

Warning: Pay Change on the Way

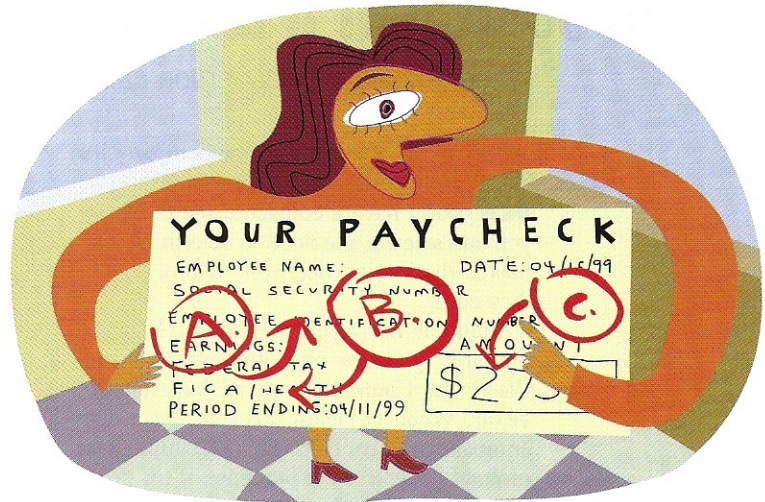
So you're altering the compensation plan. Here's how to break the news

JIM HARVEY REMEMBERS the day when he had to announce a new pay plan that would put 20 percent of his salespeople's salary at risk. Previously they had earned base salary only, says Harvey, formerly the manager of compensation at AlliedSignal (he now holds the same title at Tektronix in Wilsonville, Oregon). One of the salespeople said, "I have five kids and you take away twenty percent of my pay. Does that mean I'm not going to feed one person?"

Telling the sales team that the compensation plan is changing is not an easy job. After all, compensation gets at the heart of what reps—and anyone else who works—need, and changes are often met with some resistance.

Clearly, it takes a great deal of consideration to unveil a new pay plan, especially if there are significant changes. "Compensation plans are meant to enhance motivation, but if you don't communicate it correctly, you could lose motivation up front," says Gopi Mattel, president of Again Technologies, a maker of software for administering variable pay plans. "[Salespeople] get quite nervous."

Mattel says smart managers devote plenty of time to talking about the changes. He suggests they announce the plan well in advance of when it will take



effect, and build in time for employee feedback. Management should diagram how much above-average and average salespeople can expect to take home, as well as what those who did not hit their targets would be paid, Mattel says. Finally, he tells sales executives to produce a hypothetical pay statement, and mark it up with descriptions showing what each number means.

AlliedSignal gave employees plenty of time to get used to the new compensation plan. It was implemented in four phases over two years. During the first six months there was no change to salespeople's pay, but the pay statement indicated how much reps would have earned under the new plan. To make the deal more appealing, AlliedSignal paid reps the difference if they would have earned more with the new structure.

During the next six months, the company instituted the new 80/20 format. But if salespeople weren't making as much under the new plan,

the company paid them the money to make up the difference in the form of a loan—and the loan was forgiven.

In the third phase salespeople were still being paid the full amount of their previous salaries, but the company was maintaining true balances under the new version and working with reps to figure out how they would repay the company if they underperformed. The final step was full implementation. "It's like a series of inoculations," Harvey says.

AlliedSignal used a system that was extremely generous, but for companies that don't have time to go through a similar process, it's worth opening the books to the sales reps so they understand how management develops compensation plans. John Domenick, chief operating officer for consulting firm Aubrey Daniels & Associates, shared with his sales team the margins that the company was trying to earn, and how that was reflected in their compensation. "If your revenues are generated by a group of people who are out there every day," he says, "they have to know how their work affects the bottom line."

—Sarah Lorge

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Spreading the Word

- Let reps know of changes in the compensation plan as far in advance as possible, and solicit their feedback if appropriate.
- Be detailed in explaining the reasoning behind the new plan and how much money above-average, average, and below-average employees can expect to earn.
- If time permits, build in a transitional period when reps still earn their former salary, but see how much they would earn under a new plan.

ILLUSTRATION: DAVID DIEHL