

SALES MANAGEMENT ASSOCIATION RESEARCH REPORT

Measuring the Impact of Salesperson Input on Sales Compensation Program Effectiveness

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Research Report: Measuring the Impact of Salesperson Input on Sales Compensation Program Effectiveness

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INTRODUCTION AND SUMMARY OBSERVATIONS

The sales function's largest single expense is salesperson compensation - no other sales organization investment even comes close.

Other functions in the firm rarely consider compensation in a strategic context. Sales leadership, on the other hand, is apt to think of incentives first when considering a change in focus. Rightly or wrongly, sales compensation is often the default change lever for directing salesperson priorities and performance. Getting sales compensation right is almost always a priority for sales management.

By necessity, managing sales compensation is an integrative exercise, combining the various (and sometimes competing) interests of many firm stakeholders like HR, finance, IT, sales leadership, and others. Sales compensation's most important stakeholders - its payees - are the focus of this research, which investigates how organizations consider what salespeople think about their pay.

We investigate the degree to which firms consider salesperson sentiment, satisfaction, and understanding when designing, managing, and evaluating sales compensation, and detail how, when, and in what form firms solicit compensation-related input from salespeople. We also quantify the business value of incorporating field input into sales compensation management decisions, by measuring the impact such efforts have on overall sales compensation program effectiveness, on the return on investment of compensation expense, and on sales force productivity.

Ultimately, we ask the question: Is it important to incorporate salesperson input related to compensation? And we learn that it is.

Key findings from the research are:

- Only 35% of firms consider their sales compensation program effective overall; just 37% say sales compensation represents a satisfactory return on investment in their firm.
- Among factors that undermine sales compensation program effectiveness are incentive compensation plan complexity, the magnitude of any recent compensation plan change, and the degree to which salespeople understand their compensation plan.



- Sales organizations with effective compensation programs are substantially more productive than others. They're more than three times as likely to meet or exceed sales objectives than are firms with ineffective sales compensation.
- In organizations with salespeople who understand their compensation plan, the sales compensation program is nine times more likely to be considered effective overall, compared to firms where salespeople who do not understand their plans.
- However, only 54% of firms estimate that their salespeople understand their sales compensation plan, though fewer than one-third (32%) can accurately measure salesperson understanding.
- Management in most firms is thought to routinely overestimate the degree to which salespeople understand their compensation plans, and the extent to which salespeople endorse the objectives and methods advanced in their plans.
- Firms effective in incorporating salesperson input in compensation program decisions are between two and one-half and three times more likely to have a sales compensation program that is effective overall.
- Almost one in five firms (18%) make no effort to incorporate salesperson input into sales compensation management decisions. For others, the predominant approach to incorporating salesperson input (used by 38% of firms) is to rely on management's understanding of salespeople's views.
- More purposeful and thorough approaches to salesperson input collection are demonstrably more effective, and include calls for voluntary input, sampling of key salespeople, or comprehensive sales force surveying.



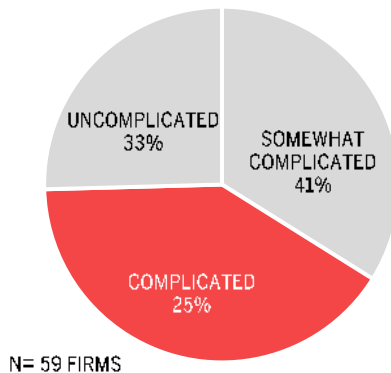
SALES COMPENSATION PRACTICES

Our research surveys sales compensation practices in several key areas, including compensation plan complexity, the prevalence of significant plan changes implemented over the preceding 18 months, and the use of targeted incentive earnings.

On average, firms had 594 incentive compensation payees, and 13 unique incentive compensation plans¹.

Respondents report a range of complexity in their sales compensation plans. One-quarter (25%) consider their plans complicated, while 33% characterize their plans as uncomplicated (41% consider their plans “somewhat complicated”). **Fig. 2.1.**

FIG. 2.1. DEGREE OF COMPLEXITY IN SALES COMPENSATION PLAN DESIGN
PERCENTAGE DISTRIBUTION OF FIRMS



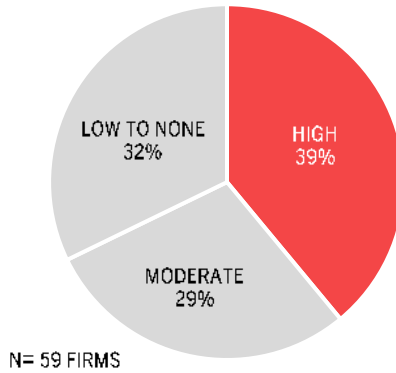
Most firms have implemented significant changes in sales compensation over the preceding 18 months. Twenty-nine percent characterize that degree of plan change as moderate; 39% as a high; and 32% report low to no change in sales compensation. **Fig. 2.2.**

¹ Median values are 50 payees and 4 unique incentive compensation plans. See figures A.1-A.2.



