INTRODUCTION

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If you do not think about your future, you cannot have one.

—John Galsworthy,
Swan Song

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Brian Sinclair, senior director of compensation at US Foods, recalls a recent Google search he performed for "trends in sales compensation." "About five items down on the search [results] page, there's an incentives trends report from 2014," Sinclair says. "So I thought, 'Perfect—let's open it up and see what it is.' Do you know what it was? It was from a company in California, and half the slides were ones I wrote 10 years earlier when I was consult-ing to that company! Almost funnier was how, in the appendix, there was a reference to 'Tools for making good decisions about plan design that can help you in your *2011* planning.' But the cover of the report said 2014. I think their 'trends' were a little outdated! But it's no different at sales comp conferences. You go to sessions and often see old recycled slides with new titles slapped on."

Sinclair's story humorously illustrates a real concern: the lack of innovation in sales comp. And what he concluded from his Google search isn't so different from our experience; it is the reason we decided to write this book.

Our Journey

As sales compensation consultants, we've worked on projects with hundreds of clients over the past 15-plus years. Our focus in a very specific area for an extended period of time has given us lots of exposure to many different compensation plans at many dif-ferent companies. We also travel frequently to conferences, trade shows, and association meetings to speak on, and hear about, sales compensation. These combined experiences have given us

insights into patterns over time. In particular, we observed two things. First, little has changed in the area of sales compensation thought leadership. And second, while sales comp professionals often seem genuinely interested in new ideas, very few organizations are willing to implement radical changes.

Consider the following example: In 2014, we (ZS) were working with a company's Sales Operations and HR teams to redesign the sales force's incentive plans. As is the norm in these types of projects, we had formed a core team responsible for reviewing and approving plan design options, and the vice president of sales was part of that core team. He told the ZS team, "I'm looking to you to bring us ideas that maybe we haven't thought of. We want some out-of-the-box thinking." So that is what we did. After understanding the existing compensation plans, the data available, the sales force culture, the sales strategy, and the product drivers, we developed several different plan options, ranging from "evolutionary" to "revolutionary." As the names imply, the evolutionary plans tweaked existing measures and metrics to provide something that was safe (not a radical change) and easy to digest, whereas the revolutionary plans blew up the constructs, assumed no sacred cows, and were designed to kick-start the sales organization. Despite the vice president's assertion that he wanted "out-of-the-box thinking," perhaps not surprisingly, he chose the evolutionary plan, which made minor tweaks to the previous plan construct. The revolutionary plan was deemed to be "too different" and too much change for the sales force.

And this was not an isolated incident. Quota plans and commission plans evolve to become . . . quota plans and commission plans, all while sales leaders and compensation professionals speak of change. Such observations led us to wonder: Were companies serious about innovation and radical change? Or was sales compensation nearing the pinnacle of its evolution, with a future consisting of minor tweaks and incremental gains?

The answers are yes and no, respectively. So, if companies are serious about change, why aren't we seeing a more substantial advancement in the world of sales compensation? It is possible that sales compensation practitioners aren't sure what the future

might hold. As a result, the best place to start—the safest place to start—is the past. The old adage "the devil I know is better than the one I don't" may apply when contemplating sales compensation plan changes.

Of course, in many organizations, sales leaders (and sales compensation leaders) don't want to rock the boat unless a specific event requires a more substantial change. A common fear is that changes to the incentive plan will upset top performers and cause an exodus from the company. Some organizational leaders fear that the new plan will actually get worse sales results than the current plan. "Why take the risk?" they may be thinking.

But perhaps it's possible to make substantive changes to improve the compensation plan without upsetting top performers. In fact, we believe the future of sales compensation is not in the evolutionary plan changes that so many companies employ today but rather in more revolutionary changes that will help both the organization *and* the salespeople (though many companies may take a more evolutionary path to get there eventually).

New Ways to Think About Sales Compensation

Admittedly, when we first started consulting with clients, even we had a narrow definition of sales comp. We sought to design plans that aligned with strategic objectives, motivated the sales force, rewarded performance, were fair, and hit appropriate pay-for-performance benchmarks while still being financially responsible. All these things are still very important—and even critical.

