Incentive Planning - Introduction

One of the toughest challenges faced by managers is how to motivate the sales team, so that their performances can be improved. Furthermore, maximizing the performance of their team requires a great deal of attention, as it also reflects on their own success. There is no generalized formula for the increment of the motivation of their subordinates. The factor that motivates one person may not prove to be as effective for somebody else. In fact, it might just go the other way around. Let us find out in the following chapters in detail.

There are various classical theories that guide us towards motivation, or help us in creating a motivation-oriented environment. Most of these theories are based on the fact that internal motivators need to be approached for bringing out the best in people.

Before having a look at these categories in their most basic forms, one should make sure that all the other criteria, as proposed by the need hierarchy, have already been achieved. For instance, if a team’s core survival essentials are not being met, an intention to form social groups will be out of the question for them. If they then work in a hierarchical sequence from the top towards the bottom, they cannot engage and focus on work, when the other initial motivators do not exist. They should always realize that it is not feasible to actually reach the top of the need hierarchy, nor can anybody satisfy all the needs; everything is related to being totally self-satisfied.

Theory of Motivation

There are different self-satisfaction values for different people when it comes to any of the six internally-motivating factors, which are economics, aesthetics, theoretic, nature, structural and political. For those people, who judge their
satisfaction level within the parameters of economics, they will want to know the amount of monetary or material possessions that would be enough for them.

For the *aesthetically-motivated* people, they will want to know the limitations of beauty. For the *theoretically acclaimed*, they will try to find the new scopes of learning? And when somebody reaches a level of satisfaction, another immediate higher level of satisfaction is automatically generated.

Everyone wants a haven of their own and it will not be wrong to say this at all. Self- appeasement is everyone’s desire. Everybody wants his specific needs to be satisfied and the fact that each and every person wants something can act to a manager’s advantage. The only thing a manager has to do is to find out what drives the team mates in his team, who are working towards the same goal.

**Realizing Motivators for a Team**

Managers motivate his team-members by trying to find out the internal motivators of their team members. Managers employ many methods, such as observing and questioning, like what they would do with the extra income, if it were to be increased beyond their expectations.

Different employees, if they are being really honest with their answers, will answer this question the following ways –

- **The theoretically-motivated employee** would possibly say, “I have been thinking lately of taking some lessons, which are not covered by the company’s policy of reimbursement. My expenses would likely be covered by the raise”.

- **The aesthetically-motivated employee** will say, “I am thinking of buying a new guitar. The more I play it, the more I feel how bad my current guitar is. Also, while I don’t anticipate nor is it necessary for me to be the highest-paid employee within the department, it will surely help in managing things”. 

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• A nature-motivated employee may say, “I was considering to adopt a pet animal from the local pet store. If I come across a salary hike, it will surely help with those expenses. I am still determined to make the commitment”.

• A politically-motivated employee may say, “I will thank you for the hike; according to me, this should have happened a long time ago. I have earned it, because I am one of the largest effort contributors within the team”.

• A structurally-motivated employee would most probably say, “I have still not thought of it, but I am very delighted to know that this happened. I think that I deserve a hike of this kind, according to the company policy.

• An economically-motivated employee who is cautious about his/her financial state would likely say, “I will add this extra money to my investments. This will come handy while further compounding my rate of return.

While the above answers will help, they find out the internal motivators are not wise to rely on just a single indication. That is why it is wise to ask additional questions, have keen and focused observation and use other assessment techniques to get a clearer picture. Behaviour is what people do; internal motivator is why people do so.

Incentive Planning - Compensation of Sales
Presuming that a team has efficient and talented sales staff, a manager needs to start addressing most of the factors that motivate a person internally. First, realizing the core internal motivators of the members in the team. Second, building an environment that brings out their best. In this step, the compensation of sales and planning for incentives is crucial to the planning process. Like the building blocks of the sales plan, it is important for the compensation plan to integrate the department of sales into the overall strategy of the company.

Advantages of a well-thought plan
A well-formulated plan helps in measuring performances, rewarding performers, and aligning the team. While it can sometimes give the impression that the entire process is being emphasized mostly on the financial point of view, the truth is that it creates great opportunities for a wide range of rewards that are not monetary in nature too. This can enhance the plan to a great extent and help in filling in the holes wherever required.

