

# Survey of Sales Incentive Plan Revisions

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research



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## Table of Contents

<b>Introduction and Methodology</b> .....	<b>2</b>
<b>Summary of Findings</b> .....	<b>3</b>
<b>Results and Analysis</b> .....	<b>4</b>
Figure 1: Did your company revise its sales compensation plan(s) for 2009?.....	4
Figure 2: Prior to the 2009 sales compensation plan revisions, how many years had it been since the last revision?.....	5
Figure 3: Which of the following statements best describes the reason your organization revised its 2009 plan?.....	6
Figure 3a: Change in Reason for Plan Revision.....	7
Figure 4: How has the economic downturn affected sales compensation plan design at your company?.....	8
Figure 5: Does your organization plan to revise (or has it already revised) its sales compensation plans for 2010?.....	9
Figure 6: Which of the following statements best describes the reason your organization has or will revise its 2010 sales compensation plan?.....	10
Figure 6a: Change in Reason for Plan Revision.....	10
Figure 7: What is the typical period between meaningful changes to the sales compensation plan in your organization?.....	11
<b>Demographics</b> .....	<b>12</b>
Figure A: Role/Level.....	12
Figure B: Supervisor's Role/Level.....	12
Figure C: Industry.....	13
Figure D: Size of entire organization (worldwide).....	13
Figure E: Total size of sales organization (number of employees).....	14
Figure F: Change in total size of sales organization (number of employees).....	14

## Introduction & Methodology

This report summarizes the results of an August 2009 survey of WorldatWork Premier members and nonmembers to gather information about sales plan revisions in 2009 and 2010 and the impact of the down economy on these revisions. Where possible, historical comparisons from data gathered in previous WorldatWork Sales Compensation Practices surveys are shown.

In August, surveys were sent electronically to 8,339 WorldatWork members, and an invitation was also included in the *Sales Compensation Solutions Newsletter* sent to members and nonmembers. A total of 977 respondents participated in this survey.

## Summary of Findings

2009 was a very challenging year for the U.S. economy. It faced the worst recession in 80 years. As a result, many businesses implemented reductions in force (RIFs) to bring costs in line with lower sales that were largely due to significant declines in consumer spending. In this turbulent economic market, sales compensation plan designs faced unprecedented challenges in aligning salesforce execution with business strategy.

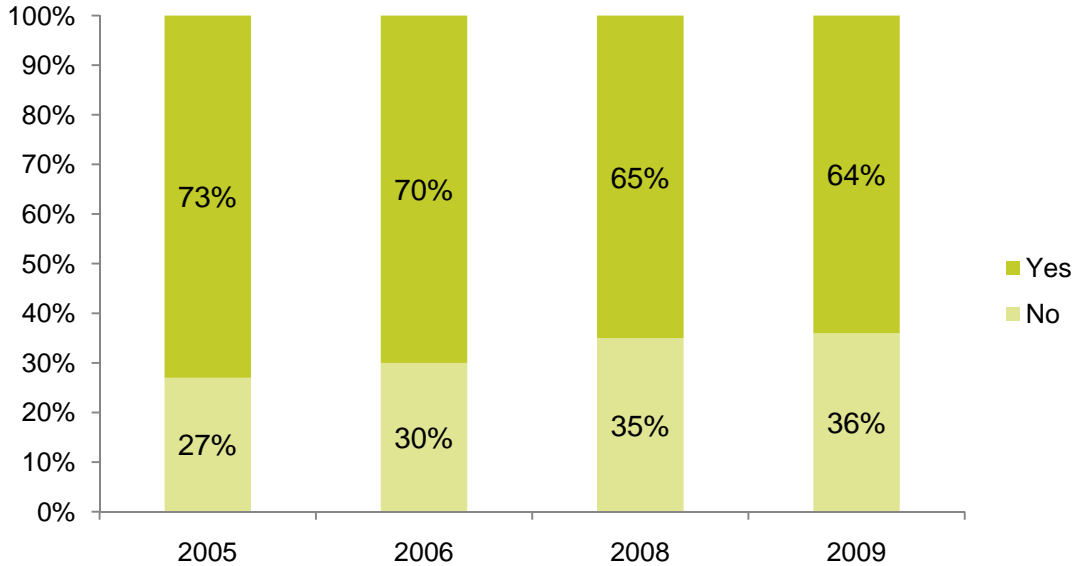
Nearly two-thirds of organizations reported changing sales compensation plan design in 2009. Yet, the proportion of organizations reporting plan changes this year is consistent with previous years. The recession was just another factor contributing to the characteristic frequency with which organizations make changes to sales compensation plans. Indeed, nearly 80% of survey respondents indicated the typical period between making meaningful changes to sales compensation plans was every two years or less.

