

HEALTH WEALTH CAREER

# SALES INCENTIVE PRACTICES SURVEY EUROPE

RESULTS ANALYSIS AND NONPARTICIPANT REPORT



MAKE TOMORROW, TODAY





## EXECUTIVE SUMMARY

Sales compensation design is frequently cited as one of the top factors impacting sales productivity. This survey sought to provide a deep dive into sales incentive practices across Europe and, in particular, determine the extent to which organisations that excel at sales performance have a distinct set of practices.

The survey results demonstrate that sales incentives in high-performing organisations share a number of common characteristics that are distinct from the broader participant group:

- A greater use of direct drive (commission or incentive) arrangements rather than bonus plans
- Higher emphasis on variable pay in pay mix
- Plans based on a more focused performance assessment, with two to four performance measures common
- Performance measures that demonstrate greater sophistication and strategic alignment, with more focus on product mix and less focus on sales activity measures
- Greater focus on risk management in plans, through a greater incidence of the use of behaviours as a performance measure, as well as a higher prevalence of hard caps
- Manager plans that are also more likely to be focused on broader business unit and/or organisation performance in addition to individual/team performance

These characteristics demonstrate a strong alignment to Mercer's principles to underpin best practice sales incentive design, as outlined in the following pages, and show how organisations are evolving sales compensation practices to drive not only the delivery of near-term results but also the solution-based selling required to deliver longer-term value.

# SURVEY OBJECTIVE AND PARTICIPANTS

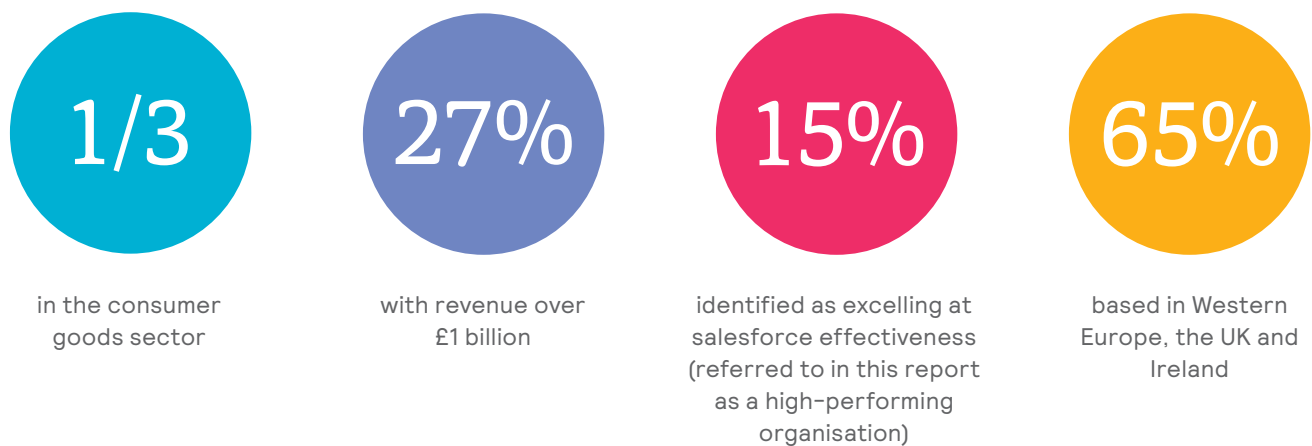
## DATA GATHERED DECEMBER 2016

### RESEARCH OBJECTIVE

This survey sought to provide a unique snapshot into detailed sales incentive design across sectors and the European region and to identify the unique practices that set high-performing organisations apart.

### PARTICIPANT OVERVIEW

Over 80 organisations participated in this cross-sector research, with participants reflecting more than 20 European markets.



Services (Non-Financial)

Retail & Wholesale

Other Non-Manufacturing

Other Manufacturing

Mining & Metals

Logistics

Life Sciences



Transportation Equipment

Banking/Financial Services

Chemicals

Consumer Goods

Energy

High Tech

## MERCER POINT OF VIEW

Along with clear roles and sales processes, ensuring that motivational compensation programmes are in place is a critical enabler of sales productivity and success. To maximise sales execution and drive effective sales behaviours, **sales plans must be strategically aligned, well communicated and have faultless execution.**

Through Mercer's experience working with leading organisations globally, we have identified a number of **core principles that underpin effective sales plan delivery:**

<b>ALIGNED</b>	Plans are directly <b>aligned with the business's strategic business objectives</b>
<b>MOTIVATING</b>	There is an appropriate mix of <b>fixed and variable pay</b> tailored to the nature of the sales role
<b>FAIR</b>	Design structures are in line with market practice and the <b>organisation's reward philosophy</b>
<b>INTUITIVE</b>	Plans are <b>simple and easy to follow</b>
<b>TRANSPARENT</b>	Plans are <b>simple to communicate</b> and <b>communicated openly and regularly</b>
<b>TIMELY</b>	<b>Payouts are timely</b> to ensure that employees link their immediate performance with compensation and the sales cycle
<b>CONSISTENT</b>	Guiding principles are <b>consistently applied</b> across the organisation
<b>SELF-FUNDING</b>	Payments are <b>sensitive (variable) to performance</b> , and <b>rewards are based on economic contribution</b>
<b>GOVERNED</b>	<ul style="list-style-type: none"> <li>The governance process is <b>owned independently</b> of the sales team concerned and <b>responsibilities are clear</b></li> <li>Plans are approved and changes are made in a <b>controlled fashion</b> with <b>appropriate monitoring</b> for success</li> </ul>

Delivering the right sales plan structure is a critical enabler of sales success and one of the top three drivers of sales productivity.

# THE RESULTS

The bottom of the page features three large, stylized triangular shapes. On the left is a dark blue triangle pointing upwards. In the center is a white triangle pointing downwards. On the right is a dark blue triangle pointing upwards. These shapes are positioned as if they are rising from the bottom edge of the page.

## METHODOLOGY

Where distinct practices are observed, survey results are clustered to highlight key market themes. Three categorisations are used in reporting to draw out material differences based on geography, high-performing vs. all organisation norms and by role type. The definitions used are detailed as follows:



### BY GEOGRAPHY

We received data from over 20 countries. To condense our analyses, we separated the countries into groups:

- The Nordics (Denmark, Finland, Sweden)
- The CIS (Russia, Ukraine, Kazakhstan, Belarus)
- Western Europe (Austria, Belgium, France, Germany, Italy, Portugal, Spain, Switzerland)
- Eastern Europe (Czech Republic, Hungary, Latvia, Poland, Romania, Serbia)
- The UK and Ireland



### BY HIGH-PERFORMING ORGANISATIONS

Fifteen percent of organisations self-reported as high-performing from the survey sample. For publicly listed companies with published financial data, Mercer validated the figures based on three-year profit growth; this analysis revealed that the self-reported high-performing organisations delivered above-average three-year profit growth.



### BY ROLE TYPE

The New Business Development roles are reported as Hunters, the Key Account Management roles are reported as Farmers, the Sales Management roles are reported as Managers, and Sales Representative roles are reported as Hybrid positions.

