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Sales Incentive Plan Key Performance Indicators

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There are numerous performance indicators that can be used to evaluate your sales incentive plan. This summary provides a resource to help you focus on the key metrics. The six key performance indicators and helpful questions to pose will enable you to better understand how your sales incentive plan is performing.

1. Territory Bias

Evaluate territory bias to determine whether the quota setting process needs to be altered and/or the plan design provides too much incentive for outperforming quotas. Review the distribution of actual sales versus quotas in each territory and compare the results.

Consider the following questions:

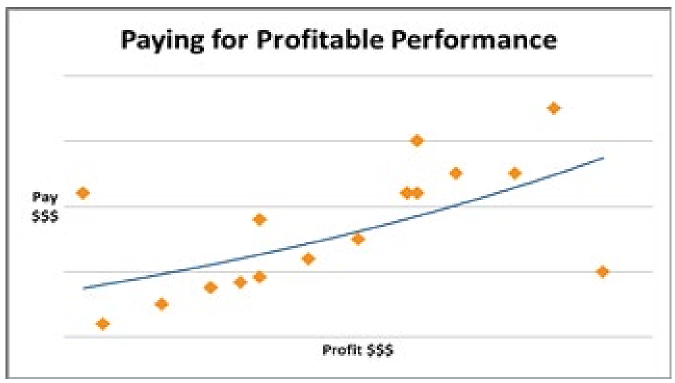
- Is it easier for smaller territories to achieve quotas than the larger territories?
- Are your top sellers leaving because the quotas are not set appropriately?
- In setting quotas, are the geographic area, market size and market potential considered?

2. Paying for Profitable Performance

In a well-designed plan, the risk of a low performing sales representative earning high pay is reduced. Carefully-crafted plans should reduce the risk of overpaying for the wrong results. Plot the actual pay versus actual profits to identify any outliers.

Consider the following questions:

- Is pay consistently in line with the profits being delivered?
- Are the top performers being paid well?
- Are pay differentials appropriate between your top and bottom performers?
- Who are the outliers and why is their pay high or low relative to profits when compared with other sales representatives?



3. Pay Mix for Different Roles

Financial budgets and operating schedules are designed around expected levels of performance and target pay mix. When you take into account that the pay mix will vary by role, the actual mix should reflect the impact the role plays in the selling process.

Consider the following questions:

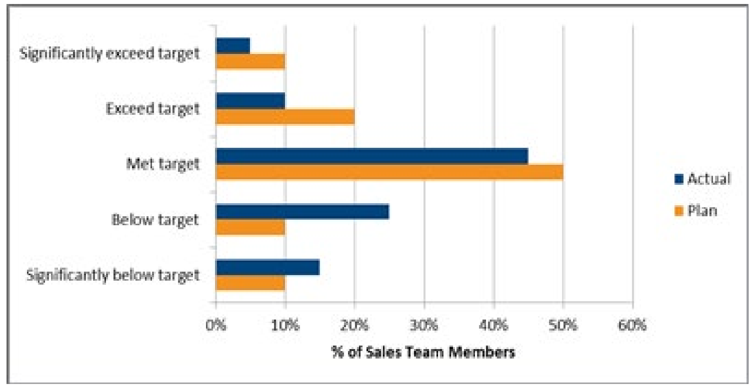
- Is market data used to determine the appropriate competitive pay mix for the various roles?
- Does pay mix vary between the various sales roles?
- Are the variances appropriate based on the different roles and impact on the selling process?
- Have sales roles changed and have the compensation plans been updated?

4. Motivation

Compare the actual distribution of performance across the sales force with the expected performance distribution. Sales leaders within organizations are responsible for certain levels of performance yet it is unreasonable to expect all members of the sales force to meet performance targets. You may also question whether your targets are being set appropriately if far too many sales force members exceed expectations.

Consider the following questions:

- Are expectations too high or too low?
- How many sales team members are achieving above target?
- Were there any unforeseen circumstances that created differences?
- Do the results correlate with the organization's financial performance?
- Do you consider the experience of the sales force when setting targets?

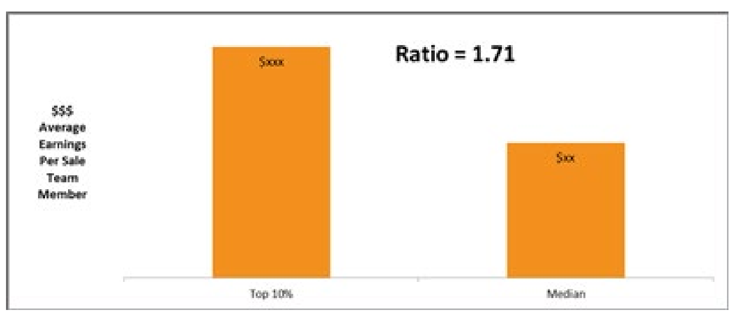


5. Incentive Leverage

Analyze the ratio of the average earnings by the top 10% of the sales force compared to the median earnings. The ratio should tell you something about the type of selling. The less impact the sales role has on the selling process, the smaller the ratio should be.

Consider the following questions:

- Is there enough pay differentiation between your top performers and your median performers?
- How are leads generated and how long does it take to close a sale?
- To what degree do sales support and technicians participate in the selling process?
- Are sales coming from new or existing customers?
- How does the ratio compare to historical pay data?



6. Relationship of Pay to Performance Ratings

Review the relationship between incentive pay and performance ratings to determine if your sales incentive plan is biased against your "top performers." Sales results ultimately drive incentive pay, but consider to what extent your top performers are being rewarded through the incentive pay plan. Performance ratings take into account longer-term measures such as knowledge, skills, abilities, and leadership potential. Often the top performers are asked to participate in strategic initiatives, which take time away from selling activities.

Consider the following questions:

- How does pay for your top-rated sales staff members compare to the lower-rated?
- Are you having trouble retaining your top performers?
- What metrics are driving your pay in your sales incentive plan?
- Are the metrics incenting the right behaviors?
- Do sales managers feel as though their top rated sales team members are being rewarded appropriately?

Conclusion

Careful monitoring of your sales incentive plan will allow you to identify issues and make necessary adjustments to plan designs. Changing business strategies and external factors require that you check your plan frequently. The above performance indicators are just a few of the many analyses that are used to measure plan effectiveness. In addition to the number crunching, be sure to engage in discussions with your managers and sales team members. The analytics and qualitative feedback will enable you to better assess the performance of your plan.

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