But the more we worked in sales comp, the more stagnant this limited approach seemed. Salespeople are not all the same, yet they are often portrayed as having the same personality archetype: type A personalities driven by cash and rewards. Despite believing strongly in the power of sales incentives, we began to wonder if designing the most effective motivational programs required more than dangling a carrot of "more dollars."

Why We Wrote This Book

As a sales and marketing consulting firm, ZS has a way of working: "Anytime you take something off the shelf, you need to improve it before you put it back." In other words, don't just use an existing methodology or concept without improving it. Our culture encourages us to innovate and change and get better every day. Our founders believe in the manufacturing concept of kaizen, a practice of continuous improvement that drove Japanese carmakers to the highest quality in the world in the late twentieth century.

Our Sales Compensation practice team lives the same values. As a result, we will not present any idea at a conference that is not new. New slides, new concepts, new project experiences, new ideas. We're trying to avoid the pattern that Brian Sinclair mentioned earlier of recycling old slides into a "new" presentation. While using old slides may serve sales compensation beginners well as they learn key concepts and practices, sales compensation professionals who want to know "what's next" are often left feeling unsatisfied. It's unsatisfying to us as well.

Take, for example, the concept of analytics. Some great analytics are done in sales compensation today, but almost all of them are "backward looking." We could have taken the backward-looking approach at the 2015 WorldatWork Spotlight on Sales Compensation conference and given attendees the payout statistics they should be striving for, along with some basic pay-for-performance analyses. But we chose instead to challenge that idea, look forward, and define a new way of thinking about analytics. We created and delivered a presentation on predictive analytics—the practice of looking forward and predicting future outcomes so that you can act on them. The result was a standing-room-only session at the conference—a tribute to the fact that sales compensation leaders in organizations are, in fact, seeking new ideas.

But innovation and prognosticating the future aren't just about coming up with new ideas. They also involve sorting through troublesome existing ideas that are causing turmoil in the sales compensation field. Take, for example, Dan Pink's book *Drive*, which

we cover extensively in Chapter 1. When it came out in 2009, sales compensation professionals became very concerned about what it meant for their profession and, frankly, for their jobs. The book posited that extrinsic incentives were counterproductive for jobs that require cognitive thinking (including sales), and that companies would be better served moving solely to intrinsic incentives. If that actually happened, the entire sales compensation profession would cease to exist. Sales compensation professionals were all abuzz at conferences: the concept of moving away from extrinsic incentives didn't seem consistent with their experiences with the sales force. But they had no information or studies to disprove Pink's theory. We found comprehensive research that we were able to adapt and apply to sales compensation that provided a definitive answer on the topic.

This desire for change isn't one-sided—that is, it isn't consultants imploring organizations to be more innovative for our own benefit. We know sales comp leaders are looking for new ways to make their comp plans more engaging. They are hungry for ideas. We also know these same leaders are feeling pressure to be innovative and progressive given how diverse the workforce is becoming. For example, Millennials may be motivated in different ways than their more experienced co-workers.

We hope that readers of this book will get a vision for what sales comp could look like in 5 to 10 years and will be able to use that foresight *now* to develop new ideas, motivate their sales forces, create engaging sales comp programs, and drive better results. It's time to say good-bye to doing things the same way and to welcome a new era of sales comp innovation.

Who Should Read This Book

This book is written for anyone responsible for the design, communication, implementation, and administration of sales incentive plans, including sales comp directors, managers, and analysts. It will give sales comp practitioners forward-thinking ideas that will help them create better comp plans and drive superior performance within their sales forces.

This book will also be useful to sales managers and sales leadership. Sales compensation design teams often include several members of the sales organization. Being able to offer ideas or react to others' ideas with the research and thought leadership contained in this book will serve to improve the plan. And of course many in sales—as the ultimate recipients of such plans—like to read sales compensation literature to make themselves smarter about best practices (and usually to understand why their plan is not working!).

Bottom line: as with any professional vocation, it is critical to stay on top of the latest trends and to know where the profession is going. This book will help sales comp professionals do just that. Comp leaders don't want to be left behind, stuck in a sales comp rut, following the status quo, delivering compensation for a discouraged sales force. They want to be on top of relevant trends and research so they can stay ahead of their competition. And they need to know about the future of sales compensation so they can prepare for, and incorporate, the best ideas out there.