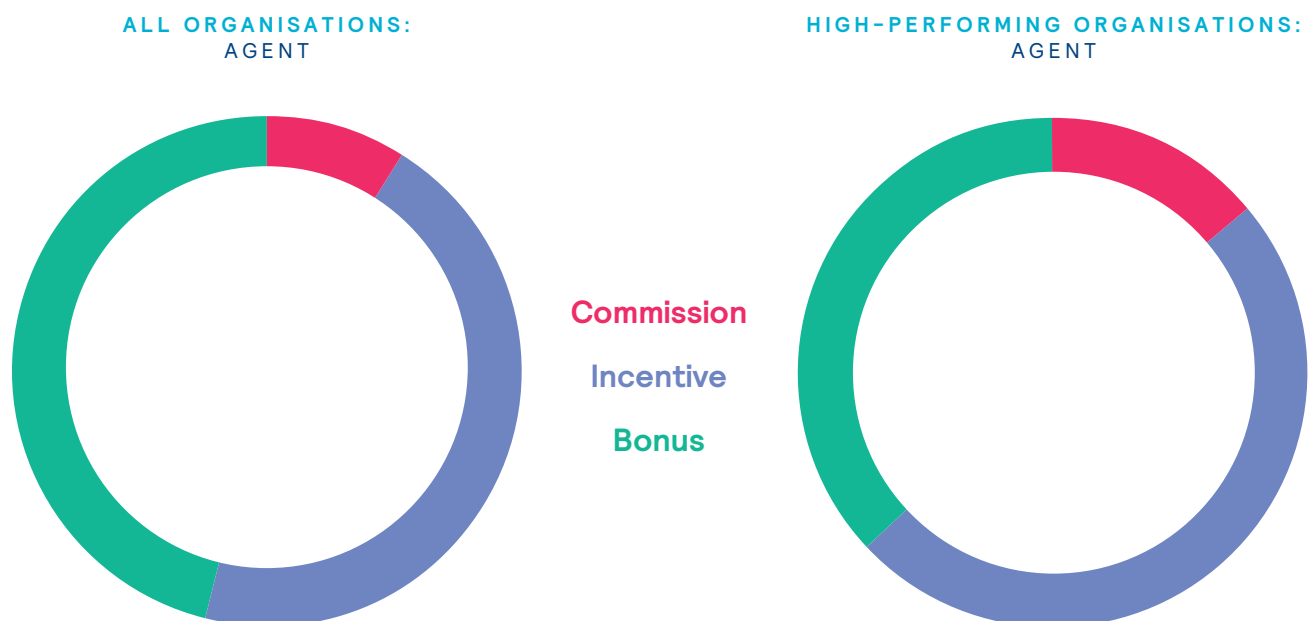
**Our methodology calculates percentages based on the number of respondents per category – that is, the percentage of respondents for a particular role was measured against that role only, as opposed to the higher number of possible responses, for a more accurate view of comparative data.**

## TYPE OF PLAN: OVERALL PLAN USAGE

Across all agents, we observe a relatively even split between the use of incentive and bonus plans, with commission plans used by only a minority of organisations.

However, the results show a notably higher use of incentive plan structures among high-performing organisations and a 50% increase in the use of commission plans relative to the wider participant group. This increased use of commission is most notable for Hunter and Hybrid roles.

In terms of regional differences, Eastern Europe and the UK and Ireland have a higher prevalence of incentive plans, whereas in CIS, Nordics and Western Europe, bonus plans are more prevalent.



AS SALES MODELS HAVE SHIFTED TOWARDS GREATER CONSULTATIVE/  
SOLUTION SALES, ORGANISATIONS HAVE REDUCED THEIR USE OF  
COMMISSION MODELS.

# PAY MIX

Overall, the results show relatively little differentiation in pay mix between sales roles. With a pay mix of 85/15 prevalent, this suggests that the majority of participants do not clearly segment their pay approach based on role focus.

- Surprisingly, the results show a more leveraged pay mix for key account management roles, where we would traditionally expect lower variable pay to reflect the nature of the role.
- Approximately 10% of organisations reported highly leveraged variable pay structures (50/50 or above) – these were equally prevalent across both Hunter and Farmer roles.

Role type	Role	Most prevalent pay mix (base %/variable %)	Core range (base %/variable %)
Manager	Sales Management [Manager]	85/15	85/15–70/30
Agent	Sales Representative [Hybrid]	85/15	90/10–80/20
	New Business Development Sales Representative [Hunter]	85/15	90/10–70/30
	Key Account Manager [Farmer]	80/20	90/10–70/30
	Sales Representative: Technical Sales	90/10–70/30	90/10–70/30
	Sales Representative: Channel Sales	85/15	90/10–70/30

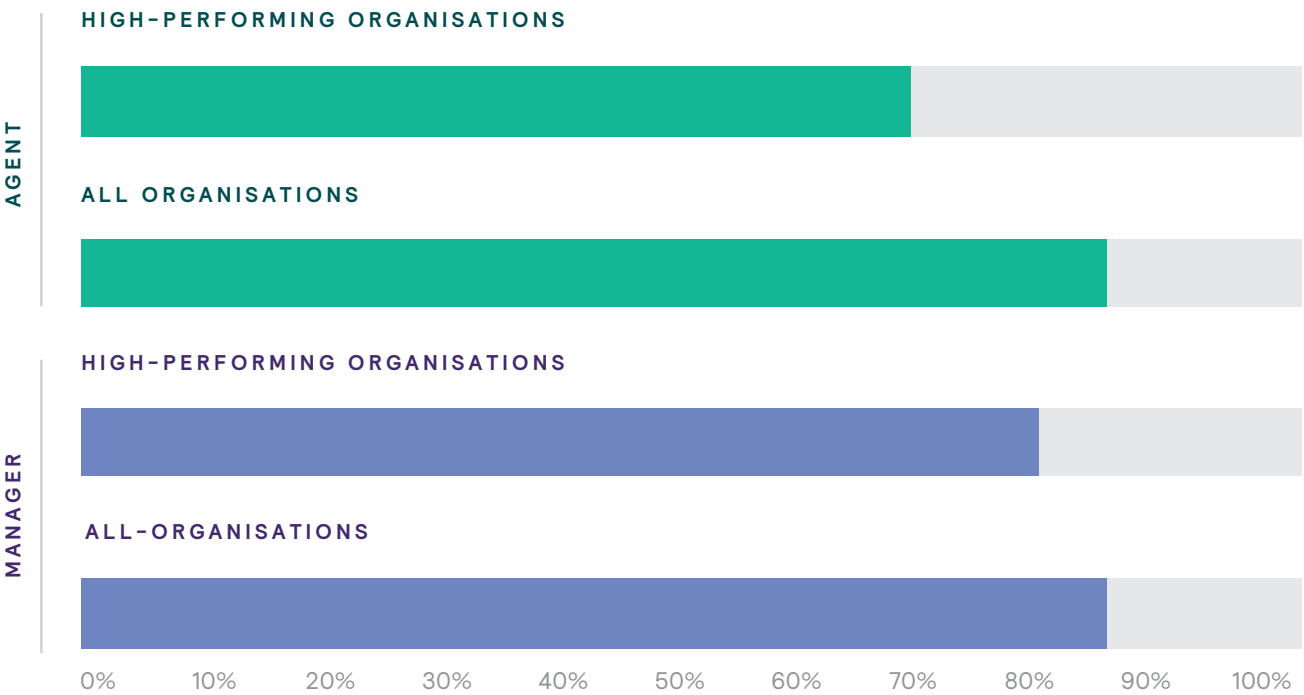
High-performing organisations consistently reported higher levels of variable pay and greater levels of differentiation in pay mix between sales positions.

**TAILORING PAY MIX TO REFLECT COMPETITOR PRACTICE, SALES STRATEGY AND CUSTOMER INFLUENCE IS A KEY ELEMENT OF EFFECTIVE SALES PLAN DESIGN.**

# PAY MIX: FOCUS ON HIGH-PERFORMING ORGANISATIONS

HIGH-PERFORMING ORGANISATIONS HAVE CONSISTENTLY  
HIGHER VARIABLE PAY.

