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3 Keys to Building an Effective Commission Plan



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One wrong commission. That's all it takes for a sales rep to jump ship and take their skills elsewhere. This article will show you how the right commission plan execution can retain your employees, reduce customer churn and increase trust between internal teams.

Maybe your company is a start-up working in the customer acquisition phase and pounding the pavement hard. Perhaps you're an 8-year-old business focusing on retention- or maybe you're finally in a phase of sustainable growth. Wherever you find your company on the proverbial path to success, chances are you've had to tweak your sales commission structure to match the stage your business is in, and for the type of business you're in, to keep sales reps motivated and continuing to generate revenue.

Making adjustments to commission plans as you grow is not only smart, it's crucial. Tweaks here and there can be a necessary ([and sometimes arduous](#)) challenge for your sales and finance team, but these variables provide valuable internal data about which commission structures generate the most growth.

But remember that while the execs are driven by revenue and low customer churn, your sales reps are driven by their incentive compensation plans. If you think they're not constantly doing the mental math when they're working a lead, you're wrong. Sales reps are trained to track dollars and revenue (yes, you've taught them well), so of course they're going to track their own.



So- if you want your team to buy in to incentive compensation plans as they change to fit your company's needs, you'll need to make sure you follow these three basic guidelines:



1

The incentive compensation plan should be clear and simple



2

Prioritize a positive sales culture



3

Sales reps should immediately see the rewards of their efforts (and so should you)



1

The incentive compensation plan should be clear and simple



First things first: understand that most sales reps expect a market base pay in addition to the opportunity to earn a commission. Next, you'll need to identify the who, what, where, when, why and how of the commission structure, and communicate the main points to your team so that no confusion arises.

WHO is the plan structured for? Individual reps, team leads, sales managers, everyone? Whomever this is geared toward, make sure everything aligns.

WHAT are you trying to achieve with this compensation plan? Are you aggressively trying to acquire new customers, or are you seeking to identify the root problem of your customer churn rate? Do you need to scale your business by growing faster? Different strategies in compensation can help in each of these scenarios and more.

For example, a HubSpot salesman wrote in [t](#) about the success of their incentive compensation plan during their "hunting" phase. They paid their reps a base salary and \$2 upfront for every \$1 of monthly recurring revenue that they brought in. If customers defected, a four-month clawback on commissions was implemented. So if a customer left within the first four months, HubSpot took the entire commission back. But if the customer stayed for four months, the sales rep could keep the entire commission. This plan worked- their customer base grew from 100 to over 1,000 customers, and their ARR shot up to \$3 million from \$300,000.



WHERE is this commission plan going to be applied? Does this include all territories and teams, or just a portion of them?

WHEN is this new plan going live? What's the cut-off date? Set clear timelines to keep your salespeople focused.

WHY are you changing the incentive compensation plan? Whatever your reason, be sure you communicate this transparently with your sales teams. Their buy-in depends on how articulately you can explain why shaking things up will be a better route to helping everyone achieve their goals, both individually and as a company. Be absolutely sure that you are making a constructive choice, because you're likely to get an earful in feedback from at least one rep after the announcement.

Salespeople are notorious for hating changes to commissions. One rep recently summed it up well when I was talking to him about an imminent commission plan change: "Well they always pretend like it's going to be this big positive thing. But we all know when commissions plan change, they never get better for the sales rep." If you are decreasing average commissions, just own it. There's nothing worse for your culture than trying to hide something like this.

But it's if it is getting worse for reps, you should make sure it's a necessary change. Often the best changes to commission plans are ones that encourage stronger performance but actually pay out more when reps achieve that performance.

HOW can this compensation plan be optimally executed? Consider the timeline you've decided on and whether you have fully primed your team on what to expect, or if you need a little more time to do so. Also, consider how to keep your sales reps motivated throughout the month. Utilizing a commission software that allows them to keep track of their sales data (and related commissions) is sometimes the only motivation they need.

2

Prioritize a positive sales culture



“Happy employees create happy customers.”

Happy employees create happy customers. So, let's first take a look at your internal culture (there's a point here, I promise). Are you offering recognition, feedback and praise, or opportunities for advancement to your employees? Are you providing ongoing training or coaching to teach employees new skills? Internal culture matters because, as this [Gallup report](#) states, an investment in your employees will result in 21 percent higher productivity and 37 percent lower absenteeism at work.

According to that same report, engaged employees are more likely to improve customer relationships— translating to a reported 22% increase in sales.

So, it begs repeating: happy employees create happy customers. The lead on the other end of the phone line can usually tell how much the salesperson believes in the product throughout the conversation. But they can also pick up other cues that communicate a deeper commitment to the company and the sales rep's perceived value as an employee.

If you've shown trust in your employees through culture and autonomy, the likelihood of them being on board with the commission structure is high. However, if you place investing in your employees as a lower priority, you run the risk of higher customer churn. Then add the fact that the average company loses between 10% and 30% of its customers [each year](#). Are you seeing the correlation? You can mitigate customer churn just by creating a positive workplace. That's pretty incredible.



3

Sales reps should immediately see the rewards of their efforts (and so should you)

If you're changing a commission plan to drive certain behaviors, the results do you no good if the data is analyzed months later. Sales reps should see their hard work paid off immediately in the form of their paycheck. This is the same place they should feel the sting of failed efforts. Immediate results help sales reps identify their financial outcome with their associated behavior to adjust accordingly so they can be more in line with the company's goals (or give themselves a pat on the back for their success).

Likewise, real-time access to data for each of your sales reps can help you keep a pulse on progress. Using a commission software like [Spiff](#) (accessible to the sales rep, his or her manager, and the finance admins) provides the most current data and mitigates confusion with its transparency.



You've probably experienced friction between finance and sales at the end of the month. A typical scenario is one in which the sales rep gets a statement of commissions, finance gets a few wrong, and to get it right the two teams undergo a seemingly endless loop of recalibrating spreadsheets and verifying data. Spiff eliminates that friction completely because of the collaboration aspect of leaving comments on a deal, admin having the power to override a clawback, the ability to match payments, etc.

To sum it up:

Transparent, positive incentive compensation plans affect employee engagement, retention and trust for the better. Executing your commission plan carefully (and with smart commission software) can build rapport and encourage your sales reps no matter what the compensation structure is. Keep the process simple and positive– and use Spiff to provide accountability within your teams. Spiff is the most reliable source for commission data and will prove to be a great motivating tool for your company.

(Interested in our [newest product update](#) that's exclusive to Spiff? It's Commission Traces, and it's pretty amazing. Just click on any value and Spiff will show you where it came from and how it was calculated.)

Interested in Spiff?

Schedule a demo with a commission specialist today.

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