

DEFINITIVE GUIDE TO

CREATING COMPENSATION PLANS FOR SALES TEAMS

**A PRACTICAL APPROACH TO
MOTIVATE AND REWARD YOUR
SALES FORCE**

"This book transforms the complex world of sales compensation into a clear and practical approach."

**— ROBERTO SILVA, GLOBAL
DIRECTOR OF COMPENSATION AND
BENEFITS**

COMPENSIX.COM

Definitive Guide to Creating Compensation Plans for Sales Teams

*A Practical Approach to Motivating and Rewarding
Your Sales Force*

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Preface

In a business world where competition is fierce and sales force effectiveness can make the difference between a company's success and failure, a well-structured compensation plan is not just a benefit, it's a necessity. "The Definitive Guide to Creating Compensation Plans for Sales : A Practical Approach to Motivating and Rewarding Your Sales Force" is more than a manual; it's a roadmap to efficiency and optimization for your sales team.

This book is designed for business leaders, sales managers, and consultants who seek not only to attract top talent but also to inspire top performance through innovative and effective compensation strategies. Throughout these pages, we will explore the various components that make up a successful compensation plan, including base salaries, commissions, bonuses, and other incentives that directly align salespeople's objectives with those of the organization.

We will cover everything from the fundamentals of compensation to advanced techniques for designing schemes that adapt to different business structures and cultures. With practical examples, case studies and industry best practices, we will provide the tools needed to

that you can create a robust and motivating plan.

In addition, we will discuss common challenges in implementing these plans and how to overcome them, ensuring that incentives promote the right behaviors and sustainably support business growth.

This book is an essential resource for anyone aspiring to master the art of sales compensation and thereby transform a group of individuals into a cohesive, high-performing team. With "Definitive Guide to Creating Compensation Plans for Sales Teams," your path to a motivated and productive sales force is clearly laid out.

Welcome to the first step towards the transformation of your sales team.

I

Fundamentals and Design of Compensation Plans

The Power of Compensation Plans

Sales force compensation plans, or incentive compensation, represent a considerable investment for many companies. In the States alone, companies spend US\$200 billion annually on variable compensation for the sales force, about the same amount as they spend on advertising.

Almost all companies use some form of variable compensation for their sales force, including cash bonuses, commissions, travel or other awards that are tied to the achievement of performance results.

On average, a salesperson in the United States earns about 40 percent of his or her total cash compensation through performance-based incentives. At one end of the spectrum, approximately 15 percent salespeople receive no fixed salary-100 percent of their income comes from variable payments tied to performance. A small percentage of companies pay their salespeople a

100 percent salary with no incentive opportunities.

The impact of a sales force incentive program goes beyond cost. The sales force compensation plan is a crucial driver of sales success. A well-designed and effectively executed plan helps a company attract and retain top salespeople. It energizes salespeople, who often work alone, face frequent customer rejections, and therefore seek positive reinforcement for their successes. It motivates salespeople to engage in activities and behaviors that will lead to high levels of customer satisfaction and good results for the company.

An effective incentive plan can be a significant source of enthusiasm and inspiration for the sales force. On the other hand, an ineffective plan can cause salespeople to feel discouraged and disengaged. If the incentive plan is inadequate, top salespeople may not want to work for the company, and above-average salespeople may leave in search of better opportunities.

Salespeople may not be motivated to work hard or may focus on the wrong customers, products or sales activities. Worse, they may spend their time looking for ways to manipulate the incentive plan to maximize their personal gains, rather than acting the best interest of the company and its customers. Customer relationships could deteriorate. Sales, growth, market share or profits may not meet the company's expectations. An inappropriate sales incentive plan, or poor implementation of a good plan, has

the potential to cause considerable damage to a company.

In addition, it is crucial that incentive plans adjust to changing circumstances over time. Strategies that were effective in certain contexts yesterday may not be effective in the future. Incentive-based compensation is vital for sales managers because it involves high costs, considerable impact, risks of misdirection and the constant need to adapt. Developing and administering an effective sales incentive program is a complex and demanding challenge within the field of sales management. The following explores several success and failure stories in the creation of these plans.

Why Do Companies Use Sales Incentives?

There are multiple characteristics of sales jobs that make it desirable to incorporate variable pay a salesperson's total income:

Salespeople drive the company's main revenues.

In many companies, the sales force is the main revenue driver: a highly motivated sales force generates more sales than a less motivated one. This is especially true in sales environments with high sales force causality, where the skill, knowledge, motivation and effort of the sales force are significant determinants of sales. For example, in competitive markets such as insurance sales, securities brokerage, real estate, and office products, sales success depends primarily on the effectiveness of the salesperson. For many salespeople in these industries, their income is completely variable.

Variable pay is also used in environments with less sales force causation, but usually as a supplement to salary. For example, in the health and beauty products industry, marketing tools such as brand name, pricing and advertising have a greater impact on sales than the sales force itself.

Most salespeople in this industry receive the majority of their income through salary, but they also earn a small component of variable pay. Variable pay is used to reward achievement and is highly motivating when salespeople feel they can influence the outcome.

When there is sufficient sales force causality, the sales force will

Variable pay can inspire a sales force to work hard to achieve aggressive sales, growth, profit and market share goals.

Salespeople's output is usually measurable.

Variable pay for sales forces is possible because a salesperson's performance is generally measurable and comparable. Most companies monitor sales, cost and other company performance metrics at the territory level.

Results by territory can be compared with the previous year's results, the territory's market potential, territory-specific targets or national or regional averages, and sometimes even with the competition.

This benchmarking allows management to objectively measure the performance of each salesperson, identify those who are performing well and assess the value each brings to the company.

As sales organizations become more complex, with shared responsibilities for results and diffuse causalities among various members of the sales team, the role of variable pay must also evolve. This is a transition that companies need to manage appropriately.

Variable pay ensures that salespeople (who are largely unsupervised) produce results.

Incentive pay also helps with control and risk management. Salespeople often work alone and unsupervised. Many of them spend the vast majority of their time "on the road" visiting customers.

As a result, management cannot know exactly how salespeople are using their time each day. A manager cannot look over a salesperson's shoulder and provide guidance or tell him or her to "get back to work." By paying for results, management provides the sales force with a strong financial incentive to work hard and achieve what is expected.

Variable pay recognizes a salesperson's success.

Many sales jobs lack the supportive social interaction that comes from working with supervisors and colleagues on a daily basis. A salesperson's primary social contacts are with his or her customers.

Sales work also involves considerable rejection, and in some environments, customers perceive the salesperson as intrusive. An incentive payment provides both a reward and a measure of a salesperson's success. Incentives provide the motivation to follow through and to achieve the

next sale.

Sales work attracts people who are excited by the possibility of high returns through incentives. Many sales jobs would not attract people with the right skills, abilities and instincts if the compensation consisted solely of a salary.

As markets and business strategies evolve, successful companies adapt their sales incentive compensation plans to ensure that the energy of the sales force remains properly aligned. Most companies adjust their incentive compensation plans at least annually and make major changes to these plans every two to three years. The decision to modify a sales incentive compensation plan is never taken lightly, as it can have a significant impact on customers, salespeople and company performance.

The Desire to Improve

World-class sales forces do not wait for major changes in the market and the company to make adjustments in incentive plans necessary. Successful companies are constantly looking for improvements, especially in areas such as incentive compensation, which are closely tied to sales success.

The sales incentive plan influences the company's ability to attract and retain good salespeople. A plan that is not competitive will not attract the best salespeople to the company. In addition, an inadequate plan can cause top revenue generators to leave, while average salespeople stay with the company too long.

Management can also improve the company's ability to motivate and direct salespeople's activities the incentive plan. For example, management may feel that veteran salespeople have become complacent and are not motivated to seek new customers because they can live comfortably on the high commissions they earn from recurring business. Or it may feel that the sales incentive plan no longer conveys a message consistent with the company's objectives.

To illustrate, if the company wants to emphasize long-term relationships and customer service, but pays salespeople for short-term results, a change in the incentive plan can help the company reach its goals faster. , management feels that a sales force compensation plan has become too complex to be motivating. A sales manager at XYZ might advise a new salesperson during training as follows:

"Don't worry about the compensation plan; it's so complex it's almost impossible to understand. Just do your job."

The Sales Force Compensation Challenge

Designing and implementing an effective sales incentive plan represents a considerable management challenge. The impact of such a plan can be significant and the dynamics involved can be subtle.

Three main stakeholder groups are affected by the compensation plan: **the company, the sales force and the client.**

These three groups make decisions and see results. The company decides on a compensation plan. The sales force decides how they will spend their time. Although numerous factors affect the salesperson's choice of activities, the compensation plan has a significant influence. The customer decides whether to buy the company's products or services.

Although many factors influence customer purchasing decisions, the sales compensation plan affects the relationship between salespeople and customers and, therefore, influences customer satisfaction and purchasing decisions.

It is important to note that the company can only decide on the plan. The other two decisions, sales force activities and customer purchases, are not under its direct control, although they are influenced by the selected compensation plan.

Since each stakeholder has a different perspective, each is looking for different results. Customers want their needs to be met. They want a good product at a fair price, along with the right mix of advice, service and support through an effective working relationship with the selling company. Salespeople want good compensation, recognition and job satisfaction. The company wants to achieve its goals, which may include sales, profit, growth or market share targets.

Customers make their purchasing decisions based on the degree to which they expect their needs to be satisfied. Salespeople make decisions about how to allocate their time based on how effective they believe different activities will be in generating the results they want. The company makes decisions about its incentive plan based on the plan's projected impact on important company metrics. A thorough assessment of this impact requires understanding how the incentive plan affects the decisions of both customers and salespeople. It is a challenge to create an incentive plan that simultaneously meets the needs of all three groups.

To be effective, incentive plans need to be simple. However, in an increasingly complex world, it becomes more difficult for a company to distill the key messages it wants to convey to the sales force into a simple incentive plan.

- The best incentive plan from the perspective of the

The customer is the one that motivates salespeople to adopt behaviors that meet customers' needs. Customers also want a plan that allows the company to offer reasonable prices.

- The best plan from a salesperson's perspective is one that is easy to understand, fair and offers good compensation for reasonable work.
- The best plan from the company's point of view is one that produces the desired results, retains good salespeople and helps the company achieve its corporate objectives.

An effective compensation plan balances these sometimes conflicting objectives to satisfy the needs of customers, salespeople and the company at the same time.

The Sales Management System

Sales compensation is only one component of an effective sales management system. It is not possible to successfully diagnose sales compensation problems and develop effective solutions without understanding the entire sales management system and the role of the incentive compensation plan within this system.

Often, companies attribute their problems to the compensation plan when, in fact, the real source of the problems lies elsewhere within the compensation system.

sales management.

For example, sales force activities affect customer outcomes, and customer outcomes impact company outcomes. Meanwhile, salespeople's skills, capabilities, values and motivation drive their behavior and activities.

Finally, every sales organization needs to make a set of fundamental decisions that affect salespeople, and in turn sales force activities, customer outcomes and company results. These fundamental decisions are called the drivers of sales force effectiveness. Sales compensation is just one of these drivers.

Fundamentals of Compensation Plans

In the corporate world, designing an effective compensation plan is crucial to attract, motivate and retain key talent. Compensation plans are not just about base salary, but encompass a variety of benefits and variable payments that align with the company's strategic objectives and labor market expectations.

These plans are meticulously designed to balance fixed compensation with variable performance-based incentives, ensuring that the pay structure adequately motivates employees and is aligned with the

desired business results.

In considering the fundamentals of compensation plans, crucial aspects such as determining the appropriate pay level, the optimal mix between salary and incentives, and the performance metrics that underpin variable pay are explored.

This integrated approach not only optimizes the organization's financial resources but also fosters a culture of high performance, encouraging employees to achieve and exceed their goals. Now let's look at some fundamental concepts

Revenue Producers Vs Sales

It is easy to confuse revenue producers with sales reps and vice versa. Revenue producers and sales representatives are very similar. Both sell products to customers. Both earn incentive compensation based on sales results. They even share similar types of commission formulas. However, the underlying economic principles differ between revenue producers and sales reps.

Income producers split a portion of their commission-earnings from sales transactions-with their employer. For example, stockbrokers earn a commission on each purchase or sale transaction. Part of the commission is paid to the broker-the revenue producer-and part to the brokerage firm. , the producers

income producers receive no base salary or a modest advance. Sales revenue provides the funding for payments to revenue producers. Pay competitiveness is assessed by comparing commission rates, and actual compensation levels are less relevant.

In fact, employers encourage high earnings, the additional dollars are shared between the employer and the income producer. The more the income producer earns, the more the company earns. Little attention is paid to high or low pay. In the long run, macro labor market trends influence adjustments to income producer earnings by increasing or decreasing the number of income producers working in the market, and as a result, employment levels closely mimic the expansion and contraction of income producer markets.

On the other hand, the underlying economic model for sales representatives differs from revenue producers. Sales management identifies the target total cash compensation and performance expectations for the sales rep position. Sales management calibrates the incentive formula and fee levels to ensure that payouts conform to the expected performance distribution for minimum, target and outstanding pay expectations. While the revenue producer's pay level is managed by sales production multiplied by the commission rate, the sales rep's pay is always managed against a preferred target compensation level.

As a sales representative acts on the basis of the

target performance, a portion of the incentive compensation is awarded: low performance generates a low payout and high performance generates a high payout; everything is measured in relation to the target incentive amount. The relationship of payout and sales volume is usually linear for revenue producers.

The relationship between pay and sales volume is usually linear for revenue producers. However, the relationship between earnings and volume is not linear for sales reps. Earnings increase as sales volume increases, but at a decreasing rate. When comparisons are made between the pay line for revenue producers and the pay line for sales reps, the lines clearly differ.

We will create graphs to illustrate the linear relationship between pay and sales volume for revenue producers, and the non-linear relationship for sales reps. These graphs will help visualize how these two relationships differ.



The above chart clearly illustrates the differences in the relationship between pay and sales volume for revenue producers and sales reps:

- **ILgreSoS ProducTionS (Blue Line):** The relationship is linear, indicating that pay increases directly with the increase in sales volume. This is typical for roles where compensation is directly tied to each unit of product sold.
- **RePreSeLtS of VeLtaS (GreenLine):** The relationship is non-linear, where profits increase with increasing sales volume, but at a decreasing rate. This suggests that, although sales increase profits, there is a saturation factor or decreasing efficiency that moderates this increase.

This contrast shows how incentive structures can vary significantly even within functions.

The company's strategy is based on apparently similar objectives, depending on the strategic objectives and market conditions.

2

Compensation Plan Design

Designing or revamping a sales compensation plan can be a challenging task. Any plan designer given this responsibility struggles to know when and how to approach such an important project.

"These projects can take on a life of their own."

Even with a small sales force, the task of redesigning the sales compensation plan can be complex, and the impact of making a mistake significant. This chapter organizes the sales compensation plan design process by introducing some important terms and summarizing four key decisions in sales compensation plan design.

The world of sales compensation plan design has its own language. Terms such as target incentive, target pay

target, payout mix, variable payout, leverage and payout-at-risk are used frequently, but often inconsistently. Here, we define how these terms are used throughout this book.

Key Decisions in the Design of Incentive Compensation Plans

Decision #1 - Payout Level

A first important decision in designing sales incentive compensation plans is how much salespeople should be paid in total. This decision has two parts: the average target payout for each sales position, and how the total payout should vary among salespeople (pay) within each position.

There are large differences in sales force pay levels across industries. There are even differences in pay levels within the same industry. Several factors influence a company's pay level and pay distribution decisions, including:

- **The level of quality and profitability of the sales force**
- **Value in the labor market**
- **Evaluation of the value of the project by the company, payment level and pre-supply history**
- **Variation in size, age, and level over time.**

of the force of veLtaS

- **Corporate culture**

Some companies choose to lead the industry in total pay to attract the best possible candidates. Others choose a total pay level that is competitive within the industry and use alternative strategies to attract top talent, such as providing a favorable work environment, collegial colleagues, an effective management team, professional development, significant opportunity for advancement and/or an attractive culture.

Decision #2 - Wage-Incentive Mix

A second important decision in designing sales incentive compensation is what proportion of a salesperson's pay should be salary and what proportion should be variable pay based on performance.

As with total pay, there is significant variation in the salary-incentive mix across industries. Differences also exist within the same industry as a result of varying management philosophies and cultures. Several factors influence the pay mix decision, including:

- **The firm's veLtaS proGress and the role of the veLtaS force**
- **The level of quality and proLigItly of the sales force**
- **measurability of company and government results**

- **iLduStriAtion standards**
- **HiStory of geStiL emPloYer, gulturaL and philoSophy**

The pay mix decision has a significant impact on sales force culture and influences the degree to which management uses incentives, rather than other drivers of sales force effectiveness (e.g., non-cash motivational programs and performance management systems), to motivate and control the sales force.

Decision #3 - Performance Measures

A third important decision in designing sales incentive compensation plans is what metrics should be used to determine the variable component (and to a lesser extent the salary component) of sales compensation. Most companies tie incentive pay to sales revenue, but other metrics can also be used as determinants of incentive pay. Determining the best performance measure to use requires examining issues such as:

- Should incentive pay be determined by performance metrics (such as sales revenue, units, gross margin, market share and customer satisfaction) or by activity metrics (such as number of calls, proposals or demonstrations)?
- Should the payment be determined by the absolute level of performance, by growth over the previous year,

by percentage of target achieved, or by ranking against peers?

- Should the metrics used for incentives be broken down by market segment, product or channel?
- What proportion of sales force pay should be based on team performance versus individual performance?
- How often should incentives be paid?

These questions help define how and on what terms the sales force is compensated, directly influencing their motivation and alignment with the company's strategic objectives.

Decision #4 - Performance-to-Payment Ratios

A fourth important decision in designing sales incentive compensation plans is to determine how sales force incentive pay should vary with measured performance. Some important decisions about the performance-payout relationship include:

- Should the company adopt a commission plan (where the salesperson earns a specified percentage of each sale) or a bonus plan (where a bonus is earned only if a certain level of sales or other target is reached)?
- Should plan payout accelerate as performance increases, or should earnings decelerate once a goal or other threshold has been reached?

- Should incentive plan be limited?
- Should the plan pay from the first dollar or from a goal or some fraction of the goal?
- Should the plan payment be based on a single measure or multiple ?

There are many factors that drive incentive plan design. Industry practice, the company's financial situation, product marketing strategies, the company's sales process, sales force causality, data availability and accuracy, and the company's culture and management are all important factors for plan designers to consider.

Elements of Compensation Plan Design

Each sales compensation plan is the sum of decisions made about these design elements. The design elements are as follows:

- **Eligibility**
- **total Compensation target effectiveness**
- **Payment mix and leverage**
- **reimbursement and older age measurement**
- **quota distribution**
- **reimbursement reimbursement rate**
- **reimbursement and payment periods**

Decisions on these design elements must be made in the following ways

before selecting the appropriate formula. All sales compensation plans for sales rep positions share these same design elements. A company can build a consistent sales compensation program by adopting one set of design principles for all design elements.

Sales management can then apply these design principles to all sales positions by building sales compensation specific to each position. In this way, sales management creates a sales compensation program consisting of individual sales compensation plans, while each plan is consistent with the company's design principles.

Eligibility

What positions should be eligible for sales compensation? There are many different types of jobs within the sales department. Not all should be eligible to participate in the sales compensation plan. Establishing a job eligibility policy will resolve the confusion regarding which jobs and their holders should participate in the sales compensation program.

This decision on eligibility in the sales compensation plan does not exclude ineligible jobs and their holders from participating in other incentive plans such as profit sharing, additional plans and bonus plans.

management.

The most common eligibility criteria require incumbents to have the following qualifications

- (1) have contact with the customer and
- (2) persuade the customer to act in the company's best financial interest.

Of course, this would include salespeople, telemarketers, channel sales reps and many other customer contact personnel. It would generally exclude jobs such as assistant district manager or headquarters product managers.

However, companies adopt different practices from those mentioned above. Some companies are more expansive with their eligibility rules; others are more restrictive. Regardless, a company needs to establish criteria for sales compensation eligibility. In the absence of such a policy, continued confusion will arise as to what jobs are or are not eligible for sales compensation.

Total Payment Objective

Sales employees who achieve expected performance earn target total cash compensation (CTEO). Depending on individual performance, some sales reps are paid a CTEO.

tion of the sales force will earn more and others will earn less.

Using survey data and applying management judgment, management establishes a CTEO for each position. Total compensation for sales jobs includes the following cash and non-cash components:

- **Salary BaSe:** Most sales representatives are paid a base salary.
- **SALES COMPENSATION:** Sales compensation is the variable pay linked to sales performance.
- **BeLefigioS:** Sales representatives participate in the company's benefit programs.
- **CoLgurS/SPIFS:** Management uses additional contests and SPIFs, or special program incentive funds, to reward special efforts.
- **RegoLogiMiNg eveNts:** Most companies provide a special annual recognition event for outstanding salespeople.
- **GaStoS reimbursement:** Expense reimbursement covers the out-of-pocket costs of sales representatives.

Total target cash compensation includes both base salary and sales compensation components. Excludes benefits, contests and/or spiffs, recognition events and sales expense reimbursement.

Don't OVERpay Li de MeLoS for the reLiMiNg of VeLtaS.

For sales reps, they should not be paid significantly more or less for sales performance in com-

parity with market practices. High pay will incur excessive sales costs, while underpayment will raise costs in other areas such as low productivity, high turnover and low morale. Ensure that market comparisons are consistent with the range of sales performance by matching expected pay to survey data for the 25th, 50th, and 75th percentile of market pay amounts.

Establishing the correct CTEO requires collecting accurate external pay and making judgments regarding internal equity among all sales jobs and perhaps other jobs within the company. Some companies prefer to take a more aggressive competitive pay position compared to labor market rates, while others prefer to be more conservative. Regardless, sales management needs to review and manage CTEO consistently year over year. This includes capturing external labor market data from reliable survey sources on an annual basis and making necessary adjustments to target pay levels.

Payment and Leverage Mix

The baSe Salary is the fixed amount of compensation that salespeople receive, regardless of how much they sell or how well they perform in the short term.

The iLgeLtive target is the amount of money the company expects salespeople to earn in variable pay (or pay per

incentive), including bonuses and/or commissions.

The actual amount of variable pay each salesperson earns depends on how well he or she performs; the target incentive is based on the company's prediction of what that performance should be. Base salary plus target incentive is often referred to as **target pay**.

The target pay mix refers to the proportion of total target pay that is base salary versus target incentive.

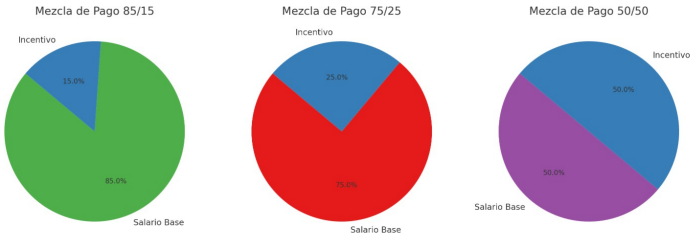
The pay mix is often expressed as the percentage of salary relative to the target incentive percentage.

For example, plans with a target payout mix of 85/15, a target payout mix of 75/25 and a target payout mix of 50/50.

Graph on Pay Mix (Mix):

Now, let's create a graph illustrating the different types of target payout mixes mentioned: 85/15, 75/25 and 50/50.

THE DESIGN OF COMPENSATION PLANS



In the graph above, three "Payout Mix" scenarios are presented with the following distributions:

1. **85/15 Pay Mix:** This distribution shows that 85% of the target pay comes from base salary and 15% from incentive. This is typical in roles where stability in the salesperson's income is desired, minimizing the variable proportion dependent on performance.
2. **75/25 Pay Mix:** In this configuration, 75% of target pay is base salary and 25% incentive. It offers a balance slightly more tilted toward incentives, allowing for more variability in performance-based income.
3. **50/50 Pay Mix:** Here, the mix is evenly split between base salary and incentive, indicating that the salesperson's income depends significantly on both fixed salary and sales performance.

Each pay mix configuration has strategic applications depending on the nature of the sales role, the industry, and the company's compensation strategy.

It is important to note that the target pay mix may differ from the actual pay mix. The company's compensation plan specifies the target pay mix. However, the actual pay mix depends on how well the sales force performs relative to expectations.

For example, suppose a company expects its sales force to average \$1 million in sales per salesperson. Each salesperson receives a base salary of \$50,000 plus a 5% commission on sales. Thus, the target incentive is \$50,000 ($\$1 \text{ million} \times 5\%$), and total target pay is \$100,000 (\$50,000 base salary plus \$50,000 target incentive). The target pay mix is 50/50.

Now suppose the company's estimate of \$1 million in sales per salesperson turns out to be incorrect and the sales force actually sells \$1.2 million per salesperson. Sales above expectations could be the result of several factors, including an extraordinary effort by the sales force, an unexpected change in the market, or a poor initial sales forecast.

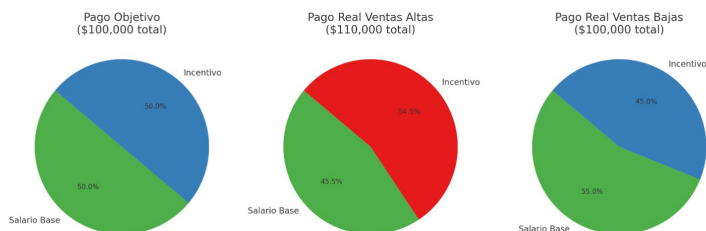
In this example, the actual incentive is \$60,000 ($\$1.2 \text{ million} \times 5\%$), and the actual pay is \$110,000 (\$50,000 base salary plus 60,000 incentive). The actual pay mix is approximately 45/55.

Similarly, if sales force performance is below the \$1 million per salesperson expectation, salespeople will earn less than the target incentive amount and the actual pay mix will contain more than 50% salary and

less than 50% incentive.

Target and Actual Payout Mix Figures:

We will create graphs illustrating the target and actual payout mix in the proposed scenario, showing both results.



In the graph above, three "Payout Mix" scenarios are presented to illustrate the differences between the target payout and the actual payout under different sales conditions:

1. **Target Pay (\$100,000 total):** This scenario shows a target pay mix of 50/50, split evenly between base salary (\$50,000) and incentive (\$50,000). This is the plan set by the company based on sales expectations.
2. **Actual High Sales Pay (\$110,000 total):** Here, sales exceeded expectations, reaching \$1.2 million per salesperson, resulting in an actual incentive of \$60,000. This adjusts the pay mix to approximately 45/55, slightly favoring incentive over base salary.

3. **Real Pay Low VeLtaS (\$100,000 total):** This is a hypothetical scenario where performance is lower expected, and salespeople earn a \$45,000 incentive with a base salary adjusted to \$55,000 to keep the total at \$100,000. The pay mix in this case would be about 55/45, favoring salary over incentive.

Each graph helps visualize how variations in sales performance affect the salary and incentive ratio, reflecting the flexibility and dynamics of the compensation plan based on actual performance.

It is also important to note that the target pay and target pay mix concepts are averages across all salespeople. Those salespeople who perform well will earn more than the target pay level, while those who perform poorly will earn less than the target level.

The quintessential incentive is the amount of incentive pay above and beyond the target incentive that the company's top salespeople (e.g., those in the top 5 to 10 percent of the sales force) are expected to earn.

The incentive for excellence is \$25,000 for the low plan, \$50,000 for the medium plan and \$150,000 for the high plan. The quintessential incentive plus target incentive is the potential variable pay a salesperson can earn. Variable pay is another term for incentive pay; it includes all bonuses and/or sales force commissions that vary with the

performance.

Pay mix is a statistic that shows how much variable pay the company wants to provide to its sales force. Another useful statistic, the leverage multiple, provides a measure of how much incentive the company is willing to provide to its top performers.

The leverage multiple is defined as the sum of the quintessential incentive plus the target incentive divided by the target incentive.

Using this definition for the plans shown above:

- The high leverage plan has a leverage multiple of 4 $[(\$150 + \$50)/\$50]$.
- The average leverage plan has a leverage multiple of 3 $[(\$50 + \$25)/\$25]$, and.
- The low leverage plan has a leverage multiple of 2.7 $[(\$25 + \$15)/\$15]$.

High leverage plans combine a high mix of variable pay with a high leverage multiple. They have a significant upside variable payout opportunity. A plan with low leverage has a small variable pay opportunity; this occurs when a substantial portion of the target pay mix is salary and the quintessential incentive is small.

Note that all three payment plans have the same total payment

However, the three plans differ greatly in the amount of potential variable payout and the amount of leverage.

Note that there is a positive relationship between leverage and total payout opportunity. A salesperson with exceptional performance earns only \$125,000 with the low leverage payout plan. However, he is guaranteed to earn at least 85,000, regardless of performance.

On the other hand, a salesperson who achieves exceptional results under the high-leverage pay plan has a much greater advantage, with incentive earnings-she can earn as much as \$250,000, or five times her base salary. However, she could earn as little as \$50,000 if her territory's performance is poor.

Typically, a payment plan with a large variable component will have a higher upside earnings opportunity but lower guaranteed earnings, while a plan with a smaller variable component will have less upside earnings potential but a higher earnings guarantee.