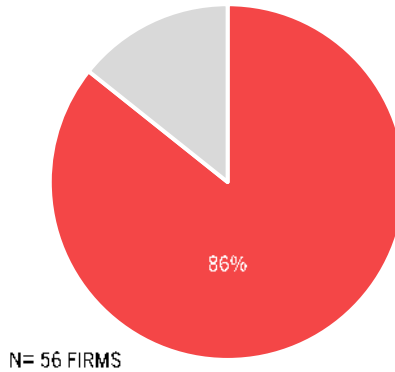
FIG. 2.2. DEGREE OF SALES COMPENSATION PLAN CHANGE, PAST 18 MONTHS

PERCENTAGE DISTRIBUTION OF FIRMS



A large majority, 86%, target sales incentive compensation earnings based on an expected level of salesperson performance. **Fig. 2.3.** (Other firms may use commission schemes tying pay to performance, but without an explicit performance goal.) On average, firms report 55% of salespeople assigned a targeted incentive amount met or exceeded that amount in the preceding 12 months².

FIG. 2.3. PERCENTAGE OF FIRMS THAT TARGET SALESPERSON INCENTIVE EARNINGS AT EXPECTED PERFORMANCE



² The median value is 50%. See Fig. A.3.



SALES INCENTIVE COMPENSATION PROGRAM EFFECTIVENESS, AND FACTORS WHICH AFFECT IT

Assessing sales compensation's effectiveness requires considering multiple criteria. Many of these are highly contextual; that is, they are dependent upon an individual's firm's selling strategy, objectives, and selling environment, among many factors. Our study does not attempt to establish a single objective measure of sales compensation applicable to all firms.

Instead, we focus on measuring "effectiveness" in the following two ways: (a) by evaluating firms' self-reported assessment of their own sales compensation programs' effectiveness; and (b) by evaluating individual sales compensation program characteristics that have an assumed relevance to overall plan effectiveness.

In doing so, we find just 35% of firms consider their sales compensation programs effective **Fig. 3.1.**, and just 37% estimate a positive return on investment from sales compensation expense **Fig. 3.2.**

FIG. 3.1. PERCENTAGE OF FIRMS THAT CONSIDER THEIR SALES COMPENSATION PROGRAM EFFECTIVE

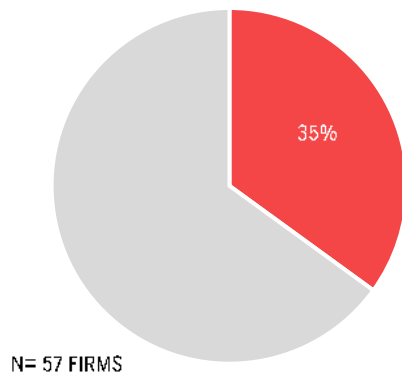
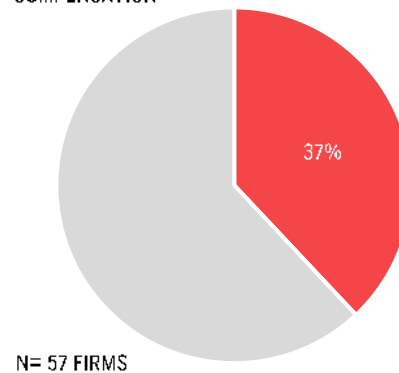


FIG. 3.2. PERCENTAGE OF FIRMS THAT ESTIMATE POSITIVE ROI FROM SALES INCENTIVE COMPENSATION



The research offers further insight into the relationship of effective sales compensation to overall firm sales performance, and the relationship of various sales compensation program characteristics with overall program effectiveness. We find:

- Firms with effective sales compensation programs enjoy substantial advantages in sales productivity over those with ineffective programs.
- Sales compensation programs judged to be complicated are less likely to be effective than others.



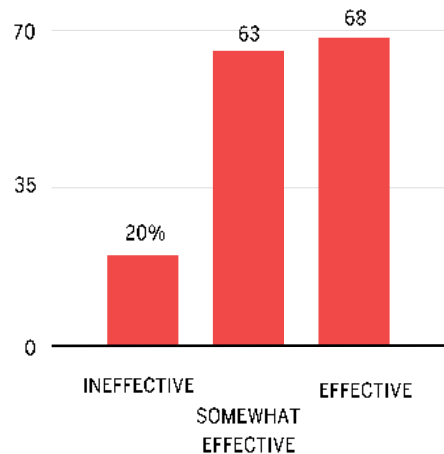
- Firms implementing significant sales compensation plan changes in the past 18 months are less likely to have sales compensation programs deemed effective overall.
- Salesperson understanding of the sales compensation plan is highly correlated with overall sales compensation program effectiveness.

Effective sales compensation and sales productivity are correlated. Firms with effective sales compensation programs are more than three times as productive as firms with ineffective programs. Sixty-eight percent of firms with effective sales compensation met or exceeded their firm sales objective in the preceding 12 months, compared with 20% of firms with ineffective programs. Notably, firms with “somewhat effective” sales compensation programs also were more than three times as productive as ineffective firms; 63% met or exceeded firm sales objective.

