

Does Your Technology Sales Compensation Support the CEO Strategy?

Introduction

Often, VPs of Sales or CEO clients ask me what is a fair compensation plan for a technology sales position, and how should they recruit strong salespeople. There are several factors that play into calculating this, including the skill level of a consultative sales person, what kind of technology products/services are being sold, the average selling price of the technology or professional service, gross margins, whether the company is a start-up, SMB, or a Fortune 1000 player, and what the market comparisons are for the same job, etc.

Above all, the key question that needs to be asked is centered on what does management expect for the compensation supplied and . . . conversely what does the technology sales executive or candidate expect from management?

In other words, does the compensation plan reflect the performance expectations and strategy of not just the sales leaders, but the CEO as well? They are not appeasement programs. As business objectives shift, so must the sales compensation plans change.

Table of Contents

1. Introduction
2. Different Groups have Different Performance Opinions
3. Some Technology salespeople are just overpaid!
4. Expectations of an account rep with management?
5. Management's expectations of a technology account rep?
6. Sales success is a company responsibility.
7. Conclusion

REVENUE ACCELERATORS

Different Groups have Different Performance Opinions

Many times, both groups seem to have different opinions of what they expect from each other. In this current economy where the compensation plans of many technology sales account reps still ranges from \$60,000 - \$110,000 in base salaries (plus commissions and bonuses), it is important that both salespeople and sales management clearly understand AND accept one another's written, formalized, job descriptions and performance expectations. Management should pay for results, not effort!

Most technology compensation plans today are leftover legacy programs from the 90's that do not strategically reflect the financial, operational, or sales realities of the current tech market. These decade old compensation plans have been perpetuated forward (many times with yearly raises) during the last ten years and have increased operating sales costs for many firms to a point where the most unproductive sales team members are frequently the most expensive.

Today's market, some technology salespeople are just overpaid!

- Do you have salespeople who want \$60-100K annual bases and expect you to hand them inbound qualified management leads?
- Do you have salespeople who expect the sales manager to close most deals?
- Do you have salespeople who expect you to drop your price at the end of the month, quarter or fiscal year, so they can hit quota and you can hit your "numbers"?

Yet, the consistent use of these obsolete comp plans continues to affect the success factor of many technology firms, and simultaneously leaves both groups (sales management and sales account representatives) unhappy. Optimal success, in this economy, depends on both groups delivering on identified, and written down mutual expectations.

Comparably, today some technology salespeople are underpaid.

Some IT sales reps are successful, "full-cycle" salespeople, who prospect, qualify, present, propose, close clients, and hit quota regardless of external challenges from the economy or internal operational issues. When you match their skill-sets and quota success with some of their higher paid peers, it becomes obvious that this category of technology salesperson deserves more.

So, how do the two teams, technology management and technology salespeople, reduce the disjunction in their compensation plan expectations?

Both groups must accept that the 1990's were a one-time IT buying anomaly. Those days will probably not come again. Compensation plans along with requirements for the delivery of management sales support have also significantly changed. Additionally, each side must show mutual respect to each other and understand that each has to make a focused contribution to the same common goal...revenue capture.

Here are some reasonable commitments that both sides need to make in order to help each other understand how to calculate what is a fair technology sales account representative compensation plan.

Expectations a technology account rep has of sales management?

1. The *sales quota* will be accurate and calculated based on substantiated potential.
2. The firm will provide *relevant sales and product training* on a continual basis to help the rep be successful in selling the firm's product or service.
3. The *marketing department* will provide a minimum of 5 qualified leads each month per sales rep.
4. Their performance will be measured by their *identified business sales metrics*, as shown in their new business pipelines, rather than by their personality or a friendly sales manager.
5. Management will review and identify if there is a *sufficient market gap and demand for their products and services in the assigned territory*, or key account lists, and adjust annually.
6. That management will adapt their technology product and service configurations and pricing to the current economy as needed. If not possible, due to externalities, the salesperson will have to be flexible, for at least two quarters.