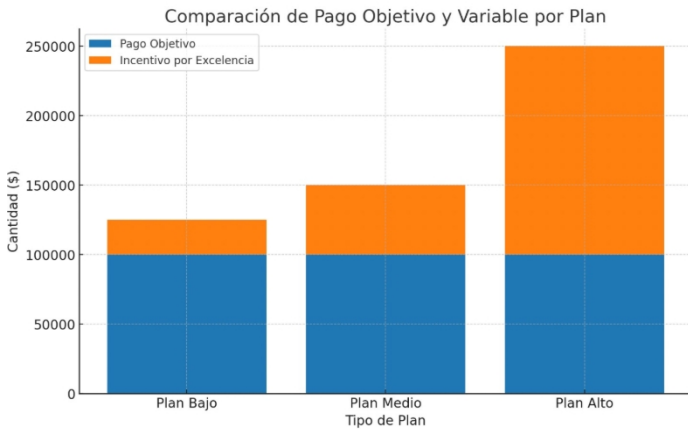
GraphiGe creagiol for the Mt'lipleS of ApalaLgamieLto:

We will create a stacked bar chart illustrating the target pay and potential additional variable pay (quintessential incentive) for the low, medium and high pay plans. This visualization will allow us to compare how compensation is structured in each plan in terms of fixed and additional variable pay based on exceptional performance.

Chart Details:

- **Low Plan:** \$100,000 total target payout, with a \$25,000 incentive for excellence.
- **Medium Plan:** \$100,000 total target payout, with a \$50,000 incentive for excellence.
- **High Plan:** \$100,000 total target payout, with an incentive for excellence of \$150,000.

Each bar will represent the target payout (\$100,000 for all plans) and the maximum additional variable payout depending on the plan. Let's create the chart.



In the stacked bar chart above, the composition of the **Target Payment** and the **Incentive per Excellence** for each of the compensation plans is shown:

1. **Low PlaL:** Consists of a target payout of \$100,000 and an additional \$25,000 excellence incentive, indicating a total potential earning opportunity of \$125,000 for top performers.
2. **Medium PlaL:** Has a target payout of \$100,000 with an incentive for excellence of \$50,000, reaching a potential total of \$150,000 for high performance.
3. **High PlaL:** Offers a target payout of \$100,000 plus a significant incentive for excellence of \$150,000, resulting in a maximum potential payout of \$250,000 elite salespeople.

This chart clearly illustrates how higher incentive plans for excellence offer significantly higher rewards for exceptional performance, potentially motivating the sales force to achieve higher sales levels.

Performance Measures and Weightings

The art of designing effective sales compensation formulas lies in the discipline of selecting and weighing appropriate performance measures. The selection of performance measures for inclusion in the sales compensation plan marks the point where strategy is translated into tactics.

When sales management selects a performance measure for the sales compensation program, sales leadership officially sanctions that measure. A

Once the leadership team selects the performance measures, the next step is to establish the relative importance of each measure. This is done by weighting the performance measures. The following paragraphs discuss concepts related to selecting and weighting performance measures.

The uniqueness of any sales compensation lies in its performance measures. There are dozens of different types of performance measures, but the most common and practical ones fall into five main categories:

- **Volume production measures:** Volume production measures are the most popular and appropriate performance measures for sales compensation purposes. Production measures include three categories: sales revenue (purchase, continuation, renewal and estimated), cash in profit (gross margin, contribution) and items (units, or contracts).
- **Sales effectiveness measures:** Sales effectiveness measures help improve sales results by focusing sales efforts on product areas (balance, mix, launch, cross-sell, packages, solutions), accounts (new, retained, penetration, growth, recovery), orders (close rate, size, contract length, linearity and accounts receivable), and price management (discounts, rebates, realization and percentage change).
- **Impact measures:** Customer impact measures assess sales satisfaction (customer surveys).

customer, number of complaints) and loyalty (order persistence, market share and survey scores).

- **Resource utilization measures:** Resource utilization measures confirm the effective use of resources, including the following measures: productivity (cost per order dollar, quota sales load), channels (partner success, partner participation rates, point-of-sale performance) and subordinates (for supervisors - balanced performance, turnover and ramp rate of new contracts).

PoLderagioL of performance measures: Senior management confirms the importance of each performance measure by allocating a 100 percent share to each measure.

Use NO MORE THAN THREE OUTPUT MEASUREMENTS in THE VeLT CompeLSagIO n PlaL.

Sales compensation plans work best with three or fewer performance measures. Limiting performance measures ensures that those selected receive the full attention of the sales force. Use output measures tied to actual sales results and avoid input measures such as pre-sales activity measures, e.g., number of sales calls or written proposals. No single measure should be worth less than 15 percent. The sum of the weights always equals 100 percent. Each job has its own unique set of performance measures and weights.

Distribution of Quotas

The quota distribution sets the desired difficulty of the quotas. If the quotas are too easy, the sales compensation plan may overpay. If the quotas are too difficult, the sales compensation program may underpay.

A preferred quota distribution target is to have two-thirds of salespeople meeting and exceeding quota and one-third not. This performance distribution allows for cross-funding of additional pay to high performers by transferring a portion of the target incentive pay from underperformers to top performers. This distribution of two-thirds above quota and one-third below quota is a target distribution result.

Over the years, the distribution may be skewed in one direction or another; however, in the long , the preferred distribution should favor a split of two-thirds exceeding quota and one-third not exceeding quota.

A more mathematically rigorous model might suggest a 50/50 quota distribution target, with 50 percent exceeding quota and 50 percent not reaching quota to ensure that the cross-funding of those below quota and those above quota is balanced.

However, due to the use of thresholds and the impact of the

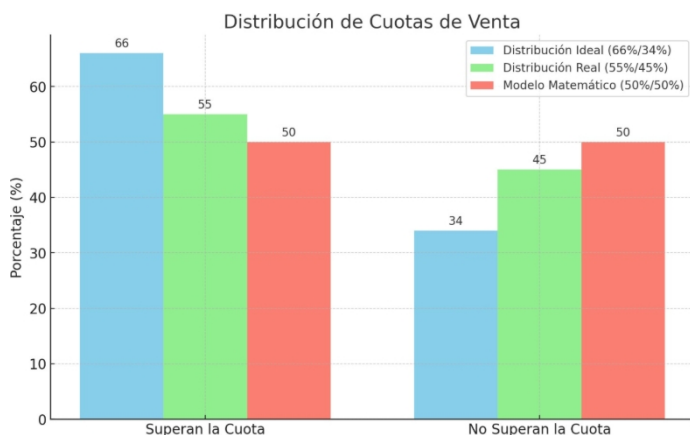
In the case of terminations, the two-thirds versus one-third model appears to provide the right balance of cross-funding. Most companies report an actual practice of approximately 55 percent of sales staff meeting and exceeding quota, a number below the preferred target of 66 percent.

To visually illustrate the concepts discussed in the previous paragraphs, we will create a graph showing quota distribution and how it affects sales force performance. The graph will depict the ideal model of two-thirds of salespeople meeting and exceeding quota versus one-third not doing so, and compare this to a 50/50 model to show how quota distribution can influence the overall compensation of the sales team.

Concepts to be Represented in the Graph:

1. **DiStribugióL Ideal (66%/34%)**: Two-thirds exceed the quota and one-third do not exceed it.
2. **Actual Reported DiStribUtion (55%/45%)**: More than half of the team exceeds the quota.
3. **RiguroSo Mathematical Model 50%/50%**: An exact balance between those who exceed and those who do not exceed the quota.

We will proceed to create the graph reflecting these distributions.



In the graph presented, three quota distribution models for sales personnel are compared:

1. **Ideal DiStribUtion (66%/34%)**: Shown light blue, this model suggests that two-thirds of salespeople exceed the established quota, while one-third do not reach it. This is the preferred model as it promotes a balance between high motivation and realistic challenge, allowing for effective cross-funding of rewards.
2. **Actual Reported DiStribUtion (55%/45%)**: Shown in light green, this reflects current practice in many companies where approximately 55% of sellers exceed quota. This percentage is below the ideal target, which could indicate that the quotas are possibly set too high or that the company is not meeting its target.

sales capacity is being underestimated.

3. **Rigorous Mathematical Model (50%/50%):** In salmon color, this theoretical model proposes an equal split where half of the sellers exceed quota and half do not. This model is useful for maintaining a strict balance but may not be appropriate in all industries or contexts, as it may not adequately reflect variations in individual performance and market conditions.

Proper selection of quota distribution is critical to ensure that the sales compensation plan is both motivating and fair, aligning the interests of the sales force with the company's financial objectives. Periodic adjustment and review of these objectives are crucial to maintaining the competitiveness and effectiveness of the sales team.

Performance Range

The performance range specifies the low and high dispersion of performance for payout purposes. The low point of this range represents minimum performance, where performance below this level should receive no incentive payout. The high point of this range represents excellent performance, where outstanding performance should receive an outstanding payout, such as 3× leverage.

The performance range of a measurement differs from that of a measurement.

to another, from one job to another, from one company to another, and from one industry to another. As an example, the yield range for an established consumer product is typically very narrow. Sellers are unlikely to sell more than 105% of target. , the possibility of falling below 95% of target is also remote.

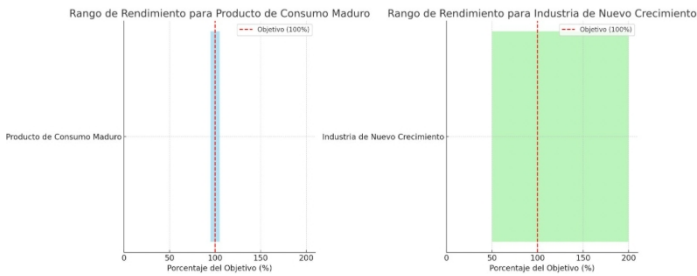
Mature consumer products have a very predictable and narrow performance . On the other hand, new growth industries could have a very wide performance range. As an example, sales of 200% above target could be the norm for exceptional performance, while 50% of target could be considered a typical minimum performance.

Each performance measure has its own performance range. Sales management can best determine the performance range for a given measure by examining its historical range.

GraphiGe CreAgioS:

We will create two graphs that visually represent the performance ranges discussed:

1. A chart for a mature consumer product with a narrow performance range (95-105% of target).
2. A chart for a new growth industry with a wide performance range (50-200% of target).



The graphs presented illustrate the performance for two types of industries:

1. **Mature CoLSumo PRODUCT:** This graph (on the left, in light blue) shows a very narrow performance range of 95% to 105% of target. This reflects the predictability and stability in mature product sales, where dramatic changes in performance are unlikely and sales expectations are well established.
2. **New Growth ILduStrY:** The chart on the right (in light green) exposes a much wider range of returns, from 50% to 200% of target. This wide range indicates volatility and significant growth opportunities in emerging industries, where sellers can have extremely varied returns due to the innovative and less predictable nature of the market.

Each horizontal bar represents the performance spectrum

expected for salespeople within those industries, with the dashed red line marking the base performance target of 100%. These charts help visualize how sales management must tailor compensation strategies to fit the specifics of the industry and the maturity of the product offered.

Performance and Payment Periods

Performance periods and payment periods work together. Sales management establishes the performance period for each measure in the formula: the length of time between performance measurement periods. This time interval can be a week, a month, a quarter, or even as long as a year. Shorter sales cycles generally have shorter performance periods; longer sales generally have performance periods.

The payout period determines when the incentive payment occurs. Normally, the performance period and payout period are the same, e.g., measured and paid quarterly. Additionally, the performance and/or payout periods may be discrete or cumulative.

- **DISCRETE:** Discrete performance/payment periods are considered separate for measurement and payment purposes. For example, a sales compensation plan that pays "discrete monthly" treats each month as a period of

independent measurement and payment. Past or future months' performance will not affect an individual month's payment. Use discrete measurement periods shorter than annual when sales cycles are short and sales personnel do not have the flexibility or self-motivation to move orders from one period to another.

- **CUMULATIVE:** Use a cumulative performance/payment period when you want the seller to be paid in more frequent intervals than the final measurement period. As an example, "paid quarterly on cumulative year-to-date performance" provides payments each quarter based on performance.

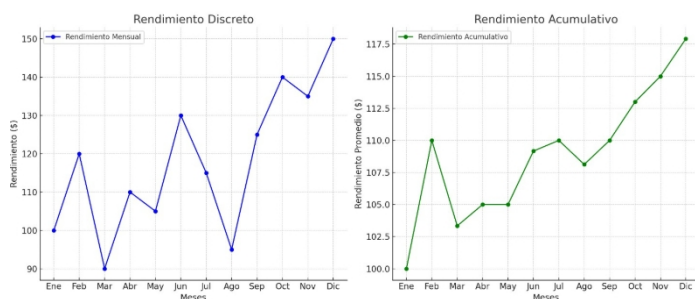
As the cumulative period to date performance/payment periods, the seller always bears the responsibility for year-to-date performance even if payments are made on a quarterly basis.

Each quarter, the year-to-date yield and incentive are calculated. To make quarterly payments, previous quarterly payments are subtracted from the year-to-date amount before the final quarterly payment is made. A sales compensation plan could have several formula components. Some may be paid on a discrete performance/payment period, while others may be paid on cumulative performance/payment period to date.

GRAPHiGE CreAgioS:

We are going to create graphics that visually represent the concepts of the

The use of "discrete" and cumulative" pay and performance periods will help illustrate how these methods influence sales planning and compensation. This will help illustrate how these methods influence sales planning and compensation.



The graphs presented illustrate two methods of calculating and paying returns in a sales compensation plan: **Disgregated** and **Agumulative**.

1. **DiSgreTed reLimiMiTy** (blue graph on the left):

- This graph shows the monthly yield measured and paid independently each month.
- Each point represents the performance of a specific month, treated as a separate pay period.
- This method is suitable for short sales cycles where sales activities are completed within monthly periods and there is no benefit in accumulating results from month to month.

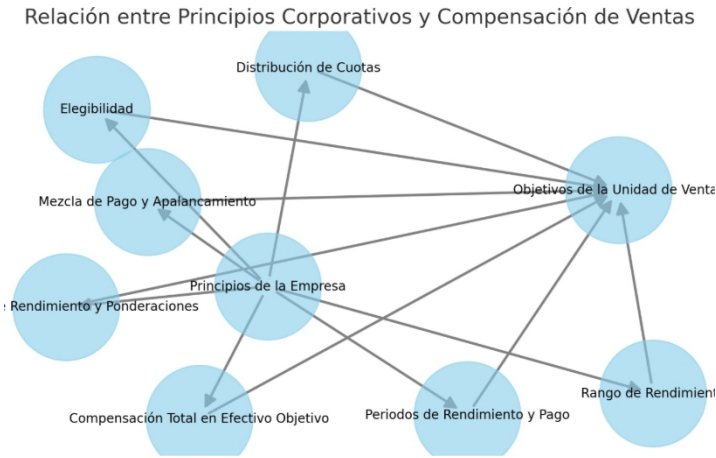
1. **Agumulative growth** green graph on the right):

- This graph represents the average cumulative month-to-month performance.
- Each point shows the average performance up to that month, accumulating all previous months of the year.
- This method benefits sellers by allowing them to adjust returns to meet annual quotas or targets, smoothing out variations that may occur over short discrete periods.

These methods reflect different management philosophies and can be selected based on the nature of the industry, product and associated sales cycles. Cumulative performance and payout periods are especially useful in industries with large deals or sales that may take several months to close, allowing sales efforts to be evaluated in the context of an annual target rather than possibly erratic monthly returns.

A company needs to establish sales compensation principles such as eligibility, target total cash compensation, pay mix and leverage, performance measures and weights, quota distribution, performance range, and performance and pay periods to effectively manage sales compensation practices. As markets, products and corporate objectives change, so will sales jobs and their corresponding sales compensation plans. By documenting the company's dominant principles, the sales compensation design process should create plan designs consistent with corporate principles, but aligned with sales unit objectives.

To visually illustrate these concepts, we will create a diagram that shows how sales compensation principles interrelate and support corporate and sales unit objectives. This diagram will help you understand how effective sales compensation design aligns dynamic changes in markets and business objectives.



In the diagram presented, we visualize how the **Corporate PRILIGIPES** influence various aspects of the **VeLtaS Com- peLSagioL Plan**, and how these, in turn, are aligned with the **VeLtaS unit's Objectives**.

Diagram Description:

CeLtral Node (" PriLigiPiPes"): Represents the company's core principles and values that guide all compensation decisions.

ILtermediate Nodes: Include key elements of sales compensation such as:

- **Eligibility**
- **Total CompeLSagioL Total Target cash flow**
- **Payment Mixing and ApalaLgamation**
- **reLimItAtIion and PoLderage MeASurAtIonS**
- **dues distribution**
- **ReLimItItIoN raLge**
- **ReLiMiTy and paymentT Periods**

Each of these elements is directly influenced by corporate principles, ensuring that compensation policies and practices are not only fair and effective but also consistent with the company's values.

FiLal node ("Sales unit objectives"): This node represents how all elements of the compensation plan should be strategically aligned with specific sales unit objectives, facilitating the achievement of overall corporate goals through well-structured incentives.

This structured design helps to ensure that sales compensation not only adequately motivates personnel and

reflect its performance, but also support the company's broader business objectives, adapting dynamically to changes in the market and corporate strategy.

3

Making Compensation Plan Decisions

Sales compensation plans not only need to attract and retain talent, but also motivate the sales force to meet and exceed their strategic objectives. This chapter delves into how organizations can make informed and strategic decisions about their sales compensation , ensuring that they are aligned with broader corporate goals and market dynamics.

Determination of the Correct Payment Level

Determining the pay level for each sales position is an important sales management decision that has two components: determining the average target pay for the position, and determining the variation in pay between different levels of performance and seniority. Paying too little means

that the company will not be able to attract salespeople with the skills, knowledge and/or motivation to do the job effectively.

Good executives will leave the company in search of more lucrative opportunities, resulting in low sales force productivity, loss of customers and the need to constantly recruit and train new salespeople. However, overpaying the sales force also creates problems.

The company sacrifices profitability and creates a sense of entitlement to high pay through the sales force. Overpaid salespeople may become complacent and unmotivated to work harder to earn more money. Bad executives will not leave the company voluntarily, as they will not be able to find another job that pays as well.

While it is relatively easy to increase pay, it is very difficult to reduce it once it is out of control. Although the term pay level implies that there is a single number (sales force target pay), there is really a distribution around target pay. Some salespeople will earn more than the target pay, while others will earn less, based on seniority and/or performance.

Some companies set their target pay level appropriately, but have problems because their distribution around the target pay is inappropriate and demotivating. A common problem is that low performers are paid too much and high performers are paid too much.

little. This leads to excessive turnover among the company's best salespeople, those the company does not want to lose. At the same time, underperformers stay too long.

The opposite situation is also possible: the variation between low- and high-performing executives may be too great. For example, in some situations, new salespeople earn so little money before they can build a "pipeline of business" that few survive more than a few months. There may be many signs that the current level of sales force pay is not working well.

The Range of Sales Force Pay Levels

There are two parts to the sales force pay level decision:

1. **The first part of the decision is establishing the target pay level.** In other words, how much should a salesperson who meets the company's expectations earn? Actual earnings will depend on the degree to which these expectations are missed, met or exceeded.
2. **The next part of the sales force pay level decision is to determine how much VARIABILITY in pay should exist across the sales force.** For example, how much more than the target pay level should a high performer earn, and how much less than the target should a salesperson who does not meet the target receive?

How much should an experienced salesperson who reaches his or her target earn compared to a new person who reaches his or her target?

Sales force pay level and pay variation are important sales force incentive design decisions.

Determining the Right Pay Level for the Sales Force

There are two main drivers of payout level and sales force variation:

1. **The role of the sales force in the demand management for the company's PRODUCTS and/or SERVICES.**
2. **The value of the labor merger for this type of EMPLOYEE.**

The role of the sales force in demand creation defines the value the salesperson brings to the customer and the company, and the degree to which the salesperson controls the customer relationship. It also depends on the complexity of the sales process, as more complex processes will require salespeople with more skills and experience.

The role of the sales force determines what type of person can be successful in executing the required sales process. Supply and demand in the labor market and industry standards determine what a company needs to pay to

attract and retain salespeople who possess the skills, traits, experience and capabilities necessary to perform the role .

Finding the Best Salary-Incentive Mix

The challenge in designing incentives is to harvest the positives and eliminate or mitigate the negatives. The proportion of sales force pay that comes from salary incentives is often referred to as the pay mix. The salary portion is sometimes called fixed pay, and the incentive portion is often referred to as variable pay. Pay is typically expressed as the ratio of the percentage of cash compensation that comes from salary to the percentage that comes from incentives.

For example, a sales force that receives 70 percent of its income through salary and 30 percent of its income through incentives at the expected or target performance level has a target pay mix of 70/30. The actual pay mix will deviate from the target pay mix if performance is above or below expectations. Pay mix varies widely across industries, companies and sales roles.

Do you have the Right Payout Mix?

When diagnosing payment mix problems, sales leaders must consider all three perspectives within the framework of the sales management system.

- First, the downstream consequences of the payment mix decisions must be verified. Is the current mix attractive to the salespeople the company wants to attract and retain? Does the mix motivate the right activities that lead to the proper treatment of customers and the achievement of the company's financial results?
- Second, the bottom-up consistency of pay mix decisions needs to be evaluated. Does the incentive mix reinforce the company's marketing strategy? Is it consistent with the company's go-to-market strategy, sales processes and sales force roles?
- Third, pay mix decisions should be compatible with salespeople's skills and capabilities, sales force culture, performance management systems, and non-monetary sales motivators.

Payment Mix and Sales Force Management & Control

The impact of the incentive plan on sales force behavior becomes more significant as

the proportion of total compensation that is variable performance pay increases. A low-percentage incentive plan helps direct sales force effort toward important products, customers, or activities; a moderate-percentage incentive does this and is also significant motivator of sales force effort; a high-percentage incentive plan does the same and also helps the company control sales force costs.

At the same time, management's ability to use non-incentive control mechanisms, such as coaching and performance management, varies with the choice of mix. Non-incentive control mechanisms have a fairly large impact on low-percentage incentive plans, but this impact diminishes considerably as the company moves through the moderate to high incentive range.

Management must determine the point along the spectrum possible pay-for-performance levels that is most desirable. Companies will choose different ideal pay mix points depending on how they want to use incentives and management directives to control the sales force.

Payment Mix Evaluation Card

The discussion thus far on how to determine the right wage-incentive mix has examined the market and company that favor compensation plans.

The final mix decision requires that they be considered together. A final mix decision requires that they be considered together.

The pay mix scorecard provides a mechanism for integrating the various factors that lead to an appropriate pay-incentive mix decision. Using an evaluation card, an incentive plan designer evaluates how the various drivers and influences affect the pay mix decision, based on the company's specific situation.

The best scorecards are customized for the specific sales organization.

To visually illustrate the information discussed on the "Pay Mix Scorecard" and how different factors influence the pay and incentive mix decision, we will create a radar (or spider) chart. This chart will show the weighting of various factors for a hypothetical company, based on the details in the last translated paragraph.

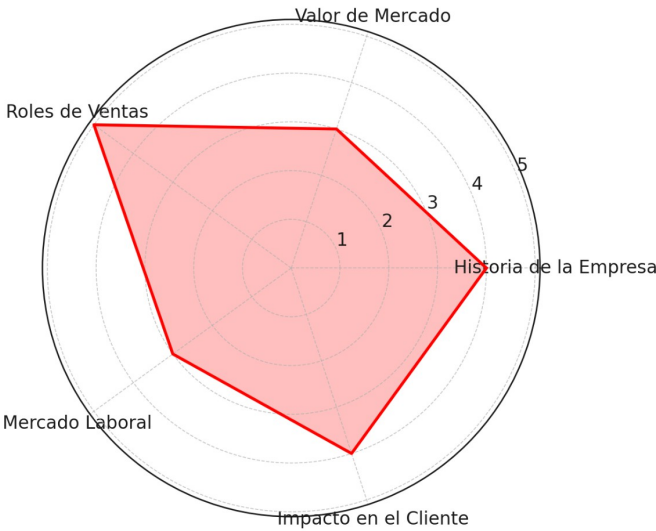
Factors to Include in the Chart:

1. **Company HiStory:** Importance of past practices in the current decision.
2. **Merged Value:** How competitive salaries need to be to attract and retain talent.
3. **VeLtaS Roles:** Differences in payments according to the completeness and demands of the role.

4. **Labor Merger:** Influence of supply and demand for skilled workers.
5. **Customer default:** Importance of the salesperson relationship building and sales.

Each of these factors will be scored on a scale of 1 to 5, where 5 indicates a dominant influence on the pay mix and 1 indicates a minor influence. This scoring will help visualize how each aspect contributes to the formulation of the sales compensation policy.

Tarjeta de Evaluación de la Mezcla de Pago



In the radar graph shown, each point on the perimeter represents a factor that influences a company's payout mix decision. These factors are rated on a scale of 1 to 5, with 5 indicating a very strong influence and 1 indicating a minor influence. Here are the details of each factor:

1. **Company history (4):** The company's history and past compensation practices have a considerable influence on the current pay mix, reflecting a resistance to drastic change and a focus historical consistency.
2. **Merged Value (3):** The market value for similar roles moderately influences the pay mix, ensuring that the company remains competitive in attracting relevant talent.
3. **VeLtaS RoleS (5):** The complexity and demands of sales roles are the most influential factor, dictating the need to attract highly qualified individuals with an appropriate compensation mix.
4. **Labor Merging (3):** Supply and demand in the labor market has a moderate impact, dictating how the mix is adjusted to attract the best candidates without exceeding reasonable costs.
5. **Customer impact (4):** The seller's direct impact on the customer is a critical factor, as it motivates structuring the payment mix in a way that encourages high-quality interactions with customers.

This chart serves as a visual tool to help organizations balance and adjust the salary and incentive mix, aligning it with strategic and operational objectives.

tives of the company, while navigating the complexities of the market environment and internal expectations.

Selection of Performance Measures

Incentives reward successful sales force performance. Performance cannot be judged without evaluation criteria. Selecting the performance measures used to determine incentive plan payout is a critical decision in incentive plan design, and the impact of choosing the wrong measures is significant.

Types of Measures

A variety of measures can be used to evaluate and manage performance, and some of these measures are appropriate for incentive plans. Companies employ two important and complementary sales force effectiveness drivers to influence sales force behavior and activity: sales incentives and sales performance management.

Sales incentives affect a salesperson's variable pay, while performance management consists of the ongoing planning, coaching, measurement, communication, coordination, evaluation and course correction activities that ensure success is achieved or actions are taken.

corrective actions.

This leads to the dilemma between performance management and incentives. Which metrics should be used for incentives and which for performance management?

The Role of Performance Management versus Incentives

Performance management and incentive compensation processes can employ all metrics. These metrics differ in the timing of their impact and measurability. Achievement of salesperson objectives (e., improving sales force product knowledge or improving sales skills) and sales activity objectives (e.g., completing detailed account plans, conducting customer demonstrations, or submitting proposals) tends to have a long-term impact; results may not be fully realized until several incentive periods in the future.

On the other hand, the achievement of customer and company performance objectives has a impact; results are realized in the current incentive period. Outcome are often used in determining incentive payout, as most sales organizations have significant short-term pressure to drive results.

To effectively visualize the concepts mentioned in the previous paragraphs on the selection of performance measures, sales force management and incentives, we will create two charts:

1. **Bar CHART for Performance Measurement Mix:** This chart will show the distribution of different types of performance measures (productivity, sales targets, customer and company results) and how they are used in incentive plans versus performance management.
2. **Radar CHART for Comparing Short- and Long-Term Impact of Performance Measures:** This chart will illustrate how the temporal impact (short-term vs.) of the selected performance measures varies.

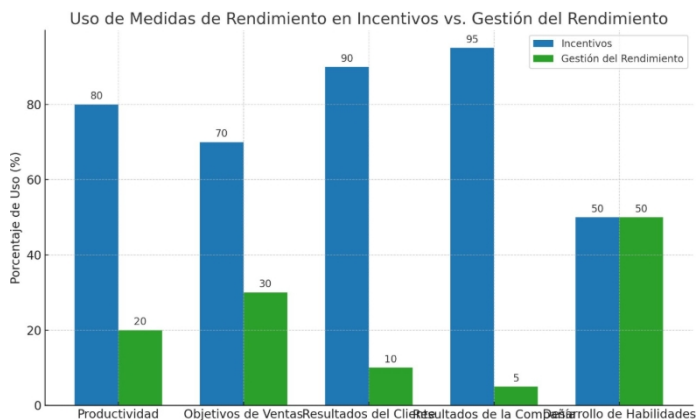
Bar Chart Development

For the bar chart, we will assume some hypothetical data representing the use of different types of metrics in the performance management system and incentive plans. We will use five categories of metrics:

- **Productivity**
- **VeLTaTions ObjectiveS**
- **ClieLte ReSultS**
- **Company results**
- **SkAbilitY DevelOPmenT**

We will proceed to create these charts.