A newly appointed sales manager often feels that he does not have much to do with the planning part. However, they have a very significant role to play in the
responses resulted by their department’s plan and the outcomes that follow. It is simply because they are the people that the management depends on to get the real-life scenario reports from.

The sales managers get updates from salespersons directly, so no matter what levels they are involved in the preparation of the plan, they can still find a number of ways, either direct or may be indirect, to contribute to their team’s success.

**Benefits of a good compensation and incentives plan**

- A clear connection between the company’s plan and that other departments.
- A clear picture of the roles played for sales within the company.
- A definite job profile for the sales staff.
- A precise framework for other employees to get good incentives.
- The company’s capability for attracting and retaining its best employees.
- The capability to motivate/demotivate some specific behaviours.
- The internal and external reputation of the sales department.

The following categories affect the motivational level of sales subordinates working in a bigger ecosystem. Not only does this cover their surrounding culture, but also affects the business practices, procedures and policies within the workplace.

Let us have a look at these three important categories –

- Corporate Category
- Departmental Category
- Individual Category
These three categories are the most important factors which can have an influence on the sales managers and their subordinates.

**Corporate Category**

At level one is the corporate category, which affects the things that show the work environment on a general basis as well as the image of the company. These factors include –

- **The Brand Name and the Reputation of the Company** – Is the company highly spoken among people on the outside of the company? Does the reputation of the company lack something that has an influence on the motivational value and/or success drive of their team?

- **Cross Functioning Teams** – Is the nature of the culture interactive? Do the employees get the chance for working with the employees from various departments? Are they levelled across the organization?

- **Package of Benefits** – Is a good health plan offered by the company? Does the company provide any added services offered such as discount coupons, credit cards, etc.?

- **Working Circumstances** – Is a good health plan offered by the company? Does the company provide any added services offered such as discount coupons, credit cards, etc.?
Departmental Category

At the second level comes the departmental category. This level has various areas that are a cross between corporates and departments, but the department may most likely have its own terms, conditions and cultural norms.

While they may not be having so much freedom and flexibility around the policies of the company and the fields that influence every employee, they must have an upper hand in the factors which influence their department or their subordinates.

Some of such important factors are –

- Do they conduct various contests between their salespeople, programs for recognition of employees or any other programs that are unique from the rest of the organization?
- What is the nature of their department’s dress code; is it more formal or more casual as compared to the rest of the organization?
- To what degree are the employees motivated, or to what level are they ambitious, as compared with one department to the other?
- Is it anticipated from their sales staff to take part in general corporate meetings, or do they prefer working independently from the organization?
- What are the ways in which compensation is being provided to their team players? Are there variations in the salaries and what factors cause them?
Individual Category

The third and the most narrowed-down category is the individual category. As we discussed above, salespeople can put their efforts on an environment that helps to motivate their team, but the efforts can never be generalized for everyone. In this place, the specific creation of various rewards and recognition has its role.

Managers should never be biased towards their favourite employees in terms of rewarding (that may be monetary or non-monetary), as this would be extremely discriminating, apart from being unethical at the same time.

Planning for Incentives

Experts have debated a lot regarding the advantages of a competitive compensation plan in gaining a head-start over its competitors. As mentioned earlier, companies can incorporate various benchmark tests for comparing themselves with the competition. While associating with start-up businesses or any new business, they can have a reference from similar industries.

Before thinking of improving their present plan, it is crucial for companies to be determined about being competitive within the industry. People within industries keep a sharp eye on their competitors to see if they possess a better plan. It does not mean spying or hiring someone to disclose information about their competitors.

They should have a habit of acquiring information about the competitor’s compensation through legal and ethical ways. This may contain information about previous wages from new recruits, surveys on the industry through third parties, research on association of trade, etc. Again, their competition may reveal their range of wages directly on their job listings.
On the other hand, when any of their staff member moves around the market, they should not get astonished on finding an exponentially better package of compensation within any of their target competitors. The compensation offered by the competitors and their package of incentives would also contain those initiatives the competition is engaged in, such as an interactive contest among the sales teams.