The most prevalent reason cited this year for making sales compensation plan changes was to improve alignment between sales incentive pay and business strategy (74%). This actually represented a decline of eight percentage points from the prior survey, whereas changing performance measures to place more emphasis on sales profitability actually gained 13 percentage points (35% in 2009 versus 22% in 2008). More organizations this year (35% in 2009 versus 25% in 2008) also reported changing performance measures to place greater emphasis on business development, winning new business and selling new products. These data reflect the impact of the difficult economic environment in 2009 and its impact on sales compensation plan design to improve both top-line revenue and margin.

Using sales compensation plan design to drive both improved business results in top-line revenue and margin will continue to be the key focus for many organizations in 2010 as well. Eighty-four percent of organizations reported improved alignment between business strategy and sales execution as the rationale for sales compensation design changes in 2010. The second most prevalent reason (42%) for sales compensation plan change in 2010 is to decrease plan complexity through reduced performance measures or simplified payout formulae. Better sales profitability is also cited as a major concern as 40% of organizations report this as the objective for sales compensation plan revisions next year.

## Results and Analysis

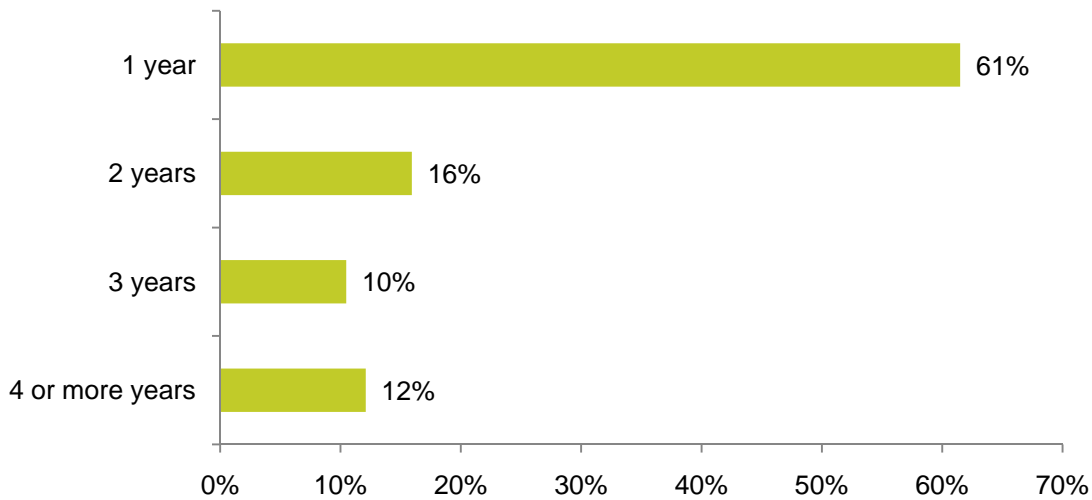
**Figure 1: Did your company revise its sales compensation plan(s) for 2009?**



The percentage of respondents reporting that their company revised its sales compensation plan remained almost unchanged from 2008. While the percent remains almost constant, the fact that more than twice as many respondents (894 in 2009 versus 415 in 2008) reported this practice confirms the importance that most companies attach to annual plan updates.

While the percentage of respondents indicating revisions to sales compensation plans for their company has gradually declined from 2005 to 2009, we believe this trend is the result of some companies making significant change to their plans in prior reporting periods, especially in response to new business strategies corresponding to the upturn in the middle part of the decade. More recently, some companies, though a minority, may be focusing on fine-tuning or even staying the course with their sales compensation plans.

**Figure 2: Prior to the 2009 sales plan revision, how many years had it been since the last sales plan revision (n= 496)?**



For this reporting period, 61% of respondents indicated it had been one year since their organization’s last plan revision. In the 2008 reporting period, 76% of respondents reported their organizations make plan revisions every year.

The 15 percentage point difference in response to this question between the current and prior reporting period may be explained by the observation that companies that have made significant changes to their sales compensation plans may be choosing to stay the course with the current plan.