Fig. 3.3.

FIG. 3.3. INCENTIVE COMPENSATION PROGRAM'S OVERALL EFFECTIVENESS AND FIRM SALE PERFORMANCE

PERCENTAGE OF FIRMS THAT MET OR EXCEEDED SALES OBJECTIVE, PRIOR 12 MONTHS

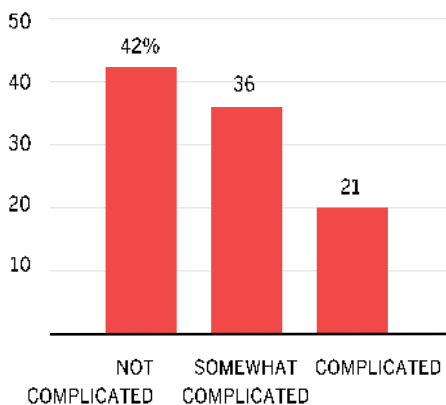


INCENTIVE COMPENSATION'S OVERALL EFFECTIVENESS

N= 54 FIRMS

FIG. 3.4. INCENTIVE COMPENSATION PLAN COMPLEXITY AND OVERALL INCENTIVE PROGRAM EFFECTIVENESS

PERCENTAGE OF FIRMS WITH INCENTIVE COMPENSATION PROGRAMS THAT ARE EFFECTIVE OVERALL



DEGREE OF COMPLEXITY IN INCENTIVE PLANS

N= 55 FIRMS

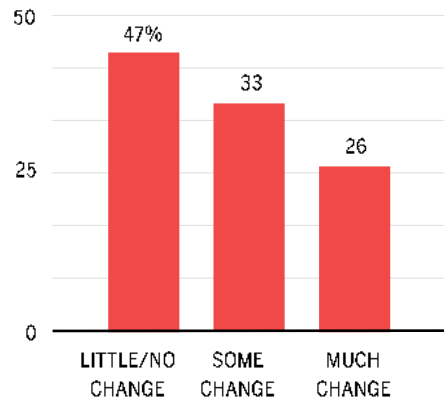
Complicated sales compensation plans are less effective. Firms with uncomplicated sales compensation plans are twice as likely to have sales compensation programs rated effective overall, compared to firms with complicated plans. Forty-two percent of firms with uncomplicated plans have effective sales compensation programs, compared with just 21% of firms with complicated plans. Among firms with “somewhat complicated” compensation plans, 36% have effective sales compensation programs. **Fig. 3.4.**



Firms implementing significant sales compensation plan changes in the past 18 months are less likely to have sales compensation programs deemed effective overall. Among firms with little to no change in sales compensation plans over the preceding 18 months, 47% had sales compensation programs deemed effective overall, compared to just 26% of firms implemented substantial change. One-third (33%) of firms implementing “some change” had effective sales compensation programs. Fig. 3.5.

FIG. 3.5. INCENTIVE COMPENSATION PLAN CHANGE INTENSITY AND OVERALL INCENTIVE PROGRAM EFFECTIVENESS

PERCENTAGE OF FIRMS WITH INCENTIVE COMPENSATION PROGRAMS THAT ARE EFFECTIVE OVERALL

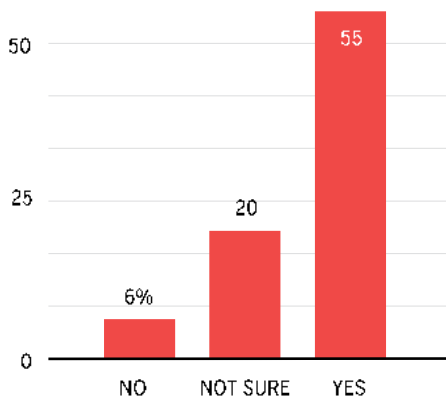


AMOUNT OF INCENTIVE PLAN CHANGE, PRIOR 18 MONTHS

N= 55 FIRMS

FIG. 3.6. SALESPERSON UNDERSTANDING OF THEIR COMPENSATION PLAN AND OVERALL INCENTIVE PROGRAM EFFECTIVENESS

PERCENTAGE OF FIRMS WITH INCENTIVE COMPENSATION PROGRAMS THAT ARE EFFECTIVE OVERALL



DO SALESPERSONS UNDERSTAND THEIR COMPENSATION PLAN?

N= 55 FIRMS

Salesperson understanding of the sales compensation plan is highly correlated with overall sales compensation program effectiveness. In firms where salespeople don't understand their sales compensation plans, just 6% have sales compensation programs considered effective overall, compared to 55% of firms where salespeople do understand their compensation plans. Fig. 3.6.



