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Feature: CA Restatement a Cautionary Tale on Designing, Monitoring Sales Compensation Programs

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Plans that aren't in line with business strategy can cause a company to miss out on opportunities for growth or waste sales commission dollars.

By Joanne Sammer

The old compensation adage that "what gets measured, gets done" is even more accurate when it comes to sales compensation. That is why it is so important to make sure sales compensation programs are in tune with a company's business strategy and are producing the desired results.

Just ask CA. The company, formerly known as Computer Associates International, announced in May that it would be restating its earnings because it had to pay $70 million in unexpected sales commissions. The reason: The company had "a new sales commission plan that did not appropriately align commission payments with the company's overall performance," according to a company statement. CA's worldwide sales chief and its CFO have departed the organization in the wake of the sales-compensation uproar and the earnings restatement.

The company declined an interview request for this article, but news reports suggest that quota problems and double crediting on certain sales following acquisitions led to the overpayments.

While its situation is unique, CA serves as a cautionary tale for companies that may not pay as much attention to their sales compensation programs as they should.

"This is a wake-up call to other companies because it shows what could happen if you get this wrong," says Shanker Trevedi, senior vice president of Callidus Software in San Jose, California.

However, a company doesn't have to have a CA-level public meltdown to have sales compensation problems. In some cases, a poorly designed or monitored sales compensation program has the much more insidious effect of causing the company to miss out on business or growth opportunities or simply

to waste sales compensation dollars.

"Too often, companies simply put in a sales compensation design and live with it," says Terry Gilbert, a vice president with Wachovia Corp. in Charlotte, North Carolina. "As much as 20 to 25 percent of sales compensation dollars are not spent in the most effective way. But by modeling the program before implementing it and monitoring its effectiveness after implementation, companies can reduce that level of waste to 10 to 12 percent."

Involve the right people

There are a number of people in an organization who can—and must—have input on sales compensation design. David Cichelli, senior vice president of the Alexander Group in Irvine, California, recommends involving a broad group of individuals in all sales compensation discussions, including representatives from finance, HR and information technology, as well as sales and marketing.

"To determine if program design is right or wrong, these individuals should examine every element of that program to make sure everything lines up," he says. "When there is a problem with sales compensation, it is often the result of good intentions on the part of one person or department that did not vet changes or design with the necessary parties."

To ensure this level of involvement, for example, Maynard, Massachusetts-based Monster Worldwide assigns dual accountability for sales compensation to both sales and HR.

"This ensures that everyone is on the same page and that we have right programs in place," says Greg Limoges, the company's vice president of compensation, benefits and systems.

This broad involvement can also help companies make sound decisions about whether to tweak a sales compensation plan during the year in response to something unexpected, such as low sales of a particular product or complaints from the sales force. The trouble is, "tweaks tend to be made out of context with the broader business strategy," Cichelli says. And when that happens, the company runs the risk of one tweak causing unintentional changes or consequences somewhere else.

To avoid this, companies can develop an approval process for any sales compensation changes. This way, the company can model the change to see how it plays out in different scenarios and whether it affects other parts of the plan. The company can also conduct frequent assessments to ensure it stays on track.

"This type of governance process helps to ensure proper oversight, evaluation and approval of any changes," says Joseph DiMisa, senior vice president with

Sibson Consulting Group in Atlanta.

Ted Briggs, a partner with Watson Wyatt Worldwide in Los Angeles, suggests that companies also conduct analytical modeling to make sure sales compensation stays on track.

"Take the company's largest three deals from past three years and model what the sales compensation results would be with the current plan if various individual salespeople closed those deals," he says. "This shows what happens to the company's earnings and costs when a significant deal hits the sales compensation plan and how that affects the profitability of those deals."

Monitor progress

Once sales compensation programs have been designed and implemented, it is important to continually monitor them to make sure they are operating as expected. To do this, companies need a set of metrics and performance dashboards that can serve as indicators that something is wrong.

If the company's cost of sales has jumped from a steady 6 percent to 9 percent during the first three months of a new sales compensation program, that could indicate something is not right and the company is potentially overpaying its salespeople. By the same token, a company should also sound the alarm if cost of sales drops significantly. That dip could indicate the company is underpaying its salespeople, which can also be problematic, DiMisa says.

Frequent reporting is also key.

"We look at data to compare what has really happened to expected results," says James Lazarz, director of sales compensation at CUNA Mutual in Madison, Wisconsin. "We look for anything that is beyond normal deviations and identify outliers from what would be considered norms. You need clean, raw data and the necessary analytical tools to understand that data."

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Sales compensation is a major business driver for Monster Worldwide, so the company spends a lot of time and effort to make sure those programs are operating as expected.

"You have to look at commission and sales reports, not just weekly or month to month, but year over year so that you can understand trends," Monster's Limoges says. "You have to be very close to the numbers."

Monster Worldwide pays commissions on a monthly basis, and monthly reports show who is performing at what level. In addition to monthly reporting, Limoges and his colleagues meet weekly to discuss key issues in sales and any problems or concerns about sales compensation programs.

It's a helpful barometer of how things are going, Limoges says. Monthly meetings are there to discuss the structure of sales compensation programs, strengths and weaknesses, and what might need to change to drive business performance, such as special incentives to steer salespeople toward a specific type of behavior.

"We follow sales numbers closely, so we can gain a quick understanding of how things are going and where the sales force is focused," Limoges says. If this review indicates a potential problem, the group can identify the cause. "We can tell if it is a sales compensation issue or a crediting issue (who gets credit for a portion of a sale), or a matter of quotas being too high or too low," he says.

However, any major change to the sales compensation program is approached with great care.

"Any change in the sales compensation plan could lead to instability within the sales force," Limoges says. "But sometimes you need to change quotas or what you are paying for."

For example, Monster modified its sales compensation plans this year to ensure a more focused sales force. The company had developed the sales compensation program to focus on three major goals. However, within a few months it became clear that trying to achieve all three goals had splintered the salespeople's attention. To address that, the company eliminated one of the goals after the first quarter and quickly saw the desired uptick in new accounts.

Upgrade systems

All this reporting and monitoring of sales compensation programs requires reliable data. Unfortunately, many companies still rely on spreadsheets or homegrown systems to track the numbers.

"Using spreadsheets can have implications for data integrity," says Wachovia's Gilbert. "If there is a discrepancy, it often has to be dealt with manually."

In Gilbert's experience, this can lead salespeople to distrust the system used to calculate their compensation. And when that happens, "salespeople set up their own shadow accounting system to make sure they are paid properly, and that takes time away from their selling activities," Gilbert says.

By contrast, a system that is integrated into the main company system provides a wealth of information and data, as well as analytical tools for using that data. With this type of system, "if something seems off, we can respond within hours or days," Gilbert says.

Without that quick response time, it could be weeks or months before a manager is aware of a problem with the sales compensation program. And that can have a significant impact on a company's financial results.

Just ask CA.

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