**Figure 3: Which of the following statements best describes the reason your organization revised its 2009 sales plan? (Check all that apply.)**

	2005	2006	2008	2009
To make more jobs eligible for sales incentive pay	10%	8%	5%	7%
To make fewer jobs eligible for sales incentive pay	3%	3%	3%	5%
To decrease plan complexity (e.g., reduced number of performance measures, simplified incentive formula, etc.)	32%	22%	37%	37%
To improve alignment between sales incentive pay and business strategy	54%	44%	82%	74%
Changed performance measures to place more emphasis on sales profitability	26%	17%	22%	35%
Changed performance measures to place more emphasis on business development, winning new business, selling new products, etc.	22%	16%	25%	35%
To increase incentive opportunity for overarching plan (e.g. making overachievement financially appealing to top performers)	19%	15%	25%	18%
Altered compensation mix to increase incentive focus, (e.g. increased incentive opportunity for achieving target performance and decreased base)	16%	12%	16%	13%
Revised compensation mix to decrease incentive focus, (e.g. incentive opportunity decreased for achieving target performance and increased base)	3%	2%	4%	5%
To remain competitive in the market for top sales talent	n/a	n/a	26%	19%
To respond to the economic downturn by reducing costs	n/a	n/a	n/a	14%
To respond to the economic downturn by improving incentive earnings potential (e.g. reduced minimum performance threshold)	n/a	n/a	n/a	12%
Other	10%	7%	12%	10%

When the 2009 survey results are compared to the 2008 report, significant change appears in five of the reasons that describe why respondent organizations revised the sales compensation plan as summarized below:

**Figure 3a: Change in Reason for Plan Change**

	2008	2009	Percentage Point Change
Changed performance measures to place more emphasis on sales profitability	22%	35%	+13%
Changed performance measures to place more emphasis on business development, winning new business, selling new products	25%	35%	+10%
To improve alignment between sales incentive pay and business strategy	82%	74%	- 8%
To remain competitive in the market for top sales talent	26%	19%	-7%
To increase incentive opportunity for overachieving plan (i.e., making overachievement financially appealing to top performers)	25%	18%	-7%

The year-over-year change in the reasons that best describe why organizations revised their sales compensation plan is consistent with the economic downturn that companies faced. In tough economic times, companies place increased emphasis on both sales profitability and winning new business. Both of these performance outcomes were the top reasons why organizations revised their 2009 plan.

Additionally, in tough economic times, as the competitive labor market for talent relaxes, organizations place less emphasis on increasing compensation levels. This year's survey results support this view. When 2009 survey responses are compared to 2008 results, remaining competitive in the market for top talent and increasing the incentive opportunity for overachievement both declined by seven percentage points.

In the past three surveys, improving the alignment between sales incentive pay and business strategy has been the number one reason that best describes why organizations revised the sales compensation plan. This is also the case in 2009. However; it is notable that after having peaked at a high of 82%, the finding fell to 74%.

Several factors could explain this difference. We believe that many of the organizations that participate in the survey clearly understand the need for close alignment between business strategy and incentive pay and, thus, have taken steps in their plan design processes to ensure that this occurs. Also, because a significant economic downturn was already underway in late 2008, a time when companies typically review plans for change, organizations were sharply focused on the need for that alignment. As reported above, that point of view is supported by reasons given for plan change in the area of measurement – both sales profitability and winning new business.

Lastly, it is noteworthy that for in all four years of the Sales Compensation Practices Survey, reducing plan complexity is cited as the second most prevalent reason for changing the sales compensation plan. We believe that, in spite of economic variability, companies frequently struggle with finding an appropriate balance between plan relevance (i.e., to the role and business strategy) and plan simplicity.

**Figure 4: How has the economic downturn affected sales compensation plan design at your company? (Check all that apply.)**