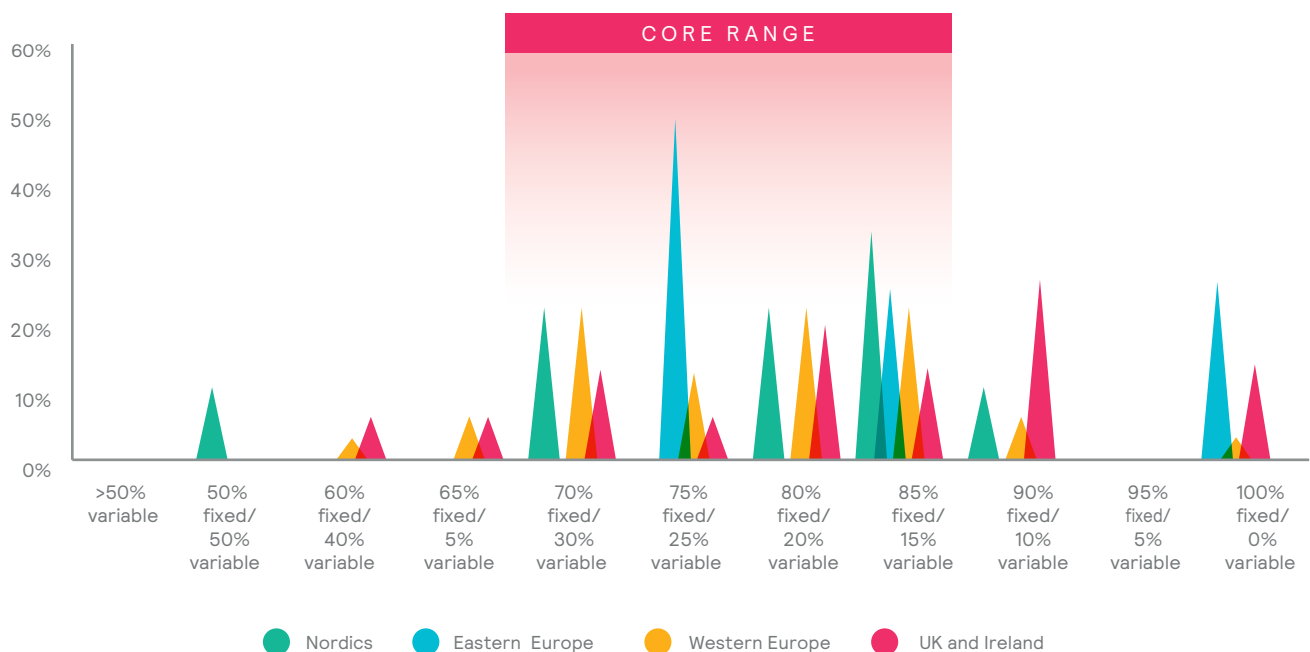
- For Agents, pay mix is typically 85/15, whereas for high-performing organisations 70/30 is more normative.
- For Managers, pay mix is typically 85/15, whereas for high-performing organisations 80/20 is more normative



## PAY MIX: REGIONAL DIFFERENCES

Subregional analysis shows a far wider spread of practices in the UK and Ireland compared to other parts of Europe.