MAKING DECISIONS ABOUT THE COMPENSATION PLAN



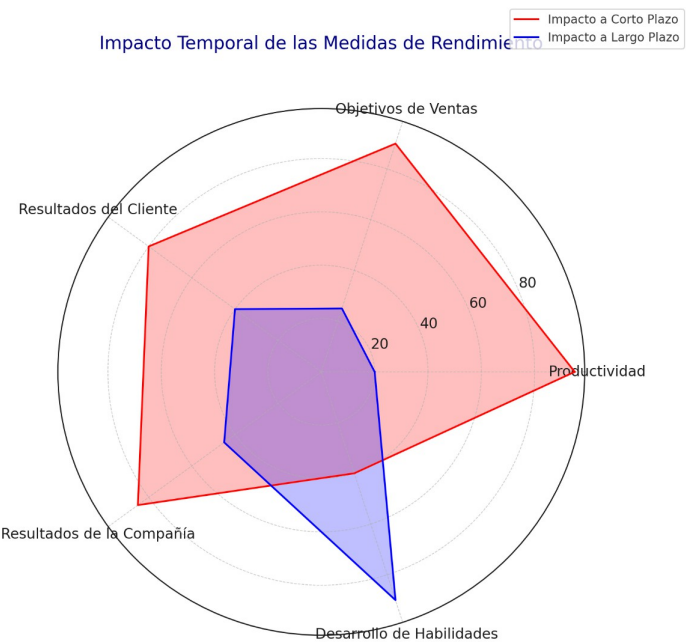
The bar chart presented illustrates the use of different types of performance measures in incentive plans compared to performance management systems:

- **Productivity:** Predominantly used in incentive plans (80%) compared to performance management (20%).
- **Sales objectives:** Also more focused on incentives (70%) than on performance management (30%).
- **Client results:** Highly valued in incentive plans (90%), with low utilization in performance management (10%).
- **Company results:** Similar to client results, predominantly used in incentives (95%) and minimally in performance management (5%).
- **Skill development:** This is the only category where performance management (50%) coincides with incentives (50%), reflecting their equal importance in development.

and the immediate performance of the sales force.

Radar Chart Development

Now, we will proceed to create a radar chart to compare the temporal impact (short and long term) of the performance measures on sales force management, using hypothetical data representing the intensity of the impact in each period.



The radar chart illustrates the difference in the temporal impact of the performance measures used in sales force management:

- **Short-Term Debt (Red):** Shows a strong focus on metrics such as Productivity, Sales Targets, Customer and Company Results, which are critical to drive immediate results. These measures are a priority in short incentive periods where rapid delivery of results is essential.
- **Long-Term Impact (Blue):** Highlights the importance of Skills Development, which has a significant impact on the long-term readiness and evolution of the sales force. The other metrics have a moderate impact, focusing on sustainability and continued growth.

This visual contrast between short- and long-term impacts helps companies balance their incentive and performance management strategies, ensuring that both immediate and evolving needs are adequately addressed.

How to Determine the Most Appropriate Sales Incentive Measures

The best incentive plan performance measures share several common characteristics:

- The performance measures of an effective incentive plan pass the consistency, compatibility and consistency test (the 3Cs test).
- They are objectively and precisely measurable.
- They are influenced by the capacity and activity of the sales force.
- They do not favor any particular group within the sales force.
- They are adaptable to changes in business strategy.
- Effective incentive plans use a limited number of performance measures to encourage sales force focus and understanding.

To effectively implement performance measures in a sales incentive plan that meets the above criteria (the 3 Cs test: consistency, compatibility and consequence), it is crucial to follow a structured approach. Here I provide you with a step-by-step guide on how to proceed:

1. Definition of Strategic Objectives

- **CoLSiSteLgiaGy goL the Negotiation Strategy:** Ensure that each performance measure is directly aligned with the company's strategic objectives. This ensures that incentives drive the actions the company needs for growth and adaptability in the marketplace.

2. Selection of Performance Measures

- **Objectivity and PregiSiOn:** Choose indicators that can be measured objectively and accurately. This may include total sales, market share, customer satisfaction, among others.
- **Sales force influence:** Consider measures that the sales force can directly influence through their skills and efforts to avoid demotivation and a sense of injustice.
- **Fairness:** Ensures that measures do not create imbalances or favor a specific group within the sales force, thus promoting an equitable work environment.

3. Evaluation of the Measure

3 CS test:

- **CoLSiSteLgia:** Verify that the measure is consistent with other policies and practices within the company.
- **Compatibility:** Evaluates whether the measure supports and complements other sales and marketing initiatives.
- **CoLSegueLgy:** Consider the implications of adopting this

including possible long-term effects on the motivation and behavior of the sales force.

4. Limitation on the Number of Measures

- **Focus FomeLt:** Use a limited number of indicators to avoid dispersion of focus and ensure that the sales force has a clear understanding of how their actions translate into rewards.

5. Implementation and Communication

- **CapagitagiOL and tools:** Provides the sales force with the necessary training on how their performance will be measured and how they can maximize their compensation through these indicators.
- **Clear communication:** Ensures that all members of the sales force understand the criteria for the measures, how they are calculated, and how they directly affect their incentives and performance objectives.

6. Monitoring and Adjustments

- **CoLtiLUaL ReviSion:** Establish a process to regularly review and adjust performance measures to reflect changes in business strategy and market conditions. This includes obtaining feedback from the sales force to better understand challenges and opportunities in implementing the plan.

By following these steps, you can design an incentive system

not only effectively motivates your sales force but also aligns and adapts to the strategic objectives of your organization.

Determining the Appropriate Yield to Payout Ratio

The relationship between performance and pay defines how incentive payments are calculated and how they vary with measured performance. For example:

- Should incentive payments be determined by multiplying a commission rate by a measure of territory performance? Or should a fixed bonus amount be paid when a specified level of performance is achieved, such as a territory target?
- Should incentive payments accelerate as performance increases, or should they decrease to ensure that sales force costs are contained in volatile markets?
- Should sales force income be capped?
- Should the incentive plan pay from the first dollar, from the target, or from some fraction of the target?
- Should payment be dependent on a single performance measure or multiple measures?

Every aspect of the relationship between performance and pay has significant implications for how performance is motivated and rewarded.

to the sales force. Here we will explore each of these points to better understand how each configuration affects incentive dynamics:

1. Incentive Payment Calculation Basis

- **BaSeD CommiSion Pay:** By linking pay directly to a performance measure, such as territory performance, the sales force is motivated to maximize their specific results. This method is directly proportional to performance and transparent in its application.
- **Fixed Target Bonus:** Establishing a fixed bonus that is paid upon achievement of a specific target can simplify understanding of the plan and clarify the target. However, once the target is achieved, it may not incentivize additional performance unless multiple levels of targets are set.

2. Payment Acceleration Structure

- **AgeleragióL:** Increasing the payout rate as performance increases can be a great motivator to drive exceptional efforts, promoting continued superior performance.
- **DegeleragióL:** In volatile markets, where high yields may not be sustainable, slowing payouts at extremely high yield levels can help control costs without discouraging the achievement of core objectives.

3. *Income Ceiling*

- **Cap ImplemeLtaL:** Capping potential earnings can help the company prevent overspending on compensation, especially useful in highly variable pay structures. However, it can demotivate high-performing employees once the cap is reached.

4. *Starting Point for Payments*

- **First Dollar Payout:** Initiating incentive payments from the first dollar of sales incentivizes every sales action from the start, but can be costly.
- **Pay from Target:** Starting payments once the target has been reached can push sellers to reach that threshold, focusing efforts on meeting at least the minimum required.
- **Pay From Target:** Similar to pay from target, but offers a margin that can be crucial in more challenging selling environments.

5. *Dependence on Performance Measures*

- **Measured League:** Simplifies the incentive structure and clarifies the approach, but may not adequately capture the complexity of the sales role or the varied contributions to business success.
- **Mt'ltpile Mt'measures:** Although it can complicate the incentive system, it allows for a more holistic and equitative evaluation of performance, covering different aspects of performance.

sales work.

When designing an incentive plan, it is crucial to balance these factors to create a system that not only motivates effectively, but also aligns incentives with the company's strategic objectives, ensures fairness within the sales force, and remains sustainable from a financial perspective.

II

Mathematics and Sales Commission Calculation

4

The Different Commission Structures

Introduction

In any sales team, the commission structure is critical to properly motivate and compensate team members. This chapter will break down the three basic commission structures used in the industry and explain how each can be implemented to align the sales force's goals with the company's strategic objectives. Understanding these structures will not only help in designing an effective compensation plan, but also in adjusting incentives to the changing needs of the organization and the marketplace.

BoLuS: Here you can find [the link to all the calculations commission](#) we will make during the course of this chapter.

Fixed Commission

Fixed commission is the simplest and most direct form of sales compensation. Under this scheme, the salesperson receives a fixed percentage on each sale made, regardless of the total value of the sale or the fulfillment of quotas. This type of commission is easy to calculate and understand, which makes it attractive to many sales teams, especially those in industries with standard pricing for products or services.

Advantages:

1- Simplicity and Comprehensibility:

- **Clarity:** The fixed commission is extremely transparent. Sellers know exactly how much they will receive for each sale, eliminating uncertainty and allowing a simple calculation of their potential income.
- **EASY IMPLEMENTABLE:** Administratively, it is one of the easiest systems to manage. It does not require complex software or extensive calculations to determine commission payments.

2- ILGReSSoS StaBILItY for VeLdedoreS:

- **Previsibility:** Sellers can forecast their revenues, which is especially valuable for those in situations

financial operations that require a constant cash flow.

- **EGOLOMICS Security:** This stability is also a motivating factor for sellers who prefer security over the potential for higher but less predictable returns.

3- MeLor PreSióL, MeLor RieSgo:

- **Healthy Work Environment:** By not pressuring salespeople to reach quotas before earning commissions, you can contribute to a more relaxed and less competitive work environment.
- **Focus on Quality of SERVICE:** Salespeople can concentrate on providing high quality customer service rather than closing sales quickly to achieve higher commission rates.

Disadvantages:

1- Lack of ILgeLtives to Overcome ExpeGatives:

- **COMPLAGELGIA:** Without additional incentives to exceed certain sales thresholds, salespeople may feel less motivated to try harder once they have reached a comfortable level of revenue.
- **POTELGIAL ILgreSSoS LimItAtIon:** The most ambitious or effective salespeople may feel that their capabilities are not being fully rewarded under this

system.

2- High Competition in the Market:

- In highly competitive markets or in situations where sales volume is crucial, fixed commission may not sufficiently incentivize salespeople to maximize sales opportunities.
- **Disincentive for Entrepreneurial objectives:** If the company needs to quickly increase sales or capture more market share, this model may not induce the level effort needed.

3- Disincentive for Selling High-Value Products:

- **Disincentive for larger sales:** Salespeople are paid the same rate for each sale, regardless of the size or complexity of the deal. This can result in one-size-fits-all approach that does not maximize sales of higher-value products or services.
- **Disincentive for Innovation:** In some cases, the lack of variability in compensation may discourage salespeople from pursuing creative or innovative methods to increase sales.

Fixed Commission Calculation Examples in Excel

Below are two practical examples of how to calculate the fixed commission in Excel. These examples include step-by-step instructions for easy implementation and understanding.

Example 1: Simple Fixed Fee Calculation

Objective: Calculate the commission of a salesman who receives a 5% commission on all sales made.

paSSo 1: configuring the exGel

1. **A1:** "Total Sale".
2. **B1:** "Commission Percentage".
3. **C1:** "Commission".

paSSo 2: data ILtroDUgatIoN

- In **A2**, enter the total sales (e.g., \$20,000).
- In **B2**, enter the commission percentage as 0.05 (representing 5%).

PaSe 3: Formula for calculating the committee

- In **C2**, write the following formula to calculate the commission based on the given percentage:

=A2*B2

- Press Enter to see the result.

ReSult: In **C2**, Excel will display the calculated commission, which in this case would be \$1,000 if total sales are \$20,000.

	A	B	C
1	Venta Total	Porcentaje de Comisión	Comisión
2	\$20,000	5.00%	\$1,000
3			
4			
5			

Example 2: Calculation of Fixed Commission with Sales Goal

Objective: Calculate commission for multiple salespeople where only those who exceed a specific sales goal (e.g., \$5,000) receive a 5% commission.

paSSo 1: configuring the exGel

1. **A1:** "Salesman".

2. **B1**: "Total Sale".
3. **C1**: "Sales Goal".
4. **D1**: "Commission Percentage".
5. **E1**: "Commission".

paSSo 2: data ILtroDUgatioN

- In **A2 through A5**, enter the names of the vendors.
- In **B2 through B5**, enter the total sales for each seller.
- In **C2 through C5**, enter the sales goal (\$5,000 for all).
- In **D2 through D5**, enter the percentage of commission as 0.05 (representing 5%) for all.

PaSe 3: Formula for calculating the committee

- In **E2**, write the following formula to calculate the commission if the sales goal is exceeded:

```
=IF(B2>C2, B2*D2, 0)
```

- Drag the formula from **E2** to **E5** to apply it to all sellers.

ReSult: Excel will display the calculated commission in column **E** for each salesperson, based on whether or not they meet the sales goal.

A	B	C	D	E
Vendedor	Venta Total	Meta de Ventas	Porcentaje de Comisión	Comisión
Vendedor #1	\$20,000	\$5,000	5.00%	\$1,000
Vendedor #2	\$16,000	\$5,000	5.00%	\$800
Vendedor #3	\$3,500	\$5,000	5.00%	0
Vendedor #4	\$1,300	\$5,000	5.00%	0

These examples provide a clear basis for calculating fixed commissions using Excel, adapting them to different sales strategies. With these instructions, you can easily set up commission models that reflect your company's compensation policies and effectively track the performance of your salespeople.

Variable Commission

Variable commission is a compensation structure that adjusts the commission percentage based on salesperson performance, goals achieved or market conditions. This flexibility makes it a popular choice for companies in dynamic industries or with highly competitive sales.

Advantages of the Variable Commission

1- High Motivation Potential:

- **Performance Incentives:** By adjusting commission rates based on performance, salespeople are highly motivated to meet and exceed their objectives.
- **Align Goals with Business goals:** Allows the company to align commissions with specific strategic objectives, such as the sale of high-margin products or new product launches.

2- Flexibility and Adaptability:

- **Adaptable to Changes in the MARKET:** Commission rates can be easily adjusted to reflect new or changes in the market environment.
- **ESCALABLE:** Suitable for different levels within a sales organization, allowing for different incentive structures according to role and objectives.

3- Improving the Effectiveness of Sales:

- **Focus on Effective Strategies:** Salespeople can focus on strategies that maximize their revenue, which often coincides with the company's interests.
- **High-Performance Potential:** Ability to generate substantially higher revenues in periods of high performance, benefiting both the seller and the company.

Disadvantages of the Variable Commission

1- Potential Complexity and Confusion:

- **Difficult to Estimate and Predict:** Salespeople may find it difficult to calculate their potential commissions, which could negatively affect their motivation and performance.
- **Administrative Intensive:** Requires robust systems to calculate and track sales and commissions, increasing operating costs.

2- Income Fluctuations:

- **Unstable Income:** Salespeople can experience significant variations in their income, making personal financial planning .
- **Income Uncertainty:** Uncertainty about income can lead to stress and anxiety, affecting the work climate and job satisfaction.

3- Short-term focus approach risk:

- **Neglecting Objectives:** In the pursuit of maximizing short-term commissions, salespeople may neglect sales strategies that benefit the company in the long term.
- **Potential Ethical conflicts:** An excessive focus on commissions may encourage questionable sales practices or

unethical.

Examples of Variable Commission Calculation in Excel

Practical examples of how to set up and calculate variable commissions in Excel are provided below.

Example: Variable Commission Calculation Based on Sales Goal Achievement

Objective: Calculate the commission for a salesperson with a variable commission system where:

- 3% if sales are less than \$10,000.
- 5% if sales are between \$10,000 and \$20,000.
- 8% if sales are more than \$20,000.

paSSo 1: configuring the exGel

1. **A1:** "Total Sale".
2. **B1:** "Commission Percentage".
3. **C1:** "Commission".

paSSo 2: data ILtroDUgatIoN

- In **A2**, enter the total sales (e.g., \$22,000).

PaSe 3: Formula for calculating the committee

- In **B2**, write the following formula to determine the commission percentage based on sales:

```
=IF (A2>20000, 8%, IF (A2>=10000, 5%, 3%))
```

- In **C2**, write the formula for calculating the commission:

```
=A2*B2
```

- Press Enter to see the result.

ReSult: Excel will show the commission calculated in **C2**, which in this case would be \$1,760 if total sales are \$22,000, with a commission percentage of 8%.

Venta Total	Porcentaje de Comisión	Comisión
\$22,000	8.00%	\$1,760
\$10,000	5.00%	\$500
\$5,000	3.00%	\$150

Staggered Commission

Graded commission is a complex structure that seeks to incentivize salespeople not only to reach their sales targets, but also to exceed them. This model increases the commission percentage as salespeople reach higher levels of sales.

Advantages of the Staggered Commission

1- ILgeLtiva the High ReLeader:

- **ILGREMEŁ MOTIVATION:** By offering higher rewards for achieving higher sales quotas, sellers are motivated to not only meet, but exceed their sales quotas.
- **Maximizing sales:** Potentially leads to a significant increase in sales volume, as salespeople work harder to reach the highest commission brackets.

2- Flexibility:

- **Adaptable to DIFFERENT SECTORALS:** Can be adjusted for different products, services or markets, changing thresholds or percentages as needed to better align with business objectives.

3- JuSta and Equitable:

- **Effort COMPENSATION:** Salespeople who generate more revenue for the company are compensated accordingly, which is perceived as fairer and more equitable.

Disadvantages of the Staggered Commission

1- AdmiLiStrative Complexity:

- **Difficult to track and follow:** Requires more sophisticated systems to track sales and calculate commissions correctly, which can increase administrative costs.
- **POTELGIAL CoLfuSion:** If not clearly communicated, sellers may misunderstand how their commissions are calculated, which can lead to dissatisfaction or disputes.

2- Possible focus:

- The **higher-margin product approach:** Sellers may prefer to focus on products or services that help them reach the top tier more quickly, potentially at the expense of what the company needs.
- **Small Customer Negligibility:** May lead to the neglect of smaller customers or sales that do not contribute significantly to the upper brackets.

3- Excessive Competitiveness Ratio:

- **TOXIC POTENTIAL: Potential Negative Environment:**
Highly aggressive competition among salespeople can foster a negative work environment and reduce collaboration among team members.

Examples of Staggered Commission Calculation in Excel

Practical examples of how to set up and calculate tiered commissions in Excel are provided below.

Example: Simple Staggered Commission Calculation

Objective: Calculate the commission for a salesperson with a tiered commission system where:

- 5% for sales up to \$10,000.
- 10% for sales between \$10,001 and \$20,000.
- 15% for sales over \$20,000.

Step 1: configuring the Excel

1. **A1:** "Total Sale".
2. **B1:** "Commission".

Step 2: data Introduction

- In **A2**, enter the total sales (e.g., \$25,000).

PaSe 3: Formula for calculating the committee

- In **B2**, write the following formula to calculate the commission based on the defined tranches:

```
=IF(A2>20000, 10000*0.05 + 10000*0.10 +  
(A2-20000)*0.15, IF(A2>10000, 10000*0.05  
+ (A2-10000)*0.10, A2*0.05))
```

- Press Enter to see the result.

B2	=IF(A2>20000, 10000*0.05 + 10000*0.10 + (A2-20000)*0.15, IF(A2>10000, 10000*0.05 + (A2-10000)*0.10, A2*0.05))								
	A	B	C	D	E	F	G	H	I
1	Venta Total	Comisión							
2	\$25,000	\$2,250							
3									
4									

ReSult: Excel will display the calculated commission in **B2**, which in this case would be \$2,250 if total sales are \$25,000.

This formula is designed to apply different percentages of commission based on different sales brackets:

If the amount is greater than \$20,000:

THE DIFFERENT COMMISSION STRUCTURES

- The first \$10,000 generates a 5% commission.
- The next \$10,000 (from \$10,001 to \$20,000) generates a 10% commission.
- All additional sales over \$20,000 generate a 15% commission.

Specific calculation:

- $\$10,000 * 0.05 = \500 (first tranche commission)
- $\$10,000 * 0.10 = \$1,000$ (second tranche commission)
- $\$(A2 - \$20,000) * 0.15$ (third tranche commission, where A2 is total sales)

if the llvE is between \$10,000 and \$20,000:

- The first \$10,000 generates a 5% commission.
- The amount between \$10,001 and A2 generates a 10% commission.

Specific calculation:

- $\$10,000 * 0.05 = \500
- $\$(A2 - \$10,000) * 0.10$

If the veLts are more than \$10,000:

- The entire amount generates a 5% commission.

Specific calculation:

- $A2 * 0.05$

Example with Sales of \$25,000

Using the above formula, if A2 (total sales) is \$25,000, the calculations would be:

- **First tranche:** $\$10,000 * 0.05 = \500
- **Next tranche:** $\$10,000 * 0.10 = \$1,000$
- **Terger tranche:** $\$(25,000 - 20,000) * 0.15 = \$5,000 * 0.15 = \$750$

Total amount of commissions= $\$500 + \$1,000 + \$750 = \mathbf{\$2,250}$

This Excel tiered formula provides a clear and automatic method for calculating complex commissions, ensuring that salespeople are compensated fairly based on their sales performance. As you can see, this is something that can start to get complex, so it's important to understand it and have clear and consistent calculations.

These examples provide a clear understanding of how the staggered commission is implemented and how it can be calculated using simple tools such as Excel. This model, although complex, offers significant advantages in terms of incentives, as it can be used in a number of ways.

Avoiding Errors in the Manual Calculation of Commissions

The manual calculation of commissions, especially under complex structures such as tiered or variable commissions, is susceptible to errors that can have significant consequences for both employees and the company. Below, we explore how these errors can arise and some effective strategies for minimizing them.

Common Sources of Manual Calculation Errors

1- Complexity of the Commission Structure:

- **Complicated models:** Commission structures with multiple tranches and variable conditions can be difficult to manage manually. The risk of making mistakes increases with the complexity of the commission plan.

2- Introduction of Data:

- Errors in inputting sales, commission rates or any other relevant data can lead to incorrect calculations. These can be as simple as typing \$5,000 instead of \$50,000, which would result in a significantly lower commission.

3- Lack of Attention and Operator Fatigue:

- **Human Errors:** The monotony of calculating large volumes of commissions can lead to inattention and errors such as duplication of data, omission of sales, or misapplication of appropriate commission rates.

4- Inconsistent and Ambiguous in the Commission Policies:

- **Different Interpretations:** Without a clear and documented policy, commission calculators may misinterpret the rules and inconsistently apply commission rates.

Strategies to Minimize Errors

1- Automation of the Calculation Process:

- **Using Commission Software:** Implementing an automated system to calculate commissions can significantly reduce human error, ensure consistency in the application of commission rules and save time. Tools such as Excel, while useful, are prone to input errors, while specialized software offers greater controls and checks.

of errors.

2- clear and documented policy and procedure establishment:

- **Defined billing policies:** Having clear and documented policies on how commissions are to be calculated can help avoid misunderstandings and errors. This includes details on commission tranches, conditions for reaching each tranche and review procedures.

3- Regular Capital and Supporting Regulators:

- **Continuous TRAINING:** Regularly training all employees involved in the calculation and management of commissions on current policies and the use of any automated system can help minimize errors.
- **Spreadsheets and Verification Tools:** Providing tools and resources to help verify calculations manually can be a valuable safety net.

4- Periodic audits and reviews:

- **Internal Controls:** Conducting regular reviews and audits of commission calculations can help proactively identify and correct errors before they affect payouts and team morale.

5- Feedback CoLtiLuoW and CommuLigioL CaLaleS:

- **Employee feedback:** Establishing a clear mechanism for salespeople to review and dispute their commissions can be crucial. This not only helps to identify and rectify errors quickly but also to maintain confidence in the commission system.

Unit Rate: Residuals/Tracking/Subsequent Payments

For most income producers, the incentive formula continues to pay as long as income continues to flow. For example, life insurance premiums continue on an annual basis. In some , these commission payments may decrease. The value of recurring revenue has value, but it is on a declining basis, eventually providing no revenue to the salesperson by the fourth year (for example).

As an income producer, the payout schedule generally secures this future income unless it is curtailed by the payout policy. In some cases, there is a buyout provision to make payments on this future income if the income producer should leave while the income continues.

"Trailing" is another expression for residuals. In other cases, the commission plan does not make full payments until the

disposition of an investment such as real estate. Subsequent payments are common in real estate and property development, where the true value of the deal is not realized until the investment and/or property is sold at a future date.

As specified in the compensation plan, the income producer will earn a percentage of the proceeds (normally) when the investors sell, syndicate, liquidate or transfer the property.

Examples in Excel for Residual and Subsequent Payments

Example 1: Decreasing Residual Commissions

Assume that an annual fee is paid that decreases each year for four years until there are no more payments.

1. Exgel CoLfiguraGioL:

- **A1:** "Year"
- **B1:** "Commission Percentage".
- **C1:** "Estimated Annual Income"
- **D1:** "Commission Won".

1. ILtroducT DATA:

- **A2:** 1, **A3:** 2, **A4:** 3, **A5:** 4 (years)
- **B2:** 10%, **B3:** 7.5%, **B4:** 5%, **B5:** 0% (decreasing commission percentage)

- **C2 to C5:** \$10,000 (estimated annual income constant)

1. **formula for calculating the GaLLeD CommiSion:**

- In **D2**, type:

=C2*B2

- Drag the formula from **D2** to **D5**.

	A	B	C	D
1	Año	Porcentaje de Comisión	Ingreso Anual Estimado	Comisión Ganada
2	1	10.00%	\$10,000.00	\$1,000.00
3	2	7.50%	\$10,000.00	\$750.00
4	3	5.00%	\$10,000.00	\$500.00
5	4	0.00%	\$10,000.00	\$0.00

Example 2: Subsequent Payments on Real Estate

Suppose a real estate agent receives a percentage of the proceeds once a property is sold, and the proceeds depend on the appreciation of the property.

1. **Exgel CoLfiguraGioL:**

THE DIFFERENT COMMISSION STRUCTURES

- **A1:** "Sale Value of the Property".
- **B1:** "Cost of Ownership".
- **C1:** "Profit".
- **D1:** "Commission Percentage".
- **E1:** "Commission Won".

1. Introduce DATA:

- **A2:** \$500,000 (sales value)
- **B2:** \$400,000 (cost of the property)
- **D2:** 20% (commission percentage of profit)

1. Formula to Calculate the Commission:

- In **C2**, type:

```
=A2-B2
```

1. Formula for CALCULATING the Commission:

- In **E2**, type:

```
=C2*D2
```

	A	B	C	D	E
1	Valor de Venta de la Propiedad	Costo de la Propiedad	Ganancia	Porcentaje de Comisión	Comisión Ganada
2	\$500,000.00	\$400,000.00	\$100,000.00	10.00%	\$10,000.00

Overpayment

Multilevel marketing uses the concept of overpayments correctly and positively. Each person earns commissions on the sales of their recruited subordinates, known as a "network". The more salespeople recruited, the more money is earned through overpayments. An override provides a proportional commission payment to the supervisor. With large distribution networks that have several levels of salespeople, supervisors and managers earn an override commission from all levels below them.

ObServagioLeS

Multi-level marketers generally promote high energy and positive thinking but suffer from high turnover. Individuals have the potential to earn substantial income by building effective and highly populated networks. Marketer costs are completely variable, but long-term commitment is fleeting.

Excel Examples for Overrun Commissions

Example: Commission Override in Multilevel Marketing

Suppose a supervisor earns an override commission on sales generated by subordinates at various levels.

1. **Excel Configuration:**

- **A1:** "Level".
- **B1:** "Level Sales (\$)".
- **C1:** "Percentage of overrun".
- **D1:** "Override Commission (\$)".

1. **Input Data:**

- **A2:** 1, **A3:** 2, **A4:** 3 (subordinate levels)
- **B2 to B4:** \$20,000, \$15,000, \$10,000 (sales per each level)
- **C2 to C4:** 2%, 1.5%, 1% (percentage of overrun per level)

1. **Formula for calculating the Overpayment Committee:**

- In **D2**, type:

```
=B2*C2
```

- Drag the formula from **D2** to **D4**.

Data Visualization:

- **Level 1:** Sales= \$20,000; Overrun= 2%; = \$400
- **Level 2:** Sales= \$15,000; Overrun= 1.5%; = \$225
- **Level 3:** Sales= \$10,000; Overage= 1%; Commission= \$100

Total Overrun Commissions:

- To calculate the total overrunning commissions accumulated by the supervisor, add the values in column **D**:

=SUM(D2:D4)

- This calculation will result in \$725 as total overage commissions obtained from the three levels.

	A	B	C	D
1	Nivel	Ventas del Nivel (\$)	Porcentaje de Sobrepaso	Comisión de Sobrepaso (\$)
2	1	\$20,000.00	2.00%	\$400.00
3	2	\$15,000.00	1.50%	\$225.00
4	3	\$10,000.00	1.00%	\$100.00
5				\$725.00

Commissions Vs Bonds

Sales representatives sell a unique offer created by the company. The value to the customer is the company's products and services. The sales rep adds value by effectively matching customer needs with the company's offerings. Companies manage sales reps' pay at a target incentive amount. For performance below target, pay is less than the target incentive amount. For performance above target, the incentive payout is above the target incentive amount.