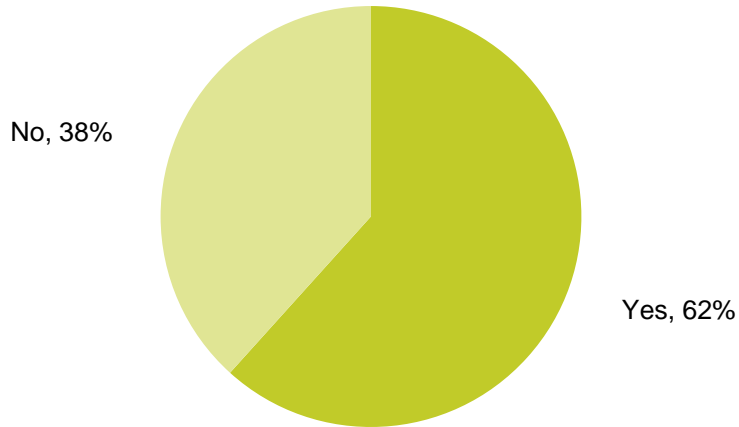
Reduced target incentive opportunity consistent with reduction in quotas or productivity expectations	72%
Caused more aggressive over-achievement incentive rates	66%
Caused a freeze in base salaries	36%
Caused a reduction in quotas/sales goals	19%
Lowered where we start to pay incentives (threshold performance)	15%
Lengthened the time horizon for base salary reviews	11%
Shortened the performance measurement period (e.g., from annual to quarterly)	7%
Caused a reduction in base salaries	6%
Shortened the quota/goal-setting time horizon (e.g., from annual to quarterly)	5%
Other	13%
The economy has had no effect on our sales compensation plans	24%

Almost one in four of the survey’s respondents indicated that the economy has had no effect on their organization’s sales compensation plans. Health care and professional services were among those sectors reporting no impact from the economy on sales compensation plans — a further reminder that despite the severity of the downturn not all sectors were impacted equally.

For those respondents that indicated that the economic downturn affected sales compensation plan design at their company, the two most prevalent responses were: 1) a reduction in target incentive opportunity consistent with a reduction in quota; and, 2) the use of more aggressive overachievement incentive rates.

A significant number, 36%, reported freezes in base salary as well. This is an indication that this practice, which was common for organizations’ non-sales staffs, also impacted sales organizations this year.

**Figure 5: Does your organization plan to revise (or has it already revised) its sales compensation plan for 2010 (n=817)?**



For 2010, 62% of survey respondents will continue the trend of revising the sales compensation plan on an annual basis. This response is slightly lower when compared to the 2009 practice (64%).

**Figure 6: Which of the following statements best describes the reason your organization has or will revise your 2010 sales plan? (Check all that apply.)**

To improve alignment between sales incentive pay and business strategy	84%
To decrease plan complexity (e.g., reduced number of performance measures, simplified incentive formula, etc.)	42%
To change performance measures and place more emphasis on sales profitability	40%
To change performance measures to place more emphasis on business development, winning new business, selling new products, etc.	36%
To remain competitive in the market for top sales talent	30%
To increase incentive opportunity for overarching plan (e.g. making overachievement financially appealing to top performers)	16%
To alter compensation mix to increase incentive focus (e.g. increased incentive opportunity for achieving target performance and decreased base)	13%
To respond to the economic downturn by reducing costs	12%
To make more jobs eligible for sales incentive pay	9%
To respond to the economic downturn by improving incentive earnings potential (e.g. reduced minimum performance threshold)	7%
To make fewer jobs eligible for sales incentive pay	6%
To revise compensation mix to decrease incentive focus (e.g. incentive opportunity decreased for achieving target performance and increased base)	4%
Other	10%

Respondents reported a change in emphasis, as compared with survey responses in the prior period, on the reasons for plan change as summarized in the table below.

