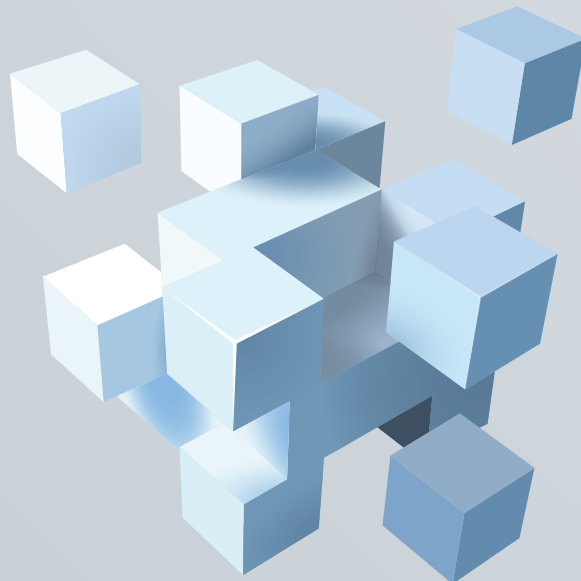


# 5 Tips

## for Ensuring Strategic Alignment of Incentive Compensation Plans



# Overview

To effectively align the behaviors of your sales force with your corporate strategy, the strategy needs to be embodied in your incentive compensation plans. Yet most companies find it challenging to achieve this strategic alignment because they are unable to design, implement, or manage the incentive compensation plans that they desire.

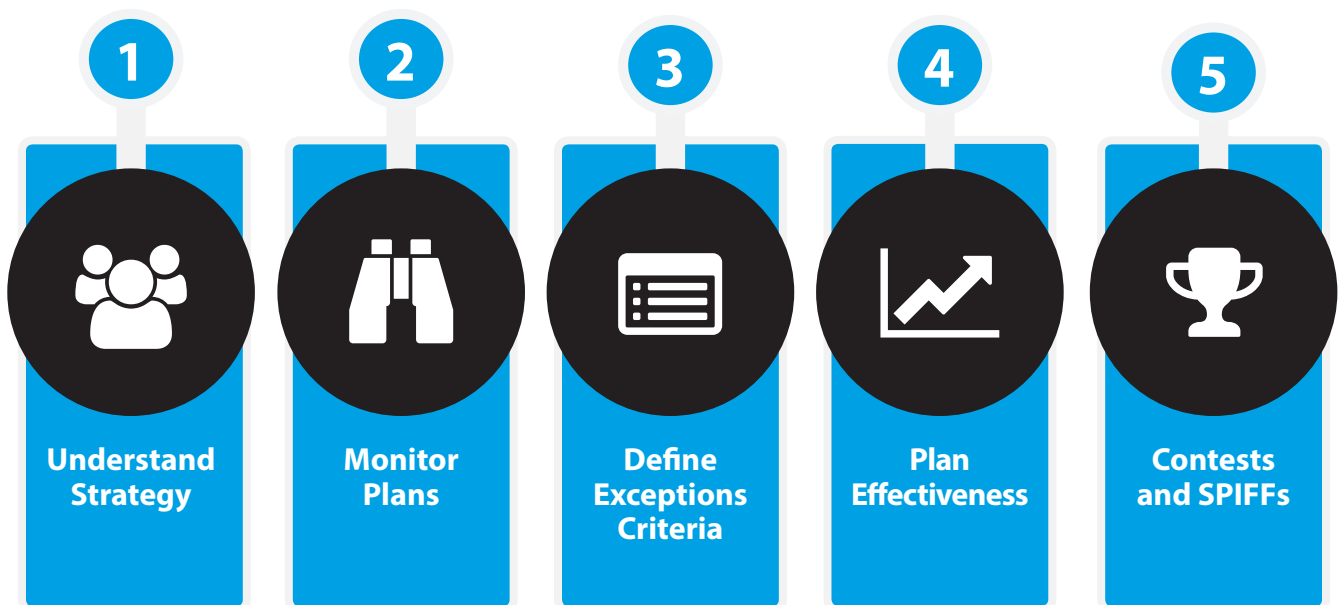
This inconsistency between plan and strategy can negatively affect sales force productivity and effectiveness and ultimately result in lost revenue, lower margins, and higher costs.

The following tips are derived from a long-term study of incentive compensation management practices at global enterprises and reflect the best cross-industry practices for ensuring strategic alignment of incentive compensation plans and organizational strategy.

43%  
*improved alignment of the sales force*

*43% of enterprises reported improved alignment of the sales force to business strategy as most important outcome from improving incentive compensation management capability.*

*Ventana Research  
Sales Compensation Benchmark Report*





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## Ensure clear understanding of strategy company wide

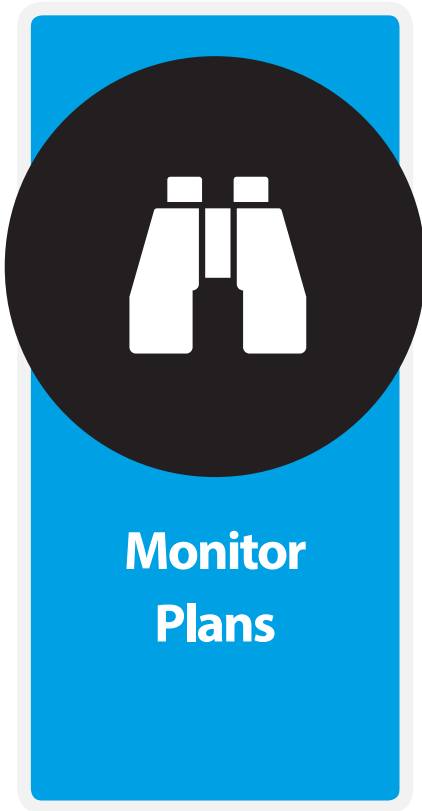
Ideally, the behaviors and efforts of everyone in the sales organization would be directed towards achieving the company's strategic goals. For this to occur, the sales force (whether direct or indirect) must clearly understand the company's strategy and, perhaps more importantly, must understand what role they play in helping the company achieve its strategic objectives.