How the Book Is Organized

When deciding what we should cover in this book, we selected topics from multiple sources: client input, project experiences, academic studies, ZS research, and input from sales compensation professionals at multiple conferences. We selected the six topics that we believe have the most potential to materialize in the sales compensation field over the next 5 to 10 years. In some cases, these ideas have already begun to appear.

In Chapter 1, we tackle the fundamental question of whether salespeople need extrinsic incentives (for example, cash payments through a sales incentive plan). This has been a hot topic ever since Daniel Pink's *Drive* unveiled a new motivational model that is based solely on intrinsic motivation and eliminates extrinsic incentives. This idea caused sales comp to come under fire and briefly sparked a conversation within companies about disbanding their sales incentive programs. Most sales comp professionals knew instinctively that sales comp was unlikely to go away, but

they struggled to argue against a popular book that suggested otherwise. In this chapter, we show research that supports both sides of the intrinsic-versus-extrinsic debate, and we describe how the most successful incentive programs in the future will balance both incentive types.

In Chapter 2, we compile and analyze some of the latest research that best-in-class companies should consider applying to their own sales organizations. Often we hear, "This is what worked when I was in sales" or "This is what worked when our company was growing rapidly," but these ideas were virtually never based on research and data about what has been *proven* to work. Part of the reason is that, until recently, there was not much data available, and much of it was academic and theoretical, making it difficult for sales comp managers to apply the data to their own situations.

In Chapter 3, we talk about how sales compensation plans are moving away from a "one-size-fits-all" approach to one that focuses on driving motivation through increasing levels of personalization. We explore the reasons for this shift, which include different generations in the workplace (Millennials and Gen Xers, for example), technological preferences and advances that support personalization, and an increasing amount of research to understand what truly motivates people. These factors are causing companies to rethink the traditional approach to sales compensation design.

Chapter 4 focuses on technology changes that are just now beginning to affect sales compensation. Today's rate of technological advancement is unprecedented, and software and technology will play a significant role in allowing compensation practitioners to make more strategic and timely decisions. Software applications designed to motivate the sales force will enable functionality that today seems far-fetched.

Chapter 5 discusses a relatively recent phenomenon affecting almost every aspect of our daily lives: predictive analytics. Netflix, Amazon, Match.com, and many other web sites use sophisticated analytics to predict and suggest choices. In the news, it has been reported that Amazon's "suggestion engine" is estimated to account for roughly 30 percent of the company's revenue. Yet a

predictive approach is not generally applied to sales compensation analytics. The analytics we often see in sales compensation are tied to the past—backward-looking analytics that are not as helpful as they could be if they were more forward-looking. In this chapter, we examine how predictive analytics can be used by sales compensation practitioners to proactively add value to sales comp plan design.

Finally, in Chapter 6, we examine the topic of change management. We decided to discuss change management based on experiences with clients who tell us—constantly—that "sales reps don't understand the comp plan or how they're paid. Sometimes sales reps don't understand even what we would consider relatively simple plan designs." Why? Because companies spend less than 20 percent of their time rolling out the plan (compared to more than 80 percent designing it). More time should be spent on change management, which will help a new plan truly motivate behavior.

Our Goal for This Book

Our goal for this book is to provoke thought (and, we hope, engage readers with some real and relevant stories). We want to help sales compensation professionals think differently about how they design, implement, communicate, and support their sales compensation plans by painting a picture of what the future could look like.

We also hope to advance the state of the profession by changing the way sales compensation professionals do their jobs and how well they serve their companies' leadership. We wrote this book to unveil new frameworks, new stories, and new ways to think about sales comp. The book was aided in part from exclusive interviews with sales and sales compensation leaders from US Foods, CareerBuilder, Google, Xactly, Microsoft, Anaplan, and several other well-known companies who spoke with us about the state of comp affairs at their organizations.

We realize that not all of our predictions will be widely accepted five years out. Our aim is rather to inspire comp professionals to think about the future in new ways.