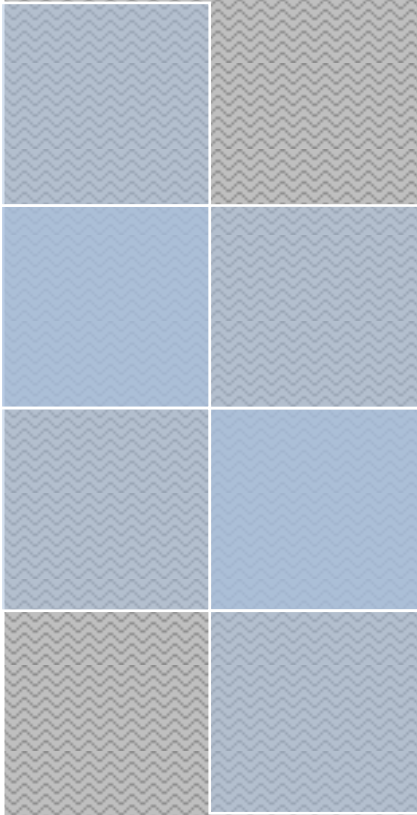




Special Report

The 10 Biggest Sales Compensation Pitfalls and What to Do About Them

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Sales Leadership Resources



The 10 Biggest Compensation Pitfalls and How to Avoid Them

By: Phil Faris

How effective is your compensation system?

Does it help you attract the people you need and are you able to retain your top performers? If you're not satisfied with your compensation system, you may be falling prey to one or more of the following compensation pitfalls. As you review each one, reflect on your own compensation plan.

1. **One size fits all.**

Having a uniform compensation plan may sound fair, but is rarely effective. Unless all your sales people enter the organization with the same experience and do exactly the same job, compensation becomes an issue. Such factors as size of the territory, potential of the territory, types of accounts and experience of the salesperson usually necessitates some adjustments in the compensation plan.

Tip: *Make sure your compensation plan fits the various needs and demands of your people, the job, and the company's goals.*

2. **Punishing high performers.**

Some companies have a philosophy of "how do we prevent our salespeople from making too much money?" This approach to compensation demotivates high performers.

Plans that encourage salespeople to "just make quota" settle for too little . . . and usually get it.

Basically, the plan tells high performers "once you make this much, your income potential stops . . . no matter how much additional revenue you could bring in for the organization."

This doesn't mean companies should give their people a blank check. It means that if high performers can find ways to increase the company's revenues and profits, they should be compensated accordingly.

Tip: *To maximize the potential of your sales force, provide worthwhile incentives for your high performers. Give them a reason to stretch.*

3. **Subsidizing mediocrity.**

Many compensation plans set the performance standard too low. Salespeople receive better than average compensation for doing average performance. Plans that encourage salespeople to "just make quota" settle for too little . . . and usually get it. High performing organizations view quota as the minimal standard or starting

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point for achieving financial success.

Tip: *Make sure your plan is both challenging and realistic.*

4. Discouraging rookies.

Most sales jobs take time to learn. During this learning period, new salespeople usually produce less revenue and are paid less than experienced salespeople. If the new salesperson can't make enough to live while learning the job, they will become discouraged and look for another opportunity.

Tip: *Create a compensation plan that helps salespeople make the financial transition from rookie to an experienced salesperson.*

5. Playing games with people's paychecks.

The quickest way to destroy trust and demotivate salespeople is to play games with their paychecks.



Any change, mistake, or adjustment made to a paycheck must be handled quickly,

accurately and with appropriate explanation.

If you change the pay plan, make sure people understand it before rolling it out. If a bonus or commission is miscalculated, correct it *immediately*. How you respond in these situations is as important as what you actually do.

Tip: *Be honest, direct and responsive in all actions that impact salespeople's actual paycheck.*

6. Looking at compensation as an expense not an investment.

The goal of sales is to acquire customers. The goal of a compensation plan is to motivate salespeople to acquire as many of the right type of customers as possible. Managing compensation as an expense requires organizations to restrict it, which in turn restricts the organization's ability to acquire customers. Managing compensation as an investment focuses on the return generated by the compensation plan

and not just the amount spent.