**Incentive Planning - Attributes**

The plan for incentives is intended to motivate the right behaviours as well as to discourage the wrong practices. The requirements of those behaviours are correlated to the salespersons themselves, their department and the company as well. Motivating sales personnel to work on non-revenue or non-profit returning tasks can be done by carrying out certain performance measures.

These measures help in checking the volume of work and other proceedings to meet the ends. As the compensation plan is an important part of the larger sales plan, it should also reflect most of the anticipations.

An interesting case could be made out for strategizing – Say, a manager requests that he should also be waged for the efforts that he has put in while thinking about the long-term betterment of the company. In such cases, employees might want to claim incentives for some actions that are crucial, but not measurable. Hence, it is also important for the management to realize the contribution and think about it in their long-term improvement. Still, many other initiatives are also needed for the
success in the long-term, with respect to the department of sales and the whole company.

**Incentive Planning - Relative Terms**

Transparency in measuring a salesperson’s success is an absolute necessity and that is the reason most of the companies are very frank in sharing commissions and profit-sharing figures with their employees. As a part of good company measures, salespersons are always clearly told that they are being waged with a specific commission on the revenue earned on sales.

Unfortunately, as per the existing number-centric model, performances in many companies are still measured only in terms of revenues and profits, which are the only things that companies can measure efficiently. That is an outcome of them not having taken the time to form a strategic plan for compensation. Inspite of having some core aspects in place, their plan may still not have been communicated effectively.

Some companies that try hard to incorporate significant activities into the plan, sometimes don't focus on one of the most crucial elements, i.e., **productivity**. There are two crucial weight carrying factors in the compensation plan, which include – **expertise of the salesperson** and the **goals and objectives of the sales process**.

A good possible answer to the first point would be the factor that differentiates the good sales organization from the bad sales organizations. As salespeople work for the things they get compensated for, it is their choice whether they want to encourage certain behaviours, ensuring it goes in accordance with the plan. If it does not go according to the plan, they will be left looking at their angry senior, with him asking them back, "Why was X done, and not Y?"

**Characteristics of Incentive Deserving Salespersons**

Along with revenues and profits, sales activities such as searching for calls and sales proposals could be included within the compensation plan. On the other hand, the measurement of several other crucial areas must also be considered, which may include sales skills and knowledge about the products. They can be clubbed with numerous categories that are mentioned with respect to their strategic priorities, such as –

- **Revenue or Profits** – Is the salesperson on the verge to meet the set targets related to the existing and/or newly introduced products?
• **Sales Activities** – Does the salesperson exhibit the correct activities that help achieve the required results?

• **Sales Skills** – Does the sales person provide adequate solutions to the customer?

• **Inter-Departmental Communications** – Is the salesperson working hand in hand with different entities inside the organization?

• **Knowledge about the Products** – Does the salesperson know the current product line and newer products that are being launched?

• **Competitive Analysis** – Does the salesperson have a good understanding of the offerings of the competitors?

• **Financial Understanding** – Does the salesperson have a deep understanding about the numerical aspect of the business?

**Significance of Customer Service**

One more significant parameter for measurement that has emerged to be of great importance over the years is customer satisfaction. After all, most of the sales in today’s world are not based only on transactions, rather they are long-term. Even the marketing of a consumer good such as a bag, which might take very few moments, still has the capability to earn a long-term customer for the company.

Therefore, not only customer satisfaction is a measurement parameter of today, but also it would remain as crucial in the future. Organizations now formulate ratings with respect to their staff members against each of these parameters and certain factors. After that, it would be necessary for them to consider weights associated to each of these factors.

Revenues and profits are usually given the greatest weight. Still, other factors, depending on the industries and with specific sales roles, might be having greater value than monetary factors. Whatever maybe the weights associated to each of these factors, they are related to some type of performance management system.

**How Performance Management helps**

• Setting up goals and objectives.

• Keeping a recorded, official measurement process.

• Monitoring achievements, failures with respect to agreed goals and objectives.

• Keeping a written documentation of the criteria agreed mutually by the employee and employer.
Companies should have the notion that the management of performance and reviews of performance are greatly different from company to company. At times, the setting up of goals is included in the same process, while in other circumstances, it is different but reflects in the process.