**Figure 6a: Change in Reason for Plan Change**

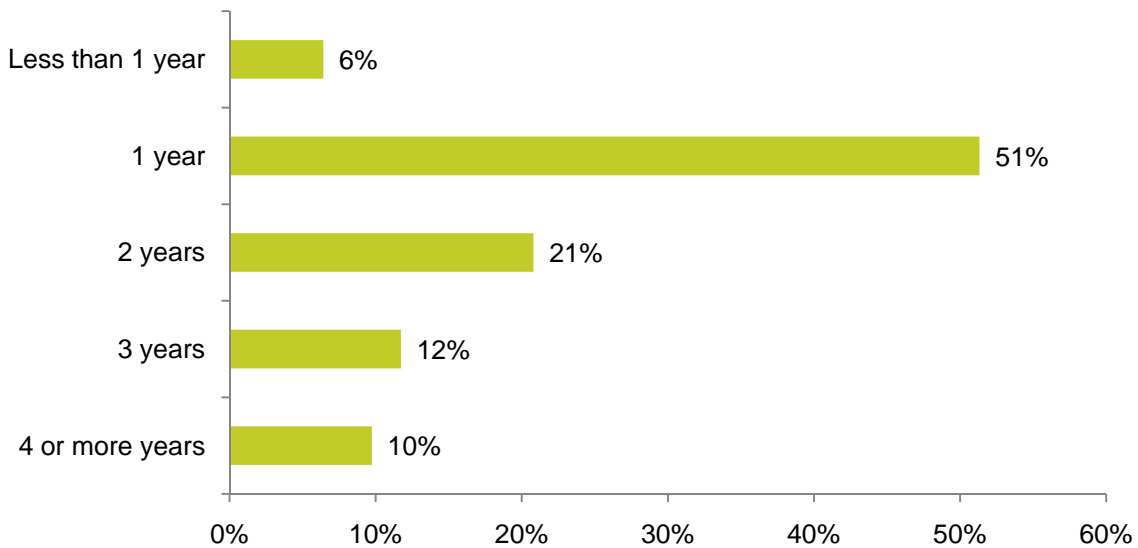
	2009	2010	Percentage Point Change
To improve alignment between sales incentive pay and business strategy	74%	84%	+10%
To decrease plan complexity (e.g., reduced number of performance measures, simplified incentive formula, etc.)	37%	42%	+5%
To change performance measures and place more emphasis on sales profitability	35%	40%	+5%
To remain competitive in the market for top sales talent	19%	30%	+11%

The second most significant change (+10 percentage points) was reported by respondents who indicated the reason for plan change is to improve the alignment between sales incentive pay and business strategy. It continues as the number one reason that describes why plans are changed.

Consistent with the economic climate in which many companies now operate, a significant number of respondents (+5 percentage points) reported changing performance measures to place more emphasis on sales profitability. While this response is the third highest reported reason for plan change, our experience is that this reflects the increasing importance companies place on using sales compensation plans to reward the salesforce for selling profitable business.

The biggest respondent increase (+11 percentage points), and the fifth most prevalent response overall for 2010, indicates companies are fighting to remain competitive in the labor market in a tough economic environment.

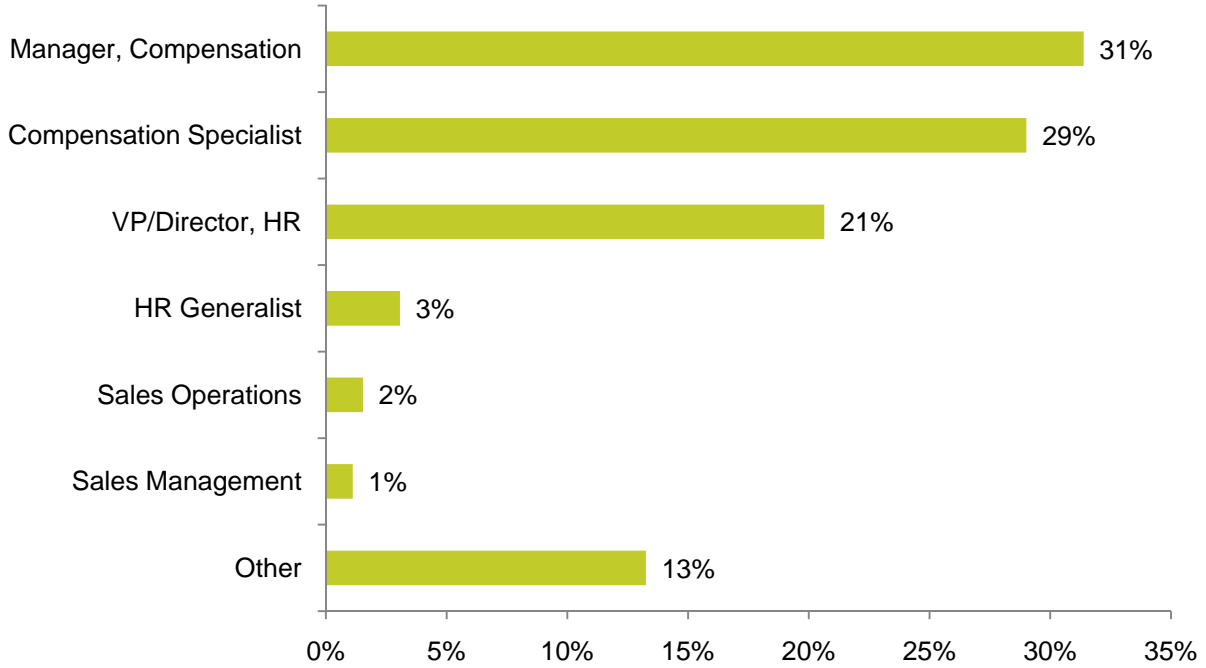
**Figure 7: What is the typical period between meaningful changes to the sales plan in your organization (n=452)?**