Tip: *Develop a compensation plan that produces the best ROI.*

7. Providing incentives for the urgent and not the important.

Why do so many companies experience peaks and valleys in their sales? Often it's because they only focus on short-term objectives at the expense of long-term growth. One company placed a premium on acquiring new business and succeeded. However, they neglected their existing customer base and lost as many existing customers as they gained new ones. Churning customers is a dangerous and unprofitable practice. Remember, whenever you introduce an incentive for one thing, something else suffers.

Tip: *Before introducing an incentive, make sure you understand its full impact.*

8. Letting the compensation system manage performance.

Compensation plans are designed to provide structure and incentives

for the sales force. They should support management's goals and strategies, not replace effective leadership and coaching.

The compensation plan is a tool for managers to use in conjunction with other performance management tools and activities (i.e., performance appraisals, forecasting, training, etc.) to maximize sales performance

Tip: *Integrate the compensation plan with your other performance management tools to maximize performance.*

9. **Failing to teach people how to win.**

One definition of motivation is "**winning is fun and losing isn't.**" If this is the case, a manager's job is to help



his/her salespeople win. Since the compensation plan provides the rules of the game, managers must show their people how to play and win the game. This is particularly true when a new compensation plan is introduced or for new people. Showing them how to win promotes motivation and invites loyalty.

Tip: *Know how to win with your compensation plan and teach your people how to do it.*

10. **Overlooking the power of psychic compensation.**

Money is a strong motivator, but it's not the only motivator. By leveraging such psychic compensation as recognition, praise, feedback, teamwork etc., you can elevate your sales organization's performance to new levels.

Tip: *Besides money, find out what winning is for each salesperson. Then help them achieve their personal wins.*

How many are currently in place with your compensation plan? Developing the right compensation plan requires a careful analysis of such factors as:

- The market
- Your work unit (region, office, etc.)
- The Company
- Your Personnel
- Your Goals
- The Resources / Tools Available

This analysis helps you develop a plan that is tailored to your needs. Take the time and effort required and both you and your people will be justly rewarded. Take the Compensation Plan Assessment to see how your company's plan stacks up.

Summary

How many of the pitfalls have you experienced?

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Compensation Planning Assessment

Give yourself ten points for each yes answer.

YOUR SCORE: _____

1. Are you able to attract the quality people you need to achieve your goals?

_____ YES _____ NO

2. Are you able to retain the people you need to achieve your goals?

_____ YES _____ NO

3. Are your people motivated to meet and exceed your expectations?

_____ YES _____ NO

4. Are you achieving your goals?

_____ YES _____ NO

5. Are you properly positioned to achieve your goals in the future?

_____ YES _____ NO

6. Do your people know how to “WIN” with your compensation plan?

_____ YES _____ NO

7. Are your people winning?

_____ YES _____ NO

8. Is outstanding performance rewarded with outstanding compensation?

_____ YES _____ NO

9. Do you recognize and celebrate outstanding performance?

_____ YES _____ NO

10. Do you make your people feel like winners?

_____ YES _____ NO

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About the Author:



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Phil Faris is a business development consultant, coach, speaker and author. He is president of Phil Faris Associates a firm that specializes in helping organizations hire, train, develop, lead and retain the sales talent required to succeed in a competitive marketplace. Phil has developed a reputation as a "performance improvement doctor" for his ability to help organizations improve their financial health by diagnosing performance issues and then prescribing strategies that produce measurable results. He has worked in many key industries with a wide range of clients including: Amgen, Brunswick, Clarke, Dartnell, DeVry, Meredith, PIMCO, Shell Energy, TCI, Waste Management, Zimmer and others.

Phil brings a diverse array of hands on experience to every project having held leadership positions in training, human resources, marketing and sales. As a consultant he has worked in more than 20 industries and has designed and delivered over 80 customized sales, management and leadership training programs.

Phil is the author of the following books: *Hiring Winners*, *Building Customer Partnerships*, *Training Winners*, *50 Activities for Sales Training* and *Upping the Down Side*. He has also written numerous articles on sales, leadership and personal development.

He received his Bachelors and Masters degree from Truman State University in Special Education. His post graduate education includes studies in Guidance and Counseling, Business Administration and Human Resources Development.

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