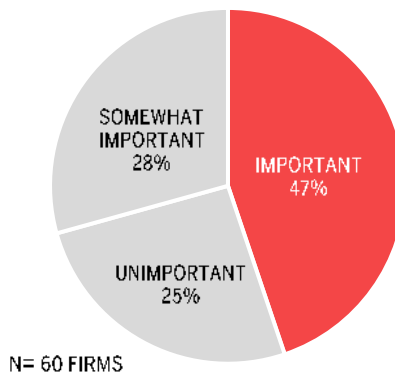
CURRENT PRACTICE IN INCORPORATING SALESPERSON INPUT IN INCENTIVE DESIGN

Our research investigates current practice related to incorporating salesperson payee input into management’s efforts to design and administer sales compensation. An underlying hypothesis in our investigation is that “user input” improves compensation program effectiveness - just as it often does when incorporated into product design decisions.

Most survey respondents agree, at least to a limited extent. Forty-seven percent consider soliciting payee input in sales compensation plan designs decisions is important, and another 28% consider it somewhat important (25% consider payee input unimportant). **Fig. 4.1.**

FIG. 4.1. IMPORTANCE OF SOLICITING PAYEE INPUT IN SALES COMPENSATION PLAN DESIGN

PERCENTAGE DISTRIBUTION OF FIRMS

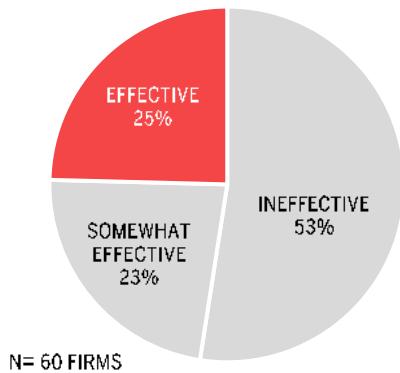


But only one quarter (25%) effectively collect salesperson input, and most firms (52%) are ineffective in doing so (23% are somewhat effective). **Fig. 4.2.**



FIG. 4.2. EFFECTIVENESS IN COLLECTING SALESPERSON INPUT IN SALES COMPENSATION PLAN DESIGN

PERCENTAGE DISTRIBUTION OF FIRMS



Whether due to indifference or ineffectual feedback and data collection, the result is that most firms have incomplete, inaccurate, or nonexistent insight into what salespeople think about sales compensation. Among the categories of compensation-related salesperson sentiment included in our research, firms are most likely to know salespeople’s views on compensation payout timeliness and accuracy, though just 44% of firms do. Salesperson sentiment on other sales compensation related topics are understood by fewer than one-third of firms; these include how well salespeople understand their compensation plans (just 32% of firms can accurately measure), salesperson opinion on sales compensation’s ability to motivate (31%), sales compensation plan fairness (20%), and salesperson views on pay plan competitiveness (17%). **Fig. 4.3.**

FIG. 4.3. PERCENTAGE OF FIRMS ABLE TO ACCURATELY MEASURE SALESPERSON SENTIMENT ON ASPECTS OF INCENTIVE COMPENSATION PROGRAM

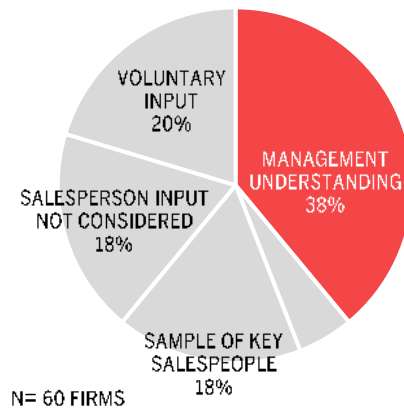


These data point to a significant information gap: three-fourths of firms consider salesperson input at least somewhat important to incorporate in sales compensation management decisions, yet fewer than one-third of firms have accurate insight into salesperson sentiment on sales compensation’s most salient salesperson-impacting aspects. (Figs. 4.1-4.2.)

This raises the question: how are firms incorporating salesperson input? Our research shows just 18% of firms make no such effort to do so. For others, the predominant approach is to rely on management’s intuitive understanding of salespeople’s views; 38% of firms use this approach. Others solicit salesperson input on a voluntary basis (20% of firms), or by actively seeking input from a sample of salespeople (18%); just 5% of firms attempt a comprehensive survey of all salespeople. **Fig. 4.4.**