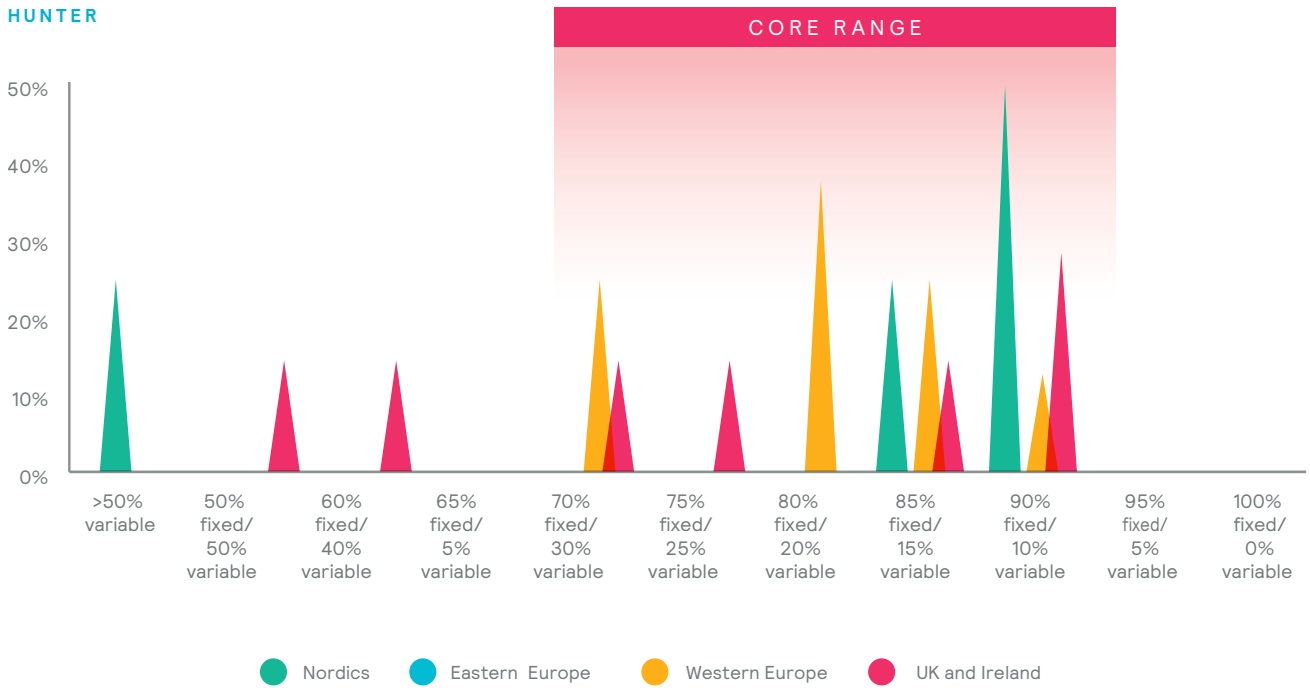
## MANAGER



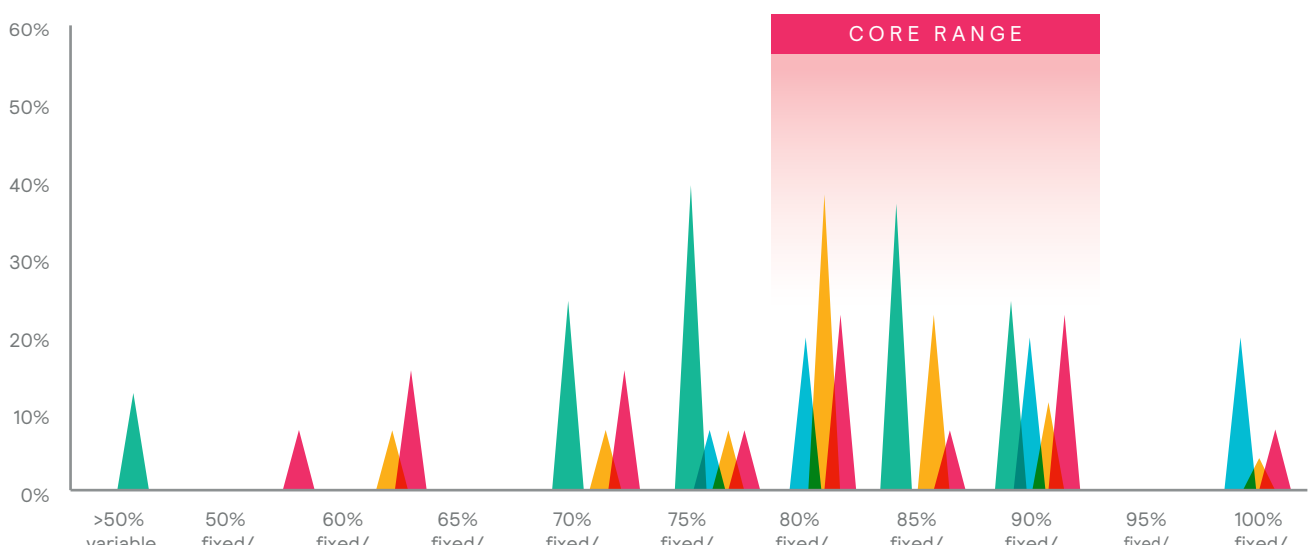
## HYBRID



### HUNTER



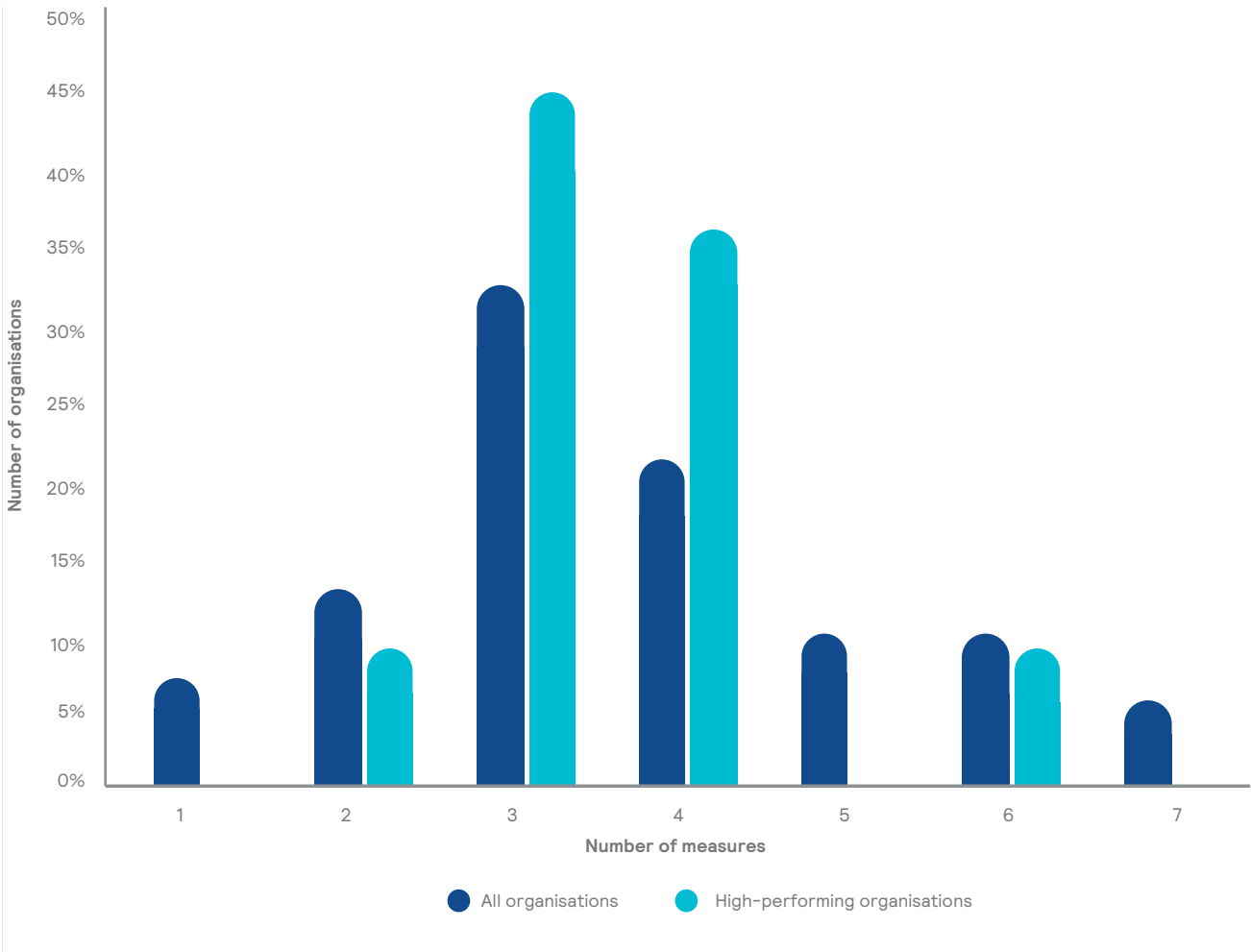
### FARMER



# NUMBER OF PERFORMANCE MEASURES

There is a wide spread in the number of measures that are used to drive sales compensation plans, with over 25% of the survey sample including five or more measures.

High-performing organisations consistently focus on a smaller number of measures, with 90% of high-performing organisations using two to four measures.



REMAINING FOCUSED ON THE KEY SALES OUTCOMES HAS BECOME INCREASINGLY COMPLEX AS CONSULTATIVE/SOLUTION SELLING HAS INCREASED.

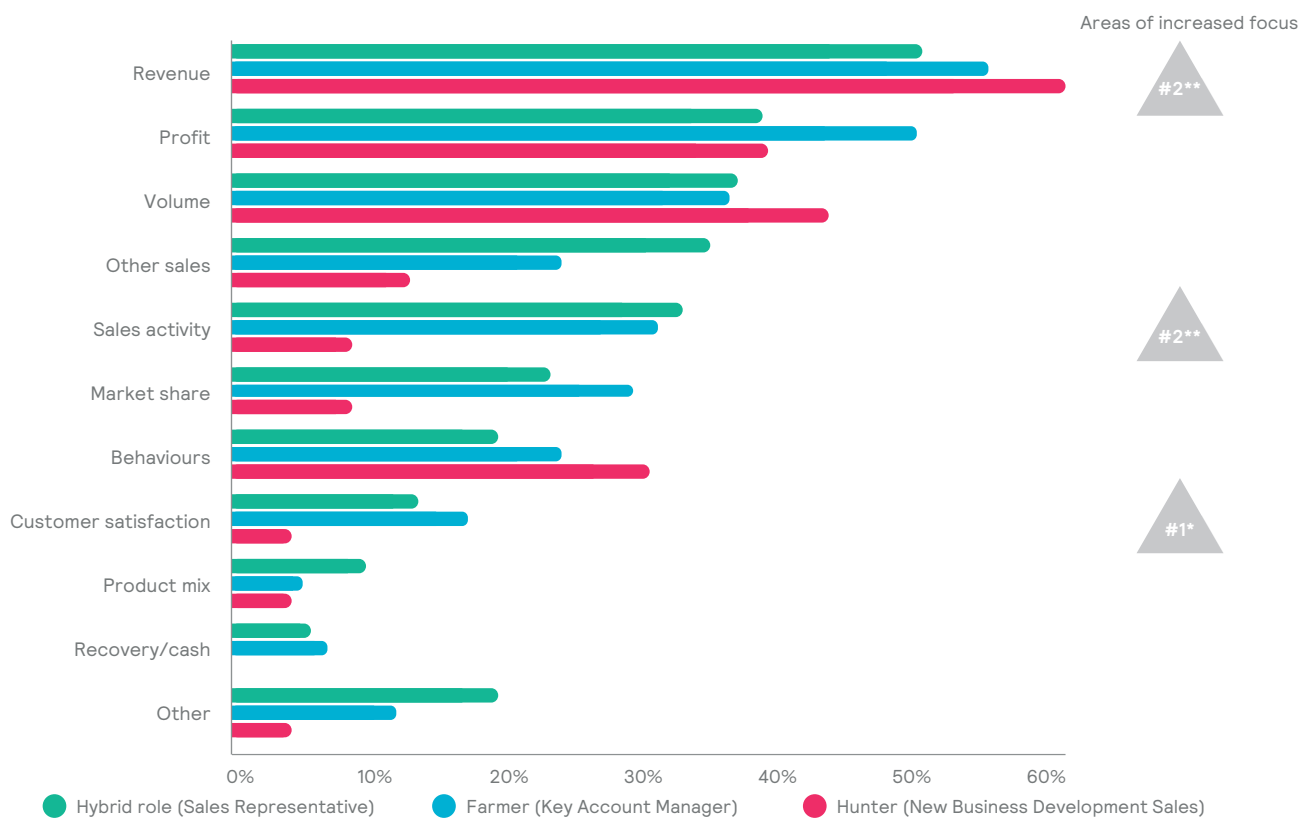
## PRIMARY PERFORMANCE MEASURES: AGENTS

The most prevalent measure for Hunter, Farmer and Hybrid roles is revenue.

