Driving Revenue with Re-aligned Sales Incentives

Issues

A successful, privately owned, $40 million manufacturer of surgical suite equipment had seen its cost of sales increase, its sales productivity decline, and its booked/ship ratio decrease. Conversations with sales reps suggested that this change was a result of the company's compensation and performance management plans.

Approach

We began this project with interviews and analyses of historical revenue performance and sales costs.

Interviews and analysis revealed that the relationship between pay and performance was flawed; under the current compensation plan top performers were not receiving enough upside at high levels of performance, and payouts were not significantly differentiated between median and the 75th percentile of performance. In other words, the current plan was subsidizing low performers.

Analysis and interviews also revealed that the current plan rewarded shipments more than bookings, over which reps have greater control.

Finally, an analysis of sales territories and goal setting revealed that sales territories were not created equal in terms of sales potential, and that a number of high performers were allocated to lower potential territories.

A number of changes were recommended and implemented, including:

- New sales territories with equal potential
- New plan mechanics that reduced the subsidy for low performance and increased pay differentiation as sales performance increased, as well as increased the prominence of "bookings"
- New performance management process to identify, coach, and, if necessary, exit low performers

Results

As a result of the above changes:

- Bookings increased 38% over the prior year, while shipments increased 17%
- Booked/Ship ratio increased to 1.4
- Sales costs remained flat on a percentage basis
- Low-performers were exited

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