**FIG. 4.4. PRIMARY APPROACH TO INCORPORATING
 SALESPERSON INPUT IN SALES COMPENSATION PLAN DESIGN**

PERCENTAGE DISTRIBUTION OF FIRMS



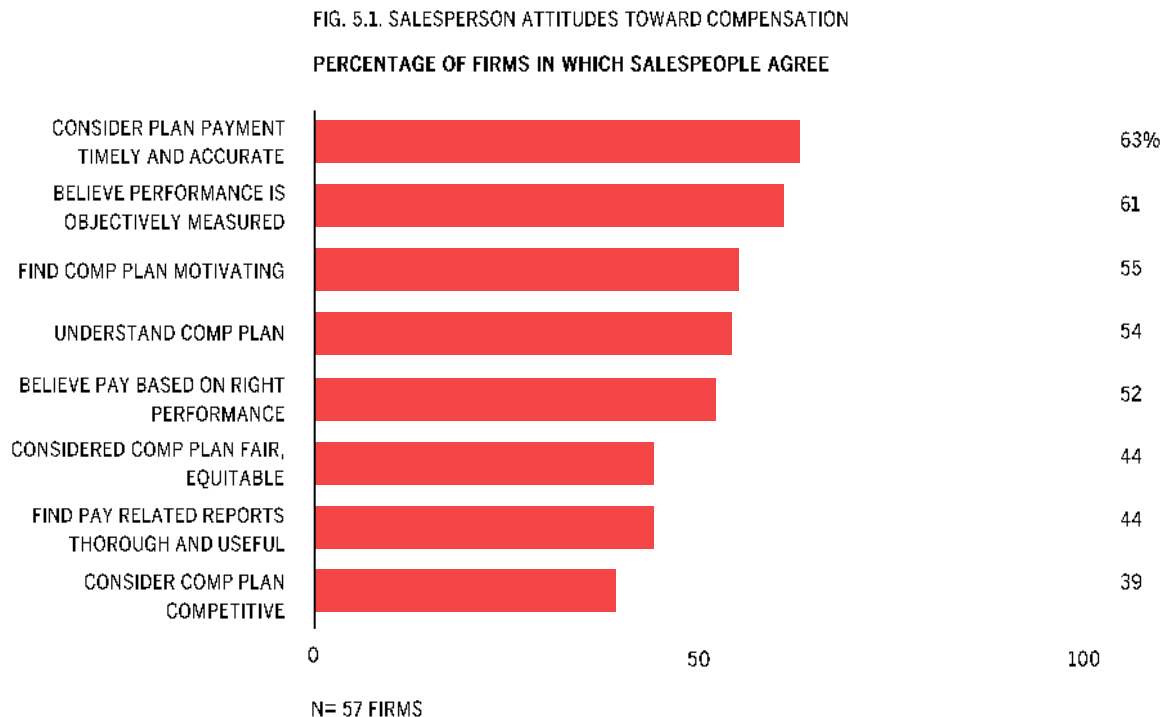
WHAT SALESPEOPLE THINK ABOUT SALES COMPENSATION, AND WHAT MANAGEMENT THINKS THEY THINK

Management has an imperfect understanding of salesperson opinions on compensation, given their often indirect approach to collecting it; or, in a minority of firms, outright indifference to its value. These limitations aside, what do firms know (or think they know) about their salespeople’s views on sales compensation?

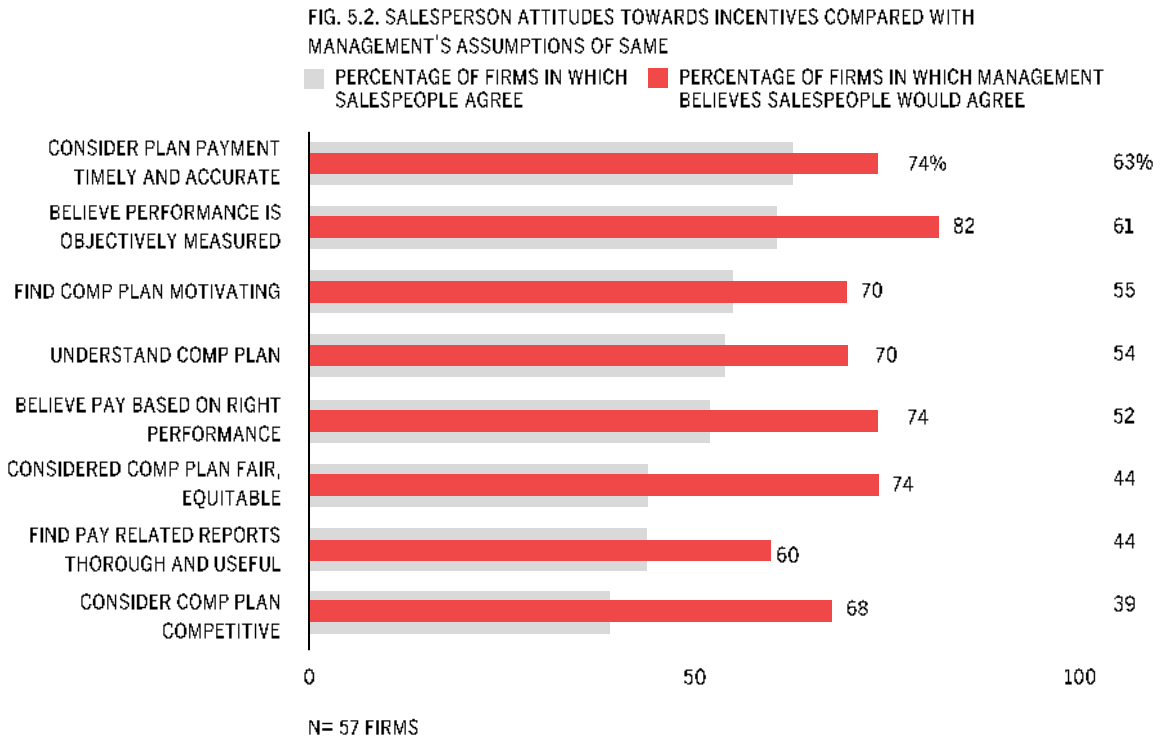
We investigated this question by asking respondents to offer their best estimate of their salespeople’s sentiment on a range of compensation related topics, and also to estimate, separately, their managers’ views of salesperson opinions. In other words, we asked respondents what they think salespeople think - and we asked them what their managers think salespeople think on the same set of topics.