After revenue, volume is the second most prevalent metric for Hunters, whereas profit is the second most prevalent metric for Farmers and Hybrid roles.

The prevalence of sales activity measures for Hybrid roles may be linked to these roles generally being associated with less mature sales organisations.

The survey results indicate that organisations are primarily focused on increasing customer satisfaction, with revenue and sales activity also seen as key areas for greater emphasis for future design.



\*Sorted from most prevalent to least prevalent, \*\* Joint second for increased focus

ORGANISATIONS ARE INCREASINGLY “PROMOTING” CUSTOMER SATISFACTION FROM A GATEWAY/UNDERPIN TO A PRIMARY MEASURE OF SALES PERFORMANCE.

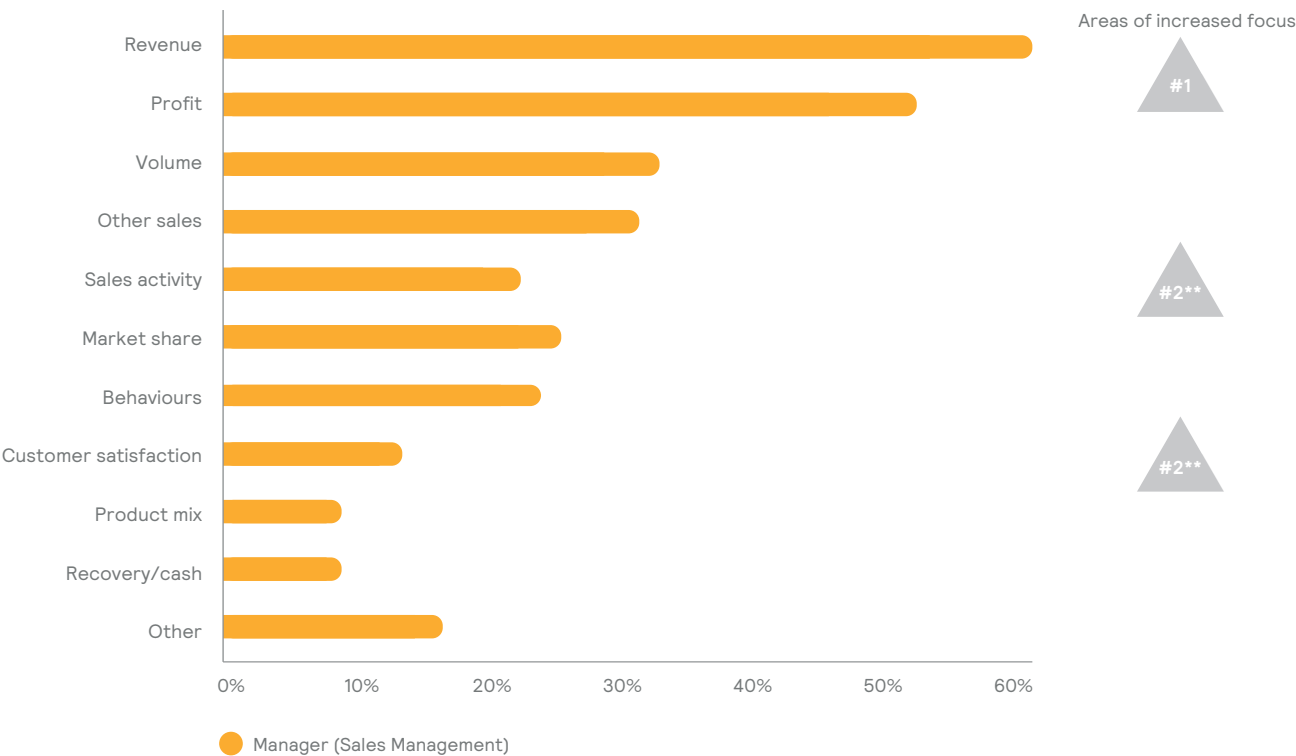
# PRIMARY PERFORMANCE MEASURES: MANAGERS

Results for Manager plans mirror Agent structures, indicating that a “roll-up” of Agent measures is most prevalent in the market.

Revenue and profit remain the key measures, used by over 50% of survey participants.

The results show less focus on the type of sale than expected, given the important role Managers play in driving sales strategy.

Results of the survey indicate that organisations are focused on increasing Manager emphasis on revenue, customer satisfaction and sales activity measures for future plan designs.



\*Sorted from most prevalent to least prevalent, \*\*Joint second for increased focus

MANAGER AND SUPERVISOR PLANS INCLUDE STRONG FOCUS ON THE “QUALITY” OF GROWTH – FOR EXAMPLE, VIA PROFIT. SURPRISINGLY, THE FOCUS ON PRODUCT MIX IS LOW.

## PERFORMANCE MEASURES: HIGH-PERFORMING ORGANISATIONS

Volume, product mix and behaviours are more commonly used among high-performing organisations.

By contrast, high-performing organisations have a lower incidence of sales activity measures.

METRIC	MANAGER	HYBRID	HUNTER	FARMER
Revenue				▼
Profit		▼	▲	
Volume		▲	▲	▲
Market share				
Product mix		▲	▲	▲
Recovery/Cash				
Customer satisfaction				
Sales activity				▼
Other sales KPIs		▼		
Behaviours	▲			▲



High-performing organisations >10%



High-performing organisations <10%

Blank – difference less than +/-10%

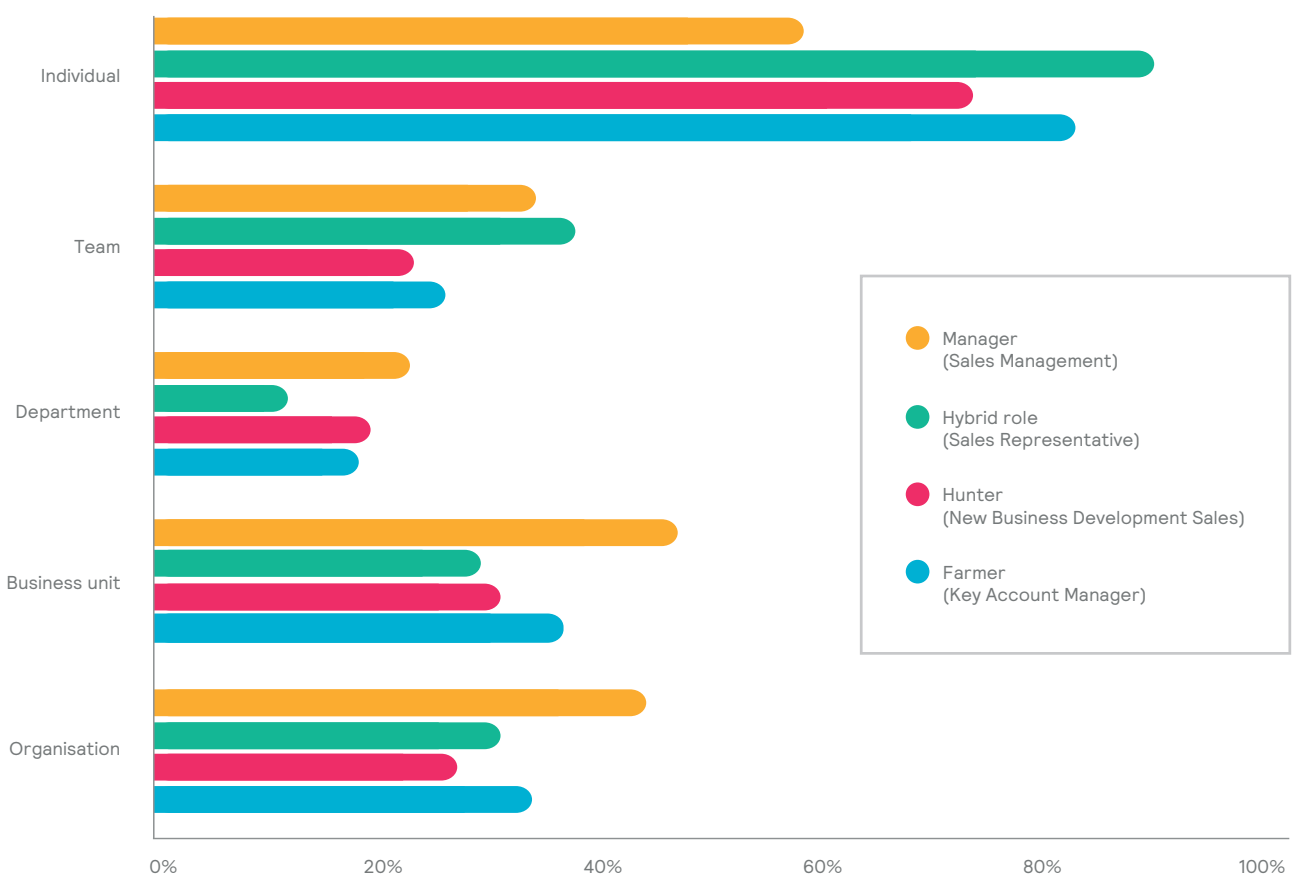
**RESULTS SUGGEST GREATER SOPHISTICATION AND STRATEGIC  
ALIGNMENT IN MEASURES USED BY HIGH-PERFORMING ORGANISATIONS.**

