



Incenting the Incentive Plan

Chief Revenue Officer (CRO):

noun. the person or position within any business whose responsibility (aka: butt on the line) it is to make certain revenue is generated to a) stay in business and meet monetary obligations, b) deliver profit, c) grow the company, d) meet and/or exceed financial needs for future growth —aliases include *President, CEO, COO, Owner, VP of Sales, VP of Business Development, Sales Manager, etc.*

The Chief Revenue Officer role is an emerging “C” level position in business today based on the growing understanding that revenue is a **system-level** process just like other core business systems (quality, production, accounting, information, etc.). Regardless of title, every business today has one CRO.

Part of the CRO role is to translate the company’s strategic and operating plan objectives into performance-based measurement and incentive systems. Based on decades of working with CRO’s, the critical contribution effective incentive systems made on overall performance earned a place on our Top 10 Rules for CRO success.

Incentives are the most underutilized tool available to Chief Revenue Officers in terms of meeting and exceeding their performance objectives.

Sharpening CRO incentive plan tools starts with defining the sales compensation philosophy. The general structure I recommend:

Recognize Effort = Base compensation

Reward Results = Incentive compensation

In *Recognize Effort*, I refer to compensation paid to the salesperson for executing the required sales behaviors: sourcing referral introductions, making cold calls, scheduling and attending appointments, qualifying prospects, submitting forecasts, providing proposals and quotes, attending trade shows, etc. In essence, the salesperson's engagement in the behaviors necessary to achieve sales goals.

By *Reward Results*, I mean the incentive paid to compensate those who translate their *efforts* into the company's desired *revenues*.

Before asking what the split between base and incentives should be, we need to recognize the golden rule of incentive programs:

One size does *not* fit all!

There is no fixed formula or template regarding base and incentive splits or the number of variables to consider in developing an effective incentive plan. Incentive-plan development begins with evaluating your market model:

- Is the business strategy based on pioneering new customers and markets or expanding existing account relationships?
- What are the critical performance thresholds and related economics in your business model?
- What is the industry profile regarding base compensation, commissions, bonuses, and other performance-based incentives?
- What is the revenue mix between individual sales contributors and account teams?

Based on these market model inputs, effective plans typically include combinations of the following:

- 1) **New vs. existing business** – new accounts/markets earn more than existing renewal business. This delineation is *critical* for recruiting and motivating Hunter/Rainmaker talent. Think of it this way:

Farmers/ Account Managers answer the phone.

Hunters / Business Development Reps make the phone ring

Both roles have different motivation profiles and value to the business. Those differences need to be reflected in their plans

- 2) **Threshold performance incentives** – progressive plans that pay higher incentives for higher thresholds (steps) of annual performance. Threshold performance incentives also work better for Hunter/Rainmaker roles than straight-line incentive plans (one incentive for all levels of performance).
- 3) **Consistency incentives** – performing above quota for multiple consecutive quarters, etc. This is the “treadmill” platform that helps salespeople become more strategic about consistently reloading their prospect pipeline.
- 4) **Margin threshold incentives** – assumes that the sales force has pricing (margin) responsibility. The bottom line here is salespeople become better negotiators when they are using their own money.
- 5) **Team incentives** – when the sales goals are clearly dependent on multiple participants. These plans allocate incentives by contribution including prospecting (finding the opportunity), qualifying, closing, and providing post-sale support as required.

Finally, it is important to avoid some of the most common incentive plan mistakes CRO's make today including:

- All business (new and existing accounts) earns the same incentive. New account business is ALWAYS worth more than ongoing business with existing accounts. The purpose is to train your salespeople to GROW your company instead of just taking the easy business that was likely coming your direction anyway.
- Capping a salesperson's earnings. This discourages salespeople from being anything better than average and eliminates attracting the best sales talent.
- Letting Finance design the incentive plan. When our company asked clients why they have Finance design their incentive plans, the most

common response was, “To protect the company.” I have never been able to figure out how sales success damages a business! An effective plan is designed to reinforce both the critical behaviors and the desired results. For example, Finance typically does not think about new business vs. repeat business, the incentive for closing five new accounts in a quarter, or the incentive for closing the first account in a totally new market segment.

So what are the early indications the incentive plan is working? I have observed all of the following:

- Sales reps are focused on achieving the next incentive level (commission) threshold.
- Reps ask if there are higher performance thresholds with higher commission payouts.
- Competition among reps to reach higher thresholds is visibly underway.
- Reps stop complaining while they try to figure out how to maximize their incentive payouts.
- Lead generation (sourcing new leads) becomes a hot topic at every sales meeting.

The incentive plan process can be complex, but the result must be straightforward, achievable and focus on the role behaviors that are required to deliver the results.

About the Author

Carl Moe is the author of “*Sales Revenue System 2.0/Your Chief Revenue Officer B2B Success Model*”, a popular book that details the revenue system processes he implemented in his corporate executive roles. He is also founder of CRO Success LLC – a Minneapolis-based corporate resource specializing in restructuring business-to-business **revenue systems** for sustainable growth and optimized performance. CRO Success is both the name of the company and its mission statement.

Moe has decades of executive experience (President, COO, EVP and CRO roles) in technology-based global organizations and has conducted business in 14 countries outside North America. He holds a BSE and MBA from the University of Michigan in Ann Arbor. Carl can be reached at 952.232.6720 or cmoe@crosuccess.com

© CRO Success LLC – 2009 – All Rights Reserved.

© CRO Success LLC – 2010 – All Rights Reserved.