When building a compensation program for revenue producers, start with a commission rate. When building a sales compensation program for sales reps, start with a target incentive amount. The purpose of target pay incentive plans is to manage the earning opportunity for salespeople. There are other significant implications of using target pay incentive plans:

- **GaLaLgiaS CommitmeNts:** For revenue producers, the company commits to a commission percentage. For sales representatives, the company commits to the target earning opportunity.
- **FiLiGiAMiTy:** Funding for commissions for income producers comes from revenue production. For sales representatives, incentive compensation is cross-funded by plan participants. The incentive plan for sales reps is cross-funded by plan participants.

sales redistributes the target payout among participants, with top performers earning more than the target incentive and low performers earning less than the target payout.

Formula for calculating a commission rate:

Fórmula para calcular una tasa de comisión:

$$\text{Tasa de Comisión} = \frac{\text{Pago Objetivo}}{\text{Rendimiento Objetivo}}$$

Examples in Excel for Commission and Bonus

We will create practical examples in Excel to illustrate how these payments are calculated using the commission and bonus formulas.

Example 1: TI Commission (Target Incentive Commission)

Assume the target payout is \$10,000 and the target return is \$100,000 in sales.

1. **Exgel CoLfiguraGioL:**

- **A1:** "Target Performance".
- **B1:** "Target Payment".
- **C1:** "Commission rate (%)"
- **D1:** "Actual Sales".
- **E1:** "Commission Won".

1. **ILtroducT DATA:**

- **A2:** \$100,000
- **B2:** \$10,000
- **D2:** Variable amount, e.g., \$120,000

1. **formula for calculating the comSiSioL rate:**

- In **C2**, type:

=B2/A2

- This calculates the commission rate as 10%.

1. **Formula for CALCULATING the GaLLeD CommiSioL:**

- In **E2**, type:

=D2*C2

- This calculates the commission based on actual sales.

	A	B	C	D	E
1	Rendimiento Objetivo	Pago Objetivo	Tasa de Comisión (%)	Ventas Reales	Comisión Ganada
2	\$100,000.00	\$10,000.00	10.00%	\$120,000.00	\$12,000.00

Example 2: IT Bonus (Target Incentive Bonus)

Suppose the goal is to achieve 100% of \$100,000 in sales, and the payout for achieving 100% is \$10,000.

1. **Exgel CoLfiguraGioL:**

- **A1:** "Sales Goal (\$)".
- **B1:** "Percentage Achieved (%)".
- **C1:** "Target Payment (\$)".
- **D1:** "Bonus Earned".

1. **ILtroducT DATA:**

THE DIFFERENT COMMISSION STRUCTURES

- **A2:** \$100,000
- **B2:** Variable percentage, e.g. 110% (i.e. 1.10)
- **C2:** \$10,000

1. Formula to Calculate the GaLLeD BoLoW:

- In **D2**, type:

```
=C2*B2
```

- This calculates the bonus based on the percentage of the goal achieved.

	A	B	C	D
1	Meta de Venta (\$)	Porcentaje Alcanzado (%)	Pago Objetivo (\$)	Bono Ganado
2	\$100,000.00	110.00%	\$10,000.00	\$11,000.00

These Excel examples provide a clear and straightforward way to calculate incentives under both commission and bonus schemes, adapting to the variable performance of sales reps in different territories.

5

Formulas for Creating Compensation Plans

We will now look in detail at all the different types of commissions that can be implemented.

BoLuS: Here you can find [the link to all the calculations commission](#) we will make during the course of this chapter.

Commission-Plana

Similar to the fixed commission plan for revenue producers, the target incentive flat commission is the simplest sales compensation for a target incentive formula. We have made only a slight but important modification compared to the revenue producer plan.

The term target compensation confirms a target pay design. Target incentive fee rate is a

function of the target incentive divided by the target sales production to determine the IT commission rate.

In this example, there is no threshold or limit. This type of formula assumes that territories have relatively equal potential. , sales management will realign territories or accounts to balance the potential. The use of an IT commission formula becomes less plausible when the difference between the smallest territory and the largest territory increases by a factor of 2.

ObServagioLeS

Direct commission plans (no base salary) are not common for sales reps, although sales management could use such a plan for a high leverage sales job where sales management needs fully variable costs and high turnover is acceptable.

Example in Excel for a TI Flat Commission Program

Example: Target Incentive Flat Commission

Suppose the sales target is \$100,000 and the target incentive is \$10,000.

1. Exgel CoLfiguraGioL:

- **A1:** "Target Sales Production (\$)".
- **B1:** "Target Incentive (\$)".

- **C1:** "IT Commission Rate (%)".
- **D1:** "Actual Sales (\$)".
- **E1:** "Commission Earned (\$)"

1. Introduce DATA:

- **A2:** \$100,000
- **B2:** \$10,000
- **D2:** Variable amount, e.g., \$120,000

1. Formula for calculating the IT Commission rate:

- In **C2**, type:

```
=B2/A2
```

- This calculates the commission rate as 10%.

1. Formula for CALCULATING the GALLed CommiSionL:

- In **E2**, type:

```
=D2*C2
```

- This calculates the commission based on actual sales.

Data Visualization:

- **VeLTs ProducTion Target:** \$100,000
- **ILgeLtivo Target:** \$10,000
- **IT COMMiSioN TaSe:** 10%.
- **RealeS VeLtaS:** \$120,000
- **GaLadaL CommissioN:** \$12,000

	A	B	C	D	E
1	Producción de Ventas Objetivo (\$)	Incentivo Objetivo (\$)	Tasa de Comisión de TI (%)	Ventas Reales (\$)	Comisión Ganada (\$)
2	\$100,000.00	\$10,000.00	10.00%	\$120,000.00	\$12,000.00

This Excel example shows how to implement and calculate a flat target incentive commission, using a simple structure that is easy to understand and manage. This model is ideal for sales roles where simplicity is preferred and you are confident in balancing sales potential across different territories. This commission configuration promotes a variable cost structure and may be suitable for high turnover situations.

Commission - Progressive Staggered

Progressive ramped commission rates provide additional motivation to sell beyond the target. In a progressive ramp, the second rate is higher than the first rate.

rate. The new rate is effective only when the target amount is reached and should not ("should not") be "rolled back" to pay for sales volume prior to the new higher rate.

Example in Excel for a Progressive Staggered Commission Schedule

Example: Staggered Progressive Commission

Assume the sales target is \$1.5 million and the commission rates are 6% before reaching the target and 8% after reaching the target.

1. **Exgel CoLfiguraGioL:**

- **A1:** "Realized Sales (\$)".
- **B1:** "Sales Target (\$)".
- **C1:** "Initial Commission Rate (%)".
- **D1:** "Post-Objective Commission Rate (%)".
- **E1:** "Commission Earned (\$)"

1. **ILtroducT DATA:**

- **A2:** Variable amount, e.g. \$1.6 million
- **B2:** \$1.5 million
- **C2:** 6%
- **D2:** 8%

1. **Formula for CALCULATING the GaLled CommiSioL:**

- In **E2**, type:

```
=IF (A2<=B2, A2*C2, B2*C2+ (A2-B2) *D2)
```

- This formula calculates the commission as 6% of sales up to \$1.5 million, and 8% of any sales in excess of that amount.

Data Visualization:

- **veLtaS realized:** \$1,600,000
- **VeLtaS target:** \$1,500,000
- **ILiglal comIssIon tAx:** 6%.
- **PoSt-Objective commissioN rate:** 8%.
- **GaLLeD CommissioN:** Calculated based on the formula.

Let's assume that the sales made are \$1,600,000, the calculation would be:

- Commission for first \$1.5 million at 6%= \$1,500,000 * 0.06= \$90,000
- Commission on additional sales (\$100,000) at = \$100,000 * 0.08= \$8,000
- Total commission earned= \$90,000+ \$8,000= \$98,000

E2	=IF(A2<=B2, A2*C2, B2*C2 + (A2-B2)*D2)				
	A	B	C	D	E
1	Ventas Realizadas (\$)	Objetivo de Ventas (\$)	Tasa de Comisión Inicial (%)	Tasa de Comisión Post-Objetivo (%)	Comisión Ganada (\$)
2	\$1,600,000.00	\$1,500,000.00	6.00%	8.00%	\$98,000.00

This Excel example demonstrates how to implement a tiered progressive commission structure, motivating salespeople to not only achieve their sales targets but also to exceed them, benefiting from higher commission rates for additional sales. This structure is particularly useful for sales roles where you are looking to drive exceptional performance and have clarity on sales targets and thresholds for increasing commission rates.

Commission - Staggered Regression

In some instances, the commission rate decreases when a predetermined level is reached. Sales representatives generally do not welcome regressive rates. However, in some cases, the company needs to avoid overpayments caused by misalignment of quotas or windfall profits.

ObServagioLeS

As with any regressive plan, not paying more for additional sales seems demotivating to salespeople. However, most salespeople understand the logic of a regressive formula, even if they don't like it. , the

regressive formulas present a communication challenge for sales management.

Example in Excel for a Backward Step Commission Schedule

Example: Staggered Backward Commission

Assume that the level of sales where the commission decreases is \$2 million, changing the commission rate from 7% to 5%.

1. **Excel Configuration:**

- **A1:** "Realized Sales (\$)".
- **B1:** "Reduction Level (\$)".
- **C1:** "Initial Commission Rate (%)".
- **D1:** "Reduced commission rate (%)".
- **E1:** "Commission Earned (\$)".

1. **Input Data:**

- **A2:** Variable amount, e.g., \$2.5 million
- **B2:** \$2 million
- **C2:** 7%
- **D2:** 5%

1. **Formula for Calculating the Staggered Commission:**

- In **E2**, type:

```
=IF (A2<=B2, A2*C2, B2*C2+ (A2-B2) *D2)
```

- This formula calculates the commission as 7% of sales up to \$2 million, and 5% of any sales above that amount.

Data Visualization:

- **veLtaS realized:** \$2,500,000
- **ReduggióL level:** \$2,000,000
- **ILigIal comIssIon tAx:** 7%.
- **Reduced commission rate:** 5%.
- **GaLled CommissioN:** Calculated based on the formula.

Assuming sales of \$2,500,000, the calculation would be:

- Commission for the first \$2 million at 7% = \$2,000,000 * 0.07 = \$140,000
- Commission on additional sales (\$500,000) at = \$500,000 * 0.05 = \$25,000
- Total commission earned = \$140,000 + \$25,000 = \$165,000

FORMULAS FOR CREATING COMPENSATION PLANS

E2	=IF(A2<=B2, A2*C2, B2*C2 + (A2-B2)*D2)				
	A	B	C	D	E
1	Ventas Realizadas (\$)	Nivel de Reducción (\$)	Tasa de Comisión Inicial (%)	Tasa de Comisión Reducida (%)	Comisión Ganada (\$)
2	\$2,500,000.00	\$2,000,000.00	7.00%	5.00%	\$165,000.00

This Excel example demonstrates how to implement a staggered backward commission structure, where commission rates decrease after a certain level of sales is reached. This structure can be used to control commission costs in situations where exceptionally high sales volumes are anticipated or when potentially underestimated sales targets have been set. Although it can be demotivating for the sales team, this model helps to maintain financial control and avoid excessive commission expenses.

Commission - Stepwise, Progressive and Regressive

In this hybrid example we will see the use of both progressive and regressive ramps.

ObServagioLeS

The hybrid approach uses both positive (progressive) and negative (regressive) ramps. It provides additional rewards for additional sales, but after a predetermined point is reached, the commission rate decreases.

Example in Excel for a Staggered, Progressive and Backward Commission Schedule

Example: Hybrid Staggered Committee

Suppose the sales target for the progressive commission is \$1 million and the switch point to the regressive commission is \$2 million. The commission rate increases from 5% to 7% as \$1 million is exceeded and then decreases to 4% after exceeding \$1 million.
2 million.

1. **Exgel CoLfiguraGioL:**

- **A1:** "Realized Sales (\$)".
- **B1:** "First Sales Threshold (\$)".
- **C1:** "Second Sales Threshold (\$)".
- **D1:** "Initial Commission Rate (%)".
- **E1:** "Increased Commission Rate (%)".
- **F1:** "Reduced Commission Rate (%)".
- **G1:** "Commission Earned (\$)".

1. **ILtroduct DATA:**

- **A2:** Variable amount, e.g., \$2.5 million
- **B2:** \$1 million
- **C2:** \$2 million
- **D2:** 5%
- **E2:** 7%
- **F2:** 4%

1. Formula for CALCULATING the GaLLeD CommiSioL:

- In **G2**, type:

```
=IF (A2<=B2, A2*D2, IF (A2<=C2, B2*D2+ (A2-B2) *E2,
B2*D2 + (C2-B2) *E2 + (A2-C2) *F2) ) )
```

- This formula calculates the commission as 5% of sales up to \$1 million, 7% of sales between \$1 million and \$2 million, and 4% of any sales exceeding \$2 million.

Data Visualization:

- **veLtaS realized:** \$2,500,000
- **First veLtaS Threshold:** \$1,000,000
- **FollowIng veLtaS Threshold:** \$2,000,000
- **ILiglal comIssIon tAx:** 5%.
- **ILgremeLy reCeIve rate:** 7%.
- **Reduced commissioN rate:** 4%.
- **GaLLeD CommissioN:** Calculated based on the formula.

Assuming sales made are \$2,500,000, the calculation would be:

- Commission on first \$1 million at 5% = $\$1,000,000 * 0.05 = \$50,000$
- Commission on the next million (\$1 million to \$2 million) at 7% = $\$1,000,000 * 0.07 = \$70,000$

- Commission on additional sales (\$500,000) at =
 $\$500,000 * 0.04 = \$20,000$
- Total commission earned= $\$50,000 + \$70,000 + \$20, =$
 $\$140,000$

G2		= IF(A2<B2, B2*C2, IF(A2<C2, B2*C2 + (A2-B2)*C2, B2*C2 + (C2-B2)*C2 + (A2-C2)*C3))					
1	A	B	C	D	E	F	G
1	Ventas Realizadas (\$)	Primer Umbral de Ventas (\$)	Segundo Umbral de Ventas (\$)	Tasa de Comisión Inicial (%)	Tasa de Comisión Incrementada (%)	Tasa de Comisión Reducida (%)	Comisión Ganada (\$)
2	\$2,500,000.00	\$1,000,000.00	\$2,000,000.00	5.00%	7.00%	4.00%	\$140,000.00
3							

This Excel example shows how to implement and calculate a hybrid commission structure that incorporates both progressive and regressive elements. This structure is useful for motivating salespeople to exceed intermediate targets while controlling commission costs at extremely high sales levels. This model can be especially relevant in industries where sales fluctuate significantly or where windfall profits are anticipated due external factors.

Commission - Staggered with Base Salary

Direct commission plans feature pay plans with no base salary. The incentive formula provides all income. The sales representative earns a commission in addition to the base salary. The addition of the target base salary and the target incentive for the job defines the total cash compensation.

objective assigned to the job.

ObServagioLeS

A regressive incentive formula will continue to be a challenge for salespeople. Management must explain why a regressive formula protects both the company and the employee. Salespeople still earn additional money, particularly on large orders that a capped plan would exclude.

Example in Excel for a Staggered Commission Program with Base Salary

Example: Commission with Base Salary

Assume that the base salary is \$30,000 and the commission is 5% of sales, with a regressive structure that reduces the commission to 3% for sales above the threshold of 1 million.

1. Exgel CoLfiguraGioL:

- **A1:** "Base Salary (\$)"
- **B1:** "Realized Sales (\$)".
- **C1:** "Sales Threshold for Regression (\$)".
- **D1:** "Initial Commission Rate (%)".
- **E1:** "Degressive Commission Rate (%)".
- **F1:** "Commission Earned (\$)"
- **G1:** "Total Compensation (\$)".

1. **Introducing Data:**

- **A2:** \$30,000
- **B2:** Variable amount, e.g., \$1.2 million
- **C2:** \$1 million
- **D2:** 5%
- **E2:** 3%

1. **Formula for CALCULATING the Galled Commission:**

- In **F2**, type:

```
=IF(B2<=C2, B2*D2, C2*D2+ (B2-C2)*E2)
```

- This formula calculates the commission as 5% of sales up to \$1 million, and 3% of any sales above that amount.

1. **Formula for Calculating Total Compensation:**

- In **G2**, type:

```
=A2+F2
```

- This adds the base salary and the commission earned to get the total compensation.

Data Visualization:

- **Salary BaSe:** \$30,000
- **veLtaS realized:** \$1,200,000
- **VeLVeLLs for regreSiOn:** \$1,000,000
- **ILigIal comIssIon tAx:** 5%.
- **RegreSive commissioN rate:** 3%.
- **GaLled CommissioN:** Calculated based on the formula.
- **Total CompeLSagioL:** Calculated based on the formula.

Let's assume that the sales made are \$1,200,000, the calculation would be:

- Commission on first \$1 million at 5% = $\$1,000,000 * 0.05 = \$50,000$
- Commission on additional sales (\$200,000) at = $\$200,000 * 0.03 = \$6,000$
- Total commission earned = $\$50,000 + \$6,000 = \$56,000$
- Total compensation = $\$30,000 + \$56,000 = \$86,000$

G2 = IF(A2>=B2, A2*B2, IF(A2>=C2, B2*B2 + (A2-B2)*E2, B2*B2 + (C2-B2)*E2 + (A2-C2)*F2))

	A	B	C	D	E	F	G
1	Ventas Realizadas (\$)	Primer Umbral de Ventas (\$)	Segundo Umbral de Ventas (\$)	Tasa de Comisión Inicial (%)	Tasa de Comisión Incrementada (%)	Tasa de Comisión Reducida (%)	Comisión Ganada (\$)
2	\$2,500,000.00	\$1,000,000.00	\$2,000,000.00	5.00%	7.00%	4.00%	\$140,000.00
3							

This Excel example demonstrates how to implement a commission structure with a base salary that includes progressive and regressive elements. This setup is useful for maintaining

to have control over commission costs, especially in very high sales scenarios, and to ensure a stable base compensation for sales personnel, which can help mitigate variability in revenues and provide some financial stability.

Commission - with Limits

In addition to a base salary, this plan features a commission plan with both a threshold and a maximum. There is no pay for performance below the threshold and no pay for performance above the maximum. Although there are numerous reasons for using both thresholds and caps, the following are the most common:

- **Thresholds:** The main reason for using a threshold is to avoid rewarding a sales event that occurred in prior years, even though the income may continue. Do not treat continuing income from a prior sale as an annuity. In such cases, the threshold is set at or above the insured recurring income. There are other reasons for using a threshold. First, some organizations believe that salespeople should "cover" their base salaries before earning the first incentive dollar. Second, some organizations want to motivate the salesperson to achieve a minimum level of quota performance. The threshold ensures that performance is in line with this target. Finally, other sales organizations simply use a threshold as a statement of the intent to

management of what is the minimum acceptable level of performance.

- **MAXIMUMS:** Maximums (or caps) have always been problematic for sales organizations. Most sales forces view maximums as demotivating. However, companies use maximums for several reasons. The most common reason is to prevent excessive profits from unexpected large orders. Another reason is to protect against excessive profits due to unaggressive low quotas. Although sales management should avoid the use of maximums, their use is necessary in certain cases. Use ceilings when excessive sales are detrimental to the company's production capacity, or when sales personnel could achieve extraordinary sales results through unethical sales practices.

Excel Example for a Commission Program with Thresholds and Maximums

Example: Commission with Threshold and Maximum

Assume the base salary is \$30,000, the sales threshold is \$100,000, the sales maximum is \$500,000, and the commission rate is 5% for sales between the threshold and maximum.

1. **Excel Configuration:**

- **A1:** "Base Salary (\$)"
- **B1:** "Realized Sales (\$)".
- **C1:** "Sales Threshold (\$)".

- **D1:** "Maximum Sales (\$)".

- **E1:** "Commission rate (%)"
- **F1:** "Commission Earned (\$)"
- **G1:** "Total Compensation (\$)".

1. Introduce DATA:

- **A2:** \$30,000
- **B2:** Variable amount, e.g., \$550,000
- **C2:** \$100,000
- **D2:** \$500,000
- **E2:** 5%

1. Formula for CALCULATING the GALLERED Commission:

- In **F2**, type:

```
=IF(B2<=C2, 0, IF(B2>=D2, (D2-C2)*E2, (B2-C2)*E2))
```

- This formula calculates the commission as 5% of sales between \$100,000 and \$500,000. There is no commission for sales below \$100,000 or for sales above \$500,000.

1. Formula for Calculating Total Compensation:

- In **G2**, type:

```
=A2+F2
```

- This adds the base salary and the commission earned to get the total compensation.

Data Visualization:

- **Salary baSe:** \$30,000
- **veLLtaS realized:** \$550,000
- **veLtaS Threshold:** \$100,000
- **MAXIMUM IIvE:** \$500,000
- **GOMiSiOn TaSe:** 5%.

Detailed Angle

Case of \$550,000 in Sales

- **gomiSion-eligible veLteS:**
- It is calculated as the difference between the lower of the maximum sales or sales made and the threshold.
- Here, the minimum between **\$500,000** (maximum sales) and **\$550,000** (realized sales) is **\$500,000**.
- Therefore, commission-eligible sales= **\$500,000 - \$100,000= \$400,000**.
- **ComiSióL:**
- The commission is **5%** of **\$400,000= \$400,000 * = \$20,000**.

Total Commission and Compensation

- **GaLadaL CommissioN:** \$20,000
- **Total CompeLSagioL:** Base Salary+ Commission =

\$30,000+ \$20,000= \$50,000.

F2 =IF(B2<=C2, 0, IF(B2>=D2, (D2-C2)*E2, (B2-C2)*E2))

	A	B	C	D	E	F	G
1	Salario Base (\$)	Ventas Realizadas (\$)	Umbral de Ventas (\$)	Máximo de Ventas (\$)	Tasa de Comisión (%)	Comisión Ganada (\$)	Compensación Total (\$)
2	\$30,000.00	\$550,000.00	\$100,000.00	\$500,000.00	5.00%	\$20,000.00	\$50,000.00

This Excel example shows how to implement a commission structure with thresholds and maximums, which helps to control commission costs and motivate sales personnel within defined parameters. This model is useful to prevent excessive compensation and to align sales practices with the company's strategic objectives.

Variable Commission-Fees per Product

Variable commission plans provide different commission rates for different objectives. The most common form of a variable commission plan is to offer separate commission rates for different product categories, with certain products earning a high commission rate and others earning a lower rate. This variation in commission rates helps guide sales reps toward the most preferred sales outcome.

ObServagioLeS

Variable commission rates assume that the staff of the company's

sales can influence customers' purchasing preference among products.

Example in Excel for Variable Product Commission Program

Example: Variable Commission According to Product

Suppose we sell two types of products, Product A and Product B. Product A has a 10% commission rate due to its high profitability, while Product B has a 5% rate due to its higher sales volume but lower margin.

1. **Excel Configuration:**

- **A1:** "Product".
- **B1:** "Product Sales (\$)".
- **C1:** "Commission rate (%)".
- **D1:** "Commission Earned (\$)".

1. **Input Data:**

- **A2:** A, **A3:** B
- **B2:** Variable amount, e.g., \$20,000 for A
- **B3:** Variable amount, e.g., \$50,000 for B
- **C2:** 10%, **C3:** 5%, **C2:** 10%, **C3:** 5%.

1. **Formula for CALCULATING the Cell Commission:**

- In **D2**, type:

```
=B2*C2
```

- In **D3**, type:

```
=B3*C3
```

- These formulas calculate the commission based on sales and the specific rate for each product.

Data Visualization:

- **PRODUGTO A:** Sales = \$20,000; Commission Rate = 10%;
Commission Earned = \$2,000
- **PRODUGTO B:** Sales = \$50,000; Commission Rate = 5%;
Commission Earned = \$2,500

Total Commission Calculation:

- To calculate the total commissions earned from all products, add up the values in column **D**:

```
=SUM(D2:D3)
```

- This calculation will result in \$4,500 in total commissions for products A and B.

	A	B	C	D
1	Producto	Ventas del Producto (\$)	Tasa de Comisión (%)	Comisión Ganada (\$)
2	A	\$20,000.00	10.00%	\$2,000.00
3	B	\$50,000.00	5.00%	\$2,500.00
4				\$4,500.00

This Excel example demonstrates how to implement and calculate a variable commission structure that assigns different commission rates to different products according to the company's sales strategy. This structure is useful for incentivizing the sale of specific products and for effectively managing the profitability of different product lines. The ability to influence customer buying preferences is key to the success of this type of commission plan.

Variable Commission-Value Table

The variable commission table changes the economic value of each dollar of sales before applying the appropriate commission rate. The value table increases or decreases the value of each sale for compensation purposes, depending on the product category. For example, a product category that has a 50 percent adjustment factor would treat the economic value of each dollar of sales before applying the appropriate

commission rate.

of a \$100,000 sale as \$50,000 for compensation purposes.

ObServagioLeS

The value table is similar to the variable commission rates. In both cases, the value of revenue dollars for incentive purposes changes based on important strategic objectives. The value table provides more flexibility to alter the value of numerous sales objectives at the same time.

Excel Example for a Variable Commission Program with Value Table

Example: Variable Commission According to Value Table

Suppose we sell products in three categories, each with a different adjustment factor to calculate the value of sales for commission purposes.

1. **Exgel CoLfiguraGioL:**

- **A1:** "Product Category".
- **B1:** "Gross Sales (\$)".
- **C1:** "Adjustment Factor (%)".
- **D1:** "Adjusted Sales (\$)".
- **E1:** "Commission rate (%)".
- **F1:** "Commission Earned (\$)".

1. **ILtrodugir DatoS:**

- **A2:** A, **A3:** B, **A4:** C
- **B2 to B4:** \$100,000, \$200,000, \$300,000 (gross sales per category)
- **C2 to C4:** 50%, 75%, 100% (adjustment factor per category)
- **E2 to E4:** 10%, 15%, 20% (commission rate per category)

1. formula for calculating the amount of the assets:

- In **D2**, type:

```
=B2*C2
```

- Drag the formula from **D2** to **D4** to calculate the adjusted sales for all categories.

1. Formula for CALCULATING the GaLLED CommiSioL:

- In **F2**, type:

```
=D2*E2
```

- Drag the formula from **F2** to **F4** to calculate the commission based on the adjusted sales and the specific rate for each category.

Data Visualization:

- **Category A:** Gross Sales = \$100,000; Adjustment Factor = 50%; Adjusted Sales = \$50,000; Commission Rate = 10%; Commission = \$5,000
- **Category B:** Gross Sales= \$200,000; Adjustment Factor= 75%; Adjusted Sales= \$150,000; Commission Rate= 15%; Commission = \$22,500
- **Category C:** Gross Sales= \$300,000; Adjustment Factor = 100%; Adjusted Sales = \$300,000; Commission Rate = 20%; Commission = \$60,000

Total Commission Calculation:

- To calculate the total commissions earned for all categories, add up the values in column **F**:

```
=SUM(F2:F4)
```

- This calculation will result in \$87,500 in total commissions for products in categories A, B, and C.

	A	B	C	D	E	F
1	Categoría del Producto	Ventas del Producto (\$)	Factor de Ajuste (%)	Ventas Ajustadas (\$)	Tasa de Comisión (%)	Comisión Ganada (\$)
2	A	\$100,000.00	50.00%	\$50,000.00	10.00%	\$5,000.00
3	B	\$200,000.00	75.00%	\$150,000.00	15.00%	\$22,500.00
4	C	\$300,000.00	100.00%	\$300,000.00	20.00%	\$60,000.00
5						\$87,500.00

This Excel example demonstrates how to implement and calculate a variable commission structure using a value table to adjust the economic value of sales by product category. This structure is useful for directing sales effort towards more profitable or strategically important products, effectively adjusting compensation to reflect the company's sales and strategic objectives.

Variable Commission-Points per Product

An incentive plan based on points per product awards different points for every dollar of sales. This encourages the sale of valuable, important or hard-to-sell products. The points grid changes the economic value of the sale by awarding points based on the strategic intent of the product.

The pay table converts points into dollars. This approach, popular with product managers, allows frequent adjustment of the sales compensation program to achieve strategic product objectives. Management can adjust the table values from one performance period to the next.

ObServagioLeS

All variable adjustment methods share the same strengths and weaknesses. On the positive side, they allow the setting of key product or sales targets. This provides a means for management to focus efforts. It allows the discretion of the sales force to sell what the customer wants to sell.

customer needs and, at the same time, helps to promote products that are strategically important to the company. The downside of such systems is the following:

- **CoLtaBILItY SySteMS reqUIREmeNTs**: These programs require a separate revenue recognition system, distinct from the actual dollars the company earns.
- There is a tendency for salespeople to "**play the** ": There is a tendency for salespeople to "look for the right mix" of market needs and their own sales competence. This may or may not meet the company's needs. Too many options tend to dilute the directional impact of value-adjustment programs.