## LEVEL OF PERFORMANCE MEASUREMENT

The most prevalent level of performance measured for all roles, including Manager, is individual.

However, as we would expect, Managers have a stronger emphasis on all other levels of performance than the Hybrid, Farmer and Hunter roles, to reflect the broader nature of the role.

**Managers in high-performing organisations are more likely to be measured on business unit and organisation performance relative to other organisations.**



**SHARED MEASURES, ESPECIALLY AT THE MANAGER/SUPERVISOR LEVEL, CAN STRENGTHEN TIES TO ORGANISATIONAL OBJECTIVES AND REINFORCE STRATEGIC PRIORITIES.**

# PERFORMANCE PERIOD AND SALES RECOGNITION



## PERFORMANCE PERIOD

- Over 50% of plans have an annual component, and this is highly prevalent regardless of how the in-year structure is managed.
- Within the year, quarterly target setting and measurement is most prevalent:
  - For Farmer roles, quarterly plans are 2x more prevalent than monthly plans.
  - For Hunter, Hybrid and Specialist roles, quarterly plans are 1.5x more prevalent than monthly plans.
- High-performing organisations are more likely to set monthly targets, increasing the frequency of performance assessment.



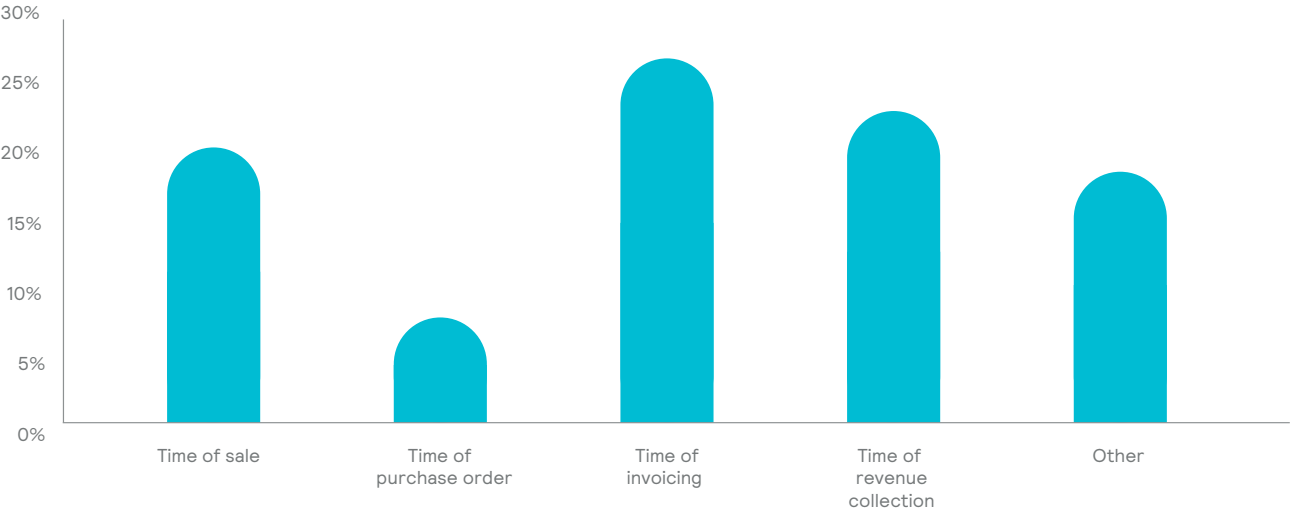
## PAYMENT TIMING

- Payment timing typically aligns to the performance period.
- High-performing organisations tend to pay more frequently relative to all organisations.



## SALES RECOGNITION (CREDITING)

- Overall, the time of invoicing is the most common point at which a sale is recognised and credited.
- When considered on a role-by-role basis, Hunters typically have more immediacy in payment, with 26% of Hunters being recognised at the time of sale, whereas for Hybrid and Farmer roles the time of invoice is most common.
- For the Sales Manager, the most common approach is to recognise the sales at the point of revenue collection.
- Overall, across all roles about 15% of organisations have more than one point of revenue recognition within their plans. This is the most prevalent for Hunter (agent and supervisor) and Technical Sales roles.



DEFINING APPROPRIATE TIMING CAN BE COMPLEX AND  
REQUIRES A STRONG UNDERSTANDING OF THE SALES CYCLE,  
PROJECTED VS. ACTUAL CONTRACT VALUE, CASH FLOW AND  
ADMINISTRATIVE CONSTRAINTS. MAXIMISING THE IMMEDIACY  
OF RECOGNITION WHILE MAINTAINING CONTROL IS A  
KEY ELEMENT OF GOOD SALES PLAN DESIGN.

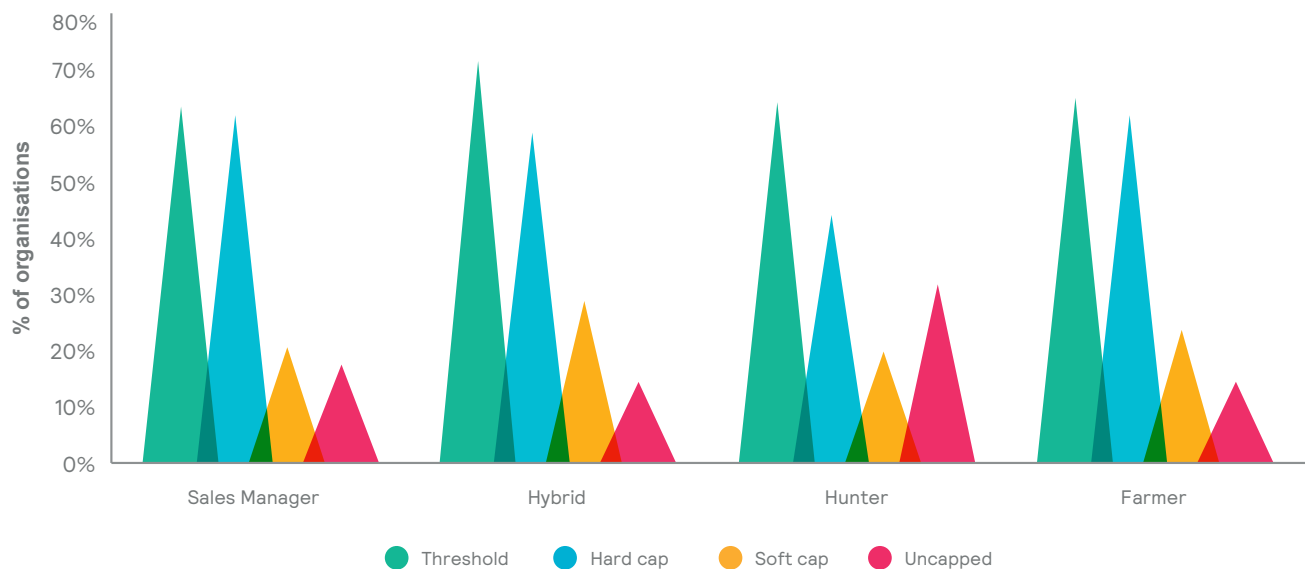
## THRESHOLD AND CAPS

The majority of organisations have a threshold performance requirement and also impose a hard cap.

