

Sales: Finding the Right Compensation Structure

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The NAOHP frequently receives questions about compensation models for sales professionals. The following information is excerpted from A Comprehensive Guide to Occupational Health Sales and Marketing, Version 3.0, written by Frank Leone and Carolyn Merriman and published by RYAN Associates and the National Association of Occupational Health Professionals. To obtain actual samples of compensation plans and/or a copy of the sales text, call 800-666-7926 or send an email inquiry to amancuso@naohp.com.

As their scope of responsibility expands, sales personnel can be held accountable for tangible results and sales outcomes. The compensation plan needs to reflect the provider's sales outcome focus and, ultimately, the provider's return on investment.

A compensation plan should be developed with an outline, or template model, which can be updated each year with new performance standards and outcomes derived from the annual sales planning process.

Compensation plans should provide base pay, benefits (core and supplemental), and variable (incentive) compensation. Variable compensation, historically called "commission," can be comprised of commission or referral fees paid by percentage or flat dollar, merit pay, and individual pay-for-performance, bonus payments and team pay-for-performance. Variable pay components should identify pay frequency (e.g., monthly, quarterly or annually).

Compensation plans should be relatively simple. The salesperson must understand exactly how they will be rewarded. Typical issues to resolve include:

- clinic revenues versus net;
- credit for new business versus growth of current accounts;
- decreased volumes due to capacity or physician coverage;
- collections that aren't at appropriate levels.

For example, if the sales professional focuses on new sales and delivers a 10 percent growth in new revenues to your program, he or she should not be penalized by the billing department's inability to collect payments.

Base Pay: Base pay should be externally competitive and usually fall within the 50th and 75th percentile of market compensation. Base pay also should be internally equitable within the provider organization's salary structure.

Salary ranges may need to be modified by skill, experience and knowledge, market size, scope, value to the service line(s), and sales performance standards and outcome expectations.

Base salaries should be treated in a manner consistent with the institution's standards. For example, a base salary will only be increased in concert with institution-wide annual cost-of-living and standard base pay increases. As an organization adds pay-for-performance programs and/or bonus payment plans, sales staff may opt out of an annual merit pay review in lieu of receiving variable compensation through the optional plans.

Benefits: Core benefits are those that an organization provides to all employees at a comparable level to the salesperson. Supplemental benefits are intended to assist personnel in accomplishing their job functions or to meet current market standards. They may include a car allowance, cellular phone, pager, laptop computer, sales contact management software and training, club membership, sales training workshops and conferences, and a calendar system. Additionally, organizations may need to offer expanded vacation benefits in order to be competitive when recruiting staff at a higher skill and experience level.

Variable Compensation: Variable compensation is the incentive compensation provided to a salesperson for meeting or exceeding performance standards. Variable pay can comprise up to 50 percent of the employee's total compensation package. Typically, a range of 60 percent base pay with 40 percent variable to a 75 percent base pay with 25 percent variable pay is provided in most provider-based occupational or portfolio sales programs. Pay-for-performance and other variable pay plans are designed to measure and reward sales behaviors, activities and results.

Merit Pay: Most health care organizations have adopted merit pay programs that enhance the traditional annual performance review. Merit pay is provided based on the employee achieving targeted or above-performance on identified objectives as determined by their manager. Merit pay programs will provide an incentive range of 0-7 percent annually.

Individual Pay-for-performance: A pay-for-performance plan provides a program with a positive measurement tool and is directly linked to institutional strategic initiatives such as revenue, expense management, customer service and retention, volume, new business development, and covered lives acquisition and retention. Pay-for-performance for the sales function takes the organization's strategic initiatives and the sales performance standards/objectives and translates them into quantifiable results that produce an actionable compensation payout.

Ten Steps to Compensation Design

1. Analyze your business strategy and the roles of sales.
2. Analyze your current plan.
3. Establish total pay parameters.
4. Determine base pay and the fixed and variable mix.
5. Determine the variable pay components; pay-for-performance, commission and referral fee structure, and team pay for performance, bonus and stretch bonus.
6. Design a variable pay process and payout system.
7. Educate, communicate and obtain plan approval.
8. Simulate the results of the compensation plan.
9. Implement the compensation plan.
10. Measure, evaluate and fine-tune the plan. Re-adjust for each year's performance standards, goals and objectives.

Pay-for-performance provides measurement standards consistent with the product and allows occupational health programs to accurately measure a salesperson's contribution and ability to meet or exceed target objectives.

The first step in setting up a pay-for-performance plan is to establish objectives that identify the range and differences between poor performance and a performance that exceeds target expectations. Verbiage commonly used to measure salesperson performance in meeting target objectives includes: does not meet (1 point or below 85 percent of target), sometimes meets (2 points or 85-92 percent of target), meets (3 points or 93-100 percent of target), exceeds expectations (4 points or 101-107 percent of target), far exceeds expectations (5 points or 107 percent+ of target).

Commission: Commission is the traditional form of variable compensation used to reward specific sales results. Commission typically is paid based on contracts or profiles signed, clinic financials, revenue generated, total contract value or specific service line sales. Commission is usually a percentage of the product or contract value (e.g., contract value is \$50,000 with a commission of 1 percent paid to the salesperson).

To design an accurate commission structure, the service line must be assessed for margins, profitability, length of sale (selling cycle to closure), customer service and delivery support, and sales frequency. A commission model and payout format should be tied to overall financial and sales objectives, not just sales volume or contract value.

Renewal Fee: In times where keeping the business is just as critical as growing new business, it may be important to set aside some financial incentives for client, volume or revenue retention. This option associated with variable pay is a renewal fee to reward the sales and delivery team for customer service, annual contract updates and quarterly "staying in touch with the customer calls." The fee may be nominal, but can serve as a steady reward check tied to performance behavior and activity directly tied to client retention.

Referral Fees: As health care organizations further integrate or centralize their sales efforts by target audience, it may become imperative to provide referral fees to the sales staff. This directly ties qualified lead generation activity to service lines. The salesperson may be directly responsible for service line sales (wellness, rehabilitation, and employee assistance programs) or indirectly responsible for recognizing leads for other sales staff (managed care, direct contracting, and behavioral health).

Referral fees may be paid as either a percentage or flat-dollar rate. Some referral fees are calculated according to the number of potential covered lives the provider may acquire. The commission or referral fees may be paid on a per-incident basis or through a tier mechanism.

Gain Sharing: Gain sharing is a human resource system that involves all employees by using a financial formula to share organizational gains. Gain sharing is an option similar to pay-for-performance, but is applied to the team model of rewarding and recognizing the team performance in meeting measurable and tangible objectives. It is used to align employees and their performance with the organization and its strategic

initiatives. Gain sharing increases organizational and service line performance, recruitment of staff, retention, and improved teamwork.

Other Rewards: Whereas financial compensation is a direct tangible reward for good performance, salespeople may also appreciate less tangible methods of recognition. A combination of financial reward and other recognition can go a long way to keeping the salesperson motivated, happy and driven to sell more. Examples of other rewards include media recognition, press releases, a simple thank you from their manager or clinical staff, non-monetary incentives, additional sales perks such as car telephone, expense account, car allowance, paid membership dues, earned time off and dinner/shopping/ travel certificates. Many times it is not the dollars that count, it is the thought, quality; consistency and follow-through.

Summary: Focus on the value of a well-designed variable or incentive compensation plan to your organization's goals and objectives. Keep the plan design simple, easy to implement, track and monitor, and pay out in a timely manner. Successful incentive compensation plans drive the salesperson's focus and rewards them for achieving or exceeding the established objectives. Incentive compensation should recognize and reward sales behaviors and results.