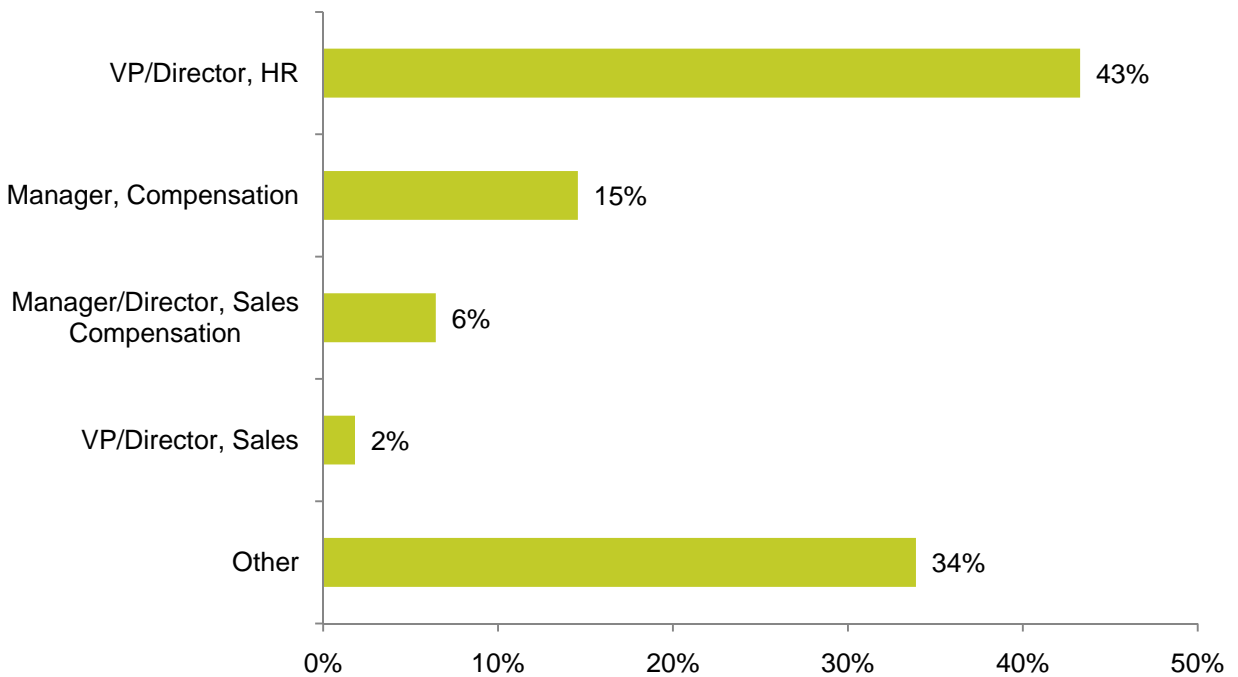
Organizations report making meaningful changes to sales compensation plan design on a relatively frequent basis. Nearly 80% of organizations report making plan changes at least every two years. This suggests the importance of maintaining an ongoing focus on the alignment of sales compensation design with business strategy. Importantly, it also reinforces the importance of communication to the salesforce to ensure clarity and focus in their understanding of goals, objectives and how they will be rewarded.