- Among high-performing organisations, thresholds are less prevalent and hard caps are more prevalent relative to other survey participants.

Hunters are the most likely roles to have no threshold and/or uncapped plans.

- One-third of organisations have uncapped Hunter plans, compared to less than 20% of organisations for all other sales role types.



The most prevalent threshold performance level and payment level for Hunters and Farmers are generally equivalent, at 80%–89% of target triggering a payment of up to typically 50%–59% of on-target earnings.

- Hunter roles are more likely to experience a lower threshold level of pay (often 0%–9% of on-target earnings).

Capped levels differ more between roles, with the performance level at which a cap applies and the correlating payment level being significantly greater for Hunter roles, reflecting greater opportunity and upside for the delivery of overperformance.

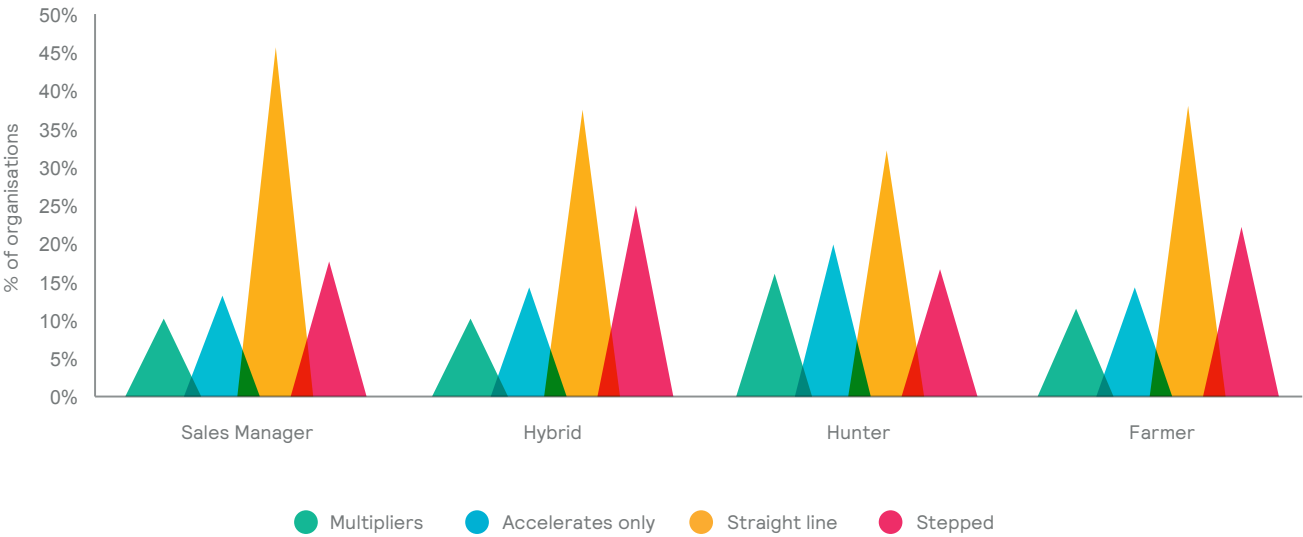
Role	Threshold		Capped	
	Performance level	Payment level	Performance level	Payment level
Manager	80%–89%	0%–9%	110%–124%	200%–249%
Hybrid	80%–89%	0%–9%	110%–124%	200%–249%
Hunter	80%–89%	0%–59%	200%–249%	200%–249%
Farmer	80%–89%	50%–59%	110%–124%	110%–124%

THRESHOLDS AND CAPS CAN BE IMPORTANT CONTROLS TO ENSURE PAY FOR PERFORMANCE, BUT EFFECTIVE USE IS CONTINGENT ON GOOD QUOTA SETTING.

# PAYMENT CURVE: STRUCTURE

The majority of participants use a straight-line (or linear) structure to determine payment, with payments increasing in direct proportion to improvements in sales performance between threshold, target and maximum performance levels.

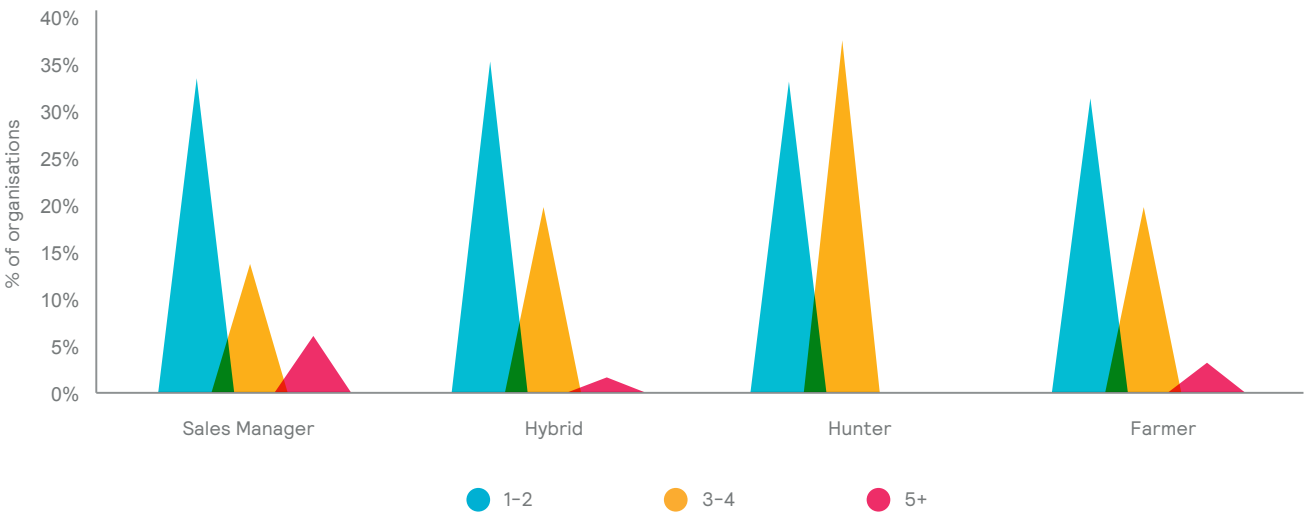
For high-performing organisations, there is greater use of multipliers, which create greater differentiation in pay outcomes linked to relative position vs. target or a secondary performance measure.



# PAYMENT CURVE: NUMBER OF INFLECTION POINTS

For all roles except Hunter, one to two inflection points are most prevalent.

However, among high-performing organisations three to four inflection points are the most prevalent, again emphasising the objective to more strongly differentiate payment outcomes based on results.



HIGH-PERFORMANCE ORGANISATIONS ARE USING THE PAYMENT RATIO TO MORE EFFECTIVELY ALIGN PAY FOR PERFORMANCE AND DRIVE BETTER PLAN ROI.

# GOVERNANCE AND ADMINISTRATION

## GOVERNANCE AND TARGET SETTING

The overwhelming majority (85%) of respondents have a **formal governance process** for their sales compensation programme, whereas 12% described it as informal and only 2% as non-existent.