To illustrate the concept, gather a handful of your salespeople and sales managers and ask them to articulate the company's strategy and what they are doing to help achieve corporate strategic objectives. What would they say?

Too often, rank-and-file salespeople, and sometimes even sales management, lack an understanding of the strategic objectives of their company, business unit, or department. At times, even the people designing the compensation plans cannot correctly and comprehensively articulate the strategic objectives they are trying to achieve.

So, communicate your strategy to all levels of the organization—from the executive suite to those designing the compensation plans to every sales manager and salesperson—and make sure that they understand both the plan and the strategy embodied within it.





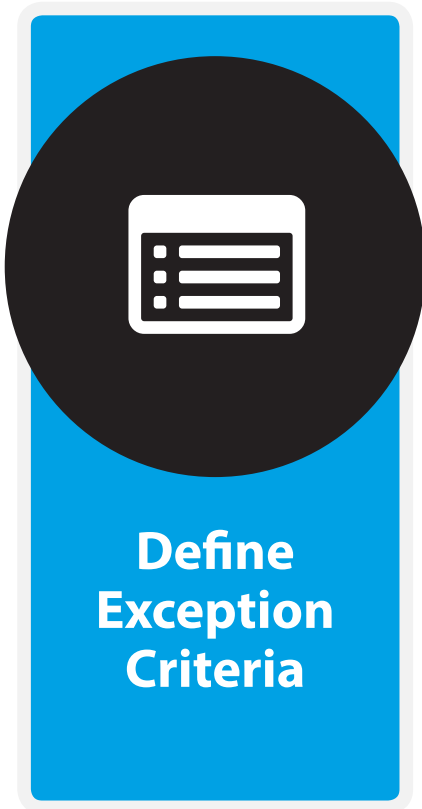
## Proactively monitor plans for misalignment

To ensure that your plans are always aligned with strategy, dedicate a team to continually review them—compare actual results with relevant benchmarks and desired results, and voice concerns when something isn't the way it should be.

To do this, determine potential indicators of strategic misalignment and monitor them continually. Search for best practices within and outside your industry and identify elements that you want to incorporate into the measures that you can monitor in your organization (e.g., cost of sales comparisons).

Then, set up processes for monitoring and analyzing plan alignment and provide meaningful information to the right people so that decisions are made and implemented quickly when misalignments are discovered.





## Establish and enforce clearly defined exception criteria

To enforce the sanctity of your strategy—and the compensation plan aligned to it—exceptions should be truly few and far between. By allowing frequent exceptions, you compromise the strategy embodied in your compensation plan and allow certain individuals to feel that they are not under the purview of company strategy or culture.

At the same time, there are some circumstances where exceptions become necessary, and this is fine, provided that you have a well-defined, auditable process for managing exceptions.

To do this, identify scenarios where you will allow exceptions and make a list of cases where they will not be allowed. This list then forms the basis for designing a process to easily allow exceptions when needed, while simultaneously enforcing the rules.





## Periodically evaluate plan effectiveness

Many companies spend so much time and effort managing the day-to-day to get comp results “out the door” that they are not able to analyze the effectiveness of the incentive compensation plans in executing the strategy. One best practice is to frequently evaluate plan effectiveness. This will ensure that the plan is driving the desired behaviors and alert you towards any misalignment with the company’s strategy, prompting you make the necessary adjustments to the plan.

To be effective, the analysis should include financial and non-financial measures of performance. In addition, make sure that a process is established and followed for executives to formally review the effectiveness of the plan at frequent and regular intervals—at least on a quarterly basis.





## Use contests and SPIFFs sparingly

Contests and SPIFFs are like exceptions: their rarity enhances their value. Suppose you have a compensation plan that is perfectly aligned with your strategy. You roll out the plan with great fanfare—then you come out with a number of special promotions throughout the year to keep pushing your sales force to do better.

Don't be surprised if your plan doesn't achieve the expected results since you never gave it a chance. That's because contests and SPIFFs draw salespeople's focus away from your overarching compensation plan, and hence from your strategy.

There are specific situations when contests and SPIFFs can be very effective, such as the launch of a new product or in retaliation to a competitor entering the market. For maximum effectiveness, save your contests for one-off, unforeseen events and make sure that such special promotions are not in conflict with the core plan.

If you have done a good job designing a compensation plan that's aligned with your strategy, you should not have to spend money on SPIFFs and contests.



## LEVERAGING CHANGE TO IMPROVE OUTCOMES

As the pace of change accelerates, many organizations are finding it increasingly challenging to drive sales performance effectively through internal resources like people and technology. If you are struggling to keep up with changes in strategy, markets, or priorities, and simultaneously drive sales performance, we invite you to contact us for further discussion on methods for implementing these tips in your organization and examples of how Optymyze technology and services have improved the outcomes of hundreds of the world's largest organizations.

## PRODUCING BETTER OUTCOMES

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### About Optymyze

Optymyze helps companies increase sales and channel performance with enterprise cloud applications for aligning sales goals and compensation; efficiently executing sales strategies, driving faster increases in sales results, and gaining visibility into sales performance.