

Assessing Sales Compensation Effectiveness

A Comprehensive Approach to Measuring ROI

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Asking the Right Questions

At your senior leadership team meeting, the CEO turns to the VP of HR with a question: “Are we getting the right return on our investment in sales compensation?”

“That’s a really good question,” observes the senior VP of sales. “We think we offer the best incentives in the industry, but lately we’ve been losing some of our top sellers to competitors.”

“What about the cost of our program?” asks the CFO. “Are we getting the best bang for the big dollars we’re spending?”

“I’d be curious to know how our sales incentives are affecting customer behavior and perceptions,” says the VP of marketing. “We’ve worked hard to position our company as the trusted, go-to leader in our field, but I’m not sure our sellers are properly incented to deliver on our brand promise.”

“I can’t believe our new product isn’t getting more traction,” offers the head of R&D. “It’s far superior to anything else on the market. Personally, I think our sales compensation plan puts too much of a premium on repeat business and account maintenance. Our sellers need to be a lot more aggressive about seeding new markets and finding new customers.”

Four executives, four different views on how to measure the impact of the sales compensation program — so who’s right? Actually, they all are.

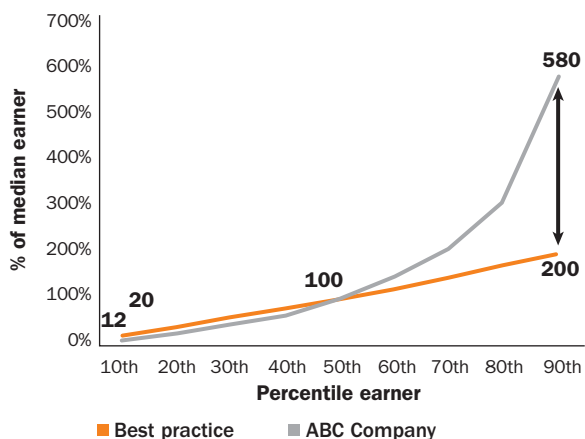
All too often, however, companies take a one-dimensional view when trying to determine how well their sales force rewards are working. Given the significant cost of sales compensation in many companies, and the pivotal role a well-designed sales compensation plan can play in driving business performance, a too-narrow perspective on sales compensation is a missed opportunity.

A Better Way

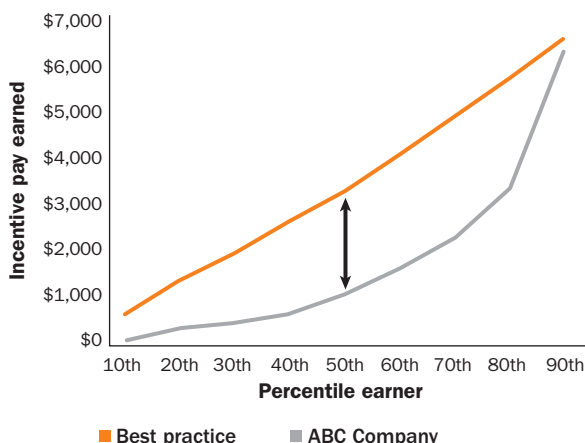
Towers Watson’s approach to assessing sales compensation programs helps companies ask all the right questions and gather robust, actionable data about the impact and cost of sales incentives to make sound decisions about program design, calibration and administration. Tested in hundreds of real-world situations, our proprietary assessment methodology analyzes how your sales compensation plans align with five key dimensions:

- Does the compensation program reinforce business/sales strategy and desired selling behaviors?
- How well does it reflect the nature of unique sales roles to make the right people eligible for the right awards?
- To what extent does the program maximize the motivational impact of your sales compensation investment, in terms of pay distribution and performance differentiation?





2009 Incentive Pay Differentiation (account executive)



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Executive Summary

Function	Assessment Results	Level of Change Anticipated	Plan Design	Pay vs. Market
Sales manager		●	●	↔
Key account manager		●	◐	↓
Account executive		●	◐	↔
Sales support		●	◐	↔
Assessment Findings 1 = Strategy 2a = Eligibility 2b = Pay mix/inc. form 3 = Motivation 4 = Talent attraction 5 = Governance		Level of Design Change Anticipated ● Significant ◐ Moderate ○ Minimal		Variance in Total Cash vs. Market ↑ >+15% ↔ +/-15% ↓ <-15%

- Is the overall program competitive — does it help attract and retain the best sales talent?
- Does it generate appropriate sales revenue for the cost and help manage financial risk?

To help you provide credible answers about program effectiveness to your relevant stakeholders, Towers Watson's assessment methodology — informed by our wealth of experience and extensive, market-leading expertise — synthesizes key metrics, including:

- top-performer turnover
- speed to hire
- attainment of revenue and profit goals
- sales growth of the most profitable products, targets and new customers
- revenue and profit growth per salesperson
- the number of full-time employees administering your program.

Key Advantages

Our comprehensive methodology helps you enhance sales force effectiveness in four ways:

- **More bang for the buck.** Our approach helps you ensure that your sales compensation program is working optimally and enables you to make needed adjustments in program design and calibration to increase sales force motivation and productivity.
- **More and better sales.** We help you focus sellers on the right behaviors to maximize revenue growth and profit.
- **A stronger team.** Fair and competitive rewards enable your company to attract and retain the best sales talent.

- **The right balance.** Benchmarking your program's governance and administration against leading organizations' best practices helps you manage costs and minimize risks arising from inappropriate sales force behaviors.

The Next Step

Our experienced consulting team can work with you to conduct a comprehensive assessment of your sales compensation program in a matter of weeks. Such assessments should be performed at regular intervals to identify opportunities and needed improvements before problems arise or inappropriate sales force behaviors become entrenched. Many of our clients conduct assessments annually as part of ongoing sales force management.

To learn more about our approach, contact your Towers Watson consultant or e-mail Mark Flavin at mark.flavin@towerswatson.com.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.