is not taken, much of the effort of the project will have been wasted, and the credibility of the project will be compromised.

The oversight need not be heavy-handed. The most important thing is that it takes place. Local plan designers should submit their final plans to the project-management team, which should then summarize them for a steering committee. The steering committee can evaluate whether or not the level of compliance is sufficient and flag issues to address either for the current plan year or the next.

A second round of oversight should come in the second half of the first year of implementation. Data analyses and selected interviews, focus groups or surveys should be performed either

for all organizations or a sample to determine how well the current plans addressed the issues they sought to address and identify issues to address in the following year's plan designs.

### Conclusion

By structuring the process as outlined above, corporate human resources and global sales operations groups can conduct an effective and well-supported assessment and redesign of their sales incentive plans, improving sales effectiveness, strengthening sales compensation expertise in the regions, and building trust and cooperation with headquarters. Don't be afraid to take on the many-headed beast of global sales compensation plan assessment and redesign. 

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