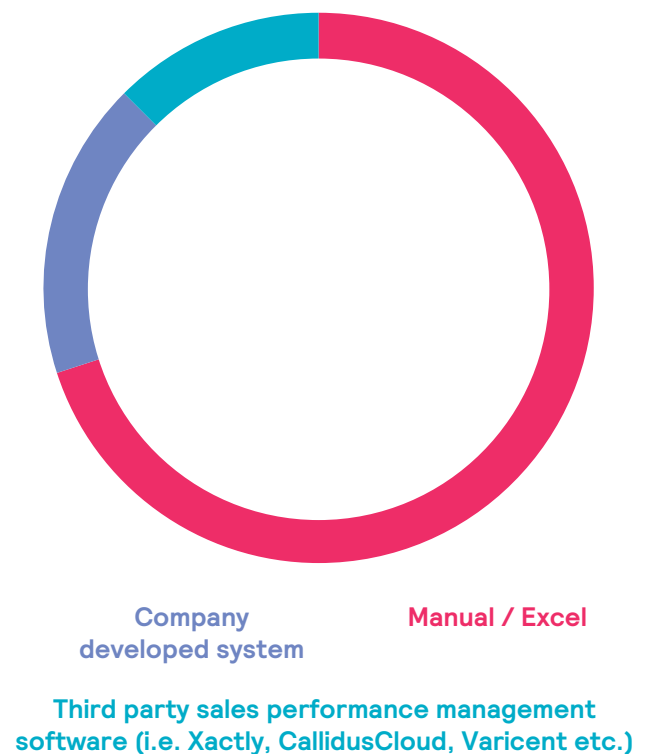
**Ownership of the sales incentive programme varies by organisation** between the sales function (32%), HR/Reward (27%) and the business unit (21%).

**Eighty percent of organisations set targets based on business plan cascade (budget)** and over half use expected opportunity and growth.

## GOVERNANCE AND TARGET SETTING

In terms of administration, **70% of respondents use Microsoft Excel or other standard, manual tools** for their sales compensation programme management.

The majority of organisations **fund their sales compensation plans through budgeted costs** rather than as a proportion of revenue or profit.



# PLAN OWNERSHIP

Ownership for **plan monitoring and auditing tends to be at the country level** rather than at the line of business (LOB) level, whereas approval tends to be owned at the global level.

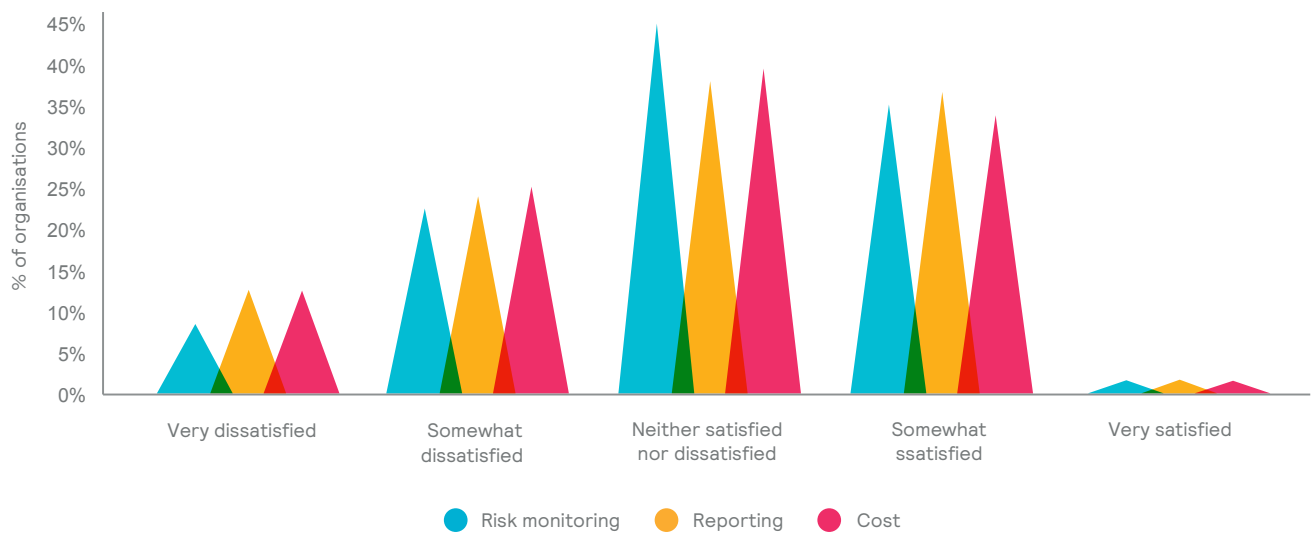
Ownership for **plan monitoring for high-performing organisations tends to sit at the global level** rather than the local country level, which is prevalent at other organisations.

Role	Plan approval	Plan monitoring	Plan amendment	Auditing
Global	52%	28%	43%	16%
Regional	33%	32%	23%	30%
Local country	32%	56%	48%	59%
Local LOB	5%	20%	15%	23%
Other	0%	2%	2%	2%

INCREASINGLY, MERCER IS SEEING ORGANISATIONS SET CENTRAL FRAMEWORKS FOR PLAN DESIGN THAT DRIVE STRONGER STRATEGIC ALIGNMENT AND RISK CONTROL.

## SATISFACTION: RISK MONITORING, REPORTING AND COST

Most organisations tend to be neither satisfied nor dissatisfied with their current incentive management systems and data in respect to risk monitoring, reporting and cost.



## CONCLUSIONS

The research findings highlight prevalent practices for the delivery of sales compensation across Europe. Plan structure remains less leveraged than, for example, practices in the US, and we also observe a surprisingly low level of differentiation in plan design to reflect the distinct requirements of each sales role.

The research provides insight into the practices of organisations that identify themselves as high-performing and identifies a number of features of plan design that differentiate these organisations:

- Greater use of **direct drive** (commission or incentive) arrangements over bonus plans
- Performance measures that demonstrate greater sophistication and strategic alignment, with **more focus on product mix** and **less focus on sales activity measures**
- Manager plans that are more likely to be focused on **broader business unit and/or organisation performance** in addition to individual/team performance
- Higher **emphasis** on variable pay in pay mix
- Greater focus on **risk management** in plans, through a greater incidence of the use of **behaviours** as a performance measure, and also **a higher prevalence of hard caps**
- Plans based on a more **focused performance assessment**, with two to four performance measures commonly used
- **More frequent pay** relative to practices of all organisations
- Ownership for plan monitoring that tends to sit at the **global level**, compared to the local country level for all other organisations
- Overall, more satisfaction with the **management of cost** relative to other organisations

These findings reinforce our view that design based on the core principles that underpin effective sales plan delivery can support organisations in enhancing their sales effectiveness and successful delivery of their overall sales strategy objectives.

## MERCER CONTACTS

Mercer welcomes your feedback and questions. Should you wish to further discuss any aspect of this research, please do not hesitate to contact one of our consultants:

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# APPENDIX



## SURVEY PARTICIPANTS

The following companies opted to not remain anonymous:

- Adama
- AGA
- Air Products
- BAE Systems
- BASF
- BAT
- Baxters
- Bekaert
- British Council
- Buhler Group
- Bureau Veritas
- CAT
- Caverion
- Concentric AB
- Co-op
- Dansikring Direct
- Debenhams
- Erni
- FB
- Festo
- gategroup
- Grifols
- Habasit
- Homeserve
- IDC
- Inbev AB
- Inbev AB
- Infogain
- Kellogg
- Lanxess
- Lifecell
- Mitel
- Molson Coors
- Muller
- Neovia Logistics
- Nexans
- Novo Nordisk
- Opel
- Penspen
- Philips
- Pietro filipi
- PMI
- Rockwool
- Schmolz Bickenbach
- Schneider Electric
- SCJ
- SFL Group
- SKF
- Solium
- Sovena
- Swiss RE
- Tate and Lyle
- Terumo Europe
- Travelex
- Tryg
- Unilever
- Uniper energy
- Vcimentos
- Velux
- Wabco-auto
- Weir
- Yahoo



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