

# Rethinking Sales Compensation Plans in Professional Services: Part 3

## Introduction

In our previous articles, we explored the [pitfalls of revenue-based compensation](#) and introduced the concept of [profit-centric compensation plans](#) for professional services firms. This week I would like to explore the art of balancing various incentives within a profit-centric model to create a compensation structure that drives optimal outcomes for your firm, your employees, and your clients.

## The Art of Balancing Incentives

Creating an effective compensation plan should not be only about focusing on profitability; it's about striking the right balance between various competing factors. Over-emphasizing any single metric can lead to unintended consequences and behaviors that may not align with your firm's overall goals.

## Key Areas to Balance in Your Compensation Plan

- **Base Salary vs. Commission** The balance between base salary and commission is crucial in creating a stable yet motivating compensation structure. A higher base salary provides security and can encourage long-term thinking, while a higher commission percentage can drive more aggressive sales behaviors. Finding the right balance for your firm is an important starting point in building a sales compensation plan. I have found that a 60/40 or 50/50 split between base salary and target commission worked well. This provided enough stability for our salespeople while still offering significant upside for high performers.
- **Profitability vs. Revenue Growth** While our profit-centric model emphasizes gross profit, revenue growth remains important for overall firm health and market position. I highly recommend including a revenue quota that determines what percentage of the earned gross profit commission was paid out.

- **New Business vs. Account Management** Balancing the drive for new clients with the nurturing of existing accounts is critical. Establishing a new client bonus is an ideal way to handle this. However, be careful not to make this bonus so large that it discourages proper account management time with existing clients.
- **Short-term Results vs. Long-term Value Creation** Quarterly targets can drive urgency, but they shouldn't come at the expense of long-term value creation. Implementing both quarterly and annual quota achievement bonuses will encourage a longer-term perspective and allow your sales team to overcome a poor quarter.
- **Individual Performance vs. Team Collaboration** While individual performance is important, collaboration often leads to better outcomes in professional services. It is not at all unusual for delivery teams to be participating extensively in the sales process. You can address this by including delivery leadership bonuses that are based upon the same gross profit margins as the sales team.

## Tools for Creating Balance

When attempting to achieve the kind of balance described above there are several tools and designs that you can think about when building a sales compensation plan.

- **Tiered Commission Structures** A tiered commission structure based on gross profit percentage encourages salespeople to pursue higher-margin work while still providing compensation for lower-margin projects that might be strategically important.
- **Quarterly vs. Annual Incentives** By including both quarterly and annual incentives, you can create a balance between short-term motivation and long-term strategic thinking.
- **Team-based Bonuses** Providing bonuses, based on overall practice performance, will foster collaboration and a sense of shared responsibility for the firm's success.

## Addressing Specific Business Objectives Through Incentives

- **Encouraging Innovation and New Service Lines** Providing higher commission rates via bonuses for sales of new service offerings will help encourage salespeople to promote these services despite the often longer and more complex sales cycles involved.
- **Promoting Cross-selling and Upselling** Including bonuses for salespeople who successfully cross-sold services from other practices, encouraging a more holistic approach to meeting client needs is an industry best practice.
- **Enhancing Client Satisfaction and Retention** Finding a way to include client satisfaction scores into bonus calculations, helps ensure that salespeople remain focused on client outcomes, collaborate with delivery.
- **Fostering a Culture of Continuous Improvement** Providing incentives for salespeople who actively participate in training, mentoring, and knowledge-sharing activities, will reinforce your commitment to continuous improvement – and help keep your sales team educated on the latest in your offerings.

## Implementing and Adjusting Your Balanced Compensation Plan

- **Setting Clear Expectations and Communication** I find that clear, frequent communication about the compensation plan and its objectives was crucial. Holding quarterly meetings to review the plan's performance and outcomes is the best way to understand all of the various behaviors you are trying to balance and make needed course corrections.
- **Regular Review and Refinement** Commit to an annual review of your compensation plan, analyzing its effectiveness and adjusting as needed. I am not a proponent of completely changing sales compensation plans on a regular basis. I think stability and clearness of a plan is most important. However, undertaking an annual review will allow you to stay responsive to changing market conditions and business objectives.

- **Handling Exceptions and Special Cases** You must have a clear process for handling exceptions or special cases, ensuring fairness while maintaining the integrity of our overall compensation structure.

## Conclusion

Balancing incentives in a profit-centric compensation plan is an ongoing process that requires careful thought, regular review, and a willingness to adjust. By striking the right balance between various competing factors, you can create a compensation structure that drives profitability, encourages desired behaviors, and supports your firm's overall strategic objectives.

In our final article in this series, we'll explore the practical aspects of implementing a profit-centric compensation plan, including data requirements, change management strategies, and tips for ensuring long-term success.

## About the Author:

*John Quirk has over 30 years of experience leading successful professional services firms. John has a proven track record of building high-performing teams, fostering award-winning cultures, and delivering exceptional client value. His previous white papers have explored innovative approaches to talent management, metrics, and organizational success. You can find those papers and more at [Quirk's Next Thing](#). You can reach John at [john.quirk@gmail.com](mailto:john.quirk@gmail.com)*