Salesperson Payment Process

Though rewards in terms of finances still form the foundation of any sales incentive plan, the structure of the payment for the salespeople has many factors that should be considered.

The most important point that you should consider is the type of the organization –

- Is it a start-up in a growing state and that is in a desperate need to attract new sales staff members?
- Is it an already established company that caters to a matured market and possesses a seasoned staff with an array of talent to choose from?

To be real, there are numerous ways for setting up a compensation package. A single generalized package system cannot be introduced for all the companies. Some of the most common types of packages are as follows–

Basic Salary Only

Companies pay only the basic salary to a sales staff, exclusive of any variable pay, which may include commissions or bonuses. This type of a package is usually applied for the person who maintains the account and/or when the sales staff member is considered to be a coordinator of the team and does not initiate or close the sale.

It is very unusual to have a salary-only plan, because most of the salespersons usually work on increasing business by opening newer accounts, or by improving
the already existent accounts. Therefore, companies would need some type of variable payments depending on their performance.

**Variable Commission Only**

This is considered to be another extreme type of a salary-only plan. Here, the sales staff member is paid a commission that depends on the percentage of the profits earned. Also, the commission could be determined, not just as a specific percentage of incomes, but as a combination of other attributes, including margin of profits, amount of entities sold or other parameters.

Again, the commissions can be variable in nature, and can contain certain factors that are known as promoters or demoters of the business, where depending on the increase in volume, the percentage may go up or down respectively.

It is crucial to pay commissions on a frequent basis for the results to be driven further. These plans are more typical, when the salesperson acts as an independent identity and the rate of the sale depends almost entirely on the salesperson.

**Salary and Commission**

In today’s sales scenarios, it is very typical to have some type of a mixture between salary and commissions. Here, a basic salary is received by the salesperson for his/her effort contributed towards the maintenance of accounts and the
conduction of other non-profit making activities. However, he/she also gets compensation in the form of commissions for achieving additional business goals.

The nature of the mixture can vary within anywhere from a higher basic pay scale with a limited commission to a significantly lower basic salary with a significantly higher potential commission.

Salary and Bonus

A salary and bonus plan is almost similar to a salary and commission type of compensation plan. The basic difference between these two categories is that a bonus usually refers to a percentage of the salary (contrary to a percentage of the total sales), which may be awarded based on the achievement of the present goals.

One other difference between these two programs is that the salespeople working under most of the bonus plans usually have a lower level of effect on the sale. Like in the commissions plan, here too the companies may promote or demote. Still, it would analogous to the percentage of the salary and not to the revenue, profits, or other monetary parameters.

Draw
This is yet another type of a salary plan. In the case of a draw, the company pays money to the employee in advance. Then, the money is repaid by the employee from the amount of money earned by the employee in the future.

Typically, this is a kind of a legally bound loan, that the employee owes to the company. Head hunters often work on this model and sometimes certain salespersons are offered a similar deal.

**Sales-driven Salesperson**

Everyone can benefit from a highly self-driven salesperson. It might sound a little harsh, but the bitter truth is that salespersons work for the company, so they cannot be allowed to perform like self-serving businessmen. This is the main reason behind some companies or industries favouring bonuses over commissions, as it helps in decreasing a certain type of risk. Besides the growth of an industry versus the maturity of the industry, various other parameters should be taken into consideration for determining the strategies that are best suitable for an organization. Some of these parameters are as follows –

- **Competition** – What do Companies do? What is the compensation plan for their salespeople? Furthermore, Companies should always try to come up with as well as implement the best package for compensation within the industry.

- **Consultative Sale Versus Transactional Sale** – What is the amount of influence that each person has over the actual sale versus administrative duties including maintenance of accounts? Usually, the involvement of a sales person in the actual sales process is directly proportional to the variable pay as compared to the basic salary.

- **Length of the Cycle of Sales** – This varies greatly from industry to industry. For example, Does their business deal with the sale of air planes or do Companies sell consumer products on a wholesale basis? In the first case, it is tough to make commission oriented incentive plans on this type of a long-term sophisticated sale dealing with hundreds of millions in different currencies.