Management's expectations of a technology account rep?

1. Salespeople will *consistently cold call* and not wait for marketing supplied leads.
2. Salespeople will *submit accurate data* for sales forecasts, CRM systems and contact data.
3. Salespeople will *accept their job is to hit quota*, not to project reasons for failure.
4. Salespeople will *invest in their own careers* to enhance their selling skills.
5. Salespeople will *realize selling technology requires a team effort*, and mutual respect of other departments is necessary to be successful in the sales quota and company revenue hunt.

If both groups can more readily accept each other's responsibility for sales success, then the calculation for sales compensation becomes much easier.

Accurate technology sales compensation is directly tied to performance based on equitable contribution by management and sales.

Success is a not a reps responsibility . . . it's a company responsibility.

Measure and reward the behavior you want in Sales meetings. You should measure and post your Key Performance Indicators (KPI's) at the weekly sales meetings, and they should not number more than 3; such as:

1. Measure the performance of the *entire sales force each month on total revenue & new business.*
2. Measure the "new business" sales activities, and combine the individual numbers, and post the composites for everyone to see:
 - Number of *new accounts acquired each Month & Quarter* as a team. Pay for persuasion once; have a higher multiplier for new vs. existing business.
 - Post monthly (MTD) and quarterly QTD *totals per sales person.*
 - *Comparison of the previous Month and Quarter with variances.*
3. For the most control and results, refine your sales compensation plan to make each person's variable compensation based on these metrics. *Quotas should be based on new business!*
4. *Provide upside leverage* for outstanding performance equal to the incentive target times 1.5.
5. *Make the sales compensation plans reward the behavior that you require*, instead of rewarding for the behaviors you does NOT want. Set performance expectations so that 70% of sales personnel can achieve and exceed goal while 30% don't.
6. *Inability to make quota means accountability*; whether in carrying forward a deficit (after 3 mos. could mean dismissal), working extra hours, developing a detailed cold call campaign, etc.

Your KPI's for new business can be on a host of possibilities, from Sales based on gross profits, net, promoting certain product lines, or emphasizing certain targeted accounts. When you pay them purely by commission or salary and commission based on total sales, you reward them for the easiest, richest sales. Even renewal sales are demonstratively easier than cracking new accounts. It's no wonder compensation for CEO's are frustrating.

To encourage sales people to do what “you want them to do” align your sales compensation plan directly with your strategic plan.

Share this with them, and explain the strategic significance of their efforts. Directly reward those behaviors that you developed earlier, considering a performance-based plan that pays sales reps for implementing the company's established strategies.

Perhaps, the singular most powerful way to manage your people once you've done all this homework is to have management hold “accountability, goal-setting, strategic, resources needed” quarterly or monthly conferences with each of your salespeople.

At these tune-up conferences, the CEO needs to drive from the top the following things, in this order of arrangement:

- A. *Hold sales accountable* for doing what they said they were going to do. Simply ask, "Did you do what you said you were going to do?" "Why or Why not?" "What did you learn?" "What are you going to do differently next time?"
- B. *Help them set goals*, by asking "in light of the compensation plan, the company's expectations, and your situation, what will you be trying to accomplish in the next month? Quarter?"
- C. *Help them create a strategy*. Ask, "How are you going to do that?" Make them answer in detail and have them commit that answer to writing in a monthly sales plan.
- D. Finally, ask "*How can I help?*" and "What do you need to help you do it?"

Conclusion

CEO's should avoid often waiting to the last minute to review their sales compensation plans for the coming year. Unfortunately, effective sales compensation design cannot be rushed. It requires engaged participation of sales, marketing and finance. HR needs to provide external pay data. Sales operations need to prepare ROI outcomes on the current plans. Marketing needs to clearly articulate the expected contributions from the sales department. Finance needs to provide information on the cost of selling. And, finally, the IT department must be ready to provide suitable CRM and reporting support.

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