

Counterpoint: Tear Down Those Goals (Based Plans)

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By Elliot Scott

As a sales organization matures, a number of things can happen that make the original commission-based sales incentive plan increasingly problematic. So it is not uncommon for companies to transition to a goal-based plan over time. But while it is much less common for companies to move in the other direction—from a goal-based plan to a commission plan—it is sometimes the right choice.



What's So Great About Commission?

It's a fact of life that commission plans are more motivational. "If I sell this I earn that" is a lot more immediate than "if I sell this, I retire x% of quota, which according to the payout table may get me an incremental 3%, 5%, or 10% of my target incentive at the end of the period depending upon where I end up on the payout curve." That immediacy can really drive sales results, particularly in aggressive, hunting-oriented sales organizations, which is one reason why they often bend over backwards to use commission.

When Your Goals Have No Credibility, One Option Is to Get Rid of Them

I recently helped a company assess and ultimately implement a transition from a goal-based plan "back" to commission. One of the drivers was that the goal setting process had no

credibility with the sales organization. The plan measures and mechanics were sensible and in fact the goal-setting methodology was objective, data-driven, accurate, and surprisingly fair. But the company had failed in making the methodology clear to the sales force and disproving the perception of a success penalty, i.e., "If I exceed my goal, I'll earn some upside this period but I'll be saddled with a much higher goal going forward, making it harder to earn even target incentive for some time to come...so why bother?" Okay, while it is true that increasing sales tend to lead to higher quotas (as to some degree they should), the perception of success

penalty is often overblown, as it was for this client. Nevertheless, if the goals are not *perceived* to be fair, it hardly matters if they are.

The sales people fully understood that territory sales and potential were uneven, and would remain so, so any commission plan would probably favor the larger territories. But they craved the immediacy and transparency of commission. Even the sales people with smaller territories told us they would prefer commission. Being good sales people, we could expect them to shed persuasive tears about how unfairly disadvantaged they were, but they made it quite clear they would rather control their own destiny than hold their earnings hostage to management's black-box estimate of a fair goal. (It should be noted that this was an aggressive sales organization, with high pay mix. It recruited the type of independent, "coin-operated" talent for which commission is particularly attractive.)

The Results Are All That Matters

With some hesitation, we designed and implemented a new plan that was not in any way tied to manufactured territory goals. We did so in a way that sought to minimize the effects of uneven territories, utilizing some mechanics that "taste like" commission but are a few steps removed from 5% of sales for everyone. Most importantly, the new plan was simple and transparent.

When we came back halfway through the new plan year to audit the results, we wondered what we would find. Moving from a goal-based plan to a commission plan is not something sales compensation consultants generally recommend. But it was clearly the right thing to do for this client at this time. Despite the problems inherent with commission, the plan had been very well received. The reps were hungry and engaged, and the company was above target for the first time in years.

About The Author

Elliot Scott has 15+ years experience as a sales compensation and sales effectiveness consultant, with Towers Watson, The Alexander Group, and ZS Associates. Elliot has worked for clients large and small in dozens of industries, leading both global and domestic projects and is a recognized leader in sales incentive plan assessment, design, and communication.

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