- **Type of Salesperson** – The compensation plan for different people should be different in ways relying on their involvement and direct contacts to the process of selling. For example, the compensation structure of a sales coordinator should not be the same as that of an account executive,

- **Length of Service** – The length of service is one of the various specific parameters that relate to a single member of the team. A salesperson can enjoy a better upper handed package of compensation as a result of their years spent within the company or years spent in experience in case of a newly recruited salesperson.
• **Size of Territory** – There may be different packages for different geographic regions or other distributions in the territory. If the territory is bigger and offers more challenges, compensation must be provided for it.

• **Account Type** – A number of companies have a variety of structural set-ups. They categorize them as important accounts, so that their package for compensation will be segregated as per their importance.

• **Team Salesmanship** – Inspite of a team possessing a great selling environment, typically members of the team have different varieties of roles to play. Also, the part of their payments that are variable is ought to vary depending on their correlation to the actual sale.

• **The Significance of Other Departments** – This may have been one of the most sophisticated fields of the compensation planning for sales. The best of the business enterprises integrate compensation plans throughout the company.

If a salesperson does the same task as another salesperson with similar experience, the company should pay him/her the same as the latter. Companies would give the message out that the better performer will always have more income.

Finally, be sure of the fact that the plan remains the same for everyone. A plan that hits the right taste buds of only a specific set of people might be advantageous for some, but not for others. This would only serve its purpose partially, as the sections who don’t benefit from the incentive plan will resort to unfavourable, unethical and at times illegal practices.

**Total Package of Compensation**

While it is unlikely for companies to give direct benefits to all employees, the compensations that are offered by the company are paid in monetary terms to administer and service.

Some of the benefits that are made available by the companies are –

• **Health Insurance** that may include Medical facilities, dental care, eye care (usually the cost is shared by the company and the employee). Companies sometimes offer Life Insurance or Insurance for any disability.

• **The 401(k) plan** Some companies will contribute up to a specified percentage of their total contribution.

• **Options for Stock marketing** within the company.

• **Payment for Vacations** and/or Sick Pay.
- **Child Care** – Some companies even have policies and facilities such as schooling and sports education within their premises.

- **Communication facilities or Automobile Allowances** – These facilities are more common for salespeople working within certain industries.

- **Flexible Health Care Spending/Commuter Reimbursement** – These come into play where a part of their basic income is kept aside before taxes for Companies to then get repaid according to the usage.

Incentives does not only include the basic salary, the earned commissions and the other various bonuses. Incentives are the rewards offered by a company, which can increase the whole weight associated with the compensation plan. Companies are all associated with a financial component integrated to them.

## Incentive Planning - Rewards and Fame

Companies can find out countless ways to energize employees. This maybe through monetary or non-monetary forms of commissions or bonuses. We will focus on lower or no-cost methods to reward and provide recognition of staff members.

Non-financial compensation usually can be divided in two main categories – **Recognition** and **Reward**. There is an immense amount of interlinking between these two categories. We will measure them by parameters such as the cost involved, time taken to implement. We will start with easily implementable small-ticket ideas. To begin with, **Appreciation** (being acknowledged) is the reward that is mostly ignored. As the proverb says, "A little appreciation can go a long distance."

There are numerous attributes under which people can be given recognition and appreciation for their efforts, which might not give them the instant rush that
monetary benefits do. But, will definitely improve their performances over a long period by increasing their self-esteem and confidence. Let us discuss them below –

Cost-free Ways of Appreciation

- A kind sounding word or a short note containing appreciation.
- Congratulating a person within a team or within a corporate meeting.
- Awards such as "Best Employee of the Week”.
- Fame within the corporate network or a mention in the newsletter of a company.

Minimally Costing Rewards

- Awarding the employee with an achievement award.
- Certifying the employee with a ‘Certificate of Excellence for certain accomplishments.
- Awarding certain earned leaves to the employees on the basis of punctuality. This may be a little complicated at times and should always be done in consultation of the human resources.
- Rewards such as a dinner for two people at a decent restaurant, gift coupons of a departmental store or tickets to a cricket match may also be given.

Work Itself can also be a Reward

Some employees feel they are being recognized and their efforts are being rewarded, when they are simply given responsibilities that are new and exciting to work on. One of the best possible ways is to assign an employee to a certain cross-platform task team (one involving a higher profile would prove to be even better).