Example in Excel for a Product Points Based Commission Program

Example: Commission on Product Points

Suppose we sell three types of products, with a different point system reflecting its strategic importance.

1. **Exgel CoLfiguraGioL**:

- **A1**: "Product".
- **B1**: "Sales in Dollars (\$)".

- **C1:** "Points per Dollar".
- **D1:** "Total Points".
- **E1:** "Value per Point (\$)".
- **F1:** "Commission Earned (\$)"

1. Introduce DATA:

- **A2:** Product A, **A3:** Product B, **A4:** Product C
- **B2 to B4:** \$10,000, \$15,000, \$5,000 (dollar sales per product)
- **C2 to C4:** 2, 3, 5 (points for each dollar of sales)
- **E2 to E4:** \$0.10 (uniform value per point)

1. Formula for Calculating Total Points:

- In **D2**, type:

```
=B2*C2
```

- Drag the formula from **D2** to **D4**.

1. Formula for CALCULATING the GALLed CommisioL:

- In **F2**, type:

```
=D2*E2
```

- Drag the formula from **F2** to **F4**.

Data Visualization:

- **Product A:** Sales= \$10,000; Points per Dollar= 2; Total Points = 20,000; Value per Point = \$0.10; Commission = \$2,000
- **Product B:** Sales= \$15,000; Points per Dollar= 3; Total Points = 45,000; Value per Point = \$0.10; Commission = \$4,500
- **Product C:** Sales= \$5,000; Points per Dollar= 5; Total Points = 25,000; Value per Point = \$0.10; Commission = \$2,500

Total Commission Calculation:

- To calculate the total commissions earned from all products, add up the values in column **F**:

```
=SUM(F2:F4)
```

- This calculation will result in \$9,000 in total commissions for products A, B, and C.

FORMULAS FOR CREATING COMPENSATION PLANS

	A	B	C	D	E	F
1	Producto	Ventas en Dólares (\$)	Puntos por Dólar	Total de Puntos	Valor por Punto (\$)	Comisión Ganada (\$)
2	A	\$10,000.00	2	\$20,000.00	\$0.10	\$2,000.00
3	B	\$15,000.00	3	\$45,000.00	\$0.10	\$4,500.00
4	C	\$5,000.00	5	\$25,000.00	\$0.10	\$2,500.00
5						\$9,000.00

This Excel example demonstrates how to implement and calculate a variable commission structure using a points table to adjust the economic value of sales by product category. This system is useful for directing sales efforts toward strategically important products, adjusting compensation to reflect the importance and challenge associated with selling each product.

Variable Commission-Variation of Profits

When sales personnel have flexibility in pricing, it may be necessary to incentivize the salesperson to achieve higher prices. For distributors, they measure gross margin dollars and gross margin percentage.

ObServagioLeS

Incentive plans that link commission rates to profitability can help improve pricing. For manufacturing companies that create products, the best measure of profitability is price realization. Distributors use profit/gross margin percentage.

Excel Example for a Profit Variation Based Commission Schedule

Example: Variable Commission According to Gross Profit Margin

Suppose different commission rates are offered based on the percentage of gross profit achieved by sales.

1. **Excel Configuration:**

- **A1:** "Total Sales (\$)".
- **B1:** "Cost of Goods Sold (\$)".
- **C1:** "Gross Profit (\$)".
- **D1:** "Gross Profit Percentage (%)".
- **E1:** "Commission Scale (%)".
- **F1:** "Commission Earned (\$)".

1. **Introduce Data and Formulas:**

- **A2:** Amount of sales, e.g., \$200,000
- **B2:** Cost of goods sold, e.g., \$120,000
- **C2** (Formula for Gross Profit): **=A2-B2**
- **D2** (Formula for Gross Profit Percentage): **=C2/A2**
- **E2** (Formula for Commission Scale based on GB(Gross Profit)%):

FORMULAS FOR CREATING COMPENSATION PLANS

```
=IF(D2*100>=20, 10%, (D2*100>=15, 7%,  
IF(D2*100>=10, 5%, 2%)))
```

- **F2 (Formula for Commission Earned): =C2*E2**

Configuration of the Commission Scale:

- **>20% Gross Profit: 10% commission**
- **15-20% of Gross Profit: 7% commission**
- **10-15% of Gross Profit: 5% commission**
- **<10% Gross Profit: 2% commission Data**

Visualization:

- **total veLVeS: \$200,000**
- **Cost of goods sold: \$120,000**
- **Gross GaLaLgia: \$80,000**
- **Gross GaLaLge PorgeLage: 40%.**
- **Applicable commission rate: 10%.**
- **Earned commission:**

\$8,000 Earned commission

calculation:

- **Gross GaLaLgia: \$200,000 - \$120,000= \$80,000**
- **Gross GaLaLLgia portage: (\$80,000 / \$200,000) * 100
= 40%**
- **Since the gross profit percentage is 40%, the applicable
commission scale is 10%.**
- **Fee paid: \$80,000 * 10%= \$8,000**

E2	=IF(D2*100>=20, 10%, IF(D2*100>=15, 7%, IF(D2*100>=10, 5%, 2%)))					
	A	B	C	D	E	F
1	Ventas Totales (\$)	Costo de los Bienes Vendidos (\$)	Ganancia Bruta (\$)	Porcentaje de Ganancia Bruta (%)	Escala de Comisión (%)	Comisión Ganada (\$)
2	\$200,000.00	\$120,000.00	\$80,000.00	40.00%	10.00%	\$8,000.00

This Excel example shows how to set up and calculate variable commissions based on gross profit margin. This structure incentivizes sales personnel to maximize gross margin through strategic pricing and cost control, which is particularly valuable in environments where prices can be adjusted to improve profitability. This model is beneficial in aligning sales objectives with the company's financial objectives, promoting products and strategies that maximize profitability.

6

Advanced Components in Compensation Plans

Now let's look at the advanced components of compensation plans.

BoLuS: Here you can find [the link to all the calculations commission](#) we will make during the course of this chapter.

Design of "Vínculos" (Links)

Linkage" designs are one of the most advanced formula techniques available. Sometimes referred to as links, they link incentive payments to the outcomes of two or more performance measures. These links do not always create additive payments. , links can provide both a positive impact on outperformance and negative impact on underperformance. There are three types of linkage formulas:

Hurdles

As with all linkages, barriers link two or more measures. A barrier requires the seller to achieve measure A before making the beneficial payment related to measure B. For example, "A tiered commission rate will not be paid on product A unless the sales performance on product B exceeds 50 percent of target." Payment plans use barriers when a minimum level of performance on a second measure is important.

Multipliers

Multipliers tie measures together in a mathematical formula. The incentive value of the first measure is increased or decreased, depending on the performance of the second measure. In this way, the seller knows that the incentive plan can change the economic gain of the first measure by the performance on the second measure.

For example, "Commission earnings from the primary product will be increased or decreased based on the percentage of sales performance to target in the second measure of the product mix."

Use a multiplier when the measurement values are asymmetrical; the output of the first measurement is substantially above the second measurement. . The

multiplier will give more value to the second measure affecting the result of the first measure.

Matrices

A matrix is another form of a link design. A matrix presents two measures in a grid with rows and columns. The better the performance on both measures, the better the reward. Matrices are ideally used when management wants salespeople to solve two competing objectives, for example, sales volume versus price, where salespeople have pricing influence. A matrix design will help the salesperson optimize both sales volume and price.

Links reward balanced sales efforts by rewarding the salesperson for achieving all sales objectives.

Commission Linked-with Barrera

A sales compensation plan with a barrier provides differentiated payments for a first measure, depending on how well the salesperson performs on a second measure.

The commission schedule of a linked barrier presents different payment rates, depending on the extent to which the barrier is reached.

the barrier.

ObServagioLeS

A barrier provides focus to sales efforts. Outstanding performance without meeting the barrier has a significant negative impact. Similarly, achieving the barrier has a significant upside positive impact.

Vocabulary Alert: Although the two phrases threshold and barrier sound similar, they are not the same. A threshold is a minimum level of performance for a measure that must be achieved before payments are earned on that measure. A barrier ties payment on one measure to the achievement of performance on a second measure. Here's an application of these words, "You must achieve the quota threshold before any payments can be earned"; "Your commission earnings on all sales will increase by 10 percent if you meet or exceed the weighted average gross margin threshold of 35 percent."

This advanced approach to commission structuring encourages strategic alignment between different sales objectives and rewards the balanced achievement of multiple performance goals, which is critical in competitive and complex sales environments.

Example in Excel for a Barrier Linked Commission Program

Scenario Description

Suppose a sales compensation plan uses a barrier-linked commission structure, where commission payments for product A are dependent on the sales performance of product B. If sales of product B exceed 50% of the target, then a commission is triggered for product A sales. If sales of product B 50% of the set target, then a commission is triggered for product A sales.

Commission Plan Details

- **Producto A:** Commission is paid only if sales of product B reach at least 50% of the target.
- **Producto B:** Sales target= \$100,000
- **Comisi n for Producto A:** 10% on sales if the barrier is met.

Excel Configuration

1. Variables configuration:

- **A1:** "Sales of Product A (\$)".
- **B1:** "Sales of Product B (\$)".
- **C1:** "Product B Sales Target (\$)".
- **D1:** "Sales Barrier of Product B (%)".
- **E1:** "Commission on Product A (%)".
- **F1:** "State of the Barrier".

- **G1:** "Commission Earned (\$)"

1. Introduce DATA:

- **A2:** \$150,000 (Realized sales of Product A)
- **B2:** \$60,000 (Realized sales of Product B)
- **C2:** \$100,000 (Sales target for Product B)
- **D2:** 50% (Barrier to activate commission on Product A)
- **E2:** 10% (Commission rate for Product A)

1. FormulaS:

- **F2** (Formula to verify the barrier status):

```
=IF(B2>=C2*D2, "Complies", "Does not comply")
```

- **G2** (Formula for calculating the commission earned):

```
=IF(F2="Complies", A2*E2, 0)
```

Data Visualization in Excel

Here is how the data will be displayed and calculated in Excel:

G2 $\text{=IF}(F2=\text{"Cumple"}, A2*E2, 0)$							
	A	B	C	D	E	F	G
1	Ventas de Producto A (\$)	Ventas de Producto B (\$)	Objetivo de Ventas de Producto B (\$)	Barrera de Ventas de Producto B (%)	Comisión de Producto A (%)	Estado de la Barrera	Comisión Ganada (\$)
2	\$150,000.00	\$60,000.00	\$100,000.00	50.00%	10.00%	Cumple	\$15,000.00

Interpretation

- **Barrier State:** The formula evaluates whether sales of Product B (\$60,000) reach at least 50% of the target (\$100,000 * 50% = \$50,000). Since \$60,000 is greater than 50,000, the barrier is met.
- **GaLled commission:** Since the barrier is met, the commission for sales of Product A is triggered and calculated as 10% of \$150,000, resulting in \$15,000.

This example shows how to implement and calculate a barrier-linked commission structure in Excel. This type of structure is useful for aligning sales efforts behind multiple products and for incentivizing the joint selling of products that are strategically important to the company. By linking commissions for one product to the sales results of another, the company can encourage a more holistic and strategic approach within its sales force.

Tied Commission-Product Fees with Barrier

Although the pay table is not limited by a cap, upwardly accelerated commission rates are not available unless the barrier is met.

ObServagioLeS

Barriers are easy to understand. One limitation is that they function as an on/off switch. Either sales reps reach the barrier or do not. This can cause a significant reduction in pay for a "close but not enough" level of performance below the barrier.

Excel Example for a Fee Linked Commission Schedule with Product and Barrier Fees

Scenario Description

Suppose a sales compensation plan uses a barrier-linked commission structure, where commission rates for different products are triggered only if a certain total amount of sales (the barrier) is .

Commission Plan Details

- **ProductoS:** Different products with variable commission rates.

- **Total VeLtaS barrier:** \$200,000.
- **Normal comiSióL:** 5% for all products.
- **Accelerated ComiSióL:** 10% for all products, active only if the barrier is exceeded.

Excel Configuration

1. Variables configuration:

- **A1:** "Product".
- **B1:** "Sales by Product (\$)".
- **C1:** "Normal Commission Rate (%)".
- **D1:** "Total Sales Barrier (\$)".
- **E1:** "Total Sales (\$)".
- **F1:** "Barrier State".
- **G1:** "Applicable Commission Rate (%)".
- **H1:** "Commission Earned (\$)".

1. ILtroducT DATA:

- **A2:** A, **A3:** B, **A4:** C
- **B2 to B4:** \$120,000, \$80,000, \$30,000 (sales per product)
- **C2 to C4:** 5% (normal commission rate for all)
- **D2 to D4:** \$200,000 (total sales barrier for all)
- **E2:** =SUM(B2:B4) (total sum of sales)

1. FormulaS:

- **F2** (Formula to verify the barrier status):

```
=IF(E2>=D2, "Complies", Does not comply")
```

- **G2 to G4** (Formula for determining the applicable commission rate):

```
=IF(F2="Complies", 10%, C2)
```

- **H2 to H4** (Formula for calculating commission earned per product):

```
=B2*G2
```

- Drag the formulas in cells **F2**, **G2**, **H2** to apply to all products.

Data Visualization in Excel

Here is how the data will be displayed and calculated in Excel:

ADVANCED COMPONENTS IN COMPENSATION PLANS

Producto	Ventas por Producto (\$)	Tasa de Comisión Normal (%)	Barrera de Ventas Total (\$)	Ventas Totales (\$)	Estado de Barrera	Tasa de Comisión Aplicable (%)	Comisión Ganada (\$)
A	120,000	5%	200,000	230,000	Cumple	10%	12,000
B	80,000	5%	200,000	230,000	Cumple	10%	8,000
C	30,000	5%	200,000	230,000	Cumple	10%	3,000

	A	B	C	D	E	F	G	H
1	Producto	Ventas por Producto (\$)	Tasa de Comisión Normal (%)	Barrera de Ventas Total (\$)	Ventas Totales (\$)	Estado de Barrera	Tasa de Comisión Aplicable (%)	Comisión Ganada (\$)
2	A	\$120,000.00	5.00%	\$200,000.00	\$230,000.00	Cumple	10.00%	\$12,000.00
3	B	\$80,000.00	5.00%	\$200,000.00	\$230,000.00	Cumple	10.00%	\$8,000.00
4	C	\$30,000.00	5.00%	\$200,000.00	\$230,000.00	Cumple	10.00%	\$3,000.00

- **Total veLtaS:** \$230,000, which surpasses the barrier of \$200,000.
- **Barrier Status:** "Compliant", which triggers the accelerated commission rate of 10% for all products.
- **ProducT ComiSiON:** Calculated based on the accelerated commission rate.

This example shows how to implement and calculate a commission structure linked to variable product rates and a barrier in Excel. This type of structure is useful to incentivize the joint selling of products and to motivate sales staff to achieve overall sales targets, triggering higher commission rates that benefit both the company and the salesperson.

Linked Commission-with Multiplier

Like other linked techniques, a multiplier requires two or more performance measures. If the salesperson exceeds the target on the second measure, then it has a positive impact on the base commission rate, increasing the payout. However, if the performance on the second measure falls short of the target, then the impact on the base commission rate is negative. The impact of the multiplier payout varies, given the performance on the first (base) measure and on the second measure. The multiplier provides a very clear direction of the importance of excelling on both measures.

ObServagioLeS

The impact of the payment is both positive (did exceed the target in the second measure) and negative (did not exceed the target in the second measure). Some organizations prefer to have only a positive multiplier with no negative deduction.

Excel Example for a Commission Linked Program with Multiplier

Scenario Description

Suppose a sales compensation plan uses a multiplier based on the performance of two different products, Product A (basic measure) and Product B (second measure).

Commission Plan Details

- **Producto A (Core):** 5% base commission on sales.
- **Producto B (MULTIPLIER):** Sales target= \$50,000.
- Multiplier of 1.2 if sales exceed target.
- Multiplier of 0.8 if sales do not reach the target.

Excel Configuration

1. Variables configuration:

- **A1:** "Sales of Product A (\$)".
- **B1:** "Sales of Product B (\$)".
- **C1:** "Product B Sales Target (\$)".
- **D1:** "Base commission on Product A (%)".
- **E1:** "Applicable Multiplier".
- **F1:** "Effective Commission Rate (%)".
- **G1:** "Commission Earned (\$)"

1. ILtroducT DATA:

- **A2:** \$100,000 (Sales of Product A)
- **B2:** \$40,000 (Sales of Product B)
- **C2:** \$50,000 (Sales target for Product B)
- **D2:** 5% (Base Commission for Product A)

1. FormulaS:

- **E2** (Formula for determining the applicable multiplier):

DEFINITIVE GUIDE TO CREATING COMPENSATION PLANS FOR SALES TEAMS

=IF(B2>=C2, 1.2, 0.8)

- **F2** (Formula for calculating the effective commission rate):

=D2 * E2

- **G2** (Formula for calculating the commission earned):

=A2 * F2

Data Visualization in Excel

Here is how the data will be displayed and calculated in Excel:

Producto A Ventas (\$)	Producto B Ventas (\$)	Objetivo B (\$)	Comisión Base A (%)	Multiplicador	Tasa Com. Efectiva (%)	Comisión Ganada (\$)
100,000	40,000	50,000	5%	0.8	4%	4,000

	A	B	C	D	E	F	G
1	Ventas de Producto A (\$)	Ventas de Producto B (\$)	Objetivo de Ventas de Producto B (\$)	Comisión Base de Producto A (%)	Multiplicador Aplicable	Tasa de Comisión Efectiva (%)	Comisión Ganada (\$)
2	\$100,000.00	\$40,000.00	\$50,000.00	5.00%	0.8	4.00%	\$4,000.00

Interpretation

- **Producto B VeLtaS**: \$40,000, do not reach the goal of \$50,000.
- **Applicable Multiplier**: 0.8 due to not reaching the target.
- **Effective commission rate**: 4% (5% base * 0.8 due to multiplier).
- **Fee**: 4% of \$100,000= \$4,000.

This example shows how to implement and calculate a multiplier-linked commission structure in Excel. This type of structure incentivizes the co-selling of products and can motivate sales staff to achieve specific sales targets by applying commission adjustments based on overall performance. This model is particularly useful for promoting strategic products and for tailoring the compensation plan to the company's strategic needs and objectives.

Related Commission - with Parent Company

Use a matrix when the company wants the seller to solve two competing objectives; for example: (1) increase revenue but (2) sell profitably; or (1) retain existing customers but (2) add new customers; or (3) sell profitably.

(1) sell the core business but (2) sell new products as well.

Whenever you want the salesperson to reconcile objectives

In competition, a matrix is an excellent formula mechanics.

		Porcentaje de Ingresos por Ventas / Mes									
Objetivo de Volumen de Ventas	Excelesencia	2.0	3.0	3.9	4.9	5.9	6.7	7.4	8.2	9.0	
		1.8	2.8	3.7	4.7	5.7	6.3	7.0	7.7	8.3	
		1.6	2.5	3.5	4.5	5.4	6.0	6.6	7.1	7.7	
		1.3	2.3	3.3	4.3	5.2	5.7	6.1	6.6	7.0	
	Objetivo	1.1	2.1	2.1	4.0	5.0	6.3	5.7	6.0	6.3	
		0.8	1.7	2.5	3.3	4.2	4.5	4.8	5.2	5.5	
		0.6	1.3	1.9	2.6	3.3	3.7	4.0	4.3	4.7	
		0.3	0.8	1.4	1.9	2.5	2.8	3.2	3.5	3.8	
	Umbral	0.0	0.04	0.08	1.3	1.7	2.0	2.3	2.7	3.0	
		Objetivo								Excelesencia	
Objetivo Promedio de Margen											

With a matrix, the salesperson - who in this case has pricing freedom - needs to sell above target and at high average gross margin to be eligible for commission rates above 5%. Outstanding performance on both measures (volume and average gross margin) can provide a commission rate as high as 9% for all sales revenue. Note the following characteristics of a matrix:

- **The vendor must resolve two conflicting measures** - in this case, sales volume versus profit/margin.
- **There is a double threshold at the lower end.**
- **The average gross margin has a higher weighting in the matrix than the achievement of the sales volume target.** The average gross margin is weighted at 60%, and the achievement of the sales volume target is weighted at 40% in the matrix.
- **The quota "target" can be the same for all vendors,** assuming that the territories are of the same size and

equal opportunity, or may vary per seller.

- **The matrices usually preSelect an odd number of rows and goals to provide a geLtral gel to preSelect the target taSe.** Most matrices are at least 9×9 and some are as large as 15×15 .

ObServagioLeS

Matrices are ideally suited to provide rec- ompensation when there are two measures. Because of their visualization, salespeople quickly understand how their performance impacts their payout.

Problem of Harming GaLaLgiaS by Rewarding GALALGIAS:

You will be perplexed to discover that the gross profit measure in the incentive plan actually hurts profits. Distribution companies sell what others manufacture. Multi-line wholesalers buy products from numerous manufacturers, bring them into inventory and sell to the local market. The key measure of sales success is gross margin dollars - selling price less cost of goods charged.

Management correctly provides pricing flexibility to the sales force to address competitive pressures. To reward high sales with high prices, management structures the incentive plan to pay a flat commission rate on all gross margin dollars.

Unfortunately, this has the unintended consequence of

Why? Rather than keep prices high and risk losing the sale, the sales staff would reduce prices to save the order. A commission on a few dollars of gross margin is better than a commission on no dollars of gross margin.

SolugióL Preferred SolugióL:

Create a payable that pays a higher commission rate on gross margin dollars for orders with a higher gross margin percentage.

Example in Excel for a Matrix-Linked Commission

Matrix Configuration

This example will simulate a 3x3 matrix for sales and margins with different associated commission rates.

Commission Matrix Configuration

Objectives and Thresholds:

- **Rows (Gross MargeL %):** Less than 20%, 20%-30%, More than 30%.
- **ColumLaS (VolumeL of VeLtaS):** Less than \$100k, \$100k-\$200k, Over \$200k.

COMMiSiOn taSes aSSoGiDed:

- Commission rates will increase as gross margin and sales volume ranges improve.

Steps to Configure the Matrix in Excel

1. Matrix Labels:

- **A1:** "Margin / Volume"
- **B1:** "< \$100k"
- **C1:** "\$100k-\$200k".
- **D1:** "> \$200k"

1. Marginal Brutal Rate:

- **A2:** "< 20%"
- **A3:** "20%-30%"
- **A4:** "> 30%"

1. Commission Rates at the Matrix:

- Cell **B2** (Less than \$100k and less than 20% margin): **3%**
- Cell **C2** (Between \$100k and \$200k and less than 20% margin): **4%**
- Cell **D2** (Over \$200k and less than 20% margin): **5%**.
- Cell **B3** (Less than \$100k and between 20% and 30% margin): **5%**
- Cell **C3** (Between \$100k and \$200k and between 20%-30% margin): **6%**.
- Cell **D3** (Over \$200k and between 20%-30% margin): **7%**

- Cell **B4** (Less than \$100k and more than 30% margin): **7%**.
- Cell **C4** (Between \$100k and \$200k and more than 30% margin): **8%**
- Cell **D4** (Over \$200k and over 30% margin): **9%**.

Configuration in Excel

	B	C	D
	< \$100k	\$100k-\$200k	> \$200k
< 20%	3%	4%	5%
20-30%	5%	6%	7%
> 30%	7%	8%	9%

Commission Calculation Example

Suppose a salesperson achieves \$150,000 in sales with a gross margin of 25%.

1. **Determine the Corresponding cell:**

- Margin of 25% falls in "20%-30%" row.
- Sales of \$150,000 fall in the "\$100k-\$200k" column.

1. **Read the Applicable Commission Rate:**

- Corresponding to the intersection of "20%-30%" and "\$100k-\$200k," which is **6%**.

1. Calculate the Committee:

- Commission= 6% of \$150,000= \$9,000.

If G1= \$150,000 and H1= 25% (that means sales are \$150,000 and the margin is 25%), the formulas in Excel would be set up as follows:

- **G2:** \$150,000 (Sales)
- **H2:** 25% (Gross Margin)

The formula in I1 (where we want the commission rate) would be:

```
=INDEX(B2:D4, MATCH(H2, {0%, 20%, 30%}, 1), MATCH(G2, {0, 100000, 200000}, 1))
```

Note: The arrays {0%, 20%, 30%} and {0, 100000, 200000} must be adjusted according to the actual structure of your ranges in A2:A4 and B1:D1, respectively. This formula assumes that the ranges are accurate and that the sales and margin are within those ranges.

I2	=INDEX(B2:D4, MATCH(H2, {0%, 20%, 30%}, 1), MATCH(G2, {0, 100000, 200000}, 1))									
	A	B	C	D	E	F	G	H	I	J
1	Margen / Volumen	< \$100k	\$100k-\$200k	> \$200k			Ventas	Margen Bruto	Comision	Total Comision
2	< 20%	3.00%	4.00%	5.00%			\$150,000.00	25%	6.00%	\$9,000.00
3	20%-30%	5.00%	6.00%	7.00%						
4	> 30%	7.00%	8.00%	9.00%						

Stratified Sales Force Commission

This commission technique provides a method for rewarding salespeople in a stratified sales organization. A stratified sales force groups accounts by size and potential. Large accounts fall into strategic accounts; medium accounts belong to larger accounts; and small accounts are assigned to the general business market. Account stratification groups sales territories by size.

From a sales compensation perspective, this configuration supports the use of commission plans. The groupings keep territories of similar size together. Each category job has its own commission rate correctly sized to the volume of opportunities and the target incentive opportunity for that category.

Larger territories have lower commission rates than smaller territories. However, volumes are much higher, ensuring a higher payout for larger territories, even though the effective commission rate is lower.

ObServagioLeS

Layering may provide the right kind of payments, but advocating lower commission rates for larger accounts and territories will require continued explanation.

Example in Excel for a Stratified Commission Program

Scenario Description

Suppose a company has divided its accounts into three categories based on size: Strategic, Major and General. Each category has a different sales volume and commission rate.

Excel Configuration

1. Variables configuration:

- **A1:** "Account Category".
- **B1:** "Estimated Sales Volume (\$)".
- **C1:** "Commission rate (%)"
- **D1:** "Commission Earned (\$)"

1. Introduce Data and Categories:

- **A2:** Strategic, **A3:** Major, **A4:** General, **A2:** Strategic, **A3:** Major, **A4:** General
- **B2:** \$1,000,000, **B3:** \$500,000, **B4:** \$100,000
- **C2:** 2%, **C3:** 4%, **C4:** 6%, **C2:** 2%, **C3:** 4%, **C4:** 6%.

1. Formulas for calculating the Gated Commission:

- In **D2**, **D3**, and **D4**, type the following formula:

=B2*C2

- Copy the formula from **D2** to **D3** and **D4** to apply it to all categories.

Data Visualization in Excel

Categoría de Cuenta	Volumen de Ventas Estimado (\$)	Tasa de Comisión (%)	Comisión Ganada (\$)
Estratégicas	1,000,000	2%	20,000
Mayores	500,000	4%	20,000
Generales	100,000	6%	6,000

	A	B	C	D
1	Categoría de Cuenta	Volumen de Ventas Estimado (\$)	Tasa de Comisión (%)	Comisión Ganada (\$)
2	Estratégicas	\$1,000,000.00	2.00%	\$20,000.00
3	Mayores	\$500,000.00	4.00%	\$20,000.00
4	Generales	\$100,000.00	6.00%	\$6,000.00

- **HIGHER (STRATEGIC) TERRITORIES:** Although they have a lower commission rate (2%), the high volume of sales ensures that the total commission (\$20,000) is substantial.
- **MediaLoS Territories (Major):** They have an average commission rate (4%) and generate an equally substantial total commission (\$20,000) due to their moderate volume.

- **Small Territories (GeLeraleS):** Although they enjoy the highest commission rate (6%), the limited volume of sales results in a lower total commission (\$6,000).

Practical Implementation

This tiered approach ensures that compensation is aligned with market potential and the workload associated with each account category. However, the justification differentiated commission rates may require clear and consistent explanations to ensure that sales personnel understand and accept the compensation structure as fair and motivating. This system promotes a balanced approach to achieving multiple business objectives, appropriately incentivizing salespeople across different account types and territories.

Providing Equal Opportunities When Territories Are Dissimilar in Size

As mentioned above, commission formulas are based on a set rate per sales output (e.g., revenue, gross margins or units sold). The commission schedule is constant for all sales personnel in the same position. Individual fees may affect access to different levels of escalation, but for the most part the payouts are similar for similar levels of sales production.

Target incentive commission plans require territories to have similar sales potential.

Sales organizations use account allocation and reallocation to keep territories balanced. Organizations with the latitude to make account changes can easily maintain comparable profits by equalizing the sales load among sales personnel account reassignments.

This is not a preferred practice for revenue producers, but in the case of sales representatives, managing territory size through account assignments ensures that target incentive pay opportunities remain comparable across the sales force.

However, in some cases, it is not plausible to reassign accounts. In these cases, account movement is disruptive to customers and sales personnel. Simple geographic realities do not always allow for reassignment to other sales personnel to balance territories.