Results are notable on multiple fronts.

- Respondents’ estimates of salesperson confidence in basic aspects of their sales compensation program are surprisingly low: just 61% of firms say their salespeople believe compensation-impacting performance is objectively measured; just 55% say salespeople find compensation motivating; just 54% say salespeople understand their compensation; just 44% say salespeople consider compensation equitable; and just 39% say salespeople consider pay competitive. **Fig. 5.1.**



Respondents' estimates of management's view of salesperson sentiment (i.e., "what management thinks salespeople think") is substantially more positive for all plan aspects: 82% of firms believe managers think performance is objectively measured (vs. 61% of firms' salespeople); 74% of firms believe managers think salespeople consider compensation fair and equitable (vs. 44% of salespeople); and 68% of firms believe managers think salespeople consider compensation competitive (vs. 39% of salespeople). Fig. 5.2.



We acknowledge the limitations of drawing conclusions from these data; they are self-reported and not rigorously observed, and they represent indirect measures of opinion, by asking respondents for opinions of others' opinions. These limitations notwithstanding, we can assert two important observations about what most respondents believe to be true of their firms' sales compensation programs:

- Salespeople do not fully understand their compensation plans to a surprising degree (in 48% of firms)
- Salespeople often do not endorse fundamental aspects of their compensation program, including its objectivity, accuracy, its ability to motivate performance, its fairness, and its competitiveness.
- There is acknowledged dissonance between how management and salespeople view sales compensation's efficacy and impact on its most essential stakeholders - its payees.



What explains the disparity evident in this last point? Two possibilities should be considered, and probably combine to explain this phenomenon in many firms where it exists. One position posits that salespeople and management have opposing interests when compensation is exchanged, and these biases explain differences of opinion as a function of competing self interest. This school of thought suggests that salespeople may never find compensation fair (or “enough”), while management will always minimize these issues in favor of the firm. This argument may explain disparity in issues related to pay amount, competitiveness, or even how pay is measured. Yet it falls short of accounting for differences in opinion of how well salespeople understand their compensation and is a less than satisfying way of explaining differences concerning pay accuracy or timeliness.

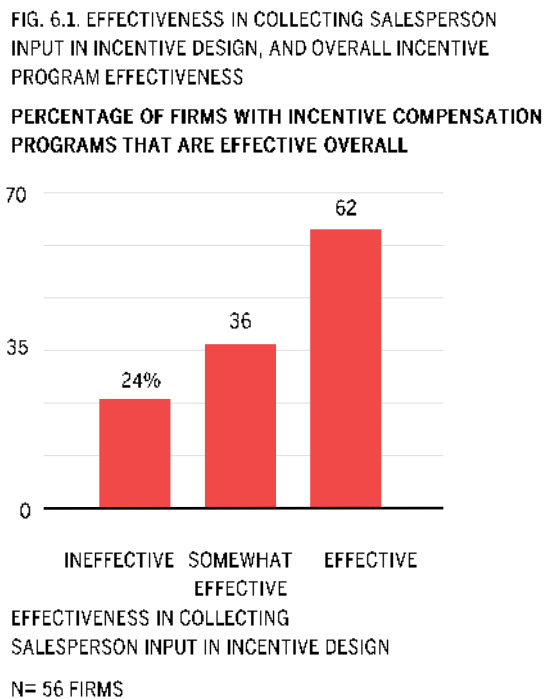
The second school of thought requires a dose of corporate psychoanalysis and contends that management is willfully delusional. That is, management is content to focus on its own slate of effectiveness criteria, developed in concert with other management stakeholders perhaps, but without consideration of objectively measured impact on, or input from, payees themselves (aside from post facto economic measures of pay and performance). Underlying this view is a fundamentally adversarial relationship between manager and salesperson, principal and agent, that assumes salespeople should not participate in plan design or management decisions for the same reason American football teams don’t invite their opponents into the huddle when plays are called.



HOW INTEGRATING SALESPERSON INPUT IMPACTS SALES COMPENSATION PROGRAM EFFECTIVENESS

Armchair psychoanalysis aside, our research sought an answer to a fundamental question: is it in fact important for firms to incorporate salesperson input in sales compensation related decisions? Our research suggests that it is.