Empowering the employee or letting him/her be the leader in something can also be a great reward. This gives the employee an opportunity to get noticed within the team, which will make him/her feel better and confident within his/her team members.

Sales Contests

An ingenious way of boosting sales is to conduct various sales contests. These contests usually come into play when there is a need to give some extra push on selling a certain type of a product or service.
These contests work best when companies project a sales target for a short term period. Implementing them too frequently is not a wise idea, because the focus and attention of employees dissipates after a period of time.

The reward for the winner of a sales contest may be as variable as being something from a miniature gift to an expensive holiday package. These holiday packages usually come in various forms. These packages maybe a trip for the individual or with a family member or friend or a joint trip for multiple winners, where the winners of the contest are sent to a holiday destination where employees might team up with their team mates and enjoy the environment and its delicacies.

Sales Meetings

These type of meetings are usually implemented to build-up the sales team. Sales meetings can be categorized into two types – the first one is the sales update meeting (usually held either on a biweekly basis or on a monthly basis). The second one is the larger team summit (typically conducted either annually or semi annually). Both of these meetings are great places to acknowledge and award individual employees or a group of employees.

In the case of a larger summit, time for meeting may range somewhere from a day to a week. These meetings incorporate exercises for team-building, sales training sessions, speeches to motivate employees, and an array of various other interactive
activities that adds to the overall benefits, when it comes to recognition and rewarding of the employees.

Sales Meetings are slightly more formal when compared with Sales Contests. The biggest difference between both of them is that Sales Meetings are conducted, so that the management can communicate to employees the new paradigms in business, the vision and also to convey rewards. This is done so that the employees take a back seat here as compared to the Sales Contests, where employees take the events forward and participate actively.

Incentive Planning - Expenses Management

As the employees associated with sales usually have a higher amount of expenditure as compared to most other business professionals, it is very important for them to manage these expenses. There are various ways for rewarding sales personnel on the basis of how well they keep the expenditures of the company low. Some creative companies even go to the extent of conducting contests to find out who can manage certain expenses better, which may include airfares and food expenses. Some additional attributes to that which need attention are as follows –

- **Think on an Individual basis** – A person who puts a higher value on social attributes might be motivated to give better performance by giving him some extra time off to volunteer for various social activities. On the other hand, a person oriented towards economy might be just be eager to get rewards in monetary terms and give less weight on the other intellectual rewards.
• **Teams too Need to be Recognized** – Sales staff members, unlike the management, don’t work while being isolated from the outer world and usually are part of a larger organization. They realize their importance in a sales organization, so the recognition of the team and rewards for individual performers is desired by many members of the team. Moreover, certain people feel at home while working within a team environment and want their colleagues to be acknowledged as well.

• **Out of the Box Thinking** – A factor that motivates one individual might be a let-down for another. When Companies are not sure about what motivates whom, they should try to look deeper and analyse things up. On the other hand, doing the same thing repeatedly will result in staff members feeling bored with the job. Monotonous reward systems actually act as regressive factors to the employees and fail to obtain the desired results. Companies should use their creativity and imagination to cultivate more interactive ways to reward their employees.

• **Don’t Make the Rewards seem like Punishments** – If the venue for the organization’s yearly sales meeting is within a holiday destination, do not restrict their staff members from enjoying the destination. Do not conduct a continuous series of meeting for the full extent of time for which the venue has been booked for.

• **Maintain Consistency** – As it goes for the case of compensation, the system of rewards and recognition must be also transparent and must not be subject to the unethical practice of picking favourites. Playing favourites is unfair, unethical and socially illegal when it comes to rewards and recognition. Rewarding needs to be built on certain proofs of accomplishments, irrespective of how small or how grand the accomplishment maybe.

• **Make It Fun** – While giving a gift, companies should not just buy a boring thing that they may think to be a safe bet. They should buy the things that their team members really deserve and would appreciate. They should aim better than just buying a new gadget, luxurious goodies, personal care items and so on.

In the end, appropriate Incentives Planning in a company shows that the extra effort that companies put is appreciated in return, which makes the employees believe that they have a higher regard within the management.

Encouraging the internal motivators of a person is one of the full-proof ways of achieving success for a manager at all times.