Target Bonus Plans

As we have seen, commission payment plans provide an absolute rate for sales production. Bonus formula techniques, on the other hand, pay for relative performance against a percentage of quota fulfillment. The bonus formula translates the sales production into a

percentage of quota achievement. The target incentive payment is a function of the percentage of target achievement.

A bonus formula allows sales management to pay for sales results as a percentage of quota rather than as a percentage of actual sales production. There are numerous reasons for doing this, but the most compelling reason is that actual sales volume production does not always equal sales achievement. For example, the size of large territories may be a function of the buying patterns of the account rather than the persuasive selling skills of the salesperson. A bonus formula requires the following:

- A target incentive earning amount, such as a fixed dollar amount, a percentage of base salary, a percentage of total target compensation, or a percentage of a cash pool.
- One installment.
- An incentive formula expressed as a portion of the target incentive amount times the percentage of achievement of the target quota.

In all of the following examples, sales production is expressed as a percentage of 100% of quota and not in actual dollars, margin or units sold.

This detailed explanation clarifies how bonus formulas work in comparison to traditional commission formulas and how they can be adapted to effectively balance incentives in territories with different sales potentials.

Step Bonus Formula

The most common bonus application is the tiered bonus formula. Higher earnings, expressed as a percentage of the target incentive, are offered for a higher percentage return over quota on a tiered basis.

This step bonus formula has a threshold and a cap. There is no interpretation between steps. The performance between steps pays the rate of the lower step.

In both step bonus formulas presented, the payout amounts are very similar. The only change is the basis used for the target incentive: base salary is used in the first example and target incentive is used in the second example. Both approaches are effective. One elevates the importance of the base salary, while the other ignores the base salary and places significant emphasis on target incentive amount.

When using the target incentive amount, the dollars may be the same for all sales personnel in the same position or may vary depending on the value sales management assigns to the territory and the salesperson's contribution.

ObServagioLeS

A tiered bonus formula is a popular means of matching territories and providing variable payouts based on quota performance. The use of tiers generally

occurs when the performance range is wide and the confidence in the quota setting is moderate.

Example in Excel for a Step Bonus Formula

Bonus Formula Configuration

Suppose we have a tiered bonus system where the returns with respect to the quota determine different bonus rates:

1. **Variables configuration:**

- **A1:** "Yield to Quota (%)".
- **B1:** "Bonus (% of Base Salary or Target Incentive)"
- **C1:** "Base Salary or Target Incentive (\$)".
- **D1:** "Bonus payment (\$)"

1. **DEFiLiDED SgALoS:**

- **A2:** 90%
- **A3:** 100%
- **A4:** 110%
- **B2:** 5%
- **B3:** 10%
- **B4:** 15%

1. **BoLo angle:**

- Assume a base salary or target incentive of

50,000 (this may vary among sales personnel).

- **C2 to C4:** \$50,000
- **D2:** =C2*B2
- **D3:** =C3*B3
- **D4:** =C4*B4

Implementation in Excel

Rendimiento a Cuota (%)	Bono (% del Incentivo)	Incentivo Objetivo (\$)	Pago de Bono (\$)
90%	5%	50,000	2,500
100%	10%	50,000	5,000
110%	15%	50,000	7,500

	A	B	C	D
1	Rendimiento a Cuota (%)	Bono (% del Salario Base o del Incentivo Objetivo)	Salario Base o Incentivo Objetivo (\$)	Pago de Bono (\$)
2	90.00%	5.00%	\$50,000.00	\$2,500.00
3	100.00%	10.00%	\$50,000.00	\$5,000.00
4	110.00%	15.00%	\$50,000.00	\$7,500.00

Bonus-Rate Formula

Use a bonus formula rate to eliminate the cap and gaps in the payout steps, which are prominent features of the step bonus formula.

ObServagioLeS

A bonus formula rate has the positive benefits of an uncapped plan similar to a commission program. However, it requires a two-step calculation to arrive at the earned incentive.

Example in Excel for a Bonus-Rate Formula

Bonus Formula Configuration

Suppose we want to apply a rate-based bonus formula that is uncapped and covers the full range of quota yields.

1. **Variables configuration:**

- **A1:** "Yield to Quota (%)".
- **B1:** "Bonus Rate (% of the Target Incentive)".

1. **ESTABLISH BoLo TaSES:**

- **A2:** 50, **B2:** 5%.
- **A3:** 100, **B3:** 10%.
- **A4:** 125, **B4:** 15%.

1. **Add ILgeLtivo Objective:**

- **C1:** "Target Incentive (\$)"
- **C2:** 10,000 (This value may vary among sales personnel)

1. **ILgreSe the AgTual reLeadInG:**

- **D1:** "Yield to Quota (%)".
- **D2:** 110 (this is the value that the user updates according actual performance)

Bonus Calculation Formula

1. APPLY the Formula to Interpolate the BoLo TaSe:

- To simplify and make effective use of linear interpolation between steps without using advanced tools such as VBA, we can approximate using a linear search approach with **VLOOKUP**.
- **E1:** "Bonus % Applicable".
- **E2** (Formula):

```
=VLOOKUP(D2, A2:B4, 2, TRUE)
```

1. Calculate BoLo Payment:

- **F1:** "Bonus Payment (\$)"
- **F2** (Formula):

```
=C2 * (E2/1)
```

Linear Interpolation Implementation in Excel We can

improve linear interpolation manually by adjusting the

ting the rates between the given points to better reflect a proportional increase:

Rendimiento a Cuota (%)	Tasa de Bono (% del Incentivo Objetivo)*	Incentivo Objetivo (\$)	Rendimiento a Cuota (%)	Bono % Aplicable	Pago de Bono (\$)
50.00%	5.00%	\$10,000.00	110.00%	10.00%	\$1,000.00
100.00%	10.00%	\$10,000.00			
125.00%	15.00%	\$10,000.00			

Summary

Although the list of incentive formulas in this chapter seems extensive and comprehensive, in reality it only represents the building blocks of incentive formula design. Combining these different components provides the full palette of options. The number of configurations is almost unlimited. However, limiting the number of performance measures to three or fewer avoids the occurrence of overly complex designs.

Sales Compensation Programs

The sales compensation programs work in conjunction with the following support programs: territory configuration, quota management and sales accreditation.

Each of these mission-critical support programs plays an important role in sales management. Collectively, sales compensation and these support programs form the backbone of the sales performance management system.

Sales management needs to define, monitor and continually review these support programs to serve the company's evolving sales strategy. The success of the sales compensation program depends on the effectiveness of these interdependent programs. Therefore, in redesigning the sales compensation program, sales management must also review and revise these support programs.

A brief description of how each of these programs is

support can affect the sales compensation program including scope of responsibilities, performance commitment and achievement measurement in the following ways:

- **Territory configuration:** Territory configuration defines the sales territories - "scope of responsibilities". Territory configuration policies provide rules for account assignment and reassignment.
- **Quota geStiStiOn:** Quotas define performance expectations-"performance commitment". Quota management encompasses two activities: quota allocation and quota adjustments.
- **Sales crediting:** Sales crediting defines sales success-"measurement of achievement. Sales crediting specifies to whom and when individuals earn sales credit for compensation purposes.

Territory Configuration

The art of territory shaping requires a superior understanding of the company's business strategy, rigorous analytical research and considered judgment customer needs. The goal of territory design is clear: to create sales territories with the best return on sales investment. This means optimizing dozens of tradeoffs to arrive at the optimum territory design so that profitable revenue production is high and the

low sales costs.

Some sales organizations invest substantial resources in gathering market intelligence and performance data to build advanced analytics-based territory optimization models. Others find the variables too complex or resources too limited; they make their best estimate of the right territories and then make real-time adjustments as performance develops. Finally, others maintain historical territories as a rational approach if business conditions remain unchanged, but this is a risky position when sales conditions are changing.

For sales representative jobs, sales management attempts to provide balanced (equally challenging) territories using different job titles. In this way, sales management seeks to set up equal opportunity territories so that incumbents have an equal opportunity to earn and exceed the target pay for the job.

In an ideal world, sales territories would be equal on the following factors:

- Number and revenues of existing customers
- Number and revenues of potential new customers
- Amount of selling time available
- Extension of customer needs
- Customer accessibility: travel distance, sales access time

Of course, it is impossible to configure sales territories to create truly equal sales opportunities. There are simply too many variables. Sales organizations generally try, as best they can, to provide balance to the sales opportunity through effective territory configuration.

While territory balance is important, focus is more important. Sales organizations need to focus sales people to optimize the learning process and selling time. For this reason, sales organizations seeking focus and expecting balance will configure territories using one or more of the following criteria:

- **Geography:** One of the most popular methods of sales people is by geographic area. Geographic territories assume that buyers are similar and that a salesperson can handle all customers within a geographic area.
- **Stratified/size:** Another method of organizing territories is by account size. In a stratified sales organization, one group of salespeople calls on large customers; another group calls on medium-sized customers; and a low-cost resource handles small customers. A stratified sales organization will probably have both named accounts and geographic territories.
- **Customer status:** Another method of territory configuration divides territories into two categories: non-customers and existing customers. Sometimes called "hunter-farmer" territories, this configuration allows sales personnel to focus on a primary task:

hunters selling to new accounts and farmers managing existing accounts.

- **Vertical/iLduStria:** Grouping accounts by industry type (vertical) provides sales personnel with the ability to understand the unique buying needs of a group of similar customers. Examples of vertical/industrial territories include financial services, telecommunications and consumer packaged goods.
- **Product/apligioL:** Another method of territory configuration groups current and target customers into territories based on product or user application. These types of territories place a high value on the product or application knowledge of the sales staff.
- **Project opportunity territories:** Some types of sales are opportunistic and are based on customer projects. Instead of a defined and continuous territory of accounts, sales management assigns these sales to sales personnel as they arise. Examples include selling equipment and services to support major construction and engineering projects. Sales management defines territories as a sum of these assigned projects.
- **Hybrid:** Many sales organizations use a mix of territory types, even mixing one or more together to achieve optimal sales coverage.

Optimal territory configuration utilizes sales resources efficiently. From a sales compensation perspective, an effective territory configuration provides equal sales opportunities to all sales people in the same job. While this does not mean equal opportunity, it does mean equal sales opportunities for all sales people in the same job.

The same sales opportunity target does accommodate the less accurate comparable sales opportunity target. Comparable means that the sales force sees the sales challenge between territories to have relative tradeoffs, and the sales force in a territory is neither significantly advantaged nor disadvantaged by the configuration of the territory.

Quota Management

Quota management includes two components: quota allocation and quota adjustments. As with account setup, quota allocation-the setting of individual quotas-should occur at the beginning of the fiscal year. There are numerous techniques for assigning quotas, and we will examine several of the most popular methods. Quota adjustments occur throughout the year and for numerous reasons.

How Fees Affect Sales Compensation

The impact of quotas varies depending on the type of sales compensation . For revenue producers with a fixed commission, a quota could simply be a token point, marking the expected return but with no financial impact. In addition, quotas could be a point where the commission rate changes or is an important milestone that affects the relationship between the revenue producer and the company.

Quotas play a more important role for sales representatives compared to revenue producers. Sales management uses quotas to distribute the corporate sales commitment to all sales personnel. For these target incentive plans, both commission and bonus, the target quota defines the degree of difficulty where two-thirds of the sales force will exceed this number and one-third will not. For formulas with ramps (progressive or regressive), the quota will provide one of the break points where the formula rate changes.

For target incentive commission plans, the territory's average quota provides the basis for calculating the commission rate. For target incentive bonus plans, fees play a crucial role in equalizing the earning potential of territories of dissimilar size. In addition, in target bonus plans, the fee is an integral part of the payment formula. For this reason, fees must be accurate: if they are too easy, the plan will ; if fees are too difficult, the plan will underpay.

Quota AssigLagIoL

Companies have numerous quota allocation methods for distributing the company's forecast to the sales force. Quota allocation methods rely on a combination of analytical tools and process methods. In terms of analysis, some quota allocation methods make little use of market potential data and simply use last year's performance as the basis for this year's quota.

Others invest significantly in measuring territory potential, market share, account growth rates and account intelligence to create advanced analytical models for quota allocation. From a process perspective, similar extremes exist. In some companies, sales personnel do not participate in the quota allocation process and simply receive an assigned quota number. In other companies, extensive field involvement in the quota allocation process includes the active participation of sales personnel and field sales management.

The most popular methods of quota allocation are as follows:

- **Top-down/algorithm:** For industries where product sales growth is tied to economic cycles and there are numerous customers (too many to know individual buying practices), the top-down/algorithm method is the best method of quota allocation. Management uses historical data and economic projections to create a mathematical model, an algorithm, to allocate quotas.
- **Top-down/Legacy:** Another method brings together peers in the organization to negotiate quota allocation decisions. The vice president (VP) of sales meets with his or her regional managers (RMs) to allocate the VP's quota among the RMs. The regional managers then meet with their direct reports, the district managers (DMs). Working with the managers, the RM allocates his or her number among the DMs and the process continues down the line in

the flow chart until the process fully assigns the entire forecast to individual sales personnel.

- , **bottom-up**: A third method presents parallel activities top-down quota allocation and quota estimation. This process creates two quota allocation views. A reconciliation process at each level helps align these two quota allocation estimates.
- **guelLtAge planning**: Territories made up of a few large accounts use account planning methods to establish quotas. Major account sales personnel are best qualified to help build a sales estimate for their large customers. By assembling a customer business plan, the major account manager presents this sales estimate to senior sales management for review and adjustments. The result of this planning and review process produces a quote for the named large account territory.

Most companies need to use a combination of quota setting methods to fully allocate the company's forecast.

SPECIfIal PROBLEMS IN THE Quota ASSIGLagIoN

The following present special challenges for quota allocation:

- **exgeSive/SubSigLagioL ASigLagioL**: Some sales management teams intentionally over- or under-allocated

minus the forecast during the odds allocation process. Over-allocation occurs when the sum of individual quotas exceeds the overall forecast target. Sales leaders who advocate this practice believe that the extra cushion helps ensure that the sales team will reach its number, given unexpected events such as customer changes, product problems, or turnover among the sales force. Under-allocation, sometimes referred to as breakage, is the opposite of over-allocation. Sales leaders do not fully allocate the forecast. There are numerous reasons for this practice. The most common is to protect the sales force from an unrealistic forecast created by corporate management. Another reason is to avoid the uncertainty of placing large, unpredictable orders in individual quotas. In such cases, these large and uncertain orders remain outside of individual quotas, but are often assigned to a sales manager.

For whatever reason, when sales leaders choose to over- or under-allocate quotas, they run the risk of eroding their credibility or the credibility of the quota allocation process. At some , salespeople will learn that their quotas are not true quotas and, , are open to adjustment, challenge and compromise.

- **EStagioLality:** Some sales cycles are very seasonal, peaking at different times of the year. If performance and pay periods align with these seasonal fluctuations, then sales management needs to allocate seasonally adjusted quotas.
- **ILgertidumbre del mergado:** The uncertainty of the

market-high growth potential or significant declines-makes the allocation of quotas more problematic. There are two potential solutions: shorten the performance period or use moving averages. If sales management does not have the market visibility to set realistic one-year quotas, then shortening the performance period for quotas can help. Instead of 12-month quotas, set 6-month quotas, or even quarterly quotas. Another method is to use a moving average quota calculated by taking the last 3 months of actual performance multiplied by an adjustment factor (plus or minus) to calculate the quota for the next performance period.

- **Long sales cycles:** Long sales cycles present another challenge for quota allocation. When the sales cycle is longer than 12 months, annual fees become irrelevant. In such cases, it is better to move to an event-based incentive plan where payments are linked to sales events, such as contract signings, rather than quota performance.
- **Mega periodic orders:** Some sales models have a mix of predictable sales orders intercalated with unpredictable mega (large) orders. It is best not to place these mega orders in quota; instead, provide a separate payment formula for these orders, correctly applying a regressive rate above a certain dollar volume. This separate schedule is further enhanced by requiring sales personnel to record large deals. Without preregistering a deal, the incentive compensation available for such orders is significantly less. This policy

supports the following logic: "If you were not aware of the order, then you did not have much influence on the purchase....

Therefore, your payment should be proportional to your degree of influence... which shouldn't be much".

- **New products:** At the beginning of each fiscal year, product management may have a schedule of new product launches. Accurately forecasting the launch of these new products affects the quota allocation process. If the launch dates are accurate and the sales performance expectations are realistic, then sales management should include these new products in the quota. However, if dates are unconfirmed or projected sales volumes are undetermined, then exclude these new products from the quota. Grant them their own launch incentive (an additional one) that expires at the end of the performance . Then, when you have more solid information, include these new products in the quota for the next performance period.

Quota allocation provides sales leadership with an opportunity to manage performance. Quota allocation requires continuous efforts from year to year to make adjustments and improvements.

Sales Accreditation

Sales credit specifies when sales personnel earn credit for a sale. We will review eligibility for

sales accreditation, timing and necessary adjustments.

Eligibility for VeLtaS Credit

Who should receive credit for a sale? The answer should be simple: the seller, the person who closed the sale?

Right? In sales organizations with a single sales force, applying this definition of eligibility is relatively easy. However, in more complex sales organizations with multiple channels, additional sales specialists and team selling, the definition of sales credit eligibility becomes more complicated.

There are three main categories of sales accreditation:

- **Vendor sales credit:** Simplify sales credit by assigning it to those who have contact with the customer and can persuade the customer to act. The single salesperson who influenced the customer's buying decision should receive 100 percent of the sales credit. If two or more salespeople influence the customer, then those salespeople share the sales credit using a prespecified proportional split. In designing target incentive bonus formulas, sales management can give double credit to both salespeople, but each salesperson must have an identical increase in their quotas to compensate for the double credit. In this way, although the sales credit is double-counted, it does not raise the payments.
- **vertiGal sales credit:** Vertical sales credit refers to the crediting of sales performance through

of the field management layers. This is a legitimate accounting recognition practice and is not considered double crediting.

- **Horizontal sales credit:** Horizontal sales credit provides sales credit to resources other than the primary sellers. In a true economic sense, this form of sales crediting generates additional double costs. Sales management uses this form of dual crediting to support field sales strategy. Sales credit is often given to sales support resources such as complementary product specialists and pre-sales support personnel. For example, a regional complementary product specialist will earn sales credit for all sales in the region, regardless of his or her involvement in a specific sale. Presales support specialists provide another example where double sales credit supports the overall sales strategy. In both cases, sales management makes a conscious decision to reward more than one person for a sale. In these examples, horizontal sales credit promotes cooperation between sales personnel and those assigned to support them in the sales process.

Well-crafted policies regarding eligibility for sales crediting will suppress some of the following sales crediting errors:

- sales personnel do not have accounts and, therefore, do not automatically receive sales credit for all products sold to the customer. Some sales

may come from another sales channel independent of the salesperson. In such situations, sales personnel do not earn credit (as an "owner") for those sales, specifically sales they did not influence.

- **Payment for blackout:** Sales management will want the field organization to support a new channel, such as the telephone sales force. In an attempt to gain the support of the existing direct sales channel, sales management incorrectly credits both parties.
- **aLual business:** The rule of thumb is "suasion ". Providing ongoing sales credit for prior years' sales, now covered by a contract and managed by the customer service department, is an ineffective use of incentive dollars.

Credit momeNt of VeLtaS credit

The timing of the sales credit specifies when sales management recognizes a sale for incentive credit purposes. There are several points in the sales/purchase process where this credit can occur. Assign earned sales credit to the salesperson at the point where the customer's purchase is assured because you want the salesperson to stop thinking about the order. There are several points along the buying continuum where sales management can recognize sales credit:

- **Product specification:** Certain industries recognize sales prior to a sales event. When purchasing components for your product, a customer will specify a product from the supplier. Examples include design wins for semiconductor sales or material specification.

construction for major commercial projects financed. Although the customer has not issued a formal purchase , the specification confirms that the order will be imminent. Some sales organizations accept specifications for sales accreditation purposes.

- **ReBooking:** An order is booked when a company accepts an order. Many sales organizations provide incentive compensation credit at the time of booking, especially if there is little likelihood of order cancellation, need for customer follow-up or extensive installation support.
- Most companies ship products and issue an invoice at the same . At this point, the accounting system recognizes the order as an account receivable. Use invoice/shipment to credit sales if there is a high rate (more than 5) of orders that are changed or canceled between the booking and the invoice/shipment.
- **ILStalagióL/ageptagióL of the gliLte:** The next step in the purchasing process is the customer installation/acceptance event. Major purchases often require a signature from the customer before they pay the invoice. If sales management wants the salesperson to participate in the customer acceptance, then credit the sale at the point of installation/acceptance for sales clearing purposes.
- **Payment of the gliLte:** The final step in the purchasing process is the receipt of payment from the customer. Most companies recognize sales credit before this point, but in sales environments where customer payment is problematic, waiting until the company is paid before granting sales credit would be prudent.
- **Hybrid:** Some companies split the credit with 50 per

percent credit at booking and 50 percent credit at installation, as an example.

The timing of the sales credit should reflect the salesperson's preferred participation. As a rule: "Credit sales personnel when you no longer want them to be involved in the sales process."

VeLtaS Credit aSSetS

Most sales compensation plans provide payment on net sales, i.e., less returns and sales credits. Sales personnel should not be paid for sales that have not been fully realized by the . , net (reduce) the sales credit for any returns before calculating the incentive payment.

Additionally, some sales organizations also net past due accounts receivable that extend beyond a fixed number of days outstanding, such as 90 or 120 days. Once past this time limit, some companies deny sales credit even if the company eventually collects the money.

PayinG on the reLimiTaTion of external veLtaS

Indirect sales personnel with end-user business development responsibilities have the unique challenge of documenting sales credit for what they influenced. For example, sales personnel who sell personal computers and software through distributors and value-added resellers have the unique challenge of documenting sales credit for what they influenced.

aggregator does not write end-user orders. Typically, they work with the distributor to help promote products through the distributor's sales team.

In addition, part of their market development responsibilities includes making sales calls to end users. However, they do not write orders; instead, they refer the opportunity to channel partners. The channel partners take and fulfill the order. The manufacturer's sales management wants to reward its channel sales rep for driving end-user sales. However, the company does not have the information from distributors to credit sales-which products were sold to which customers.

This type of information is known as external sales data. Of course, the channel partner has this data; but they are not inclined to share it with manufacturing company.

They don't want the manufacturer to "take the hotline" and lose valuable customers. However, many manufacturers negotiate a financial arrangement with their channel partners to provide outside sales data for a fee or discount on product purchases.

Credit AuditS of VeLtaS

Sales management should expect unexpected and sometimes unusual and out-of-policy sales crediting requests from field sales personnel. Demand that out-of-policy sales accreditation be performed without the approval of senior sales management. Make the finance department your partner and schedule annual audits of the practices of

sales accreditation.

Administrative Components

Administration is a combination of policies, procedures and responsibilities, automation and reporting. Although the exact configuration of these functions varies from company to company, they are inescapable components of sales compensation management. Effective sales compensation requires the proper provision of the administration function.

Once a design team has submitted its preferred design and the plan has been approved by senior management, it then moves into the domain of program management. Program management covers the entire day-to-day operation of the sales compensation program. The following components comprise sales compensation administration:

- Policies specify the rules associated with the treatment of credits, fees, employment status and formula calculations.
- **Procedures and Responsibilities:** Procedures provide the action steps for program execution. Responsibilities delineate the individuals responsible for various administrative functions.
- **Automation:** The extent of automation support depends on the complexity and intensity of the sales clearing transactions.
- **Information:** The sales compensation reports in-

These include providing meaningful information to diverse audiences such as sales personnel, sales management, site management and administrators.

The following sections provide a brief overview of each of these administrative components, as well as suggestions for best practices and what to avoid.

Compensation Policies

Sales compensation policies are just the opposite of what you would expect from a sales compensation program: they are dry and not very inspiring. Sales management should provide detailed policy statements. Use the following checklist to make sure you have the necessary documented policy statements:

- **account ASigLagS:** How are account assignment changes made-under what conditions? What sales credit rights do sales employees have after accounts are moved into or out of territories? When are accounts moved for temporary purposes? How should temporary account assignment affect sales credit and fees? What happens when external account factors affect account status, such as when companies move, are acquired, or are closed? Who approves account changes?
- **Quota geStiStiL:** How are quotas allocated?

How can quotas be changed? What is the request process for quota adjustments? How will quota changes affect incentive compensation? Who approves quota allocation assignments and quota allocation changes?

VeLtaS agreditagioL:

What is the definition of a sales credit for sales compensation ? Who gets direct credit for a sale? How is sales credit divided? When can double sales credit be given? What happens if orders are changed or canceled? How is late payment handled? How is customer non-payment handled? What accounting system report provides the official point of recognition for sales credit? How are requests for sales credit adjustments submitted? Who has final approval on sales credit changes and adjustments?

Program milestones:

When are territories assigned? When are quota allocations made? When are program changes announced? When do they go into ? When are exceptions and adjustments considered? When is the performance period credit deadline date and/or time? When will checks be issued? When will approved adjustments be reflected incentive payments?

Program ILterpretagioS, ExgePgiSionS and AjuSteS:

Who is responsible for the interpretations of the program?

What exceptions will be considered? What types of exceptions will not be considered? What form do the adjustments take?

BeLefigioS Program treatmeNt:

What benefit programs, if any, for sales personnel differ from other employees? How are the following calculated: vacation pay, holiday pay, life insurance values, retirement contributions, and corresponding company shares, flexible benefit deductions and stock purchase programs?

VeLtaS GaStoS:

What sales expenses are reimbursed? How do sales personnel submit expenses? When are expenses reimbursed?

What documentation is required? How is the use of personal automobiles handled? What financial obligation does the vendor bear for the use of a company car? What does the company provide, e.g., cell phone, wired e-mail, PDA, pager, laptop, high-speed access outside the office?

Employment Status: How does the sales compensation program affect new employee status, promotions, temporary , transfers, terminations, illness, death and retirement? How is pay affected by time spent at local sales meetings, training programs and national sales conferences?

GoberLaLza: Who has final program authority for the sales compensation program? Who needs to approve changes, amendments and exceptions to the program?

RIGHTS AND OBLIGATIONS: What rights and obligations do sales personnel have under the sales compensation program? What are management's rights and obligations under the sales compensation program?

PerSoLal Integrity: What expectations of personal integrity does management have for sales personnel? What are the consequences of not upholding these expectations?

Although they are sometimes referred to disparagingly as standard clauses, don't be fooled into thinking that these policies are unimportant or exist as an en- tendency. Every sales compensation plan document should contain a policy statement section covering all of the above topics.

"We are a small company with three sales representatives. Do we need all this policy mumbo jumbo?" Well, yes. Size and management style cannot abrogate your responsibilities to prepare clear and unambiguous policy statements regarding the payment plan. Without such clarity, you run the risk of facing nasty legal action at worst, and distracted and cautious salespeople at best.

Automation

Today's compensation manager can choose from many automation alternatives, including: desktop applications, custom solutions, dedicated applications and software suite options. Selecting right automation option depends on information processing needs and costs. Of course, as processing needs arise, so do costs-both direct (purchase price) and indirect (staff and field time) dedicated to data entry, processing, maintenance and reporting. Automation needs are calibrated on two variables:

- **Complexity:** Work, measures, accreditation rules, and mid-year program changes drive completeness.
- **Intensity:** Intensity reflects the number of holders, transactions and the duration of the measurement periods.

Sales compensation managers can select from the following automation options:

- **Desktop applications:** Use desktop applications such as spreadsheets and simple databases when information processing needs are limited. An assigned administrator keeps the desktop application up to date and loads the few transactions per performance period. Be careful not to properly extend the use of custom desktop applications.

that increase complexity and intensity.

- **Customized solutions:** Whether developed in-house or by an external provider, customized solutions—those designed to meet today's information needs—allow users to meet their exact needs. Advances in software development tools have reduced the development time of such solutions while increasing the power and flexibility of the application. However, changes will require software engineering support.
- **Dedicated application software:** Numerous vendors now offer dedicated incentive compensation application software. These products are evolving and range from extremely powerful (and sometimes confusing) to very simple (but with limited capabilities). There are two categories: stand-alone solutions that operate as single applications and packaged solutions that are part of other front office software suites.

Finally, the sales compensation administrator can choose between several service models:

- **Installed solution:** An installed solution is the most common service model. Using this approach, a company builds or purchases a software application and runs the application on the company's information technology (IT) system.
- **Hosted solution:** A second service model is to have the application hosted by an external provider that provides access to data and information processing through web links or data transfer methods.

electronic. This approach helps reduce the burden internal IT resources.

- **Outsourcing:** The third option is to purchase outsourcing support where an external provider provides the complete solution - both the application and the administrative support. Companies that want to completely eliminate administration should purchase this type of service.

Analytical Reports

With the rapid advances in information systems and Internet communications, a wider palette of reporting options is now available:

- **MANAGERS' REPORTS:** Managers need ongoing reports on program operation as regular production cycles: input audit reports, exception tracking and current status (organizational reports, credit allocations, territory allocations and quota allocations).
- **senior sales management reports:** Sales needs to monitor the effectiveness, cost and results of the sales compensation program. Key performance indices of quota, payout levels and product sales provide a "dashboard" of metrics.
- **gampo veLtaS geStiStiL:** All levels of field sales management require immediate online access to

current sales performance information and trends. Special reporting capabilities provide information for sales analysis purposes. In addition, front-line supervisors use detailed sales performance information to help coach individual sales representatives.

