When to give sales credit?

by Mark Blessington, Judy Canavan, Kevin O'Connell, April 2014

In a recent survey of sales forces in the CRO (contract research organization) industry,[1] a question was asked: *When are sales credited for sales compensation purposes?* The answer:

Sales Channel	Percent of Companies[2]
Signed Agreement	59%
Invoiced	0%
Project Initiation	6%
Revenue Recognized	24%
Revenue Collected	12%

We have seen contentious debates over this topic. It is especially relevant for companies that have the following characteristics:

1. Long sales cycles
2. Large contracts
3. Complex contract (e.g., multi-year, different purchase volumes per year, escape clauses, multiple invoice trigger points, etc.)
4. Large discrepancies between signed agreement and recognized revenue
5. Dominant contract signing months (e.g., December)

The first four of these characteristics apply to the CRO industry. But most of them also apply to many companies in the health care and high tech industry.

What makes the sales credit timing topic so contentious? There are two conflicting perspectives. For short hand, we will label them Sales Perspective and Finance Perspective.

Sales Perspective

Business Developers want to be paid as soon as possible. This drives them to close the sale as soon as possible. The most important part of their job is to get the contract signed. After that, it's a new ballgame.

Some companies want the Business Developer involved in account management after the sale is closed. Fine, but let's not conflate closing the sale with account management. Business Developers have primary responsibility for closing the sale. After that, many other functions get involved, and responsibilities start to overlap.

[1] *2013 CRO Industry Total Compensation and Turnover Survey* conducted by Judy Canavan, HR+Survey Solutions, www.hrsllc.com

[2] Does not sum to 100% due to rounding.

Business Developers have far more skin in the game than any other non-executive position. Often 50% of their target pay is withheld (at risk). Payment is contingent upon whether or not the sale is successful.

True, executives have a lot of their pay withheld (at risk), and payment is contingent upon company performance. But, their salaries are typically much higher, and their responsibilities are, by definition, much broader.

If you want Business Developers to sell, then give them sales credit when the sale is closed. It is a simple principle, and it works. It is motivational, and it's what most companies do.

Finance Perspective

Business Developers need to be tied to company performance, which is ultimately measured on the income statement and the balance sheet. We can't pay Business Developers on something that is not directly tied to our financial statements. There is no financial entry for "signed contracts."

Revenue accounting follows rules. We can't set up different rules for the sales force. Two sets of books is a formula for disaster. We insist that sales credit only be given when we can make a ledger entry that ties to our financial statements.

Too many bad things can happen between a signed agreement and revenue collection. And the salesperson has a role in making sure we avoid these logjams along the way. If there is a problem along the way, then why should the salesperson be held harmless? They can't be rewarded for signed contracts with ticking time bombs inside.

Conclusions

Does this debate sound familiar? If so, we have some words of encouragement. Resolution is possible, but clarity is the first step: define your Business Development roles. Is the incumbent a new business developer (i.e., hunter), or an account manager with overall responsibility for everything that happens in the account (e.g., project management, service delivery, etc.)?

Once you are completely clear on the role, define how much pay to put at risk. For the new business developer, put a significant portion at risk, such as 40% to 50%. For the account manager with a wide range of accountabilities, put less at risk, such as 25%.

Now you are ready to define performance measures. For hunters, signed contract is often a good choice. For account managers, a scorecard that measures three to five important dimensions of the relationship is often effective. For example, the scorecard could include renewal quota based on recognized revenue, new business quota based on signed contracts, and a multi-year signed contract goal.

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