## Demographics

**Figure A: What is your role/level?**



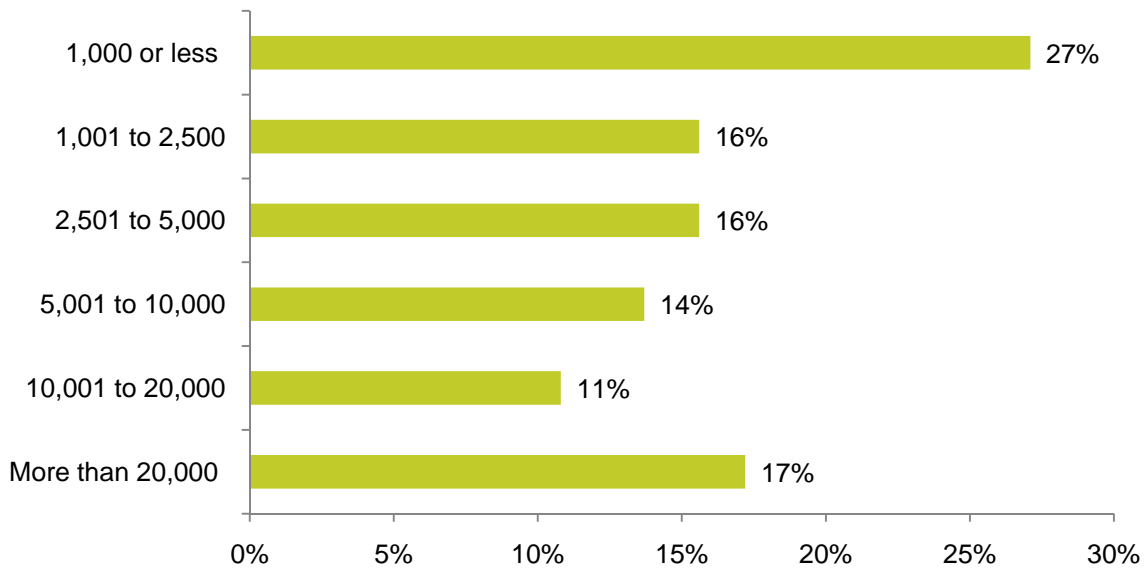
**Figure B: What is your supervisor's role/level?**



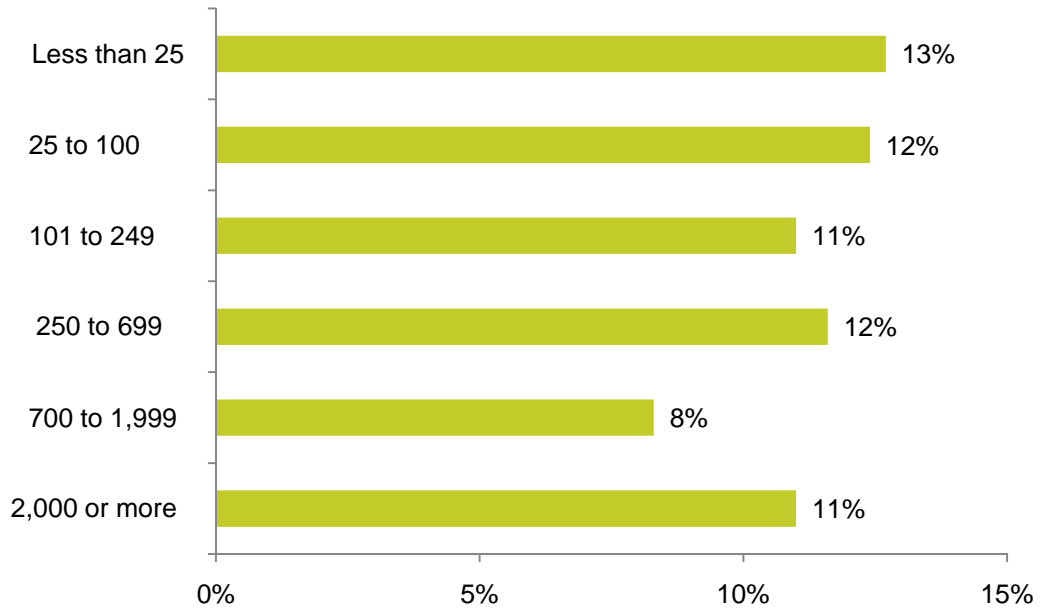
**Figure C: Please choose one category that best describes the industry in which your organization operates:**

Finance & insurance	19.5%
Manufacturing	19.2%
Professional, scientific and technical services	10.7%
Information	5.3%
Retail trade	4.5%
Other services (except public administration)	4.1%
Health care and social assistance	3.9%
Wholesale trade	2.8%
Transportation & warehousing	1.8%
Arts, entertainment and recreation	1.5%
Utilities	1.4%
Accommodations and food services	1.3%
Educational services	1.1%
Real Estate and rental and leasing	0.8%
Agriculture, forestry, fishing & hunting	0.7%
Management of companies & enterprises	0.7%
Construction	0.6%
Administrative and support and waste management, and remediation services	0.3%
Mining	0.1%
Other	19.6%

**Figure D: How many employees work for your entire organization worldwide? (FTE Census)**



**Figure E: What is the total size of your SALES organization in number of employees? (FTE Census)**



**Figure F: In 2009, has the total size of your sales organization (number of employees):**