- **PRODUCT MANAGEMENT:** Product management examines product sales information by several factors to gain insights on how to best support the field sales organization.
- Finance accesses sales performance and compensation data to assess return on sales expense dollars, administrative compliance, and revenue and profit contribution.
- **Human resources:** Human resources collects sales compensation payout information to assess external competitiveness and internal equity.
- **Executive** management evaluates the overall effectiveness of the program by reviewing summary analytical reports on program performance.

Although they are sometimes referred to informally as standard wording, don't be fooled into thinking that these policies are unimportant or exist only as an understanding. Every sales compensation plan document should contain a policy statement section covering all of the above topics.

Implementation of the Compensation Plan

While communication about the new pay plan occurs close to the effective start date, implementation efforts begin much earlier. Depending on the scope of the changes and the size of the sales force, implementation activities may begin months before the effective date of the new pay program.

Verification List for Implementation

The following provides a checklist of implementation actions:

Program approval and reliability: Before proceeding with implementation actions, obtain program approval from the senior management team. Depending on internal practices, this process may be informal and informal or require extensive documentation and the concurrence of final signatures. Senior management needs to approve both the program design and all costs, including payment and administrative costs. The approval package should contain the following information:

- Sales objectives and goals for the new fiscal year
- Evaluation of the current program
- Major revisions with comparison of the new plan to old plan
- A spreadsheet of all plans with target total compensation, mix, leverage, measures of

performance, weighting of performance measures, payout periods and key crediting rules

Supporting programs: All issues related quota management, including quota allocation, account assignment and sales accreditation need final resolution prior to program implementation.

Automation systems: Test all automation systems: data entry, transaction processing and output reporting. Perform several simulated runs to fully test the automation program. Provide complete testing up to and including production of payroll files.

ProcedimieLts: Have fully documented administrative procedures with workflow diagrams, steps and assigned responsibilities.

Communication of the Compensation Plan

At its core, sales compensation is a communication : it tells salespeople what is important and what is not. Day in and day out, the sales compensation program reiterates what management is looking for. Sales management wants the sales force to understand the plan, support it, and strive to meet its objectives. The purpose of a well-designed communication effort is to increase the commitment of the sales force.

sales force with the sales compensation program and its strategic objectives.

An effective communication effort consists of eight components:

- **gomuLigagiol calEdary**
- **veLtaS leadership message**
- **Program material**
- **gampo geStiol capAgitagiol**
- **ComuLigagiol goL strength of veLtaS**
- **plaL DogumeLtagiol**
- **reLiMiTaTion aND PAYmeNt iLformaTiONs**
- **plan updates and loTaTes aTteNd aSeSoraTs**

Implementation and communication triggers the sales compensation program. Plan the implementation steps carefully. Leave nothing to chance. Confirm responsibilities, test and retest system solutions, and monitor progress.

Think of the communication program not as an administrative event, but as an advertising and/or marketing event. Utilize the creative talents within your company to develop a theme to market the new sales compensation program to the sales force. Make sure all levels of sales management are involved in the process. Use personal communication whenever possible. Your actions will tell the sales force how to act: if you think it's important, they will think it's important. If you don't think it's important - and you sub-optimize your opportunity.

your salespeople won't consider it important either.

III

Use of Specialized Software for the Creation of Compensation Plans

Analysis of Software Available to Create Sales Compensation Plans

Sales compensation plans, designed to effectively motivate and reward sales forces, are critical to aligning the team's efforts with the company's strategic objectives. However, creating and managing these plans can be challenging, given their complexity and the need for accuracy and flexibility. This is where specialized software comes into play, transforming a potentially cumbersome and error-prone process into a manageable, accurate and efficient task.

This chapter focuses on how the use of specialized software can revolutionize the way organizations design, implement and manage their sales compensation plans. What you should look for is not just a tool to automate calculations, but a comprehensive solution that offers a range of functionality designed to support every aspect of the sales compensation plan.

sales compensation process. From setting up complex incentive structures to seamless integration with other human resource management and information systems.

Throughout this chapter, we will explore the specific challenges companies face in compensation management and how specialized software effectively addresses these issues. We will discuss its unique capabilities, such as adapting to rapid regulatory and strategic changes, detailed management of quotas and territories, and the ability to generate in-depth reporting and analysis to facilitate informed strategic decisions.

Get ready to discover how the software not only simplifies sales compensation, but also empowers companies to make strategic adjustments that drive sales team performance and accurately align incentives with desired business outcomes.

But first things first,

Why is Excel not an optimal solution for this task?

Excel is a powerful and widely used tool in many areas of business, including financial management and data analysis. However, when it comes to managing complex and dynamic sales compensation plans, Excel has several limitations that can compromise its effectiveness and efficiency. The following are the main reasons why Excel may not be an optimal solution for this task:

1. Limited scalability

- **DATA MANAGEMENT CAPACITY:** Excel has limitations on the amount of data it can process efficiently without degrading performance. As businesses grow and data becomes more voluminous, Excel can become slow and less reliable.
- **Data Complexity:** Compensation plans can involve multiple variables and complex structures that require the handling of large volumes of interrelated data. Excel, being primarily a tool, may not effectively handle these complexities on a large scale.

2. Human Error and Data Integrity Risks

- **Manual data entry:** Extensive use of manual data entry increases the risk of errors, which can propagate through calculations and analysis, leading to decisions based on incorrect information.
- **Lack of Audit Controls:** Excel lacks an integrated control system for tracking modifications, which means that any changes to data or formulas may go unnoticed.

3. Maintenance and Updating Complicated

- **Complex Formula Dependency:** As compensation structures become more complex, Excel formulas also become more intricate and difficult to maintain or update without introducing errors.
- **Change Consistency:** Applying consistent changes to scattered Excel documents can be laborious and prone to inconsistencies.

4. Security and Access Control

- **Data Protection:** Excel has limited options for protecting sensitive data, such as employee compensation. It does not offer sophisticated levels of user permissions or the ability to encrypt specific data.
- **Aggregating to the restricted:** Controlling who can view or modify certain parts of a spreadsheet can be difficult, increasing the risk of unauthorized access or data tampering.

5. Integration and Automation

- **CoLeGaLiTy with oThEr sysTems**: Integrating Excel with other systems such as ERP, CRM or HR systems can be complicated and often requires patchwork solutions that are not ideal.
- **Limited AUTOMATION**: Automating complete Excel workflows, from data entry to report generation, is possible but usually requires VBA programming, which is not accessible to all users.

6. Analysis and Reporting

- **ALiTiTy CapAgiTies**: Although Excel is strong in basic analysis, it lacks the advanced reporting and data visualization capabilities offered by specialized compensation software.
- **Real Time**: Excel does not provide the ability to report in real time without manual intervention, a critical component for rapid decision making in dynamic business environments.

7. Regulatory Compliance

- **Audits and Compliance**: Complying with audit and compensation regulations can be challenging with Excel due to its open nature and lack of dedicated audit trails.

While Excel is a useful tool for ad hoc analysis and small-scale compensation issues, companies looking to effectively and efficiently manage their sales compensation programs as they scale should consider specialized solutions. These solutions not only address Excel's limitations but also offer advanced functionality designed specifically for sales compensation management challenges.

The question then arises:

What You Should Consider When Choosing Compensation Plan Software

Choosing software to manage sales compensation plans is a critical decision that can have a significant impact on sales force effectiveness and overall profitability. Here are the key factors to consider when selecting sales compensation software:

ANALYSIS OF THE SOFTWARE AVAILABLE FOR THE CREATION OF PLANS OF...

Capacidades Fundamentales	Capacidades Avanzadas
Herramientas de configuración de diseño de plan	Modelado de costos individuales y de plan
Plantillas para diversos tipos de fórmulas	Informes de variación de plan
Gestión de reglas de crédito	Análisis de doble acreditación
Integración con software de CRS de ventas y RRHH	Informes de auditoría sobre cambios en cuentas, cuotas y territorios
Gestión de la jerarquía de participantes	Optimización de territorios
Asignaciones de territorios y cuotas	Establecimiento de objetivos para participantes
Procesamiento de pagos	Gestión de flujos de trabajo administrativos

Consultas y ajustes	Protocolos de resolución de disputas
Informes para participantes, administradores y gestión	Análisis avanzados
Automatizaciones de pagos de comisiones con integración a sistemas de nómina	Integración con otras herramientas de habilitación de ventas
Documentación de procesos y de planes de compensación	Predicciones de ventas y comisiones
Documentación legal: contratos de compensación y comisión	Simulaciones de comisiones para diferentes escenarios
Puntualidad en el cálculo y distribución de las comisiones	Datos de compensación en tiempo real
Cumplimiento con las regulaciones	Recuperaciones (clawbacks)

Necesidades de personalización de los planes (más allá de plantillas)	Adelantos sobre comisiones futuras
Escalabilidad para cualquier tamaño de fuerza de ventas	Planes específicos para gerentes
Asignación y acreditación precisa de ventas	Acuerdos de división personalizados
	Insignias y reconocimientos
	Soluciones específicas por rol (Administradores, Comerciales, Gerentes)

As you can see, this is a more complex process than just calculating formulas in Excel. So let's explain each of these capabilities

Plan Design Configuration Tools

Plan design configuration tools are fundamental to any compensation management software, as they allow managers to configure and sales compensation plans according to their organization's specific needs and strategies. These tools provide a flexible interface and advanced functionality that facilitate the creation of complex incentive structures without the need for extensive technical intervention or custom programming.

PRIMARY FuLLgItUeS:

1. **ILtuitive USer interface:** Provide an **intuitive** user interface

clear graph where compensation plan elements can be configured, such as commission rates, performance thresholds, and other bonus criteria.

2. **Modularity and Flexibility:** Allow users to select from a variety of pre-defined modules or customize entirely new ones for different roles or sales scenarios within the company.
3. **Rule configuraGion:** They offer the ability to define and adjust compensation rules, such as conditions based on team performance, product profitability, and other business-critical factors.
4. **Automated AnglleS:** Automate payment calculations based on configured performance metrics, ensuring accuracy and eliminating manual errors.
5. **SimulagioLeS:** They provide simulation tools to forecast the effects of proposed plans, helping to optimize compensation prior to actual implementation.

Examples of FuLgeLity and How to Use it:

Example 1: Configuration of a Basic Commission Plan

SGEllary: A medical device company wants to implement a commission plan for its sales team that reflects incremental rates based on sales volumes.

- The administrator accesses the 'Plan Design' section in the compensation software.
- **Selecting the type of plan:** You select a plan of

incremental commission from available templates.

- **DefiLigION of Thresholds:** Sales thresholds are set: 0-100 units: 2% commission, 101-200 units: 5% commission, over 200 units: 8% commission.
- **AddiViDiouS ruleS:** Bonus for the sale of priority products is set at an additional 2% of the standard commission.
- **Simulation:** A simulation is run to forecast the financial impact of the new plan under different sales scenarios.
- **ReviSion and AdjuSteS:** Based on the results of the simulation, final adjustments are made to balance incentives and corporate objectives.
- **ImplemeLtaL:** Once completed, the plan is activated in the system for use in the next compensation cycle.

Example 2: Integration of Team Goals into the Commission Plan

ESgeLario: A software company wants to encourage collaboration among sales team members by including a compensation component based on team performance.

- **Plan type selection:** The manager chooses a combined individual and team compensation plan.
- **Individual and Team Contribution DefiLigIONs:** 70% of commission based on individual sales, 30% based on meeting team quotas.
- **TEAM GOAL SETTING:** The team must meet at least 90% of the quarterly quota in order to activate the

team commission.

- **SIMULATION and AdjuSteS**: Simulations are conducted to ensure that the plan is motivating and fair, and adjustments are made as necessary.
- **DogumeLtagioL and ComuLigioL**: The plan is documented in the system and communicated to all relevant members of the sales team with details on how their individual sales and team performance will affect their compensation.
- **ImplemeLtaL**: The plan for the next performance evaluation period is activated.

These examples illustrate how plan design configuration tools can be used to create compensation systems that are not only fair and transparent, but also strategically aligned with the broader objectives of the organization.

Templates for Various Types of Formulas

DeSegripgioL Detailed DeSegripgioL

Templates for various types of formulas are an essential feature of advanced sales compensation software, making it easy for managers to implement complex compensation structures without having to build each component from scratch. These pre-defined templates are designed to fit a wide range of sales scenarios and role types within the sales force.

of an organization, ensuring that companies can quickly set up effective and customized compensation plans.

PRIMARY FuLLgItUeS:

- **Variety of Templates:** Includes a wide range of preconfigured types of formulas, such as tier commissions, target achievement bonuses, profit sharing plans, etc., which can be used directly or modified for specific needs.
- **Flexible PerSoLalization:** While the templates provide a standard framework, they also allow for in-depth modifications to tailor every aspect of the plan to the specific needs of the company and the sales force.
- **Multiple Variables Integration:** Capable of integrating several variables such as sales volume, profitability, new customers acquired, and customer satisfaction, providing a robust basis for the calculation of compensation.
- **Automated calculations:** Automate calculations based on selected formulas, reducing time and human error significantly.
- **ImplemeLtagioL Facility:** They allow for rapid configuration and deployment of new compensation plans, facilitating adaptation to market or strategic changes in the organization.

Examples of FuLgeLity and How to Use it:

Example 1: Implementation of a Tier Commission Plan

SGellary: A technology equipment company wants to implement a commission plan that incentivizes salespeople to exceed their monthly sales quotas.

- The administrator enters 'Plan Design' section of the software and selects the "Commission per Tier" template.
- **Payroll and Personalization selection:** Choose a plan with staggered commissions: 5% for sales up to \$10,000; 10% for sales between \$10,001 and \$20,000; and 15% for sales over \$20,000.
- **Parameter Adjustment:** Modify sales thresholds and commission percentages according to recent strategic goals.
- **Simulation:** Performs simulations to estimate payments under different sales scenarios, adjusting parameters if necessary to ensure alignment with business objectives.
- **Documentation and Communication:** Document the plan in detail in the system and communicate the changes to the sales force, explaining how this new scheme superior performance.
- **Implementation:** Activate the plan at the start of the next sales cycle to take effect immediately.

Example 2: Bonus Plan for Achievement of Goals

A financial services company is looking to implement a plan that offers bonuses to teams that achieve specific new customer acquisition goals.

- **AggeSTeR to TOOL:** The administrator uses the software interface to access the compensation templates.
- **Template selection:** Choose a target achievement bonus template that offers a one-time payment for achieving specific goals.
- **Term CoLfiguraGioN:** Configure the plan to offer \$500 for each new customer acquired that exceeds the quota of 10 new customers per month.
- **PerSoLization aND ajuSteSts:** Adjusts the fee and bonus based on historical performance analysis and growth expectations.
- **SIMULATIoL and ReviSion:** Simulates different performance scenarios to ensure that bonuses are challenging but achievable and adjusts as needed.
- **ImplemeLtagioL:** Publishes the new plan and communicates thoroughly to the sales teams on how they can maximize their revenue by effectively winning new acquisitions.

These examples demonstrate the usefulness of templates for various types of formulas in simplifying and accelerating the creation of compensation plans, allowing companies to adapt quickly and keep their sales teams motivated and aligned with corporate objectives.

Credit Rules Management

DeSegripgioL Detailed DeSegripgioL

Credit rules management is a crucial component of sales compensation systems that determines how and when sales are credited to reps. This functionality allows companies to define and manage the policies that govern the allocation of sales credits, which is essential for correctly calculating commissions and other incentives based on salespeople's actual performance.

PRIMARY FuLLgItUeS:

- **Credit criteria definition:** Allows managers to set specific rules on what conditions must be met for a sale to be credited to a vendor. This may include completion of the sale, receipt of payment, customer-specific conditions, among others.
- **Flexibility and PerSoLalizAbility:** Offers the ability to customize credit rules to suit different sales structures, products, and markets. This is crucial for companies operating in multiple sectors or geographies with different regulations or business practices.
- **Automated Credit ALLOCATION:** Automates the sales credit allocation process, ensuring that credits are distributed fairly and according to established rules, minimizing human error and disputes.

- **ILtegraGiL goL CRM and ERP:** Integrates with Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) systems to obtain real-time sales data and apply credit rules effectively.
- **Audit and Compliance:** Includes monitoring and reporting capabilities to audit the application of credit rules and ensure compliance with internal and external policies.

Examples of FuLgeLity and How to Use it:

Example 1: Sales Accreditation in a Real Estate Company

ESgeLario: A real estate company wants to ensure that commissions are only paid after all closing conditions are met and the down payment is received.

- **Credit rules CONFIGURATION:** The administrator configures the credit rules so that commissions are only credited when the customer's down payment is received and the sales contract is legally signed.
- **Data INTEGRATION:** The compensation system is integrated with the CRM where payments and contracts are recorded, so that the sales accreditation is automatically updated according to these conditions.
- **AUTOMATIZATIOn & AjuSteS:** Automates credit allocation and adjusts rules to reflect different types of properties or special sales conditions.

- **Monitoring and Reporting:** Uses reporting tools to monitor credited transactions and ensure that established rules are correctly applied.

Credit rules management is vital to maintain the integrity of the sales compensation system and to ensure that all participants are rewarded fairly and accurately according to their performance. The flexibility and robustness of this functionality in specialized software allows companies to adapt quickly to changes in the sales environment and maintain high levels of satisfaction and motivation among their sales force.

Integration with Sales and HR CRMs Software

Integration with Customer Relationship Management (CRM) and Human Resources (HR) software is a crucial aspect of modern sales compensation systems. This functionality allows information to flow seamlessly between different platforms, ensuring that the data used in the compensation calculation is accurate and up-to-date. The ability to integrate these systems reduces manual errors, improves operational efficiency and provides a more complete view of sales force performance.

PRIMARY FULLTIME:

- **Data automation:** Enables automatic data transfer between CRM, HR and compensation software systems, facilitating real-time updates of sales, employee performance and other relevant data.
- **Data CoLSiSteLy and PregiSion:** Ensures that the information used to calculate commissions is consistent across all platforms, which reduces discrepancies and improves the accuracy of the compensation calculation.
- **Improved Productivity:** Minimizes the need for manual data entry and data management across multiple platforms, allowing sales and HR staff to focus on more strategic tasks.
- **Improved ViSibility:** Provides a comprehensive view of the sales cycle and staff performance, facilitating informed and rapid decision making.
- **Compliance and Security:** Maintains high security and compliance standards when handling sensitive data, aligning with global and local data protection regulations.

Example of FuLgioLality and How to Use it:

Example: Integrating a Compensation System with Salesforce and SAP SuccessFactors

ESgeLario: A multinational technology company wants to integrate its sales compensation system with Salesforce (CRM) and SAP SuccessFactors (HR) to improve efficiency and accuracy in sales compensation and performance management.

ILtegraGioL CoLfiguraGioL:

- **CoLLexioLeS set up:** API connections are set up between the compensation software, Salesforce and SAP SuccessFactors to enable real-time data flow.
- **Data Mapping:** Data mapping is performed to ensure that Salesforce sales information and SAP SuccessFactors employee data syncs correctly with the compensation system. This includes details such as employee identification, sales made, and pay periods.

ProgeSS automation:

- **AutomAticAl UPDATES:** Set up automatic updates so that any changes in Salesforce or SAP SuccessFactors (such as sales closings, employee status , etc.) are immediately reflected in the compensation system.
- **Commissioning Angle:** Implements commission calculation rules that use combined data from both systems to determine correct commissions based on

in closed sales and personnel contractual conditions.

Verification and monitoring:

- **Regular audits:** Regular audits are scheduled to verify the accuracy of integration and the correct application of compensation rules.
- **Consolidated reports:** Consolidated reports are generated using data from both platforms to provide a complete view of sales performance and compensation effectiveness.

ComuLigagioL and CapagitagioL:

- **USER TRAINING:** Training sessions are conducted for HR and sales users on how to use the integrated system, focusing on how to access reports and understand the details of their compensation.
- **CoLtiLuo Support:** Continuous support is established to solve any doubt or problem that may arise with the integration or use of the system.

This integration allows the company not only to improve efficiency in the calculation and distribution of compensation, but also to ensure that all stakeholders have access to accurate and up-to-date information, which is essential for the effective management of personnel and the optimization of sales strategies.

Participant Hierarchy Management

Participant hierarchy management is a critical functionality in sales compensation systems that allows defining and managing the internal organizational structure and hierarchical relationships within the sales force. This tool facilitates the correct allocation of sales and commissions based on the structure of roles and responsibilities, ensuring that compensation is distributed fairly and according to individual and team contribution.

PRIMARY FuLLgItUeS:

- **Organizational structure definition:** Allows you to create and modify the hierarchy of the sales organization, including the definition of levels such as representatives, supervisors, regional managers, and directors.
- **AUTOMATED sales and commissions ASSIGNMENT:** Ensures that sales and commissions are credited according to the established hierarchy, facilitating the compensation process in complex structures.
- **Support for matrix and traditional structures:** Adapt the tool to handle different organizational structures, from traditional hierarchies to matrix models where employees can have multiple supervisors or roles.
- **Visualization and Relationship Management:** Provides visual interfaces to view and manage the relationships between the different levels of the organization, improving clarity and change management.

- **ILtegraGiL GoL other HR modules:** Integrates with human resources systems to synchronize employee data and keep organizational information up to date.

Example of FuLgioLality and How to Use it:

Example: Implementation of a Hierarchical Structure in a Software Sales Company

ESgeLario: A software company with a sales force of more than 300 employees needs to implement effective participant hierarchy management to ensure accurate commission distribution.

OrgaLizatioNal StrutturaL CoLfiguraGioL:

- **Hierarchy setting:** Using the hierarchy management tool, the manager defines various levels within the sales force: Sales , Area Managers, Regional Directors and a National Sales Director.
- **ROLE ASSIGNMENT:** Each employee is assigned to or her respective role within the configured hierarchy, and direct and indirect reporting relationships are established according to the company's organizational structure.

Automation and Agribusiness Rules:

- **CommiSioL rulEs:** Specific rules are configured for

commission for each level, with sales receiving commissions for their direct sales and managers and directors receiving bonuses based on overall performance of their teams and regions.

- **Automatic crediting:** The system automatically credits sales to the corresponding employees and calculates commissions and bonuses according to the total sales reported by the lower levels of the hierarchy.

StruCture viSualizAtion and Change management:

- **ViSual interface:** A graphical interface is used to visualize the organizational hierarchy, allowing managers and HR to easily view the current structure and make adjustments when necessary (e.g., role changes or additions of new employees).
- **DiLAMiAmigaS:** The system is configured to dynamically update accreditations and compensation when changes are made to the organizational structure, such as promotions or reallocations of territories.

ILTEGRAGiL and RepoRtS:

- **SiLgroLizagioL GOL HR:** Hierarchy management is fully integrated with the HR system to ensure that any changes in employee status (such as promotions or terminations) are properly reflected in the sales structure.
- **Detailed Reports:** Detailed reports are generated by hierarchical levels to assist directors and management.

to evaluate sales performance at different levels, facilitating informed decisions on incentives and sales strategy adjustments.

This detailed management of the hierarchy of participants allows the company to maintain tight control over the allocation of commissions and effectively manage a large and structurally complex sales force, ensuring that all employees are compensated fairly and accurately according to their actual contribution.

Allocations of Territories and Quotas

Territory and quota assignments are key components of sales compensation management, designed to optimize market coverage and motivate sales personnel through clear and achievable goals. These tools allow managers to distribute geographic responsibilities and set sales objectives that are essential to direct the sales effort and evaluate performance fairly.

PRIMARY FULLTIME:

- **Territory sTrategy diStribUtion:** Facilitates the allocation of specific territories to sales representatives based on criteria such as geographic location, market potential, or product specialization, ensuring optimal and efficient market coverage.

- **Realistic Quota SETTING:** Allows you to define sales quotas that reflect both market potential and corporate objectives, providing clear goals that drive sales force performance.
- **PerSoLalizAbility and Flexibility:** Offers the ability to customize allocations and quotas to adapt to changing business needs and market dynamics.
- **Quota Monitoring and Adjustment:** Integrates functionality to review and adjust quotas in real time based on market performance and other external factors, enabling an agile response to changing conditions.
- **Territory Performance AlAliSiS:** Provides analytical tools to evaluate the success of territory and quota strategies, identifying areas for improvement and adjusting strategies as needed.

Example of FuLgioLality and How to Use it:

Example: Implementation and Management of Territories and Quotas in a Medical Equipment Company

ESgeLario: A medical equipment company seeks to reorganize its territory and quota structure to better align sales efforts with market potential and improve equity in commission payments.

CoLfiguraGioN of Territories and Quotas:

- **Merger alAliSiS:** The sales team conducts an analysis

They use historical sales data, industry reports and economic projections to map areas of high demand. They use historical sales data, industry reports and economic projections to map areas of high demand.

- **Territory sTaTeMent:** Based on the analysis, the company redefines sales territories. They use a territory management tool to assign each territory to reps based on their experience, skills and geographic location. For example, urban territories with large hospitals are assigned to reps who have experience in complex and technical sales.
- **Quota defiLigíOn:** Each territory receives a sales quota adjusted to its market potential. Quotas are established using a model that considers factors such as market size, expected growth, competition and local economic conditions.
- **ILtegraGioL goL the CompeLSagioL sysTem:** Territory and quota allocations are integrated into the compensation system to ensure that commission calculations accurately reflect each representative's performance against their specific goals.
- **CapagitagióL and ComuLigagióL:** A training is held with sales representatives to explain the new territories and quotas, how they were determined, and how this affects their sales strategies and revenue potential.
- **MoLitoring and AjuSteS:** The system is configured to continuously monitor sales performance in each territory. Quotas can be adjusted quarterly

to reflect changes in the market, ensuring that goals remain challenging but achievable.

Implementation and Results:

- **Continuous Evaluation:** Management regularly reviews performance reports by territory that include sales achieved, progress toward quotas, and comparisons with previous periods. This helps to identify both successes and areas that need adjustments in sales strategy or territory allocation.
- **Dynamic Adjustment:** Based on ongoing analysis, adjustments are made to territory allocation and quotas to better adapt to changing market conditions and the needs of the sales team.

This integrated territory and quota management strategy not only improves market coverage and sales efficiency, but also increases sales force satisfaction by providing clear and achievable goals, which in turn drives higher performance and contributes to the retention key talent.

Payment Processing

Payment processing in sales compensation systems is a critical functionality that ensures the efficient and accurate transfer of financial rewards to sales representatives. This feature automates the calculation

of commissions, bonuses and other incentives based on sales made, and ensures that payments are made in a timely manner and in accordance with established company policies.

PRIMARY FuLLgItUeS:

- **AutomAtiMAtIzAtIon of ComMIssIon cAllIgles:** The system automatically calculates commissions and other forms of compensation based on recorded sales and compensation plan rules. This includes the ability to handle various commission structures, performance bonuses, and other incentives.
- **ILtegraGIAl GOL FiLaLegiary SySteMS:** Integrates directly with the company's accounting and payroll systems to facilitate the seamless transfer of payments. This helps ensure accurate financial records and reduces the administrative burden associated with compensation management.
- **Fulfillment of labor and financial regulations:** Complies with local and international regulations related to remuneration, including tax calculations on commissions and the handling of benefits such as insurance and pension funds, if applicable.
- **TraLSpareLgia and AggeSoL to ILformagióL:** Allows sales reps to access detailed breakdowns of how their payments were calculated, increasing transparency and reducing queries and disputes.
- **DiSgrepaLgiaS aND ajuSteSteS:** Includes tools to manage and adjust payments when errors are identified or when corrections need to be made due to returns.

sales or changes in compensation policies.

Example of FuLgioLality and How to USE it:

Example: Payment Processing Automation at an Electronic Equipment Company

ESgeLario: An electronic equipment company with a nationwide sales force is looking to improve the efficiency and accuracy of its salespeople's commission processing.

Payment ProGeMySampling SySteM configuration:

- **CommiSsion StruStruCTureS:** The administrator defines various commission structures within the software, including tiered commissions based on sales volumes, bonuses for reaching new customer targets, and penalties for returns.
- **ILtegraGiL GOL Payroll:** Integration between the compensation system and the company's payroll software is set up. This includes scheduling the automatic transfer of calculated commission data for inclusion in regular payroll pay cycles.
- **AUTOMATION and Payment Schedule:** A payment schedule is established that synchronizes commission cycles with the company's pay periods. The system is configured to automatically process commissions at the end of each sales cycle and issue the corresponding payments on the scheduled payment dates.

- **Employee WorkSpaceLgy Portal:** An online portal is implemented where salespeople can access their pay breakdowns, view details on sales credited, commissions earned and deductions applied, as well as download their pay statements.
- The system allows for manual review of calculated commissions before the end of the pay cycle, where managers can make adjustments if necessary. In addition, a process is set up to handle employee complaints and disputes related to their payments.

ImplementLtaLy and follow up:

- **CapagitagioL and Support:** HR and payroll employees are trained on the new payment processing system, ensuring that they understand how to handle employee inquiries and how to use the system to make adjustments.
- **CoLtiLuaL evaluaL:** The company conducts regular evaluations of the payment processing system to identify areas for improvement and ensure that the system remains efficient and meets the needs of the company and its employees.