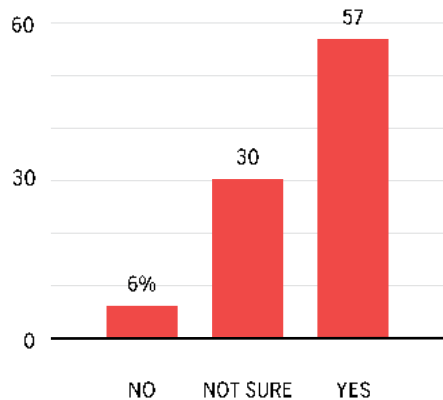
Firms that are effective in incorporating salesperson input into sales compensation program design and administration decisions are more likely to have sales compensation programs considered effective overall. Among firms effective in integrating salesperson input, 62% have sales compensation programs considered effective, compared to just 24% of firms ineffective in incorporating salesperson input (36% of firms “somewhat effective” in incorporating salesperson input have sales compensation programs considered effective overall). Fig. 6.1.



Effectiveness in integrating salesperson input into sales compensation program decisions is also positively correlated with sales compensation program return on investment (ROI). Among firms effective in integrating salesperson input, 57% achieve positive ROI on sales compensation expense, compared to just 6% of firms ineffective in incorporating salesperson input (30% of firms “somewhat effective” in incorporating salesperson input have positive sales compensation program ROI). **Fig. 6.2.**

FIG. 6.2. EFFECTIVENESS IN COLLECTING SALESPERSON INPUT IN INCENTIVE DESIGN, AND OVERALL INCENTIVE PROGRAM RETURN ON INVESTMENT (ROI)

PERCENTAGE OF FIRMS WITH POSITIVE INCENTIVE COMPENSATION PROGRAM ROI



**DO SALESPERSON UNDERSTAND THEIR
 COMPENSATION PLAN?**

N= 56 FIRMS

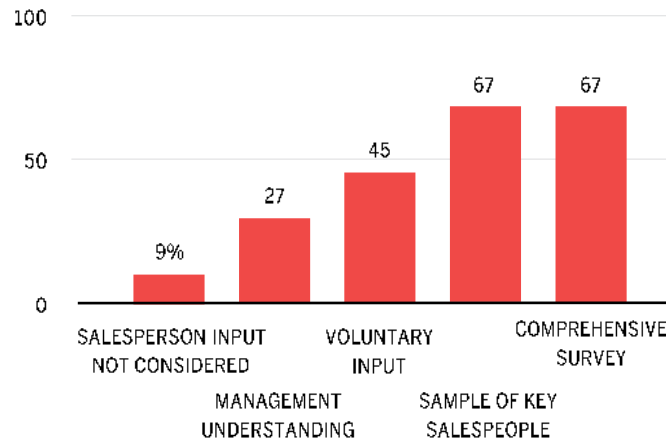
This relationship - between success in integrating salesperson sales compensation program input and the overall effectiveness of sales compensation - is also evident in correlations between predominant firm approach to collecting salesperson input and program effectiveness. That is, how input is collected makes a difference, with approaches that attempt a more thorough effort to collect input correlating most closely with overall program success.



Among firms that do not consider salesperson input, just 9% have sales compensation programs considered effective overall. For firms reliant on management understanding as a proxy for salesperson input, 27% have effective sales compensation, while 45% of firms using voluntary feedback approaches do. Firms most likely to have effective sales compensation programs are those that actively solicit input from key salespeople, or that conduct a census of all salespeople; 67% firms using either approach have sales compensation programs considered effective overall. **Fig. 6.3.** This suggests the added effort and expense of a census may yield diminishing returns, compared with an effective sample of key salespeople.

FIG. 6.3. APPROACH TO INCORPORATING SALESPERSON INPUT INTO INCENTIVE COMPENSATION PLAN DESIGN, AND RATING OF OVERALL INCENTIVE COMPENSATION PROGRAM EFFECTIVENESS

PERCENTAGE OF FIRMS WITH INCENTIVE COMPENSATION PROGRAM RATED EFFECTIVE OVERALL



PREDOMINANT APPROACH TO INCORPORATING SALESPERSON INPUT IN INCENTIVE DESIGN

N= 56 FIRMS



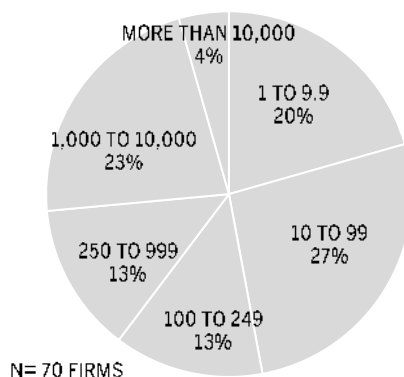
RESPONDENT CHARACTERISTICS

This research report incorporates data from 70 survey respondents. Respondents include firms of varied size and industry makeup.