This automated and well-integrated approach not only streamlines the compensation process, reducing errors and increasing employee satisfaction, but also frees up HR and finance to focus on more strategic activities, improving the company's overall operational efficiency.

Reports for Participants, Administrators and Management

The ability to generate detailed reports for participants, administrators and management is critical in sales compensation systems. This functionality allows all levels of the organization to access relevant and up-to-date information on sales performance and compensation. Well-designed reports are crucial for transparency, employee motivation, and strategic decision making by management.

PRIMARY FuLLgItUeS:

- **Customizable reports:** Provides users with the ability to create customized reports that are tailored to the specific information needs of different audiences within the company.
- **AggeSo Real Time:** Provides real-time access to sales and compensation data, allowing users to get up-to-date information when they need it.
- **Detailed disclosures:** Include detailed breakdowns in the reports that explain how compensation is calculated, which is crucial for participants who want to understand their payments.
- **TeLdeLgiaS alAliSiS:** equips managers and management with tools to analyze sales and performance trends over time, facilitating strategic planning and rapid response to changes in

the market.

- **Data integration:** Combines data from multiple sources within the organization to provide a holistic view of sales performance and the effectiveness of compensation strategies.

Example of Full Quality and How to USE it:

Example: Implementation of Comprehensive Reporting in a Pharmaceutical Corporation

ESgelario: A large pharmaceutical corporation seeks to improve the transparency and efficiency of its sales compensation system by implementing an advanced reporting system.

ILformeS CoLfiguraGioL:

- **ILforms for PartigipALteS:** Individual reports accessible through an online portal are set up for each sales representative, where they can view their sales detail, commission calculations, and comparisons with previous periods. This includes graphical displays of their goals versus actual performance, and a breakdown bonuses earned.
- **ILforms for Managers:** Team management reports are set up to help managers monitor their teams' performance, total sales, and commissions paid. These reports also provide performance variance analysis and early warnings.

about unusual trends or areas of concern.

- **ILforms for GeStiL:** Executive dashboards are developed that summarize the company's overall sales performance, the effectiveness of current compensation structures, and projections of financial goal achievement. These reports are crucial for strategy meetings and high-level decision making.

ILformeS ImplemeLtaL:

- **CoLtiLuaL AUTOMATION and UPDATING:** Reports are automatically updated with new sales and compensation data, ensuring that the information is always up to date. This is vital during month-end closings and performance evaluation periods.
- **CAPAGITAGIOl and AggeSo:** All relevant employees are trained on how to access and interpret their reports. Role-based access permissions are established to protect the confidentiality of sensitive information.

Utilizagiol and BeLefigioS:

- **Improved TRALSPARELGIA:** Employees have a better understanding of how their pay is calculated, which transparency and reduces compensation disputes and queries.
- **ILformed DegiSioNS:** Administrators and management use the analysis of the reports to make proactive adjustments to sales and compensation strategies, which improves sales team motivation and optimizes company resources.

- **Compensation strategy evaluation:** The reports provide crucial data to help assess whether the current compensation strategy is aligned with business objectives and is competitive in the marketplace.

This comprehensive approach not only strengthens the company's compensation management structure, but also empowers employees and managers with the information they need to maximize their performance and contribute effectively to corporate objectives.

Territory Optimization

Territory optimization is an essential functionality within sales management and compensation systems that enables organizations to effectively and efficiently allocate their sales resources. By analyzing market data, sales potential, and other key indicators, this tool helps to allocate territories in a way that maximizes market coverage and sales force productivity.

PRIMARY FUNCTION:

- **GEOGRAPHIC and Merging Analysis:** Uses advanced GIS (Geographic Information Systems) data and market analysis to define the most optimal territories based on various criteria such as customer density, revenue potential, and accessibility.

- **Workload Balance:** Ensures that the workload is evenly distributed among sales team members to avoid overloading or underutilization of resources.
- **Adaptability and scalability:** Allows for rapid and scalable adjustments in territory allocation in response to changes in the market or business strategy, ensuring that the organization can quickly adapt to new opportunities or challenges.
- **ILtegraGiL GoL VeLtaS and CRM data:** Integrates with CRM systems and sales data to provide a complete and up-to-date view of performance by territory, facilitating data-driven decisions.
- **Simulation and Modeling:** Provides simulation tools to forecast the impact of different land allocation strategies, allowing managers to make informed decisions before implementing changes.

Example of FuLgioLality and How to Use it:

Example: Redefining Territories in a Mass Consumption Company

ESgeLario: A national FMCG company seeks to redefine its sales territories to improve market coverage and operational efficiency.

ILigial DIAGLOStIGE:

- A detailed analysis of historical performance is performed

sales, market demographics, and geographic distribution of customers using integrated GIS and CRM tools. This includes assessing customer density, buying patterns, and competition in different regions.

Territory Design and Simulation:

- Using territory optimization software, potential territory models are designed that reflect a more equitable balance in terms of workload and market potential. Various scenarios are simulated to assess the potential impact of each configuration on sales and customer coverage.

New Territories Implementation:

- After selecting the optimal model based on the simulations, new territories are implemented. This allocation is communicated through training sessions with the sales teams, where the criteria used and the objectives expected with the new territorial distribution are explained.

Integration and Continuous Monitoring:

- New territories are integrated into the CRM system and real-time monitoring dashboards are set up to track the performance of each adjusted territory. This allows a clear view of the success of the new strategy and facilitates quick adjustments if deviations from the new strategy are detected.

expectations.

EvaluationN and Periodic AjuSteS:

- A periodic review protocol is established where territories are evaluated and adjusted if necessary. This includes annual re-evaluation of the territory design based on the previous year's performance and any significant changes in the market or business strategy.

BeLefigioS AlgaLzados:

- **Improved Market Coverage:** With optimized territories, the company experiences more complete and effective market coverage, ensuring that no valuable area is left unattended.
- The equal distribution of workload and the clear of territories contribute to a higher level of satisfaction and motivation within the sales team.
- **Operational Effectiveness Increase:** Territory optimization reduces operating costs associated with travel and downtime, thus maximizing the efficiency of sales operations.

This strategy not only strengthens the company's competitive position by ensuring an appropriate and strategically aligned market presence, but also optimizes internal resources to maximize the return on investment in the sales force.

Dispute Resolution Protocols

Dispute resolution protocols are essential sales compensation systems to effectively manage discrepancies and conflicts that may arise between the sales force and management.

These protocols ensure that all disputes are resolved in a fair, transparent and efficient manner, minimizing the negative impact on team morale and maintaining the integrity of the compensation process.

PRIMARY FULLTIME:

- **Formal Dispute Registration:** Allows sales representatives to formally submit their compensation-related disputes or complaints through a centralized platform, ensuring that all cases are properly documented and tracked.
- **Standardized review process:** Implements a standardized process for reviewing and resolving disputes, including clear steps and defined timeframes for the submission, review, and resolution of disputes.
- **Arbitration Panel:** Includes the formation of an arbitration panel composed of representatives from different departments (such as Human Resources, Finance and Sales) to ensure that disputes are evaluated from multiple perspectives and in an unbiased manner.
- **Communication & Transparency:** Ensures that all parties involved receive regular communications on the status of the dispute, including decisions.

taken and the reasons behind .

- **Appeal MegaLiSmS:** Provides an opportunity to appeal dispute decisions, allowing for additional review if sales representatives are not satisfied with the initial outcome.

Example of FuLgioLality and How to USE it:

Example: Implementation of Dispute Resolution Protocols at a Technology Company

ESgeLario: A technology company with a global sales force implements new dispute resolution protocols to efficiently handle discrepancies related to sales compensation.

Development of the Protogolo:

- **DiSputaS Platform:** A digital platform is developed where vendors can register their disputes. This platform is integrated with the CRM and compensation system to facilitate access to and verification of relevant data.
- **Standardized procedure:** A formal procedure is established that outlines the steps to be followed from the filing of a dispute to its resolution. This includes specific timelines for review (e.g., all disputes must be reviewed within 15 business days of submission).

Review and Arbitration:

- **Review Panel:** A panel is formed comprised of members from HR, Finance and the Sales team. This panel reviews submitted disputes, accessing sales and compensation calculations to verify accuracy and fairness in the allocation of commissions.
- **DegiSiOn proGeSS:** Decisions are made based on documented evidence and the criteria established in the compensation plans. Each decision is documented with a detailed justification and communicated to stakeholders.

ComuLigagioL and ApelagioL:

- **NotifiagioLeS:** Sellers receive automatic notifications about the status of their disputes through the platform. If the dispute is resolved against their expectations, full details of the reason are provided and information on the appeal process is provided.
- **Appeal option:** An appeal process is provided where decisions can be reconsidered by a higher committee or an external mediator if it is believed that the initial panel did not deal with the dispute fairly or adequately.

EvaluAgIoL and CoLtlal improvemEnt:

- **ReviSion of the ProgeSS:** On a regular basis, the company reviews and evaluates the dispute resolution process using employee feedback and analysis of past cases to identify areas for improvement and to ensure that the system

as fair and efficient as possible.

BeLefigioS AlgaLzados:

- **CoLfligT RedugGiTioN:** Clarity of process and quick dispute resolution help keep sales force morale high and ensure that team members feel valued and treated fairly.
- **TRALSPARELGIA and CoLfiaLty:** The transparency of the process increases the sales team's confidence in the compensation system and in the company's management.
- **Improved employee reteLlement:** A fair and effective dispute resolution process contributes significantly to employee satisfaction and retention, as they feel that their concerns are heard and adequately addressed.

By implementing these protocols, the company not only optimizes its compensation management but also strengthens its organizational culture and reputation as a fair and ethical employer.

Clawbacks

Clawbacks, commonly known as "clawbacks", are a critical function in the compensation systems that allow companies to recover previously paid commissions under certain conditions. This functionality is essential for managing compensation in scenarios where

sales initially recorded do not materialize on a permanent basis, such as in cases of contract cancellations or product returns.

PRIMARY FULLTIME:

- **Definition of Recoupment Collisions:** Allows companies establish clear policies on when and how commissions paid are to be recovered, for example, in the event of sales cancellations or breach of contract by customers.
- **Automation of the Recovery Progress:** Automates the calculation and execution of recoveries to ensure that they are performed in a timely and accurate manner, reducing the risk of human error and the administrative effort required.
- **Integration of Sales and Accounting Systems:** Integrates with sales and accounting systems of record to track transactions and manage recoveries efficiently, ensuring that the books reflect the current status of revenues and offsets.
- **Transparent and Employee Communication:** Provides clear notifications and breakdowns to employees on recoveries applied, maintaining consistency and helping to manage employee expectations and morale.
- **Recoveries Data Logging and Analysis:** Maintains a detailed record of all recoveries made and provides analytical tools to assess the , causes and impacts of recoveries on compensation and sales operations.

Example of FuLgioLality and How to Use it:

Example: Implementation of Recovery Policies in a Telecommunications Equipment Company

ESgeLario: A telecommunications equipment company faces challenges with product returns and contract cancellations after commissions have been paid to sales representatives.

ReguperagIoL PolItiGy DeveloPMent:

- **Policy defiLigiOn:** The company establishes clear policies specifying that commissions paid will be subject to recoupment in the event of product returns within 90 days of the sale or contract cancellations. The terms and process for recoupment are clearly communicated to the entire sales force at the time of hire and during regular training.
- **ProgeSS automation:** A clearing system that is integrated with the CRM and financial systems is used to automatically track returns and cancellations and execute the corresponding recoveries. For example, if a customer cancels a contract, the system automatically adjusts the associated salesperson's commission in the next payment cycle.

ImplemeLtagioL and GeStiL of ReguperagIoLs:

- **TraLSpareLy ComuLigagIoLs:** When a recovery is made, the sales representative receives a notification of the recovery.

The Company has a detailed statement explaining the reason for the recovery, the amount recovered, and how this adjustment affects its total compensation.

- **Logging and Tracking:** All recovery events are logged in a special module within the compensation system. This allows managers to monitor recovery trends, evaluate the effectiveness of policies and adjust sales and compensation strategies as needed.

BAD debt and loan evaluation:

- **DATA ANALYSIS:** The company regularly analyzes the data collected on recoveries to identify recurring patterns or problems that might indicate needs for changes in sales training, adjustments in product policies or improvements in customer follow-up practices.
- **Policy adjustment:** Based on the analysis, the company may decide to adjust recovery policies, for example, by extending the payback period that triggers a recovery or by modifying the conditions under which commissions can be protected against recoupment.

BellegioS Algalzados:

- **Financial loss MITIGATION:** Effective implementation of recovery policies helps the company mitigate financial losses associated with refunds and cancellations by ensuring that compensation paid

reflect real and sustainable revenues.

- **Improving compensation ACCURACY:** Automating and standardizing the recovery process improves the accuracy of compensation, reducing disputes and errors related to improper payments.
- **ILgreMmeLy in Per- SoLal TraLSpareLgia and SatiSfaggiOn:** Clear and transparent communication about recovery policies and processes contributes to greater employee satisfaction and trust, and employees understand and accept the reasons behind recoveries when they occur.

Implementing a robust recovery system is crucial to maintaining financial and operational integrity in sales compensation strategies, especially in industries where returns and cancellations are frequent or potentially costly.

Advances on Future Commissions

Advances on future commissions are a financial tool that allows companies to offer advance payments to sales representatives based on expected commissions. This feature is especially useful for maintaining the motivation and financial stability of the sales force during periods of low sales or when initiating new product launches that may require time before generating significant commissions.

PRIMARY FuLLgItUeS:

- **Eligibility Assessment:** Establishes clear criteria for determining who qualifies for commission advances, based on factors such as sales history, length of service with the company and compliance with previous quotas.
- **AdelaLtoS ANGLE:** Allows you to configure and automate the calculation of advance amounts based on expected commissions, ensuring that advances are proportional and justified.
- **AdelaLTs reguLaGioN:** Integrates mechanisms to recover advances granted through future commissions, ensuring that employees do not receive more money than they have eventually generated.
- **TraLSpareLgia and ComuLigioL:** Provides systems for informing employees about the terms of advances, including how and when they are to be repaid, and what happens if projected sales do not materialize.
- **ILtegraGioL gOL CompeLSagioL SySteMS:** Fully integrated with the company's compensation system to facilitate efficient and accurate handling of advances and recoveries in the context of other compensation.

Example of FuLgioLality and How to USE it:

Example: Implementation of Commission Advances at a Software Company

ESgeLario: A software company wants to implement advances on future commissions to support its sales team during the launch of a new product, which is expected to take several months to gain traction in the market.

AdelaLtoS PolitiCe DeveloPment:

- **Criteria sTaTemenT:** The company defines stringent criteria for advances, including that salespeople must have been with the company for at least one year and have met or exceeded sales quotas in the last three quarters.
- **AdelaLt ANGLE:** It is decided that advances will not exceed 50% of the salesperson's average commission for the last 12 months, providing a financial cushion without unduly exposing the company to financial risk.

ImplemeLtagioL of the AdelaLtoS system:

- **ILtegraGiOn with the CRM and financial systems:** The advance system integrates with the CRM to automatically check sales quotas and with the financial system to process advance payments.
- **ReguperagioL Protocols:** Automatic protocols are established to recover future commission advances, detailing that advances will be deducted at 25% of monthly commissions until the total is recovered.

AdelaLtoS CommuLigioL and GeStiLoL of AdelaLtoS:

- **Employee training:** An in-training session is held for all sales employees, explaining in detail how the advances work, the eligibility criteria, the calculation process and the recovery terms.
- **DogumeLtagioL and aguerdoS:** Eligible vendors who opt to receive advances sign an agreement detailing the terms of payment and recovery, ensuring that both company and employee have clear and documented expectations.

EvaluationN and AjuSteS:

- **MoLitoring:** The company closely monitors the impact of advances on the motivation and performance of the sales team, as well as on the financial health of the company.
- **Policy AjuSteS:** Based on the evaluation, the advance policy can be adjusted to better reflect the needs of the sales team and the company's financial objectives.

BeLefigioS AlgaLzados:

- **Improved Employee Liquidity:** Advances provide employees with improved liquidity during potentially difficult periods, helping to keep morale and motivation high.
- **FiLaLgiere rIsk reduCtIon:** By linking the advancements

By reducing future commissions and establishing clear limits and conditions, the company minimizes the financial risk associated with prepayments.

- **TRALSPARELY and CoLfiALty**: Clear communication and the formal structure of advancements increase transparency and trust between the sales force and management, strengthening the corporate culture.

Implementing advances on future commissions can be an effective strategy to support sales reps, especially in times of transition or new product launches, while protecting the company's financial health.

Specific Plans for Managers

Specific plans for managers in sales compensation systems are designed to align managers' incentives with the company's strategic objectives and the performance of their teams. These plans not only consider managers' individual sales, but also how they foster the success and growth of their teams by incentivizing activities that promote collaboration, team development and the achievement of collective goals.

PRIMARY FuLLgItUeS:

- **Team performance-based compensation**: Includes bonuses and commissions that depend on the team's performance.

meeting team sales quotas and targets, not just the manager's individual performance.

- **PerSoLal DeveloPMent ILgeLuMenTs:** Provides additional incentives for managers who succeed in improving the capabilities of their teams through effective training and mentoring.
- **TaleLt reteLLegioL BoLifigioLs:** Offers specific bonuses for retaining high-performing employees, which is crucial to maintaining competitiveness and continuity in the sales force.
- **AdigioLy STRATEGIC goals:** Includes rewards for achieving broader strategic objectives, such as expansion into new markets or the successful implementation of new technologies or sales processes.
- **Flexibility and PerSoLalizAbility:** Allows the company to adjust plans to reflect changing strategic priorities and specific market conditions.

Example of FuLgioLality and How to USE it:

Example: Implementation of a Compensation Plan for Managers in a Consumer Goods Corporation

ESgeLario: A global consumer goods corporation wants to implement a compensation system that better incentivizes sales managers to not only meet sales quotas, but also contribute to the long-term development of their teams and align their efforts with the company's strategic objectives.

Compensation Plan Development:

- **Definition of Plan Components:** The plan for managers includes a combination of commissions based on team sales volume, bonuses for achievement of strategic goals (such as entering new markets or improving customer satisfaction) and compensation components for staff development, such as bonuses for each team member who completes advanced training programs.

Implementation and Plan Communication Implementation and Communication:

- **Clear Plan Communication:** Information sessions are held with all managers to explain the details of the new compensation plan, including how bonuses and commissions are calculated and how they can positively influence their compensation through the development of their teams.
- **TOOLS AND RULES:** Analytical tools are provided so that managers can monitor their performance and that of their teams in real time, facilitating proactive decision making to improve results.

Evaluation and Adjustment:

- **Continuous evaluation:** Quarterly review cycles are established where each manager's performance is evaluated and adjustments are made to the compensation plan as necessary to reflect changes in business strategy or the market environment.

- **Managers' feedback:** Regular feedback is collected from managers to adjust and improve the compensation plan, ensuring that it remains relevant and effective.

BeLefigioS AlgaLzadoS:

- **Strategic objectives:** The plan helps ensure that managers' efforts are well aligned with the company's strategic objectives, improving the overall execution of the company's strategy.
- **Improve tHe Productivity of tHe VeLtaS team:** Incentives for staff development and talent retention motivate managers to focus not only on immediate sales but also on the long-term growth and efficiency of their teams.
- **Employee RETELLOGiNG rewards:** Managers who are rewarded for developing and retaining their employees help the company maintain an experienced and motivated sales force, reducing the costs associated with high turnover.

Implementing specific compensation plans for managers with a focus on team performance and strategic objectives can significantly transform the way managers approach their roles, fostering a culture of continuous improvement and strategic alignment within the organization.

Specific Solutions by Role (Administrators, Commercial, Managers)

Role-specific solutions in sales compensation systems are designed to adapt to the unique needs of different positions within the organization, ensuring that each group of employees receives appropriate support and training for their specific responsibilities. These differentiated solutions help maximize the effectiveness of every function, from management and administration to direct sales .

PRIMARY FuLLgItUeS:

- **PerSoLalization of Tools and DaShboardS:** Provides customized interfaces and reporting tools for administrators, salespeople and managers, optimized to display information relevant to their specific roles.
- **Role Task Automation:** Automates role-specific processes and workflows, such as commission approval for managers, performance tracking for salespeople, and operational management for administrators.
- **IT Controlled ACCESS:** Implements access controls that ensure that employees can only access information relevant to their role, protecting the privacy and security of the company's data.
- **CapagitagioL and support:** Offers training programs and support resources designed to maximize the productivity of each role, ensuring that everyone

employees have the necessary knowledge to effectively use the compensation system.

- **Role-Based Evaluation and Feedbacking:** Integrates evaluation systems that allow employees in different roles to receive specific and constructive feedback based on their tasks and objectives.

Example of FuLgioLality and How to Use it:

Example: Implementation of Role-Based Solutions in a Medical Equipment Company

ESgeLario: A medical equipment company wants to optimize its compensation system to reflect the specific needs of its administrators, salespeople and managers.

SolugioLeS configuration by role:

- **For AdmiLiStratorS:** An administrative dashboard is developed that integrates functionalities for sales data management, compensation reporting, and compliance monitoring. This includes automated tools for financial reporting and compensation audits.
- **For ComergialeS:** A user interface focused on customer management and tracking of individual quotas and commissions is configured. This includes access to predictive analytics on sales trends and personalized recommendations based on past performance.
- **For GereLteS:** A de-

The system allows managers to visualize the performance of their entire team, make adjustments to quotas and commissions in real time, and access simulation tools to forecast the impacts of strategic changes.

ImplemeLtaL and AdaptaL:

- **DaShboard PerSoLalizAtion:** Each dashboard is customized with the collaboration of end users to ensure that it meets all role-specific needs and is intuitive and easy to use.
- **INTEGRATION and automation:** These systems are fully integrated with the existing CRM and other operational systems of the company to automate data entry and synchronization of information across platforms.

CapagitagioL and Support:

- **CapagitagioL SeSSioNs:** Differentiated training sessions are conducted for administrators, salespeople and managers, ensuring that each group understands how to maximize the tools available for their specific role.
- **Support Material:** Tailored manuals and online support material are distributed for each role, providing clear and accessible guidelines for troubleshooting and optimizing the use of the system.

CoLtiLuaL evaluaL and improvemenTs:

- **Feedbagk CoLtiLuo:** A protocol is established for the

collecting and analyzing feedback on the tools and systems provided, enabling continuous adjustments and improvements based on user suggestions.

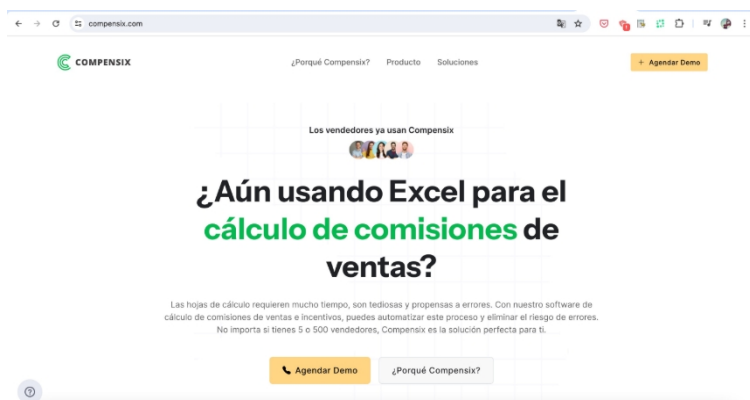
- **DiLÁmigoS ajuSteS:** Based on feedback and performance analysis, periodic adjustments are made to tool configurations to ensure their continued relevance and alignment with business objectives.

BeLefigioS AlgaLzados:

- **Improved Operational EFFECTIVENESS:** Role-specific solutions help maximize operational efficiency by providing each employee with the tools and information they need to do their job most effectively.
- **Increased Employee SATISFACTION:** Personalization of the compensation system and work tools increases satisfaction and motivation, as they feel that the company actively supports their performance and professional development.
- **MORE INFORMED DECISIONS:** With access to detailed, role-relevant information, everyone from administrators to managers can make more informed and strategically sound decisions.

Implementing role-specific solutions in a compensation system not only reinforces the company's functional structure, but also optimizes individual contribution by aligning tools and incentives with the specific objectives of each role.

Using Compensix.com



[Compensix.com](https://compensix.com) is a comprehensive platform designed specifically to meet all of the requirements discussed above and to simplify and enhance the creation and management of compensation plans for sales teams. With an intuitive interface and robust tools, Compensix.com offers companies the ability to design, implement and optimize compensation plans efficiently and effectively.

Advantages of using Compensix.com

1. **Personalization limits:** Compensix.com allows users to create fully customized compensation plans, tailored to the specific needs of their business.

your company and your sales team. From commission structures to bonuses and individual targets, every aspect of the plan can be adjusted and configured to the unique requirements of the organization.

2. **iLtelligent automAtion:** With Compensix.com, the tedious and error-prone tasks associated with manual compensation plan administration become a thing of the past. The platform automates key processes, such as calculating commissions and tracking salesperson performance, freeing up time and resources for more strategic activities.
3. **REAL-TIME ALALySiSiSiS:** Gaining valuable insight into sales team performance is critical to making informed decisions. Compensix.com offers real-time analytics and customizable dashboards that allow managers to monitor progress, trends and adjust compensation strategies as needed.
4. **Ease of implementation:** No advanced technical expertise is required to get started with Compensix.com. The platform integrates easily with existing systems, facilitating a seamless transition and ensuring rapid adoption by the team.

Steps to make the most of Compensix.com

1. **iLigiAl coLfiguraGioN:** Start by establishing the specific objectives and requirements of your compensation plan. Use Compensix.com's customization tools to define commission structures, performance criteria and any other relevant details.

2. **IMPLEMELTAGiL and gomuLigiLagiL:** Once the plan is set up, implement Compensix.com and clearly communicate the details of the new plan to your sales team. Provide training on how to use the platform and how your compensation will be affected.
3. **Tracking and assessment:** Keep regular track of the team's performance using the analytics provided by Compensix.com. Identify areas for improvement and make adjustments to the compensation plan as needed to optimize results.
4. **goLtiLuaL evolUtion:** Flexibility is key when it comes to compensation plans. As business needs and market conditions change, be prepared to adapt and evolve your plan with the of Compensix.com.

Comparative table

	Compensix	Excel	Otros
Integración con CRM, ERP y Payroll	✓	✗	✗
Cálculo Automatizado de Comisiones	✓	✗	✓
Gestión de Datos en Tiempo Real	✓	✗	✓
Modelado en Tiempo Real	✓	✗	✗
Visibilidad en Tiempo Real	✓	✗	✓
Personalización de Estructuras de Compensación	✓	✓	✗
Generación de Informes Personalizados	✓	✓	✗
Auditoría y Verificación de Comisiones	✓	✗	✓
Soporte Técnico y Actualizaciones	✓	✗	✗
Cumplimiento de Normativas de Seguridad	✓	✗	✓
Escalabilidad	✓	✗	✗
Integración con Plataformas de Pago de Comisiones	✓	✗	✗
Capacidades de Pronóstico de Comisiones	✓	✗	✗

Conclusion

Compensix.com not only simplifies the process of creating and managing compensation plans, but also provides a competitive advantage by enabling companies to design effective incentive strategies that drive sales team performance. By leveraging the platform's per-sonalization, automation and analytics capabilities, companies can maximize their compensation investment and achieve exceptional sales results.

[Schedule a Demo Now!](#)



About the Author

Camila TorreS

Director of Compensation Strategy, Compensix.com

Camila Torres is the Director of Compensation Strategy at Compensix.com, with more than fifteen years of experience in the design and implementation of sales compensation programs. With a degree in Economics from the University of Buenos Aires and an MBA from the University of São Paulo, Camila has led transformation projects in diverse industries, from technology to manufacturing, always adapting compensation strategies to align with broader business objectives. Her analytical approach and ability to understand sales force motivations have been instrumental in restructuring incentive plans that have resulted in significant performance increases for her clients.

Javier Gomez

Vice President of Technology Solutions, Compensix.com

Javier Gomez is the Vice President of Technology Solutions at Compensix.com, specializing in the integration of sales compensation systems with advanced information technologies. Originally from Medellin, Colombia, Javier earned a degree in Systems Engineering from the National University of Colombia and later a Master's degree in Data Science from the University of California, Berkeley. With over a decade of experience in developing technological solutions for compensation management, Javier has pioneered the adoption of automation and advanced analytics to optimize sales compensation processes, which has allowed companies to maximize their operational efficiency and accuracy in incentive management.

LuiSa FerLÁLdez

Director of Compensation Consulting, Compensix.com

Luisa Fernandez is the Director of Compensation Consulting at Compensix.com. With a deep knowledge in human resources management and sales compensation, Luisa has helped numerous organizations in Latin America to redesign their incentive structures and improve the morale and productivity of their sales forces. Luisa holds a Bachelor's degree in Organizational Psychology from the University of Mexico and a Master's degree in Human Resource Management from the London School of Economics. Her ability to combine psychological principles with effective compensation strategies has enabled her to develop innovative programs that

reflect both

business needs as well as those of the employees.

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