Firm Size

Seventy participating firms ranged in size from small to very large, though skewed toward larger firms. Fifty-three percent of respondents' firms have annual revenue in excess of US\$100 million; 27% are firms with annual revenues in excess of US\$1 billion. **Fig. 7.1.**

FIG. 7.1. RESPONDENTS' FIRM REVENUE, US\$MILLIONS
PERCENTAGE DISTRIBUTION OF FIRMS



On average, firms directly employ 878 salespeople and 145 first line sales managers. Median values are 82 directly employed salespeople and 10 first line sales managers. In total, participating firms directly employ 54,466 salespeople and 8,974 first line sales managers. **Fig. 7.2.**



FIG. 7.2. NUMBER OF SALESPEOPLE AND SALES MANAGERS BY FIRM

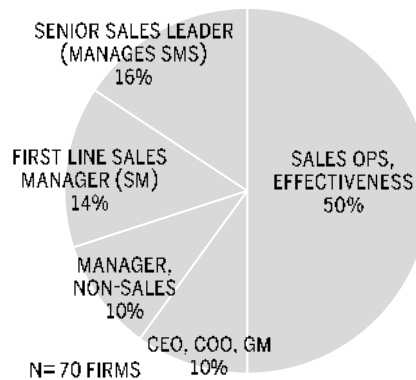
	SALESPEOPLE	SALES MGRS.
MIN	5	1
10 TH PERC.	9	2
25 TH PERC.	20	3
MEDIAN	82	10
75 TH PERC.	388	58
90 TH PERC.	1,190	200
MAX	18,000	3,250
TOTAL	54,466	8,974
AVERAGE	878	145

N= 62 FIRMS

Job Role

Respondents are predominately sales effectiveness leaders in their firms. Sales operations, effectiveness, and related sales support roles represent 50% of respondents. Fourteen percent of respondents are first-line sales managers (i.e., they directly manage salespeople). An additional 16% are senior sales leaders, managing sales managers, 10% are in non-sales-specialized senior general management roles, and 10% are in non-sales related management roles. **Fig. 7.3.**

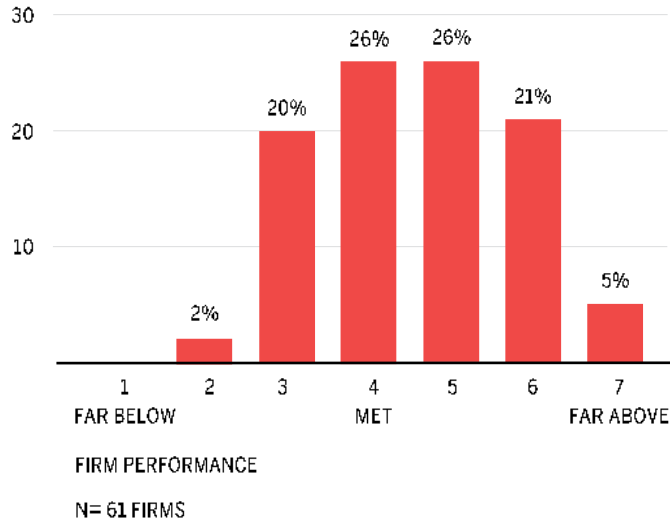
**FIG. 7.3. RESPONDENTS' JOB ROLE
 PERCENTAGE DISTRIBUTION OF RESPONDENTS**



Firm Performance

A large majority of respondents met or exceeded firm sales objectives in the preceding 12 month period. Fifty-two percent exceeded objectives, 26% met objectives, and 22% fell short of firm sales objectives. **Fig. 7.4.**

FIG. 7.4. RESPONDENTS' ACHIEVEMENT OF FIRM SALES OBJECTIVE, PRIOR 12 MONTHS
PERCENTAGE DISTRIBUTION OF FIRMS



On average, 55% of firms' salespeople met or exceeded quota in the preceding 12 month period (the median value is 50%). **Fig. 7.5.**

FIG. 7.5. PERCENTAGE OF PAYEES THAT MET TARGETED INCENTIVE EARNINGS, PRIOR 12 MONTHS

MIN	0%
10 TH PERC.	20
25 TH PERC.	39
MEDIAN	50
75 TH PERC.	76
90 TH PERC.	82
MAX	95
AVERAGE	55

N= 36 FIRMS



Sales Compensation in Respondent Firms

On average, respondent firms have 594 sales compensation payees (the median value is 50 payees), and 13 unique sales compensation plans (the median value is four unique plans). **Figs. 7.6-7.7.**

**FIG. 7.6. NUMBER OF SALES
 COMPENSATION PAYEES**

	NO. PAYEES
MIN	1
10 TH PERC.	10
25 TH PERC.	15
MEDIAN	50
75 TH PERC.	200
90 TH PERC.	1,060
MAX	19,600
TOTAL	35,062
AVERAGE	594
N	59

**FIG. 7.7. NUMBER OF SALES
 COMPENSATION PLAN DESIGNS**

	NO. PLANS
MIN	1
10 TH PERC.	1
25 TH PERC.	2
MEDIAN	4
75 TH PERC.	6
90 TH PERC.	37
MAX	200
TOTAL	754
AVERAGE	13
N	58

